

# FINAL TRANSCRIPT

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## **V - Q2 2010 Visa Inc. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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

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

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*Morgan Stanley - Analyst*

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## PRESENTATION

### Operator

Welcome to Visa, Inc.'s fiscal second quarter 2010 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 call over to your host, Mr. Jack Carsky, Head of Global Investor Relations. Mr. Carsky, you may begin.

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

Thank you, Jose. Good afternoon, and welcome to Visa, Inc.'s fiscal second 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. 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 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 second quarter earnings press release. This release can also be accessed through the IR 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 you all for joining us for the second consecutive week. As we conclude the first half of our fiscal 2010, I'm increasingly optimistic that the worst of the recession is behind us as we are finally beginning to see evidence of a pickup in spending domestically and internationally. This was apparent in the results of our fiscal second quarter as strong year-over-year payments volume and revenue gains were delivered in every area of our business. However, while we are increasingly more comfortable with the economic environment in which we are operating, we remain watchful of the longer term sustainability of growth in the world economy.

Earnings for our second fiscal quarter on a GAAP basis were \$0.96 per diluted share, a \$0.25, or 35% increase over the second quarter of 2009. Net income on a GAAP basis was \$713 million, a 33% increase over the year-ago period. Net operating revenues in the quarter were just under \$2 billion, a 19% increase over the year-ago period as a result of stronger than anticipated payments volume, cross-border volume and process transaction growth coming from all areas of the globe. Byron will get into the details, but overall, we are very pleased with our results and we remain cautiously optimistic that we will continue to see solid trends going forward.

Process transaction growth continued to accelerate over the quarter ending the period at 14% on a year-over-year basis with over 10.6 billion transactions processed over VisaNet. This is up from the 12% growth rate we experienced last quarter, and well ahead of the same period a year ago when process transactions grew 6%. With these trends, we are increasingly optimistic that our net revenue growth will now come in at the high end of our 11% to 15% range. While we delivered 16% growth year-to-date, keep in mind that we lap last year's data processing price increase at the end of the June quarter. In addition, consistent with



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our annual plan and guidance, we are projecting modestly higher rebates and incentives in the back half of the year. Byron will provide greater detail on this.

As you know, last week we announced an agreement to acquire CyberSource. It is a strong fit with our long-term strategic view of eCommerce and is complemented by its ability to deliver incremental benefits to our financial institution, customers and their cardholders. While we would be happy to entertain any outstanding questions you may have at the end of this call, please keep in mind that because CyberSource shareholder approval is still pending, we will not be able to go into any more detail on the transaction than we did last week. I would refer you back to the presentation and transcript of our comments from the conference call. Additional information regarding the transaction will be available in the forthcoming registration statement form, S4, which will be filed with the SEC in due course.

All in all, we continue to execute well against our business plan. Our management team remains very focused on further expanding our payments network globally. By growing issuance and acceptance locations, by expanding our processing capabilities, by adapting our products and services to fit the needs of individual markets and by driving transactions with effective market programs. As we navigate through the current economic environment, we are generating solid earnings results and will continue to focus on returning excess cash flow to our shareholders. While we temporarily curtailed our previously announced share buyback earlier in the second quarter, it is our intention to resume share repurchases this fiscal year as conditions warrant. With that, let me turn the call over to Byron, who will take you through the details of our financial results, and then I'll be back to wrap up.

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

Thank you, Joe. As is customary, let me begin with the financial highlights for our fiscal second quarter and then comment on the global payment volume trends for the current quarter followed by transaction results for April. As Joe already mentioned, it was a very strong quarter with better than anticipated revenue growth. Global payment volume growth for the December quarter in constant dollars rose from a positive 3% in the September quarter to 8%. In the US, payment volume growth was a positive 7% in the December quarter, up from a negative 1% in the September quarter. Debit continued to prove both its resiliency as a product and its secular appeal by delivering a positive 15% growth compared to 7% growth in the September quarter. Credit improved to negative 1% in the December quarter from a negative 9% in the September period. On a constant-dollar basis, rest of world payment volume grew at 10% in the December quarter, a modest improvement over the 8% rate delivered in the September quarter. These results continue to reflect solid 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 continued to improve in the March quarter posting a positive 12% growth rate on a constant dollar basis from the positive 2% rate in the December period. Transactions processed over Visa's network totalled 10.6 billion in the fiscal second quarter, an increase of 14% over the similar period a year ago and up from 12% growth we saw in the December quarter.

