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V - Q3 2012 Visa Inc. Earnings Conference Call

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OVERVIEW:

V reported 3Q12 net operating revenues of \$2.6b and adjusted net income of \$1.1b or \$1.56 per diluted share.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to Visa, Inc's fiscal Q3 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 over 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 to Visa, Inc's fiscal third-quarter earnings conference call. With us today are Joe Saunders, Visa's Chairman and Chief Executive Officer, and Byron Pollitt, Visa's Chief Financial Officer. As always, this call is currently being webcast. It can be accessed on the Investor Relations section of our website at www.investor.visa.com. The replay of the webcast will also be archived on our site for 30 days. 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 set-backs in the global economy and the impact of new financial reform regulations. Additional information concerning these 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, 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 IR section of our website.

With that, I will turn the call over to Joe.

Joe Saunders - Visa Inc. - Chairman and CEO

Thank you, Jack, and good afternoon, everyone. We are pleased to have the opportunity today to review our third-quarter performance and the progress we continue to make in delivering against our strategy. Visa had another quarter of strong financial performance, posting net operating revenues of \$2.6 billion, a 10% increase over the same period last year. After adjusting for our previously announced litigation reserve, net income for the quarter was \$1.1 billion, a 20% increase over the same period last year. This equates to adjusted diluted earnings per share of \$1.56, a 25% increase over the fiscal quarter of 2011.

So with three strong quarters of operational performance behind us, which include insights into both the initial adverse Durbin impacts and our fiscal fourth-quarter services revenues, we are now adjusting our 2012 EPS growth guidance to low 20s. And we continue to deliver our commitment to return excess cash back to shareholders. We used \$461 million of our excess cash to repurchase 4 million shares during the fiscal third quarter. Looking ahead, our Board has authorized an additional \$1 billion share repurchase program.

You've heard this before, but it's worth repeating. The shift from cash and checks to digital currency is a global trend that we expect to continue well into the future. Today more than 30% of global consumer spending, almost \$10 trillion, remains on cash and checks worldwide. Interestingly, despite Visa's success increasing penetration of electronic payments over the past several years, the total opportunity to take share from cash and checks worldwide has actually expanded since our IPO, driven primarily by global population growth and expansion of many emerging economies where electronic payments currently represent a relatively small percentage of personal consumption expenditures.

But we're never content just to benefit from evolving demographics. Visa is taking action to accelerate growth beyond the secular trend. To do so we are focused on building and expanding the entire payments category in every market that we operate. That means in our partnership -- that means in partnership with our financial institution clients, putting more payment products in more people's hands, tapping entirely new market segments with diverse product offerings, expanding the places where Visa products are accepted, and innovating next-generation payment technologies that create a superior payment experience for account holders and add value to financial institutions and merchants.

And as we are successful in expanding the overall payments category, Visa's business benefits through diversity and resiliency, which helped us continue to grow through the past economic cycles. So while we are closely watching economic conditions that could impact Visa's business, including fallout from continued volatility in Europe and softening outlets for both China and Brazil, our underlying business drivers remain strong.

To begin my business review let's first discuss the United States where credit posted yet another strong quarter with payment volumes increasing 10%, Visa's fifth consecutive quarter of double-digit performance in that category. In addition to strength in the overall category, I'm confident we've picked up share in credit as we've added new clients and built upon Visa's strong existing client relationships.

Turning to US debit, the situation continues to play out as expected and in line with our guidance for the rest of fiscal 2012 and '13. During the June quarter, Visa's aggregate debit payments volume growth in the US was negative 9% as our clients complied with the April regulatory deadlines. This was driven by the fall off of Interlink payment volumes which came in line with our projections. Meanwhile, Visa debit, which excludes Interlink, posted healthy, mid single-digit payment volume growth which we expect to continue. As predicted during last quarter's call, I am confident Visa experienced the trough for US debit payment volumes during the fiscal quarter. And we are now seeing signs of improved performance in the fourth fiscal quarter.

That being said, and as we have stated previously, we recognize that some debit share loss resulting from this regulation will be permanent. As for implementation of our debit strategies to compete for merchant routing and win issuer business, I will simply say I am pleased with our progress and confident in our long-term position. Our efforts remain on track and our strategies are gaining traction. We are absolutely delivering the value



we promised to our merchant and financial institution clients and, equally important, the strategies are delivering on Visa's own financial and operational expectations.

As for the CID, the status is essentially unchanged since our last call. I remain comfortable our actions are appropriate and we continue to be in regular contact with the department providing information as requested. I will keep you updated if and when the situation warrants.

