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V - Q4 2012 Visa Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

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

Joe Saunders *Visa Inc. - Chairman and CEO*

Byron Pollitt *Visa Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Bob Napoli *William Blair & Company - Analyst*

Sanjay Sakhrani *Keefe, Bruyette & Woods - Analyst*

Greg Smith *Sterne, Agee & Leach - Analyst*

Jason Kupferberg *Jefferies & Company - Analyst*

Shan Shan Wong *JPMorgan - Analyst*

Thomas McCrohan *Janney Montgomery Scott - Analyst*

Julio Quinteros *Goldman Sachs - Analyst*

Bill Carcache *Nomura - Analyst*

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

Bryan Keane *Deutsche Bank - Analyst*

David Hochstim *Buckingham Research - Analyst*

Ken Bruce *BofA Merrill Lynch - Analyst*

Craig Maurer *CLSA Limited - Analyst*

PRESENTATION

Operator

Welcome to Visa Inc.'s fiscal Q4 and full-year 2012 earnings conference call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the conference to your host, Mr. Jack Carsky, Head of Global Investor Relations. Mr. Carsky, you may begin.

Jack Carsky - Visa Inc. - Head, Global IR

Good afternoon, and welcome, everyone, to Visa Inc.'s fourth fiscal quarter and full-year 2012 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 investor.visa.com. A replay of the webcast will also be archived on our site for 30 days.

A PowerPoint deck containing highlights of today's commentary was posted to our website prior to this call.

Let me also remind you that this presentation may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. By their nature, forward-looking statements are not guarantees of future performance; and, as a result of a variety of factors, actual results could differ materially from such statements.



These include setbacks in the global economy and the impact of new financial reform regulations. Additional information concerning those factors is available in the Company's filings with the SEC, which can be accessed through the SEC's website and the Investor Relations section of the Visa website.

For historical non-GAAP or pro forma-related financial information disclosed in this call, 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 IR section of our website.

And with that, I turn the call over to Joe.

Joe Saunders - Visa Inc. - Chairman and CEO

Thanks, Jack. And, as always, thank you all for joining us today. Let me begin by saying that our hearts and thoughts are with the people on the East Coast of the United States who are now who are now recovering from Hurricane Sandy. Many of our clients, our employees, our partners, and investors like you live in affected areas. And we hope that you, your families, and your neighbors are all safe and moving toward a full and speedy recovery.

Visa closed out fiscal 2012 with a solid fourth quarter, delivering net operating revenues of \$2.7 billion, a 15% increase over the same period last year. Adjusted diluted earnings per share for the fourth quarter were \$1.54, an increase 21% over the prior-year quarter. The adjustment in diluted earnings reflects the impact of a \$627 million increase in net income during the fourth quarter, from the reversal of tax reserves and accrued interest associated with our covered litigation. This was due to the withdrawal of the notice of proposed adjustment by the IRS during the quarter. Byron will provide additional commentary.

Revenue gains for the quarter were driven by particularly strong payments volume growth for credit products in the United States, as well as continued expansion of our core business and growth of processed transactions in international markets.

Visa also delivered strong performance for the full fiscal year. Net operating revenue in 2012 was a record \$10.4 billion, a 13% increase over 2011. Adjusted net income was \$4.2 billion, a 19% increase over the prior year. Full-year adjusted diluted earnings per share came in at \$6.20, 24% ahead of last year.

Now let's turn to the discussion to what's ahead in 2013. Byron will get into the specifics on broad guidance for fiscal 2013, but we are reaffirming our commitment to a growth rate in the high teens for adjusted diluted earnings per share. That being said, Visa is taking a measured approach to the coming year. We are mindful of uncertainties in the global operating environment, including softness in some pockets of the global economy, and continued volatility in Europe. And, given our better-than-anticipated performance in fiscal 2012, we essentially raised the bar on ourselves and now face somewhat tougher comparisons in the coming year.

With that in mind, at this early point in fiscal 2013, we are once again setting our net revenue guidance growth to low-double-digits. An improving economic environment could well change our view, but we'll take a prudent road for the time being.

Effective tomorrow, Charlie Scharf becomes Visa's Chief Executive Officer. I will continue as Executive Chairman of the Company until March 31, at which point I plan to retire. Charlie's appointment was the result of a thorough and robust succession process. Charlie is a proven leader. He has experience as a senior executive with large global enterprise, and is familiar with Visa both as a client and as a Board member. Importantly, Charlie drove innovation while at the helm of Chase's retail operation.

I am confident that Charlie will hit the ground running, not miss a beat, and accelerate our forward momentum. I look forward to working with him to make this transition seamless. And I'm sure he looks forward to getting to know you better, and that he will talk to you directly when he leads our next earnings call.



Given Visa's outlook for growth, we continue to deliver on our commitment to return excess cash back to shareholders. During the quarter, our as-converted common share count was reduced by 2.5 million shares, at an average price of \$127 per share, by spending \$324 million.

