Company Name: Visa
Company Ticker: V US
Date: 2017-07-20
Event Description: Q3 2017 Earnings Call

Market Cap: 322,063.54
Current PX: 160.44
YTD Change($): +28.50
YTD Change(%): +21.601

Bloomberg Estimates - EPS
Current Quarter: 1.240
Current Year: 5.315
Bloomberg Estimates - Sales
Current Quarter: 5455.419
Current Year: 22785.444

# Q3 2017 Earnings Call

## Company Participants

- Jack Carsky
- Alfred F. Kelly
- Vasant M. Prabhu

## Other Participants

- Robert Paul Napoli
- Moshe Katri
- James Schneider
- Tien-Tsin Huang
- Ramsey El-Assal
- Darrin Peller
- Craig Jared Maurer
- Sanjay Sakhrani
- Daniel Perlin
- Bryan C. Keane
- Vasu Govil
- Paulo E. Ribeiro
- Lisa Dejong Ellis

## MANAGEMENT DISCUSSION SECTION

### Jack Carsky

#### *GAAP and Non-GAAP Financial Measures*

For historical non-GAAP or pro forma related financial information disclosed in this call, related GAAP measures and other information required by Reg G of the SEC are available in the financial and statistical summary accompanying today's press release

### Alfred F. Kelly

#### *Business Highlights*

##### *Opening Remarks*

- We had another strong quarter of business results
- Much like H1 our FY, we saw consistently solid trends in our operating metrics with very good growth in payments volume, processed transactions and cross-border revenue
- Our global business benefited from an overall healthy economy as payments volume grew in every major region

- In the United States, we saw strong consumer confidence continued to drive spending growth
- After three quarters here at Visa, I'm quite pleased with our business progress and our high level of execution
    - It's a real testament to our talented and dedicated employees around the world
- We're creating a strong culture focused on leadership development, operational excellence and driving results
- As I move to the highlights of the quarter, I do want to thank everybody for joining us at our recent Investor Day both in person and via the webcast
- As a leadership team, we enjoyed the opportunity to meet and spend time with our shareholders and the financial community
- We hope that you found the information and discussions to be useful
- We were pleased to have received quite positive and helpful feedback from the event
- Given the fact that we did provide a significant amount of information just a couple weeks ago, my prepared remarks today will be relatively brief

### *Payment Volume*

- In Q3, our business continued to perform well against our operating plan and our strategic priorities for the year
- We saw healthy growth in our key metrics for payments, volume and processed transactions
- Payment volume was solid across all five regions
- Growth was particularly strong in India, the United States, Russia, Mexico and Australia
- China payments volume growth remained low in the quarter, driven by the dual currency, dual-badged card runoff, but I should note that China's cross-border volumes growth continued to be strong
    - This was reflective of the overall trend as cross-border growth was robust around the globe
- In addition to China, Latin America, the U.S., Japan, Russia and parts of Europe were among the areas of real strength

### *Processed Transactions*

- Looking closer at processed transactions, growth was driven by Asia Pacific, Europe and the North America regions
- Client incentives came in lower than expected, primarily driven by timing delays and variances relative to our European clients
    - This translated to financial performance ahead of our expectations for the quarter as we grew both net revenue and EPS by 26% vs. last year's comparable results
- Vasant will go into greater financial detail and cover some of the normalized comparisons to last year

### *Integration of European Business*

- As we mentioned during Investor Day, the integration of our European business is progressing well and is on track

- More specific to the technology side of the integration, we're focused on migrating the European systems to our global authorization, clearing and settlement systems as well as deploying our global data platform and other corporate systems into Europe
  - We are well underway in that effort and we have just completed the upgrade of our UK datacenters on schedule
- We expect that client migrations to new systems will begin by the end of full-year 2018
- Moving our European clients to VisaNet, we can drive enhanced network capabilities, greater scale, resilience and additional levels of cyber security that will benefit our clients and certainly be more efficient in the long term
- We're also making significant progress in strengthening our partnerships and building digital capabilities to drive growth

### *Partnership with PayPal*

- Earlier this week, we extended our partnership with PayPal to include Europe
- We were already collaborating with them in the United States and Asia Pacific to provide a better online experience and this now extends the benefits to European consumers and businesses
- Additionally, they're joining the Visa network of client financial institutions and will be able to offer Visa accounts in Europe, enabling consumers and businesses to use their PayPal funds to spend wherever Visa is accepted
- The partnership makes it easier for financial institutions to offer their Visa accountholders the ability to check out anywhere PayPal is accepted online by offering greater consumer choice

### *Strategic Investment and Planned Partnership with Klarna*

- We also announced a strategic investment and planned partnership with Klarna, one of Europe's leading payment providers
- Our planned investment is part of a global strategy to open up our ecosystem and support a broad range of new partners who are helping to redefine and enhance the purchase experience for consumers online and in mobile environments
- Klarna develops products that address changing consumer preferences giving them the flexibility and seamless experience that they expect and hope for when shopping online
- In June, we signed 13 new partners to participate in our token service provider program in all major regions
- With the expected increase in digital payments embedded in a growing number of devices, we continue to build out a global network of partners to offer secure digital payment token services in creating a more secure commerce platform

