Company Name: Visa
Company Ticker: V US
Date: 2017-04-20
Event Description: Q2 2017 Earnings Call

Market Cap: 210,267.87
Current PX: 91.15
YTD Change($): +13.13
YTD Change(%): +16.829

Bloomberg Estimates - EPS
Current Quarter: 0.810
Current Year: 3.338
Bloomberg Estimates - Sales
Current Quarter: 4364.963
Current Year: 17792.406

Q2 2017 Earnings Call

Company Participants

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

Other Participants

- Robert Paul Napoli
- Ramsey El-Assal
- Lisa D. Ellis
- David Mark Togut
- Andrew Jeffrey
- Darrin Peller
- Sanjay Sakhrani
- George Mihalos
- Tien-Tsin Huang
- Craig Jared Maurer
- Bryan C. Keane
- Glenn Greene
- Christopher Roy Donat

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, Jr.

Business Highlights

Performance

- We're halfway through our FY for 2017, and we're quite pleased with the strong business results that continued into Q2
- Similar to Q1, our business momentum was broad based, with solid payment volume growth, a double-digit increase in cross-border revenue and healthy operating metrics from all of the regions

Operating Plan

- Despite geopolitical uncertainty, our business continues to deliver sustained growth as we displace cash and capitalize on the opportunities in front of us
- We're performing well against our operating plan and our strategic priorities for the year
- I'm excited to see a high level of business execution continuing into this fiscal second quarter where we saw a robust growth in payments volume, cross border business and processed transactions
  - This growth, combined with client incentive delays, led to better-than-expected financial performance

Net Revenue

- We grew net revenue by 23% and adjusted EPS by 27% vs. prior year's results
- We also reorganized some of our legal entities including Visa Europe and created the Visa Foundation with an initial charitable contribution
  - This provides us as an opportunity as a company to expand our charitable giving and our philanthropic activity
- Vasant will go into this in greater detail to highlight some of the normalized comparisons and also discuss the impact of the reorganization and the charitable contribution

North America

- We continue to work closely with our valued clients around the world
- While I do not plan to talk about renewals on every call, this was a particularly active quarter so I do want to highlight some notable agreements
- In North America, we renewed a multiyear credit, debit, commercial and prepaid partnership with PNC Financial Services Group
- We also renewed a multiyear debit agreement with Citizens Bank and multiyear credit and debit agreements with First National Bank of Omaha

Asia-Pacific

- And on the co-brand side, we renewed an important credit card relationship with Hyatt Hotels & Resorts
- In Asia-Pacific we signed a 10-year exclusive partnership with ANZ Bank in both Australia and New Zealand
- We also signed a commercial credit partnership with Citibank covering multiple markets in Asia-Pacific
- In Taiwan, we signed a multi-year credit and debit agreement with CTBC Bank Taiwan
- In our Latin America region, Banco Popular de Puerto Rico, the largest bank and credit card issuer in Puerto Rico renewed a multiyear credit and debit partnership

Europe

- In Europe, we signed a pan-Nordic debit renewal with Nordea Bank and a commercial and consumer card renewal with BNP Paribas Group in France
- In addition to our renewals, we signed a number of key partnerships

    - We announced the IBM Watson partnership to help support payments in the Internet of Things and encouraged the usage of tokenization

Internet of Things

- As a leading network, it is part of our role to look forward and anticipate
- To that end and where applicable, we want to ensure an on-ramp for payments integration in the Internet of Things
    - This collaboration brings the point-of-sale everywhere Visa is accepted by allowing businesses to quickly introduce secure experiences for any connected device

PayPal Partnership

- We also executed the PayPal partnership in Asia-Pacific which is similar to our partnership in the United States
- This partnership helps ensure transaction data sharing and provides consumer choice for an improved consumer experience
- More recently, we announced the launch of an enhanced transaction data capability for Amazon Business customers in the United States
- This enables participating issuers to provide their U.S. commercial accountholders, a comprehensive view of their Amazon Business purchases, including full line item details on purchases made with their Visa commercial card that integrate with popular reconciliation tools

Digital Expansion Efforts

- Our digital expansion efforts show great progress in Q2
- Visa Checkout is sustaining tremendous growth reaching more than 20mm enrolled accounts
- Additional brand merchants are adopting Visa Checkout to improve their online shopping experience and the growing list of over 300,000 merchants now includes Alaska Airlines, Avis, Marriott and Walmart amongst others
- And our push payments product set Visa Direct and mVisa are continuing to expand globally in various markets

Market Conditions

- This past quarter, I continue to spend a lot of time with clients, partners and government officials, combined with my travel in my first few weeks, I've had an opportunity now to visit most of our top markets and I plan to get to additional markets in the coming weeks and months
- During almost all of the visits, I balanced my time between meetings with investors, employees, clients, both issuer and merchant clients, and government officials
- I thought it might be helpful to share a few overall and a few specific impressions from these meetings

Visa Brand

- In terms of overall impressions, the Visa brand and our reputation with our clients is very good

- Clients appreciate the association with our people and our incredible brand
- Regulation is present almost everywhere, although it clearly differs from market to market

