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Visa, Inc. (V)

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MANAGEMENT DISCUSSION SECTION

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Hi. Sorry about the late start here. But I'm Bryan Keane, I'm the senior payments analyst here at Deutsche Bank. And we're excited to have a financial discussion with Visa's Vasant Prabhu who's the Vice Chairman and CFO. There's also a Q&A format portal down below if you want to ask a question. So, Vasant and I live in the same neighborhood here. So, we should have just gotten together and done the fireside chat in person, but...

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

You're right, Bryan. And I have a fire here, we could have sat by and I'm very sorry I'm not on video. We had some issues here, but I'm glad we could get the phone line going.

QUESTION AND ANSWER SECTION

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Yeah. Thanks. Thanks for doing this. So, Vasant, I know you guys just released the August data, the volume data. So, maybe you can just talk a little bit about the global recovery versus the rise of the Delta variant and kind of what you guys have seen in the volumes?

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Sure. Sure. Yeah. Just to give you a quick sense of what we are seeing. I mean you must have all seen – many of you've seen what we released last week. We tried to do that now to give you some sense of how things are going. Overall trends remained pretty stable globally if you look at it versus what we've seen in the last couple of months. In the US, our total payment volume was indexing at around 130 of 2019. We compared to 2019 because it's the cleanest way to look at the numbers at this stage. At some point, things will stabilize and we can look on a year-over-year basis and get a sense of the trend. It's down a little bit from July, but it's not a surprise. We expected some amount of pullback based on the fact that stimulus effects are going to wear off. If you look across debit and credit, debit was down somewhat more than credit and that's not surprising since debit was bigger beneficiary of the stimulus.

And then, if you look at the spending across categories, it also suggests that it's mostly stimulus wear off that was the driver of the small downtick because we're seeing – some downticks across most categories, ticket sizes is a little lower. Those are all characteristics or the impact of the stimulus, whereas food and fuel and drug were up. Travel was down. It's too early to call it a trend. It was still higher than it was in June levels and much higher than April and May. So, that's a general sense of the trends.

Card present was very stable around 115 million of 2019 and that's some indicator of where the people are actually up and about. And card-not-present was down a bit, and that's again, it's linked to the fact that some of that stimulus spending was mostly e-commerce. Across the world, we saw – of course a lot depends on what's happening with COVID in different countries and what they're doing as a result of that.

In general, Asia remained soft. They remain probably the most stringent in terms of putting in these curbs on people's ability to move around. New Zealand shut down for example during this period. On the other hand, Europe is improving. India has recovered fast as the COVID issue there has – has pulled – has become a little better. The important cross-border business, we're now indexing at about 4 points higher than we were in July around [ph] 85, 89 (00:03:50), if I believe – if I remember right of 2019. Travel continuous to recover, so both card present and card-not-present, travel-related spend cross-border was up another 5 points in August versus July. And now, we're indexing at about 60% to 2019. Of course, it's still down from 2019 meaningfully. But it was at 40% on 2019 in April, so it's been steadily improving since then.

If you look across sort of where the cross-border travel is getting better, in general, travel out of the US, Latin America, Europe has all been improving and is approaching levels that we saw in 2019. Where we're seeing continued significant restrictions on travel with borders not really opening up or significant difficulties and impositions on people travelling like quarantines and so on is Asia. And the problem with Asia is, if people leave Asia, they leave their home country, it's hard for them to get back. So, Asia, as you know still probably – still is the

most depressed part of the world when it comes to cross-border travel and it's all linked to the pretty significant restrictions that are in place.

In terms of inbound travel, Latin America is well about 2019 levels. We told you about that before and a lot of that is US travel into Latin America. Where we've seen the biggest improvement in inbound travel is into Europe, and that is coming from all over the world into Europe. Europe is largely opened for travel. US travel into Europe; Middle Eastern travel into Europe; Europe – travel from just about everywhere, travel into Europe improved by almost 20 points rather than 2019 in August. And as I said, I mean, Asia is still significantly depressed relative to the rest of the world. So, that's a general sense of cross-border travel.

