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Visa, Inc. (V)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Visa's Fiscal First Quarter 2021 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the conference over to your host, Mr. Mike Milotich, Senior Vice President of Investor Relations. Mr. Milotich, you may now begin.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

Thank you, Michelle. Good afternoon, everyone, and welcome to Visa's fiscal first quarter 2021 earnings call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at www.investor.visa.com. A replay will be archived on our site for 30 days. The slide deck containing financial and statistical highlights will be posted on our IR website.

Let me 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 reports on Forms 10-K and 10-Q, which you can find on the SEC's website and the Investor Relations section of our website. For historical non-

GAAP financial information disclosed in this call, the related GAAP measures and reconciliation are available in today's earnings release.

With that, let me turn the call over to Al.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

Thank you, Mike, and good afternoon, and thank you for joining us today. Even with the vaccine proliferation on the horizon, COVID-19 infections really continue to rise, causing restrictions to be implemented in many parts of the world. Amidst the pandemic, Visa delivered strong financial results in our fiscal first quarter and our strategy to enable money movement globally remains clear, pursuing growth through core consumer payments, new flows, and value-added services. On our call today, let me discuss our Q1 results, and then provide detail on our momentum this quarter with clients and the valuable solutions they utilize to drive money movement globally.

As I review our Q1 results, recall we are growing over a quarter where no one had ever heard of COVID-19. Payments volume, processed transactions, and cross-border volume all improved from Q4. Payments volume improved 0.5-point, processing transaction growth improved a point, and cross-border volume improved eight points. Net revenues in the fiscal first quarter were $5.7 billion, a year-over-year decrease of 6%. Non-GAAP EPS was $1.42, a decrease of 3%. Through our dividends and buybacks, we returned $2.5 billion of capital to shareholders in Q1.

Vasant will cover spending in great detail, so I'll only make a few high-level comments on holiday spending. US holiday spending was quite different this year but had a similar overall growth to the last three years of holiday seasons led by strong retail growth somewhat offset by travel, entertainment, and fuel. This year in the US, we generally saw a continuation of the trends that have been occurring during COVID, strong debit and e-commerce, and weaker credit and card present. Outside the United States, holiday retail spending growth broadly accelerated with growth in Canada, the UK, Brazil and Australia all rising by five or more points over last year.

Now let me transition to our progress with clients. We continued to win and renew business as we transfer money movement globally through consumer payments, new flows and value-added services. In consumer payments, we continued to focus on digitizing the $18 trillion spent in cash and check globally by working with partners to grow endpoints and deepen customer engagement with innovation. We are growing credentials with traditional issuers, fintechs and wallets.

Let me start with North America. We are very pleased to have renewed our long-standing partnership with Wells Fargo across consumer debit, credit, small business, and commercial for the next six years. The Bank of Montreal, Canada's fourth largest bank and the only top five Canadian bank not previously issuing with Visa, announced a new partnership with us to issue two affluent lifestyle credit card products in the Canadian market. These products are digital-first, targeting the affluent millennial segment and offer strong rewards and value to cardholders in a differentiated and innovative way.

In our Asia Pacific region, we won the debit business of Malaysia's AmBank after winning the credit business just a quarter ago. Our relationship with LINE Pay also deepened this quarter on two fronts, first in Japan, LINE Pay is now issuing a Visa virtual prepaid card, and second, Visa secured an exclusive partnership with LINE BK, Thailand's first social banking platform for issuance of Visa debit cards. Within the first month, LINE BK issued 180,000 Visa debit credentials.

In Russia, YooMoney, one of the country's largest electronic payment services with more than 120,000 merchants worldwide and 40 million endpoints, signed on to issue Visa credentials in their wallet and enable Visa Direct. In Europe, we had several notable wins as we continued to increase our business on the continent. Visa secured a business agreement with Santander Group, becoming the preferred partner in credit and commercial for Santander banks across seven countries in Continental Europe.

We also launched the prepaid issuance of Mooney, the first proximity banking and payments company in Italy, which offers its services through both digital and retail channels with over 45,000 points of sale in rural and urban areas that can reach 20 million customers. İşbank, the largest private bank in Turkey with 20 million cards, has selected Visa for its consumer and commercial credit and debit portfolios. Last, we renewed two portfolios with a leading UK issuer, one for consumer credit and one for commercial charge card.

We also continued to deepen engagement with our partners to find new ways to remove friction and enhance the client experience through innovation. VisaNet Just yesterday, we announced the global partnership with TransferWise, and the first use case of Visa Cloud Connect, a new way to securely connect to VisaNet through the cloud. The new platform will enable the expansion of TransferWise's multi-currency debit cards in Asia Pacific, Europe, the Middle East, the UK, and the US and deliver a range of financial services via their mobile app to their customers including currency exchange and P2P payments all linked to a Visa card. Tap-to-pay continues to expand, representing almost two-thirds of all face-to-face transactions excluding the United States. In the United States, we have approximately 300 million contactless cards in place now and have high-single digit penetration of face-to-face transactions. Even at this level, the US is now the fourth largest country in the number of tap-to-pay transactions. Enablement continues to grow as all 500 of Costco's fuel locations and Chipotle and Nordstrom stores now accept tap-to-pay.

I'm also pleased to report that the New York City MTA has completed their rollout to all subways and buses. Processing is also a way to bring Visa's innovations to market, and we have made significant progress in Latin America this past quarter in Ecuador, Colombia, and Peru, and now have reached 100% processing penetration in Chile.

