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Visa, Inc. (V)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Visa's fiscal fourth quarter 2016 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. Jack Carsky, Head of Global Investor Relations. Mr. Carsky, you may begin.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Thank you, Laura. Good afternoon, everyone, and welcome to Visa, Inc.'s 2016 fiscal fourth quarter and full fiscal year earnings conference call. Joining us today are Charlie Scharf, Visa's Chief Executive Officer; and Vasant Prabhu, Visa's Chief Financial Officer. This call is currently being webcast over the Internet and is accessible on the Investor Relations section of our website at www.investor.visa.com. A replay of the webcast will be archived on our site for 90 days. The PowerPoint deck containing the financial and statistical highlights of today's call have been posted to our IR website as well.

Let me also remind you that this presentation may include forward-looking statements. These statements aren't guarantees of future performance, and our actual results could materially differ as a result of a variety of factors. Additional information concerning those factors is available on 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 Visa's website. For historical non-GAAP or pro forma related financial information disclosed in this call, related GAAP measures and other information required by Reg G of the SEC are available in the financial and statistical summary accompanying today's press release.

And with that, I'll turn the call over to Charlie.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

Thanks very much, Jack, and good afternoon, everyone. Thanks for taking the time to join us.

Let me start with a few comments about our fiscal fourth quarter financial results. First of all, as you can see with the inclusion of Visa Europe, the quarter and our thoughts on next year will be somewhat complicated, but we will do our best to provide clarity on what's driving our results both in my remarks but probably more importantly in Vasant's remarks as he goes through the detail.

Overall, we feel very good about the solid financial results in the fourth quarter. The results were better than our expectations. GAAP EPS of \$0.79 included two special items, the \$110 million charge for severance costs and the \$88 million non-cash and non-recurring gain for the remeasurement of the deferred tax liability related to the acquisition of Visa Europe. Excluding these items, fourth quarter adjusted GAAP EPS was \$0.78 per share, an increase of 27%.

Net operating revenue grew 19% this quarter, including the full quarter of Visa Europe and a continued negative 3 percentage point impact from FX. While growth continues to be subdued by some of the same items we've

spoken about previously, we're starting to see improvements as we expected, and our business model, as you've seen, continues to be resilient. I would be remiss if I didn't mention last week's 18% dividend increase to \$0.165 per quarter. We continue to be consistent in returning excess capital to our shareholders.

Let me turn now and talk for a couple of minutes about payments volume. U.S. payments volume growth was 11% in the fourth quarter, up 1 percentage point from Q3. U.S. credit payments volume improved to 19% from 11% in the June quarter, primarily driven by the positive impact of Costco and USAA. U.S. debit payments volume grew at 3%, down from 9% in the quarter. The lower growth was primarily driven by Interlink, and remember, the impact to revenue of this is minimal. International payments constant dollar volume growth ex-Europe was 9%. Cross-border volume growth accelerated to 10% – when normalized for Europe, up from 9% in the third quarter. Process transaction growth was 12% and accelerated 1 point from the third quarter when normalized for Europe as well.

More recently, through October 21, U.S. payment volume growth was 12%, up 1 percentage point from the fourth quarter. U.S. credit grew 20%, up 1 percentage point from the September quarter. U.S. debit grew 5%, an improvement from the 3% in the fiscal Q4. Cross-border growth in constant dollars is 11% when normalized for Europe, and processed transactions was 12% when normalized for Europe. Just a few comments about Europe. The integration itself is going extremely well. We just couldn't be happier with the interaction between the two companies, and we are well underway to putting all of the functions together and operating seamlessly as one global entity.

Importantly, renewal activity continues to be very strong. We've signed multiyear debit agreements with RBS and Lloyds Banking Group and multiyear credit and debit agreements with Barclays and Nationwide. We have very good engagement with clients on our product and our digital roadmap, including Visa Checkout, which is being rolled out as we speak. Vasant will discuss in more detail how we're doing financially but things are playing out as we would've expected so far. And around rest of the globe, client activity continues to remain very strong. To name just a few, we renewed a multiyear debit and credit partnership with BBVA Bancomer, Mexico. We renewed our credit partnership with China Merchants Bank and China CITIC Bank. And in Russia, we renewed multiyear credit partnerships with Alfa-Bank and VTB24.

If you turn just to talk for a couple of minutes about Visa Checkout. We ended fiscal 2016 with over 15 million consumer accounts in 21 countries, and over 1,400 financial institution partners across the globe participating. More than 300,000 merchants, including some of the largest global retailers have signed on to accept Visa Checkout, representing \$162 billion in addressable volume. In October, we rolled out a redesigned Visa Checkout experience to all global merchants. This new experience makes it easier for consumers to sign up and complete purchases on mobile devices.

We also announced earlier today that we're opening the Visa Checkout platform to clients and partners, allowing them to integrate their digital wallets into Visa Checkout for streamlined authentication and checkout. Leading Visa financial institutions and partners, such as Google's Android Pay, will take advantage of the new open platform by offering Visa Checkout to their customers for online purchases. Issuers, digital wallets and payment app providers can access a streamline set of APIs to easily integrate Visa Checkout open platform and immediately begin to offer payments to their customers shopping online on their mobile devices. For example, an online shopper who uses a digital wallet from a participating Visa issuer or Android Pay would simply click the Visa Checkout button on a merchant's checkout page and authenticate their identity through biometrics to complete a purchase.

Let me move on to another topic. We continue to invest in new products and services to help our merchant clients. In September, we announced Visa advertising solutions, a new suite of products specifically built to help merchants reach new customers and understand if their digital advertising efforts are influencing consumer purchases, purchasing decisions online and in-store. Visa Ad Measurement and Visa Audiences are products that integrate with ad tech platforms like Oracle Data Cloud, allowing Visa's merchants to easily access valuable insights when executing a digital ad campaign. Top quick service restaurants and retail merchants such as Banana Republic have used Visa Ad Measurement reports to understand sales impact and optimize their marketing campaigns. Visa Advertising Solutions are available to merchants through leading digital platforms such as Facebook, Google, Twitter, Pinterest, and over 200 other media networks.

We've spoken about this before, but I do want to highlight the success that we're seeing in our global network of innovation centers. In addition to One Market Street in San Francisco, we've opened innovation centers in Singapore in April, Dubai in May, Miami in June, and plans to launch one in New York in January as well as London and São Paulo.