Card-not-present cross-border which has been a very bright spot for quite a while since the COVID crisis hit us, was still indexing about 140. That was actually better in July despite the fact that some of the crypto boost we got in April and May has worn off as the crypto boom has worn off. So it's holding up very nicely.

So, that's a general sense of the trends, and of course transactions are up a point and index at about 125. So, as you look at it, I'd say, to summarize, infections themselves are not a good indicator of what we're going to see in spend. As we've told you before, it's driven more by what governments do in response to infections climbing. If there are no restrictions, we find that mobility stays pretty robust and have stayed that way even in US states with high cases and so on or countries with high cases like in Latin America. It's really when governments impose restrictions like they have done in, for example, New Zealand in the last quarter that you begin to see some impacts. And as far as Delta goes, we sort of remain in the same camp we were before which is it's not obvious it's having a big impact on spending. Maybe it's having some impact on domestic travel spending. We'll have to wait and see. But overall, it doesn't seem to be having a big impact at this point.

So, that's a general sort of overview, Bryan.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

No, that's very helpful. And I keep going back to the Analyst Day when you guys talked about some of the top-line growth rates and trying to think about post-pandemic just because of some of the adoption curves have been bended. Is it actually potentially a faster growth rate top-line for Visa coming out of the pandemic?

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Well, there have been as we've discussed structural changes that the pandemic has caused. I think most of you who watch us closely are quite familiar with them. But I'll just go through them. And I would say these structural changes have kick started or given sort of a bigger boost to trends – some of the trends that are already underway. And we've seen a step change in our growth rate in some areas. And then as we come out of the pandemic, we think they stay in place. So, let's go through them one by one. The first of course is the traditional engine of our growth, something we've been at doing for 60 years or our entire history, which is the digitization of cash. You all know, there's still plenty of cash around to digitize. It's not only true in emerging markets where our penetration levels have still been relatively low. But it's also true [ph] that in (00:08:56) absolute dollar terms, there's a lot of cash in developed markets too. And it has become very clear through the pandemic to most people that they don't want to use cash. It became issue of not just convenience, but also hygiene.

And so, even in emerging markets, including governments, including consumers, there has been this big desire to move away from cash and the infrastructures that enable people to do that be their wallets or be their – better connectivity. All those things have been improving substantially through the pandemic. So, cash digitization has

accelerated quite a bit. In developed markets, things like tap to pay, we've been telling you how important that is to cash digitization. The US [ph] was a laggard (00:09:45), I think the US banks have all decided that they have to get on the tap to pay bandwagon because their consumers demand it. This is contactless payments with cards.

So, cash digitization is most evident in our debit growth. And as we've said before, our debit in the US, for example, is indexing at 150, which is well above its trend line and it's higher across the board in most parts of the world. So, we've seen a sort of a big step change in cash digitization. We also think the infrastructures are falling in place, which means that we think this will continue post the COVID era. Until we get past COVID, it'll be hard to actually say what the acceleration is from faster cash digitization.

The other big trend that's been underway for a while, but also got a – sort of a real boost was the shift to e-commerce. E-commerce has been around 20 years. But you know that there's still plenty of opportunity. There's still a huge amount of commerce that does not happen online. And we saw, as you can imagine, a significant bump-up in e-commerce across the world and especially cross-border e-commerce. I mentioned earlier that cross-border e-commerce was indexing at 140 to 2019. Again, that's well above the trend line. And in general, e-commerce everywhere is trending well above the trend line. And the reason we think this sustains is because as the pandemic has gone on, a few things have happened that are very sustainable. One is habits are being formed. People are buying things online that traditionally they may not have bought online, for example, food and drug type purchases; for example, larger ticket purchases; for example, the adoption of e-commerce in emerging markets and the improvement of those infrastructures.

And then the other important thing that's going on is that merchants have all realized that they have to be good at e-commerce. So merchants are getting better, more and more of them are getting online. Being online is important for survival. These are all structural changes that will persist. And so, we are confident that the sort of the shift to e-commerce just like the overall digitization of the global economy is one that will not only not continue, but also accelerate.