As I close out the consumer payment section, I wanted to note some progress in India. We continue to grow credentials. The Amazon Pay, ICICI Bank co-branded credit card in India has set a country record by issuing over 1 million cards in just 20 months. On the acceptance front, India now has 6.5 million acceptance points including over 1 million QR points, up almost 20 percentage points from a year ago and 65% of all terminals are tap-to-pay enabled. The Reserve Bank of India recently raised the contactless limit which will soon cover 90%-plus of all transactions in India.

Visa has entered into new partnerships with leading acquirers such as SBI Payments to launch acceptance solutions, such as tap-to-phone and contactless. And Visa is partnering with the largest acquirer in India, HDFC Bank and the launch and scaleup of Smart Hub, an app solution bundling payments, banking, and value-added services to help small merchants grow their businesses. We're also contributing to India's payment infrastructure development fund to encourage growth of physical and digital acceptance in under-penetrated geographies by adding 1 million points of sale and 2 million QR points per year over the next three years. All of these efforts build on our leading credit and debit market share in India.

Now, on to the second lever of growth, new flows, which represents $185 trillion in opportunity. We are pursuing this opportunity with our traditional commercial card solutions as well as newer capabilities like Visa Direct and B2B Connect. While we're making progress across all new flows, I'll highlight a few advancements from this quarter. In B2C, big economy payouts and earned wage assets continue to grow meaningfully in the wake of

COVID. This quarter with DoorDash, we launched the Dasher Direct business prepaid card in the US, offering the over 1 million Dashers on the DoorDash platform access to daily deposits of earned wages and rich card benefits.

In Canada, Skip the Dishes, the country's largest food delivery network, rolled out their Visa Direct enabled carrier payouts called FastCash. P2P, which represents $20 trillion of the flows, was Visa Direct's first use case and continues to grow substantially. A key area of future growth is cross-border P2P, or remittance. Four of the top five global money transfer operators were onboarded in fiscal year 2020, TransferWise, Western Union, Remitly, and MoneyGram, which noted a 500% increase year-over-year in real-time transfers in December alone.

Our efforts to expand remittance also extends to fintechs and banks who can enable this capability. V PAY, a fast-growing African fintech, will use Visa Direct to allow Africans to send money across European and North American corridors and soon will expand to all major corridors globally. Transfer Go, a global money transfer company that supports migrant workers to send money back to their relatives without paying unnecessary bank fees, has enabled Visa Direct in 55 markets and has the potential to expand to a total of 178 countries in the future, with upcoming additions such as the UK, Italy, and Nigeria. Across the globe, in the first quarter, Visa Direct transactions grew almost 60%.

Now, on to B2B. In cross-border, Goldman Sachs transaction banking recently signed on to employ Visa B2B Connect for cross-border B2B money movement, offering its corporate clients the ability to transact in over 80 markets globally. We are very pleased that our partnership with Goldman continues to deepen on multiple fronts. In the virtual card base business, we've expanded our relationship with UK-based Conferma Pay to launch Visa Commercial Pay which has three offerings: a mobile app, enabling virtual card issuance and management for business incidentals, two, a solution to manage business travel spend with enhanced data, and three, an integrated payables platform that can seamlessly send payments to suppliers.

Barclays has already launched its functionality for their commercial clients. Currently, essentially all of these new flows are transacted in traditional fiat currencies, but there's a growing interest in digital currencies, and I wanted to take a minute to talk about how Visa thinks about crypto in general and our approach. In this space, we see ways that we can add differentiated value to the ecosystem, and we believe that we are uniquely positioned to help make cryptocurrencies more safe, useful, and applicable for payments through our global presence, our partnership approach, and our trusted brand.

We think of the crypto market in two segments. First, there are cryptocurrencies that represent new assets, such as Bitcoin. Second, there are digital currencies, or stablecoins, that are directly backed by existing fiat currencies. We see all currencies in that first segment as digital gold. They are predominantly held as assets and are not used as a form of payment in a significant way at this point. Our strategy here is to work with wallets and exchanges to enable users to purchase these currencies using their Visa credentials or to cash out on to our Visa credential to make a fiat purchase at any of the 70 million merchants where Visa is accepted globally. This is similar to our approach to connect [indiscernible] (13:50) wallets such as LINE Pay and Paytm.

For the second segment, fiat-backed digital currencies including stablecoins and Central Bank Digital Currencies, these are an emerging payments innovation that could have the potential to be used for global commerce, much like any other fiat currency. We think of digital currencies running on public blockchains as additional networks, just like RTP or ACH networks, but we see them as part of our Network of Networks strategy.

Across both of these segments, we are the clear leader in this space. Today, 35 of the leading digital currency platforms and wallets have already chosen to issue Visa, including Coinbase, Crypto.com, BlockFi, Fold, and Bitpanda. These wallet relationships represent the potential for more than 50 million Visa credentials. The next leading network has a fraction of that. And it goes without saying to the extent a specific digital currency becomes a recognized means of exchange, there's no reason why we cannot add it to our network, which already supports over 160 currencies today.

Let me now turn to our third growth lever, value-added services. Here we saw revenue grow at 19% in Q1. And let me name a few services with notable progress this quarter. As e-commerce explodes, interest in Cybersource remains strong for merchants, as well as from fintechs and acquirers looking to leverage our capabilities to offer to their clients. This quarter, two additional leading acquirers signed on to use Cybersource, KBank in Thailand and NAB in Australia.

