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Visa, Inc. (V)

Evercore ISI Payments & Fintech Innovators Forum

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CORPORATE PARTICIPANTS

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

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David Mark Togut
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MANAGEMENT DISCUSSION SECTION

David Mark Togut
Analyst, Evercore Group LLC

Welcome back to Evercore ISI's 8th Annual Payments and FinTech Innovators Forum. We're delighted to host Visa management. Joining us from Visa are Chris Suh, Chief Financial Officer and Jennifer Como, Global Head of Investor Relations. I'm David Togut. I lead the payments processors and IT services research team here at Evercore ISI. Chris and Jennifer, thanks so much for being with us here today. We greatly appreciate it.

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

No, thanks for having us.

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QUESTION AND ANSWER SECTION

David Mark Togut
Analyst, Evercore Group LLC

Q

So, Chris, since you've become CFO, how are you shaping Visa's finance organization to fit your management style? And in particular, where are you making changes versus your predecessor?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. Thank you. Again, thanks. Hi, everyone. Thanks for having us. Yeah, I've been at Visa now for just over six months. It's been a great six months. It's everything that I hoped it would be and my expectations when I came in. It's really a great company. The people are fantastic. An incredible culture, an iconic brand, and an enviable market position that we have. And so it's really been a great six plus months.

I was lucky that I inherited really a world class finance team from my predecessor, Vasant. I really view my priorities over the – where we have this great growth pillars in consumer payments, in new flows, in value-added services. And I really do view my priority number one is to make sure that we are set up to sustain growth across our three growth pillars for the long term.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Can you frame how Visa's financial model will evolve in terms of EBIT margin and return on invested capital as new payment flows and value-added services likely outgrow consumer payments over time? And then what are the longer term implications for client incentives as value-added services and new payment flows outgrow consumer payments?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah, sure. You know, we've talked a lot about value-added services, about new flows. We're incredibly excited about the growth runway in front of us. And as you said, we do anticipate the growth rates for those two growth pillars to continue to be higher than our consumer payments business overall. And so these are great opportunities in front of us in terms of top line revenue growth.

From a margin perspective, as you talked about, it's really helpful to understand and think, maybe decompose the businesses a little bit and understand what's beneath the layers. We'll start with value-added services. It's not a single line of business, as you know, David. It's really many, many services that we categorize internally along five lines of business.

It's around issuing solutions, Acceptance Solutions, risk and identity, and advisory and open banking. And so across those five lines of business, if you look at the products and services that are underlying those, so you have issuer processing, you have fraud and risk management, you have Cybersource, you have advisory services. Many of those are structurally similar in margins to our core business. And so you see many more similarities structurally in them than dissimilarities.

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Let's do the same for new flows. For new flows, the two biggest categories of services are around our commercial business and around Visa Direct. Now our commercial business, there's a lot of attributes that are very similar, again, to our core around card issuance, around acceptance and around payment volumes. So again, strong margins, structurally similar, operates at scale.

And Visa Direct, Visa Direct, even though it's a newer business for us, one that we're really excited about, it does operate at scale in the sense that the bulk of the transactions runs over VisaNet, so it has the advantages of scale.

So if you look across VAS, you look across new flows, and you'll see that again, there's many more similarities to our core business. And so it does have similar margin characteristics over time. And so we feel really good about our ability to continue to grow those. And they'll be accretive to our top line growth because they are faster growing. But from a margin perspective, they're structurally more similar.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. And then just any any impact on return on invested capital or any of these services less capital intensive or more capital intensive than core consumer payments?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. They're more similar than dissimilar, like I said. They run at scale across VisaNet in many cases, and they have similar attributes. Their network, they attach to network transactions in many, many, many ways. So we do view those opportunities from a margin perspective as very, very similar.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Thank you so much for that. A barbell question on consumer payments. First part is on short-term consumer spending and payment volume trends that you're seeing. And then the second part is longer term around the runway for growth for consumer payments both in the US and internationally.

