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# Visa, Inc. (V)

Cantor Innovation Summit





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# CORPORATE PARTICIPANTS

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

# MANAGEMENT DISCUSSION SECTION

## Unidentified Participant

Okay. So we're here with Mike...

## Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

Milotich.

## Unidentified Participant

Milotich [indiscernible] (00:00:10), it's disgusting. Well, Mike, thanks for joining us and...

## Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

Glad to be here.

## Unidentified Participant

Why don't we start with just your role with Visa, may be a little bit of your background and then we'll run right into the questions.

## Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

Yeah, sure. So I'm the Head of Investor Relations for Visa and I've been in that role for about four months. But I've been at Visa for seven years. So, my prior role I was – I lead the corporate finance area. So, all the numbers and volumes that you see at the Visa, Inc. level both from the results, but also anything forward-looking. So, very close to the numbers and the strategy.

And prior to Visa, I also spent some time at PayPal and at American Express. So, I've seen the business from the issuing side, from a very sophisticated merchant acquirer and then now the network. So, I've seen all facets of the payments ecosystem.


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# QUESTION AND ANSWER SECTION

Q

We'll just – I think we'll just jump right in on the – there's been a lot of discussion even in some of the prior panels about contactless payments. And internationally obviously adoption rates are fairly high. And it seems like we may be headed towards a tipping point here in the U.S. What's your view of contactless? What does it mean to Visa, its adoption, and how do you think about that in the general context?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah I think [indiscernible] (00:01:32) that people particularly here in the U.S. since it's relatively non-existent don't have appreciation for the power of contactless and what it brings. Consumers just love it because it's so easy, merchants like it because it moves the line much more quickly. So that's in a traditional merchant setting. And then also in transit, it's an incredibly user friendly use case.

And there's really two primary benefits that we see. So, one which is probably more understood is that it's very effective at displacing cash, particularly at smaller dollar amounts. So what you see is even in a very mature market like the U.S., there's still a persistence of cash usage at smaller dollar amounts, and what we see in markets where contactless has taken off is it really displaces that quite quickly. So that's – so that just means more volume, more transactions on the network, which is a good thing.

The second benefit that maybe people don't quite understand, maybe quite as clearly is we really think it's such a great user experience that it's really – that makes things so convenient. It's hard to imagine something that's easier than just tapping the terminal. And why that's important is because – that it makes it very hard for someone to come along and come up with something that's even more frictionless. So it really solidifies our position at the point of sale, and that's also a big reason why we're looking to drive contactless.

Q

Got it. I read somewhere and just as a side note that when people went from cash to card, spending went up 20%. Is there any thought around just how impactful it could be particularly in the U.S. and maybe you could talk about how it's already impacting some of your international markets where they're already contactless?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. So I mean – it's a thing – it's taken off like wildfire. Once it gets going, the momentum is amazing. So just a year ago, one out of every eight of the face-to-face transactions that run over our network were contactless, and now, it's more than one in five. So because the U.S. is essentially nonexistent, if you remove the U.S. over 40% of face-to-face transactions outside the U.S. that run over our network are now contactless.

So just incredible adoption and in a few of our largest markets, it's really taken hold, which is what's driving that. So in Australia, over 90% face-to-face transactions are now contactless, and in Canada and in the UK are over 50%.


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So – and what you see is to get it going, you typically have a little bit of a chicken or the egg problem, which is always the case in our business, where you need issuers to put cards out, would have a contactless chip, and you need merchants to enable it. And so typically, what we see is it takes about 12 to 24 months to kind of get going, and then it really starts to take off.

So, in Australia as I mentioned, it's over 90%, so it took 24 months to go from 1% to 7% penetration. And then the next 24 months, it went from 7% to 50%.

Q

Wow.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

So, it just gives you a sense for once consumers get a taste of it and enough cards are out there and merchants are accepting it, it takes off.

Q

Got it. And so I assume along with that, there's an increased amount of both cash to card conversion and spending?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

That's right. That's right. So, we get that question a lot in the U.S. for example. So, what's going to bring contactless to the U.S. The good news from our perspective is we're actually getting pass that chicken or the egg problem, so we've made a lot of progress on the acceptance side.

