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Visa, Inc. (V)

MoffettNathanson Payments, Processors, and IT Services Summit

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MANAGEMENT DISCUSSION SECTION

Lisa D. Ellis
Analyst, MoffettNathanson LLC

All right. Wonderful. Well, thanks everyone for joining us. Lisa Ellis here starting for our noon Eastern session. We are delighted to have Vasant Prabhua join us, the CFO of Visa. Vasant, hello and welcome.

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

Good to see you.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

And thanks to everyone dialing-in or watching us on the webcast I guess for our noon session. Let me – just housekeeping item before we start. For folks, if you want to ask questions, you should see a little Ask a Question bar right under the webcast screen. You can go ahead and submit those and I will be able to see them and be able to layer those in. Just want to remind people of that. But other than that, I think we will – we'll get started.

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QUESTION AND ANSWER SECTION

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

So Vasant, why don't I start with this. You and others from Visa have talked on your earnings call and in other forums about a lot – the [indiscernible] (00:01:12) COVID-19 pandemic support you're giving to everyone, your employees, your communities, customers. What are some things that might be least visible or less well-known, maybe some really interesting things you're doing that folks might be less aware of?

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

A

Sure. This is a very unusual time. And despite the fact that we're not talking to people in-person, the level of engagement we have had across all these constituencies has been extraordinary, whether its clients, governments, our own employees and the community. I'll start with clients for example. We're hearing routinely from people on our frontlines that they have never had this level of contact with clients in terms of frequency, in terms of quality of conversations, in terms of intensity. For example, we have a small team here that pulls together once a week a set of talking points that are carefully vetted by lawyers and all that, and we send them out to all our frontline people around the company to share with our clients. It provides them some color on what's going on in their markets around the world, what are some of the things we're seeing which they find extraordinarily helpful.

In addition, we have something called the Visa Analytics Platform. This is a wonderful, user-friendly way for a client to really understand extraordinary amounts of detail about their own business, whether it's settlement, fraud, how they're doing in terms of authorizations, etcetera, they can compare it with some benchmarks and so on. And our clients are finding it incredibly useful because these are very unusual times and things are changing fast. More than 5,000 clients have now been enabled. Usage is up more than 33%. And despite all this, our Consulting group is busier than ever. We delivered more than – I think 50% more projects in the last quarter than we did at the same time last year. Clients come to us with unusual requests now. We accommodate them as much as we can. And in general, the level of sort of the discussions around renewals or other programs has stayed relatively unaffected.

If you move to governments, here again the engagement has been deep. We are in constant contact with governments in every jurisdiction. Here again we have provided governments again with the appropriate confidentiality agreements and legal vetting with information they're looking for. Given our position, our ability to give them a sense of what's going on in their economies, we're helping governments as you've heard with getting money out to people. Many governments have turned to us to get money out to them – to people very fast through means like Visa Direct and so on. And then we're also talking to them about how they can continue to upgrade their digital infrastructure given how important it is right now.

As far as communities go, you might have heard the Visa Foundation announced a $210 million program, $10 million right now for people doing things on the frontlines, on the medical front or the food front and so on, another $200 million for micro and small businesses with a particular focus on women's empowerment. And then our engagement with our employees has also been extraordinary. Morale is high, people feel productivity is actually better, the level of communication back and forth has been excellent. So all in all, we're learning a lot. These are times when we say we shouldn't let a crisis go to waste. We're looking really hard at all the things we're learning that we think are going to make us better coming out of it, so there's a lot going on.

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Lisa D. Ellis
Analyst, MoffettNathanson LLC

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Yes, and I appreciate you doing it for us. Visa just released May volume numbers last night presumably in time just for this session this morning I assume.

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

A

For you, Lisa, anything you want.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

I won't steal your thunder. Why don't – for folks that maybe didn't see that 8-K, why don't you give us some highlights as to how the volumes are trending through May?

