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# Visa, Inc. (V)

Barclays Emerging Payments Forum

## CORPORATE PARTICIPANTS

Vasant M. Prabhu  
*Chief Financial Officer & Executive Vice President, Visa, Inc.*

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## OTHER PARTICIPANTS

Darrin Peller  
*Analyst, Barclays Capital, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon. My name is Nita, and I will be your conference operator today. At this time, I would like to welcome everyone to the Barclays Emerging Payments Forum fireside chat with Visa Conference Call. All lines have been placed on mute to prevent any background noise. If time permits, we will open up for Q&A at the end. Thank you.

I will now like to turn the call over to Mr. Darrin Peller. You may begin your conference.

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Darrin Peller  
*Analyst, Barclays Capital, Inc.*

All right. Thanks, operator, and thanks again for everyone for joining this call, this fireside chat with Visa. As you guys know, this is a bit of a contingency plan given the storms that we had here in New York, so I really do appreciate everyone for dialing in and making the time. Just a quick update on the schedule. We have this session now with Visa and then we have at 3:10, an in-person session with MasterCard here in our office in New York for those in the area to come. We will have a dial-in for those that couldn't make it into the city, obviously, given the travel conditions yesterday. But with that, I most of all, I want to thank Visa, thank Vasant, and Jack and Vick. Thank you, all, for being with us today, appreciate it, guys.

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VasantM. Prabhu  
*Chief Financial Officer & Executive Vice President, Visa, Inc.*

Thank you, Darrin. And sorry, we couldn't do this in person. I have to say I'm not regretting leaving sunny California from looking at the pictures of New York, but let's go ahead.

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Darrin Peller  
*Analyst, Barclays Capital, Inc.*

Yeah. Well, I could relate. All right, so let's jump in.

## QUESTION AND ANSWER SECTION

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

I mean a little bit higher level, your fiscal 2016 organic revenue growth was obviously challenged by a bunch of incentive and revenue realization timing like USAA and Costco, and, I mean, to some extent, also, relatively subdued cross-border volume growth. There was also macro variables like FX and gas. So, I think just starting off with this, by spending some time on talking about how comp should be somewhat easier in the quarters ahead of us, what can investors really expect from a macro and incentive standpoint? And then maybe we'll shift over to cross-border after.

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Sure. As you said, and as you heard when we had our first quarter earnings call, we certainly have seen a tick-up in what I would call the drivers of the business, which is what we like because that is, in the end, what counts. We saw, as we told you on the call, a step-up in payment volumes almost everywhere except a couple of places like Brazil, a nice step-up in Europe. Certainly, in the U.S., we were helped by gas, and also, we were helped by the portfolio wins we've had like Costco and USAA.

In addition, what really helped was cross-border volume growth getting to double-digit. It's been a long time since we've had double-digit cross-border volume growth. I think you have to go back to three or four years back. In fact, I think the U.S. cross-border volume growth was double-digit for the first time since the first quarter of 2014.

So, that clearly helped. And then process transaction growth was also quite healthy. So I think everything helped, they were all heading in the right direction. The one headwind that we remain concerned about is currencies. A stronger dollar certainly hurts us, both from a translation standpoint, as well as in its impact on our inbound U.S. business. Although now that we own Visa Europe, that is balanced now by the fact that some of this loss in the U.S. is often picked up by commerce into Europe based on the relative strength of the euro and the dollar. In the past, we didn't benefit from it, now, we would.

In terms of whether comps get easier, there's no question some of these numbers look good because they are lapping weaker comps last year, but what I would just highlight is the comps actually, as you go through the year, were strengthening last year. So cross-border was strengthening through last year. In fact, the fourth quarter of last year was a pretty decent quarter for cross-border. So – and gas has been improving through last year to some extent. So I would say comps are definitely helping us in the first half, probably less so in the second half. And then as we get to the fourth quarter, I just want to make sure everybody remembers the fact that, that'll be the first quarter that we lap a full quarter of Visa Europe. So, it is a few things to keep in mind. Having said all that, there is no question that the underlying drivers of the business was strong in the first quarter.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Yeah. I mean, on that note, one of the questions we do get is actually why cross-border is trending so much better now. Putting aside easy comps, you mentioned, obviously, some markets, whether it's oil-based markets, were sort of gaining over somewhat of a shot. But anything – what else can you point to? There's been currency

volatility that might have stabilized a little bit, but it's still somewhat there. Can you give us more sense as to why you think you're seeing that?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Sure, sure. I think it's – probably to answer the question, you should maybe also answer the question on what caused cross-border to be weak for the past three years. And there were sort of three or four legs to it. The most significant reason why cross-border weakened over the past few years was the strengthening trend in the U.S. dollars.

