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Visa, Inc. (V)

Wells Fargo TMT Summit

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CORPORATE PARTICIPANTS

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

OTHER PARTICIPANTS

Donald Fandetti
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Welcome, everybody, to the Wells Fargo TMT Summit. I'm Don Fandetti, I cover Visa. And very pleased to have today with us Oliver Jenkyn. Oliver is the Group President and Regional President of North America. He's actually run the North American business I believe since 2011. He joined Visa in 2009 and was previously a partner at McKinsey. So we've had some great meetings with Oliver over the last several years. Oliver, where are you calling from right now?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

San Francisco Bay Area, just north of San Francisco. I'm in Marin County where I've been sheltered in place for as long as all of you have been sheltered in your home offices.

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QUESTION AND ANSWER SECTION

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Fantastic. Well, why don't we just jump right in? I'm going to ask questions for 30 minutes. And I guess the first question I have, Oliver, I mean, you effectively manage a lot of the relationships with the big financial institutional customers of Visa, the big banks. And at the same time, you've had a very big emergence of fintech. And on one hand, fintech is a partner of the banks but on the other hand it's a big competitor, and I was just curious how you manage those two relationships or competing interests if you will.

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. It's a great question. I think the main message I would deliver out of the gate would be Visa's philosophy on this is that it's not our position to pick winners and losers. We provide a platform that invites different players to come and compete and offer their products and services and their value proposition. And our view is may the best idea win as chosen by consumers and merchants, and I think most of our clients understand that that's our role in that, again, we provide that platform for folks to compete. So we invest heavily in our traditional bank issuers, and we have very good relationships there, but we also very much value our relationship with big digital players and fintechs and other constituent groups as well, and we want to serve all of them for their needs.

What I would just say is even though they're very different these different constituent groups like fintechs and large traditional issuers, there are many things that they want from Visa that are quite common. For example, a strong brand, strong technology and strong expertise and people leadership. On brand, I've been in this role as you mentioned for over 10 years. It's amazing how important the brand is be it for a large bank or for a fintech. Large banks like to look at themselves as having very strong brands, which they do, and the combination of the Visa brand and that bank brand can be very, very powerful. But for fintechs, they like to draft behind and share the halo of the Visa brand as they're building up their own reputation and their own brand, so it's very helpful in different ways to different constituent groups.

And I'll just say on technology, core safety, security and reliability is important to all constituent groups. But for fintechs, they value the 600 APIs that we've exposed; we're getting over 1 billion API calls a month. And big banks like to leverage those capabilities but so do fintechs, and fintechs and large banks also value the expertise of what Visa people can bring. So again, they're very different constituent groups but, in many ways, they're looking for similar capabilities from Visa, just in different ways. One last thing I'll say, Don, just before we move on. The one thing that's very unique with fintechs is they don't want any bureaucracy dealing with a big institution like Visa. They're spinning dozens of plates at the same time. We need to be fast and easy to work with, and that's why we built the Fintech Fast Track program which makes it very easy to onboard and get commercial agreements in place for fintechs so that they can start processing and launching their value propositions quickly. So again, we don't pick winners and losers, but I feel like we've got good relationship with all of the different constituent groups.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Interesting. Yeah, I remember seeing the Fast Track press release recently. I guess more in terms of the relationships with the financial institutions. It seems like the banks and the networks have gotten more intertwined

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actually over the years. If you think about it, it used to be just consumer payments; now it's B2B. Do you think that the relationships are more intertwined? And who are you talking to when you're speaking with your big bank clients today that maybe you weren't talking to five years ago?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. Certainly, things have changed significantly, I think, in our relationships with the big banks. I mean, if you think about the relationships when we do a new agreement, a new partnership deal with one of the big banks, the range of topics that we're talking about is significantly broader than it was in the past. It's not just about financials; it's about innovation and new product development. It's not just about consumer credit or debit cards; it's about B2B and treasury management. Again, it's not just about processing capabilities; it's about technology and APIs and our product roadmap. So as banks and Visa have gotten closer, the range of topics that we're engaging in really is much broader to that institution and we're trying to find more ways that we can provide leverage to our banks for them to capture all the opportunities that they face in their business.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