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

A

Yeah. Well, we don't normally do this. But as you know, things are changing from week-to-week and we certainly haven't been providing you with the kinds of outlook we normally provide. So we decided that at least sometime during the quarter, and this was timely in that we could give you the whole month of May and we had this meeting coming up and others this week and next week, so a quick sense of the numbers. You might have seen that US payments volume is still declining but declined 5% in May. That was clearly a big improvement over April, about 13 points. And we've cut the numbers many different ways, and it's clear that the economic impact of payments, the so-called stimulus payments are having an impact.

In addition to that, there's certainly pent-up demand. First few weeks after sort of the shutdown, people did without certain things, then they got comfortable that they could buy them online or do store pickups, curbside pickups and all that, so we're seeing some of that pent-up demand come back. And then, there's no question whatsoever that things are beginning to reopen; we can see that in the card not present volumes. So all these things appear to be driving the improvement in trend.

Big change in debit. Debit was actually up 12% in the month of May which actually is higher than it was running before the crisis. Credit did improve about 9 points but it's still down 21% in May. The fact that debit is outperforming credit is not surprising. We have seen this in times like these, although this is highly unusual. But in times of stress people do tend to spend money they have in the bank and they do become a little more cautious. They do reduce spending on discretionary items which often tend to be more on credit. Certainly travel and entertainment and all that are more inclined towards the use of credit, and you've seen that those have not recovered as much. But as we look across different segments in terms of categories of spend, as we look at ticket size and so on, the outperformance of debit is fairly broad-based. It's across – even high ticket transactions are coming in on debit now. It also supports the idea that some of this is driven by the stimulus payments, and we see that when we cut it by geographies or we cut it by categories in terms of the amount of spend, whether it's affluent, less affluent and so on.

Card not present in the US remains at high levels, around 30% from late April, so the spend levels remain high. Card present has improved quite a bit. It's exiting May with a decline in the mid-20s which tells you things are opening up. It was down almost 50% in April, so there's no question that you're starting to see the opening up sort of impact as we see card present climbing. Now we're also seeing card present climbing because retailers are

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getting better and better at curbside delivery, so there's more people who will go and pick it up and sometimes that can be card present.

We also gave you the color we've been providing lately across segments. There shouldn't be too many surprises there. I mean drugstores, food still doing very well; lots of online spending even in those categories. Home improvement, big category in improvement. People are certainly – since they're home more, spending more to make it more comfortable. Retail services are picking up. Where we haven't seen big improvement is in categories like travel, still declining over 70%. We have seen improvement in restaurants; even though it's declining, QSR certainly has picked up.

As you look outside the US, it's a function of what's the stage of the reopening, and then depending on that you have a level of recovery. Across Europe, Canada, Australia and Japan, the trajectory seems similar to the US. It's lagging by a couple of weeks. The mix is a little different country-by-country. Some may have more credit than debit, so that'll have an impact on it. But then it's all over the place. So you go to places like India and Singapore only just reopening, early stages, but then you go to New Zealand, very fast recovery. Denmark and Chile were also positive. So the international markets are not all in one camp; they're in many different places in terms of the stage of reopening and the trajectory of the recovery.

Cross-border, in the cross-border business, for there to be improvement there has to be "reopening". In a lot of cross-border, there isn't much of a reopening yet in terms of countries allowing people to either leave or come in, so it's not surprising we have not seen a huge improvement because you have to have reopening before you have recovery. We did see some improvement, a 6-point improvement. So cross-border excluding transactions intra-Europe declined 45% which was a 6-point improvement. The travel part of it is still declining 78%, both card present/card not present. The e-commerce part of it continues to grow at a healthy clip, almost 20%. And the reason we emphasize, and it's really important that this is clear, the cross-border growth ex-intra-Europe, and we've been saying this for quite a few quarters, is that that is really what drives our international revenues. The intra-Europe volumes, the revenue streams are more like domestic revenues. So if you're really looking to project our international revenues, you should be looking at what our cross-border volumes ex-intra-Europe are doing. And in normal quarters it doesn't matter, but right now, as you can see, there's a big delta. So if you include the European volumes, our cross-border business declined 35%; without European volumes, it's 45%. And it's the 45% that is really going to drive our international revenues. Normally, it's 1 or 2 points difference, and we've been highlighting this for many quarters now because this we think is the best proxy for our cross-border business. So that is – those are the facts. That's where we stand at the end of May.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right, and just a follow-up on that. We've gotten this question already in a couple of other sessions this morning. Do you have a sense for – because there was clearly a benefit from the stimulus payments in late April and in May, will that persist? Was that basically just helping accelerate some of the rebound or might we actually go backward a little bit?

