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Visa, Inc. (V)

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MANAGEMENT DISCUSSION SECTION

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Okay, I think we'll get started. My is Bryan Keane. I'm the senior payments analyst here at Deutsche Bank. And we're excited to have Vasant here, CFO of Visa. Vasant, I was just joking, we actually live in the exact same town. So we could have made this a lot easier and just done it from there.

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

We both came here just for you. Thanks for having me though.

QUESTION AND ANSWER SECTION

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

We came to Vegas to do it instead. So great to see you Vasant. Maybe I just was thinking we could start a little bit higher level. If I just think about this past year versus the year prior we've seen an improvement in results and the revenue growth has accelerated in fiscal year 2018. Can you just talk about the drivers that have caused that?

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

A

Sure. I mean the first and you know most obvious driver is we've had a great global economy just about everywhere, right. If you just look at our payment volume growth numbers, and look at them by region, I mean every region is doing at or close to double-digits or well above it. So it is in fact a what you call a synchronized global recovery that has been underway for some time now. So that obviously is the underpinning of everything. Then within that, you look at U.S. debit, it's a big business for us, used to be sort of mid-single digit grower, and this year was a double-digit grower.

What drove all of that? You know I'm sure there was some impact from tax cuts because withholdings are lower. We'll wait and see as time goes by if that was the case. But in general the U.S. consumer is in very good shape from our numbers as you saw them in the third quarter because you see that in both debit and credit which both grew double-digits in the U.S.

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Cross-border, you know we've had a couple of years of good cross-border growth but one element of the growth was never good in the past because of the strong dollar which is the business coming into the U.S. cross-border. At least in the early part of the year, we saw weakening dollar and some real tick up in the inbound business to the U.S., which is a sizable business for us. So that just added balance to what was already a good cross-border story. Now of course in the last few months the dollar has strengthened some, and we've seen some dollar strength versus emerging market currencies, many of which have been weakening. So those are three components.

Then in general, transactions growth has been strong. As you know new technologies like contactless and so on make their way around the world, it's really good for transactions growth because it drives the use of card to smaller and smaller transactions. So essentially, I think the best way to describe it is, the business has many cylinders and not all of them fire at the same time and in the last few quarters, most if not all of them have been firing.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Just on cross-border with the dollar strengthening, do you see – is there an impact immediately to cross-border? Do you see it already show up?

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

A

Yeah. I mean clearly when currencies shift, you start to see an impact. How immediate it is, it depends. In the days when cross-border was mostly a travel business, there was impact but there was a lag, but now cross-border is increasingly an e-commerce business. So I believe that the lags will shorten and are shortening. So definitely, as currency moves happen we do begin to see changes in trend. As the dollar strengthens versus the peso, the Mexican peso, it does affect cross-border both ways. So Mexican commerce into the U.S. starts to slow but then it starts to pick up in terms of inbound into the U.S.

And then, so there's always offsets. So while one slows another could grow and then the question is what are the relative economics and which trends are more favorable than other trends. But there's no question that exchange rates along with macroeconomic conditions have an impact corridor-by-corridor. So cross-border you have to look corridor-by-corridor and currency pairs and so on. But I think you should expect that the reaction times are shortening.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

But then do you see any impact from, you know, these trade policy negotiations going on or more of a scrutiny around immigration?

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

A

You know, if there is impact from all that, it's not easy to pull out and not obvious. I wouldn't say that I could tell you that there's measurable impact from those kinds of things. Could there be in the future? Hard to say.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

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Okay. You mentioned contactless and some of the success that's had internationally. I know you guys are promoting it and starting to push it a little bit in the U.S., because obviously that will have an impact potentially on accelerating volumes. Could you just talk about where we are in the push for contactless in the U.S.?

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

A

Yeah, contactless, you'll hear us talk a lot about it. And let me spend a minute on why because sometimes people wonder why are we talking so much about contactless. Our view is that from what we've seen it's probably the most frictionless way that this industry has come up with to pay face-to-face. And why is that important. The reason it's important is it makes it that much harder for people to come up with better ways to pay, if you come up with something that consumers just absolutely love, right. And it's obvious because the adoption rates are extraordinary.

