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Visa, Inc. (V)

J.P. Morgan Global, Technology, Media, and Communications Conference

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Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

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Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

All right. Thanks, everyone, for joining. Back again, my name is Tien-Tsin Huang. I cover payments and the processors and IT services at JPMorgan. And I'm so thankful to have Al Kelly, CEO at Visa, back with us again. I know he's super busy. He just came back from the Payments Forum in Chicago, which I know is a big event for a lot of the players in the ecosystem. So, I thought maybe I'd start with that if that's okay. I'll just have you give us a quick sort of rundown on why you host that and what were some of the big themes. I'm assuming it's fresh in your ahead because you're just coming back from that. And thanks again for joining us.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

Thank you. Great to be with you. Great to be with everybody. Thank you. So, we've been doing this for a number of years and we kind of move it around the United States, we were in Chicago, still ongoing in Chicago. We have about 2,100 clients from Canada all the way down through Chile in South America. And these are the people who work with us on a day in and day out basis. So, it's not the C-level people, it's the people who are on the working level.

And we'll have certain – we may have – I think the biggest was one partner, has about 21 or 22 people there. In some cases, it's a single person from an organization. And our intention is twofold. One, it's to try to be a bit thought-provoking, tell people what's happening from our eyes in the industry and give them certain things to be thinking about. In fact, in my plenary opening speech, I actually closed with about a dozen questions that if I was in their shoes I'd be considering and thinking about.

The other thing is education. We're very similar to this. We'll have – yesterday afternoon and this afternoon, we'll have five or six concurrent sessions going on, which is why a lot of companies send at least half a dozen people so they can cover them all. And there'll be a broad range of subjects. There could be a session on B2B, there could be a session on Visa Direct, there could be a session on CyberSource, there could be a session on branding, a session on our value-added services of different types.

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So our objective is coming out of this that people, A, are leaving with some things they ought to be thinking about on a day in and day out basis as they proceed through the rest of their year. And then, secondly, hopefully, we've encouraged them and gotten them smart – encouraged them to use some of our capabilities or gotten them smarter about what we have.

And I'm actually will head for Dublin on Sunday and we'll do a very similar thing. We just started, for the first time, since we just bought Visa Europe, we started – we called it Visa Futures last year. We've rebranded it, so it's Visa Payment Forum again for Europe, and we'll have about 700 or so clients in Dublin on Monday, Tuesday, Wednesday of next week, and we'll do – it's not exactly the same because Europe is different, but we'll – similar kind of thing.

QUESTION AND ANSWER SECTION

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

All right. Good. So maybe we'll touch on some of the themes I'm sure you guys went over there. But just to get it out the way, I figured I'd ask. A lot of people were asking me to ask you. So the quarter you just reported, the volumes did slow as expected, but you're still guiding for revenue to accelerate through the balance of the year, exiting fourth quarter, back in double digits. So what's driving this confidence out, and what macro conditions are required to do it?

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

So I think when we look at the first half of the year, particularly the second quarter, there were a number of factors that influenced our volumes. First, the United States, we had these odd phenomena of less processing days.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Secondly, gas prices were pretty low in the second quarter. We saw a – we continue to see a less-than-ideal situation in the UK in terms of their economy. And the UK is very, very important to us.

We had an odd Easter phenomena. We probably had the widest spread you could have at Easter. So Easter in 2018 fell on April 1, and Easter in 2019 fell on April 21. So Easter volume and the kind of people being off, et cetera, tended to happen in our fiscal second quarter, the first quarter of the calendar year. And you probably would expect that – I'm not going to talk about post March 30, but the volume would fall in there. And then we've got less – continued to run off on dual-branded cards in China although that doesn't impact revenue very much.

If I look at those things, obviously, Easter phenomenon has passed us. We're seeing gas prices increase. The processing day phenomena is actually going to turn, and we're going to have the opposite impact in the fourth quarter on the positive side. The China thing doesn't really impact revenue. And then, in the UK, while I'm not necessarily – we're not building into an outlook kind of a major improvement, the fact of the matter is that they

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have kicked this Brexit can down the road, and it's quite a bit down the road. And I think that we'll – I think it's possible you could see some pickup as a result of that.