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

A

Yeah. As you can see, and you may have heard this from Al too, is that we've been very careful not to offer up opinions and projections because we're in unusual times; this is fundamentally a medical crisis. A lot of what happens here is a function of what is going to happen in the medical front in terms of infections, whether there's a therapy or a vaccine and so on. We have cut the numbers as I told you many different ways, and there is no question that the stimulus payments had an impact. If you look at where the spending picked up the most in terms

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of economic segments, where the spending picked up the most in terms of geographic segments, where the spending picked up the most in terms of categories of purchase, it all points to stimulus payments having an impact.

There is some data available from the government on how much of the stimulus payments have already been distributed and how much is left, so there is certainly some left and there's also some talk of more coming. So some of these stimulus payment-related spending will be linked to what's still left to come. But beyond that, we know that we're getting the benefit of reopening, we know we're getting the benefit of pent-up demand, so people have figured out that they can get the things they didn't get let's say soon after the shutdown because they may not have been comfortable buying certain things online but they have gotten more comfortable; there's only so long they can wait without buying them. So you've got I think three things driving it right now. You've got the stimulus payments, and yes, there's a legitimate question of what happens with that once they end; you've got pent-up demand and people getting more comfortable buying things online who may not have been in the first two or three weeks; and then the third thing is you do have the reopening.

And you can't underestimate how much better merchants have gotten week-by-week, right, in coming up with ways to serve the demand. I mean, you hear lots of stories about how curbside pickup has become really good in a lot of categories. And merchants who are coming up in delivery where there were bottlenecks early on, they have solved some of those problems, so you're seeing some of that too. So there's a variety of factors at play here. It's no longer just the stimulus payments; there's a lot of other factors at play now.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yes. All right. Let's transition to some of the secular dynamics happening as a result of the pandemic and start with contactless. Of course, contactless is one area that we're seeing an uptick. I think you had highlighted that ex-US contactless payments were up 40% in your fiscal second quarter which ended in March, really before a lot of this pandemic-related activity settled in. I guess first, are you continuing to see this type of growth in contactless and are you starting to see it now in the US where we've lagged behind?

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

A

Absolutely. We started talking about contactless as you know two, three years ago. And at that time, I think a lot of people were scratching their heads saying why are they talking about contactless? Because we thought of contactless as an extremely important lever. The thing about contactless is that it makes the payment experience at the physical point of sale so simple and so frictionless that it does become a real habit fast, and consumers love it. And at this time, there is a great concern about cash and cash being dirty and the need even with terminals that you can dip in or swipe in, the need to clean them after every transaction that contactless is just truly the perfect solution in this environment, and everybody knows that. Consumers know that, merchants know that, governments know that, and that is clearly helping. So yes, we have seen continued rapid growth especially outside the US where we already had critical mass, and I'll talk about the US in a minute.

Tap to pay share of transactions has increased quite a bit, up 2.5 percentage points in India for example, 4 percentage points in South Africa. One of the things that has helped us in a lot of markets is that governments and regulators are willing to raise caps on tap to pay. They used to have caps on tap to pay. For example, in the UK the cap was £30. You couldn't pay for a transaction contactless that was higher than £30. It's now been raised to £45 and we've seen a 50% reduction in the number of times a Visa cardholder had to touch a checkout terminal just in the UK from this. In Canada for example, the limit has gone from CAD 100 to CAD 250 and already 40% of transactions in that range, CAD 100 to CAD 250, are contactless. So we only see this growing

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and we think that we know the trajectory of contactless adoption is very fast once you reach critical mass. We are at critical mass outside the US and so we're on a very rapid trajectory of growth.

