02-Jun-2021

Visa, Inc. (V)

Bernstein Strategic Decisions Conference

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MANAGEMENT DISCUSSION SECTION

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Good afternoon, everyone. Thanks for joining us today for our 37th Annual Strategic Decisions Conference. I'm Harshita Rawat, the senior analyst covering US payments at Bernstein. I'm delighted to be joined today by Vasant Prabhu, the CFO of Visa.

A quick housekeeping item for people viewing this webcast. Investors are able to submit questions through the Pigeonhole link on the left hand side of your viewing screen.

And with that, let's begin. Vasant, thank you very much for joining us today.

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

Great to be here, Harshita. Thanks for having me.

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QUESTION AND ANSWER SECTION

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Fantastic. And Vasant, you put out an 8-K last night with a lot of good data around some of the improving spending trends you're seeing both in domestic as well as cross-border spend. To kick things off for the audience, can you talk about some of the overarching spending trends around consumer travel behavior that you're seeing today?

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

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Sure. So the 8-K is out and it's in keeping with what we've been doing for the last several quarters since the pandemic started. We've been putting out an 8-K in the middle of the quarter to give people a sense of how trends are moving along since things are changing fast.

You might remember, when we did our second quarter call, we provided a lot of color on what was going on with the business. And so it's perhaps useful to just compare how may be it relative to the second quarter in April.

If you look at the 8-K we put out, normally, what we provide is US trends and then we also talk about cross-border and processed transactions. And I can give you some color on what's happening outside the US.

In the US, what you saw in May was that PV growth stayed very strong. It was at 132% of 2019. Now just to remind you, we're comparing to 2019 because growth rates, as you compare to last year now, are not as meaningful because they're comparing to some big declines last year. Obviously, the growth rate relative to 2020 was a lot higher. 2019 is a good baseline year.

And what's good about the 132% is that, it's up a point from April. And the reason that is important is that we had seen the impact of the stimulus in March and April and there was a belief that perhaps we would start to see some slowdown, but we didn't see that. So, American consumers continue to spend at a very healthy clip in May. In fact, debit was almost exactly at the same level relative to 2019 as April. It grew at about 151%, which means our debit business relative to 2019 is up over 50% [ph] pre-pandemic. (00:02:56)

The other piece of, I think, good news in the May results, is the continued recovery of credit. Credit improved its trajectory in May relative to April by almost 4 points. So credit now is indexing at about 114% to 2019. So in a way, it's almost back to the pre-COVID trajectory, not quite there, but very close.

And what we're seeing in credit is improvements in travel, restaurant and entertainment, which means that people are starting to get out and about, at least in domestic spending. In the case of debit, the strength is people are buying goods and services. The strength was in retail, in department stores, in apparel and home improvement. So, clearly, the American consumer is spending, and that spend trend has not been affected with any wear out from the stimulus payments.

The other couple of pieces to point out is on the travel front, so May spend was about 10 points above 2019 levels. Excluding travel, in all the other categories, spend was about 10 points above 2019 levels, and travel was approaching 2019 levels, although slightly below. So it's getting close. In fact, travel has improved steadily from

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January, almost a 30 point improvement. And in fact, [ph] as we got through (00:04:23) the end of May, domestic travel at least was approaching 2019 levels. So we are starting to see that travel is beginning to normalize.

And as a reminder, a lot of our travel is consumer travel, not business travel. And then, as far as the US goes, one last point, card-present spending improved by 4 points relative to April. Again, it tells you people are up and about and shopping in stores, and card-not-present, excluding travel, is very, very strong still. It's still at about 159% of 2019 levels.

So what you're seeing is that even as people are up and about and going into stores, and card-present is recovering, card-not-present is still almost 60% above 2019 levels. So you're starting to see that card-not-present is not slowing down even as card-present recovers to, let's say, almost pre-pandemic levels.

