08-Dec-2021

Visa, Inc. (V)

UBS Global TMT Conference

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Rayna Kumar
Analyst, UBS Securities LLC

MANAGEMENT DISCUSSION SECTION

Rayna Kumar
Analyst, UBS Securities LLC

Hi, everyone. I'm Rayna Kumar, and I run fintech equity research at UBS. We are now at the last session of UBS' TMT Conference, and we have saved the best for last. So, grab your final cup of coffee for today. It is my pleasure to introduce Vasant Prabhu, CFO of Visa.

Vasant, thanks for joining us today and closing our conference as a keynote.

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

Thanks for having me.

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QUESTION AND ANSWER SECTION

Rayna Kumar
Analyst, UBS Securities LLC

Q

Great. So to start off with, a big part of Visa's strategy is to be a network of networks and being able to offer consumers payment choices. So, hypothetically, if consumers choose to move money through alternative non-card rails where Visa plays a role, how does this impact Visa's revenue model and operating margins?

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

A

So, as you have said, for several years now, we have not only massively expanded the functionality of our own network so we can serve vastly more use cases, we have also adopted a network of networks approach where we are able to get your money wherever it needs to go regardless of the network it needs to ride on. So, you can grow from account to account or card to account or account to card and so on. And Visa Direct, for example, has been at the leading edge or doing this. Visa Direct today can take your money over 66 ACH networks in addition to, of course, our network, 16 card-based networks, 7 RTP networks, 5 gateways and so on.

So, there's been questions we get, as you know, about are you losing volume to ACH, RTP and so on. In fact, it's quite the opposite that's happened. What's happened over the last five years if you look at it is that we are the ones who have been taking volume from other networks in many ways or co-opting them into our ability to move money. If you look at P2P for example, several years ago, most of P2P was ACH. Today, the vast amount of P2P rides on rails that are mostly debit rails. You look at insurance disbursements, you look at earned wage access, again and again you see a variety of use cases that used to be solely on ACH networks are essentially now either on our rails or in our network of networks.

So, as you think about the whole network of networks approach, what you really have to understand is that we are offering an end-to-end service branded by Visa, which means that it's not just that they're using a pipe, we are offering a service that is tailored to a use case branded Visa with the security we offer, the reliability we offer, the ability to resolve disputes and get your money back, tokenization if you need it, and I can go on and on. So, it's a bundle of services. It's not just the use of a pipe.

And so, the pricing is a function of the value you create, and the value you create varies across use cases, and the pricing achievable varies across use cases. And many people look at our debit and credit and say, okay, this is a price people pay for it. But in debit and credit, as you know, that gets split to three ways, at least: there's issuers, there's acquirers, and there's us. And we are the smallest sliver. In some of these other use cases, there may not be anybody else. And so, whatever the price is, we either keep most of it or a large chunk of it.

So, the price people pay doesn't always tell you what yield we achieve. And the yield we achieve does vary depending upon the use case. So, if it's cross-border use case, the yield is high. It all depends on the value you create, as well as the value relative to options that that use case might have. So, yields are good, they vary. They are, in many cases, not to be measured like basis points. So, if you look at – some of these are very high ticket transactions that get priced on dollar a per transaction. And if you look at the fee we get per transaction, it can be quite a bit higher than what we give on the a debit or credit transaction.

So, we love the business and the most important part of it is it's truly incremental. Most of these are flows we would not otherwise have. And most of these are flows that will not only use our pipe and other pipes but also use

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a range of our value added capabilities. As you know, we have the ability to tokenize any transaction whether it's on our network or not. We can provide dispute resolution on any network. So, we've built a range of capabilities that are all very valuable and we love the business, and it has extraordinary potential because the total available market is maybe 10x what our traditional consumer payments market was.

Rayna Kumar
Analyst, UBS Securities LLC

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That's wonderful detail. So, on your fourth quarter FY 2021 earnings call, you shared internal planning forecast, which included incentives at 26% to 27% of your overall revenue. Are you seeing any changes in the competitive market that is causing the incentives to increase more than usual? Or is it more related to mix factors such as reduced cross-border travel?

