03-Jun-2020

Visa, Inc. (V)

Baird Global Consumer, Technology & Services Conference

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MANAGEMENT DISCUSSION SECTION

David John Koning
Analyst, Robert W. Baird & Co., Inc.

All right. Thank you. Thanks everyone for joining today. My name is Dave Koning. I'm a senior research analyst at Baird covering the payments and businesses process outsourcing stocks. Very please today to have Visa with us with the Head of North America, Oliver Jenkyn. I think everybody is very, very familiar with Visa so we don't need to do the big overview. But maybe what we could do is just kind of start off by what you see, Oliver, in a market, in an environment like this, obviously something we've never seen before. Maybe you could just kind of review some of the things you've been talking about the volumes and transactions.

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

Yeah. It's great to be here. Thanks very much for having me. I'm going to – I'll start by making some references to stuff that many of you would have seen in the 8-K that we filed. But I may give I think a little bit more color because obviously there's a pent-up demand for as much information as possible. This is not something we normally do but wanted to sort of share.

So, I've got the documents in front of me here. I'm sure, like I said, you guys have read them. But on US payment volume, it's still declining. May was down 5% but that's 13 percentage points better than April which is great. From a product point of view, debit continued to significantly outperform credit which is common in these situations. Maybe we can come back to that later. But debit grew 12% for the month of May and is being seen – has seen positive growth since April. Credit is still way down, declining at 21% in May versus same month prior year. But again [indiscernible] (00:01:36) April by 9 percentage points so I guess there's some positivity there.

Debit tends to outperform credit in times like this. One, there's a shift from discretionary to non- discretionary spending. There's also an element of consumer psyche where folks are like I don't to spend someone else's money. I should spend what I've got when we have some of these sort of retrenchments. So, that's what's up from a product point of view.

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From a channel point of view, not surprisingly card-not-present e-commerce growth in North America excluding travel. Card-not-present excluding travel up at elevated levels around 30% which is great. Card-present continues to improve relative to April but is still obviously very depressed. I mean it was down almost 50% in the real trough and now it's negative 20% to 25% exiting May. So, feel good about that.

From a segment point of view, we also made some comments on some of the segments. Few segments are outperforming and again, this one surprised you just from sort of following the news but certainly grocery and drug continue to perform really well in part due to reduction in restaurant spending [indiscernible] (00:02:53). Home improvement has done well. Again, presumably people hanging around their house are looking for things they want to fix or buying desks and lamps or whatever for their work-from-home situation, chairs, et cetera.

And then of course, there's areas that are hit really hard. Again, this would all make sense to you guys just from following the news. But restaurants are still significantly hit. Within that category, QSR is doing better than restaurant because their infrastructure and their processes are more nimble for takeout and delivery than a normal sit-down restaurant. So, you actually can split card – sorry, QSR and restaurant and there's really a spread between – both are declining but again, infrastructurally, QSR is in a better spot [indiscernible] (00:03:37) card-not-present [indiscernible] (00:03:41)

Entertainment and fuel are obviously way down as well. No surprises there. But if you break apart entertainment, there's a lot within that, movie theaters and [indiscernible] (00:03:50) way, way down; streaming and gaming, way, way up. So, even – it depends what exact niche you're in for how things are performing. And then, of course, travel is significantly down.

I've got a couple more things maybe [indiscernible] (00:04:05) on looking outside the US and maybe a second on cross-border and I'll just cover all of the 8-K-related stuff. Outside the US, a lot of markets like – a lot of Europe, Canada, Australia, Japan are following a similar trend to the US. Maybe the exact shape is a little different and the timing is a little different but they're following similar trend driven by, to some extent, some government stimulus support and the slow relaxation of some of the restrictions.

Several markets still have heavy restrictions and that's obviously impacting their performance. Singapore and India are good examples. And then we have a few markets that are doing really well as they open up. So, New Zealand, Denmark, Chile are good examples. But New Zealand in particular, as again you guys all would have read in the news, has really begun to open up. And we've seen growth pop by about 60 percentage points out of the gate and then remain at elevated levels since then. So, when things come back, it's looking good.

