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Visa, Inc. (V)

Barclays Emerging Payments Forum

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CORPORATE PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Terrific. I'm actually really pleased to actually hand over the podium to Vasant Prabhu who's the CFO of Visa. He's been there for three years. So if you don't mind, give him a warm welcome. Thank you.

Unverified Participant

Thanks, [ph] Barry (00:00:19). Look as we're coming up on stage, if everyone will kind of [audio gap] (00:00:22-00:00:33)...

Vasant M. Prabhu

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

A

...we really appreciate the partnership with Barclays.

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QUESTION AND ANSWER SECTION

Q

All right. So, the first question, do you currently own shares of Visa stock? [audio gap] (00:00:44-00:01:31) Listen, thanks again for joining us.

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

A

Thank you.

Q

I really appreciate having you here as always. Why don't we just start off, look kind of big picture again. I mean, the company has been able to sustain high-single digit, low-double digit top line growth for a pretty long time now, and I think maybe just kicking in by revisiting the three to four best underlying drivers that affect that growth that you're seeing including things like developed markets, emerging markets and cross-border would be a good place to start off.

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

A

Sure. As you heard us say at our Investor Day, we're very excited about where things are in our business because we think we're at an inflection point and we laid out some of the reasons why we think we're in an inflection point. Number one, of course, there's the sort of inexorable shift towards e-commerce, right, any time a transaction goes from being face to face to e-commerce, our propensity to get the transaction is twice what it was in the face-to-face environment because in the face-to-face environment there are other options. And e-commerce is growing 4 to 5 times as fast almost everywhere as face-to-face transactions are. So that is one sort of underlying secular trend.

The other massive change is the proliferation of smart devices. And the way we think about them is every smart device is a way to pay and every smart device is a way to be paid. And fundamentally, what that means is with tokens you digitize the card and you can embed the card in devices that means there are many more opportunities for people to use payment credentials rather than other forms of payment. And with the proliferation of dongles or QR codes, every smart device is a point of acceptance.

What that means is that in an emerging market, imagine in the past you had to have a dedicated device which is expensive, you had to have landlines which in many cases are not even available. Now all you do is you print out a QR code and you have a smart device and you're set up as a merchant. It's much cheaper and much faster. So you can proliferate points of acceptance much faster. You layer on top of that the embedding of payment credentials into the Internet of Things which is coming, you layer on top of that a greater interest on the part of governments to digitize cash for a whole host of reasons, India being an example of that. And you put this all together, it's another inflection point. We've had two or three in our history and through those inflection points, there's been a 10x growth in the business over a 10- or 20-year timeframe. And we see that today and it's the reason why we are growing 2 or 3 times as fast as personal consumption expenditure is.

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Q

From a geographic standpoint, can you give us a bit of a tour around the world on what you're seeing from a consumer spending and spend trend standpoint?

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

A

Now, in general if you look at our business and if you look at consumer expenditures as reflected in our business, now of course our business reflects also some of these other trends. So it's not a pure number in terms of how consumers are doing. It would tell you that the global economy is in good shape, right? There is, in some respects, a fairly synchronized global growth story underway. You heard us talk about the U.S. The U.S. had a very good holiday season. Certainly, we saw a much stronger season because of the shift to e-commerce and all that.

In general, the U.S. consumer seems to be in good shape. If you look at Europe, you see similar trends across most of Europe, Asia, Latin America, I mean, there are a few soft spots here and there, but overall we see some healthy trends. We see some good cross-border trends, and cross-border, of course, is now as much about travel as it is about e-commerce. So based on everything we said to you a couple of months ago, the global economy, we would say, is strong and the consumer is confident.

Q

You mentioned cross-border. I just want to touch on that for a minute because it's been strong, right? And double digit kind of growth into January as well. It did dip a couple years back or a year-and-a-half ago to low- to mid-single digits.

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

A

Yeah.

Q

So are we in an environment now where that's now sustainably double digits again?

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

A

Well, the cross-border business will always be impacted by two factors. One is – it is, in fact, more impacted by macroeconomic trends. So if you look at domestic businesses, domestic businesses often have a very large debit component in them. And domestic businesses, by definition, have a lot more of what you might call everyday spend in them, but cross-border has more of a discretionary element in it.