As we go past that, we've seen a big boost in our new flows business. Not only is that a desire to digitize in merchant payments, but there is a desire to digitize cash across all kinds of use cases and whether that's B2B or B2C. And businesses have realized that they have to digitize their platforms and that includes payments, so B2B too. So, every segment and every use case which we can now serve because of our Visa Direct platform and our B2B platforms are seeing a big move towards digitization. And so, our new flows business and you've heard about the growth of Visa Direct reflects all that.

And then finally, our value-added services do benefit from more e-commerce because they are very geared towards e-commerce type transactions whether that's CyberSource, and what you can do for merchants and on omni-commerce, whether it's our fraud solutions, whether it's what we do with identity, authentication, processing solutions and so on. So, I think in summary, there's a step change. But we also believe as you all know there is a massive move towards digitizing businesses across the board and that includes payments and therefore it benefits us and we think it sustains.

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



Got it. A couple of hot topics I want to get to over the last several weeks. But, one in particular on Amazon, they announced that they – we're going to surcharge credit cards in Singapore, then now in Australia. I know surcharging isn't a new tactic, but can you talk a little bit about how these disputes typically get resolved?

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. Well, it's not – it's unfortunate. Our goal is to ensure that everybody can use their Visa cards wherever they wish to shop and not have to pay surcharges. In fact, all the consumer surveys that have been done, consumers overwhelmingly believe that the cost of payments is a merchant cost of business and that they shouldn't be charged for it. And they find it frustrating when they're charged additional fees. We're obviously disappointed that Amazon decided to do this for credit card holders in Australia and Singapore. It's not good for the merchant and it's not good for consumers.

Now, having said that, of course, Amazon is an important value partner on many fronts. As a merchant, they are a co-brand partner of ours. They're an innovator. They care a lot about consumer experience. We've had situations like this in the past. I'm sure we can resolve these things and we hope that that will happen soon. In terms of its implications, look, surcharging does happen, doesn't always impact consumer behavior as much as one might think.

For example, in the US, I mean, you do pay extra if you use a credit card in some places for gas purchases. And it's not clear it affects that much behavior. We've had surveys done in Australia on this where surcharging, in fact, does happen. Some merchants there do surcharge routinely. And we know that it has some impact, but it's not huge. Look, our view is that these things will get resolved and hopefully, there'll be a reasonable revolution and all this will settle down.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. One of the other hot topics of the day and I'm sure you've heard this a lot is the growth in BNPL, and I think most people understand that if it's an installment, it's on a debit card, the payback that there's going to be more transactions. And that's generally been a solid boost for you guys. But the question I keep getting and there's several questions in the queue asking it is, the question is around could there be more funding towards ACH? And then, this takes – BNPL is going to take it off your rails and with create a parallel network with SKU level data of their own and they create an on-us transactions between the merchant and this other network. So, the disintermediation threat of BNPL is the question.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. So, let me just sort of start – step back a bit and then get to the specifics, right. From our standpoint, look we have a network. We enable money movement. We enable credit in a certain way right now. If there is another way in which merchants want to offer credit, if there's another way in which issuers want to offer credit, if there's another way in which consumers want to accept credit or borrow money, we're going to enable that. That's our job. That's what we do. So, in that sense, we see BNPL as you know a new way to deliver credit. And as far as we're concerned, that's great. And in the end, consumers and merchants will decide what they like best.

I know there's a lot of hype around BNPL, and so, it's important to note that it's still extremely small. I'd say in many cases, people are still trying to figure out what the benefit is to them. So, merchants probably haven't got their arms around what the real cost of BNPL is yet. They understand what the cost is of a traditional credit payment. This BNPL proposition is often handled by the merchandising group which doesn't look at costs the same way. At some point, I think merchants will have to decide how they feel about the cost of BNPL versus the cost of traditional credit, we'll see how that sorts out all the time. There's also the credit cycle, we haven't been through a credit cycle, so we don't know how BNPL holds through the credit cycle and all that.