As one of the largest debit and prepaid issuer processors, we've been looking to expand Visa DPS globally. In that vein, we are pleased to share that we're bringing our Visa debit processing system to Europe. DKB, our largest issuing bank in Germany, has chosen DPS as its debit processor and recently processed Visa's inaugural European DPS transaction via their platform. DKB will also be able to take advantage of nearly 20 value-added services through this connection.

We have believed for years that instalments represent an important opportunity in payments. To enable this capability, we offer our own network solution for issuers, merchants, and fintech instalment providers to use directly or also work with many – and we also work with many instalment providers to develop new solutions. This quarter, we had updates on both fronts. We signed a global deal with Afterpay, extending our US relationship to an additional seven countries, where Afterpay will use Visa technology to accelerate its global expansion. In addition, Visa and Afterpay will test and collaborate on the application of new technologies like tokenization and Visa Direct.

We announced in July that Commerce Bank in the United States was piloting a network solution and has now – it has now launched with about 300,000 customers live. Visa also signed Scotiabank as the first Canadian bank to launch a post-purchase instalment pilot with employees in December, with a full market rollout slated for mid-2021. All of these growth levers, consumer payments, new flows, and value-added services, are driven by our Network of Networks strategy, which is enabling all forms of payment utilizing all networks and providing the value-added services you would expect from Visa as we enable money movement.

In closing, a few points. Domestic volumes driven by debit and e-commerce are really holding up well. Holiday spending, while different in terms of categories and timing, was quite good. Q1 overall was a very solid quarter and positive momentum continued albeit we are still impacted by COVID-19. We are continuing to work very hard to balance expense management in recognition of the short-term realities and investing in an exciting set of growth opportunities as we always manage the business for the long-term. We continue to be focused on our three growth levers, all of which are supported by our Network of Networks. And lastly, we are hopeful that as vaccines roll out and become more readily available, lockdowns, travel restrictions and capacity constraints will be lessened or eliminated, enabling travel, entertainment, and other commerce to grow.

With that, over to Vasant for more color on our volumes and our financials.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Thank you, Al. Good afternoon, everyone. During our fiscal first quarter last year, COVID-19 was not yet a word in the English language. This will be the last quarter where our performance is compared to a quarter with no COVID impact whatsoever. As such, our results this quarter provide a clear picture of the state of the recovery. Overall, the quarter was stronger than we expected, with net revenue down 6% largely due to the cross-border business. EPS declined only 3% helped by lower expenses and the lower tax rate. Exchange rate shifts versus last year increased reported net revenue growth by less than 0.5 point and EPS growth by less than 1 point.

As we approach the first anniversary of the pandemic, where do we stand across our key business drivers relative to where we might have been had the pandemic never happened? Global payments volume is four points to five points short of where we might have been. Debit has outperformed helped by accelerated cash displacement and credit is still a drag. In the US, we are actually back to our pre-pandemic growth trajectory, with debit significantly ahead offsetting credit underperformance. As you know, where we are well behind is in our cross-border business. In the first quarter of fiscal 2021, our cross-border volumes were almost 40% lower excluding intra-Europe volumes than they might have been had the pandemic never happened, largely due to travel. Cross-border travel volume both card present and card not present, is still down almost [ph] 70% (20:00) relative to where it might have been at this point.

Let's start with a review of the key business drivers in the fiscal first quarter. Global payments volume and transaction growth rates were modestly better than the prior quarter. The cross-border volume recovery continued even as most borders remain completely or partially closed. The trajectory of the domestic spending recovery varies across the globe. Some regions and countries are recovering fast. Others are holding steady, while some have slowed in recent weeks as a result of new restrictions.

What remains consistent globally is very strong debit and e-commerce spending, which is partially offset by weaker credit and in-store spending. Although constant-dollar cross-border volume excluding transactions within Europe is still down 33%, there was an eight-point improvement from last quarter. Payment volume on a constant-dollar basis grew 4.5%. Leverage was up 17%, 3 percentage points lower than last quarter, while credit declined 6%, up 3 percentage points from Q4.

Growth excluding China was 7%, up almost a 1 point as Chinese domestic volumes continue to be impacted by dual-branded card conversions, which had minimal revenue impact. US payments volume growth was 8%, up 0.5 point from last quarter. Debit growth remained strong at 21%. Debit growth was three points lower than the fourth quarter, largely driven by a step-down in unemployment benefits distributed via Visa prepaid cards. Credit spending declined 3% year-over-year, a four-point improvement versus last quarter, driven by an acceleration in retail spending and some recovery in travel and restaurant spending.

Card not present volume excluding travel continued to grow over 30% in the quarter primarily, driven by retail spending. The decline in card present spending was consistent with last quarter. However, performance did deteriorate through the quarter as rising COVID cases led to further government-imposed restrictions in several states and cities. Card present spending slowdowns were most significant in the restaurant segment as well as during the Thanksgiving holiday weekend across most segments. Across spend categories, growth was relatively consistent with the prior quarter. Categories which have been growing above their pre-COVID levels have remained elevated including food and drugstores, home improvement, and retail goods. For categories that are the hardest hit by this pandemic including travel, entertainment, fuel and restaurants, spending remained depressed with year-over-year declines consistent with last quarter.

International payments volume grew 2% in Q1, or 6% excluding China, both of which are up one point versus last quarter. A few regional highlights. CEMEA remains our best-performing region growing 19% in constant dollars in the quarter, a more than four-point improvement over Q4. The easing of COVID-related restrictions particularly in the Middle East and client wins drove the robust growth. Latin America grew 16% in constant dollars, a nearly ten-point acceleration from last quarter. This growth acceleration is fueled by limited COVID-related restrictions in most countries, elevated e-commerce spending compared to other regions, and growing our market share with client wins in a few of the larger countries.