Now the cross-border business 20 years ago or 15 years ago was mostly about travel, and travel has definitely got a big discretionary component, but has become increasingly about e-commerce, and that may not be as discretionary as travel is, so it is possible and we will know when the next downturn comes whether e-commerce makes the cross-border business more resilient in the downturn.

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Q

E-comm makes it, yeah.

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

A

Right, because it's now potentially shopping that is not discretionary.

Q

Sure.

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

A

People may look around the world for cheaper options in a downturn more so than they could have in the past that's one thing. Cross-border businesses will always be susceptible to exchange rates. And one of the reasons you saw what you saw was that in the past few years, the dollar's been strong and the U.S. is a very big market for both acquiring as well as issuing cross-border. And for us for sure the inbound business into the U.S. is a very attractive business, and when the dollar is strong that business suffers. And even as we've seen our overall cross-border business in the last four quarters grow close to double digits or even in the double digits, the inbound business to the U.S. has still been a drag. It is recovering as the dollar continues to stay weak. And so as it really recovers and gets back to being where it used to be in the double-digits, that should help.

Q

U.S. inbound?

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

A

Inbound. Yeah.

Q

Yeah. Yeah. How about shorter terms as top line growth is expected to accelerate in the second half?

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

A

Right.

Q

There may be some nuances; can you explain why that accelerated?

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

A

Yeah. No, I think that's very important and we tried very hard in October last year when we did our outlook for this year to help people understand that this is going to be a difficult year for you all to sort of follow us along, because of this, to model, because of some comparative differences between this year and last year. And we really wanted people to understand that the first half would be held back by something that happened last year. And we were very clear last year when it was going on that this was happening.

So we had the Europe acquisition, and there was a concept called rebates in Europe because it was a membership association, and post the acquisition on January 1, 2017, we eliminated the rebates which everybody was expecting. The members of Visa Europe knew that was going to happen. And the plan was that depending on who the client was, we would redo all the contracts on commercial terms, and in many cases they would get back some if not all of it, and in some cases more in the form of incentives that will commensurate with who they were in terms of volumes and mix of business and so on. That got off to a slower start, and so for the first couple of quarters of last year, our incentives were a lot lower than we were expecting and then that gained traction through the second half of the year and really built up. And essentially, instead of it getting done in calendar year 2017, it has moved into the first two quarters of this year. So when you do the comparisons, our incentives as a percent of gross revenues were running between 18% and 19% last year at this time and they're now in the 21%, 22% range, somewhere in the 21%, 21.5% range.

So that was going to hurt our comparisons because incentives were going to be a drag for that reason. And last year when it was going on, we kept telling you, if you remember, that our numbers were better than they should have been because of this. That's one reason why the second half will be quite a bit better than the first half because that kind of drag goes away and the comparisons are more normal. The second one is we took some pricing last year. The pricing was frontend loaded. In other words, it happened in the first half. We have some pricing this year. It's not the same amount, same level, but it is the second half effective. So you put the two together. And if you look at the numbers we gave you, we said high-single digits. Given where we were expecting the first half to be, clearly the second half is going to be quite a bit better.

Q

And you still feel good about that?

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

A

We feel good about that.

Q

All right. With regard to comparing to Mastercard, I mean, I just – it's worth asking. We get this question all the time. Is there growth rate on the volume side and the revenue side is a few hundred basis points higher than Visa's lately, how do you reconcile that? Just because – you're both big companies...

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

A

Yeah.

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Q

...obviously both similar in some ways. Can you just give us some thoughts?

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

A

Sure. I mean, I can't talk about long term partly because we don't give you long-term outlook. In terms of the short-term, certainly there are variations quarter-by-quarter. And we told you in the first half our growth rates were going to be somewhat suppressed for the reasons we talked about. And we'll see sort of how the growth rates compare as we get into the second half which should really become more normal in terms of our own growth rates. Beyond that, there are clearly differences between the two of us in terms of mix of business. We have a much larger U.S. business even after the acquisition of Europe, our U.S. as a proportion of our total business. I would imagine that it's bigger than theirs.

So clearly, things like inbound to the U.S. being a drag potentially is a bigger drag for us, and as that recovers, it's more of a tailwind for us than it might be. There are other mix differences. If you look at Europe, we tend to be heavily focused on the debit side of the business because of historical reasons and maybe the Europe focus. We are also very heavy in the UK and France, so depending on where the growth is, whether the growth is on the debit side or in the UK and France, there can be differences between years.