If you go around the world, Asia is a mixed bag. Asia remains an area where COVID controls are still pretty prevalent. And you've seen the latest news. People are worried about variants in Asia. Certainly, India, the situation worsened a lot in May, but it's showing some signs of stabilizing. Singapore and Japan put in some new restrictions. We saw their volumes decrease versus April. On the other hand, Europe saw a big improvement. You know that Europe had put in some restrictions in the first calendar quarter because of COVID spikes. As they reopened, we have seen some nice improvement in Europe. Many key markets have improved almost 10 points versus April.

Processed transactions, again, mirroring the trends in payments volumes. Globally, processed transactions are indexing at 121% to 2019 right now, up 4 points from April. Europe has improved a lot in May. LAC and CEMEA, which are already very strong, have continued to stay strong. And Asia-Pacific is sort of the same as it was in April.

Moving to the crucial cross-border business, which everybody is watching, you can see in what we release that we're about 85% to 2019 levels. So that's a 6-point improvement from April, which is quite substantial. Travel spending improved 5 points, so now travel is indexing at about 45% to 2019. So it's still severely depressed. It's less than – more than half below that it was in 2019, but it is recovering. And the recovery is interesting because it depends on where the corridors are open. So, for example, travel from North America almost anywhere in the world is very strong, almost back to 2019 levels. In fact, it passed 2019 levels in May. Travel into Latin America is another bright spot. Again, it's above 2019 levels right now.

Just to give you an idea of how certain corridors benefit, US to Mexico is now 70% of our 2019 levels. So it tells you that people want to travel, and where the corridors are open, they're seeing some hefty, hefty increases. Asia Pacific is the area where travel cross-border is still not strong. Europe is improving a lot. In fact, all the indications are that popular tourist destinations in Southern Europe will be open for the summer and bookings are trending well. The fact that Europe will be open to vaccinated visitors from the US is a good trend.

For example, in Greece, once Greece reopened in mid-April, in the six weeks after that, cross-border spending has doubled and is accelerating every week. And we give you these data points because these are just the corridors opening up. Iceland opened its border in mid-April and volume is up almost 4x in the last week of May, and improving almost every week.

There are bubbles opening up like Australia and New Zealand, for example. Cross-border card-present spending from each country had more than doubled from pre-bubble levels and has remained that through May, it's almost back to 2019 levels.

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So there's a lot of bright spots around the world. And of course, the final bright spot is cross-border e-commerce. Cross-border e-commerce is indexing at 162% to 2019 in the 8-K we just released. Now a lot of it is cryptocurrency purchases. Many of them tend to be cross-border. That's clearly helping, and that could go away over time.

So net-net, you are starting to see a good recovery in many parts of the business and certainly a sequential improvement from April. So hopefully, that was a fairly long answer to the question you had, but wanted to give you the best sense of where things are right now.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

That's very helpful, Vasant. Thank you. And I can personally attest to the pent-up demand in cross-border travel. Now, Vasant, [ph] I want to (00:09:33) talk about, back in February of 2020, you hosted Visa's Investor Day in-person in San Francisco, and you discussed this addressable market expansion into new flows and value-added services and how that can accelerate Visa's long-term earnings growth algorithm over time.

Fast forward to today, given what you're seeing in the market with respect to Visa Direct, B2B Connect, and your evolving partnerships, how do you feel about the long-term opportunity of new flows versus a year and a half ago?

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

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Yeah, for sure, we feel a lot better about what the opportunity there is, and a lot of it has been validated in the last year. So if we just stick to new flows now, we sort of talked about the new flow business in two major buckets. We talked about the kinds of new flows we're enabling with our Visa Direct capability. And I want to emphasize that Visa Direct is not a product. It's a capability. It's a platform. It enables a whole range of use cases in P2P, in B2C, and G2C, and of course, B2b or b2b. So I'll talk about Visa Direct first and then we can talk about B2B, too.

We said that at least $65 trillion in opportunity existed in use cases that can be supported by our Visa Direct platform. And just to tell you a little bit about it, just to make sure people understand, the Visa Direct is a platform that is built on our existing platform that has more functionality than the traditional enablement of credit and debit payments to merchants. What we bring to the Visa Direct platform is our reach, which is unmatched, 5 billion endpoints points globally, our scale, our Network of Networks strategy that is really at the core of Visa Direct.

