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V - Q4 2010 Visa Inc. Earnings Conference Call

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PRESENTATION

Operator

Welcome to Visa, Inc.'s fiscal Q4 2010 earnings conference call. All participants are in 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 like to turn the conference over to your host, Mr. Jack Carsky, head of global investor relations. Mr. Carsky, you may begin.

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

Thank you. Good afternoon, and welcome to Visa, Inc.'s fiscal fourth-quarter and full-year 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. 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 not guarantees of future performance and, as a result of a variety of factors, actual results could differ materially from such statements. These include setbacks in the global economy and the impact of new financial reform regulations. Additional information concerning these factors is available in the Company's filings with the SEC, which can be accessed through 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, the related GAAP measures and other information required by Regulation G of the SEC are available in the financial and statistical summary accompanying our fiscal fourth-quarter and full-year earnings press release. This release can also be accessed through the investor relation section of our website.

With that, I'll turn the call over to Joe.

Joe Saunders - Visa, Inc. - Chairman & CEO

Thanks, Jack, and as always, thank you all for joining us today. Visa closed out fiscal 2010 with another solid quarter, delivering net operating revenues of over \$2.1 billion, which was a 13% increase over last year. These revenue gains were driven by double-digit growth in payment volume, cross-border volume and Visa process transactions coming from all areas of the globe. For all of fiscal 2010, net revenue was a record \$8.1 billion, a 17% increase over 2009. Adjusted net income for the quarter, which excludes the gain from revaluing the Visa Europe put, was \$695 million, a 35% increase over the prior year. This equates to diluted earnings per share of \$0.95, a 38% increase over the fourth quarter of 2009. For the full-year 2010, adjusted net income was \$2.9 billion, a 23% increase over 2009. Full-year adjusted diluted earnings per share came in at \$3.91, 26% ahead of last year. Importantly, we delivered on all of the guidance we laid out at the start of our fiscal year.

On a separate front, we completed the repurchase of \$800 million worth of class D stock earlier this month, or approximately 11 million shares on an as-converted basis. And today we announced the authorization of a new \$1 billion share repurchase program for fiscal 2011, while last week we raised our quarterly dividend by 20% over the prior year. All of these actions reaffirm our commitment to return excess cash to our shareholders, a commitment that we initially laid out almost three years ago. But,



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of course, we will only do this after all appropriate investment and opportunities to fuel future growth have been funded. We continue to take steps to solidify our foundation for long-term growth. We successfully renewed several client contracts during the quarter. Importantly, this includes securing the early renewal of a major relationship that now leaves us with no major renewals until the beginning of fiscal 2013. While there are challenges to address, we remain confident in our ability to adapt to the changing environment, and we remain committed to being a growth Company.

While Byron will discuss in greater detail our overall guidance for 2011 and the nuances therein, I'm pleased to report that we will continue to target 11% to 15% net revenue growth, greater than 20% earnings per share growth, and are raising our cash-flow guidance to greater than \$3 billion. Our current guidance takes into account a step up into our global investments. This also includes resources to respond effectively to any changes in the US debit landscape. Visa will remain focused on maintaining its industry leadership through growth and innovation. Backstopping that leadership has been a willingness to apply the necessary investment hours behind new initiatives, expansion and defending our position in the US market.

We recognize that we must remain adaptable and innovative, appropriately addressing the economic, regulatory or legal challenges before us. We believe we have made good progress in working with the US government to bring clarity to two important issues that directly impact our business. First, we resolved with the Department of Justice, and second, we have met with the Federal Reserve staff on multiple occasions to discuss Visa's place in the payments industry and the industry in general. We are encouraged by the open and inclusive process that has been adopted. But as we have been saying, we have to wait until the rules are finalized to provide you with more detail regarding the financial impact this year and in the ensuing years. That being said we are not sitting idly by. We have had a team in place for several months focusing on how we will resolve our debit strategy based on potential outcome of the fed's rule-making process. As a result, we have developed a range of strategy options that we will choose from.

It's very important to keep financial reform in perspective. Our foundation remains solid. We are a diversified global business in a growth industry, and we will continue to invest to develop or acquire the products and services that drive long-term growth. There's been a lot written of late about Visa's prospects of the US debit market given recent legislative development. Let me give you my perspective about this. There is a reason we have a strong leadership position in this market. We have the best processing technology, value-added services and brand in the business. We will continue to use those assets to win in the marketplace.

Let me now turn the call over to Byron to take you through the details of our financial results, and then I'll be back to provide some context on what we are thinking about from a global investment and opportunity perspective.