We don't know – I mean, we've had these things we told you about in the cross-border business that affects the volumes, at least the reported volumes. It doesn't affect revenues very much about – the Intra-Europe cross-border business is a peculiar thing and probably should not be in the cross-border volumes, and maybe we should tell you how the cross-border business is growing ex-Intra-Europe, because Intra-Europe is a little bit like someone in New York shopping in California. The economics are not like they are for cross-border, they're more like domestic.

Q

Right.

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

A

But for historical reasons, it's always been in the cross-border numbers. And that can cause some fluctuations when people move their acquiring around Europe. So there's always noise in the numbers, we'll just have to wait and see how it plays out over multiple quarters.

Q

Okay. Maybe we'll shift to a pricing discussion for a minute. I mean, you talked about less pricing this year than last year, maybe just explain what's going on there, but also just generally speaking, I mean incentives and rebates have been up, but just what's the pricing environment and competitive dynamics like these days?

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

A

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Look, I mean the business has always been competitive. Our clients have options. Barclays has options when they decide who to partner with and there's always a price situation business clears and price is certainly an important consideration when clients make their decision and so you have to be competitive. That's always a factor in the business. Clearly, you hope to compete on dimensions other than price which we do and our competition does, but there is obviously a market clearing price and it is what it is. And that can vary from market to market, it can vary from large client to small client and so on.

Pricing in the end is a combination of things. It's the value you create, the nature of competition and what your costs might be. We are always looking at our business to look at where we are creating value and how we can price to that value. Every year we look at it, every year as you've seen us do there's some amount of pricing in the business.

Certainly when we did the Visa Europe acquisition, bringing Europe in had a step change in that ratio of incentives to gross revenues, so we went from somewhat in the 18 range to the 21 range. That was a one-time kind of thing. Now what we should see is more of a normal sort of trend, and then the question is what's that trend going to be, now we've told you this year it's between 21.5 and 22.5, it's still something we feel good about. How does that proceed from here? I mean, clearly we'd love to see incentives moderate, but it's competitive business and we have to stay competitive. And in the end, the market will determine at what rate that grows. And the thing that I've always said is what counts is net revenue growth, right?

Q

Yeah.

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

A

Because how it plays between gross revenues and incentives is something that you can do differently, but net revenue is what you get [indiscernible] (00:15:21).

Q

But I mean you are – you're finishing off a lot of the repricing with Visa Europe now, right? That was a big jump to some degree in terms of...

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

A

Not necessarily. I mean, we clearly – when we did the Visa Europe acquisition, we were very careful in not building in much pricing into a...

Q

I was referring to the rebate repricing.

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

A

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All right. The rebate issue is behind us. By the end of this quarter, that is sort of what I would call the defensive strategy of making sure we keep most of the business that Visa Europe had is done.

Q

Now?

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

A

By this quarter, it's done. And it allows us to go more on the offensive now because quite honestly, I mean, we had to play defense in the first year because we had a large number of accounts that had to be essentially restructured to be commercial.

Q

Right. So that's done, there was no large conversions that were done over the past couple of years.

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

A

Yeah.

Q

Costco, USA and the like. I mean it would seem to – you would seem to think that even with some competition, there is room for your overall gross revenue and your rebate incentives to be more aligned than the material outperformance of rebate incentives or faster pacer growth that it showed, is that fair?

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

A

I think, I mean, I'd rather not get into sort of making projections about the future. But as you said, I mean, there were events like Costco, like USA and the impacts of them both on the gross revenue line, the incentive line, the net revenue lines are pretty much behind us.

Q

Right.

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

A

The Europe transition from rebates to incentives will essentially be behind us by the end of this quarter. So you're right, those kinds of things are behind us. I think at this point, this whole issue is then the interplay between pricing, volumes and then what incentives are required to be competitive in the market.

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Q

Normal course of business.

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

A

So it's normal course of business.

Q

Yeah. Okay.

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

A

We'll see how that plays out.

Q

So it's good to see the onetime or the unusual items [indiscernible] (00:17:20).

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

A

Yeah.

Q

With regard to Visa Europe, you mentioned yourself that there could be some pricing opportunities still to come, right? And so how has that integration gone, where are you on that? And then on the pricing front, I'd be curious to hear more about...

