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Visa, Inc. (V)

Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Visa's fiscal Q1 2016 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. Jack Carsky, Head of Global Investor Relations. Mr. Carsky, you may begin.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Thanks, Sam. Good afternoon, everyone, and welcome to Visa Inc.'s fiscal first quarter earnings conference call. With us today are Charlie Scharf, Visa's Chief Executive Officer; and Vasant Prabhu, Visa's Chief Financial Officer.

This call is currently being webcast over the Internet and is accessible on the Investor Relations section of our website at www.investor.visa.com. A replay of the webcast will be archived on our site for 90 days. A PowerPoint deck containing the financial and statistical highlights of today's call have been posted to our IR website as well.

Let me also remind you that this presentation may include forward-looking statements. These statements aren't guarantees of future performance and our actual results could materially differ as a result of a variety of factors. Additional information concerning those factors is available on 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. For historical non-GAAP or pro forma related financial information disclosed in this call, the related GAAP measures and other information required by Reg G of the SEC are available in the financial and statistical summary accompanying today's press release.

And with that, I'll turn the call over to Charlie.

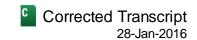
Charles W. Scharf

Chief Executive Officer & Director

Thank you, Jack. I'm going to start with a series of comments both a bout the quarter and a little bit about what we're seeing in the world and then I will pass it over to Vasant before we take questions.

First, a few comments about the overall results. We continue to be pleased with the performance of the company, given the ongoing macroeconomic headwinds that we have discussed before. Operating revenue grew 5% nominally or 8% on a constant currency basis, reflecting a negative three percentage point impact from FX. Adjusted diluted earnings per share grew 10%. Volume growth continued at a healthy pace, growing 11.5% in constant dollars, only down slightly from September's 12% growth.

U.S. payments volume growth was essentially flat at about 10%; again, healthy growth. International payments volume growth was 14%, down one point from last quarter. But we continue to see weakness in cross-border volume.



U.S. outbound spend is strong, but it is offset by continued weakness from Canada, Brazil, and Russia. And more recently, we're seeing increasing weakness in the Middle East and China. We do see some areas of strength such as Mexico, Japan, and New Zealand, but they're obviously smaller markets for us.

Now a couple of words about the U.S. holiday season. Overall consumer spending by our Visa cardholders during the season was similar to last year, but spending patterns are changing.

E-commerce continues to grow at a much higher rate than the spending at physical stores. We saw mid-teens e-commerce growth during the holiday period versus mid-single-digit growth in the physical world. More than 25% of all spending on Visa cards during November and December was online, up from less than 20% just three years ago. Also, the pattern of spending through the holidays has changed. While Black Friday and Cyber Monday remain important shopping days, less spending is consolidated on these two days than recent years, and more people delayed their spending to later in the season this year.

Let me move on and say a couple words about Visa Europe. We're making very good progress. We continue to work towards a projected second calendar quarter closing. We've received two of three required regulatory approvals, with the third one that's required from the European Commission. Vasant will discuss it, but we feel very good about the execution of our \$16 billion debt financing. And most importantly, we feel as good about the transaction today as the day we made our announcement.

We've had great interactions with our Visa European colleagues. We've had a series of very positive conversations with European financial institutions, and we remain confident that we're creating value and are focused on execution at this point.

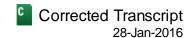
Move on to China now. We continue to work towards the ability to make a formal application. We're waiting for final regulations to be released. We have a clear path to have a compliant operating environment so we can compete domestically if we are awarded a license.

I was in China last week and participated in the signing of two MoUs. They involve Visa working with two Chinese groups on driving financial inclusion as a means to support poverty alleviation. The strategic partnership and programs we announced underscore our long-term commitment to China and to fulfilling the Chinese government's goal of reducing poverty and promoting in clusive finance. We also continue to collaborate with government institutions, industry organizations, and NGOs to support the global goals of alleviating poverty, promoting transparency, and fostering inclusive social and economic development.

As we work through our plans for entry into the domestic Chinese marketplace, we continue to feel good about our ability to help expand the rate of growth of the Chinese economy and increase the Chinese banks' ability to compete domestically, especially in the e-commerce space.

I'll talk for a second about some client activity. In the United States, we expanded our relationship with Fidelity and U.S. Bank, where we are now the exclusive payment network for their co-brand card. Cardmembers can earn cash back with the Fidelity Rewards Visa Signature Card and the Fidelity investments 529 College Rewards Visa Signature Card. The new cards in the program will be issued with chip technology for security and give access to the payment industry's leading digital wallets, including Apple Pay, Samsung Pay, and Android Pay.

Visa and Walmart announced an acceptance agreement with Sam's Club. Beginning next Monday, more than 650 Sam's Clubs across the United States and Puerto Rico will begin accepting Visa credit cards in store. Walmart.com and SamsClub.com will also begin supporting Visa Checkoutthis year.



And we continue to expand our relationships with clients around the world as well. Just a few notable highlights, we've seen very strong renewal activity across the world in places such as New Zealand, India, China, and Latin America. Some names include ANZ in New Zealand, ICICI, Bank of China, and the Agricultural Bank of China.

In Latin America, we renewed a multiyear credit, debit, and commercial agreement with BBVA, one of the largest issuers within our Latin American region. The deal covers seven markets, including Chile, Peru, Venezuela, Uruguay, Paraguay, Argentina, and Colombia. And we renewed a multiyear credit and debit agreement with Bradesco, another one of our largest issuers in Latin America.

