

# Visa Pitch

Presented by:

Eric Xiao, *Investment Analyst*

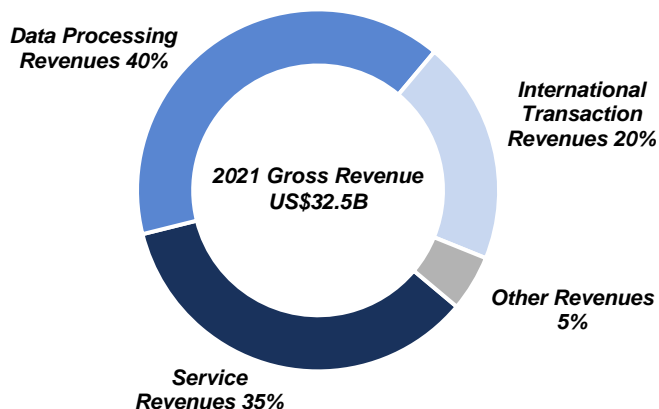
# Company Overview



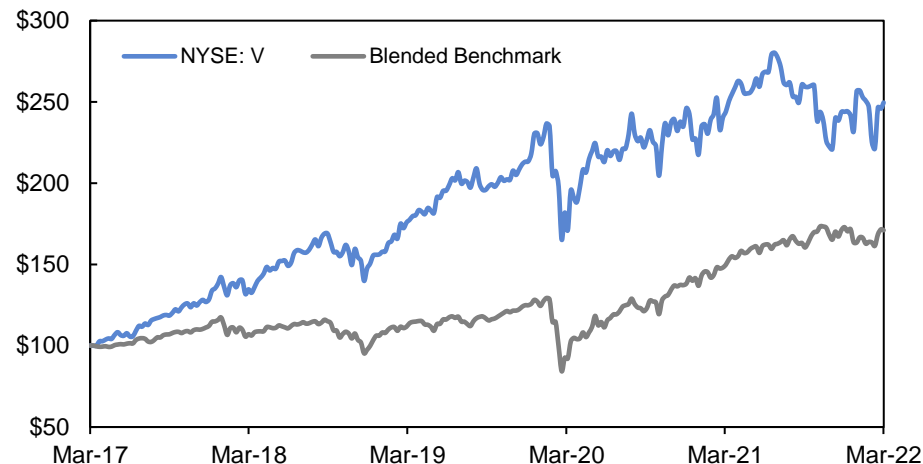
## Business Description

- Visa Inc. (NYSE: V) is the world's largest payments technology company, providing services in more than 200 countries and territories
  - In 2021, it processed over 164B transactions and experienced US\$10.4T in payments volume across its business
- V operates through the following segments to facilitate payments among consumers, businesses, financial institutions, and governments globally:
  - **Data Processing Revenues:** ~40% of revenue stems from fees collected for the authorization, settlement, and clearing of payments, as well as value-added, and other services for its payment network
  - **Service Revenues:** ~35% of revenue consists of services provided to card issuers for the use of Visa products, driven by payment volumes
  - **International Transaction Revenues:** ~20% of revenues are derived from cross-border transaction processing and currency conversion activities
  - **Other Revenues:** The final ~5% of revenue is comprised of license fees for the use of V brand or technology, and licensing and card benefits

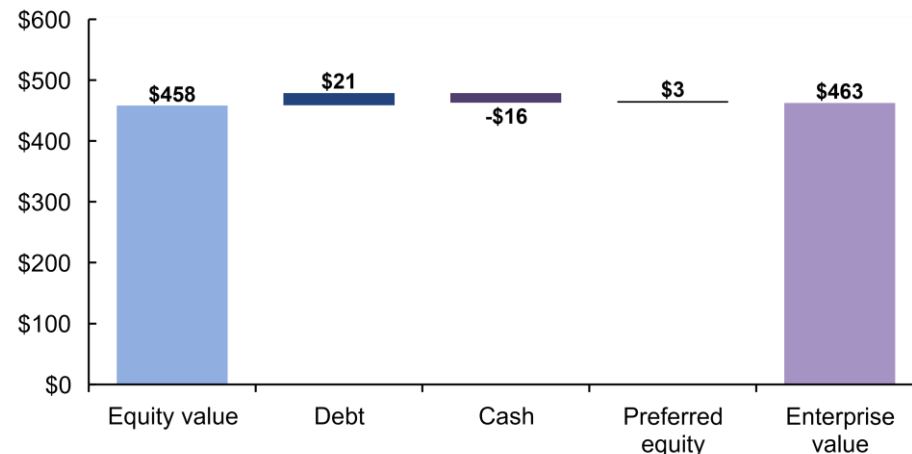
## Revenue Mix (2021)



## Historical Trading Performance



## Capital Structure Waterfall (US\$B)<sup>1</sup>

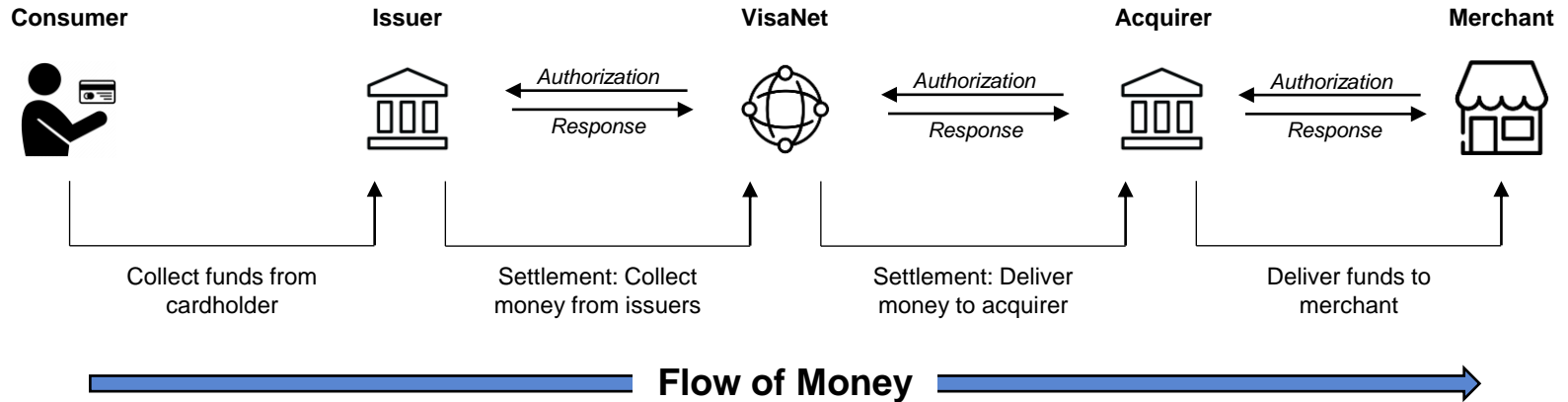


Source: Company Filings, S&P Capital IQ  
 (1) Market Data as of March 25, 2022

# Company Overview



## The Core Business: An Open-Loop Payment Network



## Business Strategy

### Enhance V's Position as a Network of Networks

#### Consumer Payments

- ~US\$18T in consumer spending still conducted in cash and check
- Expanding presence in new technologies

#### New Flows

- ~US\$185T volume opportunity
- Capturing new sources of money movement (P2P, B2C, B2B, B2b, and G2C)

#### Value Added Services

- Revenue diversification from V's core business
- Enhancing service capabilities
- Capturing disruptive payment services (buy now pay later)

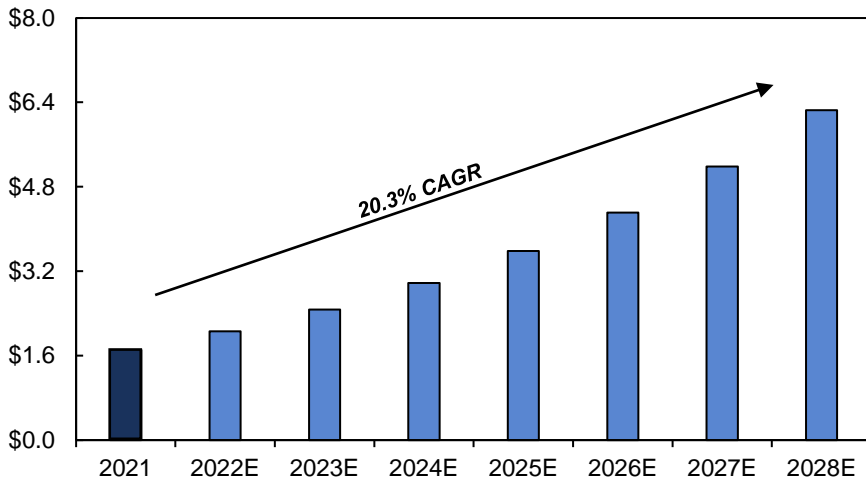
# Business Strategy: Consumer Payments



## Background

- Capturing the ~US\$18T of cash and check payments requires the adoption of V credit, debit, and prepaid cards, which now offer streamlined and safer services
  - **Tap to Pay:** Over 20 countries have >90% contactless penetration and ~70 countries where tap to pay is >50% of face-to-face transactions
    - V has activated ~500 contactless public transport projects worldwide and has ~750 projects in its pipeline (Singapore)
  - **Click to Pay:** V is working to take the face-to-face tap to pay experience online, removing the time-consuming aspects of online transactions
  - **Tokenization:** Visa Token Service works to reduce fraud and improve authorizations by replacing the 16-digit V account numbers with a token
    - In the past 17 months, the number of network tokens issued more than doubled from 1B to 2.6B
- V has also been working on capturing new payment forms
  - **Cryptocurrency:** V looks to bridge the crypto ecosystem with its payments network, enabling the conversion of cryptocurrencies into fiat currency and access to its expansive network

