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Visa, Inc. (V)

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MANAGEMENT DISCUSSION SECTION

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Okay. Well, good morning to everyone in the West Coast, which I think – if I could, Mike. And good afternoon or early afternoon to everyone in the East Coast. We're incredibly happy to have Visa join us for this fireside chat. We are using a Q&A box, so you can log in through the website. If you have any questions, please submit them. If you'd like to go the old-school way, you can just email me. It's jbeck@key.com.

So Mike was generous enough to publish a 8-K right before this chat, which we appreciate.

QUESTION AND ANSWER SECTION

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

So maybe you could just give us a little bit of a sense of a update on what you're seeing? And if there's any kind of notable implications as we think about Q4 and such?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

All right. So I want to thank you for having me. And, yes, we did the 8-K, just for you, Josh.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

I appreciate that.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

So, yeah, I think what we're seeing, as you maybe saw in the numbers, is that the trends are mostly stable so far this quarter. So starting with the US, US credit, the August volume was down 8% year-over-year, which is consistent with what it was in July, so stable for the last two months. Although, if you look at the weekly trends that we showed, credit was improving sort of late in July, so flat on a month-on-month basis, but some signs of improvement late in the month of August.

US debit is still continuing to grow incredibly strong. It's growing 24% in the month of August, which is down 2 points from July, but which in part is due to lower unemployment benefits, but still incredibly strong growth. And that's really being fueled by primary from cash displacement to see acceleration in cash displacement as well as some shift away from credit. Those are two of the biggest factors.

When you look outside of the US, the trends are similar in terms of payments volume in terms of what we're seeing in the US. We're seeing a lot of improvement in markets like Brazil, UK, UAE and Italy. So those are all markets that were already positive but have been continuing to improve through the quarter. And we highlighted a few other markets where they're positive [indiscernible] (00:02:44) stable to where they were in July in markets like Japan, Germany and Canada.

And then there are some markets that continue to be negative year-over-year but are improving through the quarter. We highlighted India and South Africa as two examples of that. That gives you a little bit of a sense for the payments volume. In cross-border, again, it's stable, mostly consistent with where we have been in the last several months. And that continues to be limited by the number of borders that are truly open where people can really move freely. So if you look at the results, our volume was, in the month of August was, negative 43%, so down 43% from last year excluding intra-Europe transactions. And we exclude those, again, because the premium of the economics is not the same as cross-border everywhere else in the world.

And that is one point better [ph] than (00:03:49) July. And so, a small improvement. But generally speaking, cross-border, it was negative 45% in May; negative 44% in both June and July; now negative 43% in August. So some small signs of improvement, but still early, a very limited recovery at this point. The good news is we are

seeing positive signs when borders opened. So on the earnings call we highlighted, for example, travel from the US to Mexico and the Caribbean, as those markets opened up, within six to eight weeks we saw 40-point improvement in the year-over-year performance. And we were seeing the same things with travel within Europe where a lot of the borders are opened.

And the most recent example of that is in Turkey, where Turkey opened their borders on August 1, to most of Europe and Russia and really that whole part of the world it's now opened its borders. And we saw pretty significant improvement for travel into Turkey as a result. So the good news is that, when the borders opened, we are seeing improvement in performance. But the reality is that, many of the borders are still closed. And so, there isn't a lot of improvement in the cross-border business at this point.

And then in processed transactions, in August it grew 3% and it exited the month at 5%. So it was continuing to improve through the month. And this has really been fueled by domestic transactions. So the entire recovery of processed transactions to being positive growth from where it was just a few months ago, is essentially all coming from domestic. And so, it's sort of mirroring what you're seeing with the volume. Our payments volume, as we've said, has trended back to positive year-over-year growth in many markets. But our cross-border business continues to be heavily negative, and the same thing is being reflected in our transactions.

So what that means is there's a little bit of a mix shift going on within our data processing revenue, where the transactions are much more a higher mix of domestic than cross-border. So when you're thinking about our data processing revenue, it'll continue to benefit from the growth of our value-added services as we called out in the quarter. But you're also going to have a situation where because domestic is growing a lot faster, domestic transactions growing a lot faster than cross-border transactions, the revenue growth may not improve at the same rate as what we're seeing in the underlying transactions because of that mix change. That's one thing to note.

But, otherwise, the quarter is mostly, I guess, as we would have expected and highlighted in our July earnings call.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.



Okay. Well, that's a really helpful update. Obviously, a lot to unpack when we think about debit and domestic and some of these international economies that are starting to open and the yield and such, so that's really helpful. So thank you for that. So maybe just a follow-up because there's so much attention on the cross-border. I think you were quite helpful in explaining really pre-COVID I believe it was two-thirds travel what was roughly the mix, excluding some of the intra-European dynamics.

