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Visa, Inc. (V)

Q2 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Visa incorporated Inc.'s fiscal Q2 2015 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

Global Head of Investor Relations, Visa, Inc.

Thanks, Shania. Good afternoon, everyone and welcome to Visa, Inc.'s fiscal second-quarter earnings conference call.

With us today are Charlie Scharf, Visa's Chief Executive Officer, and Vasant Prabhu, Visa's Chief Financial Officer. This call is currently being webcast over the Internet, and is accessible on the Investor Relations section of our website at www.investor.visa.com. A replay of the webcast will also be archived on our site for 30 days. A PowerPoint deck containing financial and statistical 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. These statements aren't guarantees of future performance, and our actual results could materially differ as a result of a variety of factors. Additional information concerning those factors is available in our most recent reports on Forms 10 -K and Q, which you can find on the SEC's website and the Investor Relations section of our website.

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

And with that I'll now turn the call over to Vasant.

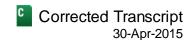
Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Thank you, Jack.

In keeping with prior practice, let me begin my remarks by highlighting some key call outs from the quarter.

First, we reported a solid quarter of financial results despite a backdrop of continued domestic and International economic crosscurrents. Revenue growth of 8% was a couple of percentage points better than we expected and telegraphed last quarter. The upside was driven by lower incentive levels than previously assumed and a higher currency volatility benefit. Our flat EPS growth for the period year-over-year was a direct result of the favorable tax impact we enjoyed in the second-quarter of 2014.



Second, the overall strengthening of the dollar continued to exert pressure on revenue growth. Exchange rate headwinds this quarter reduced reported revenue growth by approximately 2.5 percentage points. We expect dollar strengthening and its associated impacts to continue for the balance of the year.

Third, for a second consecutive quarter, our client incentive rates came in below expectations. This was once again due to the timing of certain contractual obligations as well as moderately lower payouts associated with lower payment volumes in several challenged geographies like Russia and Brazil. We expect client incentives to be higher in the second half of year.

Fourth, our effective tax rate was 32% in the second-quarter, 10 points higher than Q2 last year when we recorded an IRS Section 199 tax benefit related to multiple years. Our tax rate will fluctuate from quarter to quarter this year as I will discuss later.

Overall, the underlying drivers of our business remain stable and healthy as evidenced by payment volumes and transactions growth. However, the strong dollar impacts us negatively this year, not only on currency translation, but also in our cross-border business. Despite these headwinds, we are maintaining our outlook for the year in line with guidance previously provided. There are, however, some significant shifts from quarter to quarter which you want to make sure are cleary ou all.

First, on the revenue front, after a better-than-expected second-quarter, we now project the third quarter to represent the low point of growth for the year at 6% to 7% on a nominal basis. Growth will pick up again and approach double digits in Q4. The third quarter is expected to be negatively impacted by higher client incentives, some shifting from second-quarter, the continuing drag from lower gasoline prices and tougher comparisons in the Other Revenue line which benefited last year from revenues associated with our FIFA World Cup Sponsorsh ip. The full benefit of price increases and the smaller incentive drag due in part to the lapping of a deal intensive quarter in fiscal 2014 will help Q4 revenue growth.

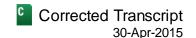
Second on the expense front, we expect a meaningful step up in expense growth in the third quarter as a number of programs, including marketing and certain technology initiatives have been phased to the back half of the year. As always, we will continue to carefully monitor the economic backdrop and can and will make expense adjustments as necessary. Our full-year expense growth expectations remain unchanged at this time.

Third, we expect a higher tax rate in the third quarter followed by a substantially lower tax rate in the fourth quarter. Our estimated tax rate in the third quarter is expected to be as much as 200 basis points higher than the rate in the second-quarter. However, as currently anticipated, we expect to take advantage of certain tax benefits as early as the fiscal fourth-quarter which would drive an effective tax rate in the low 20s in Q4 and no change to our full-year fiscal tax rate expectation of the low 30s.

When you put this all together, we are now looking at third quarter fully diluted EPS being \$0.06 to \$0.08 lower than analyst current expectations. For the year, we now expect our fully diluted earnings per share growth to be at the low end of the mid-teens range, in line with current analyst expectations.

Moving on to second-quarter business drivers and our financial results, I'll start with global payments volume and processed transaction trends. Global payments volume growth for the March quarter in constant dollars was 11%, unchanged from the prior quarter. The U.S. grew 9% and International grew 13%, both at similar levels for the December ending quarter.

Drilling down further, in the March quarter U.S. credit grew 12%, a two percentage point moderation compared to the December quarter. The Chase account conversion is complete and consistent with the last quarter, contributed



approximately 3 percentage points our overall credit growth in the period. This positive impact will continue for the next two quarters, though at a declining rate, before lapping.

Lower gasoline prices, the full effect of which hit payment volumes this quarter reduced credit volume growth by two points. As such, gasoline prices appear to be the primary driver of the step down in credit growth.

U.S. debit grew at 6% in the March quarter, generally in line with the December quarter. Lower gasoline prices had an outsized effect on debit growth, reducing it by approximately 3 percentage points.

In aggregate, lower gasoline prices impacted U.S. payments volumes by a negative 3 points in the quarter. A portion of the savings from gasoline price declines is being spent in other categories, primarily grocery and restaurant segments. This is evident in debit payment volumes, not yet in credit payment volumes. More recently, through April 28, U.S. payments volume growth was 9% with U.S. credit growing 12% and debit 6%, essentially unchanged from O2 trends.

Global cross-border volume delivered an 8% constant volume growth rate in the March quarter, unchanged from the December quarter. The U.S. grew 6% and International grew 10% in constant dollars. The further strengthening of the U.S. dollar since the beginning of the year continues to have a negative impact on cross-border commerce. Forward currency curves imply that the dollar will gain in strength. If this materializes these cross-border trends are likely to persist and perhaps worsen. Through April 28, cross-border volume on a constant dollar basis grew 9% with a U.S. growth rate of 6% and an international growth rate of 10%, generally in line with the second-quarter rate.

