

FINAL TRANSCRIPT

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V - Q4 2011 Visa Inc Earnings Conference Call

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PRESENTATION

Operator

Welcome to Visa Inc. fiscal Q4 2011 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 it over to your host, Mr. Jack Carsky, head of Global Investor Relations. You may begin.



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Jack Carsky - Visa Inc. - Head of Global IR

Thank you very much. Good afternoon everyone. Welcome to Visa Inc. fiscal fourth-quarter and full-year 2011 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. A PowerPoint deck containing highlights of today's commentary was posted on 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. These include setbacks in the global economy and the impact of new financial reform regulations. Additional information concerning those factors is available in our last 10-K on file with the SEC. It can be accessed through the SEC website and the Investor Relations section of our website.

For historical non-GAAP or pro forma related financial information disclosed on 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 today's earnings press release. This release can also be accessed through the Investor Relations section of our website.

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

Joe Saunders - Visa Inc. - Chairman, CEO

Thanks Jack. As always, thank you all for joining us today.

Visa closed out fiscal 2011 with a solid fourth quarter, delivering net operating revenues of \$2.4 billion and a 13% increase over the same period last year. Diluted earnings per share for the fourth quarter were \$1.27, an increase of 34% on an adjusted basis. As a reminder, our adjusted figures exclude the revaluation of the Visa Europe put option in the prior year.

Revenue gains for the quarter were driven by strong payments volume growth around the globe, strong cross-border activity, and continued recovery in credit spend worldwide. Net operating revenue growth for the quarter was impacted in part by a strategic decision to increase client incentives as Visa aggressively pursued routing decisions from US merchants and acquirers. These deals, most of which are one-time in nature, were the primary reason we modestly exceeded our annual incentive guidance of 16.5%.

Visa also delivered strong performance for the full fiscal year. Net operating revenue was a record \$9.2 billion, a 14% increase over 2010. Adjusted net income for the full year was \$3.5 billion, a 22% increase over the prior year. Full-year adjusted diluted earnings per share came in at \$4.99, 28% ahead of last year.

While Byron will get into more specifics on fiscal 2012, we are continuing to commit to our guidance provided in July of high single to low double-digit revenue growth and mid to high teens earnings per share growth. This takes into account only modest global economic growth as well as anticipated industry reaction to the debit regulation.

Given our outlook for continued growth, we continue to deliver on our commitment to return excess cash back to shareholders. During the quarter, Visa repurchased \$423 million worth of our stock at an average price of \$80.87. Last week, our Board of Directors authorized an additional \$1 billion, bringing our current repurchase authorization to almost \$1.6 billion. As reported last week, our Board raised our dividend 47% over last year's rate to \$0.88 per share on an annualized basis.

Visa is fundamentally committed to driving growth by expanding our core debit, credit, prepaid and commercial businesses, which offer tremendous potential to deliver near-term and long-term revenue growth and to deliver greater value to our



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financial institution and merchant clients. The goal is to grow the number of users, acceptance locations and ways to use Visa products.

All of our priorities and investments focus on expanding that core well into the future. This includes applying both the businesses we've recently acquired, which are generating revenue growth today as discrete entities, as well as the innovative technologies we're developing in-house.

Importantly, our core business is performing well today. Worldwide, Visa delivered strong growth in the September quarter with credit and debit payment volumes growing 14% and 13% respectively. Cross-border volume also posted healthy gains, increasing 15%.

As I review highlights for the quarter, let's first turn our attention to the United States. To help drive future growth, Visa finalized several deals with financial institutions over the past quarter. These include an extension of our long-term credit and debit issuance agreement with PNC Bank and long-term brand agreements with the Independent Community Bankers Association and card services for credit unions. In all cases, I firmly believe Visa's extensive industry expertise and experience were critical differentiating factors that helped secure these important wins.

We also continued to win important cobrand deals with valued partners. This includes a new agreement with Williams-Sonoma as well as the Marathon Oil cobrand mandate which is a conversion from one of our largest competitors. These build on our momentum from the United Continental Holdings agreements announced last quarter.

On the acceptance front, our ongoing strategic initiative to expand merchant acceptance is yielding important benefits. For the 12 months ended June 30, the most recent date we have available, Visa expanded US acceptance by 400,000 merchant acceptance locations. Now, we are building on that. Beginning next month, Neiman Marcus will accept Visa in all of their stores, building upon their long-standing acceptance of Visa products online.

Of course, we are moving forward on several fronts to implement our evolving debit strategies to the newly regulated US market. These activities are progressing well and quickly, and as we address the needs of -- these activities are progressing well and quickly as we address the needs of both merchants and issuers.