Switching gears, I would like to briefly provide my perspective on the proposed merchant litigation settlement announced earlier this month. We reached a reasonable outcome that ensures the long-term health and competitiveness of the payments industry in the United States. Importantly, our current guidance for fiscal 2012 and '13 fully takes this agreement into account. I am pleased that we have settlements after an extensive process coordinated by court appointed mediators, which have been approved by class representatives, class counsel, and the retailers who filed separate suits. We anticipate these will have support among the retail community in the US because it is a fair and an appropriate compromise for all parties and that the agreement will be approved by the court.

As for the next steps, preliminary court approval of this agreement is expected in the fall, and Visa is preparing to begin implementation in the early part of 2013. Bottom line, we are moving towards ending a seven-year dispute with an important constituency of our client base, merchants. And we are doing so in a reasonable and responsible way. Looking ahead, we are actively looking for opportunities to work collaboratively with the US merchant community to advance our mutual agendas. In particular, we believe that investments we are making in next-generation payment technologies, V.me, mobile payments, and merchant offers, will drive considerable value to merchants.

Now let's shift the discussion to Visa's international business where we continue to focus on driving long-term growth. Breaking down our specific regions, in constant dollars, payment volumes in Asia Pacific grew 13%, Canada at 8%, while SEMEA and Latin America posted gains of 41% and 20% respectively in the June quarter. As I mentioned at the beginning of my remarks, a top priority is building the payments category globally. To that end, we continue to execute a targeted investment strategy in several geographies with significant growth potential, deploying locally tailored acceleration plans to substantially increase Visa's revenue over a five-year horizon. So let me give you a few specific examples to demonstrate our progress.

In Russia, over 80% of consumer spending is still cash based, which presents a significant opportunity. To drive future growth, Visa is intensely focused on expanding usage in everyday spend merchant categories, including supermarkets. A strategy that aligns particularly well with our strong, stable of debit cards in that country. During the most recent quarter, Visa launched acceptance at Magnit, the country's largest grocery chain with more than 5,000 stores. In fact, with the addition of Magnit, Visa now is accepted at the four largest food retail chains in Russia, a major step towards accelerating growth in that country.

At the same time, in the Middle East we are building on our traditionally strong position with Affluent and Shariah compliant credit products working with clients to expand debits. As one example of our success, Visa recently secured a significant multi-product extension with the National Bank of Kuwait. A key element of our strategy is increased investment in local expertise and local engagement. To that end, we recently opened our first offices in Doha and Abu Dhabi, as well as doubled the size of our presence in Dubai to serve clients better across the Middle East and the SEMEA region generally.

In east Africa, a region I recently visited, we are investing now to reap long-term returns. We recently opened a regional headquarters in Nairobi, Kenya. An important opportunity in that geography is using our fundable platform to deploy mobile solutions and drive long-term growth. We are also making steady progress in Rwanda, which offers a case study of how Visa can proactively engage governments and align our own growth agenda with domestic priorities.

In that regard, we are working with the Rwandan government to increase access to and usage of electronic payments in that country. A key priority is financial inclusion and literacy using mobile technology. Additionally, Visa is now processing domestic payments and inter bank ATM withdrawals, an important step forward for this emerging economy. Also, our efforts will help increase tourism volumes from international travelers, a key driver of economic activity and a top government priority. Finally, this effort should be the foundation for our activities in the entire east African region. Expect us to talk to you more about in this the future.



We're also making steady progress in Indonesia, a rapidly expanding economy with a growing affluent middle class and a population fast approaching 250 million. A key element of our strategy here is growing acceptance. To that end, Visa signed a multi-phase multi-year card acceptance promotion with the country's largest petrol chain, Pertamina. With more than 4,000 gas stations nationwide and approximately \$30 billion in sales volume annually, the promotion will help expand the acceptance of Visa credit/debit cards over the next few years. Most recently, during the last quarter, CyberSource, Visa's 2010 acquisition, signed a number of deals to accelerate e-commerce acceptance, including one with the national airline, Garuda, to provide payment, gateway, and fraud management services.

Meanwhile in China, I know you are already aware of the World Trade Organization's final report containing the findings of the case between the US and Chinese governments concerning China's domestic electronic payments marketplace. While we are still assessing its implications, we are hopeful the ruling ultimately could provide for more global entrance into China's payment marketplace, although a number of additional steps still need to be taken in the WTO process before we have any clarity or certainty.

Most importantly to Visa, we continue to make strategic investments to expand our existing business in China. To that end, we executed several long-term client partnerships during the quarter, including multi-year extensions with CITIC Bank in China, Minsheng Banking Corporation. We also secured a new relationship with Bank of Communication. Overall our focus is on advancing our partnership with local banks and China union pay to serve consumers and businesses using our existing 78 million co-badge cards when traveling abroad.

In fact, earlier this week, Visa co-sponsored a payment securities symposium with China union pay. The symposium was hosted by the Payment and Clearing Association of China and was under the endorsement of the People's Bank of China. During this event, Ellen Richey, our Chief Enterprise Risk Officer, joined banking executives, regulators and law enforcement in Beijing to speak about Visa's role in payment security in the fast growing Chinese market.

