

FINAL TRANSCRIPT

Thomson StreetEventsSM

V - Q3 2009 Visa Inc. Earnings Conference Call

Event Date/Time: Jul. 29. 2009 / 9:00PM GMT



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

CORPORATE PARTICIPANTS

Jack Carsky

Visa Inc. - Head of Global IR

Joseph Saunders

Visa Inc. - Chairman, CEO

Byron Pollitt

Visa Inc. - CFO

Hans Morris

Visa Inc. - President

CONFERENCE CALL PARTICIPANTS

Tien-Tsin Huang

JPMorgan - Analyst

Bruce Harting

Barclays Capital - Analyst

David Hochstim

Buckingham Research - Analyst

Julio Quinteros

Goldman Sachs - Analyst

Craig Maurer

Calyon Securities - Analyst

Dan Perlin

RBC Capital Markets - Analyst

Jason Kupferberg

UBS - Analyst

Jim Kissane

BAS-ML - Analyst

Tim Willi

Wells Fargo - Analyst

Don Fandetti

Citi - Analyst

PRESENTATION

Operator

Welcome to Visa, Inc.'s. fiscal third 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.

Jack Carsky - Visa Inc. - Head of Global IR

Thank you. Good afternoon, and welcome to Visa, Inc.'s. fiscal third quarter 2009 earnings conference call. With us today are Joe Saunders, Visa's Chairman and Chief Executive Officer; and Byron Pollitt, Visa's Chief Financial Officer. This call is currently being



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

webcast over the Internet. It can be accessed on the investor relations section of our website at www.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 to this call.

Let me also remind you that 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 and the investor relations section of the Visa website. For historical non-GAAP or pro forma related financial information disclosed in this call, related GAAP measures, and other information required by Regulation G of the SEC are available in the financial and statistical summary accompanying our fiscal third-quarter earnings press release. This release can also be accessed through the investor relations section of our website. With that, I'll turn the call over to Joe.

Joseph Saunders - Visa Inc. - Chairman, CEO

Thanks, Jack, and thank you all for joining us. To begin I'm pleased to report that our fiscal third-quarter results were once again consistent with the guidance and expectation we've provided during our second-quarter earnings call. Despite the ongoing challenges in the economy, Visa delivered a solid operational and financial performance as we continued to benefit from our diverse product set, our ongoing commitment to expense management, and, of course, the underlying worldwide secular shift from cash and checks to electronic forms of payment.

Earnings for the third quarter on an adjusted basis were \$0.98 per diluted share and were positively impacted by the sale of our 10% equity ownership in VisaNet Brazil. On an adjusted pro forma basis that excludes this gain, Visa earned \$0.67 per diluted share, a 14% increase over the year-ago period. This puts us on target toward meeting our full-year adjusted EPS guidance of better than 20% growth. Our net operating revenues in the third quarter were over \$1.6 billion. A modest increase over the year-ago period and in line with our previous guidance for low single-digit growth. Importantly we were able to achieve this result by incurring elevated volume and support incentives which were due to the successful re-signing of numerous clients during the quarter, a situation we do not expect to repeat at these levels. Our adjusted operating margin was 51% for the quarter, as we continued to benefit from our ongoing efficiency drive. Finally, adjusted third-quarter net income was \$744 million, absent the gain from the VisaNet Brazil sale, it was \$507 million, an 11% increase over the year-ago period.

Our fiscal quarter picked up pretty much where we left off in the second quarter. We've seen no signs that a sustained turnaround in the US is occurring. There are, however, positive incremental exceptions which speak to the resiliency of Visa's business model and the value Visa offers around the globe. US payment volume growth declined to a 3% negative rate in the quarter. We continue to be encouraged that since the beginning of the calendar year, payment volume growth has remained in a relatively tight range around a negative 2% to 4%. Of note in the US, the more than 30% decline in the year-over-year price of gasoline continues to make for difficult year-over-year comparables. Absent this headwind in the latest quarter, we would have seen slightly positive growth. However, we still expect this headwind to abate as we move into the first quarter of our fiscal 2010.

On the other hand, in spite of the global nature of the recession, aggregate payment volume growth in our international regions which is primarily driven by credit was positive on a constant currency basis in the March quarter and has remained positive in the high single digits through the end of June, albeit at a lower level than earlier in the year. Total transactions generating data processing fees were \$10.3 billion for the June quarter an 8% increase over the prior-year period as the migration to electronic payment continues on a global basis.

As I did last quarter, let me underscore and reiterate several important themes you should take away from our most recent quarter in this call. Our financial performance in fiscal 2009 continues to unfold consistent with our expectations and more importantly, it reflects the appropriate funding of all of our growth initiatives. We believe that we are planting the right seeds



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

in making the proper investments in the business to come out of this recession in an even stronger position than we entered it.

Our business model while not unaffected has proven resilient in the face of today's economic challenges. Transition growth led by debit has continued unabated in part driven by the secular shift of cash to checks to electronic forms of payment. Visa is also driving this global shift in spending behavior through its reliability and accessibility, product innovation, expansion of payment categories, and focused global advertising that boosts consumers to want to transact at the point of the sale with Visa products.