Let me say a few words about Visa Checkout. We continue to be encouraged by the growth that we see since it was launched 18 months ago. We have more than 10 million registered users in 16 countries and over 600 financial institution partners participating globally. More than 250,000 merchants, including some of our largest global retailers, have signed on to accept Visa Checkout, representing \$100 billion in addressable volume. Starbucks, Walgreens, NFL Shop, HSN, and Match are among the new merchants taking advantage of Visa Checkout's ability to deliver seamless digital payments. And as I mentioned earlier, Walmart.com and SamsClub.com will also begin supporting it this year.

Our confidence in Visa Checkout is based upon independent research that supports the notion that it makes commerce easier for consumers and ultimately results in increased sales for merchants.

According to new independent research from comScore, Visa Checkout significantly increases sales conversion. Visa Checkout customers completed 86% of transactions compared to 73% for Pay Pal Express Checkout and 57% for the traditional merchant checkout.

Visa Checkout customers are more active online shoppers in general, completing 30% more transactions per person than the overall population of online shoppers. And 95% of Visa Checkout customers say signup was easy, and 96% feel secure making purchases with Visa Checkout.

We recently launched a new platform called Visa Commerce Network, built on the TrialPay plat form which we acquired in 2015. Visa Commerce Network enables our merchants to deliver targeted discounts and benefits to Visa cardholders in order to acquire new customers and increase sales. Visa cardholders receive these benefits seamlessly by simply using their Visa card to make purchases. No coupons or codes are required.

To date, more than a dozen leading merchants, including Dunkin' Donuts, Regal Entertainment Group, Shake Shack, and others have successfully used Visa Commerce Network. And we've recently entered into a partnership with Uber. Uber riders have started receiving discounted rides when they use their Visa card at certain local retailers.

Let me say a couple words about the migration to EMV in the United States. We reached an important milestone on October 1, which was the official kickoff of the chip in the U.S. We're optimistic about the progress and momentum we're seeing as banks issue more cards, merchants activate chip terminals, and consumers increasingly make secure chip transactions.

Already there are more Visa chip cards issued in the U.S. than in any other country in the world. More than 200 million Visa chip cards were issued as of December 2015. 43% of all credit cards representing 72% of purchase volume, 21% of all debit cards representing 45% of purchase volume. Over 750,000 merchant locations have enabled EMV, representing 17% of the total face-to-face locations in the U.S. Based on our recent client surveys, we expect 50% of locations to be enabled by the end of this year. While we know we have a long way to go over the next few years to reach the critical mass of adoption that we desire, we feel very good about the progress to -date.

Now before I turn it over to Vasant, just a few comments about the environment. It's clearly a mixed bag, but certainly creating some short-term pressures for us. The headwinds we discussed last quarter continue and are probably slightly worse with little relief in sight in the short term. As a reminder, they are the translation impact of the strong U.S. dollar, reduced cross-border volume driven by the strong dollar, continuing drag from lower oil prices. And while we are believers in China for the long-term, the domestic volatility is creating increased headwinds for us.

These headwinds are muting our growth today both through the translation effects as well as reduced business volumes and will likely continue for the foreseeable future, but our ability to grow over the long-term will be driven by our continued strong underlying payment volume growth.

So our mindset is that we have to be cautious in the short-term due to the headwinds, but the long-term fundamentals of our business, volume, growth remain strong.

And as I've said before, our business volumes can change quickly, but changes in the U.S. dollar and domestic consumer confidence around the world, it's just hard to predict the timing. Vasant will cover it in more detail, but even though there's been much talk over the past few weeks of slowdown in the U.S., our business volumes in January have been strong. So given all of this, our results are reasonably good, which speaks to the strength of our business model, our brand, our people, but do not reflect the long-term value of the franchise. But the pressures we have seen will likely continue for the foreseeable future before abating.

Now, over to Vasant.

VasantM. Prabhu

Chief Financial Officer & Executive Vice President

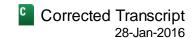
Thank you, Charlie.

In a turbulent and uncertain global environment, we're pleased to report that our business performed well in the first quarter with results modestly ahead of our expectations. A few highlights: net operating revenues increased 8% in constant dollars. The exchange rate drag was three percentage points, both in line with expectations. Weaker than anticipated cross-border revenue was offset by lower than expected client incentives. Client incentives were lower due to softer volumes in international markets and some deal delays. Expenses only grew 2%, well below the high single-digit rate we had indicated.

We have focused hard on prioritizing and phasing our spending program given the uncertain macroeconomic environment. As the year progresses, we will continue to look at opportunities to moderate expense growth while ensuring critical initiatives are adequately funded.

We marked down the value of the Visa Europe put from \$255 million to \$0 since the VE Board, Visa Europe Board, amended the put in connection with our proposed acquisition. We are required to revalue the put each quarter. We're still awaiting regulatory clearance, but expect to close the transaction in line with the transaction agreement leading us to lower the value of the put.

This non-cash, non-operating gain added \$0.10 to our reported earnings. As a reminder, should the deal not close, the put will be reinstated in its un-amended form and we will need to value this liability based on all available information at that point. In December, we issued \$16 billion in debt with maturities ranging from 2 years to 30 years.



The weighted average interest rate was 3.08% with the weighted average maturity of 13.1 years. This was the lowend of the 3% to 3.5% interest rate range we indicated last year. We are pleased with this outcome. We will, of course, use the proceeds to fund the upfront cash consideration for the Visa Europe acquisition as well as to stepup stock buybacks over next five quarters to six quarters to offset the dilutive impact of preferred stock that will be issued to VE members.