As you can see, when you adjust for the dollar, the underlying drivers of our business have remained very stable in aggregate. However, the significant currency moves we have experienced this year are impacting cross -border commerce a variety of ways with the largest impacts coming from the U.S. dollar. Overall, cross -border volume growth has remained suppressed from historical levels. As may be expected, outbound cross-border commerce from weakening currencies like the euro, ruble and the Canadian dollar has been slowing. Hardest hit corridors were Russian cardholder spending across Europe and the Middle East and Canadian and EU cardholder spending in the U.S.

Offsetting this to some extent is accelerating cross-border commerce of the strong currencies primarily the U.S. dollar. In Q2, we saw U.S. cardholder spend stepping up in Europe and Latin America. Chinese travel across the world continues to be robust. And cross-border spend out of Latin America is also picking up, helped by easier year-to-year comparisons. Currency shifts will remain a critical variable to watch as the year progresses. Any moderation of dollar strength will help our business and vice versa. Any pick up in economies like Europe, Brazil and Russia, would be welcome.

Transactions processed over Visa's network totaled 17 billion in the fiscal second-quarter, an 11% increase over the prior year period, which was a one point improvement from Q1. The U.S. grew 9%, while International delivered 14% growth. Transaction growth in the U.S. is helped by some spending shift from gas to lower ticket categories of spend like QSRs. Through April 28, processed transaction growth was 10% with a U.S. growth rate of 8% and an International growth rate of 14%.

CyberSource transactions grew 14% in the period as our reboot of the business continues to pay off. CyberSource will celebrate its 5-year anniversary as a part of Visa this year, and we have completed the integration of this business into our Global Merchant Services & Solutions functional area. With the integration complete, and since CyberSource transactions do not represent a material component of Visa's business, we will no longer call out this data separately after this quarter.

Turning now to our Q2 reported financials. Net operating revenue in the quarter was \$3.4 billion, an 8% increase year-over-year driven primarily by solid growth globally across all revenue categories, and as mentioned earlier, negatively impacted by approximately 2.5 points by the strong U.S. dollar. Solid global payments growth volume drove service revenue up \$1.6 billion, up 8% over the prior year. As I mentioned earlier, underlying payments volume growth in local currencies remains very healthy.

Data processing revenue at \$1.3 billion was 9% over priory ear's quarter based on continued strong growth rates in Visa processed transactions, both in the U.S. and internationally. As mentioned, transaction growth in the U.S. was helped by some gasoline-related savings being spent on lower ticket size transactions such as QSRs. International transaction revenue was up 11% to \$964 million, with higher currency volatility countering impacts from moderating cross-border payment volumes and currency translation. As we measure our key currencies, volatility was at five-year highs in Q2, meaningfully contributing to International revenues.

 $Total \, operating \, expenses \, for \, the \, quarter \, were \, \$1.1 \, billion, up \, 1\% \, from \, the \, prior \, year \, with \, moderately \, higher \, personnel, deprecation \, and \, G\&A \, costs, \, offset \, by \, lower \, marketing \, and \, network \, and \, processing \, expenses. \, Higher \, personnel \, costs \, are \, primarily \, the \, result \, of higher \, he \, ad \, count \, reflective \, of our \, strategy \, to \, invest \, for \, future \, growth. \, The \, uptick \, in \, G\&A \, was \, primarily \, the \, result \, of a \, loss \, related \, to \, our \, debit \, processing \, business \, in \, Asia, \, which \, we \, sold \, during \, the \, period.$

Higher depreciation was a result of ongoing investments in technology assets and infrastructure to support our Digital Solutions and core business initiatives. Offsetting these are lower marketing expenses due to the absence of the Winter Olympics and FIFA World Cup spend in the prior year, as well as shifts in current programs to the second half of the fiscal year. As mentioned earlier, this will result in a step up in expense growth for the balance of the fiscal year.

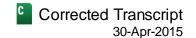
Our operating margin was 67% for the second-quarter, in line with our annual guidance of mid-60%'s. Capital expenditures were \$98 million in the quarter.

At the end of the quarter, adjusting for our recent stock split, we had 2.45 billion 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 2.46 billion. On a split adjusted basis, we repurchased a total of 16.2 million shares during the March quarter at an average price per share of just under \$65 per share. Fiscal year to date, we have repurchased 28.6 million shares at a price of just under \$65 per share for a total of \$1.9 billion. We currently have authorization to buy up to \$3.8 billion of stock.

Since the IPO, Visa has had a clear capital allocation strategy of investing cash to grow our business organically and through acquisitions as job number one, then returning excess cash to shareholders through stock buybacks and dividends. Our dividend policy remains unchanged and our board recently declared a \$0.12 quarterly dividend per split adjusted share.

For the past seven years, Visa has had a consistent approach to stock buybacks with the pace being modulated to some extent from quarter to quarter by valuation considerations. This approach to buybacks will continue as evidenced by our purchases year-to-date. This is a growth business that generates significant cash flow and a low beta stock. A systematic buyback using excess cash after capital investments and dividends is a strategy we have been and will remain committed to.

In summary, the underlying drivers of our business remain robust. The strong dollar and other large currency moves have created some headwinds this year as has the sharp decline in gas prices. These are the normal



fluctuations one expects in the course of business. The very attractive long term secular growth trends in our business remain intact. Despite the headwinds this year, our results are on track so far and we are comfortable reaffirming the guidance we provided to you at the start of our fiscal 2015.

To conclude, this is my first earnings call as CFO of Visa. I'm delighted to be part of Charlie's team. I look forward to meeting with many of you in the coming days and weeks and with that I will turn the call over to Charlie.

