08-Mar-2022

Visa, Inc. (V)

Wolfe Research Fintech Forum

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Darrin Peller
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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning and welcome to Wolfe Research FinTech Forum hosted by Wolfe senior analyst from payments processors and IT services, Darrin Peller.

Darrin Peller

Analyst, Wolfe Research LLC

All right. Thanks, [ph] Sanjay (00:00:15), and good morning, everybody. Thank you very much for joining. I want to thank everyone, particularly my teammates, as well as the corporate access team, sales, everyone else here in the logistics at Wolfe for helping put this conference together. We're really proud to have more than 100 public and private companies participating in over 50 fireside chats and panels throughout the next three days.

As you know, the conference is going to be held in really a virtual manner, as well as some on-site meetings. So, we're trying to make it as hybrid as possible with the hopes that next year we'll be back to completely in-person. We expect to come away with incremental takes on a number of macro themes, including updated thoughts on some of the geopolitical implications as well as the pandemic-related impacts on the names, but I think more importantly just longer term thoughts on the latest industry themes and some of the read-throughs for the names in our coverage universe.

We're going to have a ton of key discussions on a lot of industry themes, including the likes of consumer behavior post-pandemic, obviously are going to have important implications on names like Visa, Mastercard, PayPal, Global Payments and many, many others across the space. We're going to talk a lot about cross-border and payments there. We're going to discuss buy now, pay later and have a whole panel discussion with PayPal as well as others on that.

Payback enablement, we have participants from the industry to talk about – talk us through those themes, as well as gateways, B2B payments, POS technology; Square, Shift4, Fiserv, Global, FIS and many others on that. Domestic and international acquiring and just bank technology and the evolutions that have been happening have been pretty robust and pretty quick. We also have a great VC and private equity panel that's going to be speaking

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throughout the conference, and we'll have some great takes on whether the bid-ask spread on M&A might actually be pulling back together again given some of the valuation changes we're seeing.

For our coverage, we're going to also look for insight for a number of names in our coverage. We have the CEOs of names including Visa and Mastercard; all the merchant acquirers Global, FIS, Fiserv and the new CEO of Western Union, along with CEOs and CFOs of many other names, Shift4, PayPal, [indiscernible] (00:02:31) and others that are going to be meeting or presenting in the conference. We're looking for some incremental takes, especially given the magnitude of volatility in our coverage.

Speaking of volatility, valuations across many of our names are hitting pretty low levels given these elements of uncertainty in the market. Our coverage spread to the market multiple based on next 12-month [ph] CE (00:02:49) is at 118% of the S&P market multiple versus the typical, where our space will trade at about 42% premium to the market if you go back historically. Said another way, we're at about a 3 multiple point turn premium to the market versus usually trading between 7 and 10 turns above the market multiple.

And you're seeing that the compounders, the names that have free cash flow and you can rely on earnings growth versus just revenue and no EBITDA earnings at this point, those are the names trading at 1 times of their growth rate on a gross profit [indiscernible] (00:03:26) gross profit basis versus the growth stocks that are only at 0.3 right now, guys, 0.3 relative to what used to be about 0.8 to 0.9 times growth. So, keep that in perspective when you look at [ph] the rating (00:03:39) that's happened.

And lastly, I'll just mention FinTech compounders, historically traded 8 to 10 turns premium to the XLF, are now actually trading in line with financial stocks. That's typically been the inflection we've seen is when our space reaches parity valuations with the financial services names. It tends to bounce off those levels, and that's pretty much what we're hoping for to happen again given the volatility we're seeing.

But before we kick it off with – our fireside chat with Visa, I just want to remind you there is an opportunity for you to ask your questions virtually below. We're going to try to leave a few minutes of time at the end to read and address as many as we can. So, with that, let me start by welcoming Al Kelly, the CEO of Visa, to join us. I really, really appreciate him being here. We have Jen Como from our Investor Relations also.

Alfred F. Kelly, Jr.

Chairman & Chief Executive Officer, Visa, Inc.

[indiscernible] (00:04:28).

Darrin Peller

Analyst, Wolfe Research LLC

Thanks for joining us. Great to have you back in-person again.

