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Visa, Inc. (V)

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CORPORATE PARTICIPANTS

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

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Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Okay. I think we'll get started. My name is Bryan Keane and I cover the payments processors and I.T. services at Deutsche Bank. And I'm happy to have Bill Sheedy and I've known Bill for a while. I think he's beat me at a golf tournament before so...

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

Sure.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

So, I know Bill's golf game, and he's obviously done a fabulous job as the EVP and Global Strategy Group Head for Visa. So, Bill, thanks for coming.

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

Thank you, Bryan.

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QUESTION AND ANSWER SECTION

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I want to first ask about Europe. I know Europe, you were instrumental in getting the Visa Europe deal done and you ran that business for I think over a year I believe. So, how would you assess the success of the Visa Europe acquisition compared to kind of your original expectations?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Sure. As you all probably know, it's been a bit over three years since we acquired Visa Europe. It had been owned by the banks in Europe, and it had been a challenge for us to operate a global payment system where Visa, Inc. own and control the business everywhere but Europe. So, filling that in and acquiring the asset as we did was – is a critical strategic initiative for us that just made sense. As you might imagine, with any significant deployment of capital, resources, there were a lot of conversations, a lot of work done around the pro forma modeling of what the financial expectations would be of owning the business in Europe and, suffice it to say, the acquisition on a financial level has greatly exceeded our expectations on really almost any metric you want to focus on.

It's been even more important strategically because getting global alignment and engaging our clients whether they be merchants or financial institutions on the acquiring side or the issuing side, being able to engage multi-regionally, globally, in a more seamless way, has been transformational for us not just in Europe but globally. And then I think what we found with the Europe business was a lot of wonderful executives focused on a great franchise, but it was much more narrowly focused on a subset of payment products, particularly debit.

And what we've done there I think over the last three years is expanded the focus in our European business across, not just the importance of the debit product, but built capabilities on credit and B2B and a whole host of initiatives that I think have significance in innovation in digital payments that I think we have the potential to be really meaningful short, medium and long term.

So, it's been an enormous focus and priority for us. We've got a leader in Charlotte Hogg who's running the business there, has made a lot of really important changes and bringing talent into the organization. And I think, Bryan, just to wrap it up, I think we've been really strongly encouraged but it's still on a journey. I would say that, even our European team would agree, we've got more work to do which means there's more opportunities.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

And are you still getting cost synergies, benefits out of Visa Europe or has that been mostly completed by now since the acquisition?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

I'm pausing because I think the technology integration was completed last year, so it wouldn't surprise me if we're still lapping some cost synergies. But the focus internally now, I think the management and the technology integration has been completed.

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Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

And as you turn to the offensive and you guys go after gaining business, what's that game plan look like?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. Multifaceted as you might expect. One of the planks of the strategy I've already referred to which is expanding our capabilities across a broader range of products which has been a combination of both technology platform which, getting onto the mobile authorization clearing and settlement system last year was really important and enabling for us and that technology transition happened seamlessly and well ahead of schedule.

Building out the product management and the capabilities around digital and in innovation has been critical. I'd say one of the other really important initiatives is to increase the strength of our in-country and in-market teams. We like the organization that came into Visa, Inc. when we acquired it but we found that they were – that the in-country teams were not as capable. They weren't as large and they weren't as enabled to be able to engage our clients locally on a whole host of in-country initiatives that you can get if you build out a more robust country management team. And we've done so across the highest priority markets in Germany, in Spain, in Italy, in Turkey and you're going to continue to see us, I think, increase the strength of our local teams in market.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

It seem like you guys did a pretty good job or an excellent job in renewing the existing business of contracts after the acquisition. Now, as you go forward and try to get new business, have you seen win rates start to improve as integration has improved and you have more seizing behind the offering?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

We have. As [indiscernible] (00:06:21) mentioned, the relationship that Visa in Europe had with its clients in Europe was more akin to – on association where the financial relationship with the issuing and acquiring clients was dividending out of excess capital at the end of the year. And right after the acquisition, among the most important activities was to convert those relationships into commercial agreements and the majority of which became long term commercial contracts. And as you mentioned, that transition which was really important over the first year or so after the acquisition was performed really successfully. So, it exceeded our expectations in terms of our win rates and our renewals. And we were able, I think, with our clients to lay out really positive longer term plans for how we would work commercially with the business that we had enjoyed in Europe.

