The Western Union Company (WU) CEO Hikmet Ersek on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release *Slides*

EPS of $0.49 beats by $0.03 | Revenue of $1.31B (-5.83% Y/Y) misses by $-3.87M

Earning Call Audio

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The Western Union Company (NYSE:WU) Q3 2019 Results Earnings Conference Call
October 31, 2019 4:30 PM ET

Company Participants

Brad Windbigler - Head of Investor Relations

Hikmet Ersek - Chief Executive Officer

Raj Agrawal - Chief Financial Officer

Conference Call Participants

Darrin Peller - Wolfe Research

Jason Kupferberg - Bank of America Merrill Lynch

Tien-Tsin Huang - JP Morgan

Brian Keane - Deutsche Bank

James Fawcett - Morgan Stanley

Ramsey El-Assal - Barclays

Ashwin Shirvaikar - Citi

Kartik Mehta - Northcoast Research

James Freeman - Susquehanna

Andrew Jeffrey - SunTrust

David Scharf - JMP Securities

Tim Willi - Wells Fargo

Operator

Good day and welcome to the Western Union Company Third Quarter 2019 Results Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Brad Windbigler, Head of Investor Relations. Please go ahead.

Brad Windbigler

Thank you, Andrew. On today's call, we will discuss the company's third quarter results and our financial outlook and then we will take your questions. The slides that accompany this call and webcast can be found at westernunion.com under the Investor Relations tab and will remain available after the call. Additional operational statistics have been provided in supplemental tables with our press release.

Today's call is being recorded and our comments include forward-looking statements. Please refer to the cautionary language in the earnings release and in Western Union's filings with the Securities & Exchange Commission, including the 2018 Form 10-K, for additional information concerning factors that could cause actual results to differ materially from the forward-looking statements.

During the call, we will discuss some items that do not conform to generally accepted accounting principles. We have reconciled those items to the most comparable GAAP measures on our website, westernunion.com, under the Investor Relations section. We also discuss certain adjusted metrics although expenses that have been excluded from adjusted metrics are specific to these initiatives, the type of expenses maybe similar to type of expenses that company has previously incurred and can reasonably be expected incur in the future.

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I would now like to turn the call over to Hikmet Ersek.

Hikmet Ersek

Thank you, Brad, and good afternoon, everyone. Third quarter were solid as we produced strong adjusted margins and improved consumer money transfer revenue growth, and completed significant action related to our previously announced restructuring program.

Digital growth remains strong with digital money transfer including westernunion.com and third party white label digital services increasing more than 20% in the quarter. Additionally, we're seeing digital services delivered its fifth consecutive quarter of constant currency revenue growth.

And we were able again use our strong cash flow to return significant funds to our shareholders through share repurchase and dividends. We now returned well over $700 million year to-date.

Given our third quarter results and trends expected for the reminder of the year, we remain on track with our full year financial outlook. Raj will give you more details on the quarter and our restructuring activities within few minutes.

Before that I would like to review the long-term strategy and financial targets we announced last month including a 23% operating margin in 2022 and the low double-digit earnings per share compound annual growth for the next three years compared to our 2019 adjusted outlook.

As noted at our Investor's Day we have tremendous assets for cross-border money movement and payments. Let me recap these briefly. We have a vast global network, a strong brand, a distinct global processing and settlement capabilities.

Over time, our business and customers are proven to be resilient and they trust us to move their funds quickly and reliably. In recent years we have strengthen our compliance capabilities, added more digital services and expanded our network connections to bank accounts, mobile wallets and cards.

We continue to progress our digital expansion and our announced – and announced the opening of westernunion.com in India where consumers will now be able to sent funds cross-border to our service.

Although India is a traditional inbound country, we believe there is an incremental opportunities for outbound business. India is one of the fastest growing emerging economies and outbound remittances have been growing the last several years.

We have also implemented real-time cross-border transfer and payments capabilities via different channels. In addition, we have taken operational steps to make our platform more agile by investing in new technology, implementing lean processes and adjusting our operating model.

With this foundation in place, our new global sales will focus on opening our platform to more third parties use cases in both cross-border money transfer and payment solutions. We believe this will give us incremental long-term revenue opportunities.

This includes area such as e-commerce, marketplaces where we had already begun a collaboration with Amazon, as well as white label consumer money transfer for third parties, cross-border services for institutions and many other opportunities.

We mentioned some of the white label money transfer examples at our Investor Day and Sberbank in Russia and Saudi Telecom are continuing to perform very well and add growth to our portfolio.

We are now expanding this opportunity to other countries. We recently announced new white label and processing agreements with major financial institutions in Korea and Japan.

Our three-year target assume 2% to 3% revenue growth overall, but over the long-term we expect new cross-border solution services for third parties will contribute incremental growth to our business.

In our receiving where we consume money transfer business, we expect revenue growth will be driven by three primary initiatives. First, we want to create deep relationships with customers whether they ultimately transact in digital or retail.

Second, we plan to leverage data to better customize to user experience and maximize life time value. This includes using technology and artificial intelligence to expand our dynamic pricing activities at an even more micro level and provide customize offers to consumers.

And third, we plan to increase the productivity of our network by providing specialized customer and agent experience at top agent location based on sends revenue. This will include initiative such as digital self-service, priority lanes, real-time marketing offers, expanded product offerings and differentiated agent incentives.

In digital solutions, we expect revenue growth to be led by adding more business verticals. We are continuing to expand existing high growth areas such as education payments while also leveraging our EDGE platform and digital self-service offerings.

As we discussed last quarter, we have also begun a restructuring plan and are undertaking other efficiency initiative to accelerate profit growth and cash flow for the next three years while the new platform revenue initiative develop.

We anticipate these actions will generate $150 million of incremental profitability by 2022 in addition to providing additional funds for reinvestment in the growth of the business.