So for example, in 2020, Visa Direct utilized 16 card-based networks, 65 ACH schemes, 7 RTP networks and 5 payment gateways to move money around the world. And then, in addition to that, we've invested in a whole range of services that add to security, dispute resolution, et cetera. So what Visa Direct has been able to do, of course, is by the end of last year, it got to 3.5 billion transactions, and was growing 60% a year with no signs of slowing down through the pandemic. And there are some huge use cases that we're very excited about. Of course, early days, the big use case was B2B. And as you know, Visa Direct is at the heart of most of the big [ph] P2P (00:12:21) platforms everywhere in the world. We are very, very excited about what's going on with cross-border remittances. We have partnered with almost all the major players. And what we can provide them is a solution that is far more flexible than the ways they were doing it, more secure, more reliable, more real-time, and also cheaper, which is why they're extremely excited about it, and every one of them have signed up with us. They're very excited about Visa Direct payouts, which is enabled through Earthport that adds to the capability where we can send money not only to debit accounts – to debit credentials but also to bank accounts.

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In addition to that, earned wage access is another huge area we're excited about that can revolutionize the payroll business. Insurance disbursement's another big area. We've talked in the past about all the things that we are doing in terms of enabling the payments that merchants get in managing their cash flows. So the Visa Direct business continues to be – what we've seen from the pandemic is that the Visa Direct business continued to lose no momentum whatsoever and has grown at these extraordinary clips, even as the base grows larger and larger. So we feel very good about our ability to capture that TAM, as we said.

If you look at B2B, as in large business B2B, as we've said before, we think about it in three buckets. There's the traditional B2B business that we've always been in. We're the largest player and we are twice as big as the next player. That's going extremely well. Clearly, it was impacted by the pandemic. It's recovering. The yields there are great. We have – the virtual cloud opportunity there is where there's huge amount of potential. We've continued to build on that.

On top of that, we see an exciting opportunity in cross-border B2B, through B2B Connect. B2B Connect is now really taking off. We've got a lot of banks on. Goldman Sachs in their banking business is going to be a user of B2B Connect. B2B Connect is where Visa Direct was two or three years ago. And hopefully, in two or three years, we will be talking about B2B Connect as an extraordinary growth business. What we like about it is it solves the problem that a lot of large businesses have, which is how to get money cross-border faster, more reliably, more securely and with more certainty around exchange rates and so on. So we're very excited about that.

And then finally in the large AR and AP space, that's where, I mean, clearly, there's a lot of experimentation. There's a lot we're doing. There are a variety partners we're working with. That will take some time to develop, but we are making good progress. We've done a lot of things with companies like Billtrust and their business payments networks, and there's more to come on that front.

So we remain of the view that the new flows business is a extraordinary opportunity for us, part of why we think there's a 10x growth opportunity ahead of us, as we said at our Investor Day last year.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Vasant, this is very helpful. And as they, clearly, did represent significant opportunity in terms of volumes, how should we think about the revenue opportunity? In other words, how should we think about the yields on these new flows?

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

A

So, first of all, I think it's important to point out from an investor standpoint, right, thinking about the investable proposition that is Visa, what you care more about is revenues and the flow-through of those revenues to profits. So if you look at these new flow businesses, the revenues are all incremental. And that's very important, right. These are all revenues that we were not – we were not really serving these businesses before. As you know, we built our business for 60 years or more on enabling one kind of payment, which is businesses – consumers paying businesses C2B. This is now enabling the whole bunch of use cases that we did not serve before.

So the first point that's relevant to investors is incremental revenue. The second is that these are all very high-margin businesses because the economics of these businesses from a margin standpoint are not different than our core business. This is a scale-driven business. These new flow businesses have the same flow-through from revenues to profits as we would have in our core business.