Turning to the income statement. In our fiscal second quarter, growth revenues of \$2.3 billion were up 20% from the similar period in 2009. Volume and support incentives as a percentage of gross revenues came in at 16%, up from the prior year's recession influenced level of 15% and in line with our expectations and guidance for fiscal 2010 as payment volume growth improved. Net operating revenues in the quarter were almost \$2 billion, a 19% increase over the operating revenues reported for the second fiscal quarter of 2009, driven by better than anticipated global payment volume and transact -- and process transaction growth in debit, in credit and cross-border payments.

Moving to the individual revenue line items, service revenue was \$885 million, up 10% over the prior-year period and reflective of accelerating payment volume growth in the quarter ending December, a trend which continued through the March quarter. Data processing revenue was \$728 million, up 34% over the prior year, based on strong process transaction growth of 14% and



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the continuing effect of previously enacted pricing actions. International transaction revenues were up a solid 22% to \$545 million, due to an improvement in cross-border volumes during the volume.

The foreign exchange impact on revenue in the second fiscal quarter was a positive 2% as a result of the weakening dollar against several key currencies. While the balance of this year's revenue forecast is substantially hedged, some quarter to quarter volatility may be exhibited due to the timing of hedges and the underlying volatility of currencies. Overall, for the full fiscal year, we expect the foreign exchange impact on revenue growth to be neutral to slightly positive. Our operating margin was 57%, in line with our guidance of mid to high 50% range. Higher revenues in the period were offset by higher planned marketing and advertising spend in the quarter. We expect a similar dynamic in our fiscal third quarter as we ramp up ahead of the FIFA World Cup.

Total operating expenses for the second quarter were \$837 million, representing a year-over-year increase of \$71 million, or 9%, driven by anticipated increases and marketing and advertising trend. Our expectation continues to be that expenses on a full-year basis will be relatively flat to the 2009 level on a GAAP basis. Excluding any effect from our pending CyberSource acquisition. On a sequential quarter basis, we saw moderately higher expenses in marketing and advertising as well, given higher spending on the Winter Olympics and upcoming World Cup events. We also saw consolidated personnel expenses as we invest for future growth. Capital expenditures were \$42 million in the quarter and \$79 million year-to-date representing ongoing investment in technology and our newer initiatives. For fiscal 2010, we expect capital expenditures to be around \$200 million.

Moving on to the balance sheet, we ended the first quarter in strong shape -- excuse me -- we ended the second quarter in strong shape with negligible debt and cash, cash equivalents, restricted cash and available for sale investments of \$6.3 billion. Of this total, \$1.6 billion is restricted cash, which represents amounts sufficient to fully pay out the American Express settlement, with \$1 billion that is currently uncommitted. The previously-announced unlocking of 50% of the remaining locked up class C shareholders commenced on March 1, and as anticipated, had little discernible effect on our trading activity. As of the end of March, there are a total of 100 million class C shares outstanding, of which 55 million shares remain locked up.

Now, let me comment on March's payment volume data and our early read on April. Then I'll cover our updated financial expectations for the balance of the year. Global payment volume growth for the March quarter in constant dollars rose to 13% from a positive 8% in December. We experienced meaningful growth in every one of our global regions. In the US, payment volume growth was a positive 13% in the March quarter, up from a positive 7% in the December quarter. Debit continued its strong recent trend, delivering a positive 21% growth compared to 15% growth in the December period. Debit currently accounts for 57% of total US payment volume. Credit accelerated a positive 3% growth in the March quarter from a negative 1% in the December period. More recently, through the twenty-first of April, US payment volume grew at 15%, 2 percentage points ahead of the March quarter rate, but 1 point lower than the month of March growth rate of 16%. Further deconstructed, debit grew at 22% while credit grew at 7%.

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 recognize continued secular growth and a strong and healthy diversified country base outside the US. Global, cross-border volume growth accelerated considerably in the March quarter, posting a 12% growth rate on a constant dollar basis from the positive 2% rate in the December period. Growth in the month of March was an unexpectedly strong 16%. In contrast to our view a quarter ago, this trend appears to be more representative of a broader cyclical trend rather than just pent-up demand. April cross-border volume growth on a constant basis sustained the strong growth rate we saw in March, posting a 17% rate of growth through the twenty-first of the month. Process transactions through the twenty-first grew at 15% over the prior-year period, up slightly from the 14% growth posted for the second fiscal quarter, but down a point from the 16% growth rate delivered in the month of March.

