V Earnings Call – FY2024 Q3

Date: July 23, 2024

Operator

Welcome to Visa's Fiscal Third Quarter 2024 Earnings Conference Call. [Operator Instructions] Today's conference is being recorded. [Operator Instructions] I would now like to turn the conference over to your host, Ms. Jennifer Como, Senior Vice President and Global Head of Investor Relations. Ms. Como, you may begin.

Jennifer Como

Thank you. Good afternoon, everyone, and welcome to Visa's fiscal third quarter 2024 earnings call. Joining us today are Ryan McInerney, Visa's Chief Executive Officer; and Chris Suh, Visa's Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at investor.visa.com. A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website. Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance, and our actual results could differ materially as a result of many factors. Additional information concerning those factors is available in our most recent annual report on Form 10-K and any subsequent reports on Forms 10-Q and 8-K, which you can find on the SEC's website and the Investor Relations section of our website. Our comments today regarding our financial results will reflect revenue on a GAAP basis and all other results on a non-GAAP nominal basis unless otherwise noted. The related GAAP measures and reconciliation are available in today's earnings release and related materials available on our IR website. And with that, let me turn the call over to Ryan.

Ryan McInerney

Good afternoon, everyone. Thank you for joining us. We delivered strong third quarter results with $8.9 billion in net revenue, up 10% year-over-year, and EPS up 12%. Our key business drivers were relatively stable as compared to Q2, adjusted for leap year. In constant dollars, overall payments volume grew 7% year-over-year, U.S. payments volume grew 5%, and international payments volume grew 10%. Cross-border volume excluding intra-Europe, rose 14%, and processed transactions grew 10% year-over-year. We recently received the results from our annual Global Client Engagement Survey where Visa achieved a Global Net Promoter Score, or NPS, of 76, up three points from last year. We saw NPS increases across all of our client types, merchants, issuers, fintechs, and processors and across our regions, the results remain strong, with a notable 6-point NPS improvement in North America. I want to thank all of our 30,000 employees who helped deliver these fantastic results. And as I review some highlights from the quarter, you'll see how this focus on serving our clients by meeting their needs, innovating, and helping them grow is fueling our success across consumer payments, new flows, and value-added services. Let's start with consumer payments, where we see more than $20 trillion of opportunity to capture cash, check, ACH, domestic schemes and other forms of electronic payment. In our client engagement survey, our clients ranked our strategic partnership and our brand as two of the most important factors to our successful relationships. I'll share some examples of how each of these played out this quarter. In strategic partnerships, we are constantly seeking ways to add more value and grow together with our clients. We are pleased to have been named the Preferred Network Partner by Lloyds Banking Group, renewing our debit relationship and significantly expanding our relationship in credit, winning 10 million additional credit credentials across the Group's consumer and commercial business. Also in the U.K., NatWest has launched a new Visa Travel Reward credit card, following the signing of our partnership last year. They will also be utilizing many value-added services, including transaction controls and card benefits. On the European continent, we worked with Raiffeisen Bank International AG, a leading bank in several markets. And recently, in the Czech Republic and Romania, we renewed our commercial business and expanded our consumer debit and credit business totaling over two million potential new credentials. In Korea, we deepened our partnership with leading issuer KB Kookmin Card. Already a user of Visa Direct cross-border money movement and a Visa consumer and commercial issuer, they will grow their consumer credit and debit portfolios with Visa and use value-added services, including consulting and marketing services. In Peru, we extended our partnership with leading issuer, Banco de Credito de Peru, across consumer and commercial portfolios with plans to launch additional new flows offerings and value-added services. In the U.S., we extended our agreement with Wells Fargo. This will allow us to continue to support Wells Fargo's strategy to reinvent their credit business and provide additional growth by leveraging key Visa assets like consulting and Visa sponsorships such as FIFA and the Olympic and Paralympic Games. On the brand front, with the Olympic Games opening ceremony later this week, it is exciting to see the engagement with the Visa brand and activation across the world in marketing campaigns, cardholder experiences and Olympic and Paralympic-branded Visa issuance, which I am happy to report in Europe is at nearly six million cards compared to the five million number I quoted just last quarter. We have also added nearly 100,000 new merchant locations in France in advance of the event. Our brand also plays an important role in winning co-brand partnerships. In India, growing credit issuance and reaching affluent and cross-border consumers remain areas of focus. We are excited about the launch of a co-brand card with Adani One and ICICI Bank as India's first co-branded credit card with rich airport-linked benefits for their target base of 400 million customers through the Adani One platform. We also signed an agreement to launch a new co-brand card with Tata Digital, along with an Indian banking partner, building on the success of our existing credit co-brand relationship. This new co-brand offering consists of a multicurrency prepaid foreign exchange card that will target travelers from India, also benefiting from the rewards of the Tata Digital Super App, Tata Neu. Across seven countries in Latin America, we will work with Unicomer, a major retailer and financial services provider with numerous brands to deliver a co-brand credit card in addition to using CyberSource. And in CEMEA, we reached a de novo co-brand arrangement with BinDawood, a leading grocer in the Kingdom of Saudi Arabia with 88 outlets and over five million loyalty program members. On the travel side, we extended our relationship with Malaysia Airlines from a prepaid co-brand card targeting millennials and Gen Z customers to also launch a new co-brand credit card for the travel-minded affluent. And in the U.S., Turkish Airlines have chosen Visa to be their exclusive network partner for their new Miles and Smiles co-brand credit card. Our consumer payment strategy is focused on growing credentials as we are doing across all the partnerships I just mentioned and increasing acceptance locations. And wallets are a great example of where this comes together, where Visa can be a funding source, an embedded credential, and an accepted form of payment by wallet merchants. This increases the value proposition for wallet providers and their users. Two wallet highlights this quarter are in Peru and Vietnam. Yape is a Peruvian super app with more than 15 million users who already have a Visa credential that enables them to send money across P2P apps via Visa Direct. And just recently, they launched Tap to Phone functionality for their more than two million merchants to accept Visa. And in Vietnam, a country with approximately 50 million wallet users, the three leading digital wallets, MoMo, VNPAY, and ZaloPay are now enabling their users to utilize Visa cards as a funding source for transactions at over 500,000 QR acceptance points managed by these wallets. One additional area that we are very focused on is delivering simple, easy, and secure checkout experiences. Let me share a few recent examples. First, we are integrating Click to Pay and the Visa Payment Passkey Service, enabling a customer to authenticate themselves using biometrics. Already, we have hundreds of issuers enabled for passkeys in Europe and a number of issuers who represent more than 50% of our e-commerce payments volume in Europe piloting the solution. Second, we crossed 10 billion tokens this quarter, a significant milestone. And in 2023 alone, Visa tokens helped generate more than an estimated $40 billion in incremental e-commerce revenue for businesses globally and saved more than $600 million in fraud. Third is the ability to tap for more use cases on a mobile device. With tapping as one of the best in-person commerce experiences, we want to provide Visa users with more ways to tap, including Tap to Pay, tap to authenticate an identity, tap to add a card, or tap to send money to family or friends. And finally, this quarter, Tap to Pay grew four percentage points from last year to 80% of face-to-face transactions globally, excluding the U.S. In the U.S., we surpassed 50% and have 30 U.S. cities above 60% penetration. Now moving on to new flows. This quarter, new flows revenue grew 18% year-over-year in constant dollars with Visa Direct overall transactions growing 41% for the quarter to 2.6 billion and commercial volumes up 7% year-over-year in constant dollars. Let me provide some updates, starting with B2B, where we have focused on penetrating new verticals and delivering innovative products and solutions. In healthcare, we will work with AXA and Paysure to launch a commercial virtual card solution to simplify the claims processes for their customers worldwide. We have also expanded our virtual card acceptance with a key business services provider, Cintas, who offers uniform, safety, and fire protection services to over one million customers. Together with our partner, Billtrust, we will help Cintas streamline their payments, automate processes, and manage costs on Billtrust's Business Payments Network or BPN. We also just recently extended our long-standing BPN collaboration with Billtrust that connects suppliers and buyers to facilitate straight-through processing of virtual card payments with rich data that optimizes acceptance costs. Our products and solutions in B2B remain very important in winning and growing our business. One such solution is the enhanced B2B data that we can provide. In Brazil, together with Solero, a leading business financial management solution, we will provide issuers with enhanced visibility into small business spend by aggregating data across cards, bank accounts, boletos and more, enabling them to better manage their client relationships and offer compelling products. Another solution is Spend Clarity, which provides expense program management, including card issuance, controls, and reporting. Wells Fargo has white-labeled our solution called Wells One Expense Manager, which has now onboarded 6,000 corporate clients representing over one million users, providing access to their spend data. Now moving on to Visa Direct. We continued to grow our transactions through expanded and new relationships. Over the past year, total Visa Direct cross-border P2P transactions have nearly doubled, with Europe and CEMEA being the largest regions. In CEMEA, we are very excited to have renewed our Visa Direct relationship with fintech Monobank in addition to renewing their consumer and commercial credit, debit, and prepaid portfolios. In Asia Pacific, we are partnering with China Zhongsheng Bank on cross-border capabilities, including Visa Direct and Currencycloud, allowing the bank to support cross-border payments for their merchant clients. Canadian fintech Nuvei has extended its agreement with us for Visa Direct across all cross-border use cases in more than 30 countries for their merchant clients and recently became the first Visa Direct enabler in Colombia. We also executed our first global agreement with WorldRemit and Sendwave, enabling their customers to eventually send Visa Direct cross-border remittances from 50 countries to recipients in 130 countries. Quickly, a leading South Asian marketplace, has enabled Visa Direct cross-border remittance solutions for U.S. customers to send money to relatives and friends in India and the rest of South Asia. And in earned wage access, we reached an agreement with Weaver, a U.K.-based embedded finance provider. In addition to card issuance, they will be utilizing Visa Direct to enable Weaver's business clients to offer employee expense reimbursement, reward and recognition, and earned wage access. Earned wage access provider PayActiv, who serves 4,000 businesses has renewed its agreement with us and will enable Visa+ for payouts. Similarly, we expanded our relationship with enabler, Astra. In addition to domestic disbursements, Astra will now offer cross-border remittances, implement Visa+ to reach domestic wallets in the U.S., and expand to additional use cases, including payroll, earned wage access and marketplaces. Visa+ is still in the early stages but is fully rolled out and live for PayPal and Venmo users and more providers continue to join the platform. Wrapping up new flows, we also renewed an agreement with FIS, an important issuer processing partner to enable a suite of value-added services and new flows capabilities for their clients, including Visa Direct. And now on to value-added services, where revenue was up 23% in the third quarter in constant dollars. Let me highlight some of the progress we have made in driving adoption and growth among our value-added services portfolio. First in issuing solutions. One area of strong revenue growth this quarter was in card benefits, where we enable our clients to offer unique value propositions tailored to their customer base in travel, entertainment, restaurants, insurance and more. Strong issuance in premium cards across most of our regions has fueled this growth in the third quarter. For example, in Latin America, travel benefits have grown with over 370,000 unique visits to our Visa Infinite Airport Lounge in Brazil, representing customers from a number of leading issuers. In addition, since its launch in 2022, our Visa Infinite Fast Pass in Brazil, which allows cardholders to get through airport security more quickly, has screened over one million travelers. These are among the top five card benefits in Brazil and deliver value to customers, issuers and Visa. We continue to add more benefits like the recently launched partnership with OpenTable to offer eligible Visa cardholders access to coveted restaurant reservations and experiences in the U.S., with plans to expand into Canada and Mexico. In Acceptance Solutions, third quarter growth was driven by increasing utilization across both token and e-commerce-related services. In e-commerce, one such example is with iFood, the largest food delivery platform in Brazil who is utilizing our Verifi solution to help prevent disputes before they become chargebacks. In addition, they will be using our authentication solutions. In Risk & Identity Solutions, we continued to see strong adoption by new and existing clients, driven in part by growth in card-not-present transactions. In North America, acquirer Worldpay will be expanding their use of our authentication solutions from CardinalCommerce, fostering collaboration and real-time enhanced data exchange between Worldpay merchants and issuers during card-not-present transactions, reducing fraud and allowing more transactions to be properly authenticated and authorized securely. We are also pleased that the pilot of our account-to-account risk scoring solution Visa Protect with Pay.UK has had great results, showing an average 40% uplift in fraud detection over the 3-month pilot period. In addition, we are now launching Visa Protect in Argentina with a core payments technology company, Celsa after successfully piloting the solution there as well. The last two value-added services are open banking and advisory services. We continue to sign new partners with Tink in Europe and the U.S. And as I mentioned earlier, we continue to see strong growth in client demand for our consulting and marketing services, particularly around marquee events such as the Olympic and Paralympic Games. Our value-added services portfolio solutions is strong and is driving meaningful growth for our clients and for Visa. Before I close, I wanted to speak to the fact that the settlement reached for the injunctive relief class was rejected by the court. We are, of course, disappointed with this decision. We believe that the prior settlement provided meaningful relief to all merchants and we will continue to work towards another settlement. To close, so far this fiscal year, we have seen strong revenue and EPS growth as a result of relatively stable volume and transaction growth. I remain very excited about the opportunity that lies ahead of us. At Visa, we come to work in service of our clients and partners and are focused on building and deploying the best solutions possible across consumer payments, new flows, and value-added services. Now over to Chris.