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As it relates to yield, yield is a concept that was used in debit and credit because those were a bunch of transactions that all look the same, right. So, used a term called yield where you divided the volume – the revenue by the volume. These are all different use cases, right. And yield is not necessarily always the best way to look at them, because in the end, I mean, what goes to the bank is the revenue and the margin you get on that revenue. There are parts of this business that if you measure them in the traditional way, have yields that are comparable to our core business, but there are parts of this business that work really differently. So these new businesses are many different use cases, where the pricing is dependent on the alternatives they have available.

So for example, when you talk about B2B Connect, we're talking about very high ticket transactions, right. We're talking about millions of dollars, tens of millions of dollars. The pricing proposition there is $1 per transaction. And it's a very profitable transaction, but the yield is not the same as you would expect in high-volume, low-ticket transactions.

If you look at Visa Direct, you've got the whole spectrum. You've got a lot of high-volume, low-ticket transactions, some of which are cross-border that come with very good yields, some of which are like P2P, which is not the same yield as you would expect on a traditional merchant transaction. So the yields in the traditional definition of the term vary a lot. Net-net, we like the yields. It's early days. The yields reflect the mix of business. The mix of business is improving as we go into a higher and higher value use cases, and especially cross-border use cases. Net-net, it's a very profitable business. And it's a business where the revenue's incremental and the flow-through of the revenue is very high and very comparable to our core business.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Vasant, you talked about Visa Direct. And I think another sort of aspect of the strategy you talked about it back at the Investor Day is Visa's Network of Networks strategy. We are seeing more of your peers going after this [ph] new thing, growth (00:19:20) opportunity. MasterCard has its multi-rail strategy. FIS recently unveiled its RealNet, which they also call – now call Network of Networks. Can you talk about the competitive differentiation for Visa in your Network of Network strategy when you combine Visa Direct and the Visa Net and payments of the Earthport capabilities?

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

A

Yeah. Look, at the heart of value created by something like Visa as an enterprise is the network, right. That is who we are. We are a network. And the value of network and what makes one network better than other networks is the scale and scope of the network, right, the endpoints and the reach of the network. Other dimensions that differentiate is the ease with which you can access the network.

Another point that differentiates networks is the capabilities the network can provide, the functionality the network can provide. Beyond that, clearly, other things that matter are security, reliability, certainty, et cetera. I think on all these dimensions, as you know, our network is unmatched, right. It is one of the networks that can side by side shown to be better than alternatives. And then, you layer on top of that the brand. The brand is extremely important. We're talking here about money, and it's all about trust. And there's a level of trust with Visa with about 60-year history in doing all this and doing it securely, reliably and in a very easy way that people trust us to move money.

So Network of Networks strategy really emanates from – our goal is to move money to all endpoints and to all form factors. We use all available networks and have a single point of connection. So you want to send your money anywhere, we'll get it there. It's not your problem as to how we get it there. Part of it may be on our rails,

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part may not be on rails we might own. But a very critical element of the service we provide is settlement, often not talked about. It's liquidity and guaranteed payments through settlement.

And then, very critically, a network can be dumb. We bring the intelligence to the network through our value added services. So our fraud capabilities are unmatched. Our dispute resolution capabilities are very unique. We have a whole range of security capabilities that are very unique. So that's really what creates the differentiation. And then, there's the whole issue beyond scale, scope and all those things of who's there first, who's enabling what first, and who's able to really get the network effects going first in new use cases. And as you can see, we moved very fast on a whole range of these new use cases. We have partners of what makes this business really tick. We have an extraordinary range of partners in all these new use cases.

In addition to that, we've made acquisitions to expand our capabilities like Bell ID tokenization to tokenize any kind of transaction, not just the transaction on our rails. Verifi that provides dispute resolution capabilities on any rails, not just our rails. Cardinal that provides authentication capabilities. We also offer a range of loyalty, security and analytics services. So that's really what brings the Network of Networks strategy to life. And the most important thing is that it's not a vision. It's reality.

