15-Mar-2023

Visa, Inc. (V)

Wolfe Fintech Forum

Copyright © 2001-2023 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

OTHER PARTICIPANTS

Darrin Peller
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Darrin Peller
Analyst, Wolfe Research LLC

Guys, thank you again for joining us. Again, I'm Darrin Peller, covering fintech and payments at Wolfe Research. Joining us for Day 2 of the Wolfe Fintech Forum, we're really happy to have Visa, which is our top pick. As many of you guys know, it's been our top pick now for some time.

With us, we have the CFO, Vasant Prabhu with us who have had many, many times with us through the years for meetings, and he's always been great to have. So, first of all, thanks for joining, Vasant.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

Thank you, Darrin. Good to see you.

Copyright © 2001-2023 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Darrin Peller
Analyst, Wolfe Research LLC
Q

Before we jump in, I guess, on any of the Visa specific trends and details you're seeing, it can't hurt to just start with what you're seeing in the market, given all the banking volatility and the closures of some pretty important banks last few days. So if you could start off with a sense of what you're seeing? Has the Visa network been able to operate fluidly? Is there anything – any friction happening or any problems?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah. I think, where the – speaking from the standpoint of a payments network, things have been completely normal. Debit and credit credentials have been usable without any disruptions whatsoever. We're settling every night. So really, no impact whatsoever.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Okay.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

And...

Darrin Peller
Analyst, Wolfe Research LLC
Q

Even over the weekend and over, it was – I mean, it settles usually on Sunday, right?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah. No, in fact, there's been absolutely no...

Darrin Peller
Analyst, Wolfe Research LLC
Q

No friction?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

...no friction whatsoever.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Good, good. Well, I guess that's good. And I mean, frankly, as a reminder, Visa is there to step in if there were a problem. That's part of the value proposition, right?

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah. I mean, we do have the backstop and we always keep large amounts of cash. And the cash has always been – there was never ever any...

Darrin Peller
Analyst, Wolfe Research LLC
Q

Any need.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

...any concern on that front.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Right. Let's just take it a step back then. I mean, it is – and a quick review. You guys put out a lot of data. So, overall volume transaction levels from your most recent update through – I think it was through January late most recently.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Through February.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Through February, I'm sorry. We've seen resilience obviously throughout the data. In fact, I think February came in better than a lot of people expected. And it's been pretty notable around consumer spending, especially cross-border trends, e-com as well. I mean, the resilience of e-comm has been pretty interesting and making folks think it's probably structural and here to stay. I mean, maybe just take a step back and remind us on some of the trends you're seeing.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Sure. Yeah. I think as you said, if you sort of shut yourself – I mean, I like to say if you shut yourself up in a room and all you did was look at our numbers...

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

...which is really what we try to do. We try not to be influenced by the opinions you hear people express, starting all the way back to January of 2022, the business has been remarkably stable, right? It's been 43% to 45%, 46% ahead of 2019 almost on a day-by-day, week-by-week basis. And as you saw in February, once again, we had

Copyright © 2001-2023 FactSet CallStreet, LLC

double-digit growth in the US. E-commerce growing strongly, card presence growing strongly, debit growing strongly, almost everything was at or above double digits or close to.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yes.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Cross-border, it's hard always to predict how cross-border is going to recover. It did recover at roughly the pace we had expected in our first fiscal quarter, which was the last calendar quarter. And then you've seen the recovery continue in the February numbers. I think we got to an index of about 131 on travel, which, by the way, now is a four-year comparison, so you have to make some adjustments.

But even if you look at it on a three-year basis, which is still comparable to 2020 because COVID really started hitting in March, now the comparability to 2020 will end, it was still a nice recovery. And then cross-border e-commerce, as you saw, was a 180 index, which was very, very strong. So bottom line, I mean, really no change in trend through the end of February.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Consumers are changing what they're doing within all that, as you know, going from products or services and more travel and entertainment and so on. And they're adjusting to inflation. But the aggregate level of spend, which is really what we see, has been amazingly stable.