Earlier this month, our Board of Directors authorized an incremental \$1.5 billion for Class A share repurchases. Additionally, as reported last week, our Board raised our dividend 50% over last year's rate to \$1.32 per share on an annualized basis.

Turning to our business in the United States, overall we continued to apply a disciplined approach to expand Visa's business in the rapidly evolving technological and competitive landscape. Our business is tracking closely with our expectations. For credit products, Visa extended our gains. During the September quarter, payment volume grew 9%, with particular strength from our affluent products.

Prepaid growth also continues to be strong in United States, with the general purpose of payroll segments serving as our two biggest growth drivers in the category during the September quarter, posting 28% and 30% payment volume growth, respectively.

Now let's turn to US debit, where the situation continues to play out as expected and in-line with our guidance. Quarter by quarter, we are getting smarter about how to operate in the new environment, and which levers to pull to grow our debit business. That being said, I want to reiterate our beliefs that share loss resulting from the Dodd-Frank regulation is both permanent and fully incorporated in our FY 13 guidance.

Overall, US debit growth rates have stabilized since our last earnings report, with aggregate debit payment volume growth modestly improving to negative 6% during the September quarter. Further, we have been working with issuers to secure long-term contracts. To that end, we secured our top 15 US debit issuers to long-term agreements.

In short, our revised strategies for the US debit segment continue to gain traction in the marketplace, achieving Visa's own operational and financial expectations while simultaneously delivering value and benefit to our clients.

As for the US Department of Justice's civil investigative demand, I have no material update. We are regularly submitting data to the DOJ. The Company will continue to update you as the situation develops, but we remain comfortable in our position on this issue.

At the same time, we are making steady progress towards completing the previously announced merchant litigation settlement in the United States. On October 19, the merchant plaintiffs filed a motion for preliminary approval. Subsequently, the judge set an accelerated timetable last week, which calls for hearings on the motion on November 9. We are hopeful the judge will grant preliminary approval shortly thereafter, with the rules becoming effective 60 days later. Bottom line -- I'm confident that the overwhelming majority of merchants will support the agreement, and it will be approved.

Now let's briefly turn to Visa's international geographies, where payment volume growth moderated slightly during the fiscal fourth quarter, but still delivered strong revenue growth of 13%, as we continue to maintain our strong competitive leadership position. Overall, we continue to advance towards our goal of generating 50% of our revenue from outside the United States.

To drive growth, we continue to apply a targeted investment strategy which deploys locally tailored acceleration plans within several key geographies. In doing so, our goal is to substantially increase Visa's revenue over a five-year time horizon.

In the interest of time, I won't walk through a list of new and expanded agreements from the quarter. But suffice it to say, we continue to grow our relationships with financial institutions, merchants, and governments of all sizes around the world. And these are driving payment volume and process transactions as well as revenue growth for Visa. This approach will continue to be a priority as our organization moves ahead in the future.

Lastly, let me talk about Visa's innovation agenda, an area where we are making considerable progress. We continue to invest in new technologies that will increase the number of transactions on our core business platforms; add incremental value to the merchant community and their acquirers; and forge new revenue opportunities, for both Visa and our financial institution clients.

And most importantly, we know that our innovations must create real value for our clients' account holders, who ultimately use these products and services.

Let's start with V.me, our digital wallet. We are making significant progress putting together the network that will enable us to scale consumer adoption of V.me. On the issuer front, we recently announced two major partners -- PNC and US Bank, both of which will make an immediate impact as we begin to grow users of the product. All together, we have 34 agreements signed with leading US issuers, including four of our 10 largest institutions in the United States.

Looking ahead, we're confident that the number will continue to grow. Together, they give us the opportunity to tap roughly 50 million consumers through our bank partners. We look forward to making additional announcements in this area in the coming months. At the same time, we're making progress signing up merchants for V.me.

By the middle of 2013, we expect to have more than 1000 online merchants using V.me, including 20 of the 50 largest e-commerce merchants in the country. I want to reiterate that V.me is designed to help capture the significant, immediate growth opportunity in e-commerce. E-commerce is one of our fastest-growing channels, with Forrester Research predicting that US consumers will spend \$327 billion online by 2016, up 45% from the \$226 billion in 2012.

As a reminder, V.me creates a simplified and secure e-commerce experience for consumers, no matter what payment device or technology they choose to transact with. This offers our clients a differentiated solution to address a real market opportunity today, and provides a fast and convenient experience for consumers making online purchases.

At the same time, Visa is a leader in enabling NFC payments at the point of sale in the United States. As one example, Isis -- the payment's joint venture founded by AT&T Mobility, T-Mobile USA, and Verizon wireless -- is currently enabling Visa payments via NFC in its own mobile wallet as part of their recently launched pilot.

Isis' open approach aligns with Visa's strategy of enabling consumers to make mobile payments with whatever device they choose, using the trusted accounts they already have. Consumer adoption of NFC is in its very early stages today, and I'm very comfortable that Visa is well-positioned to deliver the best mobile solutions to our clients, helping them take advantage of this long-term shift in consumer behavior.