## Global Contactless Revenue (US\$T)



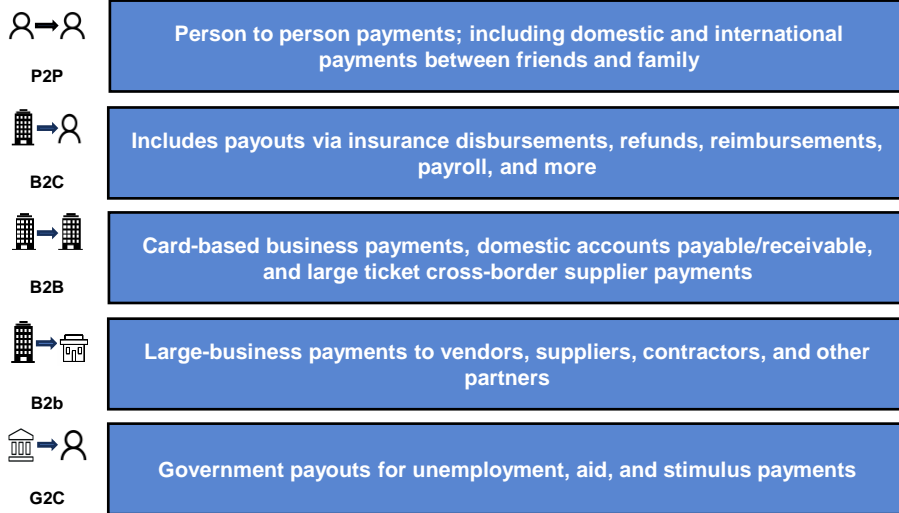
## Notable Partnerships

	V signed an eight-year agreement with Santander-Chile, one of the largest card issuers in the country
	V entered into an agreement with Banco XP, one of the country's largest digital banks with over 3mm customers.
	Naranja X, one of Argentina's rapidly growing wallet providers, has issued over 2mm V credentials between its prepaid and debit cards over the past two years
	This quarter saw the renewal of V's partnership with PayPay bank, which enables accounts to one of the fastest growing Japanese digital wallets: PayPay wallet (42mm total users)
	V recently extended its partnership with Safaricom, which operates M-PESA, to cover African markets outside of Kenya where M-PESA has 50mm customers
	Having launched V cards in 39 markets across its 10mm user base since 2018, V and Crypto.com signed a global growth agreement to cover another 12 markets
	V closed a US co-brand deal with Shopify; the Shopify Balance card allows US merchants to access funds quicker, and receive cashback for business expenses

# Business Strategy: New Flows



## Capturing New Sources of Money Movement



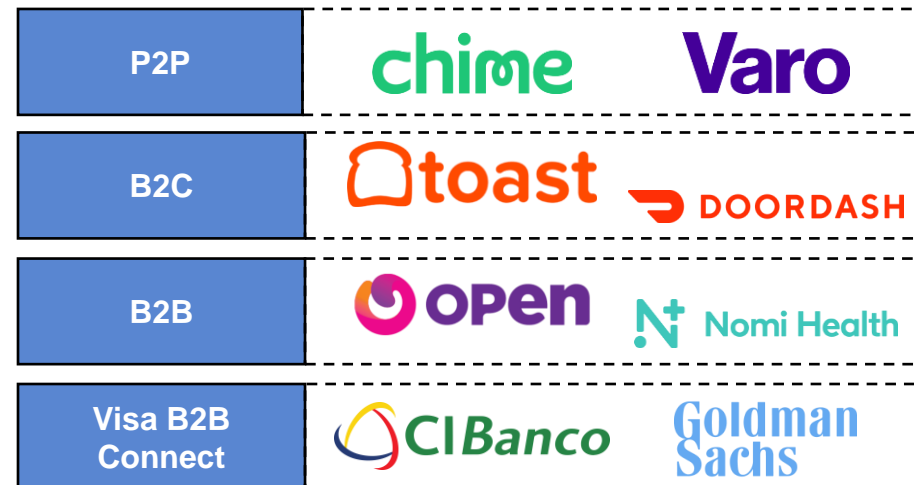
## Product Offerings

- **Visa Direct**
  - Push payment solution targeting the US\$65T opportunity across P2P, B2b, B2C, and G2C, offering 24/7 reliability
  - P2P currently V's largest use case but the lowest yielding one; the Company expects Visa Direct to remain accretive as it scales across other use cases, especially those that are cross-border
  - Now reaches ~5B cards and accounts in >200 geographies
- **Visa Business Solutions**
  - V offers corporate cards, purchasing cards, digital credentials, and disbursement accounts
- **Visa B2B Connect**
  - ~60% of U.S. businesses need to make cross-border payments
  - Uses V's global payments infrastructure to facilitate transactions from the bank of origin directly to the beneficiary bank
  - This reduces the intermediaries involved, creating more efficient payment processes for businesses

## Notable Acquisitions

- **Earthport (LON: EPO) (May 2019, US\$257mm)**
  - Prior to the acquisition, Visa Direct could only handle V card transactions
  - EPO's cross-border payments network connects banks, money transfer service providers, and businesses through the world's largest independent automatic clearing house (ACH) network
    - Leveraged software and a single API to connect with faster payment schemes, enabling transaction completions in under an hour
  - Covers over 200 countries and geographies
  - In conjunction with V's legacy network, this provided V the capability to apply Visa Direct to more use cases and capture more cross-border flows
- **Currencycloud (Dec 2021, US\$925mm)**
  - Developer of APIs that power remittance and currency exchange services, which supports ~500 banking and technology clients in over 180 countries
  - Supports V's traditional cross-border business, and streamlines some of its cross-border offerings across new flows (Visa Direct, B2B Connect)

## New Use Cases



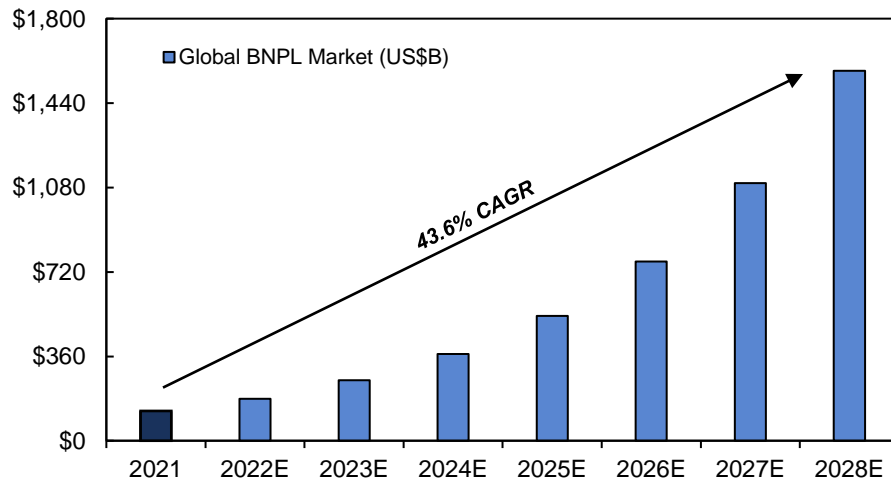
# Business Strategy: Value-added Services



## Issuer Solutions

- Issuer solutions include several services and digital solutions to issuers such as account controls, digital issuance, branded consumer experiences, Visa Debit Processing Service, and buy now, pay later (BNPL) capabilities
- **Visa Debit Processing Service**
  - V offers one of the largest global issuer processors of Visa debit transactions providing value added services across its debt, prepaid, and credit lines
- **BNPL**
  - V's open-loop platform enables customer scaling, which has led to BNPL fintechs issuing V credentials
    - In Q4 2021, V partnered with Klarna to issue a card, and this past quarter, Affirm selected V as its network partner for the **Affirm Debit+ Card**, in addition to the renewal of the virtual card business
  - For traditional issuers, V has a network installment solution (Visa Installments) that allows its financial institution clients to offer BNPL capabilities on existing credit credentials on any V transaction

## BNPL Growth



Source: Company Filings, Street Research

## Acceptance Solutions

- **Cybersource**
  - V offers a global payment platform that provides merchants of all sizes the capability to improve consumer engagement and transaction, mitigate fraud and security risk, lower operational costs, and adapt to changing business requirements
  - The software utilizes cloud-based architecture and enables an omnichannel payment solution (mobile order-ahead, buy online/pick up in-store) to deliver more innovation to merchants
- **Global Urban Mobility**
  - Allows transit operators to accept V contactless payments in addition to proprietary closed-loop payment solutions
- Finally, V offers a network agnostic solution Verifi to offer dispute management services to enable merchants to prevent and resolve disputes with a single connections

## Advisory Services and Risk & Identity Solutions

- **Advisory Services**
  - V operates a Consulting and Analytics arms which utilizes payments expertise, proprietary models, and data & economic intelligence to help implement solutions that drive better business decisions
  - These services are offered to issuers, acquirers, merchants, fintechs, and other partners
- **Risk & Identity Solutions**
  - This segment utilizes data to provide insights into account holder authentication to help clients prevent fraud and protect account holder data
  - Various solutions include Visa Advanced Authorization, Visa Secure, Visa Advanced Identity Score, Visa Consumer Authentication Service, and payment-decisioning solutions from CardinalCommerce enhances payment security for financial institutions and merchants alike

# Payments & Processing Overview



## Commentary

- **Global Personal Consumption Expenditure (PCE) Growth**
  - Underlying driver of the payments industry
  - Forecasted across 36 different consumer spending categories including healthcare & drugs, dining & drinking, and travel abroad
- **Key Themes**
  - Electronification of Payments
    - Secular shift in consumer behaviour, accelerated by COVID-19
    - I.e., consumer shift from cash to card in taxis
  - BNPL
    - Appeals to younger demographic and has high consumer trust (33%) compared to credit cards (19%)
  - Frictionless commerce
    - Technologies such as order-ahead, curbside pickup, etc.

