

24-Oct-2018

# Visa, Inc. (V)

Q4 2018 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Visa fiscal fourth quarter and full-year 2018 earnings conference call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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.

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**Mike Milotich**

*Senior Vice President-Investor Relations, Visa, Inc.*

Thank you, Katie. Good afternoon, everyone, and welcome to Visa's fiscal fourth quarter and full-year 2018 earnings call. Joining us today are Al Kelly, Visa's Chief Executive Officer, and Vasant Prabhu, Visa's Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at [www.investor.visa.com](http://www.investor.visa.com). A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website.

Let me also 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.

Historical non-GAAP financial information disclosed in this call to related GAAP measures and reconciliation are available in today's earnings release.

And with that, let me turn the call over to Al.

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## Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

Mike, thank you and good afternoon, everyone, and thanks for joining us today.

Our performance remained strong in fiscal fourth quarter. Revenue growth was 12%, as all our key business drivers remained robust despite the stronger dollar. Payments volume growth on a constant dollar basis of 11% was right in line with last quarter, with strength in the U.S. offsetting a slowdown in dual-branded card volume in China. Excluding China, our payment volume growth would have modestly accelerated versus the last quarter.

Cross-border on a constant dollar basis was 10%, same as the prior quarter. Processed transaction growth was consistent with last quarter at 12%. Expense growth, adjusted for a donation of available-for-sale investment securities to the Visa Foundation, was 12%, primarily driven by personnel-related investments.

Adjusted EPS growth was 34%.

We also returned approximately \$2.1 billion of capital to shareholders in the quarter, consisting of \$1.6 billion of share repurchases and \$500 million through dividends.

Looking back on this entire fiscal year of 2018, our global leading network connecting issuers and merchants got stronger on a number of dimensions. The number of cards, including virtual cards, increased by about 80 million to 3.3 billion. Total Visa volume surpassed a record \$11 trillion, driven by 182 billion transactions, or an average of 500 million transactions every single day during fiscal 2018.

Payments volume totaled over \$8.2 trillion, increasing by almost \$900 billion year over year. Our payments volume growth was strong across the globe, with double-digit growth in constant dollars in all regions except Europe, which grew at 9.2%. And with our payments volume growing twice as fast as global PCE, Visa's penetration of global purchased PCE increased by 0.5 point to over 16% this year. Transactions processed totaled \$124 billion, up 12%, lifting our processing penetration by 1 point globally.

A very important part of measuring the health of our network is found in the activity and results relative to merchants and issuers. In 2018, merchant locations increased by 7 million or 15%, reaching a total of 54 million locations globally. And relative to issuers, deal activity picked up in Q4, particularly in Europe, where we completed the shift to commercial client contracts. Beyond Europe, during the full year we completed new agreements with clients, driving roughly 15% of our total payments volume.

By the way, in fiscal 2019, we're expecting more deal activity with new agreements for clients who drive roughly 20% of our global payments volume, including Europe. The fact that 20% of our volume is up for renewal is not surprising given that our typical contract length is five years.

Now let me talk about how we've expanded our breadth and reach in 2018, which has set us up well for the future. I will share a few highlights from across the globe and then provide insights into how we are driving growth into our digital solutions, accelerating adoption of our acceptance technology, and expanding into new key segments.

So let me start with some regional highlights, starting in Europe. The technical migration to our global VisaNet platform was completed in late September, with the authorizations components finished following the clearing and settlement migration, which completed in the first quarter. Our European clients have now access to all our global capabilities. In fact, more than 60 clients are already utilizing at least one of our advanced risk services, having just completed the migration. This was a very large effort that required sustained vigilance on our part to ensure there was no disruption to our clients. So we really couldn't be happier about the execution, and we're now moving forward with one global platform.

Our European clients also now enjoy the highest level of security and protection from our global cybersecurity systems and processes. In fact, earlier today we inaugurated our Cyber Fusion center in London, making it our second fusion center globally.

The conversion of the European client contracts to commercial incentives is now officially complete, as we signed the last remaining deals during the quarter after agreeing to terms earlier in the year. We are very pleased with the outcome of this effort, as there was a lot of risk in opening well over 100 client contracts in such a short period of time. As we have said previously, the amount of business we retained was better than we expected at the time of the acquisition.

As we get past the integration, one of our priorities in Europe is gaining momentum with FinTechs by moving faster, being more flexible, and establishing an investment fund to provide financial support. This quarter, we are beginning to have more success with FinTechs both in terms of signings but also agreements still to be contracted. We signed agreements this quarter with Revolut, YAYA in the UK, Solaris in Germany, and G2A in Central Eastern Europe.

Let me now move to Asia-Pacific, where Q4 was an active quarter for deal renewals and wins across the region. A few examples include NTUC FairPrice co-brand, which is Singapore's largest supermarket chain, The Mall Group co-brand, one of Thailand's largest retailers, and the AirAsia co-brand in Malaysia.

In New Zealand, Kiwi Bank selected Visa as its long-term exclusive partner for all its payments products, which brings us to four of the top five issuers now exclusive long-term Visa partners in that market.

In China, we renewed the dual-brand card relationships with China Construction Bank and CITIC Bank, as well as we won the new prepaid deal with Ctrip.

Building a new debit business in Japan continues to be one of our top priorities for the region given the size of the opportunity. We now have over 8 million debit cards in the Japanese market, up over 40% since last year, across 23 different issuers.

In India, we renewed deals with many of the leading banks in the market, including the State Bank of India, HDFC, ICICI, Axis Bank, and Kotak Mahindra. And we are confident that these deals will contribute to further strengthening of our market leadership position across debit and credit products.

Regarding the India data localization mandate, over the last six months Visa has been working towards implementing a solution to comply with the RBI's requirements. As of October 15, we are storing data locally, where we can also facilitate the RBI's requirement of access to Indian cardholder payment transaction data. We have submitted a detailed status update and action plan to the RBI, including how we will re-architect our existing global processing systems to fully comply with the data only-in-India requirement. Our technology teams are working virtually around the clock to complete our solution with minimal impact to our clients and our cardholders.