That's interesting. One of the big sort of shifts if you look around the world is open banking in Europe and Asia, and I know it's slower to sort of take place here in the US. But as you think about Visa and your interaction with the banks, like how do you – how does Visa – are they a net winner from open banking because on one hand, there's new opportunities but on the other hand you could, in theory, have some disintermediation risk that you have to manage through over the years?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. I mean, listen, Visa would love it if every transaction ran over Visa's network with a Visa credential, but that's not how the world works now; it's not how the world's going to work in the future. There are numerous networks in the market, there are dozens of RTP networks. And Visa is much more focused on our network of networks strategy, the goal of efficient, effective digital money movement, and this can be moving transactions completely on Visa rails with Visa credentials or it can be through partnership, moving beyond the Visa network with Visa providing support services to other networks. So our network of networks strategy is very much about moving money between all endpoints and across all form factors, leveraging not just our network but connecting our network to other networks around the globe and for Visa providing value-added services to other networks. I mean, we're perfectly happy if a transaction starts on a consumer debit card in the United States and ends with an account-to-account transfer in Germany to a small business. That's good for us; that's effective money movement.

And so when we look at open banking and the growth of RTP networks around the world, we look at it within that context. We look at it as an opportunity for us to have more innovation and more effective money movement. So again, there are dozens of RTP networks around the globe. To be honest, I think a lot of them, the majority of them have struggled to get true sort of scale and functionality, and we'd like to offer some of our capabilities to help those RTP networks gain functionality and usage by leveraging Visa value-added services and help make them what those owners want them to be. We'd also like to partner with those RTP networks as part of this network of networks strategy again so we can move money from one market into another and have a complete, as in account-to-account transfer in another market. And a lot of our acquisitions, be it tokenization or loyalty services or disputes or several of our other acquisitions provide some of those value-added services that we think can really help with this network of networks strategy. So we think it's actually a net positive for us when we look

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at our broader goal of the efficient, effective movement of money involving our network or our network in connection with other networks.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Interesting. I guess sort of in the [ph] whole (00:09:19) realm of questioning, you look at big tech, whether – not to speak of a specific company, so like an Amazon or Google. So Google announced a banking initiative with Citi. Like, how do you think about big tech? I know on one hand, they're a friend and a partner but on the other hand, at some point they could be trying to sort of get a little more involved in leveraging payments. What are your updated thoughts on that opportunity and risk from big tech?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Good question, something we think a lot about and talk a lot about. The principle that I cited in your first question I'll cite again here which is just that we don't see it as our role to pick winners and losers. We provide a platform that people can leverage and come and compete and may the best ideas, as judged by consumers and merchants, may the best ideas win. And that applies to big tech as well. Big tech are increasingly developing capabilities that can aid in effective, efficient commerce and payments. And we want to work uniquely with each of those digital platforms to help them bring those capabilities to the platform in constructive and collaborative ways. And so we're working with all of those players and, I mean, our view is everyone's a partner until proven otherwise.

I mean, our biggest competitors are cash and MasterCard. For everyone else that's coming at the payments ecosystem in different ways, we want to find a way to partner, and that's the current status with all of the large digital platforms. That's not to say of course that there isn't some tension and friction between Visa and those big platforms. The same is true with our big bank issuers or fintechs or acquirers or merchants. In any big commercial arrangement and partnerships, there are things that we want to be a little different, there's things that the partners want to be a little different; that's certainly true with the big digital tech players. But on balance, we think it's quite a healthy relationship. And again, we regard everyone as a partner unless and until proven otherwise. And right now, we feel like we're in a positive space with these digital platforms and we're going to continue to interact with all of them accordingly.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Okay. That's very helpful. It's good to see Visa sort of sits in between a lot of these different players in the ecosystem. I guess moving on, part of your responsibility, Oliver, I believe is handling global partnerships. And I was just curious if you could talk a little bit about any major initiatives that you're working on and anything that gets you excited in terms of global partnerships.

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. Maybe just a bit of context very briefly. So half of my responsibilities is running North America; the other half is leading a series of global initiatives for the company, so our commercial business, our relationship with processors, our Consulting & Analytics business. And then, Don, what you mentioned, I'm responsible for global clients and global partnerships. And the reason we did this is Visa is a global company but we run regionally. We have our five regions, North America; Asia; Europe; Latin America; and then Central Europe, Middle East, Africa.

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Those are the five regions. We run the company that way; there's a president that runs each of those five and we run the company in those regions.