## Industry Subsectors

### Merchant Acquirers

**Key trends:** Levered to consumer shift from cash to card. Exposures vary in geography and merchant size. Moderate competitive pressure. High margin.

**Companies:** PYPL, FIS, GPN, SQ

### Fintech Lenders

**Key trends:** Levered to shift towards online lending. Highly competitive, with niche business models and a heavy reliance on funding from banks/financial institutions.

**Companies:** LC, PYPL, SQ

### Money Transfer

**Key trends:** Exposed to transition to electronic from cash transfer. Highly competitive. Low margin.

**Companies:** WU, MGI, PYPL

### Card Networks

**Key trends:** Levered to global consumer shift from cash to card. Low competitive pressure. Very high margin.

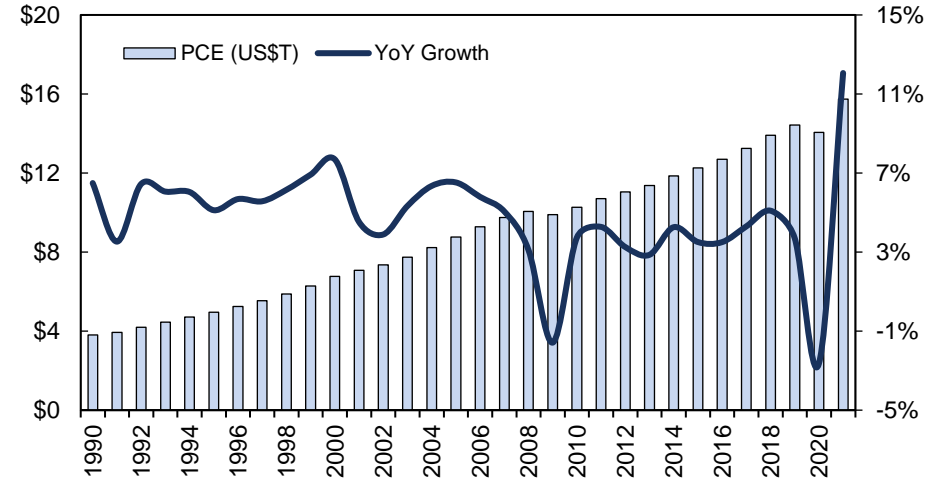
**Companies:** V, MA, AXP, DFS

### Fleet/Specialized Payments

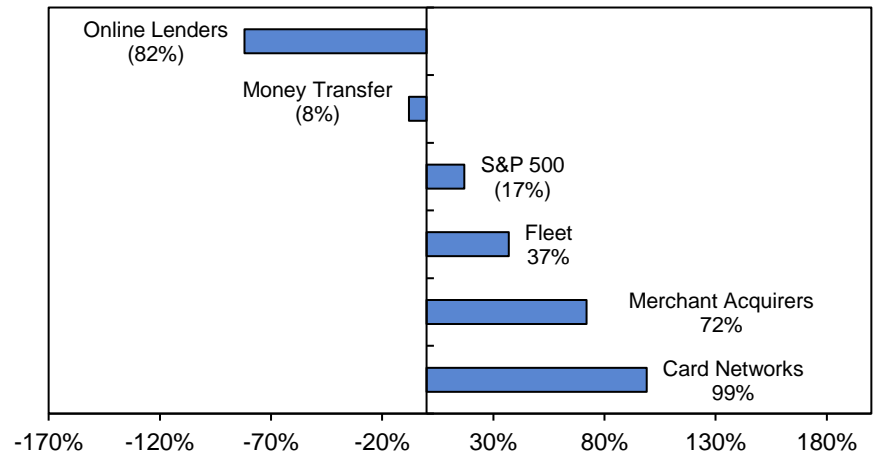
**Key trends:** Levered to B2B shift from cash to card. Low-moderate competitive pressure. High margin.

**Companies:** WEX, VRRM

## LHS PCE vs RHS PCE Growth



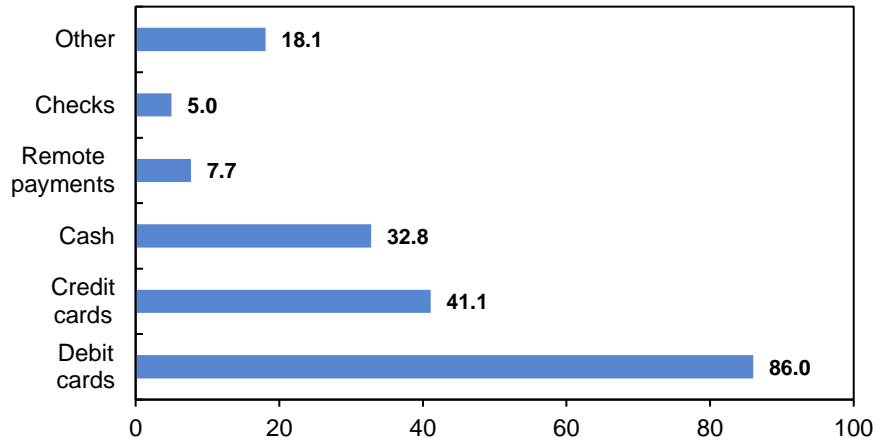
## 3 Year Performance, by Subsector<sup>1</sup>



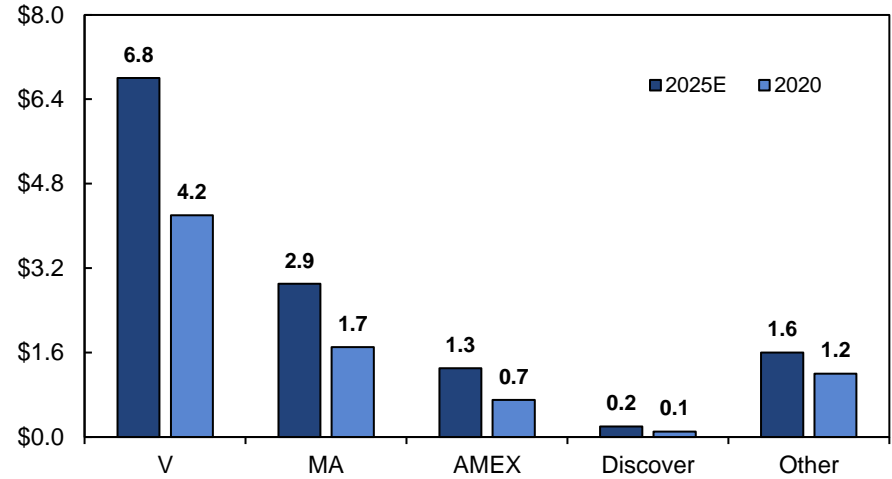
# Card Networks



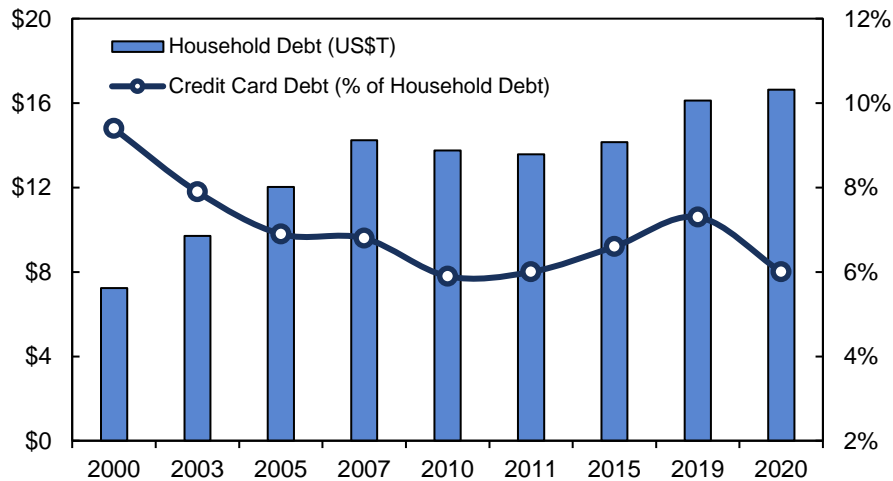
U.S. Consumer Payment Methods (Bs of Transactions)<sup>1</sup>