As I told you a few minutes ago, in 2020, we actually moved money through Visa Direct on 16 card-based networks, 65 ACH schemes, seven RTP networks and five payment gateways. So being there first is also important. And I would argue that, not only are we there first we're well ahead of a lot of other people when it comes to both our capabilities, our partners and the quality with which we can execute all this right now.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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Those are some very impressive stats on Visa Direct, Vasant. I want to switch gears a little bit and talk about the disruption happening in payments. The question we get very often is that the world of payments has transformed significantly over the past year with this rapid growth of buy now, pay later, crypto, digital wallets, disruptive fintechs. And investors often ask is, is Visa's competitive nodes still intact? So how do you think about Visa's evolving competitive positioning in this fast-evolving payments world?

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

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Well, we've always thought of ourselves as the enabler of the disruptors. We are the ones who are probably the ones that are most able to allow disruptors to scale, right. So when – there's a lot of innovation going on at the nodes of our network, and we are the ones who are enabling a lot of that innovation. And sometimes that's confused by people as to, is the network being disrupted or are – is there innovation of the nodes that the network is enabling. And we believe for many, many years that our job is to enable innovation. Our job is to enable any which way people want to move money. And that is really where all the innovation is and that is what we've been enabling.

So whether it's buy now, pay later, crypto, digital wallets, et cetera, those are all disruptions around nodes. They're disrupting people who are at our nodes. Years ago, people used to think Square was, in some ways, a competitor. We always thought of Square as one of our best partners because they were bringing massive increases in acceptance, for example. I would say the same for Stripe, who are bringing – making it so much easier for people to do business online.

Several years ago when digital wallets came around, people thought, well, the digital wallets are a disruptor. And we told people, no, we see them as partners. And for a long time, digital wallets may have thought of themselves

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as competing with us, but over time, they realized that partnering with us created enormous value for them. And we now have partnerships will all the big wallet players around the world. What we do for them is, by putting our credentials in every wallet, it opens up significant more – significantly more value for them so that the wallet owners can now use their wallets at every point of acceptance Visa's excepted at, and they become effectively issuers of our credentials, so the wallets have a revenue stream. And by opening up their acceptance networks through Visa, they made their wallets more valuable to affluent Visa cardholders, because now, these merchants can get access to people who carry Visa credentials, who they want access to. So the wallets have realized how valuable it is for them to partner with us. And frankly, they then become acquirers and there's an acquiring revenue stream for them.

So I think, for example, the wallets today, I would say every one of them and we have partnership with everyone from ATM to LINE Pay, to Rappi, to you name it, Square Cash, et cetera, but we are very much an important partner that has helped them scale.

If you take buy now, pay later, I mean, there's always going to be new ways in which people pay for things. We enable them when credit came along. Buy now, pay later is a new way of doing this. We are enabling it. We see that as another way people want to buy things. Our job is to not pick winners and losers. Will buy now, pay later be a big business? Time will tell. It is not today. There's a lot of hype around it. But when you really look at dollars, it's not a big business today yet. It could well be a big business. We've partnered with all of them. We were early investors in people like Klarna and PAYD and so on. We've partnered with all the other major players. There's clear value in it for us. We could get transactions through buy now, pay later we could not otherwise get. Some transactions that have been – that could have been single transactions now become multiple transactions. In addition to that, we can help the providers of BNPL services with virtual cards to settle with merchants, for example. So there's a lot of revenue opportunities for us in buy now, pay later. We see that as us enabling another way to pay. Where it goes remains to be seen, but we are more than happy to help anyone in this space.

As it relates to crypto, we're very excited about it. We've been very pioneering in all the partnerships. We have 30 or 35 partnerships already with all the major players. We enable movement of money from fiat to crypto, crypto to fiat as well as enabling crypto to be used at Visa merchants where they will accept crypto. We've done a lot to offer a set of APIs so that traditional players can develop crypto offerings for their clients. There's just a lot we're doing on that front. And again, our goal is to enable any way people want to pay or be paid. And if crypto is the way they want to do it, we'll do it.