These savings combined with our revenue assumption support our financial target of improving operating margins to approximately 23% in 2022 and delivering a low double-digit EPS compound annual growth rate over the next three years.

We also expect to generate more than $3 billion of operating cash flow over the 2022 period and return $2.5 billion to $3 billion to shareholders through dividends and share repurchases.

So, we are excited about the future. Our cross-border money transfer business is solid and digital business is growing strong. Business Solutions has delivered better growth and we are expanding our presence in the very large B2B market.

In addition, we believe that we have incremental long-term growth opportunities by opening our platform to third parties. Overall, third quarter results were solid and efficiency initiatives are well underway.

Now, I would like to turn it over to Raj for a more detailed discussion about the third quarter financial results. Raj?

Raj Agrawal

Thank you, Hikmet. Third quarter revenue of $1.3 billion declined 6% compared to the prior year period, while adjusted constant currency revenue which excludes our divested businesses in the prior year period increased 4%.

Currency translation net of the impact from hedges reduced third quarter revenue by approximately $46 million compared to the prior year primarily due to depreciation of the Argentine peso.

The decline in the peso negatively impacted reported revenue by 2%, while the effective inflation on our Argentina businesses is estimated to have positively impacted both reported and constant currency revenue by approximate 2%.

In the consumer-to-consumer segment, revenue increased 1% or 2% on a constant currency basis, while transactions grew 2%. Total C2C cross-border principal increased 3% or 4% on a constant currency basis, while principal transaction was [Indiscernible] or increased 2% constant currency.

The spread between C2C transaction and revenue growth in the quarter was 1% with a negative 1% impact from currency. Pricing and mix offset each other as pricing positively impacted revenue while mix had a negative impact.

Turning to the regional results. North America revenue grew 2% on a reported and constant currency basis, while transactions declined 1%. Growth was led by the U.S. Mexico corridor and other U.S. Alpine business, which was partially offset by continued declines in U.S. domestic money transfer.

Domestic declines were generally similar to last quarter's trends. In Europe – in the Europe and CIS region revenue declined 1% or increased 1% on a constant currency basis with growth led by Spain France and Russia. Transactions in the region increased 6% aided by the Sberbank white label business.

Revenue in the Middle East, Africa and South Asia region grew 4% on a reported basis or 5% constant currency while transactions increased 1%. Revenue growth was driven by strength in Saudi Arabia and the UAE, including benefits from the Saudi Telecom white label business and increased prices in certain corridors.

These benefits were partially offset by lost business due to hard currency limitations in certain African markets. The Latin American and Caribbean region continued to deliver strong constant currency revenue growth led by transaction growth in Ecuador and Chile.

Revenue in the region increased 4% on a reported basis or 12% constant currency, while transactions grew 10%. In the APAC region, revenue declined 13% on both a reported and constant currency basis. Transactions were down 6% in the region.

Transaction trends improved sequentially while revenue trends were similar to last quarter partially due to pricing reductions implemented in certain markets. Westernunion.com revenue grew 16% or 17% constant currency with transaction growth of 16%. Wu.com represented 14% of total C2C revenue in the quarter.

Cross-border westernunion.com revenue increased approximate 25%, but this is partially offset by declines in domestic money transfer. Business Solutions revenue was flat on a reported basis or increased 3% constant currency and represented 8% of company revenues in the quarter.

Constant currency revenue growth was driven by strong performance generated from customers in Europe, as well as increased sales and hedging products and strong growth in the education and financial institution verticals. Other revenues which consist primarily of our retail bill payments businesses in the U.S. and Argentina decreased 48% in the quarter which reflects the impact of the Speedpay and Paymap divestiture in May.

The Pago Facil walk-in business in Argentina posted good increases in transactions and local currency revenue growth and increase in U.S. dollar terms as well. Other revenues represented 7% of total company revenues in the quarter.

Turning to margins and profitability, we will focus on consolidated margins as segment margins are not compatible with the prior year period due to reallocation of corporate costs following the divestiture of the Speedpay business.

We are also providing adjusted metrics to exclude restructuring expenses, merger and acquisition costs and related tax effects. The consolidated GAAP operating margin was 15.1% in the quarter compared to 21.8% in the prior year period. The decline was primarily due to the impact of restructuring expenses from our previously announced initiatives.

We incurred $92 million of restructuring expense in the quarter with the significant majority attributable to severance. We continue to expect approximately $100 million of restructuring expense for the full year and approximately $50 million to be incurred in 2020.

Adjusted operating margin in the third quarter was 22.3% compared to 22% in the prior year period. With the increase primarily due to operating efficiencies partially offset by the impact of Speedpay and Paymap divestitures.

Speedpay and Paymap contributed about 50 basis points to last year's third quarter margin, while foreign exchange hedges provided a benefit of $10 million in the current quarter compared to a benefit of $4 million in the prior year period.

We expect adjusted margins to be lower in the fourth quarter due to timing of spending and planned investments, and we are maintaining approximately 20% adjusted margin outlets for the full year.

The GAAP effective tax rate was 16.8% in the quarter compared to 21.7% in the prior year period, while the adjusted tax rate of 18% compared to 11.8% in the prior year period.

The decrease in the GAAP rate was primarily due to changes in estimates for Tax Act provisional accounting in the prior year period. The increase in the adjusted rate was primarily due to non-recurring benefits in the prior year.

GAAP earnings per share in the quarter was $0.32 compared to $0.46 in the prior year period with the decrease primarily due to restructuring expenses, adjusted earnings per share in the third quarter was $0.49 compared to $0.53 in the prior year period. Due to dilution from the Speedpay divestiture and a higher adjusted tax rate partially offset by lower shares outstanding.

Turning to our cash flow and balance sheet, year to-date cash flow from operating activities was $665 million. Capital expenditures in the quarter were approximately $19 million. At the end of the quarter we had cash at $1.4 billion and debt of $3.2 billion.