Also on the innovation front, I'm pleased that CyberSource continues to deliver exceptional growth and expand its e-commerce business around the world. The most recent quarter billable transactions totaled 1.4 billion, growing 25% versus the same period a year ago. CyberSource's unique capabilities are particularly resonating in international markets.

At the time we bought CyberSource, they had field operations in only four countries. Today that number is 12 and growing, and CyberSource teams are benefiting from Visa's local market knowledge.

To conclude, I'd like to say, again, how proud I am of what we have accomplished here at Visa. Since our restructuring five years ago, we have successfully delivered on all of our investor commitments, and transitioned to a solid public company that will continue to compete globally well into the future.

Visa is built on a simple yet effective strategy -- to be the best way to pay, and be paid. To deliver on that promise, we have created an organization that is focused on delivering payment products and services to the evolving needs of consumers, merchants, governments and financial institutions.

We have also established a culture that can adapt to a fast-changing landscape and thrive in the midst of challenges. And we are well positioned to continue to expand our core business, invest in next-generation technologies that will define the future of payments, and accelerate expansion of our business outside of the United States.



Today, I know we have the right people, the right strategy, the right technology, and the right experience to continue to be a leader of our industry. And with Charlie as CEO, I am confident that Visa will continue to grow globally, and deliver innovation that meets the needs of Visa account holders and our clients.

I'd like to thank everyone at Visa, all of our partners and all of our investors, for the opportunity to work with you. I look forward to seeing Visa take full advantage of all that lies ahead.

And with that, let me turn the call over to Byron.

Byron Pollitt - Visa Inc. - CFO

Thank you, Joe. I'll begin with some observations and callouts. First, as Joe mentioned at the outset, we reported the quarter on an adjusted basis. We were recently notified by the IRS that the NOPA, or notice of proposed adjustment, in connection with the deductibility of our litigation payments made in 2008, had been withdrawn. As a result, we reevaluated and reversed all previously recorded tax reserves and accrued interest associated with all covered litigation expense previously recorded.

This increased net income for the quarter by \$627 million.

Second, US revenue growth continues to be supported by solid credit payment volume growth; although our six consecutive quarters of double-digit growth were interrupted, as the September quarter clocked in at 9%. Through the 28th of October, however, credit payment volume growth has compounded at an 11% rate -- a notable rebound, reflecting a month-to-month volatility dynamic we have seen more of recently.

Third, with four quarters of lower US debit interchange, and two quarters of the new debit routing rule behind us, the impacts have been manageable. Aggregate US debit posted a negative 6% growth rate in the fourth quarter versus a negative 9% in the third quarter; led by Interlink payment volume, which was off 48%, versus 54% in the third quarter.

While we are pleased our mitigation strategies are working as planned, and are consistent with our expectations, we would caution that the US debit environment is still evolving.

Finally, as was the case last quarter, the all-in impact from US debit regulation -- which includes restructured pricing, incentives, other mitigation strategies, and volume loss -- cost us about \$0.04 in EPS for the quarter. Management's view of the future effects have been incorporated into our guidance.

Now let's turn to the numbers. As is our practice, I will cover our global payment volume and process transaction trends for the quarter, followed by our results through October 28. I will then cover the financial highlights of our fiscal fourth quarter, and conclude with our guidance outlook for fiscal 2013.

Global payment volume growth for the September quarter in constant dollars was 6%, unchanged from the June quarter. The US grew at 1%; and rest-of-world at 12%. More recently, through October 28, US payment volume growth posted a 3% gain, comprised of 11% credit growth and minus 4% for debit.

Global cross-border volume delivered a solid 10% constant dollar growth rate in the September quarter, which compares to a 14% rate in the third quarter. The US grew 8%; and the rest-of-world, 11%. The moderation in growth was broad-based, with notable step-downs in the US, North and Southeast Asia, and Latin America. Through October 28, cross-border volumes on a constant dollar basis grew 11%; with a US growth rate of 9%, and rest-of-world at 12%.

Transactions processed over Visa's network totaled 14 billion in the fiscal fourth quarter, a 2% increase over the prior-year period, and up from 1% in the prior quarter. A debit-led decline of 1% in the US was offset by 19% growth in the rest of world. For the month of October through the 28th, processed transaction growth was a positive 4%, driven by an improving trajectory in the US.



Separately, CyberSource recorded 1.4 billion transactions for the period, a 25% increase over the prior year.

Three call-outs -- first, as expected, the brunt of US debit regulation is being felt by our Interlink product, where transaction growth will continue to be negative until we lap the implementation of the routing rules in the middle of next year.

Second, Visa process transactions continue to grow at double-digit rates for US credit and rest-of-world.