In fact, the early results from our "Go" campaign first rolled out in April of this year are exceeding our initial expectations in terms of increased consumer awareness and brand linkage, providing a level of optimism that the campaign is contributing to our strong debit transaction growth.

On the positive side, based on current trends, we are now anticipating a slightly better fiscal fourth quarter. We believe that the low single digit expectation we previously guided to is more likely to be in the mid-single digit range. This leaves us quite confident in achieving the high single digit revenue range for all of fiscal 2009.

Looking ahead to fiscal 2010, we continue to believe that we can regain our 11% to 15% annual net revenue growth target based on the assumptions we shared with you last quarter. The more favorable year-over-year comparison on gas prices and foreign exchange rates and the start of some recovery in the US economy and cross border volumes by early 2010. We also continue to believe that we are able to achieve our adjusted earnings per share and adjusted operating margin targets even if the revenue growth is somewhat below the guidance range.

Now let me touch on some of the recent successes we've had on the client front. As we discussed with you for several quarters now, consolidations in the banking industry have changed the landscape and market share of many of our largest customers. Given the strength of our client relationships and our products, we anticipated being a net beneficiary of this consolidation, and I can now say with certainty that we have delivered on that expectation. In our third fiscal quarter, we re-signed a significant number of long-term contracts. 11 of which collectively account for 26% of our global volume and 34% of our US volume. Some of these contracts were accelerated renewals and were precipitated by bank consolidation. With these signings, we now have no major contracts up for renewal in the next two years and have over 75% of our worldwide payment volume under contract.

We are obviously pleased about our long-term prospects and are well positioned to execute on our business objectives under various economic scenarios. We are especially grateful for our clients, for their support, and I am personally grateful to our customer sales and support teams around the world for their hard work.

And finally, with respect to our client facing teams, earlier this week I announced a new streamlined management structure to achieve greater alignment between our sales, customer support, marketing, and product development functions. By integrating these business units under a single leader, we expect to speed decision making and increase responsiveness to clients and be better positioned to monitor strategic investment opportunities. With that, let me turn the call over to Byron, who will take you through the detail of our financial results.

Byron Pollitt - Visa Inc. - CFO

Thank you, Joe. As is now our custom, let me begin with the financial highlights of our fiscal third quarter, and then I'll touch on trends we are seeing for the quarter ending in June, as well as some early results for July.

As Joe previously mentioned, it was a solid fiscal third quarter with strong revenue and earnings growth in line with our guidance in spite of higher than anticipated rebates and incentives. And of course, we benefited from the sale of our equity interest in Visa Net Brazil. Total (inaudible) volume growth for Visa, Inc. through the end of March, 2009 in nominal dollars was a negative 5% over the same quarter in 2008. On a constant dollar basis, however, volume grew 2%.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

In the US, payment volumes in the March-ending quarter declined to a negative 3% with debit delivering a solid 5% growth while credit growth was a negative 10%. Proportionally, debit payment volume continued to account for a greater percentage of total US volume, although credit still remains the payment vehicle of choice in the rest of our regions. On a constant dollar basis, rest of world payment volume grew at 10% in the March-ending quarter, moderating from the 14% growth exhibited in the December quarter, but still solidly positive. A further recognition of the secular resiliency of plastic in many emerging and developing economies.

Cross border volume growth first turned negative in the March-ending quarter, posting a 6% decline on a constant dollar basis. Through the end of the June quarter, the rate of decline moderated and ended the period at a negative 8% growth rate. As in prior quarters, the slowdown was broad based. Transactions processed over Visa's network which are reported on a real-time basis totaled \$10.3 billion in the fiscal third quarter, an increase of 8% over the similar period a year ago, and an increase from the 6% growth we saw in the previous quarter. Also, revenues from processed transactions, which currently generate approximately 30% of our gross revenue, continued to post solid growth as the underlying secular shift to Visa electronic payments continues. We also saw little variance in average ticket sizes which are down 10% from the prior year period, but on a sequential quarter basis appear to have leveled off.

Turning to the income statement. In the fiscal third quarter, gross revenues of \$2 billion were up 5% from the similar period in 2008. As Joe previously mentioned, volume and support incentives were elevated during the quarter due to the renewals of key customer contracts, several of which were accelerated due to bank consolidation. All told, volume and support incentives increased on a year-over-year basis by \$70 million to \$344 million, representing 17% of gross revenue in the period and 15% of gross revenue year to date. Given these results, we are updating our full-year expectation for volume and support incentives to be at the high end of our 14% to 16% range. We will provide our outlook for 2010 in our fourth-quarter earnings call. Net operating revenues were just over \$1.6 billion, a 2% increase over the operating revenues recorded for the third fiscal quarter of 2008 and in line with the revenue guidance we provided last quarter.

Moving to the individual revenue line items, service revenue was \$769 million, up 3% over the prior year period, and reflective of still moderating year-over-year payment volumes in all regions for the quarter ending March. Data processing revenue recorded on a current basis was \$605 million, up 12% over the prior year period as process transactions continued to post solid growth in the quarter. International transaction revenues also reported on a current quarter basis, were up 2% to \$458 million as moderating cross border volumes in the period were offset by some regional strategic pricing modifications. Our adjusted operating margin was 51% in line with our low 50s margin guidance for all of 2009. I'll provide additional color on our future margin expectation in a moment.