We've returned $224 million to shareholders in the third quarter including $84 million in dividends and $140 million of share repurchases which represented approximately 6.5 million shares.

The outstanding share count at quarter end was 420 million shares and we had $1.1 billion remaining under our existing and new share repurchase authorizations, the majority of which expires in December 2021.

Turning to our financial outlook, we are affirming our three-year financial targets and 2019 full year financial outlook. We continue to expect GAAP revenues for the full year to decrease mid single digits due to the divestiture of the Speedpay business in May.

On an adjusted constant currency basis excluding Speedpay and Paymap from both years and excluding any benefit from Argentine inflation, we expect a low single digit constant currency revenue increase.

GAAP operating margin is expected to be approximately 18% while the adjusted operating margin is expected to be approximately 20%. We expect GAAP effective tax rate to be in the range of approximately 18% to 19% and the adjusted rate approximately 19% for the full year. We continue to expect the effective tax rate in 2020 to be in the mid-teens range.

GAAP EPS for the year is expected to be in a range of $2.47 to $2.57, while adjusted earnings per share is expect to be in a dollar -- in the range of a $1.72 to $1.80. GAAP cash flow from operating activities for 2019 is expected to be approximately $800 million, while adjusted operating cash flow is expected to be about $950 million.

We continue to expect to spend between $5 million and $6 million on share repurchases for the full year and we have repurchased $475 million through the third quarter. In summary, we are pleased with the quarter's results and we remain on track with our full year financial outlook.

We have begun implementing our new global strategy designed to drive profitability, efficiency and long term growth. And we have made significant progress on the restructuring.

We have also continued to return significant funds to shareholders, while maintaining a strong balance sheet. We look forward to delivering our strategy and financial targets and we will provide updates on key activities as we move forward.

Thank you for joining our call today and operator we are now ready to take questions.

Question-and-Answer Session

Operator

We will now begin the question and answer session. [Operator Instructions] The first question comes from Darrin Peller of Wolfe Research. Please go ahead.

Hikmet Ersek

Hi, Darrin.

Darrin Peller

Hey. Starting off on the revenue side, I mean, pricing looks like it benefited to you by -- I think you said 100 basis points. So, I think we saw some of those trends in the World Bank data too. I mean, is that a broad based macro trend you're seeing from a competitive standpoint across the industry? Or are you actually already starting to see some of the customized efforts you talked about at your Investor Day taking hold where dynamic pricing is already being implemented?

Raj Agrawal

Yes. I'd say, Darrin, the pricing benefit, we didn't quantify. We said that pricing and mix have largely offset each other. But we have seen in the market generally that the pricing is relatively stable. So we haven't really seen any pricing pressure certainly on the downside and it has been quite stable. As we do more dynamic pricing and as we bring more technology into the equation, looking at location based pricing or day of week and time of day. It actually is more difficult to actually distinguish between what is a pricing increase or decrease. And so we really want to get away from getting that because it may not be actually accurate. So we really are trying to drive the overall lifetime value of a customer as we modify our pricing strategy.

Hikmet Ersek

But generally I would say, Darrin, the pricing environment is stable and we feel we are quite competitive with our corridors. And as you know Darrin, being as Raj said, being in so many corridors and being so dynamic helps us to adjust the prices and really focus on the customer long-term value.

Darrin Peller

Okay. All right. That helps. And just one quick follow-up guys. I mean the -- you obviously call out a lot around the partnership model now and the ability to use your network for others STC and Sberbank is the notable ones. You mentioned others coming on. I mean, I guess I'm just trying to figure out the materiality of these to your transaction growth rates and how you'd expect them to impact transaction growth rates on the overall C2C business starting as early as 2020. I mean is this enough to move the needle and what kind of numbers of larger partners are you adding beyond the ones you talked about already?

Hikmet Ersek

So, the good thing is that let me start with the good news. It's incremental, right? Because we saw in the Sberbank for instance, the Sberbank transaction or bank transactions are happening anyway, but it's quite complex with the correspondent banking and they're choosing us to do it the easy way to transfer that. That really are incremental transactions. They're not cannibalizing in big picture our business, our existing Western Union branded business, right?

I think from the -- it's still as you know four or five examples worldwide. I just came back from a world tour and I just -- we just signed an agreement in Japan. We just signed an agreement in South Korea, which we are very excited. They are similar like Sberbank big banks. They want to use the platform to drop money worldwide. And that's kind of strategy is a long-term strategy.

As you also know for making agreements financial institutions are long term agreements, at the same time it takes some time to implement them, because you have to -- your IT steer systems has to be match with their systems. But given our open API we are very confident that we can really adjust it very fast. So I'm excited about that you know putting our platform and to the banks, because in that case we are not offering a new product. We are really solving a problem of the banks which they have and the money moves the account-to-account anyway. But with our real-time account payout it's really replacing their issue in most cases.

Darrin Peller

Okay. All right. Thanks. Thanks guys.

Raj Agrawal

Thanks Darrin.

Operator

The next question comes from Jason Kupferberg of Bank of America Merrill Lynch. Please go ahead.

Jason Kupferberg

Hey, good afternoon guys. I just wanted to see if you guys have any…

Raj Agrawal

Hi, Jason.

Jason Kupferberg

Hi. I just want to see if you guys had any preliminary thoughts on where a 2020 revenue growth might land. I'm just thinking about it obviously in the context of the three-year guide. Some of these initiatives that you've been embarking on will presumably ramp to some extent next year. Others may take longer. So, just wanted to see where we should be thinking about a reasonable range potentially for next year, obviously assuming no major changes in the macro backdrop?