In 2016 alone, we held over 600 client engagements globally with over 200 clients participating. These range from tours and demos to multi-day hackathons and in-depth co-creation sessions. These are forums where we can demonstrate where we think payments are going in each geography, but our goal is to develop real-time solutions with clients that they can implement very quickly.

Fast payments continues to be an important opportunity around the world, and we're having good success working with clients and partners to capture the opportunity using our Visa Direct push payment product platform. Annual Visa Direct PV exceeds \$29 billion globally for the period ending September 16, and annual U.S. Visa Direct volumes topped \$5 billion for the first time ending September 2016. Growth exceeds 250% from the same period last year. Globally, nearly 3 billion Visa cards are enabled to receive push payments. We're working with key partners, including EWS, FIS, Fiserv, Jack Henry, Stripe, Ingo Money, Square, and Green Dot.

I also want to talk for a minute about how we're using push payments to electrify payments in developing economies. We recently launched a new service called mVisa in India, Kenya, and Rwanda, and we plan to expand to several other markets around the world during 2017. mVisa allows a consumer to transfer money to a merchant in real time with nothing more than their mobile phone, and merchants are able to start accepting Visa transactions immediately without any additional hardware. We've seen early success in several different categories, including small micro-merchants, local transportation such as taxi, and bill payment. You'll likely hear much more in the future about these efforts.

Tokenization continues to be a very important part of ensuring safe and secure mobile payment solutions. We recently announced new specifications that allow certified third parties to connect directly to our Token Service and become Token Service Providers. These TSPs will be able to provide a range of services for Visa tokens, including new account provisioning and life cycle management. By expanding access to the Visa Token Service to new partners, Visa issuers will be able to more quickly and easily offer secure digital payment services across a wide range of devices.

I'll let Vasant talk in detail about our outlook for 2017, but just a few comments from me. We enter 2017 certainly with fewer headwinds as we did entering 2016, and we do have some tailwinds. On the negative side, the global economy is not improving. Geopolitical tensions are high. The U.S. election is a wild card, and we continue to watch the impact of Brexit. But Costco and USAA meaningfully improved volumes, with USAA being an important contributor to revenues in the U.S., while Costco far less so. Cross-border volumes are both lapping decreases and have improved, and we will have a full-year benefit from Europe, which as I said, is performing as expected.

Since this is my last call, I do want to make just a few closing comments. I'm so proud to have been associated with Visa, its clients, its partners, and its employees. I hope you feel that this is a different company than four years ago and that the things we've done have positioned the company well for the future. We've focused our work on providing payments leadership and a platform which will enable our clients, all clients, to grow their franchises.

The competition is strong and the canvas is still being painted as the industry evolves, but our position is strong and our assets are exceptional. And always keep in mind as we think about what's going on around the world and we look at the risks and opportunity, this is a very global business. The competitive issues are different geography by geography, but opportunities exist around the world for us to grow our share. While there's always risk and many are trying to figure out how to advantage themselves as commerce moves to digital platforms, there is more opportunity globally than ever before for Visa.

Vasant?

VasantM. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

Thank you, Charlie.

For the full quarter of Visa Europe and our numbers for the first time, we had a strong finish to fiscal year 2016. On a GAAP basis, fiscal fourth quarter revenues were up 19%, operating income up 15%, and EPS up 28%. We closed FY 2016 with full-year revenues of \$15 billion, net income of \$6 billion, and EPS at \$2.48. On an adjusted basis, operating income for the fourth quarter was up 20% and EPS was up 27%. Net income for the full year was \$6.9 billion, and EPS was \$2.84.

For the remainder of my comments, I will be referring to adjusted results. A few points to note; first, payment volumes on a constant dollar basis continue to grow at double-digit rates globally. The secular shift away from cash continues at a fast clip around the world. Credit growth outstripped debit growth, helped by Costco and USAA. Second, cross-border constant dollar volume growth recovered to double-digit levels. The dollar has stabilized, helping our large U.S. acquired business. In addition, oil price stability and a nascent recovery in emerging markets has helped outbound commerce across most regions. Only Europe slowed due to general economic weakness as well as the impact of the Brexit vote on the euro and the pound. Easier year-over-year comparisons are also helping.

Third, we had two special items in the quarter that largely offset each other. We took a charge for severance costs associated with actions we are implementing across Visa, including the reductions we're planning to make at Visa Europe. The consultation process is underway in Europe, and we expect it will be completed before the end of 2016, after which we will begin to implement the agreed-upon plan. As we integrate Europe into the rest of Visa, we have taken the opportunity, as we told you we would, to look at our global cost structure and will make some adjustments. Offsetting this charge was a non-recurring, non-cash tax benefit from the reduction in the UK corporate tax rate, which reduced our UK deferred tax liability.

Finally, as you know, we issued preferred shares for the Visa Europe acquisition. We also bought back 20.5 million shares in the fourth quarter for \$1.66 billion. We ended the quarter with a weighted average share count of 2.44 billion, up 54 million from Q3. For the full year fiscal year 2016, we bought back 92 million shares for \$7.1 billion, at an average price of \$77.13. This was approximately \$2 billion higher than what our normal course

buyback would have been last year. The additional buyback reflects our intent to offset the dilutive impact of the preferred shares issued, and will continue into early fiscal year 2018, as we previously indicated.

I'll quickly review business drivers and financial results for the quarter and fiscal year 2016; then spend most of my time on our outlook for FY 2017. At least for this quarter, we will highlight the impact of adding in Visa Europe where it is helpful to better understand our results. U.S. payment volumes grew 11% in Q4 as U.S. credit grew 19%, helped by USAA and Costco volumes. U.S. debit grew 3% due to lapping a significant new account win in our Interlink business in Q4 last year and the impact of PIN Debit routing this quarter.