And then finally on cross-border, constant dollar cross-border excluding intra-Europe is down 45% in May which is a little better than April [ph] by (00:05:18) 6 percentage points. Travel is obviously still very weak, shrinking almost 80% in May. Little improvement from April. Card-not-present excluding travel is consistent through the month of May and is growing 18-ish-percent. So, obviously, still strong driven by retail spend.

And I will just make sure we're clear. If you look at sort of total cross-border, it declined about 35% which is 10 percentage points better than what I just quoted excluding intra-Europe. And the reason we do that and we're trying to [indiscernible] (00:05:53) towards that is our international fees have obviously driven off the volume that excludes intra-Europe which is why we're steering towards it. And that's – I mean that's sort of a good sense of everything we're seeing. May is better than April, but we're still in a difficult spot and that's the situation that we're in.

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QUESTION AND ANSWER SECTION

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Well, thanks for that review. That was great. When we think about the states returning, I'm sure you have data all around the country. Can you see pretty clearly places maybe like, I think Georgia was early, Arizona, right, so certain areas have recovered probably I would imagine quickly. And then can you see pockets that haven't and kind of look at that as the playbook that certain states that haven't really come back yet are just going to when that happens.

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

Yeah. We're certainly seeing a meaningful separation and a meaningful pop when states begin to reopen. Again, they're reopening lightly. They're not fully reopening. So, they're slowly relaxing the restrictions. But we're certainly – within a day or two we're seeing a pop in spend where there's obviously this pent-up view to get out and make some of these purchases and people want to get their businesses back up and running. So, we're certainly seeing it.

It does settle down over time. It's not like it stays at a high level and remains there. It does settle back down over time, but it's still at levels above obviously ones that are still sheltering in place. But even in the closed states, we're still seeing some improvement and I think we all feel it personally. You want to get out a little bit. You want to do a little bit of shopping so you're sort of pushing up against the restrictions. But also, the – and I'll say more about this later, but the muscle memory and habituation of folks who are now getting used to, okay, well, how do I do touch those curbside pickup. And for folks that are 55-plus, okay, how does this internet work, right. How can I do my e-commerce purchases and how can I get in the habit of that.

So, even where it's still shelter in place we're seeing improvement. But yes, there is a separation when things open up. There's a bit of a pop. It tends to moderate over time, but it still remains at an inflated level versus the shelter-in-place states.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. That's great. Well, and then when we think about revenue types and mix in an environment like this, could it even drive longer-term changes? Like you already talked about credit and debit in the way that changed a little bit, but what about contact versus the contactless or card-present versus e-comm and how does that affect the yield over time, too, as these changes happen?

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

Yeah. It's a great question. There's a lot in there. Let me maybe break it up by like product, channel and then like interface, like tap to pay for example. So, I'll got a little deep in some of what I said earlier. When I think longer term, even medium term, there will be, we expect, a shift from credit to debit.

As I mentioned earlier, there's a discretionary versus non-discretionary spend. There's a consumer psyche sort of not spending someone else's money but spending my own money. We saw it before in 2008. We even saw them

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late 2018 where there was the government shutdown, the first skirmishes with the trade war with China and the stock market took a big dip at that time. Consumers didn't stop spending, but they pulled back on credit and they moved it to debit. So, there's the sort of psyche in difficult economic times where we'll see a shift from debit to credit. I'll come to your yield point to summarize a little at the end.

But we also see within credit, there'll be a shift to pragmatically believe and we've seen this in the past where instead of getting like a high end, high annual fee travel card, I think you'd get a lower, no fee cash back card. So, like the rewards I'm getting from still spending on credit, I'm going to be pragmatic to tangible things I can put to use as opposed to like saving up for that Bali trip.

So, I think we'll continue to see a shift from credit to debit, and we've done some analysis internally based on the past which suggests there could be $100 billion annually of credit to debit shift that happens over time.

