

## Q3 2022 Earnings Call

### Company Participants

- Alfred F. Kelly, Chairman and Chief Executive Officer
- Jennifer Como, Senior Vice President and Head of Investor Relations
- Vasant Prabhu, Vice Chairman and Chief Financial Officer

### Other Participants

- Ashwin Shirvaikar, Analyst
- Bryan Keane, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Donald Fandetti, Analyst
- Harshita Rawat, Analyst
- James Faucette, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Rayna Kumar, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

### Presentation

#### Operator

Welcome to Visa's Fiscal Third Quarter 2022 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, Ms. Jennifer Como, Senior Vice President and Global Head of Investor Relations. Ms. Como, you may begin.

#### Jennifer Como {BIO 20121273 <GO>}

Thanks, Jordan. Good afternoon, everyone and welcome to Visa's Fiscal Third Quarter 2022 Earnings Call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; and Vasant Prabhu, Visa's Vice-Chair and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at [www.investor.visa.com](http://www.investor.visa.com). A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website.

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

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

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

**Alfred F. Kelly** {BIO 2121459 <GO>}

Jennifer, thank you and good afternoon everybody, and thank you for joining us. Before I talk about the quarter, I wanted to acknowledge the passing of Dee Hock, Visa's Founder and Chief Executive Officer of Emeritus. The whole Visa family deeply mourns the loss of a true visionary and a great man. Even with several global and macro events from the war in Ukraine to inflation to concerns of our broader recession, Visa's business model has proven to be very resilient with strong financial performance.

Net revenues grew 19% year-over-year and non-GAAP EPS was \$1.98, up 33%. Total Q3 payment volume was 136% versus three years ago, up 1 point from Q2. In the U.S. payments volume index to 2019 was 146% in the quarter. U.S. debit volumes were 155% and credit 138% of 2019, both up modestly from Q2. Card-not-present excluding travel volumes in the U.S. remains significantly ahead of pre-pandemic levels at 170% of 2019 consistent with Q2.

International volume was 120% of 2019, down a point from Q2. Excluding China and Russia, it was a 146% of 2019 up 6 points. Q3 cross-border volumes excluding intra-Europe were 123% versus three years ago, up 11 points from Q2, and this includes Russia in prior period numbers. Travel related cross-border volumes rose 22 points from 82% of 2019 in Q2, to 104% in Q3, as we continued to see strong recovery in consumer and commercial travel. Processed transactions were 139% versus 2019, 1 point above Q2. Credentials increased 8% year-over-year and were up 11% excluding Russia.

Before I dive into the client wins and progress towards our strategy, I wanted to take a moment to discuss two topics, recession and inflation. On the first, we're not economic forecasters, so I'm not going to predict the future or potential likelihood of recession. Instead, let's focus on the facts. From the numbers I just reviewed relative to 2019 levels growth has been stable or improving and overall domestic payment volume credit-debit card present and card-not-present volumes. And this has been the case for most of 2022 with no indication of any slowdown including in more recent weeks. In cross-border, of course, the recovery has continued to strengthen, while growth has been stable in aggregate, there have been shifts under the surface that continue to demonstrate the momentum of the recovery. First from goods to services. Early in the pandemic goods surpassed services, reversing the historic trend.

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Even as services have rebounded in last six months, the percentage spending on goods in our payments volume still remains higher than the pre-pandemic levels. For example, while U.S. home improvement and retail goods spending during the third quarter grew only low single digits year-over-year. It remains well ahead of the pre-pandemic trend line. Second, many discretionary segments have further strengthened. If you look at U.S. travel standard is now back, it is not back to the pre-COVID trend line but grew more than 40% versus last year.

Third, the affluent spender continued to recover, particularly in the areas of restaurants, travel and entertainment. At the same time non-affluent spend remained relatively resilient. We met to the affluent spend to returning to restaurants last quarter. That trend continued this quarter with affluent restaurants spend indexing in the 160% to 180% range versus 2019. Similarly, in Europe in the last six months luxury hotel payments volume and average ticket size outpaced growth in the overall hotel category versus 2019. At the same time budget and mid-priced hotels saw modest improvements. Based on our numbers, we haven't seen any evidence of consumer pulling back spending in our markets.

Now a few words on inflation. It's just too early to draw any definitive conclusions, a few observations though on inflation. One, keep in mind that the headline CPI inflation number does not necessarily apply to Visa, as our basket of goods, isn't the same. Consumers just don't buy homes or use cards with their Visa card for example. So we see a several point gap between headline inflation and inflation in card related spend categories. Two, thus far U.S. transaction growth relative to 2019 is strong and stable. Ticket sizes remain around 15 points above 2019 levels as they have for much of the pandemic due to several factors. Three, historically in the U.S., we have seen PCE growth, which is the most important metric that drives our growth, remain strong, even during inflationary periods. That said, lastly, excessive and long-term inflation is not good for consumers or the overall economy.

Looking ahead, we'll continue to monitor the potential impact of inflation to ticket sizes transaction counts as well as volumes across 10 categories. With all of that as backdrop, I'll now provide an update on progress with clients. Traditional issuers remain a key component of our consumer payments growth and this quarter we had several important partnership renewals globally. First, in China, we renewed our partnership with ICBC, the largest bank in the world, in terms of assets in the biggest credit card issuer in China, in terms of the number of cards. In Japan, we renewed one of the country's largest credit issuers, Credit Saison and expanded our issuing relationship with Toyota Finance.

