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Visa, Inc. (V)

Business Update Call

CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

Sanjay Sakhrani

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Lisa Ellis

Analyst, MoffettNathanson LLC

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Darrin Peller

Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Visa's Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. [Operator Instructions] I would now like to turn the conference over to your host, Mr. Mike Milotich, Senior Vice President of Investor Relations. Mr. Milotich, you may now begin.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Thank you, Michelle. Good afternoon, everyone, and welcome to Visa's conference call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at www.investor.visa.com. A replay will be archived on our site for 30 days.

Let me remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance, and our actual results could differ materially as a result of many factors. Additional information concerning those factors is available in our most recent reports on Forms 10-K and 10-Q, which you can find on the SEC's website and the Investor Relations section of our website.

And now let me turn the call over to Al.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

Thanks, Mike, and Happy New Year to everybody, and good afternoon and thanks for joining us on relatively short notice. We announced earlier today that Visa and Plaid have mutually terminated our merger agreement and have agreed with the Department of Justice to dismiss the litigation related to the proposed transaction.

We are confident we would have prevailed in the litigation as Plaid's capabilities are totally complementary to Visa's, not competitive. The combination of Visa and Plaid would have delivered significant benefits and greater innovation for developers, financial institutions, and consumers. However, it really became quite clear in recent weeks that the Department of Justice is not inclined to work with Visa and Plaid to bring this process to a timely and reasonable conclusion.

One year has passed since we first announced our intent to acquire Plaid. We have confidently decided that it is in the best interest of all stakeholders for Visa to focus our attention on advancing our broader strategy rather than moving forward with a protracted and complex litigation. We have three growth paths: consumer payments, new flows, and value-added services, all with tremendous upside. We have much to do in many attractive opportunities. Therefore, we decided not to devote more time to this acquisition.

We will continue to partner extensively with a broad range of fast-growing fintechs to deliver the infrastructure security and innovative services required to power industry-leading payments and money movement experiences both on and off Visa's payment network.

Over the past year, we have built great momentum in execution of our network and network strategies. In fiscal year 2020, Visa Direct has grown almost 70% or nearly \$3.5 billion money movement transactions, utilizing 16 card-based networks, 65 domestic ACH networks, 7 RTP schemes, and 5 payment gateways. Our value-added services revenue has grown into mid to high teens and we continue to add to our capabilities, including risk, identity, tokenization, and dispute services that can be offered regardless of the payment rail used to deliver the funds.

We are also seeing an accelerated shift to digital B2B payments with the rapid growth of virtual cards across several industry verticals. The initial adoption of our B2B Connect solution for cross-border payments and the expansion of partnerships to offer innovative solutions for domestic AR and AP.

Moving forward, we will still intend to deliver payment initiation and value-added services to fintech developers globally for non-card and to our RTP payments. In addition to utilizing our own capabilities and partnering with Plaid, we will also partner with financial data networks all over the world as local providers often have a deep understanding of the market nuances necessary to best serve fintech developers. We've invested in and already work with partners in our Europe and Asia Pacific region.

The combination of our global footprint, our unmatched reliability, our trusted brand, strong financial institution relationships, our portfolio of value-added services and, lastly, the broad array of money movement capabilities available through our Network of Networks makes us a very attractive open banking partner around the world. As always, we will continue to keep you updated as we make progress realizing the vast opportunities ahead.

Before I turn it over to Mike, I'd like to thank Zach Perret and the entire Plaid team. We continue to be so impressed with the company they've built and the depth of talent. And we look forward to continuing to work together as an investor and a partner to enable more innovation for fintechs.