So maybe just help us understand, like, as we go through this recovery process and it's very difficult to project, but what's the key mile markers that you're thinking about? How should we think about the relative importance of, say, consumer versus commercial? Just help us think through the pack and what we should be watching over the coming quarters and year?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.



Yeah. So there are few things I would highlight. So one is, just from in terms of consumer versus business are our cross-border volume is very consumer-oriented. So we've said and we disclosed that our payments volume is about 12%, is B2B. So we're 88% consumer, 12% B2B. And we said our cross-border business is even more consumer-oriented than our overall payments volume. And a lot of that stems from large business, probably, the

airline tickets, in particular, is something we tend to not capture in our cards because a large business will tend to go through some sort of travel agent, sort of an online booking tool.

And so, that means our cross-border business is very consumer-oriented, which we think is good because we believe consumers will still value experiences, want to see friends and family. And so, we think that part of travel will come back sooner.

The two dynamics to watch is, one, is the proximity of the travel. So when borders open, will people be willing to go as far as they did previously? And what we're already seeing, at least, at this point, although there's very small recovery in travel, that is a little bit better among countries that are closer to where the person's home country is then maybe we had seen before. So the growth improvement is a little better among countries that are a little more closer to home, which again is relatively intuitive. And that's the trend we're going to keep watching to see what that means for the business.

The good thing for us is, our economics are really based on you go into another country. So whether it's the country next door or it's half way on the other side of the world, no real big implication for us. But really the critical thing is the borders opening. As I mentioned, there's still – the large majority of countries, there are still a lot of restrictions in terms of quarantine if you go there. And so, it really – what we can't decipher yet is our people not traveling because they don't want to or they're not willing to or because they can't.

And at least where we see the borders open, we are seeing a significant improvement. Maybe not all the way back to 2019 levels of spend, but we're seeing a pretty meaningful change in the trend once the border opens. And that, at least, gives us some confidence and some optimism that if more borders were to open, we'd see some improvement. And then, of course, anything related to therapeutics or vaccine is also likely to help, particularly, because again it's likely to help with the border closings. And so, that's really what we're watching closely.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.



Okay. Yeah. I can definitely vouch as a pent-up demand customer to do some consumer travel, so I think that is a real thing. But also wanted to talk a little bit about eCommerce. So that's an area that we certainly have seen a surge in, which is fairly intuitive. And we have started to see, though, a bit of a gradual reopening, as you mentioned, some of the domestic strength. So I'm wondering, has that really maybe come at the expense of eCom or it slowed down or maybe has the strength persisted there? Any color you can share on that front?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.



Yes. That's one of the most powerful trends that we're seeing is that, actually as markets are reopening and consumers and small businesses are getting more and more out doing commerce in a face-to-face environment, we're not seeing a big slowdown in the card-not-present spending. And that's a really positive sign. So if you take the US for example because we disclose these trends, since mid-April, our card-not-present growth has consistently been over 30%. So incredibly strong growth, and that has been consistent now for several months.

Versus if you look at the card present spending, it was down more than 40% in April. And since July and August, it's been down year-over-year only in the single digits. So there's been a 30-, 40-point improvement in the card present; and the card-not-present growth remained steady over 30%. And this is something we're seeing in a lot of other markets around the world, where even as the markets are reopening again and people are going back out and shopping in a face-to-face environment, a lot of the behavior in the shift online appears to be sticking.

And as those card present numbers even get into positive growth, I guess, we'll see how much of that lasts. But at least, at this point, pretty dramatic improvements we're seeing in card present and the card-not-present growth sustaining.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That's really helpful. One of the other questions I wanted to ask is about the face-to-face that you're seeing with this domestic resurgence. Certainly, contactless has, I think, probably become a stronger value proposition. In some ways, I think it was always there. But it's one of those things I think is more top of mind. And here, you gave some helpful stats about the number of terminals that are capable and the issuance of cards. So maybe just help us think about the adoption of contactless. And maybe how that curve could be bent really because of everything that is taking place?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So there's no doubt that that's one of the things we're seeing. And contactless, particularly, is effective at displacing cash at the lower ticket levels, but it's really taken off in this environment as people are not wanting to handle cash. And we mentioned on our earnings call that we had about 50 countries where our contactless penetration of face-to-face transactions improved by at least 5 points just since the previous quarter.

So from the March quarter to June quarter, a 5-point increase in penetration, at least, in 50 countries. So it's a pretty significant change in adoption that's coming as a result of this. And most of that is fueled by – is outside the US. So as we've talked about many times, there's a big difference between what's happening in the US, where we're quite a bit behind, and the rest of the world, right?