### *Visa Ready Program*

- We launched the Visa Ready Program for Business Solutions
- This is a strategic framework and certification program to help technology companies that integrate with our B2B payment services to ensure that they meet standards and are market-ready
- Five initial partners in the U.S. have become Visa Ready as this program will help accelerate growth and enable new use cases for B2B payments

### *International Markets*

#### *China*

- Turning to the international markets, let me first make a couple of comments on China
- Yesterday, we filed an application with the People's Bank of China in order to participate in the China domestic market as a Bank Card Clearing Institution
- China is one of the world's fastest-growing payments markets and is leading the way in payments innovation
  - Our commitment to this market is long term
- We look forward to bringing our capabilities to the industry by stepping up our engagement with all the ecosystem partners through open and constructive collaboration, aiming to create added value and introduce innovative products as well as reliable and safe payment experiences for Chinese consumers
- We expect that the PBOC will consider our application in line with the publicly-released measures and guidelines for BCCI applicants

#### *India*

- India represents a large opportunity and we provided some thoughts during Investor Day on how we're approaching the market
- We are seeing steady progress with digital payments despite the recent re-monetization of cash
- Currency in circulation is stabilizing as re-monetization comes to an end
- The transition to the digital economy has been broad-based across several categories, including everyday spend and suggests wide societal participation
  - This past quarter, we saw payments volume increase over 80% and processed transactions more than double vs. last year
- In a couple weeks, I'll be in India for the first time since joining Visa and I look forward to seeing firsthand the opportunity that we have in meeting with local partners, officials and our teammates in India

### *Capital Allocation Plan*

- Once again, we delivered on our commitment to drive value for our shareholders in the quarter in maintaining a prudent capital allocation plan
- We invested in support of the growth in our core business through capital spending and expenses
- In fiscal Q3, we returned approximately $2.1B of capital to shareholders, consisting of $1.7B of share repurchases and nearly $400mm through dividends
- We continue to accelerate our share buyback activity to offset the equity dilution from the Visa Europe transaction

### *Closing Remarks*

In closing, we continue to see strong momentum in the business and we're excited about the long-term growth prospects for Visa

As we highlighted during Investor Day, there is a significant opportunity to displace cash and check of $17 trillion in front of us

We will continue to focus on partnering strategically and driving digital innovation to substantially grow our business into the future

## Vasant M. Prabhu

### *Financial Highlights*

#### *Net Revenue, Income and EPS*

- Business momentum stayed strong globally through our third quarter
- Net revenue and EPS once again exceeded our expectations
- Fiscal third quarter net revenue of $4.6mm was up 26%
- Net income for the quarter was $2.1B or $0.86 per share
- Adjusting last year's results for several special items related to the acquisition of Visa Europe, both net income and EPS were up 26%
- Exchange rate shifts vs. the prior year negatively impacted net revenue growth by approximately 1.5 percentage points and EPS by approximately 2 percentage points

#### *Global Growth Rates, Payment Volumes and Client Incentives*

- A few points to note
- Global growth rates and payment volumes, processed transactions and cross-border volumes remained strong and stable
- Exchange rate headwinds moderated though currency volatilities remained below the long-term mean
- Timing of client incentives added almost $0.02 to third-quarter results due to delays primarily in Europe; more on this later
- We bought back 17.8mm shares of class A common stock for $1.7B in Q3 at an average price of $93.82
- YTD in FY2017, we bought back 59.2mm shares of class A common stock at an average price of $86.82 per share

##### *U.S. Payment Volumes*

- A quick review of our key business drivers in Q3
- U.S. payment volumes grew 12% with credit growing 19% and debit 5%
- The slowdown in credit growth from the prior quarter reflects the start of Costco and USAA credit conversion in Q3 FY2016
- Excluding Interlink, debit grew 9%

- Declining gas prices negatively impacted payment volumes by 0.5 points
- Adjusted for conversions and gas prices, underlying credit and debit growth rates have been stable all year
- As reported, international payment volumes grew 72% in constant dollars
- On a comparable and normalized basis, robust payment volume growth continued across the globe

### *Asia, China, EMEA and Latin America*

- Asia sustained double-digit growth rates, excluding China
- Domestic payment volume growth in China was impacted by the decline in active dual-branded cards
- Strong growth was sustained across EMEA and Latin America

### *Brazil and Europe*

- Brazil ticked up modestly
- In Europe, excluding co-badge payment volumes, growth was 9% with strength across most markets
- On a constant-dollar basis, cross-border volumes grew 147%, driven by the inclusion of Europe
- Adding Europe to prior-year results, constant-dollar cross-border growth was up over 11%
- Through the quarter, the dollar weakened and the pound strengthened moderately
  - Despite these shifts, outbound commerce from the U.S. and inbound commerce into the UK remained very strong
  - U.S. cross-border growth accelerated in Q3, largely driven by outbound commerce