With a debt structure now in place, we will have interest expenses of \$125 million each quarter, almost \$0.04 per share.

In the first quarter, we recorded interest expense of \$24 million. We will incur the full \$125 million interest expense in the second quarter with no offsetting benefit from Visa Europe operating income.

Finally, we repurchased 25.7 million shares during the quarter at an average price of \$78.52 per share for a total of \$2 billion. As we had indicated, we stepped up the pace of our buybacks to make up for the stock not purchased in the fourth quarter last year due to the impending Visa Europe transaction.

At the end of the quarter, we had remaining authorization of \$5.8 billion for stock repurchases. We have continued to be buyers of our stock in January under our 10b5 program.

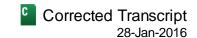
Moving onto the quarter business drivers; global payment volume growth in constant dollars for the December quarter continued to be strong at 11%. U.S. credit grew 9% moderating one percentage point compared to the September quarter as the positive effects of the Chase conversion have lapsed.

U.S. debit grew 10%, up one percentage point, benefiting from some Interlink gains. Adjusted for conversions and the impact of gas prices, underlying growth in U.S. payment volumes for both debit and credit have stayed very stable over the past several quarters.

In the quarter, the gas price drag was around one percentage point on credit and two percentage points on debit. In December, we lapped the inflection point for gas price declines, which should help reported growth rates going forward, although gas prices will remain a modest drag since pricing is still below last year. This is already evident in January U.S. aggregate payment volume numbers, which show a modest uptick of one percentage point to 11% through January 21. To-date, macroeconomic weakness is not evident in U.S. consumer spending, but this could change as the year progresses.

International payment volume constant dollar growth of 14% was down one percentage point from the prior quarter. While 14% is a healthy level of growth, we have seen a step-down in growth rates in Brazil, Russia, and the Middle East as a result of the oil price collapse and weakness in commodity markets. Growth has remained strong across Mexico and other parts of Latin America as well as parts of Asia, like India.

Of course the impact of the strong dollar on international payment volumes has been significant with growth flat in nominal terms. Cross-border volumes have been slowing for several quarters now. Cross-border growth continued to decelerate, dropping to 4% in the December quarter from 5% in the prior quarter. In the past quarter, we saw a sharp slowdown in outbound commerce from China and the Middle East, and the strong dollar continues to hurt commerce into the U.S. You might recall that we had expected cross-border trends to remain weak in the first half and then hope for some improvement in the second half of our fiscal year as comparisons became easier and/or the dollar stabilizes. Given recent trends, that appears less likely, due to the deceleration from oil-linked and China-linked economies.



Through January 21, cross-border volume growth in constant dollars is running at 5%. On the positive front, inbound commerce into Europe remains the strongest corridor, though this has also slowed due to China and the Middle East. Post the closing of the Visa Europe transaction, we will begin to benefit from growth of commerce into Europe.

Transactions processed over VisaNet totaled \$19 billion in the first quarter, an 8% increase over the prior period and unchanged from the September quarter. The U.S. delivered 11% growth and international growth was flat, both unchanged from the prior quarter. As a reminder, the international growth rate is negatively impacted by the transfer of domestic processing in Russia that started at the end of April. Through January 21, process transaction growth was 8% with a U.S. rate of 11% and flat international growth.

Turning to our financial results, service revenues grew 7%, in excess of nominal payment volume growth of 4%, helped by the pricing actions we took last year. Data processing revenues also grew 7%. Both were in line with our expectations.

International revenue growth dropped to 6% from 16% in the prior quarter. Currency volatility mo derated substantially in the quarter, reverting to the long-term mean. This drives most of the decline in the reported rate of growth. The impact of the pricing actions we took last year was largely offset by the significant negative impact from exchange rates.

While this sharp decline in the growth rate of international revenues was mostly expected, cross-border volumes were weaker, as I mentioned earlier, due to China and the Middle East. Exchange rates and revenues from currency volatility will continue to be a drag on reported international revenue growth through the year.

Other revenues were down 3%, primarily as a result of lower license fees generated outside the U.S. due to slowing payment volume growth. As it became clear that the global economy was going to experience a period of turbulence and uncertainty, we focused hard on prioritizing and phasing our spending plans for the year. As such, we were able to limit our expense growth to 2%. We held the line on personnel cost and professional fees. Marketing programs have been reprioritized and phased in the context of the uncertain revenue outlook for the year. Network and processing expenses grew due to the NFC transition in Russia.

Reported G&A expenses were up, driven by a variety of factors including exchange rate adjustments and cost of product enhancements. Our adjusted effective tax rate was 29.3%, modestly lower than our full year expectation of low-30%s. This was largely due to the recognition of certain benefits earlier than we had anticipated. Our full year tax rate projection remains unchanged.

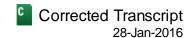
Looking ahead to the second quarter, service and transaction processing revenue trends remain unchanged. International revenues remain weak. Currency volatilities are high going into the quarter, but could revert to the mean as they did last quarter and we will lap high volatilities from last year.

The exchange rate drag remains approximately three percentage points. Net-net, mid-single-digit nominal revenue growth appears likely to be sustained.

Expense growth rate will step-up to the mid-single-digit range with increases in personnel costs and the growth in network and processing expenses due to Russia.

