28-Nov-2018

Visa, Inc. (V)

Credit Suisse Technology, Media & Telecom Conference

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MANAGEMENT DISCUSSION SECTION

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

We're very pleased to have with us today the management of Visa: Vasant Prabhu, Visa's Chief Financial Officer, who's been an anchor for this conference for the several years, as well as Mike Milotich, SVP of Investor Relations. I'm Moshe Orenbuch. I follow Specialty Finance and the Payments companies here at Credit Suisse, and we're going to do fireside chat. I have a few questions for Vasant, and we'll also take – he'll also take questions from the audience as well.

QUESTION AND ANSWER SECTION

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

So maybe, we'll just start off at a very high level. This is a – Visa made this point at last Investor Day. Globally, cash and check are still enormous. They're still actually growing nominally in the low single digits. Can you just talk a little bit – give us a little bit of an update as to what Visa is doing currently to take share from cash and check, and then we'll kind of drill down a little more?

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

A

Sounds good, Moshe. Thanks for having me, again. It's great to be here. So, cash and check, as you know, global economies as they grow, let's say, they're growing normally 4% or 5% nominal growth rates, there is a natural increase in business activity, consumer activity and there is a natural increase in cash and check, which as you've seen has been around 2%. We're growing roughly at twice the rate of the growth of nominal GDP. Our biggest consumer – consumer expenditures typically grow at the rate of normal GDP. We're twice that because we're able to convert cash and check to digital forms of payment. And cash is growing at – as you can see, a little less than half of that.

So obviously, we're making headway, but cash is also growing, which means that there's even more feedstock every day for us to continue to digitize, which is all great from our business standpoint.

So your question is, sort of what's changing and could that trajectory change even more. Clearly, I mean, as we've said many times, there's never been a better time to be digitizing cash than the current time. And as we've

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said before, it's all driven by what's happening with technology. Every device, every smart device, which now – there are billions and billions of them around, is a way to pay or be paid. And the fact that you no longer have to depend on landlines is making it that much easier to enable people to both pay and be paid.

At the heart of it, it's three things that have to happen and they have happened to a large degree in the developed markets. But there's incredible runway in emerging markets starting with getting people into banking systems. They get their first debit card, getting used to the habit of paying, building that habit. And a critical element of that is building acceptance. So building acceptance in the – it all started with Visa being an acceptance market, at the heart of it. And building acceptance continues to remain a huge opportunity enabled now by new technologies, enabled now by new players who are coming with technologies that are able to enable smaller and smaller merchants faster, et cetera.

So acceptance is growing. We're at 54 million points of acceptance, still growing rapidly, lots of opportunity in lots of places, that's the core of it.

The next thing you could do is to make the whole experience frictionless, as frictionless as you can make it so that the habit is built because it's so easy. And that's why we talk so much about contactless,

which we think is probably the best way and the least frictionless way we have come up with to use a digital form of payment at a physical point of sale. And then, the single button, which we hope will do the same in the e-commerce space.

E-commerce clearly is another flywheel, as more and more commerce moves away from bricks and mortar. Cash is not an option. That's another flywheel. And then, we are now able, with our network and all the new capabilities we've built in, to go well beyond the one form of transaction we enabled and built this business around, which is a consumer paying business. Let's call it C2B. To now we can allow a whole range of possibilities, right? We can enable P2P, B2C, which is all kinds of payments from businesses to individuals; B2B, G2C, et cetera, all possible now in our network.

So, look, I mean, the trajectory we're on has already gotten us to sort of growth rates that are in the double-digits, and we continue to find ways to sort of make it even more attractive to use digital forms of payments.

We think there's $17 trillion of cash out there and some people think most of it is in emerging markets, that's not quite true because even in developed markets, take the UK, there's a trillion in cash and check. The U.S. still has a $3 trillion in cash and check. And we know these percentages of cash and check penetration can go all the way into the 2019s. And there's almost – there are very, very few countries that are there today. Many so-called developed countries, ones you would think are much further along are still in the 1960s. So there's plenty of room all over the place.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

One of the things we discussed actually at this conference last year was the idea of the four-party systems versus kind of the three-party or closed-loop systems, and I'm kind of struck by the description that you made because I think that's the real advantage has been the growth of those acceptance points. But maybe – I mean, give us an update as to how you're thinking about that because it was fascinating to me because at the same time, one of the heads of a three-party system was giving a speech extolling the virtues of that model. So maybe, we could just kind of get an update from you as to how you're thinking about those two methods.