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

A

Yeah.

Q

...what the competitive dynamics are with Mastercard. Without saying as much, it seems to us like they've been pretty focused on making – ensuring pricing stays where it is or better than where it was historically?

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

A

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Yeah. I mean in general at Visa Europe, we're really happy with where we are. As you saw from the numbers, we thought we would have low-single digit accretion in the first year. We got to mid-single digits. We'll have some more accretions this year. So we're clearly ahead of what we expected coming out of it.

Why we're ahead for a variety of reasons. One, clearly the economies in Europe have been strong. The cross-border business was strong. Coming out of Brexit and all that, you had a weakening of the pound and euro, that helped us. The first set of cost reductions went along as planned. We were able to take some pricing last year and some more pricing this year, which clearly we want to be very prudent on.

And we don't really want to sort of have a sort of – we sort of take it one step at a time. We think there are some more opportunities in Europe, but we'll have to watch and see how things play out and decide what we want to do next. We are right in the middle of the technology integration. It's going well. We feel good about it. The goal now is to essentially migrate Visa Europe clients on to the global platform. Once that's done, after a period of running both platforms, we can shut one down and that will result in additional cost savings.

And then the most important thing right now is by definition we had to be – our first order of business in Europe was we need to keep as many of the clients that Visa Europe had post the acquisition, and that was the important task because you had to redo a whole lot of contracts, and many of these clients, the global clients who had other relationships and so on, were very happy with how it's gone. We expected that there would be some leakages through it. It's been better than we expected. But the good point of all that is that we can move from playing defense to playing offense. And there are lot of opportunities in Europe that we now are able to focus on.

Q

Okay. That's good to hear. On the margin side, I mean, I think this is a question I've asked you guys for many years. But I just wonder if there's a ceiling that you feel like you shouldn't crossover in terms of how high margins could get. Also, I guess simultaneous to that question, with these rebate incentive accounting change, lead to some shift to expenses in the marketing line that could actually almost make your margin look different. Just can you give us some thoughts on your margin?

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

A

Yeah. I mean, we've said all along that margins are not an objective they're an outcome, right. We've never targeted a certain margin. Our approach is we want to grow our volume as fast as we can. Our job is to digitize cash. Our job is to enable new forms or new use cases. Our job is to drive volumes as fast as we can which is the healthy way to grow. It's what creates value in this business. It's the sustainable way to grow and to have reasonable yields so that revenues grow generally in line with volumes. And that has led to high-single digit, in some years, low-double digit revenue growth.

Our job then is to invest at a healthy clip in this business. It's a great business. It offers great returns. We should not be underinvesting in the business. At the same time, we can't act like a company that has money to throw around. So we like to be disciplined and have priorities and make sure that the investments are done right. And if all that requires given the nature of the costs in this business which are highly fixed by definition and also very technology driven and those technology type costs have tended to come down over time as the cost of technology has come down.

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Our expenses have been growing in the mid-single digits. So we're focused on those two things. And if revenues are growing faster than expenses, of course margins are improving. But it's [ph] adding traffic, (21:38) of course, because as the margins get higher, the incremental contribution is smaller. So having said that, I mean, we have no objective. We just focus on what we think are the right things to do for the business. Margins will stop growing if one or two things happens which we don't see happening right now. One is that there is a meaningful slowdown in the rate of revenue growth or a need for a meaningful increase in investment in the business...

Q

Right.

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

A

...which causes expense growth to ramp up from where it is today. If neither of those two things are happening, then clearly the outcome is that has some improvement in margins.

Q

What levels of leverage are you comfortable with? I mean, it's still – in a lot investors' minds relatively under levered even after the deal with the leverage we've brought on a little bit recently for Europe. What kinds of deals maybe also would you be thinking about from an M&A standpoint?

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

A

Our capital allocation, we've been very clear about which is job number one is invest in the business. Invest as much as the business warrants. Job number two is M&A. And our approach to M&A is we don't want to buy businesses to beef up revenues or anything like that. To show higher revenue growth, we wouldn't buy something. We have a great business. We don't think there are too many other businesses that offer the same kind of returns as this business so we need to be careful not to take our money from a business that has really great returns and put them in the business that doesn't have great returns. So our acquisitions have tended to be very targeted and very focused on things that enhance our core business. So we wouldn't go out and buy a consulting firm and try to be McKinsey, that's not our business. It comes with – and arguably, doing that you should be valuing those revenue streams very differently than our core revenue streams because it's not the same business. So our acquisition strategy has been we bought CardinalCommerce last year because we liked their technology and it enhances what we have. We bought Freedom a month ago which is the B2B business that used to provide us some services and you'll see us do those kinds of things where it makes sense.