In channel, not surprisingly, e-commerce and – e-commerce is hardly new. [ph] It's hardly the idea that you can (00:10:04) buy things online. But if you look at the details, we've seen a 12 – in the month of April alone, we saw a 12-percentage point increase in the percent of total consumer spending that's done in e-commerce, 12 percentage point increase. And that's not surprising. Stores are largely closed so people are going to e-commerce.

What was notable about that is that's the same percentage point increase of the past three years combined. And so, situation has forced like almost three years' worth of habituation which is new people coming online, people who are already online going to new categories and people who are already online in the new categories buying more frequently. And that sort of habituation, that muscle memory even when things open up is not all going to go back to card-present.

So, we genuinely believe that, well, this shift to digital is happening anyway. It's hardly new news. That kind of catalyst and some of the change that it's hit – and maybe we come back to more – that's a more sort of data and stats on who's going where and what they're doing. But I think that will be a long-term change that we'll see, some will go back. But some folks like this, including touchless curbside pickup, multichannel, omni-commerce. [ph] That stuff (00:11:16) happened before. Now a lot more is happening.

And then you also just mentioned tap to pay. As you know, tap to pay around the world has really become mainstream and the norm. It hasn't in the United States. We've been pushing it for four years and it's been going really, really well. However, this is an incredible catalyst for it. Now you're seeing – instead of us going out and talking to merchants or issuers, now they're calling us. And then you can go to your local store where they're saying please use contactless. The person behind me in line is tapping me on the shoulder saying, hey, you can tap to pay with that. And that sort of the natural groundswell has a huge multiplier effect that we, at Visa, can't do by ourselves.

So, we can tap to pay, it's going to be a wonderful accelerant or something that was going to happen anyway. And since we're on the topic, we've got almost 200 million cards in the market in the US right now. We'll have 300 million by the end of the year. 70% of transactions take place at terminals that are contactless-capable. I think the last number I saw was 84 of the top 100 merchants are contactless-enabled. We made contactless marketing and stickers and point-of-sale stuff available. And now we're getting some great merchants calling us saying, hey, can you send me some of that, I really want to put it up in everyone in my checkout lanes and every store.

So, we feel really good about it. And the last thing I will say on tap to pay, the number I believe is 55% of all transactions under $10 are made in cash. And to some extent that's because, if you're just doing a small

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transaction, I don't want to give you my card and swipe it or dip it or what have you. But with tap to pay, it's easier with cash. And so, we're expecting a significant displacement in transaction lift that we've seen in other markets as tap to pay takes hold and people really build that muscle memory. So, silver linings perhaps from a very, very sad situation that we're in. But there are some elements of positivity I think for the business.

And then on yield. None of this has a huge impact on our yield, I mean it does have – it does have some lift benefits for us in terms of displacing cash, more muscle memory, e-commerce where card has a greater share of payments than it is in the physical world. But none of those changes have a material impact on our yield.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Okay. Well, that's good. And maybe couple questions on cross-border. You've seen a big lift in e-comm cross-border spend at the same time as you've seen a decline in travel. No surprise there. Does this change the corridors, though, that we're so used to certain corridors being bigger or smaller when travel was heavier. But is there a shift now and where that other movements are happening?

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

Yes. It's a good question. It's actually something that we spend a lot of time thinking about. And the short answer is no, to just put it bluntly. But it took a lot of thinking to get at that because while the answer is no, huge swings are happening in cross-border. As you've said, travel is way down, e-comm's way up. That impacts corridors a little bit.

So, we did a lot of thinking on this. And so, while there's an enormous amount of change, we think the net impact on us is going to be relatively smaller within a margin of error it's hard to estimate. And part of that is, look, travel is way down but it's way down everywhere. It's like the tide has gone down everywhere. And so, no corridor is stronger than any other corridor, so it sucks because it's way down. But there's no sort of relative mix shift that associated that.

On e-commerce being way up, from an inbound point of view, e-commerce disproportionately is US-based e-commerce merchants, to some extent Western European. And so, those inbound will have some lift – if I focus on US for a second, there is some lift there. But it's a little bit offset by the loss in outbound cross-border because if you think about it, US consumer, they're not traveling anymore so I'm not getting that outbound US consumer spend. Instead, they're buying things online. But most of the places they're buying them online is domestic because a lot of the e-comm merchants are domestic.