### *International Markets*

- Across international markets, particularly strong corridors were inbound into Canada, Japan and Australia and outbound from Latin America, the Middle East, South and Southeast Asia
- Reported cross-border volume growth rates were negatively impacted by over 3 percentage points by an e-commerce payments platform shifting acquiring of UK cardholder volumes to the UK from another EU location
  - While this shift impacted our reported cross-border growth rates, it has a minor effect on revenues since this is an intra-EU move the platform made to optimize the European business
- As reported, processed transactions grew 44% due to the inclusion of Europe
- On a comparable and normalized basis, which includes Europe and prior-year results, global processed transactions grew 13%
- U.S. growth rates were stable, international growth rates were helped by India and some new business in Europe
- India processed transaction growth stayed above 100%
- Through July 14, U.S. payment volumes are up 10%, global constant-dollar cross-border volumes grew 12%, processed transaction growth was 14%

## *Fiscal Third-Quarter Financial Results*

### *Revenues and EPS*

- A brief review of fiscal third-quarter financial results
- With strong momentum in the key business drivers and helped by some moderation in exchange rate headwinds, growth rates on all key revenue lines stepped up in Q3
- Service revenues grew 19%, data processing revenues grew 29%, international revenues grew 45% even as currency volatilities stayed below the long-term mean
- As I mentioned earlier, client incentives came in lower than expected and added almost $0.02 to the third-quarter EPS
    - This was primarily due to delays in Europe
- We're making good progress in resetting our commercial terms for key clients post removal of rebates
- We're pushing hard to get most of the deals we wanted done before the end of this FY
- Our current expectation is we will get 75% to 80% of the way there by September
- At this point, we expect the remaining 20% to 25% to shift into FY2018, largely due to client preferences and timetables
    - This shift in Europe is the primary reason why we now expect client incentives as a percent of gross revenues to come in below the low-end of our original outlook range of 20.5% to 21.5%

### *Expenses and Tax Rate*

- After adjusting for various special items in last year's results, expenses grew 31%
- As expected, expense growth ramped up from H1 levels as we stepped up technology as well as Europe integration spending
- Our tax rate was 29.3%, driven by the geographic mix of our global earnings and the benefits of the legal entity reorganization we completed last quarter

## *Outlook*

As we look ahead to Q4, it's important to remind you of three events that occurred in June 2016, which will significantly impact our reported growth rates on key metrics going forward

### *Visa Europe Transaction and Costco Conversion*

- First and foremost and the most important is the closing of the Visa Europe transaction
- Starting with Q4, reported growth rates will include Visa Europe in all prior-year numbers
- Second is the Costco conversion
- Starting in Q4 FY2017, our U.S. credit growth rates will include Costco in prior-year numbers
- In addition, the USAA credit conversion was completed in September and the debit conversion was finished by October last year

### *2016 Brexit Vote*

- Third is the 2016 Brexit vote followed by sharp declines in the pound and later the euro
- This will reduce the exchange rate drag we have experienced so far this year
  - This also drove the sharp increase of cross-border commerce into the UK
- Also of note, Q4 fiscal-year 2016 was the first time cross-border growth rates globally hit double digits in almost three years

### *Net Revenue and EPS Growth*

- Starting in Q4, we will begin to lap the global cross-border recovery
- We have factored all this into our updated outlook for the year
- We're raising nominal net revenue growth expectations for the year to approximately 20%
  - This is the result of the strong growth we have reported to-date, lower client incentives at 20% to 20.5% of gross revenues and moderation in the exchange rate drag to approximately 2 percentage points
- With higher revenue growth, we're also raising our nominal adjusted EPS growth outlook to approximately 20% with a 2.5 percentage point exchange rate drag
  - Included in this outlook is the reduction in European integration cost of $60mm
  - Margin and tax rate expectations remain unchanged

### *Cash and Debt*

- Finally, a couple of updates on cash and debt
- We returned more cash to the U.S. in Q3
- YTD, we have returned approximately $4B back to the U.S.
- As you know, in December 2016 (sic) [2015], we issued $16B of debt
- The first tranche of this debt, $1.7B, matures in December this year
- Between Labor Day and December, we plan to access debt markets to refinance maturing debt and an additional amount to fund the completion of stock buybacks that neutralize the impact of stock issued in connection with the Visa Europe acquisition

### *Closing Remarks*

Before I finish, I have one more topic

A couple of weeks back, Jack informed me of his intention to retire at the end of this year

On behalf of Visa's management, I want to thank Jack for his decade of contributions to Visa

As most of you know, Jack was Visa's first IR leader as a public company

Jack built our Investor Relations department from the ground-up, establishing and nurturing relationships with all of you over the years and he has been a key advocate for Visa

