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Visa, Inc. (V)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

John R. Carsky

Head of Global Investor Relations

FINANCIAL MEASURES.....

- For historical non-GAAP or pro forma related financial information disclosed in this call, related GAAP measures and other information required by Reg G of the SEC are available in the financial and statistical summary accompanying today's press release

Byron H. Pollitt

Chief Financial Officer

Q1 OBSERVATIONS.....

Stock Split

- Let me begin with my usual call-outs and observations
- First, as you can see from the earnings press release, we announced that our board of directors has authorized a four-for-one stock split
- Each class A stockholder of record at the close of business on February 13, 2015 will receive three additional shares for every share held on the Record Date in the form of a 100% stock dividend, and trading will begin on a split-adjusted basis on March 19, 2015
 - Due to the structure of the various classes, holders of class B and C shares will not receive a stock dividend
- Instead, the conversion rate for the class B and C shares will be adjusted after the stock split so that the class B and C stockholders will retain the same relative ownership percentages that they had prior to the stock split

FX

- Second call-out involves FX
- Since our last earnings call, the U.S. dollar has continued to strengthen against most of our key currencies
- Based on the December 31 forward exchange rate, we project an incremental 50 BPS negative impact on our full-year revenue growth

Cross-Border Activity

- Third call-out relates to cross-border activity
- Cross-border volumes softened two percentage points in the December quarter to 8% growth in constant dollars and a further one percentage point to 7% through the 21 of January
- Once again, FX is an important contributor, as a stronger than anticipated U.S. dollar has led to substantially reduced travel into the U.S. from Europe, Canada, and Latin America, notably Brazil

- Beyond FX, the severe economic challenges in Russia have also been a notable drag on cross-border results

REVENUE GROWTH

- In total, our outlook for cross-border volume-driven revenue growth in FY 2015 is approximately a half percentage point less than when we began the year
- Partially offsetting these headwinds has been a strong rebound in currency volatility vs. prior quarters
- The improvement has sustained from September through early January and has stepped up even further due to recent Central Bank actions by the Swiss and the Canadians, and was further aided by the recent elections in Greece
 - Given the unpredictability of volatility, we will continue to be appropriately conservative in our outlook on how sustainable this is for the balance of the FY
- For full-year revenue growth, we are maintaining our guidance of low-double-digit constant dollar growth with a negative two percentage points of foreign exchange impact, but would position expectations at the lower-end of that range

Q2 OUTLOOK

- Looking ahead to Q2
- We expect this quarter to be impacted the most by FX, as well as by lower gas prices, and to therefore deliver a growth rate lower than originally anticipated but still in the mid-single-digit range
- From there, we expect net revenue growth rates to build in Q3, reaching double-digits in Q4
- We are reaffirming client incentives in a range of 17.5% to 18.5% of gross revenue
- While Q1 came in at 17.4%, we expect Q2 to Q4 to run at somewhat higher levels given the pacing of deal activity for the balance of the year

EPS Guidance

- We are also reaffirming our full-year EPS guidance of mid-teens
- That said, remember, when projecting Q2 results, in Q2 of last year, Visa booked a sizable tax benefit which included both one-time and ongoing tax impacts, and we will be lapping an unusually low level of client incentives in the prior year

Share Repurchase Programs

- Lastly, we remain committed to returning excess cash to our shareholders
- To this end, we repurchased a total of 3.1mm shares during the December quarter at an average price per share of \$259 and change
- Through January 27, we purchased an additional 2.5mm shares for a total of 5.6mm shares, FY -to-date at an average price of \$258, leaving us with an open-to-buy of \$4.2B
- Of note, all share repurchase programs authorized prior to October 2014 have now been completed

FINANCIAL RESULTS

Global Payment Volume

- Now let's turn to the numbers

- I will cover our global payment volume and processed transaction trends for the first fiscal quarter, followed by our results through January 21
 - I'll then cover the financial highlights of our fiscal first quarter
- Global payment volume growth for the December quarter in constant dollars was 11%
- The U.S. grew 10% and international grew 13%, both at similar levels to the September ending quarter
- Drilling down further, in the December quarter, U.S. credit grew 14%, a one percentage point improvement compared to Q4
- During the quarter, we experienced account conversions and de-conversions, the net effect of which positively impacted credit payment volume by a little more than two percentage points
- By the end of Q1, the vast majority of account conversions will have taken place

US DEBITS

- Turning to U.S. debits, it grew at 7% in the December quarter, flat to the September quarter
- More recently, through January 21, U.S. payment volume growth was 9%, while U.S. credit grew 12% and debit grew 6%