So if you look back and look at it, I mean the dollar was on a significant strengthening track over most of that timeframe; and that affects us in two ways. It affects us clearly in the translation impact, even in the cross-border reporting. But also, it hurts us on our large and attractive U.S. acquired cross-border business.

And through that timeframe, what we saw was that a lot of what the U.S. lost – I shouldn't say a lot, but a fair amount of what the U.S. lost was picked up in Europe. And there is a certain amount of correlation between those two, in that when the dollar is strong we do see commerce shifting into Europe. People's travel patterns change. They tend to go more to Europe than come here if, on a relative basis, it's the cheaper option. The same with cross-border commerce. So over that timeframe, we didn't pick that up because Visa Europe was not part of Visa, Inc., so it ended up being a net loss. So that's one reason.

And then the second reason is tied to that, which is what we lost here we didn't pick up in Europe. The second reason was that towards the second half of that three-year period, we had two other things that started to weaken on the cross-border side. One was, oil-based economies often tend to be good sources of outbound cross-border commerce. We saw oil prices collapse and we saw a real decline in outbound commerce from the Middle East, many parts of Africa. Frankly, there was a broad commodity price collapse, and a lot of commodity economies were hit by that.

And then the third was that China was a significant source of growth in the early part of that timeframe and really started to slow down, as you all know, probably 18 months ago. So the cross-border growth coming out of China certainly is much more at a normal level than the significant growth we saw early in that timeframe. The reason it's getting better now is all those trends are changing.

Chinese growth isn't changing, that's still, I would say, okay, not great, but at least it's stabilized. The rate of growth is not declining. Oil economies have stabilized, so cross-border commerce out of there is returning.

And then, we own Europe, so we are picking up stuff in Europe that we might lose here. And that helped us in the first quarter because there was a massive amount of inbound commerce into the UK and, frankly, into many parts of Europe because of the weak euro. And then the strong dollar moderated. I mean, it isn't getting weaker, but it's not getting stronger at the same rate. So that has helped on the margin. So all the things that hurt us in the past few years have begun to reverse; and hopefully, it stays that way.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. So, I mean, would you say it's fair to assume that a double digit cross-border volume growth rate is the norm on a constant currency basis?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Well, I mean, is it a high growth business? No question. It will always be a business that has an element of cyclical to it, partly because cross-border travel does tend to be a cyclical business. It is linked to macroeconomic conditions and exchange rates. So I think it is a high-growth business with an element of cyclical to it. I wouldn't want to put a number on it. But there is no question that cross-border, especially with commerce coming in, is a high-growth business.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. Why don't we shift gears to another topic that's equally important for investors, is on incentives and rebates. If you could start off maybe just touching on the drivers that we would expect to see behind the increase from that 18.5% level last year, or even 18.9% run rate in the last couple of quarters, to the 21% that you've guided towards your fiscal 2017. I know you touched on it. I think I even asked about it on your earnings call, but...

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

... if you can just update us on your thoughts there and if there is anything that's changed around that perhaps?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Sure. Sure. I mean, what we said on the call was that the change is driven by Visa Europe coming in and some of the way rebates going away and incentives replacing rebates gets accounted for. And then it was driven by things like Costco and USAA coming in, and some other renewals that we expected this year mostly outside the U.S.

Just to give you a sense of how we come up with these estimates, it's not an exact science because some of it you know. I mean the deals that are already done, you know what their impact is going to be. Some, you have to make judgment on renewals as to when they might happen during the year and what the terms might be. And, as you know, there could be timing differences and there could be – a deal just ends up being different, better or worse, than you might have expected.