And finally, we are two days away from the start of the 2012 Olympic games. There's a reason that Visa has been a sponsor of the Olympic games for more than a quarter of a century. No sponsorship platform offers a better opportunity to help our clients around the world grow their businesses while also driving incremental transaction revenue for Visa. Over the past 13 Olympic summer games and winter Olympic games, this sponsorship has provided Visa with a global platform to amplify our brand message among a passionate global fan base and drive tangible business results. We work with our clients to tailor their Olympic related activities to address the unique needs of their own business and geography, including card holder acquisition, retention, or increasing usage.

This year, I'm pleased that Visa has engaged a record number of clients in our program with more than 1,000 financial institutions and merchants worldwide activating Olympic related activities, including a large portion from priority growth markets. This represents a 70% increase from our program in Beijing and positions us for a highly successful event over the next two weeks.

So, to wrap up, our strong performance during the fiscal quarter demonstrates the underlying strength and resilience of Visa's business model. We continued to accelerate the migration away from cash and check to electronic payments. We helped our clients grow their core business lines. We expanded our footprint in international markets, both emerging and established. We advanced our innovation agenda, and we took significant steps to resolve critical business issues. As always, I remain highly confident in the future of Visa.

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

Byron Pollitt - Visa Inc. - CFO

Thank you, Joe. As is my practice, I will begin with some observations and call-outs. First, note that we reported the quarter on an adjusted basis. We eliminated the previously disclosed litigation accruals associated with both the MOU in the merchants litigation, and the preliminary agreement with the individual plaintiffs, since both of these events are covered by our retrospective responsibility plan. These accruals, which totaled \$4.1 billion, resulted in a quarterly after-tax loss of \$1.8 billion on a GAAP basis. Excluding these litigation accruals, we reported solid earnings per share of \$1.56 for the quarter.



Second, 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. We expect a similar if not slightly higher impact in the next few quarters as more of our debit volume is exposed to lower variable fees and incentive agreements. As we have stated before, this is already incorporated into our guidance.

Third, foreign tax credits resulted in a benefit of \$56 million, or \$0.08 to our adjusted diluted EPS this quarter. These tax credits were contemplated in our full-year guidance with the amount recognized in the third quarter representing the total for the year.

Fourth, US revenue growth has been supported by five consecutive quarters of double-digit credit payment volume growth, most recently 10% in the quarter. Through the 21 of July, credit payment volume growth has compounded at a 9% rate, consistent with a somewhat tepid but sustained US economic recovery.

Fifth, as anticipated, aggregate US debit posted a negative 9% growth rate in the third quarter, led by Interlink payment volume which was off 54%. So far, the month of April has proven to be the trough in debit payment volume loss, and since then, we have seen sequential monthly progress during the quarter in recapturing portions of this Interlink volume. Importantly, Visa debit, which excludes Interlink, continued to post solid mid single-digit payment volume growth.

Sixth, client incentives for the quarter, as a percent of gross revenue, were 19%, consistent with our full year guidance range which is weighted to the back half of the year. Higher incentives had two drivers. First, pricing adjustments linked to our US debit mitigation strategies, which are expected to continue and potentially grow as our merchant and acquirer agreements take hold. And second, certain rest of world incentives, which are not expected to repeat in the fourth quarter.

Lastly, in late May, we received from the IRS a notice of proposed adjustment for our fiscal 2008 federal income-tax return. This notice would disallow the deduction and associated tax benefit related to payments made in 2008 toward the American Express litigation. We disagree with this proposed adjustment. We are comfortable defending our position. And importantly, we made no changes to our tax estimates relating to this deduction or any similar deductions for covered litigation in subsequent fiscal years. Resolution of these types of tax matters generally take some time to conclude. Now, let's turn to the numbers.

As is our practice, I will cover our global payment volume and processed transaction trends for the quarter, followed by our results through July 21. I'll then cover the financial highlights of our fiscal third quarter and conclude with our guidance outlook for the balance of fiscal 2012. Global payment volume growth for the June quarter, in constant dollars, was 6%, down from the March quarter's normalized 10% after adjusting for the leap year.

Several callouts. First, combined credit growth for both the US and rest of world held steady versus a normalized prior quarter. Both produced double-digit growth. Second, rest of world debit growth was unchanged at 28%, same as the normalized second-quarter rate. Third, more recently through July 21, US payment volume growth was flat, comprised of 9% credit growth and minus 7% for debit. Global cross-border volume delivered a solid 14% constant dollar growth rate in the June quarter, which compares to a normalized 15% rate in the second quarter. The US grew 11%, and the rest of world 16%.