On an adjusted basis, operating expenses for the third quarter declined \$79 million or 9% year over year, driven by lower costs in personnel, marketing, and professional fees. Our focus on expense reduction continues to be broad based and driven by merger-related efficiencies. As expected, there was an uptick in marketing spend in the quarter on a sequential basis, and we expect to see a similar step-up in the fourth fiscal quarter. Capital expenditures were \$69 million in the quarter and included spend on our new data center which will be completely on line by the end of our fiscal year. With year to date capital expenditures running a little above \$200 million, we now foresee full-year capital expenditures at around \$300 million.

Moving on to the balance sheet. We ended the third quarter in excellent shape with negligible debt and cash, cash equivalents, investments, and restricted cash of \$6.1 billion. Of this total, \$1.6 billion is restricted cash, which represents amounts sufficient to fully pay out the American Express and Discover settlement. It also includes approximately \$300 million that is currently uncommitted which was increased to just over \$1 billion on the 16th of July in accordance with our previously announced litigation escrow funding event. As we did last December, this funding was simply another way of buying back our stock while providing the added benefit of reducing the eventual B-class overhang when the shares were ultimately unlocked. This latest repurchase will reduce our period-end outstanding share count by 11.6 million shares for the fiscal fourth quarter ending September.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

On July 1, we began the process of unlocking up to 30% of the outstanding class B share holdings which will help alleviate some of the share overhang as we approach the ultimate unlock date of March 25, 2011. Through this point in July, we have already had approximately 41% of the potentially available shares requested to be unlocked.

Now let me comment on the trends we are seeing that will impact our results in the final quarter of fiscal 2009. Specifically here in the US, payment volume growth improved slightly from a negative 3% growth rate in the March quarter to a negative 2% growth in the June-ending quarter. Deconstructing this further, credit volume growth ended the period at a negative 10% while debit volume growth continued in positive territory posting a 5% gain. More recently, through the 26th of July, aggregate US payment volume growth was a negative 3%. Credit growth continues at a negative 10%, while debit growth is a positive 4% July month to date. While we still see no signs of a true inflection point, these trends are encouraging. Furthermore they are consistent with the performance we have seen over the past six months suggesting some level of stability.

Outside the US for the quarter ending June, 2009, we expect constant dollar payment volume growth rates to be solidly positive but to have declined modestly from their levels at the end of March. As mentioned earlier, cross-border volumes in constant dollars were down a negative 6% in the March-ending quarter, and in the June quarter have declined to negative 8%. Month to date in July, the rate of decline has improved slightly to a negative 7%. More importantly, the velocity of the downturn has slowed, which is encouraging, but it is still too early to call an inflection point. Process transaction growth ended the June period at 8%, while month to date in July it has increased to 9%. This metric continues to be a testament to the strength and resilience of debit as a greater percentage of process transactions are debit based.

Now let me comment on what we see over the coming quarter as far as operating performance is concerned and how it affects our guidance. Based on our fiscal third quarter results and improved fourth-quarter outlook, we now believe fourth-quarter revenue growth is more likely to be in the mid-single digit range, and we are confident in delivering net revenue growth in the high single digits for 2009. And as Joe mentioned, this outlook encompasses a continued negative foreign exchange impact which on a year-over-year basis impacted revenue growth by about 5 percentage points in the third quarter and will likely be in the 4% to 5% range in the fourth quarter.

Given the strong adjusted operating margin exhibited this quarter and our current outlook for 2010, we are adjusting up our 2010 guidance to the low 50% range from the prior range of high 40's to low 50's. Given the uncertain economy, it is always possible that we could see a quarter where the margin dips below 50%, but on a fiscal year basis we are comfortable with the low 50's. Finally, and most importantly as Joe said, we remain on track to deliver 2009 adjusted earning per share growth of greater than 20%. And looking to fiscal 2010, we remain unchanged in our view that given a scenario that includes some recovery in the US economy and in cross border travel combined with more favorable comparisons in gas prices and foreign exchange rates we would expect to exceed 20% earnings per share growth. Of course, we are excluding the Visa Net Brazil gain in this calculation, which won't be replicated in 2010. That concludes my comments, so I'll turn the call back over to Joe.

Joseph Saunders - Visa Inc. - Chairman, CEO

Thanks, Byron. Let me conclude with a review of some of the newer initiatives we're involved in. Earlier today we jointly announced with US Bank the creation of a joint venture at Syncada which will provide a global electronic business-to-business global supply chain network. The joint venture expands our commercial product offerings and increases our participation in the B-to-B payment space as we continue to add services that deliver value to our institution clients around the world.

Also, at the end of June, we previously announced that we had entered into a strategic alliance and would be taking an equity stake and monetize the United Kingdom-based leader in the mobile financial services. This provides us with the development partner for our comprehensive suite of mobile services and highlights the fact that we are making the proper investments in technologies that we believe will be relevant to the future of electronic payments. These types of strategic alliances and investments coupled with the numerous partnerships, pilots, and commercialized programs that we are running around the



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

globe today will ensure that Visa and Visa Net remain the electronic payment system of choice for issuers, businesses, governments, and consumers the world over.

