

Visa Inc.

A few items to pick on in F1Q, but Buy thesis intact

Maintain Rating: BUY | PO: 305.00 USD | Price: 272.61 USD

Some mixed elements amid a generally in-line print

Visa (V) reported a headline F1Q top/bottom line beat, but the stock (a consensus long) is understandably down ~3% after-hours due to: weaker F1Q vols (decelerated 80bps q/q on unfavorable days mix, softer Oct, modest Reg II impact), slower MTD January metrics (severe weather), steep deceleration in new flows growth (slowing XB recovery and 1x incentive true-ups), and F2Q revs guide slightly below Street, leaving the unchanged F24 revs guide still F2H-loaded. We remain bullish on V's business model quality, recession-resistance, secular tailwinds, and reasonable valuation; maintain Buy.

F2Q revs guide a little light; EPS ahead on tax settlement

V guided to F2Q net revs growth of upper mid to HSD, reflecting a midpoint slightly below BofAe/Street at 9%. F2Q opex growth is expected to be LDD (inclusive of ~0.5%) Pismo acq offset by ~0.5% FX impact) vs. BofA/Street=8%/9%. F2Q adj. EPS guide of upper mid to high-teens is above BofAe/Street at 13.5%/12.2%, due to non-operating income and tax rate benefits from a non-US tax settlement.

F24 outlook largely unchanged

V reiterated F24 nominal revs growth guide of HSD to LDD and LDD in constant-currency, citing expectations for F2H acceleration from easier comps on average US ticket sizes, int'l inflation, and recent Latam wins. F24 guide for processed vols and transaction growth was maintained at LDD, as was the F24 incentives guide (modestly less growth than F23). F24 nominal opex growth guide was ticked up to high end of HSD to LDD range due to Pismo and FX. F24 adj EPS growth guide of low teens unchanged.

January MTD metrics decelerate vs. F1Q

January metrics (MTD thru 1/21) decelerated vs. F1Q on a y/y basis, primarily on severe weather patterns in the U.S. MTD US payment volume was up ~4% (vs. 5% in F1Q) with credit/debit up 4%/3% (vs. F1Q up 6%/5%); MTD processed transaction growth up 8% (vs. F1Q up 9%); MTD CC XB vols ex. low-yielding intra-Europe up 16% (stable vs. F1Q).

Decent F1Q print, but vols and new flows were light

F1Q beat modestly on revenues and adj. EPS (\$2.41 vs. BofAe/Street at \$2.35/\$2.34 on below the line items and buybacks). Vols were 50-100bps below Street. New flows revs growth also slowed considerably to low single-digits in F1Q vs. mid-teens in F4Q, while VAS revs growth was a robust 20%. See inside pages for more details on F1Q.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.50	8.77	9.88	11.10	12.59
EPS Change (YoY)	26.9%	16.9%	12.7%	12.3%	13.4%
Consensus EPS (Bloomberg)			9.89	11.17	12.82
DPS	1.50	1.80	2.16	2.38	2.61
Valuation (Sep)					
P/E	36.3x	31.1x	27.6x	24.6x	21.7x
Dividend Yield	0.6%	0.7%	0.8%	0.9%	1.0%
EV / EBITDA*	21.3x	19.2x	17.7x	15.9x	14.3x
Free Cash Flow Yield*	4.1%	4.6%	4.3%	5.0%	5.1%

* For full definitions of *IQmethod*™ measures, see page 7.

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26 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	35,846.2	35,666.6
2025E Rev (m)	39,961.1	39,556.2
2026E Rev (m)	44,315.4	43,851.7
2024E EPS	9.91	9.88
2025E EPS	11.34	11.10
2026E EPS	12.87	12.59
2024E DPS	2.07	2.16

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Stock Data

Price	272.61 USD
Price Objective	305.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	208.76 USD - 272.86 USD
MktVal(m)/SalesQtr(m)	431,412USD/15825
Free Float	99.4%
Average Daily Value (mn)	1554.57 USD
BofA Ticker / Exchange	V / NYS
Bloomberg / Reuters	V US / V.N
ROE (2024E)	49.2%
Net Dbt to Eqty (Sep-2023A)	10.8%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CC: constant currency
FX: foreign exchange
HSD: high single digits
LDD: low double digits
LSD: low single digits
MTD: month-to-date

iQprofileSM Visa Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	24.2%	27.1%	28.3%	29.8%	32.1%
Return on Equity	43.8%	49.2%	49.2%	50.1%	52.7%
Operating Margin	68.0%	67.9%	67.6%	67.9%	68.2%
Free Cash Flow	17,879	19,696	18,478	21,511	22,037