Local Business

- I validated what I already knew that the payment space is a local business driven by history, traditions, and local regulations
- The state of innovation, issuer relationships, and acceptance penetration are specific to each individual country
- So you must be local to win in the payment space
- And my final observation is that opportunity abounds around the world

Russia

- More specifically, let me highlight some of our ongoing efforts in a number of countries
- In Russia, we have a very good presence and enjoy terrific relationships with an impressive set of bank partners, both state owned as well as private
- As a developed economy, Russia is growing domestically and in inbound and outbound travel, which contributes significantly to our cross-border business growth
  - While Russia has a domestic processor in NSPK and a domestic scheme in Mir, the government understands the value of other networks, and we are working well with the government Central Bank as well as our issuer partners
- Russia is also building excitement for the upcoming Confederations Cup this year and the FIFA World Cup in 2018, which represent opportunities for growth in this market

China

- China, as I've said before, is a long-term opportunity
- It's an important market and we will be patient
- I recently enjoyed meeting a number of key influential people during my trip to Beijing
  - They were very helpful
- That said, it will take time to apply for and pass the various review steps before we obtain a domestic license
- We are working on a path forward, which I discussed with key people, and we received helpful feedback
- Beyond the pursuit of a domestic license, the phasing out of the dual-branded cards has begun to impact us in terms of payment volume and revenue, and we expect to feel this impact a bit more as we look ahead

Japan

- Turning to Japan, I'm very excited about the opportunities
- Japan today is a huge cash society with a large number of credit cards but a small number of debit cards
- I had a chance to meet with over 30 clients, and the enthusiasm was very high

- I really believe that Japan will take off over the next few years, driven by a positive and active government in terms of driving payments to be more electronic, or digital, growth in contactless, and the emergence of e-commerce
- The Olympics in 2020 will be a great showcase for digital progress, as the games are largely going to be in and around the city of Tokyo

India

- In India, we're working with partners and government agencies to expand our presence
- Post-demonetization in November, domestic processed transactions continues to grow significantly and was up well over 100% this past quarter
- Today, cash availability has largely returned to normal levels
- Our transactions primarily come from domestic debit in low-ticket non-discretionary categories, as we're driving debit awareness
  - We are also scaling up physical and digital acceptance through bank partnerships and new product introductions
- Points of acceptance have increased 50% in the five months since demonetization and is now above 2mm

European Business

- Looking at the European business, we're gratified with the overall performance
- Our acquisition of Visa Europe has provided our business with a truly global presence, as we operate as One Visa worldwide
  - While we still have a lot of work ahead of us, we're pleased with the business integration progress to date
- We are in active discussions with our clients as we migrate to new commercial frameworks with incentive structures
- The vast majority of payments volume continues to be under contract

Leadership Team

- We're also in the process of building a strong and stable European leadership team
- Following the recent resignation of Visa Europe's CEO, Nicolas Huss, Bill Sheedy has taken on the interim CEO role as of April 1
- Bill is a 25-year veteran of Visa and is well known to the European team given his role in the acquisition and early integration
- Bill provides invaluable leadership in business continuity as we integrate the European operations and while the formal search process is underway

Visa Innovation Center

- We continue to work with our clients and partners to deliver on our innovation agenda in Europe and create new products, services, and business opportunities

- This past quarter, we led a number of successful contactless transit launches in the UK and Italy, and Visa Token Service continues to expand with recent Android Pay launches in Poland and Ireland
- In February, we launched the Visa Innovation Center in London, and saw strong client engagement, with over 50 client sessions held on site to date and a significant pipeline of demand ahead of us

Accomplishments

- We maintained our strong record of accomplishment of delivering value to our shareholders through a disciplined capital allocation plan
- We continue to make investments in our core business
- We invested in our Merchant Service offerings by completing the CardinalCommerce transaction in February
- The 3D Secure 2.0 standard and detection provides greater fraud protection and will increase approval authorizations in a channel that has historically had high, or a higher level of denials

Shareholder Value

- In fiscal Q2, we delivered on our commitment to driving shareholder value as we returned over $2B 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
- Lastly, at Tuesday’s board meeting, we received approval to increase our share buyback authorization by $5B, resulting in a total purchase authorization of $7.2B

Conclusion

As we move to H2 our FY, we feel good about the momentum in the business and look forward to the future ahead

I’ve enjoyed the opportunity to meet with many of our shareholders over the past months, and I hope to meet more of you in the coming months

As a reminder, our Investor Day will be held on June 22 in San Francisco, so I hope you will be able to join us

Vasant M. Prabhu

Financial Highlights

Net Revenue and EPS

- The strong growth trends we started the year with continued through Q2
- Second quarter net revenue and EPS once again exceeded our expectations
- On a GAAP basis, fiscal second quarter net revenues were up 23%
- EPS including special items related to the reorganization of Visa Europe was $0.18
- Excluding these special items, adjusted net income for the quarter was $2.1B and EPS $0.86
- Adjusting last year’s results for a gain related to currency forward contracts, EPS was up 27%

- Exchange rate shifts vs. the prior year negatively impacted net revenue growth by approximately 2.5 percentage points and EPS growth by approximately 4 percentage points