In Latin America, we also had several co-brand wins, including Decolar in Brazil, which is the largest online travel agency in Latin America, with an affluent customer base. Also in Brazil, we signed 10-year agreements with Bradesco, one of our largest issuers in the market, and CREDZ, a processor and local private label brand that will convert about 1 million cards to Visa contactless.

In Argentina, one of our largest markets in Latin America, we will begin processing 100% of our domestic transactions in January of 2019. This enables us to provide all of the value-added services, cyber capabilities, and network reliability to our clients in addition to future innovations that we will add to our global platform. Adding all of Argentina to VisaNet will increase our processing penetration of domestic transactions in Latin America by more than 10 percentage points.

And finally, one quick but important point on CEMEA, airline co-brands are an important portfolios in the Middle East to capture the travel of the most affluent consumers. This quarter we had a number of wins, including Emirates in the UAE and Saudi Arabia, as well as the HBL Qatar Airways portfolio in Pakistan.

Now let me turn away from the regional updates and give some insights into how we're driving growth in our network using our digital solutions. Let me start with Visa Direct, which is one of the key ways we're capturing new incremental payment flows. Global growth continues to be over 100% this quarter, fueled by increased activities by end users as well as continued expansion of our reach and our scale. Our 2 billion-plus Visa debit credentials globally enabled us to execute Visa Direct transactions in more than 150 countries this fiscal year.

But it's also important to note that the speed of funds within our total reach is very important, with payment originators automatically leveraged when issuers move their credentials to Fast Funds. We are quickly increasing the number of issuers moving to real-time, adding Spain and Ireland this quarter, for a total of over 70 countries where Fast Funds are enabled. In the UK, Barclays moved to Fast Funds, allowing participating Barclays cardholders in Visa Direct programs access to money real time.

In our goal to expand our reach, we will continue to look for opportunities to access accounts not directly linked to a Visa credential. To that end, our most recent expansion is with our Plus interbank ATM network, which is leveraged by many non-Visa bank issued ATM cards.

TD Bank Canada was the first bank to enable its Plus debit credentials to receive Visa Direct deposits on non-Visa credentials. This is a great first step. As other Canadian issuers enable this expanded reach, we can serve most of the Canadian bank population of consumers and small businesses.

We are then building upon Visa Direct's unique reach by rapidly scaling solutions through use case expansion and large platform enablement. We continue to deepen our penetration of existing verticals, including property and casualty insurance, where our clients enhance their customers' experiences. This category represents \$330 billion in claims payments, approximately 45% of which are by check today in the United States. This past quarter we signed new partnerships with a couple of insurance companies to enable more real-time disbursements to their customers.

There are also many use cases that support the gig economy. For example, we partnered with PayActiv, one of the largest gig economy earned wage access providers, to incorporate Visa Direct as a real-time payroll option. Given the growth in the number of workers participating in the gig economy, we believe this is a big opportunity, since many employees in the gig economy want access to their wages as they are earned.

Visa Direct's distribution model also scales quickly in partnership with platform providers around the world. As you probably know, Visa Direct is powering many of the P2P solutions globally. And another new example is Samsung's recent launch of P2P payments in partnership with VTB Bank in Russia, providing a seamless customer experience for making payments as well as sending and receiving money.

Another example of platform partners is in India, with Paytm and PhonePe, both leading mobile payment apps, who have activated credit card bill payments on the Visa Direct platform, enabling over 100 million mobile app customers.

We recently announced the commercial expansion of the Visa Token Service for 20 credential-on-file token requesters, which we believe is a significant step in further securing customer payments in the digital channel. These leading acquirer gateway and technology partners include Adyen, Braintree, PayPal, CyberSource, Elavon, Square, Stripe, and Worldpay, just to name a few. And they will tokenize credential-on-file digital payments on behalf of their merchant and payment clients.

In addition to reducing fraud risk by not exposing cardholders' more sensitive account information, we're focused on improving card-not-present authorization rates that, frankly, continue to be too low. Visa tokens also allow issuers around the world to push dynamic updates on lost, stolen, or expired credentials to enable a frictionless merchant and customer experience. So Visa now has over 60 global token requesters across 40 markets on our token platform.

Last week, a significant milestone was reached for secure remote commerce after EMVco published a draft of the technical specifications. This now enables the ecosystem to begin building to the standard while also allowing merchants and issuers a feedback period before the final specifications are published in about two months' time. The specifications for branding and the user experience are still expected to be published in early 2019. We again are working closely with partners such as Adyen, Braintree, CyberSource, Stripe, and Worldpay to activate the ecosystem for the initial launch of secure remote commerce in mid to late 2019.

Now a few quick updates on the adoption of our acceptance technologies, including contactless and scan-to-pay. Let me start with contactless or tap-and-pay adoption, which continues to grow rapidly, as it is a better consumer and merchant experience than paying with a dip, swipe, or scan. One in four domestic face-to-face transactions that run over our network globally are now contactless. If you exclude the United States, domestic contactless penetration is over 40%, which is up over 12 percentage points in the last year and up almost 4 points versus the last quarter.

More than 20 countries have increased their domestic contactless penetration by more than 20 points since last year, led by Russia, which is up 38 points to over 50%. During the FIFA World Cup, contactless payments accounted for 45% of all Visa purchases across the 11 host cities in Russia.

The U.S. market is poised for significant contactless growth over the coming year. There are a few facts to note. Number one, on the acceptance side, in the past three months several of the largest merchants have enabled contactless in their stores, including 7-Eleven, CVS Pharmacy stores, and Costco. Over 70 of the top 100

merchants by transactions now accept contactless, an increase of more than 20 in the past year. Additionally, over half of all face-to-face transactions now occur at a contactless-enabled merchant, up from over a little bit around one-third of all merchants a year ago.

On the issuing side, several of our largest clients will begin issuing contactless cards over the next few quarters. We expect that there will be over 100 million Visa contactless cards issued in the United States by the end of 2019.

