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Visa, Inc. (V)

Evercore ISI Payments & FinTech Innovators Forum

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

David Mark Togut
Analyst, Evercore Group LLC

MANAGEMENT DISCUSSION SECTION

David Mark Togut
Analyst, Evercore Group LLC

Great. Thanks so much Vasant for joining us today, and thanks so much to Visa for participating in Evercore ISI's Fourth Annual Payments & FinTech Innvators Forum. I'm David Togut, I research the payment processors and IT services industry for Evercore ISI. In addition to CFO, Vasant Prabhu, we have Mike Milotich, Head of Investor Relations. Mike, thanks so much for being with us as well today.

So just to start off with...

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

Hello, David.

David Mark Togut
Analyst, Evercore Group LLC

Go ahead, Vasant.

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

No. I hope you can hear me and I apologize for not being there in person. But go ahead.

David Mark Togut
Analyst, Evercore Group LLC

We understand under the circumstances and we can hear you very well here in New York.

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

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Great.

QUESTION AND ANSWER SECTION

David Mark Togut
Analyst, Evercore Group LLC

Q

So on Monday night, you put out an 8-K pre-releasing the March quarter, the impact of coronavirus. I think the 8-K is very self-explanatory. And so I won't specifically ask you about the 8-K. But perhaps more broadly could you talk about the durability of Visa's business and financial model to withstand shocks like coronavirus, to the extent this goes on for a prolonged period of time?

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

A

Sure. As you said, David, I mean, we gave you the best picture we could of what we were seeing through the end of February. And as you saw, I mean, the primary impact was on the cross-border business. And the cross-border business part was also travel-related primarily at this point, and these things happen.

We've gone back and looked at SARS. There's a recovery track. Cleary, coronavirus is playing out differently than SARS. SARS was fairly Asia-specific. Through the end of February, our impacts were also largely Asia-specific, but it's become apparent since then that the virus has spread outside of Asia. So this will become more of a global phenomenon.

We also know that the recovery track take some time. SARS took five or six months for things to get back to normal in the cross-border business in the markets that were impacted at that time. [indiscernible] (00:03:23) 20 years ago, China was not significant as a part of our business nor was it significant as it is today in the global economy.

So there's no question the impact will be different this time and they're hard to predict. So in terms of resiliency, as you know, we are fortunate to have a business that has a great cash profile. So in that sense, the business continues to generate good margins and good cash flows. We clearly have a great and strong balance sheet.

So, from all that standpoint, I mean, we can withstand fairly a substantial shock, so to speak. And it's really going to be more a matter of what is the impact, at least over the period of time that this all continue, what the impact on our revenues is going to be. We gave you our best sense of the quarter. It is, as we said, a fluid situation. The trend was deteriorating week-after-week and we indicated that we haven't bottomed out yet and we don't know exactly when that might happen.

So the revenue impact you saw in terms of what we're expecting in this quarter. We'll look at what reasonable things we should be doing from an expense standpoint. There's certainly lead times in expenses. So you can't turn on a dime and scale back expenses, but we will scale back where it makes sense to do.

We definitely believe that this is a phenomenon that's not a structural change, obviously. It's not a secular change. So, we need to be careful not to do things that would damage or hurt some of the longer term opportunities we have in our business, which we think are very significant and we went through on our Investor Day.

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So we're working hard internally on making sure that we do all the right things by our employees and our clients. And then, we're doing what's prudent in terms of the things we control on the expense side. And in the meantime, obviously, we're monitoring closely what is happening to our volumes and revenues around the world.

So, I think we are in good shape to withstand something like this.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Just shifting gears, on your first quarter fiscal 2020 earnings call, you indicated that client incentives as a percentage of gross revenue would reach the high-end of your guidance range of 22.5% to 23.5% of gross revenue. Do above-trend client renewals or contract renewals and client incentives provide you greater visibility on long-term revenue and earnings growth? Or does this signal an increasing competition?

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

A

Yeah. As you know, we had a sizable renewal year last year and we are delighted about that because we renewed for pretty long-term some of our largest clients around the world. And then this year – and a lot of it happened in the fourth quarter, so we've seen the bulk of the impact of all of last year's renewals through most of this year. Initially, our view was we would have a pretty hefty renewal year in the first half, but as we indicated on our first quarter call, we've had three or four other clients that we've renewed or will be in the process of renewing through this year, and we might have another year where we've renewed close to another 30% of our client base.

We are actually quite happy about some of these renewals. In many of the renewals we're working on this year involve the opportunity for us to increase our share of our clients' business over time, broaden our relationship. These are great global clients. So in that sense, we're delighted about that.