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. Great. Let's start with short term where we had – going back to maybe the beginning of the fiscal year, just because that's my perspective on short term. We had a solid start to the year. We came in at revenue at the high end of our expected range. And so, and cross-border was strong and so we had a really solid start to the year. We're about a little past halfway into Q2 now. And so I can provide a little bit of update in terms of trends that we're seeing. And so those trends through February 2021 are – it's going to sound a lot like I talked about, in fact, in our Q1 earnings. And so, A, from a consumer demand standpoint, we see resilience in consumer broadly.

B, from an underlying health of business, when you look at our total payments volumes, the growth rate that we're seeing through the 21st of February is in fact, quite consistent, relatively consistent to what we saw in the first quarter. And that applies to the US as well as other major markets. And the same goes for our cross-border business. We had a strong start to the year in cross-border growing 16%. So far through the 21st of February, again, we're seeing relatively consistent growth rates as well. So stable environment, resilient consumer. All-in-all, feeling pretty good about it.

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David Mark Togut
Analyst, Evercore Group LLC

Q

Great. And then just longer term on the runway for growth of consumer payments both in the US and internationally, the US question comes up a lot since you were a little tighter to PCE over the last couple quarters.

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Right, right. The other end of your barbell question. The first place I'd start was when we look at the globe in the consumer payments business, which you asked specifically about, and so putting aside value-added services and new flows for a second, which are big opportunities in all the markets that you're referring to, even in consumer payments, when we look at the amount of cash and check available globally, it's still a massive number. And it does vary somewhat by region in markets like Latin America, in CEMEA, in parts of Asia Pacific, certainly the cash volumes relatively are significant.

But even in the US where we've had great success with digitization of payments, we still have a significant cash runway in front of us. And so, A, cash and check volume globally, still a massive opportunity.

Our flywheel for growth really focuses on three levers. It focuses on growing issuance, which grew 6% this last quarter. Focuses on growing acceptance; acceptance locations are up 17% in the first quarter. And it focuses on growing engagement. Engagement in ways that can accelerate modern forms of payment. Two important ones that we've talked about is the fact that e-commerce, where cash isn't really an option, is growing faster than in-person and has consistently done so, including in the US. The second is tap to pay. It's an important form of engagement.

Globally, it's at 65%, roughly, and that's 77%, excluding the US, which is at 45% penetration in terms of tap to pay. And as studies have all shown, the more you tap, we get more transaction volume, more payment volume, and it really gives us an opportunity to penetrate into the long tail of cash spend. And so those are important engagement metrics.

Of course outside the US, as I talked about, significant cash opportunities in Latin America. We've grown issuance by 1.5 times since 2019. We've grown acceptance by more than 2.5 times since 2019. In places like Africa, the cash volume, relative volume within PCEs, it was at high-80%s, 86% in 2019. It's come down – it's grown a lot and it's down into the low-70%s, 72% by 2022.

And so you can see great progress already in the last few years and still ample runway in front of us. And so again, looking around the globe at our opportunity in consumer payments, we're very optimistic.

David Mark Togut
Analyst, Evercore Group LLC

Q

Thanks for that, Chris. Based on Visa's data, do you expect consumers to continue to overweight their spending toward experiences versus goods and services?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Well, we're not in the business of forecasting economic predictions, but I can tell you what we see in our data. In Q1, it is consistent with the theme that you just talked about. We can break it down and say generally speaking, services are outperforming goods, even though goods are relatively stable. Discretionary services, you think

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about restaurants and entertainment, are doing better than discretionary goods like retail and apparel. But all-in-all, the trends are – the mix of those things are back to pre-pandemic levels, and so in some sense a bit more normal. And then maybe the last one in the category spend, travel, which has been strong, at higher than pre-pandemic levels and has continued to remain elevated, has been also healthy. We talked about travel growing 19% in the first quarter as reflected in our cross-border results.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Given the strength in global travel growth, which you called out as up 19% year-over-year in the December quarter, can you speak to Visa's differentiation in airline co-brand cards? And where do you see the biggest opportunities for co-brands with your largest issuers?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah, co-brands, let me maybe even zoom out a little bit and just talk about co-brands a little bit and then talk about airlines. We've been in the co-brand business for a long time. We've had great success. In the US we have eight of the top 10 co-brand partnerships. And so this is a really important area for us. We differentiate. We have a very holistic view of how we think about our co-brand partnerships. We really think about how do we bring differentiated value to our partners, and in turn they offer differentiated value to their cardholders.