Finally, as Joe mentioned at the outset, we are operating under the assumption that the US and global economies will continue their moderate growth over the next 12 months; as uncertainty from the fiscal cliff; continued Eurozone concerns; and a general slowdown in world trade put a damper on domestic consumer and cross-border spending.

Now turning to the income statement. Net operating revenue in the quarter was \$2.7 billion, a 15% increase year over year, and ahead of our expectations as a result of stronger US debit and credit performance. For the full fiscal year, net operating revenue was \$10.4 billion, a 13% increase over the prior year, and a better performance than we had anticipated going into the year.

After hedges, there was negative 1% foreign exchange impact on net revenue in the quarter, and no impact to the full year.

Moving to the individual revenue line items. Service revenue was \$1.3 billion, up 14% over the prior-year period. This reflects strong payment volume growth in the June quarter, the revenue from which is recorded in the September quarter. Data processing revenue was \$1.1 billion, up 15% over the prior year's quarter, based on solid growth rates from Visa processed transactions outside of the US; and for CyberSource globally, as well as competitive pricing actions that became effective last quarter.

The step-up in gross revenue data processing yield, which we first saw last quarter, continued to carry through this quarter, due in part to strategic pricing adjustments; but also driven by the ongoing, though moderating, decline in Interlink transactions, which are, by far, our lowest yielding product.

International transaction revenue was up 5% to \$796 million, reflecting solid but moderating strength in cross-border volumes, with mid-single-digit growth rates in the US and Asia-Pacific; low-double-digit growth in Latin America; and low 20s in our SEMEA region, as measured on a constant dollar basis.

Client incentives for the quarter as a percent of gross revenues came in at 17%, lower than we had anticipated on a percentage basis, due to better-than-expected revenue performance, but in line in terms of absolute dollars. For the fiscal year 2012, incentives were 17% of gross revenues, at the low end of our guidance of 17% to 18%.

While total operating expenses for the quarter were \$1.2 billion, up 18%, it is important to note that this heavier-than-normal operating expense level is not a new quarterly run rate. When viewed on a full-year adjusted basis, expenses grew 12%, of which approximately 2 percentage points were due to annualizing acquisition expenses. And, as expected, this annual expense growth was consistent with delivering a 60% adjusted operating margin, which was our guidance for the year.

As further perspective on expenses, three call-outs. First, we staged more of our investments spend in the second half of the year to enable a tighter linkage between revenue and expense growth. Second, marketing spend of \$271 million intensified in Q4, associated with the London Olympics. For the full year, marketing expenses were \$873 million, relatively unchanged from the prior year, and in line with our guidance. And finally, third, we took over \$30 million in Q4 restructuring reserves, which included the closing of our San Francisco offices and consolidation of our staff into our Foster City campus. Looking ahead to 2013, we have planned a closer balance between first- and second-half operating spend.

Our operating margin for the quarter was 56%, bringing our fiscal full-year adjusted margin to 60%, which, as noted earlier, was on target with our guidance for the year. Capital expenditures were \$141 million in the quarter, and ended the fiscal year at \$376 million. This roughly represents the midpoint of our guidance range.



Our adjusted tax rate for Q4 was 33%; and for the entire fiscal year, 33%. As I mentioned at the outset, both of these figures were affected by events over the course of the year.

During the quarter, total as-converted Class A common stock was reduced by 2.5 million shares at an average price of \$127 per share, utilizing \$324 million of operating cash on hand. This is inclusive of the \$150 million escrow funding made in late July. As Joe mentioned at the outset, our Board recently authorized a new repurchase program totaling \$1.5 billion, effective through October of 2013. This is incremental to the \$865 million still outstanding from our previous authorization.

We also raised our annual dividend 50% to \$1.32 per share on an annualized basis, which represents a payout ratio of about 21% on 2012 adjusted earnings. At the end of the September quarter, we had 668 million shares of Class A common stock on an as-converted basis. The weighted average number of fully diluted shares for the fourth quarter totaled 672 million; and for the full fiscal year, 678 million.

Finally, let me finish up with our guidance for fiscal 2013. In terms of the top line, as Joe said at the outset, we are guiding to net revenue growth in the low-double-digits, though the possibility of upside exists if we were to see a noticeably stronger economic rebound over the course of the year than we are currently experiencing.

As a reminder, going into fiscal 2012, we built into our internal projections a sustained but modest recovery for that year, with fiscal Q3 and Q4 bearing the brunt of US debit regulation, followed by economic acceleration in 2013. That said, the trends in the past two quarters suggest economic assumptions around 2013 were too optimistic.

Many of the same uncertainties remain. And while we lost significant US debit share, we weathered the second half of 2012 better than we expected. As we look ahead into 2013, growing uncertainty in the US and world economy has precipitated a slowdown in domestic and cross-border spending.

When we combine this global outlook with the higher bar created by better-than-anticipated 2012 revenue growth, we now find ourselves in a situation similar to 2012 and believe revenue guidance in the low-double-digit range is the right call at this time.

