

# FINAL TRANSCRIPT

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## **V - Q3 2010 Visa Inc. Earnings Conference Call**

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Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

## CORPORATE PARTICIPANTS

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*Visa, Inc. - Head - Global IR*

**Joe Saunders**

*Visa, Inc. - Chairman & CEO*

**Byron Pollitt**

*Visa, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Operator**

**Julio Quinteros**

*Goldman Sachs - Analyst*

**Bob Napoli**

*Piper Jaffray - Analyst*

**David Hochstim**

*Buckingham Research Group - Analyst`*

**Greg Smith**

*Duncan Williams - Analyst*

**Tien-Tsin Huang**

*JPMorgan - Analyst*

**Adam Frisch**

*Morgan Stanley - Analyst*

**Jim Kissane**

*Banc of America - Analyst*

**Rod Bourgeois**

*Sanford Bernstein - Analyst*

**Jason Kupferberg**

*UBS - Analyst*

**Craig Maurer**

*CLSA - Analyst*

**Don Fandetti**

*Citigroup - Analyst*

**Tom McCrohan**

*Janney Montgomery Scott - Analyst*

**Chris Brendler**

*Stifel Nicolaus - Analyst*

**Tim Willi**

*Wells Fargo - Analyst*

**Andrew Jeffrey**

*SunTrust - Analyst*

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Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

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## PRESENTATION

### Operator

Welcome to Visa Inc.'s fiscal Q3 2010 earnings conference call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. (Operator Instructions). 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 - Global IR

Good afternoon and welcome to Visa Inc.'s fiscal third-quarter 2010 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 webcast over the Internet. It can be accessed on the investor relations section of our website at [www.investor.visa.com](http://www.investor.visa.com). A replay of the webcast will also be archived on our site for 30 days. The 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 these 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.

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

Thanks, Jack, and thank, everyone -- thanks, everyone, for joining the call. Visa once again delivered strong earnings results. Against the backdrop of a recovering global economy, we posted net operating revenues of just over \$2 billion, a 23% increase over the year-ago period. Revenues were driven by double-digit growth in payments volume, cross border volume and Visa-processed transactions coming from all areas of the globe. Net income on a GAAP basis was \$716 million, a 45% increase over the prior year. Overall, we more than delivered on guidance, with fiscal third-quarter earnings on a GAAP basis at \$0.97 per diluted share, a 49% increase over the third quarter of 2009. And these figures exclude the impact of the gain from the VisaNet do Brasil sale in the prior-year period. We also successfully completed a de facto \$500 million stock repurchase, while continuing to invest in newer initiatives that will fuel our future growth.



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

On today's call, I'm going to leave the more detailed view of our financials to Byron while I address a few items I'm sure are at the top of your mind. Let me begin by providing color on recent events that have unfolded in Washington. It's clear that the Wall Street Reform and Consumer Protection Act that was signed into law last week will reshape the US debit landscape. However, precisely how the law will impact Visa's business, and that of our financial institution clients, is yet to be determined. As you may know, the Federal Reserve has embarked upon a rule-making process to clarify the details of the legislation and how and when it will be implemented. We have an opportunity to inform their deliberations and we intend to participate in the process as a constructive voice. In parallel, we have teams at Visa focused on developing a range of business strategies that will enable us to compete effectively in the new environment once the details of the law become clearer. So, until the Fed finalizes the rules and until we finalize our mitigation response, it's not possible to specifically detail our actions.

On the other hand, there are things that we do know. First, given the timeframes outlined in the legislation, our business should not begin to feel the effects of the legislation until this time next year. Therefore, I do not anticipate any impact in FY 2010 and looking ahead to 2011, I expect the impact will be modest and contained to our fourth fiscal quarter. With that, I feel confident reiterating our earnings per share guidance for fiscal 2011 at better than 20% growth. And per past practice, we'll be updating other guidance metrics for 2011 on our October call.

We do know that we are working with the best set of assets in the industry. We are the lowest-cost provider of debit services, we have deep debit expertise and we have a powerful brand. We also know that debit delivers tremendous value, as evidenced by the growing appetite of consumers, governments and others to use the product and by merchants who accept it. Given our continuing discussions with our clients and the preliminary business strategy options that we have already developed, I'm very confident that we will effectively adapt to the new environment and continue to lead growth in this segment of the business.

And as you think about our future prospects, it's important to keep in mind that Visa has a globally diverse business. While future opportunities in the US remain, our growth is increasingly likely to come from outside the US borders, regardless of the domestic environment. Today, our non-US revenues make up approximately 40% of our business, and one of our stated 2015 goals is to generate half of our revenues from operations in the rest of the world. So, when I step back and take a global view of our existing business and future opportunities, I'm reminded how strongly I feel that I would rather be Visa than anyone else in our industry and how personally committed I am to accomplishing the goals we established at last March's investment day.