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

A

Well, I would describe the four-party model as one of those extraordinary business innovations, and the geniuses who came up with the idea 50 or 60 years ago were true visionaries. The beauty of the model is the fact that you have people coming together with very unique and specialized skills that each of them brings that all come together for mutual benefit.

And so, you know who the players are and what they bring to the party, and we are the web that connects them all. And the power of the model is everybody does what they do best and everybody benefits from it. So, each node in the model benefits from all the nodes in the model and contributes to all the nodes in the model. And we are the sort of the orchestrator of the cooperation model. We are in some ways the sort of the web that connects everybody as well as the sort of the referee and the keeper of the rules that allows this model to be beneficial to all parties.

And the real benefit of the model comes into sort of the – it's the best way to scale. It is global in scope. It is highly resilient. It is incredibly fast. It is incredibly secure and extremely reliable. And it's proven and it's backed by some of the best brands in the world whether they are the brands of the nodes or the brand of the network. Every other model has enormous disadvantages in the ability to scale and the ability to bring this kind of, let's call it, best-in-class branding and capability to the benefit of all. I think the four-party model is alive and well. There's often confusion about what's going on today, and there's a perception that perhaps there are people disrupting the four-party model. Actually, it's the other way around. A lot of the new players are essentially nodes in the four party model that are new versions of traditional nodes that are enabling things that the traditional nodes perhaps didn't enable.

So, if you take some of the newer players like Square, Square is enabling a whole slew of merchants that traditional players had a harder time making the numbers work. Stripe is doing similar things in the e-commerce space. Adyen is doing it on a global basis. These are, in our view, enhancers of the four party model. They are newer versions of existing nodes. And you've got a similar thing going on the issuance side, payment banks, a new innovation. They all started out wallets. They can all be issuers of debit and prepaid cards, digital banks. They are not really competitors in the four party model as in disrupting the model, they are just enhancing the model. They're making it so much easier for people to get value from the model.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

If we kind of take the answers to those two questions together and think about some of the areas of expansion that you were talking about, whether it's kind of G2C or B2C or some of those, I mean, could you just talk a little bit about where you think the biggest opportunities will be over the next two to three years? Clearly, each of them is a massive opportunity over some very long period of time, but maybe when you think about the priorities at Visa and how you kind of think about where those [ph] sit (00:10:21)?

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

A

Yeah. Well, the two to three years is a very short timeframe. And so, in a two- to three-year timeframe, we've got some significant tailwinds that will continue. I mean, e-commerce remains a flywheel. There is no change in the trajectory in terms of the growth of e-commerce relative to, let's call it, bricks and mortar commerce.

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We are nowhere near the end of that cycle; far away from it, in fact. There's a global opportunity here. So, all the things that are driving our business today remain very robust and very reliably drivers of our growth when you think about a short term timeframe. Clearly, there's been a revolution in our network, which may not be fully appreciated by everyone. And the way we like to describe it is from an entire history, we only did one thing, right? We sat here on this side were nodes called merchants and acquirers, on this side were nodes called issuers, and you had consumers paying merchants and we were enabling all that.

Now, and so money flowed one way. It flowed from you to a merchant, C2B. Now, we can send money both ways, thanks to what we call Visa Direct, and Visa Direct is a little bit of a misnomer because people sort of don't fully appreciate that it is really a capability that has many dimensions to it.

You can move money both ways, but even more important, every node can move money between each other, right. So it can – I can send money to you, you can send money to me, which was not possible before. So you can go P2P. You can go B2C, which is a whole range of businesses around payments you get from businesses, could be all the way from payroll to insurance payments to – you name it. Think about any kind of payment you get from a business, to G2C to various versions of B2B. A whole range of capabilities that we are calling sort of the new payment flows are only in the very early stages. And Visa Direct, the volumes there are already reasonably meaningful, growing at a very fast clip, and we've only just begun. There's a whole range of possibilities there all the way from becoming the backbone for most P2P services, which we already are in many ways, opening up a whole range of new businesses whether it's payroll, insurance disbursements, and a whole range of other payments that you can make.