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

A

Yeah. The short answer is that there is no structural change going on in incentives. Absolutely nothing. It's the normal cadence of what happens with renewals. And structurally, the incentive deals are not any different than they were before. There's no change in who gets incentives. There's no change in terms of the longevity of deals. People are renewing with the same lens as they did before. Some deals tend to be more competitive than others. Some clients we work with are bigger than others and therefore, those can be more competitive. But there's no structural change.

Unfortunately, as you know, there's been some difficulty in interpreting this number mostly because of COVID and the impact it had on our business. And it's really two things. So, in 2020, when COVID hit, you've seen a massive change in the mix of our business. So, cross-border today is a much smaller part of our mix than it used to be, partly because the domestic business is doing extremely well and recovered very fast. Whereas cross-border, especially cross-border travel, has not recovered as fast until now because borders have been closed. It's not because people don't want to travel. People absolutely want to travel, and we can talk more about that. But borders being closer means they can't travel.

So, in 2020, the change in mix was masked to some degree by the fact that incentives dropped because domestic volumes dropped. In 2021, domestic volumes have begun to recover and cross-border recovered a bit, recovered better than we expected but still is not back to where it used to be. In 2022, we are lapping some of the benefits we got from lower incentives in 2021 due to volume related issues. So, incentives are climbing on the domestic side and cross-border is recovering. And so, it's all a function of mix. If you adjust for mix and then the dust settles, you will find that the percentages are no different than they would have been [ph] and (00:07:42) COVID never happened.

So, the short answer, again, to repeat, there are no structural changes. What there is noise. And the biggest component of the noise that's left as we look at it right now is the mix of cross-border. If cross-border does better than we expected, which it's beginning to do and we'll see what the impact of Omicron is, then certainly, I mean, the percentage will get better.

The last thing I would say is that the percentage can be the wrong thing to look at. In the end, it's how much is your net revenue growth. That's what you get to take to the bank. And we said that our net revenue would grow at the high end of mid-teens. If the cross-border business recovers faster, it could grow faster than that. So, bottom line, really nothing's changed other than noise.

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Rayna Kumar
Analyst, UBS Securities LLC

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Got it. Okay. So, I guess, on that point, is there any update you can give us on how volumes are trending this quarter? Any impact you're seeing right now from the new COVID variant? And if you can also talk in more detail of the importance of the US and APAC cross-border corridors to Visa, that would be helpful.

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

A

Sure. We do provide mid-quarter updates and we provided one last week, so it gave you a good sense of how things were in October and November. And I think the news, I would say, was all very good in October and November. In short, the cross-border business has been recovering faster than we might have expected even eight weeks ago. We saw a lot of announcements in November of border openings. We've told you many times that it's hard to predict the trajectory of the cross-border business because it is not driven by what consumers want to do or by economic factors, it is driven strictly by what governments choose to do in terms of opening borders or lifting quarantines and things like that.

So, in November, for example, we had the US opening on November 8 for inbound travel. We had a variety of announcements in Asia which was earlier than we had thought, where Thailand opened its borders significantly. Singapore announced a phased opening. Korea is announcing a phased opening. Australia and New Zealand started to open things. Now, we'll have – we'll wait and see whether Omicron has some impact and most likely it'll be a short-term impact. We started to see that in Chile, Argentina and so on.

So if you look at what happened to our numbers in October and November, our cross-border recovery was quite impressive. It was at $106 billion in total ex-intra Europe. So, we were already about 2019 in total. Within that, the travel part was already at 75%, which was clearly well ahead of what we were expecting. The momentum in travel recovery cross-border has been very good. It's very much what we expected. When borders opened, things pick up very fast. So for example, the US opened on November 8. By the end of November and the last week, the US was 25 percentage points higher relative to 2019 than it had been in October. So, it's a very fast recovery that was underway, and a lot of this was coming from Europe. So, travel was doing well and card-not-present cross-border was holding up extremely well, indexing at well over $150 billion.

So, we'll have to see what impact Omicron has. Right now, it's too early to tell. There's probably going to be some short-term impact because we are definitely hearing about things becoming a little harder in terms of border crossings. On the domestic side, things are very strong. The US domestic volumes held in the 130s. Debit is in the 140s, still very strong even as credit has recovered to $125 billion. Card present is now almost indexing at $120 billion. So, it's getting back to, let's call it, the pre-COVID trend line and card-not-present is well ahead of the pre-COVID trend line at $150 billion-plus.