Byron Pollitt - Visa, Inc. - CFO

Thank you, Joe. In today's call I'm going to cover first, our global payment volume and transaction trends for both the June and September quarter, as well as payment and transaction results for the first three weeks of October. Remember, the June quarter informs our fiscal fourth-quarter service revenue. Please note that we have also included CyberSource payment volume statistics to our operational performance data supplement beginning this quarter. Following the review of our revenue drivers I'll cover the financial highlights of our fiscal fourth quarter and full year, followed by guidance for fiscal-year 2011. Given yesterday's informational call on CyberSource revenue impact, changes in income state presentation related to our Visa Extras business and non-Visa process transactions, and a reevaluation of the Visa Europe put, I will not today specifically address these topics. If you missed the call, the webcast replay and associated PowerPoint presentation is on our website, and you can reach out to our IR team for additional clarification.

Global payment volume growth for the quarter in constant dollars was 14%, flat from the March period. Meaningful growth was sustained in every region of the globe. In the US payment volume growth was 14% in the June quarter, up from 13% in the March quarter. Rest of world payment volume on a constant dollar basis was 14% in the June quarter, essentially flat to the 15%



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rate delivered in the March quarter. These results recognize continued secular growth and a strong and healthy diversified country base outside the US. Turning to the most recent quarter, September global payment volume growth in constant dollars was 14%, same as the June quarter. In the US payment volume growth was 13% in the September quarter, down slightly from 14% in the June quarter. The rest of world payment volume on a constant dollar basis grew at 14% in the September quarter, flat from a 14% rate in the June quarter. More recently, through October 21, US payment volume growth held steady at 13%.

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. In the September quarter, global cross-border volume growth delivered a strong 16% growth, as the world economy continues to mend. October cross-border growth on a constant dollar basis sustained the momentum we saw in the September quarter, posting a 17% rate of growth through the 21st of the month. Transactions processed over Visa's network totaled 12.1 billion in the fiscal fourth quarter, an increase of 16% over the similar period a year ago and ahead of the 14% growth rate we saw in the June quarter. Process transactions through the 21st of October continued their growth at 16% over the prior-year period. CyberSource, billable transactions on a pro forma basis totaled 829 million for the quarter, a very strong 36% growth rate and three billion for the year, an equally impressive 32% rate of growth. We expect continued strength in this part of our business as e-Commerce activity continues to grow both in the US and internationally. Please see our operational performance data supplement for a history of CyberSource billable transactions.

Now, turning to the income statement. In our fiscal fourth quarter, gross revenues of \$2.5 billion were up 15% from the similar period in 2009. For all of 2010, gross revenues were \$9.6 billion, or up 18% over the prior year. Net operating revenues in the quarter were \$2.1 billion, a 13% increase over 2009, driven by a sustained economic recovery, ongoing sector growth and the two months of revenue contributed by CyberSource, which totaled \$41 million. Visa, without CyberSource, grew 11% in the quarter. For the full fiscal-year 2010, net revenues were \$8.1 billion, a 17% increase over the prior year.

Moving to the individual revenue line items. Service revenue was \$912 million, up 13% over the prior-year period, and reflective of strong payment volume growth in the quarter ending June. Keep in mind that our previously-announced price adjustment, enacted in July, will not manifest itself until our fiscal first quarter of 2011. Data processing revenue was \$840 million, up 15% over the prior-year's quarter, based on a similarly strong process transaction growth rate. Also influencing this quarter's revenue was a \$37 million contribution from the CyberSource acquisition. As I mentioned in our call yesterday, the majority of CyberSource's revenues flow through this line. International transaction revenues were up 22%, to \$619 million due to the sustained improvement in cross-border volumes during the period. We have not seen any sign of protracted slowdown in cross-border volumes, suggesting a continued healthy global travel outlook. Volumes and support incentives as a percentage of gross revenues came in at 17%, a little higher than our run rate the first three quarters due to the successful signing of certain contract renewals during the quarter, which carried a high level of one-time contra revenue incentives. As Joe already mentioned, we are quite pleased that we were able to resign these issuers.

Total operating expenses for the fourth fiscal quarter were \$1 billion, flat to the year-ago period despite the incremental addition of approximately \$60 million in expense from the CyberSource acquisition. Absent this impact, the year-over-year quarterly decline was driven primarily by lower marketing and advertising spend for the full fiscal year 2010, expenses were flat, coming in at \$3.5 billion versus \$3.4 billion in 2009 and in line with our guidance going into this year. For the quarter our operating margin was 53% as a result of slightly-higher expenses and the two-month impact of CyberSource, which for all of 2010 the operating margin was 57%, in line with our guidance of mid to high 50s. The foreign exchange impact on net revenue in the fourth fiscal quarter and full year was a positive 1% as a result of continued weakness of the US dollar in combination with our currency hedges. The CyberSource acquisition added an incremental \$60 million to operating expenses this quarter, including \$15 million of depreciation and amortization, as well as minor stock-compensation expense. Set against the \$41 million of incremental revenue, the two months of CyberSource on the books were approximately \$0.02 dilutive to the quarter.