The complication that we sometimes have, and by the way, that works incredibly well for us, the complication that we sometimes have is when we come across truly global partners, be they big issuers like an HSBC or big digital platforms or big merchants, even small fintechs that run globally, sometimes their interaction model with Visa ends up being a bit fragmented because they actually have to go deal with five different Visas to get what they want in terms of partnership. And so we were suboptimized in what Visa as a global company could be doing with these large global players. And so the changes that we recently made is we built this global account team, this global partnerships team to work with issuers, digital platforms, fintechs, merchants, etcetera, so that we optimize what those partners are getting from Visa and what Visa is able to achieve with those partners. So I can't go into specifics with any of what we're doing with any of those players, but I think it's an important organizational change for us. We like to think of it internally as like a HOV lane, if you will, for our global clients so that we can effectively navigate them through big Visa to get what they need for them as quickly as possible.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

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Yeah, that makes a lot of sense and just as things continue to get global and Visa Europe layered in, so that's an interesting strategy. I guess we talked a lot about new products, different opportunities. I guess at the end of the day though, we're sitting here with the COVID challenges and spends recovering very nicely but there's been some pressure in certain areas. How have you managed, at least in North America, the expenses? Like, what areas have you sort of dialed back and any investments that you feel like you could dial backwards or is it mostly just sort of operating costs?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. It's a great question. We talk with Vasant about this all the time and our best phrase is never let a good crisis go to waste. I think at Visa, we've never had a better view at the 4-point font level of what we're spending money on and why. And the difficult economic environment forced us to really, really roll up our sleeves and get dirt under our fingernails about truly understanding what we're spending money on and why. And so again, some of our expenses are held centrally like technology. But within North America, we really dove deep into all the stuff you'd expect us to. So personnel for example, we're very disciplined in personnel and what we really focused on in personnel wasn't about like hiring more or hiring less or what have you, it was about moving people around. We found parts of our business where there was slack in the line, and we moved those people and their capacity to areas where the line was taut. And we really worked on trying to be more flexible in how we work. So it's not adding 10 people here and cutting 10 people there; it was moving talented people around to what's the highest and best use in this environment, and that's worked well for us and we're going to continue to do that.

Obviously marketing we spent a lot of time focusing on where we should be spending marketing. It's a big line item for us and we I think showed a lot of discipline, eliminated any pet projects, really focused on the analytics of where the highest MROI was, so we spent a lot of time there. We're rethinking how we work for the mid-term and longer-term in terms of office layout, internal meetings, T&E. And then on product, in product development and the technology that comes with that, it forced us to be really disciplined to cull things that just hadn't worked, that hadn't caught on. It forced us to have material conversations, significant conversations about what do we want to double-down and put more money behind on our products and services and where do we want to just sort of admit that it was a good idea but the market didn't receive it as well.

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But to be clear, what we're not touching and what we're continuing to invest heavily in are our key priorities around new payment flows of everything associated with Visa Direct, B2B, all of our value-added services, our Consulting & Analytics businesses. All of the things that are on strategy for us, we're not touching those investments. We're trying to find areas where there's just a little bit of fat in the system or things that we've given plenty of time to shine and they haven't and so we just need to move on. So main message is, as you would expect, we probably have the best view of what we're spending on as a company that I've seen in my 10 years running North America. We've really gone deep and we feel good about every nickel we're putting out there.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Interesting. It sounds like it's been a thoughtful process. I guess as we look at the environment, you've had a huge shift to e-commerce. It's a big theme in the US obviously in your world. I guess my question is when we potentially go back to normal, like how sticky will the e-commerce growth be? And obviously that's done extremely well. Will we sort of reverse back or do you think that a lot of these trends are going to be sticky?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

It's a great question, it's a fantastic question. Summarizing a sentence and then I'll go deeper, I think both the shift to debit and the shift to e-commerce is going to be quite sticky, so let me do each in separate points.

On debit, as you guys all would have seen in our numbers, debit recovered quickly and has sustained very strong growth throughout the pandemic, north of 20% growth. We think that's going to stay for most of 2021, and a few points to that. First of all, debit got a clear kick start with the stimulus. But even as stimulus sort of wore off, debit remained strong. And we see several things there. First of all, in difficult economic times we always see this rise of a pragmatic consumer, and they pull back, there's less spending on credit, there's more spending on debit. There's a sort of psychological view around I shouldn't borrow my money; I should spend what I've got. Just this level of pragmatism and responsibility. In difficult economic times, there's also a massive shift towards non-discretionary – sorry, yeah, non-discretionary spending versus discretionary spending, and that's disproportionately on debit. And also in this environment, there's some apprehension towards the use of cash just as cash being dirty and we've also seen there's a rise in contactless payments, but that'll also help debit for these everyday spend categories and low ticket transactions. But I think the macro view is in difficult economic environment credit retrenches and debit steps up, and I think that'll continue through a lot of 2021.