With that, let me turn it back over to Mike.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Thanks, Al. Michelle, we're ready to take a few questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] To ensure all questioners are heard, we ask that you please limit yourself to one question. [Operator Instructions] Our first question comes from Sanjay Sakhrani. You may go ahead.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. I guess, my question is whether or not you might consider other acquisitions of open banking players and maybe how significant do you think your strategy to capitalize on the opportunity that you have with Plaid is impaired as a result of this deal not happening? Thanks.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

A

Sanjay, thank you. Look, we obviously really like Plaid. We like the company. We like the people. We like the capabilities. But we believe that we've got the assets and the capabilities and the experience to move on and approach things in different ways. I certainly am not going to comment on specific acquisitions, but I'd remind you that what our approach is that our first choice is always to do things organically where we can. Then we look to partner where we can find a good complementary company. And lastly, we look to acquire companies that can bring capabilities to Visa.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks.

Operator: Thank you. Our next question comes from Lisa Ellis. You may go ahead.

Lisa Ellis

Analyst, MoffettNathanson LLC

Q

Terrific. Thanks and thanks for doing this call on short notice. Can you just – I guess, presumably as this deal has gone away, you've sort of reset your overall fintech strategy. Could you just kind of quickly re-summarize for us how you're thinking about how Visa serves fintechs more broadly all over the world especially in light of how much explosive growth we've seen in that space over the last nine months?

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

A

Well, Lisa, fintechs have been very important to us for probably the last three years. And we've been very engaged with them in terms of working with them in some cases as clients, some cases as partners. We have adapted as we've talked in the past about our Fintech Fast Track program where we bring fintechs into the Visa network in much faster, less bureaucratic ways than we might have gone with other players. And so I certainly

feel very, very comfortable that we've got a good position with fintechs and a number of good programs in place to make sure that we stay very, very attractive and competitive in that space.

If I come up on a level above that, which I think you might have been implying, I think we have a terrific Network of Networks strategy and a great array of assets. And we've already immersed ourselves in money movement both on and off the Visa network. And I think that takes a number of capabilities that I alluded to in my remarks, infrastructure security and innovative and high-quality services. And we're going to continue to – it's going to be – continue to be part of our plan to make sure we deliver payment initiation and value-added services to fintech developers globally for non-card and card and RTP payments and money movement.

So I believe that we are – well, it was a terrific asset. It would have been nice to have it in our fold. The reality is that we're making a judgment that there's plenty of opportunity in this very fast moving space and we're just going to move on with life and take advantage of these other opportunities rather than get bogged down in a long drawn out process that's already been long, never mind how much longer it would go.

Lisa Ellis

Analyst, MoffettNathanson LLC

Q

Thank you.

Operator: And our next question comes from Dan Perlin. You may go ahead.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Thanks and good evening. Obviously a disappointing outcome for you guys, but I just had kind of just – it's a little bit of a two-part question. One is, are there opportunities to create maybe a more meaningful commercial agreement with Plaid that could ultimately drive some similar outcomes? And then, secondly, the Department of Justice complaint clearly suggests rightly or wrongly that there's some possible anticompetitive concerns around it. And I'm just wondering how that influences the way you look at opportunities both in the United States and maybe abroad. Thank you.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

A

Well, thanks, Dan. A few things – a few questions there. So, first of all, there's no question that we have many opportunities to partner with Plaid because we have complementary capabilities, which was a lot of the basis for this deal in the first place, and we are and will be discussing them with them. I think, for example, we'll work with them in thinking about how to approach fintechs to have them be involved with both of us, Plaid to distribute or make available Visa value-added services for the clients, Visa could offer payment facilitation capabilities to Plaid clients. So there's a number of things that we have already begun and we'll continue to be discussing with them.

Relative to the DOJ's claims of debit monopolization, we just believe that the lawsuit is wrong on the basis of facts and the basis of law. And the reality is that the debit market is highly competitive and highly complex. Our debit business faces intense competition from a variety of players, including 10 different debit networks, and we face vigorous competition from other form of payments including cash, checks and credit.

