

# FINAL TRANSCRIPT

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## V - Q4 2009 Visa Inc. Earnings Conference Call

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*Visa Inc. - Head of Global IR*

**Joe Saunders**  
*Visa Inc. - Chairman, CEO*

**Byron Pollitt**  
*Visa Inc. - CFO*

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*UBS - Analyst*

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**David Hochstim**  
*Buckingham Research - Analyst*

**Tien-Tsin Huang**  
*JPMorgan - Analyst*

**Tom McCrohan**  
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*Piper Jaffray - Analyst*

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## PRESENTATION

### Operator

Welcome to Visa, Inc.'s fiscal fourth quarter 2009 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.



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**Jack Carsky** - Visa Inc. - Head of Global IR

Thank you. Good afternoon and welcome to Visa, Inc.'s fiscal fourth quarter and full year 2009 earnings conference call. With us today are Joe Saunders, Visa's Chairman and Chief Executive Officer, and Byron Pollitt, Chief Financial Officer.

This call is currently being webcast over the Internet and can be accessed on the Investor Relations section of our website at [investor.visa.com](http://investor.visa.com). A replay of the webcast will also be archived on our site for 30 days. A PowerPoint deck containing highlights of today's commentary was posted to our website prior this call. Let me remind you this presentation may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. By their nature, forward-looking statements are not guarantees of future performance, and as a result of a variety of factors, actual results could differ materially from such statements. Additional information concerning those factors is available in the Company's filings with the SEC which can be accessed through the SEC's website in the Investor Relations section of the Visa website. For historical non-GAAP pro forma related financial information disclosed in this call the related GAAP measures and other information required by Regulation G of the SEC are available in the financial and statistical summary accompanying our fiscal fourth quarter earnings press release. This release can also be accessed through the Investor Relations section of our website. For that I'll turn the call over to Joe.

**Joe Saunders** - Visa Inc. - Chairman, CEO

Thanks, Jack, and thank you, all, for joining us. I'm pleased to report the fiscal fourth quarter results were once again consistent with the guidance and expectations we provided during our last earnings call. Several metrics even exceeded our expectations. While the US and the rest of world are still picking themselves up from the economic storm of the past year, we are beginning to see some very early signs of stabilization and some positive trends in aggregate (inaudible).

Earnings for the fourth quarter on an adjusted basis were \$0.74 per diluted share. For all of 2009 adjusted earnings were \$3.23, and were positively impacted by the sale of our nearly 10% equity ownership in VisaNet Brazil last quarter. On our adjusted pro forma basis that excludes this gain Visa earned \$2.92 per diluted share, a 30% increase over 2008, and well above our stated earnings goal. Net operating revenues in the fourth quarter were almost \$1.9 billion, a 10% increase over the year-ago period and above our guidance of mid-single-digit growth due to the better than expected process transaction growth, cross-border volumes, and our previously announced pricing modification on domestic process transactions.

Net operating revenues for fiscal 2009 were \$6.9 billion. A 10% increase over 2008 and moderately higher than we had reforecast earlier this year. Our adjusted operating margin was 49% for the fourth quarter, modestly dilutive due to the reorganization charges and marketing investments related to creative development for the Olympics, FIFA World Cup and our recently announced Courtesy of Progress campaign. Full year 2009 our adjusted operating margin was 53% consistent with our guidance of low 50s. For fiscal 2010, we are increasing our margin guidance to the mid 50% range. Byron will speak to this further momentarily.

Adjusted fourth quarter income was \$552 million, a 23% increase over the year-ago period. For the full fiscal year 2009 adjusted net income was \$2.4 billion. Excluding VisaNet Brazil, pro forma adjusted net income was \$2.2 billion representing a 26% increase over the adjusted 2008 period.

I will let Byron get into the specifics on payment volume trends but in general we're beginning to see some very early signs of improvement domestically and internationally. While we cannot predict the ultimate speed or size of the economic recovery, or if the flu pandemic will have any meaningful attempt on cross-border volumes. We are feeling more positive about trends for the first time in a long while.

Another clear sign of progress is in the process transactions. For the September quarter we reported processing 10.5 billion transactions, a 90% increase over the prior year period as the migration to electronic payments continues on a global basis. Just in the month of September, the growth rate expanded to 10%, and that has been the trend through the 18th of October. From a marketing and advertising perspective, we have made immeasurable strides over the past year founded on an ROI-based



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analysis of our marketing spend. We began and will continue to move away from brand advertising towards more specific product line initiatives like debit, affluent credit, prepaid, and mobile. We are devoting more of our marketing dollars to the digital space globally and we are focusing more of our spending on key growth markets like Brazil, Russia, and the GSEC. We expect to maintain a similar or slightly elevated level of marketing spend in 2010 over that of 2009, given the importance of staying ahead of the curve as key economies across the globe begin to rebound.

All in all, our financial performance in fiscal 2009 was solid. Especially given the economic environment we're operating in. We delivered on all of our financial goals and even exceeded them in several metrics while investing in all of our growth initiatives and executing very effectively on our efficiency program. This led to record free cash flow in fiscal 2009 of \$3.3 billion, inclusive of the VisaNet Brazil sale which allowed us to return over \$2.1 billion of excess cash to our shareholders over the course of the year.