So I think what I would tell you is, think of us as the enabler of the disruptors. Think of us as the ones who can help disruptors scale. Think of us as the network that disruptors need to do what they're trying to do. And as long as we can do that, then they don't need anybody else.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And Vasant, and this is, in fact, one of the top questions that came in through in Pigeonhole as well, which is, over the last two years, many central banks around the world have announced their plans to issue Central Bank Digital Currency, somewhat related to the point you're making in crypto. And I know we've talked about government nationalism and domestic schemes in the past. But CBDC [ph] on surface (00:30:12) sound like a more formidable risk in the form of modernization of financial infrastructure within a country. I know it's very early days, but how should we think about CBDC and their implications for Visa? Is it a risk or an opportunity?

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

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Well, I mean, we see CBDCs as an opportunity. Once again, our job is to enable all new ways that people come up to pay or be paid. We are very closely involved with central banks around the world as we think about CBDCs. As you know, I mean, you've got the cryptocurrencies. They seem more to be speculative instruments at this point. They are too volatile. They are too slow. And so they're not useful today as a medium of exchange.

Stablecoins certainly are more promising. Stablecoins, of course, are the private sector version of CBDCs. In certain parts of the world, you're starting to see Stablecoins. Stablecoins, we are very interested in. We're working with a lot of players on Stablecoins. Stablecoins is definitely something that could be a way to use a digital crypto vehicle to do payments. And then CBDCs would be the government version of Stablecoins, where effectively, as you know, central banks would provide a blockchain-based version of that fiat currency.

We've seen a lot of opportunities there for us to help the central banks. Certainly, our network is of value to them because you really have – you have a range of different CBDCs and you need someone to connect a variety of networks. In addition to that, open-loop networks are always better than closed-loop networks. So we are working with the banks to figure out how we can help them scale CBDCs faster using our capabilities.

Time will tell how this evolves. It remains to be seen sort of whether CBDCs evolve in some of kind of a organized way or there's going to be a lot of different ways in which people do CBDCs. We look at CBDCs as no different than the way we would look at one of the currencies that we have, that we accept payment on in our network. If there are CBDCs around that that are growing to the point where we should consider them like a legitimate currency we have in our network, we will do that.

So once again, our approach here is we will enable everything. And our job is to figure out how CBDCs can play a role in moving money. And if it play a role, our network is available at the best available rails to do that.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And Vasant, taking a step back, we talked about earlier a number of growth opportunities ahead of you in terms of the expansion to new flows and the almost like exploding use cases of Visa Direct. So as the opportunity set grows, does it mean that you'll have to reinvest more as an investing framework now? And this is also a question that came in through from investors. Should we think about more top line growth and less margin expansion for you going forward from here?

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

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Yeah. So let's take sort of the two lines. So the way we think about it is, as an investor in Visa, the value of this enterprise, I'm sure your investors would agree, is our ability to continue to find new ways to digitize cash and to tap into more avenues to move money, more use cases to move money. In other words, to build our volume as fast as we can, and the growth of our volumes that – which is then translated into revenue is the single largest source of value creation that we can come up with. And that's what we're really focused on. Obviously, growing volumes, growing revenues is job one, and doing that by not only expanding our business through new flows and value-added services but even in our core payments business.

As I said earlier, I mean, if you look at what's going on, even through the pandemic, our value-added services business and our new flows businesses, especially Visa Direct, grew much faster than our core business. So as those businesses become larger, clearly, that is good for us. It would mean that our growth rate has the ability to step up. Even in our core payments business, there are some interesting things going on that clearly are very positive trends. I'll highlight a couple.

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You've seen that our debit business today is 50% larger in the US than it was 2 years ago, which is an extraordinary amount of [ph] – sorry, call coming through, (00:35:17) an extraordinary amount of growth. Why is that? It's because the approach to cash digitization has just been ramping. As you know, through the pandemic, there's just been a move away from cash and it's been a whole year, so habits are forming. So, clearly, there's some reason to believe that cash digitization has accelerated and that is going to sustain most of the pandemic.

The other thing we've seen is that e-commerce is being adopted in a very big way. Merchants are getting better at it. More merchants are doing it. Everybody has realized that being good at e-commerce is very important for them, and that has become a new engine for growth that is accelerating, as evidenced by the extraordinary growth we've seen in our e-commerce business.