Europe grew 5% in constant dollars, a four-point slowdown versus last quarter. This deceleration was driven partially by renewed restrictions in the second half of the quarter due to rapidly rising COVID infection rates particularly in the UK, France, Italy and Germany, and also as you may remember, growth in Europe last quarter benefited from a nonrecurring event in the UK related to purchases of higher interest-bearing savings funds. Asia Pacific declined 8% in constant dollars. Excluding China, Q1 spending was flat, a four-point improvement since last quarter. There continued to be more COVID-related restrictions in effect across Asia than other parts of the world. However, several larger markets such as New Zealand, Australia, Korea and Japan have returned to growth.

Process transactions growth was 4%, up one-point from last quarter. Growth accelerated faster than payments volume as transaction sizes continued to normalize ex-Europe. Increased COVID-related restrictions in Europe are driving higher average ticket sizes, causing transactions growth to slow. Latin America is benefiting from processing wins in several countries including Ecuador, Colombia, Peru, and Chile. Visa Direct continues to perform very well with transactions growing almost 60% globally this quarter. Growth remains strong in every region as we continue to launch new use cases, further penetrate existing use cases such as earned wage access and cross-border remittance and expand existing use cases to new geographies.

Constant-dollar cross-border volume excluding transactions within Europe declined 33% in Q1, an eight-point improvement from the last quarter. Travel-related spend declined 64% but improved six points versus the fourth quarter. Card not present non-travel growth was 20%, up three points, fueled by strong retail spending in November and December. Constant-dollar cross-border volume including transactions within Europe declined 21% in the quarter.

Although cross-border travel performance improved steadily through the quarter, the travel improvement is concentrated in only a few markets where borders are open. Travel from the US to several countries in Latin America remained strong, including Mexico and the Caribbean. The UAE has been open to travelers, attracting people from Europe, Russia, and other Gulf countries. Also, travel across countries within the former Soviet Union has been growing.

Unfortunately, the majority of borders remain closed or imposed significant requirements on international travelers. The World Tourism Organization reported in December that out of 217 countries, 118 countries or 54% still had completely or partially closed their borders to foreign visitors. Of the remaining 99 countries, the majority are mandating COVID tests with quarantines. Very few countries have no COVID restrictions. Significant obstacles in crossing borders remain the single most important factor driving the slow recovery of cross-border travel.

A quick review of first quarter financial results. Net revenue declined 6%, better than our expectations, primarily due to stronger-than-expected cross-border volumes and lower client incentives. Value-added services continued to perform well, growing 19%. It's important to note that had we recognized service revenues on current quarter payments volume, it would have had minimal impact on our Q1 net revenue growth because payment volume growth was very similar across both quarters.

Service revenues grew 5%, roughly in line with nominal payments volume growth last quarter. Data processing grew 6%, with high-teens value-added services growth continuing to be partially offset by the mix shift away from higher-yielding cross-border transactions. International transaction revenues were down 28%, four points better than cross-border volumes excluding intra-Europe due to favorable country mix and currency volatility benefits. Other revenues grew 5% led by value-added services but continued to be negatively impacted by declines in the usage of travel-related card benefits.

Client incentives were 24.6% of gross revenues, approximately one point lower than expected. This was driven by three factors. First, a few large deals expected to be signed in the first quarter were delayed to the second quarter. Second, cross-border volume was better than we expected, particularly in the month of December. As we've said in the past, client incentives are mostly tied to payments volumes so outperformance in high-yielding cross-border volumes lowered the incentive as a percent of gross revenues. And third, payments volume growth only improved a 0.5 point versus last quarter. As such, there was minimal impact on current quarter client incentives from current quarter volume.

On the operating expense front, we continued to benefit from actions we implemented last spring. Our head count is lower, our spending on external services has been scaled back, travel continues to be very restricted, and some marketing spend has been curtailed. Both GAAP and non-GAAP operating expenses declined 10%, which is better-than-expected partly due to timing shifts in client co-marketing as well as certain product and technology investments to later in the year.

Non-GAAP non-operating expense was $112 million for the fiscal quarter. This was over $30 million lower than expected due to two nonrecurring items. First, investment income tied to deferred compensation was higher. This was offset in personnel costs and therefore income neutral, and second, interest expense reserve was released due to the conclusion of certain tax audits. The non-GAAP tax rate was lower than expected at 16.6%. During the quarter, the conclusion of tax audits in certain jurisdictions resulted in an $81 million benefit. In addition to the specific benefit, our tax rate is typically lower in the first quarter due to the impact of employee equity vesting.

GAAP and non-GAAP EPS was $1.42, a decrease of 3%. We bought 8.7 million shares of Class A common stock at an average price of $202.30 for $1.8 billion this quarter. Our board has authorized a new $8 billion share repurchase program, bringing total funds available for repurchases to over $11 billion. Including our quarterly dividend of $0.32 per share, we returned approximately $2.5 billion of capital to shareholders in the quarter. In December, we repaid $3 billion of debt upon maturity of senior notes issued five years ago.

Moving on to some perspectives on the second fiscal quarter, starting with business driver trends through January 21. Through January 21, US payments volume growth was 12%, with US debit growing 30% and credit declining 6%. Debit growth is ten points higher than the November/December run rate fueled by government stimulus payments distributed right around January 1. Weekly growth trends show a sharp step up in growth in the first week of January and a step down in week three. January credit growth has slowed three points since December, which is more in line with the November trend. While US payments volume growth has accelerated, there are many countries where constant-dollar growth is slowing due to increased restrictions as COVID infections rise.