We continue to see very strong results from our Asia Pacific, Latin America, and SEMEA regions. Through July 21, cross-border volumes on a constant dollar basis grew 12% with a US growth rate of 9% and the rest of world at 13%. Transactions processed over Visa's network totaled 13.1 billion in the fiscal third quarter, a 1% increase over the prior year period. A debit-led decline of 3% in the US was offset by 18% growth in rest of world. For the month of July through the 21st, process transaction growth was a positive 2%, driven by an improving trajectory and US process transaction growth. Separately, CyberSource reported 1.3 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 rules next year. Second, Visa process transactions continue to grow at double-digit rates for US credit and rest of world. Finally, although there appear to be darkening economic clouds, our global revenue drivers remain healthy with no clear signals of a downturn at this point in time.



Now turning to the income statement, net operating revenue in the quarter was \$2.6 billion, a 10% increase year-over-year. After hedges, there was no meaningful foreign exchange impact on net revenue in the quarter. Moving to the individual revenue line items, service revenue was \$1.2 billion, up 15% over the prior year period. This reflects strong payment volume growth in the March quarter, the revenue from which is recorded in the June quarter. Data processing revenue was \$1 billion, up 17% over the prior year's quarter, based on solid growth rates for CyberSource transactions and Visa process transactions outside of the US, as well as competitive pricing actions that became effective in the quarter. As a reminder, this fixed acquirer network fee initiated in the third quarter is booked to data processing revenue. Offsetting merchant and acquirer incentives are reflected in the contra revenue incentive line, which I will cover in a moment.

Turning to a different metric, we saw a step-up in the gross revenue data processing yield, due in part to strategic pricing adjustments, but also driven by the steep decline in Interlink transactions in the quarter, which are, by far, our lowest yielding product. International transaction revenue was up 13% to \$748 million, reflecting continued strength in cross-border volumes with low double-digit growth rates in the US and mid-teen growth in the rest of world, as measured on a constant dollar basis.

As I highlighted earlier, client incentives for the quarter came in at 19%. The fourth fiscal quarter will also see an elevated level, but is likely to be slightly less than Q3. Together, these incentive levels are consistent with our full-year outlook of 17% to 18%. While we are not yet prepared to offer a more detailed view of fiscal 2013 incentives, we do expect a modest increase from the 2012 level of 17% to 18%.

Total adjusted operating expenses for the quarter were \$1.1 billion, up 10% from the prior year. This was primarily due to higher personnel expenses and costs associated with our investments in growth related technology projects. Marketing expenses of \$242 million reflect a heavier weighting of spend in the second half of the year, timed with the global promotion of the London summer Olympics. Our adjusted operating margin for the quarter was 58%, bringing our fiscal year to date to 61%, consistent with our guidance of about 60% for the year. The third quarter's margin is in line with our expectation for expense timing as we realize a second half ramp-up in incentives, investment spending and marketing associated with the summer Olympics.

Capital expenditures were \$108 million in the quarter and are \$235 million year to date. Given our current guidance of \$350 million to \$400 million for the year, we will likely come in at the lower end of that range. Our adjusted tax rate for Q3 was 29.2%, and as I mentioned at the outset, was positively impacted by a \$56 million benefit from foreign tax credits. The amount recognized represents the total for the year.

During the quarter, we spent \$461 million to repurchase 4 million shares at an average price of \$115.51 per share. Our Board recently authorized a new repurchase plan totaling \$1 billion, effective through July of 2013. Separate from the share repurchase program, on July 24, we added an incremental \$150 million to the escrow account. The fourth quarter event will reduce the B share conversion ratio to 0.4206, thereby reducing the A equivalent share count by 1.2 million shares. At the end of the June quarter, we had 670 million shares of class A common stock on an as converted basis. The adjusted weighted average number of fully diluted shares for the third quarter totaled 675 million.

Finally, we are making only one adjustment to our outstanding 2012 fiscal guidance other than the minor notes I have addressed. Given where we are year to date, we are eliminating high teens from our EPS growth guidance and going with just low 20s. As is our custom, we plan to fully address our 2013 guidance on our fourth-quarter earnings call.

And with that operator, we are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Moshe Orenbuch, Credit Suisse.



Moshe Orenbuch - *Credit Suisse - Analyst*

I was hoping you could flesh out the steps you have taken now that we're three months further in with respect to the debit acquiring fee. You have talked about some of the effects but what's actually happened, how much of that has been implemented and could you talk about how that has flowed through the numbers?

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

I'm not exactly sure about the specific question, but there were two significant things that we did. One was the pricing, and one was the paid, or the debit card change. From a fixed pricing point of view that's been fully implemented. From a paid, or a debit card point of view, that has been significantly implemented, but it's being implemented in phases, and it will take a few more months to get it fully done. Remember, however, that we retained the Interbank logo on the majority of our largest customers and so none of that volume, as long as the Interlink logo is there, will go through paid.