And then beyond that, there is always going to be differences based on actual performance by clients. So if certain elements of the business don't perform as well for various reasons, then incentives may be lower there, revenues are lower there, too, or vice versa. So, I mean, there is an element of estimation there. And, as you know, timing wise, it's always the hardest to get.

Generally speaking, we expect to be in the range that we tell you. We clearly are starting off the year in the first quarter with it being quite a bit lower, mostly driven by timing consideration. Nothing at that point had changed in terms of what we expected for the year. We'll keep looking at it. Obviously, we learn more as each month goes by. And we'll give you an update if there is to be an update on what we think.

Our outlook is for incentives this year, but at the end of the first quarter, when we gave you an update, we told you we don't see any reason to change the range we gave you, that the reason it was lower was all timing, and we expect that to catch up.

A couple of months from now, when we talk to you again, we'll have six months of actual facts, then we'll be looking ahead to another six months only, and we'll certainly update that if there are new facts.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. That's helpful. Look, on that topic though, I mean, on rebates and incentives, if you could – there has also been a lot of questions and chatter around accounting rules changing.

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

And I think at the beginning of 2018, there's supposed to be more of a – well, why don't you just give us more color on what you know...

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Sure.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

...or what we should think, we should expect?

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah. I mean, I would encourage everybody not to get too worked up about it. First of all, there is no economic impact, right? I mean, it's not like there's a clear economic change in the business, there is an accounting change. And essentially, in simple terms, I think the accounting will require more amortization of incentive payments than historically was done. And we will be required to go back and look at every deal that is still active and say, had we done it with the new accounting rules, what might it look like. It could mean that in some cases, things that were expensed in the past will need to be amortized, which means that they will show up as amortization in the future. And it may also mean that certain things that was classified as incentives might become defined as expenses or vice versa. There is also some question marks around exactly how the rules apply in our industry, and as an industry, we are talking to the FASB and the SEC and others to get clarification, and that is still underway.

We are still getting clarification on how those rules apply in our industry. The adoption rules is not required till January of 2018. So we are really not required to adopt the rules in October of 2017, which would be our new fiscal year. We are looking at all these things. It is too early to give you any indication of what the impact might be. We're still going through all the analysis. And when we have a better idea, we'll give you both a sense of what the impact might be and what our plan is for adoption and so on. But my general view on these things is, yes, it may

have some impact on our numbers, but I can't tell you what that impact is going to be, whether it's going to be de minimis or to be meaningful enough to be visible. We still have work to do on that, but I would point out, again, it has no real economic impact on the business.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Right. All right, that makes sense. Why don't we shift gears, we'll come back as we get more clarity on that topic from you guys over the next – in the coming months. But, look, to some extent, related to incentives and rebates, is obviously the deal pipeline, renewals and other large potential deals to be – from a competitive standpoint. Anything you could comment on? Any big agreements with banks that are up for renewal or generally? And is there an interesting pipeline in the works in either North America or internationally you can touch on?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

No. I mean, there is nothing – I mean, we typically don't talk about, oh, that particular bank is up for renewal and so on. Some of these things are in the public domain if the bank or the co-brand is talking about it and things like that. But as you know, we rarely talk about specific names of issuers of co-brands coming up for renewals, and some of these enters the public domain when deals are done or whatever, and the issuer or the co-brand often talks about it and things like that, or we might mention something on our calls. I would say that there's always important renewals going on, big and small, around the world. And to the extent that they are sizable and are meaningful, then we'll probably talk about it on our earnings calls. If they are not sort of what I would call needle-moving and significant, we probably wouldn't mention. But everything that we anticipate is incorporated in what we told you our expectations are for the year.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

How about just overall competitive dynamics, I mean, between you and the other large networks, is it fair to say it's gone higher or – I mean, it just seems like incentive levels have gone up for both you and, obviously, MasterCard. And then, I think, industry-wide, it's been a little bit more challenging on things like co-branding. So, maybe some thoughts on that, and if you think it's any different than five years ago or is it just the optics of how we see it?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Well, I mean, I wouldn't want to suggest that, I can give you a personal view of what it was like five years ago. Look, it's a competitive business. We all know it's a competitive business, our clients have options and we have to be competitive, and we would like to be competitive based on the capabilities we provide. We believe that at Visa, we make for great long-term partners. We think that we can really help our clients position themselves for all the changes going on in the world of payments. We think our brand is a huge asset.