So outside the US, two-thirds of all of our face-to-face transactions are now contactless that we process. So we already are well over the majority versus in the US, we're still in the mid-single digits. So where we are in the US is we have issued over – there are over 200 million cards out there now and we expect to have 300 million contactless cards by the end of the calendar year. And so we're making good progress there, but the penetration remains in the mid-single digits.

The good news is that as we've talked about before, we have many markets. So there's over 50 countries where at least a third of face-to-face spending is contactless. And so, we have a lot of adoption curves we can look at.

And where the US is at this point is where we would expect it to be what we've seen in other countries. So we said it takes two to three years for the adoption of contactless to really take off. It takes a couple of years for there be enough cards in the market and enough merchants to accept it, where consumers can feel like they can tap almost everywhere they go, and then once that happens is when it really takes off

And so, the US really started in the early part of the last calendar year. So we're still, say, 12 to 18 months away from when we would really expect to see a significant ramp in the adoption. But all the pieces are in place. As you mentioned, we're getting more and more merchants to accept it, more and more cards are being issued. And it's just going to take a little time like everything in payments, [ph] with a chicken and the egg (00:16:39). And we do expect that ramp and that increase to come. It's still just going through the process of establishing enough ubiquity on both sides of the ecosystem.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.



Really helpful. So, I mean, just to wrap these two points together, I mean, certainly your market share in eCommerce is higher, I mean, cash is effectively not an option. When you think about contactless adoption rising, certainly that's just showing really the affinity for digital at the expense of cash.

So it seems like as you wrap these things together and you look out multiple years that you could make the argument that the penetration of digital payments could be higher than maybe what you would expect in entering this year. I mean, we've seen some very powerful stats within eCommerce penetration and many companies that are focused on that [ph] space and demand (00:17:42) may have been pulled forward four to five years. So just trying to understand like is there a case where we look out multiple years and we look back and we just realize that the adoption curve of digital payments has gone up notably.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.



We believe so. I think the question remains to the magnitude, right, but there's – it's hard to – there's so much data now that suggests that there is an acceleration. It would be hard to say that there isn't. And the question is to what degree is all this going to stick as we talked about before once everyone is operating in the face-to-face world as normal, which is – a few countries are back to that point at this juncture, but we're definitely seeing it whether it's the eCommerce adoption, so we're seeing not only an incredible acceleration in the number of new users.

So in many [ph] mature (00:18:45) eCommerce markets, we're seeing a 10%, 20% increase in the number of active users of eCommerce on our cards, just since pre-COVID-19. And we're also seeing within those users an increase in how much they spend. And then in less developed eCommerce markets, we're seeing 50% – 100% in increases in the number of users of our credentials online. And we think that a number of those people are going to – have liked the experience and are not necessarily going to go back to how they were transacting before.

So, certainly the eCommerce is a significant acceleration, and then the same thing in tap to pay. I mentioned 50 countries having a 5% increase and that's with people – the heavy use cases in contact was tend to be things like transit. And when you step out at lunch at work and grab a sandwich or you grab a coffee, those are the things, those smaller purchases is where contactless tends to be adopted early. And a lot of those transactions have gone away and we're still seeing a big increase as just a lot of people are not wanting to handle cash. And so, yes, we do think that there's an acceleration here that will benefit the business in the long run.

And in addition to those two forces that are happening online and in the face-to-face, it's also those things that have [ph] trickle-down (00:20:18) effects in terms of the demand for authentication and fraud capabilities online where we can sell additional services. It's putting more emphasis on tokenization and better securing the ecosystem.

We're unlocking G2C use cases in terms of the government distribution of funds to consumers. We've always highlighted that as a Visa Direct use case, but we didn't have real life examples until COVID and now we have several. And that is opening government's eyes as to different ways that they can approach the disbursement of funds to citizens. So these are all things that we're seeing that are a little bit unlocked by COVID. And the great thing from our perspective is that all of these things were key pillars of our strategy before COVID, right. So these were all the things that we were already focused on. They're just, as you said, sort of being pulled forward or accelerated as a result of this unfortunate pandemic.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

Really helpful. I'm kind of curious on maybe some of your longer-term initiatives, if there's been notable impact. So certainly you've made some good inroads with click to pay in your SRC button. So, maybe just help us think through if there's been any notable change in that initiative and really how you're thinking about that opportunity over the next several years.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So, there is a huge opportunity as we just talked about how much eCommerce adoption is increasing. And there is still just too much complexity in the online experience, in terms of card abandonment, high fraud and particularly in guest checkout. So around the world, about half of eCommerce is still done via guest checkout, and that is where there is particularly heavy friction, right?