In Asia Pacific, Japan, Australia, India, and Singapore, payments volume growth has slowed four points to five points versus December. In Europe, countries such as the UK, Italy, Denmark and Germany, all had at least ten points slower growth in January. So far, growth rates are relatively steady in both CEMEA and Latin America. Through January 21, process transactions growth remained at 4%, with acceleration in the US offset by slowing growth in Europe and Asia Pacific. Cross-border volume excluding transactions within Europe on a constant-dollar basis declined 33%, in line with the first quarter, but below the trends we saw in December.

In a fast-changing environment, accurate forecasting remains difficult. How long would elevated spending driven by stimulus payments last? How long will stepped-up restrictions and lockdowns persist? How will these two countervailing trends balance out country-by-country? The cross-border travel sustained the slow recovery even as some new restrictions go into place. These are just some of the uncertainties as we look ahead to the next three months.

Based on the trends to this point, our best sense is that the second quarter gross revenue growth rate will recover to be flattish with last year with most of the improvement driven by international revenues. Growth in the other revenue lines is expected to have a small uptick due to easier year-over-year comparisons in the second half of March.

First quarter client incentives were a one-point below our expectations. Second quarter client incentives could be a one-point above the high-end of the 25.5% to 26.5% range we expect for the year. This would put first half incentives right in the middle of the range. There are several reasons for this step-up of client incentives as a percent of gross revenues in the second quarter even with continuing improvement in cross-border.

First, as I mentioned earlier, a few large deals moved from the first to the second quarter, one of which, Wells Fargo, was signed in January, as Al noted. Second, as we told you in October, many clients did not meet certain volume thresholds in calendar year 2020, and as such, did not earn corresponding incentives. As volume recovers in 2021, we expect clients will hit growth thresholds and earn these incentives. We accrue incentives accordingly starting with the first quarter of the new calendar year. This causes a larger increase unique to the year of recovery. And third, the impact of renewals we had already expected in the second quarter. Due to the step-up in client incentives as a percent of gross revenue, the net revenue decline in the second quarter is expected to be comparable to the decline we reported in the first quarter even as the gross revenue growth rate continues to recover.

Exchange rate shift could benefit second quarter net revenue growth by less than a one-point. We expect operating expenses to grow in the low- to mid-single digits in the second quarter as we begin to lap the expense reductions implemented last year. We still plan to grow expenses in the double digits in the second half as we step-up investments on [ph] three key (35:04) growth initiatives in anticipation of a return to normalcy by the end of fiscal 2021. Non-operating expense should be $145 million approximately, which is similar to the first quarter if you exclude the two nonrecurring items I mentioned earlier. There is no change in our tax rate expectations. It is still too early to predict what impact the US elections will have on our taxes. As always, we will provide updates as the year progresses.

In summary, as you can see, our business remains resilient. Both debit and e-commerce growth are sustaining well above pre-COVID levels as the accelerated shift to digital payments becomes a habit. Cross-border growth is poised to recover sharply once vaccines facilitate reopening of borders and we lap last year's steep declines. Our new flows and value-added services businesses have continued to grow robustly through the worst of the pandemic. As Al indicated, we have stayed focused on our long-term growth initiatives and we'll be stepping up the level of investment in the second half in anticipation of a post-COVID world with accelerating growth.

With that, I'll turn this back to Mike.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

We're now ready to take question, Michelle.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from James Faucette with Morgan Stanley. You may go ahead, sir.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you very much. I just wanted to ask strategically how you're thinking about going forward post the Plaid deal that you decided to turn away from? And I guess I'm looking for just comments of how you feel your relationships are with regulators and what makes sense in the future for future technology acquisitions, et cetera. Thanks.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.
A

Well, thanks, James. Well, first of all, let me answer the last part of the question. This is a single lawsuit brought by a single regulator about one specific M&A transaction, so I don't believe that this portends anything about the future and our ability to continue to try to acquire companies.

As we said a couple weeks ago, we ended up making the decision that this was just going to go on for too long, and we all know that the payments marketplace is moving with great speed on so many fronts, and the idea that we would tie ourselves up on this transaction, and frankly, the Plaid would tie themselves up through a long-term litigation that could go all the way through an appeal, in and of itself, is not appealing to us in terms of all the other things that we thought we could be investing in and spending management time on and spending our dollars on.

We're continuing to forge down a path of making sure that we are a real player in this space of open banking and believe that we have a lot of the assets already. What Plaid was going to do was going to get us into the specifically into the data extraction-type of business, which would have added to our Network of Networks, but it doesn't in and of itself prevent us from doing more going forward. We also still have the ability in that space to partner with Plaid. We have the ability to partner with other players around the world, and in many cases that might give us the ability to partner with players that understand the nuances of specific markets in which they do work.

We'll continue to look to make sure that to the degree that any use cases are going to form here, the use case that probably would have the most chance of stepping out and being something that has some legs behind it would be account-to-account, and I think we're very well positioned there. We're positioned well to make sure that we can provide our payments capabilities for the various fintechs that we are doing business with today, and we have the ability to continue to sell value-added services to all of those players. So, I think that ultimately, as we have in the past, we will invest to grow internally. We will look to partner and we will look to buy, and it will be a combination of capabilities and approaches that will allow us to continue to be a player in this space.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

That's great context, Al. And just a quick operational follow-up. Obviously, you've taken expenses out of the cost base in the last year as a result of the pandemic. How should we think about what components of that cost base are likely to flow back in as things return to normal versus what could be more permanent changes?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, I think when you look at our cost base, the big parts of our cost base are our people, marketing, and technology, and we do have – well we think we have the Tokyo Olympics coming up in the summer months. I mean, there's some people that think that might be in some peril. At the moment, it's going forward. We held marketing to really relatively modest levels in this past quarter, but I would certainly expect us to be driving marketing up.

