



Visa Inc.

## F1Q21 Preview: Another Step on the Path Back to Normal

**Intra-quarter metrics provide greater visibility through November; investors likely to look through December COVID-related weakness.** Due to the ongoing impact of COVID-19, V provided incremental intra-quarter volume updates through November, which indicated growth was moderating m/m. Additionally, given new COVID-related lockdowns as well as our read on other leading indicators (see *4Q Macro Roundup: Leading Global Indicators Show Flattening Recovery*; 1/20/21), we believe December trends likely moderated further. That said, given the recent approval of several COVID vaccines in addition to fresh rounds of stimulus, we think investors are likely to look through near-term weakness, and will be more focused on signs of macro recovery.

**Plaid deal called off, focus returns to core business.** On 1/12/21, V and Plaid announced a mutual agreement to terminate the planned acquisition. On an investor call following the announcement, management indicated they intend to focus their efforts on the company's three growth pillars (consumer payments, new flows, and value-added services), and would be more likely to partner with data network providers—Plaid included—down the road, rather than make another acquisition. We expect this strategic shift to be a key focus for investors on the upcoming call.

**V reports F1Q21 earnings on 1/28 after the close.** We are forecasting F4Q20 revenue/EPS of \$5,555M/\$1.29 vs. the Street at \$5,526M/\$1.28. We note V has not provided FQ1 or FY21 guidance, and it is unclear if they will do so on the upcoming call.

**Other key topics of interest for the call include:** 1) FQ2 intra-quarter update on spending trends by geography, tender type (i.e., credit vs debit); 2) Update on balance sheet deployment and M&A strategy; 3) Thoughts on regulatory environment under Biden/Democrats; 4) expectations around timing and magnitude of cross-border rebound; 5) thoughts on F21 FY performance.

### V: Quarterly and Annual EPS (USD)

	2020		2021		2022		Change y/y		
FY Sep	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	1.46A	1.30E	1.29E	1.28E	1.66E	1.66E	1.62E	-12%	29%
Q2	1.38A	1.37E	1.37E	1.34E	1.69E	1.69E	1.68E	-0.72%	23%
Q3	1.07A	1.37E	1.35E	1.36E	1.64E	1.68E	1.69E	26%	24%
Q4	0.97A	1.50E	1.50E	1.48E	1.81E	1.83E	1.82E	55%	22%
Year	4.89A	5.54E	5.50E	5.48E	6.80E	6.85E	6.88E	12%	25%
P/E	42.0		37.3			29.9			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 22-Jan-2021; 13:50 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

### Equity Research

Technology | U.S. Payments, Processors & IT Services  
25 January 2021

Stock Rating	<b>OVERWEIGHT</b> Unchanged
Industry View	<b>POSITIVE</b> Unchanged
Price Target	<b>USD 230.00</b> Unchanged

Price (21-Jan-2021)	USD 205.14
Potential Upside/Downside	+12.1%
Tickers	V

Market Cap (USD mn)	494280
Shares Outstanding (mn)	2081.38
Free Float (%)	99.34
52 Wk Avg Daily Volume (mn)	9.8
Dividend Yield (%)	0.62
Return on Equity TTM (%)	36.01
Current BVPS (USD)	16.05