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. As Joe mentioned, given our year-to-date results, we are now comfortable with a net revenue growth target at the high end of the 11% to 15% range. Despite our year-to-date growth of 16%, we anticipate a couple of



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dynamics over the back half of the year. First, the data processing pricing action we took in April of 2009 will lap in our June quarter, making year-over-year growth comparisons in this line item less favorable in the fourth quarter. Second, consistent with our guidance, we expect rebate and incentive costs to increase moderately in the second half due to higher earn out rates tied to the higher volumes we're experiencing. Remember, as discussed at our investor day, the level of incentives tied to payment volume growth declined in fiscal year 2009 due to economic conditions. Consistent with our internal operating plan and our guidance, the level and incentives earned will naturally rise with volume in 2010, with the financial impact weighted more to the second half of the fiscal year.

In addition, we also anticipate signing several new deals, some as soon as the third quarter, which may have up-front payments that are directly expensed rather than amortized, resulting in some lumpiness to our quarter-to-quarter incentive levels. That said, consistent with our Q1 guidance, we are still comfortable with full-year rebates and incentives as a percentage of gross revenue in the range of 16% to 17%, potentially at the higher end. Our expectation for our full year 2010 operating margin remains in the mid to high 50s. As exhibited this quarter, increased marketing and advertising expenses, as well as further investments in our newer initiatives, offset the higher margin we reported in our first fiscal quarter. We expect similar dynamics in our fiscal third and fourth quarters. We expect our full fiscal year 2010 tax rate to be in the range of 36.5% to 38.5%. We continue to target better than 20% earnings per share growth in 2010 on a GAAP basis, excluding the VisaNet Brazil gain and a 2011 earnings per share growth goal of better than 20%. We expect capital expenditures to be around \$200 million and lastly, our projection for free cash flow for the year remains north of \$2 billion, which is net of the \$682 million prepayment we made last quarter on the previously-settled retailers litigation. That concludes my comments, so I'll turn the call back to Joe.

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

Thanks, Byron. In closing, let me say, it has certainly been a very busy and exciting time at Visa. We are fortunate to sit at the center of a dynamic and highly competitive industry. Not only are more consumers turning their backs on cashing checks, but more governments and businesses are embracing the speed, security and reliability of Visa digital currency in every part of the world. Inevitably, along with our success comes increased competition from companies large and small, both within and outside of the United States. However, as we have done in the past, we will continue to challenge ourselves to innovate and adapt to the ever-changing competitive landscape. Importantly, we are taking concrete steps to achieve our strategic objectives and secure our long-term growth to the benefit of Visa's shareholders and clients. We are also continuing to build our management team with key hires to lead and operationalize our activities in mobile and eCommerce. But even as we look to the future, we continue to focus on the tremendous opportunities in our core business. The ongoing migration to digital currency from cash and checks.

By way of example, at the end of calendar year 2009, the number of Visa, debit and prepaid cards issued globally surpassed 1 billion for the first time in our history. This represents not only further penetration of debit globally, but the underlying growth and importance of prepaid cards, which are key contributor of all of our debit business overall. And in the coming weeks, we will increase our marketing activation around our FIFA sponsorship -- excuse me -- around our FIFA sponsorship in advance of this summer's World Cup. The majority of these marketing investments will be focused on increasing awareness of the benefits of debit and premium credit products with the goal of driving every day and cross-border transactions. Particular emphasis will be given to markets with strong growth potential and a passion for soccer. With this, we are ready to take any questions.

## QUESTIONS AND ANSWERS

### Operator

Certainly. (Operator Instructions) To be sure all questioners are heard, we ask you please limit yourself to one question. (Operator Instructions) One moment for our first question. The first question comes from Adam Frisch, Morgan Stanley.



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**Adam Frisch** - Morgan Stanley - Analyst

Thanks, good afternoon, guys. Really solid and straightforward quarter, so I guess I'll focus on emerging markets and CyberSource is kind of off the table for now. Turning to of the Brazil, two of the larger banks announced a JV this week. Certainly can be seen as a threat to you, but our industry contacts suggests they're going after the private label market but not your core offerings. So any color you can provide there would be great, and an update in other initiatives like India and Russia would also be appreciated. If you could focus on the support you are getting from the big banks and government entities in these markets, that would be really helpful. Thanks.

