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Visa, Inc. (V)

KBW Fintech & Payments Conference

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

All right. So next up, we're pleased to welcome Visa. Representing from the company, we have Chris Suh, who was appointed as CFO this past August. Prior to Visa, he served as CFO of Electronic Arts and Corporate VP and CFO of Cloud + AI group at Microsoft. Wow, okay, a lot happened in there.

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

There's a little bit happening.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Well, thank you for joining us today. I have a lot of questions, so buckle up, all right. We're going to get through these real quick, all right, hopefully.

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QUESTION AND ANSWER SECTION

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

So you've been at Visa for six months now. What's your observations about Visa? And how do you think your background is helping you to position Visa for the future?

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

A

Yeah, great. First of all, hello, everyone. Thanks for having me. Super excited to be here. As you said, I've been at Visa now for just over six months. It's a great company, great culture, people, the brand and we have an enviable market position. So I'm super fortunate about that.

As you said, Sanjay, I spent almost 30 years working in tech, working at companies that are leading in their respective industries, really focused on how to drive long-term growth at these companies. And as you said, some of them continue to do really well. I keep in touch with my colleagues there and happy to see that as well.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. Maybe we can start with the macro.

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

A

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

How would you characterize the macro?

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

A

Yeah, we're a little over halfway into Q2. So I could give you a little bit of color of what we're seeing this quarter. In some senses, it's going to sound a little bit like what I said in our Q1 earnings call, which is a couple of things. One is consumer remains, from our point of view, relatively resilient. And two, from a underlying health of business, our drivers through the 21st of February, which is sort of the most recent data that we have, we're seeing underlying drivers, the payment volume growth through the February 21st to be relatively stable to what we saw in the first quarter. That's in the US and other major markets outside the US. And really, the same goes for cross-border too. The year-over-year growth that we're seeing in our cross-border business, again, relatively stable, relatively consistent to what we saw in Q1 through February 21. So all-in-all, stable is how...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's great.

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

...I would characterize the health of the business.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Yeah, and we'll take it. So you guys reported a very strong fiscal first quarter. But if we parse through the results, it was clear that spending slowed some. And that was picked up by strong value-added services revenue growth. Now I know there's a bunch of reasons that sort of – if you unpack the spending trends. But maybe we could just talk about the slowdown in US card volumes.

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

Okay.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Debit led the deceleration. And I know you've got probably a ton of questions on it. But maybe you can summarize and add to your discussion.

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

Yeah. I could give a little color there.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Yeah.

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

Yeah. As you said, Sanjay, really, we're happy. Solid start to the year, solid Q1. Revenue in total came in at the high end of our expected range. But as you point out like with – as you sort of click in to the different pieces of that, you did see US growth, US payment volume grew 5%, which was about 80 basis points lower than in Q4. And the reasons we gave in the earnings call, which is I think important to maybe just spend a minute on. We talked about the fact that most of that change in the growth rate was related to the difference in mix of days and call it days mix, different weekends, weekdays. They tend to have different spend patterns. That was the primary driver.

And then, secondarily, we said sort of in aggregate the sum of a number of smaller things of which included a little bit of weakness that we saw in the month of October and then a modest impact, we called it, of Reg II. And for those not close to it, it's a regulation here in the US that went into effect in July. It basically requires issuers put a second unaffiliated network for card-not-present transactions for debit. So that started about six months ago.

We saw in the first quarter, which is our Q4 – in the first quarter of implementation, we called the impact not meaningful. In the second quarter of implementation, our Q1, we changed – we sort of called it modest. We said it happened in October, stayed stable through the quarter and we saw modest impact in that. That did impact the

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US in part in addition to the other things that we talked about concentrated in debit as you pointed out. And so we continue to see modest impact there. And zooming out a little again through the 21st of February, things look pretty stable.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, good. That's encouraging. You mentioned inflation as a tailwind internationally.

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

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Sort of counterintuitive because we're hearing about inflation coming down in the US. Can you just talk about that a little bit?