In Australia, we extended our credit and debit issuing agreements with NAV and CDA, two of the largest banks in the country. And in the U.S., we recently renewed our relationship with Green Dot, a top 20 issuer in debit and a top 10 issuer in prepaid. Fintechs are also key to our consumer payments growth. In Europe alone, we have more than 100 Fintech programs that continue to deepen our relationship with these partners. Revolut is a great example. They already utilized a number of our capabilities, including Visa Direct and Currencycloud and we just renewed our global issuing partnership. They also recently selected Tink for payment initiation services, which will allow users across Europe to seamlessly move money into their Revolut accounts.

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In many countries, the mobile operators are particularly important partners. We previously mentioned our partnerships with M-PESA Africa and Safaricom. And I'm happy to report that we have begun issuance with these partners who are part of the Vodacom Group that cover 130 million customers in sub-Saharan Africa. In a similar light we also recently signed partnerships to issue Visa to credentials and in some cases also enables Visa Direct with other mobile operators around the world. Mobily in Saudi Arabia with 10 million customers, Ooredoo in Qatar with around 2 million customers, Azercell in Azerbaijan, with 5 million customers and Orange, Egypt with 27 million customers.

I now want to dive a little deeper on two important markets Brazil and India. Starting in Brazil over the past two years, we have grown our business through issuing agreements with Itau, Mercado Pago, (inaudible) and Caixa, with a 70% increase in credentials. In addition to traditional credit card issuance, partners like Banco do Brasil have been growing their credit base by utilizing Visa's digital acquisition platform that allows them to instantly issue cards in a digital environment.

Further our Fintech partners in Brazil, including Banco XP and Neo Pagamentos, have issued more than 20 million credentials over the past two years. On the acceptance side, we've doubled acceptance points since 2020 reaching more than 10 million merchant locations in Brazil. The result of our efforts over the past 8 to 10 quarters is evident in Brazil's payment volume, which in the third quarter was more than 200% of 2019 with e-commerce nearing 300%.

In India our efforts over the last few years are paying-off and Q3 payment volume was 184% of 2019, with e-commerce above 300%. Building on that momentum we had co-brand wins with two of the largest multi-billion dollar revenue Indian conglomerate, that collectively represent millions of potential credentials. One with TATA Neu, a super app for e-commerce financial services and loyalty programs across the Tata Group. Two, with (inaudible) finance and SBI cards, provide rewards for spending across all of their group companies. We also signed a co-brand with IndiGo, India's largest airline by number of passengers.

And let me briefly touch on the U.S. where there is still great opportunity for cash digitization. We're excited about tap-to-pay, which has now reached 24% of face-to-face transaction in Q3. We're seeing positive trends in terms of additional spend in transaction lift in the U.S. In 2021, the average contactless active debit card holder at two more transactions and \$65 in additional spend each month. We expect this trend to continue driving incremental payments volumes and transactions for contactless card issuers to faster, simpler POS experiences.

Now moving to new flows, which in Q3 at over 20% revenue growth. In B2B our Q3 commercial payments volume was 145% of 2019, up 6 points from Q2, driven by the return of travel. Q3 was the first quarter which spend on business travel surpassed 2019 levels. This quarter we're excited to have reached the significant multi-year agreement with WEX, to enable their travel, health and corporate clients to make payments using Visa virtual card capability. WEX is a global leader in financial technology solutions for commercial payments and we are proud to partner with them. In the fleet space, we reached an agreement with M-PESA [ph] a fintech they started 10-year, their fleet and expense

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management digital platform will address the problem of paying cash in the African trucking business through Visa Prepaid Reloadable credentials.

Visa Direct is a powerful capability for many of our new flows. In this quarter, transactions grew 35%, excluding Russia. On the remittance side, Western Union has enabled Visa Direct for their U.S. customers to send money to select countries globally, expanding upon their initial rollout across Europe in 2021. We also expanded our agreement with Remitly, one of the world's premier digital service remittance companies to offer Visa Direct cross-border payments originating from Canada to bank accounts globally. Another Visa Direct P2P expansion is with LINE Pay in Japan. Already a large wallet issuer of 6 million Visa credentials, LINE Pay is now enabling Visa Direct for cross-border and domestic use cases such as remittances and cash-outs.

On wage disbursement Grubhub, a leading food ordering and delivery marketplace available in over 4,000 U.S. cities, will enable drivers to quickly send their earnings to their eligible debit cards using Visa Direct. We are excited for them to join our other food delivery platforms including Doordash and SkipTheDishes. We also reached an agreement with the U.S. tip enabler Kickfin [ph] to enable millions of tip disbursements to be pushed to employees' accounts to eligible debit cards at thousands of restaurant locations they serve. Per Kickfin, 90% of tips in the United States are still dispersed with cash today.

In Canada, we reached an agreement with large FinTech Wealthsimple for accounts, funds in and funds out, for their over 2 million clients. Finally, enablers are key to our success in Visa Direct and we recently signed a deal with Finastra, one of the world's largest financial services software companies and open banking platforms with 8,600 customers and serving 90 of the world's Top 100 banks. Together we will offer Finastra's clients access to cross-border business, the small business at B2C payouts to eligible accounts in multiple currencies and countries.

While the U.S. is one of the -- our first market to achieve scale for Visa Direct, we have many other countries and regions that are growing and scaling. For example, in Latin America third quarter transactions quadrupled versus last year. We have over 20 domestic and cross-border P2P programs commercially launched or in pilot, such as PLIN and Yape in Peru, Whatsapp [ph] in Brazil and cash across Central America, in addition to many other programs for other use cases.

Now let me move to value-added services which had Q3 revenue growth of almost 20%. Evaluated services growth through new and existing clients, existing services, expanding geographically and adding new services both organically and through acquisitions. Today I'll provide an update on recent wins with some of our acquired entities.