Global Growth Rate

- A few key points, adjusted for the extra day in February last year, global growth rates and payment volumes, process transactions and cross-border volumes remained robust and generally in line with first quarter trends
- Once again, timing of client incentives added almost $0.03 to our second quarter results as some deal renewals were pushed out into H2

Global Profit Structure

- We completed our legal entity reorganization of Visa Europe and other Visa subsidiaries to align our global profit structure to the geographic jurisdictions in which we have business operations
- This reduced our reported tax rate to 28.6%, after adjusting for two nonrecurring special items
- Finally, we bought back 19.1mm shares of Class A common stock in Q2 at an average price of $88.51 for $1.7B.
- In H1 FY2017, we bought back 41.4mm shares for $3.5B at an average price of $83.81
- Our board has authorized a new $5B share repurchase program, increasing funds available for stock buybacks to $7.2B

Visa Europe Reorganization

- Before I discuss our second quarter results and outlook for the year, some more details on the Visa Europe reorganization and its impact
- We are pleased to have completed a reorganization of Visa Europe and other subsidiaries
- This has several implications
- First, our adjusted tax rate in Q2 was lower at 28.6%
- As a result, our full year adjusted tax rate will now be approximately 50BPS lower than prior expectations
- Next year, with a full year benefit from the new structure, we will have a further reduction of approximately 100BPS in our tax rate

U.S

- Second, following this reorganization, we returned a net $1.3B of cash held by foreign subsidiaries to the U.S
- This transaction did not constitute a return of undistributed earnings and as such was not subject to U.S. taxes
- This return of cash precludes the need for us to issue any debt until later this CY when the first tranche from our December 2015 debt issuance matures
- We have the ability to return more cash held by foreign subsidiaries and will update you as and when we do it

Visa Europe

- Third, associated with this reorganization, the newly formed Visa Foundation received all Visa, Inc. shares which were previously held by Visa Europe and recorded as treasury stock
- The reorganization provided us an opportunity to achieve this goal in a tax efficient manner
- The charitable donation which totaled $192mm was recorded in general and administrative expenses
  - There was an associated $17mm reduction in income tax provisions reflecting the tax benefit of the contribution
- All these items are nonrecurring and as such were treated as special items

Tax Balance

- Fourth, as a result of this reorganization, we eliminated deferred tax balances originally recorded when we acquired Visa Europe in June 2016
- As required by U.S. GAAP, we recorded these balances as part of purchase accounting for the acquisition to accrue for potential tax liabilities or assets if we ever sold Visa Europe
- The applicable taxes are dependent on the geographic jurisdictions attributable to Visa Europe
- In the reorganization, we changed our corporate structure
- It was therefore necessary to adjust associated deferred tax balances accordingly
  - This onetime adjustment has no cash consequences as no tax was actually triggered by the reorganization
- As such, this approximately $1.5B deferred tax adjustment was also treated as a special item
- Our press release provides you with the schedule that adjusts GAAP net income and EPS for these special items

U.S. Payment

- Moving now to a review of our key business drivers in Q1, U.S. payments volumes grew 12% with credit growing 21% and debit 3%
- Adjusting for the extra day in February 2016 would add over 1 percentage point to these growth rates
- Even after you adjust for Costco and USAA, credit growth has remained strong, especially spending on travel
- Excluding Interlink, debit grew 7%, in line with the prior quarter when normalized for the leap day

PIN Debit

- Reported Interlink growth rates continue to be impacted by the lapping of a significant win in Q4 FY2015, as well as PIN debit routing choices by acquirers and merchants
- Gas prices added approximately half a point to payment volume growth in the U.S
- As reported, international payment volumes grew 68% in constant dollars
- In addition to the leap day effect from 2016, international payment volumes are also impacted by the shift in Easter from fiscal Q2 last year to Q3 this year

China

- On a comparable and normalized basis, robust payment volume growth continued across the globe
- Growth picked up in Latin America and remained strong in the CEMEA region
- Asia sustained double-digit payment volume growth rates, excluding China
- Payment volume growth in China slowed as a result of a decline in dual-branded card volumes as well as loan restrictions lowering real estate transaction volumes
- In Europe, excluding co-badge volume in all periods, growth was steady at 9% despite the leap year and Easter shift impacts
- On a reported basis, cross-border volumes grew 132% on a constant dollar basis, driven by the inclusion of Europe
    - Adding Europe to prior year results, constant dollar cross-border globally was up 11%

Europe

- In the last week of March, we experienced settlement delays in Europe due to a technical issue
- This caused some volume, mostly international volume, which would normally have settled in March, to be settled in the first week of April
    - This reduced second quarter European and normalized global cross-border growth rates by 1 percentage point, respectively
- Impact on cross-border revenues was de minimis

UK

- Strong cross-border growth trends adjusted for the leap year has sustained through Q2, helped by the relative stability of the dollar and the euro
- Once again, the strong dollar drove robust outbound commerce from the U.S. into Canada, Mexico and the UK
- Our U.S. acquired business improved, helped by an acceleration of commerce in from Canada and Brazil
- As a result, U.S. cross-border volume growth remained in the double digits and was a percentage point higher than Q1 rate