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

Yeah, sure. Well, let's talk about the US as well because I think there...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Sure, absolutely.

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

...a couple of things and maybe I'll talk about both and how to think about it in terms of the impact on our business. In the US, if you kind of go back a year, in the second half of fiscal 2023, we saw our payment volumes in total were impacted a bit in part due to declining fuel prices and moderating levels of inflation. That was half two of our fiscal 2023.

We're seeing a more stable environment now. That's kind of settled a little bit at a certain inflation rate here in the US. And then internationally, we continue to see high inflation in a number of [indiscernible] (00:05:57) markets. Argentina and Venezuela come to mind. But certainly parts of Africa, other parts of Europe, we continue to see inflation remain at elevated levels. And so when you sort of add that up and we're sort of getting near the end of our first half and if we look into the second half of the year, a more stable inflationary environment in the US with easier comps from a year ago and high inflation in international markets continue to be part of our key assumptions as we look into the second half of the year. It's just going to provide the – it's going to shrink total average ticket size from what's been a bit of a headwind in aggregate to neutral to positive in the second half of the year. And that's part of our key planning assumptions for the year.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Great. Cross-border, APAC and inbound to US are still recovering.

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

A

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

But you said many of the other regions have normalized at higher levels than pre-pandemic levels. Could you just talk about the sustainability of above pre-pandemic levels? Do they grow off of that? Because we've seen this reversion on e-comm, et cetera. And then maybe like when we get back to pre-pandemic levels for these other markets which haven't gotten there yet.

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

A

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Like what's the trendline...

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

A

Yeah. You used the word normalize. I think what we called FY 2024 at some levels is the most normal year as we've had in a while. But it's not fully normalized. Cross-border is an area that you see that sort of most acutely. Let's start with the markets that are sort of above the trendline, let's say historic trendline, Europe, SEMEA, LAC, they're all at, let's say, between 145% to 175% of 2019, which is how we index that travel number within the overall context of a strong cross-border business.

As you pointed out, AP, it's still continuing to recover, not just in and out of China. But we talked about Japan and Australia this quarter as well. And inbound to the US, those have been kind of been the laggards, if you will. I think importantly, they do continue to improve. Like in Q1, we saw them improve again versus Q4. The rate of improvement can be a little bit inconsistent as we saw in Asia, in particular, between Q4 and Q1. But they do continue to improve and that is part of, again, our planning assumptions for the full year in terms of a healthy cross-border business.

Zooming out a little bit, as you remarked, we had a strong cross-border business overall in Q1 where travel was growing 19%. E-commerce actually was doing better than we anticipated. And so when we look at the totality of the business in cross-border, seeing AP and inbound to the US improve will be key. But also, it's nice to have e-commerce doing better than we anticipated. So when we look at the cross-border business in aggregate, it continues to do well.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

What's holding back people inbound to US?

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

A

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There's multiple theories. And certainly, we look at the data quite a bit in and out of – out of AP into the US is one of them. And so we're just continuing to see improvement. I think that's the key and we'll continue to monitor that track closely. And we do try to be transparent about our performance and what we see in and out of these [ph] corridors (00:09:27), every quarter. And so we'll have an update for you in about two months, I guess, there.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I talked about value-added services. That was obviously a standout, 20% growth in the quarter. There's so many different services inside all of that. But maybe you could just unpack where the growth areas are today and how that evolves over the next several years.

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

A

Yeah, super excited. Value-added services has been a real tailwind to our total growth. Our approach with value-added services has been to continue to focus on deepening engagement with our existing clients to continue to expand geographically into new markets and to continue to bring new innovation, services and products to market. And so when you look at the health of the business overall, I think those three approaches are resonating. It's a sizable business. Now it's a little over $2 billion in the first quarter, growing at 20%. And so a healthy business for us. And it's been at those growth levels for some time and we anticipate it continuing to be a tailwind to growth, growing faster than consumer payments.