One big change between the two quarters, which is important to note, is interest expense. We will have a full quarter's interest expense starting in the second quarter of \$125 million, almost \$0.04 per share. We want to make sure you all incorporate this into your models going forward.





As we look ahead to the second half of the year, our primary concern is the economic weakness in international markets and the risks that will impact the U.S. As you may recall from our commentary last quarter, our outlook assumed some second half acceleration in U.S. growth and higher cross-border growth due to easier comparisons.

Current trends create some uncertainty around our revenue outlook for the year. As the year progresses, we will continue to look at opportunities to moderate expense growth while ensuring critical initiatives are adequately funded. At this point, there is not much more we can tell you about the back half.

In terms of Visa Europe, we do not have any financial updates at this time. As a reminder, our outlook for the full year excludes Visa Europe. Assuming things proceed as planned, we will provide more detail on our second half expectations, inclusive of Visa Europe, when we talk to you again at the end of April.

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

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Thanks, Vasant. Sam, at this point, we're ready to start Q&A. and I'd just remind everybody if they could please keep their questions to a single question and queue back up so that more folks are able to get on the call.

QUESTION AND ANSWER SECTION

Operator: Thankyou. [Operator Instructions] And first question is from Bob Napoli with William Blair. Your line is now open.

Bob P. Napoli
William Blair & Co. LLC

Thank you and good afternoon, a question just on the competitive intensity of the industry and any changesy ou may be seeing. Certainly, the credit card industry broadly at the margin continues to seem to get somewhat more competitive. And you also have some regulatory challenges around the world. And historically, this hasn't really been able to penetrate its way through to Visa and MasterCard revenue yields. And I was just wondering if you can give any update, given the competitive changes on the issuer side and the regulatory changes, if there is anything for us to be concerned about on the revenue yield for the business.

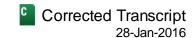
Charles W. Scharf

Chief Executive Officer & Director

Listen, I think the business is competitive, and I always remind everyone that our business has been competitive since the day we went public. We and Master Card evolved our structures roughly the same period of time. We compete in the marketplace every single day, and that has been a very consistent way of doing business. Domestically, across the world, there are local networks that we compete with. And there are emerging global competitors such as Chinese Union Pay in the traditional space as well as a series of people in the e-comm space whose names you know that we continue to compete with.

I think when we think about what we have at Visa in the quality of the network, the safety, the security, the global acceptance, and now the capabilities that we've built in the world of digital commerce and the value-added services, we feel terrific about our ability to continue to compete. And we're very, very clear that we know that we





have to continue to add value to transactions that run over our network in order to sustain the kind of margins that make this such an attractive business. And we think that there are a couple of us, with us leading the pack, who are uniquely qualified to do that. And so those views I think are very consistent with where they were last quarter, last year, and a couple years ago.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question.

Operator: Thank you. Next question is from Dan Perlin with RBC Capital Markets. Your line is now open.

Daniel R. Perlin

RBC Capital Markets LLC

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So the question I have is, as you think about serving all these incremental constituencies, you're much more merchant direct and centric and then also much more consumer direct and centric. I'm wondering how you're prioritizing your expenses when you think about throttling back on projects and what we should be mindful of. Because as I look back on your expense lines maybe back when we were coming out of the last recession, your marketing dollars as an absolute dollar almost at absolute levels. So I don't know that you pull that back more. I'm just wondering where you throttle back. Thanks.

Charles W. Scharf

Chief Executive Officer & Director



So let me take a stab at it, and then, Vasant, you can add anything you want to add. So first of all, I just want to be really just clear for a second. We are not building a business which is consumer-direct and we're not building a business which is merchant-direct. There are occasional times when we will do something directly with the consumer or directly with the merchant, but it's in a way that supports the four-party model, in a way that we believe is ultimately good for issues and acquirers. We're just acting as the facilitator. So we still very, very much believe that the model that we have is an amazing model and we continue to —most of what we do to work through those people. But the fact is we are consumer brand, and we have a role that we've got to play there.

When it comes to the comments on expenses, I guess what you should take away is that nothing that we have done when it comes to re-phasing, delaying, or reducing any of the expense dollars that we've contemplated in our minds relate to anything which is going to help build the business for the future. If you asked us are we as efficient as we should be, are we spending every last dollar wisely across the place, the answer is no, and the answer is still no today. And so what this environment does is it gives us the ability to take a harder look at where we're not as efficient as we should be and attack those dollars.

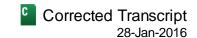
So we've not cut back on anything that relates to building our digital business, the APIs and SDKs that are part of the Developer Center, the things that we're doing on behalf of merchants, the things that we're doing on behalf of issuers to build our consulting services. We're still very, very committed to building that. And as we think about what this environment does, it's just creating extra focus for us. We certainly don't think that the slowdown that we're seeing that's affecting the business is something that changes the business model for the long term. So we're not going to change the things that we think really build the business for the long term as we sit here.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

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The only other thing that I would add is we've said that the expense growth rate will be back in the mid-single digits in the second quarter. And as Charlie said, there's nothing we've done to date that does anything in terms of either the funding or the pacing of critical initiatives, whether that's Visa Checkout, Visa Direct, Visa Token Service, all the critical initiatives.

Times like these are a good opportunity to take a hard look at, is every dollar well spent, and prioritize once again. We took some time to do that in the first quarter. And in the second quarter, the expense growth rate will be back in the mid-single digits. And we'll keep monitoring the external situation.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question, Sam.

Operator: Yes, thank you. The next question is from Chris Brendler with Stifel. Please go ahead with your question.