So in – just in the last year, there have been 10 additional merchants within the top 100 merchants in the U.S. who have enabled contactless. So, we now have over 50 of the top 100 merchants enabled in the U.S. and over – or about half of all face-to-face spend in the U.S. today on Visa cards is done at merchants who have already enabled contactless. So, we're pretty far along on the acceptance side.

So we're working with U.S. issuers, particularly sharing with them a lot of data that we've seen in other markets in terms of the incremental transactions volume, some of the benefits, and so we do think they're going to start to see some issuance of contactless cards in the U.S. coming soon.

But we do see it's [indiscernible] (00:06:17) cards are so ubiquitous in the U.S., it's difficult for sometimes people to remember that right now in terms of PCE in the U.S. are still $3 trillion about that are still spent on cash in the U.S.

Q

Wow.


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Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

So there's still a very large opportunity. And as I said before, that tends to skew toward the lower end. And so we see contactless as a real powerful way to try to accelerate the displacement of that cash here in the U.S.

Q

What's held back the conversion to contactless payments or the use of contactless payments here in the U.S.? What has been the biggest bottleneck? Because I remember Apple Pay came out and all of a sudden Apple was going to take over the world again. Right now, Amazon is. But what held it back, what was the bottleneck? [indiscernible] (00:07:05)

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. I mean the original bottleneck is that the U.S. didn't get to EMV chip for a really long time. So we were – as a mature market, we're very behind on the evolution in payments from that regard. And so it took moving to EMV chip as a first step and that was a major lift for the whole industry in terms of re-carding all the people out there, new terminals need to be in place.

But with that foundation laid, it's well over 90% of terminals out there now that are issued have contactless capability. They just need to be sort of turned on with a small software load. So that was really the turning point but that was such a major effort that then – then once that was done and so we can sort of move on to the next evolution of that, which is contactless.

Q

Do you think that as the cards turn over again from EMV that that will just accelerate the contactless processes as well?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah, so what we think is initially issuers will start doing it on – when they issue your new card, so whether it gets lost or stolen or it's just in a normal expiration cycle that's where they'll start to get distributed, and then know we'll see if it starts to take off, then we'll see if some insurers get more proactive. But at a minimum, we think upon replacement is where you'll start to see people receiving contactless card.

Q

Got it. Now we can move on to Visa Direct. Maybe you could talk a little bit about where it fits in the ecosystem and the opportunity there.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A


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Yeah, so we really view Visa Direct as a – it's a revolution really where it really enables you to move money to and from your account using a debit credential. So it sort of uses the – all the endpoints of our network and allows you to send and receive funds over our rails.

And why that's so critical or it could be impactful to the ecosystem is that, since it's riding on our rails that means it's already global, and it can be used for domestic, for cross-border. All the infrastructure is there and it's already enabled. So we – we've said we have over 1 billion cards enabled for fast funds, meaning it's instantaneous. But everywhere in the world it is enabled, it just might be a little bit slower than instant. And one of the things we have it in our call is that this past quarter that over 150 countries in this fiscal year have received funds via Visa Direct.

So the kinds of used cases that we think are really applicable, so one is P2P. So the movement of funds between you and another person where you get to use your debit credential versus your bank account, so you don't have to share your bank account, which we think is very attractive. And where – P2P is taking off not only in the U.S. but in other parts of the world, and for the most part we're fueling most of that through our partnerships.

You've got disbursements and the disbursements can be either be B2B or B2C, and that's making lots of things more convenient for consumers to receive funds, so – or people in the case of like an Uber driver getting paid or an insurance disbursement or in the case of small businesses getting access to their line of credit in real time and in any day or night or the weekends, which a lot of small businesses really enjoy. So those are all things that are enabled.

You also have the merchant instant funding. So for a merchant, if they don't want to – and this is something Square and Worldpay have enabled, where as a merchant if you don't want to wait for your settlement of your traditional, which is maybe a day or two later, you can get your funds instantaneously through your Visa Direct.