As far as we're concerned, BNPL is something that is a viable proposition. That's great. That's our job. Now in terms of how we benefit from BNPL, you did mention some of the things. First of all, we may get a transaction for a large ticket item we may not otherwise have got. So that could be a benefit to our system. Second, in terms of repayments, if it happens in installments, it is very, very common to use our credentials to pay for it, so its multiple transactions. It also creates another opportunity for us because many of the – there are many models here of course and in those models where the BNPL provider has to pay the merchant. We have a solution for them, a virtual card solution that allows them to pay their merchants. Sometimes they also want to be issuers, where they issue our own credentials into their apps and when a purchase is made it all happens on our credentials including repayments. In that sense, it's a great opportunity for us to add new issuers to our network and then we have value-added services that go around it.

As it relates to the issue that they can use ACH rails and keep it within their own kind of closed-loop. Look, I mean BNPL is a minuscule part of credit right now, and closed-loops are inherently disadvantaged because they can't – they really can't take advantage of the entire range of opportunities. Yes, it's a theoretical possibility. But then you have to ask yourselves where the closed-loops which are small can really create enough value? The value of a network is a square of its nodes. Our goal is to have the most ubiquitous network that anybody can hope for with the most number of merchants and the most number of consumers to get to.

If you take any one of these BNPL players and you look at the number of nodes they have, you can see that the value of that closed-loop network is substantially lower than what you can gain by being part of Visa's network. And those BNPL players who embrace our network are probably going to be able to scale faster and grow faster. Those that choose to be to closed-loop may constrained themselves. Time will tell. We think closed-loop solutions have been tried before. They don't create enough value for those people who participate in them. And it's up to the BNPL provider. I mean they can give it a go.

We've been at this for a long time. We were early investors in Klarna. So, we've been in the BNPL space for a very long time. We were early investors in Paidy that was recently bought by PayPal. We've been working with the firms and the [ph] after payers (00:21:03) and so on. And this is not new for us. I know it's become top of mind in the last year or so that some of these guys have gone public. But we've been dealing with them for many, many years from the very early days.

In the end, I think the market will determine whether BNPL is a good option or not. And our job is to make it very easy for any kind of BNPL model to work on our network. And our job is to make our network so valuable that they're better off being on our network than trying closed-loops. Now, I'll give you an example of wallet. People, two or three years ago, when wallet started had the same concern, closed-loops, et cetera. Are they going to keep it away from our network? Well, they've all realized over time and we told you then these wallets are partners of ours. They don't know it yet. We will get them there. And every major wallet around the world, whether it's Paytm, LINE Pay, Rapi, you name it, have become partners of ours because there's mutual benefit. They realize that the closed-loop system is not very good for them. And by being part of Visa, they can ramp up faster and there's some great revenue streams they have access to.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.



Yeah. Why [ph] don't it turn (00:22:19) to open banking because that's also a topic that comes up often with investors, thinking about is that a potential disintermediation risk or do you see that as Visa can benefit from that and maybe talk a little bit about the lower yields that are probably likely there versus normal business?

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Sure. So, our view of the world is that five or six years ago, we used to do one thing, primarily, I mean those are very large business doing one thing very well which is C2B payments, right, consumers paying businesses, and especially consumers paying merchants. Since then, we have substantially enhanced the capabilities of our network so that we can handle a very, very large number of use cases that we never could before. And that falls into the categories of P2P, B2C which is disbursements, doing all kinds of B2B, and a range of other – so a whole range of new use cases are possible on our network.

So, we have substantially enhanced our capability to essentially move money for all kinds of reasons not just consumer payments. The second thing we've done is to also, several years ago, essentially declare that we are a network of networks. We want to be interoperable across networks. We want to be able to get your money wherever it needs to go. It doesn't have to be the entire journey. It doesn't have to be on our network alone. So, if we need to get your money through an ACH network or an RTP network, we're going to do that. They're also going to be interoperable by the way across block chains. We've already started to settle in USDC. We will settle in additional stable coins over time. We will be very interoperable across currency, we'll be interoperable across cryptocurrencies.