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QUESTION AND ANSWER SECTION

Darrin Peller
Analyst, Wolfe Research LLC

Q

Well, just I think as an introduction, given how many opportunities that you have ahead of Visa, if you could just start by explaining really what you and the rest of the senior management team are prioritizing your time with, just where are you focusing most of your attention right now?

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

A

Again, Darrin, thank you [indiscernible] (00:04:50) thanks for having me. I think about my time and that of the senior leadership trying to think about how much time we spend externally versus internally, and I kind of have an objective for it to be about 50/50. We are predominantly out. Externally, I spend a lot of time with clients, talking to them about all kinds of things ranging from payments-related matters to things like return-to-office. It's hard to have conversations with fellow CEOs these days without talking about that topic. But also talking to government officials and talking to investors and talking to the media in many ways.

I carry a title that allows me to get access [indiscernible] (00:05:32) a big part of my job is to help our country presidents and our account executives around the world wherever I can to try to do business development, which is I think a big part of my role. And then obviously internally, I've spent a lot of time on strategy and key strategic initiatives. I am a believer that one of the most important jobs a CEO has is talent. So, I spend an exorbitant amount of time on that subject [indiscernible] (00:06:02) coaching to actually doing some training, to succession planning [indiscernible] (00:06:11). A lot of times, people ask me to interview to help break a tie or to actually [indiscernible] (00:06:21) in terms of a candidate that we really want to get with the company.

I spend a lot of time on – with Vasant and Ryan and others on investments. [indiscernible] (00:06:30) great list of opportunities, and the question is [indiscernible] (00:06:36) spread it like peanut butter and we got to replace our debts in any given course of the year. And then, we have a pretty good cadence of business reviews, [ph] Darrin (00:06:45), that we do both in terms of key initiatives and financials. And then, there's the kind of transactional firefighting that goes on. We, being a global company doing business in the number of – I think it's 240 countries and territories around the world and something seems to go wrong every day. And certainly, I've spent the better part of my last 10 days on the situation, for instance, in Ukraine and Russia.

Darrin Peller
Analyst, Wolfe Research LLC

Q

And on that note, just before we get into a further discussion on strategy, you've provided some disclosure on the exposure to Russia and Ukraine. If you could just revisit that and what's included in that, and maybe higher level thoughts on the impact of the invasion in Ukraine to your business be it maybe cross-border or macro overall or any other thoughts.

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

A

So, first to maybe back up and talk about kind of our decision-making process, we – over the last number of days, it's become very obvious that it's becoming more and more challenging to actually operate in-country in Russia. Secondly, obviously, we're concerned about the actions taken by the Russian government and wanted to make

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sure that we were being very cognizant of the fact that it was not something that we, in any way, would think was anything [indiscernible] (00:08:03). And thirdly, we looked at where this is going and the writing on the wall and concluded that we were much better off maybe going through an orderly wind-down of our business in Russia than being forced into a next round of sanctions, where we would have to, in a haphazard and fast manner, unwind the business perhaps in 24 hours or less. And I think our strategy is panning out well. Our settlement for example is going smoothly, and frankly, it's business as usual. So, I think that this idea of an orderly wind-down is a very smart move on our part.

In terms of impact, what we said is that Russia domestically as well as inbound and outbound cross-border represents about 4% of our revenue, and Ukraine, on the same dimensions, is a little less than 1% of our revenue. And obviously, over time, there'll be offsets to that [indiscernible] (00:09:14). We're going to have some incremental expense in the short-term as we're extremely focused on employee safety. We have 155 employees in Ukraine and a little over 200 in Russia. And our North Star on this from the beginning as an executive team is to make sure that we do everything and anything that we can to help our colleagues, and that has included hiring a number of security people to help us migrate out of range as many of our employees and their families that want to do it. And it's been gut-wrenching, Darrin, to witness this, because as you probably know, men [indiscernible] (00:09:57) half men, half women. Men between 18 and 60 can't leave the country.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah, yeah.