Costco is a good example of the potential impact when both the issuing and acceptance come together, since the Citi-Costco co-brand card is contactless-enabled. Over half of in-store payments at Costco on their co-brand card are now paid with a tap after Costco enabled contactless payments just in mid-August of this year.

Establishing scan-to-pay acceptance and cardholder usage is progressing very well. As we discussed in prior quarters, India is our largest market, where we now have over 700,000 scan-to-pay acceptance points.

But we're also seeing momentum in a number of markets in the CEMEA region. In Tanzania, this quarter we signed a deal with Halotel, a leading mobile network operator, to put Visa credentials into their mobile phone wallets. We also launched scan-to-pay in Pakistan with HBL, the country's largest issuer and acquirer, with 50,000 consumers being enabled in the first few days. And they have plans to make the solution available to almost 1 million customers and thousands of merchants in the coming months. In Kazakhstan, we partnered with a leading mobile network operator to introduce cashless ticketing in 3,000 public transport buses across four cities.

Lastly, we continue to expand into new segments, and B2B is our top priority. Specifically, we continue to innovate and grow our B2B payment offerings across both core card solutions and expanding to new payment flows. In terms of core card solutions, we remain the global leader, but there still is tremendous opportunity for growth. Our B2B payments volume was \$950 billion, or over 11% of our total payments volume this fiscal year, and the growth has been accelerating into the mid-teens in the past two quarters.

Let me also share three examples of new payment flow opportunities we're capitalizing on in the B2B space. One, we continue to expand our virtual card business, including a partnership with Nexus to enable their clients, who are typically real estate property managers, to pay suppliers more quickly, safely, and conveniently by using Visa virtual cards.

In Russia, we signed a new partnership agreement with Sberbank to support their growth in the small business and enterprise segments and maintain their leadership position in B2B in Russia. This is an example of partners seeing the value in differentiating to small businesses rather than just offering them a consumer card option.

We continue to enhance and scale our B2B Connect solution. In addition to Visa virtual card being a payment option that are offered to Bottom Line's clients, we've extended our partnership with Bottom Line to enable B2B Connect as a payment option for large-ticket cross-border payables. We're also launching a digital identity solution that tokenizes an organization's sensitive business information, such as bank account numbers, giving them a unique identifier that could be utilized for their B2B Connect transactions.

There were two other notable events in the quarter. The first, we reached a settlement with the damages class on the U.S. MDL lawsuit in September and have submitted it to the court for preliminary approval, which we expect to take a few months. There will be a period for merchants to opt out or object. But assuming the court assesses the settlement to be fair and reasonable, we expect formal approval to take at least a year to be in place. This

settlement does not resolve the injunctive relief class claims seeking modifications to network rules. We are certainly pleased to be making progress, but it's hard to say when the MDL litigation will actually conclude.

For more than 30 years, Visa has been a proud sponsor of the Olympic Games, and this quarter we renewed our partnership through the 2032 games, which includes the upcoming venues of Tokyo, Beijing, Paris, and Los Angeles. The Olympic Games provides an unparalleled opportunity to promote the Visa brand at a regional and global level while also facilitating partnerships and joint business initiatives with clients that come to life through cobranding and/or client usage of Olympic IP. The world's largest sporting event also provides a unique platform for showcasing product innovation and launching new business initiatives.

So fiscal 2018 was a great year where we delivered strong business driver and financial performance while also advancing key initiatives that will drive future growth such as Visa Direct, B2B, contactless, and digital solutions. We also successfully concluded the major aspects of the Visa Europe integration with the completion of the platform migration and the shift to commercial client contracts.

However, fiscal 2018 is behind us now, and we are totally focused on 2019. Our financial outlook for fiscal 2019 includes annual net revenue growth of low double digits on a nominal basis, with approximately 1 percentage point of negative foreign currency impact, and a de minimis impact from the new revenue accounting standard. And we look for mid-teens earnings per share growth on a non-GAAP nominal dollar basis, also including approximately 1 percentage point of negative foreign currency impact.

To share more of our details on our results and more on our 2019 outlook, I'll now turn it over to Vasant.

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## Vasant M. Prabhu

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

Thank you, AI, and good morning, everyone. Good afternoon, everyone.

We had a strong finish to fiscal year 2018. On a GAAP basis, fiscal fourth quarter net revenues were up 12%, and EPS was up 37%. Adjusted to exclude a special item, EPS grew 34%, which includes a 10 percentage point benefit from the impact of U.S. tax reform. Exchange rate shifts versus the prior year were a drag on net revenue growth of almost 50 basis points and EPS growth of approximately 1 percentage point.

Full-year net revenues of \$20.6 billion were up 12%. Net income on a GAAP basis was \$10.3 billion, and EPS was \$4.42.

On an adjusted basis, net income for the full year was \$10.7 billion, up 29%, and EPS was \$4.61, up 32%. The adjustments for each quarter are described in our earnings release.

On a full-year basis, U.S. tax reform contributed 10 percentage points to net income and EPS growth. For the full year, exchange rate shifts added 1 percentage point to net revenue growth and 1.5 percentage points to EPS growth.

A few other points to note, in the fourth quarter, we donated available-for-sale investment securities to the Visa Foundation. Our adjusted results exclude this special item, which is \$195 million of non-cash G&A expense as well as the realized gain in non-operating income/expense and the tax benefit associated with the charitable contribution.

Growth remained steady across business drivers, with little change relative to the third quarter. On a constant dollar basis, payments volume grew 11% and processed transactions grew 12%.

Cross-border volume grew 10%. As a reminder, Q3 cross-border volume growth of 10% was reduced by 1 percentage point due to lapping a settlement delay in Europe last year. As the dollar strengthened, cross-border growth decelerated through the fourth quarter in some corridors, particularly commerce inbound to the U.S.