Similarly on e-commerce, for different reasons, we think we have probably pulled forward three years' worth of behavioral change into one year as a result of the pandemic. By our analysis and our research, just about every consumer segment has been pushed into e-commerce, right? It's not just first-time users who made their first grocery purchase; it's also folks who were light e-commerce users going into different merchant categories, having larger ticket sizes. But even the ones that were digitally native in the first place, they've gone all-in. So no matter how you segment the population of consumers, people have gone deeper and have built more sort of habituation around e-commerce. And the research shows that they like it, and so I think what we will see even as stores open up is a lot of that behavior will stay in e-commerce. And we've seen that around the world in markets like New Zealand and Australia and some of Asia that's come back. Even as card-present opened back up, that showed strong growth but e-commerce didn't subside that much. So I do think, Don, we'll see debit and e-commerce through 2021 at these elevated levels.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

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Okay. And I think certainly the e-commerce trend is beneficial to Visa in a couple ways including yield and other areas. I guess we have about 5 minutes left in, Oliver. One, Visa Direct is just booming; I think it's just been a good story. As you look at it, is there anything that has surprised you or anything you think that's underappreciated by Visa Direct? We all hear about the different use cases and it's just – it's growing at 60%. What are we not fully appreciating on Visa Direct? Maybe it's long-term, short-term or product?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. Maybe I'll give you two or three points that continue to surprise and please me on Visa Direct. First of all is the continued breadth of new use cases. Once people really understand the capability of Visa Direct and the fact that water can move both ways through the Visa pipes and we can push payments to debit cards, once people understand that, the use cases keep showing up. I mean, you've heard about them so I won't take up too much time, but you've got gig payouts, account-to-account, early wage access, marketplace merchant settlement, cross-border remittances, insurance disbursements. I mean, the range of use cases and people's interest in those use cases continues to expand. That's my sort of first surprise.

The second one is the resilience of Visa Direct. When COVID hit, many of the strongest use cases slowed, for example Uber and Lyft using Visa Direct to do driver payouts by pushing them to debit cards at the end of a shift. That dried out as that business dried up for Uber and Lyft but the growth just moved to a different use case. P2P continued to grow but remittances took off because just like you couldn't walk into a Western Union branch, plot money down and ask them to send it back home to Canada or Mexico or what have you. You couldn't go in and do that, so people started doing it from mobile applications and leveraging Visa Direct by pulling from a card and pushing to a card, so that took off. Early wage access took off as people needed access to their funds in these difficult times quickly. So I think the resilience was very, very surprising to me.

And then finally, I'm still continue to be pleased by the sort of sustainability of it, the fact that we're able to compete very well in the market with the product, there's good yield in the business. So I think on all fronts, Visa Direct has a long runway for continued growth and, as I said, very resilient and versatile product platform.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

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Okay. One of the things I sort of conceptually wonder is from an investor perspective, do I want to put the same multiple on Visa Direct transactions as your normal card transactions from a value perspective? It sounds like they're pretty similar in terms of market position and sustainability. Do you agree with that or is the traditional card payment business more valuable for transaction?

Oliver Jenkyn
Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

A

Yeah. Let me give you two answers on this. We often get the question on yield on Visa Direct, and the truth is it depends on and will continue to depend on the mix. Obviously, P2P yields are smaller; cross-border remittances, insurance payouts, yields are a lot higher given the value that's being created there. So as Visa Direct unfolds, the overall yield will depend on the mix of different use cases. But on balance, it has a very healthy yield; we feel very good about it. But I think we've been sort of consistent on the point that overall, the yields are a little bit lower than our overall business just given the weight of some of the use cases where there's a little bit less space for pricing in that. But overall, I think it's safe to say although the yields are somewhat lower than our overall business, overall, it is a very profitable and incremental business for us. It's not cannibalizing; it's opening up new sort of less efficient payment use cases and enabling us to capture some value for ourselves and our clients there.

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Donald Fandetti

Analyst, Wells Fargo Securities LLC

That's great. So we have different conferences going on. We're going to – we're at 12:30 Eastern. I really want to thank Oliver for his time today; it's been very helpful. And appreciate all the investors that have dialed in as well. So we'll go ahead and end it there. Again, thank you everyone. And Oliver, have a good day.

Oliver Jenkyn

Executive Vice President & Group President & Regional President-North America Visa, Visa, Inc.

Thanks, Don.

Donald Fandetti

Analyst, Wells Fargo Securities LLC

Take care.

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