Charles W. Scharf

Chief Executive Officer & Director

Thank you very much, Vasant, and an official public welcome from all of us.

First of all, let me just start with commenting that we are very pleased with the quarterly results. We think of them as solid and consistent and certainly gratifying in the face of some of the more challenging economic conditions and geopolitical concerns that we see around the world. Net revenue grew 9\$ nominally, FX impact hurt growth by 2.5 points. Operating income growth of 11%, payments volume increased 11% on a constant dollar basis, and cross-border volume growing at an 8% on a constant dollar basis are all very solid numbers.

We see very little change in the overall global economy with some exceptions, and we see more short-term risk than we see upside. Consumer spend in the U.S., specifically, continues at reasonable levels but it's not accelerating. Gasoline prices continue to negatively impact both credit and debit. Outside of the U.S., we see continued weakness in Russia and Brazil but we do see strength in China and our Middle East and North Africa region. And the effect of the strong U.S. dollar, as Vasant pointed out, is meaningful.

We see this through the FX translation impact but additionally, the benefit that we see of U.S. spenders outside of the U.S. is outweighed by the negative impact on the non-U.S. spenders spending less in the United States.

Away from the economic growth environment we continue to feel terrific about our activities to drive growth, which I will talk about more about. We continue to make excellence progress on our evolving technology initiatives, which include everything we are doing in the digital space, mobile specifically, Visa Checkout and the work we are doing in our Global Merchant Services & Solutions groups and we continue to have a strong flow of significant client wins and renewals. I'll speak a little more on several of these points in a moment but in sum, while we remain appropriately cautious in the short-term, we remain quite bullish on the medium to long term and continue to believe there are tremendous opportunities for years to come.

Let me amplify some of the comments Vasant made regarding payment volume for a second. First, negative impact of gasoline on our U.S. payment volume is significant at 3 percentage points. As we said, though the initial impact on payment volumes was felt in our first quarter, the full impact did not hit until the second quarter so the revenue impact will not be fully felt until our third quarter because of the quarter lag on service revenues.

In an update to our March quarter Visa Insight Survey, things haven't changed much with consumers. About 30% tell us they are spending more in other categories, up from 25% last quarter. The two categories that continue to stand out are lower ticket categories, groceries, and quick service restaurants.

As I said last quarter, the lag time between lower prices and spending, we think, is about to 6-9 months as consumers accumulate enough to feel comfortable making larger purchases. Keep in mind, consumer confidence and confidence in sustained lower gas prices will impact their willingness to spend.

Cross-border volume remains steady at 8% in the quarter, as we said. And as I mentioned and Vasant has mentioned, the effect of the strong U.S. dollar against certain global currencies is negatively influencing cross-border spend and ultimately revenue growth. The U.S. cardholders are spending more outside of the U.S. as a result of the stronger dollar resulting in higher transaction and payment volume growth on a constant dollar basis at international merchants. However, given currency translations and generally lower acquiring fees in foreign countries, that volume is not as lucrative as what we would have enjoyed on an inbound basis. On the other side of the equation the strengthening of the U.S. dollar has hurt inbound spend to the U.S., primarily from the Canadian, European, Brazilian, and Japanese corridors, and as Vasant mentioned, higher currency volatility has offset some of this.

Let me just turn now and talk about some important client activity. Starting with the U.S., we renewed a multiyear credit issuing agreement with U.S. Bank, a great partner and one of our leading issuers and the fifth largest commercial bank in the United States. U.S. Bank has been a long time Visa partner and we look forward to building further on the exciting things we've done with them in terms of innovation, new product development and security.

In the U.S. cobrand space, Best Buy, the world's largest retailer, will convert their consumer credit card portfolio to Visa later this summer. We also renewed a multi-year credit agreement with BP. BP has been a long time Visa partner and launched its first co-brand in 2006.

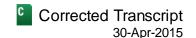
And we're thrilled with our new agreement with Costco. We're very pleased to have been selected to replace American Express as the credit card network for its U.S. warehouse clubs and gasoline locations beginning April 2016, a strategic benefit for all Visa issuers and their cardholders. We're also excited to be partnering with Citi on the new Costco-Visa co-brand credit card. We view Costco as a truly unique opportunity and very strategic.

As I said, it's good for Visa but an even bigger benefit for all of our clients. They're one of the largest and best retailers in the world, the third largest merchant in the U.S. according to the National Retail Federation, someone who historically did not accept our credit product, and we now have an opportunity to gain acceptance where MasterCard and American Express are not accepted in the credit space. We also love that this is a truly long term acceptance and co-brand partnership.

For all of our clients and their consumer and business clients, it will be the first time in 16 years they gain access to the tens and tens of billions of dollars of annual credit payments volume that heretofore went to American Express. It's a great opportunity for it to drive incremental usage. It should help all Visa issuers drive their cards towards the top of the wallet, and increase new account and cardholder acquisition opportunities.

This was a very competitive process and there's been much discussion of what drove the outcome here. I don't want to speak for Costco but let me say that I have not met a retailer that cares for their clients, their members more. Going forward, Costco will be entrusting their clients, their members, these precious relationships to Visa. If it were me, money wouldn't win the day. The best brand with the best capabilities would win. I've consistently said price matters, but cannot win the strategic relationship. So our strategy is not to be the low cost provider.

As I think about what drove the decision here, I look at a series of things, including the view that we're the premiere brand for Costco members' the belief that our brand will help Costco grow more than all the others; clear strong brand preference amongst their members and target market, specifically with the higher growth affluent and millennial card holders, which in this case will drive membership and sales growth directly for Costco; our broad global acceptance; our superior data and analytics capabilities; and our leadership on innovation.