It generally starts out relatively slow because you have to get the chicken and egg problem solved, meaning enough merchants have to be accepting contactless and enough cards have to be enabled for contactless. For the first couple of years, like in Australia, probably took a couple of years to go from 1% of transactions being contactless to 7%, and then, within a couple of years, once you've got past that chicken and egg problem, and the majority of cards were contactless and the majority of merchants were accepting it, it takes off like a rocket. And now we're in the 90s in Australia, essentially almost every face-to-face transaction is contactless.

And so what that does is the advantage of contactless is that it is such an easy way to pay, easier than anything people have ever used that a few things happen. First, they start to use their cards a lot more. So essentially they give up on cash, and the card tends to be used for smaller and smaller transactions. And just about at every merchant because of the ease of use. The second thing is merchants love it because it speeds up their lines, and so it's a very popular thing with merchants and merchants would prefer to have people use contactless cards. And in fact if you are an American traveling to one of these countries and don't have a contactless card, you have a problem because the people behind you in line get really mad at you. And there are lots of experiences people tell me about where they go to the UK, and they're holding up the line, and they're getting dirty looks from the guy at the line, as well as everybody behind them. And then, the third thing about contactless is that it becomes so much easier than even using your phone that people begin to even walk away from sort of pay-type solutions, and decide they're just tapping their wallet or tapping their phone with a card behind it is a far easier experience.

So we think it's a big deal. We think it's a critical thing to get done. In 10 other countries, where it's been around well past two thirds of the transactions being contactless. In another 30 countries or so we're somewhere in that one-third range where it's very much in the takeoff part. In the U.S., it's a chicken and egg issue that we've been dealing. So you have to have enough merchants accepting cards. The good news is that I think more than half of the largest merchants now are enabled for contactless. And Costco has just announced that they are enabled for contactless. And soon you will begin to see cards that are contactless, that if you have a replacement card or a renewal card you'll probably most likely get a card that has contactless on it.

So we will begin to see this happen in the U.S. But like everything else, the first few years are going to be slow, and then, you hit the takeoff phase. We are doing everything we can to persuade merchants to turn on contactless. Having EMV in place was really important and we're certainly working with issuers to encourage them because there's a lot of upside here for them in terms of more transactions.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

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Yeah. I'm surprised that issuers don't adopt it and change out the cards faster. I know there's a cost, but what is the holdback, why not flip the cards now so you can get more volume in the door?

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

A

Yeah. And I think it'll happen at some point. I think, right now, you're more likely to see the initial efforts from issuers mostly restricted to replacement cards or renewal cards or new cards. But once you get to critical mass and they begin to see a real take off in usage, there will be significant cardholder demand to have contactless cards. And then you will most likely begin to see more, what I would call, mass issuance. I don't think we're there yet. We're certainly doing everything we can to persuade issuers to do that. I believe issuers are increasingly aware of the fact that there is a lot of upside here that certainly is far bigger than any cost they might incur to reissue cards. We've made a lot of progress just in the last 12 months. So I think the next 12 to 24 months are going to be really crucial.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Wanted to move to Visa Europe. I know you guys have talked about going on the offensive now that you finally have all the contracts signed. So, can you just talk about where some of the opportunities are to increase volumes and to roll out credit more broadly?

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

A

Yeah. Well, I think there's three or four areas of opportunity, maybe five. One is that Visa Europe used to be a membership and generally its business reflected the composition of the membership, as you would expect. And the composition of the membership is heavily weighted towards certain countries, UK and France being the two big ones and then some other European countries where the membership tended to be more concentrated.

And so the business evolved in that way. And there are parts of Europe where we don't have the kind of market position or share position that we typically have in most parts of the world. So, there are clearly specific markets in Europe where we could be stronger than we are. There are markets where which is very unusual for us where we are in a position typically, we see our competitor at, meaning they could be twice as big as us. And so, clearly, there are those kinds of things to be addressed over a period of time in a rational kind of way.

The other thing that happened in Europe was for a variety of reasons Visa Europe chose to be more focused on debit and less on credit. Some had to do with concerns around interchange rates and all that. The whole interchange differential between us and our competition has been neutralized because of regulation. And, we as Visa, Inc. is a very credible and attractive partner given the kind of business we have on credit everywhere in the world. So credit is clearly an opportunity. Again, this has to be done over time as portfolios come up for renewal and in a rational way that it makes sense.

The third opportunity would be the fact that there is still a lot of cash in Europe. There are many geographies where cash penetration is still quite low, whether that's Southern Europe or Eastern Europe. So the traditional approach is to continue to build digital usage, especially now that interchange rates are lot lower you know remains an opportunity for all of us.