Christopher Brendler

Stifel, Nicolaus & Co., Inc.

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Hi, thanks. Good afternoon. I wanted to ask another question about the competitive environment and get your updated thoughts on Pay Pal in particular. It seems like they've been a good supporter of online volumes and a lot of transactions are funded by cards, but the Venmo opportunity seems a little bit different just from a disintermediation threat. I just wanted to hear your thoughts on that particular threat.

And then also when it comes to Braintree and in-app development and potential for disintermediation risk there. Is there a competitive response from Visa to some of the technology that they've been able to revert and that kind of stuff? Is that an area that you can potentially expand into and become a competitor when it co mes to online, in-app purchases? Thanks.

Charles W. Scharf

Chief Executive Officer & Director

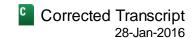


Let me do the first one first. I'm not going to talk about any specific company. What I will say is that we love partnering with people that we think are good for the payment system and preserve our clients' roles and our role in the ecosystem. And there are many examples around the world of people that we partner with in order to do that. There are also some examples of people that don't do that, and people that generate business for us in the short term whose business model is built around disintermediating us eventually and our clients, is not something that we like, not something that we support and not something that we're just going to sit idly by and wat ch.

Our first preference is to figure out how to work differently with those people; those were the active conversations that we're engaged in. If we can't get to a productive conclusion, there are a lot of things at our disposal that we can do which we have not done, which will enable us we believe to compete in a very clear and very direct way, in a way that's a level playing field for everyone.

And so, our first preference is to figure out how to partner with people. But if that doesn't work out, then we'll compete directly with them and that will evolve in the near future. And so, more to come on that. And the second question was around...

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Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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More specifically Stripe, Sanjay – I mean, Chris?

Charles W. Scharf

Chief Executive Officer & Director

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I guess the question was there are people like Braintree out there whose services helped enable mobile commerce. And what's our response to that? And on this one our response is, multiple —on multiple fronts. First of all, we have a great business in CyberSource where we also own a business called Authorize. Net that deals with smaller merchants and helps enable smaller merchants to accept online payments. That business is focused both in the browser space, but also in the mobile space. And we've just made a series of changes internally with some leadership changes that we're very excited about to help reenergize the business there and to be in a position to compete.

We also made an investment in Stripe and work very closely with them and we think they're just extremely talented people who are almost solely-focused on the mobile space and enabling mobile commerce in a way that's very friendly to us. And we're excited to continue to help them build their business globally.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question, Sam.

Operator: Yes, thank you. Our next question is from Moshe Orenbuch with Credit Suisse. Your line is now open.

Moshe Ari Orenbuch

Credit Suisse Securities (USA) LLC (Broker)



Great. Could you talk a little bit about, you mentioned a couple of very large merchants that are going be deploying Visa Checkout this year. What — can you talk a little bit about what the sales and implementation cycle might be and how to think about the progression perhaps over the next couple of years in that? Because it seems like it's pretty important from a competitive standpoint.

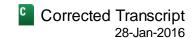
Charles W. Scharf

Chief Executive Officer & Director



So the sales cycle, I mean honestly the sales cycle varies dramatically with the priorities that the individual merchants have. And, obviously, the more continuing success that we have changes that sales cycle as well. When we're able to quote the kind of numbers that we're able to quote on a comScore for what it actually does to merchant sites and the merchants themselves can actually share those experiences, nothing is — nothing changes the sales discussion more than that.

And so I think it's fair to say when we first started these discussions, it could be six months to nine months in terms of a calling process, if not longer. I'll tell you I saw a note today on the way down here that we got an incoming call from a sizable merchant which was very surprising to me, saying that they would like to implement Visa Checkout.



So it really is – I mean, the game is changing. But we also, in our minds, we know – I mean this is merchant-by-merchant; it's a long-term build and we just have to continue to show the kinds of progress that we're seeing with these, both the numbers of merchants and the size of merchants.

The implementation piece, I forgot what it was, but it's dramatically quicker and easier for a merchant to implement. If they can fit us into their queue, it's literally weeks at this point as opposed to when we had the first incarnation, it was multiple months. So the real issue is, just making sure they understand why it's good for them and just having a merchant decide that it's a priority for them and that's what we're starting to see.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question?

Operator: Thank you. Our next question is from Jason Kupferberg with Jefferies. Please go ahead with your question.

Jason Alan Kupferberg

Jefferies LLC

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Thanks, guys. So this quarter clearly seems to support the view that Visa can really protect the bottom line with cost controls in more or less any macro climate. But, obviously, the tone is getting understandably more cautious regarding the global volume outlook. So I understand you're not changing your fiscal 2016 revenue guidance, but just curious whether or not the lower end now feels more likely than it did at the last earnings call? And then just very quickly, any metrics on Visa Checkout volume you can share?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President



I'll just jump in on your first question. The thing to point out is if you look at international payment volumes, as we said in our comments, in constant dollars, they were actually up 14%. So it's still incredibly healthy growth. And then in nominal terms, it comes down to zero. So you can see what a huge impact exchange rates have had. And U.S. payment volumes, both credit and debit, if you adjust for conversion and gas, have been remarkably stable. So that's what makes us optimistic about the long-term.

In the short run, as Charlie said, I mean there's two issues. It's the strong dollar is hurting commerce into the U.S., which is a very sizable business for us and has been a big drag now for multiple years. The dollar also affects translation. You saw that from 14% constant dollar growth to zero; it's huge. And then cross-border trends, clearly, are being hurt by both the strong dollar as well as what's happening in commodity markets, China, et cetera.