We also continue to make very nice headway in the prepaid space, not only here in the US but in a number of regions globally. Prepaid, which is a natural extension of our already successful debit presence is a business that we have been in for quite some time in the US, and in which we are seeing enormous opportunity in internationally. Domestically, we currently run 66 different programs with 38 states for government disbursements. In the healthcare arena, 7 of the top 10 insurance companies offer Visa spending account cards. Other important categories in which we are active and have been quite successful include gift cards, general purpose reloadable cards, and payroll programs to name a few.

In the US, we believe this is a \$1 trillion potential market while globally it could be as high as \$3 trillion. Stacked up against worldwide Visa payment volumes for the 12 months through March of \$2.7 trillion, it's easy to see that even a nominal penetration of this market could be needle moving for us. The largest opportunity globally is penetrating the underbanked segment with general purpose reloadable cards. The underbanked includes both the underserved, for those who don't have access to mainstream financial services, and those that choose for a wide variety of reasons alternative financial services.

In the US, about \$80 million individuals fall into the underbanked category. Globally, the underbanked may be a majority of consumers. Our success in debit in the US should provide key advantages as we further penetrate the prepaid space.

Lastly, we continue to make progress on enhancing our already dominant presence on the Internet. While we have a commanding 44% (Company corrected after the conference call) payments volume share on the Internet, our ultimate goal is for an ever increasing number of consumers to recognize that the fastest, safest and easiest way to transact on line is with a Visa-branded product. To that end, among other upgrades we are on the cusp of rolling out an enhanced consumer platform that will ultimately assist Internet shoppers in three ways.

First, pre-purchase activities like a best-priced search capability. Second, checkout activities like aliasing and auto form fill. And third, post-purchase capabilities like tracking and shipping. We'll have more to say about this in the coming months and look forward to updating you further on our next quarter's call. With that we're ready to take questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from Tien-Tsin Huang, JPMorgan. Your line is open.

Tien-Tsin Huang - JPMorgan - Analyst

Hi. Thanks. Great results. Actually I was hoping to ask two questions. One business and one high-level question. Just first on the incentives, good news on re-signings. Couple of questions here. Any surprises here in term of the demands that you're getting from the banks? Up-front payments or ongoing payments, et cetera? Then secondly, I know you're not going to give us guidance here until fiscal '10, but directionally can we assume that we'll see some relief in rebates in fiscal '10 in relation to fiscal '09, Byron, given the acceleration and the renewals?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, this is Joe Saunders. I think that it's clear that we've achieved the objectives that we set out to achieve. I think we've done it well within the parameters of our expectations. I think that the transactions that we've consummated have been good both for our clients and for ourselves. We said in the script that there was a somewhat elevated level of incentives this quarter as a



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

result of that that we would expect to continue. So I -- I think that everything that is going to happen in 2010 is pretty well embraced in the reaffirmation of our guidance that we made earlier in the call.

Byron Pollitt - Visa Inc. - CFO

And I would just add that the incentive levels going forward will be -- should be more a function of the growth rates in the client portfolios which are directly linked to the level of incentives we report.

Tien-Tsin Huang - JPMorgan - Analyst

Okay. Got it. I think it's a good outcome for sure. Joe, just wanted to ask obviously a lot of focus out there on the regulatory risk, specifically, around interchange and the possibility some reductions there. I'm not suggesting that anything's going to happen, but just wanted to ask under a hypothetical scenario where interchange is regulated and let's say it's cut in a meaningful way, what kind of impact would that have on Visa? Specifically, would you expect your fees to indirectly come under some pressure as well, and also what kind of impact could it have on volumes and the whole idea of the secular growth of car-based payments? Would that have some influence on that, as well? We obviously get that question quite a bit from investors.

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, first of all, I don't think that the situation that you describe is going to happen. We're confident that the legislators and regulators understand that interchange is a pro-competitive structure, that it exists in every payment system around the globe and where there has been governmental intervention, that the consumer is the one that has suffered. I think that it's also pretty obvious that merchants get for a fairly reasonable cost, they get tremendous value. That they get guaranteed payments, they get increased speed, they get better security, they get ticketless just to name a few. And our discussions in Washington, DC, suggest that the legislators now appreciate that there would probably be a significant negative, unintended consequence from any congressional action on interchange.

That being said, there are actions that could occur in interchange which I do not believe would substantially affect us as it relates to our guidance or our notion of where Visa is going in the future. I suppose that if they eliminated interchange, which no one has ever even come close to suggesting in any scenario that it would certainly create a reluctance by financial institutions to support electronic transactions to the extent that they do today. But our biggest risk to the extent that there is a risk lies in the diminution of volume. I mean, if our volume were to go down, then obviously our -- our revenues would go down. But once again, I mean, I don't think that this will happen. Secondly, you're talking about the United States and our volume is growing more outside of the United States than within the United States right now. So there's a whole number of factors that you'd have to get your arms around. And I think in the end you'd feel pretty good about Visa and Visa's prospects.