- We all wish Jack the best in his future endeavors, which he tells may include running the Town Chair Lift in Park City next winter
- Not surprisingly, he's picked November 30 as his last day
- I guess he does not want to miss a single day of skiing

## Jack Carsky

### *Conclusion*

And before we start the Q&A, let me just add to Vasant's very nice comments there

It's been a real honor and privilege working for this organization and the people in it for the last 10 years, but it's always good to go out on top

I've known a lot of you for – you as 10 years and some of you for as many as 20

- And it's been a great ride and I have really enjoyed the interactions with each and every one of you

# QUESTION AND ANSWER SECTION

**<Q - Robert Paul Napoli>**: Just I guess – I mean the numbers have been very good, obviously it's your Investor Day, I think the company seemed pretty upbeat. I just wondered if there is a way that – as you look at your numbers if you can split out the growth and tell, has there been an acceleration in the secular shift away from cash and checks to electronic payments? I know there's a lot going on with market share in Costco and different things, but I just wondered if you look at that, if there's a way, if you think there's been an – some acceleration in secular trends.

**<A - Vasant M. Prabhu>**: Yeah. I think, as I said my comments, if you take out the conversions and adjust for gas prices and volatile things like that, the underlying trend of credit growth in the U.S. for the last three quarters has been very steady and stable in the high-single digits and debit growth has also been very steady and stable.

If you look at our payment volumes through the first three quarters of this year, again strong and stable. We've been converting cash to digital at a pretty hefty clip for the past five years and I would say there's really no change in that trend. Global economies recovering have clearly helped us this year. So, if you remember on Investor Day, we talked about PCE penetration and PCE growth. The PCE growth component certainly has been helpful. And then the last thing, of course, is the recovery on the cross-border side.

And, Al, I don't know if you want to add?

**<A - Alfred F. Kelly>**: I think the other aspect, all of what Vasant said is obviously correct, I think that while we've seen a real adoption of digital, we're still in the early innings. And I think that as we pointed out on Investor Day, when we get into E&M commerce, we neutralize our largest competitor, which is cash, and I think that's going to continue to be a real engine of growth for us as we look ahead.

**<Q - Moshe Katri>**: So, another quarter of very strong results internationally. It seems that Visa Europe has been exceeding at least our expectations almost every quarter since the transaction kind of took place. Is there any way to kind of get us some color in terms of where you seeing the upside coming from vs. original expectations? And then, on top of that, I think you've indicated that the yield from renewing some of that book of business has been better than expected. Maybe some more color on that as well. Thank you.

**<A - Alfred F. Kelly>**: Well, I think we've been very pleased with Europe on any number of fronts, especially given the fact that there has been a fair amount of disruption for the people who work in that business between the integration as well as the regulatory requirement to split scheme and processing in the marketplace. Our employees have remained incredibly resilient and I think, in general, the European economy has been frankly better than we thought. As you know, our largest presence by quite a large measure is in the UK and the UK has held up well and, as Vasant said in his remarks, has benefited from the lower value of the pound driving lots of inbound traffic into the UK. That certainly has helped.

And when we look around the rest of Europe, our largest presences are in France and Spain, which have also held up well. And then, we're seeing countries like the Nordics continue to do well. In terms of the yield side of it, we're still working our way through redoing of these contracts. As both of us alluded to in our remarks, it's just a bit more of a slog to get there than we might have thought or hoped in the first place, but we are making good progress. I think we'll continue to make good progress as we proceed through into Q4. And to the degree that we've got good incentives built in place and we're getting good volume growth, all boats rise, which is a good thing for everybody.

**<Q - Moshe Katri>**: And Vasant indicated – pointed to some new business in Europe. Is there anything substantial there?

**<A - Vasant M. Prabhu>**: No, I had said that on the processed transaction side, yes, we've been saying for a couple of quarters that we had some gains in Europe on the processed transaction side, but overall, as Al said, I mean we're very pleased with the way the – the vast majority of our business in Europe is under contract and we have been, for a certain portion of that, working with clients to reset commercial terms once rebates went away and that's gone well, longer than we would have liked, but it's going well.

So, on all fronts, Europe has done, as we've said before, equal to or better than we expected and from an accretion standpoint certainly has been performing better than we expected. And we'll give you a little more about that once we're through with the year and can give you a full sense of the year.

**<Q - James Schneider>**: Jack, in your future endeavors. I guess my question really comes down to the cross-border. Obviously, the volume is holding in there, but at least by our calculations, it looks like the cross-border yield improved somewhat. So, can you maybe give us a sense of whether that's correct and if so, what drove it, was it regional mix, was there some pricing impact or was it one of the wins you just referred to?