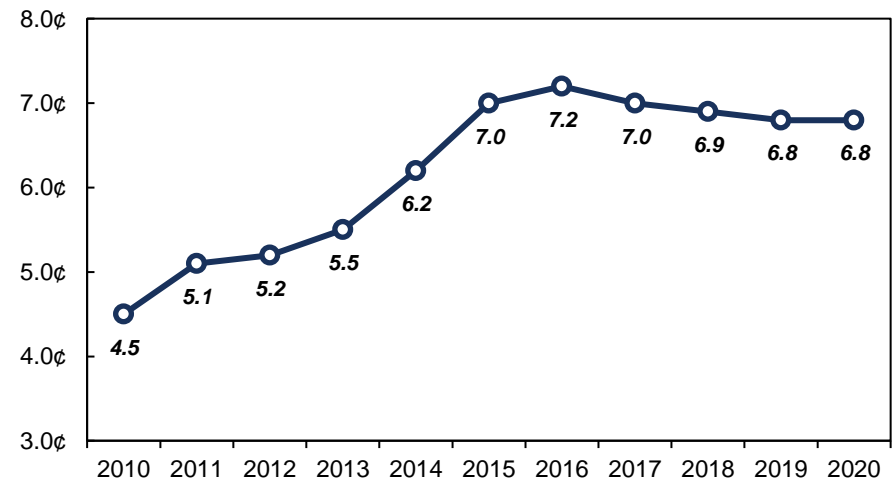
U.S. Payment Card Purchase Volumes (US\$T)



LHS U.S. Household Debt vs RHS U.S. Credit Card Debt



Global Card Fraud (US¢/100\$ of Volume)



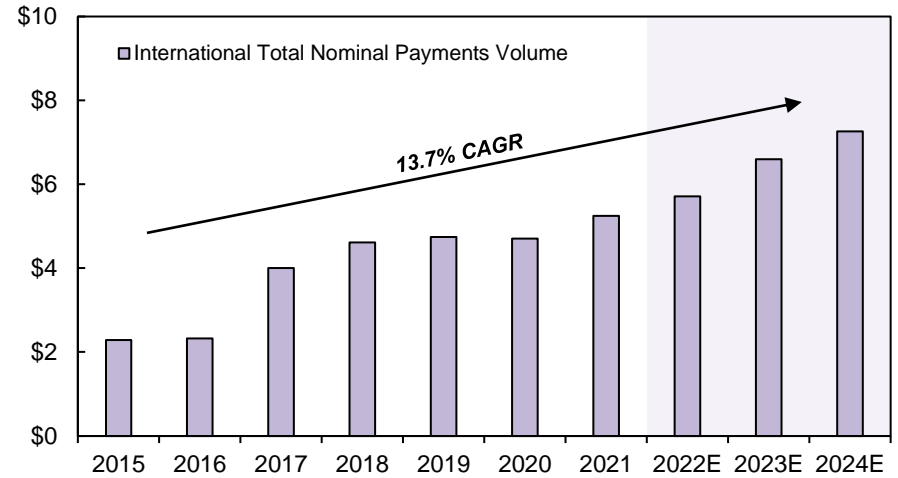
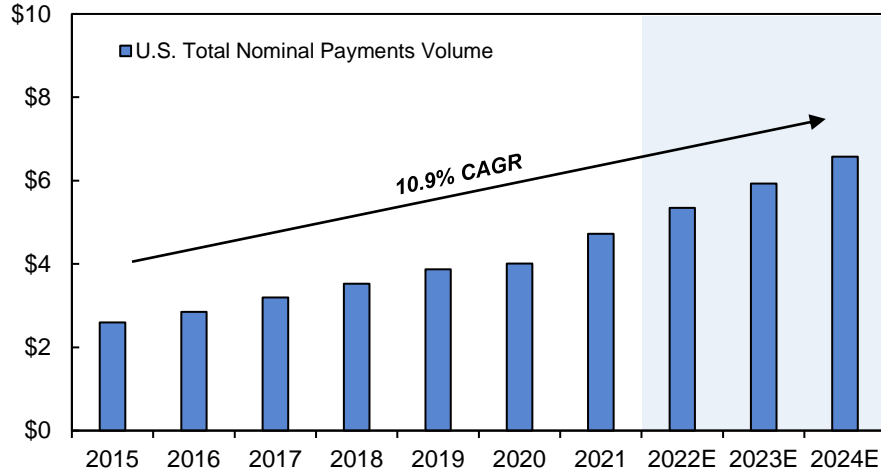
Source: The Nilson Report  
(1) 2020



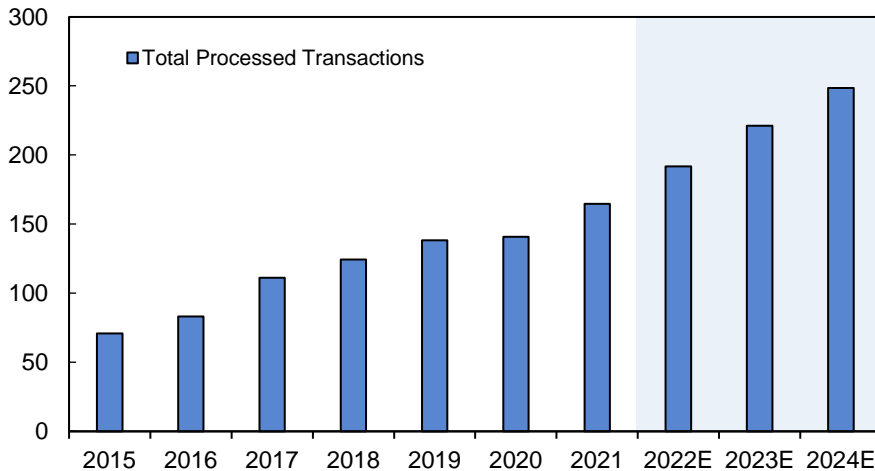
# Performance Metrics



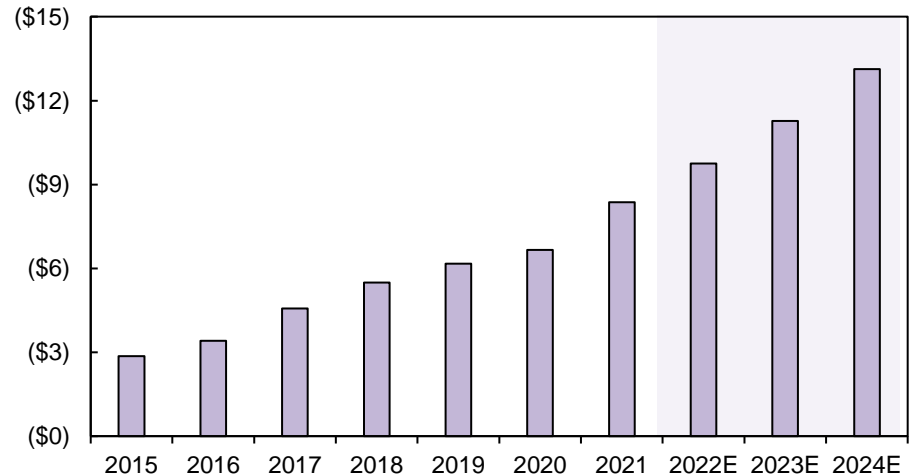
## Nominal Payments Volume (US\$T)