Tien-Tsin Huang - JPMorgan - Analyst

Very good. Thanks for that, Joe.

Joseph Saunders - Visa Inc. - Chairman, CEO

Yes.

Operator

The next question comes from Bruce Harting with Barclays. Your line is open.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Bruce Harting - *Barclays Capital - Analyst*

Do you still feel as strongly as you did in the previous quarter conference call about the dollar, the currency impact and the gas price impact, and when you project the increase from this year to next year in terms of revenue growth and you mentioned that this year you still expect to achieve high single-digit -- despite 500 basis points of currency impact, is the key assumption that the currency impact goes away completely next year and you get a tailwind?

Byron Pollitt - *Visa Inc. - CFO*

Joe, let me respond to that. So we do have a good measurement of this impact, and just to repeat, we feel that it was 500 basis points impact this quarter, this just completed quarter. We estimate 400 to 500 basis points. We hedged 17 currencies, so -- and we have been hedging on a rolling basis throughout this past year. So we will -- we are confident that we will be able to bring a level of stability to our -- to FX rates in the coming year, which when compared to the rates that we've experienced this past year give us a high degree of confidence that the headwind that we've experienced this year will be substantially mitigated. Second, with regards to gas prices, the June -- the month of June hit the high point in terms of average price per gas for gallon of gas. We're starting by the first quarter, by November, we should have actually in October and November, we are tracking to have a much more favorable comp here with regards to gas prices. And all the forecasts with regard to future gas pricing support that. So with regards to our guidance going forward, we're -- on those two factors, we're pretty comfortable.

Bruce Harting - *Barclays Capital - Analyst*

Thanks. And Byron, the numbers you gave for July, you said that, despite the fact that you were still well into negative territory, you feel encouraged. Is that because you -- you say you're encouraged because unemployment keeps going higher, and yet these numbers seem to be stabilizing despite that? And do you think the issuing banks have done most of the adjusting that they -- the process, A, to the weakening economy and higher unemployment, and B, the legislation, do you think from what you've seen and in terms of looking at your slide on credit cards outstanding, that, where are we in that process by the issuing banks of downsizing the credit card portfolios in favor of perhaps more debit?

Byron Pollitt - *Visa Inc. - CFO*

Let me focus on the first part of your question. What's giving us confidence. And the take here is that we had -- we had guided to low single-digit revenue growth in the third quarter. We have now moved that up to mid-single-digit guidance in the fourth quarter. What's giving us a little bit more bullish view. First of all, as you recall, our service fees are booked on a one-quarter lag basis, and our service fees directly relate to payment volume that -- and in that regard, the payment volume for the June quarter is substantially known. So 40% of our revenue for the fourth quarter related to service fees is now highly estimable. What we have seen is that payment volume, since the growth rate in payment volume in the US dropped to minus 2, a little better than what we thought, and the rest of the world is holding up a bit better than what we had forecasted. That's service fees.

On cross border what we had noticed is that not knowing what the trajectory was going to be, we made certain assumptions. The June quarter, ending quarter went to minus 8. We had originally forecasted something that was a bit lower than that, and what we're seeing in July with the month of July nearly complete we're at minus 7, so a bit better and then turning to transactions. If you look at the trajectory in quarter two, we had 6% transaction growth. In quarter three, June-ending quarter, we had plus 8. With July just about in the record books, we're at plus 9. So when you put those three perspectives together, that's really the impetus for our change in view and why we've moved it from low single digits up to mid-single digits.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Joseph Saunders - Visa Inc. - Chairman, CEO

Yes. The only thing I'd add to that is to continue to remember that a lot of our transactional increases are being driven by our debit volume. Not our credit volume. The credit volume is already off substantially. And none of our projections suggest that it is going to come back, come roaring back in any way, shape, or form. And then finally we keep reminding everyone that our international transactions, our international credit volume is growing.

Bruce Harting - Barclays Capital - Analyst

Thanks. Thank you. Could -- Byron, were you going to comment on that other -- about the issuing banks or that's it?

Byron Pollitt - Visa Inc. - CFO

That's it.

Bruce Harting - Barclays Capital - Analyst

Okay. Thank you.

Operator

(Operator Instructions). The next question does come from David Hochstim Buckingham Research.

David Hochstim - Buckingham Research - Analyst

Joe, could you just provide a little bit more color on the operational/organizational changes that you announced this week and sort of what benefit do you expect to realize in terms of product rollout and interaction with customers? And what Mr. Morris will be doing.

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, so let me -- let me start off -- to answer the first part of your question, we are -- we're putting the product development function in with the marketing and sales. And I think it will make the organization more effective. And I think that Hans would definitely agree with that. As it relates to Hans, Hans has made a substantial contribution to this organization.