Bill pay, huge opportunity there. The appeal of bill pay in the context of Visa Direct services, you don't need to give anybody your bank account or card, you just push them the money. It's probably the safest way to pay in many ways. Merchant payments, where services are being offered today where smaller merchants can get their money the same day, it goes on and on and we're only at the very early stages of developing these businesses.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

You've talked a lot about Visa Direct. Can you give us just an update of kind of where that is or will be kind of end of year, and how you think about what things need to happen over the next year or two or three to get to the point that you're describing?

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

A

Yeah, look, I mean, this is a range of businesses that we will be building over a long period of time. At this point, the big early sort of let's call it, and I hate to use the term use cases because it makes it seem quite narrow. To me, these are all businesses that have their own profile. So you've got a P2P business, you have the backbone for a lot of apps that allow you to move money between individuals. Clearly, you can do it on debit rails, that's our P2P service. We have – disbursements is now another big immediate category. Several opening up now whether it's auto insurance disbursements, health disbursements, various versions of payroll, plenty of opportunity there to continue building it.

We already have seen variety of people offer these merchant payment schemes where merchants could get money right away. We're starting to see bill pay take off. Those are some of the early businesses [ph] here (00:14:49). We're a $20-plus billion revenue enterprise; business like this isn't going to move the needle on the entire enterprise. Although it's getting to the point where on the margin, it is a contributor to the growth and

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growing at a very fast clip. So my view of this is if you're talking 5 and 10 years out, you're talking about a very sizable set of opportunities that are in the very early stages of development.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Okay. Well, you've talked a little bit – you kind of alluded to the idea of contactless payments as being one of the main ways to encourage that continued and faster adoption. Maybe if you could just talk a little bit about what's going on perhaps in the U.S. market and other places in the world in terms of advancing that further.

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

A

Yeah. As you know, I mean, if you follow consumer businesses, there are times when you do something and the consumer response is just overwhelming and immediate. And you've just hit upon something that is truly a – let's call it game changer from a consumer standpoint. And one of the reasons we talk so much about contactless is we realized after seeing what contactless did in its early markets like Australia, now the UK, even Canada, after a few early years where you have to get the chicken and egg thing going, where people have to feel comfortable that they can use contactless everywhere and they do have contactless-enabled cards, it takes off like a rocket, right?

So within a couple of years, you go from 30%, 40% penetration to 90% and above. The experience is so frictionless in the eyes of consumers that they now essentially decide that at a physical point of sale using an electronic form of payment, i.e., tapping your card is far superior than any other way to do it. No need for cash now for the smallest transaction, faster lines. If you don't have contactless-enabled cards, you will you dirty looks come your way if you are in the UK or Australia because you're holding things up.

You see deeper penetration of smaller transactions; essentially the tapping of the card replacing the use of any other form of payment including using your phone if you had gotten used to some phone-based apps.

So seeing the trajectory here, it is clear to us that we have found what we think is probably the most frictionless way we are going to find for a face-to-face payment. And so, we are quite keen to move it as fast as we can. It is moving really fast outside the U.S. It took us some time in the U.S., where we now have EMV in place which was the enabling technology. We think you'll start to see fast progress. JPMorgan just announced that all the new cards you get from them on your normal sort of replacement cycle or lost cards will be contactless enabled.

I believe 7 out of 10 of the largest merchants are already contactless enabled. I mean, even here in the U.S., Costco – since all the Costco co-brand cards were contactless enabled, set themselves up to be contactless and it's pretty shocking how within a month or two half the transactions there were contactless. You rarely see consumers take up a new thing. People are generally resistant to change.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Right.

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

A

You don't see this fast take-up unless something is a real game changer.

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Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Going to some other regions of the world, it's been two years since Visa acquired Visa Europe. You've already announced that you're ahead of plan from a financial standpoint. Talk a little bit about the opportunities over the next year or two from a business standpoint, what are the things which you're going to be doing to increase the services to those customers. Are there market share opportunities in Europe? Can you talk about that a little bit?

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

A

Sure. Look, I think just a quick synopsis of – from a financial standpoint for some of you who may not have heard that before. I mean, the acquisition has clearly exceeded our expectations on a variety of fronts. And if I look at the EBITDA, we now derive from Visa Europe as a proportion of our total EBITDA and an implied value of the business, our investors have done extremely well. So on that basis, we're well ahead of what we expected. The accretion is already in the double digits. By all measures, this has been a great investment.