I would also point out that we feel that all the benefits I've outlined plus what our issuers bring to the table can create more value than others. Specifically and quite simply, we, our issuing partner, and the co-brand partner can make more and provide greater value to our clients than smaller closed loop networks. As a reminder, the implementation of these agreements is subject to the purchase of the existing co-brand credit portfolio by Citi.

Turning to our business outside of the U.S., let me first start with China. First, before I turn to market opening, which I know is a topic that you all want to hear about, I want talk for a second about our existing business. It is doing extremely well. We have a significant and fast growing business with relationships that have been growing and deepening. We are the market share leader versus non-Chinese providers, and that share has been steady since 2013. We continue to sign contracts and be awarded new issuing business from Chinese banks.

As examples, this quarter, we renewed and expanded our agreement with China CITIC Bank, one of the largest partners in China. The program will now include issuance of Visa only branded companion cards in addition to the dual branded program in place. China Everbright Bank, one of China's largest financial institutions, renewed their credit agreement with Visa.

Regarding the market opening news, clearly this is a significant and positive step. The facts as we've read them thus far are consistent with our expectations and we're very excited to see more specifics, which obviously will be important. We do intend to apply for a license. As I've said, we have a strong business today with great local relationships which have only become stronger over the past several years. We're excited to participate in one of the most important markets in the world and for Visa to help in the growth of domestic Chinese marketplace working with Chinese companies and the Chinese government.

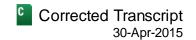
To be clear, we are not pursuing this for the short-term profit opportunity. This is a long term commitment which will pay off over the long term. We intend to prove our value as a partner within China, so bringing our value added capabilities to help grow the Chinese economy will come before our revenue and profit growth for quite some time. Regardless of when we start to participate domestically in China, we do not expect this to be a meaningful contributor to our financial results for many years to come.

Turning away from China, FirstRand Bank, a large issuer in South Africa and our largest issuer in sub-Saharan Africa extended their contract with Visa. We also renewed our partnership with Desjardins, the leading cooperative group in Canada, and the fourth largest cooperative financial group in the world. And lastly, Banorte, one of Mexico's oldest and largest financial institutions, renewed their credit agreement with Visa.

On the other side of the equation, Citibank and Itaú will be moving their business away from Visa. In certain regions around the world we have contracts with Citi which will continue to run for quite sometime. In terms of how quickly these conversions commence and ultimately how long it takes, has not been made clear to us, and we will let you know as we learn more.

While losing any business is disappointing to us, we know we're not going to win everything as we operate in a very competitive environment. We've always been very thoughtful and strategic about choosing for which clients we want to be aggressive when it's a competitive process, and we feel great about our portfolio of client relationships. Importantly to us, we remain disciplined in our approach to negotiations and the net of these recent wins and losses leaves Visa and our partners in a better strategic position for the long term than would have otherwise been the case.

A couple of other quick updates on the regulatory and legal fronts, first of all in Russia, we've been actively working with the National Payment Card System and Central Bank to achieve full migration of Russian domestic



Visa transactions with minimal disruptions. All domestic Visa transactions will continue to be processed in accordance with the National Payment System law.

And in the U.S., on the merchant litigation case, we continue to make good progress in settling the opt out cases. Fiscal year-to-date, we paid out \$321 million, and additional settlements are progressing nicely.

And we continue to lead the world to the world of digital commerce. Visa Checkout continues to make great strides. We now have 260 financial institution partners and 140 merchants live globally. To date we have over 4 million registered users, over 46 billion in total addressable volume accepts Visa Checkout and we continue to add merchants, including small and medium-sized retailers where our acquiring partners are helping us grow acceptance. We're also deploying Visa Checkout outside of the U.S.

As an example, we launched Visa Checkout in China at the end of March. China Merchant Bank is the first national institution in China to introduce Visa Checkout to its customers, and in the coming months we're working with other Chinese institutions to deploy Checkout.

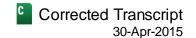
In April, we kicked off consumer marketing campaigns in both Australia and Canada in partnership with some of the biggest merchandise in those regions. We're on track to be live in a total of 16 markets this year. comSc ore conducted a study last month to evaluate our progress with merchants since launching Visa Checkout last July. The findings are very clear. Visa Checkout customers convert to buyers 69% of the time. This is 66% higher than conversion rates reported with traditional online check out. The product is doing exactly what we said it would do, solving the online friction problem at a rate that's higher than the competitive solutions we surveyed.

In the digital solution space, a few comments. In my time here at Visa, it's amazing the amount of companies that are working and talking about the future of payments in the role, some very young and very established. Regardless of the tenure, it's clear to me, that they fall into two categories: those that talk about being innovative, and those that are actually driving innovation in a way that truly drives incremental value and can scale. I'm proud of the work of the Visa team and proud to be leading the industry into this digital world.

When we launched tokenization, we told you it was more than a set of just security standards. We said it was a platform to enable new commerce experiences. Then came Apple Pay. When we participated in the Apple Pay launch, we said it was just the beginning, and there would be more solutions that leverage our digital platforms. Since then, Samsung has announced the new Galaxy S6 payments experience and Google's Android operating system is supporting Host Card Emulation and we have several clients developing new HCE-based applications in our sandbox as we speak.

As the industry leader, a Visa partnership gives the chance for these experiences to be successful because of our technology, our scale, and our leadership. Our innovation is not something every consumer sees. But it is the things that we do as a platform that others can build upon and it's our platform that becomes embedded in all sorts of devices, operating systems and mobile apps. Essentially, we are enabling our partners to take advantage of one common digital payments platform and a set of standards, but still able to customize their solutions to their specific client needs appropriate to their markets with their preferred user experiences. Great companies come to Visa first because they know we understand the technology of payments better than anyone else and we understand the needs of their users.

And we continue to build out our capabilities to support our merchant partners. We completed our acquisition of TrialPay this quarter. It's a platform that we've worked with before and one that proved its value proposition before we decided to acquire the company. Combined with our broader merchant capabilities across Visa



Analytics, loyalty products and VisaNet capabilities, this is a platform that we intend to use to help merchants improve their marketing and thereby drive their incremental sales.