In the US is where the big opportunity lies as you know. That's the last frontier in a way for contactless and there's no question that these times are going to help accelerate that. 55% of all transactions below $10 in the US are still in cash, and one of the big benefits of contactless is that those are the transactions that become digitized when contactless comes in. Now we think we'll have 300 million cards that are enabled for contactless by the end of the year. We are encouraging issuers, and some are accelerating delivery of contactless cards. We had 8 of the top 10 merchants. We just had a big grocer start all their terminals up on contactless, so 9 out of 10 top grocers, 80 of the top 100. So we're getting to – merchants are now allowing contactless so we're getting to critical mass, so we wouldn't be surprised if we see an acceleration of adoption through this period.

And then we have to educate consumers that contactless is an option. We're providing signage to a whole bunch of merchants to help them advertise the fact that tap to pay is the best practice right now. So we've seen for example in everyday segments like grocery and pharmacy 100% growth in the use of contactless, so our expectation would be that contactless becomes a vital part of what people want to do in this environment, and we should see an acceleration.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

And just to follow-up on why you're so excited about contactless. So of course, contactless helps drive out cash particularly in those smaller dollar transactions. Beyond that though, how does it benefit Visa?

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

A

So first of all, I mean, look in the end the customer/consumer experience is vital for us, right? If we make payment with our credentials frictionless, easy, intuitive, that's just good for us. It just makes them less vulnerable to alternatives. And consumers, if we can give them the best way to pay, they don't need alternatives. So it is just good business for us to do something like this where we make the whole experience of payments better and easier. It's also more secure.

In addition to that, we find that, for example, in a lot of countries contactless starts by someone using it in transit, and we found that to be an interesting place to really build contactless is to get transit converted to contactless. And we've been tracking this in a lot of places. Someone starts to adopt the contactless habit at transit and then all of a sudden we find that they tap their cards another 10 times per week, so it becomes a habit. So there's clear benefits here not only in that people go deeper and deeper into smaller and smaller transactions; they essentially abandon cash because they find this way of paying so easy. And increasingly, we find that in terms of form factors, they bring their card back. You don't need to embed this in some other device anymore. People find that tapping their card, have the card at the back of your phone, tap it is better than fiddling with your phone, opening it and then somehow finding the app and then tapping it, and we like that. It's our form factor then that they're tapping, and that's helpful. So there's a lot of benefits that make contactless very sticky and incredibly important in the face-to-face context.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yes. All right. I'm going to transition to e-commerce. Now you highlighted some of the numbers around e-commerce. That's maybe the most – one of the most obvious shifts we're seeing is clearly this uptick in e-

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commerce. You said 18% growth in your cross-border. Card not present ex-travel higher than that, I think you said close to 30% in the US. I want to get into those, I mean, the second-level questions when it comes to e-comm. I guess same question on e-commerce I just asked on contactless. Obviously e-comm has – plays a role in displacing cash. But besides that, how does the shift to e-comm benefit Visa?

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

A

Right. So the benefits of e-commerce are significant on multiple fronts, and this is a long-term secular trend as you know that is being accelerated by what we are seeing. So for example, if you looked at our numbers that we just released in the US, card not present ex-travel in the last week of May was approaching almost [ph] 40% (00:24:11) growth, and the growth line has continued to – the growth trajectory has continued to improve even as card present has improved. So we've seen not only a – we saw a 12-point, 12 percentage point shift to card not present in the US in this timeframe in April. Some of that will move back, and there are lots of reasons to believe it's going to stick and we can go through those reasons. But even as we see card present growing, the growth rate of card not present has continued to climb in the US. In cross-border, you're starting to see some nice growth rates in cross-border e-commerce ex-travel.

So the benefits to Visa, first of all, despite probably 20 years of e-commerce, it's only 14% of global retail spending that is e-commerce coming into this crisis, so there's a long way to go. The most obvious benefit of e-commerce is that cash is not an option. So if our goal which it is, has been for 60 years is to digitize cash, e-commerce is made for our business. And so our ability to capture a transaction is 3x higher in a e-commerce context than in a face-to-face context because face-to-face, you have many other options.