So, look, we are a network of networks and we can serve all kinds of money movement use cases. So, the fact that our pipes doesn't make the pipes themselves valuable, right? They have to adapt to use cases. So, our view is that by being a network of networks and being able to solve any use case and get your money wherever it needs to go and then layering on the value we add, right, which is we make it extremely reliable, we make extremely secure, we provide fraud capabilities, we provide dispute resolution capabilities, et cetera, et cetera. We make it very easy for app developers to connect to us. We make it very easy for consumers to users.

You do all that and that's what counts. But a pipe by itself has no value. I mean we've had RTP networks for decades in some parts of the world and they haven't had much traction because a dumb pipe doesn't do much. And the real value is, as I said earlier, in the ubiquity of the network. And if we're going to be a network of networks and effectively be interoperable across a whole range of networks and get your money – and able to get your money wherever it needs to go and to serve any use case and to serve the use case with all our intelligence, this – that's really where the value is. You give us the money, we'll get it there, you don't have to worry about it and you can be sure it's reliable, it's secure, and so on. So, we're not too concerned about it. And as far as yields grow, every use case has its own yield, it's driven by the value it's created by the use case. I don't think we care about what the yield – across yield differences, across use cases. It's a market that determines them. This is all new volume for us. It's all incremental. It's allowing us to expand our business, it's allowing us to grow on new flows business at extraordinary rates, it's allowing us to grow our value-added services. So, we're fine with all that. The yields will be what the yields have been in some of these new use cases.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. I think we have three more minutes, so I want to ask two, the two questions, I wanted to ask, make sure I got in. Just on the Visa Direct growth rate that's been obviously pushed with new flows and value-added services recovery. Should we – can we expect those growth rates to maintain at those levels for value-added services in Visa Direct? And then the second piece of that question which is I have to ask a question on incentives. I know you had several renewals, big, large renewals that we talked about over last several quarters as we get – as we move forward, how do we think about as some of those renewals get passed as the percentage of revenue for incentives?

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Sure. I think we'll give you more clarity on incentive as we get to talking about next year. Yes, we had some heavy renewal years in 2019 and 2020. 2021 is more of a normal renewal year. Where the incentives are going is a function of where the market is going. In terms of how incentives have behaved in the last couple of years, there's been a lot of impact from COVID. In 2020, we had a drop in volumes and that caused incentives to be lower. In 2021, we told you that some of those incentives are coming back as volumes are recovering. We've also seen a big shift in mix away from cross-border. Cross-border tends to be higher yielding and have less incentives attached to it. So there's a lot of factors at play here and how they all sort of balance or not balance each other is something that we have tried to explain and we will continue to explain and help you get a sense of how they might evolve because [ph] we're still not at a (00:28:15) stability as you know. Cross-border business is still not where it used to be and the mix is different, and we're still in recovery mode from COVID and so on.

As it relates to the growth of new flows and value-added services, we remain very confident that these businesses can grow at a faster rate than our core business. They have grown at a faster rate than our core business all through the COVID era. Our value-added services business is growing in the mid-teens despite the fact that some of the travel-related value-added services have been depressed.

And last quarter, partly due to lapping, partly due to travel-related cost, value-added services coming back, we had some really nice growth, more than 25% growth. In the case of our new flows, Visa directly told you has grown volumes at 60% through most of the year on a larger and larger base now. Our B2B business is recovering nicely. The small business part of it is – has recovered quite a bit. The medium-size businesses are now beginning to recover. We're feeling very good about the B2B Connect momentum. We have Goldman Sachs as an anchor partner now. We have lots of banks signing on. We're live in over 100 countries. So, we are very optimistic about the new flows business because we are serving – Visa Direct now is serving more than 25 new use cases. We're expanding globally and we have more than 425 partners. We're helping them scale. They're helping us scale. So, I think we're very confident that those two businesses can grow faster than our core business.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Awesome. With that, Vasant, I know we started a little bit late. Thanks for going a little bit long here. And we appreciate you taking the time.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

No, not at all. And I'm sorry about the confusion here at the beginning. But I'm glad we were able to do it.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

All right. Great. Take care. Bye-bye.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Thanks, Bryan. Bye.

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