So, two structural gains we had during COVID are holding up pretty well, namely debit is very resilient even as credit comes back, and e-commerce is very resilient even as card present comes back. And we're seeing that in most parts of the world.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Well, based on what you're seeing right now on cross-border travel, I'm wondering if the internal targets that you set and communicated on your last earnings call that assume only an 80% return of cross-border travel next year, would – or could that deem to be too conservative?

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

A

Well, until Omicron came along, we were clearly – the recovery's still even stronger than we expected, without a doubt. Now, we'll see what impact Omicron has. We – it's very hard to predict the trajectory of the travel recovery, so you could have a very fast recovery that maybe becoming – the second derivative may start to slow down as we go further. We don't know. The facts are, though, that consumers clearly are demonstrating that there's a pent-up demand for travel. They're clearly demonstrating that anytime borders open, there's immediate action and immediate pickups in volume.

So, yes, I mean, based on the trend in November, the trend was well ahead of our expectations. And had this Omicron strain not come around, I would be able to tell you categorically that the cross-border business was recovering much, much faster than we expected. And in fact, the border opening announcements were a lot better than we might have thought. We thought Asia may be more conservative, may open up a little later in the year, but the Asian countries were starting a pretty aggressive program of opening up. And so, we'll see whether Omicron slows things. I personally think whatever happens will be temporary. The momentum for it is quite high right now. People do want to get out and travel cross-border. We'll see how December plays out. It's too early right now to understand what the impact is.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. Okay. So, if anyone has any questions for Vasant, don't be shy, type them into the chat box and I'm happy to read them out. In the meantime, I will continue with my questions. So, Vasant, at your last Investor Day in February 2020, you identified $185-trillion volume opportunity from new payment flows. So, can you discuss how successful Visa has been in penetrating that TAM since you gave out those – that target? And what do you think represents the biggest challenges to penetrating new money flows?

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

A

Well, we remain as confident, if not, more confident that that large 10x growth opportunity remains. And through the last two years of COVID, we've made substantial progress on that front. I guess the best example is Visa Direct. That addresses about $65 trillion of that opportunity. So, if you just look at Visa Direct, we had $2 billion transact – first of all, there was no Visa Direct five years ago. In 2019, we had $2 billion in transactions. We finished 2021 with $5 billion. So, it's more than – it's two-and-a-half times as big as it was just two years ago.

And the reason it's happening is that we've really made extraordinary progress in one of the early use cases for Visa Direct, which is P2P. It's our largest use case. In fiscal year 2021, we had more than 200 P2P programs globally. Another major use case in the early days of Visa Direct has been insurance disbursements. That is growing very fast. We've added a lot of insurance companies, including nationwide lately.

So, the first leg of the growth has been these big initial use cases. The second leg of the growth has been everything we're doing on the cross-border front with Visa Direct. It's a higher yielding business. Remittances is as big as foreign direct investment. Visa Direct is actively going after the remittance business. All the major remittance players have signed up with Visa Direct. Western Union has signed up with us to go to the Philippines, Thailand, Colombia, Jamaica and so on, in addition to the other countries. We offer these remittance players a much more flexible, a much faster and a much cheaper alternative. So that's the second leg of growth, is building the cross-border business.

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And then, the third leg is adding use cases. We've added a variety of new use cases. We have over 20 live use cases today. That includes things like tipping, fundraising, brokerage account funding, airline vouchers, etcetera, all part of Visa Direct. And then, we are getting into more markets around the world.

So, that gives you a flavor for how you build this new flows opportunity. If you go past Visa Direct into B2B, we are already very large in the carded B2B business or the traditional B2B business, which is about $120 million in total in new flows. $20 trillion of that is in card payments. We're the largest player with over $1 trillion in payment volume already. That business took a hit during COVID but has come back very fast. We've added many new customers, like Credorax in Europe, like Standard Bank in [indiscernible] (00:17:36), like Ramp, one of the newer fintechs. We have expanded our relationship with JPMorgan Chase. B2B Connect, which is our solution for cross-border that targets about $10 trillion in opportunities at high yields, is now able to operate in 100 markets, and we have a great partnership with Citi to be a global settlement bank, which allows us to take advantage of their extraordinary network.