You sort of asked about what's driving the growth. And we talk about value-added services often like it was one business. It's actually, as you well know, Sanjay, there are many businesses with many products and services within the category that we call value-added services. I think the simplest way that we think about it is there's five lines of business and each of them have slightly different sort of drivers. And hence, the way that we've even named them, I think, reflects that a little bit.

I'll start with our Issuing Solutions business. This has been, again, a source of strength in Q1. Card benefits revenue was a real standout driving the growth in Issuing Solutions. Two, on the Acceptance Solutions side of the house, the other side of the business. Cybersource, our disputes business, they continue to be tailwinds to growth driving Acceptance Solutions. We're in over 100 countries now with our Acceptance Solutions. And so that's part of our geo expansion strategy.

Three, Risk and Identity Services. Risk and Identity Services, really, the standout has been what we call VAA and VRM, so the Visa Advanced Authorization and Visa Risk Monitoring. These businesses together, as you know, we did a study recently. It's prevented about $30 billion of fraud between mid-2022 to 2023. And so we've seen great pickup globally. And then these are new services that we bring to market.

And the fourth one is Advisory Services. And so you think of consulting services, marketing services. We're seeing great demand. We had over 3,000 (sic) [2,000] engagements in FY 2023 alone. And then the fifth one is Open Banking with Tink. And so it's a holistic business across issuing, acceptance, risk, consulting. So it's a large TAM when you sort of add up all those. We're seeing broad-based strength. These are sizable businesses and we're seeing double-digit growth in all five of those categories. And so healthy.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

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I appreciate that thorough response. I still remember going over all of that with Jennifer once upon a time. There was a lot of stuff to go over. So maybe we could shift gears and think about the future...

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

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

...growth drivers. And the first one I want to start with is pricing. That was a key part of the growth algorithm historically. To what extent has it remained a growth driver? Is it less of a growth driver or where would it be a growth driver? Maybe just contextualize that.

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

Yeah. At the end of the day, pricing is a function of the value we provide. We've invested significantly over many years in really building the most secure, the most reliable, the most stable network on the planet. And we continue to invest in that. We continue to invest in security and fraud detection. And we continue to invest in bringing new services in the value-added services space as we just talked about.

And so all of those give us opportunity to continue to price for that incremental value. And so from that standpoint, we feel good about our ability to have a good balance there between value and pricing. In 2024, our expectation is that pricing continues to be a benefit that's similar to what we saw in 2023. And so there's sort of consistency and stability there as well.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Got it. Can we talk about US growth? I guess a lot of people think that a lot of the secular shift has been realized over the pandemic because a lot moved over to electronic. Maybe you could just talk about how you guys look at the growth opportunity in the US. And maybe just even contextualize a little bit of the slowdown that we saw this last quarter in the US.

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

Okay, yeah, it's two parts. Let me start with sort of the bigger picture...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Sure.

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

...question that you raised around the US or markets like the US. There are markets like the US where we've seen great progress in terms of card penetration. So that's great. That's fantastic. It continues to provide a great base for us to see more transactions, more transactional growth, volume growth. That's all sort of goodness from our perspective.

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That said, there's still ample cash and checks still left in markets like the US – in the US and other markets that are like that. And we continue to see opportunities to digitize that. You do think about growth holistically, not just in consumer payments but value-added services and new flows. We continue to be focused on the same levers that we've talked about, which is growing credentials, growing acceptance and growing engagement. And we're seeing good traction across all of those.

And then trends like Tap to Pay in the US, which sort of lags the rest of the world. We're at 45% penetration in Tap to Pay versus 77% in the rest of the world ex-US. And as studies have shown, when you tap, more transaction volume, more payment volume. E-commerce, obviously, that's a carded business. E-commerce continues to grow faster than face to face. And so those continue to be tailwinds to overall growth even as markets are seeing greater penetration as you described it as. And so we're optimistic about continuing to grow in the US and other markets that are alike.