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The fourth thing would be the general opportunity around with scheme and processing separation and the capabilities we can offer on processing, how much can we do working with merchants who have more flexibility now to work with us rather than perhaps with domestic processors and so on.

And then finally fintechs, Visa Europe, for various reasons, given who they were at that time were not very focused on fintechs, so we were behind the curve on that in Europe. We've done a lot in the last few months to fix that. We have a fast onboarding program for fintechs now. We are willing to invest money in fintechs. We made a lot of progress. We are very much in the game at this point and that again is an opportunity that is rare for us where somebody else has more share than we do. So there's an opportunity to grow both as that whole sector grows and we grow our share in it.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, I was going to ask, there are about nine I think large domestic processing markets in Europe. How can you guys move to switch more transactions yourselves and take share from those domestic schemes?

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

A

Yeah, look this will happen over time and you'd have to do it prudently. We have to deal with regulation and all that. Clearly, I mean we have advantages. We operate a global network, and as a result of that, we have a network, for example, now that has essentially four data centers that back each other up in the three big regions of the world the U.S., Europe and Asia, so it's an extremely reliable network. We spend substantial amounts in security, so it's an extremely secure network. These are all investments that are hard for a small domestic processor to make.

In addition, we've invested significantly in a variety of digital capabilities enabling the various ways in which people can pay tokenization to increase security, all the data analytic capabilities we have to reduce fraud as well as provide a variety of loyalty solutions and so on. These are all things that are hard for a domestic processor to do, especially when they're owned by local banks and have pricing schemes that are not very attractive and so on. But we have to work merchant by merchant, country by country to build this. It'll take time and we'll look at all avenues to grow our share of processing. We're making headway, but this is something that will go on for a while.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

What's the stat now? Is it 50% or so of European transactions that you actually don't switch?

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

A

Yeah. I mean, the statistic is to some degree misleading in that, it's a Europe-wide statistic but you have to look country by country. There are some countries where we process a lot and there are some countries where we process very little so the average doesn't tell you everything. So in the UK, it's pretty much like the U.S. where pretty much every transaction that is on our brand, we process. And then, there are parts of Europe where we process almost nothing. So we have to look – you sort of have to look at it country by country.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

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Is there still room to increase yields in pricing? One of the things I think surprised us was that Mastercard increased prices as well so it feels like there's still some room to grow there.

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

A

Yeah. I mean I think we've acknowledged that there is still a pricing gap. And it's a pricing gap that needs to be addressed. It is something we have to deal with over time. And we have to be prudent about it and make sure that we do it in a way that works with our four-party model. So as Al has said on calls before, we are aware of it. We are addressing it. We will address it over time and we will do it in as prudent a manner as we can.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. The Visa Europe accretion has been double digits, and I think it's done. It was about two years ahead of expectations. With the technology migration to be complete by the end of this year, shouldn't we see further accretion from that and from other initiatives in 2019?

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

A

Yeah. So the technology migration is going very well. As you know the clearing and settlement was done. The authorization migration is underway. It's proceeding well. It will be done on schedule. What we have chosen to do though and by the way we're getting the savings we anticipated and they have been coming as this has proceeded. We did some savings last year, some savings this fiscal year and there will be some savings as we go into future years. But the other thing we've done is, as you get into a business, you certainly come up with new ideas, and one of the things we've chosen to do after we've acquired Europe is to fundamentally come up with a much more robust data center strategy on a global basis.

For our entire history we used to operate with two data centers; one in Virginia that was the primary data center; and one in Denver that was the backup. Essentially now we've moved to a four data center model. The data center in Europe, we felt was in a great location and one that we could easily make a significant data center and we have a data center now in Singapore. So essentially we now have data centers in three geographies and they can all back up each other. So it's a much more robust data center model and so the data center in Europe is going to be a full-fledged data center. We are also setting up a Cyber Fusion Center there because we think having one in Europe will help us a lot. We have a great innovation center we set up in London. So, essentially, we've chosen to make a bunch of investments in Europe that we think will be very valuable in the long run.

So, some of the savings are already reinvesting, reinvesting in Europe itself. Some of the things I said to you about what we're doing with fintechs, some of the things we're doing in Europe now, it's a great place to hire talent too. So, we're locating a fair amount of our info security and data science type people in London. So what you're seeing us do is that, we're taking some of the savings we had anticipated and reinvesting them in various parts of the business, mostly in Europe itself.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

We talked about the U.S. and cross-border and Europe. What about specifically in other Asia countries and Latin American countries, is the growth accelerating or are you seeing pockets of upticks and downticks?