And then the last thing that could also be very impactful is bill pay. So this is your ability to pay your utility or telecom bill and you do it rather than you do it with a push. So you initiate a push payment from your debit credential to the service provider. And why that's important is because there are some people who are concerned about putting their card on file or at least having it on file with a lot of different places, a lot of different companies. So, this allows you to control it. You don't have to have your card on file; you can initiate the push of the funds when it's time for your bill to be due. And this is something that's already very big in Singapore and in India, where as an alternative to card on file, they push funds via Visa Direct.

Q

So theoretically if I had a Visa card here in the U.S. and a relative in Italy for a lack of a better country, I could push funds to them through Visa Direct...

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

That's right.

Q

as long as they have a Visa card as well?


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Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

That's right. That's right.

Q

And it sounds like it's very powerful. It also sounds like it's very disruptive for traditional wire houses or maybe some of the other ones, and keeps you on the rails. What's the economics associated with Visa Direct, and as far as you can give us – because P2P is theoretically given away...

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yes.

Q

...in order to keep [indiscernible] (00:12:28) I would tell you that and I would tell you that, your former employer. [indiscernible] (00:12:33)

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yes

Q

And maybe you could talk to us a little bit about the economics associated with that?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yes. So, the economics vary by use case.

Q

Got it.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

So – and it runs the whole continuum from sort of lower than our traditional yield to some use cases being more in line with our traditional yield in terms of economics. So P2P, as you mentioned, that we would say is more an introductory level of pricing to get that going and get that on our rails, and we do charge. So – but it is lower than our traditional yield. But in some of the other disbursement use cases and bill pay, again that varies by use case but the yields can approach our traditional business.


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Q

Understood. So, I'm just curious, and just kind of a side note, if it costs $12 to $20 to whatever to [ph] profit subject (00:13:28) for B2B institution or something of that level. Are you looking to compete with that in some way, shape or form ,or is it more of a – is there an introductory opportunity to kind of drive volumes and then it might change or are you looking to compete against that particular [ph] card (00:13:46)?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. I think it depends on how much opportunity there is to make it significantly more convenient. So if you think about – just a few weeks ago we announced our partnership with MoneyGram to do cross border remittance.

Q

Yeah.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

And if you think about someone who's on the receiving end of the remittance now, they need – if you're going to send me money or you're sending someone money in Italy, that person in Italy first needs to know the confirmation number specific to the transaction and then they have to go to a physical location and collect the money, walk out of it, maybe like with a lot of cash. None of those things are that convenient as opposed to you just pushing the money into their debit card and just going right into their account.

So there could be some instances where it's just a – just less friction is just a better offering. In other cases, yeah, we may have to enter the opportunity, show the value, and then go from there.

Q

Understood. The efficiencies.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah.

Q

The buy button idea, we had Amazon. Well, someone who used to work in Amazon here at lunch and she was talking about how their relationship was with the merchant and how Amazon can I guess negotiate with the merchant and from a power – position of strength, right. Because it seems like a lot of people are going after this idea of a buy button, right?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A


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Yes.

Q

Why now? And maybe you could just kind of drill into a little bit around the thought process behind it.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. So I think the thought process behind it is to have a seamless, secure way to transact in the digital world that's consistent from place to place. So if you think about the way it was done before, everyone was pursuing their own button. So from a merchant perspective this is quite a bit of work. So you got to enable something for Visa, something for Mastercard, something for American Express. We all have different technologies. So it's quite a bit – a heavy workload for merchants.

And then because we're out there sort of building it separately one by one, that acceptance from a consumer perspective, when you get to a merchant, it's – when you get to the checkout page, you're not sure which option is going to show up. Maybe they're all there which then it's sort of confusing that there's lots of buttons to choose from. And that really shows up in the abandonment rate in online as well as in terms of there is higher fraud also.

So the real, I guess, goal is to make it as friction free as possible with additional security to solve those problems. In terms of why now, I think the – for various reasons, the industry just didn't come together on this even though we learned from many decades before in the face-to-face world that one terminal that – so one connection for the merchant that enables payment for all card brands was the way to go. But there wasn't that alignment initially and it just took a long time for everyone to see the world the same way. So I guess hard to say exactly how we got there – got here where we are, but I guess the important thing is now we all are on the same page and see this as the solution going forward.