Darrin Peller
Analyst, Wolfe Research LLC
Q

On that note, I mean, the behavior of the consumer, you haven't seen much shift in terms of – I mean, you've seen, again, more spending on travel, more on services.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC
Q

That's been the case now, though, for...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Absolutely.

Copyright © 2001-2023 FactSet CallStreet, LLC

Darrin Peller
Analyst, Wolfe Research LLC

Q

...I'd say six to nine months.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

And it continues, right? And we get this question a lot. And if you dig into the numbers, what you find is very intuitive. It's intuitive in the sense that people sat at home in 2021 and bought a lot of stuff. Now, they've bought a lot of stuff, a lot of home improvement things, lots of clothes, etcetera. Now they're spending their money on other things that they couldn't do in 2021 and early parts of 2022.

So what's driving the business is travel is very robust still. Entertainment is also extremely robust. Restaurants have recovered quite well. So this is in general doing well. But that doesn't mean products are doing badly. If you just look at the – we've been saying through this whole thing because we focused on 2019 as the benchmark. So it allowed prevented us from becoming, I'd say, manic depressive, right, like somehow we were geniuses in 2021 and now we're not. Because the goods business, if you compare it to 2019, is doing just fine. It's doing as well as it would have done had COVID not existed. The index to 2019 is not bad at all. It's just that there was a big jump in 2021 and compared to 2021, it doesn't look so great.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

So if you were planning your business like 2021 was the future, you're in trouble. But if you're looking at 2019, you'd say, this is fine, I would take these numbers. And travel hasn't fully recovered yet to where it would have been pre-COVID. Even entertainment is now – restaurants are mostly back. So, all-in-all, consumers have just adjusted and adjusting to inflation. They're shifting some behaviors. But they're holding their aggregate spending.

Darrin Peller
Analyst, Wolfe Research LLC

Q

In terms of behavior, another thing we've seen is obviously card-not-present staying at a higher percentage of the mix than it was pre-COVID.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right? It jumped a lot during COVID, but it kind of stayed at that level even as folks are going back to brick-and-mortar stores.

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Absolutely.

Darrin Peller
Analyst, Wolfe Research LLC
Q

So is that something structural in your view?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Oh, I totally think it's structural. I mean, think about your own habits, right? I mean, going into the pandemic, there were many fewer people buying groceries online. I think there's more people now buying groceries online as a habit and that stuck. Going into the pandemic, there were fewer people doing restaurant buying online. That's become also a habit. So there's a variety of behaviors that have become – people have just gotten more comfortable doing things online and those behaviors are definitely sticking.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Now, there's also the back to work thing is now different. Not everybody – very few companies are back to work five days a week. So, some of the card-present stuff may not come back in the long run. I mean, there's some research that says that fuel purchases are being impacted by the fact that commuting has structurally gone down for the time being. Will it come back? I don't know. So behaviors have changed.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah. When we think about the economics of the – the economic impact to your model of the behavioral changes, for example, is card-not-present generating better yields? Does it matter? Or is it more or less a wash?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

No. Card-not-present is very good for us, right, because we've said before many times that our share of a card-not-present transaction is higher than it is of a card-present transaction.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Right, right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Copyright © 2001-2023 FactSet CallStreet, LLC

And yields wise they're roughly similar, have always been for us. But card-not-present is, in fact – I mean, we are the enablers of digital commerce. So card-not-present is inherently a better thing for us because we do a better job than other forms of payment when you're doing e-commerce.