That being said, there were some transitions that were happening in Europe in particular around that time. There continues to be, but around that time is a pretty significant growth in the fintech community and a lot of neobanks, as they refer to it in Europe, that were evolving and we missed a bit of an early growth cycle on some of those higher growth extraordinarily innovative players that were focused on a whole host of mobile initiatives, virtual prepaid, focused on affluent European travelers. And I think that after – I think some early losses in some of that new business, organic business, there's been an improvement in our win rates and more of a focus that we've had on not just servicing our historic clients but being a lot more open to engaging some of these newer players. And it's definitely resulting in some increased business for us and we consider it to be a material growth opportunity.

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In addition to that, I think the long lead cycle you've got on selling into the credit business which we've had some in Europe but I think it's been underdeveloped continues to be a high priority for us and we'll continue to look for opportunities to increase our win rate and our growth in credit and commercial products across Europe.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

In Europe, there's a lot of questions around the SCA which is the Strong Customer Authentication, that regulation. Are people ready? Is it going to get pushed out? How is that going to impact e-commerce volumes? Love to get your opinion on it.

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

The secure customer authentication elements of the PSD2 regulation were due to be coming into effect around now. And I think we had some concerns as many of – the players in the market had concerns about the market's readiness to be able to support two-factor authentication for consumers on a much broader set of transactions. Fortunately, I think after a lot of conversations with the Commission, the European Central Bank, regulators like the SCA, we're now sort of in a holding pattern where I think the enforcement of the SCA regulations is probably going to hold for another 12 to 18 months. In some instances, it will depend on the country-level regulators to determine how much time they're going to give before they start applying the SCA requirements. But we're encouraged by the amount of time that's been given and I think that, at least at this point, we're – I think everyone is aligned in terms of what it is they want to create which are positive experiences for consumers and increase the capabilities for merchants and consumers and financial institutions to be able to increase the strength of authentication, but also rule out services like weightlifting that will enable the consumer and empower the consumer to be able to decide when and where they want to be challenged with that higher level of authentication. And I think that's just one example. There are a host of other examples that I think fit under a broader open-banking strategy where we have an opportunity to differentiate our platform and provide services and potentially look for opportunities to grow Visa's business in Europe and that's why we genuinely consider PSD2 and open banking as a growth opportunity.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Great. I want to move to account-to-account in Visa Direct. I know transactions growing at 100% year-over-year. We estimate the run rate volume over $150 billion. So, I guess where are we in the adoption of Visa Direct use cases in U.S. and international markets and what's the further opportunity to grow it from here?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. I'd still say we don't have many businesses that are growing at triple-digit growth levels and I think we've tried to be a bit more clear about the size of that business and it's a significant size and it continues to grow at that impressive clip, but I'd consider it to be early days. The growth started in the most pronounced way at home, in the North American market. We're focused on tapping in the growth opportunities globally as we sell Visa Direct into markets around the world. Europe is definitely a priority, but I would say really any of our markets around the world, we're getting a lot of traction with Visa Direct.

And it's the flexibility of what it provides in terms of account-to-account, funds transfer is almost – it's only limited by your imagination. So, whether it's a more simple peer-to-peer, person-to-person funds transfer or insurance company is providing payment to an individual or a business against a policy or in effect, a payroll transaction for

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the gig economy. These are just like three examples of massive growth opportunities for us that we think are tapping into a global opportunity for us to just expand and grow the reach of the payment system.

So, I think it bridges into all sorts of things around real-time payments. But I'd say that we're really encouraged by what Visa Direct is driving for us and the greatest opportunity at the moment is just to continue to globalize the platform and to sell it as broadly as we can across our traditional and emerging clients.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I know the yields are lower for Visa Direct, but it feels like, as being the backbone and most of these tech companies, Fintech companies, that are starting up, you always hear them figuring out how they're actually doing this and a lot of it, they're doing it through Visa, using Visa Direct. So, do you have – I mean, it feels like to me you have an ability to use price and to actually raise price. It's kind of – you don't have to do it today but is that a future lever?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. Getting the pricing right on new business is always tough because in some instances, you're not moving transactions that had occurred on someone else's platform and you've got an established market. In some instances, you're creating a brand new transaction set. And I think as investors, you want us to be looking at a balance of capitalizing on the growth opportunity, the transaction growth opportunity, the revenue growth opportunity but also conditioning the market with a pricing model that I think is something that we can live with longer term. And in some instances, when you are looking at new organic growth opportunities, we're going to have to test and learn a different pricing models. Whether or not that translates into pricing leverage over time, I think remains to seen. The focus of the organization, however, is really more on driving more volume over Visa Direct and looking for revenue growth opportunities that I think comes from the volume and not the pricing.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I know there is a little bit of a battle for Earthport and then it ended up your guys' hands and I think that with that, with Earthport I think now you guys have access to 99% of bank accounts across the top 50 markets globally. What does that asset now allow you guys to do? Why is that asset so important and what made you guys really want that?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. It's a little bit of a same answer that I gave you on Visa Direct which is the opportunity that that presents itself is really just limited by your imagination. So, historically, the volume that ran over our network was enabled by a consumer or a business that had a Visa payment credential and accessing an account that was enabled with a payment credential. The great thing about the Earthport acquisition is you can be sitting here where one end of the transaction is enabled with a Visa payment credential and it's interacting with an account. It may not have any payment credentials associated with it at all, and that connectivity I think definitely, intuitively, has an opportunity in the remittance market, a much more robust set of peer-to-peer transactions.