As the dollar rose, the currency translation impact on net revenue growth swung from the 150 basis point tailwind we enjoyed in the third quarter to an almost 50 basis point headwind in the fourth quarter, contributing a 200 basis point slowdown in reported net revenue growth trend. In addition to a strong dollar, this significant shift was driven by a sharp weakening in many emerging market currencies, in particular the Argentinian peso, the Turkish lira, and the Brazilian real.

For the full year, exchange rates increased net revenue growth by approximately 100 basis points. However, based on current exchange rates and the forward curve, the currency translation impact is expected to be a 100 basis point headwind in fiscal year 2019.

At the end of the second full year of our ownership of Visa Europe, results are tracking well ahead of our acquisition model. Cumulative EPS accretion is over 10% two years ahead of expectations. We have also completed the two most significant and complex aspects of the integration, the technology platform migration and the restructuring of major client contracts to competitive commercial terms.

In Q4, we repurchased 11.5 million shares of Visa stock for \$1.6 billion, at an average price of \$142.84. For the full year we repurchased a total of 57.5 million shares for \$7.2 billion, at an average price of \$124.25.

In addition, in June 2018 we funded the litigation escrow account with an additional \$600 million. As a reminder, funding of the escrow triggers a conversion rate adjustment of Class B common stock to shares of Class A common stock, which has the same effect on EPS as repurchasing \$600 million of Class A common stock.

In fiscal year 2018, we paid \$1.9 billion in dividends. Our board has authorized an increase of 19% in our quarterly dividend to \$0.25 per share per quarter.

Moving on to the quarter's business drivers and our financial results, I'll keep my comments on fiscal year 2018 brief and spend most of my time on our outlook for fiscal year 2019. Payments volume momentum continued, with 11% growth in the third quarter for the third quarter in a row. U.S. payment volumes grew 12%, fueled by 12% debit growth. Debit growth was driven by Visa Direct as well as robust consumer spending across most retail categories.

International payment volumes in constant dollars grew 11%, with 1 point of deceleration primarily due to the runoff of dual-brand portfolios in China. In addition, acceleration in India and southern Europe was offset by slower growth in the UK and Australia.

Global cross-border volumes grew 10% on a constant dollar basis. Inbound commerce to the U.S. slowed with the strengthening of the U.S. dollar, falling to mid-single digits after two quarters of double-digit growth. Cross-border commerce growth in Europe remained strong and stable. Outbound commerce from the U.S. accelerated, while growth in outbound commerce from Canada, Latin America, and China slowed.

Transactions processed through VisaNet grew 12%, in line with the prior three quarters. Through October 21, U.S. payments volume growth was 11%, with U.S. credit growing 11% and debit 12%. Cross-border volume on a constant dollar basis was up 11%, and processed transactions grew 12%.

Net revenues in the fourth quarter grew 12%. Data processing revenue benefited from the pricing which went into effect in the third quarter, growing 16%. International revenue grew 10%, with benefits from Q3 pricing actions offset by the impact of shifting exchange rates and lower currency volatility.

Service revenues grew 10%. As a reminder, service revenues are recognized with a one quarter lag and reflect third quarter exchange rates. Other revenues grew 13%.

Client incentives stepped up from 20.8% of gross revenue in the third quarter to 21.7%, as we signed several large deals. However, client incentives were lower than we had anticipated due to some contract signing delays. This delay was due to complex deals where the terms were agreed but multiple contracts needed to be finalized and signed in order to recognize the incentives. As a reminder, Q4 last year was a very active quarter of contract renewals in Europe, China, and Russia. As a result, year-over-year growth in client incentives is lower this quarter than in prior quarters of fiscal year 2018.

Moving to expenses, GAAP operating expenses were up 23%. Adjusted to exclude the special item previously noted, operating expenses in the fourth quarter grew 12%, largely driven by personnel costs. As we have mentioned in prior quarters, personnel increases were driven by higher head count dedicated to our investment initiatives as well as higher incentive compensation resulting from our operating performance in fiscal year 2018. Also, as you know, we increased our contribution to employee 401(k) plans in the U.S. and acquired Freedom earlier this year. In addition, we recorded a severance charge in the fourth quarter for adjustments we are making in various parts of our global organization structure.

Expense growth in other categories was higher than our prior outlook, as we made additional marketing investments, primarily around the very successful FIFA World Cup finals in Russia and also had several non-recurring items in the quarter, including a litigation settlement.

Our fourth quarter tax rate was 19.6% on a GAAP basis and 21% adjusted to exclude the tax benefit associated with our contribution to the Visa Foundation. Adjusted EPS was \$1.21, up 34%. Exchange rate shifts reduced reported Q4 EPS growth by almost 1 percentage point.

For the full year of fiscal 2018, net revenues were \$20.6 billion, up 12%, including approximately 1 percentage point positive currency impact. Full-year adjusted EPS was \$4.61, up 32%, with a currency tailwind of approximately 1.5 percentage points. As mentioned, U.S. tax reform contributed 10 percentage points to EPS growth.

With that, I'll move to our outlook for fiscal 2019. Overall, our net revenue outlook for fiscal year 2019 assumes current trends and key business drivers remain largely intact through the year, with the currency translation impact shifting from a tailwind to a headwind. Double-digits payment volume growth is assumed to continue in most parts of the world.

In North America, growth rates are expected to slow down in the second half as we lap strong debit growth in fiscal year 2018 as well as the higher gas prices. International payments volume growth is forecast to stay strong and stable. Share gains in several markets are offset by slowing dual-brand issuance in China.

As always, cross-border growth is harder to forecast as we look four quarters out. Exchange rates, geopolitical factors, and macroeconomic shifts will drive variability. Assuming current exchange rate expectations and no significant changes on other fronts, our outlook forecasts a continuation of double-digit growth rates. There is an expectation that the dollar will weaken in the second half, driving an improvement in cross-border commerce inbound to the U.S. Pricing actions which become effective in the third quarter of fiscal 2019 will also help drive second half international revenue growth rates higher than the first half.