And then beyond that, we return cash to shareholders in the form of dividends and buybacks, and this year we said we'd buy almost $7 billion in stock because we're still in the process of pulling in the stock we issued for Visa Europe. Our dividend was increased again last quarter and we'll probably have about $1.8 billion in dividends. You put the two together and you're almost at a free cash flow. So we're pretty much putting most of our free cash flow back, returning it back to shareholders.

Ratios, we said a while ago that we like the rating where we are, it gives us some flexibility, it's 1.2 times to 1.5 times EBITDA. We increased that a little bit at the end of last year when we refinanced some of the maturing debt. We don't feel the need to change all that. Now that the tax laws have changed perhaps there'll be a different way

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that offshore cash is accounted for. It may mean that we can start to talk more about net debt to EBITDA ratios, but we'll work with the rating agencies on that. But fundamentally at this stage, we're quite happy with sort of where we are capital structure-wise and ratio-wise, and if there's any change in that thinking, we'll certainly talk about it.

Q

Can we talk about your services strategy for a minute?

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

A

Yeah.

Q

I mean, again, when we think about the way it's bundled versus separated out as a business for others. How do you approach it? Is it more of a packaged offering to your clients or is it, again, broken out?

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

A

Yeah. Like we said earlier about M&A and all these things, we constantly ask ourselves whether we should do it differently. We've always viewed our services as really focused more on enabling our core business, right? So the incremental transaction is worth a lot to us. So if our services can get us more transactions, then that's where the value is. And so our approach has been to have services that will enhance our core business. That leads you down the track of risk services, for example, because certainly improving authorization rates is very valuable. Reducing fraud is very valuable. Around the world there's need for better and better authentication technologies. So those tend to be important for us. We also have consulting services but we tend to focus on those parts of consulting that are very relevant to our core business.

So we'll do consulting to help people grow their card business. We help clients reduce their fraud, things that really drive our core business. We also tended to not club them all in one place on the P&L. So we have these kinds of businesses across different lines in the P&L, some could be in the other revenue line, some in the data processing line, some in the international line and so on. So there's a difference in sort of how they play out in our P&L.

And then finally, there are ways in which you can charge for these services that also vary, right? You have three options. You can charge for them like a real service with revenues, you can bundle them into your core product as part of your proposition to create more value, or you can have a pool of money that people can use as part of their client incentives to effectively buy these services. And we do it all those ways. It's more likely perhaps to bundle them in than to charge for them separately, and in some cases we might include them in our incentives. So there are differences in how we do things than perhaps our competitors do, both in terms of how we deliver these services, as well as where we account for them.

Q

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You mentioned in a meeting, I remember we had one a while back that your clients have told you that the approach you take where bundles were together rather than offers a separate service is what they want. And I think you were mentioning how the client might think they'd have to spend all the rebates and incentives on those. In other words it was just going right back to that. Can you explain that for the folks?

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

A

Yeah. I mean, in general we constantly ask our relationship people and salespeople when they win or lose, what are the reasons they win or lose. And of course, business doesn't move back much, share shifts have not passed significant in this business but we rarely hear that the differentiator is services. We also do hear that clients like the opportunity to buy from best of breed, right? So what we like to have is if we have a service, we want to be best of breed because we want that service to be good for a client on its own merits and not because we're forcing it down their throats either because we're telling them, here is the money, you've got to spend it on these sets of services. We've heard often from clients that if I want consulting, let me pick who I think is the best. And if you are the best, I will pick you. And we're more flexible on that because we think clients should be able to decide what's best for them. So I would say we are more inclined to do that than to force clients to say...

Q

To use the rebate incentives for the services.

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

A

Yeah, just buy it from us. We like all the services we have to win on their own merits.

Q

Right.

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

A

That's why we picked the ones where we think we are differentially advantaged at.

Q

Okay. Now just comment for a minute on real-time ACH and your approach around that, and obviously MasterCard bought VocaLink. So what are your thoughts on that, opportunity or threat, I guess, you could say?