But the ways in which that may ultimately be leveraged in enabling us to penetrate business-to-business opportunities or partner with our clients to facilitate a whole host of transactions, I think we're more interested in exposing the capabilities that we now have with Earthport and sitting down with young fintech companies, large

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merchants, large financial institution, governments and thinking openly and creatively about how we might be able to bring commerce onto the network that right now either doesn't exist or is sitting in other networks that have a bit more friction for whatever reason, we'd take advantage of the greater capabilities that we'll have associated with an Earthporth-enabled VisaNet.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I want to get your thoughts on Mastercard's recently announced acquisition of Nets, their account-to-account business, and what potentially that gives them versus some of the assets you guys [indiscernible] (00:18:25)

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

I think I'm not going to comment on a Mastercard acquisition or announcement but I will say that real-time payments which I believe is an element of the acquisition continues to be an exceptionally high priority for Visa. The development of RTP platforms around the world almost always sponsored by governments or central banks and designed to be open commerce rails that'll support peer-to-peer payments, bill payment, commercial commerce. These things I think are really interesting and have the potential for massive amounts of long-term growth against which we're very focused and organized. We're going to be interested in anything across the spectrum of partnering with folks as we have said publicly to look to help operate. These RTP rails for governments are in the process of participating in RFPs around the world to try to capitalize on those opportunities but, candidly, I think the longer term, more compelling opportunity or the differentiating value-added services that can be extended to enhance value to transactions running on these open rails. So, to either de-risk transactions, tokenize them, add value through the capabilities that we bring that may reside on VisaNet or may reside in assets that we hold outside of VisaNet, we're going to look to expose those as best we can to add value to a commerce flow that would exist on these other RTP platforms.

It's important to reinforce that we like VisaNet very much. We do think that it has a continued growth opportunity and will maintain a high priority for us, but we are also very focused on extending our capabilities to add value to transactions that run over these other networks as well.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

You have Visa Direct account-to-account RTP, it just seems like this is all offensive in growth avenues, and you can just tell from talking to you and others that this is a huge opportunity. Is there any part of this that could be defensive as well that there could be some cannibalization of volume that goes to these networks versus your own existing business?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. It's a matter of how you define cannibalization. I think all great companies try to cannibalize themselves as they – in the journey to try to add that more value to your clients. So, I think the real positive trend here is whether it's RTP or some of the other initiatives that we've talked about is just the expansion of electronification of commerce globally and the creation of these new use cases.

So, the pursuit of that growth and adding more value to governments as clients, financial institutions, merchants, newer players, technology players, if we end up moving volume from one platform onto a different platform,

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maybe you can think of that as cannibalization, but if you're in a position where you're creating more value and adding more value to your clients, and then I think you've created a virtuous cycle.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

And a lot more volume.

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

That's right.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Just on B2B and that opportunity, can you just describe what you guys – the strategy there and I know you guys launched globally the B2B Connect?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yes. So first, we start with a position of strength in B2B. We've got over $1 trillion in volume across our business-to-business product today. We're the world's largest B2B network by a comfortable margin. And I think there's a lot of growth to be had by continuing to ride the product set that we've had traditionally and expanding that into Europe and our other regions around the world. So, that business is growing faster for us than our consumer to business product sets, and we won't take our eye off continuing to drive that growth and that expansion.

Incremental to that growth are opportunities that are able to be penetrated by initiatives like B2B Connect which provide a much more robust environment that can handle a larger dataset, invoice line item Level 3 data, can be married with a transaction set. There's seamless integration with the blockchain which I think will create lots of capabilities for folks to run more complicated larger transactions on the network and do so taking advantage of all of the underlying capabilities of VisaNet, it's stability, the technology platform, the cyber protections that we provide that I think are a point of differentiation.