We think it had a big role to play in why Costco chose to go with us because we – they believe that our brand would do a better job of helping them build their business of memberships given how well our brand resonates with millennials. We believe in the case of USAA, our ability to partner with them as they transition through over the next 20 or 30 years to a world of payments that is going to look very different in the last 30 years. I think increasingly, clients are looking at the long term and who's a good long-term partner.

In the end, there's always a market clearing price. Clients, certainly, are keen to make any one of these things as competitive as they can be, like you would expect anybody in a competitive world to do. If you are a larger client, certainly, you have a lot more clout. Large issuers certainly control a fair amount of volume and revenue, and certainly, can drive a hard bargain, the same would hold true for co-brands. It's up to us to manage this as smartly and intelligently as we can. Our job is to win these things on the basis of capabilities and make sure that pricing remains attractive in our business.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. Now, that makes sense. Look, on that topic, on pricing, I mean, are there any price increases planned for this spring that you can talk about? And then, I guess, I want to dovetail that question with Europe. As I understand it at least, in January, both networks raised pricing to some extent. To what extent, if you can give us a little more color on that, were prices changed in Europe so far?

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah. In terms of pricing, as we said, that it's not our practice to talk about pricing we take around the world. I mean occasionally, we talk about pricing we've taken in the U.S. because it's quite visible, everybody tends to know about it. Often, it has a meaningful enough impact on the numbers that it's important to mention. But if you go back and look, we almost never talk about pricing we take in Japan or Australia or wherever. And we said before that, we don't plan to change that policy and talk about specific pricing actions we're taking in Europe or any one market, nor do we ever talk about pricing plans for the future.

Typically, pricing, if we talk about it and it tends to be mostly U.S. pricing, we talk about after it's been announced to our clients and customers. So really not much to say on that other than we did expect in Europe to improve yields, and we're pleased with progress we've made on that front. What we've done, you can, as you said, clearly find out when you talk to clients in the market.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Yeah.

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

In terms of future pricing, I think, look, our philosophy is that where we can price for the value we create, we would like to. That is regulated by what the competition does and what the competitive environment is. It's regulated by client and customer considerations, regulatory considerations, where we have regulations that require that prices be managed in a certain way. So that's not going to change. I mean, we will look to have take pricing – in many places where we create lots of value, we should be looking at pricing for the value we create.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right, all right. That's fair. Look, on the topic of Visa Europe, any update or can you just give us some thoughts or further thoughts around the drivers on the high-single digit guidance for that 2020 outlook that you've given us around that deal? And any update on how the cost synergies are going maybe in light of Brexit, how the trends are? And in the building out, some of the new data center changes you have going on? Just any thoughts and updates there.



Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Sure. I mean, the general update is things are going very well, right? We're very happy with where things are. Europe is doing equal to or better than what we might have expected at this stage. Just want to mention that it's too early to say anything. To declare victory would be still premature because we're only six months to nine months in, but we couldn't be happier with how things are going.

The team in Europe is doing well. The consultation process was done. So what we wanted to do in London in terms of setting up the organization structure for the future is done. We've started the technology harmonization process. The next big set of cost savings will come when we can harmonize platforms, move clients on to the new platform and shut down the old platforms. We will always have a data center in Europe, or two if we need to. That is all underway and going well.

We like where yields are going. We're talking to every one of our clients, big and medium and small, about the removal of rebates and where our pricing needs to stay competitive. We're acutely focused on ensuring that our pricing is competitive in a post-rebate world. And in terms of all the initiatives to bring our capabilities to Europe, that's going very well. We opened an Innovation Center in London, that was very well received. This gives our clients in Europe a great opportunity to see all the things that we can do for them and start to work with them jointly to co-develop and so on. So on every front, I would say there have been no surprises of any kind of negative variety and we're very happy.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. That's helpful. Thanks. But shifting gears to the margins of the business, overall, your last quarter's margins were, I think, 69.5%. You spoke about mid-60s margins as a target for the year. Just can you just update us on why we should expect it to drop as much as it would need to drop to be in the mid-60s for the year?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Well, I mean, you just have to look at the client incentives line. It clearly ran lower than we had indicated. It's all timing-driven. Expenses are also slightly below where we expected because of some delays in getting some projects going and some marketing spend going later into the year. So I wouldn't fixate too much on the first quarter margin. I think we told you \$0.02 or \$0.03 of what we did in the first quarter outperformance relative to our expectations was all timing.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Yeah.