In this same vein, last week we announced an increase to our annual dividend of 19% and today announced the authorization of a share repurchase program totaling \$1 billion. We are extremely pleased that Visa is able to continue to build on our success in driving total return to our shareholders and today's buyback announcement and the recent dividend increase are evidence of our continued commitment to our shareholders in 2010.

In addition to the mid-50s operating margins mentioned earlier as we look ahead to fiscal 2010, we are increasingly confident that we can regain the low end of our 11 to 15% annual net growth target and deliver another year of better than 20% adjusted EPS growth. We are also establishing a similar EPS growth target for 2011. We believe that we have positioned areas of our business to take full advantage of the economic rebound as it materializes. We will provide additional information around our future expectations in early March that what will be our inaugural investor day.

From an investment standpoint, we have identified those opportunities that will result in the greatest return on investment over the near term and will continue to be a critical part of our longer term growth both domestically and globally. These include acceptance, debit and prepaid, global processing, and, of course, enhancing our presence on the Internet. I will speak to these further at the end of the call. We've continued to make good progress in Washington and believe that the interchange debate increasingly is viewed as a business to business issue that it is, not the consumer issue the merchants lobby has attempted to portray it is.

We are focusing our resources on educating the proper constituencies to the facts in the debate rather than allow rhetoric and misinformation frame the discussion and to that end, we look forward to the completion of the GAO study later this year.

In concert with our Washington efforts earlier this month we launched a marketing program designed to better define Visa's role as a payments network and articulate the powerful ways that digital currency advances economic empowerment and business efficiencies globally. Titled the Currency of Progress, the initiative uses real-life stories to demonstrate how the migration from cash and checks to electronic payments has helped individuals access their money more securely and conveniently, built stronger, more efficient businesses and enabled governments to be more cost effective and responsive to their citizens. The reliability and speed of Visa digital currency is often taken for granted, and not enough people understand that Visa is a global payments technology Company that enables financial institutions and merchants to deliver the value of electronic payments to the world.

Finally, earlier today we issued a press release announcing the renewal of our sponsorship of the Olympic Games for an additional eight years through 2020. This contract renewal is a testament to our long history of working relationship with the International Olympic Committee and really speaks to the global nature and reach of Visa's business. We also recently re-signed our sponsorship of the NFL through 2014 and along with our sponsorship of the if FIFA World Cup these three premier properties keep the Visa brand and promise get front and center to global audiences..

With that let me turn the call over the Byron who will take you through details of the financial results, then I will be back to share my views for the coming year.



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**Byron Pollitt - Visa Inc. - CFO**

Thank you, Joe. Let me begin with the financial highlights for our fiscal fourth quarter and full year 2009. Then I will touch on payment volume trends we are seeing for the September quarter as well as some early volume and transaction results for October. As Joe previously mentioned, it was another solid quarter with better than expected revenue growth and earnings growth in line with our guidance. As you may recall, service revenue for the September quarter is based on payment volume realized during the June quarter. Accordingly, total payment volume growth for Visa, Inc. through the end of June, in nominal dollars, was a negative 2% over the same quarter in 2008, an improvement over the negative 5% reported in the March quarter. On a constant dollar basis, payment volume grew a positive 2% in the June quarter, unchanged from the March period.

In the US, payment volume in the June quarter was a negative 3% over the prior year, unchanged from the March period. Debit delivered a positive 5% growth while credit growth was a negative 10%. Both unchanged from the March quarter. Debit payment volume continues to account for an ever greater percentage of total US volume. Although credit remains the prevailing choice in the rest of our region.

On a constant dollar basis, rest of world payment volume grew at 8% in the June quarter, moderating from the 10% growth exhibited in the March quarter but still solidly positive. A continuing recognition of the secular resiliency of plastic in many emerging and developing economies. Cross-border volume growth remained negative in the June quarter, posting an 8% decline on a constant dollar basis over the prior year period. This represented a moderate decline from the negative 6% reported in the March period. As in the previous quarters, the slowdown remained broad based. Transactions processed over Visa's network which are reported on a real-time basis totaled \$10.5 billion in the fiscal fourth quarter, an increase of 9% over the similar period a year ago, and up slightly from the 8% growth rate we saw in the June quarter. An encouraging sign.

Turning to the income statement, in our fiscal fourth quarter, gross revenues of \$2.2 billion were up 10% from a similar period in 2008. Volume and support incentives as a percentage of gross revenues came in at 15%, down from the third quarter's elevated level of 17%. For fiscal 2009, gross revenues were \$8.1 billion, up 10% over fiscal 2008. Volume and support incentives rose only 6% as a result of the lower payment volume we experienced over the course of the period. Volume and support incentives represented 15% of gross revenue for the year. Based on our expectation for increased volumes and revenue in 2010, we are expecting volume and support incentives to increase modestly to the 16 to 17% range of gross revenue.