And then, on the cross-border side, we saw this extraordinary shift from travel to cross-border e-commerce. Now, travel will recover, which will give us some nice recovery in the next few years. But cross-border e-commerce has been an extraordinary growth engine and we're seeing some real trends there that could sustain. So there are lots of reasons to believe that that are accelerators in our business. We are clearly going to step-up our level of investment. We see huge opportunities in our core business. We see huge opportunities in value-added services and also in new flows. That requires investment in our network to build capabilities. It requires investment in our product teams as we build new products and add more partnerships. It requires investment in various countries in the world where certain use cases are going to grow. It requires investment in the B2B business to build a larger business there. We need investment to expand the suite of our value-added services.

So, clearly, there's – what you wouldn't want us to do is to under invest in a business like this, as long as the revenue growth supports the investment. We've never really had a margin objective. We always said margins are outcomes. They're not objectives. We will invest what it takes to grow our revenue. Historically, our revenue has grown faster than our expenses because of the scale in this business. Certainly, we hope that'll continue. But our goal would be to invest what it takes to drive growth and step-up our growth rates, given all the opportunities available.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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Makes sense. And Vasant, continuing on that conversation on reinvestment, another question I often get from investors is your ability to do M&A to continue to drive growth. And how important do you think M&A is for your future growth strategy? And also, just a related question, do you think it will be harder to do future M&A, given some of the challenges you've faced with the Plaid deal?

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

A

Yeah. I mean, as it relates to Plaid, it was a single lawsuit from a single regulator about a specific M&A transaction. And at least the suggestion was that Plaid was allegedly uniquely positioned to introduce a debit service competitive to Visa. We strongly disagreed with this point of view. And we don't think it's relevant to other potential acquisitions.

M&A for us is an enabler. There's enormous organic growth in this business. We don't need M&A just to grow our business. In fact, you wouldn't want us to do M&A and just to grow revenues because there's just extraordinary growth in the core business. Having said that, M&A will be an important part of our growth, mostly in terms of adding capabilities. Acquisitions like Earthport added extraordinary capability and allowed us to launch our Visa Payout service, which we are very excited about. Acquisitions like Verifi allowed us to substantially expand our

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dispute resolution capabilities. Acquisitions like Cardinal allowed us to substantially expand our authentication capabilities. Acquisitions like Bell ID expanded our tokenization capabilities and so on.

So we will continue to do acquisitions, which can expand our capabilities. We believe we will be able to do them. We will do them. But the only [indiscernible] (00:39:42) context of, is it better to build it or to buy, is it faster and cheaper to buy rather than build, and where it makes sense to buy, we will buy. It's – the organic growth of the business is still extraordinary. M&A will hopefully be an enabler and an accelerator. We don't need M&A just to drive the revenue growth of the business, as you will.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Vasant, I want to make sure that I layer in some of the questions from the audience [ph] – more of the questions from the audience at a large, (00:40:13) and explain what transaction-level data Visa has access to. And to what extent you want to or you are able to monetize the transaction-level data moving forward as some of your peers are looking at this as well?

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

A

Yeah. I mean, we'll always look at ways to use our data. I mean, most obviously, we've been using our data for a long time to help all the participants in our network to reduce fraud. We are using our data more and more to help things like authentication and ensuring that we increase the security of the network. We have used our data to help our partners grow their businesses. Certainly, there are things we have to do to ensure that privacy rules and all the various rules we have to follow from a regulatory standpoint are followed. The data business continues to be, I think, an exciting growth opportunity in the future. Our Visa Analytics platform, which uses a lot of our data, is extremely valuable. You've seen some significant increase in take-up of the Visa Analytics platform around the world by clients. They use the Visa Analytics platform to find ways to grow their own businesses. We are also looking at various solutions that continue to be available to merchants in our network to fine-tune their businesses. So, yes, data will play an important role.