Operator

Dan Perlin, RBC Capital Markets.

Dan Perlin - *RBC Capital Markets - Analyst*

What I was thinking is, now that you have at least arrived in the settlement proposal, I'm wondering if you're thinking about the utilization of your free cash flow differently from what we've seen over the past several years as you funded the escrow account. Secondly, as you talk about the investments that you think are going to be important to the merchants, when we look at the incremental margins in the quarter versus for the past couple of years, we're at a low level, or certainly close to trough level. And I'm wondering if we should be thinking about the investment going forward at these more incremental margin levels.

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

We have no change whatsoever in our philosophy of returning excess cash to shareholders. To the extent that we are not placing cash in the escrow account, the alternative would be open market repurchases of our A shares, and that is exactly what we intend to focus on. So no change on that front. As further evidenced by the approval by the Board to authorize a new \$1 billion share repurchase program.

Second, with regards to margins, let me reframe that. Last year we delivered about a 60% operating margin. That is our guidance for this year. The lower margins that -- operating margins you're seeing in this quarter and we'll see again in the next quarter are all consistent with our guidance of about 60% for this year. As you may recall from our -- at the beginning of year earnings call, beginning of fiscal year, we indicated that it would be about 60% for the year, but that we would be a little higher in the first half of the year, and a little lower in the second half of the year, largely due to a ramp-up in technology investments and a weighted marketing spend for the Olympics timed with the second half. So this year, past year, about 60%, and we'll let you know what '13 looks like in another quarter.

Operator

Darrin Peller, Barclays.

Darrin Peller - *Barclays Capital - Analyst*

You said in the past that you'd expect an acceleration of revenue growth in fiscal year 2013 versus 2012 levels. Can you comment on the main drivers of that, especially if you expect incentives to be sequentially higher year-over-year?

Byron Pollitt - Visa Inc. - CFO

What we said was, or meant to communicate, was that this was a comment around the implementation of the Durbin rules, and that what we expected is that once we had annualized the impact of Durbin, which will take us through the first two fiscal quarters of next year, once we had lapped those rules, and the Durbin impacts were in our base, at that point, everything else being equal, we would expect an acceleration, particularly in our -- specifically focused on our debit business, because we've got the Durbin impact now in our base. That's what we meant by that. Everything else being equal, we would expect to see it. Again, with regards to revenue growth for next year, we'll be much more specific about that on the next quarter call.

Operator

Rod Bourgeois, Bernstein.

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

To follow up to that, does that mean your fiscal '13 guidance signal is not relating to overall revenue growth, it's just relating to the growth in your debit business in the US? The follow-up to that is that you indicated that your growth trends are not showing much effect from macro issues, and you've had a string of pretty good incremental wins that are presumably offsetting what appears to be a general slowing in retail spending. Is there any way to quantify the recent contribution in your growth rate from new wins that are occurring as an offset to the cyclical pressures that are out there?

Byron Pollitt - Visa Inc. - CFO

The guidance, the specific quantitative guidance we have for next year, for '13, number one, is EPS growth in the high teens. Number two, incentives that are modestly, slightly higher than what we expect to experience this year. That's the extent to which we've guided to '13. And remember, when we said we expect revenues to generate, that's everything else being equal, we expect to have debit, the US debit part of the business annualize halfway in through the year.

Honestly, to give a much more informed perspective on revenue growth for next year, we'll wait until the fourth quarter call, at which point we'll have much better visibility of what we're looking at going in. Meanwhile, we're reconfirming the guidance that we currently have for fiscal year '13.

With regards to incremental wins, you can say we have some, certainly on the credit side. We don't have -- we have the opposite, so to speak, courtesy of the US Government on the debit side. In balancing those and looking at the current underlying revenue drivers of cross-border, volume growth, transaction growth, inside the US, outside the US, that's really what's underpinning our guidance comments for '13 for balance of year, and for '13 to date.

Joe Saunders - Visa Inc. - Chairman and CEO

I don't think that there is a significant amount of traction yet on some of the credit wins in the United States. I don't believe that, that's where the growth is coming from. It certainly is cause for optimism as it relates to our credit volumes going forward. I would also reference a lot of our wins outside of the United States, which are picking up steam as we talked about and will provide revenue. I'm sure, as Byron has pointed out, that everybody understands that a lot of our '13 guidance was a reflection on how we would fair given the Durbin legislation. Right now our metrics in every other regard are quite strong, and we will, as Byron said, address our expectations next quarter.



Operator

Glenn Fodor, Morgan Stanley.

Glenn Fodor - Morgan Stanley - Analyst

I applaud your comments about working more collaboratively with merchants. The fact is we're just now hopefully turning the chapter on a relationship that's had tension involved for many, many years so this is a big step forward for both sides, a positive step forward. But besides the technology that you alluded to earlier, how difficult do you think it will be to change your overall cultural approach and general relationship overall with the merchants, from a very high level, aside from the actual product?