## Transaction Volume (B)



## Client Incentives (US\$B)

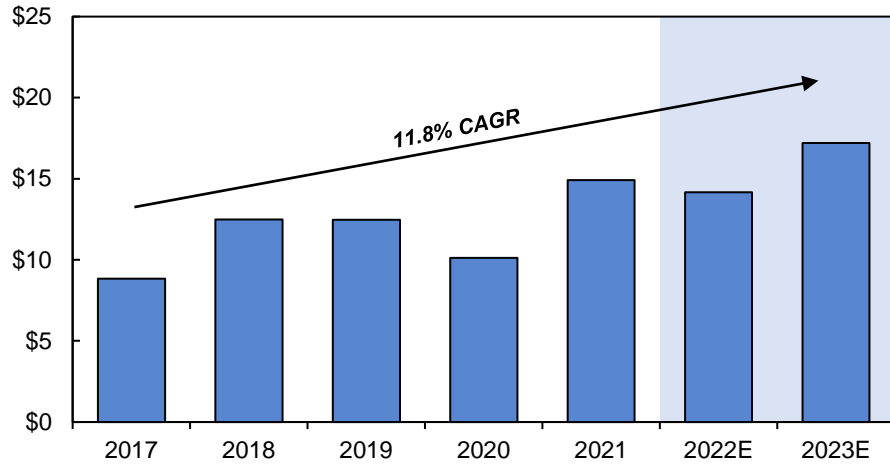


Source: Company Filings, CPMT Estimates

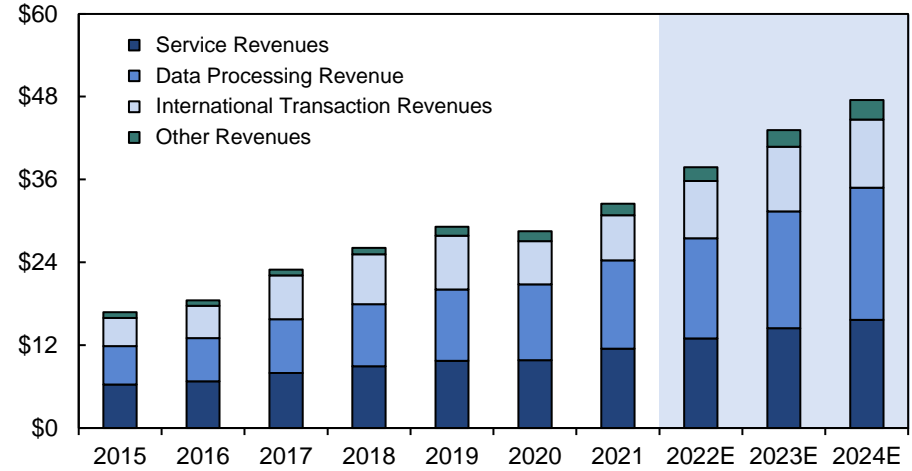
# Financial Metrics



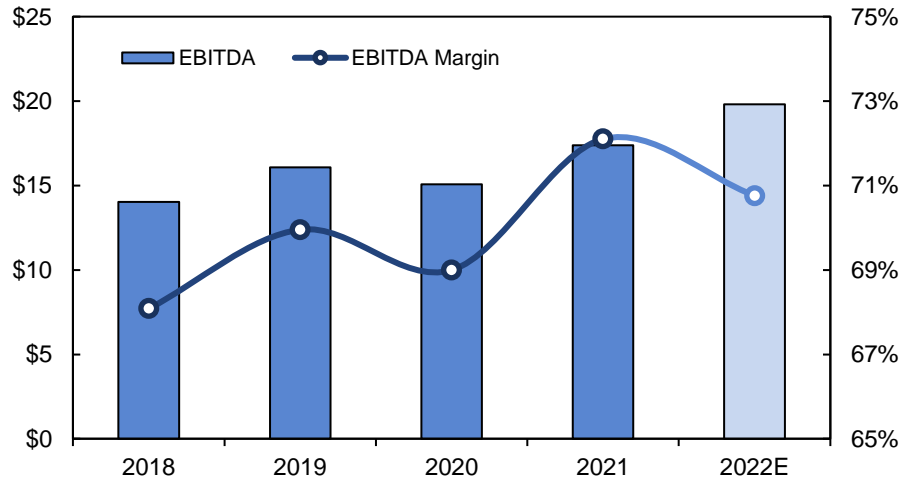
Free Cash Flow (US\$B)



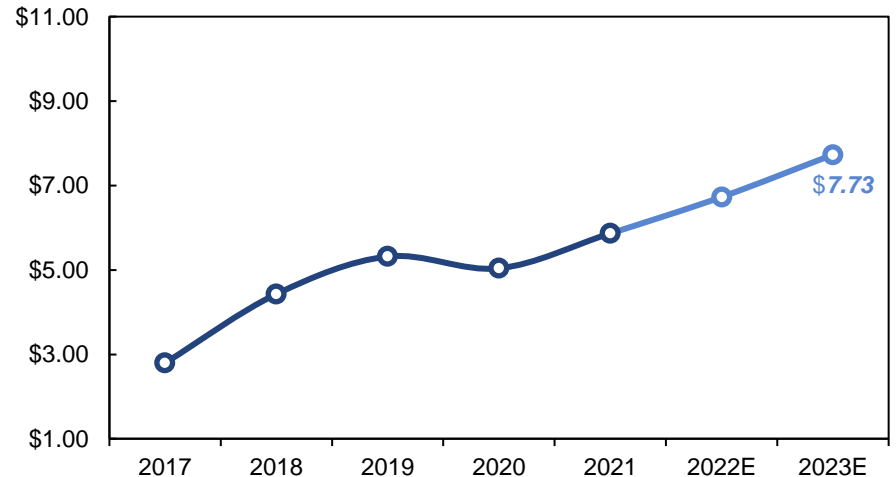
Revenue<sup>1</sup> (US\$B)



LHS EBITDA (US\$B) vs RHS EBITDA Margin

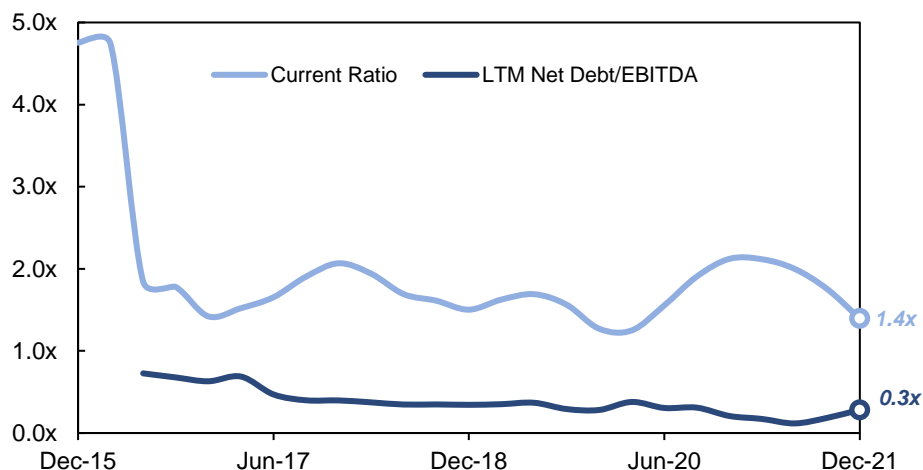


EPS (US\$/share)



Source: Company Filings, CPMT Estimates, S&P Capital IQ  
 (1) Gross revenues (net of Client Incentives)

## LTM Net Debt/EBITDA & Current Ratio



## Commentary

- As of December 31, 2021, the Company had US\$20.9B of debt on its balance sheet
  - This was offset by US\$14.7B of cash and equivalents resulting in a net debt of US\$6.2B
- From a liquidity perspective, the current ratio is at good levels however operations are primarily funded by free cash flow
- Should V pursue other inorganic growth that stresses its cash flow generation post-dividend, the Company has readily available capital
  - US\$1.5B of liquidable current investments
  - US\$3.0B of commercial paper capacity
  - US\$5.0B revolving credit facility
- The Company has the following upcoming material maturities
  - US\$1B of 2.15% Senior Notes due September 2022
  - US\$2.25B of 2.80% Senior Notes due December 2022

## Credit Ratings

**S&P Global**

AA-

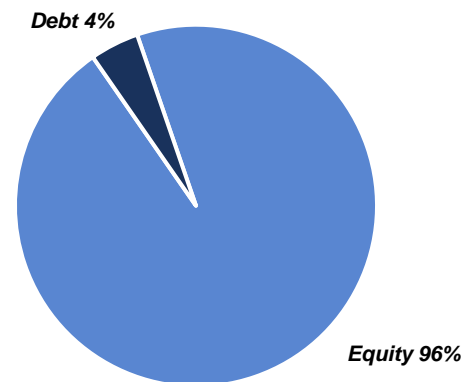
**MOODY'S**

Aa3

*"Our affirmation reflects V's ubiquitous market position in electronic payments and strong financial position... Despite pressure on cash flow from the pandemic, the companies will maintain low leverage and robust liquidity"*

*"V's ratings are reflected in the global electronic payments ecosystem with high barriers to entry, and continued secular shift toward electronic payments and away from cash and checks"*