Net operating revenues in the quarter were almost \$1.9 billion, a 10% increase over the operating revenues reported for the fourth fiscal quarter of 2008. This was ahead of the revenue guidance we provided last quarter due to better than anticipated process transaction growth and cross-border volume as well as previously disclosed pricing action. As noted earlier, full fiscal year net operating revenues were \$6.9 billion, a 10% increase over 2008, and a little above our expectations.

Moving to the individual revenue line items for the fourth quarter, service revenue was \$808 million, up 3% over the prior year period, and reflective of still relatively depressed payment volumes in all regions for the quarter ending June. Data processing revenue reported on a current quarter basis was \$727 million, up 33% over the prior year period based on strong process transaction growth of 9% and the effects of recently announced pricing action. International transaction revenues also reported on a current quarter basis were down 1% to \$507 million due to moderating cross border volumes in the period. Our adjusted operating margin was 49%, slightly below our quarter guidance of low 50s. For the entire fiscal year, the adjusted operating margin was 53%, in line with our yearly guidance. I will provide additional color on our future margin expectations in a moment. On an adjusted basis, total operating expenses for the fourth quarter were \$960 million, an increase of \$17 million or 2% year-over-year primarily driven by higher personnel costs. For all of 2009, adjusted total operating expenses were \$3.2 billion, a 4% decline from the level at fiscal 2008. While our focus on efficiency gains will continue into 2010, our expectation is that with the major restructuring initiatives behind us, expenses for the coming year will generally be flat to those of 2009.

On a sequential quarter basis, we saw higher expenses in several line items, including personnel and marketing. The higher personnel spend was primarily due to reorganization charges, as well as some incentive based costs that we do not expect to



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recur on a go-forward basis. Marketing costs were sequentially higher as we continued to support our Internet advertising initiative, our GO advertising campaign, and the currency of progress initiative. Additionally, we incurred creative and production costs associated with the upcoming Winter Olympics and FIFA World Cup. Overall in 2010 we anticipate spending less than \$1 billion on marketing and advertising. In aggregate, our total expenses in the first fiscal quarter of 2010 should look more like the third quarter of fiscal 2009 rather than the fourth fiscal quarter.

Capital expenditures were \$101 million in the quarter, which substantially completes the spending on our new data center that is now completely on-line. For all of fiscal 2009, capital expenditures were \$306 million, at the time low end of our expectations going into the year. For fiscal 2010, we expect capital expenditures to be in a range of 200 million to \$250 million. Having fully brought the new data center on-line, we will be realizing a higher level of depreciation and amortization in 2010 and beyond. As a point of reference, we expect that depreciation and amortization will incrementally rise by approximately \$30 million for all of fiscal 2010.

Moving on to the balance sheet, we ended the fourth quarter and the year in very strong shape with negligible debt and cash, cash equivalents, investments and restricted cash of \$6.6 billion. Of this total, \$1.7 billion is restricted cash which represents amounts sufficient to fully pay out the American Express settlement with another \$1 billion that is currently uncommitted. During the fourth quarter, we made the final Discover payment under the terms of our settlement.

As we discussed in our last earnings call on July 1, we began the process of unlocking up to 30% of the outstanding class C share holding, which will help alleviate some of the share overhang as we approach the ultimate unlock date of March 25, 2011. The results of this action exceeded our expectation with 89% of the potential shares unlocked by September 30, and more than half of those shares converted into class-A shares. Now let me comment on the trends we saw through the end of September and through the first three weeks of October.

On a real-time basis, US payment volume growth showed some positive signs of life during the September quarter with the overall growth rate coming in at a negative 1%, a solid improvement from the negative 3% of the June quarter. The individual month of September came in at a positive 1%. The first positive growth in a year, which was due in partly to the late vans the Labor Day holiday weekend versus the prior year. More recently, through the 21st of October, aggregate US payment volume growth was a positive 3%. We are also seeing the benefit of receiving head winds in the year-over-year gasoline comparables, which will continue to unfold as we move through our first fiscal quarter of 2010. While we draw some encouragement from this data, it is still not enough for us to call an inflection point in the US economy.

Deconstructing the US payment volume results on a real-time basis, credit volume growth ended the September quarter at a negative 9%, a slight improvement from the negative 10% posted in the June quarter. For the individual month of September, credit payment volume improved to a negative 7% rate and through 21, of October, improved to a negative 4%. Debit payment volume growth ended the September quarter in positive territory posting a 7% gain, up from 5% in the June quarter. The month of September improved to a positive 9%, and through October 21, has improved further to a positive 11%. Again, very encouraging trends, but too early to call an inflection point.

On a real-time basis, cross-border volume growth also showed some signs of improvement in the September quarter, with payment volume on a constant dollar basis moving from June's 8% decline to a negative 5% decline. Through the 21st of October, this improved further to a negative 2%. The improvement was led by North America. We have seen improvement on a nominal basis, as the dollar has weakened recently in key geographies. September's monthly rate on a nominal basis was a negative 3%, an improvement from the negative 15% reported in the June quarter, through October 21st, this has improved further to a positive 3% level of growth. As we have repeatedly stated, this is an encouraging trend, butts still too early to call an inflection point.