Turning to the legal front, we have two topics to update you on. We have made progress on our ongoing engagement with the US Department of Justice regarding its investigation into the payment card industry and its key players. We have been cooperating with the Department to satisfy the civil investigative demand filed in late October 2008 concerning the major payment networks' rules on surcharge and merchant steering, as previously reported, and in recent months have met with the Department on numerous occasions. The Department has indicated that it is considering filing a civil lawsuit challenging rules prohibiting surcharging on credit and differential discounting between networks, similar to the claims that have been included within the merchant interchange litigation that's been pending since 2005. Although the outcome is uncertain at this time, we are currently engaged in constructive negotiations with the Department to resolve its concerns as it relates to Visa, without litigation or payment of monetary damages and in a way that proactively addresses concerns in the covered litigation.

Regarding the covered litigation, it is proceeding on its normal course and we continue to be actively involved in settlement discussions. As a reminder, this litigation is covered by our US financial institutions under our retrospective responsibility plan. That being said, I remain highly confident in Visa's strategic plan interderced -- introduced, excuse me, earlier this year which will continue to guide our priorities, initiatives and investments over the long term. In particular, we remain intensely focused on innovation, which is critical to accelerating growth and further diversifying our revenue. To that end, Visa completed the acquisition of CyberSource right on schedule. CyberSource enables us to expand our capabilities and competitive position in eCommerce, one of the fastest-growing segments of the payment industry. Not only do they possess approximately 25% of all eCommerce dollars transacted in the US today, there is also tremendous opportunity for us to expand CyberSource globally, leading to new customers and the potential -- and the potential to increase revenues from international markets. We look forward to commenting on our joint performance in the quarters to come.



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

Another innovation priority for Visa is mobile payments and on that front, among other mobile initiatives, we built upon our existing relationship with Monitise by establishing a joint venture to provide financial institutions and mobile network operators in India with a technology platform that enables them to offer a range of mobile financial services to consumers. Additionally, in May we were selected by the State Bank of India to execute a joint venture in India in partnership with [Ellabon] to help drive the growth of digital currency in this important, emerging economy by increasing acceptance and acquiring services. We also continued to successfully win new contracts and expand our relationships with issuers, merchants and governments around the globe. For instance, we just signed a five-year credit and debit deal with Bradesco, one of our most important partners in Brazil. It is largest contract we've ever closed in our Latin American region.

And finally, I'm pleased we were able to continue delivering on our strategy to return excess cash to our shareholders in the third quarter via the funding of our litigation escrow, which has the same effect as a \$500 million share repurchase. This brought our fiscal year-to-date share repurchase total to almost \$1.2 billion and we'll continue to be opportunistic in this regard over the next quarter.

Let me now turn the call over to Byron to take you through the details of our financial results and I'll be back to wrap up.

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

Thank you, Joe. Let me start with the financial highlights of our fiscal third quarter, followed by the global payment volume trends for the June quarter, as well as payment and transaction results for July. I will then conclude with updates on our Q4 and full-year guidance.

Global payment volume growth for the March quarter in constant dollars rose to 13% from a positive 8% in the December period. We witnessed meaningful growth in every region of the globe. In the US, payment volume growth was 13% in the March quarter, up from 7% in the December quarter. Debit continued its strong recent trend, delivering 21% growth compared to 15% growth in the December quarter. Credit accelerated to a positive 3% growth in the March quarter from a negative 1% rate in the December period. On a constant dollar basis, rest of world payment volume grew at 14% in the March quarter, up from a 10% rate in the December quarter. These results recognized continued secular growth and a strong and healthy diversified country base outside the US.

Now, turning to the metrics, that drive revenue on a current basis. Global cross-border volume growth accelerated considerably in the June quarter, posting a 17% growth rate on a constant dollar basis from the 12% rate in the March period. Growth in the month of June at 18% suggests that, in contrast to our view a quarter ago, this is more representative of a broader, cyclical trend rather than just pent-up demand. Transactions processed over Visa's network totaled \$11.7 billion in the fiscal third quarter, an increase of 14% over the similar period a year ago and on par with the 14% growth rate we saw in the March quarter.

Turning to the income statement, in our fiscal third quarter gross revenues of \$2.4 billion were up 22% from the similar period in 2009. Volume and support incentives, as a percentage of gross revenues, came in at 16%, below the prior-year level of 17% and below our expectation. The expected rate of 18% was predicated on the signing of certain contracts during the quarter, which carry a high level of one-time contra revenue incentives. While timing is still uncertain, we project these contracts will be signed in our fourth fiscal quarter, which would elevate the support and incentive line into the range of 17% to 18% of gross revenue in the fiscal fourth quarter. Net operating revenues in the quarter were just above \$2 billion, a 23% increase over the operating revenues recorded for the third fiscal quarter of 2009, driven by broad-based economic recovery and secular growth.

