04-Dec-2018

Visa, Inc. (V)

Wells Fargo Securities Technology Summit

Copyright © 2001-2018 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Donald Fandetti
Analyst, Wells Fargo Securities LLC

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

MANAGEMENT DISCUSSION SECTION

Donald Fandetti
Analyst, Wells Fargo Securities LLC

My name is Don Fandetti. I cover Visa at Wells Fargo. We're very pleased to have today Bill Sheedy from Visa. Bill's a sort of 25-year veteran of Visa and has run just about every business from Europe to the Americas and is currently he heads corporate strategy, M&A and global policy and government relations. So, we appreciate your time.

I'll go ahead and kick off with a few questions, and then we'll open it up for the audience.

QUESTION AND ANSWER SECTION

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

We've gotten a lot of questions today so I'll go ahead and get it off the table, and that is the discussion in Europe. There are some comments out there that bank interchange rates could be reduced for cross-border transactions when traveling into Europe. And I was just curious if you could comment on that.

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Sure. I think with – first, just to level set on what exactly the announcement was from the European Commission. I think everyone knows that when a transaction happens in our system, generally a purchase transaction, we pass interchange from the acquiring financial institution to the issuing financial institution. Visa doesn't benefit from that flow; we just move the money.

For quite some time, interchange has been a topic of regulatory and legislative discussion in Europe and for a number of years, interchange transactions within Europe have been regulated at 20 basis points on debit and 30 basis points on credit. For consumer transactions, the only transactions that have not been regulated on interchange by the European Commission have been cards that issued outside of Europe, where those cards travel or go online and then transact with European merchants.

So the announcement today was the European – the regulators in Europe are market testing a lower interchange for these cross-border transactions for both Visa and Mastercard. They have to go through their process of

Copyright © 2001-2018 FactSet CallStreet, LLC

market testing. Assuming those market tests are successful, at some point in the future, we would then go into our systems and we would bring down the interchange that would apply on those transactions.

It's – ends up being a relatively small percentage of transactions in Europe. It's actually even a smaller percentage of transactions when you think about the thousands of issuers spread across the world where those issuers who are sitting outside of Europe issued cards to non-Europeans who then travel and then transact in Europe. It's a relatively small percentage of transactions in our system, but those interchange rates presumably are going to come down to a different level.

They're not going to – they would come down to 20 and 30 basis points for physical world transactions where those cards are swiped or dipped in Europe. And then if those transactions happen online or card not present, they would be 115 basis points on debit and 150 basis points on credit. So the number is substantially higher than the typical 20 and 30 basis points that happens on all transactions into Europe.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. And I think as we've seen around the world when bank interchange rates are cut, it doesn't impact necessarily network fees. So that's kind of been our base assumption on this situation.

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Yeah. It's important to reinforce that. We still think the regulation of interchange fees is bad policy, and we are heavily invested in helping regulators and governments, legislators understand the benefits of a market-based interchange fee structure. But the unfortunate reality is that interchange fees have been regulated in a number of instances over the past 15 or so years.

And as I mentioned in a prior question, my answer to the prior question, it isn't a flow that impacts Visa. We move the money from the acquirer to the issuer. We've also been successful, I think, in managing our business in a way that it doesn't have a negative impact on Visa. I want to be clear, we think it's a negative outcome, but it hasn't been. When it's happened in other instances, we've been successful in managing our business where it hasn't had an impact on Visa.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you. So, shifting to another topic. Over the years, we've seen big market players, e-commerce players like Amazon, gain market share. And just trying to think about what the longer term broader implications are to the networks, can you talk a bit about your current thinking on what the risks and the opportunities are from those types of companies, whether it's cross-border, all these different issues?

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Yeah. The way that we think about it is there's been a consolidation of our business on both the issuing and on the merchant side and on acquiring side. You had on some levels – just sticking on the merchant side for a question because that was your question – we've seen a massive expansion of merchant acceptance around the world.

Copyright © 2001-2018 FactSet CallStreet, LLC

There's been a truly impressive deployment of additional terminals, and bringing more and new merchants into the system. But while that's happened, you've definitely seen whether it's Amazon on the merchant side or some of the larger financial institutions, the big have gotten bigger. And that's resulted in us thinking about those relationships differently.

Amazon has a very successful Visa-branded co-brand program. We have a team of people who are dedicated to the Amazon relationship that probably wasn't the case certainly when we went public 10 years ago. We didn't think about managing our relationships on the merchant side in quite the same way. And the nature of our partnership, it's not just about Amazon as a merchant; it's helping them grow their business as a marketplace.