First, one of our earlier acquisitions, CyberSource recently added NCR and Global Payments as partners, both intend to offer CyberSource capabilities to their merchant clients. This is an important strategy as our merchant base utilizing CyberSource through acquirers, is growing payments volume twice as fast as the rest of our CyberSource business. CardinalCommerce or network agnostic authentication capability has grown

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transactions, 30% globally year-to-date with more than double that in Europe. We've the secure customer authentication requirement has driven faster adoption of 3D Secure.

Verifi, our network agnostic dispute resolution solution, recently extended its agreement with PNC for Verifi's card holder dispute resolution network product. The YellowPepper, the network agnostic connectivity platform just signed (inaudible) the Brazilian bank that offers its 50 million corporate and individual clients worldwide trade, e-commerce, staff solutions and most recently an FX API platform. (inaudible) use the YellowPepper's payment initiation services to enable cross-border money movement starting with Visa Direct to send payouts to eligible cards. I mentioned, Tink's recent win earlier, our other acquisition from this fiscal year Currencycloud has signed more than a 100 Fintech clients since December to provide innovative foreign exchange solutions for cross-border payments.

And finally the tokenization capabilities we acquired now call token ID have been selected by several partners. First, global payments will use Visa's token ID as their strategic go forward solution for multiple EMV network tokenization services to reduce card-not-present fraud and realize operational efficiencies for their clients. Second, the clearing house, the first U.S. real-time payment network and one of two U.S. ACH network chose Visa's token ID solution to power the secure token exchange. This is just the first account tokenization solution in the United States is utilizing Visa's token ID payment account tokenization technology to replace sensitive customer account data with unique token and reduce the amount of exposed payment data.

Our internally developed value-added services are just as important. One very compelling solution is from Visa consulting and analytics. Together with FIS, we recently launched a risk as a service solution, powered by data and risk experts. Key components of progress over the past 12 months include our real-time monitoring through our AI-enabled platform is blocked over 2 billion in fraudulent payments volume or analysis of potential fraud through a proactive testing identified a \$15 million exposure of the client.

Our capabilities to proactively detect and mitigate cyber criminals attempts to inject payments skimming malware onto online merchant checkout pages, that's prevented over \$10 million in e-commerce-related losses and our ability to detect terminal cloning has successfully blocked 3 million in fraud from attempted downloads. In sum, we had a very strong quarter and our results showed it. We made progress continuing to build relationships and solutions across consumer payments, new flows and value-added services, that will fuel future growth around the globe. We remain vigilant in monitoring the trends in our business and the economy and confident on our strategy, as we enable the movement of money globally.

With that let, me turn it over to Vasant.

**Vasant Prabhu** {BIO 1958035 <GO>}

Thank you, AI. Good afternoon, everyone. Our fiscal third quarter results reflected continued strength in domestic spend and a robust recovery in travel, but net revenues up 19% and GAAP EPS up 36%. Non-GAAP EPS was up 33%. The ever-strengthening dollar

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drag down reported net revenue growth by almost 3 points and non-GAAP EPS growth by nearly 3.5 points.

In constant dollars, net revenue growth was over 21% and non-GAAP EPS growth was 36%. Adjusting for Russia, constant dollar net revenue growth was 26%. A few key highlights, global payments volumes growth has remained strong and stable relative to pre-COVID levels. In constant dollars, the U.S. index was 2 points higher than the second quarter, up 46% versus 2019.

The international index, ex-China and Russia was up 6 points from the second quarter, also 46% above 2019. The robust cross-border travel recovery continued. Index to 2019, cross-border travel volume excluding transactions within Europe jumped from 94 in March to 112 in June. This was helped by much of Asia opening up at the beginning of the quarter. The U.S. inbound corridor picking up steam as well as strong growth in and out of Europe, as we head into the peak summer travel season. Our three growth engines, consumer payments, new flows and value-added services, all grew revenues around 20%.

During the quarter we bought back almost \$2.5 billion in stock at an average price of \$202.16. We also added \$600 million to the MDL litigation escrow account. This had the same effect as a stock buyback at \$200.25. We issued EUR3 billion in debt, with maturities ranging from 4 to 12 years. We obtained attractive coupons on our inaugural Eurobond issuance ranging from 1.5% to 2.375%, well below rates achievable on equivalent dollar-denominated debt. We have now pre funded debt maturities coming up in September and December.

Finally as a reminder, we suspended operations in Russia late in the second quarter. As such there are no volumes transactions or revenues from Russia in our third quarter numbers. Any comparisons to prior periods include Russia, unless otherwise noted.

Now on to the details. In constant dollars global payments volume was up 12% year-over-year and 36% about 2019. Excluding China and Russia, total payments volume growth was 17% and 46% higher than 2019. In the U.S., credit grew 21% and improved 3 points to 38% over 2019, helped by travel and fuel spend. Debit grew 4% year-over-year lapping the big spike from the stimulus last year. Relative to 2019, debit was up 55% sustaining significantly above the pre-COVID trend line even as credit has recovered. Debit has benefited from accelerated cash digitization through the pandemic.

U.S. card present spend grew 13% and was 27% above 2019 of 6 points. Card-not-present volume excluding travel grew 7% and was 70% higher than 2019. Relative to three years ago e-commerce levels remain well above the pre-COVID trend line even as card present spend continues to recover.

International constant dollar payments volume excluding China and Russia grew 24% and was 46% above 2019, a few regional highlights. Latin America was up 40% year-over-year and 107% higher than 2019, with robust performance across the region, fueled by cash digitization and client wins. Our CEMEA region excluding Russia grew 34% year-over-year and 102% higher than 2019, led by client wins and cash digitization. Europe was up 17%

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year-over-year and 37% higher than 2019, impacted by a portfolio conversion underway in the UK. Ex-UK Europe volumes grew 37% year-over-year and were 66% above 2019, reflecting share gains in multiple markets.