And then you have the big AR/AP area where there's a variety of initiatives underway. I would say the one area that will take longer to develop because you really have to go deeper into the value chain is the whole doing accounts receivable and accounts payable for large enterprises. I think that's the area where we continue to partner. We're trying different things. It's a large opportunity. It's going to take some time to develop.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. So, Vasant, where do you think consumer payments trends over the next 10 years? Will credit and debit cards still be the payment method of choice for merchants and consumers? Or do you expect account to account like payments to win share?

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

A

Credit and debit have been around so long that people have forgotten what the value proposition is. The value proposition of credit and debit is not just a transfer of money from you to a merchant, right? It's a lot more than that. If you think about it, at the heart of it is trust. The whole proposition here, whether it's credit or debit is the merchant has to trust that they're going to get paid because they're letting you buy a product or get a service and leave on the basis that your Visa credential will pay them. And we have settled every day for over 60 years, merchants have been paid on time, never failed, right?

So, merchants have to trust the system. You, as a consumer, have to trust the system that this credential you're offering is going to be accepted almost anywhere you go and it's never going to fail. Reliability and acceptance, you have to trust in that. If you don't trust in that, you would never leave home without cash and you would be in trouble if your credential didn't work. So, you have to trust the credential.

In addition to that, our issuing banks and merchants want to make sure that there's as little fraud as possible. We have to make sure that happens. We have to trust that there will not be fraud. They have to trust that – as a consumer, you have to trust that if a mistake was made or you're unhappy, that you can reverse the transaction. And I can go on and on.

And surrounding all that is the Visa brand that gives you the assurance that the merchant will accept it and there will be more merchants who accept it than any other credential, that it's always going to work, that it's going to be safe and secure. And oh, by the way, you can get your money back if you're not happy. That's the promise. And that's an extraordinary service.

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And now, we're constantly innovating. So, if buy now, pay later is a credit innovation, great. If people want to consume credit in a different way, we're perfectly fine with that. We don't think it hurts our business. We think it helps our business when there's innovation in the way credit is done. When there's innovation like we do where we make it easier for you to use a debit credential by embedding it in a wallet or giving you something you can just [ph] stack (00:21:07), that makes it even more valuable. So, people have forgotten what an extraordinary proposition credit and debit are.

Just because there's a rail out there doesn't mean it offers that value. Many of these rails are not as reliable. They're not as secure. They don't offer you dispute resolution. There's a lot of things they don't do. So, I am absolutely certain that credit and debit will remain extraordinarily value propositions for a very, very long time. I think people have just forgotten that it's not just a pipe, right? It's an entire set of services that get – that come together to provide what is a credit transaction or a debit transaction. And in the heart of it is a network that pretty much gets everywhere and that everybody trusts, and that's where the value comes from.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Great. Okay. To keep things interesting, we're going to take a question from the audience, which is tied to what you just said, Vasant. So, the first question is how does Visa's economics changed from accepting credit and debit versus another payment option?

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

A

Well, the economics between credit and debit, at least for us, are not very different. There may be different levels of interchange and all that between credit and debit in different parts of the world, but our economics' relatively similar between credit and debit.

In terms of other ways we can facilitate payments, I think we talked about it earlier. There are many use cases. Some of them may not ride on our rails. They may not be traditional credit or debit. Some of them have higher yields than credit and debit. So, something like cross-border remittances could have a higher yield than debit and credit. It all depends on the use case. It all depends on how much of value is being created in the use case and what their alternatives are. So, it's definitely possible to have higher yields than credit and debit for Visa in use cases that are not credit and debit.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. Okay. I just want to shift the focus over to your value added services, and that's been a big differentiator for Visa. Can you provide examples where your value added services has helped you win new credit and debit portfolios? And what are the biggest drivers in that part of Visa's business, and how has that evolved during the pandemic?

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

A

Yeah. So, value added are services that we can add on around our core authorization, clearing and settlement capability. And value added services can do a variety of things that create more value for either merchants or our issuing clients. And I would describe them in two buckets. One bucket is services that are very tied to transactions themselves, and then the second bucket is services that are additional value that go beyond the transaction itself.