As we telegraphed on last quarter's call, we expected an elevated tax rate this quarter due to the impact of the CyberSource, the true-up of our state tax rate and the related adjustments to our deferred tax liabilities recorded as part of our October 2007 reorganization. In the end it was not as impactful as we had expected, though the rates still approach 38%, excluding the reevaluation of the Visa Europe put option. This resulted in a full-year tax rate of 37%, excluding, again, the revaluation of the



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Visa Europe put option. As discussed on yesterday's call, we have decreased the value of the Visa Europe put by \$79 million, primarily reflecting a contraction in Visa, Inc.'s EE ratio. This nonrecurring, nontaxable event was flowed through the fourth quarter income statement, resulting in a reported EPS of \$1.06 for the quarter and \$4.01 for the year. Removing the put's \$0.11 impact yields an adjusted EPS of \$0.95 for the quarter and \$3.91 for the full year, which equates to 26% growth for the year. Capital expenditures were \$97 million in the quarter and totaled \$241 million for all of 2010. This represents ongoing investment in technology, infrastructure and growth initiative.

Moving on to the balance sheet, we ended the fourth quarter and the year in the same strong position in which we began; negligible debt and cash, cash equivalents, restricted cash and available for sale investments of \$6 billion. Of this total \$1.9 billion is restricted cash, which represents an amount sufficient to fully payout the balance of the American Express settlement over the next six quarters, with \$1.5 billion that's currently uncommitted. As of the end of fiscal Q4, Visa's outstanding share count was 727 million on an as-converted basis. Earlier this month, we placed \$800 million into the litigation escrow, which had the effect of an 11 million share buyback. On a pro forma basis this will reduce the share count to 716 million. As Joe mentioned earlier, our board recently authorized another \$1 billion repurchase program beyond the \$800 million repurchase just completed. We are now on track to return to shareholders \$1.8 billion via share buybacks, plus over \$400 million in dividends in fiscal 2011. As perspective, during the past two fiscal years, Visa has repurchased \$3.3 billion in stock and paid \$0.7 billion in dividends, returning in total \$4 billion to shareholders. Fiscal-year 2011 is on track to add \$2.2 billion to that total.

Now let me cover our expectations for fiscal 2011 and beyond. We are currently targeting net revenue growth to be in the same 11% to 15% range that we have guided to since our IPO. Our underlying assumptions for setting this include continued global economic recovery and a steady contribution from cross-border volume. Also, as we are substantially end through the end of our fiscal 2011, we expect no significant impact from currency fluctuation. We have assumed impact from the Financial Reform Act, primarily in our fiscal fourth quarter. In addition, as discussed on yesterday's call, please note that our revenue growth expectations for 2011 reflect 12 months of CyberSource operations in 2011 versus two months in fiscal 2010; \$89 million of Visa's Extras revenue recorded in fiscal year 2010 that will not repeat in fiscal-year 2011, and \$140 million of non-Visa processed transaction revenue reported in fiscal-year 2010 that will also not repeat in fiscal year 2011. With the early renewal of a major relationship in Q4 and with no major contracts up for renewal for the next two years, volume and support incentives should be in the range of 16% to 16.5% for the year.

Our expectation for full-year 2011 operating margin is about 60%, based on the reduction in Visa Extra's expense and lower media costs. Due to the absence of a major Olympic or World Cup event marketing spend should come in at under \$900 million. Our full fiscal-year 2011 tax rate should be in the range of 36.5% to 37%. We continue to target better than 20% earnings per share growth in 2011 on an adjusted basis, inclusive of the addition of CyberSource to both years, but excluding the impact from revaluing the Visa Europe put. Capital expenditures are slated to be in a range of \$250 million to \$275 million, reflecting additional investment over 2010 in several key growth initiatives, including e-Commerce and CyberSource. And lastly, we are projecting free cash flow to exceed \$3 billion, reflective of our solid earnings trend.

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

Joe Saunders - Visa, Inc. - Chairman & CEO

Thanks, Byron. Earlier I noted my confidence in the future of Visa. Over more than 50 years our organization has established a track record of adapting and flourishing during times of change by driving unique and tangible value to clients, consumers, merchants and economies. So as we close the prepared portion of this call, I want to leave you with one important thing, investment. Visa is today and will remain tomorrow a growth Company. To extend that position we are focused on strategically deploying our substantial capital to invest in areas and opportunities with significant long-term growth potential. Our two biggest areas of investment will continue to be international expansion and innovation, both of which are key accelerants to growing Visa's share of the secular trend. At the same time, we will continue to protect our position globally in all aspects of our business.