Excluding migrations, UK payment volumes have been stable in the third quarter, while Germany improved more than 15 points from the second quarter. Asia-Pacific, excluding China remains our weakest region, but has improved significantly from the second quarter, up 24% year-over-year and 30% above 2019 up 5 points in the second quarter. Across Asia most borders are open and domestic restrictions lifted. Only China remains mostly closed off and Japan is gradually normalizing. Global processed transactions were up 16% year-over-year and 39% over 2019 levels. Since we did not process domestic transactions in Russia our reported processed transactions are not materially impacted by the suspension of Russia operations.

Now onto cross-border. Constant dollar cross-border volume excluding transactions within Europe were up 48% year-over-year and 23% over 2019. Cross-border card-not-present volume growth excluding travel and excluding intra-Europe grew 4% year-over-year and 62% above 2019. Cross-border travel related spend, excluding intra-Europe, grew 129% year-over-year and exceeded pre-COVID levels for the first time, indexing at 104% of 2019. The cross-border travel index went from the low 90s in March and April to 108% in May and 112% in June.

We continue to see a rapid ramp-up in travel as soon as borders reopen or restrictions are lifted. A few highlights. Canada removed testing requirements for vaccinated travelers in April. Travel inbound to the U.S. jumped 16 points in the third quarter to 86% of 2019 levels, helped by Canada, Europe and Asia. The lifting of testing requirements in June will hopefully help sustain the recovery of travel into the U.S.

Travel into Latin America and the Caribbean has been very strong through the COVID years especially to Mexico. With more countries including Costa Rica and Jamaica lifting COVID protocols in April, inbound travel to the region climbed nearly 20 points in the third quarter to 50% above 2019 levels. European Union member states removed previous testing and vaccination requirements for non-European citizens in April and May, resulting in travel to Europe recovering a sizable 30 points in the third quarter with more than half of that from North America. Inbound travel to Europe was 21%, above 2019.

Central Europe, Middle East, Africa, CEMEA region outbound travel increased 6 points in the third quarter, despite the loss of Russia. Driven by Ukraine and travel for religious holidays from the Middle East and was 13% above 2019. In Asia borders continued to open and travel restrictions eased for international travelers, resulting in inbound travel recovering 22 points in the third quarter to 58% of 2019 levels.

Japan open to tourists and increased the entry limit from 10,000 to 20,000 people per day. Australia drop pre-arrival testing requirements in April. Several countries including Malaysia and Vietnam drop testing requirements in May. The pace of travel recovery to and from Asia will be a key driver of the future trajectory of cross-border travel. Most Asian borders are now open except for Mainland China and some restrictions in Taiwan, and



Japan. In the third quarter, travel into China index below 25% of 2019 and outbound from China below 40%.

Moving now to a quick review of third quarter financial results. Service revenues grew 13% slower than the 14% nominal growth in Q2 payments volume. Reported Q2 payments volumes include Russia, whereas revenues in Q3 do not since we recognize second quarter service revenues for Russia before we suspended operations last year -- last quarter.

Data processing revenues grew 8% below the 16% processed transaction growth. Revenue growth lags transaction growth primarily due to the suspension of Russia operations. As I mentioned earlier, Russia domestic transactions were not included in our reported processed transactions. And as such, the loss of Russia does not materially impact transactions growth. However, we did have data processing revenue from Russia transactions in prior periods, which we do not anymore. This negatively impacted data processing revenue growth by over 4 points. There was also about a 2-plus point exchange rate drag. International transaction revenues were up 51% versus the 38% increase in nominal cross-border volume excluding intra-Europe. Revenue growth was helped by high currency volatility and select pricing actions.

Other revenues grew 26% led by consulting services and travel benefits. Revenue growth was robust across our three growth engines, each growing around 20%. Consumer payments growth was led by the recovery in cross-border volumes, high currency volatility and continued strong domestic volumes and transactions. New flows growth was driven by carded B2B recovery. Commercial or B2B volumes grew 27% year-over-year and are up 45% versus 2019. Growth was driven in part by increased travel and was broad-based globally across small and large businesses. Excluding Russia, Visa Direct transactions grew 35% due to strong growth outside the U.S. Value-added services growth was led by consulting services as well as risk and identity solutions, revenue growth drivers include higher volumes from existing clients, greater client penetration and select pricing actions.

Client incentives were 26.1% of gross revenues below our expectations. This was primarily driven by the faster than expected recovery of higher yielding cross-border volumes, which improved revenue mix. Currencycloud and Tink added about 0.5 point to revenue growth. Exchange rates were at approximately 3 point drag on reported revenue growth. The suspension of Russia operations reduced revenues by approximately 5 points.

GAAP operating expenses grew 51%, inclusive of \$716 million provision associated with interchange multidistrict litigation. Non-GAAP operating expenses grew 15%. The inclusion of Currencycloud and Tink added about 3 points. The suspension of Russia operations reduced expenses by about 3 points. Exchange rates were about a 2 point benefit. The recorded losses from our equity investments of \$246 million. Excluding investment losses, non-GAAP, non-operating expense was \$73 million. Our non-GAAP tax rate was 13.3%, GAAP and non-GAAP tax rates benefited by 6 points from the resolution of certain U.S. state and foreign tax matters related primarily to prior years.