FUEL

- In terms of fuel, significantly lower gas prices had a negative one percentage point effect on U.S. payment volume growth in the quarter, with a disproportionate impact in December and with a bigger impact on debit than credit
- Global cross-border volume delivered an 8% constant dollar growth rate in the December quarter, down from the 10% rate in the September quarter
 - The U.S. grew 4% and international grew 9% in constant dollars
- Through January 21, cross-border volume on a constant dollar basis grew 7%, with a U.S. growth rate of 6% and an international growth rate of 7%, further decelerating from the December levels
- The underperforming travel corridors referenced earlier in combination with weaker growth in Brazil, Russia, and Ukraine, were the primary culprits
- Travel within Asia remains strong

Processed Transaction

- Transactions processed over Visa's network totaled 17.6B in the fiscal first quarter, a 10% increase over the prior year period
 - The U.S. grew 9%, while international delivered 14% growth
- Through January 21, processed transaction growth was 10%, with a U.S. growth rate of 9% and an international growth rate of 13%

Net Operating Revenue

- Now turning to the income statement
- Net operating revenue in the quarter was \$3.4B, a 7% increase y-over-y, driven primarily by solid growth globally across all revenue categories and, as mentioned earlier, was negatively impacted by approximately two points of foreign currency headwinds
- Moving to the individual revenue line items, service revenue was \$1.5B, up 8% over the prior year, and was driven by solid global payment volume growth

- Data processing revenue was \$1.4B, up 9% over the prior year's quarter, based on solid growth rates in Visa transactions, both in the U.S. and internationally
- International transaction revenue was up 9% to \$970mm as increased currency volatility countered negative impacts from FX

Operating Expenses

- Total operating expenses for the quarter were \$1.1B, up 6% from the prior year, primarily related to higher personnel, marketing, and other expenses, which support our growth strategies and product initiatives
- Operating margin was 66% for Q1, in line with our annual guidance of mid-60%
- Our effective tax rate was 30.6% within our guidance range of low-30%
- CapExs were \$104mm in the quarter

Stock Outstanding

- At the end of the quarter, we had 616mm shares of class A common stock outstanding on an as-converted basis
- The weighted average number of fully diluted shares outstanding for the quarter totaled 619mm
- Finally, for completeness, our full-year guidance metrics for revenue growth, client incentives, operating margin, tax rate, EPS growth, and FCF remain unchanged

Charles W. Scharf

Chief Executive Officer & Director

OPERATING REVIEW

- First of all, I'm just going to start by telling you, I think, that we, as a management team, are quite pleased with our results
- We continue to produce strong and consistent results in a global economic environment, which is providing more headwinds than tailwinds
- Consumer spend continues at reasonable levels, but it is not accelerating
 - And we expect gas prices to continue to be a near-term headwind
- Geopolitical tensions are playing a more meaningful role in our results as they have at different times during our past
- Having said that, our growth is still strong and well in excess of consumer spending growth as the movement from cash to electronic payments continues, regardless of economic and geopolitical events
- As most of you probably know, we put forth a proposal in this year's proxy to amend our corporate charter that would position us to affect a stock split at an appropriate time at the discretion of our board of directors

Stock Split

- As you can see from the announcement today, the proposal did indeed pass and our board of directors declared a four-for-one stock split in the form of a stock dividend
- This action, in addition to our dividend increase and our previously announced share repurchase program are all indicators of our confidence in our future

- Our long-term outlook continues to be bright as our investments in digital payments provide growing opportunities for us

Underlying Payment Volumes

- Let me make a couple of comments now about our first quarter financial results
- As Byron said, it was another strong quarter driven by solid underlying payment volumes in processed transactions globally
- As expected, operating revenue grew 7% nominally, or 9% on a constant currency basis, while expenses increased 6% and EPS registered a healthy 15% growth
 - Global payment volume grew 11% flat to last quarter and still robust
- Solid rates in the U.S. of 10% were bolstered by international at 13%, again no change from the previous quarter and still robust in spite of everything that is transpiring across the globe
- U.S. growth moderated slightly in the month of January, driven by further declines in gas prices
- And as Byron mentioned, our U.S. results benefited from conversions, as we converted significantly more accounts on to our platform than were converted away from us

US Holiday Spending Season

- Let me just cover a few topical items now
- First, a few words about the U.S. holiday spending season
- The holiday season spending patterns evolve differently than prior years
- Growth was stronger going into Thanksgiving than we've seen in the past, and it tailed off through the month of December, but a significant driver was the continuing decrease in gasoline prices
- Having said that, our rate of growth was higher this year than last year, including the decrease in gas prices
- We also look at the rate of growth y-over-y excluding conversions and gas prices to gauge the underlying economic environment, and it looks to be about flat