Adjusted diluted earnings per share growth remains the same, at a high-teens rate. Client incentives as a percent of gross revenue are expected to range between 18% and 18.5%. We expect this modest increase over fiscal 2012 to be driven by a growing level of incentives for financial institutions outside the US, in combination with incentive contracts with large US merchants and acquirers.

Marketing expense is projected to be under \$1 billion. However, we will see a moderate uptick over the level of fiscal 2012, with more of the marketing spend budgeted in the first half versus the prior year. The uptick will be driven by greater investment in our AP/SEMEA region, as well as incremental investments behind our V.me and mobile initiatives.

Operating margin is expected to remain at about 60%. The tax rate is expected to be in the 30% to 32% range. This reduction anticipates benefits from foreign tax credits to be claimed in fiscal 2013. We anticipate the timing of these benefits to be skewed more to the second half of the fiscal year.

Capital expenditures are projected to range from \$425 million to \$475 million. This represents a moderate increase over the \$376 million we spent in 2012, and fully funds investments we are making across the globe in support of our core business, as well as our mobile and e-commerce initiatives.

Finally, we expect free cash flow of about \$5 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.

Before we take your questions, recognizing Joe's retirement next March, I want to briefly reflect on Visa's five years as a merged business entity, and our 4.5 year public life. With 2008 as the base year, and despite a deep US recession and challenging regulatory environment, under Joe's leadership the Visa team has delivered net revenue growth at a 14% compound annual growth rate, and adjusted diluted EPS at a 29% compound annual growth rate.



Our adjusted operating margin has gone from 46% in March of 2008 to 60% today. We lowered our tax rate from 41% to 33%. We have tripled our dividend rate through annual increases, and have collectively returned \$1.8 billion in dividends to our shareholders, IPO to date. Lastly, over that same period of time, we have reduced our common share count through litigation, escrow funding, and open market purchases, by 118 million shares, representing \$9 billion returned to shareholders.

And with that, Operator, for the 19th time since going public, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Napoli, William Blair.

Bob Napoli - William Blair & Company - Analyst

Thank you and good afternoon. Congratulations, Joe, and I wish you the very, very best.

Joe Saunders - Visa Inc. - Chairman and CEO

Thank you.

Bob Napoli - William Blair & Company - Analyst

I had a question on your new CEO, starting tomorrow -- Charlie. What led you to Charlie Scharf? This is a dynamic technology business; international growth. Charlie is -- everything we can tell, is a very strong executive, but more of a US bank guy. What were the key choices in selecting Charlie, and going outside the Company today versus internal?

Joe Saunders - Visa Inc. - Chairman and CEO

Well, as I mentioned in my comments today, he's a dynamic executive. He's done very well. He understands our business. He has been a client. He has been on our Board. If you remember, he was on the Board of this Company for three years. He has more than a fleeting familiarity with Visa. He is very familiar with the staff at Visa, having interacted with many of them for a number of years. He has run large, global operations in the past. And while he's not a technologist per se, he's run large organizations that depend very significantly on technology.

We also, as you remember, have parsed our Company in a way where we have focused on technology simultaneous to what we do in our core business. And there has to be a recognition that our core business is what's feeding this engine, and what's creating the revenue and the cash flow that allows us to invest.

We have an extremely strong technology organization. We've hired a number of extraordinary individuals over the last two or three years. We're very, very confident that that organization has the ability to take -- continue to take us forward. And, in fact, I think you would have to admit that vis-a-vis other companies in our space, we are way out in front. And we don't intend to lose that lead. So, thanks for asking the question.

Operator

Sanjay Sakhrani, KBW.



Sanjay Sakhrani - Keefe, Bruyette & Woods - Analyst

Thank you. Good luck to Joe as well. One of the beauties of Visa's business model is the scalability. And in looking at your operating margin guidance, it seems like we have another year, in 2013, of relatively modest operating margin expansion. Can you talk about the dynamics that preclude that from happening?

And then specific -- one call-out, or a clarification -- I was wondering if there was a call-out on the other revenue line, because that was up a little bit? Thank you.

Byron Pollitt - Visa Inc. - CFO

With regards to operating margin leverage, we have been picking up the pace of reinvesting, particularly in our growth initiatives that are -- that really won't begin to drive revenue in a meaningful way until three and four and five years out. And you can look at mobile, V.me; and so what we have done, up to this point, is invest aggressively in new office expansion and deploying more account executives serving clients in-country, all of which drive margin expansion. Which, as you've noticed, has moved from 46% -- it seems like a lifetime ago -- up to 60%. And as more of our investment or acquisitions are much more forward-looking, there will be more of a lag between when that will show up in operating leverage expansion versus pure investment in the core that leverages the -- completely, the VisaNet platform.

With regards to other revenue, the reserves associated with the release of the FIN 48 expenses that we had recorded associated with the NOPA -- a part of that -- a part of those reserves were recorded in other income. And as we released those reserves, they showed up in that column.

Operator

Greg Smith, Sterne Agee.