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Our recurring tax rate remained in the 19% to 19.5% range. GAAP EPS was \$1.60, non-GAAP EPS was \$1.98, up 33% over last year, inclusive of nearly 3.5 point drag from the stronger dollar. With a quarterly dividend of \$0.375 per share and our stock buybacks, we returned \$3.3 billion of capital to shareholders in the quarter. Through the first three weeks of July, business trends have remained strong and stable. On a year-over-year basis, U.S. payments volume was up 12%, with debit up 6% and credit up 18%. U.S. spend growth versus 2019 was up 46% with debit up 55% and credit up 38%. These trends are consistent with the third quarter and its performance in major markets around the world.

Processed transactions grew 14% year-over-year up 40% versus 2019. Constant dollar cross-border volume excluding transactions within Europe grew 60% year-over-year and 29% over 2019. Card-not-present non-travel growth was 57% above 2019, travel-related cross-border volumes was 16% above 2019.

Moving now to our outlook for the fourth quarter. As AI indicated, we're seeing no evidence of a pullback in consumer spending. U.S. payments volumes have indexed in the mid-140 range versus 2019, since January through July '21. Excluding Russia and China international payments volumes have also index above 140, since January. Processed transactions have been stable at around 140 versus 2019. As such, we are assuming that the trends we have seen in payments volume and processed transactions will continue through the fourth quarter. We will of course stay vigilant and on the lookout for any changes caused by rising interest rates, high inflation and declining consumer confidence.

Through July, the cross-border recovery has progressed faster and further than we had expected last October. For the fourth quarter, we are assuming stable growth versus 2019 in cross-border e-commerce and some improvement from travel in and out of Europe and into the U.S., especially from Asia.

The next and perhaps the last leg of the cross-border travel recovery, we'll have to await a full reopening in China, which we do not expect in the near future. With these assumptions fourth quarter net revenues could grow at the high-teens to 20% range in constant dollars. This includes Tink and Currencycloud which add approximately 0.5 point to net revenues and a suspension of operations in Russia, which subtracts approximately 5 points.

The dollar has continued to strengthen, significantly increasing the exchange rate drag, which we expect will reduce reported net revenue growth by four to five points. Q4 client incentives are expected to range between 26% and 27%, of gross revenues driven primarily by anticipated strong volume performance across all regions. For the year, we now expect client incentives as a percent of gross revenues in the middle of the 25.5% to 26.5% range.

We expect non-GAAP operating expenses in constant dollars to go to grow at the low end of high teens. This includes two points of added expense from Currencycloud and Tink, offset by 3 points from reduced cost due to Russia. Personnel costs will be higher, since we are granting annual salary increases, a quarter earlier than normal to all employees below the SVP level. This will add 3 points to Q4 operating expense growth.

Exchange rates could reduce reported operating expense growth by about 2 points. Our tax rate is expected to stay in the 19% to 19.5% range. While there is uncertainty, consumer spending remains strong. Growth has been stable across payments volumes, cross-border volume and processed transactions globally. We have demonstrated our ability to adjust to different environments and are prepared to do so again if warranted. We will stay vigilant, flexible and agile. We are fortunate to have a resilient business with great momentum and extraordinary longer-term growth opportunities.

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

**Jennifer Como** {BIO 20121273 <GO>}

Thanks, Vasant. And with that, we're ready to take questions, Jordan,

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Sanjay Sakhrani with KBW. Your line is open.

**Q - Sanjay Sakhrani** {BIO 7390132 <GO>}

Thanks. I know we're indexing well below where we normally would be if the pandemic didn't occur for cross-border travels. However, I guess there is this fear that we're seeing the strength, partly because it's pent-up demand and then inflation. Could you help us think about how you feel about the risks associated with the drop-off in cross-border? And then, Vasant you talked about Asia being the key, how much more strength can we see out of the non-China region? Thanks.

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

So I'll start Sanjay. I actually think cross-border travel has come back very, very strongly and quicker than what we thought. And that's still with -- as you suggested Asia being quite well. You heard the numbers both inbound and outbound in Vasant's remarks plus inbound to the U.S. somewhat up until recently because of the COVID -- required COVID test and now the strength of the U.S. dollar, still has upside as well. So yes, for sure there is some element of pent-up demand. But I think that, that demand is going to remain strong for some time. And I don't see people being deterred even by higher costs of airline tickets that people are experiencing. If anything probably the experiential element of waiting in airports for longer period of time because of understaffing that exists in a number of places around the world is probably the thing that weighs more on my mind, but I expect that to normalize at some point here soon.

Vasant, do you want to add anything?

**A - Vasant Prabhu** {BIO 1958035 <GO>}

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Yeah. Clearly I mean there is a variety of factors that play here. First, there has been a general shift in consumer preferences, you've heard this from other people to move away from goods to experiences, and travel is very much a beneficiary of that, it's not just cross-border travel. As Al said in his remarks, that all travel including domestic travel. So it's pretty broad-based desire to travel.

The second is people are keen to travel. So as soon as restrictions are lifted, you see the reactions right away. In terms of where the strength is, clearly the recovery in Asia has been quite strong. You saw how much it improved this quarter, almost 20 points, if I remember, right. And it is continuing. It's happening all across Asia, except for places like China and there still -- it's not that easy to get in and out of Japan and Taiwan. But elsewhere, it's very strong across Asia. There is a huge amount of interest in traveling to Europe and significant interest in Europeans traveling out of Europe. So Europe has been also recovering very fast and is indexing at pretty high levels relative to pre-COVID volumes.

The other area that continues to surprise is Latin America. We told you that, it was always quite high because Latin America stayed fairly open, but in the last quarter jumped another 20 points and is indexing in the 150 range for people traveling into Latin America. So as you look across it, this looks pretty durable, there is still recovery left to come. As you can see, Asia is still was indexing well below 2019 levels, the U.S. is still below 2019 levels. So we don't think this end anytime soon.

**A - Jennifer Como** {BIO 20121273 <GO>}

Great. Next question, Jordan?