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

Well, as it relates to Brazil, there is not much to report beyond what you just said. Every indication that we have from any conversations we have had with individuals at those institutions would suggest exactly what you said, Adam. So we don't look at this as being threatening to us, certainly in the near-term.

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

Is it relates to Russia, we're working well with the government and with Share Bank which is, as you know, one of the -- well, the largest institution, as well as other banks. As a matter of fact, we signed an agreement with Share Bank -- well I signed an agreement with Share Bank while we were at the Olympics, and it covered an agreement on how we were going to operate cooperatively at the Winter Olympics in Russia. Share Bank, who has actually traditionally been more of a Master Card bank than a Visa bank, is fully committed to issuing only Visa cards from now through the Winter Olympics. And I have nothing new to report on India other than what we've reported up to now.

**Operator**

The next question comes from David Hochstim, Buckingham Research.

**David Hochstim** - Buckingham Research - Analyst

Following up on that answer to Adam's question, is Share Bank just only issuing new Visa cards, or are they going to convert from MasterCard to Visa? And then my real question was, can you give us some color on what you see in the way of cross-border and spending improvement? And then, have you seen evidence in this last quarter of a pickup in discretionary spending in credit card? Is there faster growth in signature cards than in other credit cards?

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

Well, I'll answer the first part of the question, which is the simple part. The answer is I don't believe that they're converting anything that they have. I was speaking primarily of new issuance, although that is over a multi-year period of time. I don't know that they'll issue zero Master Card cards, but their principal partner by far.

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

What we can say on cross-border is that we are seeing just strong cross-border gains throughout the globe. If we were to look at cross-border for the second quarter for Visa transactions, while it was in constant dollars, the category was up 12%. 11% in the US, 12% rest of world. So it's a broad-based recovery on cross-border. And then what we -- with regards to discretionary versus non-discretionary, the mix for us -- for the quarter just ended in the US, which is what we have real-time visibility to, the



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mix is now a couple of percentage points higher for non-discretionary. So in the spirit of your question, we would say that the pickup is still very much debit, very much non-discretionary, but with credit starting to show signs of life. But even within our credit portfolio, we're finding that the mix of non-discretionary is continuing to rise. Modestly, but continuing to rise.

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**Operator**

The next question comes from Rod Bourgeois, Bernstein.

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**Rod Bourgeois** - *Sanford C. Bernstein & Company - Analyst*

Yes guys, it sounds like you're poised to win some new accounts. Can you give us any profile information on the types of wins you're expecting in terms of size or geography? And if you can comment on the basis for how you're winning these deals. And then also related to that, Brian, since you have some unamortizable expenses attached to these wins, should we expect this to be more of a new and common trend in terms of how you deal with the up-front expenses on new wins? Thanks.

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

So let me give you some perspective on that. When we guide at the beginning of the year -- by the way, let me first say that what is unfolding this year is very consistent with how we planned the year and how we guided to it. And we have a -- every year, we have a natural deal pipeline, a natural flow of deals.

What's hard to predict is when those deals will actually renew or come to conclusion. And it's when you actually have a signed agreement that you can then trigger the accounting, and so there is no particular call out on wins, losses, renewals here. This is -- for fiscal year 2010, this is just how the deal pipeline fell, and as a result, we're more second-half weighted in the incentives than we would book in the first half. And you'll notice that we are still affirming that the level of incentives for the year are within the guidance we gave at the Q1 earnings call.

With regard to the amortized or expense, again, I would say that there is no call-out here. That we anticipated a certain amount of those incentives being expensed and what we are reporting, although second half weighted, is still very much consistent with the way we thought the year would unfold.

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**Operator**

The next question comes from Credit Suisse.

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**Moshe Orenbuch** - *Credit Suisse - Analyst*

Thanks, just in that same vein following up, could you talk about what -- perhaps what percentage of the annual revenues in those contracts might be, those incentives might comprise? Because it would seem that that should imply that fiscal 2011 should have some benefits relative to this year.

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

We don't guide or talk about the first part of your question. We don't break that part out in any detail. But the second -- but the conclusion you're drawing is fair, that -- and I think there are two phenomena here. And, frankly, it is a bit -- it has something to do with the deal flow, but, frankly, it's more about the earn outs. Fiscal 2009 was a depressed, a non-normalized depressed





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incentive year because portfolios did not grow substantively during that year. Many of them didn't grow at all. And so what you have in 2010 is the beginning of a return to a more normalized incentive level. You have growth in the portfolios.