As far as what it means for the future? Obviously, when you've renewed 60% of your business and much of it for reasonably long-term, you would expect that the renewal activity would start to slow down and that's reasonable to expect and we would expect that. Of course, the impact of these renewals will play through our P&L over the next year. So certainly, a heavy renewal year this year will play through in next year's P&L. And then, you would expect to have renewal activity begin to moderate.

In terms of whether client incentives as a percent of gross revenues is going to moderate, we don't make predictions on that, partly because some of it is a function of market conditions. Market conditions are pretty much what they were. Large clients will always seek to get the best deal they can. There's always a market clearing price for deals and we have to be at the market clearing price or close, depending on the clients' views of the value of our brand, which we think is the strongest in the business, the value of all the other capabilities we can offer.

There's definitely a trend here where clients like to get into longer term arrangements because the business is changing. There are a lot of things that we can do together. We have a suite of value-added services that can add a lot of value to their businesses. So, we are happy to talk to clients about early renewals because then we can start to work on – let's work on the multi-year plan together on how we are going to adapt and adjust and grow as there's so much change going on around us.

So, look, our bias and our inclination, of course, is to see a moderation in client incentives. That is clearly what we would look for. We would expect some moderation in renewal activity, but exactly where that percentage lands up

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is a function of a lot of factors. One of which is market conditions, another of which is what pricing opportunities there might be. There's also mix that plays a role.

When the cross-border business is strong, it helps that. When the cross-border business is weak, as it is right now, it could hurt that, right. So, there are other factors too that drive that percentage. In the end, as we've told you, we should focus on net revenue growth, which is the best metric of how much the business is really growing on the top line.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Just a segue into some of the key financial themes from your recent Analyst Day, primary among them was accelerating revenue growth as you expand into $185 trillion TAM of new payment flows, like B2B and P2P. Granted that your messaging was long-term in nature, can you help dimension the timeline and magnitude of the potential acceleration in revenue growth?

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

A

Sure. Look, I think three years ago when we did our Investor Day, we sort of laid out the idea that there's a 10x growth opportunity ahead of us because of the inflection point that we're at right now. And this inflection point is driven by the fact that we have a world of connected devices, the fact that we've moved to a network of networks approach to how we think about our business. And the fact that we moved well past facilitating consumer payments to facilitating the whole range of new flows with value-added services layered on.

Hopefully, what we did at this Investor Day was to put a lot more flesh on backbone to give you far more tangibility as to why we think there's a 10x opportunity ahead of us, the things we've put in place over the last three years to capture that opportunity and the traction we have on multiple fronts.

If you look at some of those areas of opportunity, you've seen that with Visa Direct, we now have – we're now powering almost all the big B2B platforms around the world. That's vastly different than it was three years ago. Visa Direct is also significantly tapping into the B2C opportunity, which we quantified at about $30 trillion. And this includes things like insurance payout, on-demand payroll, gig economy payroll, and many other use cases.

We talked about B2B and how we see B2B that we are the leader in cardable B2B, which comes with attractive yields and still has a significant untapped opportunity, and how that is our immediate priority, and where we're making great progress. We talked about cross-border B2B, which is $10 trillion, but can come with very high yields because we're solving some real problems there that exists in the market. We talked about all the things we're doing with large enterprise B2B and how we see that is a little further out.

So when you put that all together, as we told you, you sort of have to think of our business now as having three legs of growth, the traditional business of facilitating merchant payments. And hopefully, you got a very clear idea that our enthusiasm for that business remains undiminished. We think the opportunity is still very significant.

We showed you how [indiscernible] (00:13:21-00:15:39)

Operator: You are now unmuted.

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Q

Okay. Are you back with us?

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

A

I'm here.

Q

Okay. Very good. You can proceed.

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

A

Hello, David.

David Mark Togut
Analyst, Evercore Group LLC

Q

Hello, Vasant. So you cut out just when you were talking about the three legs, starting with the traditional C2B business.

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

A

Right. So as, hopefully, you heard us say at our Investor Day, our optimism and the potential of the core consumer payments business remains undiminished. We see the opportunity there is remaining very significant. We think it has never been easier, cheaper or faster to build issuance and acceptance than it is today. There's still plenty of cash to digitize. So we feel that that business continues to be a business with tremendous growth potential. And we're layering on two additional growth engines that are far more important to us today than they were five years ago. We think there's larger opportunities in new flows and value-added services.