Raj Agrawal

Yes. Jason, I would say that we're still comfortable with a three-year view that we gave. Our assumption is that we're going to grow 2% to 3% and that's assumed just as a reminder that assumed about 20% digital growth which includes wu.com and some of these digital partners, but nothing that material. And we assumed a relatively stable retail business in that regard with their dynamic pricing and the engagement we'll have at the customer. And then we also seemed a mid single digit B2B growth over that three-year period. So, we're not really ready to get specific guidance for next year, but we're comfortable with the three-year view that we gave.

Hikmet Ersek

And also the new opportunities, Jason, our long-term opportunities, and once they get material we are really excited with the start, but once they get material we will give definitely some more color on that. So, it's early, but as Raj said, that we feel comfortable with our three years assumptions on revenue.

Jason Kupferberg

Okay. And you've talked about the uptick in C2C constant currency revenue growth. I think we went from 1% last quarter to 2% this quarter. Does it feel like 2% is sustainable?

Raj Agrawal

Well, we know that the 2% to 3% [Indiscernible] three years assume that the consumer business in total is going to go 2% to 3% as well, right? The uptick in the quarter just specifically was related in large part to the significantly improved performance in the Middle East, right? And Saudi Telecom was a key part of that overall performance. So yes, we'd love to have it continue in that range. So let's see how things transpire here. But it was good performance.

Jason Kupferberg

Just one more from me; I was curious just as you continue to rollout wu.com in more countries. If you're seeing any distinct patterns in terms of how the usage patterns of the service tend to evolve when you actually launch in a new country?

Hikmet Ersek

Yes, I think so. I mean, the India example which I gave earlier it's new example for us launching a dotcom business and receiving -- mainly receiving country. But don't forget India has 1.2 billion people and that's very fast growing economy with millions of emerging middle class and they are trading and they are connected globally. And they do want to send money. I think we have some important is there. We have to create the brand awareness there, obviously, send money also, not only to receive money. But we are very excited about that.

And also just one thing on India, we recently announced the real-time on an account in India. We made an agreement with UPI. UPI is a kind of kind of ID with the Yes Bank together, so you can drop immediate – we can really drop immediately money just with the phone numbers and with the name specially EPA name to the accounts to all Indian banks which we are the first there and we are first financial institution doing that for cross-border transactions through India. And we are very excited about that also.

So, to your question on westernunion.com it depends on the market. It takes time. But it is still a huge potential and I'm very proud to say that, remember Jason few years ago you asked me, when are we going to have the 10% of the revenue of the total revenue. Meanwhile we have 14% of our total revenues done by westernunion.com which and it's still growing with 20%.

Jason Kupferberg

Right. Well, thanks for the comments guys.

Hikmet Ersek

Thank you.

Operator

The next question comes from Tien-Tsin Huang of JP Morgan. Please go ahead.

Tien-Tsin Huang

Hi. Great. Thank you. Happy Halloween to you guys. The margin that I want to ask the -- you're running a little bit ahead year to-date what 20.6 [ph] it looks like ahead of your approximate 20. I think as you mentioned it will be a little bit lower in the fourth quarter. Is that normal way seasonality spending? Are you doing something unique? I'm just trying to get a good jumping off point here and whatever you can tell us on 2021 -- 2020 margin would be great too? Thanks.

Hikmet Ersek

It sounds like a slip of the tongue there. Yes. I would look at this year as being more – this quarter is being timing related. It similar to last year's pattern. It doesn't necessarily mean that that's going to happen every year, but there were some timing of spending and we do have some further investments in the fourth quarter. We could end up a little bit above or so a little bit more just depends on how we spend the money in the fourth quarter. But we're still comfortable with the approximate 20% outlook for this year. And as we had said at Investor Day, we do expect to get margin improvement each of the next three years. And so I won't get any more specific than that, but we are looking for margin improvement next year.

Raj Agrawal

Generally and as we start with our program, Tien-Tsin, I will say that really the lean management tools helps the company, how we think about our operating way, how we really look at our optimize business, but at the same time the growth shows also that we have potential to further growth. So we are not holding back, not investing and in Q4 I believe that we're going to continue to invest where the growth initiatives and that's but still improving the margins. So I'm very confident about that.

Tien-Tsin Huang

Okay, great. Real quick if you don't mind, Hikmet. At 2020 [Indiscernible] and the people there was very clear talking about open platform and strategy seems very clear everyone's on board. I'm curious the pipeline for new potential partners here now that you've been more vocal and visible with it. How has that evolved here in recent weeks or recent days?

Hikmet Ersek

Well, as a sales guy I was on the road now the last 10 days around the world. I have to say that I met several CEOs and I have to say that we are really solving a problem for some big financial institution especially for their exotic currencies for opening our platform. And I'm very excited and there are some potential prospects here. And I believe that there's some more to come and I'm excited about that. Actually in Japan and South Korea we really signed ones, right? They are new partners there. They want to use our platform to drop money globally in a very efficient and compliant way and the fastest way, right. And real-time to millions of accounts and that makes me very excited.

And also Amazon is one of the examples that we are opening our platform to collect funds for a third party. It's their product. But it's our network. It's our machine. It's our engine and I believe that these are also contracts they will there are more potential here. I am confident. I'm going to -- you're going to hear more about that in coming years. And it's too small, obviously, and it's just beginning of a big journey, but exciting journey because as we show those in Investor Day the facts are there and they are still going.

Tien-Tsin Huang

Now it will be fun to track it. That's for sure.

Hikmet Ersek

Thank you.

Raj Agrawal

Thanks Tien-Tsin

Operator

The next question comes from Brian Keane of Deutsche Bank. Please go ahead.

Brian Keane

Hi, guys, happy halloween.

Hikmet Ersek

Hey, Brian.

Brian Keane

I wanted to ask on the earnings outlook. We're still the adjusted EPS range of a $1.70 to a $1.80 which then makes a $0.10 pretty wide range for the fourth quarter. I was wondering if you could share as to one side or the other that range or maybe talk about what would get you to the high end and low end of that range?