Processed transaction growth remained stable and healthy throughout fiscal 2018. Our outlook assumes that steady growth will continue through fiscal year 2019. Data processing revenue growth rates are expected to be higher during the first half due to the pricing actions in fiscal year 2018, with a dip in Q3 as we lap these actions.

On the client incentive front, we ended the year with incentives in the fourth quarter as a percent of gross revenues at 21.7%. Our outlook for fiscal 2019 is a range of 22% to 23%. The step up in incentives as a percent of gross revenue is driven by the full-year impact of renewals and new deals signed in fiscal 2018 as well as renewals and new deals that we anticipate signing in fiscal year 2019. Globally, we have a large number of renewals. As AI indicated, around 20% of our global payments volume is slated for this coming fiscal year.

Based on our current expectation for the timing of client renewals, incentive growth rates are expected to be higher in the second and third quarters of fiscal 2019 and lower than the full-year growth trend in the first and fourth quarters. We will, of course, provide updates as the year progresses. As you know, we make our best estimate for the terms and timing of renewals for the upcoming year, but client-specific considerations will determine actual outcomes.

In terms of the currency translation impact, based on current rates and forward expectations, we project a 100 basis point net revenue headwind for fiscal 2019. This drag will be greater in the second and third quarters as we lap the tailwinds we enjoyed in fiscal year 2018. And if forward curves are to be believed, the drag will be the lowest in the fourth quarter of fiscal 2019.

When you put all this together, our outlook is for low double-digit nominal net revenue growth in fiscal year 2019. We currently anticipate the impact of the new accounting standard on net revenue to be de minimis.

If you incorporate what I just walked through, it becomes evident that the cadence of net revenue growth is not steady through the year. The highest growth for the year is likely in the fourth quarter and the lowest growth rate in the second quarter. In the second quarter, net revenue growth could be in the high single digits, impacted by higher incentive growth, a larger exchange rate drag, as well as lapping higher currency volatility in the second quarter of fiscal 2018. The fourth quarter benefits from fiscal year 2019 pricing actions as well as a lower drag from both incentives and exchange rates.

On the expense front, we continue to invest in our business, partially funding these investments by shifting resources from lower priority areas and from savings we derive from better purchasing as well as other efficiency programs. In aggregate, fiscal year 2019 operating expense growth adjusted for special items in fiscal year 2018 is projected to be in the mid to high single-digit range. This includes approximately 1.5 to 2 percentage points of additional reported expenses from adopting the new accounting standard.

Expense growth cadence through the year will also fluctuate. Adjusted expense growth will be in the double digits in the first quarter, in line with recent trends, and then step down to mid-single digits for the remainder of the year.

In fiscal year 2018, expenses were lower in the first quarter for several reasons. Personnel expenses ramped up through the year, as we added resources to drive our investment initiatives. Incentive compensation accruals also stepped up through the year, in line with our operating performance. Also, the additional 401(k) contributions and Freedom expenses started in the second quarter of fiscal 2018.

We had higher marketing expenses in the second to the fourth quarter of fiscal 2018 related to the Winter Olympics and the FIFA World Cup finals. In fiscal year 2019, marketing expenses are expected to be higher in the first quarter.

Network and processing growth rates were elevated during the second half of fiscal year 2018, as we ramped parallel Europe technology systems. This will continue into the first half of fiscal 2019 and will be lower in the second half as we complete the shutdown of the legacy Visa Europe backbone. Based on all of these factors, the adjusted expense growth rate is expected to be highest in the first quarter and lowest in the fourth quarter of fiscal 2019.

Some color on how the adoption of the new accounting standard, ASC 606, will impact our reported fiscal year 2019 P&L. Based on our assessment of existing contracts through September 30, 2018, we will re-amortize some upfront payments that we expensed in prior years. This increases client incentives and reduces reported net revenues. Offsetting this reduction is an increase to gross revenues related to certain programs like market development funds, almost all on the other revenue line.

Operating expenses related to market development funds will increase by the same amount, almost all on the marketing expense line, with no net impact on operating earnings.

Other effects that we have estimated are the amortization of upfront payments we might make for fiscal year 2019 renewals and new deals, which would have been expensed immediately under the old rules, which reduces client incentives. Finally, there are some client marketing expenses that we recorded on the incentives line and no longer in marketing expenses.

Our best estimate of the net of all this is a de minimis impact on net revenues, higher other revenues offset by higher client incentives, and a 1.5 to 2 point increase in operating expenses, almost all on the marketing expense line. As we have said many times before, this has no impact on the cash flow or economic value of our business. As required, we will report each quarter what the impact of ASC 606 was on our income statement.

Our adjusted tax rate for 2018 was 20%. This includes three quarters of impact of a lower statutory tax rate as a result of U.S. tax reform. Our FY 2018 tax rate also benefited from an audit settlement and the successful resolution of several state tax initiatives we have been working on for many years. Resolution of these items resulted in recording some benefits related to prior years, which will not recur. These non-recurring benefits lowered our tax rate in fiscal 2018 by 1.5 to 2 points. In fiscal year 2019, we will have a full year of lower U.S. corporate tax rate. We're awaiting final guidance from the Department of Treasury for the new provisions that go into effect in 2019, also known as the GILTI and FDI rules.

In fiscal year 2019, our tax rate will be lower by 1.5 to 2 points from a full year of the lower U.S. corporate tax rate and our best estimate for the impact of the new provisions. This will offset the loss of non-recurring benefits that were included in our fiscal year 2018 results. Hence, our outlook projects a fiscal year 2019 tax rate in the 20% to 20.5% range.

Putting all these components together, our outlook is for nominal EPS growth in the mid-teens on an adjusted non-GAAP nominal dollar basis. This includes approximately 1 point of negative foreign currency translation impact. With net revenue and operating expense growth rates fluctuating from quarter to quarter, EPS growth rates will too. EPS growth rate based on a combination of these assumptions will be in the low teens range in the second and third quarters and well above the mid-teens levels in the fourth quarter.