It's really something else when you think about where we started out and where we are now and his contributions to the IPO, his contributions to the relationship with Visa Europe, his contributions to organizing our international organization. So I'd say that -- I'd say that as time went on, his notion of the succession or how that might go changed somewhat, and that led the conversations about the organization that we've just talked about, that he was fully supportive of. So I think that we both decided that he'd be best served -- he decided that he'd be best served by pursuing some other opportunities. And so I'm a huge supporter of his, and I'm sure that he'll be quite successful. He is on our payroll until December. He is contributing on a daily basis. He's sitting right here. And I see him shaking his head, and I don't see anything--.

Hans Morris - Visa Inc. - President

Nodding my head. Nodding my head.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Joseph Saunders - Visa Inc. - Chairman, CEO

He's nodding his head. So I -- I'd say that that's what the -- that's what the answer is.

David Hochstim - Buckingham Research - Analyst

Okay. And in terms of just operations, I mean, is this speed time to market in products or approved customer adoption--?

Joseph Saunders - Visa Inc. - Chairman, CEO

We have a commitment to our investors that we're going to keep refining our model, and that we're going to continually become a better Company, that we're going to become quicker to market. We're going to be a little bit more decisive. We're going to be very introspective about what we invest in and what we don't invest in. We're going to be looking to the future to make sure that we do things appropriately. And that we don't get the rug pulled out from under us two or three years from now. And so I think this is -- we're talking about part of the process here. I mean, this isn't a revolution. It's part of an evolution. And so far, I think it's gone quite well, and I would expect it to continue.

David Hochstim - Buckingham Research - Analyst

Okay. Thank you.

Operator

The next question comes from Julio Quinteros, Goldman Sachs. Your line is open.

Julio Quinteros - Goldman Sachs - Analyst

Great. Thanks. Byron, just one point of clarification. Is the guidance for fiscal fourth quarter is that a gross number or a net number for revenues?

Byron Pollitt - Visa Inc. - CFO

Net revenue growth, mid single digits.

Julio Quinteros - Goldman Sachs - Analyst

Got it. Then 400 to 500 basis points of currency drive, correct?

Byron Pollitt - Visa Inc. - CFO

Correct.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Julio Quinteros - *Goldman Sachs - Analyst*

Got it. Just in terms of marketing initiatives and spend looking to the World Cup next year, how do we think about how quickly that has to ramp up in terms of spending, or is that spending behind you? Just as a major initiative next year, how do -- how will that ramp through your advertising marketing numbers?

Byron Pollitt - *Visa Inc. - CFO*

So to be helpful on this, what we've said in our opening remarks is that there is a -- there was a marketing, a bit of a marketing lift in this quarter, a bit of a marketing lift expected in the fourth quarter. But no call out relative to World Cup because we're lapping an Olympic year, and there are natural tradeouts that we make in substitutions as we have premiere events to marquee. So no call out on World Cup and you've got some guidance to finish up the year in marketing.

Julio Quinteros - *Goldman Sachs - Analyst*

Got it. Then lastly on the -- if I try to sort of bridge the gap between the volume assumptions that you've already shared with us, the currency, any way to get a sense on what the implied pricing would be either on the cross border side or on the other side of your business of card services or data processing fees?

Byron Pollitt - *Visa Inc. - CFO*

I think what we've said was we're -- we're in the later stages of the more step function-type pricing adjustments. And that this will be a more modest contributor going forward. That we'll grow this business the old-fashioned way, which is through payment volume and transaction growth.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Thanks, guys.

Operator

The next question comes from Craig Maurer, Calyon Securities. Your line is open.

Craig Maurer - *Calyon Securities - Analyst*

Good evening. One question about Visa Europe. We're hearing through our contacts in Europe that Visa Europe is really playing up the sort of independence card, we're owned by European banks, for European banks. So we're not associated with the big, bad US companies, so you should sign with us. Oh, and by the way, we'll pay for your conversions. But the European banks are a little concerned that there is the option to sell themselves back to Visa, Inc. and that that might be coming quickly if they do a conversion. I was just wondering if there's any additional conversations with Visa Europe regarding them becoming part of Visa, Inc.?

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

Most of the time when I think about them exercising the put, I think about it because somebody asks me about it. But other than that, I don't think about it much. There is nothing in the relationship between ourselves and Visa Europe that would suggest



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

that they're about ready to exercise the put or even thinking about it. I think that we're running the Company as Visa, Inc. which is what we've always intended to. And that's about as far as I can go right now.

Craig Maurer - Calyon Securities - Analyst

Okay. If I could just follow up. Have you seen any traction in your money transfer initiatives? As I know the network is capable now of processing money transfers on any Visa card to any terminal.

Joseph Saunders - Visa Inc. - Chairman, CEO

We'll be talking a lot more about that when we get into our next quarter call and some of our guidance for the future. I mentioned the prepaid cards which fit into the whole notion of money transfer in a big way. It's part of our plans. I'm sure you've -- you've seen that we have associated ourselves with Moneygram and Western Union. So there are the beginnings of looking at this very carefully and deciding where we want to go, but I'm just not ready to talk about it publicly.

Craig Maurer - Calyon Securities - Analyst

Okay. Thanks, Joe.

Joseph Saunders - Visa Inc. - Chairman, CEO

Yes.

Operator

The next question comes from Dan Perlin, RBC. Your line is open.