Our first set of activities focuses on winning merchant preference. As a reminder, US debit revenue impacted by the regulation contributes approximately 20% of Visa's total revenue today. Of that, Signature Debit contributes more than 75% of the US debit revenue. We are confident in our ability to retain the overwhelming majority of that as we move forward in the newly regulated environment.

However, to address the pockets of debit revenue at risk as a result of the regulation, particularly revenues related to PIN debit, we are moving forward quickly with a program to incent routing decisions. In fact, between the start of the fourth quarter today, Visa completed dozens of merchant deals and executed contracts with a handful of our largest acquirers.

As I noted, by expanding our incentive program to the merchant community, we increased our client incentives line for the most recent quarter. Byron will provide additional context, but I want it to be clear that I view these merchant incentive agreements as a critical aspect of Visa's business building strategy in this environment. These are investments that create strong and productive relationships with our merchant clients.

We are also moving forward with our modified debit economics, including the implementation of our network participation fee and the reduction of variable acquiring fees on Visa debit and Interlink. As stated last quarter, we believe this offers merchants a greater incentive to route transactions over our network and an opportunity to lower their per-unit transaction costs.

As for details, we anticipate providing specific pricing information to merchants and acquirers in January which will go into effect on April 1. As a result, we will begin to recognize the related revenue impact in our fiscal third quarter of 2012.



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At the same time, we are intensely focused on maintaining and expanding debit issuance through strong partnerships with financial institution clients. I have been clear, since the Fed debit rules were finalized, the new legal requirements will likely result in a portion of transactions being moved away from Interlink as issuers take action to comply with the regulation. Specifically, in limited cases, this may very well result in the removal of Interlink from the card and migration to a competing network. These changes to the market are incorporated in our guidance.

A key part of our strategy positions Visa to compete for every transaction on a Visa branded debit card. To that end, earlier this year, we reminded clients that Visa check cards are enabled for PIN authentication. While merchant acquirers have historically used signature authentication for check cards, in the overwhelming majority of circumstances, Visa is fully capable of facilitating both signature and PIN debit transactions over one network, VisaNet. This is an important competitive advantage and differentiator in the new environment.

Bottom line -- as a long-term leader in debit, I am confident Visa offers issuers a differentiated suite of debit products, a robust processing platform, and economics that will help clients optimize their growth.

Turning our attention outside the United States, we are steadily expanding Visa's international business and are ahead of our stated goal of driving 50% of revenue from international markets by 2015. In fact, our international businesses grew 19% in the fourth quarter, driving 65% of Visa's overall revenue growth. Each market is distinct and requires a unique approach to drive local growth. But much like the United States, the overwhelming majority of near-term revenue growth will come from expanding Visa's core businesses, including affluent credit, debit and processing.

For one example, let's turn our attention to Latin America, where our core fundamentals are incredibly strong and Visa has increased share in each of the past five years. That is both share versus cash and checks and share versus our traditional network competition. We are building on that momentum. In Mexico, Visa signed an extensive partnership contract with BBVA Bank [Kolmer] to expand our long-standing relationship across a broad suite of products and services. This client is Visa's largest issuer and acquirer in Mexico, as well as the largest financial institution in the country.

In Brazil, we strengthened our partnership with Banco Rendimento to provide Visa processing services on prepaid products in the country. We are also engaged in productive discussions with other Brazilian clients and hope to soon announce some important transaction.

Our Asia-Pacific region also continues to deliver very strong growth with payments volume growing by 17% for the most recent quarter. Drive future growth in the region, we signed several important agreements with key clients. For example, in Australia, we secured an important agreement with Westpac Banking Group for expanded prepaid processing services.

On the merchant front, we established acceptance for Visa prepaid products at Woolworths Group, the largest retailer in Australia, a critical step towards bringing prepaid into the financial mainstream in that country.

Lastly, let's talk about innovation. We are aggressively stepping up investment in new technologies that will increase transactions on our core business platforms and add incremental value to the merchant community and create new revenue opportunities for both Visa and our clients. As technology and thus the physical and digital shopping worlds converge, Visa is building its platforms in anticipation of a broad global adoption of next-generation payment technologies, including e-commerce, mobile payments, and information products.

Over the past 18 months, we've enhanced our position by assembling what we believe are the best assets in the business, including CyberSource, PlaySpan, and Fundamo. Each of these are discrete businesses driving revenue growth today and arm Visa with best-in-class technology and capabilities to quickly bring emerging products to market. Combined with Visa technology, global reach and proven reliability and security, these new assets will enable Visa to capture significant new revenue opportunities by providing the backbone for our next-generation offerings in the US and globally.



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When it comes to next-generation products, everyone is talking digital wallets. As a reminder, you don't transact with a wallet, whether it's leather or digital. You transact with what's stored in that wallet. We have spent decades successfully placing nearly 2 billion Visa cards in cardholders' wallets.