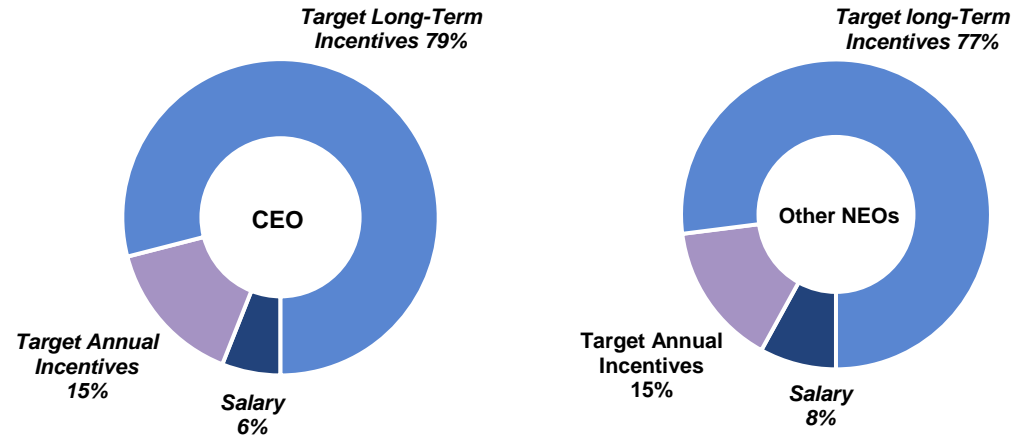
## Target Debt/Equity<sup>1</sup>



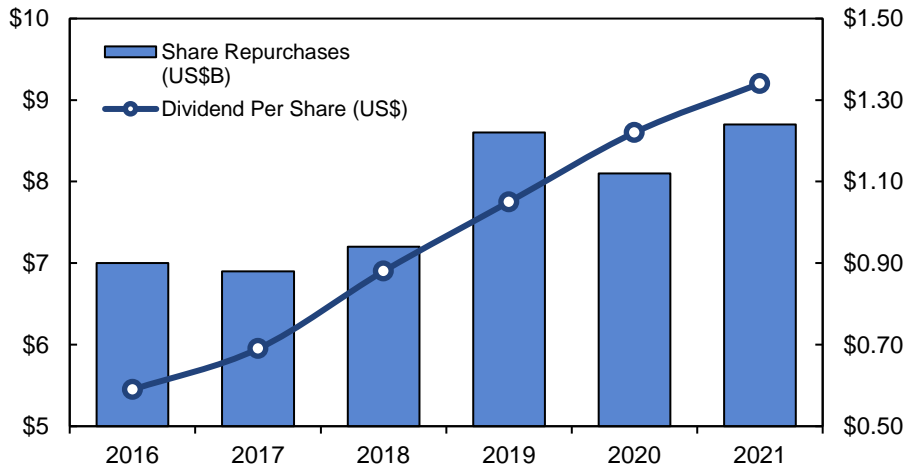
## Management Overview

- V is led by CEO Alfred Kelly, who has held the position since December 2016
  - Mr. Kelly has extensive technology and payments experience, having previously held the roles of President and CEO of Intersection and several senior positions at AXP spanning 23 years
- Management has been successful in identifying and executing on growth strategies through acquisitions (Earthport, Currencycloud, Tink), as they look to capture new TAMs
- V has compensation standards that align with shareholder values
  - Annual incentive awards and performance share awards are capped at 200% of target for executive officers
  - Each director must hold common shares equivalent to at least 5x the Board membership cash retainer

## CEO and NEO Compensation Mix



## LHS Share Buybacks vs RHS Dividend Per Share



## ESG Initiatives

- Environment**
  - In 2020, V achieved its goal of using 100% renewable energy
  - In 2020, the Company issued its inaugural green bond for US\$500mm, maturing in 2027 to finance the construction of efficient buildings, and energy and water efficiency improvements
  - V has made a commitment to achieve net-zero emissions by 2040
- Social**
  - 85% of V's workforce participates in V programs that give back to their communities
  - Committed to digitally-enable 50mm small and micro businesses by 2023
- Governance**
  - 31% female diversity across its management team, and 36% across its board of directors

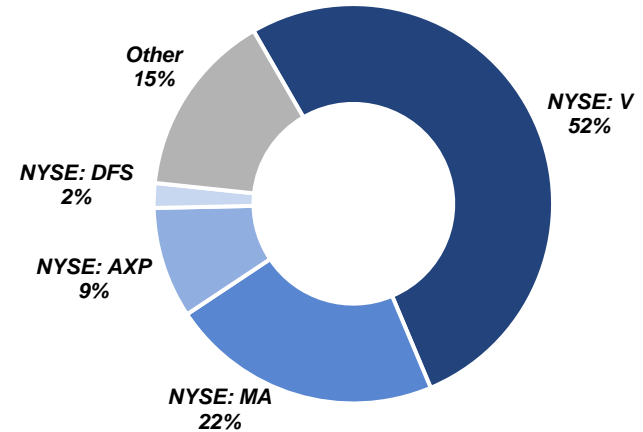
# Competitive Advantage



## Commentary

- **Largest Open-Loop Payments Network**
  - V operates the largest card network which has resulted in network effects, widening the moat around the ultra-high margin business (82% more payment volume than 2<sup>nd</sup> largest network, MA)
  - The open-loop nature of V's network allows it to gain exposure to high-growth payments areas
    - Provides on-ramps to cryptocurrency, merchant acquirers, money transfer, fintech BNPL platforms, and other nuance entrants
  - Disciplined capital allocation towards innovative developments, partnerships, and acquisitions have enabled the Company to scale its overall operations in traditional business lines (consumer payments) and in targeting new TAMs
- V is in a prime position to capitalize on **the global secular shift to electronic payments**

## Market Share<sup>1</sup>



## Growth Prospects & Notable Respective Partnerships

### Consumer Payments

US\$18T Opportunity



### New Flows

#### B2B

#### P2P, B2C, B2b, G2C

US\$120T Opportunity

US\$65T Opportunity

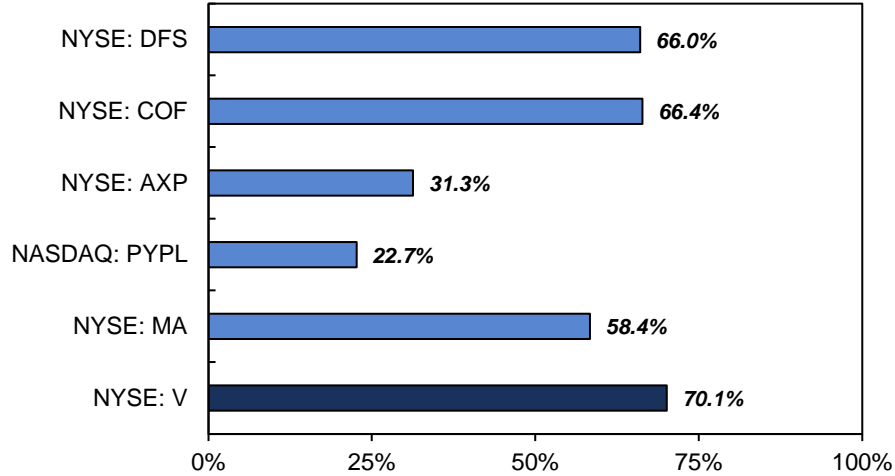


Source: Company Filings,  
(1) Based on 2020 Payment Cards Purchase Volume

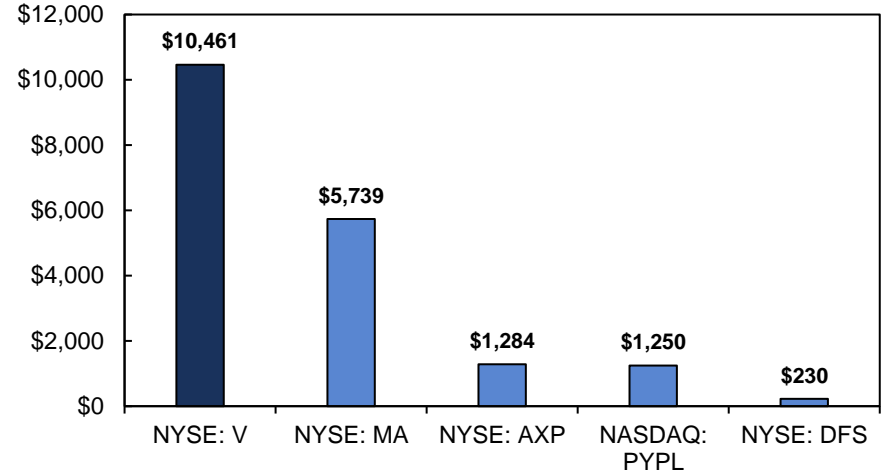
# Peer Benchmarking



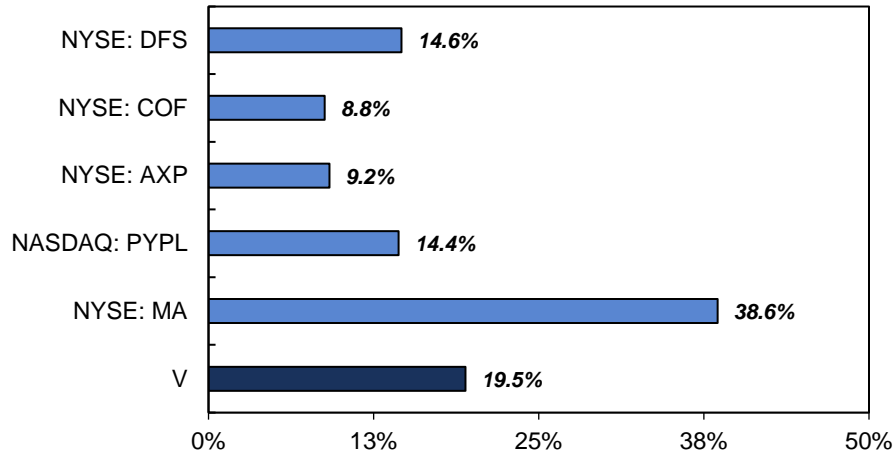
## EBITDA Margin



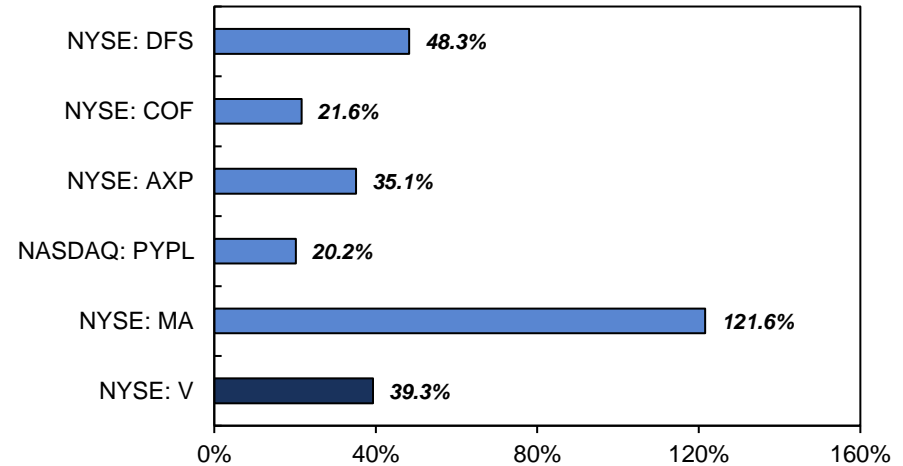
## Total Payments Volume (US\$B)<sup>1</sup>