To give some context to the foreign exchange impacts on revenue in fiscal 2009, we believe that unfavorable foreign exchange rates reduced gross revenue growth by about 3 percentage points. Our expectation for 2010 is for a relatively neutral impact to revenue growth, given our hedging activity. Processed transaction growth ended the September quarter at 9%, an improvement



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over the 8% we reported in the January quarter. In the month of September, that rate was a positive 10%. October to date has maintained that same level of growth and continues to be a barometer of the strength and resilience of plastic.

Now let me comment on our expectations over the coming fiscal year for operating performance and the resulting impact on our guidance. As Joe mentioned earlier, we are increasingly comfortable with achieving the low end of our 11 to 15% net revenue growth target in 2010, and delivering better than 20% earnings per share growth in 2010, excluding the VisaNet Brazil gain in 2009. We are establishing a 2011 earnings per share growth goal of better than 20%, and we will provide additional color at our March investor meeting. We expect our full-year 2010 operating margin to be in the mid-50s, up slightly from the low 50s we achieved this year. Given economic uncertainties, it is always possible that we could see an individual quarter where the margin dips to the low 50s percent.

Our projection for free cash flow poor the year is north of \$2 billion, which is net of the \$682 million prepayment we made this month on the previously settled retailers litigation. We expect our 2010 tax rate to be in a range of 38 to 39%. Finally, on a go forward basis, we will no longer use the adjusted format for our earnings releases, and instead will rely on GAAP results. We will, of course, call out material one-time items or other extraordinary events. With our IPO now six quarters behind us, we feel that the original objective of reporting on an adjusted basis has now been met. That concludes my comments. So I will turn the call back over to Joe.

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**Joe Saunders** - Visa Inc. - Chairman, CEO

Thanks, Byron. Before we move on to Q&A, I wanted to provide a brief update on some of the opportunities we are focused on as we move into 2010. We will be providing more in-depth detail at our inaugural investor day this March. We've talked a lot about these in the recent past, and we remain excited about the near-term contribution of each of them. As I mentioned earlier, these include acceptance, debit and prepaid, global processing, and, of course, enhancing our presence on the Internet.

With acceptance, we have identified four strategic objectives which include expanding merchant acceptance, optimizing the performance of all Visa's products at the point of sale, increasing the Visa share of total sales with merchants, and finally, building sustainable partnerships with our clients through programs like cobranding.

Both domestically and internationally we will continue to expand the cat growers spend on plastic, both debit and credit, as well as better penetrate existing successful categories. In the US, that means focusing on key growth channels like transportation and bill pay and micro payment categories such as vending. In the rest of the world, we are focused on replicating the early category successes we had here in the US in grocery, QSRs, fuel, and bill pay. We've talked a lot about debit more specifically prepaid, and continue to make a lot of progress on both fronts as some of the metrics we have spoken to in this call will attest. Our overall global debit strategy is built on expanding acceptance in everyday segments, encouraging use of the debit card at the point of sale, demonstrating acceptance benefits to merchants, improving the consumer awareness of debit via advertising, and protecting and growing our issuance. As far as prepaid is concerned, we view this as a product platform on which we will focus on specific segments to fuel continued growth.

The key categories remain government disbursement, employee benefits, incentives and rebates, healthcare, and payroll. The keys to continued success in this space are expanding penetration, which is quite good in the US, but much more nascent internationally, creating consumer preference, and most importantly, improving performance. While many of the issuance programs currently in place generate millions of cards and good payment volumes, others result in issuance of cards but little volume at the point of sale in favor of cash withdrawals at ATMs. It's part and parcel of our overall debit and prepaid strategies, we are implementing programs to boost conversion rates for these programs, as we have done and are doing in the US.

In processing we continue our focus on growing our domestic network processing. Not just in the US, but more important globally. To this end we recently expanded our relationship with Wells Fargo to include a long-term debit processing agreement.





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We're also exploring expanding our ability to offer issuer and acquirer processing at key foreign markets where we believe we could accelerate our success by making investments in or working with domestic entities willing to form partnerships.

Lastly, on the Internet, we continue to make progress in developing our new e-commerce solutions. This solution called Right Click by Visa is an on-line shopping tool targeted to consumers that assists on-line shoppers by offering the ability to browse multiple merchants and select items consumers are interested in looking at in one central location, making comparison shopping easier. Auto fill capabilities that instantly populate the consumer's shipping and payment details for faster checkout and exclusive offers through Visa cardholders and the ability to solicit feedback from friends on items the user is considering buying. Finally, we're working on an aliasing capability that will make the safest way to pay on the Internet even better. We expect rolling out this feature by the summer 2010.

Extensive testing of Right Click has been completed, and we are conducting tests with users and a limited number of US-based issuers in the coming weeks. Based on user feedback, we are continuing to refine features and functionality. We expect version 1.1 of Right Click to roll out early next calendar year. With that, we're ready to take questions. Operator.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question comes from Jason Kupferberg, UBS.