Today, when most people talk about digital wallets, they're talking about NFC payment on a mobile phone. In that regard, no company is doing more than Visa to set the stage for broad adoption. Visa's suite of wallet solutions include "Click to Buy", "Touch to Buy", and "Tap to Buy" which embrace e-commerce transactions, mobile commerce transactions, and transactions at the physical point-of-sale using NFC chips.

Our top priority is making the act of purchasing online or on a mobile device as convenient as when you use your plastic card, benefiting both consumers and merchants. Today, 46% of all e-commerce transactions are conducted with a Visa product. I'm confident Visa is positioned for continued leadership in this category. To that end, we will soon begin rolling out a superior and simple online shopping experience through a "Click to Buy" payment capability which will be available on mobile devices and at home on your computer. Our "Click to Buy" and "Touch to Buy" functionality includes aliasing capabilities, requiring only a username and a password at checkout. This increases ease-of-use and customer convenience while maintaining the highest level of security for Visa cardholder accounts.

Rollout of our "Click to Buy" functionality begins in November with pilot programs in integration with merchants. Following that, we will introduce subsequent releases in the first quarter of calendar year 2012, expanding functionality to include loyalty programs and the like over the following months.

In parallel, we are committed to consumer choice and developing partnerships to ensure that core Visa products can be used easily no matter which wallet a consumer chooses to use. Our recent agreements to license payWave technology to Google Wallet and Isis are two prominent examples, and we are actively engaged with other leading players in the social networking, mobile, e-commerce and related industries.

Another important element of our innovation strategy is creating new offerings that deliver differentiated value with the tremendous data that Visa generates. Our scale and reach provide the most compelling transaction information available in the world, and we will use this data to strategically grow our business. We use that advantage today in applying aggregated anonymous data to power our Advanced Authorization Service, which has helped to drive broad rates the lowest level in years. Now we intend to extend that capability to driving even more value to consumers as well as merchants.

Let me be clear that we are 100% committed to maintaining the highest standard of security and privacy with this information. And of course, account-specific information will only be used with direct consumer permission.

One example of what Visa can do with the information products is our real-time messaging service, which brings benefits of the virtual world to the point-of-sale. We are building sales momentum and now have 14 major merchants under contract, representing 68 brands across a wide range of verticals. We are exploring ways in which this platform can be leveraged to enhance issuers' relationships with their cardholders.

Prominent partners signed during the fourth quarter include United MileagePlus, Nordstrom's, Guess, and Petco. We are working towards more deals in the near term. I strongly believe this transaction in the market is a testament to the effectiveness of this product in enhancing the value proposition Visa offers to merchants by helping to drive their customer loyalty and sales while also incenting routing decisions to Visa.

Outside the US, we are investing in innovative mobile money solutions in both developed and emerging markets, recognizing the different geographies require specifically tailored (technical difficulty). An important key to our efforts is Fundamo, the global leader in deploying mobile payment platforms for developing markets. Fundamo has a track record of more than 50 successful client deployments in 40 countries, including 27 countries in Africa, Asia and in the Middle East, and is in the process



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of integrating its mobile money services platform with VisaNet and an array of Visa products and services. I look forward to providing some important updates on our progress in the coming months.

So, to sum it up, I think the examples showcased by today highlight how Visa is building off of our strong foundation and moving ahead, both in the US and around the world. We are harnessing our strong core businesses, our competitive differentiators, and our ongoing focus on new technologies to position Visa for revenue growth and as a leader for the payments industry well into the future.

With that, let me turn the call over to Byron.

Byron Pollitt - Visa Inc. - CFO

Thank you Joe. I'll begin with some overall observations.

First, Visa's 13% net revenue growth in the fourth quarter was once again broad-based with solid 8% growth in the United States and a very strong 19% growth rate in rest of world. Approximately 65% of the quarter's revenue growth came from outside the United States. This means non-US revenue in the quarter was 45% of Visa's total.

Second, US revenue growth has been supported by seven consecutive quarters of positive credit payment volume growth. Most recently, the months of August and September compounded at 11% respectively, which continues the strong growth we have seen all year. While encouraging, much of this volume over the past year has been driven by affluent cardholders. As we enter fiscal 2012, it is worth noting that we have not yet seen any discernible broadening of the US credit spending base beyond this affluent income group.

Third, client incentives for the quarter as a percent of gross revenue were 19.5%, resulting in a full-year incentive level of 17%, slightly ahead of our full fiscal year expectation. Two incentive call outs -- first, on the issuing side, as telegraphed on our last earnings call, a disproportionate number of our contracts got signed in Q4. Second, on the acceptance side, we experienced greater success than anticipated in the signing of partnership contracts with merchants and acquirers.