For the first quarter of fiscal 2019, our outlook is for nominal net revenue growth in the low double digits, double-digit operating expense growth in line with recent trends, and mid-teens adjusted EPS growth. As always, there are risks to monitor: exchange rate shifts of course; the possibility of a hard Brexit; economic dislocations like we had in Argentina and Turkey; geopolitical changes like trade wars, et cetera. As we normally do, we will update our outlook when we talk to you each quarter.

Moving on to capital, cash flow, dividends, and buybacks, capital spending in fiscal 2019 is likely to be around \$800 million. This includes capital associated with hardware, support growth, resiliency and cybersecurity, an upgrade of our data center in the UK, investments in other facilities, as well as capitalization of software from our technology development projects.

Based on our earnings outlook and capital spending plans, free cash flow from operations is anticipated to be in excess of \$13 billion. Most of this free cash flow will be returned to shareholders in the form of dividends and buybacks. In fiscal 2019, we anticipate returning at least \$11 billion to shareholders in dividends and stock buybacks. The Visa board has authorized a 19% increase in our quarterly dividend to \$0.25 for the first quarter of fiscal 2019, in line with our dividend policy. This puts our payout ratio in the 20% to 25% range.

In fiscal 2018, we completed additional buybacks to neutralize the impacts from stock issued to Visa Europe owners as part of the acquisition. In fiscal year 2019, we anticipate buying back at least \$8.5 billion of Visa stock.

As a reminder, we will hit the three-year anniversary of the Visa Europe acquisition in June 2019. In June we will be making a cash payment of a little over €1.1 billion to the former owners of Visa Europe, as per the terms of our acquisition agreement.

We should also point out that as interest rates have risen, we are earning more investment income from our cash balances, which offsets some of our interest expense. Both interest income and expense are recorded in non-operating income/expense.

In summary, as AI described with facts and figures, the Visa system continues to expand and thrive in a fast-changing payments landscape. As evidenced by our growth in fiscal year 2018, the opportunity to digitize cash in new and different ways has never been better. With a tailwind of strong global economies and robust consumer spending enhanced by the growth strategies that AI outlined, we look forward once again to delivering on the revenue and earnings growth you have come to expect from us.

With that, I'll turn this back to Mike.

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## Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

Okay. We're willing to run 10 minutes long, so we have more time for questions. So with that, we're ready to get started with questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you [Operator Instructions] Our first question today comes from Craig Maurer with Autonomous Research. Your line is now open.

Craig Jared Maurer  
*Analyst, Autonomous Research US LP*

Q

Hi, thanks for taking the time today, two questions. First, what gives you confidence that the U.S. dollar will start to retreat in the back half of the year next year to put that in the guidance?

And secondly, can you talk about yields on Visa Direct and push payments, as we hear a lot of Fast growth in that area going on globally from all networks? Thank you.

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

A

Craig, it's AI. I'll take the second question and I'll let Vasant take the first. We initially guided to Visa Direct heavily in the P2P space, where frankly, there's not a lot of economics. Our yields there tend to be less than we would get on normal Visa transactions. But as we move into some of these new use cases, we aren't expected to get yields that are similar to what we get in the typical pull transactions that we do today. Let me ask Vasant to talk about what our view is on the retreating U.S. dollar in back end of the year.

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

A

I don't think our crystal ball is any better than anybody else's, and so we don't really try to predict those things. We just look at forward curves and make some assumptions based on that. But the thing that happens, if in fact the dollar begins to weaken, let's say, in the second half, it will help us in certain corridors and it will hurt us in other corridors, and there's a net effect of that.

So even if it doesn't happen as might be projected by forward curves, there are normal balancing effects in the business. So it's not a one-way bet in a sense. So if the dollar weakens, clearly we benefit from a translation standpoint. We have given you our best guess of about 100 basis points of impact in net revenue. On the cross-border side, we would benefit with the inbound corridor to the U.S. But on the other hand, we will benefit in other parts of the world from the dollar weakening. So there's a lot of offsetting factors.

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

A

Next question?

**Operator:** Our next question comes from Tien-Tsin Huang with JPMorgan. Your line is now open.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Thanks a lot. You covered a lot of ground in the prepared remarks, it's useful. I wanted to ask on the revenue outlook. You're calling for low double-digit for fiscal 2019. At this time last year, you guided to high single-digit

growth, I believe, and you landed at 12%. So I'm curious why you're more optimistic this year versus last year. Is your visibility perhaps a little bit better? Is there a different level of conservatism maybe that you're baking in? Just curious to compare where you stand this year on your outlook versus this time last year. Thanks.

Vasant M. Prabhu

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

A

Sure, Tien-Tsin. As we normally do, we give you our best sense of the upcoming year based on the facts we have available at this point in time. And if you looked at where we were at the end of last year, clearly the strength of the U.S. consumer in particular ended up being stronger than we expected. As you saw, our debit growth was mid-single digits for quite a few quarters leading up to the year. And then starting in the second fiscal quarter of 2018, we jumped into the double digits and have stayed there.

So there were various elements of the business that clearly changed their growth trajectory after we gave you the outlook for the year. So you could say that things happened that were stronger than we expected. The global economy was stronger than we expected. In the second quarter and the third quarter in particular, the exchange rate tailwinds were stronger than we might have expected when we went into the year. So these things happen, and we update you as we learn them.

As we look ahead, again, we're doing the same thing. We're giving you the best sense we have of the business as we enter the year. And therefore, we give you as much color as we did as to what our assumptions are. Obviously, we'll update you as the year progresses.

I know some people try to read into what we say, things like oh, they're being conservative. They want to leave room to raise it in the future and all that. And as we've told you all along, we give you our best sense at any point in time. We are not trying to be overly conservative or otherwise, and this is our best sense as we stand today.

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

A

Next question?

**Operator:** Our next question comes from Don Fandetti with Wells Fargo. Your line is now open.

Donald Fandetti

*Analyst, Wells Fargo Securities LLC*

Q

AI, so it's pretty interesting to see double-digit revenue growth coming again this year for a company with a \$300 billion market cap. As you look out over the intermediate term and you think about revenue growth, the model, do you still see the same secular contribution coming through as payments move away from cash? Because sometimes it's hard for us to see when we might at a tipping point given a lot of new technologies and payment initiatives coming in.