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

A

Well, I mean when you look at the world, it's never – but as I said at the beginning, it is in fact a great global recovery. So it is not really – there's not that many places that are not doing well. There are some obvious ones. There's Turkey has had some issues, Argentina has had some issues. Brazil has been sluggish for quite a while. But beyond a few, there is generally speaking a fairly strong global situation almost everywhere. Argentina is very volatile and we have a big business there and that will have some impact. Turkey we don't have as big a business so it won't be as impactful. Brazil is a sizeable business for us but it's been having issues for a while and it's up and down. But overall, I would say if you're going to operate in the so-called emerging markets, you should expect some volatility, is just the name of the game.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Want to ask about Visa Direct. Volumes have doubled in the past year. I think we have accelerated up from 75% in the fourth quarter 2017. What are the fastest growing use cases that you're seeing there and what do you guys are focused on going forward to grow that Visa Direct business?

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

A

Yeah. I mean the sort of the use case that everybody is familiar with is the P2P use case and we're delighted that Visa Direct is becoming the backbone of P2P. I mean it is essentially what Square uses. It is essentially what Facebook uses. And it is also available on Venmo now. It's what powers parts of Zelle and around the world Visa Direct is becoming the backbone of most P2P services. So P2P is clearly you know one and very visible use case.

The other one that is increasingly popular would be the second largest use case, would be disbursements. This is where in the gig economy you can get paid whether you're Uber drivers and so on, as well as insurance payments, health insurance or auto insurance and so on. Things that used to be checks you would get in the mail, you can get more instantaneously if you sign up for a debit [indiscernible] (00:21:12) payment. Third use case would be instant payments to merchants. Square's offering that, other acquirers are offering that. Typically it's a couple of days that merchants have to wait to get paid. They can sign up for a service where they get paid the same day, comes with a fee. It's powered by Visa Direct, Bill Pay opening up a big new area for payment. That would be a fourth category. I mean just about every day I hear from our Visa Direct people about a new use case for Visa Direct. The big ones would be these four.

And the yields are different across them. It depends to some degree on the economic model. I mean we get paid on all these use cases. The P2P economic model is still not clear in many cases. As you know P2P remains in most cases a service that users don't pay for. So the P2P use case would tend to have what I would call pricing that allows that economic model to develop. But some of the other use cases have great economics attached to them and therefore, can support yields that are attractive.

Another big use case that will develop soon would be the cross-border use case. We have 2 billion debit credentials around the world, over 1 billion of them have already been enabled. We've already done Visa Direct transactions to 150 countries. In many cases, we can also send Visa Direct transactions to non-Visa credential holders. We are very excited about opening up the cross-border use case of Visa Direct, and that will be a very attractive one over time.

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Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

What will be the cross-border use case? Will that just be a typical you know like a money transfer kind of thing? What's the use case that the consumer would use for that?

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

A

Yeah I mean it would be in lieu of – I mean, look, we won't be in the money transfer business for a variety of reasons. I mean we prefer to be in businesses where people have bank accounts, right. So we are more interested in people who are already in the banking system because we have to comply with KYC and AML and so on. So, yes, I mean, the cross-border use cases would be more along the lines of remittance-type payments to some degree as well as other money transfers, people want to do from person to person or account to account that we can now enable. That could replace the use of SWIFT and other such means that they might use today. It is more instantaneous. It's more secure. You can get your money back. I mean one of the big problems with cross-border payments right now is it's a one way street. You make a mistake it goes to the wrong place. You'll never get it back.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. A lot of these P2P players are growing tremendously and the use of disbursements [indiscernible] (00:24:17) deposits, all those things are pushing up their valuations. You guys obviously charge a smaller yield. Do you think there's an ability for you guys to push up pricing on Visa Direct?