Russia

- Across other geographies, the UK continues to benefit from the weak pound, which is driving significant inbound commerce
- Outbound commerce from Russia accelerated, especially into Europe
- Outbound commerce from the Middle East continues to weaken but commerce from Sub-Saharan Africa is picking up steam
    - Cross-border commerce across Latin America was strong
- Adjusted for the settlement delay, cross-border growth was steady across Europe

U.S. Growth Rate

- As reported, processed transactions grew 42% due to the inclusion of Europe
- On a comparable basis, which includes Europe in prior year's results, global processed transactions grew 12%
- Adjusting for the leap year impact, processed transaction growth rates were stable
- U.S. growth rates were modestly lower, primarily due to Interlink
- International growth rates stepped up due to India and some new business in Europe
- Even as cash available in India has returned to normal, transaction growth rates in excess of 100% has sustained through Q2

Volume Growth

- Through April 14, U.S. payment volumes are up almost 15%
- Normalized for Visa Europe, constant dollar cross-border volumes grew 13% and processed transaction growth was almost 17%
- A word of caution: two weeks do not make a trend and H1 April is impacted by the shift in Easter

Service Revenue Growth

- A quick review of our fiscal second quarter financial results, service revenue grew 17%, in line with first quarter growth rates
- Service revenue growth was helped by previously announced price increases, offset by the negative currency translation impact
- Data processing revenues grew 25%
- International revenues grew 41%, impacted by lower revenues from currency volatility
- Currency volatility declined through the quarter and is currently below the long-term mean

EPS

- Once again, client incentives came in well below our expectations
- As I mentioned earlier, lower-than-expected client incentives added $0.03 to our second quarter EPS
- Many significant renewals were completed in the quarter, as Al described, which will drive incentives higher going forward
- Several important renewals have shifted to H2

Europe

- In Europe, we continue to work with clients to reset our term post removal of rebates
- They're comfortable with progress but given the large volume of contracts that have to be modified, this will extend into H2
- In the U.S., a couple of renewals we had previously estimated might be done by now will likely be H2 events, mostly driven by client timetables

Expenses

- Expenses grew 24% after adjusting for the Visa Foundation contribution, which is recorded in G&A
- As expected, expense growth ramped up from Q1 level and will continue to ramp as we step up marketing and technology spend as well as Europe integration costs
- Personnel expenses were impacted by above normal employee incentive accruals, back to better-than-expected, YTD performance and several employee benefit-related costs that are seasonally higher in Q2

Tax Rate

- Our tax rate adjusted for special items was 28.6% as a result of the completion of the Visa Europe reorganization, driving EPS of $0.86, up 27% on an adjusted basis

Guidance

Headwind

- Looking ahead to H2 FY2017, as you have seen, the key drivers of our results, payment volumes, process transactions and cross-border volume continue to grow at healthy rates all through H1
- The main headwinds this year have been the strong dollar and the weak euro
- Fortunately, the dollar and the euro were relatively stable last quarter and this headwind has not become stiffer
- A couple of trends are worse than we had expected last quarter and we are watching
- Currency volatility is tracking below the long-term mean and well below last year's levels
- Volumes in Chinese dual brand cards are declining as cards expire and are not reissued

Europe Integration

- For H2, we are assuming payment volume and cross-border growth momentum will be sustained
- Client incentive spend is expected to ramp up with the renewals we just completed and deals that are shifting into H2
- Expenses will also step up above second quarter levels, as we spend more on marketing and technology initiatives, as well as Europe integration

Net Revenue Growth

- Based on first-half results and current trends, we are updating several components of our full-year FY2017 outlook
- We now expect nominal net revenue growth to come in at the high end of our outlook range of 16% to 18%, with client incentives as a percent of gross revenue at the low end of the 20.5% to 21.5% range
  - There is no change in margin expectations in the mid-60s%
- As a result of our Visa Europe reorganization, our tax rate after adjusting for special items is expected to be 50BPS or basis points better at approximately 30%

- Nominal adjusted EPS growth, also adjusted for special items, is now projected to be at the high end of the mid-teens range

QUESTION AND ANSWER SECTION

<Q - Robert Paul Napoli>: So this is Q2 in a row where the company has materially exceeded expectations. There's a lot going on. What are the main surprises to Visa on the outperformance? Is it Visa Europe is a lot more accretive than what you thought? Is it a somewhat better economy? More market share? What is driving the upside surprises?

<A - Alfred F. Kelly, Jr.>: Bob, it's Al. I would say number one, it's fairly healthy economies around the world where just – you don't in every quarter get fortunate where – when you look across the globe, you see fairly robust growth. And that's what we had seen. I think I said in Q1 that we saw that with the exception of Brazil. Brazil was not terrific but better in Q2. I think the second thing is the fact that we saw more of the client incentives that we expected to happen in Q2 are going to move to later in the year. So those would be the two things I'd point out.