You'll notice we're now reporting year-over-year positive growth in the credit portfolios, not just the debit portfolios. And then -- and so what is happening is, you're starting to earn a level of incentives and get back to a more normalized level, which then resets the base in fiscal year 2010 and hence, you would expect, everything else being equal, a more moderated level of incentives in the year that follows, a more moderated level of growth and incentives for 2011.

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

I think I would add, that as it relates to the number of transactions that we've consummated over the last two years, it has partially been a result of the economy and the consolidation of the banking industry, and I think we're pretty much at the tail end of that right now. So I'm not sure that you'll see as many deals in 2011 as you have in the last two years.

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**Operator**

The next question comes from David Long, William Blair.

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**David Long** - William Blair - Analyst

Hey, guys. MasterCard is increasing prices from what we hear, on merchant assessments as of April 1. And so my question is, have you guys raised merchant assessment pricing, as well? And then also as a follow-up, is there any other pricing increases that we should be thinking about here for your fiscal third quarter?

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

Well, we've already announced an increase in our acquirers' fees similar to the one that MasterCard did, and ours is effective in July. But because of the way that we book, our service fees won't show up in our revenues until our first fiscal quarter, which would be the October quarter. quarter.

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**Operator**

The next question comes from Tien-Tsin Huang, JPMorgan.

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

Hi, thanks. I wanted to ask about the cross border, which was stronger than we expected. The difference between the 22% in cross-border revenue versus the 19% reported volume, Byron, is the delta there pricing, or did mix contribute to the spread widening out there? Do you follow my question?

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

The -- we don't hedge volumes, but we hedge revenue. And so I think there's no real call-out here with regards to the international. It's tracking pretty close, but it will always have several data -- it would not be unusual to have several points of difference plus or minus.



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**Operator**

The next question comes from Jason Kupferberg, UBS.

**Jason Kupferberg** - UBS - Analyst

Thanks, good afternoon, guys. I just wanted to follow up at a comment you had made at analysts meeting about seeing a narrowing of the traditional gap between pin and sig debit interchange rates. Can you give us update on what the impetus is for this movement, and does it also apply to your network fees, or is it really just on the interchange side? And is the goal here to more or less to keep the average interchange rate about the same just by tweaking pin up and sig debit down?

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

Well, there are parts of that question that I can answer and parts of it that I can't. And parts of it that I shouldn't. But I -- but what I would say to you is that I don't think the trend from signature to pin is any much different than it's been for quite a while. And while the pin volume has grown, so has the signature volume. And the signature volume is considerably more than the pin volume. It is always been a fact that a merchant of pin use pin to any extent that we want. If a merchant wants to put terminals in -- pin terminals in, then they're more than welcome to do so. So what's going on isn't, in my opinion, or from what we can see, much different than what's been going on for quite some time. By the way, which means that it isn't narrowing anywhere near as rapidly as your question would suggest.

**Operator**

The next question comes from Chris Mammone, Deutsche Bank.

**Chris Mammone** - Deutsche Bank - Analyst

Thanks. I have a similar question to Tien-Tsin's. Could you go into more color on the service fee revenue growth? It looks like growth in service fees lagged your payment volume growth, which is a reversal of the trend, at least in the past four quarters.

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

With regards to service fees, again, I would -- I think what we report is on service fees on volume is unhedged, so it is a gross number, nominal unhedged. When you -- when we reported in our financial statements it is hedged, and so there is always going to be a delta with regards to that. Now, having said that, there will be -- I wouldn't get overly concerned about an individual quarter. We ought to be looking at it over several quarters, because there will be ins and outs for the quarter. And having said all of that, there is always a degree of variance that will occur simply because there is a difference in mix. We have one level of service fee yield in the United States, which is where most of the -- it is the single largest source of service fees.

As you move outside the United States, we have very different mix profiles. So it actually does matter from which geographies the stronger growth rates are coming, because if yield is higher in the faster-growing, then we will have, everything else being equal, we'll have service fee revenues growing faster than payment volume. But if it is coming from areas that have lower yields on service fees, then we will have the opposite. And then, of course, there is a difference between the mix between credit and debit. Credit carries on balance higher service fee yields than debit. And then within debit, signature carries a different service fee yield than pin signature debit than pin debit. So in short, there are quite a few factors that go into the actual translation of payment volume into revenue, and what you see is the outcome of all of those in a given quarter. All in all, we feel it is a pretty healthy growth rate, and it is growing at a rate that is, frankly, somewhat above our expectations at the beginning of the year.