Joe Saunders - Visa Inc. - Chairman and CEO

There's been -- I suppose you could characterize the last seven years as a contentious relationship, but the fact of the matter is, when you look at the history of the usage of electronic payments, it's been growing quite rapidly during that period of time. I would characterize it as a love/hate relationship. Something that you sometimes can't do with and what generally you can't do without.

I think that we are in a position to reach out and do much more going forward, particularly because of the technology that we're embracing, that will bring a new level of value to the merchant community, and I'm very, very optimistic about it. We work with the merchant community through all of this, even as you talk about what's going on right now, or as certain merchants may complain about this or that, remember, we have incentive contracts with a significant number of them, and so we are working with them. We're dealing with them on a daily basis, and we think that those relations will improve as time goes on. And certainly that's going to be our endeavor.

Operator

John Williams, UBS.

John Williams - UBS - Analyst

Very quickly, Byron, I wanted to get more detail on your comment that you said you are seeing no clear signs of a slowdown. I think if you look at the other folks in the industry, American Express is the one that comes to mind, do you have anything to say regarding the affluent calling out high end versus low end differences that you might have seen, maybe travel and hotels or other somewhat discretionary verticals that you might have seen some change behavior in over the last few months?

Byron Pollitt - Visa Inc. - CFO

I think it's too early to make that conclusion. John, what we do is watch -- we break down the quarter, month to month, and there can be some very wide differentials within a given quarter. Let me give you an example. In the quarter just completed, for US credit, we grew 8% in the month of April, 12% in the month of May, 10% in the month of June. All in, it delivered 10% growth.

When we look at the monthly progression over the past couple of quarters, these are all -- they bounce around month to month, but they're all pretty healthy. I think the hardest part of a trend to call is the beginning, and given the kind of healthy growth rates we're experiencing, we just don't see a discernible trend, but I promise you we will update everyone quarter by quarter and we'd be happy to go through monthly progressions to help give a better flavor for this. So I'm not saying it's not happening. I'm just saying we're not seeing it yet.



Operator

[Sinjin Wong], JPMorgan.

Unidentified Participant - *Analyst*

Wanted to ask a few questions on the litigation settlement. What's the process in dealing with the merchants that opt out and also what's the plan, I call it the over funded litigation escrow? How are you going to deal with that as the class B shares come unlocked? Lastly, maybe, don't be mad Jack, what's the -- in terms of if surcharge, no surcharge rule going away, how much volume and earnings do you estimate would be at risk by allowing surcharging in the US?

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

I'll answer the question about surcharging, then I'm going to let our counsel who watched over this litigation for the past seven years make some comments about the rest of your question. We think that the position that we struck, and if you look at the MOU and you look at all the details of surcharging and how it can be affected and what the caps are and so forth and so on, we think it's a fair settlement, and we do not look at surcharging, per se as it relates to this litigation, as something that will significantly affect us at all. That's our feeling about it, that's our position. We could talk about this for hours, and, of course, we have, and we did before we agreed to do anything, and we'll just to have let it unfold. But I think it's a -- I think that the settlement is a reasonable settlement for both sides.

Josh Floum - *Visa Inc. - General Counsel*

As to the process going forward, we are very confident that the court is going to approve this settlement, and the reason I say this is, this case has been pending for seven years, and during a great deal of that time, there has been a court-ordered mediation process with two mediators and the involvement of the court. And at the end of that time all of the class counsel, the class representatives, the individual merchants, as well as the financial institution defendants, have agreed to the deal. It's a fair and reasonable deal. Therefore, we're comfortable that at the end of the day the court is going to approve the settlement.

Byron Pollitt - *Visa Inc. - CFO*

With regards to the unlocking of the shares, we've had a lot of practice with the unlocking of the C shares, and as a result, we are very confident that when that time comes, we'll be able to manage that with barely a ripple with regards to impact on stock price.

Operator

Jason Kupferberg, Jefferies.

Jason Kupferberg - *Jefferies & Company - Analyst*

Why don't I pick up on that question if I could and thinking out beyond the court approval coming in the fall that you guys expect, can you guys clarify what sort of true legal recourse the retailers that choose to opt out of the settlement, what kind of legal recourse they actually have? Obviously a couple of the biggest have publicly announced that they do not support the settlement which probably doesn't surprise anybody, but if you can just clarify for all of us what kind of legal recourse they actually have when and if they formally opt out that would be great.