US Fuel Prices

- On that topic, I want to talk a little bit more about gas for a second
- First, to put the drop into context, U.S. fuel prices are down approximately 30% since June
 - This drop amounts to approximately \$60 per month for the average consumer
- According to our surveys, approximately 50% of the savings consumers are seeing is being saved
- 25% is being used to pay down debt, and approximately 25% is being spent in other discretionary categories
 - These categories include grocery, clothing, and restaurants
 - This is consistent with what we've seen in our own spend data
- As we look forward, we would anticipate the savings will accumulate, and ultimately we would see more spent in the discretionary categories, including higher ticket items such as home improvement, electronics, and travel and entertainment

Cross-Border Volume

- Third, cross-border volume moderated to 8% from 10% in the prior quarter
- We see the effect of geopolitical tensions here and the strong dollar, and the corridors affected are not surprising as Byron pointed out

- Fourth, the rebound in currency volatility is material
 - It's obviously welcomed and not surprising given what's going on in the world
- The moderation in cross-border continued into the current quarter as has increased currency volatility

Expense Front

- On the expense front, we continue to manage expenses judiciously
- And while we continue to appropriately invest in all of our long-term initiatives, there are defensive measures we can and will take if needed in the face of any slowing economic scenario
- We are not doing this yet but we remain prepared

Competitive Position

- Let me turn my attention now just to say a couple of words about our competitive position
- We love our competitive position in the marketplace
- We are the industry leader, but this alone doesn't give us comfort
- We know that we are the target for others, traditional and nontraditional
- Thus far, we're comforted by the fact that that we continue to maintain our share in an intelligent way for our shareholders
- We are laser-focused on investing to drive cash to electronic payments, partnering with those who will drive commerce in the digital world and creating platforms to embed ourselves in that digital commerce
- Visa Checkout, Visa Token Services, Visa Digital Solutions, and enabling Apple Pay, these are things we've done so far and there is much more to come

Legal and Regulatory Front

- Let me turn now and make a couple of comments and updates regarding the legal and regulatory front
- On the domestic front, we're certainly pleased with the recent outcome of the Supreme Court's decision not to hear the National Association of Convenience Stores' appeal against the Federal Reserve Board
- The decision is an important step in bringing clarity to the debit interchange landscape
- We're hopeful this will encourage all parties to work more closely to address areas of mutual interest

Merchant Litigation

- Speaking more broadly to the merchant litigation, we've made considerable progress in settling the MDL opt-out cases
- Through the end of Q1 and to-date in January, we've paid out approximately \$335mm to opt-out merchants
- We're optimistic that we will continue to see good progress
- Additionally, we've had approximately 1,100 requests from smaller retailers to opt back into the class
 - They will be compensated accordingly under the terms of the class agreement
- In Russia, we continue to work with the Central Bank of Russia and the Russian National Payment Card System to transition our domestic processing to their network
- We continue to estimate the 2015 full-year impact to be \$50mm

Visa Checkout

- A quick update on Visa Checkout

- As I mentioned last quarter, Visa Checkout saw excellent initial traction in the early fall which is accelerated during our first fiscal quarter, capped off by the holiday shopping season
- This was driven by strong media campaign in conjunction with our NFL sponsorship, as well as individual merchant and media collaboration
 - Thus far, we've conducted 24 co-marketing campaigns with some great merchant partners
- Visa Checkout now has over 240 financial institution partners across the United States, Canada, and Australia, which account for almost 50% of our global e-commerce volume
- Several issuers are also participating in marketing programs including e-mail and online campaigns
- To-date, we have over 3mm registered users and consumers can now use Visa Checkout to shop at over 110 e-commerce retailers, representing over \$42B in addressable volume

APPLE PAY

- We continued to see good success with Apple Pay, and with all involved parties actively promoting the service either independently or in concert with each other
- As Apple reported yesterday, about 750 banks and credit unions have signed on to bring their customers Apple Pay
- To-date, 43 of our issuing partners have enrolled in our tokenization services
 - These issuers collectively represent 75% of our aggregate U.S. payment volume
 - And over 500 of our clients have signed the Apple Pay contract, and we're actively working with them to enable the service
- As importantly, the token technology employed here sets the standard for other digital experiences, and you will see others come to market over the course of the next year
- As we gauge the success, I agree with Apple's assessment that it's early days, but the excitement we see is encouraging
- It will take some time to build out the NFC acceptance infrastructure for Apple Pay and others
- That is happening now and will continue as merchants upgrade their terminals to accept chip-enabled cards
- I would also note that few if any chip-enabled terminals are shipped that don't also contain NFC functionality

EMV Chip Cards

- More specifically, on EMV chip cards, we continue to work closely with all industry players and are very optimistic that the adoption of chip cards will continue to accelerate over 2015
- Based on the Payments Security Task Force projections, we expect to see well over 0.5B chip cards enabled in consumers' hands by the end of 2015, and roughly half of all terminals of surveyed acquirers will be activated by year-end
- We expect that by the end of 2017, roughly 70% of all cards and all terminals will be chip-enabled