Hikmet Ersek

Yes, Brian, It just takes -- it's a number of factors are going to determine where we come out of my range. The level of spending that we have on various initiatives, obviously, will have an impact to the level of revenue growth. So I mean, we gave you a wide range, but we're very comfortable that we're going to be in that range and where it comes out is just going to depend on a number of different factors that is hard to call at this stage. Just given the margin improvement that we had in the third quarter that just depends on how much investment we make in the growth initiatives. So – but we're comfortable with that range and we'll see where that comes out. And again as we had mentioned at Investor Day, we do expect to get low double digit type of earnings per share growth over the next three years. So it should set up well for next year and the year after.

Brian Keane

Is one of the wildcards for the fourth quarter just how much marketing or how much additional spend in investment goes in?

Raj Agrawal

Yes. Marketing is certainly one of the key investment areas.

Hikmet Ersek

I'm not sure it's the wildcard. We know what we are doing.

Raj Agrawal

Yes. No, I mean, it's not a wildcard. We know what we're doing but it just depends on how much we put forth there and -- but yes I wouldn't read too much into the wide range there. We're comfortable with where we are and we're tracking according to our plan.

Brian Keane

Yes. Got it. And then wu.com I mean it moderated slightly, I think was growing close to 20% moderate a little bit to 17%, anything to read in there or any tougher comps or something that created a little bit of a modest slowdown?

Raj Agrawal

Not really. I would just say that 80% of the business grew at 25% in wu.com which continues to be the highlight of the business, the cross-border piece, the domestic piece continue to decline so that -- the domestic part of wu.com was slightly worse than last quarter but in the same range. So that's certainly having an impact. And then as you saw in our notes overall digital growth including the white label partnerships grew more than 20%.

Hikmet Ersek

That includes also domestic.

Raj Agrawal

Yes. That also includes domestic, obviously all of that. So the total digital business including the white label partnerships grew at above 20%. So we're pretty comfortable that we can continue to grow at that level with the total business. So I mean, in wu.com we continue to have large expansion plans there. We think it's a great opportunity for the future and we continue to add geographies and channels to that business.

Brian Keane

Got it. Thanks for the help.

Raj Agrawal

Sure, Brian.

Operator

The next question comes from James Fawcett of Morgan Stanley. Please go ahead.

Unidentified Analyst

Hi. This is Priscilla calling on behalf James. Just a quick follow up on the pricing question. Last quarter you called out some pricing benefits particularly in U.S. domestic as you price up some of your products there. Was that also in play this quarter or was there something else?

Raj Agrawal

Yes. That's certainly a key part of the overall pricing list. As you've seen the transaction growth in North America was down 1% but revenue growth is up 2%. So we are continuing to try to maximize the overall value of the U.S. domestic money transfer business so there is some pricing embedded in there as well.

Unidentified Analyst

Got it. And then, just a quick question on India and how you're thinking about entering some of these new markets? You mentioned that you have to increase brand awareness. So how do you think about going to market there, increasing brand awareness? Is this providing potentially discounted digital services in India so people know what the product looks like or is it just increased marketing spend. How are you thinking about that?

Hikmet Ersek

I think it's a similar market approach where we do it everywhere. But don't forget that India been for many, many years the receiving country. But emerging new, the middle class Indians want to send money and they want to use their account and westernunion.com to send money. More and more people they want to use connect their debit cards, their credit cards or their bank accounts to westernunion.com, and that's the thing. What we do it in every country when we launch a new country this awareness, but we are excited about that about India long-term because we never did that in such a huge country out front business and I believe that build a new opportunity.

It shows an example of Western Union, how flexible Western Union is in many country and how many opportunities we have. What kind of portfolio we have. And that part of investment will definitely help them. But it's nothing different than opening a new country investment will definitely help them. But it's nothing different than opening a new country.

Unidentified Analyst

Great. Thank you.

Hikmet Ersek

Thank you.

Operator

The next question comes from Ramsey El-Assal of Barclays. Please go ahead.

Ramsey El-Assal

Hi. Thanks for taking my question. I also wanted to ask a bit about pricing and clarification. How far along are you with the sort of infrastructure to enable more of an enterprise wide rollout of the dynamic pricing and maybe I've just missed that that's already something that's in place. I just wanted to clarify whether the pricing power that you've displayed in the quarter was related to that or is that something that's more of a future state sort of implementation?

And then lastly I kind of more conceptually on the same topic, I just wanted to kind of explore with you or have you comment on the degree to which that dynamic pricing -- true sort of AI driven dynamic pricing might result in incremental pricing power as you're able to take price sort of more efficiently?

Hikmet Ersek

Yes. I think, Ramsey, good question actually. If you look at our business being in 20,000 corridor plus, we've been doing dynamic pricing all the time. We adjust the pricing. You heard several quarters before and for several years I was talking about suite [ph] corner pricing and other activities. This is what we have done here is that we really go through more corridors. We've multiple the corridors with some product adjustment and pricing adjustments. And also if you download your westernunion.com you will see also so you can choose between different channels when you send money to different countries with different channels. It's like an airliner. We were adapting the pricing to the customer needs, to the demands and that has been different -- definitely power.

Now what we're doing is that we tested with artificial intelligence the certain corridors. We are really -- over the years, we will invest that because it's huge, right, 200 countries, different corridors, different needs and – but artificial intelligence is definitely something will give us power. The other thing is I mentioned again, the pricing environment generally has been stable. We've been -- definitely, we have some competition, but we are products, our speed, our channels, our brand makes it, our compliance programs, our settlement programs, our platform makes it happen that our pricing environment is been -- has been stable.