When I look macroeconomically around the world, if you look at Europe ex the UK, they grew over 10% in the second quarter. If you look at Asia ex China, it grew over 10% in the second quarter. Latin America grew in the mid-teens in the second quarter. Our Central Europe, Middle East, Africa division grew over 20% in the second quarter. So other than the UK and a little bit, I'd say, of softening in Brazil, the economies around the world continue to look good. The United States looks very good. The fact that the equity markets have been post – excluding the recent China-U.S. trade talk impact but have been pretty good. The unemployment level is quite low. We're seeing some real wage growth. So I think the U.S. is in pretty good shape. When you put all that together, our view is that revenue will come in a little bit above where it was in Q2 and Q3. And then we get back to double digits in Q4.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. Now, that's a good summary. So I think pricing is a part of that equation. You do still have to finalize U.S. merchant litigation. I know that's getting close. You have some regulation changes going on in Europe including the change caps for some of the international cross-border. So curious by now on pricing and maybe just a refresher on your philosophy around pricing.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Well, our pricing philosophy is fairly simple. The actual execution of it is a little more challenging. But we look at a combination of value we bring and what the competitive situation is. And those are the way we look at it by market. Now, the implementation by market differs because each market is different and has different realities associated with it.

I continue to think – we don't talk a lot about pricing. I'm not going to do any big reveal on pricing here this afternoon, but it continues to be a lever for us. We have dozens of people, and maybe it's 100 people who just work on pricing. We have a global pricing team in San Francisco and that we have regional pricing teams out across the world. So we have dozens of people who come to work in the morning and leave at night thinking about pricing. So it's not as if it's something that we're not paying attention to.

And it's that group informed by a combination of regulation, value, and competition in the markets that determines what our pricing is on core products, what our pricing is on value-added services products, what our pricing is on any kind of new product that we'll put out in the market.

The MDL thing really hasn't impacted our thinking. Right now, we're in the – that's been with us for 15 years. We are in the situation now where we're in the opt-out period for merchants. Hopefully, a judge in November will put this to bed after we've gotten through the opt-outs. But look, there's going to be people who opt out. There's the potential of an appeal and that show could go on for quite a while. Who knows?

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah. On the pricing side, look, I mean authorizations have gone up, security levels have gone up. You've thrown out a lot of new [indiscernible] (00:08:52) contactless which has driven more volume, so I get that. And so one way to measure that value, we look at incentives, right? And incentives have been trending a lot better, right, for

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the last several quarters. It's tracking better again this year. Is that – should we view them as a sign that the pricing sort of situation as you renew or when business with issuers is getting better? Maybe you can comment on that and just deal flow in general now.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Okay. So let me start at the last one. So our deal flow has been good, I mean very good. It's been in range of our expectations. We renewed Air Canada. We did a deal with BBVA. We did renewals with both [ph] SBI (00:09:37) and ICICI in India. We renewed with HSBC in 27 markets around the world. We won Citibank's commercial card business. We won – in a flip, we won Scotiabank's business in Mexico, and we renewed our business with one of the big upstart banks in Russia, Tinkoff Bank.

That said, our incentives in the first half of the year were lower than we expected and probably you expected. That's a combination of – there were a few deals where the level of incentive that we thought we might have to give was actually – ended up being less than we thought. And that's a good thing because it's sustainable over time. Secondly, we had some small deals get delayed either first half into second half. And thirdly, in some cases, we just had lower volumes and we pay less incentives. That's not necessarily always a good thing. You'd rather have the volume, but in some cases, incentives go down. There is some relationship between volume growth and incentives obviously.

Just for people who haven't heard this before, forecasting and – or coming up with an outlook for incentives is really challenging because there's – we have to answer four questions, hit them up with four different assumptions. One is what renewals are going to come up?

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Secondly, what level of incentive we have to put on that renewal? Thirdly, when will the renewal actually take hold in the marketplace like how quick – if it's a conversion, how quickly will the conversion happen or how quickly will the lawyering get done on the deal? So that's actually inked and official. And then the fourth question/assumption is what will be the actual volume flow? And we have to predict all of those by market, by region globally. And it makes it somewhat difficult.