Finally, operating expenses for the quarter were 2% above the prior year while on a fiscal year basis they were up 7%. During the fourth quarter, we incurred approximately \$30 million of previously unplanned restructuring expenses, close to one half of which were the result of the decommissioning of our London office. The majority of these positions will be relocated to other countries, placing them closer to the clients we serve. Of course, we also incurred incremental expenses associated with the acquisitions of PlaySpan and Fundamo. Excluding the restructuring and acquisition related costs, expense growth this fiscal year was in line with our expectations for heightened investment spending to support our core businesses, our e-commerce, and mobile initiatives, as well as the growth of our CyberSource business internationally.

Now let's turn to the numbers. First, I will cover our global payment volume and process transaction trends for both the June and September quarters, as well as results through October 21. I'll then cover the financial highlights of our fiscal fourth quarter, followed by our guidance outlook for fiscal 2012.

Global payment volume growth for the September quarter in constant dollars was 13%, relatively flat from the June quarter. We saw the following breakdowns in the September quarter. In the US, payment volume growth was 9%, a slight decrease from the 10% growth we saw in the June quarter. Rest of world payment volume on a constant dollar basis grew at 18%, unchanged from the June quarter. More recently, through October 21, US payment volume growth came in at 9%. Although not yet available based on the trends we saw during the fourth quarter, we expect rest of world payment volume growth will continue to exceed the US by a comfortable margin.



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Global cross-border volume delivered a solid 15% growth rate on a constant dollar basis in the September quarter, up slightly from a 14% rate in the June quarter. We continued to see a recovery in inbound travel to Japan, the Middle East and North Africa, and the longer-term trend, absent an economic downturn, appears to be back on track. Through October 21, cross-border volumes on a constant dollar basis grew 13%.

Transactions processed over Visa's network totaled \$13 billion in the fiscal fourth quarter, a 9% increase over the prior-year period and modestly behind the 11% growth rate we saw in the June quarter. Through October 21, processed transactions posted growth of 8%.

Now, turning to the income statement, net operating revenue in the quarter was \$2.4 billion, a 13% increase year-over-year, driven by strong growth in regions outside of the United States, previously enacted pricing changes, and solid cross-border transaction growth. For the full fiscal year 2011, net revenues were \$9.2 billion, a 14% increase over the prior year. The foreign exchange impact on net revenue was moderated by our hedging activities and contributed 2 percentage points of growth in Q4 and on a full-year basis.

Moving to the individual revenue line items, service revenue was \$1.1 billion, up 21% over the prior-year period. This is reflective of strong payment volume growth in the June quarter as well as previously enacted strategic pricing adjustments.

Data processing revenue was \$925 million, up 10% over the prior year's quarter, and based on strong transaction growth rates for both Visa Process and CyberSource transactions. On that note, CyberSource posted a 31% gain in transaction over the prior year's quarter and 36% growth for the full fiscal year.

International transaction revenue was up 23% to \$758 million, reflecting continued strength in cross-border volumes, strategic pricing adjustments outside the United States, and above-average currency volatility during the period.

As I highlighted earlier, client incentives for the full year came in at 17%, slightly ahead of guidance but fully consistent with our strategy to incent US merchants and acquirers to choose Visa when routing signature and PIN debit transactions.

Total operating expense for the quarter was \$1 billion, up 2% from the prior year.

As a reminder, these results include operating expenses for CyberSource, PlaySpan, and Fundamo, of which the latter two were not included in Q4 of the prior year.

For the full fiscal year 2011, expenses totaled \$3.7 billion, a 7% increase over the 2010 period.

As a final reminder, last October, we announced an earnings-neutral change in income statement presentation related to revenue and operating expense associated with certain pass-through activity. Consistent with this announcement, \$45 million of revenue and expense which were booked in Q4 fiscal year 2010 did not recur in Q4 fiscal year 2011. In the current quarter, this represented 2 percentage points of revenue growth.

Our operating margin for the quarter was 57% after absorbing 120 basis points of impact from one-time restructuring charges. Our full fiscal year operating margin was 59%, in line with our yearly guidance.

Capital expenditures were \$117 million in the quarter and totaled \$353 million for the year. This was on target with last quarter's revised guidance.

On the acquisition front, the PlaySpan acquisition was EPS dilutive by \$0.01 for the fourth quarter and \$0.03 for the full year. The Fundamo acquisition was EPS dilutive by \$0.01 in the fourth quarter and \$0.02 for the full year. Finally, our reported GAAP tax rate for Q4 was 35% and 35.5% for the full year. Adjusting to exclude the beneficial impact of the put revaluation last quarter, the tax rate would have been 36.3% for the fiscal year, consistent with our guidance.