Ramsey El-Assal

Thanks for that. Just my follow-up is on B2B and on your business payment segment. Can you talk about sort of which strategies? You see that such a large opportunity. Which sort of sub strategies you see within that segment that are available to drive growth. Is it focusing more on AP automation or global disbursements is something that we feel a lot of other companies especially some startups really making kind of hay out of. Just curious in terms of where you see the primary growth drivers in that or opportunities in that business?

Hikmet Ersek

I think our core business is doing the volatility, global volatility that on our core business is like hedging helps on the FX trading part. But I'm very excited about the verticals. The vertical acquisition like the university acquisitions globally and we're going to expand that also like middle tourism to acquisition of hospitals paying really, the consumer paying the bills in their local currencies and able to study abroad and/or their parents paid in local currency and send their kids abroad to study.

I think that's going to continue, the verticals going to continue, but also our EDGE platform which serves the SMEs exporters and importers where they meet online on the platform and really connect them. That's also a growth opportunity. So I believe over years we will definitely have more payments focus. You will hear more about that because it's a huge market. As we demonstrated that the Investor's Day and we have a small portion of the market. And SME small size SME exporter/importers continue to be very exciting for us.

Ramsey El-Assal

Got it. Thanks so much.

Hikmet Ersek

Thank you.

Operator

The next question comes from Ashwin Shirvaikar of Citi. Please go ahead.

Ashwin Shirvaikar

Thank you.

Hikmet Ersek

Hello, Ashwin.

Ashwin Shirvaikar

Hi. So I wanted to start with trying to get more of -- more granular information with regards to the segments in geographies if you don't mind kind of going to because I do see that there's some pretty good acceleration in the Middle East South Asia piece, which I'm thinking maybe this is because of things like Saudi Telecom that agreement. But there's also deceleration in many of the other segments and normally quarter to quarter it's not this size of a move. So I'm kind of trying to figure out from a segment basis if you can provide granularity?

Raj Agrawal

Yes. Just on Middle East, Africa and South Asia just to reiterate some of my commentary. We had strong growth in Saudi Arabia and UAE and then we had a slight offset from the hard currency issues in parts of Africa. But overall the market improved dramatically from a revenue standpoint, so 4% revenue growth, 5% constant currency. Saudi Arabia was driven by a couple of different – well, primarily driven by the performance of Saudi Telecom that had very strong performance both transactions and revenue. And then some price changes in certain corridors.

And then UAE also had a good performance that was driven by some agent incentives and other things we're doing in the local area as well as some price changes. And then overall those transactions also improved. So Saudi Telecom I would say would be the number one highlight for the region. If you look at some other regions; Europe and CIS stayed relatively stable. Transactions improve there. That was largely driven by the Sberbank white-label business that we have which had high transaction goal [ph], less of an impact to the revenue side.

North America was relatively stable to last time. Latin America was a little bit softer, but Latin America has been growing in the double digit range for quite a while, right? So we saw Ecuador and Chile growing well and that was largely business going to Columbia because of the migration patterns we're seeing from Venezuela to the neighboring countries. And then Asia Pacific, we are doing price reductions there. So that helps. The transactions trends a little bit. There's still negative. But it helps a little bit but revenue for that reason stayed about the same. So does that give you a little bit more color, Ashvin what you're looking for?

Ashwin Shirvaikar

Yes. It does. I guess the one part that I mean I'm thinking any impact from Hong Kong and such in South Asia maybe -- in East Asia. Sorry, but that probably completes the picture there. So, then the other question I had was with regards to -- earlier this year obviously you guys took a look at the various businesses you divested certain assets. Is there anything else left in that process because you kind of look at the stub of the other revenue piece which by the way you guys continue to extract good EBITDA out of it. And then you look at B2B. Anything that you could be doing inorganically adding, subtracting, that is left to do?

Hikmet Ersek

Yes. I would say that if you look at our strategic focus, it is really around cross-border, cross-currency, money movement. So, things that fit within that strategy we like and we'll continue to own and we may look for other things that help to supplement our strategy there.

And things that are not in that definitions or potential candidates who as to look at divesting but there is not much left. Really the only domestic payments business we really have left of any size is in Argentina. And Argentina has its own issues as you know.

So, there's not much more left there but we're always looking for acquisition opportunities that help to supplement our capabilities or can help to supplement what we want to do strategically over the next few years.

Ashwin Shirvaikar

Got it. And a quick clarification if I can on tax rate. Because I was under the impression the tax rate over the next sale couple of years would be stepping down. But in the quarter itself it picked up just a tad.

I'm assuming this is just quarter-to-quarter fluctuation and nothing's changed with regards to our clear tax rate going down?

Hikmet Ersek

I would say the tax rate almost for this year is very consistent with what we've been saying all year. So, it's in that high teens range given the specific factors from this year but we do expected to step down into the mid-teens range for the next few years and specifically we expect through next year as well.

So, we're much on track with what we've said about the tax outlook.

Ashwin Shirvaikar

Got it, thank you.

Hikmet Ersek

Thanks.

Operator

The next question comes from Kartik Mehta of Northcoast Research. Please go ahead.

Kartik Mehta

Hey, good afternoon Raj, and Hikmet.

Raj Agrawal

Hi, Kartik.

Hikmet Ersek

Hi, Kartik.

Kartik Mehta

I mean to ask you a little bit about your ability to use obviously a physical distribution system for other channels and Amazon specifically maybe because it's so much in we've talked about it so much.

But as you look at that particular product, has Amazon or you marketed the product outside the U.S. and some of the other emerging market countries. Or are you is that coming up?

Hikmet Ersek

Yes, not really. Yes, it's coming up, it is really Amazon I believe that its first use their product. They're going to promote it, we're going to upgrade, we are putting our platform there. And it's really marking activist really didn't start it. It's coming up I guess.