Moving to the individual revenue line item, service revenue was \$873 million, up 13% over the prior-year period and reflecting -- and reflective of accelerating payment volume growth in the quarter ending March. The growth rate for the June quarter should mirror the March quarter's results. Data processing revenue was \$792 million, up 31% over the prior year, based on strong process transaction growth of 14% and the final quarter of previously-enacted pricing action. In contrast, our final fiscal quarter will see data processing revenue driven by processed transaction growth, which will be partially offset by yield



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

compression due to two factors—first, recent contract wins and conversions and second, more clients exceeding volume thresholds, which qualify them for lower prices.

International transaction revenues were up a solid 25% to \$574 million, due to continuing improvement in cross-border volumes during the period. The foreign exchange impact on revenue in the third fiscal quarter was a positive 1%, as a result of continued currency volatility combined with our hedging activity. For the full fiscal year we continue to expect the foreign exchange impact on revenue growth to be slightly positive.

Our operating margin was 56%, in line with our guidance of mid to high 50%. Total operating expenses for the third quarter were \$892 million, representing a year-over-year increase of \$68 million, or 8%, driven by anticipated increases in marketing and advertising spend related to the FIFA World Cup and continued investment in growth initiatives. Our expectation continues to be that expenses for the full year will be relatively flat to the 2009 level on a GAAP basis, including about \$15 million in CyberSource-related acquisition cost but excluding any CyberSource operating expenses incurred subsequent to the acquisition on July 21.

On a sequential quarter basis we saw moderately higher expenses in marketing and advertising given our higher spending on the FIFA World Cup event. We also saw higher professional fee expenses as a result of costs associated with the CyberSource transaction and higher investment in product initiatives and IT infrastructure upgrades. We expect to see a further sequential increase in professional fees in the fourth fiscal quarter as a result of closing and integration costs associated with the CyberSource transaction and continued investments in products and infrastructure. Capital expenditures were \$65 million in the quarter and \$144 million year to date, representing ongoing investment in technology, infrastructure and growth initiative. Based on higher levels of spend in the third and fourth fiscal quarters, for all of fiscal 2010 we now expect capital expenditures to be moderately higher than \$200 million.

Moving on to the balance sheet, we ended the third quarter in great shape, with negligible debt and cash, cash equivalents, restricted cash and available-for-sale investments of \$7.4 billion. Of this total, \$2 billion is restricted cash, which represents amounts sufficient to fully pay out the American Express settlement with \$1.5 billion that is currently uncommitted. As you'll recall, in May we placed \$500 million into the escrow account, which had the effect of a 6.7 million share buyback. As of the end of fiscal Q3, Visa's outstanding share count is now 731 million on an as-converted basis.

Now, I'll comment on the June quarter's payment volume data and our early read on July, then I'll cover our updated financial expectations for the balance of the year. Global payment volume growth for the June quarter in constant dollars rose to 14% from 13% in the March quarter. We experienced meaningful growth in every one of our global regions. In the US, payment volume growth was 14% in the June quarter, up slightly from 13% in the March quarter. Debit continued its strong recent trend, delivering 21% growth, same as the March quarter. Credit accelerated to 6% growth in the June quarter from 3% in the March period. More recently, through the 21st of July, US payment volume grew at 13%, 1 percentage point below the June quarter rate but 1 percentage point higher than the month of June growth rate of 12%. Further deconstructed, debit grew at 20%, while credit grew at 6%.

On a constant dollar basis, rest of world payment volume grew at 14% in the June quarter, same as the March quarter. These results recognize continued secular growth and a strong and healthy diversified country base outside the US. As mentioned earlier, global cross-border volume grew at 17% in the June quarter on a constant dollar basis. Growth in the month of June was a strong 18%. July cross-border volume growth on a constant basis sustained the strong rate we saw in June, posting an 18% rate of growth through the 21st of the month. Processed transactions through the 21st grew at 15% over the prior-year period, up slightly from the 14% growth posted for the third fiscal quarter and up slightly from a 13% growth rate delivered in the month of June.