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As Joe mentioned, we were buyers of our stock during the quarter, repurchasing 5.2 million shares at an average price of \$80.87. For the full fiscal year, Visa spent \$3.2 billion to effectively repurchase 43 million shares at an average price of \$74.94. Inclusive of dividend payments, we returned over \$3.6 billion to our shareholders in fiscal 2011.

At the end of the quarter, we had 687 million shares outstanding on an as-converted basis. Fully diluted shares outstanding totaled 692 million. Visa remains committed to returning excess cash to shareholders, and to this end, as Joe mentioned at the outset, our Board of Directors authorized a \$1 billion increase to our existing share repurchase plan. Our current open to buy now stands at approximately \$1.6 billion. As has been our practice, we will execute trades at prices we feel are attractive, relative to the long-term value of Visa. We also raised our annual dividend 47% to \$0.88 per share, which represents a payout ratio of about 17% on 2011 adjusted earnings.

Finally, our guidance for fiscal 2012. Last quarter, we communicated to you our expectation for revenue and earnings. As Joe said at the outset, we remain comfortable with that initial look -- net revenue growth in the high single to low double-digit range, and diluted EPS growth in the mid to high teens.

Client incentives are expected to range from 17% to 18% of gross revenues. The modest uptick over fiscal 2011 is driven by a growing level of incentives for financial institutions outside the United States in combination with incentive contracts with large merchants aimed at influencing routing decisions for Visa debit transactions.

Marketing expense is projected to be under \$1 billion. While somewhat higher than the past two years, it is reflective of incremental investment to support our key country growth strategies, our new product initiatives, recent acquisitions, as well as some modest incremental spend associated with Visa sponsorship of the Summer Olympic Games.

Operating margin is expected to remain at about 60%. The cash tax rate is expected to be in the 33% to 34% range. This reduction anticipates a change in the formula for calculating our state tax rate, as well as our initial filing for foreign tax credit. Since this lower tax rate is expected to be ongoing, it will likely result in a revaluation of our deferred tax liability. This one-time non-cash adjustment may reduce Visa's tax rate an additional 1 to 2 percentage points for the year. However, to be clear, our adjusted earnings per share growth target for 2012 assumes a 33% to 34% cash rate.

Capital expenditures are projected to range from \$350 million to \$400 million. This represents a modest increase over the \$353 million we spent in 2011 and fully funds investments we are making across the globe in support of our core business, as well as our mobile and e-commerce initiative.

Finally, we expect free cash flow above \$4 billion. Our priorities for use of this cash remain the same -- first, reinvesting in the business; second, appropriate acquisitions; and third, distribution to our shareholders in the form of dividends and share repurchases.

As to fiscal 2013 guidance, as we previously stated in July, we expect an acceleration of revenue and EPS off 2012 levels. We will provide additional clarity around 2013 as we approach the beginning of that fiscal year.

With that, operator, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Napoli, William Blair.



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Bob Napoli - William Blair & Co. - Analyst

Thank you. Good afternoon. A question on the incentives. What are the lengths of terms of the merchant contracts, and would we expect to see the incentives higher earlier in the year as you continue to aggressively negotiate these routing incentives with the merchants?

Byron Pollitt - Visa Inc. - CFO

Byron. The answer is the -- let's say the average length of the merchant contracts that we've been signing at are about two years.

To your second question I would say no, they would be more back-end of your weighted, once we begin to see what the actual routing experience is related to those contracts. Much of what was booked in the fourth quarter was one-time. Therefore, the bulk of the incentives associated with this will be validated during the course of the year once we understand what the actual routing experience is.

Operator

Jason Kupferberg, Jefferies.

Jason Kupferberg - Jefferies & Co. - Analyst

Thanks guys. Just wanted to ask a question related to the non-US side of the business. Obviously the growth remains very strong there. I wanted to get a directional sense on the kind of revenue yield you are seeing outside the US versus inside the US. I guess we tend to think that it's less outside the US because you aren't processing as much or as many of your own transactions there. So just wanted to get a sense that if we continue to see this trend of non-US growing revs and volumes faster than the US, what does that imply for overall operating margins over the longer term as you continue to go through that mix shift and ultimately get non-US to be north of 50% of total revs?

Joe Saunders - Visa Inc. - Chairman, CEO

We don't -- we've never disclosed what the revenues are in countries outside the United States. Obviously, when we're not processing, there is a different yield structure -- I just have to say that what is growing our net revenues as a percentage of our total net revenues. So net of incentives, these are the revenues that we're booking, and so I think that's a pretty good news story.

Byron Pollitt - Visa Inc. - CFO

Yes, let me add two dynamics here. As we begin to grow and penetrate outside the United States, remember the first areas that are penetrated tend to be cross-volume, cross-border types of transactions. So the yields there are early in the development curve are much higher.