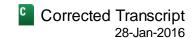
So we see all these as not really reflecting the long-term trends in our business. And so, we really don't want to change anything in terms of our long-term profile of investment. But we are also mindful of the fact that the next few quarters we will face the same pressures. So all we're really doing is being prudent and prioritizing, but not fundamentally changing anything in our investment posture. And I guess the next question was on Visa Checkout numbers? I think you provided some in your comments.

Charles W. Scharf

Chief Executive Officer & Director

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Yeah, but we actually don't provide the volumes.



Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Next question, please.

Operator: Thankyou. Next question is from Eric Wasserstrom with Guggenheim Securities. Your line is now

Eric Wasserstrom

Guggenheim Securities LLC

Thanks very much. Charlie, my question is also on an element of the competitive environment which is, we've seen Visa now may be partnership in new ways with some of the banks in order to win portfolios that were – and cobranded relationships that were up for RFP. And of course there is the evolving relationship with JPMorgan and what they're doing there on Chase Pay. And so I wonder is there something occurring now between Visa and the banks in terms of the kind of relationship that banks are seeking to have with you in the United States that's different than in the past? Because it seems like the stance is a little more aggressive in response to some of the dynamics that are making growth so hard to come by in the states.

Charles W. Scharf Chief Executive Officer & Director

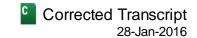
I think it's a good question. I think - and I think it's - there are a couple of different things going on. I think, first of all, part of what you're seeing in the evolving relationships that banks have with the networks, not just in the U.S. but around the world is, as the years passed since we've transitioned from association to public company, networks are kind of sorting out their point of - I'm sorry - banks are sorting out their point of views on networks and what they want those relationships to look like.

And, so what you start to see now is, at the same time, payments evolving very, very rapidly, driven mostly by digital, but by -but I think also, as importantly, the payments businesses broadly including the debit card business and the credit card businesses are now very much a part of what a bank does and the way they think about their entire relationships. As opposed to five years, six years, seven years, eight, years ago, we were transitioning from the majority of the business being done on the credit side by standalone companies, so all of the sudden being integrated into a bank but still being run separately.

So as they combine these businesses and really run them as an integrated business, they are now thinking about how they need to have a partnership with a payment network which is much more strategic as opposed to just a third-party provider of services. So what you're seeing is, you're seeing longer term contracts, whether it's people used to do one year and two year contracts and now you've seen us do, three years, five years, seven years, and 10 years in some cases. And that's because it is a different kind of relationship.

I think the other thing that's going on in the marketplace is you start to see, especially here in the United States, banks have become very, very good at understanding the different segments, the different opportunities that they have to use payment products to serve their clients. And they're able to compete with the likes of other names out there that they didn't necessarily focus on before, and are having great success in that.

And when you have success, it gives you confidence to go get more aggressive in some of these co-brands and some of these other things that you see. So what we want to do is to be the payment partner of choice to be the one that helps them think strategically as well as to be the best actual provider of network services. And you are starting - you're seeing people make choices relative to who their network partner is. And what that means for the



aggressiveness in the marketplace is it's a more competitive marketplace. But again, to me that's something we've seen it increasing over a period of time. And it's because there are people, there are more people that have better abilities in the payments space today than there were three years ago, five years ago, or 10 years ago.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question, please.

Operator: Thankyou. Our next question is from Jim Schneider with Goldman Sachs. Please go ahead with your question.

James Edward Schneider

Goldman Sachs & Co.

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Good afternoon, thanks for taking my question. I was wondering if I could ask a question about the U.S. consumer trends that you're seeing. Clearly, it sounds like from the data you've seen so far, you're not seeing any material downtick in the U.S. consumer, although you're watching it very closely. But can you maybe talk about any other underlying steps you're looking at? I think almost a year ago, you talked about the speculation about lower gas prices driving increased saving and banking of that savings. I'm wondering if you're seeing a ny evidence of increasing discretionary spend.

And then just as a clarification relative to the one point of acceleration you mentioned so far year to date, if I stripped out the effect of lower gas prices, would you still be seeing the same consistent underlying trends or the one point of acceleration? Thankyou.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President



I think what we're seeing is a very stable U.S. consumer environment. If you look at multiple quarters, all the way through last year and into this year, and you adjust for, as we said, conversions and gas prices, it's been very stable. Certainly question marks about whether there are benefits from gas prices floating into, we've seen a little bit of that on the debit side; we said that earlier.

Yes, there is a small benefit as you look at January from the impact of gas prices declining. But gas prices are still below where they were last year. So we had a two percentage point impact on debit, one percentage point on credit. That will moderate but won't go away completely, so most of it we would ascribe to that.

I wouldn't read too much into three weeks of January. We then had some awful weather in the last few weeks — last few days, and that definitely will affect some of the commerce. But overall, I don't think there's a whole lot more we have to add than what Charlie gave you in terms of holiday spend, the shift to e-commerce channels. I don't know if there's anything else you could add to that?

Charles W. Scharf

Chief Executive Officer & Director

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No, I think that's it.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Okay, next question.

Operator: Thankyou. Next question is from Darrin Peller with Barclays. Your line is now open.

Darrin D. Peller

Barclays Capital, Inc.

Thanks, guys. Look, I just want to follow up on guidance. Since your guidance was provided last quarter, we've had further deterioration on some macro areas, like you mentioned gas prices and definitely some of the emerging oil-based economies. But again, you've maintained your guidance for now and did pretty well in the quarter.