Emerging and Evolving Technologies

- Moving on to emerging and evolving technologies, like Host Card Emulation
- In the fall, we launched our sandbox environment for Visa Digital Solutions
- We have several clients and partners that have been actively developing new mobile and digital services in our sandbox
- Next week, our Visa Digital Solutions platform will launch and be live in production

- We expect that several of our clients and partners will launch their new services over the coming months

Other Initiatives

- Lastly, we're putting the finishing touches on several other initiatives that we will be announcing during the upcoming Mobile World Congress meeting in early March, so stay tuned
- Just to close, we're very pleased with the start to our FY
- As we indicated last quarter, while we'll expect volumes to remain relatively strong, we're expecting revenues to be softer in H1, including Q2 which we expect to be the trough
- The back half of the year should improve as gas prices stabilize and the effect of our previously announced pricing changes become effective
- It will continue to be a very exciting time in the payments arena, and I fully believe that Visa will continue to be in a leadership position, not only in terms of growing our payment volumes and processed transactions but, as importantly, driving new technologies and ways to pay as we work in concert with our issuers, acquirers, merchants, and other parties

QUESTION AND ANSWER SECTION

Darrin D. Peller
Barclays Capital, Inc.

Q

Nice job on the quarter. I just want to touch first on what you were mentioning around FX volatility levels. As I think, Byron, you mentioned earlier, they clearly have increased. Just to be clear, you're not including that in your outlook – at least you're including – are you including the levels that we've seen recently, and just kind of going forward with that, or are you including lower levels? And maybe can you give us the size and sort of magnitude of what kind of impact it could mean if you were to sort of extrapolate off the card levels of volatility for the rest of the year on your cross-border volume?

Byron H. Pollitt
Chief Financial Officer

A

So we have included our forward projection of FX rates based on the December 31 forwards. So, the numbers that we quoted, the guidance that we have reaffirmed, fully reflect the most current thinking and data we have, using the forward exchange rates of December 31. With regards to volatility, which is another aspect of FX, the projection assumes some continuation of what we have seen, but we are, as I indicated in my remarks, cautious here with regards to the balance of the year in that this is an area that is very difficult to forecast. So, clearly, a good start to the year with regards to volatility. It is trending. It has performed above the 10-year medium, which we referred to, I believe, on our last earnings call. But this is an area that goes up and down, so it, unlike FX and its impact on our translations, which we have projected using the December forwards throughout the year, with volatility, we're forecasting a bit closer in and taking out what we believe is a conservative posture in H2.

Jason A. Kupferberg
Jefferies LLC

Q

Hi, guys. So the strong dollar, obviously, as you highlighted, has had that negative impact on U.S. inbound cross-border travel from some of the key international corridors. So I just wanted to get your take on whether or not you think the 7% cross-border volume number through the first three weeks of January will prove to be the trough for the year. Because I know you do have some easier comparisons coming up in the March and June quarters in particular.

Byron H. Pollitt
Chief Financial Officer

A

That one's really hard. We have – we are projecting off our trending, but the dollar is continuing to strengthen and that strengthening dollar is fundamental to our forecast for the balance of the year in terms of its impact on volume and subsequent impact on revenue.

David Mark Togut
Evercore ISI

Q

Could you provide any clarity you might have, Charlie, on the rules that are governing the opening of China's domestic payments market and when this might be material for Visa?

Charles W. Scharf
Chief Executive Officer & Director

A

I guess a couple things first. First, I just want to be clear, China is an important market for us today. We don't compete domestically for transactions. But we have very close relationships with banks in China where we issue cards that are used outside of China. So, to the extent and at the appropriate time when the Chinese marketplace opens, we're not starting from ground zero relative to building relationships within China. Relative to the timing of the open, we really, unfortunately, cannot provide any additional clarity. We know what you know, which is that the Chinese Government made the statement that they will allow domestic competition, that they're in the process of writing those rules, and my guess is we'll see them when you see them. And we continue to work with our Chinese partners and meet with the government. But relative to when the market will open, what the rules will look like, and how meaningful it would be, we really don't know. I would just remind you all, I know a lot of you know this fact, but when they have opened the market up in other industries, that are industries somewhat like ours, it generally takes a period of time, sometimes quite a significant period of time before it's going to become something significant for the company.

Bill Carcache
Nomura Securities International, Inc.

Q

Have you seen any notable difference in the impact of lower gas prices on affluent consumers vs. the general population? And maybe on the comments that you made about cross-border, could you kind of address whether you're seeing any early signs of more U.S. travel abroad, given the strengthening of the U.S. dollar yet? And if so, is any of that factored into your outlook?