As we begin to penetrate more and more domestic payment volume of countries outside the United States, domestic comes with less international. Therefore, the yields, frankly in any country, including the United States, will naturally move down as domestic picks up a bigger piece of the payment volume.

Then there is one final dynamic, which is actually important to understanding how our incentives behave in 2012, which is when we originally went public, the notion of having multi-year contracts was primarily a US phenomenon. What has happened



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over time is that we have pursued a deliberate strategy of entering into multi-year contracts with our major clients. As we have pursued that aggressively outside the United States, the quid pro quo for a multi-year contract is incentives. So as we put more -- as our volumes build overseas, as more and more of our clients are under multi-year contract, our incentives will just naturally rise, which then has an impact on yield.

So to sum, the most important element is what Joe said. We have a much higher degree of processing penetration in the US. Outside the US, because of that, it tends to be lower, but we pursue the strategies that optimize the growth of our revenue, and it is revenue measured in dollars we [solve] for, not yield.

Operator

Tien-Tsin Huang, JPMorgan.

Tien-Tsin Huang - JPMorgan Chase & Co. - Analyst

Thanks, good afternoon. Just I guess I want to ask about client [centers] as well. Just in the quarter, to clarify, now are these one-timers designed to secure -- I think you said it was for merchant commitments, but did you also secure some network commitments from the issuers as well? Is there a way to quantify what percent of at-risk volume you've actually protected?

Byron Pollitt - Visa Inc. - CFO

It's merchants and acquirers, not issuers, which have been the focus. These contracts don't guarantee volume. What they do is they incent volume. At this point, we're not public on the amount of volume, but it is a meaningful increment of volume that is influenced by these contracts.

Joe Saunders - Visa Inc. - Chairman, CEO

As I mentioned in the script, we signed PNC to a longer-term contract, and we obviously have continued negotiations going on with all of our clients. While what Byron is talking about is generally the PIN volume and the decision to route the transaction that's in the hands of the merchant or the acquirer, there still are decisions that issuers make as it relates to the signature portion of the card. We have -- and we're in a very comfortable position as it relates to that.

Operator

Glenn Fodor, Morgan Stanley.

Glenn Fodor - Morgan Stanley - Analyst

Thanks for taking my question. A lot of good color on the call here. We're getting a lot of questions on the impact on debit growth from all these checking and DDA fees the banks are levying. So I think if you give us some color it could kind of help investors out quite a bit. What's your take on how this could impact volume growth going forward? Can you draw any correlations to other experiences in the payments industry to kind of defend your view?

Joe Saunders - Visa Inc. - Chairman, CEO

First of all, I think the banks are clearly making recent business decisions to adapt in this newly regulated environment. All of the banks recognize that their customers have an option to move to a competitor, but they believe, in whatever case you're



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talking about, that their pricing or their future pricing will reflect the value -- will reflect value that they offer to their customers and the value that the customers bring to them. That being said, I don't believe that anything that's happening is going to substantially alter the macro debit volume in the United States. I don't think it's going to go away. Even the one fee that has been specifically announced is a flat fee. It doesn't make any difference -- it's not upper-transaction fee or anything of that nature. I think that, as a result of the recession and a result of the Card Act, as a result of the Durbin legislation, you're also seeing a lot more activity wind up in prepaid cards. Our growth in that regard, which is really part of our debit processing environment, is very significant also.

Operator

Julio Quinteros, Goldman Sachs.

Julio Quinteros - *Goldman Sachs - Analyst*

I just wanted to go back to one item that I know came up during the quarter about small ticket items and the pricing on those transactions. Can you guys go back and walk us through what the sort of situation is there in terms of what pricing looks like, and maybe how some of the potential unintended consequences are being resolved with small ticket merchants?

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

That's a good question. The answer is that there were a series of events that occurred and the end result was that small ticket prices from both associations were raised to the cap of the Durbin legislation. I'm not sure that -- I'm not ready to comment on whether that is absolutely the right thing to do or not. What I will say is that we're pretty confident that there is an answer somewhere on the continuum that will benefit both financial institutions, consumers, and merchants. Of course, we will endeavor to be a part of getting to the right solution over a reasonably short period of time.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi guys. I just wanted to ask Byron about the incentive of the merchants. You said the incentives for routing are for both signature and PIN. Just wanted to ask about the signature piece. What would you be incentivizing them for? Maybe you can explain that.

Kind of semi related to that, do you guys think that some volume will go more towards PIN debit than signature debit in the marketplace and maybe why that would be? Thanks.