During the last six months, we introduced to the market three new products and solutions specifically designed to help our merchantpartners. First we created a customer intelligence dashboard, a custom analytics dashboard for merchants to enable them to understand who's shopping with them at the store level. We are helping merchants not only understand the sales trends but also who's shopping, their demographics, where they live, where else they shop, et cetera. The platform helping our gasoline merchants better predict demand, airlines to optimize routes and load factors and many others to optimize marketing campaigns.

The second solution is a digital marketing measurement product. Earlier this year, we launched a new platform which enables our merchant clients to measure their digital marketing spend with an entirely new level of accuracy. When a merchant runs a digital campaign, we're able to show them in real-time how many of those impressions led to specific sales using a Visa card. For many years, merchants have taken a big leap of faith that clicks led to real sales. For the first time ever, we're now helping them measure the actual sales.

The final example is a pilot program but one that we are excited about. It's a platform that actually drives new customers into our clients' door. The platform is powered by TrialPay where we place targeted merchant offers on the web and on mobile apps. For example, you're checking into a flight, you'll see an offer to get 500 miles if you shop at Peet's Coffee in the next week. When the customer comes in to buy their coffee, they're notified in real-time that they received a bonus, miles in this case. Also, we track the purchases and show the merch antin real-time how many of the customers are coming into which specific stores. Early days, but client interest remains very strong. And as you can see, these are products which we believe over a period of time changes our dialogue with merchants as we help them grow their business.

So just to wrap up, we're very pleased with our performance for the first half of the fiscal year, especially in light of some of the challenging aspects of the economic environment. It continues to be a very exciting time in payments, as you can tell from all recent announcements. We remain bullish on our future and we continue to broaden and deepen our work relationships with issuers, acquirers, merchants, governments and other third parties.

With that, Vasant and I will be pleased to take your questions.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Okay, Shania, we're ready for the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is coming from Darrin Peller of Barclays. Your line is open.

Darrin D. Peller

Barclays Capital, Inc.

Thanks guys. Listen, just trying to square a little bit more the discussion on EPS growth being at the low end of the mid-teens guidance range given that your unchanged revenue growth guidance. Was it primarily tax rate assumptions in the second half of the year? And then just to further add to that, are you incorporating further volatility benefits, FX volatility benefits in your outlook and guidance because it clearly helped your cross-border volume - or revenue growth this quarter? Thanks guys.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Yeah, Darrin, just a couple of things. One, I think the two things you should take away from what we said was, there's a certain amount of moving around going on between the third quarter and the fourth quarter. We said that the revenue growth in the third quarter will be the low point of the year in terms of growth and then it'll pick up in the fourth quarter approaching double digits. So that's one thing.

The second is expense growth will step up a bit in the third quarter, still in the mid-single digits level for the fullyear. The step up in the third quarter is some expense is shifting between the first half and the se cond half in marketing and technology. And then, if you look at our personnel expenses, you should be looking more at what the first quarter level was and a little bit of growth with some of the initiatives we have underway.

And then the last piece that shifts things mostly between the third and fourth quarter was the tax rate. The main takeaway from all this is, as we said, \$0.06 to \$0.08 shift out of the third quarter. And for the full-year, all we're saying is we still feel good about the range we provided, but we're at the lower end of the range and really in line with where the Street is right now.

Your other component of the question was - remind me, Jack?

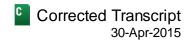
Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Currency volatility.

Vasant M. Prabhu Chief Financial Officer & Executive Vice President

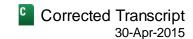
Yeah, currency volatility, we did tell you that it was at 5-year highs in the second quarter. So in terms of what we're expecting going forward, as you know, we benefit when there's volatility because FX spreads widen. It does offset a little bit the translation impact of currencies. We're not assuming they stay at 5-year highs; we're assuming that there's some amount of regression to the mean, but we're not assuming they go to the kinds of lows we saw last year. So it's any body's guess, really. So, we're just assuming that it's not going to stay at this level, but nor is it going to be as calm as it was last year



Jack Carsky Global Head of Investor Relations, Visa, Inc.	A
Next question, please.	
Operator: Next question is Moshe Orenbuch of Credit Suisse. Your line is open.	
Moshe Ari Orenbuch Credit Suisse Securities (USA) LLC (Broker)	Q
Great thanks. Could you talk a little bit about how you will be trying to protect the volume from with Citi from American Express trying to win it back? And may be just as a corollary, just talk your thoughts about what's going to happen when existing cobrands come up for renewal and environment there.	a little bit about
Charles W. Scharf Chief Executive Officer & Director	A
Well, so, let's do the second one first. I mean, co-brands are in the market certainly all the time competitive market place. And all of the things that I talked about in terms of the advantages to brought to Costco, we think we can provide to almost all co-brand partners out there.	
We are, in this case, it's certainly helpful to be the incumbent and leader in the space. We've go with the largest co-brand providers, certainly here in the United States and others across the vertainly where we believe, if you treat the partner properly, you prove to them over a per them grow. There's got to be a reason for them to want to do something else other than be wit very good about our positioning there.	world. And those are iod of time you help
On the Costco front, I mean, again, I think when you take a look at what we bring to the equat that Costco, who's got the most to lose in this, has thought an awful lot about what risks they hopportunities they have. And the reason for them to want to go and take the risk of moving the they think there's more upside doing business with us and Citi in this case. And when we think think about the brand preference that their customers have, as I said in my remarks, the thing the affluent and millennials think about our brand versus the competing brands out there, we that we'll be able to do a better job for Costco than the incumbent. And that will start day one extremely closely with Citi and Costco. And that work has begun already	nave and what e portfolio is because k about and they s that specifically, 're very confident
Moshe Ari Orenbuch Credit Suisse Securities (USA) LLC (Broker)	Q
Thanks. Congratulations on the big win.	
Charles W. Scharf Chief Executive Officer & Director	A
Thank you.	
Jack Carsky Global Head of Investor Relations, Visa, Inc.	А

Next question, please.