Adjusted for Interlink volumes, the U.S. debit growth trend was unchanged from the prior quarter. As merchants make routing decisions based on incentive deals in place with various networks, we expect there will continue to be volatility in our Interlink growth rates. However, given the relative size of this business, the impact on our total revenues will be minimal. International payment volumes ex-Europe grew 9% in constant dollars. The tick down from the prior quarter trend was largely due to the lapping effect of a large Chinese bank that started including previously unreported domestic volumes in Q3 last year. Ex-China, growth rates remain strong in Asia as

well as Latin America. The Middle East and Russia was stable but Sub-Saharan Africa was a soft spot. In Europe, new regulations that went into effect in June no longer require issuers of co-badged cards to report domestic volumes we do not process. This will distort year-over-year comparisons throughout fiscal year 2017.

Excluding Europe, cross-border constant dollar growth rates stepped up to 10% in Q4. This was the first time we have reported double-digit cross-border volume growth since Q4 fiscal year 2014. The weakening dollar is driving the recovery in our large U.S. acquired business as well as outbound commerce from Canada. Cross-border growth in North America climbed to 9%, a rate of growth we have not seen since the end of 2013. Internationally, cross-border growth rate stepped up across all geographies, helped by stabilizing oil prices and recovering emerging markets. Cross-border growth rates in China have stabilized in the mid-single digits. The only region ticking down in growth was Europe, as the weak pound post-Brexit has hurt outbound commerce from the UK

Excluding Europe, transactions processed over VisaNet grew 11%. The small step up from the prior quarter was due to the NSPK effect in Russia. As you know, our reported transactions growth was hurt in the past five quarters as we transitioned processing to NSPK starting in the third quarter of fiscal year 2015. Transactions processed in Europe grew 15%, in line with the previous quarter. Net revenues grew 19% in Q4, 6% excluding the impact of Europe. Expenses grew 18%, 5% excluding Europe.

We finished the year with adjusted EPS of \$2.84. If you exclude the impact of the Visa Europe acquisition, which is interest expense from the debt issued, the shares issued, as well as Europe's income and other one-time items, our EPS grew 10% in nominal dollars and 14% in constant dollars. We were able to deliver this growth despite a soft revenue picture caused by the strong dollar, the oil and commodity price collapse impacting many regions, as well as a slowdown in China. We were able to hold fiscal year 2016 expense growth to 1% ex-Europe while continuing to invest heavily in all our critical long-term initiatives such as Visa Checkout, Visa Token Service, Visa Developer platform, our Innovation Centers, our marketing around the Rio Olympics and other programs.

We enter fiscal year 2017 with some tailwinds. Costco and USAA conversions are now well underway, as you saw from our Q4 payment volumes. Cross-border growth rates have recovered as the dollar stabilizes and we have easier year-over-year comparisons. Two significant drags from prior year's is the translation impact of the strong dollar and gas price declines. We begin to benefit from the Visa Europe acquisition with yield improvements, cost reductions, and EPS accretion.

Balancing these tailwinds are some headwinds: economic weakness in Europe and Brexit uncertainty hurting both domestic and cross-border volumes; a global economy that remains generally sluggish; a potential decline in Treasury revenues as volatility subsides from the extraordinary high levels we have experienced in the past two years; and finally, a step-up in client incentives as we bring on Costco and other major renewals, as well as folding in Europe. We'll review how all these factors drive our outlook for 2017 starting with payments volumes.

USAA and Costco will drive payments volume growth in the U.S. However, we expect international payments volume growth to slow down modestly due to weakness in Europe and China. Reported European payment volume numbers will be distorted by the change in co-badged volume reporting. If no co-badge volume is included, reported European payment volumes could be down 15% to 20% dragging the reported global payments growth down by as much 7 to 8 percentage points with a larger impact in the first three quarters.

As you saw in Q4, cross-border volumes are recovering helped by easier comparisons, a stabilizing dollar and oil prices as well as improving emerging market economies. In Europe, cross-border growth rates have been trending down through fiscal year 2016 and we anticipate that this will continue as the pound remains weak and economies across Europe struggle. Inbound commerce into the U.S. will likely grow after two consecutive years of decline. Outbound commerce is expected to recover in the Middle East, Africa, and Latin America. In Asia, Chinese cross-border growth appear to have stabilized.

The recovery in cross-border growth maybe offset to some degree by a decline in currency volatilities and the revenue we derive from it. Currency volatilities have been extraordinarily high for the past couple of years, well above long-term averages. At some point there will be a reversion to the mean or even an overcorrection in the other direction like we saw in 2014. For purposes of our outlook, we're resuming what we did last year, a reversion to the mean in fiscal year 2017. But as they say, it will be what it will be. With the NSPK transition behind us in Russia, debit gains in Brazil, Costco and USAA volumes in the U.S., we expect process transactions growth to tick up in FY 2017 ex-Europe. European process transaction growth rates will slow down as we lap the rapid acceleration of contactless transactions in the UK in fiscal year 2016.

We finished FY 2016 with client incentives as a percent of gross revenues, approaching 19% in the second half. Our outlook anticipates a range of 20.5% to 21.5% in fiscal year 2017, a 1.5 points to 2.5 points increase. There are several factors driving this increase. About half of the year-over-year increase is driven by the inclusion of Visa Europe for the full year, and the impact of eliminating rebates and replacing them with performance-based client incentives. In our filings with Visa Europe numbers for the first three quarters of FY 2016 that you have seen, U.S. GAAP accounting requires that rebates are netted from gross revenues. When we eliminated rebates at the end of September, it has the effect of increasing Visa Europe's gross fiscal year 2017 revenues and in parallel, Visa Europe's fiscal year 2017 client incentives, as we replace these rebates with appropriate market competitive incentives.

The net effect of this change in the European pricing structure and the overall level of client incentives in Europe accounts for about half the increase from 19% in Q4 to the range we provided for fiscal year 2017. The other half of the year-over-year step-up in client incentives as a percent of gross revenues is driven by a full year of Costco incentives, and the impact of several large renewals completed in fiscal year 2016, particularly in Asia. When you put all this together, we expect constant dollar net revenue growth in the high teens in fiscal year 2017, moderated to the 16% to 18% range in nominal dollars by an estimated 1-point to 1.5-point exchange rate impact. This currency translation impact may be larger than you are anticipating, based on dollar spot rates of forward curves. Let me explain why this is the case.