We have an important initiative with them on commercial transactions where we're – help facilitating the flow of incremental enhanced sort of SKU-level data, and partnering with them on token and other initiatives to try to improve the security of the payment system. So, yeah. Sure. When more of your business can – consolidates with a bigger and bigger client, you can absolutely think about that as a risk.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay.

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

But I think the way that we think about it is, if you've got a bigger customer, invariably, their needs are going to be more diverse. We've got to put more resources against it. And as you do with all of your customers – issuing, acquiring, processing, what have you – if we're properly invested, we think that we're a great option for Amazon. And I think that as they've done business with us in the U.S. and around the world, it's been to our mutual benefit.

Their customers have benefited, Amazon's benefited, and we need to earn that business just like any other company does.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

That makes sense. So another topic that I think is going to be interesting in the U.S. market is contactless cards. JPMorgan and some of the other big banks are rolling out contactless. So, obviously, it makes for a better customer experience, but what does it mean to Visa in the United States? What's been your experience in other markets in terms of volume, uplift, et cetera, and how do you expect that to play out in the U.S.?

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Yeah. Visa has had a tremendously positive experience with contactless around the world. It has transformed our business, and I don't use that word lightly. It has transformed our business in markets like the UK, Australia. It's made a very significant impact in a short period of time in Canada, and there's many other smaller markets where it's the majority of our activity in a relatively short period of time.

The contactless expectations in the U.S. are really high in part because when you go back to 2015-2016, there was a massive shift in the United States to deploy EMV. And with that deployment, we accomplished what was probably the most difficult and most important objective, which is plumbing the point-of-sale for contactless.

Copyright © 2001-2018 FactSet CallStreet, LLC

The thesis that we've got, again informed by what we've seen in these other markets, is once you get a consumer and a merchant coming together with a much more convenient, fast, simple point-of-sale experience of just tapping, you more successfully penetrate the cash transactions that continue to, in a frustrating way, sort of linger even in a market like the U.S.

We've got trillions of cash in the U.S. We've got $17-or-so trillion around the world. And when we think about opportunities to penetrate cash in developed markets like the U.S., contactless is our best answer. So, small dollar transactions in quick-service restaurants, in transit, in parking, in long list of other merchant segments, we believe those – our penetration of those transactions and moving those transactions over our network will be accelerated with contactless.

Likewise, if we create a more valuable, convenient experience for consumers and for merchants, we think it can only be good for the brand. So EMV has been important because we had a counterfeit fraud problem in the U.S. that it has largely addressed. But I think what's going to come from that investment that towards EMV that address that counterfeit fraud problem and concerns we all had around the payment system security is going to be a much more convenient experience for U.S. consumers.

And it's like so many other things in our business. There's a chicken-and-egg aspect of running a two-sided market in running a payments network. The merchant side is largely there. And with the issuers you've heard, JPMorgan and others demonstrated their commitment to reissuing their cards and getting the consumers' wallet enabled, then we all need to come together and drive consumer awareness. And we're confident that once we do that, it'll have really positive impacts for us in the U.S. And it's not speculative. We've seen it in our other markets.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. That's helpful. So I'll maybe ask one more question and then we'll open it up.

So, I think this statistic is correct that Visa Direct, as Visa and Mastercard try to expand into new payment flows, Visa Direct's volumes or transactions are essentially doubling. And I was just curious if as you look out, do you see some of these new payment flows that are away from your traditional card payments, consumer and commercial business, materializing into something impactful whether it's Visa Direct or B2B?

And one thing I worry about B2B is that it's such a fragmented market. And so I wonder, for all getting a little ahead of ourselves on the potential upside opportunity, if you could comment on those new payment flows.

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Yeah. I do think as we think about our network and we think about our business going back to the origins of the company, we want to be able to participate in the flow of commerce – electronic commerce whenever and wherever. And the company has historically been really successful in building a franchise of 40-plus-million merchants and over 3 billion cards. And the vast majority of the transactions over our network are with consumers presenting their payment credentials to merchants in the exchange for goods.

But we all know when you look across the broader economy, the core consumer economy with things like bill payment or the broader employer-to-employee economy, B2B, and economy driven by governments, there a massive flows of commerce that currently are happening outside of our network that we believe with programs like Visa Direct, which not just as a transaction flow over the network, but enables for the real-time posting of transactions pushed into an account, yeah, and which was a multi-year effort to be able to enable our financial

Copyright © 2001-2018 FactSet CallStreet, LLC

institutions globally to get there and we're almost complete in that journey, that you have the ability to bring into the fold a whole host of peer-to-peer bill payment, payroll and really a number of different-flavored transactions where parties are exchanging value with one another that the current system isn't working, either because it's expensive or it's slow, or its non-electronic. And by opening up our platform to potentially a different set of economics, we've got a cost structure that can layer that incremental volume on the network at very low cost that can still be exceptionally profitable.