If you have your card-on-file or maybe you're using something like PayPal, then a lot of that friction is removed, but there's still a big portion that is the guest checkout and that's really the primary focus and target for [ph] secure eCommerce (00:22:39). So there's no doubt that as more and more people go online, we would like to improve that experience as much as possible.

And it really comes down to providing a simple and consistent experience, both for consumers and merchants and then reducing fraud, primarily by using [ph] – which also – and (00:22:58) two-factor authentication capabilities. And once you do that, like just the use of tokens, for example, we see a higher approval rate from insurers because they're more confident that the transaction is good. And so, this is something that is creating, I guess, even more momentum in this initiative.

We have migrated over 10,000 merchants in the US through June and we have just started to expand into other markets. So we're currently live in 10 markets and now have about 2,000 merchants in those markets, places like the UAE, UK, Poland, Australia. So we are rolling it out, but just as we talked about with contactless in the US, you always have a chicken or the egg issue in payment. And so, we're really focused on the merchant side right now, trying to get it enabled as much as we can so that when we make a push on the consumer side, both through our own efforts and through our issuer partners, that consumers can use it in many places. So right now, we're happy, we're making good progress, but we're still a little ways away from it being a scaled solution on both sides of the ecosystem.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Q

That's very helpful. Maybe shifting gears a little bit to more developing economies, where the penetration of cash is well above 50%, so areas like LatAm and Asia. Have there been any notable changes, maybe in your trajectory in these areas? Obviously, you have to think about some of the super apps and certainly it's a partnership model as well. So maybe just help us think through some of these emerging economies and how you're thinking about the opportunity in those regions to displace cash?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So, I mean, there is an incredible amount of cash in those two markets. In Latin America, for example, we've said that we size the cash and check opportunity in Latin America at about \$2 trillion. And what's interesting is we have over \$500 billion of cash accessed on Visa cards that go to the ATM already in Latin America.

And, in fact, our volume in Latin America of cash is actually higher than payments. So there are more people going to the ATM to withdraw cash than using their card to actually make purchases. So that's just an incredible opportunity where consumers are already using our capabilities maybe just not in the way ideally that we would like, but that's really the focus, is to get them to shift from going to the ATM to just making purchases directly at the point of sale.

And there's really three ways we're doing that. So one is you've got to grow acceptance. So we're focused on penetrating particularly everyday spent categories and in a number of emerging markets, we still have a lot of work to do. And the great news is in the last two years, we have made huge progress here.

So you may have noticed in our disclosures each of the last two years, we've grown our acceptance points by double digits. And you might say that's a little bit surprising given how much [ph] short the business is (00:26:25), but there's so much new innovation in the area of acceptance, whether it's with QR codes or tap to phone, is now coming – there's just – and we're working with new types of payment facilitators and acquirers where we can really grow acceptance quite quickly.

So, for example, in Mexico, it's a great market because it's a large [ph] and down (00:26:52) tourism market. And almost half of that spend or inbound tourism into Mexico is made on a Visa card or a Visa card is used in some way, but there's still a lot of cash. So we've partnered with a company, a really innovative partner called Clip, where we have enabled more than 300,000 or really us together with Clip have enabled over 300,000 new merchants in less than two years. And there's lots of specific partners in each market where we try to identify to expand that acceptance.

We also are focused on the user experience. So things like we've already discussed in terms of what we're doing online and with contactless. And then, finally, an important thing in a lot of these emerging markets is just the consumer education. So we will target our marketing ad campaigns really focused on consumer and merchant behavior and how to use electronic payments and the benefits of them.

And in Peru, for example, we ran a major campaign. And after the campaign, we saw through consumer surveys that the intent to use among consumers and merchants to accept was up over 10% and the Visa transactions grew by more than 4%. And so, there is a big component of that in terms of – to unlock these markets is just helping both consumers and merchants see the value and that's what we're focused on.

In terms of what you mentioned about the super apps, the great news for us and in our view one of the biggest developments in payments and the reason two to three years is that these closed-loop [ph] e-bill (00:28:46) systems are opening up and are becoming our partners and it's happening in all parts of the world and we think that's a huge opportunity to both [ph] expand insurance (00:28:54) and acceptance.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Okay. Great. Well, I would like to end on a very futuristic topic. So that was very helpful to take us through emerging markets and super apps. That's been a great conversation, talking a bit about the state of the business and what you're seeing. So it's been incredibly helpful. We really appreciate your time. I know you're incredibly busy working from home, obviously, managing a very large workforce. So we're really appreciative of your time, Mike, and thanks again for joining us and I hope you have a great rest of the day and rest of the week.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Thank you so much for having me.

Josh Beck

Analyst, KeyBanc Capital Markets, Inc.

Okay. And thanks everyone for joining. Cheers.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Thanks, Josh.

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