How do we differentiate? There's a handful of ways that I can certainly talk about. How do we use our data as a differentiator? To provide insights on customer behavior, to provide recommendations, again, providing differentiated value to their – their ability to provide differentiated value to their cardholders.

From a capabilities and solutions standpoint, we've invested tremendously in our capabilities and our differentiated product solutions. For example, Cybersource is a great example. It gives our co-brand partners the ability to monitor fraud. It gives them the ability to offer advanced services like tokenization to their clients.

The third one I would point out is our is our brand. We're very proud of our brand. We've invested a lot to build that brand, what it stands for. That brand offers value, again, to our co-brand partners.

And then the fourth one I'd point to is a bit closely related to the brand, which is the value of the sponsorships and partnerships that we do. We have marquee partnerships with the Olympics, with the NFL, with FIFA World Cup, and more recently announced F1 with the Red Bull racing team. And these offer the opportunities to use those sponsorship assets, again, to benefit the brand and benefit the cardholders, the loyal customers of these co-brands. The Olympics coming up certainly is another opportunity to amplify those messages as well.

As we think about airlines, we have extensive relationships with airlines across all the regions, and I'm sure I'm going to miss some of them but, in North America, United, Southwest, Allegiant; in Asia with Japan Airlines and Malaysia Airlines, ANA; in CEMEA with Emirates and Qatar Airlines, and in Europe as well with Swiss Air, Finnair, Norwegian Air. And so again, I'm sure I missed a few of them, but you can see the breadth of our airline partnerships. We continue to focus on co-brand partnerships with verticals like travel, entertainment. We announced two recently. We announced the deal with Universal in the US, which is another iconic brand.

And then we announced a co-brand with a big retailer in Korea called Koppang. They have 20 million customers and we're working together with their inaugural co-brand card. And so lots going on, on the co-brand space. This is an area where we've spent a lot of time over the years, and we're really proud of the progress that we've made.

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David Mark Togut
Analyst, Evercore Group LLC

Q

Thank you for that. In terms of new payment flows, Visa Direct continues to be the biggest growth driver. What are some of the most important new use cases you're exploring for Visa Direct?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. Visa Direct is in fact one of the growth opportunities that we're really excited about. We've spent a lot of time, we've invested in really building the foundation for long-term success. If you think about what Visa Direct is, it really expands the flow of money from traditionally from consumer to business, which was our consumer payments business, to all endpoints. If you think about B2C, P2P, G2C, it really enables all of the money movement to move both ways in the flow.

What that takes is really a network of network strategy. We work with over 70 domestic payment schemes. We work with dozens of partners, RTP networks, other card networks, gateways. We've built out the infrastructure to enable this this movement to happen. And the next layer, then you have to build the used cases as you talked about. And so we have over 500 enablers who have built thousands of programs in over 65 used cases already that are in market.

All that comes together, we have more than 8.5 billion endpoints that are enabled to receive and send money flows through Visa Direct. And so you could send a card, you can send a wallet, you can send an account. It's really set up. All the infrastructure now, the groundwork has been laid for this business to continue to be a growth engine for Visa over time.

Used cases. P2P has been the predominant use case to-date, and it's still the biggest. But we're investing in new use cases. Really, some of the ones that we're excited about are in the B2C flows. So you think about merchant settlements; you think about gig worker economy payout. Think about marketplace disbursements. We announced some with Airbnb and Poshmark.

This last quarter we announced the ability to pay out to content creators on Meta. We have that new agreement. And so these B2C flows are new use cases that we're excited about as well. And so this is a great growth opportunity for us. We're expanding, ever expanding. And as I said, we've got the infrastructure and the groundwork really laid for us to grow over time.