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Regarding international expansion, earlier this year we stated our strategic aspiration to derive 50% of our revenues from outside the United States by fiscal-year 2015. Our strategic plan for fiscal-year 2011 and beyond includes several initiatives that will help us achieve this goal. First and foremost, we have developed and begun investing in aggressive programs to accelerate growth in key markets around the world, beginning with Brazil, Russia and the Middle East. We are also shifting market resources to place increased emphasis on key non-US geographies. In fiscal 2011, we will invest upwards of 60% of Visa's marketing expense on markets outside of the United States, where we are focused on driving growth in the affluent segment and debit at the point of sale. And importantly, we are investing significant resources to engage directly with local governments in key markets around the world, highlighting how Visa's network, products and services can help meet their needs and spur economic growth. I can tell you that many of these conversations are leading to more productive relationships that will help grow our local business, because the fact is the scale, reach and sophistication of our network delivers a compelling value proposition, particularly in emerging markets.

Innovation is also a top growth priority and investment focus. I'm pleased to say we've made progress on a number of fronts this quarter to deliver tangible consumer-facing innovations to market. For instance, as the global leader in developing mobile payments we now stand on the threshold of bringing this new technology to consumers in the United States. As we speak we are working with many of our largest banks in the country to pilot and commercialize mobile payment programs, including JPMorgan, Wells Fargo, Bank of America and US Bank. What excites us the most about our mobile contact of solutions is that it's scalable, it allows customers to use existing bank accounts, and it works with most smartphones in the United States today.

We've also seen excellent traction with money transfer. Just last week, in addition several other initiatives in which we are engaged in India, the Reserve Bank of India granted us permission to begin offering inbound, cross-border remittances to eligible Visa debit and Visa prepaid cardholders issued in India, and allows the Visa clients in India to promote our money transfer capability. This service is up and running and generating revenue today. And of course, our investment in CyberSource is already paying off. You may have seen that on Monday we took a major step forward in enhancing and opening the authorized dot net developer center to independent developers. Put simply, we recognize that innovative ideas come from many different people and places. By combining the power of our flexible and secure network with a community of developers creating new payment applications we are paving the way for the next generation of payment innovations to come to market quickly and for the benefit of all stakeholders. I look forward to reporting out on the progress of this and our other key investments over the coming fiscal year.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question does come from Bryan Keene, Credit Suisse. Your line is open.

Bryan Keene - Credit Suisse - Analyst

Hi, good afternoon, guys. I guess, Byron, I was just hoping you could quantify the financial reform impact in the fourth quarter that you guys are taking into account?

Byron Pollitt - Visa, Inc. - CFO

We have -- I presume you mean fourth quarter of next year, fiscal-year 2011, so we have accounted for that with certain assumptions, which we'll be more forthcoming about once we actually see the rules written. So I think the key point to take away here is that management is very comfortable with the guidance that we have given, recognizing that what impact there might be would be limited to the -- largely limited to the fourth quarter. And we are comfortable with our guidance reflecting that period for the upcoming year and when the fed is more explicit about rulemaking then we'll be able to have a more informed



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discussion and more informed guidance with regards to fiscal year -- frankly fiscal-year 2011, but more importantly, beyond fiscal-year 2011.

Operator

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

Tien-Tsin Huang - JPMC - Analyst

Great, thanks, good quarter here. I wanted to ask about the incentives and the large renewal. The incentives came in a little bit better than we expected, but I just wanted to clarify. Did the large renewal require any unusual term or pricing concession, and I'm curious, did this renewal get captured in the quarter in terms of incentives, or is that something we'll see in upcoming quarters?

Joe Saunders - Visa, Inc. - Chairman & CEO

The incentives that were a part of the renewal were very much in line with what we had -- with the guidance we had given earlier. It did have an impact in the fourth quarter, as we anticipated. There are no specific call-outs and it is fully embedded in our guidance for 2011.

Operator

Next question comes from [Mosha Coutry, Owen]. Your line is open.

Mosha Coutry - Owen - Analyst

Thanks. Byron, looking at fiscal-year 2011, how should we think about the quarterly revenue progression and then EBIT margins? And also, for the first time since you went public, advertising and marketing expenses as the percentage of sales declined sequentially, and we're also expecting advertising and marketing to be below \$900 million in fiscal-year 2011. That's also below the \$1 billion bar that you've had since you went public. Maybe you can give us some color on some of these trends? Thanks.