I think as we look at the second half of the year, we expect a few large deals. There are few surprises on the positive side, the fact that TSB and the UK decided not to flip their debit portfolio to Mastercard and to keep it with us was not something we anticipated but it's a positive thing in terms of volume and a positive thing for us overall. But that will have an impact on incentives. There's one or two other deals that I know of right now that we didn't think would happen in the second half that likely will happen and close in the second half. So when we look out into the second half, I think the level of incentives will grow but I think it will be within the range of guidance tension that we provided which is 22% to 23% of gross revenue.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

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Okay. Good. So extending this a little bit further, so thinking about incentives and how you engage with clients. Does feel like the clients are changing a little bit, a lot more fintechs, right? We've had some here present whether it be Square Card or the Apple Card that's out. Monzo and Revolut, a lot of companies that have well-funded. So does Visa have to do something differently or are the contracts different when you're engaging with these types of fintech issuers versus the traditional banks say a Chase?

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

So the way I think about partnerships isn't kind of part of our business model. It's fundamental to our business model. We just – we want to be in business with our partners and a lot of the fintechs that are coming up now are really value add to the payments infrastructure. Some of them are helping with acceptance particularly the long tail. Some are bringing in people into the financial mainstream who the traditional banks wouldn't have necessarily banked or gone out and reached for. Some of them are bringing in new payment flows and that's expanding the payments market, and I think that's a very good thing. And we will continue to try to work with anybody about anything at any time if they can be added to the payment ecosystem.

That said, to your point, a fintech is not the same as a traditional bank, and we've had to add account people to cover fintechs. We've got to give them a different textbook. We've created a fast-track program for onboarding fintechs so that we're not putting them through the same bureaucratic ringer that we might put a larger company through where our risks might be, frankly, higher if we're not careful.

We're obviously continuing to open up our technology through making APIs available. And we've announced – we announced a number of months ago $100 million investment fund to invest in fintechs. We're not a fintech investment company, but our philosophy is that – and our philosophy is we will not invest in a fintech for simply an investment perspective.

But if we can do a commercial agreement with a fintech that we think is good for Visa and it's important to that fintech that our name is on the door with them as an owner and we've got a commercial agreement that we're comfortable with, we will be happy to make an investment in those particular cases.

So it's a – I think it's – they've added a lot of noise to the system, but I think it's – I think much of it is very positive.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. So, e-comm, sticking with the digital theme, e-comm has been growing at a premium to growth for a while, traditional card growth or face-to-face growth for some time. We just heard from [indiscernible] (00:15:45) gained some big valuations in some of these e-comm platforms. You guys has a – Visa as a nice asset in CyberSource. We don't hear that much about or maybe we don't study it enough. So what is CyberSource's role in this whole e-commerce opportunity and could it be underappreciated by the outside?

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Well, certainly if I look at it in terms of how often I'm asked about it, it's underappreciated because I rarely am.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

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Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

So CyberSource is our gateway product. It has a couple of really terrific advantages to it. It's got very strong fraud prevention capability. It's got some really neat capabilities for our acquirer partners. And it can support omni-channel which is becoming increasingly important.

In a world where people have migrated heavily now to EMV in the face-to-face world, in fact, somebody who's completely got EMV built in – merchants got it completely built into their infrastructure probably has seen fraud drop as much as 80% in the face-to-face world. And on average, if you're not even fully implemented, probably have seen 50% drop in fraud. So unfortunately, all the frauds run it over to the e-comm side of things. And CyberSource, for example, has this terrific capability called Decision Manager, which takes a boatload of data and puts it together to try to help make really good determinations of whether a transaction is fraudulent or not fraudulent. And we now have 5,500 clients in – I think in 68 countries using CyberSource. And last year, $200 billion worth of transactions went through the Decision Manager pipe and we prevented $11 billion of fraud. So it's pretty compelling.

The other thing that's happening, with all this change that's happening in the ecosystem whether it's fraud moving over to – from face-to-face to e-comm, or whether it's tokenization, whether it's advances in risk capabilities, et cetera, some of this is hard for acquirers to keep up with it. And so, increasingly, they're looking for partner versus build options, and CyberSource gives them a partner option.