**<A - Vasant M. Prabhu>**: No, I don't think you should conclude that there was an improvement in yield necessarily. I mean, clearly, from quarter-to-quarter, there are some changes in mix and so on. Some of it could be. As you see, the exchange rate headwinds moderating a bit. Certainly, that helps our reported cross-border dollar numbers, but there was nothing, there was no real change that would drive a big change in yields in the cross-border business.

**<Q - James Schneider>**: Maybe you could also just kind of address the incentive levels and you talked about being almost 80% of the way there by the time you finish this FY. Can you maybe just address directionally where those incentive levels would go in terms of normalizing as we head into 2018?

**<A - Vasant M. Prabhu>**: Yeah, we'll talk about that when we talk about 2018. I mean, if your question was what's the likely range of incentives as a percent of gross revenues and all that next year, I think we can get into all of that when we talk about 2018. So, it's a little too early to talk about all that right now. I think all we were signaling was that there is going to be some shift in Europe of incentives from what we thought we would get done this year into next year. And I want to emphasize that is driven more by client preferences and timetables and their desires to do things on a certain timetable than ours and we're adapting to their requirements.

**<Q - Tien-Tsin Huang>**: I guess, a question I wanted to ask – trying to think which one to ask. Okay, so maybe just a change in guidance, can you just walk us through the change in guidance? How much of it is incentives vs. some other factors? And the change to the incentive outlook, is that all timing or do you anticipate paying a little bit less than what you previously forecast?

**<A - Vasant M. Prabhu>**: So, there's a little bit of, let's call it, better-than-expected execution, a little bit of it in Europe, but you should think of it as almost all timing and almost all Europe; all Europe. So, that's one contributor. The three factors that went into sort of the change in the outlook is the performance we've had to-date; some moderation in the exchange rate headwind; some reduction in the original expectations on incentives. And on the EPS side, it reflects the benefits we're getting from the tax rate we now have, which we talked about last quarter, as well as the revenue being stronger than we had thought at the beginning of the year. So, there's nothing unusual other than the actual results and the trends we're seeing.

**<Q - Ramsey El-Assal>**: I had a follow-up question also on incentives, kind of building on Tien-Tsin's question, which is simply that as we sort of – as incentives, the expected levels kind of get pushed out, does it increase the chance of sort of incremental volatility in that line? Will there be a quarter coming up where we get sort of a snapback there and it catches folks by surprise or does this sort of push-out imply kind of a gradual slope?

**<A - Alfred F. Kelly>**: Again, I'd just remind everybody that there are at least three factors that go into this that make this somewhat difficult to predict and I think we've shown how difficult it is to predict, because we haven't hit the number in the last couple of quarters. But it's the – when is the deal going to actually come to pass? What are going to be the terms of the deal as you actually get into the last bits of negotiation? And then, what actually volumes are you going to get against those negotiated terms?

So, the reality is, in this particular case, it's just that the period of time to get through over 100 client contracts is just taking longer than we thought. I don't think we want to get into predicting business or forecasting business or what it would look like quarter-by-quarter, but I think this is just simply a matter of a process that we have to get through. And, as Vasant said, we're hoping get through about 80% of it by the end of the FY.

**<A - Vasant M. Prabhu>**: Yes. And as we've told you before, I mean it's not something we think should be focused on to the extent it is on a quarter-by-quarter basis. And as you know, we explicitly don't try to get deals done based on quarterly timetables and so on. So, the short answer to your question is, is there a snapback kind of thing? No. But is there likely to be a quarter where incentives run higher than we might have expected? Of course. I mean, just as they've run lower than we expected in some quarters, in some quarters, they could run higher than we expected, but there isn't any snapback kind of reason that you should expect. We typically look ahead and give you our best sense of what might get done in the quarter, quarter coming up.

**<Q - Darrin Peller>**: Just on a higher level now, if you can just touch again, I mean, on the pricing environment a bit more, again, you've commented on yields coming in better in Europe since the deal and we've seen a number of years where obviously incentives and rebates have been higher both as a percentage of gross revenues on a y-over-y basis. It feels like at some point on the gross yield side, it's going higher, but the rebate side is keeping up pace to some extent. You would see a bit of a divergence between the two. I mean, is there anything you can comment on conceptually in what you're seeing in your conversations with clients? Has there been more of a realization that the value-add you guys provide has reached a level where pricing is at a point where we don't need to keep providing higher and higher incentives and rebates, this is about the right point? So, just a little more color on that would be great.

And then, just a quick comment on Q4. I know you're saying some of the European stuff is pushed and there's been a lot of questions on incentives, but it looks like calculating what you're guiding would be about $200mm sequential increase in your incentive rebate line, which is kind of a lot. I mean, it's just hard to envision why they would all be in one quarter, unless there's, I think, someone else has other things going on. So that's really just the thought of the question. Thanks, guys.