So I guess as of now, do you include similar trends on the slower areas like Brazil, Russia, Middle East as persisting at these similar rates throughout the year? And then what, if anything, would you say has been a surprise to the upside since last quarter on revenue that might offset the slower macro? May be it was cross-border versus the 3% rate. If you can, just give us more color on that. Thanks, guys.

Charles W. Scharf

Chief Executive Officer & Director

Listen, this whole concept of guidance is a very strange thing because you're asking us what we think our volumes will be next quarter, the quarter after that, and the quarter after that. And we know a little more than you know, not a whole lot more. So asking people to give precision in terms of what's going to happen effectively to the dollar, consumer confidence, and things like that, we really don't know. So what we try and do is be as transparent as we can about what we do know.

And we recognize that it's hard sometimes to figure out what a trend is, and it's hard to know what the triggers will be to either see an uptick or a downtick. So we've tried to be very clear in our remarks that we're not changing guidance. But if we don't see improvement, then the guidance will come under pressure.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

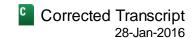
I think if you want to know what could offset, we told you that we saw some additional factors that would causing deceleration in cross-border trends, and that was really two main things. It was travel out of China and it was travel out of oil-linked economies.

What could cause – what is the most significant variable that could cause trends to change in a positive way? Do we know it's going to happen? We don't, but it's the dollar. If the dollar begins to show some signs of weakness, clearly it has a big impact on our business, not immediately overbut overtime, on two fronts. One the translation impact, which you can all estimate, but then there is the other impact which will play out overtime, which is commerce into the U.S., which is a big part of our business. And then in the second half certainly, Europe will be part of Visa. And the travel into Europe has been better than travel into other geographies, so hopefully that will help us. Now some of that we knew going into the year and giving you some of our perspectives we incorporated some of that.

Charles W. Scharf

Chief Executive Officer & Director

Just to give you a little sense, we were looking earlier in detail at the cross-border spend. And if you look over a much longer period of time, you go back to when our cross-border growth was in the low double digits versus where it is today, and say where is — what's the biggest effect, almost something like 75% or 80% of that effect is the reduction is from sales acquired in the U.S. So it's the drop in spending of non-U.S. cardholders in the United



States. It's a very, very dramatic, very clear, very specific item predominantly driven by the dollar, not totally but predominantly driven by the dollar. And it moves quickly on the way down, and at some point it could quickly change the other way as well. We just don't know when.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question, Sam.

Operator: Thank you. Next question is from Ken Bruce with Bank of America. Your line is now open.

Kenneth Bruce

Bank of America Merrill Lynch

Thanks, good afternoon. My questions really relate to some earlier comments. I recognize that you have some expenses that you can manage. I was wondering if you might be able to provide some sense as to how we should be thinking about what would be corespending or core investments in expenses versus maybe some of those areas that you talked about in terms of gaining more efficiency, just so we can have an understanding as to how much leverage you have from that standpoint.

And then second question, are you — and this is granular, but are you seeing any changes in activity within the U.S. in those areas that are particularly known for high energy or high exposure to gas and oil in particular? Thank you.

Vasant M. Prabhu



Chief Financial Officer & Executive Vice President

I think you can see some of this from things that we might put out through our economics. But there's, clearly, you can see this subdued activity in oil-related states. And the west is doing better in aggregate than other parts of the country. But other than that, I mean I don't think there's anything we would tell you that is not available from other sources of data that you see.

The other question was on the cost side. What we said earlier was costs related to technology initiatives that are critical to product development for the future, cyber security, those have a long-term — we have a long-term perspective on that and there really is no change on our posture on those things. It's on the margin where we can tighten the belt on things that may be somewhat more discretionary and you could do them later or you could do them now.

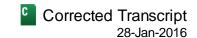
There comes a point where you certainly don't want to cut below certain levels, so we're being very prudent. We see many of these as transient and cyclical kinds of things with some strong underlying trends. So we see no reason to change our posture on our long-term investment outlook.

Charles W. Scharf

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Chief Executive Officer & Director

And the only thing I would add is that we're going through the initial discussions with our colleagues at Visa Europe and so obviously after we close the transaction, we will go into a full-fledged integration. And that just is an opportunity to help us focus on efficiency in general. And just to repeat what we said is that we still are believers that the underlying trends in the business are extraordinarily strong, that there are places that commerce is moving to and we're building the appropriate solutions that will enable us to be successful in the digital world as it's been in the phy sical world, and we're very committed to continue to invest in that space.



But, remember, we are a very young for-profit company. It wasn't that long that we were an association. And so, opportunities to focus internally and to get smart about where you're spending your dollars, to ensure that they're going towards the future and towards client-driven things is a good thing. And that's our focus as we talk about the allocation of our resources.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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Next question, Sam.

Operator: Thankyou. Next question is from Sanjay Sakhrani with KBW. Your line is now open.

Sanjay Sakhrani

Keefe, Bruyette & Woods, Inc.

Thank you. I guess I have a question on the share buyback and the dilution offset to the preferred issuance. Understanding the markets are volatile, but is there anything that precludes you from maybe having a little bit of a shorter time horizon in repurchasing those shares? And then just one data point question. Do we have - and I'm sorry if you guys have disclosed this before, but do we have a specific number on how much of your volume is travel that's coming out of China into other countries? Thank you.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President



I believe on the second question, no, we don't provide that. In terms of buybacks, if you calibrate our buybacks, I mean, as you know, our buybacks have always been more problematic than opportunistic. But within the problematic buyback, you've seen us calibrate up or down depending on market conditions and our assessments of valuation and so on.