Basically when we go-to-market in our business it's a combination of putting people resources, our technology resources, and our marketing muscle behind whatever we're doing, and so those are the areas that I would expect to see us grow going forward. And then of course, I mean we really have dramatically curtailed T&E and professional services, and I think that to the degree that later in the year, we begin to get some people back to offices and we begin to see some people get back on airplanes, we'll see some modest increases in those expense areas.

But we've been really careful about both our people level spending and our technology-level spending and our marketing-level spending, and I think as conditions warrant, we'll be dialing those up and Vasant gave you some insight into where we think expenses are going to be in the second half, and we think there's some really good opportunities that I want to make sure that if, in fact, as we believe there will be in some form a normalcy by the end of this fiscal year, we want to make sure that we have good momentum going into fiscal 2022.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Great color, Al. Thanks.

Operator: Thank you. Our next question comes from Tien-Tsin Huang with JPMorgan. You may go ahead.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hey, thanks so much. Appreciate all the color on the volume trends. I wanted to ask about value-added services. That was up in the high-teens. Curious how sustainable that is, and if that growth could actually step-up with the eventual recovery in volume. Just trying to understand how procyclical or not that business is.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, Tien-Tsin, thank you. I guess a little bit of color for everybody. About two-thirds of our value-added services are in data processing and they basically are transaction-based revenue streams and that's cyber sourced, that's our risk and identity products, that's DPS, and all of those will tend to continue to produce very good volumes and they'll move with transactions as transactions move.

About a third of our value-added services are split between services revenue which tends to be card benefits that are offered as a package and then in other revenue, we have volumes that are not – I'm sorry, we have services not tied to volumes, things like consultants – consulting practice and travel-related card benefits that obviously have been down. So I think as travel would be to come back at some point that obviously would help that volume.

So with that color, we saw obviously in a world where eCommerce and omni-commerce are becoming a big deal, cyber volume was very, very good and drove revenue. We continued to have more and more customers engage with us on risk and identity services. And as I said earlier, now we're excited about the fact that we're going to take our debit processing system beyond the United States and we now are starting to use it in Europe. I think that that gives us a good platform for growth going forward as well.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Very good. Thank you.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Thanks, Tien-Tsin.

Operator: Thank you. Our next question comes from Don Fandetti from Wells Fargo.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Hey, good evening. Al, Vasant, in terms of the cross-border improvement, I thought that was actually pretty decent Q-over-Q improvement on the growth rate. Did the US to LatAm, you said it remained strong, but did it improve? Was that a factor in the overall improvement year-over-year?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Don, it was really – in Latin America, it was really US to Mexico and US to the Caribbean that drove the volume in North America. Beyond that, Dubai opened a bit. Now Dubai is having a little bit of resurgence and just went back into some restrictions earlier this week, but Dubai has been open and there's been a decent amount of travel intra-Middle East.

There's been a little bit of an opening amongst the countries in the former Soviet Union, and then there's been some improvement or some movement in intra-travel within South America. So those are kind of the spots where we've seen the improvements in cross-border.

Most of the rest of the corridors around the world continue to be, as Vasant mentioned in his remarks, either closed or subject to like really tough restrictions that make it very difficult for somebody to take on traveling.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Al, as you look at these numbers, are you still feeling like the data points suggest there's a fair amount of pent-up demand when things do open up?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, I think, Don, as it relates to consumer travel, which is the vast majority of our payment volume in the travel sector over the years, I do think we're going to see some opening for sure. I think there's a lot of pent-up demand, I mean there's a lot of people who haven't seen family, parents who haven't seen grandchildren, children who haven't seen parents, and are going to want to jump on planes.

I also think a lot of people are stir crazy and want to get out, and then you've got people who are true global citizens who are knocking things off their to-do list and in terms of places they want to go, and places they want to see. So I think consumer travel, at the right time, but we need to see these restrictions be mitigated or lessened in a pretty big way, I think is going to come back quite strongly.

I think it's going to take more time to see business travel come back. And, frankly, it might take years for business travel to return to the way it is. I mean we've all gotten accustomed to talking on video conferences, et cetera, and I think we all probably realize that there are trips that we took or authorized in the past that when we look back on it today in the light of talking on video, we say why did we send somebody to that meeting for a 1.5 hour presentation that they could have just as well done on video? So that's the way I think about it going forward, Don.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Thank you. Our next question comes from Lisa Ellis with MoffettNathanson. You may go ahead.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Good afternoon. Thank you. A follow-up question from me on Visa Direct, which you highlighted again grew almost 60% in the quarter. At your Investor Day last February, you had sized the B2C, G2P, and P2P markets about $60 trillion in total payment volume, and I believe Visa Direct did about $350 billion last year, so about half a percent of that. Can you talk about over time as you're seeing Visa Direct develop, how much of those markets do you think is potentially addressable by Visa Direct? And any hint of the monetization level that we should be thinking about something similar to domestic debit or different from that? Thank you.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, Lisa, thank you for the question. Visa Direct has the ability to grow on a number of vectors. The two that I think are the most obvious is in terms of – or three, I'd say. Continued penetration of current use cases, new use cases that get developed, and then thirdly, geographic expansion. And this is a business that we're still building out. There's still lots to do in all three of those categories.