Greg Smith - Sterne, Agee & Leach - Analyst

Yes, hi. Byron, two quick questions on the 2013 guidance. Are there any pricing increase assumptions in there? And the second one is, can you reiterate what you said on marketing? Will we actually see the first half heavier than the second half, or just more of a skew compared to 2012, please?

Byron Pollitt - Visa Inc. - CFO

Can you repeat the last question again?

Greg Smith - Sterne, Agee & Leach - Analyst

The total marketing spend, you called out that the -- you said there would be more of a skew to the first half. Were you talking just total, absolute dollars heavier in the first half than the second half? I just wasn't clear on that.

Byron Pollitt - Visa Inc. - CFO

Yes, so let me deal with that one first. There was a -- if you look at the total amount of marketing spend that we incurred in the fourth quarter, it was \$271 million. That was 31% of our entire year's marketing budget. And what we have in marketing, this year, is a percentage and dollar weighted much higher to the fourth quarter, or to the second half.



And on a percentage basis, for next year, we expect to see a better balance -- are more even -- it won't be 50-50; but it will be much more in balance between what is spent in the first half and second half.

Even though you asked that question in the context of marketing, let me broaden it and say that that should hold true for our entire operating expenses. We were much more second-half-weighted this past year than we expect to be in the year to come.

And I'm sorry, your first question was?

Greg Smith - *Sterne, Agee & Leach - Analyst*

Increase assumptions.

Byron Pollitt - *Visa Inc. - CFO*

Price increases. I would say that there is very little in the way of pricing built into the coming year. And, in fact, we are giving back some effective pricing as a part of our response in the US debit arena. The revenue growth for next year is going to be delivered the good old-fashioned way, by driving hard against payment volume, not only in the US but in the rest of world, in particular.

Operator

Jason Kupferberg, Jeffries.

Jason Kupferberg - *Jefferies & Company - Analyst*

Thanks, guys. And, Joe, my congratulations to you as well. Just wanted to get a general update on the e-commerce business, in terms of either your percent of volume, or percent of revenue, or growth, or whatever metrics you can provide; and some color on to what extent V.me can accelerate this, and perhaps in which timeframe.

And then just a quick clarification for Byron. What caused the jump up in other income here in Q4? Thanks.

Byron Pollitt - *Visa Inc. - CFO*

Okay, so with regards to other income, it was principally driven by two things -- the release of reserves which are related to the reversal of the NOPA reserves on the IRS situation that clarified itself this past quarter. The vast majority of those reserves are taxes. But when you are put into a situation where you potentially have to pay back taxes, then you have an interest charge. And that interest charge was the source of the release in reserves that hit that column.

In addition, we had some insurance recoveries that occurred that quarter, and that's why those popped up.

On the e-commerce, with regards to the percentage of our business, we don't have an update on that for the moment. But this is our fastest-growing channel across the Company, globally. And within that e-commerce channel, the fastest-growing form factor is mobile. This is why we have put such emphasis on V.me, which is particularly suited for the mobile form factor, and why we have put such strong focus on mobile strategies that go far beyond NFC and are global in scope.



Operator

Shan Shan Wong, JPMorgan.

Shan Shan Wong - JPMorgan - Analyst

Great. Thanks. Joe, I just want to also say thanks and congrats on your retirement. I got two quick ones, maybe. On the rebate line, that was nicely lower than we expected for the quarter. I'm curious, for next year, the line of sight into the 18.5% -- how much of that step-up is signed, based on your deals that you have already renewed or recently won versus anticipated deals? Just trying to get a better sense of conservatism versus reality there.

And then, secondarily, on debit, I know there's a little bit of an improvement in October. How much of that is paved and some of the other mitigation strategies, versus just macro or new wins? That would be great, thanks.

Byron Pollitt - Visa Inc. - CFO

Okay, so on the incentive side, I would say, first of all, that the drivers are almost as much rest-of-world contracts that -- a number of which -- a meaningful increment of which have already been signed and will begin annualizing at a higher incentive rate going into next year. We have already -- so that's one major driver of the incentive increase.

The other major driver is that we are only two quarters into the routing rule changes in US debit. And, as a result of that, we've got a building momentum of agreements that we are signing with merchants and acquirers. And that also will -- and has yet to annualize in the coming year.

Operator

Thomas McCrohan, Janney.

Thomas McCrohan - Janney Montgomery Scott - Analyst

Thanks. And Joe, congratulations on all your achievements, and best of luck in your retirement. Can you expand a little bit about the routing agreements that you still -- being signed with the merchant community? Just give us a sense of how those are going to be structured, and how they are going to be flowing through the income statement. Thanks.

Byron Pollitt - Visa Inc. - CFO

Well, what I would say is two things -- these agreements are very much performance-oriented agreements. For the most part, they only pay out incentives if the volume is delivered. And I think it's important to emphasize that the agreements themselves don't guarantee volume. They incentive. If the volume is there and the incentives will be paid. And if they aren't, they aren't.