Darrin Peller
Analyst, Wolfe Research LLC
Q

And there's more services attached to it.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

There's more services. Fraud, for example, is far more important in the e-commerce space, and we're very good at that. Reliability is very, very important.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

We're very good at that. So all the things we do well. And dispute resolution is very important online and so it helps.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Sure. About travel, you were at 132% of 2019 levels in terms of ex intra-Europe cross-border travel or around that range recently. And I mean, are you seeing any impact from some of the reopening we're still seeing in Asia and China specific yet or...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC
Q

...what's the progress been like?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah, absolutely. I mean, we said that cross-border travel was an element of the recovery this year, that there was still more recovery left in cross-border travel. And we're seeing that. So if you look at it, Asia was a laggard and Asia has been recovering very nicely. And I would expect by the end of this quarter, Asia may be back to 2019 levels. But the relevant fact is it's only back to 2019 levels. So there's still more to go.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

The other one that was a laggard was inbound to the US and that's picking up but slowly. I would hope that by the end of this quarter, that would also be back to 2019 levels. On the other hand, inbound to Europe has been booming, beneficiary of the strong dollar. Inbound to Latin America has been booming, mostly because Latin America stayed open through most of the pandemic. Travel out of Asia is going to be a big driver of growth for a while and into Asia, too.

As far as China goes, I think we told you to be cautious about how fast it would recover. And we've been right so far. I think what people don't recognize is that there was a massive reduction in airline capacity through COVID going in and out of China, and it's coming back only slowly. You have to get landing slots. So, outbound Chinese travel to the US and Europe will be slow. There are some countries that have really made it easy for Chinese travelers like Thailand. You can get a visa on the ground there. You don't have to get it ahead of time. There's more flight capacity that's come back faster.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

And so the beneficiaries right now are going to be more within Asia probably for the time being, maybe to the Middle East. Over time, it'll build to the US and Europe. There's a lot of internal Chinese travel also going on. I mean, initially, it's easier to travel within China because the airline capacity has come back faster. So there were initially some testing requirements. I think most of those are gone now. So I think we'll start to see that more significantly as we get into the latter part of this year. But as we said, we need the cross-border business to recover and the China component is a big part of that.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah. I mean, I think as a reminder, you talked about that – well, the way we understood it, it was probably in the high-single-digit percentage of ex intra-Europe business pre-COVID. Is that about right in terms of cross-border business?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah. I mean, we don't really want to get into all that other than to say that if the cross-border business is going to recover to pre-COVID levels, recovery in Asia and recovery from China is an important component of it.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Copyright © 2001-2023 FactSet CallStreet, LLC

And that's the next leg of the recovery. Asia is just getting to 100%. And there's no reason why it won't get back to where it used to be before. And frankly, the cross-border business, if rates for hotels and airlines stay where they are, because transactions are lagging, even the volumes you see, right?

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right, right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

So there's more recovery to come in transactions than actual trips. So you could see us go past the pre-COVID trend line at some point because rates are higher, but will they stick at higher levels? We'll have to wait and see.

Darrin Peller
Analyst, Wolfe Research LLC

Q

I mean, to your point, even the pre-COVID trend line, if I remember correctly, was cross-border tended to grow at around 10% – 9%, 10% per year, right?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC

Q

So if were to...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

And travel was growing a little slower than that. E-commerce was growing faster.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

So, yeah, it was in that range.

Darrin Peller
Analyst, Wolfe Research LLC

Q

But that would still extrapolate CAGR-wise to...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. There's more to come.

Copyright © 2001-2023 FactSet CallStreet, LLC

Darrin Peller
Analyst, Wolfe Research LLC

Q

...over 140% now if nothing ever happened with the pandemic.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. There's more to come. And another component that's been very healthy is cross-border e-commerce. I think another...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yes.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

...new behavior through the pandemic is the idea that if I'm buying online, I'm not that sensitive to where the product comes from. So cross-border e-commerce has really picked up. A lot of global suppliers have learned that cross-border e-commerce is a good source of business. So I expect cross-border e-commerce to be another component. Remember, 10 years ago, cross-border was mostly about travel. Today, cross-border has meaningfully also got e-commerce in it.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Shifting gears a little bit, your growth rate has been very strong for many, many years and you've become a much bigger company. Yet despite that, the mix you're getting from some of the new value-added services, I think it's 20% of your revenues now. And some of the new flows opportunities that you've invested in your business to allow for, we've estimated, could allow for maybe some acceleration structurally in the business over time, despite a larger base. I mean, what are your thoughts on...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

No, that's our view, too. So our core business is consumer payments, right? And I still believe there's a very strong runway there. There are still – the pandemic has been wonderful for digitization of cash. Around the world, more people have digital credentials to pay. Infrastructures have gotten better. So I remain extremely confident that the consumer payments business has a very long runway and a very healthy growth.