Chris Suh

Thanks, Ryan. Good afternoon, everyone. In Q3, we had another strong quarter with relatively stable growth across payments volume, cross-border volume, and processed transactions when compared to Q2, adjusted for leap year. In constant dollars, global payments volume was up 7% year-over-year and cross-border volumes, excluding intra-Europe, was up 14% year-over-year. Processed transactions grew 10% year-over-year. Fiscal third quarter net revenue was up 10% in both GAAP and constant dollars, in line with our expectations. EPS was up 12% year-over-year and 13% in constant dollars. Now let's go into the details. In the U.S., payment volumes growth numbers were generally in line with Q2 adjusted for leap year, with total Q3 payments volume growing 5% year-over-year, with credit and debit also growing 5%. Card-present volume grew 2% and card-not-present volume grew 7%. In the U.S., while growth in the high spend consumer segment remained stable compared to prior quarters, we saw a slight moderation in the lower spend consumer segment. Moving to international markets. Total payments volume was up 10% in constant dollars, relatively stable with Q2 when adjusted for leap year. Payments volume growth rates were strong for the quarter in most major regions, with Latin America, CEMEA, and Europe ex U.K. each growing more than 16% in constant dollars. Asia Pacific payments volume slowed to less than 0.5 point of year-over-year growth in constant dollars for the quarter, driven primarily by the macroeconomic environment, most notably in Mainland China. Now to cross-border volume, which I will speak to today in constant dollars and excluding intra-Europe transactions. Total cross-border volume was up 14% in Q3, relatively stable to Q2 adjusted for leap year. Cross-border card-not-present volume growth, excluding travel and adjusted for cryptocurrency purchases, was in the mid-teens, helped by continued strength in retail. Cross-border travel volume growth was also up in the mid-teens or 157% indexed to 2019. This quarter, we saw the inbound Asia Pacific Index improve nine points at a similar pace to Q2 to 151% of 2019. The improvement in Asia Pacific outbound travel, however, slowed from Q2 with the index increasing by less than one point to 125% of 2019. We continue to see the same primary drivers as last quarter with some additional pressure from macroeconomic conditions. Now let's review our third quarter financial results. I'll start with the revenue components. Service revenue grew 8% year-over-year versus the 8% growth in Q2 constant dollar payments volume, with revenue yield improving sequentially and versus last year due to improving utilization of card benefit. Data processing revenue grew 9% versus 10% processed transaction growth with the revenue yield generally in line sequentially and versus last year. International transaction revenue was up 9% versus the 14% increase in constant dollar cross-border volume, excluding intra-Europe, impacted by lapping higher currency volatility from last year. Volatility levels remain consistent on average to last quarter. Other revenue grew 31%, primarily driven by strong consulting and marketing services revenue related to the Olympics and, to a lesser extent, pricing. Client incentives grew 11%. Now on to our three growth engines. Consumer payments growth was driven by relatively stable payments volume, cross-border volume and processed transaction growth. New flows revenue grew 18% year-over-year in constant dollars. Visa Direct transactions grew 41% year-over-year, helped by growth in Latin America for interoperability among P2P apps. Commercial volumes rose 7% year-over-year in constant dollars. In Q3, value-added services revenue grew 23% in constant dollars to $2.2 billion, primarily driven by Issuing and Acceptance Solutions and Advisory Services. Operating expenses grew 14%, primarily due to increases in general and administrative personnel and marketing expenses, including spend related to the Olympics. FX was 0.5 point drag versus the 1.5 point benefit we expected. Pismo represented an approximately one point drag. Nonoperating income was $73 million. Our tax rate was 18.8% and EPS was $2.42, up 12% over last year, inclusive of an approximately 1.5 point drag from exchange rates and an approximately 0.5 point drag from Pismo. In Q3, we bought back approximately $4.8 billion in stock and distributed over $1 billion in dividends to our stockholders. At the end of June, we had $18.9 billion remaining in our buyback authorization. Now let's move to what we've seen so far in July through the 21st with volume growth in constant dollars. Cross-border is excluding intra-Europe. U.S. payments volume was up 4% with debit up 4% and credit up 3% year-over-year. The slight deceleration from Q3 does not appear to be from any one factor but likely a number of smaller factors such as weather, timing of promotional shopping events, and the technology outage, among others. Cross-border volume grew 13% year-over-year, below Q3 levels with travel-related volume growing slightly less, which continued to be impacted by Asia Pacific and card-not-present ex travel volume growing at similar levels to Q3. Processed transactions grew 9% year-over-year. Now on to our expectations. Remember that adjusted basis is defined as non-GAAP results in constant dollars and excludes acquisition impacts. You can review these disclosures in our earnings presentation for more detail. Let's start with the fourth quarter. We expect payments volume and processed transactions to grow at a similar rate to Q3. For total cross-border volume growth, we are expecting to end up slightly below Q3. Currency volatility continues to average around 4-year lows through July 21. And as such, we are making an adjustment to currency volatility expectations for Q4, now assuming volatility will stay in line with Q3 levels. Incentives are expected to be at their lowest growth rate all year. Pulling it all together, we expect adjusted net revenue growth in the low double digits, which equates to a slight improvement from the 10% adjusted revenue growth rate in the third quarter. We expect our Q4 adjusted operating expenses to grow in the high single digits. Nonoperating income is expected to be between $40 million and $50 million. The tax rate is expected to be between 19% and 19.5% in Q4, which puts Q4 adjusted EPS growth rate in the high end of low double digits. Moving to the full year. With three quarters now complete, our expectations for full year adjusted net revenue growth remains unchanged from what we shared at the start of the year. Whilst absorbing the impact of lower currency volatility and the macroeconomic challenges in Asia, which have affected volumes, we still expect to reach low double-digit adjusted net revenue growth for the full year. Full year adjusted operating expense growth will be in the high single digit to low double digits, reflecting the less favorable impact of FX. This keeps full year adjusted EPS growth in the low teens. In closing, we delivered strong results this quarter, with new flows and value added services revenue growing faster than consumer payments. We extended our existing relationships, one new clients and invested to develop innovative products and solutions, all positioning us for continued growth into the future. But now Jennifer, it's time for some Q&A.