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The services that are tied very closely to the transaction itself are things like fraud prevention, and authentication, and issuer processing, and CyberSource, for example. The pricing there is very transactions driven. It's a very attractive business with economics very similar to our core business.

And look, when it comes to fraud, we win business all the time because of who we are in terms of we have the largest network. And the more transactions you see and the better your AIML capabilities in your models, the better you're going to be at fraud prevention. I would argue that we can do a better job of preventing fraud than our competition partly because I think our people are better but partly also because we have more data. And so, you know if you are an issuer or a merchant that Visa can make your fraud be lower than almost any other alternative.

Similarly, we can provide fraud services to merchants through CyberSource. CyberSource has a very large base of transactions. They don't just see Visa transactions. They see more than Visa transactions that allows them to be better at fraud because they have a very large set of transactions that they can evaluate. So, fraud is an area where we clearly – and I would add identity and authentication to that. But we can clearly provide a superior – superior outcomes for our clients.

For example, 40% of our clients use 5 or more of our value added services and 30% of them use 10 or more. And that's up from 2020 by almost 20%. The amount of fraud we [ph] see (00:26:07) in our networks, the numbers are huge. So, that's an example of something that we can do better than our competition and is often the reason why people will come to us in addition to that being another revenue stream.

We do issuer processing. We're the largest processor for issuers. We've been doing that for a long time. We do a lot of debit and prepaid issuer processing in the US. That business has grown dramatically. We're taking this outside the US, helping fintechs and banks that are getting into debit to do that issuer processing for them. We're expanding on that platform to be a great solution for people who want to be up and running quickly.

CyberSource has expanded. It's now working through acquirers. We've signed up some huge acquirers around the world like SMBC in Japan, Barclaycard in Europe, NAB in Australia. We're all white labeling CyberSource as a capability they're offering because we have a capability that would be very expensive for them to build. So, we've added 25 new acquirer partners and 45,000 merchants as a result.

So, about two-thirds of our revenue comes from these transaction-based services, most of which show up in our transactions processing or data processing line. Another third is split between services and other revenues, and those are things like card benefits. So, we provide a variety of benefits on our cards. That's a service we offer. Things like identity protection, insurance, etcetera. And then, we have consulting services, which have been growing extremely fast. We also do co-marketing with clients.

So, that's the range of value added services. Essentially, what they do is they deepen your relationship with a client, and that is good for them and good for us because we just create a lot more value for both sides when we do that.

Rayna Kumar
Analyst, UBS Securities LLC

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All right. Great. So we have an audience question related to that. Vasant, at some point, do you break out the revenue lines of value added services given the success you've had over the last several years?

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

A

Yeah. What we're they're trying to do is – we sort of set up a certain way in terms of how we report our P&L, and changing that is somewhat complicated. So, what we've tried to do is to help you understand how big the value added services business is, where the revenue shows up, and how much it's grown. So, we don't have plans currently to change how we report for GAAP purposes, but we will continue to provide more data on our value added services business.

Three data points I would give you, as you think about it is, we said that at the end of 2021 our value added services business was about $5 billion in revenue. So that's one data point. It gives you a sense of its size. We also said that about two thirds of that revenue shows up in our data processing line on the P&L, revenue line on the P&L, and about one third is split between the service revenue line and the other revenue line. So, that gives you a feel for where that $5 billion is.

The third thing we've said is that all the way through COVID, it grew in the high teens. So, the business was quite resilient all the way through COVID. Not all parts of the business were resilient, but for example, the fraud prevention part of the business was booming, CyberSource did extremely well. The travel-related benefits were under some pressure as you can imagine. So, that gives you a feel for sort of where the business is and how it's growing. And we also told you that in 2022 we see value added services growing in the high teens again. So hopefully, that gives you a sense of the size and growth of the business, and we'll continue to provide data along the way so that you have a good sense of how the business is doing.

Rayna Kumar
Analyst, UBS Securities LLC

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Yeah. No, that's great detail. So, moving on to Amazon, what's the likelihood Visa can mend its relationship with Amazon and continue to offer the co-brand in the US?