Joe Saunders - Visa, Inc. - Chairman & CEO

We don't comment on quarterly progression, we wait for the earnings calls to do that. To try and be helpful what we've -- particularly since there that we have some unevenness in the progression of the quarters we prefer to guide at the annual level, and with giving you both revenue guidance and margin. Clearly if you were to look at fiscal-year 2010 it was a recover year, so the comps we are lapping in 2011 are going to get progressively tougher as you move through the year, and I think that's the perspective we'd suggest you view the course of the year. And the, of course, to the course that we have factored some impact from the Durbin that's largely a fourth-quarter event. So those -- from that standpoint that's the perspective on the quarterly.

With regards to marketing you're right. We -- up to this point our guidance has been under \$1 billion. Based on the change in income statement presentation that we will be making with regards to Visa Extras, which is one of topics that was in yesterday's pre-earnings call, there will be \$89 million worth of marketing expense that will have been booked in fiscal-year 2010 that will not repeat in fiscal-year 2011. And so that gets you a long way towards moving from under \$1 billion to under \$900 million.



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Operator

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

Chris Brendler - *Stifel Nicolaus - Analyst*

Hi, thanks. Good afternoon. Just a quick question regarding the outlook. You mentioned the October trends looking relatively in line with what you saw in the September quarter, but it appears to me the comparisons will get tougher as you head deeper into the calendar fourth quarter and certainly has you head into 2011. Do you expect a material slowdown in volume growth imbedded in your guidance, or are there other offsets there that keep volume growing at double digits? Thank you.

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

We have assumed that there is a continuing modest recovery through the course of the year, and so that would be a positive growth in volumes in each of the quarters year over year.

Operator

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

Tom McCrohan - *Janney Montgomery Scott - Analyst*

Hi, thank you. Hey, Byron, in terms of composition from the different revenue categories, what are you thinking about data processing-related fees becoming increasingly more of a bigger portion of overall fees over the next two to three years? Thank you.

Byron Pollitt - *Visa, Inc. - CFO*

Because the CyberSource revenue is largely going to be booked to data processing, you should expect that that will have a lift in data processing revenue, certainly initially, as a portion of our mix, and then we'll just have to see how we grow the other categories to see how it sorts out. But near term, there will be a lift, because roughly 90% of the data process -- 90% of the CyberSource revenues will be booked to data processing fees, and that is also a subject covered in yesterday's pre-earnings call for those that would like to explore that a bit further.

Operator

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

Dan Perlin - *RBC - Analyst*

Thanks. I just wanted to explore incentive fees combined with the marketing spending as we think about next year. The 16% to 16.5% incentive fees are a little bit lower than I thought have given the fact that you had using that product or that incentive line to drive that global acceptance, so have you changed the way you're thinking about that going forward? And then secondly, when you put those two categories together, meaning marketing, expending and then total incentives, because the market is seeing a reduction in interchange and therefore not funding as much loyalty points is that also having an effect and is that part of what you're talking about in terms of adjusting for this Financial Reform Act? Thanks.



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Byron Pollitt - Visa, Inc. - CFO

Let me give you the three drivers that are impacting incentives and holding it into the 16% and 16.5% range. First, many of our incentive arrangements are tied to year-over-year growth and when you have growth in a year, that reset the base of which incentives are paid the following year. So with fiscal-year 2010 being a recovery year, we had unusually large bump in incentives, because there was a steeper recovery in 2010 versus 2009 versus what we would expect in 2001 versus 2010, so that in effect acts as a dampener. Number two, there are no major contract renewals scheduled for 2011, and so this will be a much more normalized year as it relates to incentives. And then finally third, we will add in the CyberSource revenue into our total and that revenue typically doesn't carry with it incentives. So you put that three together, and that's the principal reason why we are settling in at a 16% to 16.5% rate.

Operator

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

Jim Kissane - Banc of America-Merrill Lynch - Analyst

Thanks. Byron, in the past you've given longer term guidance, say going out two years, tonight you're only going out to F 2011, is it primarily due to the Durbin uncertainty or are there other factors involved? Thanks.

Byron Pollitt - Visa, Inc. - CFO

It is our custom to give detailed guidance one year out, which is what we're observing this year, and it would be our expectation that once we've a more definitive clarification from the fed for the rules going forward, that we would then be in a position to give a much more informed and thoughtful guidance for 2012. So we're going to wait until we can talk about 2012 with that context.

Operator

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

Andrew Jeffrey - SunTrust - Analyst

Thanks -- pardon me. Thanks for taking the call. PayPal has become increasingly vocal and aggressive competitively, especially in mobile and gateway solutions and I just wonder -- I know it's been a big partner of CyberSource over the years. Wondered if you could just give a competitive commentary in terms of how you view PayPal? In a lot of ways, they're no friends of your customers as they sort of sap interchange revenue, so I wonder what you think the long-term relationship is between PayPal and CyberSource ?