Byron Pollitt - Visa Inc. - CFO

The way the deal is structured is that opt-outs, and you always expect a couple in a class action lawsuit, can sue only for monetary relief. There's something called a non-opt-out class for injunctive relief. What that means is that all of Visa and MasterCard's rules in existence as of the time of approval are released, both by the opt-ins, and the opt-outs.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - Deutsche Bank - Analyst

I want to ask about the mid-single-digit growth in the Visa debit line. I thought that number would be a little bit higher. Has that trended down over the last couple quarters, and if it has, what might be driving a little bit slower growth in Visa debit? Is it a move towards PIN, loss of share, Durbin?

Joe Saunders - Visa Inc. - Chairman and CEO

We always expected to have some deterioration in the magnitude of that growth number. As a matter of fact, it's doing better than we had originally anticipated. Remember, when the whole Durbin thing came, and you had a number of debit cards with rewards associated with them, it drove financial institutions to promote it much more heavily. It encouraged consumers to use it considerably more, and so part of the whole Durbin legislation was a little bit of a damper on debit card transactions in general. Not that they were going to stop. It's just that the rate of growth was going to slow down, so we're actually quite happy.

Byron Pollitt - Visa Inc. - CFO

I will just add a little quantitative perspective. We were, in the fourth fiscal quarter of '11, we were kind of at the upper end of mid single digits in that category. We've remained in that range for Q's 1, 2, and 3, and if you look at Q2 on a normalized basis, pulling out the leap year, the growth rates for Q2 and Q3 are identical. I would say this is -- with the overlay of what Joe said in terms of a modest level of impact, it has been relatively sustained during this fiscal year.

Operator

Wayne Johnson, Raymond James.

Wayne Johnson - Raymond James & Associates - Analyst

Could you give us an update on how V.me is progressing for commercial launch? Is Visa still on track with that? And if you could provide initial expectations, how we should see this rollout this fall.

Joe Saunders - Visa Inc. - Chairman and CEO

Yes, I think we are right on track with the click to buy and alias capability that we suggest that we would roll out by the end of the year. It is up, it is live, it is running. We currently have six relatively large merchants on the system. We do not have a significant number of consumers at this particular point in time, but we're on schedule with several financial institutions to begin that in the very near future.



Right now, we're still anticipating a holiday season rollout of the project, and, of course, it will gain a lot more traction in 2013 than it will at the beginning of 2012. But we're happy with the progress. We're happy with the performance. We're happy with where we are, both with the merchant community and with financial institutions.

Operator

Tim Willi, Wells Fargo.

Tim Willi - Wells Fargo Securities, LLC - Analyst

Could you talk a bit about anything you've seen in Latin America? Looking at the regional data constant currency that one seemed to show more of a slow down, at least for the June data, while all the other regions held steady. I'm curious if there might be something relative to that economy or country that impacted those numbers that might be in play for a couple more quarters. And then if I could slip one other in.

Any thoughts around the average credit ticket in the US, which had been climbing steadily out of the recession, and now seems to be in a slightly negative position. Is that fuel, or is there something else you might think would account for that trend in the last couple of quarters?

Byron Pollitt - Visa Inc. - CFO

Let me start with the Latin America. With regards to currency, first of all, let me just mention to the group that we do hedge exposures. So whatever impact, with the exception of two countries, which I will turn to in a moment, we can dampen the impact on FX.

With regards to currency specific countries, we are seeing a depreciation in Argentina and a continued depreciation in Venezuela. The outlook for de-valuation I would say is -- nothing is a certainty, but I would -- at some point, it looks like we're heading to that, and you can't -- there's no economic hedge for either one of those two currencies. So is that a bit of a drag on our Latin America business? Yes. Is it hedgable? No. And so -- but that's baked into the numbers we've reported.

With regards to any other country callout, I would say Brazil has tempered a bit. There has been a tax placed on credit usage for cross-border travel, which has definitely put a bit of a break on the exuberance of the Brazilians to see the world. That tax is not applied to debit, but it is applied to credit. I would say overall, particularly the rest of Latin America, that the business is strong, it has very healthy growth rates, unimpeded by shifts in currency.

Average credit ticket. No substantive change in that metric for the moment. But if would you like something more specific, I'm sure if you called our IR group, Jack or Victoria would be able to give you something a little more specific.

Operator

Craig Maurer, CLSA.

Craig Maurer - CLSA Limited - Analyst

One question for counsel relating to a previous answer. When you say opt-outs can sue only for monetary relief, does that include relief from interchange? And secondly, for Byron, the yield on processed transactions in the quarter jumped significantly which was expected but it was a lot more than what we were looking for. Do you think that the yield posted in the quarter is a good one to think about going forward?



Byron Pollitt - Visa Inc. - CFO

Let me start with the yield question. The yield increase in the data processing category absolutely was expected. Remember a couple of things as perspective, that as part of our Durbin mitigation strategies, we implemented a fixed acquiring network fee, which is completely captured in the DP category. We also reduced variable transaction fees, which are also included in the DP category. But we then introduced a degree of incentive offset, and that appears in a completely different line. While the gross yield for DP goes up, it's not a true picture, and instead, you really ought to be looking at net yield, which I will come back to in a minute, as it relates to Visa, Inc. revenue yield.