Dan Perlin - RBC Capital Markets - Analyst

Thanks. I just had a couple quick questions. The first of which is as you think about growth in some of the emerging markets where you maybe don't have as large a market presence, and notoriety, have you considered acquiring processors or joint ventures with processors in those markets? And would you be open to that?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, yes.

Dan Perlin - RBC Capital Markets - Analyst

Should we expect something in the next couple of quarters?

Joseph Saunders - Visa Inc. - Chairman, CEO

We've talked about it, we thought about it, and we've looked at it.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Dan Perlin - RBC Capital Markets - Analyst

Is it something that you would be probably disposed to doing?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, I wouldn't think about it and look at it and talk about it if I wasn't somewhat disposed to doing it.

Dan Perlin - RBC Capital Markets - Analyst

Okay. Let me ask you another question. Do you think you got to have global consumer credit expansion in order to continue to drive growth there given that such a credit-focused rest of world, or can you continue to kind of penetrate debit in those markets using some of your tricks from the US?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, I think it is our intention to kind of trade markets with the debit product. I also think it's important, though, to make sure that everybody understands that the credit market outside the United States is not exactly the same as the credit market in the United States. And in fact, there are many credit products outside the United States that are probably -- that probably have more similarity to a debit product than you might expect. So it's a -- it's a little bit different. But I think we're well positioned along the entire spectrum, all the way from preloaded cards to premium credit cards, as it relates to product offerings and our willingness and ability to start penetrating other markets.

Byron Pollitt - Visa Inc. - CFO

And I would just add to that that with regards to credit out the United States that we did have a solid growth rate for the March-ending quarter, and we expect to have positive growth in credit outside the United States all on a constant dollar basis in the quarter ending in June, as well.

Dan Perlin - RBC Capital Markets - Analyst

And then just lastly and then I'll be done. On the incentive fees, around the time of the IPO you really said that that was a number that actually should trend up because it was primarily a US phenomenon and using that to get contracts, and as you went international you were going to start to use it. What I'm hearing from you guys today is that that is abating a bit. I'm wondering if there's a change of tone to using incentive fees as you go abroad?

Joseph Saunders - Visa Inc. - Chairman, CEO

As we put more client under multi-year contract which is a strategy that we support, with contracts comes an agreement to offer incentives. And so it is a continuing strategy of ours over time to have more clients under multi-year contract and, therefore, there would be more -- there would be more clients' revenue that would be subject to incentives. That strategy was articulated at the time of the IPO, and it's still a strategy that we're pursuing today.

Dan Perlin - RBC Capital Markets - Analyst

Okay. Thank you very much.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Operator

The next question comes from Jason Kupferberg with UBS. Your line is open.

Jason Kupferberg - UBS - Analyst

Thanks. Wanted to start with a clarification in the quarter itself. The \$0.67 pro forma EPS number, what tax rate was behind that? Was that a normalized tax rate, or I think the GAAP tax rate was more in the 43%-ish range related to the gain on sale. Can you clarify that?

Byron Pollitt - Visa Inc. - CFO

Yes. The \$0.67 was at a more normalized tax rate because the boost in our tax rate for the quarter was due to the Visa Net Brazil transaction because of some capital gains taxes and the tax environment specific to Brazil, we ended up experiencing about 4 percentage points higher tax rate in the quarter. When you back that out, so that -- to go from \$0.98 backed out on an adjusted basis down to \$0.67, when you remove that transaction, you would then go to the more normalized tax rate which was trending at about 39.5.

Jason Kupferberg - UBS - Analyst

Okay. And that was the basis for the \$0.67?

Byron Pollitt - Visa Inc. - CFO

Yes.

Jason Kupferberg - UBS - Analyst

Okay, okay. That's helpful. And then just to pick up on an earlier question as far as confidence and visibility on the low end of the 11% to 15% net revenue growth range for next year, you talked about the currency and gas components of that. Obviously the two other underlying assumptions you've discussed for a while are the broader US economy and cross border. Seems like those numbers are kind of stable but bouncing around a little bit. Can you just talk about your relative level of comfort with those two variables and how important they might be versus the other two variables in terms of actually getting yourself into this 11% to 12% range or so for next year?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, I think the specific words that I used in the scripts were we would start to see some movement. So we don't expect any significant positive movement in either the economy or cross-border transactions, although we do expect them to stabilize and start to move up very modestly. And as long as that happens in the first quarter, early second quarter, I'm quite confident we'll get to where we're going.

Jason Kupferberg - UBS - Analyst

Okay. So we don't really need to see this "Positive inflection" point any time real soon to still get you into this range it sounds like?



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Joseph Saunders - Visa Inc. - Chairman, CEO

No, it doesn't have to happen next month.

Jason Kupferberg - UBS - Analyst

Okay. Great. Thank you.

Operator

The next question comes from Jim Kissane, Banc of America. Your line is open.

Jim Kissane - BAS-ML - Analyst

Great. Thanks. Hey, Byron, what portion of the incentives in the quarter were more one time and what portion is recurring? And maybe on a more normal basis, what portion would be one time and what portion is recurring?