But then think of it as we have two more vectors of growth we've added on in the last eight years. One is a vector that increases our volume. Because our network has become so much more capable of doing things, we've added a vast number of use cases in what we call our new flows business that have huge total available markets that we never used to serve before, right, cross-border remittances, etcetera, etcetera. So that's a source of volume growth on top of consumer payments that we never had before. And then the other vector of growth is value-added services. So think of it as if I get a transaction, the more value I can add to the transaction, the more yield I get on it.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Copyright © 2001-2023 FactSet CallStreet, LLC

Yes.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

So we've got two new vectors of growth, one that drives volume over and above consumer payments, and other that drives value over and above the transaction. And they are growing much faster than consumer payments today. You saw growth has been 20% in the last few quarters. So, yes, I mean, as they become a larger component of the mix and they grow faster than consumer payments, structurally the growth rate goes up.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Right. Just holding it a little bit more on value-added services. Again, the 20% of your revenue now that's gone up pretty quickly, talk about the go-to market on that. Talk about if you don't mind reminding the audience of what those are, right, the mix of them...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC
Q

...and why they're growing so well?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah. We have – we categorize them into four categories. There are solutions we have for our issuers in that would be issuer processing, for example, in that would be a variety of services that are related to Visa Account Updater where you don't have to change your card number when you get a new card, etcetera, etcetera. So there's a range of services issuers.

There's a range of services for acquirers and merchants. CyberSource is one of them. We also have a dispute resolution service called Verifi. In the issuer category, we have FX services now through Currencycloud. That's a broad gauge set of solutions. So we have issuer solutions, acceptance solutions, and then our risk services, which you're all familiar with. We've been doing that for a very long time, and we keep adding to that with businesses like CardinalCommerce that does authentication. And then finally, we have our advisory business. So those are the four categories.

We keep adding services. Over the last several years, we acquired CardinalCommerce, which was authentication. We acquired Verifi, which was dispute resolution in a broader set of capabilities that we can serve other networks to do dispute resolution. We have clearly tokenization as part of that. We acquired Currencycloud that allows us to do real-time FX and FX for a whole range of businesses beyond traditional financial institutions.

And the way it gets sold is we have our relationships and we have people who manage those relationships. They call them the generalists. But we also have increasingly specialized sales forces who sell these specific services, which are unique in their own way. And then we have delivery people who can help clients set themselves up. So it requires a rewiring of the whole business and that's a reflection of why the business is now organized the way it

Copyright © 2001-2023 FactSet CallStreet, LLC

is. We now have a leader for value-added services. We have a leader for new flows. It reflects the three engines of growth that we see...

Darrin Peller Q
Analyst, Wolfe Research LLC

Yeah.

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

...carrying Visa into the future.

Darrin Peller Q
Analyst, Wolfe Research LLC

And the margin structure of the value-added services business, I mean, some of them seem a little more hands-on than obviously a network.

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

Yeah.

Darrin Peller Q
Analyst, Wolfe Research LLC

So can you help us understand that?

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

Well, if it's a transaction service, like issuer processing or CyberSource or even our risk services, they leverage a lot of our existing infrastructure and they tend to be very high margin businesses. Where the margins are lower would be in things like consulting, which is more people intensive.

So the value-added services come with a wide range of margins. But anything we can layer on to a transaction is incremental revenue and it's good margin. It's margin that in any other business you would think is a great margin, except that we have a really good margin in our core business. But many of these value-added services, especially the ones that are very transactions-based, have very attractive margins, often very close to our traditional business.

Darrin Peller Q
Analyst, Wolfe Research LLC

Have you ever disclosed how many of your customers actually already use these value-added services?