And while we are economically roughly in the same place, there are other benefits to e-commerce because we also are able to help our customers and merchants more in an e-commerce context. Certainly, we can help them more with our risk and fraud management capabilities, we can help them more with our authentication capabilities, we can help them more with our identity and security capability, so a set of services that we can add on top of that. We have a business, CyberSource, that is strictly enabling e-commerce merchants which is clearly benefiting from the shift to e-commerce. And now omni-commerce has become a big piece of – a big priority for merchants. We just acquired a company, Payworks, that has enabled CyberSource to be a provider of omni commerce services to retailers. So in every respect, I mean, the growth of e-commerce is not only vital to us but [ph] very (00:26:35) vital to the growth of e-commerce. Without us, e-commerce would be hard. So, I mean, this is just an acceleration of something that has been happening for years and we think it sticks.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yes. I want to drill in also into the role specifically of tokenization and broader security capabilities of Visa in e-commerce. Our breakfast speaker this morning who is one of – an expert in payments from Glenbrook highlighted that fraud rates – and you probably know the number better than I do, I'm sure – varies a little bit. But fraud rates can run as much as four times higher in e-comm as in-person transactions. So what is the role of tokenization and are you seeing an uptick in tokenization already with this pandemic and how do you see that impacting going forward?

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

A

Right. Look, tokenization is a wonderful technology. We've been at it for many years now. Especially with chips on cards, it became very hard to have fraud on face-to-face transactions, so fraud on face-to-face transactions has

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declined dramatically once there were chips on cards. And yes, so fraudsters had to move to the e-commerce space to do their dirty deeds so to speak, and that's where tokenization plays such a vital role, right? The moment you tokenize a transaction, it becomes very hard to have fraud. In addition, the comfort we provide issuers and merchants allows them to authorize more transactions. So the benefits are quite substantial for the entire ecosystem, and for that reason we've been very focused on just driving the growth of tokens.

So in May, just in May, we announced 28 new global partners for Visa Token Service, so this is growing very, very fast, has been growing for a long time. We just crossed a milestone. As of now, we have over 1 billion tokens issued. It's 100% increase in tokenized transactions we had in 2019. 137 markets have been enabled for tokenization. And what tokenization does is that it adds an element of security in an e-commerce transaction that is very, very hard then for fraud to happen especially as card on file tokens – as cards on file become so important. Especially in times like these, more and more consumers are putting cards on file. Card on file tokenization is a very, very important element of security because now, even if you breach a merchant, the information you can get from their cards on file is worthless. Card lifecycle management, remember the nuisance we all have to deal with where we get a new card in the mail and then you have to figure out okay, which merchants should I change my card at, and Apple sends you messages about where you need to update your card and all that. Well, with tokenization, you can do card lifecycle management. It's built into it where your card is updated automatically and you don't have to worry about it.

So – and then click to pay. As you know, we're taking the friction out of e-commerce transactions with click to pay; that's a tokenized transaction. So in addition to having a frictionless experience, you'll also get a more secure experience. So tokenization has always – then just like contactless, it may seem like a nice little feature, but it's a central element of the growth of our business. We would like to see tokenization proliferate to every e-commerce transaction. That is our goal and we're getting there. We're making very fast progress at this point. People have bought into it and so it's just a matter of time.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yes. When you rolled out the chips in cards, ultimately you and other the members of EMVCo did a liability shift in order to drive adoption. Right now, I know a big difference between CNP, card not present, and card present transactions is the fact that the merchant bears more the liability on a card not present transaction. Would you do something similar? Is that on the horizon, that tokenized transaction where the security is much higher, would you adjust the way the liability rules work or some other operating rules to help drive adoption and drive out fraud from the system?

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

A

Well, as the ones who sort of drive the rules for the network, I mean, we're always looking to figure out how best to run the network on behalf of all our partners, and so we're always evaluating as technologies change what should change. We have nothing new to announce on this front, but rest assured that we keep looking at what's the right way to manage risk in our network, who should bear it, should it shift, etcetera, and if something is warranted in the future, I'm sure we'll look at it. But at this point, there are no plans to change anything.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

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Yes, yes. And the, of course, always investor question on this one. Would you ever outright charge for tokenization or is it just such a core enabler of your business? I mean, you continue to not charge for it like you do today.