David Mark Togut
Analyst, Evercore Group LLC

Q

That's great. Just more broadly on new payment flows, Chris, where do you see the biggest new use cases across the $200 trillion TAM? I think what you've talked about, including B2B, B2C, P2P and G2C.

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. Lots of acronyms there. So, the $200 trillion you referenced, that was an updated market sizing that we gave this last quarter. It's obviously a very, very big number, $200 trillion market opportunity in our new flows business in aggregate. Something that we're really excited about. And we see long runway in terms of our ability to capture that.

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B2B is the most significant part of that $200 trillion. We size it at about $145 trillion of that $200 trillion. And within that, I could prioritize along three dimensions. In the near term, our short-term priorities is around the card and virtual card business. That's about a $20 trillion opportunity. I think you're familiar with – many of you are familiar. It, in many senses, is more similar to our consumer business. There's issuance and acceptance and payment volumes that we run in the commercial business and aided by virtual cards and all the innovations that we're doing in that space.

The second I put in the medium term category. It's really focused on cross-border B2B. We size that also at about $20 trillion of opportunity. We're focused on that with B2B Connect. And then the third one in the B2B category is a longer tail. It's a longer term opportunity. We size it at about $105 trillion of the $145 trillion of B2B. And it's really in the AP, accounts receivable and – AP and AR space. And we're investing in some long-term opportunities there as well.

The remainder of the $200 trillion, a lot of that has to do with the Vvisa Direct opportunities that we talked about. It's in the B2C, the G2C flows that we talked about, and that comprises the majority of the other $55 trillion of market size estimate that we've updated recently.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. And maybe just following up, you called out B2B Connect in the cross-border B2B space. Any update on where Visa B2B Connect stands in terms of its build out and volumes?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. If you think about the genesis, again, of something like a B2B Connect, we listened to our clients. We listened to their experiences. They shared with us some of the challenges that they have historically with large-ticket cross-border money movement. The ability to track that movement, the ability to predict when, how, how much, things like this that were based on historical technology.

And so we reimagined that experience in total and we said, hey, I think we could build a better solution. B2B Connect was born as a result. It's a multilateral rich payment data attached, rich data attach to that payment. So it gives customers and clients the ability to track that payment through the various cycles. We've seen great early progress. It is early days. And again, kind of like what I described with Visa Direct, we're focused on building the foundational elements to enable long-term growth.

One of the first steps in going to do that is to bring in more banks that can participate in something like the B2B Connect experience. In 2023 we had 70% more banks sign up to enable B2B Connect and we've had over 100% growth in transacting banks during that year.

It is early days. It's building a very significant capability for us, but we're happy with the early progress.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Thank you so much for that. Value-added services is a clear standout. Revenue up 20% year-over-year in the December quarter. What are some of the biggest near-term drivers of growth in VAS? And then along with that, what do you see as some of the bigger, longer-term drivers among risk and identity, advisory acceptance, open banking?

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Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. Great question. We're really excited about value-added services. You can tell by the way we've talked about it consistently when we have the opportunity. As I mentioned in the previous question, value-added services is a host of services across multiple business lines. Our strategy really has been to think about, how do we use value-added services to deepen existing client relationships? How do we grow into new markets and geos, and how do we bring new services and capabilities to our clients globally? That strategy, as you pointed out, is resonating. We are over $2 billion in the first quarter of total revenue, growing 20%. And that 20% level has been generally the level that we've seen. We've seen high-teens to low-20s% growth in value-added services over recent periods. And so it's a high-growth business for us.

The second part of your question, really talking about opportunities, and how do we grow, and how do we continue to grow? I think it's instructive maybe to look at each of the businesses, because they are a little bit different. And so you could look at each one of them. So I'll just go through each of them with a little bit of detail.

If you think about the first one that I called out, which is issuing solutions. In the first quarter, growth has really been driven by success in card benefits fees. That's been a successful business for us. The second category in Acceptance Solutions. Cybersource, other network products as well as fraud detection and prevention. Those have all been tailwinds to growth in our Acceptance Solutions business, so we're seeing great progress there.