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

Yeah. I think we've given some statistics. I think more than half of our customers use more than five. I mean, we have many, many services.

Copyright © 2001-2023 FactSet CallStreet, LLC

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Five is just a small number of them. I think a third use more than 10. So there's a huge opportunity to deepen penetration of these services. There's a huge opportunity to have more clients buy these services. Some of these services started out mostly as US businesses. There's an opportunity to grow them outside the US, which is what we're doing with CyberSource and CardinalCommerce and Currencycloud. And there's a big global opportunity.

So the thing about value-added services is it's early innings. Even though we've been doing this for a while, there's a much greater focus. We keep adding to the menu of services. We keep getting better at delivering them. We keep getting better at selling them. We keep getting better at helping our clients understand the value. So I think there's a very long runway ahead of us.

Darrin Peller
Analyst, Wolfe Research LLC

Q

One of the areas that, I mean, correlate to services and new flows is really account-to-account or some of the pay-by-bank we're seeing.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC

Q

And so there's obviously concern around it, right? Also, in terms of whether it's a disintermediation risk for Visa?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

I think it's the opposite. It's the opposite.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah. Maybe you can expand on that a little bit.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

I know there's been a lot of focus on how is this going to come. If you look at the history of the last, whatever, five, seven, eight years, we've made more progress doing – gaining use cases and volume that used to be on other networks than other networks have made headway into consumer payments, right? And our approach has been that things like RTP and A2A are not competitors, they're partners, right?

Copyright © 2001-2023 FactSet CallStreet, LLC

I mean, we've talked about our network-of-networks approach, which is, I've given the analogy of like take a company like FedEx. It's a FedEx branded service. You ship a package. It gets to the other end. You don't care how it gets there. They may use their own planes. They may use somebody else's planes.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yes.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

And that's the model, right? The model is it's a Visa branded service. And we can do card-to-card, account-to-account, account-to-card, etcetera. It's our brand, it's our reliability, it's our security, right? We will do it. We've got dispute resolution. What rails it rides on shouldn't matter to you.

And what this allows us to do is we now connect to, I think, 36 ACH networks through Visa Direct. I think there's a dozen RTP networks, I think 15 or so card networks. It just vastly expands the reach of our network. And as you know, the value of the network is the function of the nodes by being able – and most of these are open to us because they're all open networks, they're not proprietary. We use them and it's good for them, it's good for us and we partner with them and...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right. I think what you're saying, so look, there's obviously risk, guys, that you're going to end up seeing, whether it's digital wallets or account-to-account like Zelle, right, take the place of what people are using the card networks for. However, what I think you're saying is that Visa Direct and your systems that allow for push and pull into the same adds the net increase of all the flows coming in from things like P2P.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah, I would say one last thing which is a pipe by itself has no value, right? Just because there's a pipe doesn't mean it's going to have volume.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

You have to have a service. And what people don't recognize is that we're not just a pipe, right? We offer a service and the service has several components to it. One is security, which is very, very important, because there's money. So if it's a pipe with bad security, that's not a good thing.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right.

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

We offer dispute resolution which some of these pipes don't offer, where if you make a mistake, you can get your money back, and it's done very well and very reliably. We run six nines availability. Six nines, which means that almost never done. In fact, if we're ever down, it's front page news and we don't like being on the front page. So, some of these don't offer that kind of reliability.

So our goal is to have a service that is superior to what the other pipes can offer, but also use the other pipes if we need to deliver our service. So people often get confused by the idea that if there's a pipe, oh my God, that must be competition. No, you have to look at what's the service and is the service competitive with what we offer.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Speaking of Visa Direct, as you're talking about it, I mean, it had transaction growth, I think it was 36% in fiscal 2022, 5.9 billion transactions. That's ex-Russia. But when thinking about that opportunity, I mean, where are you seeing the most progress, whether it's P2P or other areas?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Well, I think the thing about Visa Direct is it offers a set of things that almost nobody else offers, right? It's global in scope, which no RTP network or ACH network is.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

It's real time, which is not true with Swift and other alternatives. It's highly reliable, it's highly secure and it's incredibly ubiquitous, right, in terms of the endpoints. So it has some incredible advantages it offers. And then it has our brand. Don't underestimate the value of our brand because it implies a certain set of promises.