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.0x	1.0x	0.9x
Asset Replacement Ratio	1.1x	1.1x	1.2x	1.0x	0.9x
Tax Rate	17.8%	18.1%	18.5%	19.3%	19.3%
Net Debt-to-Equity Ratio	19.0%	10.8%	8.2%	1.6%	-4.6%
Interest Cover	37.0x	34.4x	31.9x	39.5x	49.9x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	29,310	32,653	35,667	39,556	43,852
% Change	21.6%	11.4%	9.2%	10.9%	10.9%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	20,784	23,116	25,007	27,814	30,899
% Change	23.5%	11.2%	8.2%	11.2%	11.1%
Net Interest & Other Income	(413)	141	381	280	280
Net Income (Adjusted)	16,034	18,281	19,973	21,913	24,365
% Change	24.0%	14.0%	9.3%	9.7%	11.2%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	16,034	18,281	19,973	21,913	24,365
Depreciation & Amortization	861	943	895	940	987
Change in Working Capital	(7,657)	(10,022)	(16,501)	(17,286)	(21,005)
Deferred Taxation Charge	(336)	(483)	236	236	236
Other Adjustments, Net	9,947	12,036	14,942	16,628	18,374
Capital Expenditure	(970)	(1,059)	(1,068)	(920)	(920)
Free Cash Flow	17,879	19,696	18,478	21,511	22,037
% Change	23.1%	10.2%	-6.2%	16.4%	2.4%
Share / Issue Repurchase	(11,393)	(11,841)	(15,130)	(11,200)	(11,200)
Cost of Dividends Paid	(3,203)	(3,751)	(4,240)	(4,752)	(5,123)
Change in Debt	3,218	0	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	15,689	16,286	17,225	19,984	22,898
Trade Receivables	2,020	2,291	2,646	2,719	2,765
Other Current Assets	12,496	14,955	17,149	17,957	18,834
Property, Plant & Equipment	3,223	3,425	3,625	3,604	3,537
Other Non-Current Assets	52,073	53,542	55,736	56,237	56,798
Total Assets	85,501	90,499	96,380	100,502	104,832
Short-Term Debt	2,250	0	0	0	0
Other Current Liabilities	18,603	23,098	24,846	26,477	28,322
Long-Term Debt	20,200	20,463	20,703	20,703	20,703
Other Non-Current Liabilities	8,867	8,205	8,339	8,339	8,339
Total Liabilities	49,920	51,766	53,888	55,519	57,364
Total Equity	35,581	38,733	42,492	44,983	47,468
Total Equity & Liabilities	85,501	90,499	96,380	100,502	104,832

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Payments, Processors & IT Services

Company Description

Visa operates the world's largest retail electronic payments network. The company provides processing services and payment product platforms, including consumer credit, debit, prepaid and commercial payments, that are offered under Visa and related brands. According to Nilson estimates, V is the largest global credit network (as measured by volume) and the second largest global debit network.

Investment Rationale

Amid secular tailwinds, we view V's competitive moat as extremely durable, with high barriers to entry. We see Visa's execution track record, and large addressable market opportunity as warranting a higher multiple. We also see upside potential to near-term estimates from cross-border travel recovery.

Stock Data

Average Daily Volume 5,716,410

Quarterly Earnings Estimates

	2023	2024
Q1	2.18A	2.41A
Q2	2.09A	2.45E
Q3	2.16A	2.43E
Q4	2.33A	2.59E

More on F1Q and guidance

F1Q details

- F1Q reported net revenue growth of 8.8% was ahead of BofAe/Street at 8.0%/7.7% and on the high end of guidance of upper mid to HSD. F1Q client incentives as % of gross revenue of 27.9% was in line with BofAe/Street at 28.2%/28.1%, respectively.
- By segment, data processing revenues delivered the most upside at 13.8% vs. BofAe/Street at 10.6%/11.8%. Other revenues also delivered upside, growing 17.9% y/y vs. BofAe/Street at 15.0%/14.4%. International transaction revenues growth of 7.9% came in below BofAe/Street at 12.0%/9.3%. Service revenues grew 11.5% vs. BofA/Street at 11.0%/10.9%.
- F1Q payment volume growth of 8.7% was in-line with BofAe/consensus at 9.3%/9.0%. US vols grew 5.3% in F1Q (vs. BofAe/Street at 6.0%/6.1%), with credit/debit growth of 5.8%/4.8%, respectively.
- F1Q processed transaction growth was 9.4% vs. BofAe/Street at 10%/9.7%.
- Reported opex y/y growth of 9.9% in F1Q was higher than BofAe/Street/guide of 8.6%/8.2%/HSD.
- F1Q adj. EPS of \$2.41 (11% y/y) beat BofAe/Street at \$2.35/\$2.34, driven mostly by below the line items and share repurchases. F1Q tax rate was 19%.
- New flows revs growth also slowed considerably to low single-digits in F1Q vs. mid-teens in F4Q, while VAS revs growth was a robust 20%.
- Shareholders approved the proposal to authorize Visa to implement the class B exchange offer program.
- Visa completed its acquisition of Pismo on 1/16/24.