And to an earlier question I think Don asked, we're going to continue to invest in that area, and there's markets where we haven't even really laid any track for Visa Direct of use cases where we haven't laid any track, and our plan is to continue to do that.

If we look at the very first Visa Direct use case which continues to grow substantially, P2P payments, there's still lots to do both in domestic P2P payments, but we think a key future growth area is in cross-border P2P and remittance, and we're beginning to take steps there to enable that. And I mentioned in my remarks the fact that we've got relationships with four of the five top global money transfer operators, and that's helping us quite a bit.

I think earned wage access really continues to be a real opportunity. I touched a little bit on a few of those cases, but there's still lots of geographies and lots of organizations that we have the ability to penetrate to grow that.

And then you have all these B2C use cases, things like food and grocery delivery and online gaming and insurance claim payouts, so all of those are, I would say, in the early innings of a baseball game in terms of our ability to continue to make progress and drive those. So I continue to believe that this platform of which we can generate dozens and dozens of use cases will for quite some time be really important to us from a growth perspective.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Very exciting. Thank you.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Thank you, Lisa.

Operator: Thank you. Next question comes from Chris Brendler with Seaport Global. You may go ahead.

Chris Brendler
Analyst, Seaport Global Holdings LLC

Q

Hi. Thanks, good afternoon. Thanks for taking my question. Al, good to talk to you, I'd love to hear your thoughts on the buy now pay later phenomenon that seems to be gathering steam. And I know you have a solution there, and how big you think that solution could become, and is there any competitive threat from consumers choosing a different payment option at checkout when they're checking out online?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, Chris, this is a pretty interesting space, and I think we're in the early days in most markets. There's a number of different models. I think I've said before, I think Vasant said before, we're not in the business of picking winners and losers. We see our job as enablement no matter what the model is. But you know, in some cases, the player is the actual lender and in some cases they are sourcing a lender, in some cases the installments are very short-term, weeks at a time, in some cases they are long-term, some providers only do installments, some allow multiple payment options, pay now, pay on delivery, pay off on various numbers of installments, and then obviously, where it's exciting for us, multiple ways to pay off installments, virtual cards, debit cards, ACH, and it's also a payment model today that's heavily-funded by the merchant.

Our strategy, Chris, is to be broad, to play with multiple third-party providers and offer a Visa platform to enable issuers to offer pay now – buy now pay now – pay later capability, and we seek to work with all these options. And obviously, what we want to do is get virtual cards from Visa in place as one option for repayment. We also want to put Visa cards on file as another option.

And I would remind you that these installments do break – at its core, these installments break a transaction or a purchase into three or four or five payment transactions which is good for us because it gives us more transactions on which to earn fees.

Chris Brendler
Analyst, Seaport Global Holdings LLC

Q

That's great. One quick follow-up, if I may, is in places like Sweden where it's become the dominant tender share, do you actually see an impact on volume, or are enough people choosing your cards that it doesn't actually impact the volume and how much growth in buy now pay later is taking place in that area?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

So there's a few countries. You mentioned Sweden, and another one is Australia. There's not many. There's a few countries where this has really taken off, and I think it certainly has – had some impact on banks in those markets. But in many cases, because of the kind of pay off capabilities I talked about card on file, virtual cards, et cetera, a lot of that volume is coming back to us in the form of repayments.

Chris Brendler
Analyst, Seaport Global Holdings LLC

Q

That's awesome. Thanks so much, Al. I appreciate it.

Operator: Thank you. The next question comes from Darrin Peller with Wolfe. You may go ahead, sir.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Hey. Thanks, guys. Just one quick one for Vasant. And then Al, just a more structural one. So I'll just – if I can just do them both at once.

But Vasant, when we looked at the incentive side, I know you guys said that it was timing-related why it came in below the range this quarter but it'll come in, I think you said, higher than the range or potentially could be for the next quarter.

When we think about when you first guided to the 25.5% to 26.5% range, it was embedding cross-border activities similar to the September quarter which was ended up being better. So I guess, I just want to know, you're assuming now some deterioration or more conservatism in cross-border before it maybe gets better later in the year.

And then I guess, Al, maybe I could just squeeze in structurally again things like debit are seeming to be somewhat sustainable. It's not all just people using more non-discretionary. I'm curious what you would identify now after having seeing about a year of the pandemic almost, where are the top two or three items you think structurally are impacting your business longer-term and here to stay potentially?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Just taking the incentives question, we try to give you our best sense of a range, and at this point, the visibility is greatest in the first half since we're halfway through it and we think we'll be right in the middle of the range.

There are many variables here that go into it in a time like this when things are moving around quite a bit. Certainly cross-border doing better helps. Renewals will have an impact. Sometimes they happen when we expect, sometimes they don't. There's also the year-over-year improvement that our clients have. As you know, last year, many clients because of the pandemic, didn't hit certain thresholds. This year, things are recovering faster.

There could be, we think they will all make their thresholds and more. That has a year-over-year impact and it varies by client. So there's a bunch of these things moving around at the same time, and the good news is we think we're right in the middle of the range, and we'll give you more as we go through the year.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Darrin, on your second question, first of all, there's many reasons why debit has been a star here. You've got the stimulus payments that are on prepaid cards which count in – we count prepaid in our debit business. As e-commerce has moved into more everyday categories, people are using debit. People are more comfortable in tough situations, tough times to use money they have versus borrow money that they don't have.

But I think when I look ahead structurally to answer your question, look, I think e-commerce adoption has probably accelerated three to five years in the last year, and I don't think that's going backward. I think that people who have gotten used to shopping on their phone or their tablet or their computer are going to continue to do that.