The use cases are huge. Remittances is a massive, massive business that we never played in. We have a very elegant, a very cost-effective solution. We're working with all the major players, both new ones and traditional ones, who are in remittances. I think remittances is going to be a very, very big business. It's a massive total available market and, for lots of reasons, we never played in it. Now I think we have a much better mousetrap than alternatives.

I'm very bullish on the revolutionizing of payroll. On-demand payroll, I think, could be a very, very big business in the long run. There's already a lot going on there. Disbursements, people get all kinds of disbursements from insurance companies, etcetera. We do that today. That's a big business. Marketplace payouts...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

...whether it's Airbnb paying their host or Upwork paying a supplier, someone who does programming for you, we can deliver that. So the use cases are quite significant and every one of them has a massive TAM. Think about Visa Direct as not a product, right? Visa Direct is a capability and it has multiple verticals, each of which has huge markets. So this is just very, very early days for Visa Direct.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Visa Direct versus RTP, it's another topic...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC
Q

...that comes up a lot. I think it's supposed to be a similar priced – similarly priced offering for real-time payments and similar in terms of what it can deliver. But Visa Direct probably has some differences that I think, in your view, probably going to give it a bit of an edge. Maybe you can just...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Well, without a doubt. I mean, first of all, when it comes to being global, RTP isn't, right? So you're just not competing if you're RTP on a global basis. So anything that has to do with cross-border, I think Visa Direct is the only real-time solution around.

And then if you go to domestic, we offer a service that is more secure, more reliable, allows you to dispute and get your money back that most RTP networks are able to do. So we clearly offer a superior service and we think that not only does that allow us to be more useful as a solution for people, but also get a better yield on it.

Darrin Peller
Analyst, Wolfe Research LLC
Q

And in terms of the international adoption of Visa Direct versus the likes of a Pix or some other international? How is that going for Visa?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Well, the thing is, when you have networks like Pix or UPI, it lifts all boats, right? So when the government gets involved and creates these networks, what the government does, as it has done in most of these places, is really gets people to use digital payments. They all end up having a digital credential. They get used to making digital payments. Merchants start accepting digital payments. It vastly expands the universe of people who accept digital payments and make digital payments. And that lifts all boats. So it grows the whole market.

They get a certain type of transaction. But when it comes to high value transactions, you can't underestimate the value of our brand. The brand matters. The security matters. Some of our fastest – two of our fastest growing

Copyright © 2001-2023 FactSet CallStreet, LLC

markets in the last five years have been Brazil and India. And it's not a surprise. It's because of all the things that have happened because of these networks that has vastly expanded the usage of digital payments. And that helps us too.

And we welcome them. We're partners with many of them. We're happy to work with all the governments because our goal is the same as theirs, which is to be more inclusive and get more people into the digital economy, to get more people to have bank accounts or have ways to pay that pull them into...

Darrin Peller Q
Analyst, Wolfe Research LLC

Yeah.

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

...the financial economy. Our interests are very aligned and we do benefit a lot.

Darrin Peller Q
Analyst, Wolfe Research LLC

So just to put it in perspective, if we had to rank the areas that Visa Direct is really having the most success, whether it's P2P or it's payouts like insurance payouts...

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

Yeah.

Darrin Peller Q
Analyst, Wolfe Research LLC

or G2C, what would be...

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

Well, P2P is always the first use case and it is the one that gives you the volumes. I would then put cross-border remittances as the close second. I'd add in disbursements and marketplace payouts. And at some point, the revolutionizing of payroll as the other use cases. But the number of use cases is very large and we also have to be prioritized because every one of these is a very, very big market.

Darrin Peller Q
Analyst, Wolfe Research LLC

Let's touch – let's shift gears a little bit in terms of investment, capital allocation. What are your priorities from a capital allocation standpoint?