**<A - Alfred F. Kelly>**: On the first question, Darrin, when you look at the overall numbers, it's a result of hundreds of deals around the world and they all take on different flavors. I think, in general, many of our clients and a testament to that is the longevity of many of our relationships that are very deep and have lasted decades that people value plenty of aspects of what Visa brings to the table from our global scale to our risk and fraud prevention tools to our brand, et cetera. That said, while that stuff is valued when it comes to negotiations, people negotiate hard as do we and you end up – everybody ends up compromising and you end up in a certain place. But, I think, I haven't seen nor as I have talked to clients around the world any view that the value that we're bringing to the table is any less than it's been.

In fact, I think, as we move into a digital world and we continue to try to be a leader in terms of thinking about the digital tools and solutions that I think that many issuers, particularly when you get beyond the very top issuers, who also have the funds and wherewithal, the investing in some of these kinds of capabilities that are what we bring to the table is very valued.

Vasant, you want to add to that?

**<A - Vasant M. Prabhu>**: The only thing was that there's a specific question on why client incentives, if you derive Q4, might look the way they do. I would say a couple of things. There is the fiscal fourth quarter effect to some degree in that, we have been talking to people, especially in Europe, for several months now and it's back and forth on finalizing agreements and the documentation and so on. And there's a fair amount of that, that is happening in Q4. And as we get it done in Q4, since these discussions have been underway for a few months, as happens in many cases, the incentives you pay reflect when the deal was either agreed to or initially discussed. So, there's an element of retro activeness to it, all of which is captured in the incentives you would probably recognize in Q4.

So, some elements of all that, that flow into it. And then, as Al said, I mean, we have a fairly rigorous process and we do the best we can to give you the best sense, but in the end, we won't sign a deal because a quarterly deadline is approaching, but we'll do our very best to get done everything we are setting out to do right now.

**<Q - Craig Jared Maurer>**: Jack, it's been a pleasure over the part of 15 years. Hopefully, we can meet up in Tahoe one day. Regarding the business, can you first comment on what your success rate has been in Asia, in China specifically, in converting dual-brand cards into a single-brand companion card for cross-border? And secondly, was there any benefit in service fees from the restructuring of contracts around the breakup of scheme and processing in Europe? Thanks.

**<A - Vasant M. Prabhu>**: On service fees in Europe, really sort of it's the breakup of scheme and processing. We'll see over time what the impact is, but in the short run, it really has no impact on the fee structure that was in place, but it will evolve over time I'm sure. In China...

**<A - Alfred F. Kelly>**: I'll take it. In China, I think, we have 55 banks and 42 of them only issue the single-branded card. The remaining 14 – 13 do the dual branded. We've had some success, frankly, not as good as we would like it to be, as it's going to continue to be a real focus of ours and something that given the importance of the cross-border volume from China, something that we're working closely with the banks on. I plan on being in – I'm going to be in India and China in three weeks and it's definitely something that I will be talking to both our team there as well as our Chinese clients.

**<A - Vasant M. Prabhu>**: Yeah, just in terms of the trend in that business over the last couple of quarters, we highlighted the issue last quarter, wanted you to know, as we said earlier, that if you adjust for China, Asia was growing double-digits. The domestic dual-banded card volumes in China were relatively stable quarter-to-quarter. So, we didn't see a sequential decline. And the cross-border business coming out of China, as Al said in his comments, has been strong and stable. How it all plays out in the next few months, we'll have to wait and see.

**<Q - Sanjay Sakhrani>**: Jack. It's bittersweet. I guess I have another question on incentives and specific to Europe, sort of the commercialization of the contracts there. Understanding there's some – the timing-related impacts that are causing the lower incentives this year, are there any specific pricing impacts as well that happen in conjunction with the commercialization of those contracts or should we expect those to sort of happen at the same time? Thanks.

**<A - Alfred F. Kelly>**: Well, we've made – in the year that we have owned Visa Europe we have made a few pricing changes and there are a number of pricing changes that we're continuing to look at in addition to obviously the commercialization, as you said, of the contracts to do away with rebates and put incentives in place.

**<Q - Sanjay Sakhrani>**: But do those happen at the same time? At points like when you renew them and put in new incentive agreements, does that come with a revised price schedule?

**<A - Vasant M. Prabhu>**: No. The price schedule, as you know, we have our price schedule and then the incentives then are tailored by clients. So, when we make price adjustments, we make them for the system as a whole typically and then, the commercialization of some of these contracts is something we do client by client. And just to emphasize, I mean, the vast majority of our business in Europe has been and remains under contract. This is something we're doing ourselves proactively to adjust some of the terms in the contracts to make them more commercial in a world where rebates no longer existed, but the pricing itself, that's related to our normal, of course, what we call our rack rates or list prices or whatever you want to call it.

<**Q - Daniel Perlin**>: Jack, I can only say one thing, jealous, but congratulations; well deserved, I'm sure. A lot was said at the Analyst Day around Visa Direct and I wanted to just kind hone in on the partnership you have now with PayPal, this collaboration you guys are doing. I guess one is, are those cards – the debit cards you're going to be issuing, are you going to actually route those through Visa Direct? And then, secondly, do you think that, that partnership will help insulate you guys from some of the risk associated with PSD2? Thanks.