It has to do with our longstanding practice of layering on monthly hedges, no different than what most global companies do. This approach to hedging is not seeking to make directional bets on currencies, but rather to dampen the effect of changes in the trend of the dollar. When the dollar strengthens, these hedges delay the cost, and when the dollar weakens, they delay the benefit, essentially mitigating volatility. In fiscal year 2016, the hedges helped in the first half, and then as the dollar started to weaken, they hurt in the second half. This will continue into fiscal year 2017. The hedges in place will be a drag in the first half. If the dollar stabilizes as currency forwards are suggesting, they will be neutral in the second half. The total exchange rate drag on net revenues could be 2 points, 2.5 points in the first quarter, comparable to Q4 FY 2016, moderating through the year to 0.5 point in Q4 FY 2017.

On the expense front, we will continue to invest as aggressively as we need to on all our key growth initiatives, including the global expansion of Visa Checkout, Visa Token Service, and Visa Innovation Centers. We will continue to build on our Visa Developer platform, our data and analytics capabilities, loyalty and offers, mVisa, and other key programs. In parallel, as we have done in fiscal year 2017, we will look to gain efficiencies in other parts of our business by enhancing productivity and adding capabilities in lower cost locations. Excluding Europe, we expect expense growth to return to the mid-single digit range in fiscal year 2017.

In terms of the expense base in Europe, after the consultation process is completed, we will implement our plan. While this will reduce costs in some areas, we will be investing in Europe to roll out Visa Checkout and our other digital services, as well as adding to our sales and marketing resources to bring all the benefits of Global Visa to our European clients as fast as we can. We will also incur approximately \$80 million in Visa Europe integration costs in fiscal year 2017. These are costs to harmonize the two technology platforms. Our technology teams are in the process of aligning authorization clearance and settlement systems, upgrading network compute and storage infrastructure, implementing next generation information security systems, preparing to move to common end user and corporate platform.

As you may recall, we had indicated that the technology integration would not be completed until late 2019, early 2020. We had estimated total integration costs in the \$450 million to \$500 million range over this timeframe. While these are not recurring costs, we will incur these costs for the next three years until we complete the full integration of Visa Europe. We will call these costs out as we have in our outlook, however, we do not plan to adjust these costs from our GAAP numbers when we report each quarter. Of course, these integration costs will not be incurred once the technology integration is complete. Also, as we have indicated, additional cost savings will be realized when we combine the technology platform.

It is important to highlight one item that you need to adjust for as you consolidate Visa Europe into Visa, Inc. Prior to the acquisition, as you all know, there were intercompany charges that flowed between Visa Europe and Visa, Inc. These were expenses for Visa Europe and revenues for Visa, Inc.

The largest item was the Visa Europe license fee. The other major charge was for network processing services provided by Visa, Inc. Through the first three quarters of fiscal year 2016, these intercompany charges amounted to \$191 million. Two-thirds were recognized as other revenues in the Visa, Inc. income statement, and the remainder in data processing revenues. At Visa Europe, one-third of the expense hit the network and processing line, and most of the rest was in G&A with a small amount in personnel.

Post the acquisition, these intercompany revenues and expenses completely offset one another and are eliminated in consolidation. Therefore, none of these revenues and expense amounts are included in the reported fourth quarter numbers or will be included going forward. If you do not adjust for these changes, your FY 2016

baseline for Visa Europe operating expenses would be overstated by \$191 million, as would your fiscal year 2016 baseline for Visa, Inc. revenues.

In terms of costs related to China market entry, the timing remains uncertain. We had assumed we would be much further along at this point when we talked to you last year. It is our intent to move very fast to set up our processing infrastructure once we have greater clarity from the PBOC around timelines for their decision for granting licenses. At this point, it is difficult to know for sure what costs related to China market entry will be incurred in fiscal year 2017. We have made some assumptions in our outlook and will update you as we learn more.

Moving on to interest and taxes, interest expense will increase almost 40% in fiscal year 2017 from a full year of interest on the \$16 billion in debt issued in December 2015 as well as the \$2 billion in debt we plan to issue before the end of this calendar year, market conditions permitting. Our fiscal year 2017 tax rate will increase due to Visa Europe. As you know, under the current structure, Visa Europe is a U.S. taxpayer. The current tax structure affords us some cash tax benefits but has the effect of increasing our book or GAAP tax rate due to restrictions on the credits we can take on taxes we pay in the UK. As we had indicated previously, this structure increases our reported tax rate by 100 basis points to the low-30s range.

As you estimate our fiscal year 2017 EPS, it's important to remember that we issued 79 million preferred shares as part of the consideration for Visa Europe. These shares are now included in our fully diluted share count, which is up 54 million net of buybacks completed in the fourth quarter. We have ramped up our buyback program to offset the dilutive impact of the shares issued. In fiscal year 2017, our bought back almost \$5 billion more roughly at the same level as fiscal year 2016. At this pace, by the end of 2017, we would have bought back almost \$5 billion more than our normal course buyback or offset almost 80% of stock issued. We will maintain the stepped up pace of buybacks till we complete this program in early fiscal year 2018.

With a full year of interest expense as well as \$2 billion more in debt, with a higher GAAP tax rate, and with additional shares outstanding, our EPS growth rate in fiscal year 2017 will be lower than net revenue growth. In nominal terms, our outlook anticipates mid-teens EPS growth from an adjusted fiscal year 2016 baseline of \$2.84. This includes a 1.5 to 2 point drag from exchange rates, mostly due to the impact of hedging described earlier. As with revenues, the drag from exchange rates will be higher than the first half, comparable to fourth quarter 2016 levels in Q1, and moderating through the year.

Our EPS outlook assumes EPS accretion from Visa Europe will be in the 2% to 3% range in fiscal year 2017 as expected. The accretive impact of Visa Europe is greater in the second and third quarters when we had interest expense last year from debt issued for the transaction but no income from Visa Europe till the fourth quarter. Also benefits from our cost reduction actions start being realized in the second quarter. Visa Europe is tracking well relative to our expectations, and we remain confident that accretion will climb to the high-single digit range by 2020 once we have implemented all our plans to improve yield and lower costs.

In summary, we feel good about fiscal year 2017. The Visa Europe integration is proceeding well and delivering as expected. Payment volume momentum remains robust globally. Transactions growth remains healthy. Cross-border volumes are recovering as the dollar stabilizes and comparisons become easier. Gas prices and exchange rate drags are easing.