Vasant M. Prabhu A
Vice Chairman & Chief Financial Officer, Visa, Inc.

Yeah, nothing's changed. We're fortunate to have a great business with great cash flow. Our priority is it would be a crime not to invest in this business because the returns are great and you never want us to under-invest. And it's a long-cycle business. That's what makes the business a difficult business for a lot of people is you have to be

Copyright © 2001-2023 FactSet CallStreet, LLC

very patient. You have to invest for a long period of time because network businesses don't get created overnight. So you really have to be investing for revenues that you may not get for four or five years. I mean, we were investing in Visa Direct a long time ago.

So investing in the core business, priority one. If we need to buy things to expand our capabilities, clearly that's important. We return cash to shareholders in the form of a dividend. It's a well-stated dividend policy and the dividend grows nicely with our earnings. We return cash to shareholders, but we never borrow money to do that. We do it out of free cash flow. And nothing's going to change on that front.

Darrin Peller
Analyst, Wolfe Research LLC

Q

And from an M&A perspective, just a little bit more detail on what kind of activity you'd be looking to do.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. Look, I think what we've shown over the last several years is going back seven or eight years, we were not big acquirers, but we have been steadily been acquiring capabilities and they've all worked well. We've acquired CardinalCommerce that has given us an authentication business, which has done very well.

We acquired Fraedom, which gave us a business – B2B expense management capability. We just acquired Currencycloud, which I think will vastly expand our FX capabilities. We acquired Verifi, which allowed us to dispute resolution for a very broad set of clients. So I think we'll keep adding capabilities where it makes more sense to buy rather than build. But we also build a lot on our own. So I don't think our M&A game plan is going to change very much.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. Still more of a tuck-in strategy then...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. And now we've been adding capabilities like Earthport we did a few years ago...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Right.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

...that gave us access to bank accounts. Tink gives us open banking capabilities...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

...in the market where it's most relevant, which is Europe. So that's the kind of thing you'll see us do more of.

Darrin Peller
Analyst, Wolfe Research LLC
Q

And, Vasant, what about on the regulatory front? It's obviously something that we can't ignore for Visa or...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC
Q

...Mastercard for years and so...

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

No, regulation has always been part of our business from day one. It will always be part of our business. And we always have to be good at explaining to regulators what our business is and how we can help them and engage with regulators all over the world. And that's what we've been doing.

Darrin Peller
Analyst, Wolfe Research LLC
Q

There's been some questions over whether there's friction, I know, between other networks that process transactions with Visa using their tokenization.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.
A

Yeah. I mean, we've been allowing people to – I mean, there should not be any friction. I mean, tokenization is very good for everyone. It is drastically reducing fraud online. It will get rid of a lot of the fraud over time completely. So tokenization, everybody agrees, is a great thing.

We allow everybody. Tokenized merchants are not inhibited on where they can route. We can – we make our tokens – if the PAN is available, you could tokenize to other networks. So – and we've been doing it for a very long time. So there's nothing on our front that makes it hard for people to use tokenization on other networks.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Okay. Guys, I'm going to turn it to the audience in just one minute. So if you have any questions, now's your time. But last year as CFO – last fiscal year as CFO of Visa, Vasant, so when you think about what you're proud of, what you want to see from the company over the next several years as you pass the torch, maybe just leave us with that.

Copyright © 2001-2023 FactSet CallStreet, LLC

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Sure. Look, I think Visa today is in many ways better positioned for growth than it was even eight years ago. So eight years ago, it had a great growth trajectory. And it proved itself, right, meaning we more than doubled our revenue. We've almost tripled our EPS. Our stock price almost tripled. So we had a great run. But if you look at where we were eight years ago versus today, it's a vastly different company.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Right, eight years ago, we were a consumer payments business. Today, we are a consumer payments business with some extraordinary new growth engines in new flows and value-added services, which I think has vastly expanded the total available market.