Q

So – and I know this is kind of more on the speculative side, but how do you see the button progressing now? It seems like there's been more – there are more people at the point of sale than ever before. There are more buttons at the point of sale. Maybe if you could just talk about how you think it's going to progress from here.

Is it going to be – do you think maybe five functionalities as you go in, maybe one or two? I know it's really speculative but I'm just trying to get an idea of like how you see this sort of evolving over time.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. So I think the idea would be that maybe initially when you click on the button, it's almost like opening your wallet at the point of sale. So all the cards you've enabled, you choose one, and you move on. Maybe you've enabled a certain card for checkout as your preferred option, so then maybe you skip that step when you hit the button and you just move on to confirmation.

But I think in the longer run, the vision is to have a checkout process, where there's – your – most of the time there's no need for your account number or passwords at all. So where you – we'll be able to authenticate you through 3D secure technology, through other means, so you won't even necessarily need to authenticate yourself


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in the terms of a password, there'll be other data elements that we're using to authenticate you like your device ID, for example. So that can also lead to a significant improvement in the checkout experience.

And the other thing that's important about this too is we talked – I don't know how many of you came to our Investor Day last summer, but we talked about that I guess whether it's two years, five years, 10 years from now, the explosion of the IoT devices, and this is really laying the foundation for digital transactions to take place with a connected device. So we also see this as something that's laying the foundation for anyone who's innovating in that space and coming up with a way to innovate payments into some form factor that now there's a standard way to do that for all card payments, which makes it – that standard should allow innovation to sort of proliferate as opposed to with it being very fragmented right now. That could be very difficult.

Q

That's really interesting because – so the idea would be maybe – and I'm fictionalizing here. You would walk into a store, you [ph] need a code in (00:20:04) your whatever number you did into your phone or maybe just face recognition and you'd swipe the phone for a purchase with an enable button. Is that the idea? And then, it would be that seamless right at point of sale.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. I think – well, I guess, I think the initial focus is, I guess, it could be at the point of sale...

Q

Yeah...

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

I think the initial focus is more that you're remote.

Q

Got it.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

So, you're not physically there.

Q

Obviously.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A


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And so, you're in the checkout process. There's one button. And what exactly it's going to look like or say, I guess, is what's still TBD. But let's just say it says buy.

Q

Yeah.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

And you click on the button, you've already selected a default card, you've been to this merchant before...

Q

Yeah.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

We recognize the device you're on, and you're done. It's like one click and you're done.

Q

Yeah.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

And you've checked out so – and it should also remove the clutter because you're not going to have all these different buttons from at least the different networks.

Q

Yeah.

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

And so, that's where we see it going.

Q

We've done some as much work as I think we can with IoT. What – I know I'd – and this is just kind of more on the random side. But what's the tipping point on the IoT side? Is it [ph] election in (00:21:15) everybody's home, is it the refrigerator that's going to allow you to order, is it that connecting to your car? And how do you see Visa fitting into Alexa voice payments because it sounds like we're setting the foundation for all those different opportunities to make payments?


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Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. I mean, I think the – all these things just always take time and take longer than you think. The way at least we look at Alexa or some of these other options is, it's all additive to the payment ecosystem. It's just going to – is it a – our job, I guess, at Visa is to make it as -- to make our rails the easiest to onboard, cost effective. So, if there's a way to pay and be paid that is being created, then we would like that to be enabled for Visa to be part of that. And that's really our job, so we look at all these things as additive. And so, we're working with all those companies to make that happen.

The – some of the hurdles are about – you've got to make sure that consumers feel safe and secure about it. There's got to be I guess compelling use cases for you to -- do you really need to -- what would you buy through Alexa, those kinds of things. So, I think there needs to be more use cases developed. And then, consumers need to come to trust that that's a secure way to pay and then it will proliferate from there.