We gave you some sense for the relative growth rate. This year, we hope those new flows and value-added services will grow twice as fast as our core business. We gave you a sense of what the relative importance of those businesses is. So while we don't provide long-term revenue growth guidance and we know what your expectations are, it gives you a flavor for how our growth trajectory might look based on assumptions you might make in each of those legs of growth. It makes us very optimistic that we can sustain the kinds of growth that you expect from us and hopefully, over time, accelerate it as these faster growing engines become a larger and larger part of our business.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Just exploring the B2B theme, two years ago, Visa pivoted in B2B payments to begin working with non-bank issuers. How far along are you in building out your ecosystem of non-bank issuers of Visa cards in key end markets such as fuel cards and virtual cards for the travel industry and other key verticals?

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

A

Yeah. I don't know if you would call it a pivot as much as perhaps we were more mindful of our traditional relationships in the past and may have delayed going into non-bank issuance. But clearly, for some time now, we've been moving down that track and we've made good progress.

We've been telling you about some of the things we've done in the $20 trillion card based opportunity in virtual cards, fleet, and all those non-bank issuance areas. We've continued to grow our relationship with CSI, who's a virtual card focused accounts payable specialist, by integrating them into our Visa Payables platform. We've signed a partnership in the fiscal first quarter with NEC Payments, which is the digital banking and payments processing platform, to expand their regional and international issuing business focused on virtual cards.

In the travel space, in the first quarter, we announced that Ixaris were shifting their business to Visa, expand the range of virtual travel payment products. Last year, we announced the deal with Sabre, which you all know is a leading technology provider in the global travel industry. And as you know, almost two years ago, we jointly announced our relationship with WEX and you all know WEX pretty well.

But these are just some of the things we've announced. We've got a fair amount of other stuff going on and hopefully, over time, we'll talk about more. But there's no question that, as we told you, when it comes to card-based solutions, we are clearly the market leader. Our growth rates remain robust and the areas in that card-based solutions category that, historically, we may not have been as developed and we've made significant progress in and there's far more to come.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Just staying on faster payments, when do you see Earthport being fully integrated with Visa Direct, giving kind of Visa expanded bank payout capability to 88 countries?

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

A

Yeah, a lot of the work now is pretty much done. We are very happy with how things have gone with Earthport. Our team on the ground has done a great job integrating Earthport into Visa. We've fully integrated it from a business standpoint at the end of the last calendar year and we are enabling transactions. Now, it's about partners connecting in and developing solutions to utilize all the capabilities. And you heard from Bill Sheley at Investor Day where we stand on some of that.

So, we are very much in the mode now of moving past the integration to scaling the Earthport business as part of Visa and to really sort of build out our network of networks capabilities. You've heard us do many deals with a variety of remittance companies, for example. Those would be some of the big initial users of these capabilities. Beyond that, there'll also be some B2C areas that are going to be using these capabilities.

So we couldn't be happier with how the whole Earthport's integration has gone so far. And as you know, it has substantially our expanded our reach, essentially to 2x access to bank accounts in the top 88 or so countries.

David Mark Togut
Analyst, Evercore Group LLC

Q

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Got it. Just staying on the international theme, Visa Europe continues to invest heavily to grow in Continental Europe, in part to diversify away from the large overweighed position in the UK. When do you expect Visa to hit the inflection point in your European business, where your expanding position in Continental Europe can begin to offset somewhat slower growth from the UK?

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

A

You described the situation very well. I think when people look at our European business, it is important, as you said, to note that because of the history of the membership structure, it is heavily skewed to the UK and France, which, by the way, we're very happy with because the UK and France are very big markets, but it also meant that we have a large untapped opportunity outside those two markets.

Clearly, we're pleased with progress. We had to spend the first couple of years making sure that we integrated Visa Europe and that we kept the business that we got and the integration, as you know, went very well. We were able to keep pretty much all the business and the business performed really well through that timeframe.

But in the past year to 18 months, we've made substantial progress on multiple fronts some of it is already showing up, but some of it will show up over time. The fronts that I would highlight would be the progress we've made with FinTechs, some of which you've already heard us announced and that volume will begin to make its way through Visa Europe's volume.

The other is the progress we're making on the continent. That will take a little longer to show up in the numbers because it involves conversions and things like that and those take time to do. But clearly, I mean, if you look at the leading indicators in terms of deals signed, deals won, our competitive win rates, our ability to win business from places that – from our competitors. I think all that has been very good.