<A - Vasant M. Prabhu>: And then, of course, cross-border growth has continued to stay very robust. As you saw, we've had now three quarters in a row where cross-border has been in the double-digit range. Especially strong has been U.S. cross-border, both issued and the acquired holding up pretty well. And that, as you know, is a good business for us. So again, echoing Al, it's the strength of global economies.

<Q - Ramsey El-Assal>: The lower 2017 incentives guidance as you mentioned is pushing forward some renewals that you thought were going to happen earlier in the year. Is there an implication that then you're pushing out into 2018, things that would have occurred in 2017 because you're taking down the total 2017 number? And I guess, just do you have any greater clarity on the potential effects of this FASB rule changes on revenue recognition coming into effect next year, how it might impact this incentives line?

<A - Alfred F. Kelly, Jr.>: On the first point, we do our best to try to estimate these client incentives. We're in essence having to estimate three different things. One is the timing of when deals are going to happen. Number two, what are going to be the terms of those deals once they're finally negotiated. And then number three, once those deals start taking place, what are the actual volume performance is going to be. So it's relatively tricky stuff. That said, I think not only did we see some of the renewals we expected to happen in Q2 dip into H2.

The other point is the one that Vasant made in his prepared remarks about the rebates being replaced by incentives in Europe. It's just there's a lot of accounts and it's just simply taking us longer to get through all of the various work getting to the clients, getting negotiated, getting through lawyers on both sides, et cetera. Just plain and simple, taking longer than we thought. I'll let Vasant deal with the FASB question.

<A - Vasant M. Prabhu>: Yes, on the FASB side, yes, there are new revenue recognition standard. I think you heard us say that there's no real economic impact from it. We are working to clarify how those standards will apply to us. We are working through what the impact on us might be. There are two possible places in which there could be changes in the reporting. One is what is classified on the client incentive vs. what is classified under expenses. And then how certain kinds of payments are amortized on client incentive contracts. Once again, as we go through that and we get clarity from the SEC and FASB on a couple of open items, we'll be able to do all the work and give you some sense of it. But at this stage that's where things stand.

<Q - Lisa D. Ellis>: Can you comment a bit on your view on the impact of the PSD2 regulations in Europe and more broadly the regulatory environment in Europe?

<A - Alfred F. Kelly, Jr.>: Well, Lisa, I think it's a little early to tell how exactly the PSD2 is going to play out. We're obviously engaged in talking to the regulators, talking to our clients and obviously having our own internal discussions about how things could play out. We've been working with the regulators to make sure that the authentication process is done in a – with some pragmatic elements on it in terms of where you need – where you can use normal kind of risk authorization tools and techniques vs. having two different forms of authentication. But where exactly it plays out it's too early. I think it's a little too early to tell.

As it relates to the balance of regulation in Europe, we're continuing to make sure that we're complying properly with the breakup of scheme and processor. Being perfectly blunt about it, it's a bit of a cultural challenge in that we're being forced to separate people and organizations that were accustomed for years to working together but we're obviously doing everything that we need to do to make sure we comply. And then broader regulation around the world, we're tracking very carefully. Probably the most relevant recent news came out of Argentina where they have regulated interchange effective now at 200BPS for credit, 100BPS for debit, but it will slide down over the next five years and land at 130BPS on credit and 60BPS on debit.

<Q - Lisa D. Ellis>: Terrific, thanks. And if you don't mind me asking, just the same question, but for India. Can you give a little more color on exactly what's going on the ground in India, decisions being made with the government, with the Central Bank, et cetera, around how the payment system is going to evolve there?

<A - Alfred F. Kelly, Jr.>: We would have expected sometime over the last couple weeks to have gotten clarity. There was supposed to be clarity no later than the end of March on the next chapter of regulation or guidance in terms of how things would have to go forward. And there hasn't been, and we've been told that it will be delayed likely into early May.

So we're right now continuing to make sure that we put as much emphasis as we can on growing the number of acceptance points throughout India, both in traditional POS as well as using mVisa and QR codes. And we've made tremendous progress, with merchant acceptance points up 50% in the country from November 8 until the end of the quarter. And it's still obviously very small compared to what it could be and will be relative to the population of India, but it certainly is a very healthy start from where we were in November. So we'll know more in May but we're operating now under the pricing that exists out there, which is 75, 40, and 30BPS depending upon the size of the transaction.

<Q - David Mark Togut>: How do your revenue growth expectations for Visa Europe compare now vs. the time you acquired the business at the end of June? And in particular, are there any countries you're more or less optimistic about from a growth standpoint?

<A - Vasant M. Prabhu>: As we've told you before, we're very happy with how Visa Europe has come along, post the closing of the acquisition in June. In general, it's tracking at or above our expectations, whether it's revenue or accretion. Cross-border business certainly has been strong in Europe. Payment volumes have been somewhat higher than where they were around the time when we closed on the acquisition. Our yields have been heading in the right direction. Most of the expense actions relating to the consultation process are completed. We're now working on the technology integration. So on all fronts, Visa Europe is performing pretty much at or above our expectations.

<A - Alfred F. Kelly, Jr.>: And the second part of your question, where there are pockets of good potential, our largest markets are the UK and France. And I think we look at Germany, Italy, the Nordic countries, and Spain, where we have a pretty good business already, as all – they'd be the places I'd highlight as where we think there's specific potential, but I think we feel very good about the potential in many markets across the continent.