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

A

Well, at this point, our view of tokenization has been that we want the maximum possible adoption as fast as we can get it. We would love to get to the point where every e-commerce transaction is tokenized. And we think it's good for the ecosystem; it reduces fraud, it increases authorization rates. And frankly, whether we charge them indirectly or not, if authorization rates go up as a result of this, it's good for us. There's revenue in us in having transactions not be turned down because of there's some concern about fraud. The ecosystem becomes more efficient and better for everybody involved. Fraud going down takes the waste out of the ecosystem. Authorization going up, rates going up means more revenue for merchants, more revenue for issuers and a better experience for consumers. And frankly, when that happens, our network becomes more valuable to every participant, including consumers. And if it's more valuable, then we benefit. So we don't have to charge for specific things for us not to benefit in some way. So if it makes sense to charge for it down the road, we can look at it. But right now, our priority is this is extraordinary value for the ecosystem. We want this everywhere tomorrow, and that's the goal.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. Switching gears over to digital wallets and digital banks. I personally – I think we all might have anticipated the growth of e-commerce and the growth in contactless, but I personally have been surprised by the amount of growth and activity in the digital banking arena that we've seen during the pandemic. This is an area obviously Visa has been very, very heavily invested in with your work with digital wallets around the world as well as the acquisition of Plaid. How do you see the digital banking or neobanking arena being impacted by the pandemic?

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

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Well, wallets is something that we've been saying for a while is a partner of ours. We've always thought of wallets as partners, not as competitors, and maybe some of them started out thinking they would compete with us. But I think over time, we've been able to persuade them that open loop is better than close loop, that partnering with us is good for them along with us. The benefits of partnering with Visa are quite obvious. And most of the major wallets as you know have now realized that, and we have partnerships with the Paytms, the LINEs, the M-PESAs, the Tencents, the Gojeks, and essentially the value proposition is extraordinary. For them embedding a Visa credential in their wallet makes the wallet more valuable to their wallet users because now the wallet can be used at all merchants that accept Visa, not just the merchants that they had signed up for the wallet.

For the merchant, the value is extraordinary because now they get access to the more affluent people who have Visa credentials in these markets. And more importantly, the people who use wallets in many cases were people who didn't have Visa credentials before, were not part of the financial infrastructure. Now, they've come into the financial infrastructure through wallets and now they're enabled with Visa credentials, so it helps us bring more people and financial inclusion in economies by allowing our credentials to be in front of people who are not part of the financial ecosystem. So the – and then there's revenue streams for the wallet, so the benefits are quite extraordinary for everybody involved.

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In addition, many of the larger wallets have realized that having a Visa credential in their wallet allows their wallet owners to use their wallets globally which makes their wallets more useful. So the partnership is very natural and it's very significant, and we're very excited about it because it is a massive expansion in Visa credentials. It allows us to go deeper and deeper in markets and these are great partners to have. So there's no question that digital banking – digital forms of payment through wallets are all going to benefit through this crisis, and we're very well-positioned as you said with the partnerships we already have in place as well as Plaid coming in down the road to continue to drive this.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

And then on Plaid, how has the current environment impacted the timeline and your strategy with Plaid?

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

A

Look, we are – we always thought the proposition of buying Plaid was a powerful one, and that hasn't changed. As you know, like in every other industry segment, digital infrastructures are going to be important in banking and in financial services as they are everywhere else. So the thesis for Plaid, if anything, is stronger today; it was already strong than it was a few months back when we decided to do it. And the thesis is that Plaid has critical mass in the US. It's already in about one in four people with bank accounts. It connects 2,600 fintech developers to 11,000-plus financial institutions. We can help Plaid grow around the world because of our infrastructure that's already in place. We can add payment initiation and value-added services to Plaid and real-time payments. And then, it'll help us grow our business with fintechs who are the primary partners of Plaid. We hope to close the transaction once we have regulatory approvals later this year.