Joe Saunders - Visa, Inc. - Chairman & CEO

A lot of the transactions on PayPal are Visa transactions, and I don't necessarily expect that to change in the moderate run. As it relates to whether we consider PayPal to be a competitor the answer is, of course we do, and there are a number of things that we have done and are doing that we -- some of which we talked about on this call, some of which we talked at our investor day that we are doing to compete not just with PayPal but other merging payment schemes, and we are focused on investing in and promoting those things that we do best and that fit in best with our business. We're going to continue to do that, and that's pretty much where Visa is.



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Byron Pollitt - Visa, Inc. - CFO

Yes. And I would just add that in the way that CyberSource deploys, we have the larger enterprise customers, and we have the ops, and then we have the much smaller businesses that do business in e-Commerce. Our authorized dot net brand under CyberSource is the one that competes successfully in that space. So that's -- to the extent there is more -- that PayPal is an alternative or authorized dot net is an alternative, it would be more in that space. Otherwise transactions carry -- as Joe said, transactions carried across PayPal automatically offer Visa as an alternative and we have a big role to play in supporting PayPal in their payment system in that regard.

Operator

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

Adam Frisch - Morgan Stanley - Analyst

Thanks, guys, good afternoon. Just wanted to address the incentives with the renewal, if it was called out. Obviously, it was one of your largest issuers and I'm presuming they issue debit cards. And if incentives didn't jump and there was no unusual call-outs in the time where I guess you could say banks have some incremental leverage given their (inaudible), should we assume that similar discussions are happening with other banks and maybe the concerns about them coming after you for a concession may be overdone, or is it just one bank that should be taken as a stand-alone incident?

Joe Saunders - Visa, Inc. - Chairman & CEO

We completed a transaction with a large client this quarter, and it was a stand-alone transaction, period, and it included credit business and the debit card business and the prepaid business, and so -- and that's about all I can say about it. I don't think that anything that we did or is done with that or others is particularly inconsistent. I think that -- I don't think there's anything about this that is highly unusual in comparison with other contracts that we sign..

Byron Pollitt - Visa, Inc. - CFO

Yes, let me just emphasize that point, if I could, Adam, so that my earlier comments were not misinterpreted. Incentives were higher in the quarter, they were 17%. That's high for us. A more normalized level 16% to 16.5%. We had a number of major contracts, with one large contract, in particular, that came together and was consummated in this quarter. We have -- we had telegraphed several quarters ago that this was a situation that was likely to happen and that it was important to interpret our guidance on a full-year basis, not what happens in a particular quarter. So those -- the deals that we anticipated were brought to resolution in the quarter. Incentives came in at roughly 17% and are baked into our guidance for next year IN TERMS of the full-year impact.

Operator

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

Craig Moore - CLSA - Analyst

Good evening. I was hoping you could add some color around your thoughts on Brazil and I was wondering if you've seen any increase in your growth trajectory following the dissolution of exclusivity in the acquiring market, which I know has increased competition for new merchants there dramatically? Thanks.



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Byron Pollitt - Visa, Inc. - CFO

I think it's too early. First of all, our growth in Brazil is very attractive, it's a robust economy, and our business in Brazil is very strong. I think -- we think it's still a bit too early to attribute any growth to the restructured arrangement that is in Brazil. Hard to differentiate given that economies are recovering from a recession. I think it's safe to say that Brazil is a very attractive, high-priority market for us, and we expect great things from that country still to come.

Operator

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

Bruce Harding - Barclays Capital - Analyst

In the discussions that you described as open and cooperative, is there any news on having a tech solution for differentiating banks below \$10 billion, for example, and any color input you might have on differentiation between signature and pen and way the fed is looking at that issue? And then if I may, on the mobile, is one of the things -- as you described working with the banks on rollout of pilot programs and things like that, how is the cost of that research split, and is that one of the embedded benefits you give to your clients as you explore new payment technologies that's a key part of your pricing scheme? Thanks.

Joe Saunders - Visa, Inc. - Chairman & CEO

As it relates to the first part of your question relating to the fed, our conversations with the fed have been focused on the competitive landscape and the debit business, the substantial investments and the long-going investments required to keep the global payment system running securely and reliably. We've talked to them why we believe cardholders should have the right to choose which payment networks to route their transactions on and why consumers making network choice expect to receive benefits of that selection; fraud benefits, charge-back benefits, rewards and promotions, things like that. So that's the kind of dialogue that we've had with the fed. As it relates to how the fed interprets it and it relates to how the fed interprets the question of signature versus pen and how many issuers do you have to have, we continue to believe that there would be a single signature issuer and at least two pen issuers. Now that doesn't mean that that's going to happen, but we don't know what's going to happen until we see what they come out with.