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

Don, as you might guess, I'm not going to give a long-term forecast on revenue. We just explained how we got to the number for just this year and the assumptions in that. That said, I'm quite confident in the business over a long period of time, and we've got lots of different vectors on which I think we can continue to grow this business, whether it's by penetrating new payment flows, penetrating new segments, penetrating new geographies, bringing more of the unbanked around the world into the mainstream financial system.

I think some of these capabilities that we are developing in terms of things like Visa Direct, some of the technologies that I think are enabling a better user experience at the actual moment when a user uses a card, whether that's contactless or QR, and hopefully, in 2019, the big change in e-commerce as we move to secure remote commerce.

So I think that there are just a good number of growth vectors for this business that give me a good deal of confidence in our ability to continue to grow our volumes. And as we grow our volumes, obviously revenues should come along. And so I remain confident about the future of Visa in terms of the volumes we can deliver.

Vasant M. Prabhu

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

A

And just adding to that, we've historically talked a lot about you might call our traditional payment flows, which is the B2C – B2B business – I'm sorry, the consumer-to-merchant business, C2B. And as you know, we believe there's a lot of opportunity there to continue to digitize cash and increase PC penetration. But increasingly, as AI said, it's these new payment flows as we call them that are enabled by things like Visa Direct, which would be P2P, and disbursements, which is a B2C, that we're getting increasingly excited about.

And then of course, Visa Direct also enables many elements of B2B and G2C, government-to-consumer. And then B2B remains a huge opportunity. We are already close to \$1 trillion in payment volume there, and we would like to see it grow much faster than let's call it our core consumer to – C2B business.

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

A

Next question?

**Operator:** Our next question comes from Harshita Rawat. Your line is now open.

Harshita Rawat

*Analyst, AllianceBernstein L.P.*

Q

Hi, good afternoon. Thank you for taking my question. I want to ask about emerging markets. There appears to be a lot happening underground in some of these markets that government involvement needs domestic schemes in certain instances, almost a new Fast ACH and API infrastructure. So my question for you is how should we think about your ability to quickly adapt in these very rapidly evolving markets? And is there anything you need to do on the pricing partnerships on the technology front?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

Harshita, many of these emerging markets which are – where there's clearly lots of dynamics, as you talked about, Visa has been on the ground in these markets for in many cases multiple decades, and we've got experienced teams in those markets. And I think if I put China aside, where we actually still don't have a domestic license, but we look at some of the countries in Asia, some of the countries in South America, some of the countries in Africa, we I think have had a market leadership position, and we I think will continue to look to forge both good partnerships with people where it makes sense. The reality is the payments ecosystem is hugely about partnerships already. And I think as I look forward, there will be even more partnerships as some of the FinTechs really take hold and provide various value-added services.

We are committed to VisaNet. We think it is the best network in the world in addition to being the biggest in the world. We continue to invest in it in big ways and will continue to invest in it. That said, we are very pragmatic people. And to the degree that there are other rails that Visa transactions might – or Visa credentials might be used on where we can do something in partnership, where perhaps there are various value-added services we might be able to still provide, even if a transaction isn't running on our rails, we'll be committed to do that.

So I think that we are going down multiple paths where we're both trying to continue to strengthen the assets we have today, starting with our network, but also the investment in lots of capabilities we're doing. But we're also going to be smart about partnering where partnering makes sense. We're committed to try to be in the middle of as many payment flows as possible. And if we can control – if we can have the full control of that payment flow, great. If in some cases we're participating in it as a partial player, that's also fine as well.

So I think that we are well-positioned. If you work at India as one case study, that's a market we've been in for 35 years. We've got a big team on the ground there. And we continue to be the market leader even though there's lots of activity going on there in terms of both government intervention, as you talked about it, as well as new players that are emerging.

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Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

A

Next question.

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**Operator:** Our next question comes from Darrin Peller with Wolfe Research. Your line is now open.

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Darrin Peller

*Analyst, Wolfe Research LLC*

Q

Hey, thanks, guys. Look, I know there are some pricing initiatives at the company, and you touched on the anniversary of some in 2019. But maybe you could just help us understand from a cadence standpoint what kind of benefit we can have through the year.

And then, Al, just higher level, between Europe and other areas, do you see similar pricing opportunities in 2019 and 2020 that you saw in 2018? Especially on the back of your front-end integration being done now, do you have some room there? Thanks.

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

So, Darrin, I'd say two things. One is both Vasant and I have been clear about what we see in terms of pricing in Europe. The second thing I'd say is that we have had a longstanding policy of not getting involved, for many reasons, including competitive reasons, in forecasting specific pricing actions that we would take and where we would take them geographically and in terms of on the network. And I think we're going to revert back to not commenting on specific pricing plans on a going-forward basis. But obviously, that said, we recognize that it's an important lever.

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Vasant M. Prabhu

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

A

And our plans for 2019 include pricing. There's carryover pricing from 2018 that flows into the first half of 2019. And as I said in the comments earlier, we have some pricing coming in, in 2019. And so order of magnitude, across the whole business, there's about similar kinds of pricing between the two years.

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

Next question.

A

**Operator:** Our next question comes from Lisa Ellis with MoffettNathanson. Your line is now open.

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

Lisa?

A

Lisa Ellis

*Analyst, MoffettNathanson LLC*

Sorry, good afternoon, guys. My question is about Visa Direct. I like to see the strong metrics there year on year. Can you give an idea of – so you highlighted use cases associated with P2P disbursements, some B2B use cases. Can you give a sense for is there a pathway and what does it look like to using Visa Direct for things like bill pay or even more traditional merchant transactions, particularly in geographies where there are incumbent Fast ACH networks, where that type of push payment is already heavily in use for those type of transactions? Is that a focus area, and can you give a sense for what that timeline or that pathway looks like?