Operator : Next is Jason Kupferberg of Jefferies.	
Jason A. Kupferberg Jefferies LLC	Q
Thanks, guys. So can you just confirm whether or not some of your planned pricing actions for April got implemented as expected? And then can you also just clarify related to Costco, do the incentives there hit 2015 or in fiscal 2016 when the contract actually begins?	t in fiscal
Charles W. Scharf Chief Executive Officer & Director	A
So Costco will be 2016.	
Vasant M. Prabhu Chief Financial Officer & Executive Vice President	A
And the pricing is in, just to clarify. The pricing – there were two changes, both of which happened in Ap first was U.S. acquirer service fees on all credit products. And the second was U.S. acquirer international assessment. They went in roughly around the same time but the impacts are somewhat different, so one chits a little earlier in terms of impact on our financials, the other a little bit later. So we get the full benefit pricing in the fourth-quarter. We get a little less of a benefit in the third quarter and it's really a small difficult it's in.	service ofthem t ofthe
Jason A. Kupferberg Jefferies LLC	Q
Okay, thank you.	
Charles W. Scharf	А
Chief Executive Officer & Director Next question, please.	, ,
Operator: Yes, Sanjay Sakhrani of KBW.	
Sanjay Sakhrani Keefe, Bruyette & Woods, Inc.	Q
Thanks. I guess I have a follow-up question to Costco. Charlie, you mentioned it's been competitive in cobut is it, from an economic standpoint, incrementally more competitive? And I guess does that then play further as you renew some of the other co-brands down the line? And then I guess secondly, how confide you that Citi will be able to secure the portfolio from American express? Thanks	out
Charles W. Scharf Chief Executive Officer & Director	Α
So when you say is it economically more competitive?	
Sanjay Sakhrani Keefe, Bruyette & Woods, Inc.	Q
Is it getting progressively more? Like are the economics materially different than they were before?	



Charles W. Scharf

Chief Executive Officer & Director

Well, first of all, let's talk Costco for a second and then we'll talk more broadly about co-brands and I tried to make this point clearly. So let me just make sure that I'm even clearer on it, which is, we view Costco as something extremely unique. And so, this is an industry where it's amazing the gossip and I don't know whether it's the consultants or what it is, but everyone likes to go around and talk about everything that is happening in terms of pricing and who did what to whom on this.

And what I would tell you is, what we and my guess is, issuers were willing to do for Costco, is very specific to a unique opportunity to gain the kind of credit acceptance that we've talked about and the kind of co-brand that we've talked about for a partner now that didn't accept our products in the past of this size. We just view it as unique opportunity to capture that volume and then to use the ability to have that acceptance to grow our products elsewhere, regardless of whether they are co-brand or not co-brand but obviously the co-brands here will bring with it extraordinary benefits. So, Costco to us stands on its own in terms of the way we think economically about what we should be willing to do.

In terms of whether the co-brand space is getting more competitive economically, I'm not sure, it's very, very competitive as is the issuing business. And I think when people lose relationships like this, they need to figure out where they are going to look and so we assume that they'll continue to be competitive. And as we think about our future and we think about our ability to continue to deliver the kind of growth that I think you were all expecting from us, we factor that into our assumptions along the way

Operator: Next is Bill Carcache of Nomura.		
Next question, please.		
Jack Carsky Global Head of Investor Relations, Visa, Inc.	A	
Everything that we hear is – suggests confidence but we're not a party to it.		
Charles W. Scharf Chief Executive Officer & Director	A	
AmEx sale to Citi of the existing portfolio?		
Jack Carsky Global Head of Investor Relations, Visa, Inc.	A	
I'm sorry, the question?		
Charles W. Scharf Chief Executive Officer & Director	A	
Okay. And just the Citi portfolio? Citi buying the portfolio?		
Sanjay Sakhrani Keefe, Bruyette & Woods, Inc.	Q	

Bill Carcache

Nomura Securities International, Inc.

Thank you. Apologies for another Costco question. But was wondering if you could speak to whether any of your issuing bank partners expressed any sort of concern about the interchange rate at which the Costco volume will be coming over just in the sense that it could be difficult for them to offer rewards on the Costco spend? Just curious if you think that could be an issue?

Charles W. Scharf

Chief Executive Officer & Director

I guess I would start with, there were a lot – there were more issuers than Citi who wanted to win the co-brand. And so, you know, who mever certainly was involved in the process, understands the competitive dynamic and what would exist. And again, I think from our perspective, the conversation is exactly what I said here, is this is a unique and strategic opportunity to get access to an extraordinary amount of volume that we and our clients weren't going to have access to. And if you think about if we didn't win the kind of conversation we were going to have and the kind of conversation we would have to have with our issuers and their clients about not being able to participate in the opening of potentially the biggest retailers of the world, is not a conversation that we would have relished.

So, we feel very good about what we have done here. When we make decisions that affect our clients, we take them extraordinarily seriously and understand that they will look at those decisions in the context with everything else that we do for them. And we feel good about what we have – where we have come out and are confident that it's a benefit for them.

Bill Carcache

Nomura Securities International, Inc.

Thank you.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Next question, please.

Operator: Next Craig Maurer of Autonomous.

Craig Jared Maurer

Autonomous Research US LP

Hi. So, a question on Brazil, the Itaú loss, from what we understand, that will be fairly material as a percentage of that business. And with Elo creeping into the market as well, are you concerned at all about Visa's historic market share in Brazil shrinking significantly? And following up on your comment on the Mexican win, do you have any greater visibility on when that market will open for Visa processing? Thanks.