So, yes, there are opportunities to speed it up if we want to. But I think our best expectation remains what we told you earlier which is that our goal is to buyback or offset the dilution caused by the issuance of the preferred stock by the end of fiscal year 2017. The pace in which we do that, whether it's more in some quarters less in others, I'm sure we'll calibrate as each quarter comes by.

Charles W. Scharf

Chief Executive Officer & Director

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The only thing I'll say is, to add on that is, we have – well, I guess I'd say it this way, if you look at our actions on the debt offering, we issued the debt in December well ahead of what we expect to be the closing date, because we looked at what we thought the right long-term economic decision was as opposed to what the negative effect would be this quarter and next quarter. And so when it comes to buybacks, it's the same economic discussion. And, obviously, depending on the size, depending on how much you want to accelerate, there are different costs to do those things. And we think about that in terms of what the right thing for us to do is.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

Next question, please.

Operator: Thankyou. Next question is from Craig Maurer with Autonomous. Your line is now open.

Craig Jared Maurer

Autonomous Research US LP

Yeah, hi. Thanks. Two questions: first, just, Vasant, should we expect the incentives that were pushed out due to deal delays to show up in the fiscal second quarter or will they be spread out more through the year? And secondly, Charlie, with Visa Checkout, we've been noticing a lot of incentives being pushed through the channels for consumers to sign up and use the offering. And I was just wondering if you could comment at all regarding potential share gains against competitors in the digital wallet space if there's any anecdotal evidence of that yet? Thanks.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

On client incentives, as I mentioned in my comments some of the reasons they were lower than we expected, they were in the middle of the range rather than the high-end of the range, so it was a small difference. Partly, it was volumes because our international volumes were lower and so you get a reduction in incentive payments as a result of lower volumes. And it was only partly because of delays and some of those, yes, they will move into the second quarter. And so you should expect that the second quarter client incentive range will not look a whole lot different than the first quarter. But these are small shifts; these are not big shifts.

Charles W. Scharf

Chief Executive Officer & Director

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I tuned out after the first question. What was the second question?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Global Head of Investor Relations, Visa, Inc.

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Visa Checkout.

Jack Carsky

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Visa Checkout. Anecdotally, do we know if we're gaining share over other Checkout type solutions?

Charles W. Scharf

Chief Executive Officer & Director

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I don't know the answer to that, to be honest.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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And with that, we'll go to the next question.

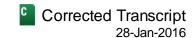
Operator: Thank you. Our next question is from Bryan Keane with Deutsche Bank. Your line is now open.

Bryan C. Keane

Deutsche Bank Securities, Inc.

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Thanks. I just wanted to ask again about the revenue sensitivity. So if cross-border doesn't accelerate and the U.S. doesn't accelerate in the second half 2016 as is in the guidance and let's just say the cross-border stays at this depressed level along with the U.S. staying more the same, are we talking about potentially then the revenue



guidance for the full fiscal year 2016 has to come in and you would protect kind of the bottom line through other cost cuts? Just want to make sure I know the sensitivity of what happens if we stay more in the same environment? Thanks.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

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Yeah, I think you can – if you could, you could probably run those numbers as well as we can. Cross-border, the international revenues were roughly 20% of our revenue base. And there's about 6% now, and may be there was an expectation that it would be somewhat better in the second half as we lap easier comparisons. You can sort of look at, if it stays at these levels what the – what – we wouldn't do anything that wouldn't – would be wrong for the long-term in our business. As we said, we will continue to look at phasing and prioritizing expenses while investing in things that matter.

So I don't think we're suggesting that we can offset all revenue shortfalls that might emerge. And it's too early really to tell you how the second half might shape. As you know, when we get to the second half, the comparisons do get somewhat easier so we'll have to see how that plays out. We'll have to see sort of what the dollar is doing at that point. Lots of unknowns. We've given you our best sense for the next quarter. It looks to be sort of very similar to what we saw in the first quarter. And that's about as good as...

Charles W. Scharf

Chief Executive Officer & Director

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The only thing I would add is, I guess, to your point, Vasant, is we feel like we've got a much betterline of sight obviously to the next quarter, so we tried to be as clear as we can there. And as we get to the end of the next quarter, by that point we should have a much more definitive point of view on what the year looks like as well as the impact of what Visa Europe will be at that point in time.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

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At this point, we have time for one last question.

Operator: Thankyou. Our next question is from Tien-tsin Huang with JPMorgan. Your line is now open.

Tien-tsin Huang

JPMorgan Securities LLC

Great. Thanks for fitting me in, just good job on the expenses here. I just wanted to ask about some of the deal wins and if there's any update on the timing. And I'm curious if your outlook already contemplated USAA and I guess Costco and some of those things coming on? Thanks.

Charles W. Scharf

Chief Executive Officer & Director

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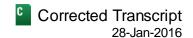
There's no update on those things. They're all proceeding on plan and they were in our guidance.

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

And with that, we'd like to thank everybody for joining us today. If you have any additional questions, please feel free to give either myself or Victoria a call. Take care.

Visa, Inc. (V) Q1 2016 Earnings Call



Operator: Thankyou, speakers. And this does conclude today's conference. Thankyou for joining. All parties may disconnect at this time.

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