Now, let me comment on our expectations for the remainder of the fiscal year for operating performance and the resulting impact on our full-year guidance. We continue to be comfortable with a net revenue growth target at the high end of the 11% to 15% range. Despite our year-to-date growth of 18%, we anticipate a couple of dynamics in the fourth quarter. First, the data



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

processing fee increase we implemented in July 2009 lapsed in June 2010. This will contribute to a significantly-lower growth rate in fiscal Q4 for reasons described earlier. Second, we expect volume and support incentives to increase in the fourth quarter for two reasons. First, higher earnout rates tied to the higher payment volumes we're experiencing. And second, as mentioned earlier, we anticipate signing certain contracts which, if concluded, would result in an incentive level as a percent of gross revenue of around 18%. This, in turn, would result in a full-year rate at the high end of our previously-stated range of 16% to 17%.

Our expectations for full-year 2010 operating margin remains in the mid to high 50%s. Increased marketing, advertising and new initiative spending in the second half, combined with the CyberSource transaction expenses, offset the higher margin we reported early in the year. We are narrowing our guidance for our full fiscal-year 2010 tax rate to a range of 37% to 38% in spite of the year-to-date run rate of approximately 36%. This refinement reflects an anticipated increase in our effective tax rate in Q4 due to the impact of the CyberSource transaction, the true up of our state tax rate and the related adjustments to our deferred tax liabilities recorded as a part of our October 2007 reorganization. Taken together, we anticipate that these factors will cause our fiscal fourth quarter effective tax rate to be closer to 40%. The full-year 2010 tax rate keeps us on track to reduce Visa's effective rate.

We continue to target better than 20% earnings per share growth in 2010 on a GAAP basis, excluding the VisaNet Brasil gain and a 2011 earnings per share growth goal of better than 20%. Both years include the addition of CyberSource. Regarding the CyberSource impact on fiscal 2010 earnings, we expect the Q4 impact on EPS to be \$0.03 to \$0.04, of which approximately \$0.01 is from transaction costs and is already included in our full-year operating expense guidance, and an additional \$0.02 to \$0.03 from combined operations, largely driven by the amortization of intangible assets arising from the transactions purchase accounting. We still expect this transaction to be slightly dilutive in fiscal-year 2011.

Turning to capital expenditures, we are adjusting our expectation around CapEx to be a moderately higher than \$200 million. And lastly, our projection of free cash flow for the year remains north of \$2 billion, which is net of the \$682 million prepayment we made on the previously-settled retailers' litigation but before the \$2 billion spent on the CyberSource acquisition.

That includes -- concludes my comments, so I'll turn the call back over to Joe.

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

Thanks, Byron. In summary I want to underscore my confidence in Visa's future and our ability to drive continued growth, both in the United States and internationally. Visa remains at the forefront of this highly-competitive, dynamic industry after more than 50 years in the business because we have a track record of innovating, adapting and successfully navigating challenges, and we will continue to take concrete steps to achieve our strategic objectives and secure our long-term growth to the benefit of Visa's shareholders and clients. This past quarter was a great example of executing on those goals.

With that, I'll open the floor to questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). Our first question comes from Julio Quinteros, Goldman Sachs. Your line is open.

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Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

**Julio Quinteros** - *Goldman Sachs - Analyst*

Great, guys. Hey, real quickly, looking at both the gross revenue yield and the net revenue yield in your model seeing some pretty decent upticks there. Taking some of the commentary about the higher rebates and thinking about some of the puts and takes in pricing as we think about the forward quarters, can you talk specifically about the pricing levers that you guys would have left in the forward quarters as we roll into fiscal 2011, both in the US versus the rest of the world, please?

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

Julio, Byron. So, we're just going to respond to the pricing opportunities pretty much what we have said before that we have, behind us most of the mark-to-market opportunities, which were more domestic in nature going forward. More of the opportunity that we have, first of all, more modest. Second, it is much more outside the United States, so much more of a rest of world opportunity. We're still in the process of standardizing practices, so opportunities still remain. Then, of course, with the unfolding legislation that we have in the United States, once the legislation is clarified then that'll give us an opportunity to relook at the services that we provide that deliver value and look for opportunities to reprice consistent with the strategies that we will be pursuing in the new environment going forward.

**Operator**

The next question comes from Bob Napoli, Piper Jaffray. Your line is open.

**Bob Napoli** - *Piper Jaffray - Analyst*

Thank you, good afternoon. Joe, the payment system is somewhat of a mess, I guess. If you look at the changes, some of the big ones, banks less than \$10 billion are excluded from the bill, prepaid cards are excluded, you have the debit exclusivity. How -- as you look at some of those challenges and managing that system, do you think it is -- how do you think that will work? Is it too early to tell? Do you think it is feasible to -- that the smaller banks get excluded in practice? And what are your thoughts around how banks will respond with prepaid cards?