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

So, no, nothing changes in our expectations for margins for the year.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. What exactly are you seeing the incrementals – besides the obvious revenue side from incentives, I mean in terms of the incremental spend, on a year-over-year basis, your guidance is still calling, if I remember correctly, for roughly, what, mid-single digits type growth in operating expenses on an organic basis. Can you give us a little more color as to what the company is actually spending on more this year than last year?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

I think we've talked about some of that before. I mean, we continue to invest in all our major initiatives, whether that's Visa Token Service, Visa Checkout, the Visa Developer platform. We're definitely interested in doing what we need to in Europe to get these going. We're rolling out Visa Checkout to most parts of the world, the same with Visa Token Service, Visa Developer platform. Our innovation centers continue to expand. We have a very large and – San Francisco-like innovation center in Singapore right now. London is going to be great, we have one in Miami.

So, every region has innovation centers that are – and Dubai, that are very active at this point. mVisa, we're investing in mVisa in many of the emerging markets. As we told you, we are trying to seize the opportunity in India, making some investments there, just wait and see sort of how that all plays out. I would say on the investment front, there's nothing unusual other than the things you heard us say before. And we're tracking along that mid-single-digits level on sort of a, let's call it, apples-to-apples basis, that has been our trend for the past few years.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. That makes sense. Look, I want to shift gears again now on another topic of interest, the PayPal deal that you guys had announced last year. Can you give us some sense as to what kind of shift we're seeing, if any, on a percentage basis maybe in terms of how much is going onto credit and debit that previously may have been on ACH, or any more color you can give us on how that deal has been working out?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

We're very happy with how things are going with PayPal. They're doing what they promised they would do. We like the fact that the friction that a Visa cardholder had when they use PayPal is now gone. You are no longer discouraged to use Visa. The use of Visa now is as easy as using any other mode of payment on PayPal. That was our primary objective, making it easy for our users. Any way to get on our network should be frictionless and PayPal had friction, and now, the friction's gone away, plus with the data transfer from PayPal to issuers, it's easier to resolve disputes, so we are very happy about all that.

How much volume would shift, we'll have to wait and see. It's too early to tell. We've certainly given PayPal some incentives from our own fees to make that happen. Our issuers certainly have an incentive to work with PayPal to make that happen, and all that is underway. And as we learn more, and I'm sure you'll hear from PayPal, too, we'll let you know whether it is resulting in volume shifting from ACH to our rails.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. Another topic that comes up a lot is on services and data and analytics. So could you touch on that, too, and your strategy around that? Obviously, MasterCard discusses how it's been able to take business or win more clients by coupling in and layering in more services. It's just something they talk a lot about, and it

seems like they have a lot of other things coming like VocaLink in terms of this deal. So just give us more color, your strategy around that theme, please?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah. Look, I think we are very focused on the fact that our core business is where the money is. And we believe that – and we have all the same capabilities. I mean, I can't compare our capabilities directly to theirs, whether it's data analytics or consulting or risk, but we have very compelling capabilities in all those areas, and clients can tell you more about how we compare with others. But to the best of our knowledge, we don't lose based on those capabilities not being as good as they have. We think our capabilities in some cases are better. I'm sure in some cases, they're as good, in other cases, maybe they're – MasterCard has something that's a little bit better. But in aggregate, our approach to these things is that our core business is what counts. It is what our clients want us for. And all these other services are geared towards making our core business more valuable.