And Amazon knowing Amazon they're very customer friendly. They want to have a 100% good a customer experience and everything. So, big global launch will happen. At the same time I have to say that so far the tester I'll we call it the start is going pretty well. And we have countries like Columbia, it's doing very well actually.

And some, it's really big launches coming up hopefully soon Kartik.

Kartik Mehta

So Hikmet, so it sounds like Amazon has shared with you that they want you launch this product globally. So, there is more consumer awareness. Is that of your statement based on your answer?

Hikmet Ersek

Yes.

Kartik Mehta

And then, just one question on pricing, obviously very stable. Is there a difference right now that you're seeing from just a physical distribution, the pricing in that channel versus the digital channel, is more aggressive than the other or is more one more and you said that is one more aggressive than the other.

Hikmet Ersek

Which say that again, Kartik. Digital is more aggressive than versus --.

Kartik Mehta

Digital versus retail, are you seeing difference on pricing.

Hikmet Ersek

Depending on the corridors.

Raj Agrawal

Yes, I think it really that's exactly the answer. It depends on 1000s and 1000s of quarters, the country pairs that. We sometimes we're very aggressively priced, Kartik, and this quite well but sometimes we're aggressively priced, at other times we don't need to be so aggressively priced.

And in another quarter is that its retail for example, we are pricing to maximize the value of our domestic when we transfer business, so it just depends. And I think as we migrate more dynamic pricing capabilities, ultimately our goal is going to be drive better lifetime value of customers.

So, that might mean that we reduce prices in certain areas we increase prices and we take advantage of conditions because ultimately as you saw at Investor Day we want that customer to not walk away without doing a transaction. So, we want to price the products that they do that last transaction with us.

Right, so it's just as we evolve to the more dynamic pricing capability, that's really going to be how we look at the business.

Kartik Mehta

Fair enough. Thank you very much, appreciate it.

Hikmet Ersek

Sure.

Raj Agrawal

Thanks, Kartik.

Operator

The next question comes from James Freeman of Susquehanna. Please go ahead.

James Freeman

Hi.

Hikmet Ersek

Hi.

James Freeman

Thanks for taking my question. So, you guys covered a lot of territory today. I just did two upfront. One, in terms of the compliance, I'm sorry if I missed it, but are we still rise in the 3% range. How can we figure out that, that's the first one?

And then, the second one is you mention Argentina, I realize that there's only specifics to say but what is the narrative around that access field. Is that sort of strategic option for you or what should we be thinking about that.

So, one is compliant and then the other on I could see a stance.

Raj Agrawal

James, it was very hard to hear you.

Hikmet Ersek

Yes.

Raj Agrawal

But the first question was I believe compliance stand and the second question on --.

Hikmet Ersek

It's on Argentina.

Raj Agrawal

Let me James let me try to address and then you can let us know if we didn’t if we have to assume more there. on the compliant stand, the last few years we've been very consistently spending roughly $200 million it's spend in that 3.5% 4% range.

We are trying to get away from giving specifics now on the compliance and because it has been so stable. Obviously we can never predict the future, it depends on where regulation goes, but we feel very good about our compliance capabilities and in program.

So, it's been very stable would be the message I would give to you there. And then, on Argentina, I didn’t quite understand your exact question there. Do you mind repeating that one more time on Argentina?

James Freeman

Yes. I my other question is and I'm sorry about the bad connection, it was connected in the phone that had. But the pads with your product and is that --.

Hikmet Ersek

Pago Facil?

James Freeman

Pago Facil, is that the strategic options there or is that something you've taken away, then how should we think about that.

Hikmet Ersek

It's not worth the domestic bill payments business. So, I would just say that it produces good cash flow. But it's not necessarily doesn't necessarily fit within the broader strategic area that we want to focus, which is cross border, cross currency money movement.

But we like the Argentina business, it's been a good producer for us and it is a part of our portfolio and that's how we have.

Raj Agrawal

I think Argentina business has been part of our portfolio. We do use locations, the Pago Facil locations also for inbound outbound business. And it has been a stable business for many years and we have good management there. And but our focus continue. It's a very small part of our business, output is continue to be in cross border cross currency.

James Freeman

Got it, thank you.

Operator

The next question comes from Andrew Jeffrey of SunTrust. Please go ahead.

Andrew Jeffrey

Hi, -- pardon me. I appreciate you taking the question this afternoon.

Hikmet Ersek

Andrew, how are you?

Andrew Jeffrey

I'm doing well, thank you. It's interesting to see this, to me this' is kind of juxtaposition between the revenue growth of the business which is clearly stabilizing and picking up in some cases. And then, this commitment to return of capital which I think the markets really like this here by the way.

What I'm trying to understand is, is there some point recognizing you've given us this multi-year plan. Where if you see real success with some of these newer initiatives that you're calling out especially considering your compound multiyear revenue growth is essentially being driven by essentially 20% of the business.

Will you choose to reinvest and maybe accelerate growth around some of these newer initiatives or how you're going to evaluate that versus just sort of being debts that are returning this capital shareholders?

Hikmet Ersek

I mean, capital we are very committed to return the capital to our shareholders and our strength cash flow is continue to going be there and we are very committed. But let me step back and tell you we are so successful with our opening the platform why we believe that we're going to be successful.

It's the correct, maybe. And the first signs looks like we're going to continue to be successful. We blow up the platform over to years which gives us the capability to offer our platform to third parties which the others don't have it. The compound capability, the settlement capability and 137 currencies, real-time capabilities and accounts and wallets and cards.

It's a huge platform for 200 countries capable, legally capable, its operating 200 countries. These are a huge competitive advantage and we have them already.

Now we just our bills wants to open our platform to the third parties which doesn't need additional big investments. Really, we are looking at our processes optimizing our process open our platform to third party, that's a big advantage that maybe others don't have it.