With regard to the DP yield, there's one other factor involved, which has an impact on the calculation, which is our lowest yielding product is Interlink. And that has borne the brunt of the loss as we conform to the new rules. As Interlink moves out of the denominator, in terms of yield calculation, it has the least impact on the numerator and automatically the yield moves up. You have both of those indicators going forward.

There are a number of factors impacting the DP line. Debit is one, including Interlink. CyberSource books into the DP line. I think what it is going to take is the next two or three-quarters or so, in order for us to kind of reset what the base trend lines ought to be projected off of with regards to data processing. I wish could I be more helpful, but I think it's going to take another couple of quarters before this sorts out.

When you put all of this together, and you look at the Visa, Inc. revenue yield, of which DP is an important component, but that captures the incentives, in the way that we capture and measure yield, our yield for the third fiscal quarter of '12 is actually flat with the yield we experienced in the third quarter of '11, fiscal year '11. So a lot of moving parts. This is where we're sorting out, and I'm afraid it's going to take two or three-quarters before we can reset the different trend lines on the different fee categories.

Josh Floum - Visa Inc. - General Counsel

As to your first question, opt-out merchants can only sue for monetary damages, and, by the way, those claims would be covered under our retrospective responsibility plan. Claims for things like rate relief or interchange reductions, that's in the nature of injunctive relief and opt-outs cannot make those claims.

Operator

Sanjay Sakhrani, KBW.

Sanjay Sakhrani - Keefe, Bruyette & Woods - Analyst

It sounds like you guys are still seeing some reasonably good underlying organic growth globally. I was just wondering how we reconcile that with the darkening clouds commentary you mentioned before. Then secondarily, I was just wondering if you could talk about how the tax benefit will be utilized in terms of the litigation escrow reserve bill.

Byron Pollitt - Visa Inc. - CFO

With regards to the litigation of how the tax impact will be utilized, there's a different treatment for GAAP, and there's a different treatment for cash flow. For GAAP, we go ahead, as soon as it's probable and estimable, which we concluded it was, we go ahead and put that through the income statement. So on a GAAP basis, that's now behind us.

With regards to the cash flow impact, you can't record the deduction on your return until you actually make a payment. And so the payments associated with this are potentially sometime out, and so there will be no cash flow impact this year associated with that once the agreement is -- once we're further along, much further along in the litigation process, we'll be in a position to actually make payments, at which point we can then take the tax deduction. We'll give you some perspective on that on the fourth quarter call.

Joe Saunders - Visa Inc. - Chairman and CEO

As it relates to your first question, I mentioned in my comments that the demographics of the world are changing, the number of places that accept electronic payments are increasing, and so there is some counter cyclical things that occur and allow us to build volume even when economies are slowing down to some extent. That's always the difficulty we have in calling out what's going on in the world, or what do we see or how do we measure or know exactly what's happening, and it's tough, because more and more people have access to electronic payments, and more and more locations accept electronic payments. And those have to be factored into the equation.

Jack Carsky - Visa Inc. - Head, Global IR

At this point we have time for one last question.

Operator

Glenn Greene, Oppenheimer.

Glenn Greene - Oppenheimer & Co. - Analyst

I'll just ask on the US debit volume trends you sort of saw through May, I think you gave us an update it was negative 8 end of the quarter, negative 9, and encouragingly it looks like it improved in July to negative 7. The question, do you think we're sort of in a sustained, improved trajectory? Obviously the pricing efforts are having some effect here, but where do you think we go from here?

Byron Pollitt - Visa Inc. - CFO

We're in uncharted waters. We like the notion that it's an improving trajectory, and honestly, we'll know better how competitors respond to our strategies and I think this is still very early days in terms of trying to project how this will play out. Remember, the rules only went into effect April 1. So we've only had, what, three months and three weeks of operation under these new rules, and to date, we're pleased with how our strategies have taken hold to start, and we'll report on how well they continue to perform in the upcoming quarters.

Joe Saunders - Visa Inc. - Chairman and CEO

Without making an absolute prediction on the heels of what Byron just said, I will remind you what I said in the remarks I made earlier, and that is, there will be a permanent deterioration in our debit card volume as a result of the Durbin legislation. There's absolutely no question about it. When we talk about waiting and seeing, we're kind of waiting to see where it gets to but I don't expect to be close to where we were when the whole thing started.

Jack Carsky - Visa Inc. - Head, Global IR

Well, that wraps it up. Thank you all for joining us today, and thank to you Josh Floum for his comments earlier, special guest start. If anybody has any follow-up questions, feel free to call Victoria or myself.

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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