Charles W. Scharf

Chief Executive Officer & Director

So let me do the first one and then Jack needs to remind me about the second question.

So in Brazil, listen, losses are losses. I would just make it clear that these types of decisions aren't generally decisions that people make without talking to a series of people. So we were certainly involved in a series of the

Chief Executive Officer & Director

conversations. And again, everyone makes their decisions in terms of what they are willing to do and at what price they are willing to do it at. And when a large issuer says that they are going to move volume away from you, it's going to be hard for us to make that volume up elsewhere. And that is a decision that we chose to make, to some extent, relative to how aggressive we were willing to be relative to pricing. Because as I said in my remarks, it's important for us not just to win volume, not just willing to win incremental revenue, but do it in a way which is smart for us and for the payments industry for the long term.

And Elo is a fact, it is what it is. It's a different kind of network with different kind of capabilities, targeted, for the most part at different types of consumers than we generally target our business. And I'll tell you that I feel great about the relationships that we have with the other large issuers in Brazil and think we have the opportunity to continue taking share from them, albeit that share won't replace what we'll lose from Itaú.

Jack Carsky Global Head of Investor Relations, Visa, Inc. Mexico processing? Charles W. Scharf

And Mexico, yeah, there is no timetable. We are actively working on some things there where we think that we can prove to the issuers that by us processing, it actually becomes a benefit for them and there is nothing imminent there but it will evolve over time.

Jack Carsky Global Head of Investor Relations, Visa, Inc. Next question, please.

Operator: Next is Dan Perlin of RBC.

Daniel R. Perlin RBC Capital Markets LLC

Thanks. So my question is basically this, the step up in expense growth occurring at the same time that your incentive fees are suggesting that they are also stepping up, I guess two things. One is, it kind of alludes to the fact that you obviously see something on the horizon, maybe it's second half of this year or early into next and I'd like to get some color on that, why you pulled the trigger on both at the same time?

And then secondly, why the incentive fees slipped? So why did the clients take so long to convert? What were

those conversations like and why were they not taking place?

Charles W. Scharf Chief Executive Officer & Director

So let me do the first one first.

The first, they are unrelated. There is nothing – there is nothing that we see on the horizon or anything like that. As we said, incentives – first of all, I have been here 2.5 years and it seems to me we talk about this every single quarter, which is, we do our best to provide insight and we certainly do it for our own planning as to what incentives are going to be quarter-by-quarter. But we don't have a lot of control over it. It's hard to know exactly when negotiations will become finalized, contracts will close and it changes the level of incentives.

So as we've talked about multiple times, it's the full-year that we really think about as something that we feel much better about than quarter to quarter. On the one hand we'd love to have things close sooner. It's not something we try and delay, but it just happens in the normal course of business.

And on the marketing side, there it just relates to some specific things that we're going to be doing in the second half of the year that really relate to the summertime, coming out of the summer into pre-school and then eventually leading into the holiday season that relates to how we want to time our marketing spend.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Yeah, I just want to highlight that we're not changing anything in terms of our full-year expectations on expense growth. So there's really no change. So it's not like we pulled a trigger to do something different in the third or fourth quarter.

As Charlie said, there's some marketing programs, particularly as it relates to Visa Checkout that we think we can get a lot of traction doing in the back to school period. That's money that has been coordinated with merchants and things like that, that this is the best time to spend it. There's some regional marketing programs that are happening in the second half. There's some technology initiatives that are ramping up that may have been a little slower to start than we might have expected earlier but are ramping up into the year. But it was all expected.

And then in terms of the personnel expenses, there's a reasonable sort of predictability in that. It fluctuates from quarter to quarter, sometimes based on some noise, small items here and there. But if you look at our first quarter run rate and you assume there's a certain amount of growth with some of the initiatives we have, all-in-all, I guess, the short answer is, we're not doing anything specific to ramp up the expense growth. And our full-year expectation does not change. And as we said in our remarks, if the world changes, we're ready to take a hard look at what remains to be spent and decide whether it needs to be spent.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Next question, please.

Operator: Yes, our next question is - I'm sorry - it's Jim Friedman of Susquehanna?

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Susquehanna.

James E. Friedman

Susquehanna Financial Group LLLP

Hi, thanks. It's Jamie at Susquehanna. Yeah, I wanted to ask about commercial. So, Charlie, any perspective about how you're doing on the commercial side? One of your competitors had called out some weakness on the commercial side at least in North America in the calendar first quarter. Do you think that you're taking share and how are you competing in the commercial market?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

FACTSET: callstreet

Well, setting aside sort of the share question, I mean, commercial payments growth for us in the second quarter was quite healthy at 10%. It's performing well. A lot of interest from nonfinancial institutions, participants to provide value-added services. So there's a lot of nontraditional people coming in like technology providers, healthcare entities and so on. I don't know if Charlie...

Charles W. Scharf

Chief Executive Officer & Director

A

The only thing – commercial, I think – we all talk about commercial across all of the different people that participate in this business as one of the great opportunities. I mean, the two really meaningful opportunities that the industry has that are really meaningful, apart from just the business as we know it, is P2P and commercial. There are large, large sums of money that we – on the commercial space specifically – we compete in. We've worked really hard at our products. We're doing fine in it.

I really don't been share. It's hard to know about it. But I think the 10% growth has the opportunity to be much, much larger. And that's something that we're working through, and hopefully in the coming quarters, we'll have more to talk about specifically about what we're doing there. But it's an important business for us today. And the question is whether or not we can crack a nut and incrementally move it from something which is incremental to which is more of a step function

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

A

Thanks, Jamie. Next question, please.

Operator: Next is Jim Schneider of Goldman Sachs.

Jim E. Schneider

Goldman Sachs & Co.