## ROIC



## ROE



Source: Company Filings, S&P Capital IQ  
(1) Calendar Year 2021

# Comparable Companies



## Key Comps Metrics<sup>1</sup>



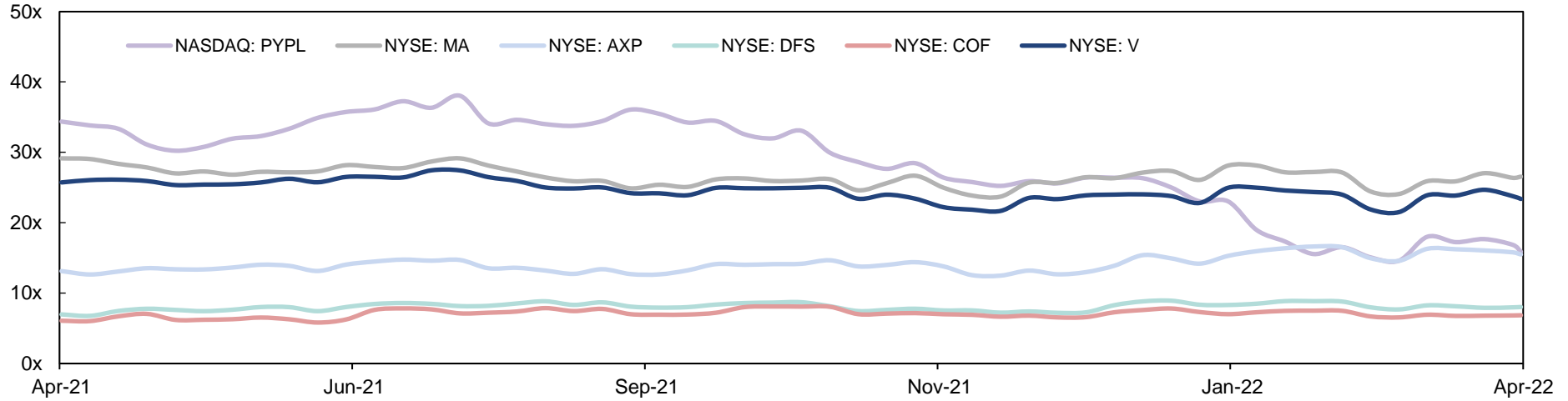
	VISA	mastercard	AMERICAN EXPRESS	PayPal	DISCOVER	Capital One
Market Cap	\$443.56B	\$343.86B	\$144.10B	\$132.53B	\$32.27B	\$55.12B
Enterprise Value	\$448.05B	\$347.41B	\$160.58T	\$132.84B	\$43.53B	\$79.15B
NTM EV/EBITDA	21.5x	22.3x	13.9x	15.8x	8.0x	6.8x
NTM P/E	29.9x	34.7x	19.3x	22.6x	7.8x	6.5x
Net Debt / LTM EBITDA	0.25x	0.61x	1.38x	(0.12x)	1.31x	1.00x
LTM Revenue	\$25.48B	\$18.9B	\$43.8B	\$25.4B	\$11.9B	\$32.4B
5Y Revenue CAGR	10%	12%	4%	19%	6%	4%
5Y EBITDA CAGR	14%	12%	5%	20%	10%	16%

Source: Bloomberg  
 (1) Dollar amounts in US\$

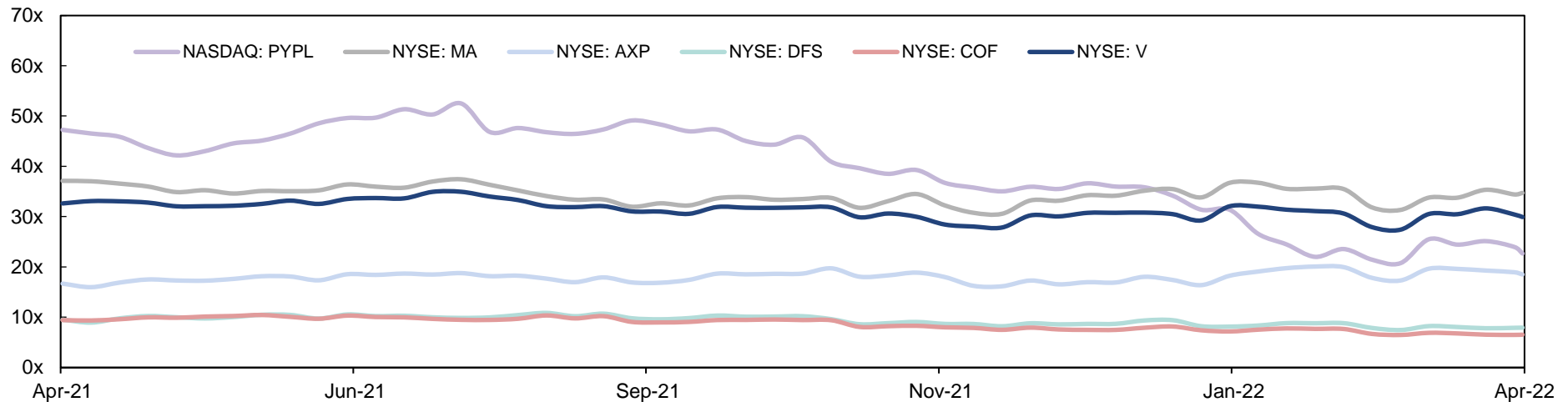
# Relative Valuation



## NTM EV/EBITDA



## NTM P/E



Source: Bloomberg



# Intrinsic Valuation



## DCF Analysis

### DCF

<b>Levered Free Cash Flow</b>	13,717.3	16,758.5	18,080.4	19,846.7	21,904.6	24,225.8	27,199.3	29,951.9	32,905.8	36,114.2	39,832.7
After-tax Interest	(441.2)	(445.8)	(441.5)	(420.8)	(409.2)	(422.5)	(430.2)	(428.3)	(425.4)	(422.7)	(423.1)
<b>Unlevered Free Cash Flow</b>	<b>14,158.5</b>	<b>17,204.4</b>	<b>18,521.9</b>	<b>20,267.5</b>	<b>22,313.9</b>	<b>24,648.2</b>	<b>27,629.5</b>	<b>30,380.2</b>	<b>33,331.2</b>	<b>36,537.0</b>	<b>40,255.7</b>
Discount factor	0.97	0.90	0.84	0.79	0.73	0.68	0.64	0.59	0.55	0.52	0.48
<b>PV UFCF</b>	<b>13,704.7</b>	<b>15,530.0</b>	<b>15,592.0</b>	<b>15,911.0</b>	<b>16,336.3</b>	<b>16,828.5</b>	<b>17,591.9</b>	<b>18,039.0</b>	<b>18,456.8</b>	<b>18,867.7</b>	<b>19,386.3</b>

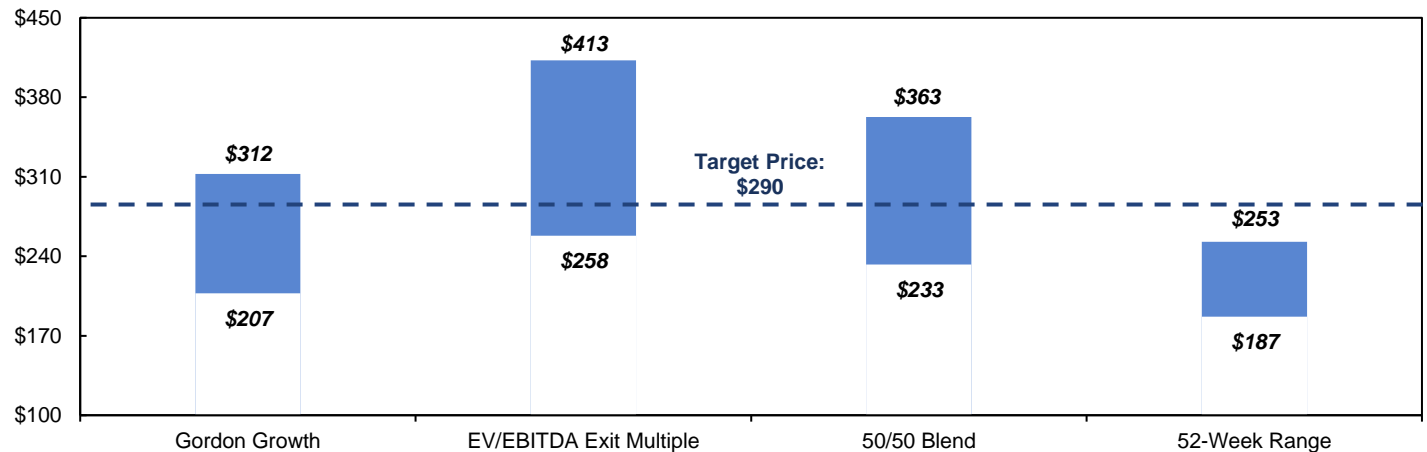
Gordon Growth Approach	
Growth rate	1.50%
Terminal value	713,018.5
PV Terminal value	343,375.1
PV of forecast period	186,244.2
<b>Enterprise value</b>	<b>529,619.2</b>
(-) Net Debt	4,490.0
<b>Equity Value</b>	<b>525,129.2</b>
<b>Implied Share Price</b>	<b>\$250.30</b>