To a certain extent, there's a degree of variability with regards to how much incentives will be paid out. And it will be completely tied to the volume delivered. And then we are still, as I said before, on a path of signing additional merchants with these agreements. And we do expect them to be, not only performance-based, but to grow in number as the year unfolds. The way these are booked into the income statement, virtually 100% [contra] revenue incentives.

Operator

Julio Quinteros, Goldman Sachs.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Congratulations, Joe, as well. Just a quick question on decomposing the EPS growth rate. In understanding where the revenue growth is and the target for the margins, if you think about the buyback that you guys have currently, coupled with the lower tax rate, is there some proportion that we should be thinking about in terms of how much of the buyback is built into the EPS growth? And then, also, the tax rate -- I think you said it was in the 30% to 32% range. Is that correct?

Byron Pollitt - *Visa Inc. - CFO*

Yes. So, Julio, I'm going to let you do the math. What we've done is given you all the metrics that typically -- that we typically give you at this point in time. Clearly, there is a dynamic with the low-double-digit revenue growth, and the operating margin will be the major contributor. Tax, once again, will allow us to add a little octane to the EPS growth.

And then, as you have noticed, we are very disciplined repurchasers of our stock over the course of the year. We also have a habit of re-addressing the opportunity for buyback at every single Board meeting. So, today, as we enter into the new fiscal year, we have \$865 million of previously authorized, but unspent, open to buy on share repurchase. We have a \$1.5 billion new program that was just announced, so that gives us a little over \$2.3 billion of open to buy.

And then, of course, later in the year, should circumstances warrant, we have the opportunity to go back to the Board and ask for additional share repurchase opportunity. Recognize, however, that later in the year that the share repurchases occur, the corresponding lower impact they will have on any given year's EPS.

Operator

Bill Carcache, Nomura.

Bill Carcache - *Nomura - Analyst*

Hello. Thank you. Thanks for taking my question, and I'll add my congrats as well, Joe. Some of the US data that we've seen shows a clear consumer preference for PIN over signature. I wonder if you could comment on whether that is, in fact, what you are seeing as well? And if so, what you attribute that to? And then if you could share your thoughts on how strategically you see the role of US debit, in the context of your suite of payment products, now that it isn't a growth driver that it once was?

Byron Pollitt - *Visa Inc. - CFO*

So, we are -- I suppose we're in a bit of an odd position to comment on this, in one sense. Because with regards to PIN, thanks to a regulatory change, a substantial part of our PIN market share was gifted to our competition. And so it's a little hard for us, on the margin, to comment on the PIN.

However, on the signature debit, or what we refer to as Visa debit, I can tell you that our business has -- since the implementation of the rules -- I think, in prior quarters, we have experienced a solid mid-single-digit growth. And that growth rate is, on balance, drifting a little north, in the most recent quarter.

Operator

Rod Bourgeois, Bernstein.



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

Okay, great. Yes, in terms of the way growth trends are generally playing out in the month of October, MasterCard today indicated growth improvement outside of the US; and, generally, stability in the US. Are you taking somewhat of a more cautious stance on the recent growth trends? Or is your view fairly consistent with the way MasterCard characterized it earlier today?

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

Well, they have an eloquent way of stating things, as you've mentioned before. But I wouldn't say we are copying MasterCard. I'd say our growth in the United States -- particularly in the credit business, which is our highest yielding business -- is significantly stronger from any of our competition, and it continues to grow. And I mentioned that in my remarks earlier.

We have strong growth outside of the United States as well. MasterCard deals in Europe, and we don't. They have quite a bit of strength in Europe. But our Asian and Latin American businesses are growing at very robust rates. We continue to believe that we'll have more than 50% of our revenue coming from outside the United States in a very short period of time.

I think that there is tough competition to deal with. I don't think there's any question about that. But we are doing very well. And in the parts of the world in which we do business, we are competitively advantaged and we intend to maintain that.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi. Just looking at the rest of world, it was a little bit slower than we expected. I think you mentioned, maybe, Asia was -- and, obviously, looking at the numbers, it looked like Asia was a little bit slower. Can you talk about the rest of world? Was that all economy that's causing the deceleration? Is there any contract losses we should know about?

And then secondly, on the international revenue growth, it was a little lower than we expected. Byron, maybe you can help me through that again. Because I know cross-border was up 7%. So it's a little bit below cross-border growth. And usually international revenue growth sometimes is above cross-border. Thanks.

Byron Pollitt - *Visa Inc. - CFO*

Okay, so I would say, in looking over the rest of world, that there were no contract losses material to speak of. In fact, I'd I can't even think of one. It's much more economic. And, as we look at the cross-border, as well as the domestic spend inside the rest-of-world countries, both of them put on the brakes a bit. Now recognize, Brian, these are still, for the most part, robust growth rates that we would love to aspire to here in the United States.