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**Operator**

The next question comes from Julio Quinteros, Goldman Sachs.

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

Hey, Byron. Can I stay on that same point, just to add another quick question about the delta on that card services fees? How much of that, if any, is attributable to tiering? In other words, people moving, volumes coming back faster and some of the tiered pricing you would see, maybe even a merchant mix situation. Trying to get a sense if there is something that that could also be another factor to contemplate in the delta there?

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

Yes, I think the answer I gave earlier, Julio, there are a multitude of factors. I would say that the factor you just described has very little to do with the calculation. The added concentration of payment volume would be much more a driver than tiering.

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

I think the short answer to everything that Byron has said, is that nothing has essentially changed in the way that we do business or the way that we generate revenue or what our yields are. I think there will be some anomalies on a quarter-to-quarter basis, but as he said earlier, look at the year, look at several quarters and you are not going to see any significant change. So there is nothing going on that we're aware of, and we've looked at it pretty carefully, that is significantly changing or that you'll have to think of as being different than it has been in the past.

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**Operator**

The next question comes from Sanjay Sakharani, KBW.

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**Sanjay Sakharani** - *Keefe, Bruyette & Woods - Analyst*

Byron, I was wondering if you'd talk about that personnel line. You mentioned some reinvestment there, and I was wondering how we should think about it in ongoing basis. And maybe if you could split out investment spend portion versus the core number there. The then second question was, just to your comments that the rebound in volume seems to be related to a broader cyclical trend versus pent up demand. I was wondering if you could talk about the specific items that lead you to believe that that's the case. Thanks.

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

Okay. On the personnel line, I think just keep in mind that we are coming off a year, namely 2009, where it was -- we had a combination of a very uncertain economic environment where it made sense to put a very close watch on expenses. And at the same time, we were completing the rationalization of expenses associated with the merging of the various Visa companies at the time of the IPO. And so at the same time we were then -- as we completed the rationalization, we were then waiting for the right time to really start gearing up and recognizing that we have a lot of secular growth to capture. That means we need people and more people on the ground in countries, calling and servicing clients and that it's time for us to start ramping that up. And so we don't have a specific call out or breakout on the personnel, but the notion here is it's time to start investing in our cost structure to support the growth in revenue and capturing the secular. It's not a heavy investment, because we are basically a -- we're leveraging a -- our platforms. But it is time to start growing that line, which is what you're beginning to see.

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With regards to the rebound, we're just remaining cautious on this front. There are very mixed views from an economic standpoint as to whether or not what we're seeing in today's economy, even globally, is supported by strong fundamentals. But there is no denying, as I referenced on the cross-border transactions, that this -- we are in an environment where the world is traveling again. I say the world, we don't have Europe, but it seems everyone else is traveling. And we're starting to see a return of growth to in the credit portfolios, not just the debit. And when we say positive growth in the credit portfolio, that is a global comment. We are seeing positive growth in our portfolios, both debit and credit in the United States and across the globe. Whether that will be sustained or at what level remains to be seen, but these, back in December and January, it was just hard to know whether, particularly on the cross-border front, whether we were seeing pent-up demand. Well, here we are now in March, and we're continuing to see very strong increases year-over-year in cross-border.

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**Operator**

The next question comes from Craig Maurer, CLSA.

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**Craig Maurer - CLSA - Analyst**

Good afternoon. I hate to go back to Chris's question, but I just want to be sure that none of the, "weakness" we saw in the yield, was driven by the JPMorgan and Washington Mutual resignings and possible concessions there. And to follow up, if you can comment on the composition in the rebound in US credit spending. At American Express we saw pretty extraordinary growth rates out of the co-brand portfolio, and I was wondering if you were seeing a similar trend between that and your normal, non co-branded cards.

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

As Joe said, on the -- in terms of however you look at it, yield, growth rates, we are not seeing any material change in our yield environment for the yields that have been done over the past year. It's unfolding very consistently with, in terms of a yield standpoint, with how we planned the year. What is proceeding faster is the rate of recovery. Again, I use the word recovery advisedly. But I assure you, we did not expect to be generating 19% revenue growth at this time almost a year ago when we were assembling budgets.