As always, there are risks to watch. The global economy remains sluggish, especially in Europe. The cross-border business in Europe is slowing. Currency volatility could moderate. Balancing these factors, our fiscal year

2017 outlook anticipates 16% to 18% net revenue growth and mid-teens EPS growth in nominal dollars. As always, we will update our views as the year unfolds and share them with you each quarter.

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

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Thanks, Vasant. Laura, at this time, we're ready to start taking questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Tien-Tsin Huang from JPMorgan. Your line is now open.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hi. Thanks for all the details, and I have a lot to go through here. I wanted to ask on revenue growth contribution from Visa Europe assumed in fiscal 2017. What's being assumed there? And what's the Visa Europe yield assumption as well? Do you need yields to rise in order to hit guidance? Thank you and best wishes to you, Charlie.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

Thanks, Tien-Tsin.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Tien-Tsin, going through your questions, if you look at next year, I think we tried to give you as much as we can in terms of what we see in terms of trends. So clearly from a growth rate standpoint, you have a sense of what growth in Europe has been this year. We are seeing, as you saw through the year, some slowdown in the cross-border growth rate. We're seeing some slowdown in the payment volume growth rate. But overall, it will be a decent year of growth in Europe, though not as high as we are seeing in other parts of the world or in the U.S. So that's Europe growth.

In terms of yields, yes, yields are assumed to improve. Some of that we anticipate will happen from some of the actions we are in the process of implementing, like what we told you. The elimination of rebates and the replacement with client incentives and some other actions we're doing. So you will see yields improve. But as we look ahead, Visa Europe will be an integral part of Visa, and you will start to see the impact of Visa Europe in the aggregate numbers we report and what happens to our yields from the new baseline you have in yields and so on. So hopefully that helps. We tried to give you as much detail as we can on what the current trend is, and it will help you figure out what Europe is contributing as you look ahead.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please.

Operator: Our next question is from Jim Schneider from Goldman Sachs. Your line is now open.

James Schneider

Analyst, Goldman Sachs

Q

Good afternoon, thanks for taking my question. Best wishes to you, Charlie. I was wondering if you can maybe just frame, besides all the details, at the highest level, when you think about the guidance for 2017 that you offered, when you think about that versus last year, whether you think it's more or less conservative than last year in terms of your overall approach. And can you maybe talk about what's the biggest factor about Visa Europe outside of the consumer trends that could drive that either to the positive or negative side, whether it be client renewals or anything else?

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

I'll do the first, and I'll let Vasant do the second. I think you should expect that the answer from us to be that in both years, we try and be as accurate as we can. And obviously, there's a tremendous amount of assumptions that go into this. And I've said this time and time again, which is you all put all this weight on what we're telling you 2017 will be. And what we try and make clear is there's a series of things that we know and there's a series of things we don't know. And the series of things we don't know – but where we're making assumptions, we try and lay those out for you. And quite frankly, you've got to make your own determination whether you think those are aggressive or conservative. But I'll tell you, it's certainly not in any of our bones and hasn't been in any part of Visa's bones since it went public to be on the aggressive side.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Just to reiterate what we're expecting, and again, I think we tried to give you as factual a point of view as we can. Our revenue growth if you adjust for the exchange rate drag, which perhaps you may not have anticipated without thinking about the hedging implications, and you might have seen the hedging implications in our second half results. Our currency impact essentially stayed flat through the year mostly because hedging helped in the first half and hurt a bit in the second half. And all it does really is delay the impact of the moves in the dollar. But if you adjust for the hedging impact, what you're seeing in high teens revenue growth – net revenue growth. And what you're seeing is mid-teens plus 1.5 to 2 points EPS growth. It's not that different than perhaps what you might have expected of us going into the year.

Visa Europe is tracking as we expected. We feel very good about it. What could surprise one way or another, we laid out all the factors. Clearly, the cross-border trends are heartening. And hopefully, if the dollar stays on this track, which is either stable or further weakening, that would be good for us. I think currency forwards are now expecting more of a flattening of the dollar, which is what we've assumed.

In terms of the currency volatility front, that's a little bit of anybody's guess. We did tell you sort of what we're assuming. But overall, I mean, if there is going to be anything on the plus or minus side, we have assumed that the European trends have softened through the year, and we've assumed that those trends will continue into next year. Hopefully European economies will do better than that, and if that does, that'll be great.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Sanjay Sakhrani from KBW. Your line is now open.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. Just maybe on the incentives, obviously, they're going up a decent amount. Is some of it because you've had better success than you thought in re-signing some of these banks? And maybe, Vasant, you can just talk about how we should consider the trajectory after 2017, given this backdrop? Thanks.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

I think we'll talk more about all that as we get into the latter part of 2017 when we talk about 2018. But trajectory-wise, I wouldn't assume significant changes. Visa Europe is now part of the numbers, and that explains, as we told you earlier, about half the delta. And there's also this impact we get when we pull back the rebates. It has the effect of raising gross revenues and incentives at the same time. So Visa Europe lands up at a place where their incentives as a percent of gross revenues are certainly driving the new level. Beyond that, yes, we have Costco coming in for a full year. That certainly adds to it. And we had some significant renewals, in particular, Asian geographies. So this – you should assume that this is a level that is about where we should see it stay, but we'll update you as we get through this year.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Jamie Friedman from Susquehanna. Your line is now open.

James Friedman

Analyst, Susquehanna Financial Group LLLP

Q

This may be more of a housekeeping question, Vasant, but historically, looking at page 13 from the third quarter slides, you used to give constant dollar growth and then adjust for the foreign exchange. Now you're giving a nominal dollar growth and then calling out the foreign exchange. I'm just wondering what – philosophically is the adjustment, because that's kind of an important change in the messaging.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

I think you're reading too much into it. I think as a general rule, we've gone through all our releases and we try to lead with what is the GAAP number and follow with what's the adjusted number. So you've seen us do that almost everywhere, and you should not read too much into it really. And also, the currency impact certainly is moderating, but I wouldn't say that's the reason why it follows rather than leads. It has more to do with wanting to lead with GAAP numbers wherever we can.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Bryan Keane from Deutsche Bank. Your line is now open.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Just on the quarter, you guys had said that the results were better than expected. Just not exactly clear what drove the better-than-expected results; if you could maybe highlight some things that drove better than what you guys anticipated? And then on Visa Europe, I know it was 13 points to 14 points of contribution to revenue in the fourth quarter, at least that was the guidance. I'm just not sure or clear what that contribution will be for fiscal year 2017 in that same manner. Thanks.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

In the fourth quarter, I would say on the margin, revenue was a little better, but expenses were better and the tax rate was a little bit better. So in aggregate, it was a little better than we expected. As far as next year goes – and now Visa Europe is an integral part of our business. We tend not to – we do not separate out our regions. So you would – so we would report everything on an aggregated basis and not separate out Visa Europe. It becomes more and more integrated in, and – it's best to sort of look at it on an aggregate basis. But we've given you enough so that you will get a good sense of what Visa Europe contributed, and as you model next year, I think it will give you a good sense of what Visa Europe will contribute to next year.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Tom McCrohan from CLSA. Your line is now open.