The two other things that have happened that we are also very happy about is the two most complex parts of the integration are done. One is getting a very large number of our important customers in Europe onto commercial contracts; happened without the kind of leakage we might have expected. And then, putting them – bringing them onto one global VisaNet platform, with all the capabilities we have globally now available to all our European clients – both done, both without any real issues.

So now, the hard stuff of integration is done, it's all about the opportunity in Europe and we are very optimistic about Europe and the opportunity. There's clearly a historical element to the nature of our business in Europe. It was driven by who the original owners of Visa Europe were. So, it has strengths in some countries and is surprisingly weak in other countries in a way that it doesn't match what we are around the world. And therefore over time, we Visa clearly bring a very credible alternative in those countries than perhaps Visa Europe might have as a membership. And we are not biased towards who our owners are as Visa Europe may have been in the past.

For historical reasons, the credit business for Visa in Europe was underdeveloped. The reasons why it was have gone away after the regulation of interchange. So clearly, there's opportunity over time there. There are many parts of Europe where there is still plenty of opportunity to digitize cash. So, they look more like markets that have low penetration of cash. So, there are a whole range of opportunities.

We are a very credible partner now to everybody there because we can offer a range of capabilities that they often worried whether Visa Europe as independent entity could have. We are already offering a range of risk services, loyalty solutions, data services that were not available to them before. We can offer them capabilities that are very relevant in a PSD2 world in terms of superior authentication capabilities, better risk management and fraud management capabilities and just in general, a very resilient, reliable network. So, there's a lot more to happen in Europe over time, and it's all about moving to the offensive at this point.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

So, as you think about that, what should we be looking for, I guess, over the next 12 to 24 months?

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

Well, nothing in this business happens fast; that is both a plus and a minus. There are obviously long-term relationships, long-term contracts. Incumbency is an advantage in the business. Things will happen over time. We were able to essentially convert a whole range of our relationships to commercial arrangements with little or no leakage for some of those reasons. So, this will take time. It is not going to happen sort of in a 6- to 12-month timeframe. And what you should be looking for is – and we will tell you about steady evidence of progress.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC
Q

In Asia, we recently – American Express was given the opportunity to clear transactions domestically along with a partner. Visa and Mastercard are not yet at that point. Kind of any update that you can give us there that – in terms of that and also on the flip side maybe talk a little about how your thoughts about China UnionPay expanding outside of its region.

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

Yeah. Look, in terms of sort of the domestic market entry into China, there's really no updates. If there were, we'll certainly be announcing it fairly broadly. I think we all remain in a wait and see mode. And as you know, there's a lot going on between the U.S. and China. And I think we, along with a lot of other U.S. companies, are sort of in the middle of all that, probably.

As far as China UnionPay goes, we don't operate in China as a domestic brand. China UnionPay is the domestic brand. China UnionPay owns the Chinese customer. And then, of course, they have very stiff competition in China from the Alipays and the Tenpays and so on. China UnionPay, forever, for the longest time, and now Alipay and Tenpay are doing the same thing, has been trying to follow their customer as they leave China. Natural thing for them to do. We do that everywhere and that means going around the world and trying to get acceptance in merchant locations that Chinese consumers might shop at.

We saw that with JCB when Japanese travelers were really big. We see that with the Chinese companies now. That's been going on for a long time. It's not new. We clearly are always handicapped when you don't control the consumer in the home market; or I shouldn't say control, have a relationship with the consumer in the home market.

Clearly, we're able to enter China. We can have some sets of consumers in China who would be our brand loyal customers, which would then allow us a more even playing field to compete even outside China for that business. What we haven't seen is really much progress in trying to build issuance outside of China. Sometimes people are confused when they see China UnionPay show up in places or Alipay. They think, oh, well, they're entering this market. They're not as in consumers carrying their cards. They are building acceptance for their customer who happens to be there. That's going to continue.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. One of the areas in which you've always talked about governments both taking away and giving back from a regulatory standpoint. Obviously, the government in India is trying to encourage or discourage the use of cash and encourage the use of electronic payments. And yet there's, obviously, some tensions and approaches that

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you're taking as to how to best maximize that. Can you talk – give us a little bit of an update as to what's going on with respect to India?