Third, in risk and identity solutions, two standouts. We've talked about VAA and VRM, which stands for Visa Advanced Authorization and Visa Risk Monitoring. Those products have expanded globally. We've had great penetration around the globe. And in terms of value provided we estimate they've prevented approximately $30 billion of fraud between mid-2022 to mid-2023 when we last did a study on it. And so they're really resonating.

And then lastly on advisory, which is maybe the one that's slightly different from the other three in the sense that it's your consulting services. It's marketing services. We had over 3,000 (sic) [2,000] engagements in FY 2023. Clients continue to see the value, the expertise, the insights that Visa brings. And so we're seeing great demand for our value-added services as well, across the board.

The other important thing, maybe the final thing I'll say about value-added services is that growth, the 20% growth that I talked about, it's broad based. We're seeing double digit growth across all five of the categories, and importantly, not just in one or two of the categories. And so we do think about them growing with network transactions, the ability to grow beyond that, and the ability to price the value over time. And so excited about the opportunities ahead with value-added services.

David Mark Togut
Analyst, Evercore Group LLC

Q

Thank you so much for that. Continental Europe payment volume just grew 20% in constant currency in the December quarter. Eight years post the Visa Europe acquisition, if you can frame for us country and, at the service level line as well, consumer payments, new flows, and VAS, what do you see as the biggest TAM expansion opportunities for Visa in Continental Europe?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

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Yeah. Let me talk about Europe maybe broadly. You covered a lot of territory there, and so let me try to break that down a little bit from our perspective. Great momentum, great progress in the continent. The pipeline looks great, and we're competing well market by market.

We talk about client wins. We talk about renewals and new deals each quarter. We highlighted three in the first quarter. One was a renewal with İşbank, which is the largest private bank in Turkey. Another was with a bank in Poland called PKO Polski, who's the largest issuer and acquirer in Poland and Eastern Europe. A new deal with them, 33 million cards. The third is with a bank called Piraeus in Greece, which is the largest bank in Greece. We expanded our partnership with them. And so you can continue to see, we continue to win clients and build great relationships across the continent. And so we're really happy about that.

From a product and innovation standpoint, we partner with over 100 fintechs in the continent. We've expanded capabilities through Tink and Currencycloud, and we continue to be excited about the opportunities to bring new services to market there.

And then from a new flows and VAS perspective, for Visa Direct we have over 100 enablers, over 1,000 programs, and we continue to see great traction. We've grown transactions by over 3X over the last two years in Europe.

And then for value-added services, we've talked about the expansion of VAA and VRM as two products that are doing really, really well. VAA alone, we've seen tremendous growth in transaction volume there in number of transacting clients. And so we're seeing great progress in terms of our geo and market expansion. So all-in-all, when we look at Europe from a client and competitive landscape, from a product and innovation landscape, across new flows, across consumer payments, we continue to be excited and optimistic that we'll continue to see great growth across the continent.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. And then regulation is a big topic. A lot to talk about here. You've got Reg II from Durbin, Credit Card Competition Act in terms of – seems to be moving slowly through Congress, Durbin 2.0, PSD3. So how do you assess the impact from kind of a host of these regulatory actions on Visa, either directly or more broadly on the payment ecosystem?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. There's a lot to unpack there. And you called out two or three things. So maybe I could just go through each one of them at some level, and happy to go deeper too. At the top level, before we get into each of the individual ones, I think our approach has been to consistently have constructive engagement with both legislature, regulators, alongside our client partners, to make sure that we're both educating, but also making sure that they understand our point of view. The point of view that is good for consumers, good for our clients, and good for the economy broadly. And so we do continue to have constructive engagement.

You called out, I think, Reg II, CCCA, and what was the third one you called out? You called out a few of them.

David Mark Togut
Analyst, Evercore Group LLC

Q

Durbin 2.0. Fed trying to take interchange down another 28%.