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

A

Well, I mean we love the business, any business that is growing as fast as it is, is one you know you want to continue to drive in a way that builds for the future. I would say the yields in the business are decent. A lot of it is incremental business because it used to be cash transactions that now come into the digital space. There is a market clearing price depending on the value of the use case. I would say most of the use cases have high value creation and revenue models for the people providing them that allow us to get good yields. I think over time, we'll have to see how the P2P use case evolves and what the revenue model for that is. I mean, right now many of the P2P providers are being valued based on their future potential, right. They are cumulating transactions, but they haven't yet come up with a revenue model. We do have a revenue model with them. They all pay us, but we also have to acknowledge that they are still looking for a revenue model and once that becomes clearer, the economic model for the whole business becomes clearer.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I think Visa Direct internationally is in 150 countries. We talked about the cross-border, but is there also ability inside this?

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

A

No. No. Absolutely. I mean the bulk of the business is going to be domestic, right.

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Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Domestic, yeah.

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

A

And so we're enabling large amounts of cards within countries. So, there's lots of countries where we've enabled most of the cards for Fast Funds and we'll keep adding to that.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

We talked a little bit obviously about the B2B opportunity. I think you guys quoted it as 11% of volume. How quickly is this segment growing and how material can this become for Visa?

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

A

Yeah. I think you know you've heard us say it's about 11% of our volume, payment volume. You've heard our competitors say it's 11% of the payment volume. Payment volume is typically twice as big. So, you can see they're the sizable business today that is twice as big as the competition. And based on what they've disclosed and we've disclosed about growth rates, we are growing about the same, right, somewhere in the mid-teens growth rate which is all visible in the Q filings and all that. So, we were a sizable business today that is the largest B2B payments processing business in the world, twice as big as the competition, growing as fast. We tend not to talk as much about it partly because it is 11% of the payment volume. It's not the biggest business that we tend to talk about mostly, but it is a very attractive business.

Now there are two parts of that business the way we look at it. There's about $20 trillion which is a sizable number that can be served with the solutions we currently have. So, it's a stuff we know how to do. It's things that are deliverable through our network, card credential type services, serving small businesses, medium-sized businesses. You're very familiar with those. Still plenty of opportunity there, growing nicely. We are pushing it as hard as we can. Then there is the sort of the rest of it, which various people throw out $100 trillion in numbers like that. But those are more enterprise-to-enterprise payments and that's a different ball game and that you have to go by segment by segment. Typically people are looking for a bundle of services, where payments is a component. You have to think about what your value is, as part of the whole bundle. That, we're all playing in it. We're all figuring out sort of how to make a business out of it. There's a lot of let's say, early efforts there, but I think there's plenty to go before that becomes a real opportunity in terms of how do you make money at it, what's the revenue potential and so on. So, yes, we're very excited about B2B.

We've got a variety of new initiatives there like B2B Connect, we're feeling very good about. This is a distributed ledger-based service that we have been piloting and now are getting very close to saying the pilot is done and now let's get into business. This would be to allow businesses to send money cross border, right. So it's, cross-border B2B payment service that essentially would be a substitute for SWIFT and will offer greater security, greater reliability and greater immediacy than SWIFT would.

Feel very good about it. We'll tell you more about it as it progresses. But we are past now I think the pilot phase to saying we're ready now to go live with it. Visa Direct we talked about has B2B applicability clearly and using Visa Direct as a B2B's proposition for a variety of business use cases. We've got Fraedom. We bought the company recently that gave us some additional capabilities, that allow us you know to do things for people that makes B2B

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service and you know offering much more attractive. There are other things that we're working on and looking at other partnerships that we're doing that will continue to expand our B2B capabilities especially outside the U.S. So there's a lot going on and we remain as bullish about it as we've always been and we'll keep you posted as things develop.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

One of the things that came up on the last quarterly call was on incentives. I think you guys highlighted incentives coming in lower than forecasted due to overestimating the level of incentives needed to accomplish the company's goals not due to lower volume and your performance. So can you just explain to us what happened there and what the outlook is going forward?

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

A

Yeah. I mean, as you go into a year you try to do the best you can to estimate your incentive. So what you know is the deals you've already done and what happens to incentives based on volume, that's probably the easiest thing to predict and that will go up and down with whether you got the volume forecast right or wrong. Our volume forecast this year have been better than we expected, so actually that would have the tendency to push incentives up, not necessarily up as a percent of revenues, but up just in terms of dollars because we're pulling in more volume.