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

A

Look, I'm very optimistic about the long-term opportunity in India. I think having this level of engagement from the public sector let's call it, not just the government in building digital forms of payment as a national priority can only be good in the long run. It is extremely hard for one or two players to build a market as vast as India and to have many more people, including the government pushing it is good for everybody involved. What it does is it raises the level of national consciousness in terms of, as I told you, getting people into the banking system and government is doing a lot. That's when they get their first debit cards. Fine, it may be a RuPay card but at least they get into the habit of electronic forms of payment. Over time, as they become, let's call it, more middle class, lower middle class, more urban, they naturally gravitate towards other forms of electronic forms of payments, whether it's a Visa credit card or a Visa Debit card. And so, everybody benefits when that happens, and that habit is built. It's nice to have partners building that habit.

It also helps to have partners build acceptance. I mean, acceptance was hard to build in India. We are now at 3.3 million points of acceptance, not enough for a market like that, but twice as much as we had fairly recently. All that is good. Clearly, the government is very focused on making it affordable for everybody. That's fine. I mean, we have co-existed with national schemes and national networks in many, many, many markets. There is a natural kind of coexistence there.

It's not either/or, never either/or even in the U.S. People use multiple forms of payment. I would rather have a market that is 4 and 10 times as big with maybe a smaller share of it than a very large share of a very tiny market. So we think there's lots of opportunities when some people you see in India that may appear to you as potential competitors, we see as potential partners. Many of them are officially payment banks today. They can be issuers of debit and prepaid cards. There is no reason why you should have a wallet when you could in fact go bank to bank on debit rail in many of these cases. So it's not inconceivable that many of them will use debit rails along with other rails. Again, it's never going to be either/or.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Can you talk a little about the progress you've made on the B2B Connect initiative? This is something that I think I know you didn't like – particularly like the word use cases, but it seems to be one of the use cases that could be one of the early areas of expansion from a B2B standpoint tapping into that large base of activity.

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

A

Yeah. So, for those you who are not familiar with what B2B Connect is, it is a distributed ledger-based technology, so essentially, highly secure, encrypted that is going to help facilitate cross-border payments for large businesses. So, this is a large U.S. business, let's say, pick a business, Walmart paying a supplier, let's say, in China.

Today, the methods they have available to them are not very transparent in terms of timing, in terms of the rates – exchange rates that they can expect. There are concerns about fraud availability, reliability of the network, et cetera. This solution can give them a lot more certainty in timing, in cost, in certainly much higher levels of fraud protection, much higher levels of reliability, et cetera.

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We've been building this for a while. We had a prototype, it is working. We announced that we will be ready for a commercial launch in early next year. Lots of interest, lots of companies and banks ready to sort of go. We think that as a cross-border kind of payment option for businesses, we think it provides a solution that is clearly superior to the alternatives. So, we'll tell you more once we get going next year.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Right, because that seems to be one of the areas where there's more – I mean, it just seems that, as you said, these things move slowly, but this seems to be one of the areas where there's more rather than less friction in the existing systems, so good luck.

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

A

Right. And doing things cross-border has always been a unique element of what we do, which is why starting with enabling cross-border B2B payments, we thought addresses both one of our – uses one of our strengths and addresses an area of particular frustration.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

So, at this point, maybe we'll see if there's any questions from the audience. We've got – I believe, we've got – we've got a microphone if there is. We've got two microphones. Okay. No questions as of now. If you change your minds, raise your hand and then we will call on you.

Vasant, you alluded to the idea of kind of some of the companies that could be thought of as competitors within the four party system becoming partners, additional nodes, I mean, you had a very well-publicized relationship with PayPal that was announced a couple of years ago that I think was a great example of that, and you referred to a couple of the other players, how do you think about the companies that are trying to start up alternative payment systems? I mean, you've had some – we've heard some discussion about Amazon. There are others that are trying to do that. And obviously, we had the phone-based pays, if you will, a couple of years ago. So, how does Visa think about that as we go forward?