The second part of your question in terms of Q1 performance. I talked about this in our earnings call but sort of connecting the dots. What I talked about was how we had certain non-recurring onetime items that affected our new flows business that showed up in the growth rate in new flows. Those were all in the US. And so you sort of got to connect the dots a little bit and say, okay, those onetime items, non-recurring items that impacted growth rate in new flows also impacted the growth rate that you saw reported in the US, those – by definition, onetime shouldn't recur.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

So we're going to see a big acceleration going – I'm joking. I don't want to put words in your mouth.

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

[ph] You did (00:16:53), correct.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

Strike that. So internationally, maybe you can just give us a walk around the world, where the greatest opportunity is and then maybe just touch on the emerging markets where...

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

Okay.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

...people feel like maybe there's a lot more disruption happening and governments are getting involved in the payment systems. Just maybe you could compare and contrast in international markets.

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

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Yeah. International, for us, has been a great source of growth. In the first quarter, so many of our regions, SEMEA, Latin America, Europe ex-UK growing at 20% levels, which is really healthy for us. A few things that you touched on there, so let me try to sort of unpack that a little bit. A, from an emerging market standpoint, we continue to be very enthused about our opportunity there. And I'll sort of dive into that here in a second.

And then second, your point around alternative payments and maybe nationalism in certain cases. Those are not new from our standpoint. As a network of networks, we've worked alongside, in many cases, these other payment schemes for some time and we've done it successfully. LAC, I think, is a great example, Latin America where the headlines have been around the growth of Pix in Brazil. So let's sort of diagnose LAC and break it down a little bit. So since 2019, we've grown credentials by over 1.5 times in LAC. We've grown acceptance locations by more than 2.5 times in LAC in Brazil, where we've seen Pix grow, we've grown alongside it. We're growing with traditional FIs like Itaú and Santander and also through fintech. So we're seeing good growth there.

Colombia has been another great example of what we're doing in Latin America. So you go back a few years and we effectively had 0% processing share in Colombia, I think, in 2019. And this year, we'll exit – we're anticipating exiting this year with 80% share of domestic processing in Colombia. So we've grown processing share. This last quarter, we announced the intent to acquire a majority stake in a company called Prosa, which gives us the ability to process domestically in Mexico. And when we process transactions, we also have the ability to attach more value-added services and other parts of the business as well. And so as you can see sort of holistically, even in markets like LAC where there's sort of growing other alternative payments, we're continuing to grow. We're continuing to grow share. It's been a great growth market for us.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's great. New flows, that's expected to be a bigger growth driver than consumer payments in the future. Can you go rank the various buckets in order of investment priority and momentum?

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

A

Okay. New flows, it is one of our – we talk about consumer payments, new flows and value-added services with the latter two being tailwinds to growth – faster expectations for growth than consumer payments for the foreseeable future. First, new payments is an enormous market opportunity. We sized it. We gave an updated sizing. Just this last quarter, we sized it at a $200 trillion market opportunity, which is a lot of zeros. Within that, there are sort of two big businesses, we think, of B2B commercial card business and our Visa Direct business. B2B is the biggest piece of that. It's about $145 trillion. Sorry, I confused my Bs and Ts.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah.

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

A

$145 trillion TAM of that $200 trillion within the B2B space. We have a few different ways that that we think about it. The carded business, as you know, is [indiscernible] (00:21:10) like our traditional business, we focus on credentials and issuance, acceptance, engagement. That's about a $20 trillion, again, of the $145 trillion TAM. We're continuing to see strong growth there. Commercial payment volumes, which we talk about every quarter, continue to grow.

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The second part, sort of a more of a medium term opportunity for us in terms of investment priorities, is the cross-border B2B business. We're focused on B2B Connect. That's also about a $20 trillion opportunity. And so you have sort of two $20 trillion opportunities there. And then maybe as we look longer at the B2B space; there's the accounts payable, accounts receivable space which we sized at about $105 trillion of that opportunity. And we continue to take a long-term view on that opportunity. But we are excited about that over the course of time.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

It's lots of trillions of volume...

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

I know. They're big numbers.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Yeah, absolutely. Maybe we could talk about Visa Direct. What does the mix of use cases look like today? And is there the potential for Visa Direct revenue growth to trend faster than volume as use cases like cross-border remittances gain traction?