Jennifer Como

Thanks Chris. And with that, we're ready to take questions.

Operator

[Operator Instructions] Our first question comes from Darrin Peller from Wolfe Research. Please go ahead.

Darrin Peller

Hi, thanks guys. Look, let me just start. The U.S. volume growth rate obviously is a bit softer. And if you could help us distill what you consider structural versus cyclical, I think that'd be a good place to start. But adding on to it really is, just the ability for you to grow double-digit revenue with only four, five, six, mid-single-digit U.S. volume growth is, coming from value added services. It's coming from cross border. Can you help us understand if that kind of trend, you believe the company has that capability to grow those rates on revenues, even in this context of U.S. volume trends? Thanks guys.

Chris Suh

Yes. Hi Darrin. So let me start with the U.S. Let me start with the first part of your question, and then we'll maybe get into zoom out and talk about maybe the longer question. So in the U.S. in Q3, we did see stable drivers relative to Q2, once you adjust for leap year. That's 5% payment volumes growth in the third quarter. In the 21 days since in July, that number did tick down to 4%. Maybe I'll just sort of give you the full arc of what we're seeing. So 4%, we'll just level set on those numbers, 4% in the 21 days versus 5% in Q3. And so for that, we did stare at a lot of the drivers, the factors that impacted those three weeks. And there was a lot going on and I referenced a few of them on the call and maybe I'll expand on those a bit. First, we had a major hurricane, Hurricane Beryl, and it impacted Texas and other parts of the U.S. nearby. The second, I referenced the timing of promotional e-commerce events. Maybe I can expand on that a little bit. The timing this year was later and then e-commerce customers are billed, when the goods are shipped. And so, some of that shipping periods fell out of that 21 period. So we had a little bit of difference in the 21 day period, to the comparable year ago. And third, obviously the major tech outage that happened at the end of last week, that also had some impact. So, when we look at that, no single factor drove that one point of change from Q3, to the first part of July. But all things considered, we actually feel pretty good about the three week results. Now the second part of your question really was around sort of the low double-digits in the context of cross-border, VAS and CMS. I'll sort of back into the question. We've had consistent strong performance in VAS, over $2 billion of revenue, over 20% growth for many quarters consecutively. And we're seeing strength across the business in issuing solutions and acceptance and advisory. That's a business that we feel great about the momentum in. With our new flows business, 18% growth, as Ryan talked about, in the quarter, that's the second quarter in a row, where we're seeing growth in the teens, great execution, stable volumes, and visa direct transactions growing at a high level. As you know, that business also, quarter-to-quarter, can vary a little bit in the growth rates, as we saw in the first half of the year. But all in all, feel really good about the continued strength in that business. And then cross-border, well, cross-border, maybe I'll just zoom out a little bit and talk about cross-border and what we've seen over the course of time.