But we can say to any parties, whether it's social networks or traditional financial institutions or fintechs who want to facilitate peer-to-peer commerce and be able to do it locally or globally, why wouldn't you run those transactions over our network? And when you've got a Lyft driver who wants to get paid and have those transactions posted real-time, we offer tremendous value at low cost in a way that's driving benefits outside of what we've done in the past.

I agree with you that when you look at B2B and broader commercial commerce, there's got to be an element of opportunity there because some of that volume is outside of traditional payment networks because you've got known parties transacting with one another who aren't willing to pay full economics the way that you do in sort of a business-to-consumer context. That'll come – that is an opportunity, but attending to that opportunity are data requirements and support within more complex value chains that we're invested against. I think you're going to see bill payment, payroll, peer-to-peer payments globally, and faster payments where consumers are pushing value to any number of third parties. I think that's going to be the near-term opportunity for Visa Direct, but we are absolutely compelled by the longer term opportunity for B2B.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. That's helpful. So, why don't we turn it over for questions in the audience? I think we have one right here in the third – fourth row.

Q

Thank you. Hi there. So, one thing I'm curious about is your take on blockchain. We've heard a lot about that in the financial space in terms of handling transactions and whether it provides any advantages over existing database systems or whatever. What's your take on that and is that kind of have any strategic priority within Visa, either to actually use it in applications you already know about or at least to explore possibilities?

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Yeah. So, we're bullish on blockchain when we have blockchain-distributed ledger capabilities coming into our commercial processing environment next year.

I think the opportunities for blockchain are less about the existing volume that we see where we don't see there being much overlap between the volume that we see and where blockchain might take us, and more about the – either complex, known party transactions where there's a much more rich and important dataset that's attendant to those transactions that may not need to flow with the transactions, but needs to be referenced.

And then, ultimately, when you get to, yeah, more and more complex forms of emerging transactions, whether certain elements of connected car, yeah, we do think that some of the volume for incremental activity on the network can be unlocked if we're in a position to be able to support our clients with distributed ledger. And, yeah, I

Copyright © 2001-2018 FactSet CallStreet, LLC

think that's going to evolve slowly, but I think it's also important that in particular in the B2B realm, the commercial expenditure realm, we need to be prepared to support it.

And it's among the things that we feel we have an opportunity just based on the scale, the sophistication of our network, the global interoperability, the redundancy, cyber protection. If we can layer these capabilities into our network, we think we're pretty strongly positioned to be able to compete.

I'm not saying that blockchain and distributed ledger won't exist elsewhere. I think there's going to be lots of test and learn. But at some point, folks wanting to take advantage of those technologies are also going to want to look at the strength of the underlying networks for the flow of those core transactions. And I think we're going to have a compelling sell.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. Next question, [indiscernible] (00:19:02)? Okay. I'll go ahead and continue with my questions.

So I guess, Bill, you've covered Visa for a while. Things look great. Volumes are good. The secular theme away from cash and checks has contributed quite a bit to your revenue growth. But as I sort of think about over the horizon, is that opportunity still what it used to be in terms of the secular shift? Can you talk a little bit about where we are in that progression and if you think it's going to be as important to the company going forward?

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Yeah, I'm happy to. Probably because I've been around Visa for a while and we're on the road show teams, taking the company public, the secular shift that we were talking about at the time was this pool of cash just around the world that we felt compelled was ultimately going to be electronified, the expansion of the network as I talked about earlier and just sort of the trends in consumer and merchant behavior.

I'd say on those core elements, the thesis for the secular shift has gotten stronger. The amount of cash that exists on the planet today has grown. So the resources that we tap into that fuel our growth, as it relates to cash conversion, is a greater opportunity than it's ever been.

And I'd say related to that, adding tailwinds to the secular shift is something that we didn't have when we were going public is that you've got every major government on the planet right now deciding that it wants to move its economies away from cash. And in some ways that happens in a complex, rapid environment the way with the demonetization in India. In other ways, there's a thoughtful sort of multi-year agenda around it. But we believe that has enormous secular tailwind to us.

I think what's emerged and I think it's, at times, underappreciated is we've seen in the digital economy, consumer behavior is shifting more rapidly away from physical world commerce to virtual commerce. And it's not just happening in the most developed economies of Western Europe and in North America; it's happening globally. And consumers are getting more and more comfortable transacting virtually with merchants. And with that, when you move from physical world to virtual, we, by definition, pick up market share. But the strength of the network in terms of being able to facilitate cross-border commerce and to drive higher and higher authorization rates for merchants operating in those marketplaces, I think, represents a really important tailwind to the business.