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

A

Yeah. Look, I think opportunity or threat, I guess, you could say?

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

A

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Yeah. Look, I think it's unclear how real-time ACH will evolve over time. Real-time ACH is not new, right? It's been around in many countries for a very long time, and in most cases doesn't have a lot of traction. So clearly, it's the topic of the moment for a variety of reasons. Our approach to real-time ACH is I would call it multi-phased and multi-pronged. And the first phase and the first prong is Visa Direct, the reason being that – I mean, Visa Direct is in many ways a revolution. This is a network in which money only moved one way, right? It went from your account to somebody else. Visa Direct now allows it to go both ways.

And so essentially, what Visa Direct allows you to do is using our rails and debit credentials, you can transfer money between accounts both ways, which enables of course a lot of use cases, both in the consumer space, as well as in the B2B space. And the reason we make Visa Direct the first phase and the first prong is because it is the fastest way for us to do account to account real time payments to make them real on a global basis.

We think by the early next year we will have 2 billion debit credentials because we have the largest platform globally. 2 billion people around the world, 2 billion accounts around the world, can freely move money between themselves, and in some cases we also have set it up where they can move it to non-Visa cards, right, non-Visa debit credentials.

So we're well along on that, it's going really well, it enables lots of use cases being used for example to pay Uber drivers or it's being used by insurance companies to pay the premiums, I mean, to pay you when you have an accident, that's prong one. Prong two is, we can enable a bunch of things that add on to this on a market-by-market basis to expand the scope of what Visa Direct can do.

The problem with a VocaLink-based approach is that VocaLink is now operational in just one market, the UK. And every ACH system around the world is different. Every one is national, every one – some of them need a lot of investment to get them to real time capability. Some of them are owned by banks, some of them are owned by the central bank. They have to be available. VocaLink is one answer. There are other alternatives. You need a certain level of flexibility to play in that. And our approach is far more flexible. We'll do what – and none of these rails, by the way, are proprietary. They're available to everyone.

Q

Yeah.

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

A

So we have we have flexibility in our model to add in the other prongs. And beyond that, we are not tied to any one approach to doing things. And that piece of it sort of building a global network using a technology or a capability like VocaLink, it's going to take a long time and you won't be able to do it in every country because every country has their own agenda.

Q

How about in general, the idea of using ACH direct to a digital wallet, right? I mean, it has come up before PayPal, obviously, it was doing that and there was now choice there, and we see Amazon showing some signs of that, right?

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

A

Yeah.

Q

I mean, I'd be curious to hear your thoughts over that as a potential risk or anything else.

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

A

I think that's it's – once again, it's going to be a combination of there's – our approach is we'll enable it and then it'll compete on the basis of whatever the criteria people have, right?

Q

Right. Choice.

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

A

So if you can't do it, that's a problem. We'll enable it. We'll be able to do the same thing then people will have to evaluate the pros and cons of either option. I mean, right now, for example, we're enabling Facebook, we're enabling Square, we're enabling Zelle, we're enabling Venmo, they're all using Visa Direct, right? And they do it because they either prefer it or they want to give consumers the choice.

Q

Okay. That makes sense. A quick comment on B2B. I mean, it's an effort that I know you're still building out to some degree. Where is Visa on the B2B approach, and maybe just virtual payments in commercial?

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

A

Yeah. I mean, we've been at B2B for a long time. There is the traditional B2B that all the card networks have generally played in, which is the corporate T&E cards and the P cards, and that has extended into virtual cards and extended into single-use cards and for healthcare and travel, and we'll keep doing that. What Visa Direct does is, allows us now it provides a B2B solution in what we would call the small B space.

So any transactions that are let's call it lower ticket lower value where there is at the other end someone who has a small business and has debit credentials. There's a whole a range of use cases enabled there, right? So the gig economy, Visa Direct is a great solution to pay Uber drivers, for example. So there's a whole range of new use cases in B2B that we're enabling.

Q

Okay.

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

A

By doing what we're doing with Freedom, we're certainly increasing our capabilities in the middle market and large market. Once you get to the very large market, I think it's very important not to be seduced by a $120 trillion number partly because there's some implication in that that somehow it looks a lot like the consumer business.