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

A

And even now [indiscernible] (00:10:05). So, if we want to take a family out of Ukraine – I'm sorry, out of Kiev, just to take them to the Western part of Ukraine, the fact of the matter is [indiscernible] (00:10:15) because there are so many checkpoints now. At a checkpoint, if there's a man who's eligible to be [indiscernible] (00:10:22), the entire car or van will be turned around and sent back. So, I think we're doing all the right things in what is, I believe, a difficult and challenging situation.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah. All right. Maybe we can shift gears and just talk about some of the recent trends that we saw that came out of February [indiscernible] (00:10:43) there were obviously some notable points that we saw. Credit continued to outpace debit. We saw international start to show some traction in markets like India, Canada and Brazil, and obviously, we saw cross-border looking in the right direction. I think it was at 81% of 2019 levels again, reaching back to peak levels we saw in December. I guess just to start off with what you'd expect, is that in line with what you would have expected to see when you guys started off the year coming out of the pandemic hopefully and just think about what we should expect going forward [indiscernible] (00:11:15)?

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

A

Well, I think that really last summer, we started to see the beginnings of a pretty robust recovery and everything was going quite smoothly until the Omicron variant that showed up kind of right after the US Thanksgiving. And what you really did see was about a four or five-week hiccup – of impact from the very Omicron variant kind of mid-December to mid-January. But in the same 8-K that you referred to that we issued last Wednesday, in

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addition to providing some insight on the Russia-Ukraine situation, we also talked about our updated numbers. If you look at February, we're in the US running at about 145% of 2019, which was up 5 points from January.

In the case of credit, it's really coming back [ph] to about 135% (00:12:16) of 2019, up 7 points. And card-not – I'm sorry, debit continued to be very strong [ph] at about 154% (00:12:24) of 2019. Card-present was up 5 points. Card-not-present was up 3 points. If you look across industry categories, three of the categories that have been quite impacted disproportionately to the negative during the pandemic, fuel, entertainment and travel, all were up 8 points in February versus January, which is a very good sign that this recovery has kind of now got back on track after the Omicron four or five weeks.

If we look at [indiscernible] (00:12:58) interesting. Prior to the pandemic, we would run kind of probably 55% of our volume – 56% of our volume being services and the balance being goods, except for the holiday season, six weeks or so leading into the holiday season [indiscernible] (00:13:15). But what we saw during the pandemic, it's flipped and goods were a higher percentage of our volume than services. And in the last, I'd say, three to four months, again after the holidays, we've started to see – it started that normalize, but not fully yet. I'd say our volumes in the US in particular is running at about 50% services, 50% goods.

International has been quite broad-based in its recovery. Asia is still further behind. You mentioned Brazil and Canada [indiscernible] (00:13:56) Italy, Germany and India as countries that performed very well. The only negative in all three of these countries in Asia-Pacific [indiscernible] (00:14:06) Hong Kong and [indiscernible] (00:14:11) were down because of COVID [indiscernible] (00:14:18). So, that obviously continues to be a little bit of a challenge in Asia-Pacific. We're seeing borders open up, which is great. The UK, France, Spain, Portugal, [ph] Ireland, Singapore are (00:14:38) all examples of the markets that in the last month or two months have opened borders. And one of the things we know for sure is that once borders open, people [indiscernible] (00:14:48) for personal travel, back to their habits of visiting relatives, knocking things off their bucket list and those kind of things.

So, when we look at cross-border, in general, February was [indiscernible] (00:15:03). I would say that would have been higher than I would have predicted three or four months ago. Card-not-present continues to be [indiscernible] (00:15:13) another 4 points at 169% of 2019. And travel, card present travel – card-not-present travel was at 81% [indiscernible] (00:15:26) points from, let's say, in that one month period from [indiscernible] (00:15:34).

And then, a couple of interesting examples; Europe, you look at Europe in the fourth week of Feb, it was up 30% over January. I'd say through the course of February, inbound travel in the UK got stronger and stronger and stronger. Similarly happened in the US and by fourth week of February in the US, we saw about [ph] 3% (00:16:00) rise versus all of January.

So, I think that, in my opinion, putting this new event of war in Ukraine into the [indiscernible] (00:16:12) for a second [indiscernible] (00:16:13) broad-based impact [audio gap] (00:16:16-00:16:21) in terms of [indiscernible] (00:16:24) I think the recovery is going to remain quite robust.