<Q - Andrew Jeffrey>: Actually, it's a follow-up on David's question with regard to Europe. Al, could you elaborate a little bit on the timing of some of the yield and expense initiatives in Europe? It sounds like we're going to start to see maybe even a little more of an impact in H2 2017 and ostensibly into 2018, so I'm just wondering if we could get an order of magnitude maybe.

<A - Alfred F. Kelly, Jr.>: I think on the expense side, we're about two-thirds of the way through what we want to do. On the revenue side, we're probably a little bit behind where we had hoped to be. It's just taking a bit longer than we had hoped to work our way through the deals that have to be reconstituted. So we've got some very good momentum going now, so I'm certainly hoping that the pace is going to pick up here in Q3 and into Q4. But obviously, if we bring on a good amount of those deals in Q3 and Q4, it's going to create a good run rate for us going into FY2018.

<A - Vasant M. Prabhu>: On the expense side, the next set of actions is all around the technology integration. So the first thing that has to happen is the technology platforms have to be harmonized, and then we can act on what we do with the technology infrastructure. And that would be, as we told you, a couple of years out. And on the client incentive side, as we get these new deals done, certainly that is one of the reasons why we expect a high rate of client incentives in H2 as this pipeline of rebate and client incentive adjustments make their way through and get done.

<Q - Darrin Peller>: With personnel growth still a little higher than we thought, you still had strong margins, I think trending at about 68% for H1. So just first, what would drive the margin to the low end of 60% range to, I guess, average out in the mid-60s for the year?

And then, Al, can you just tell us how you conceptually think about the company's margin plans? I guess I know guidance is for mid-60s. But just again, as CEO now, should we assume your strategy is to let operating leverage pass through up and above 70% over the years to come, or is there a different approach?

<A - Alfred F. Kelly, Jr.>: I think that I'll answer H2 your question first, and then I'll let Vasant tackle the first part of your question. Look, my view is that to the degree that we have good opportunities to invest in future growth, whether that's organic or acquisitions, we're going to do that, and that's going be the first use of capital always for us. And from my vantage point, if that means that for a period we're investing a little bit of our margin to promote growth because we think we've got an abundance of good ideas, we're going to go ahead and do that.

That said, it is a high leverage business. The next 1,000 – 10,000 transactions don't really add much cost. Until we reach a point we've got to hang another server up in our data center and we've got a cost associated with that, we have very strong operating leverage in the business. And so to the degree that revenue continues to grow, the reality is that – and the revenue is growing higher than our expenses because of our leverage, the margin would naturally run up. But that doesn't mean we're just going to sit by idly and have that happen. What ends up happening is going be a result of decisions we make relative to the investment opportunities that are presented in front of us from around the world.

<A - Vasant M. Prabhu>: In terms of the question on near-term margins, your first question, just a few things I just want to point out that I had in the prepared remarks. One is that, you saw that our expense is ramping and that ramp is partially in personnel expenses but also as we get to H2, there is going be a further ramp in our marketing and our technology based on some programs that are H2 based. In addition to that, the Visa Europe integration costs are also ramping. So there's a set of costs that are ramping in H2.

And then the second item is client incentives have been lower than we expected. We still believe that they will be in the range we gave you earlier, although more likely at the low end of the range which is higher than where they've been in H1. So when you put that all together, it gives you a sense of where margins are likely to be in H2.

<Q - Sanjay Sakhrani>: I just had a follow-up question on some of the emerging market discussions. Al, you mentioned your China visit and how the road might be a little bit more complicated to get the licensing. Could you just talk a little bit more about the timeline you're expecting and whether or not there's other opportunities in that market to work with some of the players that are proliferating? And maybe just on India, just what the monetization opportunity is. Thanks.

<A - Alfred F. Kelly, Jr.>: On China, I'm not going to talk about what we think might be the best path forward. It just became very clear to me as they talk to government officials that even if at this moment we had our ducks completely in a row and knew exactly how we wanted to proceed in terms of filing for domestic licenses, just it's a very complicated review process. And in fact, not all of the necessary steps are actually memorialized. One of the things that I found out is that hopefully, the Chinese government by the end of Q2 is going to publish a set of more clarifying rules about international entities and what would be required to submit for a license.

So this is, Sanjay, as I think has been communicated in the past, this is a long-term play. But I think we have to be patient because this isn't a country of 13mm or 130mm people. It's almost 1.4B people. And it's simply going to take time. I think in the short to medium term, the reality is that the insistence – what's an increasingly insistence on the part of the government for issuers to move away from these dual co-badge cards is in fact going to impact us in a negative way. It will impact us more meaningfully in purchase volume but we're going to see some impact on revenue.

That said, we still expect – many of our partners are continuing to in – as renewals come up instead of obviously renewing with the dual badge card, they're renewing with a CUP card and a Visa card to facilitate international travel.

So we still believe that cross-border traffic from Chinese citizens traveling outside of China will continue to be quite good.