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

Well, look, the answer is that I can't specifically answer that question until I get a little bit more clarity in the rule making process from the feds. Now, we'll, as I mentioned, be a positive part of that, but until that happens it's a little difficult to ascertain. Now, we maintained through the process that having a dual price structure would be difficult, if not impossible, and nothing has happened that particularly changes my mind about that. The solution to the issue does not lie with Visa alone; it lies with several different parties in the chain, as you know, and so it's not totally in our control. We will, of course, do everything in our power to adhere to the law of the land, and we're just going to have to see what kind of effort that takes and how other people respond to the same challenge.

**Operator**

The next question comes from David, Buckingham Research Group. Your line is open.

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

Joe, I wondered, can you give us a sense of how much account -- customer account conversions might have contributed to the debit growth in the US and process transactions that are meaningful? Then wondered -- because Senator Durbin's got some new credit card interchange proposal relating to government cards. I wonder if you have any color on that?





Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

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

On the first part, the conversions did contribute but very, very modestly, not material. And on the second part of the question, the government?

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

Oh, as it relates to the proposal that Durbin just made, it has -- it would have very little effect on interchange in total. I mean it's de minimus.

**Operator**

the next question comes from Greg Smith, Duncan Williams. Your line is open.

**Greg Smith** - Duncan Williams - Analyst

Yes, hi. You guys made some changes with regards to the dynamic currency conversion outside the US. Just wondering can you give us an update there and is that signal maybe a future additional revenue opportunity for Visa?

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

We have rules in place that govern direct currency conversion. We have some of the globe operating under those rules, some of them have been grandfathered based on practices that existed before Visa merged, and so what we have done is put a moratorium on direct currency conversion while we study this situation. And so in the months to come expect to hear more from us on this subject.

**Operator**

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

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

Hi, thanks so much. I thought I'd maybe ask about share repurchases, just your appetite, Joe, to buy back stock given what's going on. I guess as a follow up, how much freedom do you have to do something like the \$500 million synthetic repurchase that you guys just did?

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

I'm going to turn that over to Byron. There is an authorization existing.

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

Yes, so the appetite remains, so I'll just use this as an opportunity to once again reaffirm that management's intent to return excess cash to shareholders in the form of both dividends and repurchases of the outstanding authorizations that we have today. We have \$336 million unutilized and we will be looking for opportunistic moments over the next several months to use that authorization. And then, of course, we are never hesitant at future board meetings to ask for additional authorization.



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

**Operator**

The next question comes from Adam Frisch, Morgan Stanley. Your line is open.

**Adam Frisch** - *Morgan Stanley - Analyst*

Thanks, good afternoon. The next 12-to-18 months is a more uncertain landscape than when you reported your March quarter and I just wanted to ask two questions about that uncertainty, whether it be legislative or macro related. One, has it impacted your plans, at all, to invest capital in the growth initiatives you discussed at your analyst day? Have any of those plans been altered? And two, Joe, you reiterated your 20% EPS growth for next year, have you incorporated additional scenarios and contingency planning and so forth and how firm is that guide?

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

I don't think that -- at this time, I don't have any reason to back off anything we talked about at our March investor day. We're moving forward with all of those strategic notions. And as it relates to reaffirming the guidance, we're reaffirming the guidance. I think that that speaks for itself and we didn't do it without thinking about it. We didn't do it without looking at what was going on in the economy. We didn't do it without understanding what was happening legislatively. We didn't -- we just didn't do it without being cautious and prudent and thoughtful and so we're confident that we'll deliver.

**Operator**

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

**Jim Kissane** - *Banc of America - Analyst*

Thanks. Joe, can you give us a little more color on the DOJ situation. That came across pretty confident. I know it's legalese, but is it a surcharge issue, a credit interchange issue, just maybe big picture color? Thanks.

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

Well, there isn't an interchange issue with it -- there is not an interchange issue with the DOJ. The primary issue is their concern over surcharging and it's on -- it relates to credit cards. This is a dialogue that we've had with them for a lengthy period of time. The current conversations are dovetailing with the litigation conversations that we're in the midst of. So, I don't -- I think this is just part of the same fabric and I think that things are moving in a direction that we have anticipated and so we're not unhappy with where we are.

**Operator**

The next question comes from Rod Bourgeois, Bernstein. Your line is open.

**Rod Bourgeois** - *Sanford Bernstein - Analyst*

Yes, guys. Not that you want to talk anymore about the Durbin Amendment, but if multiple [tenant] debit brands are required on all US debit cards and there are no restrictions on merchants routing, do you think your Interlink business could lose some



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

share or experience some pricing pressure? And then I guess the part B to that, have you changed anything in your customer engagement strategies in light of the Durbin Amendment?