So, taking the cross-border travel transaction now is the domestic e-comm transaction. So, we'd actually sort of play all of those things out. It kind of washes a little bit. So, a lot of motion, a lot of change, but low implication after four days of analysis, sort of – so, it's just pretty straight.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. I think you've said before, but if I remember this right, inbound US is usually the highest yielding. If e-comm inbound US is actually taking some share of the mix, it seems like that might be a little bit of a lift.

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

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Yeah. I have to be a little careful because I'm not sure how much we sit on specific yields by channel inbound-outbound. But your characterization is true. I mean, all else equal, inbounds sort of US acquired volume is a good trade for us. If it's just a dollar for dollar trade, I'll take that trade. But again, we factor that in as well. And again, overall, it's a bit of a balance. But your statement is correct, that that inbound or US acquired is higher yielding for us.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Okay. Maybe moving on a little bit to expenses, right. Vasant talked about kind of how you're managing expenses. He talked in a global way, right, in an all-encompassing way, how do you manage it specifically in the US and maybe what are some differences?

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

Yeah. Again, I'll repeat a little bit what Vasant said because we spent a lot of time talking about it. Again, at the end of Q1, I believe we're expecting about 14% expense growth for Q2. And then I think that's what it was, I'm just checking my notes here. But then as soon as we saw the dynamics changed, we took, I believe, close to 10 percentage points of expense out. So, we took a lot of actions and I think Vasant covered that in other settings.

In North America, I mean some of the big expenses like technology are held centrally. And so, we make that decision across the whole world. You can't sort of just break out a core platform and North America cuts something and AP not want to cut it. So, some of those big line items we manage centrally. But in North America, there's a range of things we can do. And to some extent no one likes the cutting of costs, it's tough. But you – I always like to say don't let a good crisis go to waste. There's always – it's always good to have pressure to focus the mind and we know we need to adjust our expenses given the realities of what's happening from a revenue point of view.

So, we've done that. So, clearly, from a personnel point of view, our CEO, Al, has said we're not taking any head count actions this year. We all support that decision. But that doesn't mean there's a lot we can do in terms of managing new hires and contractors and other stuffs. We've been very diligent on that and moving people around to cover areas where there's tightness in the line versus areas where there's slack in the line as the business changes significantly.

Marketing is obviously a big line item for us so we spend a lot of time focused on that. Some of our rights fees that we pay at the NFL, at the Olympics, those don't really change, but there's other areas that do. So, we do co-marketing with our clients where we work together to do marketing and get messages out there that's not just Visa, but Visa Plus, bank X or merchant X.

In those situations, we've had conversations with clients. We talk about their priorities in these difficult times and we jointly agree that maybe we should do some of those things. We've been very diligent in that. And then our own marketing spend, we've tightened a lot of screws. There's discretionary stuff that might not be right tone and feel right now to do some of these things. So, we've been very diligent in looking at expenses in marketing side and what to do.

Certainly, the Olympics being delayed took a lot of expense move-out. And so, I think in our own marketing we're just really diligent and any projects or anytime you do anything in marketing it's got a lot of zeros on it. And so, we're just really focused on, like, are we putting it to highest and best use. Certainly, professional services also we've been very diligent on. Some of those are necessary for specific SME stock augmentation stuff, but a lot of

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other nice-to-have professional services, we've cut T&E. Obviously, travel is way down. But we felt really differently about how do we do our conferences like this one. We do this with clients all the time for different business lines. We changed that significantly and I think we'll keep changing a lot of that.

And then certainly on the product development front, again, still in the spirit of like there's nothing like some pressure to focus the mind. We've had some really thoughtful conversations about what's highest and best use? Like what ones do we want to double down on our investment on and which one should we just say, didn't work. It was a good idea, it didn't work. Let's cut it and move on. And so, Jack Forestell, our Chief Product Officer and I talk every day to make sure that all these are going to highest and best use.