Darrin Peller
Analyst, Wolfe Research LLC

Q

That's really helpful. I think it's good to see and it's something we [indiscernible] (00:16:31) a little too long. Let's shift gears a little bit to the longer term now. I mean, on your recent earnings call, I know the management basically suggested that we should be able to see an accelerated growth rate post-pandemic. When you think about 10% to 12% being the rate of growth that you guys have talked about [indiscernible] (00:16:49) revenues

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over the next three to five years, I think because of things like value-added services becoming more robust for you and new flows, some of the other growth opportunities you've seen that maybe have been accelerated by the pandemic. There could be an opportunity for that to be at the higher end. Is that still the case in your mind that maybe you could go into some details or some of the examples of either value-added services or new flows you're most excited about?

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

A

I think absolutely nothing has changed. I feel very bullish about our ability to drive a very good, sustained high level revenue growth over the coming years. Look, I think the summary is when we look at our three growth levers, consumer payments is benefiting from growth in credentials, growth in acceptance [indiscernible] (00:17:36). As businesses look to digitize, there's a lot [indiscernible] (00:17:43) for our value-added services and types of benefits that we can bring. And people are increasingly looking for more capabilities to [indiscernible] (00:17:51) make sure protect the transaction [indiscernible] (00:17:54) and all those things give us an opportunity to sell value-added services.

So, maybe we can [ph] attack (00:18:03) that and talk about all three of them [indiscernible] (00:18:07) depth. So, first, the consumer repayments, I'd remind everybody it's still about $18 trillion spent in cash and check [indiscernible] (00:18:13). If you look at credentials, the last three quarters have been super strong versus the last five years. We grew credentials in this past quarter 10% year-over-year. And that compares to kind of an average over the four or five years before that of low- to mid-single-digits. So, I think that's a sign of more players entering the details of the ecosystem, [indiscernible] (00:18:41) wallets and all of that, et cetera.

I think that we're also seeing a growth in acceptance. And we've seen that [indiscernible] (00:18:54) 20% growth in acceptance [indiscernible] (00:18:59) 20% is substantial. We've seen a 30% increase in acceptance in the last two years in India. We're also looking at new technologies to try to enable acceptance. One of the things we've been talking about recently is our Visa Acceptance Cloud, which allows us to put all the intelligence at terminal into the cloud, which has so many advantages, including easier certification, easier ability to bring updates, easier ability to integrate value-added services, and by the way, a very low cost option at the actual point of sale.

And what's interesting about that, obviously, first place in somebody's mind would be always to emerging markets [indiscernible] (00:19:44) this is great for emerging markets, and it is. But there's a couple of other places where I think it's got some real benefits. If you think about flea markets or food vendors on a corner, it enables them much more easily to accept digital payments instead of cash as an option. And I think it's going to play a critical role in Internet of Things where you're going to be able to much more easily facilitate transactions in an IoT world through the Visa Acceptance Cloud.

So, I feel really, really good about that technology. It's obviously in its very, very early days. For e-commerce, obviously, it's critical given the growth we've seen in consumer payments in the United States. As an example, we've seen 20% or so increase during the pandemic in terms of credentials that are used [indiscernible] (00:20:41) in e-commerce.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Over the last couple of years?

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

A

Yes. And then, similarly, we've seen growth in the average ticket size on [indiscernible] (00:20:49). So, I'm a huge believer that we've got tremendous upside. And by the way, even geographically, I think the last [indiscernible] (00:21:00) since we've opened around the world, Darrin, [indiscernible] (00:21:02-00:21:10) help us in terms of growth.

I'll maybe segue to new flows. In the past quarter, B2B volume was up 28% over prior year [indiscernible] (00:21:25) commercial card volumes 26% higher than 2019. We're benefiting from a couple of things. One is over the last [indiscernible] (00:21:37) years, we've grown by 20% the number of commercial card partners that are issuing Visa cards. And many of them have really broad-based portfolios that are [indiscernible] (00:21:47) travel. So, we benefited from that. I think when we look at the commercial card space, there's still a lot of opportunity to grow both with traditional players as well as fintechs as well as other types of players that will emerge over time. So, we feel very, very good about [indiscernible] (00:22:15) for opportunities as we look ahead.