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

Well, you made some specific statements as to what the implications of the amendment are and I'm not as certain as you are about how those are going to manifest themselves. And we've already had -- we've, of course, had dialogue with our clients, we've had an initial dialogue with the fed. We've continued to pursue it congressionally as it relates to intent. We've looked at who we are, we look at what we do, we look at what value we bring and we have a number of different ways to react to the situation that you're referring to. And I think that when everything is said and done and all of the smoke has cleared that we will continue to do well. What that specifically means, I can't speak to right now. And as it specifically relates to Interlink, it may or may not affect Interlink per se but that's just part of our business. We have a pin debit business and a signature debit business and maybe there's less distinction between the two, maybe there isn't. I think we'll have to wait and see, but either way, we're prepared.

**Operator**

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

**Jason Kupferberg** - UBS - Analyst

Thanks, guys. I was hoping you could compare for us your conviction level, if you will, now versus quarter ago, just in terms of this volume recovery in your business being sustainable and not just mostly a function of easy year-over-year comps. I think you've made it clear on the cross-border side that you think it's more than pent-up demand but putting cross-border aside, we'd just love to get a qualitative sense of how you're leaning now versus a quarter ago in terms of sustainability?

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

So, let me take that one, Jason. Let me share a few more granular numbers to give a little bit of perspective. I would say overall, our view is that we are in recovery. What we're seeing on balance suggests maybe a lower probability of a double dip than what we might have suspected a quarter ago, but we also believe that the recovery is going to be protracted. When you look at it on a month-by-month basis, the numbers are certainly good given the prior-year comps, but you're going to have some bumps along the way and hence, the notion of a recovery without turbulence doesn't -- our guess is it's not in the cards.

Let me give you a quick snapshot of what we saw the last several months for the US. This is all-in payment volume. So, the month of -- let's start with March. March payment volume increased 16%, then went to 15% in April, then it went to 15% in May, then it dropped to 12% in June -- still a good number, but a little turbulent -- and July, through the 21 of July, it is positive 13%. So, all suggesting recovery, but whether it will be consistently upwards sustaining and accelerating, hard to call.

**Operator**

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

**Craig Maurer** - CLSA - Analyst

Yes, good evening. Regarding your marketing budget you've guided to under \$1 billion, the number hasn't strayed that far from there over the last few years. I was wondering if you view that number as enough to sustain you going forward and you



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

probably just move marketing regionally as you have to but that the \$1 billion number seems like a reasonable target going forward?

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

So, let me offer the initial response. We will look to give you an update on annual guidance going forward at the next earnings call. That's our custom to guide at the beginning of the year. It has been around \$1 billion for the last couple of years. And in light of the unfolding recovery in the economy, where we stand in the environment, hopefully clarified by then in the US, we'll take a very hard look at where the marketing dollars yield the most return and then on a bottoms-up basis come to a total and give you some reference points at the next earnings call.

**Operator**

The next question comes from Don Fandetti, Citigroup. Your line is open.

**Don Fandetti** - Citigroup - Analyst

Good evening. Joe, certainly understandable that it's going to be some time before you can really assess the risk around (inaudible) and debit, but is there any scenario -- are we talking about just a risk to growth rates, or is there a scenario where you could have to reduce your fees to the banks? And are you feeling any pressure from the banks as they look at their different (inaudible) scenario?

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

I don't think that there's any pressure that we're feeling right now that we haven't been feeling for quite some time. I think we've been in a competitive environment for awhile. This probably exacerbates it to a certain extent. I obviously can't get into talking about any of our contracts specifically. I think that we have thoughtfully taken our relationship with our clients into consideration in giving you our current guidance and beyond that there isn't much I can say. Look, there are different things that can happen as a result of the Financial Services Act and we'll have to see what that means.

I really don't believe in my heart of hearts that it's going to stop the electronic payments from growing in the United States, and I really believe that Visa will be a significant part of that in the future as we are now. What that means, what form that takes, what -- how that changes our business model is not -- I'm just not able to specify that at this particular point in time, but you should take some confidence in knowing that we are paying attention. I'm not just sitting on our hands waiting for something to happen. We are aware of the different directions that things can go and we are aware that different things will come into play. But to specify that publicly right now is just not possible.

**Operator**

The next question comes from Tom McCroghan with Janney. Your line is open.

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

Just two quick questions on the growth in payment transactions. They grew \$1 billion sequentially, primarily due to the US debit cards. If not new clients converting, such as WaMu, what drove the really strong sequential growth in US debit cards?



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

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

Some of it was WaMu. Some of it was WaMu and some of it was -- we did have some conversions and if I'm -- I think that Chase started putting out Visa cards last July and started their conversions in January and the conversions are still going on and will go on through the end of the year.