Turning to India, again, I think this is a longer-term play but it's a longer-term play that right now is got some real wind at its back. And we're investing, and we've made it clear to our folks on the ground in India that we're behind them and we'll invest what's necessary to take advantage of the wind at our backs right now.

In terms of how big this is, I think there's a number of things we're going to have to watch. We'll have to see where the actual pricing actually nets out when we get the final words from the regulator so that to make sure it's attractive enough. We'll have to see how the government in India continues or doesn't continue to have the sustained push behind the efforts here. But right now and until circumstances dictate that we should do otherwise, we're full steam ahead in trying to drive coverage, build awareness relative to mVisa and our app, and trying to drive as many – through marketing, drive as many Indian citizens into this world of using their mobile phone to transact for the purchases at least of their everyday goods and items.

<Q - George Mihalos>: I just wanted to build off of the last question as it pertains to China and, Al and Vasant, your comments around monitoring some of the China co-badge cards. Can you size for us what the potential impact could be maybe in terms of volume, for example, something that could be at risk?

And then second question, Vasant, I just want to make sure on the tax rate I'm thinking about it correctly. For 2017, you're talking about a 30% tax rate going to – is it 29% in 2018? Thank you.

<A - Vasant M. Prabhu>: I'll take the tax rate. I'm sure Al will add something on the cross-border side in China. On the tax rate, I did say that we get a part-year benefit from the reorganization we did in Europe, which is about 50BPS this year. And we will get an additional 100BPS on top of that next year with a full-year benefit of what we did.

As it relates to the dual-branded cards in China, we have incorporated that in our thinking as we look ahead to H2. It is just something to be monitored. It is not that easy to predict. But we are seeing that the payment volume on these cards is declining as they come up for renewal and they're being renewed with, as Al said, the single currency cards, which do then pick up some of the cross-border volume. I don't know, Al, if you want to add anything...

<A - Alfred F. Kelly, Jr.>: The only thing I'd add is that it is difficult to tell. The banks have been somewhat resistant to make this change, which has been a good thing for us. It's just that there's been a bit of a push on them more recently, and I heard that from a number of Chinese bank executives when I was over there. But how quickly it moves is hard to tell. It's also just hard to tell what will happen with single Visa card issuance as, in essence, a companion card to a China UnionPay card and what, if any, impact that has on the cross-border volume, which is in many ways for us right now the more important volume.

<Q - Tien-Tsin Huang>: Just a clarification and a question. Just on the client incentives, is the guidance revision all timing related? Are terms perhaps better than expected?

And then my other question was just on the reported U.S. debit volume. I think it shows 3%. Vasant, I think you said steady 7%, adjusting for Interlink. Just curious what's the outlook here. I know it's really complicated. I'm just trying to better understand what we could expect or see on the volume front and perhaps on revenue too with U.S. debit. Thanks.

<A - Vasant M. Prabhu>: I'll take U.S. debit real quick. The adjustment, as you know, the leap year has an impact on it, and so that's one factor. Interlink, we have that lapping effect from something we – in a significant win we had in Q4 2015 that continues for I guess another couple of quarters. In addition to that, we had a certain amount of volume going away from us, so that was an additional factor. And then there was a small impact from some effects in February around delayed tax refunds going to people. So debit was in general a little softer this quarter than credit was. There's an ongoing shift from credit to debit in general in the U.S. market. That's been going on for a while. So it's a range of factors. Other than that, things are pretty stable in the debit market.

<A - Alfred F. Kelly, Jr.>: And as it relates to incentives, I would say that it's primarily timing because most of the impact is on deals that are not done yet. So the terms are still not fully set, and obviously the volumes haven't started to take hold. So it truly is kind of the $0.03 of impact of timing that Vasant referenced in his remarks.

<Q - Craig Jared Maurer>: I'm sorry to go back to it, but I just want a clarification on the China co-badged card piece. As I understood it, the co-badged card when it was used domestically was picked up by CUP and when used in cross-border it was picked up by Visa. So in terms of the volume lost, are you saying that UnionPay is capturing some share from you in cross-border volume once the cards are reissued separately, and that's why you're seeing a slowdown in purchase volume?

And the second question is now that we're about six months in, have you seen material success in your initiatives with PayPal to move ACH over to Visa cards? Thanks.

<A - Vasant M. Prabhu>: So a dual-branded card can be used within China and can be used outside China. It's CUP that processes the transaction in China. It's Visa that processes the transaction outside China. And the new dual-branded card if the cross-border – if the new CUP card that's issued is used outside China, then we would lose the transaction but we've been working very hard with our issuers to have them issue the so-called single-currency card, which as Al described, is a companion card which we would like Chinese travelers to use when they leave China. And if they do that, then we pick up that cross-border transaction too. But it's hard to know how much of that will stay with us.

As it relates to the domestic volume, there's a small amount of revenue we make on the domestic volume. So when we lose that domestic volume, when the cards no longer are dual-branded and usable within China, we lose a small amount of revenue.

<Q - Craig Jared Maurer>: And on PayPal?

<A - Alfred F. Kelly, Jr.>: I'm sorry. What was the question on PayPal?