Look, I mean, Plaid's business serves a broad range of fintechs. Some of them may be impacted by the crisis; especially the ones that are in lending perhaps will go through some tough times. Some may be impacted because financing may be harder to come by, although the best business models are still being funded from everything I can see. But this creates – these are times when innovation makes a huge difference as you know. Every company right now is thinking about what do I need to change given what's going on and what may happen after this crisis passes, what may change permanently and how do I position myself for that? So this is going to be a time where innovation is going to be more important than it was even before, so the fintechs that power Plaid I think are going to have lots of opportunities.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yes. Another area of Visa's business that you've been kind of bringing to light I think a little bit more recently are your – is your portfolio of value-added services which is a pretty diverse group to be honest, like they span a lot of different areas. Which value – just I guess, one, maybe just remind everyone how big a piece of your business is that today and also what areas – which areas are you seeing stronger demand through the current environment.

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

A

So it's – we told you at our Investor Day that the revenues from our value-added services is about $3.5 billion and it's growing faster than our core business. You normally see the value-added – we don't have a single line that has all the value-added services. You've got some in the other revenues line and the rest of them in our transactions – data processing line. That's a historical artifact. Changing it is not that easy but we'll do our best to give you as much visibility as we can. Our view of value-added services is that we have a clear idea of the kind of

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value-added services we want to be in. We don't want to be in everything so to speak; we want to be in services where clearly there has to be value to our partners. But setting that aside, there are lots of services you can provide that have value to your partners.

What we really want is to be in services where our scale and scope and the things we have as a result of our core business can create value for our partners, and they are businesses that can be delivered by the fact that we have our partners already connected to us and so the delivery mechanism will be through our existing infrastructure. And it's things we can do for them that they can't do for themselves, and they have characteristics very often that are like our core business where scale matters, the margins are good, the cash flow is good and we're uniquely positioned to deliver them. Those are the ones we really care about.

Falling in that category are a few services that we call platform-like services, and those would be things we've done for a long time like our fraud services. We have then added onto them authentication services through our CardinalCommerce acquisition. There's more to add onto them through identity and security services. So there's a broad range of services around fraud, authentication, security and identity that we can do better than almost anybody else can for our partners, and they're platform-like, they leverage our capabilities and they have extraordinary economics that are compelling for even a business like us.

Moving on, a business like CyberSource. CyberSource is a platform. CyberSource is benefiting a lot from times like these because they enable primarily – I mean, not primarily exclusively e-commerce merchants. They moved to omni-commerce. CyberSource again is a platform business, some extraordinary opportunities there. We're growing very well, the business is expanding internationally, some great partnerships around the world. A platform business with lots of potential over time. Another business we've had for a while that continues to have a lot of potential is our issuer processing on the debit side, big business in the US, lots of opportunity outside the US. And then there's a range of newer services that we're creating that are more around leveraging our data on a variety of dimensions. We bought Verifi that can allow us to provide a range of services around dispute resolution. We have some loyalty services, we have some data-enabled services. But these are all things we're building, some of them organically, some of them with a few small acquisitions. So the criteria are that they should be uniquely things we can do because of who we are, that we're better-positioned than our partners to deliver them and they're platform-like.

Now in addition to them, we layer on a few services that – and I mentioned Visa Analytics Platform; that's a data service. We layer on our Consulting business on top of that. It sort of sits on top of all these services, and it's more of a custom solution, right, so we can provide solutions in a customized way. It's growing very nicely. It leverages all the services to deliver those in a client-specific, problem-specific way. So that's sort of the general framework. And then I would just tell people to read our Investor Day transcript and the presentation because it gave you sort of a framework on how we think about it and how we plan to grow the business over time.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

Yes. All right. Well, I would be remiss if I got to our wrap-up questions without asking about my absolute favorite part of Visa which is Visa Direct. How is Visa Direct faring given everything that is going on? I mean, it had been growing upwards of 80%, 90% year-on-year. How is it faring through the crisis?