People on the continent are happy to see that Visa has substantially beefed up our presence in many markets like Germany, like Spain, like Italy, like Poland, like Turkey. These are all clients that appreciate the opportunity to work with global Visa, which they didn't have the opportunity to do before. As you know, we now operate on a single VisaNet in Europe, which means that all the capabilities available globally are available to them. We appreciate the fact that we do have the strongest brand.

So, all that is playing out pretty much as we expect, and over time, this will take – it takes some time for some of these business to show up in your numbers. For example, in Italy and Poland, there's still a large opportunity to [ph] displace (00:24:13) cash. Cashless Poland is a combined effort with the banks and the government terminalize small businesses. And to-date, we've delivered 250 terminals to these merchants.

In Italy, where there are government incentives promoting the use of the e-payments, we're enabling contactless in transit systems in Rome, Milan and Florence. In Spain, we're focused on displacing cash and delivering new tokenized solution. We are working with transit systems, with banking clients and tourist destinations to implement tap-to-pay on transit and we're supporting the shift to mobile payments.

Turkey is different again. It's a huge population, a very young population and we're deepening our relationship with the existing banks. And then, of course, there's Germany, where we've made a big push since the acquisition. Germany is still a heavily cash-driven market. We have substantially increased our local team. We've significantly built acceptance. We've spent more on marketing to build our brand awareness. We've introduced Visa Direct for the first time and we're seeing some significant growth in cards issued. We're partnering with some

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key clients like our renewal with DKB, the largest issuing bank in Germany. We brought our value-added services to Germany.

So, you will start to see some of this really show up in our numbers. So we're very excited about Europe. The story is going to change from what it was, which was more about integration and ensuring that we keep what we have to the story of growth on the continent and growth in FinTech and so on.

David Mark Togut
Analyst, Evercore Group LLC

Q

Got it. Just shifting gears to capital allocation, Visa's capital allocation priorities seem to be evolving from almost 100% capital returns through dividends and share repurchase, to being complemented by more surgical strategic acquisitions, such as Earthport and Plaid. Should we expect Visa to do more acquisitions going forward as you address this large revenue stream in the $185 trillion of new payment flows? And I guess in connection with that, would you be willing to take up your gross debt-to-EBITDA target at least above the 1.2 to 1.5 target ratio?

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

A

Yeah. I would just say that our capital allocation strategy really hasn't changed. Our first priority has always been to invest in our core business. We have a great business, tremendous opportunity for growth, and investing as much as we need to in our core business is clearly job one. And that hasn't changed.

Clearly, acquisitions have a role to play in building our core business, and it isn't as if we've changed our strategy with acquisition, so to speak. Our approach has been pretty much what we shared at Investor Day, which is we will buy when it makes sense to buy and we will build when it makes sense to build, when it's a core capability. And that'll be driven by whether buying is faster, cheaper or there's an acquisition of talent.

Clearly, as our strategy has moved to building new payment flows and adding to our value-added services, we have done more acquisitions that fits with that strategy. So, for example, Earthport was very much driven by the fact that buying Earthport would very quickly – so it was a question of speed, more than anything else, allow us to really drive our network of networks strategy and get access to 99% of bank accounts in almost of the top 90 markets. So if there was an accelerator for our network of networks strategy, that was Earthport.

If you look at what we did with an acquisition like the Bell ID tokenization business, there, although it was a small acquisition, we can now tokenize any transaction, not just a card transaction. And that also helps our network of networks business.

If you look at something like PayWorks, that was an acquisition that allows CyberSource to be omni-channel. It's a substantial expansion of CyberSource's capabilities. If you look at Verifi, it allows us to streamline this new resolution quite substantially and enhance another value-added service.

So, as you can see, the theme on all of these is building out the value-added services portfolio selectively where buying something provides the capability either faster, cheaper than we could do ourselves. Now, Plaid, of course, is in a class by itself. With Plaid, there's a broad range of things that we get. We get a ethos of a for developer by developer ethos, which is good we think [ph] as DNA (00:29:11) for our entire business. We get access to the ability to help FinTechs connect to bank account. So the priorities that, clearly, to help them scale in the US, to help them grow internationally, to integrate in payments and some of our value-added services, and just generally speaking, become a much better partner for FinTechs who have an important role to play in our growth in the future.

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So, I wouldn't say our acquisition strategy has changed. It now has evolved along with the strategy we have to grow new flows, become a network of networks, to add to our value-added services and so on. In terms of the rest of our capital allocation strategy, we have a very well-defined dividend policy. We will stay within the policy as we've outlined, which means that our dividends grow from year to year. We do return the bulk of our remaining free cash flow in the form of buybacks. And specifically, we will fund acquisitions through the issuance of new debt, as we've said before.