## Operator

Our next question comes from Lisa Ellis with MoffettNathanson. Your line is open.

**Q - Lisa Ellis** {BIO 18884048 <GO>}

Hi, good afternoon guys. Al you had a number of call-outs in the prepared remarks related to Visa Direct. I was hoping to get your perspective on the news that the CFPB is investigating the levels of fraud in Zelle [ph] and other domestic P2P services. Can you just comment a bit or give us a little bit a color on how the fraud protections associated with Visa Direct are different or similar to those services and sort of how that type of investigation might impact Visa Direct's role in P2P over the long-term? Thank you.

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Well, thanks Lisa. You know -- one of the terrific things about Visa Direct is that, it is running on at a different -- a new platform, it runs on VisaNet and therefore has the ability to utilize all of the same capabilities that we have on VisaNet, including those related to KYC and those related to fraud prevention. So it certainly this is something that we're well aware of and we'll continue to watch closely. I do think that consumers value this P2C capability in very, very big ways, not just in the United States but around the world. And I certainly expect it to be a use case that continues to grow around the world and we'll just have to make sure that we are working closely with Zelle and other partners to make sure

that we're contributing as much as we can to make sure that services secure as can be, because as you know trust is a basic underpinning of money movement in every single use case around the world.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question, Jordan?

## Operator

Our next question comes from Darrin Peller with Wolfe Research. Your line is open.

**Q - Darrin Peller** {BIO 16385359 <GO>}

Hey guys. Thanks. I really want to touch on your willingness and ability to manage expenses and margins going forward and different outcomes, different scenarios. You pulled forward, it looks like salary increases, so does that pull forward some of the OpEx growth we'd normally see in fiscal '23? And then just thinking through if we were to see downturns economically, what kind of willingness and ability do you have to really manage margins going forward?

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Yeah, the pull forward of salary increases means, that when we get to the fourth quarter of next year, we'll lost the increase that we have. So in that sense, yes, it moderates a little bit, the impact on next year's and some of it comes into this year. You've seen us in the past, just based on external circumstances and we will be monitoring trends and we will stay flexible and move faster if we have to again.

That said, this is a business with tremendous long-term growth opportunities, we think the new use cases that are being developed in the new flows business and the opportunities we have across value added services for global expansion for deeper penetration of existing clients as well as adding new services are very significant. So we have to be keeping an eye on the long-term opportunity and I'm not under investing.

Having said that, if times get tough, we -- as we did during the pandemic, you prioritize, you sequence things, you pace things, you don't pull back on all the investment, you just try to do it based on a new reality. So during the pandemic, for example, we scaled back in certain areas like cross-border where spending on marketing or things like that wouldn't have made any difference because borders were closed. We'll try and do things like that if we have to again.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question?

## Operator

Our next question comes from Tien-Tsin Huang with J.P. Morgan. Your line is open.

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**Q - Tien-Tsin Huang** {BIO 6065319 <GO>}

Hi. Thanks so much. Great results. Very clear the consumer is strong here. And I know Al, you said you don't want to predict the macro. But I figured, I'd ask if you can comment here on how resilient this might be now versus past recessions, because on the one hand I'm thinking of this product credentials, acceptance, contactless, so that would suggest more resiliency. But on the other side, you have more value-added services revenue that might be more cyclical. So, I know aside from shocks like the financial crisis and pandemic, your growth premium to PC has been clear, but what about now? You feel differently? Any new thinking on how Visa might be different versus past recessions? Thanks.

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Well, thanks, Tien-Tsin. I think we're a very different company from any past recessions like I guess going back to 2008 to 2009 timeframe. First of all was stronger in -- much stronger in debit, which tends to be the vehicle -- the card of choice for people in a slowdown period where we're stronger in every day spend categories. We're stronger in e-commerce. We benefited from this acceleration in cash utilization that happened during the pandemic. Since the last recession we've added Europe, which is a very important part of the company today and contribute to our growth. And that as you alluded to, we've added an emphasis on value-added services and new flows. Some of those value-added services are tied to volume, so the degree that some volumes might go down those, those might go down as well. But in the other hand for volumes that we will have today that we - that will have the opportunity to sell more value-added services than we would have in the prior recession.

The last thing I would say is that, it is very possible that today people are changing what they're buying, but they're not changing how they're paying. And we fall into the latter category and we see overall spending levels as we talked about remaining high and we continue to see people choosing to pay with Visa, not depending on any change that they might be making in what they're buying or the baskets that they have.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question?

**Operator**

Our next question comes from Harshita Rawat from Bernstein. Your line is open.

**Q - Harshita Rawat** {BIO 18652811 <GO>}

Hi, good afternoon. So, Al, I wanted to follow-up on your comments on banking. Now that you closed the Tink acquisition earlier this year. Can you elaborate on your efforts in open banking and what role can you play? And just taking a step back, how excited are you about the opportunity within open banking for Visa? Thanks.

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

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Well, I think open banking is in its early days, but I think that we are quite well positioned, as you well know that the ground zero for open banking happens to be Europe. We have a very good business there and obviously Tink has a footprint in 18 markets in Europe. It has a single API that allows customers, primarily developers to access financial data. It has connectivity to 3,400 [ph] banks and financial institutions and greater than 10,000 developers. And we believe the thesis for us is that, Tink's capabilities with our capabilities and our relationships will allow Tink to be stronger where it already is. And well, with our help, we'll be able to broaden their footprint in which Tink operates and that's certainly one of the things that we are in discussions internally with Tink as to where we go next in the world.