Sensitivity						
Gordon Growth			EV/EBITDA Exit Multiple			
	\$250.30	6.23%	6.73%	7.23%	7.73%	8.23%
0.50%	\$243.76	\$233.93	\$224.58	\$215.68	\$207.22	
1.00%	\$256.79	\$246.34	\$236.39	\$226.94	\$217.94	
1.50%	\$272.10	\$260.91	\$250.27	\$240.15	\$230.53	
2.00%	\$290.33	\$278.26	\$266.79	\$255.89	\$245.52	
2.50%	\$312.41	\$299.28	\$286.81	\$274.96	\$263.69	

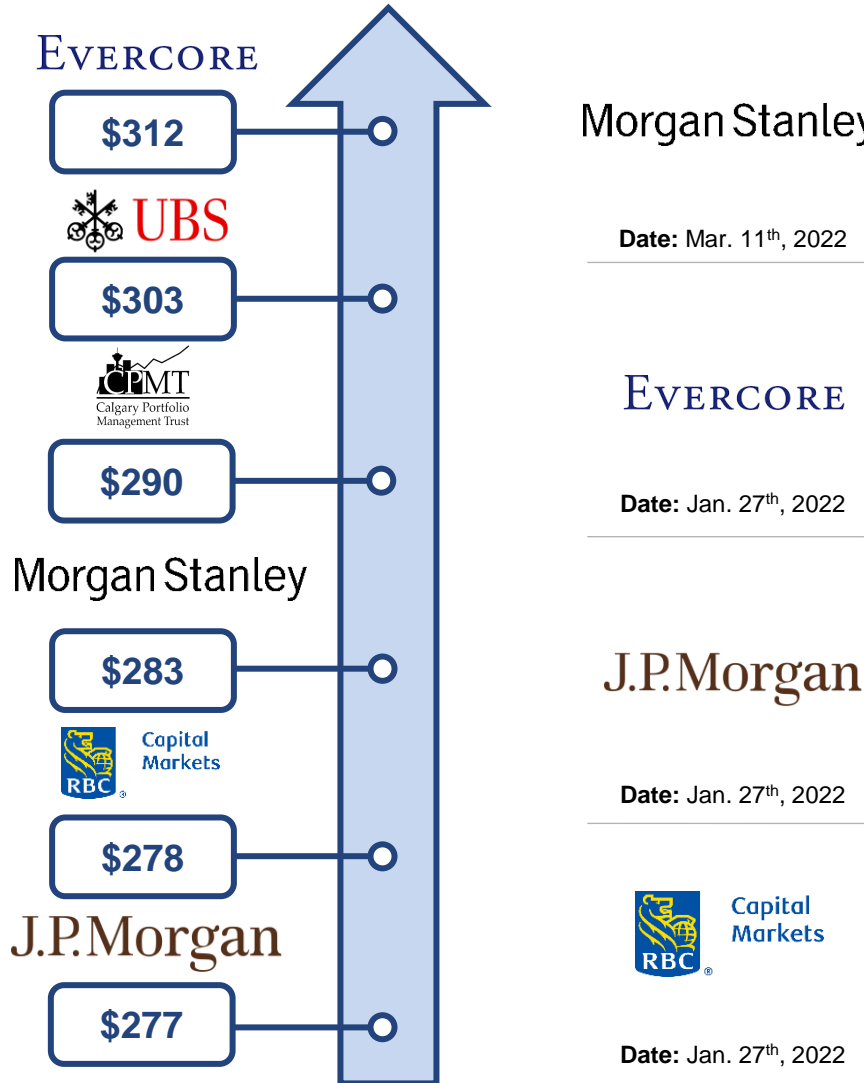
  

	\$329.19	6.23%	6.73%	7.23%	7.73%	8.23%
16.0x	\$305.60	\$292.80	\$280.64	\$269.08	\$258.09	
18.0x	\$332.35	\$318.27	\$304.89	\$292.18	\$280.09	
20.0x	\$359.10	\$343.74	\$329.19	\$315.28	\$302.10	
22.0x	\$385.85	\$369.20	\$353.40	\$338.38	\$324.11	
24.0x	\$412.60	\$394.67	\$377.65	\$361.48	\$346.11	

EV/EBITDA Exit Multiple	
EV/EBITDA Multiple	20.00x
Terminal Value	1,056,696.0
PV Terminal value	508,883.1
PV of forecast period	186,244.2
<b>Enterprise value</b>	<b>695,127.3</b>
(-) Net Debt	4,490.0
<b>Equity Value</b>	<b>690,637.3</b>
<b>Implied Share Price</b>	<b>\$329.19</b>



## Street Estimates and Commentary



### Morgan Stanley

Date: Mar. 11<sup>th</sup>, 2022

*"We expect that the stock will resume its leadership position in the payments universe as the market builds confidence in the trajectory of the travel recovery and **appreciates the new growth opportunities from cross-border e-commerce, partnerships with fintechs, and enablement of new payment methods (BNPL, account-to-account, B2B, etc.).**"*

### EVERCORE

Date: Jan. 27<sup>th</sup>, 2022

*"While cross-border travel faces continued headwinds, we believe the COVID-19 crisis provides an opportunity to buy one of the best businesses in the S&P 500 driven by the **secular shift to eCommerce and the sustained growth in card-based payments.**"*

### J.P.Morgan

Date: Jan. 27<sup>th</sup>, 2022

*"We rate V Overweight, as we continue to like the longer-term growth opportunity... Our price target assumes a 32x target multiple on our Cy22 EPS estimates, a three-turn premium to its pre-COVID-19 one-year average NTM P/E multiple... **We think V's implied NTM P/E multiple will hold as investors gain visibility into the eventual cross-border travel recovery.**"*



Date: Jan. 27<sup>th</sup>, 2022

*"We believe V is a core long-term holding and an "indexed" way to play payments and benefit from **three secular global trends** including 1) continued share gains in global cash to digital conversion, 2) capturing new payments flows via its network of networks strategy, and 3) increased utilization of value-added services."*

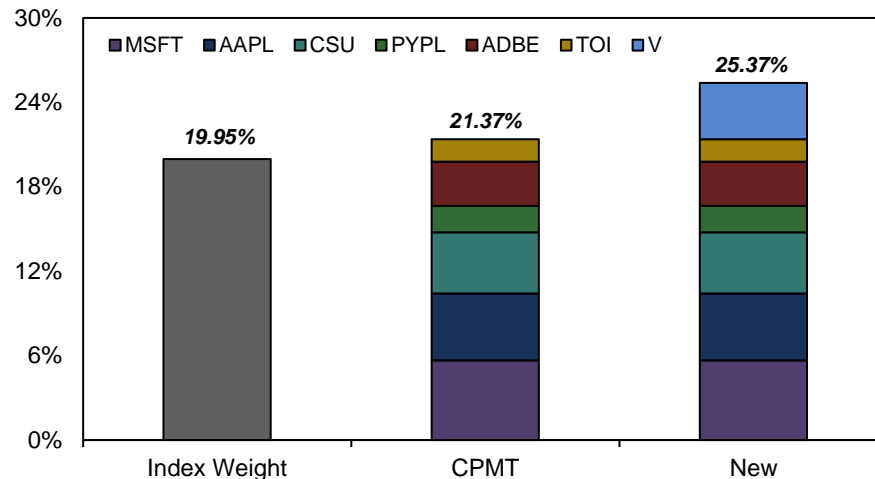
# Investment Recommendation



## Investment Thesis

• The CPMT believes that V's history of FCF and disciplined capital allocation leaves plenty of growth runway as it seeks to strengthen its market placement as the global payments leader while simultaneously exploring other ventures. The Company is exposed to secular drivers of growth through the shift to online payments, and new TAMs in the form of new payment flows. While the Company continues to trade at a slight discount relative to its primary competitor MA, the CPMT believes this gap is due to tighten, thus providing an attractive entry point for the Fund to initiate a position.

## Portfolio Fit



## Mandate Fit

Strong Balance Sheet?	✓
Growing Free Cash Flow?	✓
Competitive Advantage?	✓
Quality Management?	✓
Attractive Valuation?	✓

## Investment Recommendation<sup>1</sup>

<b>ACTION</b>	<b>BUY</b>
<b>CONVICTION</b>	<b>2</b>
<b>CURRENT PRICE</b>	<b>\$211.42</b>
<b>TARGET PRICE</b>	<b>\$290.00</b>
<b>IMPLIED RETURN</b>	<b>37.8%</b>

Source: CPMT Estimates  
 (1) Includes 0.69% dividend yield



## Visa Pitch

Presented by:

Eric Xiao, *Investment Analyst*