But in terms of feeling like they are -- at least in the fourth quarter, there was a bit of a downshift. I think it's economically driven. And with regards to -- I know four weeks does not a trend make, but October was a bit encouraging, as it looks like it was a bit of bounce back in the month of October as it relates to rest-of-world, cross-border; as well as rest-of-world process transactions, both of which we have real-time visibility to.

With regards to international revenue, let's see, we had nominal cross-border growth of 7%. And we had international fee growth of 5%. If I look back over the last three or four quarters, there is always a plus or minus 2 or 3 percentage points of noise. I don't think there is any particular call-out, as I look at the drivers of international fees. I think we're pretty close to the nominal cross-border growth, and no real call-outs.

Operator

David Hochstim, Buckingham Research.

David Hochstim - *Buckingham Research - Analyst*

I'd just like to add my congratulations to Joe, too. I wondered, can you maybe provide a little more color on what you're seeing in the way of spending in Asia and the US? Any changes in behavior, consumers, or corporate customers in terms of spending mix less T&E?

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

There has been a clear increase over the year in credit spending of more affluent people. A lot of what's going on, even the US economy, is driven by consumer spending, as I'm sure you know as well, or better, than I do. And I think that most of these things have exhibited some sustainability.

There are different blips in a few countries around the world, and in Asia in particular, that are associated with specific events. Some of the noise between China and Japan has heard some of the volume between those two countries in the cross-border volume and the payment volume, in particular. And there have been other examples of similar situations.

On the bias, though, things are proceeding as well as we expected, given the overriding macroeconomic situation. And we're very happy we wound up in 2012, including the fourth quarter, and we'll have to go from there. As Byron said earlier, and as I said, we can't totally avoid what's going on in the global economy. But I think that we're certainly positioned to do well next year.

Operator

Ken Bruce, Bank of America Merrill Lynch.

Ken Bruce - *BofA Merrill Lynch - Analyst*

Thank you. Good evening. And let me add to the chorus of congratulations on your impending retirement; very well-deserved. My question relates specifically to V.me, and I recognize that it's early days. You gave some very encouraging information earlier. I was wondering if you could maybe provide some insight as to what you think it will take to close the gap on the remaining top 10 issuers.

And separately, if you think that either 2013 guidance already incorporates some of the pickup in spending on V.me, or if you think that is really more of a 2014 and forward event, please.

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

Well, I'll answer the last part of the question first. I think it's more of a 2014 event. Going back to the Internet, there were \$327 billion spent on the -- excuse me, there was \$226 billion spent in 2012. People expect that to move to \$327 billion by 2016, which I mentioned in my earlier comments.

We have an extraordinary significant share of that volume. It is the fastest-growing category we have, without V.me. I think V.me will enable us to increase our share of the transactions? So not only are we going to be dealing in a category that's increasing; and even though that category may be taking some sales away from in-store sales, I think we'll get a larger share of those sales than we have in the past.

Anytime you do something like we're doing with V.me, it's a chicken and egg kind of thing. What comes first, all the merchants or all the customers? We are running at a pretty rapid rate, as it relates to putting both on. And I think we'll have a successful start-up this holiday season. And I think



that by the middle of the year, we will have a much more robust environment. And by a year from now, we'll be poised to take significant advantage of what we've done.

As it relates to closing the gap in the top 10, I don't like to speak for my customers before they speak for themselves. But I am looking forward to -- and I think you could legitimately look forward to -- hearing a lot more about new additions in the very near future.

Jack Carsky - Visa Inc. - Head, Global IR

At this point we have, probably, time for one more question, Operator.

Operator

Craig Maurer, CLSA.

Craig Maurer - CLSA Limited - Analyst

Thank you, and congratulations, Joe. I appreciate your candor going back to my days following Providian. A couple questions -- one, are there any unique or specific profit aspirations for V.me, other than gaining share in e-commerce? And secondly, decoupled debit; TSYS commented that their fastest-growing debit customer now is a decoupled debit customer. And it's pretty clear to us that the MCX merchants are going to launch with decoupled debit.

So my question is, has something changed in decoupled debit since Capital One failed at that attempt years ago, that would make you a bit more nervous of that product? Thanks.

Joe Saunders - Visa Inc. - Chairman and CEO

Well, I don't think anything that I'm aware of has happened that should precipitate that. And of course that failed because they couldn't bundle transactions. They had to have specific -- and they had to be able to specifically list each transaction, which they were unable to do. As it relates to MCX, I think they have loftiest aspirations, and they probably have a lot of horsepower to work with. I think we are aware of what we're doing -- I mean, we're aware of what they're doing, and they're aware of what we're doing. And we're working hard to compete. And I don't think that that, in itself, is going to define who Visa is or isn't, in the near or the moderate run.

Jack Carsky - Visa Inc. - Head, Global IR

And with that, ladies and gentlemen, thank you all for your participation today. If you have any follow-up questions, feel free to call Investor Relations.

Operator

Thank you for your participation on the conference call today. At this time, all parties may disconnect.



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