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Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Durbin 2.0. Yeah. Okay. Okay. So let's go through each of the three. Reg II: Reg II is a regulation that came into effect about six months ago in the summertime. For those not close to it, it basically is a regulation that requires issuers to have a second unaffiliated network associated on debit for card not present transactions. That went into effect in the summertime, in July, so we've had two quarters of experience on it. The way we've characterized it over the first two quarters is basically some range of not meaningful to modest impact in the last quarter. And we saw a little bit of impact that started at the beginning of the quarter and stayed stable throughout the quarter.

The thing that I would emphasize is actually the statement that Ryan made, Ryan our CEO, Ryan McInerney made on our earnings call in the first quarter, which is with the implementation of Reg II, it's actually given us an opportunity to engage with clients, with partners on the merchant side, and to really highlight how we differentiate ourselves, how Visa's capabilities, how our value proposition is differentiated from others in the market.

What are some of those differentiators? You think of, merchants ultimately will have a choice under Reg II. And that choice comes down to not only cost, but to capabilities and liability. And so from a capability standpoint, there's two that I would highlight. One is around this notion of dual message support versus single message. And so Visa supports dual message. Many of the – most of the PIN debit networks, which are the alternative networks that many times are on the back of the card, are single message. And what is dual message and single message? Well, dual message supports transactions where the final price is different from the initial price. So think about restaurants and tipping or hotels. Also applicable scenarios is in e-commerce where a merchant can't bill until the products are shipped. And so if you have to ship in multiple packages, it really inhibits your ability to do bill in multiple pieces.

Liability is another really important one for our clients. In the e-commerce world, merchants bear the cost of that liability. And we've invested for decades in advanced fraud detection and tokenization efforts and things that really add a lot of value to that transaction. And so we feel good about Reg II. We feel good about our ability to operate in that regulatory environment. Remember, we've been operating under Durbin 1 since 2011. It's been over a decade, and we've learned how to navigate in that environment.

The second one is CCCA, which is the Credit Card Competition Act. We've been pretty clear about our position on this one. I know it's been in the headlines a bit lately, but again, we and our partners have been pretty clear on our position. A, we think it's unnecessary. We think the markets are working great. We think there's plenty of competition. We think the markets work effectively, good for the economy, good for consumers. Two, we think it's actually harmful. We think there's potentially the impact to have less credit available. It'll take away rewards for consumers. There's many things that don't benefit consumers associated with the act.

And the third one is, they're probably underestimating how complicated and how expensive it is going to be to implement. Credit networks aren't built on the same as debit networks. And so to rewire the whole system in order to support a dual routing is very, very complicated and difficult and onerous to the whole industry, and therefore, not good for the well functioning of the payment markets in total. We made our point of view very clear on that. We continue to have constructive dialog on this one as well.

And I think the third one you asked about was potential debit cap regulation. Again, I point to the fact that we've been operating under regulated debit environments for some time. We've become adept at it, both regulated and unregulated markets with different varying levels of interchange. It's also worth reminding folks that interchange isn't revenue to Visa. Interchange is an exchange of value from merchant to issuer, and we're the enabler of that in the middle. But this is one, I think history, again, has proven that heavy-handed regulatory oversight on

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something like this doesn't translate to benefit to consumers, to merchants, to issuers, to all participants in the ecosystem. We've continued to express our point of view on that. I think they are taking some extra time to take feedback, as I understand it, and so we'll continue to engage constructively on along all three of these issues.

David Mark Togut
Analyst, Evercore Group LLC

Q

Has the Fed provided an updated timeline, which they're taking commentary from industry participants?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. I think, and I don't know if I have the precise – I know they extended it by a period of time and I don't have the exact timeline off the top of my head. But I think it was a 30-day extension or maybe it was a three-month extension. I have a three in my mind, and we can certainly look that up.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Thank you so much for that. Visa recently acquired Brazil-based issuer processor and bank core processor Pismo, which expands your swim lanes quite nicely. Can you dimension your planned investment in Pismo's capabilities both inside Brazil and outside to globalize its reach?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Sure. Yeah. We were excited. We announced that we closed the acquisition of Pismo this last quarter. We're excited to have them be part of the Visa family now. And it's early days, but we'll be working on an integration plan. Let me spend a minute talking a little bit about Pismo and how that complements our business.