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

A

Well, look, our job when we wake up in the morning and when we go to bed at night should be single-mindedly focused on one thing. If – and it is – if anybody has a way to pay or a way to be paid, our job is to persuade them a few things. Number one, how can we make it easy for you to do it on our network? How can we take the friction out? How can we help you like use the connections to our network to get going, number one. Number two, how do we convince you of the value we can provide if you're on our network, which is probably a network that can take you most places than anything else you can find; something that offers a level of reliability that is unmatched, a level of security that is unmatched, and hopefully economics that you can't match.

The problem with all closed loops has been that it is very hard to get all that. Closed loops have always suffered from the issue of scalability, and then just the cost of what it takes to run a closed loop on your own. So, you have large players. They are some of our most important partners. We treat them exactly that. They are our partners. Our job is to understand them well. Our job is to understand how to fashion a relationship with them that meets their needs so that they don't need to think about alternatives.

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In many cases, we even have co-brand relationships with them. Sometimes the confusion when you hear things like so-and-so merchant is going to get into banking. Well, some merchants have been in banks forever. I mean, traditional bricks-and-mortar supermarkets or others have always had banks in the stores. Why is it unreasonable for an e-commerce merchant to be in banking, doesn't mean they're going to be a bank, they're going to white label on other bank. Fine, they could become an issuer of debit cards. Great. We'd love them to be Visa Debit cards. That's another node.

It's not necessarily off our rails. It's a node that looks different than a traditional node might have look like. So, we stay very close to all of them, we hope. Look, when you try to run a network like this, every node has their own specific self-interest, and we have to figure out how to make it all work for all parties. And sometimes it's not that easy.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Right. It's been a few years since you announced the Chase Pay relationship, which was certainly taking that type of an approach to a large customer who wanted something a little bit different, but that wasn't – but that was certainly you could accommodate through that network.

We've got time perhaps for one – if there isn't anything in the audience, we could – probably got time for one more question from where – okay.

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

A

I guess you're asking all the questions they had.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

It would seem. One of the things that's always intrigued me has been Visa's approach to both M&A and partnerships. And obviously, Visa generates a lot of cash and could be out there buying stuff right and left and that hasn't been the approach you've taken. A lot of the growth that would have – one would have thought of as an M&A we've been through small investments in companies that are complementary in some way to your business and kind of advance the aims of the network. Could you talk a little bit about your approach, what things would make you want to acquire and what are the other areas that are the most interesting both for potentially acquisitions and future-type partnerships?

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

A

Well, arguably we did the largest acquisition our industry will ever see...

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Right.

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

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...which is Visa Europe. And we're thrilled about that. It's been great. We also did buy CyberSource a few years ago, which was quite sizable. But you're right, our approach has been, we would only buy things that can – our core business is a great business. And anything that enhances our core business that we can't build on our own, we would buy if we have to and we've done some of that over the years.

[ph] We see BC authentication (00:38:05) as a great area of opportunity. We bought our business there and you could see us do more in authentication. We think authentication is going to be very big globally, especially with PSD2 coming in Europe and all that.

On the B2B side, you've seen us do things to enhance our capabilities. We could do more things there. There are other areas like that data, loyalty, risk services, where you could see us enhance our capabilities through acquisitions. A model we've liked a lot is there are people out there doing things we think are very good for our customers and good for our business, and we want to have strong commercial relationships with them and we often cement it with an investment. We think it's often a better way to do it, because we want to be an open loop. We don't like to take sides. We want everybody as our customer, and sometimes you can constrain yourself if you go with one or the other.

The thing we have not done and hopefully we'll never do is to buy things to beef up revenue or buy things with 10 times EBITDA and because it's a small piece of the total, investors automatically give it a higher multiple as [ph] part of us (00:39:30) and all that. So this financial engineering game is not something we've chosen to play and I hope we never do.

Now, there's a short-term gain from it because clearly you can boost your revenue or EBITDA by acquisitions and typically, you'll buy it perhaps at a lower multiple than what you're trading at, and I guess the investment community doesn't necessarily sort of do some of the parts or whatever and you get the same multiple on everything. But it catches up with you over time because those businesses don't have the margins, don't have the growth, and it shows up over time, right. So it's a short-term win if you're not doing it for the right reasons.

Moshe Ari Orenbuch

Analyst, Credit Suisse Securities (USA) LLC

Great. With that, we actually are exactly out of time. I want to thank Vasant and Mike for joining us today and for their thoughts. So thank you.

Vasant M. Prabhu

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

Thank you.

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