If we segue to cross-border B2B, we think we have a terrific [indiscernible] (00:22:26) B2B for that. It has tremendous advantages. It would [indiscernible] (00:22:34) banking world. It is efficient. It is enormous amount of endpoints, very secure, very transparent. It has a rich information [indiscernible] (00:22:47) in terms of the data that we send is very cost effective. [indiscernible] (00:22:52) so we're out there looking to just [indiscernible] (00:22:58) at banks. Couple of recent [indiscernible] (00:23:00) CIBanco in Mexico [indiscernible] (00:23:05) last 3 or 4 quarters has doubled the number of transactions with B2B Connect and is now processing thousands of transactions [indiscernible] (00:23:16). So, we think there's great opportunity [indiscernible] (00:23:23) continuing. Again, our emphasis at this point isn't on how many transactions are flowing through it, although we're watching that obviously, but it's really to build the robustness of the platform by getting more banks on [indiscernible] (00:23:37).

If I segue within new flows to Visa Direct, [indiscernible] (00:23:44) 5 billion transactions in the last year, Visa Direct, which [indiscernible] (00:23:50) VisaNet, very, very efficient transaction for us [indiscernible] (00:23:56) all the aspects VisaNet, we now have about 20 robust use cases and growing. We have now over 500 partners around the world. And I'd say our emphasis as we look ahead is, we've been pretty US-centric and our biggest use case [ph] to-date (00:24:18) has been P2P, so our emphasis, Darrin, when we look ahead is to grow our international footprint with Visa Direct and looking at building the robustness of use cases beyond [indiscernible] (00:24:34).

And that brings me to our third growth lever, value-added services where we've made really good progress with $5 billion of revenue in fiscal 2021 and our offerings have gotten to be very broad based, about 30% of our clients around the world consume 10 or more value-added services, which is great from a revenue perspective. It's great from the perspective we're obviously delivering value to clients and I think it makes [indiscernible] (00:25:09) 10% or more.

Maybe I'll highlight three of them now. One is CyberSource where [indiscernible] (00:25:23) be coming increasing the interest [ph] by enabling (00:25:27) our capability [indiscernible] (00:25:30). We brought on 28 acquirers in the last year and we've onboarded 45,000 more merchants in CyberSource. So, we're having a very good momentum in the business. And CyberSource has a risk product, a decision manager that actually had 30% increase in the number of transactions that it interrogated during 2021. So, good progress in our gateway product.

Second category is our risk and identity products. There we have Visa Advanced Authorization plus Visa Risk Manager, are the probably two most robust products in the risk area. They both leverage artificial intelligence and

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machine language. And last year, again, they experienced about [ph] 40% (00:26:21) increase in number of transactions that – for which they provided a score versus the prior year.

The third example I would give is issuer processing. We've got a very robust network in our DPS or Debit Processing System (sic) [Debit Processing Service] (00:26:38), and there we are doing a couple things. One, we're trying to grow beyond the US and we recently signed DKB, the number one issuer in Germany, to the client utilizing DPS for their debit business. And we've created a [indiscernible] (00:26:58) DPS Forward, which is in cloud and API-based [indiscernible] (00:27:06) that we make available through our digital banks, digital issuers of debit cards and we recently signed a fintech with 3 million members to be a user of DPS Forward.

The last point I would say is that I think the pivot we made a couple years ago [ph] could not (00:27:30) depend solely on VisaNet and [indiscernible] (00:27:35) both internal networks, and I mentioned two of them, DPS as an internal network need to be connected separate from network again this – I'm sorry, B2B Connect and DPS are separate network, Visa Direct references VisaNet, but we're also [indiscernible] (00:27:52) around the world and that's what allows us to reach what we think is a differentiating number of endpoints [indiscernible] (00:28:00).

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah. There was enormous number of things that you guys are working on to help with that acceleration and it's really strong. I guess, when we look at the value-added services, just one quick follow-up would be, some of these value – some of these services, obviously, got a boost during the pandemic, whether it's because of e-comm use or security needs [indiscernible] (00:28:23). Are there enough tools in the arsenal to keep that growth up pretty high even post-pandemic [ph] in your mind (00:28:30)?