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

Yeah. Visa Direct, again, for those that aren't close to it, historically, our business was built on the back of the consumer to business, sort of the one-way money movement for consumers to purchase from merchants. With Visa Direct, it really enables money to move always to endpoints in the network. And so our focus in the early days has really been to build out the ecosystem. And so we have this very significant ecosystem now.

It's a network of networks strategy. And so we work with 70-plus domestic schemes, dozens of other networks, card networks, RTP networks. And as a result, now we have over 8.5 billion endpoints that are enabled to see money movement via Visa Direct. That's really supported by this other ecosystem. So we have sort of the layer of all the networks that we work with. And then you have enablers that create use cases. We have 500-plus enablers now. We have 65 use cases, thousands of programs. And so it really is like this ecosystem that's built up. And we're seeing great fundamentals and infrastructure and sort of the foundational elements are in place.

Use cases, you asked about, Sanjay, were primary – P2P has still been sort of the predominant use case. But we're seeing expansion into others as well. We have sort of merchant – marketplace settlement with Airbnb and Poshmark that we've talked about. We have the gig economy worker payouts. Most recently this last quarter, we talked about creator content payouts with Meta. We've partnered with them to support that. And so we're seeing sort of great growth in different use cases. Cross-border is the one that you talked about and that is a focus area for us to grow. We've announced partnerships with Western Union and Remitly most recently. And you pointed out cross-border for us is a premium business. It would be good for yields as that business continues to grow. And so there is lots of activity, lots of use cases. It's growing both in sort of domestic use cases and cross-border as well. And it's an opportunity we're incredibly excited about.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

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And it's really early stages there, right?

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

It's fairly early stages. But the foundation...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

No, the foundation is there...

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

...like 8.5 billion endpoints. It really is enabled and we're seeing great transaction growth. I mean you can see the transaction count. We publish that on a quarterly basis. We're seeing high growth there. And so sort of all the elements are there. It's a great growth opportunity for us over time.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

That's great. You talked about B2B Connect a little bit in terms of the opportunities, I believe, as you were going through the trillions of dollars. But I'm just curious, maybe you could just walk us through that specific opportunity set...

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

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

...and sort of where we are right now in terms of adoption and growth.

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

Yeah, it is a great example. Like one of the things that I found in my early days at Visa is we are very customer-centric. We're very client-centric. And I think B2B Connect is a great example where we listen. We listen to our clients and we partner with them and we work on solutions together.

One of the pieces of feedback in the cross-border space is that there are some challenging – sort of historically moving money in significant dollar volumes cross-border is sort of challenging. It was hard to predict exactly when the money would come and land. There was lots of things. You couldn't track it through the various stages of movement. And so we took kind of a holistic approach. We said, okay, can we sort of build a better solution, a better mousetrap, if you will.

Hence, the birth of B2B Connect. It's a multilateral network as opposed to sort of a traditional bilateral network. It really attaches rich data to the payment. So then you could track the payment through the various stages. You can manage it better. It enables more predictability, better management for companies that want to track large dollar cross-border movement. And so that's the sort of important technical foundation.

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The second step in that is, again, to build – I've talked about infrastructure layers or foundational layers with Visa Direct. There's an analogy there. We build bringing on banking partners that enable – that can transact with B2B Connect. That's been an important next step in that. In 2023, we saw a 70% growth in the number of banks that are now signed on to transact with B2B Connect. We saw 100%, more than doubling the number of banks that actually transacted in B2B Connect. But that said, all said, sort of foundational elements. It is early days. It takes a while to build a network of this size and scale. And we're in it for the long haul. We're optimistic about this growth. We think there's a real solution that we bring value to and that can solve for customers. But it is early days. But we're happy with our early progress.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

So I have one more in value-added services and I think you kind of answered a lot of the questions around it a little bit. But I want to make sure we leave here feeling really great about your ability to grow that line at a high level, as well as you guys anticipate on a go-forward basis.