<**A - Alfred F. Kelly**>: Well, first of all, we're very pleased to extend the deals that we have with PayPal in North America and Asia into Europe. And particularly the fact that we're offering full consumer choice and obviously as part of the deal is the ability to use Visa Direct to push a PayPal account balance to bank accounts. And it's a fairly extensive deal, because there's also an enablement of Visa Checkout relative to the Braintree gateway. And in Europe in particular, given the fact that PayPal has a banking license, we're obviously licensing them as a full-fledged issuer where they'll issue PayPal debit cards in Europe.

So, it's a extensive agreement that absolutely covers Visa Direct, but it also covers the very important aspects of the prior deals centered around full consumer choice as well as them working closely with us in enabling Visa Checkout as well.

<**Q - Daniel Perlin**>: And do you think that helps in that partnership to protect you guys from PSD2 as that regulation rolls in 2018?

<**A - Alfred F. Kelly**>: I think that everywhere that we can further embed a Visa card into the payment stream and build the loyalty of the consumer certainly helps us. I mean I think that at the end of the day, PSD2 is going to generate a requirement that everybody focuses really hard on consumers and try and make sure that they're providing the best possible consumer value propositions and the best possible consumer experiences.

So t, the degree that we can help further solidify the relationship that our issuers have with their customers, all that can only go to help fortify the issuers against PSD2 and the competition that can come from their accounts having to be opened.

<**Q - Bryan C. Keane**>: Wanted to just ask, what percentage of the European contracts are done today? I know you said 75% to 80% is the goal for the end of the year, but just looking for a mark for today. And then, secondly, at the time of the Visa Europe acquisition, I think the deal was to be EPS accretive in low-single digits for fiscal-year 2017 and then high-single digit percentage points range by fiscal-year 2020. There's been a lot of moving pieces here. I'm just looking for an update now on if those goals all stand.

<**A - Alfred F. Kelly**>: Well, to the question number one, Bryan, and let Vasant answer question number two, we don't want to get into a daily tally sheet on this. Again, so we're not probably going to disappoint you by not quantifying exactly where we are, but I think you can assume that we're somewhere below 80%, but above a fairly decent number such that we're confident in being able to say we think we can get to 80% by the end of Q4, but we don't really want to get into setting a precedent of providing that kind of update.

Vasant, in terms of accretion?

<**A - Vasant M. Prabhu**>: Yeah, in terms of accretion, as you all know, European economies have been stronger than we expected. So, our volumes, as you've seen, have been running better than we might have expected at the beginning of the year or when we did the acquisition model that valued Visa Europe.

Certainly, the weak pound and the weak euro have helped the cross-border business. Frankly, the weak pound has caused a massive amount of cross-border into the UK. In addition to that, you know that we have taken some pricing and our yields have run a little better than we expected. And so far, things are going well in terms of renewals and retaining contracts and business and so on.

So, when you put it all together, clearly Visa Europe is doing better than we expected this year and accretion is running ahead of the low-single digits we had told you, but the year isn't over yet. So, we'll wait until the end of the year and give you an update in October as to where that accretion was in the first year and whether we have a different perspective on the longer-term outlook on accretion, but it's early days and things are going well.

**<Q - Vasu Govil>**: Just quick question. First one to Vasant. You talked about – you sort of mentioned that cross-border volumes would kind of lap the double-digit growth rate next quarter. So, just want to get a sense for what's baked into guidance. Are we assuming that this double-digit growth rate is sustainable or do you think that it could decelerate back into the sort of high-single-digit range?

And then, a question for Al on India, Visa is clearly benefiting from the government push towards non-cash form of payments there, but there're also local mobile wallet players that seem to be making a big push and they're fast gaining traction. So, can you just talk about the competitive dynamic and potential for the Indian market to kind of leapfrog card payments and go straight to mobile? And how is Visa positioned on the ground to sort of preserve and grow their share within electronic payments in India?

**<A - Vasant M. Prabhu>**: So, on the cross-border growth rate, real quick, we like what we see on the cross-border trends. We've seen the pound strengthen a bit, but that didn't change the strength of the cross-border business into the UK. We saw the dollar weaken a bit, but that didn't seem to change the trend so far of cross-border business outside leaving the U.S. So, overall, the cross-border business seems to have pretty good momentum. And, yes, the comparisons get tougher, but we feel pretty optimistic about it. So, we'll wait and see how it goes. When you lap big increases, of course, you have to – it's a little harder to forecast, but we like what we see a lot.

**<A - Alfred F. Kelly>**: In terms of India, it's such an exciting market and there's a lot going on, obviously, because it's an exciting market and a lot is going on, there's a number of players trying to get into the market. We've been there for a long time. We believe that, as we think about growing our network and in particular merchant acceptance, that we have to have different plans in a emerging market vs. a developed market.