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

A

Well, it's unfortunate that Amazon has chosen to do what they did. There was no need to punish UK consumers for something that had nothing to do with them. Just to be clear, there's been a lot of confusion about this. Our cards are usable in the UK today. UK consumers can and should use them. They're usable over the holiday period. There's been a lot of confusion as to why Amazon did this in the UK. There really is not any difference in our pricing between credit and debit. So, it's not clear why you would punish credit card holders in the UK. Interchange in the UK is regulated. 30 bps on credit, 20 bps on debit. It's not like we set it. It's been regulated for a while.

There was some talk about this relating to Brexit and cross-border interchange. We don't see how that applies. So, it's hard to understand why that is the reason because you have – you would have to believe that Amazon ships all its products that are sold in the UK from outside the UK and that you should ask them. But doesn't seem to be the case.

So, look, these things have happened in the past. The unfortunate thing here is they have chosen to penalize a group of consumers that have really nothing to do, have no dog in this fight, so to speak. And there's a lot of sort of, let's call it, misinformation out there that we are obviously clearing up. We think we'll sort it out. We've sorted this out before. We will get back to the point where our relationship with Amazon goes back to where it used to

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be, including the co-brand. Of course, it takes two to tango. And we are definitely working to resolve all the issues, and I believe we will.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Understood. So, similar to Amazon, how likely is it that other merchants will use surcharging to negotiate [indiscernible] (00:32:30)?

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

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Well, surcharging is never a great idea because consumers have made it very clear that they see these kinds of expenses as not something they should be paying for. They expect that these will be paid for by the merchant. And all the surveys say that consumers don't react well to surcharging and, in a way, this is something that hurts merchants as much as anybody else.

Surcharging has prevailed in many parts of the world, even in the past. Even in the US, you see surcharging in gas stations, for example. It tends not to change behaviors too much. I mean, if they're paying a surcharge on our credential and they paid on any competitor's credential, it's a cost that they'll have to bear one way or another. They don't like it. But it doesn't seem to change behaviors. We've not seen a lot of change in behavior in Singapore and Australia, where surcharging has happened to Amazon. And on Australia, others have surcharged too. And typically, it's the merchant who has to worry about it, not so much, let's say, the card network.

So, will merchants use some of these as negotiating tactics like Amazon is doing? Perhaps they might. We work with all our merchants closely. Our goal is to have relationships with them that reflect who they are and pricing with them that reflect the value that we create for them and the value that they create for the network. And most of the time, we as you know come to arrangements that make sense for both sides.

Rayna Kumar
Analyst, UBS Securities LLC

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Understood. So, a question I get often from investors is really tied to regulatory risk. And I want to know from you, what do you view as the biggest regulatory threat to Visa?

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

A

Well, regulation has been around the entire time we've been in business. And we have to make sure that regulators understand our business and we have to make sure that they appreciate the value we create. And we can also be very helpful in countries where they're trying to build up their payments networks and so on.

We engage with regulators all over the world. Nationalism is not new. People have forgotten that in the 1960s and 1970s when Visa was expanding in Europe, there was a lot of nationalism. Every European country had created their own domestic schemes. Every European country, in many cases, created their own domestic processing networks. And yet, we have a very large business in Europe. Our business in Europe is as large or larger than our business in all of Asia.

So, regulatory involvement and governmental involvement in our business is not a negative. Sometimes when governments get involved, what they do is they actually grow the pie, right? Because they're building infrastructures. They encourage people to use digital forms of payment. They encourage merchants to accept

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digital forms of payment and the market grows. We've seen that in India. Our business has been thriving despite the growth of UPI, the whole market has grown. I'd rather have a sizable chunk of a business that's 10 times as big than 80% of a business that's one-tenth the size.

So, we view nationalism or governmental involvement as not necessarily a negative, in fact, could potentially be a great positive. What we don't like is some of the things that some countries at least one country has done over the years, which is to keep us out. As long as we are allowed to operate, even if there is some tilting, let's say, of the playing field in favor of domestic players, that's fine. We'll play by whatever the rules are. If people want us to have local processing, we'll do that. If they want us to maintain data locally, we'll do that. We'll play by whatever the rules are that people set for us. And when we do that, we've always done well. What we don't like is regulation where we are essentially told you can't do business, and that is very rare.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. Okay. So, we have another question coming from the audience. Can you talk about the Tink acquisition and how Visa owning the asset will enhance its capabilities?