Every transaction we get on a Visa card is a very attractive business for us. And if data analytics or our risk services or our consulting services make it more possible to gain more transactions, that, to us, is where the money is. Now, sometimes we charge for these services, sometimes they're part of client incentives, sometimes we just include them as part of our package. But our general approach to these services so far – and I'm not saying it could change in the future – but our general approach to these services so far is keep your eye on the prize, and the prize is the core business, and have a set of services that will make you more attractive to clients, drive more transactions your way, make allegiance to Visa more sticky so it's harder for people – or have they have less incentive to go elsewhere, and that's how we look at it.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. Thanks. Vasant, I mean there's another topic of interest that we get a lot and we've written about recently as well, which, as I just touched on, is VocaLink and ACH and PSD2. And I guess I'm just – I'd love to hear Visa's strategy and thoughts around this whole theme with regard to more real-time ACH, your competitor buying some of the infrastructure around real-time ACH. Does Visa think that's an issue of concern or is that just not that big of a deal versus the scale and opportunity that your network offers? And – or is Visa thinking it should do something to answer that with any type of other partnerships or any other innovations? Can you just give me some color on your thoughts on that?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Look, I mean, our rails can do everything that real-time ACH can do. So the question is, what services will real-time ACH provide that we cannot provide on our rails. And then to then the extent that it's a pricing issue, how do we deal with that from a pricing standpoint. Is there other reasons why real-time ACH may be attractive to some – for some kinds of use cases or transactions, what do we have to make our rails attractive for that.

I think it's too early to tell exactly how MasterCard intends to use VocaLink and deploy it. They've got an interesting challenge in terms of how they balance their core rails versus ACH. And how they decide do that will be something we'll have to watch closely and figure out how we want to deal with that. I mean the issue is you now have – if you are MasterCard, you have two sets of rails. One set of rail is more robust than the other and is capable of doing what the other does. So, we'll have to see how they want to balance the two.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Yeah. No, I guess that's fair. All right, look, another topic we get asked about, obviously, is FX volatility. So, I'm just kind of sort of jumping around here to cover all bases before we wrap up. But maybe update us on what you're seeing from a volatility or FX volatility standpoint. It's obviously been – there's been quarters where it's been a pretty big impact on your model in the past. Can you give us...

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah. Look, I think we had high volatility last year and the year before. And frankly, I think between 2014 and 2015, volatility helped because 2014 was a year of very low volatility, and 2015 was a year of pretty high volatility. But then 2016 was a year that volatility stayed high, but year-over-year, there really wasn't that much change. So in that sense, when you look at our numbers, we weren't helped by volatility in 2016 versus 2015. We were worried we might be hurt because 2015 was so high. And interestingly, when 2017 started up, volatility stayed high once again, not higher than prior year, but about as high as last year.

And most of this is public data, if you're watching it. I mean despite all the anxieties about European elections or what's going on in the U.S., volatility actually has been moderating in the past several weeks. We'll just have to watch it. So I would say, overall, volatility has not been a big contributor to growth. We're happy it stayed high, but lately it's been moderating. So we'll see what happens next.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

All right. Thanks. Look, shifting to one or two more topics before I'll open it up to the audience for questions. You can either, by the way, anyone in the audience can e-mail me questions if you're more comfortable or you can just press star one when it's time.

On India, again, you touched on that before as a good opportunity to potentially invest. Obviously, what's happening there could present that catalyst. So just how are you positioned there currently versus competitors, both domestically, by the way, and globally on the co-branding side? If you can give us a little more sense on both of that. What are you investing in to capture the increased demand there around electronic payments? And just maybe if you could even help size that market, it'd be great?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Well, look, we are very happy with how we're positioned in India. I mean, we have a strong position, our brand is very well-known, we have great issuers, we have great market share. We have a wonderful business there, but it was never a very large business. It's a good business, not a large business. But then with the demonetization, we certainly saw a spike. Now, the question is when the economy normalizes from the availability of cash standpoint, which I'm told is happening as we speak, will there continue to be significant growth in digital transactions.

The good news is the government seems very committed to more digitization of cash. They are pushing for more acceptance, pushing for more usage. And we are investing with our issuers and working with the government on all that. We'll have to see where interchange ends up. I think there's many things to wait and watch. I mean, we certainly are investing money to promote usage, to promote acceptance. We're working with all the constituencies to lay the groundwork for a good business in the long-term.

There are many things up in the air. I mean, interchange will need to be resolved. The government has promised that that will be resolved in the next couple of months. We'll have to see how things settle down once there's normal flow of cash in the economy, and how much inherent growth there is in digital payments once that happens. We think that the big step-up we saw will stick. The question is what will be the growth rate from there.