And in the case of India, we clearly have to have a way that's low cost, low hassle, low friction to enable merchants to sign up. And that is why we initially went with the QR code and now have worked closely with some of our network colleagues on an interoperable QR code that works with our mVisa application and allows quick and easy and low hassle setup for merchants and a relatively easy experience for the India consumer.

It is very, very early in the payments maturation curve for India. There is years to still play out here and we're going to do everything we can to take advantage of our heritage and tradition, our brand, our different product sets, our security, the globality of our network as well as our digital tools to make sure that we're winning at least our fair share, if not more, of the business in India as it grows, recognizing clearly that we've got competitors that go beyond just the traditional players that we've competed with over the last number of decades.

**<Q - Paulo E. Ribeiro>**: When you talk about the impact on expenses from tech investing, could you give us some color on where you're investing? I assume part of it is China. And where else in terms of either geography or product have you guys focused your dollars on?

**<A - Alfred F. Kelly>**: I'm sorry, you are talking about technology.

**<Q - Paulo E. Ribeiro>**: Yes. Your technology, because you guys mentioned that it's what's driving expenses, technology and Visa Europe integration. What is in technology? Where are you spending the money in terms of...

**<A - Alfred F. Kelly>**: Well, I'll start and Vasant can add to what I have to say. Clearly, China is one where we've stated a number of times that we're investing ahead of the process of being able to actually operate there, not knowing exactly when that will be. I would say the other categories that come immediately to mind are Open VisaNet. We talked a bit about that at Investor Day that we're looking – we've begun the process of building a more open architecture and a more modularized version of VisaNet to meet the needs that we have going forward and allow us that the flexibility to actually, where necessary put processing right in a country without it being a big deal where a datacenter could be in a small closet as opposed to a large facility that has to have all of the accompanying electronics and cooling and et cetera.

Clearly, digital and all of the digital tools that we're building is an area that we're spending a lot of time and effort on. Research, we opened up a – I think we talked about this at some point in the past, that in February, we opened up a new facility in Palo Alto focused on research. And we're doing a whole number of things around looking at applications of blockchain and artificial intelligence and different other ways to build our data and our analytics capabilities.

And, I guess, the fifth category, I would say, would be security and cyber security. Given how important security and trust in the payments ecosystem is, we continue to look at every possible offering that's out there related to physical and cyber security and make sure that we're being leading edge and investing appropriately to make sure that, given the role that we play in the ecosystem, that we're doing everything we possibly can to help make sure that transactions, as they're flowing through the systems and transactions when they're at rest are all protected to the maximum degree possible. So, those would be the things I would say.

Would you add anything, Vasant?

**<A - Vasant M. Prabhu>**: Yeah, I think the other things – Al went through, I think, a very comprehensive list. I mean a few other things just to highlight would be continued investment in the Visa Developer platform, investments and now rolling out Visa Checkout and Visa Token Service and mVisa around the world, a big push on mVisa in places like India and parts of Africa; investments in our innovation centers, you've heard about the London Innovation Center and how significant it's become; investments in core development around our innovation centers with our clients. So, there's a lot of areas where the things we've developed are now in the process of being deployed.

**<Q - Paulo E. Ribeiro>**: Great. Just a quick clarification. PayPal, the rollout of the PayPal partnerships around the world, they are not a big investment, they are not in that number, then, in those spending?

**<A - Alfred F. Kelly>**: There's a little bit of work there, but the essence is those agreements are not a major workload for us. It's more a matter of, actually, more change, actually, on the part of PayPal than it is on the part of us.

**<Q - Lisa Dejong Ellis>**: One final congrats from me. Visa Checkout related question for me. One, given the updated steps to give us on Visa Checkout, and then little bit of a more of a strategic question, you continued to kind of fight head-to-head with Visa Checkout with these more staged wallets around the world, whether that's with PayPal or with Alipay or now, some of the models inside of Amazon. Would you contemplate adding more of that capability within Visa Checkout, meaning via prepaid vehicle, the ability to keep a store balance or Visa Direct, using Visa Direct to be able to enable P2P? And why or why not?

**<A - Alfred F. Kelly>**: Hi, Lisa. An answer to your first question, we're nearing 23mm users who have signed, actually signed up for Visa Checkout. I think we've talked a little bit about this. The whole wallet thing is a bit of a mixed bag of activity around the industry and I think not necessarily the most user-friendly thing for consumers, because there are so many options. We think of Visa Checkout more as a platform than we necessarily think about it as a wallet.

But that said, strategically, I think anything that supports the four-party model that makes sense in terms of integration or capability, we're going to be open to look at as we go forward, because ultimately we want to be part of the solution of coming up with a smaller number of easy, convenient and wallet that have the type of functionality that consumers would want and expect and help bring some of what I think is a bit of confusion around wallets and checkout in the e-commerce world, bring a bit more order to it over time