I think the other thing that I look at structurally that's really exciting is there's a great opportunity to continue to grow both sides of the two-sided market of buyers and sellers. Wallet proliferation is continuing and we're working really hard to get credentials in wallets which just adds to the – these wallets in essence are becoming issuers and that helps on generate more buyers and the cost of acceptance is going down around the world as more and more players are getting into it, and that's going to grow the number of sellers on our network. And as that network grows, I think that's going to be a really positive thing for us.

Obviously, e-commerce comes with the issue of no cash, but I think that people are getting increasingly concerned about cash and the combination of tap-to-pay in the physical world where the card doesn't need to leave your hands to go to anybody else in order to transact, and the fact that e-commerce doesn't – cash is not an option, those are, all of those things I think structurally are very positive for us.

The thing on the flip side I mentioned that while business travel is a small piece of our overall travel, that'll be one of the things that'll be a little bit slower to come back, and maybe never back at the level it was pre-COVID-19.

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right. That's really helpful, guys. Thank you.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Next question please?

Operator: Thank you. Bryan Keane from Deutsche Bank, you may go ahead.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Vasant, I want to ask about cross-border. As that comes back, especially likely in this second half of this calendar year, how do we think about the higher yields and profitability, how that'll flow to the bottom line versus additional investments you talk about? What would necessarily be those investments? Would it offset completely the benefit we'll see from that cross-border?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Well, I mean, there's no question cross-border coming back has a meaningful impact on our revenue line. You saw that already in the first quarter, our cross-border was better than we expected, and as a result, our revenues were also quite a bit better than we expected.

We're saying that we will step-up our investment in the second half and expect our expenses to grow double-digits, but if the cross-border business comes back in a meaningful way, I mean, that's clearly going to be much better growth on the top line than that double-digit increase in expenses that we're planning.

Also, you should remember that we start lapping the declines in our expenses from last year. Our expenses last year declined by 5% or so in the second half. So when we grow them double-digits this year, this fiscal year in the second half, over a two-year period, we're only growing them about 5%. So net-net, I mean, cross-border coming back is going to have a very positive impact on our business especially if it comes back faster than we might be expecting.

In any case, the comparisons get better, so you will begin to see growth in the cross-border business just because of what happened last year.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Helpful. Thanks so much.

Operator: Thank you. Our next question comes from Harshita Rawat from Bernstein. You may go ahead.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. Good afternoon. Thank you for taking my question. I have a question on the volume metrics. If I compare your metrics relative to your closest peer, over the last two quarters we've seen this reversal where your Europe and US volume growth rate has been faster than your peers. How should we think about that? Is it from deal flow coming in? Your partnerships with fintech? The Visa Direct in the numbers? Any color there will be helpful. Thanks.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Well, it's always a variety of reasons depending on what the component of the business you're looking at. I mean, clearly, the mix of the business between debit and credit has an impact. You all know that debit has clearly outperformed as the primary driver of cash conversion globally. And then in those parts of the world like the US where debit has been a mechanism for distribution of stimulus payments, it's also benefited from that. So mix of business makes a big difference. We're not seeing any reason why debit will not continue to outperform, and credit is recovering, and that's a positive trend.

If you look at places around the world, I mean, in Europe, the bulk of the slowdowns from Q1 to Q2 was the growing – the fact that we had that benefit in the first quarter. We've had some small impact from restrictions, but unless restrictions are becoming more significant, this trend seems to be improving almost everywhere. You saw that in Latin America and CEMEA where we saw meaningful acceleration, and we're not seeing much impact on those trends from additional cases.

So overall, the US, as I said in my comments, it's almost as if the pandemic didn't happen, like we grew around 8% first quarter last year, we grew 8% again first quarter this year where if you believe our growth rate is 8% or 9%, we're almost back on the growth rate.

Internationally, we're getting there, and we think that that trend is meaningfully improving, as you saw. Where we're lagging, certainly where the trend is still soft is Asia where restrictions remain still significant, and in Europe, there's some increasing restrictions now and we'll see how they play out.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Thank you. Michelle, we'll take one last question.

Operator: Thank you. Ashwin Shirvaikar from Citi, you may go ahead, sir.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Hi, Al. Hi, Vasant. Some questions on pricing. Wondering if – and I know you price for value but kind of wondering if you – as the economy hopefully gets better how you think of pricing. Is this going to actually catch up in pricing or do you revert to normalized long-term pattern or do you just see a tougher environment for pricing within the interchange model?

And then sort of the addendum to that is – is there a natural benefit from Brexit [ph] it's news (1:04:22) flow couple of days back about that and how do you account for that?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, I'll make a couple comments and Vasant can certainly add. Ashwin, on your last point, I'm not going to make any comment on the Brexit situation. We've not announced anything, and therefore, I don't think it's prudent to comment.

I think that we made some decisions to delay pricing out of this past year because of the realities of COVID, but we plan to move ahead with previously-delayed pricing increases in April of this year. We also have a small number of minor pricing changes. The impact won't be very big.

And I think going forward, I think if we continue to deliver the value that we want to deliver, I think that there's opportunity across all three of our growth strategies, core payments, new flows, and value-added services to look at pricing.

Vasant, you add anything?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

No, nothing more to add.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

Thank you, everyone, for joining us today. If you have additional questions, please feel free to call or email our Investor Relations team. Thanks again, and have a great evening.

Operator: And thank you. This concludes today's conference call. You may go ahead and disconnect at this time.