And then, we'll just have to see how committed the government remains to digitize in cash because there's a big infrastructure required to do that. All-in-all, we feel very good about India. It's growing from, I'd say, a decent base, but not a large base at higher rates. It's not at a point where I would point to it and say that India alone moves the numbers for Visa. But this is a long-term game and on that basis, if these trends continue, in a couple of years India will matter a lot.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. What about China, Vasant? I mean that's another area that's obviously a seemingly good opportunity, but sounds like it slowed a little bit in terms of the investments you need to be making now. Can you give us an update?

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah, it's wait and see, as you know, in terms of where we are in getting the required approvals to participate in the Chinese domestic market. So we'll just have to see what happens next. We're certainly working very hard to be ready. We're working very hard to have a position where we will be allowed to play in the market and trying to make sure that we can do it on the best possible terms for success in the long run. So until we know more, there's really not much more to tell you about China.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. Operator, why don't we open it up just to see if there's maybe time for one or two quick ones before wrapping it up.

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**Operator:** [Operator Instructions]

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

While we're waiting, I mean, I've already had a number of e-mails. So one question quickly is, impact from leap year and Easter shift on the results?

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Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Yeah. There will be some impact, not surprising, clearly. I think last year, we told you what the benefit was; and you should assume that there will be the same kind of impact this year in the opposite direction. But that was contemplated when we talked to you about our outlook.

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Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. Another question on the Marriott-Starwood integration, if they're taking on Visa. I guess...

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

It's something you should ask Marriott, really. At this stage, as you know, both programs are enforced and we are Marriott's partner with Visa, and American Express is Starwood's partner. How that all evolves in the future, that's really hard for me to predict. This is really something Marriott can answer more intelligently than we can.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. And then there is another question from an investor. Does scale really matter with regard to pricing? Obviously, your competitors aren't small either. So how much of a differentiator is it?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Scale does matter in many ways. When you invest in technology, it doesn't necessarily cost you twice as much if you're twice as large. When you invest in marketing, it's similar. When you invest in infrastructure in a country, whether it's for processing or just sales people, so scale does matter. Whether scale means that your pricing is different, that's a whole different issue, right? Pricing is driven partly by cost, partly by value and partly by competition. So, a direct link between pricing and scale, I'm not sure I would draw. But does scale matter? Absolutely, it does. Does it help us? Absolutely, it does.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Q

All right. I'm going to leave it – and one last one, and then we'll leave it at that. With the earn-out gone from Visa Europe deal, what are the lockup on preferred shares that the selling banks are holding? How incentivized are they to stay with Visa once the contract expire?

Vasant M. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

A

Well, what I'm seeing with the banks, and we had some big renewals before even coming to the closing, is the European issuers were very excited about the fact that Visa, Inc. now owns Visa Europe, and all the capabilities of Visa, Inc. are available to Visa Europe, and they don't have to worry about the future of Visa Europe and what Visa Europe is going to be. And we are certainly working very hard with them to make sure their prices are competitive. We know that we need to make sure that our pricing stays competitive in commercial.

Those conversations are underway, we're doing everything we can to ensure that pricing is competitive, extending deals where we can. I have seen nothing that says that just because the deal was done, the prior owners of Visa Europe have an incentive to do something different. We never thought the earn-out was the biggest reason why they would stay with us. We thought it was going to be the pricing staying competitive and the capabilities we offer, and we think that to be the case today.

Darrin Peller

*Analyst, Barclays Capital, Inc.*

Right. Okay. All right, that's fair. And, guys, that was very helpful. Vasant, I really appreciate the time. Jack, Vic, thank you again for making this work on the teleconference mode, and everyone on the line, I really appreciate your time as well. Just as a quick reminder, we have MasterCard up at 3:10. That's actually, like I said, in person

here, along with – if you need to dial in, there is dial-in available on the agenda. So once again, Vasant, thank you so much for your time. And, everyone, have a great day.

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VasantM. Prabhu

*Chief Financial Officer & Executive Vice President, Visa, Inc.*

Thanks, Darrin. Bye.

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**Operator:** And this does conclude today's conference call. You may now disconnect.

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