So, a lot going on and it's – look, I think it's good and healthy for our company to make those decisions. We're going to invest in the stuff that's important for the long term. But we've got to clean up and tighten screws and we're doing exactly that.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Great, great. Well, one thing there's a lot of investor discussion on is B2B payments, a really nice growth driver. Is that proportional in the US like, in terms of your total US business is about 45% of revenue, is B2B a higher percentage than that and maybe talk a little bit about just the long-term growth drivers are pretty steady over time.

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

Yeah. So, B2B overall, I'm sure we have given you these numbers, we see it at about $120 trillion market. We break it into three categories, which I'll go through. The $120 trillion market is US, Asia and Europe are the big areas. To answer your specific question, actually, I don't know. I've never looked at it from like what percent comparability would it be, but I imagine it would be relatively close. I mean North America generally is a huge engine for us. But I actually can't give you a number of how it compares to the 45%. But suffice it to say it's probably – it certainly is a big component of the total.

But of the three components of the $120 trillion, there's a $20 trillion what I call card-based, right, and that's traditional P-card, T&E card, commercial card, virtual card, the traditional stuffs you think about in the commercial space. We've got a bit over $1 trillion of that. We're the market leader in that space. It's growing about 10% and we're keeping at this really hard. Virtual is a key element of that that we'll keep pushing on. But again, we've got a bit over $1 trillion of $20 trillion. There's still lots of growth in that space and we're going to keep after it. So, that's the first of the three categories.

The second one is cross-border. And so, these are big cross-border payments. This is where we've built B2B Connect and we're super excited about B2B Connect. We're building this new network. It's going to take a bit of time. Last numbers I saw I think we connected to 70 markets around the world. We've got another 30-plus. That will take another 18, 24 months, I think, to sort of build out and it's a bit of a chicken or egg. When you're building a network, it's hard. But this solution is a great solution. It is better than the alternatives. It's going to take a little time to build through. But this will be a great opportunity and, again, a high-margin, very lucrative, incredibly important part of the B2B space cross-border and we're committed to it for the long term. We feel really good about the progress of B2B Connect.

And then that leaves about $90 trillion of spend which is sort of the more domestic AP/AR payments, and that's – it's a harder market to get after. It's also sort of smaller margin relative to some of the things I mentioned earlier. But we're continuing to experiment and find ways that we can add value in the space. We have PayMate in India,

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which connects [indiscernible] (00:23:49) 30,000, 35,000 buyer-sellers with good, clear data reconciliation capabilities.

We got Billtrust in – a partnership the Billtrust here which we feel really good about in the business payment network. But we'll keep working on the AP/AR space domestically, again, it's smaller margin but good opportunity and something that we'll commit to. But look, we feel really good – you would have heard us say this before, we feel really, really optimistic about the B2B space. We've – we'll continue to focus on that cardable space, but we're really excited about moving into the other space as well. So, long-term commitment for us and we're very optimistic.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. I mean it feels like Visa multi-decade-type trend that's emerging. So that's great.

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

That's exactly right. It takes a while to build the network. It takes a while to build that network effect, but we'll get there.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Yeah. Well, good. Incentives are another just hot topic. I mean, they've always been a big topic. The US is where your biggest clients are and probably where the heaviest incentives. But maybe talk a little bit about that structure. Is that right that the US has probably heavier incentives than the rest of the world? Is that right? And how has that developed over time?

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

Yeah. I think, first of all, the motivation for incentives is consistent around the globe. The idea of aligning growth with our clients, rewarding strong growth, paying as folks do better, like that aligning within incentives is something we think makes a lot of sense and we greatly support. So, intellectually and philosophically, the structure is the same and the motivation is the same. It's obviously a little different in the US and there's a few differences in the US.

One is just it's the most sophisticated market with some of the largest players in the world which doesn't just mean they want more incentives but they're thoughtful in how they want the protections they get, like how they structure it. So, we often do a lot of our hardest thinking and negotiation certainly on incentives in this market. So, client size and sophistication is a big deal in North America.