Q

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

So we already do, Lisa, have some bill pay use cases that are happening in different geographies around the world. And again, our view is that by reversing the typical way that our network works that we have lots of opportunity in lots of different use cases. And we've got a dedicated team that's spending a lot of time thinking about bill pay, P2P, disbursements, and faster payment to merchants. I think those are the four primary businesses that at the moment that we can see ourselves playing in terms of Visa Direct. And specifically on bill pay, I know both in Singapore and in India we have use cases going on right now.

A

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

Next question.

A

**Operator:** Our next question comes from James Faucette with Morgan Stanley. Your line is now open.

James E. Faucette

*Analyst, Morgan Stanley & Co. LLC*

Great, thank you very much. I just wanted to ask a point of clarification first on – I think, Vasant, you mentioned that there's 20% of your total volume that's up for renewal in 2018. You touched on its impact on incentives, but as a [ph] dull roar (1:02:12), how does that compare to previous years? Or at least what has been in the last few years by comparison, just to contextualize it a little bit?

Q

And then, Al, I wanted to follow up on the questions related to – on new technologies and partnerships. When you look at some of the things that you've rolled out like the recent announcement of B2B Connect, et cetera, how close are you working with your partners to visualize and then push the boundaries on new initiatives? And I'm

wondering how much is like being pulled from your partners as they look for opportunities. I'm just trying to get a sense as to how receptive the market may be to some of these new initiatives. Thanks.

Vasant M. Prabhu

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

A

I'll take the first one, and AI I think is going to answer the second one. In terms of the renewal tempo, FY 2017, fiscal year 2017 and 2018 was heavy in Europe. As AI was even saying, we opened up 100 contracts, more than 100 contracts and redid them, and you saw that in some of the client incentive movements. 2016, 2017, and 2018 in the rest of the world were somewhat lower than the 20% pace. So 20% inclusive of Europe is probably more of – a little higher than the last couple of years on a global basis, but 2015 was a bigger year from a renewal standpoint. So that gives you some flavor for it. Our average contracts run from three to seven years typically, so about five years is a decent estimate. The 20% is getting more to par for the course.

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

James, on the second question related to new technologies, first of all, I'd say that we try to be very client and consumer/business owner-centric in all we do. We don't just try to come up with capabilities and technologies for the sake of having them. We want and are only interested in creating capabilities and products that we think solve a particular problem or fill a particular need in the payment ecosystem.

That said, there are cases where we are sometimes being pushed by our clients to move faster, and there are cases where we're pushing or pulling our clients along, asking them to come along more quickly. And by the way, for the same capability or the same product, we can have each of those cases at different clients. So we could have some clients who we have to pull along and some who are pushing for us to move faster. So constant communication and an open stream of dialogue is critical in these cases.

And we try to sit with clients, particularly our biggest clients, and give them a sense of what's in our product pipeline, what are we thinking about over the next year or two, so that they have some transparency into what we're thinking. Because often we need them to come along, because often one of the things that is on the critical path of progress is them opening up their tech queues and making sure that they're doing whatever changes they need to make to accommodate some capability or product that we're putting into the marketplace.

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

A

Next question.

**Operator:** Our next question comes from Sanjay Sakhrani with KBW. Your line is open.

Sanjay Sakhrani

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thanks, a quick question on the China dual-card spending volumes. I was under the impression that the conversion to two cards had stopped. Is that not the case anymore because you guys mentioned that weakness?

And then secondly, on these tokenization partnerships, I guess when we think about what the longer-term or even intermediate-term benefits are, are there specific pilots that you will launch around those partnerships or any economic benefits?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

On the first question, Sanjay, there are definitely a good number of our Chinese bank partners. I don't know how many. We have 55, I think 56 China bank issuer partners, and a good number of them are still issuing dual-badged cards. So yes, that's still happening.

On the tokenization partnerships, look, this is something we're very committed to. We have always taken a lead in trying to make sure the payment ecosystem is as secure as it possibly can be. And getting to a point where payment credentials are codified in a different way using tokens versus the actual card number we believe is critical for the infrastructure.

My personal belief, by getting these large token requesters on board now and getting to the point where we have 60 very strong token requesters in 40 markets around the world is going to start triggering some key merchants to start moving to tokenizing their card-on-file pans from today. And I think like everything in life that this is one of those things that if we can build some momentum, which I think we can, that it will really start to take off.

But clearly, like everything, again, you need some tipping point where the momentum really starts to take off and you move from pushing an initiative uphill to watching it roll downhill. And I think in the case of tokenization, we're probably still trying to push it uphill a little bit, but I feel like we're close to the top of the hill, and we'll start seeing it roll down the hill as key merchants get enabled by these token requesters that we've recently signed.

Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

A

Okay, last question, Katie.

**Operator:** Our final question today comes from Moshe Orenbuch with Credit Suisse. Your line is open.

Moshe Ari Orenbuch

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great, thanks. Most of my questions actually have been asked and answered. But, AI, maybe you could just elaborate a little bit on the last point. What are the types of transactions that you wouldn't see running over the network today because of not having the tokenization partnership, and how would you see that developing over the next year or two?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

I think they're two unrelated things. Look, as big and as broad and as large as our network is, we are not connected to every single bank account around the world. And so I think that there could be cases, certainly as it relates to the movement in certain markets towards real-time payments, where we're doing something in partnership with another set of rails.

I think as we do that, one of the things we will bring to the party, among many capabilities that we uniquely have on our network, will be tokens. But there will be other capabilities that we bring along as well, including the fact that we're global, including the fact that we have rules that handle things like disputes and chargebacks, including the fact that we've got a great array of risk and fraud tools that we can bring to the party. So that's how I think about it, Moshe.

## Mike Milotich

*Senior Vice President-Investor Relations, Visa, Inc.*

We'd like to thank you for joining us today. If you have any additional questions, please feel free to call or e-mail our Investor Relations team. Thanks again and have a great day.

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**Operator:** That concludes today's conference. Thank you for your participation. You may disconnect at this time.

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