Again, this is a case where we listened to clients and what clients told us in terms of their needs around a modern stack and around capabilities that expand beyond our current. So today we have an issuer processor. So Pismo is a cloud-native issuer processor and core banking platform. They're global and they have a broad set of services. Today we have an issuer processor. It's DPS, an issuing process service.

It is a debit card, primarily debit and prepaid and in the US. And so the complementary nature of Pismo, which is not only debit but it's credit, it's commercial, it's global. They're a Brazilian company, as you pointed out. But they have large engagements with large and sophisticated clients globally. And they're cloud native. And so as customers continue to their cloud transformation journey, they want cloud native APIs, and Pismo provides us that, that capability. So we're excited to continue to now integrate Pismo. Like I said, it complements our business, existing business very well. It's early days and we'll continue to invest in that business to scale it globally and across the product set. And you'll hear us talk more about it, I'm sure, in the quarters to come.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Thank you so much for that, Chris. More broadly, on capital allocation priorities, does Pismo represent an intentional longer-term inflection in Visa's acquisition strategy to broaden your services to card issuing banks and to new adjacencies?

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Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Well, it goes back to what I was talking about, the genesis of Pismo. Like how did the Pismo deal come to – how was it born and how did it happen? We listened to clients. We listened to their client needs. They tell us what their needs were. In that case, a cloud-native modern stack filling the set of services that expand beyond debit. So, if you think about that strategic rationale, it's actually not that different than how we've applied to other acquisitions in the past.

Cybersource is an example of that. A little bit more than a decade ago when you saw e-commerce really starting to grow and accelerate, we recognized the need for a market-leading payments – gateway solution and hence led to the acquisition of Cybersource. Today, fast forward, X number of years forward, today Cybersource was a really important business for us. Really an omni-channel payment solution that offers a breadth of services.

And so that's been a terrific example. But again, it was born from us listening to clients, understanding the needs, our ability to invest in adjacent markets that satisfy our clients' needs. And so I think that's very, very strategically consistent with how we think about the Pismo acquisition as well.

Your broader question was really around capital allocation. And I think within the context of everything I just said, we're going to continue to be thoughtful about how we invest, how we allocate our capital. Whether it's inorganically through an M&A transaction or whether it's investing in our own capabilities, we'll go through that in a disciplined way. And as we've done, I think over the decade plus that we've been a public company, I think we've shown that we're pretty disciplined about how we go about these things. And you should expect that we'll continue to be so.

David Mark Togut
Analyst, Evercore Group LLC

Q

Very clear. Thanks for that, Chris. One of the most topical questions right now in payments is just gauging the impact of Capital One's plan to move its volume with Visa and your primary competitor, clearly, to newly reissued Discover Cards if Capital One's acquisition of Discover does receive regulatory approval and it's completed. So over what timeline would you expect this to occur?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

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Yeah. The first place I'd start with is it is very early days. It appears that it's going to be a bit of a long process. And so we'll have to see how all the pieces play out. Capital One has been a valuable and important long-term partner for Visa. Primarily we work with them on the credit side. They represent a relatively small percent of our total credit volume and revenue in the low-single digits. Right now we're focused on continuing to partner with them in service of our customers, our cardholders, our business clients. But ultimately, we welcome the competition. We've invested in our network capabilities for a long, long time. We feel great about our market position, and we feel good about the outlook there.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. Thank you for that. Can you talk about how Visa would flex operating expenses to the extent global macroeconomic environments come in weaker than contemplated by your FY 2024 guidance, which really looks at a stable macro picture?

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Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

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That's right. A couple things I'll say before answering your question directly. Let me just – a little perspective. A, as we've consistently said, we don't predict macro. There are other people that do that. We tell you what we see in our data, and therefore, base our guidance and our estimates based on what we see in the data. The second thing I'd say is, we're a quarter, a quarter and a half now into the fiscal year. And as I said earlier in my comments, we see a stable environment. We see a resilient consumer. We see payment volumes being – consistently growing from Q4 to Q1, and now halfway into Q2. And so that all said with context. In the event of the unforeseen, we do have levers. I think we've shown that over the course of time. Our cost structure, we operate with healthy margins. We operate at great scale. We invest in people and in marketing. And in the event – and we're always trying to balance, of course, short term and long term needs, but we've also shown an ability to flex those.