So, our platform and the password, Western Union customers now we are really opening to the platform to solve an issue of our third parties. They're going to move money anyway but in a hard way but if they use us, it will be easier way. And that's the incremental part of that revenue.

Of course we will, look at that is the incremental opportunities we were going to invest this, but I don't assume that we will have a huge different investments which will affect our margins and we are very committed to our three years margin expansion.

Raj Agrawal

Yes. The only thing I would just add is that as we had said Andrew on at Investor Day, we are saving, we're driving some more savings than just the $150 million by 2022. And that is with an eye towards investing back into business to drive some of these longer term growth opportunities.

So, we have enough investment allocated to some of these things and we'll just to see how the experience is over the next few years as we think develop.

Andrew Jeffrey

Okay. And then, as a follow-up, the gross margin cost of services as a percentages has been pretty stable. It's been increasing a little bit. Are we to the extent you're driving operating leverage. Is it coming more from OpEx as opposed to cost of goods.

I know this is you haven't been capitalizing a whole lot of commission costs. It certainly would seem like it's a fairly benign agent environment.

Hikmet Ersek

Yes, I would say that we certainly the fixed expenses will be an area where we get a significant amount of our savings but we also as you've heard are driving toward efficiencies in our cost of sales. And so both will certainly be a factor but and we want to try leverage.

As we look at commissions, it's a number one cost item in the company. So, we have to look at that, we have to find a way to be more efficient there and we believe we have the right strategies there and so yes we're getting leverage on our entire cost structure let's say and that's a part of the overall formulas.

We get the revenue growth, we also get leverage as we keep those costs pretty stable.

Andrew Jeffrey

Okay. I appreciate it, thank you.

Hikmet Ersek

Sure, thanks.

Operator

The next question comes from David Scharf of JMP Securities. Please go ahead.

David Scharf

Oh yes, and thanks for squeezing me in. I wanted to just follow-up with one more question on the XP platform initiative. And I'm wondering, it clearly all the investments in compliance over the years have positioned this to effectively outsource those programs and relationships.

And I just wanted to sort of double check. Is there any additional compliance or risks or maybe just requirements that you could potentially foresee having to address based on opening up your API and inviting third parties to leverage the platform.

Hikmet Ersek

Well moving money cross-border cross-currencies always complex. It's very regulated and obviously the complexity of the business understanding the complexity of the business the competitive advantage for us. And we know it how to do it but at the same time there is also risk always of course.

But we believe we are very well positioned to answer or to respond to many questions and many regulatory requirements that global regulators have. If we think that in 200 countries and 137 currencies definitely it has something. I don’t see additional risk because if you're opening your platform already to the banks, it's a kind of know your customer environment already done.

But our team is very diligent to choose the right partner, our team is very much investing to look what how we can move in a very compliant way worldwide and we are very dedicated. We have a great compliance team, we have a great legal team.

And they are really within the advising us and within our business mobile here and that's we see that compliance and on the money lending activities and responding to them as a competitive advantage.

David Scharf

Got it. And I would imagine it's no different from the way you've had agents as well. Okay, thank you very much.

Hikmet Ersek

Thank you.

Raj Agrawal

Thank you.

Hikmet Ersek

And Andrew, we have time for one more question.

Operator

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Thank you. Next question will come from Tim Willi of Wells Fargo. Please go ahead.

Tim Willi

Great and thank you very much for the time. Two questions, the first one was just a housekeeping on the modeling. Raj, could you go back through the margin impact was from the Speedpay divestiture, just to sort of make sure I got that accurate sorted in my own thought process over the next couple of quarters.

Raj Agrawal

Alright, yes. I mean, if you look at our financial tables, we have quite a bit of detailed information in the tables. So, last year Speedpay and Paymap generated about $370 million of revenue and a $110 million of direct profit. And they had a margin benefit to the business of around 70 basis points.

And then this year we had a 40 basis point benefit in the first quarter and then no benefit in the second quarter and we sold it obviously in May. So, no further benefit there. So, it should give you a lot of details in the tables.

Tim Willi

Okay. I'll go back to those. Thank you for framing out. Second question I had was just on wu.com given the length that you've now had this business and the success. And obviously you want assuming lots of repeat customers that are probably been with you now for some time.

I guess, going back to an earlier question about pricing. Just any insights or color you could share around if you sort of test and think about pricing and the stickiness of customers given the duration of how long they've been with you and just any sort of thoughts around engagement.

Do you think people are truly exclusive to wu.com or do you think there are people out there that their activity might say hey you might have another digital money transfer that will, you should ship on their smartphone as well because they got comfortable with the ease of using wu.com maybe thinking about trying out some of the else's service or you feel like people are still pretty exclusive to you.

Raj Agrawal

No Tim, great question actually. The big difference between dot com and walk com [ph] is that at the dot com you have to pre-register yourself. You have it really acquisition in the beginning. And once you're on those system when we do the our customer and everything.

You're nearly the, the loyalty is huge within the westernunion.com. One of the reason is that no one can match our distribution, met to it worldwide. So, you collect funds where dot com and you can send money anytime so one of the 500,000 locations or one of the billions of accounts.

And in real time. And it took us well to develop the both size and that makes the customer loyal. Once you can send money to your grandmother in Uganda to the next corner, and in minutes drop money in our location or to India to an account in minutes really going in minutes without any issues.

That loyalty is definitely something that we admire. Saying that in the new countries then we are very focused on acquiring new customers and the existing countries are real which we've been longer time be Wes dot com, it's all about customer experience and customer loyalty.

And I am completely excited about the western union dot com. The study definitely in western union dot com all about the customer.

Tim Willi

Great, thank you very much, really appreciate that.

Hikmet Ersek

Thank you.

Raj Agrawal

Thank you.

Hikmet Ersek

Thanks everyone for joining. Have a good evening.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.