If you recall, pre-pandemic, cross-border grew, travel grew in the high single-digits to low double-digits. And e-commerce, which was about a third of the business, grew into the teens, sometimes into the mid-teens. Obviously, the pandemic happened, travel really contracted, e-commerce grew faster. And since then, now post-pandemic, what we're seeing now is that e-commerce is roughly 40% of the business. And the growth rate has normalized. It's stabilized back to pre-pandemic levels. And so let's say, teens growth on e-commerce on 40% of the cross-border business. Travel after the post-pandemic run-up has normalized. It's a little hard to tell exactly where it's going to stabilize at, but we've seen high growth. We've seen it continue to normalize. But what we do know structurally, is that with e-commerce being a bigger portion of the business, that's a tail into the total cross-border growth. And so, we are confident that that will continue to be healthy relative to the domestic spend. I'll pause there and certainly if there's anything else to add, Ryan, or others, please jump in.

Ryan McInerney

No, nothing to add from me, Chris. Thanks, Darrin.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Andrew Jeffrey from William Blair. Please go ahead.

Andrew Jeffrey

Hi. Good afternoon. Appreciate you taking the question. Very impressive value-added services growth this quarter at 23%. And I think as you mentioned, Chris, it's approaching 25% of total revenue, so perhaps driving more than half your consolidated revenue growth. Can you talk a little bit about at what point we might expect value-added services to sort of bend up the growth curve of Visa consolidated?

Ryan McInerney

It's Ryan, Andrew. Thanks for the question. And yes, we're very excited about not only what we delivered, in terms of value-added services growth for the quarter. What we've been delivering consistently for several years now, since we shared with you all the strategy, and kind of became very purposeful about our go-to-market approach. I mean, you go back to I think it was 2021, we did about $5 billion in revenue, 2022, $6 billion. Last year was $7 billion. Like you said, we did $2.2 billion this quarter, up 23%. So I think what we've shown, is that we have delivered consistent growth quarter-after-quarter, and year-after-year in these businesses. And we're super optimistic about where we go from here. I mean, we think about the opportunities really in three different segments. The first is, we have a series of value-added services, some of which Chris outlined in his previous answer that, are very focused on enhancing value for Visa transactions. Risk products like Visa Secure, dispute tools like Visa Resolve Online, card benefits, like I mentioned in my prepared remarks. And we've - that has historically been the largest part of our value-added services business. And we've shown that we can drive great growth in that area. Increasingly, we're building out a set of services that add value for non-Visa transactions. We've done some things in this space before. Some of our platforms like CyberSource, Authorize.Net, Verifi. But then you've heard me talk in the last couple of quarters about expanding our risk capabilities. For example, to not just other card networks, but also to RFCP and account-to-account services. And I mentioned the great results we've had in both the U.K. and in Argentina on that front. And then the third area of opportunity for us, is expanding our value-added services beyond payments. Historically, we've had things like Visa Consulting and Analytics and our marketing services And some of the open banking services delivered by Tink, but we're continuing to build out a portfolio of value-added services, for our clients and partners beyond payments things like the cyber protection capabilities that we've been bringing to market. So, we've demonstrated consistent growth. We believe we'll be able to continue to demonstrate consistent growth. We've got a product pipeline, and a go-to-market approach all over the world with a diverse set of clients, and we feel good about the opportunity.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Bryan Keane from Deutsche Bank. Please go ahead.

Bryan Keane

Hi guys, good afternoon. Chris, just want to ask about incentives, being the lowest expectation will be for the fourth quarter. Can you just talk a little bit about how much of that is volume-driven, versus the amount of renewals you're seeing? And just trying to think about, as we head into next fiscal year, just what kind of growth or sustainable growth should we think about for incentives? Thanks.

Chris Suh

Thanks for the question. I'll even take us back a little bit about the expectations that, we had for incentives coming into the fiscal year. As we ended fiscal '23, that was a high year for us in terms of volume of renewals, a little higher than our typical sort of normal cadence. That did impact how we thought about the incentive volumes in FY '24. And even last year, we had sort of a different growth rate in the first half and the second half of the year. And so as we looked across this year, we had a slightly lower volume of renewals this year. Obviously, year-to-date incentives have played out slightly differently, largely due to client performance, deal timing, things like that. And overall, it's been better than, as it's been lower, I guess, than what we anticipated. When we go into Q4, sort of the same trend applies. We still expect Q4 to benefit from the lapping of the high incentives that, we saw in the second half of last year, which informs, again, the growth rate that we anticipate in Q4. We don't have a lot to share about FY 2025 at this point, but we'll share plenty in the next earnings call.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Ken Suchoski from Autonomous Research. Please go ahead.

Ken Suchoski

Hi, good afternoon. Thanks for taking the question. I wanted to ask about VAS and I think the team has talked about, how some of the VAS revenue is correlated with transaction growth. But you also have parts of that business that are more recurring, or less recurring in nature. So can you just help us understand how, you think about the cyclicality of VAS, and how that business might perform in a lower volume growth environment? And I also think the team has talked about pricing, for value in VAS. So how much more room is left to go there? And how does that help with the resiliency of the business? Thank you.