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

A

I think for sure, but we're constantly up on what we're doing, we have a couple of thousand people who work on and support our value added services, and they're constantly looking to innovate, and clearly, it's a focus for us as well, Darrin, when we look at the M&A space. So, I think that we will continue to really sell and educate our clients on our existing set of tools, but we're going to continue to innovate and grow both organically and inorganically in terms of the toolbox.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah. And just one quick follow-up on Visa Direct, the question we get a lot is that, it clearly has done well with P2P in certain categories and it I think boosted your – we've estimated it boosted your [indiscernible] (00:29:16) by a couple hundred basis points or so. When we think of use cases extending into things like insurance and the others, are there even some larger opportunities from a TAM standpoint, what kind of progress do you see there? Is it still on track and going well?

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

A

Yeah. I think that, if I'm honest, it's been concentrated in two few clusters, but I think what our strategy has been is to build the case and learn how to scale it, and kind of testing and learning in a few markets, and then be able to take that game plan, if you will, and move it to other markets. So, I actually think that we're still, despite the fact we did 5 billion transactions last year, I would still say, to use a baseball analogy since we might not play baseball this year, is that we're in the very, very early innings of Visa Direct and I think that – when I look at penetration of

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current use cases, geographic expansion, the ability to generate new use cases, I'm very, very bullish that there's a tremendous amount of upside with Visa Direct.

Darrin Peller
Analyst, Wolfe Research LLC
Q

All right. Let me shift gears on to another question we get a lot which is around incentives. Al, maybe you could just touch on your strategy around incentives when you're renewing a new business. There's a lot of thought or questions whether there's been any structural changes to how you manage these levels of incentives and rebates. Do you see levels as a percentage of gross revenue stabilizing as cross-border comes back as we – as lot of us had hoped we would see over time?

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

To answer your first question, incentives do a couple things for us. One is they're meant to align between us and the client what is important and what we're trying to get done in a deal. And secondly, we use them to encourage adoption of key technologies that we think are important to the ecosystem, important to us, and important to the client.

Now, let me touch on the question of what we're seeing in terms of incentives. So, in the past, couple years during the pandemic, we are seeing cross-border travel which generates higher gross revenue, but not necessarily higher incentives, actually, obviously, be challenged. And as a result, we've had this unusual situation, where the percentage of – incentives as a percentage of gross revenue go up abnormally.

I think as cross-border travel comes back, which is it's starting to, I think we're going to see this correct itself and we'll get back to the idea of 0.5 point to 1 point increase per year. And in that 0.5 point to 1 point increase is generally down as a result of – it can increase in the competitive environment as well as the fact that over time, thankfully, the volume that our clients are doing [indiscernible] (00:32:14)

Darrin Peller
Analyst, Wolfe Research LLC
Q

Volume basis.

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

Yeah. So, net-net, very important for people to understand that there is nothing structurally different about how we're approaching incentives in any given – in any way at all. It really is a matter of the relationship of cross-border relative to gross incentives – I'm sorry, gross revenue and incentives that caused this kind of oddity during the pandemic, but I think it will correct itself over the coming quarters.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Can we touch on now investments and then maybe we'll circle back and tie in M&A to that as well, where you want to focus your capital going forward. But thinking about investments for a minute, I know you talked about the high-end of the mid-teens expense growth this year. Maybe just help us understand where you're prioritizing spending money on the business. Obviously, you're also trying to be efficient given the geopolitical and macro environment, but I think there's a lot – as you went through, there's a lot to do.

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

A

Yeah. I think it's important for people to understand our business is a real long tail business. So, we're now almost halfway through our year. There's almost nothing we can do to impact this year. This isn't a business where we can go change price and sell tomorrow. So, many of the investments that we're making now are going to benefit the business in fiscal 2023, 2024, 2025. And what we try to make sure we're doing is making investments that are completely consistent with our three growth strategies of consumer payments, new flows, and value-added services.

And so, we go through a very rigorous exercise where people bring business cases to us, we have committees that analyze these things, and then a small group of the executive team gets together and we decide where we want to invest. Some of the things that you and I have talked about over the last half hour, growth in use cases, in Visa Direct driving more credentials, driving more acceptance, looking at driving more use of some of our value added services. There's a tremendous call on our consulting business which continues to grow. And for us to grow that we have to hire more people to satisfy the needs of our clients. So, I would say our investments are a combination of making sure that it's tied to strategy, that it's very client centric, and that it is places where we think we're going to get the best return for the dollar.