Byron H. Pollitt
Chief Financial Officer

A

What we see – let me take the second one first – what we see for U.S. travel abroad, given the strong dollar, is that it has sustained. What we haven't seen is any sort of spike in U.S. travel abroad, which you might hypothesize would happen given the stronger dollar, but what we've seen is a sustaining of healthy growth rates on outbound U.S. travel. With regards to gas and impact on affluents, as I mentioned in my remarks, gasoline spend is more debit-weighted for us than credit. We have seen very little impact on spend at the credit level, which is where you would expect more of the affluents to participate. We have seen some impact on debit, which is where you'd expect the less affluent to play in greater numbers. So, as Charlie talked about, there has been a clear noticeable reduction in debit spend as it relates to gas in the U.S., a portion of which have been redistributed to other categories, but the bulk of which has been, at least for the moment based on our surveys, being banked in the savings category.

Charles W. Scharf
Chief Executive Officer & Director

A

And just keep in mind a little bit, the average of \$60 a month, \$60 a month in its own right doesn't change – it's unlikely that people change their behavior. I mean, if you boil it down to people filling up their tanks once a week, right, at that point you're down to \$15 a week. How are you going to go spend differently? So the places that we're seeing it, which I mentioned are the grocery stores, [indiscernible] (32:03) QSRs especially, are the types of places where you would see that kind of additional dollar amount. But as I said from our surveys, we know that 50% of it is being saved. That amount of money accumulates, people start to see that they have additional money, and then over a period of time will potentially buy higher-ticket items is what we would anticipate.

Donald Fandetti
Citigroup Global Markets Inc. (Broker)

Q

Yeah, Charlie, I was wondering if you could talk a little bit on the rollout of tokenization for online and when you think it could also rollout internationally around Apple Pay? And then lastly, have you seen increased discussions from other smartphone manufacturers and players post-Apple Pay?

Charles W. Scharf
Chief Executive Officer & Director

A

Sure. On our tokenization efforts, we are very actively working with issuers in other parts of the world, and would expect to see some tokenized solutions in the marketplace this CY. On the topic of other people, whether it's handset manufacturers or others, there is a very, very active dialogue that's going on. That was happening, but I think the work that Apple has done and winding up in market with their solution has certainly accelerated people's thinking, and we've been very, very clear relative to ourselves, which is we're very excited about what Apple is doing. We think it's a very elegant solution that we are thrilled with our participation in. But we want to enable as many scalable solutions that have wonderful customer interfaces that adhere to the highest security standards, and we would expect to see a series of those in the next couple of quarters come to market.

Sanjay Harkishin Sakhrani
Keefe, Bruyette & Woods, Inc.

Q

I have one more on FX. How do the hedges affect next year? I mean do they defer some of the impact that we might have seen if you weren't hedged this year into next year? And then just one data point question. Do we know the sum total of those that are still opt-outs in the merchant litigation?

Byron H. Pollitt
Chief Financial Officer

A

With regards to the hedges, the answer is yes. Beginning with the month of October, which was the beginning of our FY, we start doing 12-month forecasts out and start layering in hedges 12 months out. So, January – this is January, so the hedges we put on this month will cover the first through the end of January, we will have the hedges in place that will cover the first four months of next year's FY. And I say for better or for worse, if the dollar continues to strengthen, then the hedges will provide benefit, and if it goes the other way, the opposite, and remember the objective here is to simply dampen, not eliminate. We are not insulated from FX. What we are trying to do with the hedges is flatten out somewhat the volatility. And I might also add that what we [ph] solve to (35:41) in hedges is not revenue, it's actually operating income. So, we hedge against certain risk tolerance levels by currency against our operating income, which means we use the expenses in other currencies as a natural hedge and then we put on transactional hedges beyond the natural hedge of the expense we incur in the non-U.S. currencies.

Moshe Katri
Cowen & Co. LLC

Q

Hey, guys. Can you talk a bit about tokenization? Where are we in terms of introducing the service to banks and some of the feedback and then maybe you can talk a bit about how should we think about this looking into next year? Thanks.

Charles W. Scharf
Chief Executive Officer & Director

A

So, those financial institutions that I referenced in my opening remarks are all using our token services for Apple Pay. And as I said, we're working with another 500 or so institutions here currently to get them involved in Apple Pay and therefore using our tokenization service because that is a prerequisite for participating in Apple Pay. As I said before, we continue to work with issuers around the world and expect to see more tokenized solutions as time goes on. What was the second part of the question?

Byron H. Pollitt
Chief Financial Officer

A

There was a second part that I didn't answer to Sanjay's questions. So let me just, if I could, let me just add that in real quick. The question was, I believe, how many opt-outs remain in the MDL litigation? That number we don't have immediately accessible. But to be hopeful here, we think it's better to think about it in terms of the payment volume represented by the opt-outs. Charlie told you that to-date we have settled and actually paid out of our escrow \$335mm or so out of an escrow that was \$1.5B at the beginning of the FY. Think of that as settling out a little over 20% of the payment volume represented by the opt-outs before these payments began.