Ryan McInerney

Yes Ken, it's Ryan. On the second part of your question, our ability to price for value is a function of the value that we bring to the market, and we feel great about the value that we're bringing to the market. And I think you see it in our results. Across the various different areas of issuing solutions, Acceptance Solutions, Risk & Identity Solutions, Advisory. I mean, we just continue to bring products and services that are ultimately, helping our clients grow their business, helping our clients reduce fraud, grow authorizations, those types of things. And we believe we'll continue to do that, and we believe we'll be able to continue to price for value. As I think I was saying earlier, there is - the biggest portion of our value-added services, are a function of Visa transactions. And so obviously, Visa transactions, as they go up or down, have an impact on that, but so does our ability to sell more services. On previous calls, I've talked about the fact that we still have the majority of our clients that have yet to have the type of penetration and depth that, we've been able to achieve with others. So, as we continue to penetrate our clients, all around the world in the various markets that we deliver, as I was saying earlier, to the earlier question, I'm very optimistic about our ability to continue to grow this business as we have.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Tien-Tsin Huang from JPMorgan. Please go ahead.

Tien-Tsin Huang

Hi, thanks, good afternoon. Just curious if you're - if you've updated your U.S. outlook here in the second half, are you still expecting transaction sizes to accelerate in the U.S., especially in the fourth quarter?

Chris Suh

Hi, Tien-Tsin. Thanks for the question. Yes, we had forecasted ATS, as you know, growth to improve throughout the pace of this year from quarter-to-quarter, and we did see that. We saw ATS improve in the third quarter. Specifically in the U.S., ATS was slightly better in Q3 than in Q2. It got to basically flat year-over-year in Q3. We saw improvement in a number of categories, sequentially, restaurant, QSR fuel, telecom, utilities, insurance, to name a few. And we do anticipate in Q4 that we'll continue to see, slight improvement sequentially again. The one thing - the one watch out I'll call out is the fuel prices could impact that trajectory and so, we'll watch that closely. So yes, it is playing out as we anticipated. The pace is slightly varied from what we anticipated, but it is continuing to improve. And I think that's the important thing.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Gus Gala from Monness, Crespi, Hardt. Please go ahead.

Gus Gala

Hi, guys. Thank you. Can we talk a little bit about the contactless payments penetration? Can you maybe highlight maybe what the gap is in penetration rates, across maybe some of your older cardholders or young cardholders? Just trying to get around to what a terminal level of penetration could look like? Thanks.

Ryan McInerney

You're asking - just so I heard, you're asking about Tap to Pay?

Gus Gala

Yes.

Ryan McInerney

I mean, yes, maybe just back up first in the big picture of things. The fact that outside of the United States, eight out of 10 of all the Visa face-to-face transactions around the entire planet are Tap to Pay now, I mean, that just tells you right there that it's all segments, all demographics, all use cases, all product types. I mean, we're at 80% overall around the world. We've got, I think, more than 55 countries that are now more than 90% contactless penetration. So increasingly, in most countries for most customers, for most products all around the world, that's just the default way that people are paying. And in the U.S., the curve is maturing exactly how we'd expect it based on what we've seen in 100-plus countries all around the world. As I said in my prepared remarks, now one out of every two transactions in the U.S. are taps. In a place like New York City, where many of you on the call spend time, we're above 75% now. So in New York City, where -

which is one of the early adopters of transit, we're above, I think, 75%-plus of all face-to-face transactions. That's up from just 50% two years ago. So again, at that level of penetration in a market the size of New York City, it's across the board in terms of products and issuers, and segments and the like. So, I think as we continue to see this growth happen, buyers, sellers, they love tapping as a way to pay. And we're going to continue to see that growth accelerate in a place like the U.S.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Will Nance from Goldman Sachs. Please go ahead.

Will Nance

Hi, guys. Thanks for taking the question. We've been getting a lot of questions around the litigation updates, and I totally understand the level of uncertainty is a lot higher now. But I guess the most common investor question that we're getting is, around the potential impacts to the overall ecosystem, if we see a much greater reduction in interchange rates from what was proposed. And I guess specifically how the production and interchange rates, could reverberate through renewal negotiations with issuers, and then longer term, how this may impact the trajectory of incentives and net yields. So just wondering if we could hear kind of your perspective, about the potential reduction, or a larger reduction in the overall size of sort of ecosystem revenue, and if that changes the direction of any of the key indicators that we're focused on over time? Thanks.

Ryan McInerney

Hi, Will. Thanks for the question. And you're asking about the MDL litigation. I guess I'll just back up. The first thing I would say is we strongly disagree with the judge's decision. We believe the settlement was fair. We believe the settlement provided meaningful relief to all merchants. The second thing, I would say is the decision failed to take into consideration a number of things, especially the complex multisided ecosystem that we operate in. The role that - the complicated role that many different players in the ecosystem delivered. So, but having said that, we're pursuing a revised settlement. It's too early to speculate on what that settlement is. So I just - I won't do that today. But I would ask everybody to keep in mind, a settlement can occur at any point before, during, or even after the trial. So just keep that in mind as the process plays out.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Timothy Chiodo from UBS. Please go ahead.

Timothy Chiodo

Hi. Thanks for taking the question. I want to hit on that at the same time tackles, both incentives and value-added services revenue. So it's the concept of value in-kind incentives. I was hoping you could talk a little bit about whether or not, these are becoming more prominent, meaning you're using them a little bit more in discussions with issuers. And then, if you could just briefly recap some of the mechanics around the revenue recognition, the contra revenue, the addition to deferred revenue. And then eventually, the value-added services revenue? Thanks a lot.

Ryan McInerney

Yes. I'll just give you the high level on this. The value in-kind is a great way for us to, as it says, to deliver value to our clients. And increasingly, our clients, as you see in our performance are preferring to buy our value-added services, versus just take incentives that might drop to the bottom line. So that is absolutely something that, our clients are asking for more of. It's something that is helping our clients grow their businesses. And I talked earlier about just the last several years about our product pipeline, how we've gone to market, how we built new products to solutions and services for our clients. And that's what's driving the demand. So that's kind of become a more important part of our client renewals and our client renewal discussions. And increasingly value-added services are becoming a way for us to differentiate ourselves with our clients, and grow our consumer payments business. Do you want to talk about the organics?