Darrin Peller
Analyst, Wolfe Research LLC

Q

I imagine M&A is in a similar boat, in other words, where you're focusing your time and attention.

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

A

Yeah. I think, look, M&A, I would say, it's safe to say that we tend to probably focus on the most are network-enabling capability, so Tink would be an example of that.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

And we're looking at [indiscernible] (00:35:07). And then, we look at things that are driving additions, as you alluded to earlier, to our value added services to [indiscernible] (00:35:16)...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

...verify Currencycloud [indiscernible] (00:35:20) those categories. Look, we'd rather always do it ourselves, that's our bias. But if we think that time-to-market, cost, and the talent we can get are superior to what we could do ourselves, then we will – and obviously, the ask price is at a reasonable level, then we want to – then we'll actually go and make a purchase.

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Darrin Peller
Analyst, Wolfe Research LLC

Q

Makes sense. Last one for me and then I'll take a few from the audience is just there's been a ton of questions around disruptive risks to the ecosystem, whether it's RTP or buy now, pay later or crypto. What are your thoughts just broadly on those and if there are risks or opportunities?

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

A

So, I'm going to make it very broad and if anybody wants to dig in, you can dig in. Most of this "disruption" is happening in different ways to pay. When I look at Visa as the enabler for all the ways to pay, and therefore, whether it's buy now, pay later or it's crypto or it's wallets or whatever it is, I see us as somebody that isn't picking winners and losers and we're happy to have everybody ride on our network and take advantage of our value added services, and ultimately, the consumer will decide what is working or not working. The consumer will pick winners and losers, but we, at Visa, won't. So, I see these things as much more opportunity than "disruptors," and I think that the reality is that, over time, we see there's a track record of kind of closed-loop types of solutions ultimately opening up and I think that'll be true with things like buy now, pay later for example.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. Let me take a couple of quick ones just because we only have a little bit of time left, but there's, obviously, a couple of other geopolitical issues going on. So, I don't know if there's any comment you can give around your any greater level of exposure comments on Eastern Europe. Some was asking also if you'd expect travel that would have gone to Russia to go elsewhere and cross-border impacts.

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

A

I think in general, people are so sick of being cramped up, they're going to drown and they'll – the great thing is that the world is wide and has many, many exciting places to go, and Russia might be off the list, but there's another 197 countries people can go visit and a whole bunch of great islands, et cetera. And then, this whole idea of are there risks, I mean we've been dealing for years and years with local schemes, and the reality is that as long as the playing field is even, we've done just fine. We bring incredible skill and innovation to these markets, which is good for these countries and I think the governments and the regulators appreciate that and understand that. So, I see no change in that situation at all.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. That's actually – so, you already covered the next question which was whether there's other governments that [indiscernible] (00:38:18) changes. But last one I would just ask is a couple of questions around interchange and one of them is just the rate increases and The Wall Street Journal talking about it. Is it just solely interchange or do they also impact any assessments or [indiscernible] (00:38:31)?

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

A

The pricing that was announced a while ago, by the way, so there's nothing new The Wall Street Journal is going to bring the party here is interchange related.

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Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

There are basically, in the case of Visa, three changes, one is for payment downgrades, where behavior of – the type of transaction isn't clean and that adds cost to the ecosystem. And so, people don't produce clean transactions, they're going to pay a little bit more. We're going to increase the rating card not present for people who aren't adopting tokenization. I think, again, great for the ecosystem. Tokenization is fantastic for security. And if somebody doesn't want to do it, they're going to pay more, but we're happy to have the incentive work the other way and be the carrot, not the stick, and have people tokenize.

And then, the other change which The Wall Street Journal buries down in paragraph seven is the fact that for businesses with greater than $250,000 of revenue or less on Visa credit cards, they're actually putting in place a 10% reduction in interchange. And that is solely based on the fact that small businesses have been killed, Darrin, during this pandemic and we just think it's – they need a boost and we wanted to try to help them do just that. So, that's what's happening.

Darrin Peller
Analyst, Wolfe Research LLC

I want to thank you very much for joining us, and again, thank you for participating. The next panel or next session is with Jeff Sloan, CEO of Global Payments. Al, thanks again.

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

Thanks, Darrin.

Darrin Peller
Analyst, Wolfe Research LLC

Appreciate it.

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