In terms of our ratios, those are guidelines. And right now, we are at the low end. If there are opportunities to do things that create value for our shareholders, we're not tied to a specific ratio or range, so to speak. I mean that'll evolve over time. Could it be lower for short periods of time? Potentially. Could it be higher than the range for short periods of time? Potentially. Will we constrain ourselves and not do something that we think has great value, whether it is increasing buyback when the stock is unusually hit for reasons that are we think not secular or structural? Of course, we will step up buybacks if it makes sense. Would we stop ourselves from doing an acquisition because of the ratio? We wouldn't. So I think the ratios are just guidelines. And if we need to modify them over time or be above, below the range for periods of time? That'll happen. So you should just know that those are not sacrosanct or cast in stone.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Do you see Plaid as sort of the beginning of a, let's say, more active acquisition trend or does that essentially satisfy your appetite for a high-quality open banking type assets?

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

A

Well, I don't think it's either, right. We've outlined exactly what our criteria are. And I don't think we say that we've done Plaid and that's all we need, no. On the other hand, doing Plaid doesn't mean that, all of a sudden, you're going to see us do multiple big acquisitions either. I think you should just understand our criteria as we've outlined them. And then, as we do things or not do things, it will be dependent on the criteria being applied. Is there something out there that meets the criteria? Does it allow us to acquire a core capability either faster, cheaper or talent we need? Then we might do things. I don't think you should think about things in terms of black and white. Either this is a signal of many more big acquisitions or this is a signal of we've done the big one and nothing more now. No, it'll all depend on the range of opportunities available. And I think what you should look for is, are we doing what we said we were going to do, are the criteria we laid out for when we might acquire things being adhered to? I think that's how you should think about it.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Let me just pause to see if there are any questions in the room here in New York. Just staying on the Plaid theme for a minute, what do you see as the biggest areas of opportunity that you can derive from Plaid?

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

A

Well, I think the first and most important thing, which I wouldn't underestimate at all, is the idea of becoming a partner of choice for FinTech, right. And Plaid is a great enabler for FinTechs today. And the important element of Plaid that I think is critical for you all to appreciate that Plaid can bring to Visa is, what I said earlier, sort of this for developer, by developer ethos, becoming a developer friendly enterprise across everything we do because that is

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where the future is going. That is how a lot of financial services solutions are going to be delivered, whether it's by new FinTechs or by even traditional banks.

So that is – you can't underestimate what Plaid brings on that front. And we hope that the Plaid DNA on that front impacts all of Visa. Beyond that, I mean, the Plaid model is clearly exportable outside the US. There is a demand for open banking in Europe and around the world, and Plaid is a critical enabler of that. And one of my first priorities would be how can we help Plaid grow outside the US that would have been harder for them to do on their own. As you know, we have capabilities in all the major markets and it is easier for Plaid to grow internationally with us than on their own.

Beyond that, there's a range of capabilities we have that we can offer either by combining with Plaid or through Plaid, whether that payments capabilities or the delivery of some of our value added services to what Plaid has to offer, whether that's dispute resolution or tokenization, fraud, et cetera. So our view is that it opens up a new addressable market for us and over time, should be another accelerator to our growth.

So we're obviously very excited about it. We're waiting to get the approvals necessary to get going on the vision we have for Plaid and we'll let you know more as things develop.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Just to close on Plaid. They obviously have a strong presence in the US where open banking has developed innovation. And then, in Europe, it's been more under the regulatory framework of PSD2. Outside of Europe, do you see Asia as, let's say, an opportunity for growth for Plaid?

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

A

Well, no question. I mean we are looking at a global opportunity for Plaid. So when we looked at the acquisition, we had some clear ideas as to the markets in which we would like to see Plaid go and in what priority order, and that includes markets outside Europe, for sure, in Asia, in Latin America. So you should expect that we will be doing that. And of course, we have to do it in a way that doesn't stretch Plaid's capabilities to thin. We want to make sure that Plaid succeeds wherever it goes. Hopefully, with our resources, those – Plaid's resources can be stretched to do more than they could have done by themselves and do it faster. But there's no question that the opportunity exists well beyond Europe.

David Mark Togut
Analyst, Evercore Group LLC

Understood. Well, thanks so much for, Vasant. Greatly appreciate all of your insights, and thanks also to Mike Milotich for joining us today.

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

Thanks, David. Have a great conference.

David Mark Togut
Analyst, Evercore Group LLC

Thank you.

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