Chris Suh

Tim, to the second part of your question, maybe I'll just give you a high-level summary. I think you have sort of the pieces you called out. At a high level, when value in-kind is offered in lieu of a cash incentive, it can - it would be recognized as a contra revenue at the time that it's granted or earned, depending on the nature of the contract. And then on the other side, when the client is able to utilize that value in-kind for services from Visa, commonly in our value-added services business, that's then recognized as revenue and the associated costs are also recognized in our P&L.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of James Faucette from Morgan Stanley. Please go ahead.

James Faucette

Great. Thank you very much. I wanted to just ask a follow-up question on near-term trends. We've seen a little bit of further slowing in credit than in debit over the last couple of months, and in the past has been a little bit of an indication of consumer stress. And I'm just wondering how you're thinking about that. And it seems like you're looking for the rest of the September quarter that, there's a little bit of a re-acceleration, as we get past some of the issues that you identified in July. Just want to make sure that I'm understanding that correctly, and kind of how we should interpret a little bit of the divergence in credit and debit growth right now? Thanks.

Ryan McInerney

Let me just give a little context on it and then Chris, feel free to add or correct. Like Chris said, we're three weeks into the quarter. We had a hurricane. We had a tech outage across the country. We had a number of things happen. So, we're not kind of taking three weeks as a trend. We'll see kind of how things progress from here, in just terms kind of what happens for the rest of the quarter. I don't know if you want to talk about the credit-debit divergence.

Chris Suh

Yes. Well, I think I'll refer back to a little bit of a comment that we made, and we're seeing the July results. I also commented on the call that we are seeing a little bit of moderation in what I would call the lower spend band cohorts. And I think that's a little bit correlated, to some of the volume numbers that we're seeing in the quarter, related to credit versus debit. But all in all, when we look at it relative to, again, Q2 and Q3, we see it to be relatively stable once you factor in sort of the days mix with the leap year.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Bryan Bergin from TD Cowen. Please go ahead.

Bryan Bergin

Hi, good afternoon. Thank you. Wanted to ask on new flows here. So you had a nice acceleration in growth really over the last two quarters on consistent comps. Can you add more color on the particular areas of strength that have picked up? I know Visa Direct was one of those. I'm just curious if you think you could sustain that level of expansion, or may that moderate a bit?

Chris Suh

Yes. Thanks for the question. 18% growth, as I mentioned, feel really good about the execution and the momentum in the business. It is an enormous opportunity that we have in front of us, across both our commercial business and money movement with Visa Direct. I think you're familiar with the numbers, 41% growth in the transactions and stable commercial volumes as well. I think what - this acceleration that you're referring to, we had a unique situation in Q1 where we had some onetime items that really kind of depressed the growth, reported growth in Q1. And if you look at the last couple of quarters, it's more reflective, I think, of the underlying health in the business. That said, as we saw in Q1, that growth rate can vary from quarter-to-quarter, based on deal timing and terms and one-time items like the one that impacted Q1. And so overall, I'd say at the macro level, good momentum. The underlying business is healthy, and we're continuing to see that level of growth. And the growth rate should be healthier, and should continue to grow faster than consumer payments, with some normal expected variability quarter-to-quarter.

Ryan McInerney

And just to build on Chris' points, I think we're in the very early stages of Visa Direct growth. We spent many, many years investing and building the platform, the infrastructure, the connectivity, domestic cross-border, working with issuers and acquirers and processors. And now we're able to be out there selling all around the world, finding new use cases, some of which I highlighted in my prepared remarks. You go back to 2019, we did 2 billion Visa Direct transactions. We did 2.6 billion transactions this quarter. So this is just another great example of, when we go and we systematically identify the need in the market, we spend the time, we build the infrastructure. We build 8.5 billion end points, the connectivity, the reliability, the security, the fraud capabilities. I just think we're in the very early stages of what we're going to see, in terms of the growth of this business and the number of use cases and partners, many of which I highlighted in my prepared remarks that, are going to want to build their use cases on this platform.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Sanjay Sakhrani from KBW. Please go ahead.

Sanjay Sakhrani

Thank you. I guess most of my questions have been asked and answered. But just on that last point, Ryan, you were making, I'm just wondering, where are we in the evolution of yield there? Can those go higher as you continue to expand in some of those categories with Visa Direct? And then just in terms of Reg II, is the full impact of Reg II now in the run rate, or should we expect there be any uncertainties related to that? Thank you.

Ryan McInerney

Yes. I'll take both of them. On the first one, we're still in the early evolution of the use cases. I mean, we weren't even talking about earned wage access a couple of years ago, Sanjay. And so as we've got - I think we've got 65 or so use cases now on the platform, our teams are finding new use cases all the time. So I think we're continuing to see the evolution of all of that and the economics of all that will play out. What I would point you back to, is what I mentioned in my prepared remarks, the tremendous success we're having in cross-border. We've had great success in selling new use cases, and driving cross-border transaction growth in Visa Direct. As you know, the yields are higher in cross-border, given the value that we add. So again, feel good about all of that. Listen, I want to just emphasize in terms of Reg II, the e-commerce debit market is a very competitive market, and is going to be competitive for as far as we can see. So while Chris noted, I think noted that the impact has remained the same, we haven't seen any change in impact, and I don't - and we're not expecting any change in impact for the fourth quarter. It is a competitive business. We are out there with clients day in and day out, helping them understand the benefits of processing transactions on Visa. And there are a lot of them, which is why we feel good so far in the evolution of Reg II, about how we've been able to grow that business. We feel great about the capabilities that a Visa data transaction offers, many of which I've talked about on these calls in the past. So we're out there, we're competing, we're selling, we're delivering our products, and we feel good about our win rate.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Jason Kupferberg from Bank of America. Please go ahead.