Bob P. Napoli
William Blair & Co. LLC

Q

I just wanted to get an update on CyberSource if I could. And the trends in that business, what you're doing to improve that business and who – maybe what competitors are you finding most difficult as far as losing market share?

Byron H. Pollitt
Chief Financial Officer

A

So on CyberSource, we had a good holiday season. We great at – transactions grew at about 16%. That's up from 12% in the prior reporting period. Honestly, as we've mentioned on prior calls, we missed an investment cycle, maybe two in this product. We are rapidly reinvesting, replatforming to enable much better client service as transactions accelerate in terms of capacity utilization. And so, this is a business we're very committed to. It's been an excellent vertical extension of our business model and we remain very vested in bringing the platform to world-class levels again and to accelerate the growth rates above which we have even most recently been experiencing.

Charles W. Scharf
Chief Executive Officer & Director

A

And the only thing – I just had a couple of things to it. Number one is, so just we think about CyberSource two different ways. We think about it as a how is it doing as a standalone business? And we think about how is CyberSource helping the rest of Visa? As Byron mentioned on the standalone business, we've been very clear that we did miss an investment cycle here. We have a very clear roadmap internally that both relates to customer-facing improvements such as time to onboard and things like that, as well as some infrastructure changes that we are making. That's a roadmap of, call it, a year or so, and that's how long it'll take us. So we would expect to see

some volatility from the existing client base as we go through those changes, but it's the right thing for us for the long term. Separately from us, and this gets to just the overall point for us with CyberSource, CyberSource is an extremely important part of the company. When we talk about leveraging merchant relationships and talk about wanting to build broader capabilities and conversations that we're having in the marketplace in order to do that, CyberSource is just a wonderful addition for us to be able to be a partner to either enable those conversations or to be a part of those conversations. And, quite frankly, for us to start from scratch on merchant relationships is very, very different than to be able to start with a CyberSource inside the company.

Jim E. Schneider

Goldman Sachs & Co.

Q

Relative to your commentary on incentives, I believe last time you had talked about incentives being front-half loaded in the first part of the FY, and I think today you said that you now expect them to trend upwards as you go through the year. Has something changed in terms of deals pushed out or additional deals signed? Maybe give us some color on the cadence of those incentives as you go through the year.

Byron H. Pollitt

Chief Financial Officer

A

One of the things we've learned over the past seven years that we have been doing earnings calls is that incentives is very difficult to project quarter-by-quarter. We've gotten pretty good at projecting it on the full-year basis. And so, with every passing quarter, we get smarter about the deals that close and the deals that are taking longer to close that we thought might close. And so, nothing has occurred that has changed our outlook for the year, but we are reaffirming the lumpiness of incentives, and that's really what we're seeing here. We have one quarter in the bag and three to go, and we're very comfortable with our guidance of 17% (sic) [17.5%] to 18.5%, and we expect the three out quarters to run at a higher rate than what you saw in the recently completed Q1.

Smitti Srethapramote

Morgan Stanley & Co. LLC

Q

At your Analyst Day a year-and-a-half ago, you guys estimated that there'd be 38mm mobile point-of-sale locations by 2017. Just wondering if you guys can give us an update in terms of how things have played out vs. your initial expectations, and are there any particular geographies where you've seen acceptance increased noticeably due to mPOS?

Charles W. Scharf

Chief Executive Officer & Director

A

That's a good question, and I had the number but I don't have it now, in terms of how many mPOS locations there are. But the number is growing extraordinarily quickly. The last number – I'm sorry – what's that Jack?

John R. Carsky

Head of Global Investor Relations

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Canada, Australia.

Charles W. Scharf

Chief Executive Officer & Director

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Yeah, Canada, Australia, and others places. I mean the numbers that I saw were several quarters ago, actually probably it's almost a year ago, we're probably at 5mm, and I believe the number was over 10mm the last time I checked. So, I mean, the growth is happening, and in addition to just the mPOS devices out there, usage is what's

extraordinarily important. So we can make sure we get you that number. And next time we talk publicly, we'll make sure we mention it so everyone has it.

Tien-Tsin Huang

J.P. Morgan Securities LLC

Q

Charlie, it sounds like you said – I think you said that you can protect the bottom line if the macro deteriorates here. Can you elaborate? Was that an expense comment, and maybe can you give us an update on the timing of the CFO search?