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

A

Yeah, and it is my favorite part of the business too. I think this is a business – we talk about Visa Direct, but Visa Direct is a capability, right? It allows us to do a range of use cases. It's not a single thing like credit or debit, and

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that's why you shouldn't think about Visa Direct like it's credit or debit. Visa Direct is a enabler of a broad range of new payment floors that range from P2P to various B2B use cases to various B2C use cases and of course G2C. We told you on the call that it is growing triple digits. It's now growing 70% even through this crisis. P2P has had a big jump. P2P is up almost 100% in the second quarter over last year. Different use cases have been impacted differently. So for example, gig economy payments around Uber and all that are down but then there are other gig economy payments around delivery services that are up. In marketplaces, some retailers have been hurt, some retailers are doing well. Same-day settlements has been hurt because some small merchants have had tough times. G2C we think could be a big opportunity as governments are looking to expand delivery of money to their societies.

The Earthport integration is done. We're very excited about it. We now have a single API connection that allows originators to deliver payments, and fundamentally this allows us to do card-to-card, account-to-account, account-to-card any way you want to mix and match. It's ready and live. Remittance use cases are very big right now. We've done deals with almost all the big remittance companies. Remitly recently launched cross-border in seven countries. MoneyGram is in 11 additional countries. The KB Kookmin card, leading in South Korea, also initiated a cross-border program. Cross-border remittances are going to be a very big part of the business. So we're very excited about the Earthport acquisition. It was a huge enabler for us. I''s going very well in terms of getting it ready to essentially be completely integrated with the rest of Visa to do what we said, be the network of networks.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

All right. Very exciting. I will – I'll transition to our wrap-up as we're running out of time. Looking ahead, what is the biggest challenge in your view? I mean, we're in a very difficult, unprecedented timeframe right now. What – as you're navigating through this, what's the most difficult challenges that Visa is facing?

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

A

Well, I think that clearly, I mean, a large part of the global economy is depending on us in many ways, and so we're working very closely with governments. We have to make sure our network is up and running at all times, and, touch wood, we've had no issues whatsoever. It would be not acceptable for us not to be up at a time like this. So we – I would say that we're very, very focused on ensuring that all our constituencies are getting the help they need right now from us. Often, their requirements are out of the ordinary because these are extraordinary times, and we're doing everything we can to adapt and help them, whether it's governments, whether it's merchants, whether it's issuers. And most of all, we're ensuring that we don't let anybody down.

But I would describe the internal mindset as very much let's not waste a crisis. This is a time of opportunity. The first thing we did was to protect our downside. We made sure we had plenty of liquidity, we made sure our balance sheet was very strong, we made sure that our systems were running without any issues, and we took a lot of actions to ensure all that. And now we're very focused on things are going to change and how do we make sure that we come out of this a lot stronger than we were going into it, and that is really the focus.

Lisa D. Ellis
Analyst, MoffettNathanson LLC

Q

And last point. I mean, it's a dark time frankly, probably the darkest many people have lived through right now. What's – what gives you optimism about the future with Visa? Like, what are you seeing? I mean, you guys have such a lens, like a finger on the pulse of what's going on globally. What gives you optimism that we will come out of this?

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Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. I agree with you, Lisa. This is a tragic time. It's a tragic time for people who've been impacted health-wise. It's a tragic time for people who've been impacted economically, and we see some of what's going on in the US right now. Look, from our standpoint, we know we have a big role to play. This crisis has demonstrated that those countries and those economies that had moved to a digital infrastructure were able to deal with these kinds of situations much better than others. There's a strong sentiment, and always been part of our culture, that we're here to make the world a better place, and we do have a big role to play in all that is going on. So we're trying to do our bit. We're certainly trying to do our bit to make sure that the global economy is helped by everything we can do. We're doing what we can for our communities. We are in a business where our goal is to promote the growth of, let's call it, digitization, and it's become very apparent that that is a vital national and global priority, and that's what gives us optimism that we do have a big role to play in what lies ahead.

Lisa D. Ellis

Analyst, MoffettNathanson LLC

Excellent. Wonderful. Well with that, I think we'll wrap it up. Vasant, thank you. Fantastic to have you as always and hear from you, and thanks again for all of the insights and incremental data points and stuff you gave us today. All right. Thanks for joining us.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Thank you, Lisa, and thanks everyone for joining us. Bye.

Lisa D. Ellis

Analyst, MoffettNathanson LLC

Thank you. Bye.

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