### Jason Kupferberg - UBS - Analyst

We appreciate the initial look at fiscal 2011. Just a quick question and a follow-up, if I can. First of all, with regard to the fiscal '10 net revenue growth guidance, can you talk about the amount of pricing lift that's assumed in there? I recognize you're going to have the US acquirer price increase continue to help you for the first three-quarters of fiscal '10. If you can help us get an understanding of how much pricing is assumed in the low end of the 11 to 15% range that would be great.

### Byron Pollitt - Visa Inc. - CFO

This is Byron. The amount of pricing impact we would describe as modest, less than what we experienced in 2009, but a little higher than the long-term steady rate, normalized rate of one to two percentage points that we have described earlier. The particular pricing action that you mentioned was initiated at the beginning of fiscal '09's fourth quarter and will anniversary through the third quarter of fiscal year '10.

### Jason Kupferberg - UBS - Analyst

Okay. Then just a quick follow-up on volumes. Really good to hear that things seem to be turning around there, not that one month makes a trend, but nonetheless, if you put gas prices aside here, and currency, which folks know are starting to help you here in the first quarter of fiscal '10, are there certain spending categories that you guys are starting to see a little bit of a recovery in first, in terms of how it's driving some of the better year-over-year volume growth comps?

### Joe Saunders - Visa Inc. - Chairman, CEO

We would say at this point there's no call-out there, and that you have outlined the two bigger drivers that are moving the needle, the removal of FX that was head wind, and in the first fiscal quarter of 2010 we should start to see that neutral impact that we talked about during the call. And then the same phenomenon exists for gasoline prices sometime in this quarter





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potentially in the month of November we ought to be at the same average price per gas, and we should see that head wind pretty much go to neutral as well.

**Jason Kupferberg** - UBS - Analyst

Okay, thanks for the comment.

**Operator**

The next question comes from Craig Maurer with CLSA.

**Craig Maurer** - CLSA - Analyst

One comment, Joe, that you made at that time vend your remarks that caught my attention was the discussion of investing in merchant acquiring outside the market -- outside the US. As I always thought that that was a perfect fit for both the major US networks outside the US. So I was hoping you could expand on that a little bit?

**Joe Saunders** - Visa Inc. - Chairman, CEO

Well, I think I told you what we're looking at or thinking the about doing. But as it relates to specifics, I'm really -- I really don't think I can get into this at this particular point in time. The only thing that I will add is that when we -- when we, assuming that we're looking at acquiring, we're simply looking at places in the world where doing that will accelerate the distribution terminals and therefore accelerate our opportunities.

**Jason Kupferberg** - UBS - Analyst

If I could ask one follow-up. On the personnel costs, they were up quite a bit. Was that related to the opening of the data center?

**Joe Saunders** - Visa Inc. - Chairman, CEO

No. It's -- I would say that it was what we said. It was reorganizational appropriate reorganization accounting, and some one-time incentives, but we'll be back to normal in the first quarter.

**Jason Kupferberg** - UBS - Analyst

Okay, thank you.

**Operator**

The next question comes from David with Buckingham Research.

**David Hochstim** - Buckingham Research - Analyst

The next question comes from David Hochstim, Buckingham Research. Your line is open. Thanks. just wonder id you could talk about how the organizational structure has changed with John becoming President? (Inaudible). Then just on the acquirer w fee, the change in process transaction, 1.5%, sequential increase in the fee was about 20%. Is all that related to the price change?



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**Joe Saunders** - Visa Inc. - Chairman, CEO

You want to answer the second part of the question.

**Byron Pollitt** - Visa Inc. - CFO

Let me start with the transaction fees. So the way we would look at it, the transaction fee, or data processing fees for the quarter, year-over-year, were up 33%. And we would break that apart in two segments. The first is that we had very strong transaction growth of -- in the 9% range for the quarter year-over-year, and then the acquiring fee does have an amplified impact on data processing fees. So think of the balance pricing action in combination with strong transaction growth.

**David Hochstim** - Buckingham Research - Analyst

So the \$100 million sequential increase roughly over that from Q3 to Q4 is kind of -- kind of a run rate, and it is should go up as volumes go up?

**Joe Saunders** - Visa Inc. - Chairman, CEO

It directly relates to volumes. There is a mix -- no, there really isn't a mix. It directly -- it should have a strong correlation to volume, then of course we've got to let the pricing actions run their course.

**David Hochstim** - Buckingham Research - Analyst

Okay. With respect to John?

**Joe Saunders** - Visa Inc. - Chairman, CEO

John is the President. He's no longer the Chief Operating Officer because he is the President. But in reorganizing the titles more appropriate given the responsibilities he has but we won't be hiring a COO.

**David Hochstim** - Buckingham Research - Analyst

Okay, thank you.

**Operator**

The next question comes from Tien-Tsin Huang, JPMorgan. Your line is open.

**Tien-Tsin Huang** - JPMorgan - Analyst

Thanks. Can you hear me okay?

**Joe Saunders** - Visa Inc. - Chairman, CEO

Yes.

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**Tien-Tsin Huang** - JPMorgan - Analyst

Great, thanks. I guess I will ask this, the revenues came in nicely ahead of our view, the certain expense line came in a bit higher than we forecasted. Talked about personnel. I was wondering, was there any pull forward of (inaudible) spending especially in the professional an consulting fee line, and the admin and other lines? (Inaudible) looked like they stepped up a bit sequentially.