So, when you look at globally, we think that – and I think others agree that the commercial B2B opportunity exceeds $100 trillion globally which greatly exceeds the massive opportunity that we've been talking about in the secular shift with consumers. So, I think there's a reason why the B2B business is going to continue to get a lot of attention internally within Visa. We're going to put our best thinking and a lot of capital against it because of what we consider to be a massive long term growth potential.

It will be – it will take time for it to develop. There are complexities associated with building out the value chains within the different commercial verticals. But even outside of VisaNet and B2B Connect which we're very bullish about, you've seen a lot of smart capital and a lot of good progress in accounts receivable automation, accounts payable automation, ERP, integration. And so, I think the conditions are right for us to start on a stronger growth cycle for B2B that I think will create even more distance between that and the growth in the underlying business.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

If you have a question, go ahead and raise your hand and we have a mic that comes around. I wanted to ask on contactless. I know that's a big initiative at Visa. Can you talk a little bit about the contactless pushing you in the

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U.S. and what we see – it feels like that's almost a little more near-term to see a more material benefit to the model in 2020 and 2021.

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. I mean, when I look at – when we talk about business-to-business, I think that's a lot of near-term focus, a lot of the near-term investment with medium and long term growth. Contactless in the United States following really impressive rollouts of contactless in the UK, Australia, and a number of markets around the world which have reinforced for us the power that contactless can bring.

We, at the moment, are really encouraged by the merchant adoption of contactless in the U.S. We've got 80 of the top 100 merchants enabled with contactless. As we sit here today, almost two-thirds of the transactions in the U.S. today in a physical face-to-face environment are occurring at contactless-enabled merchants. That's the harder part of the value chain to roll out is the point of sale. The consumer side with cards, we have roughly 100 million Visa cards enabled with contactless at the moment in the United States. Our projections are by the end of 2020, that is going to be tripled to 300 million, and the growth and the penetration of contactless is measured by sort of transactions, incremental transactions, over the network. This isn't going to be linear. There will be a step function movement in the marketplace once you reach a level of concentration of cards and terminals, and then you see the power of networks like Visa, financial institutions, merchants all coming together to drive consumer awareness. And our experience in other markets suggests that this is going to be material to help – in the U.S. to help penetrate the $3 trillion of cash that continues to sit in the U.S. that is disproportionately sitting in small dollar transactions that we think are going to be nicely penetrated with contactless.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I had two questions I want to ask you on the last earnings call that were kind of call-outs, one was the cross-border. We saw a nice recovery in cross-border growth rates. What's driving that given that FX volatility for the most part has still been on the lower end?

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. If you take out the European, intra-European cross-border volume which is important, but it's sort of a different type of transaction, we're running at about a 9% year-over-year growth on cross-border which has been pretty stable. You've got a whole host of things driving it. It's a mix – almost an equal mix of consumers traveling and the sort of continued globalization of retailing and people facilitating e-commerce transactions. And I think it seems to grow irrespective of currency volatility. We've seen that the market actually shifts pretty efficiently as currencies strengthen and weaken and we're encouraged that the sort of dip that occurred in cross-border activity really early in 2019 seems to have been what I just described it to be, which was a blip. So, we're encouraged by the stable growth that we're seeing on cross-border.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

And the other comment that was on the call was it sounds like you guys are doing a good job in landing new partnerships and new business with new logos and renewals. Is there anything in particular driving that or is that just the sales effort and a constant kind of pounding the pavement and talking about exactly your value proposition?

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William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

A

Yeah. The sales effort, the business development activities, pounding the pavement, I'd say are most of it. I would say that we've become aware of places where we were difficult to work with. Small, fast growing, innovative companies were finding it difficult to get our attention, to get licensed by us, to deal with some of our capital requirements. And you go through what fortunately was some brief period of losses, you interrogate these losses as hopefully the good companies do and you realize that you had an opportunity to design your engagement with the fintech community, with these neobanks, with some of these emerging technology players and you serve them better, you structure their participation in the payment system to be more commercial, more reasonable and we've seen that, I think, complement the pounding the pavement and the strong sales efforts that you described. So, I think after, I think, some periods where we went through that learning, we're really encouraged by the growth cycle we're on now.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Okay. With that, Bill, I enjoyed the discussion. We'll keep it there.

William M. Sheedy
Executive Vice President-Strategy Group, Visa, Inc.

Thanks, Bryan.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Thanks so much.

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