January QTD metrics (through 1/21)

- January MTD (through 1/21) US payment volume was up ~4% y/y (vs. 5.0% in F1Q) with credit/debit at 4%/3%. (vs. 6%/5% in F1Q), due to severe weather conditions in the US. V noted modest impacts from Reg II. Processed transaction growth of ~8% in January (lower vs. 9% in F1Q).
- Const-curr (CC) XB vols ex. low-yielding intra-Europe was ~16% y/y in January, stable vs. F1Q.

F2Q guidance

- V guided to F2Q reported net revenues of upper mid to HSD, slightly below BofAe/Street at 9.2%/8.9%.
- Reported F2Q opex growth is expected to be LDD (~0.5%) Pismo impact offset by ~0.5% FX impact) vs. BofAe/Street at 8.4%/9.3%.
- Reported F2Q adj. EPS growth is expected to be in the upper mid to high-teens (vs. BofAe/Street at 13.5%/12.2%), inclusive of ~0.5% acquisition impact.
- V does not expect 1x headwinds from incentive true-ups in new flows to persist in F2Q.



F24 guidance

- For F24, y/y growth in client incentives will still be slower than F23 growth of 19% (BofAe/Street at 17%/15% y/y). F24 growth from new flows and value-added services are still expected to outpace consumer payments.
- V reiterated F24 nominal revs growth guide of HSD to LDD and LDD in const-curr, citing expectations for F2H acceleration from easier comps on average US ticket sizes, int'l inflation, and recent Latam wins.
- F24 nominal opex growth guide was ticked up to high end of HSD to LDD range due to Pismo and FX.
- F24 adj. EPS growth guide of low teens was unchanged.
- F24 tax rate unchanged at 18.5%-19%. F24 non-operating income of \$350M-\$400M vs. \$250M-\$300M prior.
- F24 guide for processed vols and transaction growth was maintained at LDD.

Price objective basis & risk

Visa Inc. (V)

We use a 50/50 blend of 30x C'24E EPS (GAAP) and our discounted cash flow (DCF) model to calculate our 12-month price objective of \$305. Our multiple is a slight premium to V's 5-year historical average, which we view the multiple as justified given Visa's growth profile, increased diversification, execution track record, and large addressable market opportunity. The key assumptions in our DCF model include a terminal growth rate of 3.5% and a weighted average cost of capital (WACC) of around 9%.

Downside risks to our price objective are 1) weak consumer spending in the event of a macroeconomic downturn, 2) increased customer concentration and consolidation, 3) legislative and regulatory changes, 4) potential litigation settlements, which could include monetary damages, and/or result in changes in business practices, 5) loss of customer contracts due to increased competition or new entrants, including local/global payment networks, new start-ups and existing large and small technology companies, and 6) large fluctuations in the value of currencies/foreign exchange rates.

Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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BofA Securities is currently acting as a financial advisor to Promocion y Operacion SA de CV (Prosa) in connection with its proposed sale of its majority interest to Visa Inc, which was announced on December 15, 2023.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia



US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPV	GPV US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia

NEUTRAL

	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

UNDERPERFORM

	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

RSTR

	EngageSmart	ESMT	ESMT US	Jason Kupferberg
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iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

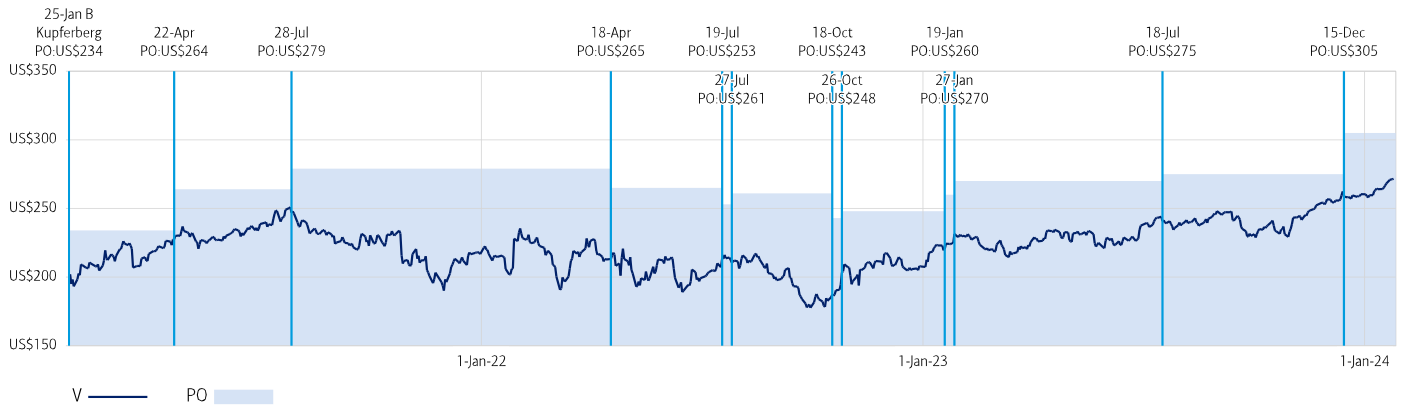
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Disclosures

Important Disclosures

Visa (V) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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