Then you make a bunch of assumptions on what's going to happen with renewals that are coming up. You make assumptions on new deals you might do and so on. Those are attempts to predict timing of deals, attempts to predict what those deals will be done for. And there's a certain element of estimation involved in it. And we had a lot of work going on in Europe to finish the conversion of people from the arrangements we had to the commercial arrangements. In general, we were able to pull a lot of those off with less incentive spend than we thought we might need. That's a good thing because that's a permanent change, it's not a timing issue. We've had a little bit of timing along the way. But by and large, our incentives have trended lower than we expected this year, which we are very happy about. It's a good thing. And that sticks because the deals are now going to be more attractive than maybe we might have estimated when we started the year.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. If there's any questions, we have a mic that comes around, so go ahead and raise your hand.

I want to ask about expenses, operating expenses. I think the guidance for the fourth quarter was mid-single digit expense growth. Is that appropriate going forward? Is that the right way to think about it that expenses will grow a lot slower than that top line?

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

A

Yeah. I mean, we don't – margins are an outcome, not an objective. So, we plan our revenues and expenses independently and the margin is just an outcome. And on expenses, the goal is to invest at a healthy level in the business, because this is a great business, it has enormous potential and you don't want to under invest. And you've seen us do a fair amount of investing over the past couple of years.

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We'll tell you more about what we expect for next year. We are investing in a variety of initiatives what we're doing with contactless, what we're doing with tokenization around the world, what we're doing with a whole range of other digital initiatives around the world. We're certainly investing in various parts of the world in terms of beefing up our presence on the ground. I told you about the investments we're making in Europe. So, it's a balance between how much is too much and how much is too little, what's the right level of investment. And that's typically how we end up with what our expense growth is going to be.

Going in, for three or four years, it was running in the mid-single digits. Last couple of years, it's been higher than that. And we'll tell you how we see it playing out over the next year in a couple of months.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Is your new incremental investments or are these kind of the investments you've been making over the last several years? I mean is there incremental new things that you need to spend extra dollars on?

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

A

Well, I mean every year there are some things we tend to spend more on, and then there are other things we were spending on that may need less because we've made the investments. We're clearly investing behind Visa Direct, we're clearly investing in our B2B business. We continue to invest around pushing our digital solutions around the world. We've got a single button initiative coming up. The investment on that could step up over time. So there's always a sort of – contactless has been a place we are investing in. We tend to have four or five big things we're investing in at any one time. And some then you've sort of done the big investments, and they start to dial down, new ones come up, they dial up. And so it tends to change, but I wouldn't say that there's something fundamentally changed that changes the investment profile of the business.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I wanted to ask about that comment, button, that's gotten a lot of press.

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

A

Yeah.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Is that a big initiative for you, guys? Is that going to be a major game changer when that rolls out next year?

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

A

Well, I believe it is. You would think that this is something we should have been doing a long time ago because fundamentally if you look at the physical point of sale, it set the model. The model was make it easy for a merchant by having one set of standards, they do it once, and they can accept all forms of payment, have a single device at the point of sale that accepts all cards. We didn't do that online. We made the online transaction very cumbersome. The single button resolves that. In theory, it's a pay button that essentially does what the device of the point of sale does. It's a single pay button.

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It either goes to the card you already picked or shows you your wallet and you can pick the card you want or has standardized authentication higher levels of security tokenization and so on. So, it's more secure and then you're done. So, it should just contactless can substantially take the friction out of a face-to-face transaction, we think the single button can do it with an e-commerce transaction.

Now for it to work, we all have to work together. The big news is that everybody believes now that this is a good idea, so we are all working together. I would hope that the standards are issued soon. Once they're issued, we all have to work to make our networks comply with the standards and then we are ready to start working with merchants to persuade them to adopt the button and then consumers will decide whether this is a good idea or not by clicking.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Well, you know consortiums are often tough to work and then my worry on this still is branding like won't everybody want their brand to be front and center?

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

A

Well, I mean think about it this way. When you had a physical wallet, we fought to be at the top of your physical wallet. The whole game is the same right. We want to be at the top of your digital wallet. That is the game of the future, which is increasingly as the card becomes a digital credential, we want to be your preferred digital credential. So, we're fighting essentially the same battle. It was a battle to be at the top of your physical wallet. Now it's a battle to be at the top of your digital wallet, because you will still pick the digital credential you want. So we are still there. You're not trying to persuade you to make us your preferred digital credential in that sense nothing has changed, right. It's not like with the pay button something happens that is not in your control. You will still pick the credential you want and we have to continue to win that battle.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Okay. With that, we'll keep it there. Thanks so much Vasant.

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

Thank you.

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