**Operator**

The next question --

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

I would just add to that in addition to the conversions, we are seeing a build in recovery. These are -- remember, we are coming off of a pretty low volume last year that -- relatively. We had, actually, negative payment volume growth last year, so we are ramping up. And then, in addition to that, you have your conversions that are contributing to that. So, it is an underlying resurgence in the business, consumer spend within that, and then on top of that you have an extra increment associated with the wins that we've experienced and convergence.

**Operator**

The next question comes from Chris Brendler, Stifel Nicolaus. Your line is open.

**Chris Brendler** - Stifel Nicolaus - Analyst

Hi, thanks, good afternoon. Lots of questions on Durbin, I have one, as well. The one area I can't put my hands around and I'm hoping you could give me some color commentary since you've been in the business so long is the prospect of merchant discounting. Is that a significant risk? It seems like that could be a pretty big impact on payment volumes if discounting for cash or pin debit becomes a big part of US payment system. Do you have any color you can provide on just how big that risk is? Thanks.

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

We've allowed discounting for a number of years. The definition of how someone can discount has been modestly expanded but, frankly, we've never looked at that as a significant risk. We've always been okay with the notion of discounting. We've had a little bit more trepidation as it relates to surcharging, but not discounting.

**Operator**

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

**Tim Willi** - Wells Fargo - Analyst

Thank you and good afternoon. Question about CyberSource and maybe the longer-term implications of the mobile and eCommerce world. Is there anything that -- in that business model or as you envision those markets developing, both domestically and overseas, that would have any kind of secular shift on the revenue yield in terms of purchase volume or revenue per transaction, again, as you advance that strategy, which I think you said CyberSource is pretty critical to?



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

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

We have not looked at it so much from the yield side as just the raw revenue -- the secular revenue opportunity and you particularly singled out mobile as opposed to the eCommerce space, which is one of the -- if not our fastest-growing source of transactions, many of which are cross-border. So, from that standpoint, on the transaction basis to the extent that there is a disproportionate number of cross-border transactions within the eCommerce space that we're seeking, yes, the yields could be significantly higher. But you focused specifically on mobile and in our view there are going to be, particularly in the developing and emerging countries where a US-type infrastructure is simply not in the cards, there is a significant opportunity for mobile to be the plastic of the emerging and developing world. India, it is why we're so focused on building out our business in India because mobile is such a good match with the infrastructure that it will be cost-effective for that enormous country.

**Operator**

The next question comes from Andrew Jeffrey, SunTrust. Your line is open.

**Andrew Jeffrey** - SunTrust - Analyst

Thanks, guys. Thanks for taking my question. Byron, could you put a little bit of an order of magnitude around compression in the data processing field in the fourth quarter? And then also, a little bit of a decline in the service fee yield this quarter? That's been on-going. Could you comment just on what's going on there?

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

So, let me talk about the data processing first. The biggest dynamic as you transition from three to four in terms of quarters is that we've lapped the pricing action that we took last year. That's by far and away the single largest dynamic. And from a modeling perspective, the way you might think about the data -- looking at data processing, as I described in my opening remarks, is that if you began with the underlying transaction growth, Visa-processed transactions are the primary driver of data processing. And then what we -- basically what we're saying is that as volume is building, a lot of that volume is going to clients that are already in our lowest-pricing tier or we're putting more of the volume in lower-pricing tiers and that is -- that's a natural outgrowth of the -- of a healthy growth in the business and what happens when you have increasing economies of scale. We share that with our clients. And so, that's basically the dynamic on the data processing side.

On service fees, this is much more -- it's a much more complicated dynamic. I wouldn't read too much into month-to-month shift and so, hard to comment surgically on that. I would just say there's no material call-out today on service fee trending.

**Operator**

The next question comes from David Parker, Lazard Capital Markets. Your line is open.

**David Parker** - Lazard Capital Markets - Analyst

Thank you, good afternoon. During the quarter you released a new eCommerce product, payclick, in Australia that stacks up better with PayPal than Right Click did. Can you just comment on your strategy with that product and how you might use the CyberSource acquisition to get closer to the merchant and penetrate that channel? Thanks .



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

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

On payclick, literally in June we just launched a pilot and as you pointed out, that was done in Australia so it is very, very early days in that. We'll have much more to talk about that going forward, but early days on that pilot just underway. Stay tuned.

**Operator**

The next question comes from Sanjay Sakhrani, KBW. Your line is open.

**Sanjay Sakhrani** - KBW - Analyst

Thank you. I just have a quick question on pricing changes. I seem to recall there was a pricing change that would kick in July. One, I wanted to make sure that was the case and, two, just wanted to make sure that was incorporated into the revenue guidance? Thank you.