But ultimately, when we think about the secular shift dimension that we talked about earlier in this conversation around expanding the number of transactions, the types of transactions over the network, in terms of just

Copyright © 2001-2018 FactSet CallStreet, LLC

transaction flow, may end up being the most important shift because you're now able to tap into the commercial economy, the government economy, the business-to-consumer economy.

So, look, I'm more bullish today about the tailwinds and the secular shift and the thesis for long-term growth, which is maybe on some level surprising given how much we've grown. But, yeah, I think – but people often underappreciate because they look at us relative to other industries. Other industries [ph] you see share (00:22:54) moving across different players within a relatively static industry in the pie that gets defined and is growing for payments globally, I think is growing more rapidly than anyone's expecting and that's at the core of what we mean when we talk about the secular shift.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

That's great. That's good to hear thus far along. You still see – have that conviction.

If I could shift back to Europe quickly, Visa Europe is obviously going well for the company. The accretion's coming better. I think the conversions are just effectively done at this point. And now, there's this argument, well, okay, Visa can shift to offensive and take more share and credit and cross-border. But at the same time, if I look at markets like the UK, you've got Mastercard who's come in and want to deal I think it was with Santander for potentially 10% of the debit market in the UK.

So like is it – do you really feel and have high conviction that now that Visa Europe's part of the public company, that you can be more aggressive and gain share in those markets?

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Look, we are very happy with how things have gone with Europe. I think it's gone better than we expected.

You're right. It was important for us to transition hundreds of clients in Europe into who with whom we had direct contracts and move them into a different commercial framework. I think we've done that successfully. You will invariably – when you renegotiate a large number of contracts as we have in Europe, you'll lose some and Santander was a tough loss, but it's one that didn't surprise us entirely. Santander globally outside of the UK was almost exclusively Mastercard. So, we were hoping to retain it. We gave it our best shot, but the loss to us was more, I think, reflective of a broader global relationship that Santander has with Mastercard.

But when I look at the business in Europe, yes, there's an opportunity for us to invest in credit, in commercial and some elements of digital and innovation that we believe and we know we're underinvested prior – and when Europe was a bank-owned association, and that definitely represents an opportunity for us. But, yeah, I think similar to my answer to your question around the secular shift, the pie in Europe is growing surprisingly.

There's still a lot of volume across Europe in local networks and the rate of growth in cross-border activity in Europe is greater than what we see most of the other regions around the world. We've just brought the European business onto our global technology processing platform, which unlocked a whole host of things: token, some of the elements of the Visa Direct strategy.

So, yeah, we're heavily invested in Europe. I think that there's good fundamental growth opportunities in Europe independent of share, and then we are focused on the areas that I just described where we feel like there hadn't been as much focus within the prior Europe organization. And we feel like there's an opportunity to grow.

Copyright © 2001-2018 FactSet CallStreet, LLC

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. Interesting you put it out the Visa Direct having some impact in Europe. When I think of Visa Direct, I tend to default to the U.S., but I guess really is the mix is globally fair to say?

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

Well, as is the case in a number of instances, you always start in a market and then you learn and then you globalize. But, no, there's been lots of activity with our banks in Europe to unlock the real-time posting of the Visa Direct transactions, and we'll see some activity in Europe as well some of the other regions. So the roadmap for Visa Direct is very global.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. And I know there's the – was it the TD deal out of Canada that sort of leverages a market where maybe Visa is not quite as active on the debit side potentially, but Visa Direct allows you to kind of connect and tap out.

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

A

It's a good example where – by a strange regulatory structure. We're locked out of a lot of the debit activity in Canada, but we had in TD a wonderful partner. And we are – we have a very strong share of their business on credit. They do issue Visa Debit that's used sort of online and cross-border.

But what we've got in – that we're testing with TD and tied to Visa Direct is we feel it's really important on the Visa Direct platform and to be able to facilitate some of these new and emerging transactions to be able to touch any account anywhere. And with partners, we've got over 20,000 financial institution partners globally who are connected to these local faster payment systems, if we can partner with them, we can ultimately be able to move value to any account on the planet. And once we'd be able to provide that scale and that interoperability benefit, we think that we'll be able to tap into some real growth potential around real-time payments.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Great. Well, Bill, I want to thank you for your time and we appreciate it.

William M. Sheedy
Executive Vice President, Corporate Strategy, M&A, and Government Relations, Visa, Inc.

Thank you. Take care.

Copyright © 2001-2018 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.