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

A

Well, what Tink in a certain – in Europe open banking is something regulators and central banks are all very keen to promote. We think it's a great idea. We think anything that promotes digitization of businesses is a good idea. Tink has built a platform that we like. It operates in multiple European countries. And today, it's a consolidator of data.

So, it adds an additional element to our business. It's an extension of our business into being able to provide data. It's data that consolidates all your financial information, which is very valuable both to a bank so that they get a full picture of your financial situation, and to you because you can, in one place, see your full financial picture. And that allows for a variety of use cases that come out of it whether it's account verification, whether it's doing some credit scoring, and so on. So, in that sense, Tink is a nice addition to our business.

It also gives us another way to access accounts. And down the road, to the extent that payment facilitation can happen, it's part of our network of networks strategy. So, it's another – it's a – we can help them – we can help Tink utilize the infrastructure they have built to do payment facilitation whenever it makes sense to do.

So, our goal is to help build open banking in Europe and then around the world. And in that sense, we think our involvement will really give that open banking business a nice sort of shot in the arm as we bring our credibility, our brand, our resources to promote open banking in Europe helped, of course, by Tink and its platform.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. Okay. What are your biggest M&A priorities and how does your deal pipeline look right now?

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

A

Well, as you know, we have two transactions that will hopefully close soon. Currencycloud is one. We're very excited about that. It expands our currency capabilities, which are becoming very important in many of the new use cases we get into. So, for example, when you do cross-border remittances, currency is important. When you

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have businesses like Revolut that are providing the real-time FX – providing real-time FX capability, this is very important. Those are all things you can do through Currencycloud. And then Tink, you talked about, is also ending.

Look, our focus on acquisitions is that if something is faster or cheaper to buy or it's a capability that we would rather buy than build because we have other priorities, then we will buy it. Typically, there are capabilities that either facilitate one of our businesses or expand the scope of services we offer. So, for example, Earthport was a major increase in our ability to reach bank accounts, and that was a critical element of building on new flows business and becoming truly a network of networks. Verified was an opportunity to expand what we offer in dispute resolution. Tink – Currencycloud would be an expansion of the services we can offer in FX. Tink allows us to offer a data service linked to open banking.

So, it's adding to our value added services, it's facilitating the growth of our new flows business and it's anything that substantially enhances the functionality and capabilities of our network. So, CardinalCommerce was authentication. That's an important part of our business. CardinalCommerce has thrived as we've grown it internationally. So, that's typically what drives our acquisition strategy. We tend to be very selective. We tend to be quite careful because it's very easy to buy companies. What's much harder is to then integrate them and create the value, and we'll continue to do that.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. Okay. Well, since we only have a few minutes left, I will ask you one final question. As we enter 2022, what are you most excited about for Visa?

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

A

Well, I think there's a lot to be excited about. Frankly, some of the concerns we hear about are overblown. The network remains very – continues to build its nodes, and the value of the network is driven by the spread of the nodes, as they say. And as we become a network of networks, our nodes are expanding exponentially. The capabilities of our network have expanded exponentially, so the use cases we're serving have mushroomed in ways that we have never seen in the 60-plus-year history of Visa.

For the first time, we not only have our core payments business, which has two now structural growth enhancements going on. One is cash digitization has accelerated. We believe in a permanent way, especially in emerging markets. And the second is the shift to e-commerce has accelerated, and these are sustaining even as people are coming back and shopping in stores. And even then, we see this acceleration.

We have a really strong and fast-growing inflows business, which serves use cases we never used to serve before. And we have a very large and fast-growing value added services business that's still very resilient through the pandemic. So, we think we are set up for structurally higher growth coming out of the pandemic, and we still have a year or two of recovery growth because our cross-border business is still recovering.

So, as you look at the next three to five years, we feel very excited about the kind of growth that this business can deliver. And, as you know, it's a business that generates extraordinary cash flows. So, it's going to be an exciting time. We couldn't feel better about the business than we do today.

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Rayna Kumar

Analyst, UBS Securities LLC

Wonderful. Well, Vasant, thanks again for keynoting today. It's a pleasure having you. To everyone else, thanks for watching. This now concludes UBS' three-day TMT Conference. Have a good evening, everyone.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Thank you. Bye.

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