I think that to say that our meeting with them is open and constructive, it's open in the sense that they are curious about the business, curious about what's going on, interested in knowing what our thoughts are, and I think we've done it in a way that they at least trust the data that we're giving them. As it relates to how they digest that data and what they do with it or what they feel that they can do with it, that remains to be seen.

Byron Pollitt - Visa, Inc. - CFO

On the mobile front, much of what we do is -- you would consider R&D spending, and we do the investment, we incur costs, but we don't try and cover the full gamut. And so where we have other -- where there's other expertise required, we might, for example, do a joint venture with another technology company, which is exactly the case with the joint venture we have with Monetize. So they're another capability that we blend with ours in order to provide a more turnkey solution mobile payment platform for our clients. So hopefully that addresses your question.



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Joe Saunders - Visa, Inc. - Chairman & CEO

Oh, I think, Bruce, you also mentioned the under \$10 billion financial institutions in the carveup, and, look, as we have said consistently and we said prior to the law being passed, that's a very, very difficult thing to get to that requires a number of different entities to do things in order to achieve that end. Having said that, it's the law, and if it continues to be the law -- and I have no reason to expect that it won't -- then we will do our darnedest to make sure that we adhere to the law. And as it relates to how that can be done, I can't give you -- I can't give -- Visa cannot give you the blueprint to do it without the cooperation of

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. A few weeks ago you launched your first debit product in Canada and it appears you can only do lim -- it's limited to certain transactions, like online and over the phone and so forth. Can you just update us on the opportunity that you see for that market and when you feel that you might be able to do all types of transactions, including the face-to-face point of sale? Thanks.

Joe Saunders - Visa, Inc. - Chairman & CEO

Some of the rules put forward by the competition committee in Canada make doing a full-blown debit product somewhat problematic, and so I don't know exactly when or if we'll get to an ultimate end state. I think we have to see how things unfold in Canada, but we remain excited about rolling out a debit product a couple of weeks ago, and we think that there's a place in the market for the product. And we have been very encouraged by what's happened since we introduced it, and the activity lists some institutions that aren't currently part of the process, but are now looking forward to joining in. So we'll see.

Operator

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

Julio Quinteros - Goldman Sachs - Analyst

Great. Hey, guys, just real quickly, on the contract renewals that you guys have signed through fiscal 2013, what is the specifics around financial reform coming through in regards to that? So in other words, once you guys see the final ruling, can those contracts be renewed, can they be forced open, would you guys be forced to do anything that isn't already built into the contract? How do you have that structured would be helpful?

Joe Saunders - Visa, Inc. - Chairman & CEO

All of our contracts are with individual financial institutions. They all have different nuances, none of which am I going to publicly discuss since they are confidential.

Operator

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



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Don Fandetti - Citigroup - Analyst

Hi, good evening. Joe, there's been a little bit of talk in Washington about maybe efforts to tweak Durbin or even put a push for a longer implementation time period. Do you think that's a possible scenario? And then also just wanted to get your sense and your comfort on the non-US regulatory environment?

Joe Saunders - Visa, Inc. - Chairman & CEO

Well, in an answer to your first question, that conversation does exist and from our point of view we'll do whatever we can to make the ultimate outcome as palatable to us as we possibly can. So I wouldn't count on anything happening; but there is conversation, there is possibilities, and we pursue those possibilities. As it relates to regulation outside the United States, we mentioned in the talking points today that we've made a considerable amount of progress, particularly in those countries that we're most interested in doing business in, and I think that the news on that front is generally pretty good news. I'm talking about Russia, I'm talking about Brazil, even to some extent China, where our business is -- I think it's -- we have the largest -- almost the largest revenue increase for any country out the United States is China, or we did this year, and the business continues to be robust there. So I don't see -- I see this being a continuing situation. I don't think that government interest or government regulation is necessarily going to go away anywhere in the world, but from our point of view we are learning to adapt and use our technology to everyone's benefit and so far it's working quite well.

Operator

The next question comes from Drew Dampier, the Meredith Whitney Advisory Group. Your line is open.

Drew Dampier - Meredith Whitney Advisory Group - Analyst

Hey, guys, thanks for taking my question. Byron, I believe about a month ago at the Barclays conference you gave guidance and how much (inaudible) contributes to your overall revenue, you said it about 16%. I know Max Card had said it was about 15% of their revenues. I know you can't really comment directly on their pricing, but can you just help me understand why those ratios could be so similar given your transaction mix? I just would have thought yours would be a bit higher. Thanks.