The consumer business is a very big – the B2C business is a very, big very homogenous business. The B2B business is highly segmented and very different across segments. The second is as you get to the larger B2B space, there's a question mark about what your value added is because a lot of it becomes outsourcing, right? People are outsourcing the payables function. Is that a business that we have a lot of value to add to and how much of the B2B business comes at yields that are attractive for our kind of business. So I think there's a lot of complexity here and it's – I think there's a risk of oversimplifying. Rest assured they're very focused on it. It is clearly an opportunity. Nothing fundamentally changed in that business in the last six to nine months for it to be a bigger or smaller opportunity, and we keep adding to our capabilities there.

Q

All right. Just last question for me, so if anyone in the audience wants a question after, feel free to think about it now but from a blockchain standpoint, I mean, we've heard a lot of companies even at this conference talking about reduced levels of friction, increased speed times, better security, and so I'd just be curious to hear what your thoughts are around what Visa is or isn't doing with the...

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

A

Yeah.

Q

...blockchain, and if it's a real risk or an opportunity?

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

A

Well, I think like everybody else we think what's relevant in the whole crypto discussion is the technology underlying it which is blockchain and we've been looking at blockchain for a while and I would say, our technology people know a lot about it. We have a product that is in pilot right now that uses distributed ledger, it's called B2B Connect, and it allows companies to do cross-border payments using distributed ledger technology essentially using our rails. My impression so far is there's a lot of experiments going on, but there's no real industrial quality application in production, right?

Q

Yeah.

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

A

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Everybody's interested, everybody's curious, everybody's launched a bunch of experiments, but nothing yet has gone past that stage. Now we are very excited about what we have at B2B Connect, we'll keep pushing that. It could be, in fact, a great solution in the long run, but we are in the early stages.

Q

Great. All right. We'll see if anyone in the audience has anything they'd would like to ask. There's one right there.

Q

So as you're talking about capital allocation before and the 1.2% to 1.5% target, why allocate only your free cash flow because just by definition you're going to be building a lot of cash. And I know still you need $1 billion just for like if there's some random event that happens. It's still just mathematically you'll be building a lot and so why pay for that if you're not going to be using it?

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

A

Yeah. I think, look, I think the 1.2% to 1.5% was a gross debt to EBITDA kind of ratio. We did that at that time because we were working in a tax regime where offshore cash sort of was strapped. Now we found ways to bring a lot of it back, and now of course that's no longer true. And so we'll be working with the rating agencies to get a better sense of how they intend to look at cash in the future, and whether a net debt to EBITDA ratio is more relevant and whether even at the current ratings we have more capacity than we might have had a year or two ago.

What you're saying is a very valid question. At this stage, we think we're buying back stock at a pretty healthy clip, partly because we are buying back stock even to pull back some of the stock we issued for the Visa Europe transaction. Clearly, I mean, if there is a market dislocation and we feel that for reasons unrelated to Visa, there's a real sort of a mismatch in the valuation between intrinsic value and what it's trading at, we have the flexibility to step things up.

We have stepped things up and there have been periods of let's say softness in the market. So we won't rule that out, but at this stage, I think what we said about capital structure and our capital allocation is where we are. That doesn't mean we won't reevaluate it as new facts emerge. The new fact right now is tax laws have changed and we'll evaluate what that all means for us. And frankly, I mean, if there's a real mismatch versus intrinsic value, we would definitely consider doing things that might change where we are in terms of the buyback pace.

Q

Any other questions?

Q

Yeah, I've got one quick one. I find it interesting that you're the backbone to Venmo, I'm curious how you're earning money from doing that and how do you see the future in terms of its importance to your company and its ability to use Venmo to pay at traditional credit card places like restaurants and things?

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

A

Yeah. I mean, I – we don't get a lot into sort of our partnerships with other people so some detailed questions on Venmo, you should direct to the PayPal people. We had an option available on PayPal, as you know. You can use your Visa card. We have an option available on Venmo as a rail you can use. It goes back to the arrangement we had with PayPal where they have the ability to – they were essentially chosen not to steer, and you have the flexibility to use the people – the card you prefer or the rails you prefer. And that's the kind of relationship we have and we're quite happy with it and it's worked well for them and it's worked well for us. And especially they're providing consumer choice in all the services they provide and we are one of the options.

Q

Any last questions? All right. Well, Vasant, thank you very much for your time.

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

A

Thank you. Thank you for having us.

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