Q

Yeah. And there is probably a generational element to this, right. I would assume I think my father-in-law unplugs Alexa because he's afraid of it. So, I assume that there's also that that lag that fits into it as well. Have you seen that in other movements that have been successful that there's also -- there's a generational lag as well to some of that?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. I mean, I think, if you look at things like mobile adoption and things of that nature, you do – unfortunately, it's harder for people who are setting their ways to change. So, younger people tend to be more able to embrace new things.

Q

Got it. What do you believe is the most misunderstood about about Visa by the investment community? Or why doesn't it get enough play on either side of...

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah. I think I would say maybe not misunderstood because I think a lot of people do their homework very well. But I'd say maybe underappreciated is the brand. It really is one of the foundations of our strategy in our company. And if you look at things like, for example in the U.S., among credit and debit card holders, our brand is preferred by 70% of them. So, it's more than 2x, the next two largest providers combined and that is true not only in total, but also for specific segments like you were referring like among millennials and among affluents.

So – and why that is so important is because we've done lots of analyses related to this, and there's a strong correlation between your brand preference and your top of wallet. So, what we see is if you are – if your top of wallet card is also your preferred brand that you perceive then you spend more than twice what you spend when your preferred brand is not your top of wallet card. So, that brand preference that we have Jis very important and in 15 other large markets, we have at least a 1.4 times premium on any other brand, and that includes places like Japan, UK, India. So, driving that brand preference does lead to, we see a correlation with spending.


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Another aspect to it that also is maybe a little underappreciated is the halo effect that having the Visa brand at the door or at the point of sale gives to merchant. So, we've also done a lot of studies here that consumers are more likely to feel that that merchant is reputable. They're more likely to go into a store that they've never been in before if they see the Visa logo, and they're more likely to come back for a repeat purchase at a new store where Visa is accepted. So, there's also a powerful aspect to the brand that merchants, just by having acceptance available, communicates to consumers that we know is maybe a little bit under appreciated.

Q

Got it. One last one, and this is where the two different trends that we've been talking about kind of marry or come together. Obviously, both yourself and your competitor have a massive amount of data. And we talked today a lot about and the panel actually before this who has -- people who have the data in the short term and maybe in the long run have an advantage because now they can apply the machine learning and some of those other opportunities to that.

I'm just wondering you comments about that thought process because the math problem that seems to run in my head is data plus AI equals market cap, right, just being a financial guy. Maybe you could just discuss a little bit about the parts around the data and being able to use it both to help your merchant partners and, in general, the consumer?

Mike Milotich
*Senior Vice President-Investor Relations, Visa, Inc.*

A

Yeah, I mean there's no doubt that having the data is very powerful, which is one of the big driving factors behind trying to increase pricing penetration and have more processing. I mean obviously then you also are getting paid for processing, but then there's -- once you're doing the processing, you have access to that data there's all kinds of powerful things you can do with it, particularly around some of the ways we use it today and very robust ways is around fraud. So when you have massive amounts of data and history, you can look for patterns and use machine learning and things to improve fraud models. And you maybe don't always think about when you're standing at the point of sale and you dip your card and you sort of wait for a second. And in that time a message was sent all the way to your issuer and in that it also is taking all kinds of data points from that transaction and sending [indiscernible] score the issuer to say, this transaction looks good to us. And that's a big part of the decision that goes in. So, that's one application. I think there are many others.

The only other thing I would say about the data is also that, that's also comes with sort of great responsibility? So, that's also a reason why we invest a significant amount in cyber security, and we do that in a few different ways. One is lots of walls and moats and things that you've got to get through sort of the traditional way of protecting a fortress. But then we also are making – we're almost done completely with making – once you – if you get through all that, you get to the treasure chest, and everything is fixed.

So, we're – we've encrypted all of our data at rest and we're very close to done with encrypting all our data in motion, as well as encrypting it in processing, which is also – which is very unusual. So, even within the processing process, all the data is encrypted. So, we do believe that data is very powerful, which is why – but it also comes with a level of trust because you can only you know break that trust potentially once. And then, we don't want to have that to happen.

So...


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## Unverified Participant

Mike, thank you for joining us today. Appreciate it.

## Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

No problem. Thank you for having me.

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