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

Yeah.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

Just feels like there's a huge market opportunity, right?

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

Yeah.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

The TAM is big.

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

Yeah.

Sanjay Sakhrani Q
Analyst, Keefe, Bruyette & Woods, Inc.

And it's about how quickly you can penetrate it, right? And obviously, you've done a really good job. How straight is that line? Maybe the best way I could ask the question...

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

Yeah.

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Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Sorry, I'm improvising a little bit here.

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

A

That's okay.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

But I'm just trying to make sure I understand like is there a volatility or variability or do you feel like there's a good trendline going forward?

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

A

Yeah. Let's sort of parse that a little bit.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah.

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

A

As I talked about, there's five different businesses and they are kind of different. And so there's in one way to think about your – is the line somewhat consistent. There's natural diversification, I guess, in a sense as well because like to take two very different – advisory and consulting and marketing services is very different than acceptance solutions as an example. And so you have sort of different things. But they're all growing at healthy rates and they're all pretty sizable businesses today.

The TAM question is harder because they are very different like in – again, using the examples consulting and acceptance are different. So here's sort of my mental model around it and maybe this is helpful. I think about our growth opportunity in a maybe three or four ways. One is our ability to grow on network transactions, grow with network transactions and grow – penetration into more network transactions. And so think of that as sort of the baseline of growth, like if transactions are growing at a certain percentage – right now, more of our growth comes on our network transactions. But actually, the structural design of value-added services is they could grow on network transactions network-agnostically. They can grow on other transactions of other networks as well. So you have sort of a baseline that grows with transactions.

And then you have, secondarily, the thing we talked about, geo expansion and new product and services. And so you have the ability to add more markets, the ability to add new services. And in many of those cases, in a related point, you have the ability to price their value. So as you bring more services, value-added services is an area where we've seen some pricing benefit. And then the last one is so you go sort of grow with network activities, grow with geo expansion and market and new services. And then the third one then would be – and then sort of a 2B is pricing.

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And then the three would be growing in consulting and value-added services, which is not related to the network transactions. But it's really related to the demand and the unique value-add perspective that we bring given the size and scale perspective that we have. I mentioned the thousands of – the engagements that we had in 2023 alone. That's continued to grow at a very healthy clip. So that's sort of my growth framework for how to think about value-added services. If you think about sort of those four levers, I think you would – if you do the math on that, I think you'll see why we're as excited as we are and confident as we are about value-added services' ability to continue to grow.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

And it would seem like the Pismo acquisition is really great for this Issuing Solutions segment, right?

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

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Because it potentially accelerates the monetization potential. And if we think about that line that I mentioned figuratively, it gives you a lot of capabilities...

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

Yeah, it does.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

...quick, right? And so I'm just curious how we should think about that sort of weighing into the growth rate from here and like how quickly can you go to market with it and in what markets?

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

Yeah, well...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

As best as you can answer it.

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

Yeah. I'll first start with the caveats to say it's early.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

I understand.

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

But they're in-market today. And so your question about like going to market, they're in-market. They're in certain markets today. This is kind of like what I talked about with B2B Connect. This is another area where we were listening to our clients. We certainly saw a need. As clients are going through their cloud transformation, they're modernizing their tech stack; there was a need that we recognized in conversations with those clients for a more modern solution.

With Pismo, we sort of thought about can we build something, is there great tech out there available with Pismo. We think we have best-in-class tech. They're cloud-native. They're modern. They have core banking, issuer processing for credit, debit and commercial. It complements our business. DPS, our issuer process, is primarily US and debit. And so you have now a complementary asset that is both modern and a more comprehensive solution set and what we believe to be best-in-class technology. And so while that's early, we're optimistic. We're going to continue to see – they're a Brazilian company. And so I think sort of the start, certainly, with their clients and their businesses has been in Latin America more. But they were expanding outside of Latin America before and we'll continue to grow that business alongside Visa.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Great. I wouldn't leave you here before asking you a question about the Capital One and Discover deal. In fact, we have Capital One right after you.