In fact, SMCC, which is one of the top acquirers in Japan, has come and done a partnership with us on CyberSource where they've integrated CyberSource into their acquiring [ph] TechNet (00:18:37) technology stack. So as they go out and acquire merchants, they've got new capabilities overnight to talk about because they had what they had. And now that they have – what they had plus CyberSource and they're seeing their merchants – their merchants are seeing a reduction in fraud which is helping them continue to tell the story and therefore pick up market share.

So we're going to continue to use this asset which I think over time as omnichannel becomes bigger and bigger and bigger, I think CyberSource is a really strong asset for us that can help our acquirers and help us and obviously drives revenue through per transaction fee that we get for providing to acquirers.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. So how about on the checkout button front, I know it's a little bit of a reboot if you want to call it that with the SRC or network button, next version of Visa Checkout in collaboration with the other networks.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

So where do we stand today with that? Any update?

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Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

Well, we're getting closer. Knock on wood, I think we'll start converting some Visa Checkout merchants to the SRC button in – towards the back end of the summer and in the United States.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Okay.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

We're going to focus in the United States first where I think it makes the most sense. I mean, I don't think this is something we have to experiment with. The reality is that the checkout experience in e-comm is terrible. The shop-to-buy ratio is lousy. The confusion at the point of buying is lousy, and the authorization rates are way too low. So to me, this is – and I think EMVCo agrees, as do I think my network competitors agree, that it's just a lousy experience. So this isn't that we should go to a small market and test our way in. We should go to a big market and make a difference and hence starting with the United States.

And, look, not only does this make the checkout experience better because you hit this checkout – this network checkout button, it will bring up your wallet which could have multiple cards in. You select the one you want and you hit buy and you're done. And this confusion of all of these different symbols that could be dozens at the point of purchase which, by the way, is analogous to being dozens of POS devices in the face-to-face world goes away. And so I think it's a needed advancement. We'll get going in the United States. We'll see from there. I think it's a little too early to tell just what the velocity of the adoption is. I think we'll be better off – we'll know that more probably four to six months into it.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Right. But this doesn't change the relationship with, say, the Apple Pays and the PayPals of the world.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

No. It's a good follow-up. Look, honestly, those are great user experiences: Google Pay, Apple Pay, PayPal. A lot of respect for what those guys have done in creating user experiences. I've been different. That's a good user experience. What I just simply want is the Visa credential...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Yeah.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

...at the top of the wallet, and I don't think we can – we can't just rely on PayPal, for instance, to simply try to fix this friction in the e-commerce point of purchase. All the networks got to step up and do their – play their role. So this is all about just making for a better experience for the consumer therefore, hopefully, more volume runs through for everybody.

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Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

But whether somebody chooses Apple Pay or PayPal or the SRC button is – as long as it's a Visa credential, I'm fine with it.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah. Another horse in the race. So sticking with the U.S., let's talk about contactless then. So what sort of stood out to me in the call that Visa did see an acceleration in volume where contactless penetration went up, right, including the UK, I think you mentioned. So I think you've said and others, including Chase, have said that this is a big year for contactless in the U.S., so tap-and-pay your card, right? So could we expect U.S. growth to accelerate from contactless penetration going up in the U.S.? I see it in the New York City subways. They're not live yet, but they're putting in the hardware.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

So, yeah, I'm actually going to the Lexington Avenue subway tomorrow morning or tomorrow afternoon to actually see this in person myself. But I happen to believe if I can go to your last point on the MTA...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

I think that transit is an extremely important application not only for tap-and-pay but for building the habit of getting greater engagement from customers on electronic or digital payment forms. It's the use case that you use 10 times a week going on your five commutes to work and your five commutes home from work. And we've got – we now have – and obviously, we're an advocate that these systems should be open systems not closed systems.