Byron Pollitt - Visa Inc. - CFO

Jim, I -- as you can appreciate, we don't discuss that level of granularity on the incentive. We've tried to be helpful here by saying it was somewhat elevated given the unusual high level of contract activity that was successfully completed in the quarter. And we'll be -- we'll look forward to giving more guidance around the incentive levels when we finish up the fourth quarter and we give you an outlook for -- a more informed outlook for fiscal year '10.

Jim Kissane - BAS-ML - Analyst

Okay. Any change in the average term of the contracts under renewals?

Byron Pollitt - Visa Inc. - CFO

I would say they're -- up -- at the time of the IPO, I would say the most typical contract length was five years. I would see -- I would say we're starting to see some increasing interest going a bit beyond five. To say that it's actually moved the average might be too strong a term. But we are seeing some contracts now that -- substantive contracts that are going beyond five years.

Jim Kissane - BAS-ML - Analyst

Okay. Great. Thanks, Byron.

Operator

The next question comes from Tim Willi, Wells Fargo. Your line is open.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

Tim Willi - Wells Fargo - Analyst

Thanks. Good afternoon. I was wondering -- a question about US debit. If I look at the last six to seven quarters sort of boiling it down to the -- the spend and transactions per card, I think conventional wisdom would have been that as the economy suffered, people would switch spending habits from credit to debit. And looking at sort of year over year growth in transactions per card, even dollars per card spent, I -- it doesn't look like that has occurred. So I'm wondering if there is something regarding inactive or just newer debit cards on the US platform that have not quite matured in terms of the user getting more comfortable with them, and as well if you could talk about any kind of strategies or discussions with your banking partners in the US about trying to drive higher utilization on debit in the face of what you've articulated about credit, that it's essentially probably going nowhere in the US.

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, okay. Wow. That's a loaded question. Let me start with the -- let me start with the back end of that. First of all, we are working to drive debit both with our clients, and that is the entire basis of our -- our media campaign in the United States this year. I mean, everything -- everything that we're doing in the media is debit centric and is predicated on using debit cards. I'd say that you're going to see debit cards be a very, very good story going forward. I think you'll see the number of transactions that people use their cards for going up. I think that we continue to see more cards being put into the market and so I -- all the right things are happening on the debit front.

Now, I want to say one other thing. I didn't say the credit card market in the United States was dead. I didn't say that. I said that we were not anticipating that we were going to get much velocity from the credit card market in the next 12 months. I think that as a result of the Credit Card Act and some of the issues that financial institutions have with the loan quality of their portfolio that it would just be naive to think that there wouldn't be some reflection as it related to that product and how it was going to be issued and how it was going to be used. But I certainly don't believe and -- unless any of my clients are telling me differently that the credit card is dead.

Tim Willi - Wells Fargo - Analyst

Okay, I appreciate that. Just to follow up on that debit question then. Do you think it's a matter of just more consumer awareness, or are there key verticals and other areas of spending in the US where there just needs to be more merchant acceptance to get that spend up on debit? Or is this really just more and more advertising and the banks getting to those consumers more effectively that use this card as much as you can?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, I guess I'd have to look at the exact number you're looking at because when I look at the numbers, the transaction -- our transaction volume is up 9% in the last quarter. It is mostly coming from the debit sector. We have three times as many debit transactions as credit card transactions, and have for a little while now and for the first time in the history of Visa, last quarter the dollar volume of debit card transactions exceeded that of credit card transactions. So my view into this product is a pretty positive view. And I expect that to continue. I think you might want to pick this question up with Jack Carsky. Because I'm just -- you kind of caught me a little bit off balance here because I'm not sure we're talking the same language.

Tim Willi - Wells Fargo - Analyst

Okay. I appreciate that. We'll do that. Thanks.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

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 Don Fandetti with Citi, your line is open.

Don Fandetti - Citi - Analyst

Hi, Joe. Clearly the US seems to have stabilized in terms of credit. Looks like the international growth rates are still positive but moderating. I was just curious sort of what your view is on the insight on the non-US consumer? Are we pretty close to where you think those growth rates will start stabilizing?

Joseph Saunders - Visa Inc. - Chairman, CEO

Well, that's -- that's a little bit difficult to call. The fact of the matter is there have been issues, economic issues all over the world. And the fact that the international credit card volume is growing has as much to do with the secular shift from cash and checks to plastic as it does with a consumer's use of credit, as you might think about it in the United States. So I think that this has a while. I think this has a while to play out. And I think that we're continuing to get traction in different parts of the world. And I think that, I don't think that's going to stop. So I think we'll have a pretty -- I think we'll have a pretty positive story as time goes on. And I guess the best I can do is to end all of this is to tell you that we're cautiously optimistic that things are getting somewhat better and not somewhat worse.

Don Fandetti - Citi - Analyst

Okay. Thanks.

Jack Carsky - Visa Inc. - Head of Global IR

Thank you all for joining us today. If anybody has any follow up questions, feel free to either call myself or Victoria. Thank you.

Operator

This concludes today's conference call. You may go ahead and disconnect at this time.



Jul. 29. 2009 / 9:00PM, V - Q3 2009 Visa Inc. Earnings Conference Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Reuters. All Rights Reserved.