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

The answer is -- it was a -- there was a price increase -- a pricing action that took effect in July but because of the quarter lag in our reporting of service fees, that won't actually show up until the first fiscal quarter of next year. Yes, and on the second part of your question, it is incorporated in the guidance that we have given for fiscal-year 2011.

**Operator**

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

**Chris Mammone** - Deutsche Bank - Analyst

Thanks, good afternoon. I guess the one area on revenues that missed the market as far as where we were modeling with International transaction fees, especially given the easy comp of last year, but anything to call out there? And then as a follow up, just on the incentive line, was there any recurring themes on why a lot of the deals got pushed out beyond the third quarter and what are the chances that you don't get some of those not until fiscal 2011? Thanks.

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

No call-out on the international. It is somewhat impacted by currency, but basically we just outperformed during the quarter and this has been a significant upside for us during the year. Just to give you all a little color, in April -- month of April, in constant dollars cross-border volume was up 15%; May, 19%; June, 18%; July through the first 21 days, 18%, and that compares to the first month of the fiscal year when cross-border was zero. So, this has been a very good story for us through the course of the year.

With regards to timing of contracts, this is always hard. It's just hard to pick the corner and so nothing to read into this other than the pace has probably slowed a bit because of -- with our US banks, given the dramatic attention that Washington has demanded over the last two quarters. Other than that, I would say nothing in particular to read in it.

**Operator**

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



Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

**Bruce Harting** - *Barclays Capital - Analyst*

I'd be curious -- it's hard to differentiate over these last few months of underperformance between fears of double dip, or the things that have happened in the legislation, but I would just be curious. Your view on the feedback you get, what is weighing more heavily on the stock? Is it implications from the Durbin Amendment or just fears of a double dip. But, Joe, your comment that Durbin won't impact until this time next year, so, therefore, might have impact on fourth quarter next year. Thus, 20% EPS growth is still in place is very reassuring [in your] guidance today which, thank you. But in the past the precedent of Australia suggested there wouldn't be an impact on Visa.

So, I'm just wondering are you implying that there may be an im -- that there -- is that a change in the view from Australia that the Durbin Amendment may, indeed, impact you and is it too simplistic to simply divide per -- to get to per card debit spend. I get about \$2,500 if I just take total cards by annual debit spend. Couldn't the banks simply -- that's about \$20, \$25 a year of income at a 1% average debit fee. Couldn't the banks simply replace that with some other form of fee in their bundled checking account structure and recoup what they lose in debit interchange? So another reason I'm wondering why you -- it seems like you might suggest post-2011 there could be an impact on the fees you receive?

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

I don't know that I indicated that I thought that there was going to be an impact one way or the other, I just said that I have clarity as it relates to where we are for the last quarter of this year and next year. I also said I wasn't sure of all of the implications and I wasn't sure of exactly how we would position ourselves in response to some of the implications. But if I indicated to you that I thought there was a storm on the horizon, I didn't mean to. I just -- I'm just not going beyond 2011 at this particular juncture.

As it relates to your question about our stock, you guys have more to say about that than I do. You tell me what happened. I don't -- that's not my job. My job is to tell you who we are, how we're performing and how we see our performance in the future and that's what we're doing.

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

Jose, at this point, we have time for one more question.

**Operator**

The last question does come from Jamie Friedman, Susquehanna. Your line is open.

**Jamie Friedman** - *Susquehanna - Analyst*

Hi, thank you for taking my question. So, just as we tune the model, Byron, the personal ex -- personnel expenses were somewhat lower than what we had modeled, but the professional consulting fees were higher. I realize that you said the professional consulting fees were related to CyberSource. Will those sunset as we move into fiscal 2011 and is the reduction in personnel expenses sustainable?

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

So, with regards to CyberSource, we had some impact in pro fees in the third quarter. We will have much more in the fourth because we close out the transaction during that quarter and so most of the direct CyberSource cost at -- that are specifically





## Jul. 28. 2010 / 9:00PM, V - Q3 2010 Visa Inc. Earnings Conference Call

deal related will, hit in the fourth and of course, will not reoccur. We could easily have some integration cost that will stretch over into the early part of fiscal-year 2011, but the CyberSource piece pretty much goes away at the end of this quarter. Personnel, we will -- we're not going to talk about that specifically but what we will do on the next earnings call is give you a sense as to where we see revenue growth and where we see margins -- operating margins, which will encompass personnel and don't be surprised if we have a word or two on marketing.

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

Well, that concludes the call. Thank you, everybody, for joining us here today. If anybody has any follow-up questions, please feel free to call either Victoria or myself. Thanks again.

**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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