But bear in mind also, there's a long, long group of community banks and credit unions and regional banks for which the comments I just made about the difficulty in the negotiation and pressure does not apply to an extent. But there certainly are some big behemoths and we think a lot about that and certainly there's pressure here that is as strong or stronger in other areas of the market.

Other nuances on incentives in North America is just, specifically in the United States is we've got debit routing. There's a lot of competition for debit routing in the United States given how debit works post Senator Durbin's amendment of Dodd-Frank. And so, there's incentives that we pay on the acquiring and merchant side in addition

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to what we pay on the issuing side. So, there's incentives on both side which is [indiscernible] (00:26:49) to the US market.

One other thing I'd say in the US market versus like Asia [indiscernible] (00:26:54) Europe is – or Latin America as well, frankly, cross-border is such a small percent of total spend for North American clients relative to like Asia for example. But most of our incentives are paid on total payment volume. In other markets, it might be more cross-border specific, but just given how much spend there is on core cards, there's a little less cross-border incentive.

But overall, I think it's relatively similar. I'd have to look at the data, but I think it's fair to say, the incentive pressure is a little higher here just given the sophistication, the size of some of our issuers. But again, it's variable-based and we're pleased to put those incentives in place [ph] and reward our clients to grow (00:27:39).

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

That's great. And we have a couple minutes left, maybe I'll let you talk a little bit about the other segment or other kind of cool, interesting new products. And is kind of the US the earliest adopter of some of those newer products and you can kind of see this longtail as that goes to other markets, too?

Oliver Jenkyn
EVP & Group Executive-North America, Visa, Inc.

A

That's a good question. The sort of other, what we sort of think of as value-added services, I know we don't have much time, but this is something that we think is a huge growth engine for the long term. Again, we don't sort of break it out as clean. It sort of shows up in different parts of the business but [indiscernible] (00:28:17) categories and then I'll give the comment on US versus rest of world, but we certainly got – and this will have to be like a speed dating version in the interest of time but like Visa Consulting & Analytics, the capabilities there and the advisory services that we have hundreds of – I think we're over 500, 600 consultants that are providing analytic decision science and sort of core consulting on payment, my view and I came from McKinsey, no – there is no institution in the world that can provide better advice on payments than Visa given what we see around the world and the knowledge that we've got. So, providing that advice to help drive our clients' growth is huge.

We've got issuer and consumer solutions, range of things including DPS which is primarily US-based debit processing capability which is incredibly an important piece of the business. We have acquirer and seller solutions which includes CyberSource but also as transit and urban mobility programs, security and identity, data solutions, loyalty, installments. Again, if we had three more hours we could go through them.

But I think increasingly the value-added services, the advice, the enriched consumer experience, the increased protection, the greater security, those are services that increasingly consumers are demanding and our acquirer issuer merchant clients are turning to us to be able to provide and people are willing to pay for value here. And so, we think it's a great revenue growth opportunity. We're super excited.

To get back to your original question, the vast majority of these services are designed and built to be available globally, but there are some situations just practically that a lot of them grow up in North America, DPS, CyberSource, et cetera. They tend to grow up here, but certainly everything we do we intend to globalize and add that value wherever we can in markets around the world.

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But stay tuned for coming tractions in this space. The value-added service will be – it is, it already is but increasing will be a really valuable revenue driver for us, but importantly a value add to our clients across the board who want these services and we're in a unique position in the ecosystem to be able to provide it.

David John Koning

Analyst, Robert W. Baird & Co., Inc.

Yeah. I mean that's really interesting stuff. And yeah, it would be great to have three more hours because that's great stuff. But we should wrap it up there. But thanks for all you do to make our spending so seamless every day. It's safe. It's easy. So, thank you for that and thanks for taking the time today.

Oliver Jenkyn

EVP & Group Executive-North America, Visa, Inc.

Thank you very much. Thanks, everyone. Take care.

David John Koning

Analyst, Robert W. Baird & Co., Inc.

Have a great day. Thank you.

Oliver Jenkyn

EVP & Group Executive-North America, Visa, Inc.

Bye.

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