Typically, we have to anonymize our data. Typically, there are certain things that we won't do to ensure that we use the data in compliance with all of the privacy and regulatory requirements. But there's no question that the data we have is an important component of what makes our network more valuable all the people who participate in our network.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Vasant, another question that came in about cross-border transaction deals. And I know you touched a little bit about revenue versus volume and yields dynamic earlier. But the question here is, how do you think about the long-term trajectory of cross-border transaction deals. Are there – going forward, should we expect more volumes as you're expanding into new flows, or on the other hand, are competitive pressures increasing on these payment flows?

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

A

Well, I think, first of all, cross-border has various dimensions to it and there are different kinds of cross-border businesses. Clearly, we are in more cross-border businesses today than we were before, as you said. Through Visa Direct, through B2B connect, we are accessing more cross-border flows than we did before. So that's a great

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positive trend and it's all incremental. Whether we're doing remittances through Visa Direct or whether we're doing large enterprise payments cross-border through B2B connect, that's all incremental.

Coming back to our core business, look, we provide a very valuable service. The service is very hard to find elsewhere. It's very hard to find an alternative and get your money in as many currencies as we can to as many places as we can, and do it in real-time, to do it with certainty, to do it with security, to do it with reliability. As long as we keep our value high, right, it's all about value. There can be alternatives that can provide cross-border services on paper. The question is can they provide the same value? Can they do it with all the dimensions we offer? The scale we offer, the scope we offer, the certainty we offer, the security we offer, the dispute resolution we offer, and I can go on and on. So the goal would be to make your service the most valuable. And we've been able to do that so far. And as long as we can, I believe we can sustain our yields.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Fantastic. Vasant, we talked about a number of growth opportunities that Visa is bringing to life. Over the past 14 months or so, we've been in a market we are the most high growth and perceived to be more innovative companies, have been rewarded handsomely in terms of stock price appreciation. What do you think investors don't appreciate? And I think we touched on a lot of these things already. But, holistically, what do you think investors don't appreciate with regards to what Visa is doing in terms of leading the digitization of new flows, being innovative in the market and then driving growth from here?

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

A

Well, I mean, what I would point to is that, first of all, these things go on cycles. And I've seen another one of these cycles, many years ago, when a shiny new object which is hard to value is valued at extraordinary levels precisely because it's hard to value. So these things go on cycles and I'm not – that's not my job. That's the job of the investors to figure out what the true value of an enterprise is.

As it relates to Visa, I think what people need to understand is that all these enterprises that are commanding these extraordinary valuations, almost every one of them, if you call them fintechs, needs us to scale. And these growth rates that you're seeing with them almost always are on our network. So in a way, I mean, you're getting that growth when buy Visa. Not only are you getting that growth, you're also getting the diversification, because our job is to enable everything. We don't pick winners and losers. We will enable all new ways to pay and be paid. Some of them are going to work, some of them are not.

When you invest in Visa, you're effectively investing in all those enterprises, but you're also getting a diversified portfolio because you're investing in them all and some of them will work and some won't, and you will get the whole portfolio value of investing in them.

So if you look at every one of these highly-valued enterprises and you look at where the growth is coming from, you'll find that 90% of them, the growth is on our realms, or on our Network of Networks capabilities. So that's what you're really getting when you buy into Visa.

Now, of course, if you are a tiny little business with $1 million of revenue, growing from $1 million to $2 million is a doubling. When you are a $23 billion enterprise, certainly, you have to go from $23 billion to $46 billion to double. So, clearly, there can't be -there are those dimensions, too, as you start to value our business.

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But I think the thought I would leave your – the people on the call with is that we are the enablers of the disruptors and we are the ones who are getting the benefits of the growth they're seeing, and we are the ones who are enabling all of them, and over time, some will win and some will lose, but the winners will be on our network.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

Fantastic, Vasant. Lots of exciting opportunities ahead. Unfortunately, I think that's about all the time we have. I really enjoyed our conversation today. Vasant, thank you so much for joining us, and thank you everyone for listening in.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Thank you, Harshita. Bye-bye.

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