Thomas McCrohan

Analyst, CLSA Americas LLC

Q

Hi, thank you. Can you just give us the progress of the number of the Visa European banks that you still need to finalize in terms of moving into an incentive structure? Thanks.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

It's an active process. It's well underway. We're happy with the progress. There's a well-choreographed process, which talks to a large number of issuers. So I don't know if there's much more than that we would say at this point.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Craig Maurer from Autonomous. Your line is now open.

Craig Jared Maurer

Analyst, Autonomous Research US LP

Q

Hi, thanks. Wow, it sounds like China is trailing expectations in terms of when you can get up and running. Could you comment on Mexico and when you think Mexico could be accretive to numbers? Thanks.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

Let me just start with China for a second. I've said this, I think, over and over and over again. And so this will be the last chance I'll get to say it, which is China is a very important opportunity for us. It's something that we spend a lot of time on and we take very seriously. But it's a long-term opportunity. And long-term is not measured in months or even single-digits numbers of years. So the work and our thought process that we have going on with China does not demand that we're allowed market entry at any specific date. We've said we're committed for the long-term. We don't expect it to be a meaningfully different contributor to the revenue growth or the profits of the company in the shorter period of time because there's a lot that's out of our control. And so as we sit here today, as we think about our forecasting over the next bunch of years, we don't rely on China when we think about the opportunities for us to continue to grow the company. At some point, we do believe that they will pan out but, again, that's a longer-term opportunity rather than a shorter-term opportunity.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

There's really not much to say about Mexico. I mean that is an ongoing discussion we're having. And over time, if there are new developments...

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

I'm not sure what the question is on Mexico.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

I presume about processing transactions.

Craig Jared Maurer

Analyst, Autonomous Research US LP

Q

Yeah.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

Yeah. So that one's client-by-client, and we have some good discussions going on where it's up to us to talk about the benefits that clients get when we process transactions. And when there's something to talk about relative to movement in the marketplace, I'm sure Vasant, you'll do it.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Jason Kupferberg from Jefferies. Your line is now open.

Jason Alan Kupferberg

Analyst, Jefferies LLC

Q

Hey, guys. So just on cross-border, it was great to see us get back to double-digit growth organic. And I know there's a bunch of moving parts for fiscal 2017 in that regard. But are you expecting double-digit growth to continue through 2017 as part of your guidance? And then just a quick housekeeping separate from that. Can you tell us what percent of your European volumes are from UK?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

What percent of our European volumes are from the UK? Yeah. If I remember right, I think it was – from a revenue standpoint, we've told you that revenues from the UK were a little above 10%. So that gives you a rough idea. In terms of our cross-border business, what we saw in the fourth quarter, as we mentioned, was a nice recovery in the U.S. acquired business. We also saw quite a bit of growth in the acquired business in the UK from the weakness of the pound. We saw improvement in the acquired business in places like Mexico mostly benefiting from the U.S. Those are some of the big growth spots. The good news, though, was from an issuing standpoint, we saw growth in a lot of places. We saw growth coming out of Brazil, out of Russia, out of many of the commodity and oil-based economies, Middle East and parts of Asia also improving and China beginning to stabilize. So our expectation going forward is not for a significant change from these trends. You should assume we're hoping that these trends stay roughly about the same.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, please?

Operator: Thank you. Our next question is from Glenn Greene from Oppenheimer. Your line is now open.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Glenn? If you're talking, you're on mute. Glenn?

Glenn Greene

Analyst, Oppenheimer & Co., Inc. (Broker)

Q

Hey guys, can you hear me?

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

Yes, Glenn. There we go.

Glenn Greene

Analyst, Oppenheimer & Co., Inc. (Broker)

Q

Okay, sorry about that. A couple of number clarifications, maybe for Vasant. The first one, could you give us what the constant currency volume growth in Europe was? And then of the – the question would be also of the percentage of European transactions that are processed, meaning included in the Visa process transactions. And then, if I heard right, I just want to clarify that you're expecting mid-teen decline in Europe volume because of the co-badging issue?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Let me talk a little bit about that. I believe the – I think we reported this. I think we had most people report their co-badge volumes in the fourth quarter. So the fourth quarter number ended up being relatively untainted by lack of reporting, and I think the payment volumes, if I remember right, were somewhere in the 6% range.

So as you can see, they are lower than what we see in other parts of the world, in terms of growth rates. As you look at next year, the issue on co-badge volumes is that there are a certain number of issuers that have co-badge cards with us who are no longer required to report their co-badge volumes and transactions we do not process. The biggest impact is in France, and there's some impact in some Scandinavian countries. If they don't all report, which is what we expect, we expect that they will all not report, then payment volumes will decline next year, we said as much as 15% to 20%. So remember, I mean, if it's plus 6% and minus 20%, that's a delta of almost 25% or 26%.

Plus, as you know in the first three quarters, Visa Europe payment volumes will show up as all incremental to our payment volume and will have this impact on it. So you will see a fair amount of distortion in payment volume reporting as a result of this. Now, the lack of payment volume reporting and its revenue impacts we've factored into our outlook. So that is all factored into what we told you our revenue picture is next year. But the payment volumes will look odd. Although we report by region, so at least you'll be able to see what it is by region and be able to look at how everybody else is doing, and Europe will just look odd.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, Laura.

Operator: Thank you. Our next question is from Lisa Ellis from Bernstein. Your line is now open.