With regards to credit portfolio, I'm afraid our credit growth is being generated by categories that are a little less sexier. It is -- we are start to see, as I mentioned earlier, a pickup on the credit side with regards to non-discretionary spend. So it is fuel, it's discount stores, it's bill-pay, it's grocery stores. But these -- what is encouraging is that these are categories that have -- that are recurring and have a high degree of stability associated with them. I might also add that on the travel front, we are starting to see increases in airline, in the hotel, year-over-year. But what is really driving the gate is the earlier categories I mentioned.

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**Operator**

The next question comes from Robert Dodd, Morgan Keegan.

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**Robert Dodd - Morgan Keegan - Analyst**

Hi, guys. A bit of a broader question, if I can. On advertising, I mean, I know we've put -- the Winter Olympics and the World Cup this year, we've got the rugby World Cup next year. We have a number, obviously, of premium partners in the sponsorship department. Is it the plan to try and grow that number of sponsors to the high end, or are you happy with where you stand with the particular portfolio relationships you have right now?



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

We actually have reduced the number of sponsorships over the last couple of years, and our primary focus is on the Olympics, FIFA and the NFL. Beyond that, we don't have any significant or major sponsorships that we leverage our advertising against in any substantial way. And nor do we intend to.

**Operator**

The next question --

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

I would like to go back and just clarify one thing that Byron talked about a little bit earlier, just to make sure that nobody misunderstands. I think that we did see a potentially a low water mark in some of our personal line maybe in the first quarter of this year. But let reiterate that we are an efficient organization, we intend to be an efficient organization. We're simply refocusing resources where they think that they should refocused, and our intention would be to end the year spending less on that line than we did last year. Modestly less, but less, nonetheless.

**Operator**

The next question does come from Jim Kissane, Bank of America, Merrill Lynch.

**Jim Kissane** - Bank of America Merrill Lynch - Analyst

Thanks. Yes, quick question. Joe, on the signings on the back half, are these renewals or are they mostly new business? And going on to Byron, are the signing bonuses becoming more prevalent, especially the ones that don't have the claw backs? Thanks.

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

No, I don't think so. There is a combination of things that may -- that could come together under -- the funny thing about this is that it would happily come together in -- particularly in the third quarter. But they're not one thing. They're a number of things, and they are in a number of parts of the world. The real answer to the question is, what's going on is that we continue to attract new business and better business and that we continue to excel from a competitive point of view, and it's very, very consistent with our plan and where we want to go and where, fortunately, we seem to be ending up. So I -- it would be wrong to say that everything is something new, but it would be just as wrong to say that a lot of it isn't very new. So that's where we are. But you're not talking about 10% of -- crippling our revenue growth by 10% or something. You're talking about amounts of money that may amount to somewhere between 1.5% or 2%, 2%, 2.5% of our revenue growth in a particular quarter. And that would be a great quarter.

**Operator**

The next question comes from Tim Willi, Wells Fargo.



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**Tim Willi** - Wells Fargo - Analyst

Thanks, and good afternoon. A question on yield and just tying into maybe your thoughts around pricing where I know you comment every quarter about what you expect there. But could you talk about how you think about, on a multi-year basis, impacting revenue yield by value added product, whether that be around tools that give consumers more security around using the card or accessibility or prompting. Is there anything there to think about around revenue yield outside of price increases that you would highlight?

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

I would say at this point, nothing to highlight. It is very clearly an objective over time to introduce more services that only will yield more, but that will differentiate Visa more relative to alternate payment forms. And of course, that is one of the strategic underpinnings of why we were interested in CyberSource, which is a discussion, as you know, for another day. But thank you for asking.

**Operator**

And the next question comes from Jamie Friedman, Susquehanna.

**Jamie Friedman** - Susquehanna Financial Group - Analyst

Hi, good evening. Thanks for taking my question. I want to ask about the prepaid. And Joe, thanks for sharing the \$1 billion debit prepaid number. That was helpful. I'm wondering if the growth in prepaid is noticeably different from some of your other products. And if, as we had dialoged at the analysts day, you might contemplate breaking that out over time. How significant is that for the company? Thank you.

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

We've never broken out the absolute significance of it, but I think we've suggested that of the new products that we're involved in, or the new initiatives that we're involved in, this is the most mature, and I think that we would certainly consider breaking it out when we -- as we go into 2011.

**Operator**

The next question comes from Moshe Katri, the Cowen Group.

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

Or not?

**Operator**

Moshe, your line might be muted.