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

Okay.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

So I'm just curious how Visa looks at the competitive dynamics on a go-forward basis.

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

Sure.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

And with Cap One sort of planning to move their entire debit off of what predominantly is Mastercard, I'm just curious sort of how you think about the credit volumes and how it might affect you guys.

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

Yeah. Another one where I'll start by saying it's early days. It's early days of what conventional wisdom say is going to be a bit of a long process. And so we'll see how everything comes together and plays out. You all know Capital One has been a really great long-term partner to Visa for a long time. We have a great relationship. As you said, they've primarily been a credit business for us. But they do make up a small percentage of our total volumes in the, let's say, low single digits in terms of volumes or revenues for us.

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But right now, we're focused on continuing to be a good partner and continuing to serve the clients, the customers, the cardholders, the businesses that are our joint customers. And at the end of the day, you started by asking about competition. I'd say we welcome competition. We've invested a lot and we've built fantastic relationships with the entire ecosystem, our clients. We've invested a ton in our network. We think we have the most secure, most robust, most stable network on the planet. And we look forward to continuing to operate in this environment.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

And most banks can't do what Cap One just did is the other thing, I think. Next question maybe just sort of moving into the regulatory risks.

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

Okay.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Is there anything that you're looking out for, are watching closely?

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

It's a – what...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

I know it's always out there, right?

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

Yeah, it's out there. And that's one of the things – in my first couple of quarters at Visa, I've certainly gotten up to speed and sensitized to the nature of regulatory interaction. There's a lot of things, as you pointed out, Sanjay, around the world, in the US and internationally. Europe has been active as well. Our focus has been to really engage constructively and educate. This is a complex set of issues. I think we have a strong point of view on each of the matters at hand. We're engaged constructively to provide education, provide our perspective, make sure that they understand sort of all sides of any particular regulatory topic. And that's really been our focus. And obviously, there's lots to talk about in each one if we wanted to. But let's just say at the highest level, education, engagement, positive engagement has been our approach.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. And I have a couple more parts under regulation.

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

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Okay.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Reg II, seemed like you had some modest impact.

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

Yeah.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

But you guys don't expect it to be a material one on a go-forward basis?

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

Well, look, let me add – there's nuance to that answer.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Sure.

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

The first place I'll start is maybe just reiterating what Ryan McInerney, our CEO, said in the last earnings, which is, since the implementation of Reg II last summer, it's actually given us an opportunity to engage with partners, clients on the merchant side and really highlighting what differentiates Visa. And that's been constructive and positive. But ultimately, merchants have to make a choice. And their choices are – there are sort of multiple factors. People think cost is the predominant, but there are other factors. There's actual functionality, there is security. And you think about – there is a big difference between what we do and what sort of the PIN-based debit networks can do.

On the functionality side, dual messaging versus single messaging. It's an important distinction. Dual messaging is when the actual final price differs from the initial price. Think tipping as an example. And traditional PIN-based networks are single message. They can't support that. In the e-commerce world, when you can't bill till after the goods are shipped; again, in a single message world, you have to wait till sort of all parts of that order are shipped as opposed to being able to bill in increments. And so there are important differences in functionality. Also, from a liability standpoint in an e-commerce world, merchants bear the liability of that. And he's invested more in disputes and chargebacks and all of the things that make the network more robust. And so from that standpoint, we continue to have this sort of positive engagement with the merchant side on how we differentiate Visa.

Now your question about like what do we expect going forward. I think what we've said is basically, look, this is an item that we're going to watch very closely. We're going to monitor it and we're going to tell you what we see each quarter. And so we recapped Q4 last year and Q1. And then based on what we see in a quarter, we'll kind of give you an update on what we expect for the rest of the year. And so that's what's embedded. We'll share with you again in a couple of months what we see in Q2. And this is something that we monitor very closely.

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Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Okay. I think we'll stop right there as we're right on time. Thank you.

Christopher Suh

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

Great. Thanks so much, everyone.

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