We also think that our infrastructure and our cyber and fraud capabilities and our capabilities related to protecting the customer's transaction at all, the steps along the way is going to just help accelerate the adoption of open banking in Europe. So we're excited about the prospects of it. We think we're really well positioned. It's just going to be a matter of how quickly it takes off. But we're in good shape to the degree that it does.

**Q - Harshita Rawat** {BIO 18652811 <GO>}

Thank you.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question?

**Operator**

Our next question comes from Bryan Keane with Deutsche Bank. Your line is open.

**Q - Bryan Keane** {BIO 1889860 <GO>}

Hi guys. Wanted to ask about the three key drivers all growing over 20% in consumer payments, the new flows and value-added services. As we think about going forward and how this is likely to normalize some, I assume consumer payments growth will slow as cross-border eventually lap some tougher comps. But maybe new flows and value-added services still has some extra juice for growth. Just hoping maybe you could parse through some of the pluses and minuses for the three segments?

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Bryan, that's been the thesis from the beginning that we want to make sure that we generate on a sustained ongoing basis attractive revenue growth. And you're certainly correct that, at some point in time, depending upon the pace at which Asia cross-border comes back and U.S. inbound cross-border, it continues to come back, that will settle back into some more normal level growth rate for consumer payments. I'm not going to predict when that will be whether that's in two quarters or six quarters or seven quarters, but it will happen at some point in time. And our expectation, an aspiration has been that value-added services and new flows will grow at numbers of percentage points higher than consumer payments that will therefore allow us to get to a sustained revenue growth rate, that we think over time will be attractive to the investors in the company.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question?

## Operator

Our next question comes from Don Fandetti with Wells Fargo. Your line is open.

**Q - Donald Fandetti** {BIO 6095992 <GO>}

Hi, Al. I just wanted to confirm, so just given all the weakness in some of the retailers, you're not seeing any signs on the low end consumer weakness. And then does your data historically show any correlation around a wealth effect for sort on the more affluent U.S. consumers at Visa?

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Don, you're touching on, there is a number of elements that impact our volumes and we'll touch on a few of them. Affluent spenders are returning to the economy and there is higher spending in restaurants and travel among other categories. And this isn't necessarily inflation but a mix shift. The impact of people working from home and hybrid work, it's definitely hard to continue to have impact on smaller tickets that are things that people buy in the mornings and at lunch time, when they're actually commuting and working in an office environment. Certainly small tickets as a percentage of overall tickets are still below pre-pandemic levels as a result.

Last year stimulus clearly drove ticket sizes, up particularly in discretionary categories and we're kind of lapping that now. What we don't know are what level of substitutions are taking place, where people might be buying more staples and less discretionary items, but they're spending at the same level they did. Or whether as some retailers have said people are trading down from brands to private labels. What it's also difficult for us to understand consumption reduction, so for example, consumers could be buying less fuel but spending at the same amount or buying smaller package sizes of things like snacks. And -- but and yet spending the same amount. So I think, Don, clearly inflation is in our numbers and people are likely changing -- making some changes in what they're buying. But as I said earlier, I think in response to Tien-Tsin's question, they're not changing how they're paying.

**A - Vasant Prabhu** {BIO 1958035 <GO>}

Yeah. I mean, going back to your question on whether we are seeing any slowdown in spending by lower income consumers, no, we're not. We keep looking for it, because we've heard some other people say it, and we are not seeing any evidence of that.

Your second question, I presume was the wealth effect on affluent consumers of what's happening in the stock market and things like that. As Al said, I mean, we're not seeing that, if anything affluent spending has been on the rise and is one of the reasons why we've seen some of the robust growth we saw this quarter. Remember we're lapping a very significant growth quarter last year, that included sizable stimulus payments. And despite that, we had some very good growth this quarter and a lot of that is driven by

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affluent consumers, by discretionary spending coming back and no evidence of a wealth effect that people are holding back.

**Q - Donald Fandetti** {BIO 6095992 <GO>}

Thank you.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question, Jordan?

**Operator**

Our next question comes from David Togut with Evercore ISI. Your line is open.

**Q - David Togut** {BIO 1496355 <GO>}

Thank you. Good afternoon. You've clearly been continuing to be very aggressive on share repurchase. But could you update us on your capital allocation priorities, in this particular environment we've seen obviously a pretty big pullback in valuations and payments. How is your acquisition appetite and pipeline changed today versus let's say a year ago?

**A - Vasant Prabhu** {BIO 1958035 <GO>}

Yeah. Capital allocation has -- approach have not changed. As we've said before, our first priority is investing in our core business. We generate a lot of free cash flow. Our first priority is to invest in what is a fabulous business we have, which has tremendous growth opportunities, as we've discussed around some of the new use cases and new flows around value-added services and of course in our core consumer payments business.

After that, clearly it's how can M&A enhance what we do and we can do that by buying something that expands our capabilities like we've done in the past or something that gives us new capabilities like Tink does with open banking or like Currencycloud does with the capabilities they have, that are geared towards real-time FX and serving the needs of newer enterprises, the Fintechs rather than traditional companies. So we will continue to look for things that can enhance what we have. In terms of timing and opportunities, clearly as valuations have come back in, we've stayed disciplined when things will bubbly [ph]. We have a very strong balance sheet, we have tremendous capacity, we are definitely interested in acquisitions where the value is justified. Time will tell whether valuations in private markets get to levels that are attractive and companies have to be for sale. But clearly, M&A is an important component of our future. We have clear ideas on where we want to expand M&A wise. And as they come up, we'll talk about it.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question, Jordan?

**Operator**

Our next question comes from Rayna Kumar with UBS. Your line is open.

**Q - Rayna Kumar** {BIO 17409639 <GO>}

Good afternoon. Thanks for taking my question. In your remarks you mentioned pricing actions helped your cross-border revenue. As you look across the breadth of your products and services, do you think there is still more opportunity to improve pricing in certain areas?