Lisa D. Ellis

Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi, Charlie. As you're closing out your tenure with Visa, unfortunately for all of us, could you just do a brief kind of look back over some of the major pieces of Visa's strategy over your tenure? Particularly around the merchant side, just putting that in context of your announcement around the Visa Ad Measurement capabilities. And then also on the B2B side with the call-outs related to Visa Direct, and then the recent announcement with Chain around B2B Connect, and just how you see the progress in some of those major pieces of your strategy over the last couple of years?

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

Listen, first of all, I think – and I really do believe this, which is it's – and I said this when we did the call last week, which is, I mean you all know as well as I do that companies like this are not dependent on any one person, right? There are 13,000 other people here that are going to continue doing what they've done the day after I go, and with a leader like Al [Kelly], I would assume, will do it as well, if not better. And so as we think about what we've done over the past four years, or even what this company has done since it's gone public, it's based upon what an entire management team has done. I think that what I feel very good about when I think about the things that we've done, I think you brought up the work on – that we have really – I would describe as, we've really begun to do with merchants is an important part of the way we think about what we do. We are not trying to do work for

merchants in lieu of any other client or any other partner, but just recognizing that everyone participates in the payments value chain should get access to the capabilities that we have.

And so someone asked me last week if I were them, how would they evaluate how we're doing at making progress with merchants, and my answer was, I would look to see that we're continuing quarter after quarter, year after year, to introduce solutions in the marketplace, which help merchants grow their business, and then try and derive some kind of understanding of what the adoption looks like for those products. And don't be confused by the couple of merchants that are always going to be unhappy, that are always going to be doing things in the marketplace. The merchant world is very fragmented across the world. We've got some very, very strong relationships, and we've got a bunch of relationships where those merchants are sitting there very eager to work with us on the solutions that we're developing.

And then I think just not because I don't want to take up the whole call with the question, I do think just when I think about the way we thought about innovation here and the way we thought about our work in digital commerce, I think the whole organization has just made tremendous progress. We don't talk about – let me say it differently. We don't use the word innovation around here anymore because it becomes part of the way people think about doing their business. We're rooted in supporting our client base and supporting the four-party model, but we are very focused on being as successful and having our clients be successful in the digital world. And whether it's the work of the Dev Center, the APIs that we've made available, all of the things that we've done that position us well in the world of digital commerce, including Visa Checkout, those are all part of those things.

So everything we do is about continuing to be strong in the physical world but recognizing that we needed to think very differently in the digital world. There's a tremendous amount more to do, so I don't want to – and I don't think about this as if we've done it and it's time for me to move on. I think we've done an awful lot. But I'm confident that those activities and the way people think is the way the organization thinks.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Thank you. Next question, Laura.

A

Operator: Thank you. Our next question is from Darrin Peller from Barclays. Your line is now open.

Darrin Peller

Analyst, Barclays Capital, Inc.

Thanks, guys. Just a quick follow-up on incentives. I know you ran at about 18.9% in Q4, guidance around 21% at the midpoint. I guess I thought you already included – you were at a run rate of including Costco and USAA incentives already along with Visa Europe. The vast majority of it was already kind of the run rate in the past quarter.

And then quickly on expenses, you're saying mid-single digit growth. I know you just did – again, you did low single digit growth in the year. You seem to have been able to accomplish all your investment needs under that rate. I guess if you could, just explain why we need to reaccelerate. Thanks, guys.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

I think mid-single digits has been our historic. And by the way, that's the expense growth for let's call it core Visa ex-Europe, the expense base you've been used to looking at. And if you look at the history, we have typically run

A

mid-single digits. We are continuing to invest in all the programs we want to invest in. What we did this year was to prioritize around all the other things. As you look at next year, the run rate returns to what has been more of a long-term trend. The level of investment remains as steady as it has been, and we'll continue to drive productivity. Some of the charge we took is a reflection of that. So that was in terms of the expense growth rate. So it really is a return back to what has been a very long-term trend, into level of investment we need to keep the business focused on all the right things. The other part of the question I may have forgotten, on the other one.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

Incentives.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

On incentives, we didn't have the impact of Visa Europe in the fourth quarter to the extent that you have it next year because in the fourth quarter, the rebates were still in place. We eliminated the rebates only as of the end of September. And then also quarter-by-quarter impacts, Visa Europe brand are relatively higher level of incentives in the first half of the year, somewhat lower in the second half if you look to the filings we had done. So the full impact of Europe was really not as visible in the fourth quarter because the rebates to client incentive shift was not in place in the fourth quarter.

Costco, we had some of their incentives in this year, but clearly it's a full year of Costco, so you see the full impact. Plus, there's a whole bunch of renewals that I talked about that really start flowing into next year, mostly the ones we did in Asia. So it's all these all together.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Next question, please.

Operator: Thank you. Our next question is from Andrew Jeffrey from SunTrust. Your line is now open.

Andrew Jeffrey

Analyst, SunTrust RobinsonHumphrey, Inc.

Thanks. I appreciate taking the call, Charlie. It's been a pleasure. A big picture question, you've touched on it recently with your blockchain B2B announcement, but this is a big market. Your primary competitor has made a pretty aggressive move into B2B and hedged that maybe a little bit with the VocaLink acquisition. I wonder if you can just think about the way that market evolves in your mind, ACH versus cards and what the tradeoffs might be and what the opportunity is for Visa.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

Sure. Listen, I think what's important is that there is this – and I'll describe it as really a government sponsored, whether it's official or not, push towards faster payments. And so when I think about ACH and we think about what's going on, I think that is the predominant driver because certainly the ACH system here and others around the world haven't been able to provide the same kind of level of service as you get from other products or other networks. And so when we think about what it means for us, we know the capabilities that we have. When we think about what we've done and the way we've positioned ourselves with Visa Direct and getting access on a

push payments basis to 3 billion cards across the world, we feel really good about the position that we have with those capabilities.

It doesn't mean that that's all we're thinking about and all that we're doing, and you've seen us do some work, as you mentioned, in the blockchain space, thinking more about, where are payments inefficient. And for what we do in our traditional consumer-to-business world, that's not a problem that needs to get solved today in terms of what blockchain can do. But certainly in the commercial space, it's a very, very inefficient market, and there are opportunities to use different technologies to bring some efficiency there. So the things that we're doing, they are around doing things to improve something that exists and for the core business of what we do today between consumers and merchants – and it will be through consumers-to-consumers in terms of using our push payment capabilities, it's leveraging the core assets that we have that work really well that have access to these 3 billion cards across the world.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Next question, Laura?