**Byron Pollitt** - Visa Inc. - CFO

The professional fees were consistent with the strategic projects that were in -- investing in -- there was an extraordinary expenditure in marketing that really wasn't -- even though our guidance suggested that the marketing spend wasn't really part of it. We accelerated the creation of the creative or the currency in progress for the Winter Olympics and to some extent for FIFA. We spent some money on creative development and marketing that we didn't necessarily intend to, or didn't guide to, I guess is a better word. And it is a relates to the personnel expenses, as I said before, there were some reorganizations and incentive expenses that were extraordinary and are now behind us.

**Tien-Tsin Huang** - JPMorgan - Analyst

Okay, so just to make sure, the flat comment on the operating expense growth is the right baseline the adjusted expense number of -- I think I see here -- I guess you hit [\$3.238 billion] in fiscal '09? Is that the right baseline?

**Byron Pollitt** - Visa Inc. - CFO

No, it is -- look at it on a -- remember, I said on the earnings call we're moving to a GAAP comparison. So from this point forward, everything should be looked at on a GAAP to GAAP basis. We are excluding any impact from Brazil. Other than that, starting with the first quarter, and this was consistent with our guidance, flat expense GAAP result year-over-year.

**Tien-Tsin Huang** - JPMorgan - Analyst

Got it. If I could sneak in one last one real quick, just the buyback. Nice to see that, what's the general philosophy for buying back stock? Thanks.

**Joe Saunders** - Visa Inc. - Chairman, CEO

Well, when you see general philosophy, the general philosophy is that we return excess cash to shareholders in the form of dividends or buyback. Can you be a little more specific, Tien-Tsin?

**Tien-Tsin Huang** - JPMorgan - Analyst

I guess I was just wondering have you utilized the buyback opportunistically or will there be some systemic approach to rebuying the shares.

**Joe Saunders** - Visa Inc. - Chairman, CEO

Yes. They will be systematically opportunistic with the emphasis on the latter. Very disciplined -- very disciplined opportunistic buy back. We'll use open market and 10b5-1s, and we have a 12-month life on program.



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**Tien-Tsin Huang** - JPMorgan - Analyst

Thanks.

**Operator**

The next question comes from Tom McCrohan, Janney Montgomery Scott, your line is open.

**Tom McCrohan** - Janney Montgomery Scott - Analyst

I have a question on volume and support. You said the guidance of 16 to 17% for fiscal 2010, what's baked into that, and regards to expectations around payment volumes -- so if volumes pick up a little above your expectations should we expect that guidance to move a little bit, i.e. go down, or how fixed is that guidance, 16 to 17?

**Joe Saunders** - Visa Inc. - Chairman, CEO

Tom, if we go back to our original IPO guidance we said we expected volume and support incentives as a percent of gross revenue to be in that 16 to 18% range. This is very consistent with how we thought about it at the time of the IPO. At that time time of the IPO we thought of incentives moving up for two reasons. One of which is, is that it is a very specific strategy of Visa to enter into more multiyear contracts with our clients. It is through a multiyear contract that you actually create incentives, because that's the quid pro quo for a more than annual commitment to the told you. More client under multiyear contracts as time progresses. Then second is as the economies be Ben to recover, as our clients' credit portfolios in particular begin to, we would expect a higher rate of incentives to be earned. As you blend those two together, our outlook that supports payment volumes that would get us into the low end of the 11 to 15% revenue growth range would get you incentives in that 16 to 17% range.

**Tom McCrohan** - Janney Montgomery Scott - Analyst

Okay.

**Joe Saunders** - Visa Inc. - Chairman, CEO

I mean, but, as you ask and as we have consistently said, to some extent of those are based on volumes. And anticipate that there will be some increase in volumes.

**Tom McCrohan** - Janney Montgomery Scott - Analyst

Fair enough. And one administrative item. Is there any plan to publish the metrics, operating metrics on kind of a real-time basis in 2010?

**Byron Pollitt** - Visa Inc. - CFO

Yes, the operational -- I'm not quite sure what you are referring to. We do regularly publish operational data that would have -- just been issued. We do it on a quarterly basis, which is reasonably extensive on debit and credit and is done on a global basis. Excludes, of course, Visa Europe which is not part of Visa Inc. is there something beyond that you're asking about?



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**Tom McCrohan** - Janney Montgomery Scott - Analyst

The operational data that's published in connection with the arrangement with Visa on a one quarter lag.

**Byron Pollitt** - Visa Inc. - CFO

We expect to address that in fiscal year '10, specifically the removal of the lag on reporting service fee revenue.

**Tom McCrohan** - Janney Montgomery Scott - Analyst

Great, thanks, Byron.

**Operator**

The next question comes from Bob Napoli, Piper Jaffray.

**Bob Napoli** - Piper Jaffray - Analyst

The marketing spend in 2010 talking about less than \$1 billion, which that's kind of what we expected, but it's still below what you spent in 2008 and 2007. Can you give a little color on? I know you have some synergies, but are you actually marketing less than you did in '07 or '08 or are you marketing more?