**Moshe Katri** - The Cowen Group - Analyst

Hello? Can you hear me now?



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

Yes, we can hear you.

**Moshe Katri** - The Cowen Group - Analyst

Great, can we get an update on the merchant lawsuit in terms of some of the pending deadlines? And then maybe looking at the recent volcano eruption and in terms -- can we -- can you give us a feel on whether we should see an impact? Was there an impact on cross-border transaction volumes during the June quarter because of that? Thanks.

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

I'm going to let Byron start off by telling you about the volcano, and then I'll comment.

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

Notice how we all refer to it as the volcano eruption as opposed to trying to pronounce the name of the volcano that erupted. What we can say is that for about three days we saw a blip in the force, but it was not a blip of any substantive size. And that the, if I can call it a bounce-back, things seemed to have bounced back very quickly. And so we do not expect to have any call-out in the quarter associated with the volcano eruption at this time. It was an event, but for revenue purposes, I think for us, it is a non-event.

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

As it relates to the litigation, there are motions that are pending. There is no trial date that's been set. There is a mediation that's ongoing, but obviously under those circumstances, I don't have anything else that I can report to you about the litigation at this time.

**Operator**

The next question comes from Bruce Harting, Barclays.

**Bruce Harting** - Barclays Capital - Analyst

Is there anything to read into the 1% slide in the April volume from March? And then, is it just my imagination or are you a little skimpy on the guidance for 2011 relative to this time last year? I don't see any revenue growth guidance or volume in support incentives.

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

Let's just level everything. We talked in -- I talked earlier about the fact that we thought we would see a little bit of pullback in the second half of the year as it related to our revenue growth, due to lapping the pricing increase in the fourth quarter, and due to the lump -- as Byron said, the lumpiness in the incentive line. Having said that, our projections for -- our guidance for the rest of this year and frankly, well, for the rest of this year, are not predicated on a continued rapid ramp-up of volume. I also mentioned earlier in my speaking points that while we're optimistic, I'm not betting on a continued recovery that just goes through the roof. So that kind of sets where we are in 2010.



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Obviously, under those circumstances as it relates to 2011, we've talked about the 20-- better than a 20% growth in our earnings per share, but I'm really reluctant to try to pinpoint things, specifically pinpoint revenue, or some of the other categories until we get a little bit further in the year and I'm a little bit more comfortable with where the economy is and where it's going and where our volume is going. We're poised to do well if the economy does well. You know? Our success, to some extent will follow an economic recovery. We have enjoyed volume increases up to now by expanding categories and moving into new geographies. We will continue to do that. But that would obviously be enhanced by any worldwide economic recovery. Or economic recovery in certain pockets of the world. So we're optimistic, but we're not going to go overboard, and I'm going to continue to be reluctant to predict what's going to happen until I have some more certainty around whether it's going to happen.

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

And I would just add to that, that by the time we give 2011 guidance, we would like to be able to include CyberSource into that guidance, assuming the transaction (inaudible) in the fourth fiscal quarter.

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

Jose, we probably have time for one more question.

**Operator**

The last question does come from Don Fandetti, Citigroup.

**Don Fandetti** - Citigroup - Analyst

Joe, in terms of the alternative payments and eCommerce, are you where you think you need to be with your pending acquisition at RightClick? And then, how do you stand versus some of the other networks?

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

I think that our recent acquisition is a spoke in the wheel. I think it is one of the things that we had wanted to do and had thought about doing as we were putting our eCommerce strategy and our strategies for growth in the future together. I think we talked about that at investor day. And so what we've just done is consistent with what we talked about. But it is one part of it. It is not, by any stretch of the imagination, the entire answer.

But as it relates to whether I am comfortable at where we need to be, given what we need to do, yes, I am comfortable. Or as comfortable as one can be in a rapidly changing environment. I think Visa has done a good job over the years in doing the research and the heavy lifting and moving that is enabling us to bring products to market today. We at Visa, as a public company, are very fortunate as it relates to some of the things that went on in Visa, the association prior to our IPO. And we're the very fortunate recipients of a lot of infrastructure and a lot of effort and testing, and tests in the market that are the type of experience that you can't buy, you have to experience. So I think we're prepared, and I'm as confident as ever that we're ready to move forward.

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

Well, that concludes our call, everybody. Thank you, as always, for joining us today. And if you have any follow-up questions, feel free to call either Victoria or myself.





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**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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