Operator: Thank you. Our next question is from Chris Donat from Sandler O'Neill. Your line is now open.

Christopher Roy Donat

Analyst, Sandler O'Neill & Partners LP

Good afternoon, thanks for taking my question. Vasant, I just wanted to look one more time at the incentive as a percent of gross revenue. In the past few years, Visa has given us this range as basically with 100 basis points just like you've done today. I'm just trying to make sure that I understand. Does this reflect that there's confidence there? And what are the swing factors in that range between 20.5% and 21.5%? Is it mostly Europe, or do you have a lot of puts and takes in renewals?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

No. As always, you give a range because there are some things you know. The things you know are the deals that have already been done and what their impact might be based on the assumptions you're making on the revenue side, and as the revenues play out as you expect, then you get the incentives coming in as you expect. The variability comes from things that are potential renewals during the year or things you have to do along the way because something happens that you didn't expect. So those would be the things that take you to one end of the range or the other.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

And also to keep in mind – our incentive deals aren't generally structured as a percentage of gross revenues. Every deal is structured differently. Sometimes they're tiers, sometimes things are based on volumes. They're based on lots of different things. So we make a bunch of assumptions as to what we think will play out by client in a year, and it doesn't always play out that way by client. So a range really is the right way to think about it. And I just think the continued 100 basis point range is because we know a bunch of it has been signed, and it's just a question of how those bonds play out. But we do, as Vasant said, will sign some new deals throughout the year that will impact those numbers, and we make assumptions on what that looks like.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

And as we've said before, there's a lot of focus on incentives and trying to predict them from one quarter to another. And in the end, what really counts is net revenue. Net revenue is what we essentially keep and take to the bank, and it's net revenue growth that counts. And there's always going to be some noise in the trade-off between gross revenues and incentives, and there could be shifts from one quarter to another depending on when renewals happen. The number to focus on is net revenues, and we would keep saying that.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Next question, Laura?

Operator: Thank you. Our next question is from Don Fandetti from Citigroup. Your line is now open.

Donald Fandetti

Analyst, Citigroup Global Markets, Inc.

Q

Yes, Vasant. Now that you have closed on Visa Europe, I was just curious on your confidence level for the consolidation of the processing systems and if there's any kind of scenario where that could happen a little bit earlier and drive some earlier acceleration at the synergies?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. So far we feel very good about everything – and Charlie might want to add some more things, but we feel very good about how the integration is proceeding. So really no surprises on that front and good progress and pretty much have achieved all the things we wanted to achieve at this stage of the game. The technology integration is also off to a good start. As we told you, that is a multiyear integration. It's too early to tell you that it will be finished sooner, but our goal is to get it done as fast as we can. The gating variable there is to minimize any impact on clients, so we will pace it to ensure that the – this is as easy for clients as we can make it. So we won't rush it if it has – if it's going to have a negative impact on clients. So that will be the biggest gating variable in the end. I don't know, Charlie, if you want to add...?

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

The one thing I would add is I think, I mean, I personally have enormous confidence in the work that the technology teams on both sides of the Atlantic are doing. We know how to do these integrations. And remember, what these integrations are is, I mean, this is really in many cases what we're doing is we're taking the systems that we have at VI. We're looking at what capabilities need to be built into our systems to accommodate Europe's clients, and building them out, just as we always do on an ongoing basis, into the VI systems and do it in a way where everything works as anticipated. So we – I mean, our team is extraordinarily professional. And I personally just – I think – I just have every level of confidence that they'll do that well.

And to the timing question, I think this is one where – someone asked the question about – before about on guidance aggressive or conservative. I think this is one – we've been very clear about this, which is we could do this quicker. It's not a question of us doing the work to build out those additional capabilities. That will be done relatively quickly. The real question is what's the appropriate pace to complete these conversions along with our clients. And what we've said is that we don't intend to rush that. This is the type of thing that we have to do in a

way that fits in with things that work for clients, and I think that's just a smart way. I think you would want us to think about it that way. We'll get plenty of benefits in the next couple of years from Europe and there will be plenty more beyond that that we should do this the right way.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

With that, Laura, we have time for one last question.

Operator: Thank you. Our last question is from Chris Brendler from Stifel. Your line is now open.

Christopher Brendler

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi, thanks. Thanks for squeezing me in, and best of luck, Charlie. We're sorry to see you go. I just wanted to ask a question on EMV. Now that we're a little over a year in, do you feel like it's been a little bit of a messy process in some ways, but do you feel like we've gotten to a point where EMV is gaining traction? And if you can add any color commentary on the rule changes relative to chargebacks and the \$25 limit and how much that's improved the merchant experience with EMV, that would be helpful. Thank you.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

A

Listen, I don't have a lot more to say from what we've said on EMV. I meant to just give you the update on the numbers in terms of almost 65% of the credit cards and 45% of the debit cards, 1.6 million merchants, which is about 40%, are accepting them. I think it's a lot of work, for sure. It's progressing along a timeframe which is faster than we've seen in any other part of the world when they have moved from mag stripe to chip. We've said this I think last quarter or the quarter before. Today it's the largest chip card market in the world, even though we still have a long way to go. And you see the meaningful impacts on the reduction in fraud when chip-on-chip exists.

So there's no question that as difficult as it is that it's the right thing to do. And it will just take a period of time as these tails continue to complete the conversions. And while we continue to complete the EMV rollouts in the U.S., I can assure you that we are working really diligently, as are – well, let's say we're doing this in partnership with everyone including acquirers, issuers, merchants, everyone in the ecosystem just to think through what's next, which is certainly looking at the online world but also continuing to look at encryption and new ways of authentication in the physical world.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

And with that, we want to thank you all for joining us today. And if you have any follow-up questions, feel free to call Investor Relations.

Charles W. Scharf

Chief Executive Officer & Director, Visa, Inc.

Thanks, everyone.

Operator: That concludes today's conference. Thank you all for participating. You may now disconnect.

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