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Yes. It's something that we will watch and be very thoughtful about over time. But we've got years and years of experience in pricing in the consumer payments business and we're building our sophistication in terms of pricing in our newer lines of business in new flows and value-added services. As we said many times, our philosophy is that, we want to make sure that where pricing in a way that balances all the various parties within the ecosystem and ideally stimulates more and more cash digitization, and more and more money movement across our network. So in short, we think there definitely is still more opportunity in the pricing lever.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question, Jordan?

**Operator**

Our next question comes from Ashwin Shirvaikar from Citi. Your line is open.

**Q - Ashwin Shirvaikar** {BIO 5027189 <GO>}

Thank you, Al. Hi, Vasant. Great quarter here. It's pretty clear based on your results and comment that the consumer seems unaffected so far. My question was that you see an impact in your conversations with enterprises. So basically banks merchants and fintechs, given what's going on in terms of either the pace of decision making or the types of products or services that they're seeking out now, if you could comment on that?

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

I have not heard that from any clients or partners that I have talked to. Look, I think everybody is out there wondering whether we're going to or not going to face a recession. We're certainly undeniably in a high inflation environment right now, but given that was really driven by a shortage of work is leading to a shortage of production of goods and services. And then you throw the Ukrainian war on top of it, which had some impact along the way. And all of this coming off of the pandemic, there really is an history that provide any kind of insight into exactly what might happen here.

We're continuing to do two things. One is to make sure that we're smartly investing in the future to drive our three growth levers. And as Vasant alluded to in response to a question earlier, we're being very vigilant in looking into the numbers and seeing -- if we see anything, that requires us to be proactive in any action we might take. But at this point, as I think we've said a few times now, the level of consumer spending up through July 21,

which we reported on in Vasant's remarks, have the consumer spending has remained very resilient. And for how long that will be -- one, it remains to be seen. But again, I'd remind everybody that we don't have the same input costs and cards is other businesses and we're a company that facilitates payment. So regardless of whether people are consuming differently or substituting one good for another good, there is still need to pay for it and then utilizing our services to do that.

**A - Jennifer Como** {BIO 20121273 <GO>}

Next question?

## Operator

Our next question comes from James Faucette with Morgan Stanley. Your line is open.

**Q - James Faucette** {BIO 3580933 <GO>}

Great. Thanks very much. Thanks for all the color and commentary, Al and Vasant. Obviously, you can track quite well how the consumer is tracking now across all the different metrics as we've talked a lot about. When you look at forward, can you talk a little bit about what you look at as potential indicators? And I guess, especially since Sanjay started off the questions around travel, what are you seeing in things around forward bookings and any changes or indications there or elsewhere? Thank you.

**A - Vasant Prabhu** {BIO 1958035 <GO>}

Yeah. As Al said, I mean, we don't view ourselves as economic forecasters and don't want to get into that. And we've said before that we are not leading indicators, we probably coincident indicators. There is a change in spending, we will see it as it happens. The only area of our business where we see a little bit ahead is as you said in travel bookings and those are holding up well, whether it's cross-border bookings or domestic travel bookings.

If you look at the card-not-present element of travel, which is where those bookings happen, there is really no change in trend. So at least looking out 30, 60 days, which is what the lead time is on those kinds of things, there is no change in trend. Other than that, a lot of what we see is quite intuitive. There is -- as Al said, there is a shift towards discretionary purchases. There is a shift towards things people can do before during the pandemic experiences around restaurants, entertainment and travel. As we said, while goods may not be growing as much as they -- year-over-year, they're still well above the pre-COVID trend line. So there is nothing there that is out of the ordinary at this point.

**A - Jennifer Como** {BIO 20121273 <GO>}

Last question, Jordan?

## Operator

Our last question comes from Jason Kupferberg with Bank of America. Your line is open.

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**Q - Jason Kupferberg** {BIO 6867809 <GO>}

Thanks guys. I just wanted to come back to cross-border travel, now that you had I think 116% of 2019 levels in July. I know your prior target was to be at 100% by the end of the fiscal year. So what would be your new target there? And then can you just comment on inbound versus outbound U.S., kind of where that's tracking versus '19 levels and your thoughts going forward there, just given the strength of the dollar? Thank you.

**A - Alfred F. Kelly** {BIO 2121459 <GO>}

Yeah. I mean, outbound from the U.S. is very strong, it's been about '19 levels now for a few -- if not weeks, a couple of months. Inbound to the U.S., we told you was indexing in the high 80s. So it's still below '19 levels. And we think that there is room for recovery there. What we've seen on the cross-border side is a little bit of a stair-step, where you have periods where there is rapid growth like you saw in April and May, and we saw in October and November. When a variety of countries remove restrictions, you see a huge amount of travel happening fairly quickly. And then you see a certain amount of stabilization after that, like we saw, partly because of Omicron in December and January and we saw in March and April.

As you look at the fourth quarter, most of the world is open. And so we are assuming steady improvement in travel out of Asia, steady improvement of travel into and out of Europe, improvement in travel into the U.S. But there are no big openings left, which is why we don't think there'll be a big stair step-up in the fourth quarter. We'll wait and see. The big openings left would be China of course. We gave you the index, it's still very low. And as recovery left in Japan because letting in 20,000 people is one-fifth of what the normal amount of people who go into Japan, where it's more like a 100,000 people. So there is a few left. So the short answer is a modest recovery in the fourth quarter and we'll see what happens.

**A - Jennifer Como** {BIO 20121273 <GO>}

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

**Operator**

Thank you for your participation in today's conference. You may disconnect at this time.

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