We now have stood up 20 transit systems since – 20 transit systems in 12 countries around the world. We've got 250 active transit projects on the table right now around the world. The MTA is obviously huge. And I think it becomes a real accelerant to tap-and-pay. I don't think it's going to impact our numbers in fiscal 2019 when we have six months to go. But we do expect to have 100 million cards in the United States that have near-field communication capabilities built on them. I have four Visa cards in my wallet. One of them does. Three of them don't. But hopefully, over time, they will convert as the card renews. Unless I lose it and then hopefully it gets renewed with it on it.

The United States is completely different than the rest of the market in that the U.S. is ready from a merchant side, from an acquirer side, from a POS terminal side. They're ready for tap-and-pay. 80 out of the top 100 merchants are totally tap-and-pay-enabled, 60% of I think all transactions in the United States could be done with tap-and-pay right now. It's simply a matter of getting the issuer side, the credential side, to catch up. And I think in

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New York, for example, once this thing goes to the MTA, I think that becomes a very powerful use case for trying to drive it. Because you need some stimulant to get this going. And our experience would tell us that when we look at contactless around the world, the reality is once you get past that first 10%, it really becomes a snowball and that really starts to take off, and you can start to see three, four, five points of increased penetration each quarter as it takes off.

And it's one of these things that generates a whole bunch of peer pressure on both sides of the two-sided market. Because if I see you with a tap-and-pay card and I don't have one, all of a sudden you're going to say, why is your life easier than my life. And on the merchant side, if you have a store next to mine and you're bragging about how it's helped throughput and your customers love the experience and I don't have it, I'm going to feel like I'm at some business disadvantage and I'm going to press to make sure my terminals are enabled for it.

In many cases, by the way, you don't have to replace your terminals. You have to just simply get a software switched or, yeah switched, but it's a software change to get it to be able to handle the near-field communication capability. So, I remain really bullish about the United States finally catching up to the rest of the world where we have 30 countries that more than a third of the transactions are tap-and-pay today and face-to-face. And we're nearly half of the transactions last quarter excluding the United States where tap-and-pay globally. And there's a lot of small even emerging markets that are in better shape and further along on this than United States. I was saying to a group of investors earlier I don't know whether this – the U.S. gets to some scale in two years, three years, four years, five years, but it's somewhere in that window. I just think it's a matter of really how quickly the cards get out of market.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Okay. So maybe there's a tipping point soon then. So, questions from the audience, happy to take any. Otherwise, I can keep going, go into the B2B side. Yeah. Upfront, if you don't mind using the mic. Lexington Avenue. Okay. Maybe I'll see you there in a heartbeat.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

You'll be there.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

But I do catch that train.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

It's interesting by the way that the MTA chose that because it's one of their most popular and busy routes.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Busy.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.
A

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They didn't go to the outer stretches of Staten Island and some stop that three people to – they dove into deep end of the pool.

Q

AI, you mentioned $100 million investment fund that you've established. Are there any technology teams that you're kind of dominating in there that's kind of looking forward into the industry that you're pursuing?

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Well, I think that if you look at kind of across the continuum of what matters to us, certainly, the capabilities in the fraud area, capabilities in the risk area, certainly people who are bringing more players to the financial mainstream so kind of wallets and platforms to the backend people that are – help adjudicate claims when they might crop up for an issuer, so I think across the continuum, if we see the continuum of the value we bring, if we see an interesting company, we're reaching out to them. And again, our objective isn't to reach out to them to say, we'll give you money. Our objective is to reach out to them and say, hey, let's talk. You've got a great, interesting tool. We bring incredible scale across 3.3 billion payment credentials and 54 million merchants, which, by the way, I'm just going to get this in the side, our 54 million merchants is so understated because we've got Stripe, PayPal, and Square count as one each. So...

Q

Right.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

...it's a lot bigger than that. So I think this is often a marriage of somebody's neat capability and us bringing very established scale, globality, security, and brand to the party. And if we could strike a cool commercial agreement and, as I said earlier, if they feel they want us to do an investment, we'll do it. Sometimes, we'll want to do the investment, but I'd say more than half the time, we do the investment because the founder or the company asks us to.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

All right. Thanks. So I think I have to ask a B2B question because there's a lot of those companies here that we've been – and we've been talking about it. How do you organize B2B or prioritize it? Because you have the commercial card opportunity which is well-established, and it's been pretty long in terms of being in market. And then the accounts payable space which is also a legacy market but a lot of inertia, a lot of fragmentation. And so how would you organize or prioritize it for us here as we're trying to study the opportunity?