Jason Kupferberg

Thanks guys. So just a clarification on revenue, and then a question on volumes for this fiscal year. So it sounds like for Q4, you're looking for revenue growth of, call it, 11% to 12%. I think that would put you at the low end of the low double-digit guide, you're maintaining for the year. So that's what I wanted to clarify. And then just a question on volumes. I think you said Q4 should be in line with Q3, which I think would bring the full year to around 7%, versus the high single-digit updated guide last quarter. So just as we start to tune our models for next year, what are some of the potential accelerants off that 7% level we should be considering?

Chris Suh

Hi, Jason, let's unpack that. You had a couple of things in there, and I just want to - I think this is important, so we'll just be super clear. For Q4, my guidance, our guidance for our Q4 adjusted net revenue would be low double-digits. And sort of the directional guidance I also gave is it would be slightly above the Q3 level that we reported, which was the 10% growth in the quarter. And so sort of take that - take those two points and I would triangulate around that. And that would still get you sort of to the math of the low end of low double-digits, as you called it, for the full year. The second point was on drivers from Q3 to Q4. I did say that payment volume, payment transactions, we anticipate Q4 to be consistent with Q3. The one exception to that is in cross-border, where I did say it'd be slightly below the Q3 levels. And that really is based on the travel circumstances and situation in Asia that we've talked about extensively, with outbound travel in Asia, in particular, being impacted and recovering slower than we anticipated at the beginning of the year. And so, those are the two variables in terms of the - to get the Q4 guidance consistent with the intent - that I communicated. And then as far as FY '25 goes, we're at the beginning end of planning, and as we always do, we'll share our expectations on '25 at the end of Q4.

Jennifer Como

Next question, please.

Operator

Next, we'll go to the line of Dan Perlin from RBC Capital Markets. Please go ahead.

Dan Perlin

Thanks. I guess more of a big picture question here, Ryan. So your AI and gen AI investment, you've talked about, I think at conferences, your desire to kind of build out your own large language model. So I'm wondering, one, where do those investments stand today? I guess, two, what would be your expectation for early use cases of those investments, and kind of the payback period? And then three, is there an opportunity to drive, like true incremental sales, or better outcomes for your merchant constituents as opposed to just the banks? Thanks.

Ryan McInerney

Yes. Hi, Dan, thanks for the question on AI. First of all, to frame it is, we are all in on gen AI at Visa as we've been all in on predictive AI, for more than a decade. We're applying it in two broad-based different ways. One is, sort of adopting across the company to drive productivity, and we're seeing real results there. We're seeing great results, great adoption, great productivity increases from technology, to accounting to sales all across the company. The second is applying generative AI to enhance the entire payment ecosystem. And to the latter part of your question, absolutely. I guess I'd give you one set of examples or some of the risk tools and capabilities that we've been deploying in the market. I mentioned the risk products that we're using on RTP and account-to-account payments. That is an opportunity to reduce fraud, both for merchants and for issuers. I think I mentioned on a previous call, we have our Visa Provisioning Intelligence Service, which is using artificial intelligence to help predict token provisioning fraud before it happens. That also is a benefit to both issuers and merchants. And the list goes on. So, we are very optimistic about the positive impact that generative AI can have, not just on our own productivity, but on our ability to help drive increased sales and lower fraud across the ecosystem.

Jennifer Como

We'll do one more question, please.

Operator

For our final question, we'll go to the line of Harshita Rawat from Bernstein. Please go ahead.

Harshita Rawat

Good afternoon. Ryan, Chris U.S. card volume growth of 5% in surface kind of suggests a little bit more of a mature market. Now I understand the category differences between card volume growth and DC growth, which influence the delta here. Ryan, you discussed your global down estimate of $20 trillion in consumer payments for Visa. How should we think about, the secular digitization opportunity and the growth algorithm for the U.S., which is your biggest market? Thank you.

Ryan McInerney

Okay. It was a little hard for us to hear you, Harshita, but I think I got the gist of your question around the growth algorithm for consumer payments, especially in mature markets. So as I've said before, we see more than $20 trillion of opportunity around the world. About a quarter of that is in the U.S., by the way. And that's cash, that's check, that's ACH, that's electronic transactions, that's cards that run on domestic networks and the like. And we're capturing that opportunity through a few different ways. One is continuing to expand acceptance and expand the places, where people can use cards. In the U.S., rent would be a great example. We've been having some really good success, penetrating the rent vertical. The second is making it easier to drive e-commerce growth and e-commerce transactions, which has an outsourced impact on our ability to drive growth on Visa, for those types of things. And third is just continuing to innovate with new products and services that, make our issuers want to issue Visa and consumers want to use them. We announced a full slate of new product innovations at our Visa Payments Forum this year. And those are the types of products that, we believe are going to help us win in the marketplace, and help us capture and digitize a big chunk of that opportunity on the Visa network.

Jennifer Como

And with that, we'd like to thank you for joining us today. If you have any additional questions, please feel free to call or e-mail our Investor Relations team. Thanks again, and have a great day.

Operator

Thank you, all, for participating in the Visa fiscal third quarter 2024 earnings conference call. That concludes today's conference. You may disconnect at this time, and please enjoy the rest of your day.