The other thing that I don't think people understand is the value of our network has gone up dramatically. Eight years ago, our network only did, you could say, one thing and did it very well, right, which is to take money from your bank or your credit account and give it to a merchant, one-way flow, consumers on one side, merchants on the other. Over the last several years, now we can move money both ways, which is what allowed Visa Direct to happen. And we can move money from one node to another node, which allowed us to do all these things, P2P, G2C, etcetera.

And not only that, we've completely changed how we think about things where eight years ago we just did everything on our network, now we're a network of networks. And so the nodes available have been vastly expanded, right? So that's part one, a significantly more flexible network. Part two is we've taken a lot of the friction out of it in a big way. It is so much easier now to be part of our network, whether you're an acquirer or a merchant. I mean, you used to have dedicated devices with landlines. All you need is a smartphone at either end. You can tap. The friction has gone down, which increases the value of the network.

And then another huge thing I would tell you is, eight years ago, all we did was deal with traditional financial institutions issuing, traditional financial institutions acquiring. And today, we deal with a vast array of partners, right? We've become very good at partnering with a whole range of new players. We're embedded in wallets. We're embedded in phones. We're working with a whole range of – we have become the biggest enabler of fintech scaling, right? I like to think of us as a biggest enabler of disruption in the financial services business, because if you have a great idea, the way to scale it is to come to us, and it's a win-win proposition. You win and we win, because that's all new volume to us.

So if I look at Visa today versus – and then we have the – we still have the margins and the cash flow to invest in our business and we've shown that we can do acquisitions to expand our capabilities. Eight years ago, we hadn't been doing much in terms of acquisition. So I look at Visa today and I say the opportunity set is far greater. The size of the available market is far greater. And the value of the network, right, and what it can do is far greater than it was. So I'm actually more bullish about the future than I was even eight years ago.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Copyright © 2001-2023 FactSet CallStreet, LLC

That's great. Well, you've been great for the company and for shareholders, so.

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Thank you.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Maybe we have time for one question.

Q

All right. Bit of a philosophical question from me. There's always been some pressure about kind of putting your network and shutting down maybe certain countries in vertical. In the past, when I asked a question to Mike or Jennifer, the answer was we're never going to weaponize our network. Obviously, with Russia, that changed. You had some problem with MindGeek as well.

So kind of two questions. First, what are the criteria going forwards about taking action against a certain country or certain merchant, a certain vertical? And the second question, do you think that halters your growth trajectories in certain markets that might not be so keen of having an external agent kind of meddling with their payment system, favoring maybe their own system?

Vasant M. Prabhu
Vice Chairman & Chief Financial Officer, Visa, Inc.

A

Yeah. It sounds like there are two kinds of questions there. So as it relates to the issue of where do we draw the line on what we would do or not do, we've always said that we will follow the law, whatever the law is in the country we operate in, right? And laws can differ from country to country. We will follow the local law. And something may be legal in one country and not legal in another country. You sort of have to live by the laws of the place you operate in.

We don't view ourselves as makers of laws. That's not our business. Look, we are here – look, we're just – we're a humble enabler of payments. That's who we are. All we want to do is help people pay, that's it, right? I mean, we just want to make sure that if people want to pay digitally, we can enable that. That's all we want to do. And so, we will do that and we'll follow the law.

As it relates to what happened in Russia and its ramifications for the future, I mean, that was a unique situation. In the end, I mean, we weren't the only ones who did what we did. Almost every American business and probably almost every European business ended up doing what they had to do. I don't think you can draw a straight line from Russia to other countries. We engage with every other country.

We know that nationalism is important. I mean, every country has to take care of their own interest, right? We understand that. And our goal is to work with the country to make sure they understand that we will do what we have to do to make sure that they feel comfortable that we're there to serve the needs of their people. And whatever their requirements are, we will comply with them, and that's an active discussion going on everywhere in the world all the time.

Copyright © 2001-2023 FactSet CallStreet, LLC

Darrin Peller

Analyst, Wolfe Research LLC

Thanks, guys. Vasant, really appreciate having you again. It was great to have you.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Yeah. Thank you.

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

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.