**Joe Saunders** - Visa Inc. - Chairman, CEO

I think the effect of what we're doing is the same effect that we had a couple years ago. It's just that we're doing it smarter. You have a lot of things going on. We have more digital advertising supported by print. We have a little less TV, particularly in the United States and frankly television rates in the United States are down. They're a little bit more expensive outside the US, but I'd say the mix between TV and print and digital and the consolidation of our marketing efforts into a single buying entity, a single, pretty much a single creative thrust, all of that put together, we're getting to the same number of people in a more effective manner.

**Bob Napoli** - Piper Jaffray - Analyst

Thanks. Any chance would you give us -- you talked about prepaid, Joe. Give us a feel for how much spending. Prepaid is all in the debit category, correct?

**Joe Saunders** - Visa Inc. - Chairman, CEO

Correct.

**Bob Napoli** - Piper Jaffray - Analyst

Can you give us any feel for size of that business?



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**Joe Saunders** - Visa Inc. - Chairman, CEO

I think that we'll be able to do a much better job about talking about prepaid and some of these other things at our investor day, so that's a good lead-in. I look forward to seeing you in March.

**Bob Napoli** - Piper Jaffray - Analyst

Okay. If I could just ask, corporate spend, any corporate in corporate spend? Last question. Thank you.

**Byron Pollitt** - Visa Inc. - CFO

Corporate--?

**Bob Napoli** - Piper Jaffray - Analyst

Corporate card.

**Byron Pollitt** - Visa Inc. - CFO

Oh, corporate card. I'm sorry. It's something that we're aggressively pursuing. And obviously we need to pursue that through financial institutions, but you'll see us more active in that market.

**Bob Napoli** - Piper Jaffray - Analyst

Thank you.

**Operator**

The next question comes from Chris Brendler, Stifel Nicolaus.

**Chris Brendler** - Stifel Nicolaus - Analyst

Good afternoon. I had one clarification real quick. Byron, the depreciation and amortization guidance up \$30, was that included in your total expense number being flattish?

**Byron Pollitt** - Visa Inc. - CFO

Yes.

**Chris Brendler** - Stifel Nicolaus - Analyst

Broader question for you, Joe. I sort of share your interchange views that you shared with us on the call. But I wanted to know, just hypothetically, do you feel like the Welsh bill and some of the restrictions around some of that rewards card and issue like that, is that more of a threat than some of the (inaudible) in your opinion?



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**Joe Saunders** - Visa Inc. - Chairman, CEO

No, not at all. I mean, that's -- may sound like the simple answer, but it's the right answer.

**Chris Brendler** - Stifel Nicolaus - Analyst

Okay. Just because of the -- explain why.

**Joe Saunders** - Visa Inc. - Chairman, CEO

It has the -- fewer people embrace it, and it has less traction than anything else that's out there, and it's starting in the place of way in back where a lot of the things began and just the history of this entire dialogue would suggest that my answer is appropriate.

**Chris Brendler** - Stifel Nicolaus - Analyst

Okay. One last one, I guess. You've mentioned the brand spending is no longer as big of a part of your marketing budget, but then you also talk about renewals was (inaudible) funds and the Olympics, can you give us an idea at all how much of your marketing budget is brand spend?

**Joe Saunders** - Visa Inc. - Chairman, CEO

I think that probably when everything is said and done it's maybe around 30%. But remember, even with the NFL, and when you see the Olympic ads, these are going to be more action oriented ads that ask people to spend. The NFL ads will have, Use your Visa card and go to the Super Bowl. The Olympic ads will have a usage component associated with them. So even these sponsorships are not going to be entirely aspirationally for (inaudible).

**Operator**

The next question comes from Moshe Orenbuch, Credit Suisse.

**Moshe Orenbuch** - Credit Suisse - Analyst

Most of my questions actually have been asked and answered but I did notice in the context of a pretty large revenue beat you did have the card service fees was actually a little below our expectation and the rate kind of as a percentage of volume was down. Partially offset I guess by less incentives. Is there anything going on there in terms of customer mix that you could highlight?

**Joe Saunders** - Visa Inc. - Chairman, CEO

Yes, in service fees, remember this is on a one quarter lag, so service fee revenues were up 3% and if you look at the payment volume growth on a constant dollar basis, it's a plus 2. And on a nominal basis, it's a minus 2. So it's a beat, but it's in the same zip code. And I would say it's a combination of pricing, adjustments and of mix shift.

**Moshe Orenbuch** - Credit Suisse - Analyst

Thanks.





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**Operator**

The next question comes from Greg Smith, Duncan Williams.

**Greg Smith** - *Duncan Williams - Analyst*

Thanks. You guys quantified in the personnel expense the \$33 million of restructuring but correct me if I'm wrong, you said in addition to that there's some one-time additional payments. If that's correct what was the actual? Can you quantify that at all?

**Joe Saunders** - *Visa Inc. - Chairman, CEO*

They're both part of the same thing. They're not additive.