Byron Pollitt - *Visa Inc. - CFO*

So probably better expressed is these are incentive agreements to deliver payment volume, whether it is signature or whether it is PIN, and so that's the way to characterize that. We'll just have to see how this plays out in terms of movement between signature and PIN. From our standpoint, it's important to preserve the routing. That's what we're focused on, and whether it's signature or PIN, we'll take both.



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Joe Saunders - Visa Inc. - Chairman, CEO

Remember, when we incent merchants to deliver volume, there's a lot of things that they can do in-store or otherwise with their customers that incent their customers to use Visa cards. We've done that over the years in a pretty significant way, and we'll continue to do that. But it's important, so Byron's point of incenting merchants to deliver volume is exactly the right direction.

Operator

Darrin Peller, Barclays Capital.

Darrin Peller - Barclays Capital - Analyst

Thanks guys. Just when you guys had initially given guidance after some of the Durbin announcements, there was -- it was a discussion with conservatism embedded in the guidance around what Durbin could mean. Just wondering. Since that point, there's been some comments I think Joe you've made since that point that have suggested that I think you think you're going to come out okay on this. I'm just wondering. Has anything changed in your expectations around what Durbin will impact your revenue by or your earnings power by? Then maybe talk a little bit about also whether or not some of the embedded assumptions on conservatism in guidance have shifted from Durbin to the macro picture?

Joe Saunders - Visa Inc. - Chairman, CEO

Obviously the macro picture, Durbin, our business outside the United States, our prepaid and commercial businesses -- when we give guidance, we embrace all of those things. So we gave guidance several months ago. We're delivering the same guidance today. We remain extraordinarily comfortable with that guidance. Everything that we think about Durbin, about the economy, about our competitive position is embraced within that guidance. Right now, we're very happy with where we are and what we're suggesting that we're going to do. We'll see where it goes. But there is nothing that's happened in the last several months that would change our position on this.

Operator

Rod Bourgeois, Bernstein.

Rod Bourgeois - Sanford C. Bernstein & Co. Inc. - Analyst

So back in late September, we heard from industry contacts that Visa is moving to what we've been calling a common switch strategy. So I wanted to ask about the revenue implications of the common switch strategy. You alluded to this capability in your opening remarks. In particular, will PIN transactions on VisaNet be priced the same as Interlink PIN transactions in terms of network fees charged to both merchants and issuers? If you can comment on the issuers receiving this common switch strategy with open arms at this point?

Joe Saunders - Visa Inc. - Chairman, CEO

We are pursuing the strategy. We're comfortable with it. We're -- I mentioned it earlier today. We haven't had any negative reaction that I'm aware of. There is some work that needs to take place, but it is a rule and I have no reason to believe that people won't adhere to it. In order to compete for a routing transaction in a predominately PIN environment, it's going to have to be at similar pricing or the same pricing or lower pricing and it's got to be Interlink type pricing, or we won't win the transaction side. I think that answers that question.



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Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great. I was wondering. Not to beat the incentives thing too much to death, but you mentioned the a large portion of them were one-time. Did that include the incentives that went to merchants, because I just was hoping you could explain how that would kind of spur them to bring volume with one-time incentives. Could you just also walked through the signature/PIN, the ability to route over the signature network the PIN transactions that you alluded to.

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

Let me take a second part of the question first and then I think I'll turn it over to Byron. But the ability to accept a PIN on our debit card network or our signature network is something that has existed for quite some time. We authorize millions of transactions a year, billions, which PIN numbers are used on our signature debit card. We always have. We are -- we have defined it more specifically to make sure that everybody understands the capability and hasn't lost the functionality to be able to do that. But it has been a part of our Signature card for many, many years.

Byron Pollitt - *Visa Inc. - CFO*

And to answer the first part of the question, the answer is yes, that the one-timers we're referring to were predominantly associated with the merchant and acquirer contracts referenced earlier.

Operator

David Togut, Evercore Partners.

David Togut - *Evercore Partners - Analyst*

Good afternoon. Could you give us or quantify, if you will, Byron, the US debit volume growth trends you've seen since interchange was cut 45% for issuers on October 1?

Byron Pollitt - *Visa Inc. - CFO*

Way too -- honestly, it's way too early to comment on that. The -- so we have seen no discernible change in US debit volume associated with that October 1 date with the shift in interchange. That is something that we will give periodic updates on, of course, as the year unfolds. We're as interested in that as you are.

Operator

Moshe Katri, Cowen.



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Moshe Katri - Cowen & Co. - Analyst

Thanks. So considering some of the structural changes that are taking place on the debit side, is Visa doing anything different to maybe gain share in credit? Then in that respect, can you also comment on whether some of the slow-down that we've seen as of October in some of the metrics -- is there anything you can comment on that? Is there anything you can -- can you say anything about that in terms of maybe a proxy for future trends? Thanks.