Byron Pollitt - Visa, Inc. - CFO

So let me correct that. If you -- what we tried to do is narrow the debt revenue that we thought would be potentially impacted by Durbin, and that's a little over 20% of our total global revenue, so a little over 20%. We actually have more revenue in debit than that, but we don't -- but the increment above that level we don't see that as being impacted by the Durbin legislation. So it's a little over 20% and then within that we had a breakdown between pin and signature, but think the key thing here relative to the statistic you had was -- it's a little over 20% that would -- of domestic US debit revenue that could potentially be impacted by Durbin.

Operator

The next question comes from Glenn Greene, Oppenheimer. Your line is open.



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Glenn Greene - *Oppenheimer - Analyst*

Thank you, good afternoon. Just the first question might be pricing benefits that might be embedded in the 11% to 15% -- net revenue growth guidance. Are there any specific call-outs other than the assessment fee increase that I think I heard was going to be going into effect in the first quarter?

Byron Pollitt - *Visa, Inc. - CFO*

So on the pricing let me restate our longer-term perspective, which is one to two percentage points. In the guidance that we gave specifically -- the revenue guidance that we gave specifically for fiscal-year 2011 we have not assumed any pricing lift that that revenue guidance. If we do have any pricing realized than it would be an upside to the projection.

Operator

The next question comes from SanJay Sakhrani with KBW. Your line is open.

Sanjay Sakhrani - *KBW - Analyst*

Thank you, good evening. Just had a quick question on the card service fee revenue line. One of the metrics I look at is just card service fees relative to payments volume, and that margin has contracted quite a bit year over year, and I was just wondering how we should think about it going forward, understanding that I think the pricing change acts that line, as well? Thank you.

Byron Pollitt - *Visa, Inc. - CFO*

On card service fees -- give me one moment here -- so if we were to look at what occurred in the fourth quarter the pricing, as you bridge from Q3 to Q4, some of that is due to the contract renewals multiple that we had during the, and then we have a mix issue here. It's not really an issue, it's just a phenomena. We have -- outside the United States we are experiencing faster growth in geographies that do not have as high a service fee yield and so the combination of a shift in the geographic origin of where the revenue -- the payment volume is coming from relative to the service fee yield and the impact in the fourth quarter of contract renewals together explains most of the shift

Operator

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

David Hochstim - *Buckingham Research Group - Analyst*

Yes, hi. I wonder if you could just talk about the personnel expense of what we might expect in 2011. Is there a lot of hiring yet to do outside the US? Should we expect the same kind of seasonality next year in that number?

Byron Pollitt - *Visa, Inc. - CFO*

Yes. So in personnel I think -- first of all, the principal driver of personnel expense for next year will be the fact that fiscal=year 2010 had only two months of CyberSource. With the addition, as we move into 2011, we're obviously going have ten months of comparables for which there was no CyberSource. In addition, I'd be cautious about projecting personnel expense off the fourth quarter, because the fourth quarter of the year is always subject to an above-average number of accruals, and so the way that we tried to be helpful here was to give you an operating margin based on the entire revenue for the year, and to give



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you some guidance on where we thought marketing would come in. With regards to hiring, we do expect to be hiring next year and a disproportionate amount of that hiring to be outside the United States, as we focus aggressively on growing our revenue and developing our markets outside of the US. There's a significant component of getting that done that requires boots on the ground, and we're committed to put -- to committing -- we're committed to getting those boots in the countries where the opportunity is significant.

Joe Saunders - Visa, Inc. - Chairman & CEO

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 - Analyste

Got the one in, lots of pressure. I wanted to ask about mobile payments. Joe, your commentary about mobile payments had some notable enthusiasm in your voice, I was wondering without getting into the details of the financial structures in mobile payments, is Visa a better off or worse off in a world with high mobile payments penetration?

Joe Saunders - Visa, Inc. - Chairman & CEO

That is a good last question and I would have to tell you that everything that we've done and the money that we've invested into mobile payments would suggest to me that we're better off with it, not worse off. And I think that the other part of the answer is better or worse, it's occurring, it's going to happen. And here are -- I mean, it's incredible the number of people in the world that own a cell phone, and I don't -- and the usages is mind blowing. And so I think that it's something that you have to be involved in, and what I'm particularly excited about is where we are in terms of putting the infrastructure together that works with our Visa infrastructure. We aren't starting out by saying, oh, why don't you slap a sticker on a cell phone and swipe it. We have an integrated mobile network that we've been working on for a number of years, and so -- and the Monetize entity that we bought that helps connect the mobile technology to the banking systems. I think we're just in a terrific position, and I think it is both offensive in terms of having the ability to increase our volume and defensive in that it is -- with what we have I don't think we (inaudible). So I hope that answers your question.

And thank you everybody for attending the call.

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

Thank you all very much. If anybody has any follow up please feel free to call myself or Victoria.

Operator

Thank --

Byron Pollitt - Visa, Inc. - CFO

And go Giants.



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

And go Giants.

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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