And as it relates to other acquisitions, we believe, absolutely, we've made five acquisitions in the last 18 months. We got – everybody's got to bear in mind this is a single lawsuit from a single regulator about a very specific M&A transaction. So, I don't have any worries that we have the ability to do what we need to do whether organically, in

partnership with Plaid or with lots of other players or by buying things that – via the capability to do what we need to do to continue to grow the business.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

Operator: Thank you. Ashwin Shirvaikar, you may go ahead, sir.

Ashwin Vasant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you for taking the question. Yes, I was hoping to get maybe an example of what you might not be able to do with Plaid as a partner that you could have done with Plaid as a part of Visa. And then, separately, were there any financial costs to it? It's a mutual combination obviously. So I just want to go figure out the financial costs of walking away.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Okay. Look, we view Plaid as another network. They happen to be a network where the fuel is data, whereas we move funds. So, obviously, by not owning Plaid, we won't have the ability to kind of have that data movement network under our roof as a potential revenue stream. But we're going to be able to work with Plaid and other data extraction players around the world to be able to replicate the capability that will allow us to get in the middle of other aspects of, for instance, a capital account movement, whether that's the actual movement of funds or selling value-added services. So, I think, in general, from a capability standpoint, we'll be able to have alternatives to what Plaid would have been able to offer us. It's just that we won't have it as a specific business line.

As it relates to your second question about termination, there's no termination fees out to either – by either party to either party. Vasant, [ph] you want to (14:02) add anything?

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

A

No. There's no payments required by either side. So there's no financial cost to the termination.

Ashwin Vasant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thank you for that.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Michelle, we'll take one more question.

Operator: Thank you. Our next question comes from Darrin Peller. You may go ahead. [indiscernible] (14:22)

Darrin Peller
Analyst, Wolfe Research LLC

Q

Thanks. I'd love to just hear if you could reiterate your strategy in terms of international versus domestic and open banking given there are some differences on RTP and different frameworks. And if we looked out two to three years from today, how much of a bank funding model into wallets and those used at the point of sale, like, what kind of part of the ecosystem do you anticipate that being, and then maybe just explain where you are going to be positioned in that just for everyone to hear? Thanks again, guys.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

A

Well, Darrin, I think that – first of all, open banking is really very new and it's in its very early stages of creating use cases. The most likely use case is account-to-account money movement, and we feel like we're quite well positioned in that space. Well, clearly, Plaid would have diversified our offerings and enabling data availability. We can get there in other ways as I think I might have said in responding to one of the earlier questions. We could partner with Plaid. We can work with other data extraction players around the world and we can work directly with fintechs.

And it is our belief that there are a number of very good financial data networks around the world who have a local nature to what they do and, therefore, understand the nuances of those particular markets. And we have – we will be engaging with them to see how we might work together with them as the data extraction piece.

And then in terms of actually moving and enriching money movement, we're going to continue to pursue our broader strategy of being able to offer core services both on our networks and on RTP systems. And as we said about RTP systems, we're not interested in the core infrastructure. We're focused on the application and service levels where – layers, I should say, where I believe the value lies.

And we have a lot of excellent capabilities to offer there, some supported by our acquisitions. Bell ID's tokenization capabilities will allow us to tokenize bank accounts. Verifi will provide dispute capabilities. Our CardinalCommerce business will provide authentication capabilities. We also have loyalty security analytics services we can offer. And even the recent acquisition we made of YellowPepper is going to provide a way for financial institutions to much more easily access our capabilities.

So we believe that the only thing that – in essence, that we wouldn't have in one-stop shopping by owning Plaid is some of the data extraction elements of this, but we could get there in other ways, as I described.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Okay. All right. That's helpful, guys. Thanks, Al.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

A

Thanks.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

So, again, thank you for everybody for calling in on short notice. And we look forward to talking to you in a couple weeks on our Q1 earnings call. Mike?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Yeah. Thank you for joining us today. If you have additional questions, please feel free to call or e-mail Investor Relations team. Thanks again and have a great evening.

Operator: And thank you. This concludes our conference call. You may go ahead and disconnect at this time.

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