Byron Pollitt - Visa Inc. - CFO

Why don't I take the second part first. We -- the trends that we outlined earlier in my talk demonstrated a pretty strong September [resonating] quarter. So I would say whether you're looking at the US or whether you're looking at rest of world, those were pretty strong growth numbers. It didn't look like we were missing a beat. I'm looking at the numbers now split between credit and debit. Both of them look pretty strong, US and rest of world. On top of that, these numbers are comping some pretty serious growth numbers in the prior year. When we move into October, recognizing that's only 21 days, I think, in any given month, that is hardly a trend for a quarter. I would say that there is nothing in the trend data yet to show any material shift in the trend curve.

Joe Saunders - Visa Inc. - Chairman, CEO

As it relates to pursuing credit card business, that is one of our primary focuses. I think we've talked about it before. I think we've talked about the relationships we have with our clients. We talked about partnerships that we signed in the talk today and we're very pleased with where we are, and we are extraordinarily client-focused and we are working with each of our clients on an individual basis to help them develop a credit card strategy, particularly if they want to expand it, and many of them do. I think that will be one of the big success stories of 2012.

Operator

Glenn Greene, Oppenheimer.

Glenn Greene - Oppenheimer & Co. - Analyst

I just wanted to ask about -- it was kind of noticeable that US credit volume growth outpaced debit volume growth in the quarter. It was probably the first time and I would guess years. I was wondering if you could give some commentary on what sort of drove that. Was it -- did it perhaps have to do with some competitive factors, i.e. some customer losses, or maybe some customer response related to Durbin to drive credit volumes in lieu of debt? Just some color and commentary there.

Byron Pollitt - Visa Inc. - CFO

So you're right. This is -- I'm looking at the data right now. This is the seventh consecutive quarter of credit card year-over-year growth. Eight quarters ago, it was actually negative. I think what we're seeing here is just a continuation of a recovery. The recession hit credit hard and it actually turned growth negative. I'm speaking here of the US. And so in the first quarter of recovery, which was second quarter, our second fiscal quarter 2010, growth was 3% year-over-year. It has gradually moved up, so that now it's, for the quarter just ended, it's 10%, 10% in October. So for us, this has been a gradual return to credit. It's been a sustained but very modestly paced build. Then as you may recall from my earnings commentary today and really over the past several quarters, this is a credit recovery that is, primarily in the US, affluence driven and that through the quarter, through I would say the June quarter, which is the data where we have more granular data, this growth is primarily affluent, and we haven't really seen a broadening of the credit base yet. So that's in terms of increase in growth and spend. So that is the



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opportunity to come. With further recovery, we expect credit to benefit -- future credit benefit -- growth to benefit from that expanded set of cardholders.

Jack Carsky - Visa Inc. - Head of Global IR

At this point, we have time for one last question.

Operator

Dan Perlin, RBC Capital.

Dan Perlin - RBC Capital Markets - Analyst

Thanks. As we look at the trends for worldwide process transactions, and I know that the absolute number of transactions are still relatively high, but that trend has been coming down throughout the year, and then most recent data, Byron, that you pointed to is around 8%, so it continues to be kind on the downward slope. So I'm wondering what do you attribute that to?

Then secondly, to the extent that trend continues, do you feel like your business and your strategy going forward is such that you can drive incremental revenue growth I think from a greater standpoint from increasing prices throughout the year as opposed to just kind of the secular volume growth? Thank you.

Byron Pollitt - Visa Inc. - CFO

Our focus on growth is primarily the secular growth. We are not looking to drive any material topline revenue growth from pricing, recognizing that when we talk about pricing, that's pricing net of incentives. So it's one thing to adjust your pricing at the top level, but in the end, it's your net pricing that really matters. And so it is primarily secular growth, which is one of the reasons why we continue to emphasize how much growth we are now delivering outside the United States.

In the quarter just ended, 65% of our growth, our revenue growth, came from outside the United States. In the fourth quarter, 45% of our entire revenue base is now outside the United States. As you know, we have an objective to drive that over 50%, and that is absolutely secular growth.

With regards to the process transaction growth, that is primarily attributable to two things -- one, a slowing in the growth rate of US debit; and then second, a year ago, we began -- we had some significant increases in transaction penetration outside the United States which are now beginning to anniversary. And so where we are today in that drift down into high single digits in terms of Visa process transactions is primarily influenced by those two factors for the moment. But we have -- we are very focused in our future strategies at increasing Visa process transactions, increasing the number, the percent of transactions, particularly outside the United States, that Visa processes as a function of the total transactions that are performed on Visa cards. That's where we stand.

Jack Carsky - Visa Inc. - Head of Global IR

Thank you Jose. Thank you all for joining us today. If anybody has any follow-up questions, feel free to give Investor Relations a shout.



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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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