<Q - Craig Jared Maurer>: If you've seen material success in the six months since signing the deal and moving volume from ACH onto Visa cards?

<A - Alfred F. Kelly, Jr.>: Definitely, they lived up to the spirit of what we want, and it's a process that we're going through. But we feel good about the early days and it's a ramp over time, and we'll see. But we feel good that we're ramping in the right direction.

<Q - Bryan C. Keane>: Just a couple of clarifications. Just on the personnel costs, they were up a lot. I think it was up 33%. That was up more than the 14% in Q1. So I just want to make sure I understand exactly what that was. It sounded like maybe it was employee bonus accruals due to good performance. That's still a significantly higher number. So trying to figure out that number, what it was. And then does that continue at that rate going forward? And then just on a clarification on the second point. On client incentives, does the push-out impact FY2018, or is it just the push-out that impacts H2 2017? Thanks.

<A - Vasant M. Prabhu>: I'll take the first one, personnel costs and the other one, too. On the personnel costs, yes, client – I mean, incentive accruals were higher based on performance, and there's a certain amount of catch-up you have to do when you make adjustments for the entire H1. So that's a big component of it. There's always some pluses and minuses there. Certain FICA-related costs start hitting you in the first calendar quarter of every year, or H1 for us.

Our second fiscal quarter is the first calendar quarter, so there's an element of seasonality as well as an increase in some of those costs. So it's one big item, which is incentive accruals and a variety of other smaller items. But in general, we have told you that our costs will ramp through the year as certain costs pick up through the year. And some of that is built into what you saw in Q2 and some of that will continue. And incentive accruals will stay higher through the back half of the year, too, based on what our performance has been, assuming it stays at levels we've had. Your other question was...

<A - Alfred F. Kelly, Jr.>: That was the client incentives.

<Q - Bryan C. Keane>: Just client incentives…

<A - Vasant M. Prabhu>: Yes. The move to 2018? Look, it's too early to tell. You make assumptions on what's going to happen. And clearly, some things are already looking like they'll be in 2018, which we have factored into our thinking. But could more move to 2018, it's too early to tell.

<Q - Glenn Greene>: Just two questions quickly, maybe for Vasant. I know you've talked about the re-contracting of the Europe deals and that was part of the reason for the timing of the incentives. But more broadly, can you tell us sort of what proportion of the European volumes have been contracted or remain to be re-contracted? And then another question that's not the same. But on pricing, how much of a pricing benefit did you recognize or see directionally in the quarter of that 25% of gross revenue? And did you see a full quarter impact of that pricing?

<A - Vasant M. Prabhu>: I don't know if your second question is also about Europe. But as we've said, we indicated a while ago that we don't really talk about pricing actions we've taken in any particular market. We sometimes talk about U.S. pricing actions because they're fairly visible to everyone. So we really, and – but those of you who have talked to people in Europe will get a sense of what is going on in that market. So from a pricing standpoint, there have been some actions taken and our yields are, we think, headed in the direction that we expected to have them go. So that was as it relates to pricing.

In terms of the process of replacing rebates with incentives, as we've said several times, there are contracts in place. And these volumes are under contract. What they're trying to do is to make sure that these contracts are commercially competitive in a world where the issuers with whom these contracts have been done prior to the sale of Visa Europe and the owner of Visa Europe are still competitive because when they were owners, they got a payment called rebates which was more of an ownership payment. As those payments go away, we want to make sure that these are commercial arrangements from a pricing standpoint and remain competitive so that when they come up for renewal, we have competitive pricing. So the contracts are in place. It's really the commercial terms that are being modified.

<Q - Glenn Greene>: Yes, that's really what I was asking. I was just trying where are you in that, moving all these arrangements to commercial arrangements.

<A - Alfred F. Kelly, Jr.>: I think that, yes, we're in process. I think I said earlier, we're a little bit further behind than we thought we might be but it's just simply get to each of these clients, have the discussions, usually multiple discussions, and then getting it lawyered up, et cetera. It just has taken a little bit longer than we thought. And so we still have a good amount of work ahead of ourselves in H2. And that's why there's the impact that we've talked about on client incentives – timing being as kind of what our estimate is of $0.03.

<Q - Christopher Roy Donat>: Vasant, at the risk of annoying you with one more question on incentives and thinking about 2018, is the safest place to start with our assumptions for what 2018 incentive ratio will be the midpoint of the 2017 guidance? Because it was more like 19% for H1 the FY. It looks like be like 23% for the back half and I know it's impossible to predict it accurately. We don't know all the terms but, anyway, just thinking if the midpoint of the full year for this year a reasonable place to start for next year.

<A - Vasant M. Prabhu>: It's too early for us to give you anything precise about next year. As you know, these things are best talked about in ranges. But we've given you our best sense of what the range is likely to be this year and I believe Jack has told me that the ranges we have given in the past while one quarter on another we may be below the range, perhaps one of these quarters will be above the range. We generally end up being in the range for the year. And that's how that sense of where the current range is for client incentives as a percent of gross revenues. Beyond that, it's too early to talk about 2018. We can tell you more about it as we get closer to the end of the year.