**Greg Smith** - *Duncan Williams - Analyst*

That's all in the \$33 million?

**Joe Saunders** - *Visa Inc. - Chairman, CEO*

No, there is a restructuring charge that is related to activities that are tied to the merger of the five businesses that occurred back in October of 2007. This is the last quarter that we will be calling out restructuring charges and that's the \$30 some million that is below the adjusted line. In the personnel costs that are included in our adjusted results, there is -- Joe mentioned earlier, there are some reorganization costs and some incentive costs that we do not expect to reoccur and therefore, the first quarter, 2010 personnel costs should be -- or all in costs should be much closer to what you saw in Q3 as opposed to Q4.

**Greg Smith** - *Duncan Williams - Analyst*

That's clear. Can you just talk a little bit about launching debit in Canada? Do you have a specific timetable for rolling that out and is there anything you need to do from a merchant acceptance standpoint to accept Visa debit in Canada?

**Byron Pollitt** - *Visa Inc. - CFO*

Well, I mean, we are making progress in that regard, and we expect to gain traction and begin issuing cards. I'd say that the buildup of the merchant acceptance will take some time, but I believe that the die is cast and that the effort is underway, and I think over the moderate term it will be quite successful. The first cards that come out in Canada, the first debit cards, with Visa logos, which will come out in the first quarter of 2010, will be dual branded cards. And so it will carry the traditional Canadian debit logo along with the Visa logo. I think it will be a great product. I think it will be a big win, and we're excited about it.

**Greg Smith** - *Duncan Williams - Analyst*

And then just one last clarification. Going forward, Byron, you are only going to report GAAP. So, for example, the \$17 million this quarter of step up amortization, you won't be adding that back, you will just be reporting GAAP?

**Byron Pollitt** - *Visa Inc. - CFO*

Right. Yes, that's correct.



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**Greg Smith** - *Duncan Williams - Analyst*

Perfect, thank you.

**Operator**

The next question comes from Chris Mammone, Deutsche Bank. Your line is open.

**Chris Mammone** - *Deutsche Bank - Analyst*

Thanks. I guess just going back to your comments about pricing being somewhat higher than the normalized 1 or 2% contribution for fiscal '10, is that all -- is that solely related to the (inaudible) pricing or is there anything else in there contemplated, and maybe give us the timing.

**Byron Pollitt** - *Visa Inc. - CFO*

It's primarily related to the acquirer's fee that we took starting the fourth fiscal quarter 2009.

**Chris Mammone** - *Deutsche Bank - Analyst*

Okay. And I guess just as a quick follow-up, maybe from where you sit could you maybe comment on what you're seeing early on or expectations for holiday spending trends? Particularly in light of the consumer confidence numbers today.

**Byron Pollitt** - *Visa Inc. - CFO*

So to be helpful, what we've done is given you our real-time spending trends through October 21, and we will let you extrapolate from there.

**Chris Mammone** - *Deutsche Bank - Analyst*

Okay.

**Joe Saunders** - *Visa Inc. - Chairman, CEO*

That's a traditional holiday season, although there's a lot of Christmas trees around.

**Chris Mammone** - *Deutsche Bank - Analyst*

If I could just squeeze one more in then, you made some positive comments on anticipating the results of GAO. Has the GAO approached you directly for input?



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**Joe Saunders** - Visa Inc. - Chairman, CEO

Oh, absolutely. There's absolutely no question about that we've had quite a bit of communication with the GAO, which is not to say that they haven't had conversations with other people, but absolutely we've had conversations with them when they were in the midst of doing the previous study that they did, and our relationship with them is (inaudible).

**Jack Carsky** - Visa Inc. - Head of Global IR

At this point we have time for one more question.

**Operator**

The last question does come from Rick Shane, Jefferies. Your line is open.

**Rick Shane** - Jefferies & Co. - Analyst

Hey, Jack, you can give it to someone else, my questions have been asked and answered, thank you.

**Jack Carsky** - Visa Inc. - Head of Global IR

Very generous, Rick. We've got time for one more.

**Operator**

The last question does come from James Friedman, Susquehanna, your line is open.

**James Friedman** - Susquehanna - Analyst

Thanks, Jack. Thanks, Rick. I'm just trying to test the cyclical versus secular for credit versus debit. As we move through the cycle and economies potentially recover, would you expect debit will continue to grow as a percentage of transaction volume in 2010?

**Joe Saunders** - Visa Inc. - Chairman, CEO

Yes, in 2010, absolutely.

**Rick Shane** - Jefferies & Co. - Analyst

Okay.

**Joe Saunders** - Visa Inc. - Chairman, CEO

I don't think there's any question about that for a lot of reasons. Not all of them beg secular, but secular is certainly part of it.



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**James Friedman** - *Susquehanna - Analyst*

Great. That sums it up. Thank you.

**Jack Carsky** - *Visa Inc. - Head of Global IR*

And thank you all again for joining us today. If anybody has further follow-up questions, feel free to give myself or Victoria a call. Thanks.

**Operator**

Thank you for your participation in today's conference call. The call has concluded. You may go ahead and disconnect at this time.

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