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

Well, the first thing I'd say is that this has always been an area of focus for us. But I would say that about 18 months ago, we got much more serious about it. It's a top five investment area for us.

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Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

And we stood up. We try to manage our business. And I have a philosophy because the business is so local. I want to put as many resources into the local market and empower them as much as possible. But when we want to stand something up and we feel like it's got to get some momentum, we actually establish a global business unit. So we have a global business unit for Visa Direct. We got a global business unit for CyberSource. Now, you've hit on another one. We have – we 18 months ago stood up a global business unit for B2B, the head of that reports to Ryan McInerney, our President. So we're taking it very seriously. We're investing more in it.

And when we stand something up like a business unit like that, when we do our monthly business reviews prior to standing that up, B2B might work its way into the different regional presentations. But now, we're having a two-hour review solely dedicated on B2B. So it's forcing up through me much more of a spotlight on it. To your point, it's two markets. It's a carded market which we think about $20 trillion with a leading player in the world. It's 12% of our overall purchase volume. It's approximately $1 trillion. We've been – we've built a very good business around it. We think there's a lot more upside especially if it's a $20 trillion business.

We feel like we've got a lot of the good tools and commercial cards getting much more into virtual cards. Visa Direct is a tool there. On the other side is their integration, as you said, into AR/AP systems. We think that's four times the market. I think Ajay might say it's $100 billion – $100 trillion. We think it's $80 trillion. It doesn't really matter.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

A big number.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

A

It's huge. That's something we don't have to arm wrestle over. There's a lot there for everybody. But that, as you said, has historically been a wire transfer ACH market. It's more complex, it's going to take more time to breakthrough on it. So, just first a couple more – let's drill down a little bit on each of them. So, in the commercial space, one of the biggest things we've got to do is we need more banks active in this phase...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Sure.

Alfred F. Kelly, Jr
Chief Executive Officer & Chairman, Visa, Inc.

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...because there are conduit into the market. And one of the messages I had in Chicago yesterday in my speech was that I need more of you to become serious commercial card issuers and you should be incented to do so because the opportunity is huge. And that means more than just slapping the word business or slapping the word corporate on an existing consumer card, it's actually really coming up with tangible value that works.

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We've got to grow acceptance. There's still a lot of acceptance gaps in the B2B. So, there's a lot of hard work to do in that particular case. We've got to continue to grow virtual cards. We know we've done deals now with Ixaris in Europe, Sabre, after doing a very good deal with WEX we announced earlier in the year.

So, we're committed to build this position, this leading position we've had in the B2B carded space and I think it's got upside potential for us over the next decade at least. On the other side, I think, it's going to be much more about experimentation. Figuring out how we can get past the inertia of kind of these embedded wire transfer instructions and ACH and get to a point where we can actually add value and get paid for in a level that's interesting to us. The one thing we prioritized right out of the chute is high-value, cross-border transactions and we've announced this B2B connect product but now we're going into market. We're past the rhetoric of its coming. It's actually going to market and we've got three great, early distribution partners. FIS has signed up to distribute it bottom line and build trust have all signed up to be distributors of it. We think it's a great product

It uses our rails. It takes a corporate player out of the business of having to build a network of correspondent banks. It leverages our security, and it has really neat reporting kinds of capability in terms of giving somebody exact information on when the transaction will settle and a very clear transparent view of what was the total amount, what were the FX impacts of the transaction, what were the fees of the transfer and then what's the next settlement amount.

So we're excited about it. We're just at launch. It's going to take a while to see how it catches fire, but we're dedicated to try to continue to grow the distribution partners for this. And we're committed to this as our first big jump into this AR/AP side of the B2B space.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

All right. Great. We will continue to track it. I think we're out of time. Wish we had more time, Al, but thanks again for joining us.

Alfred F. Kelly, Jr

Chief Executive Officer & Chairman, Visa, Inc.

Thanks, Tien-Tsin. Thank you, everybody.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Thanks so much.

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