Charles W. Scharf

Chief Executive Officer & Director

A

Sure. So on the first one, I think my comments are quite simple, which is, the economic environment in terms of what we're seeing with the strengthening dollar, obviously makes our jobs more difficult. The point of what I was trying to say was we are not changing our spending patterns, the projects we have underway, based upon what we're seeing in the world today. We're not laying people off. We're not even thinking about doing anything like that. We're continuing to push forward to grow the company, because we think that's the right long-term thing for us to do given the opportunity. And we think as Byron went through, we think we'll continue to perform as a company. Having said that, we also just always remind ourselves that, like any company, you can always tighten up. And you can always go through and prioritize and figure out what the most important thing to do is, and you really have to do every last thing. And if we got particularly nervous, that what we were seeing in the world would affect us in any kind of meaningful way beyond what we expected, we have the ability to do that. And we're not contemplating that. And even if we did that, we would just assume we would do it in an intelligent way that still allows us to invest in the right thing. So the point is if we had to, and if we thought it was prudent, we could reduce the expense base of the company. Or certainly slow the expense growth. But not something we're contemplating doing right now. And on the CFO search, I would hope we have something to report shortly on that.

Bryan C. Keane

Deutsche Bank Securities, Inc.

Q

Hi, guys. Just a couple clarifications. I guess, Charlie, what's the strategy for rolling out tokenization for browser-based e-commerce? I guess I was under the impression this spring you guys would be rolling something out. Just curious what the plans are there. And then, secondly, Byron, on FX, just given your comments on some of the hedges and the rolling off of some hedges, should we then start modeling in a couple point impact for FY 2016?

Charles W. Scharf

Chief Executive Officer & Director

A

So on the first piece, in the spring of this year, we will have some tokenized solutions in the marketplace for some browser-enabled solutions.

Byron H. Pollitt

Chief Financial Officer

A

Okay, and on the FX, Bryan, I wish I had a crystal ball. But let me relay the following circumstance which is the dilemma. When we gave foreign exchange guidance on Q4 call, we had a full-year of hedges in place. Three months later, we are saying that the interim FX developments have negatively impacted our revenue growth by about 50BPS. So, within three months of our last projection of FX, we're off 50BPS and the year was hedged. So, we're not yet ready to talk about FY 2016. That said, your projection of just how strong, how much further strengthening the U.S. dollar can achieve, how long it can sustain at this level before the inevitable cycle goes back

the other way, is as good a guess as ours will be. In terms of impact, we're using as our best proxy, the December 31 forward exchange rates.

Moshe Ari Orenbuch

Credit Suisse Securities (USA) LLC (Broker)

Q

Could you talk a little bit – I mean, you mentioned during the opening comments about the holiday spending being a little different, kind of debit spending being affected by gasoline. Are there trends that you think that will be persisting throughout 2015? I know we've got some differences in the way tax refunds are going to be paid this year. I mean any other things that we should be aware of as we go through 2015, particularly in the U.S. and keeping that stuff in mind?

Charles W. Scharf

Chief Executive Officer & Director

A

I guess, listen, we spend a lot of time tearing apart everything that we can find about the holiday spend numbers, the stuff – the things I talked about were the most important for us, isolating the conversion so you get a real underlying view of spend. We've talked about the impact of gas and what we'd expect to be the ongoing impact of gas. The only thing which we didn't cover here which we spend a lot of time talking about is e-commerce volume. E-commerce was extraordinarily strong during the holiday season which is a continuation of what we've seen. Growth rates of e-commerce were two times to three times what they were in the physical world. And for us, we like that because cash doesn't work in the online world. And so, we've got a much higher participation rate in the e-commerce world than we do in the face-to-face world. Other than that, nothing's coming to mind, Moshe.

Craig Jared Maurer

Autonomous Research US LP

Q

First, could you give us a little bit of commentary on the impact that pricing changes that we've seen reported by the acquirers will contribute to your guidance on revenue growth. And secondly, we've seen EMVCo produce a draft of 3DS 2.0 based on Visa and MasterCard's work, indicating that you'll be able to take additional authentication metrics into account starting in – at the beginning of 2016. Does this also mean that we'll get a cardholder present like interchange tier show up at that time as well? Thanks.

Byron H. Pollitt

Chief Financial Officer

A

Let me take the first one. As we described on our fourth quarter call, we have a number of price adjustments that will take place in H2. U.S. acquiring card service fees in April, roughly two basis points, about 40BPS on U.S. acquiring ISA again in that April timeframe. These get phased in. So, no impact in Q2 – fiscal Q2, a beginning impact in fiscal Q3, full impact in Q4. So as you think about modeling it on a FY basis, we would expect our lowest revenue growth rate to be in the upcoming Q2 and then as the price adjustments start to kick in, building in Q3 and then, by Q4, having an impact that would bring us to double-digit revenue growth in fiscal Q4. Put that all together and we are still reaffirming the guidance we gave in Q4 for the full-year, but today, largely because of FX, at the lower end of that range.

Charles W. Scharf

Chief Executive Officer & Director

A

And then on your second question. I wouldn't relate those two dates. The work we're doing on 3D Secure and relooking at the rates as we said. As with tokenized solutions being in the marketplace, we are constantly looking at what makes sense, constantly looking at the fraud, looking at the value-added. And if it makes sense for us at

some point to do something different, with interchange rates, we'll do it. But right now, we have no specific plans to talk about.