Good afternoon and thanks for taking my question. Charlie, relative to the China opportunity, I realize that there's a lot of unwritten rules at this point and there's a lot of things still in the air. But can you may be talk about your operational readiness from a network perspective to enter China and what you need to get to a level of full functionality there and kind of the game plan on that front.

Charles W. Scharf

Chief Executive Officer & Director

Д

Yeah, again, I would say – this one, really, the devil is going to be in the details in terms of the way the rules are written. I would say it's been our expectation – well, let me back up I guess, because what I said in the remarks is that there was – what has been said has been what we've expected. And so, you should assume that we've been planning for that and working towards that. There are different time periods that are laid out in terms of what the state council announced relative to when things would have to be ready. And we have te ams of people around the company that are working to be prepared to enter as soon as we possibly can.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

**

Next question, please.

Operator: David Hochstim at Buckingham.

David Hochstim

The Buckingham Research Group, Inc.

Hi thanks. I wonder can you just go back to the international transaction revenue growth and help us understand how much of the change really was attributable to the increase in FX volatility as the gap might be even bigg er next quarter. And do you have a currency adjusted growth rate that would help us get back to that? And I guess also there is mix differences because of changes in cross-border spending.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Д

I think there are three things going on in that international transaction line. One is, of course, all those transactions are in various currencies so there's clearly an FX translation impact which is largely negative.

The second is the things we talked about, which is that strong currency markets have outbound commerce that's improving but the purchasing power of the currency is greater, so that you don't get the full volume benefit even though transactions are growing. And then in weak currency markets, you've got inbound – you've got declining outbound commerce and a weaker currency. The net effect of all of this is also negative.

Offsetting that, certainly, we've benefited from volatility. I don't think we've really ever publicly quantified tho se kinds of benefits. They move around. But clearly, there's no question that some of the negative impactor the currency translation has been offset by the widening of the spread. And the two are uncorrelated. You could see the currencies moving the other direction but the volatilities don't have to go along with them.

So, but we'll keep you posted. As I said in the comments or in the question earlier, we are not assuming that volatilities remain at these highs. We're assuming some moderation in volatilities in the second half of the year, but we're also not assuming that currency markets will go back to being as calm as they were around this time last year

David Hochstim

The Buckingham Research Group, Inc.

So if they stayed close to these levels, we could see higher revenues than you have built in?

Charles W. Scharf

Chief Executive Officer & Director

Δ

It depends on what else it affects.

Vasant M. Prabhu

Δ

Chief Financial Officer & Executive Vice President

Yeah, exactly, there are other things, as I said. There are three things going on in that line. So, yes, I mean higher volatilities will help us on that particular dimension. On the other hand, a move in currencies which affects the translation line and so on. There are just many things going on in that line

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Δ

Thanks David. Next question.

Operator: Bry an Keane of Deutsche Bank.

Bryan C. Keane

Deutsche Bank Securities, Inc.

All right, guys. Just wanted to or hopefully get a way to quantify the Citi and Itaú losses and then is it offset by some of the gains that you've had, just trying to think about future modeling purposes? And then secondly on tokenization, my understanding is we will probably suspend charging for any fees even beyond fiscal year 2016? Just hoping to get an update on that. Thanks.

Charles W. Scharf

Chief Executive Officer & Director

So we don't talk specifically about the volumes of Citi and Itaú and as I said in my remarks, not clear to us what the migration looks like, so it is hard to be very, very specific other than things like Costco and the other positive developments that we have make us feel very good about how those things all fit together.

Tokenization, what's the question? Tokenization...

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Are we going to continue to charge in 2016? Will we charge?

Charles W. Scharf

Chief Executive Officer & Director

So we have the rate card outthere. We waived it through 2016 and we are continuing to look at exactly what we think the right way – I would say what the right long term way for people to think about tokenization is. But, to me, the important thing is, no one should expect that to be a monetary driver for us.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

And with that, Shania, we have time for one more question

Operator: We have Tien-Tsin Huang of JPMorgan.

Tien-Tsin Huang

JPMorgan Securities LLC

Okay thanks. Just wanted to, I guess, ask on Europe with legislation getting close to being finalized, has that changed the probability of the put in any way, what is the latest there, Charlie?

And then just on Costco real quick, just the exclusive merchant acceptance, how critical was that for Costco and, I guess, Visa? I know that is what is driving a lot of the uniqueness to it. Thanks.

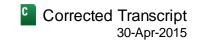
Charles W. Scharf

Chief Executive Officer & Director

So on the first one, I don't think it changes the probabilities at all from our perspective because we are not inside their board rooms to understand exactly what they are saying and what their drivers are.

So, it's a consistent question that people ask us in terms of what the probabilities are and we really don't know because they need the 80% vote. Until they get the 80%, then it's not going to happen. So, I really don't know,

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really don't understand what the dynamics are and again, what really matters is how the locking group of people feel about it. So those that don't want to vote for it, and again, that is something we are just not privy to because we are not in those board room discussions.

But again, to circle back, we work really close with Visa Europe, examples whole group of people here today, Nicolas, the CEO is here today, as we're just working through all the things that we are doing together to do a great job for our global clients and enable them to be as competitive as they can be versus the competition in Europe.

And then, the credit acceptance versus Master Card and American express, hugely relevant. I mean, that is why when you talk about the uniqueness of it, it just doesn't exist for a merchant this size that never accepted our product and now all of a sudden doesn't accept our other major competitors here in the United States. So as we think about what that means for all of our clients and for our cardholders, that certainly factored into our thinking and, I'm sure, the issuers' thinking in terms of the importance, and what it could mean certainly for our brand.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

And with that we'd like to thank everybody for joining us today. If any body has any other questions, feel free to give Investor Relations a call.

Charles W. Scharf

Chief Executive Officer & Director

Thank you

Operator: That concludes today's conference call. Thank you for participating. You may now disconnect.

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