We could obviously tune our hiring practices. The most significant cost on our P&L is around people, both permanent and contingent staff. On the marketing side of the house, about half of our marketing is variable. The other half is tied up into some of these longer term sponsorships that we've talked about that are a little bit more permanent, or at least less flexible. But the other half is certainly variable. So we do have levers. And again, we try not to be short term minded in any of this. And so we'd have to assess the situation as each of them come up. And we try to be disciplined and thoughtful about making good decisions around long-term growth.

David Mark Togut
Analyst, Evercore Group LLC

Q

Thank you for that. What business risks facing Visa do you spend the most time on and you're most focused on mitigating?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

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Well, I will answer it in maybe a slightly different way, which is, at the end of the day, the thing I started with when I said, I view my priorities, my number one priority at Visa is to really set the company up for sustained long-term growth. And so while you're asking the other side of that, like, what do I spend my time worrying about? And as a CFO you do have to worry about many things. I would say consistent with that first statement around driving long-term growth, I think where I spend a lot of time and what is effectively, in some sense a risk, as you called it, is we have many growth opportunities in front of us. We are investing in new flows or investing in value-added services and our consumer payments business. And our ability, our capability to prioritize that spend, to pick our bets, if you will, is one of the most strategic things that we could do as a management company. To really be disciplined, making investments in things that have the best ROI over the long term, strategically, financially. And also, on the other end of that, continuing to be disciplined about spending less on things that don't have the same runway.

As you know our business, long lead time investment. It takes years sometimes for us to see the financial returns on investments made. And so that muscle of continuing to prioritize and pick bets and reprioritize is probably the most important piece of work that I'll do during my time at Visa.

David Mark Togut
Analyst, Evercore Group LLC

Q

Understood. So, we talked earlier about regulation. So I'm gathering that regulation from your perspective is pretty manageable as a business risk.

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Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

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I don't want to certainly de-emphasize it. It's important. It's time that the management team in total spends. We have a government engagement team that's full time job it is to educate and engage with regulators and legislators. I spend time. Ryan certainly spends time. The rest of our management team spends time on it. It is important. But as I said also, from the get go, we've been operating in regulatory environments for a considerable amount of time and we've unfortunately had to become good at it. And so I do think that – I have great confidence that we'll continue to navigate this fluid environment that we operate in.

David Mark Togut
Analyst, Evercore Group LLC

Q

Great. Perhaps in closing, what investor or analyst questions are you not receiving on Visa that you think we ought to be spending more time on, either in terms of understanding Visa's underappreciated strengths or on the other side, maybe longer term risks that you're monitoring as a management team?

Christopher Suh
Chief Financial Officer & Executive Vice President, Visa, Inc.

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Well, we've covered a lot of ground today. And so maybe, since you've given me the floor to close a little bit, I'll just summarize for you a little bit of my world view as to the opportunity of Visa and how – many people in this room, of course, have been long-term shareholders. And we certainly appreciate the trust that you've put into us. When I look at the top line, our growth opportunities across consumer payments, across new flows, across VAS, we have an enduring business in consumer payments. We have great runway in new flows and value-added services. We've navigated successfully. We've talked about regulatory things a lot. We've navigated through an ever-evolving regulatory, competitive landscape around the world, and we've done so successfully. And I'm optimistic about our ability to do so.

We continue to remain very disciplined in terms of how we think about investing, both CapEx, both OpEx. And we'll continue to again, continue to do so. And then the third one is, we've been a strong generator and returner of cash as well within all of that. And so, again, thank you for your trust in us. I think Visa remains an incredible business and we're going to continue to focus to deliver for all of our stakeholders.

David Mark Togut
Analyst, Evercore Group LLC

Thanks so much for being here today, Chris.

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