Timothy Wayne Willi
Wells Fargo Securities LLC

Q

Charlie, just going back to your comments I guess around the class-action and starting to settle with those that opted-out, et cetera. Any comments you would have just around sort of the tone of collaboration with yourself and the retailers as you sort of come to the end of this. And just tying that into anything, Byron, we should think about maybe longer-term around rebates and incentives and the mix that would move more towards retailers vs. banks if there's anything we should consider there?

Charles W. Scharf
Chief Executive Officer & Director

A

So on the first piece, listen, I think our relationships with merchants, as we've said, are extraordinarily important to us. Being able to settle these lawsuits is a good thing. It puts that conversation behind us and it is an opportunity to talk about things that we can do together. The most obvious thing that I can talk about is Visa Checkout. The idea of merchants advertising alongside us, promoting something, isn't something that would even have been contemplated a couple of years ago. And they're doing it because not because they like us as people, they're doing it because we have a product which they believe is good for them. When you're buying something in the e-commerce space, you put something in the cart to checkout, what you want as a retailer is you want someone to actually pay for that. And for us to be able to bring a solution to market which has a much higher close rate, which is easy to use, where we can leverage our brand jointly, and ultimately by the way, bring new customers to them, is something that excites them. And so, those are the kinds of conversation that are very different that we're able to have today. Not everyone is in that bucket but that's the way we're rethinking about it. We would like to have that kind of partnership with everyone. And as I said before, that's something that's going to play out over a long period of time. We know we have to prove to merchants that we can show up with solutions that are better for them as I went through the Visa Checkout. As we announced a quarter or two ago with something called Visa Transaction Advisors, where we've now turned our fraud and analytics talents towards helping oil companies reduce fraud at the fuel pumps through risk scoring that we do on a real-time basis for them. So, I would describe it as, it's encouraging but it's a long-term discussion where there have to be proof points in the marketplace, and you'll start seeing them over a period of time.

Byron H. Pollitt
Chief Financial Officer

A

And with regards to incentives, Tim, the main action as it relates to incentives doesn't really – today, it has little to do with MDL and much more to do with Dodd Frank in debit related to routing. That said, going forward, I think as we increasingly introduce new product initiatives, new services, and where we want to accelerate trial and adoption, we're prepared to put some incentives on the table to help prime the pump, and as a way of crafting a smart market entry, using the merchants as a launch partner for services that will be good for the network and all its participants.

Lisa D. Ellis
Sanford C. Bernstein & Co. LLC

Q

...sneaking me in there at the end. Thanks guys. Hey, Charlie, I just wanted to follow up on the point you made on e-commerce. First, could you give an update on the mix of revenue or volume you're seeing through the e-commerce channel and the card mix as well? And then second question is about the fed strategy paper on

improving the U.S. payment system that was released on Monday. I'd love just your thoughts on that, the level of involvement or engagement you guys have had with the fed, and how you see it impacting your business.

Charles W. Scharf
Chief Executive Officer & Director

A

So on the first – don't have a lot of color. We've not released numbers like that, either by product or exactly what the mix is, but obviously we've given you what the relative growth rates are. So hopefully that's helpful. Listen, on the fed paper, first of all, we are very actively involved with the fed, as many others are. We participate in the dialogue that they have, that they have had up to this point leading up to the paper that they just released. And our experience has been that they have been extremely inclusive with all partners seeking input. From – I would say, in terms of what it means for us, I mean, I don't think any of us exactly know, and I think that will play itself out. What we do know is that we have a network that works extraordinarily well, that provides great value for people that run transactions over it, and a lot of what we do isn't easily duplicated. And it's one thing to say that you're going to build something. It's another thing to actually get it in the marketplace with the ability to put value-added services around it. The people that participate in our network, the four parties, get paid for it, or they get benefits from it, and they do it because they actually get those things out of it. So, there's some very natural reasons why networks like ours and our competitors are attractive in the marketplace out there whether you are an issuer or whether you are an acceptor of the products. And as we've talked about, what we spend our time – I mean, I don't want to underestimate the importance of running the network well. We spend a lot of time making sure that that's the case. We spend a lot of time on network security. But we spend even more time building value-added products around it. And the idea is that you run the transaction over the Visa network and there's more value to you because of either services we provide, whether it's on a risk basis, whether it's things that can help you grow your revenues. And we're working on a series of things now that you'll start to see in the marketplace. So, again, over a period of time, if people have a choice, where to run their transaction over it, we're not going to sit here and say, "well, we just have a really good network so you should run it over ours." We want to give both merchants, issuers, and consumers ultimately, reasons to want to use our network as opposed to any other solution out there.

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