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 220.39-133.93



Source: IDC; Link to Barclays Live for interactive charting

### U.S. Payments, Processors & IT Services

**Ramsey El-Assal**

+1 212 526 7144

Ramsey.El-Assal@barclays.com

BCI, US

**Benjamin Budish, CFA**

+1 212 526 2418

benjamin.budish@barclays.com

BCI, US

**Damian Wille**

+1 212 526 2469

damian.wille@barclays.com

BCI, US

**Robert Valdes-Rodriguez**

+1 212 526 5586

robert.valdes-rodriguez@barclays.com

BCI, US

U.S. Payments, Processors & IT Services	Industry View: POSITIVE
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Visa Inc. (V)	Stock Rating: OVERWEIGHT
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Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (21-Jan-2021)	USD 205.14	
Revenue	21,846	23,408	27,172	N/A	N/A	Price Target	USD 230.00	
Incentives	-6,664	-8,142	-9,021	N/A	N/A	Why Overweight? V is a beneficiary of the global secular shift to electronic payments. Further, the company is successfully positioning for a future of more tech-enabled payments with tokenization, push payments, and API architecture.		
Gross revenue	28,510	31,551	36,193	N/A	N/A			
EBIT	14,081	15,388	18,629	N/A	N/A			
Pre-tax income	13,790	14,804	18,056	N/A	N/A			
Net income	10,866	11,991	14,625	N/A	N/A			
EPS (reported) (\$)	4.89	5.50	6.85	N/A	N/A	Upside case	USD 331.00	
Diluted shares (mn)	2,195.0	2,153.0	2,105.0	N/A	N/A			
DPS (\$)	1.20	1.26	1.39	N/A	N/A	Our upside case assumes that the company takes market share and grows revenues faster than expected, begins to more deeply penetrate the B2B TAM, and benefits more than expected from rapid global digital payments growth.		
Margin and return data						Average	Downside case	USD 161.00
EBIT margin (%)	64.5	65.7	68.6	N/A	66.3	Our downside case assumes a macro slowdown, loss of market share to MA, a negative outcome in the rules portion of MDL 1720, and government regulation that impacts pricing.		
Pre-tax margin (%)	63.1	63.2	66.5	N/A	64.3			
Net margin (%)	49.7	51.2	53.8	N/A	51.6			
ROA (%)	13.7	12.5	13.1	N/A	13.1			
ROE (%)	30.0	21.9	21.1	N/A	24.3			
Balance sheet (\$mn)						CAGR		
Tangible fixed assets	6,150	7,686	8,908	N/A	N/A			
Intangible fixed assets	43,718	54,253	62,861	N/A	N/A			
Cash and equivalents	16,289	19,359	22,382	N/A	N/A			
Total assets	80,919	99,422	115,008	N/A	N/A			
Short and long-term debt	24,070	20,671	20,271	N/A	N/A			
Other long-term liabilities	3,891	4,759	5,510	N/A	N/A			
Total liabilities	44,709	44,627	45,793	N/A	N/A			
Net debt/(funds)	4,782	1,312	-2,111	N/A	N/A			
Shareholders' equity	36,210	54,795	69,216	N/A	N/A			
Valuation & leverage metrics						Average		
P/E (reported) (x)	42.0	37.3	29.9	N/A	36.4			
EV/EBITDA (x)	31.1	28.3	23.4	N/A	27.6			
Dividend yield (%)	0.6	0.6	0.7	N/A	0.6			
Net debt/EBITDA (x)	0.3	0.1	-0.1	N/A	0.1			
Net debt/equity (%)	13.2	2.4	-3.1	N/A	4.2			
Selected operating metrics								
Total volumes (\$k)	11,358	12,370	13,629	N/A				
Total volume growth (%)	-1.5	8.9	10.2	N/A				
Purchase volumes (\$k)	8,802	9,749	10,747	N/A				
Purchase volume growth (%)	0.2	10.8	10.2	N/A				
Transactions processed (\$mn)	140,840	158,463	178,026	N/A				
Transactions processed growth (%)	1.8	12.5	12.3	N/A				
Purchase volume (% Credit)	50.9	49.0	49.4	N/A				
Purchase volume (% Debit)	49.1	51.0	50.6	N/A				
Purchase volume (% US)	46.4	47.2	47.2	N/A				
Purchase volume (% International)	53.6	52.8	52.8	N/A				
Net revenue/purchase vol (\$)	2.5	2.4	2.5	N/A				
Incentives % of gross revenue	N/A	N/A	N/A	N/A				

Price History  
Prior 12 months

High

220.39

Current

205.14

133.93

Low

Price Target  
Next 12 months

Upside

331.00

Target

230.00

161.00

Downside

Source: Company data, Bloomberg, Barclays Research  
 Note: FY End Sep

## V F1Q21 Preview

**V reports F1Q21 earnings on 1/28 after the close.** We are forecasting F4Q20 revenue/EPS of \$5,555M/\$1.29 vs. the Street at \$5,526M/\$1.28. Additionally, we note V has not provided FQ1 or FY21 guidance, and it is unclear if they will do so on the upcoming call.

**Intra-quarter update shows volume and transaction growth moderating in November.** V has continued to provide intra-quarter results, most recently updating metrics through November (Figure 1 below), showing the pace of sequential improvements in spending volumes moderating through November (in part due to the inclusion of AMZN's Prime Day in October). Within the US, the deceleration in debit volume growth was partially due to a decline in prepaid spending, which we believe is related to the expiration of elevated unemployment benefits and the waning impact of stimulus payments. Spending was lower sequentially in all merchant categories in November except for retail goods (primarily due to holiday shopping).

Internationally, the company noted that overall payments volume growth slowed across Europe in countries like the UK, Italy, and Germany. Markets which showed spending consistent with or better than October levels included Australia, the UAE, Japan, and Brazil. Finally, India and Hong Kong saw improved domestic spending patterns related to Diwali and Singles Day, respectively. While not directly comparable, we note MA's total international volume growth saw less than a point of deceleration from October to November.

Lastly, non-intra-EU cross-border volume for the month of November was the brighter spot, coming in at -33% (4 ppt improved vs. October), or -19% when you include intra-Europe transactions (6 ppt improve m/m). Within this, V noted cross-border card-not-present volume (excluding travel spending) grew 20% in November, which saw the benefit of increased holiday spending late in the month. As a reminder, pre-COVID, V's cross-border business was comprised ~two-thirds travel and ~one-third e-commerce.

FIGURE 1

Title

Metric	F1Q20	F2Q20	F3Q20	July	August	Sept	F4Q20	Oct	Nov
US Payments Volume	7.8%	5.8%	-7.1%	8.0%	7.0%	6.4%	7.1%	10.0%	6.0%
Credit	6.7%	4.0%	-21.0%	-8.0%	-8.0%	-6.5%	-7.5%	-3.0%	-5.0%
Debit	8.9%	7.6%	8.0%	26.0%	24.0%	21.1%	23.7%	24.0%	19.0%
Global Transactions	11.3%	7.4%	-13.4%	1.0%	3.0%	4.4%	2.8%	5.0%	3.0%
Cross-border volume incl. intra-Europe	9.0%	-2.0%	-37.0%	-32.0%	-30.0%	-25.0%	-29.0%	-25.0%	-19.0%
Cross-border volume excl. intra-Europe			-47.0%	-44.0%	-43.0%	-36.0%	-41.0%	-37.0%	-33.0%

Source: Company Filings

**Cross-border outperformance vs. MA may reverse once travel rebounds.** We believe the delta between MA and V cross-border volumes and revenues is due to a number of factors, including: 1) MA's positioning in virtual cards, which are the default method in the OTA and third-party travel booking space to book and settle hotel rooms; 2) regional mix, i.e., V had leading market share in many of the largest countries in the world, driving an outsized benefit as it relates to travel and e-commerce; and 3) MA's position with European travel fintechs that have been temporarily impacted by COVID. We would expect V's outperformance to reverse somewhat as travel rebounds, though timing remains uncertain.

For more on this, see our 11/3/20 note, *Thoughts on C3Q Cross-Border Performance + Explanation of Difference in Key Metrics*.

**Plaid acquisition called off; focus back on consumer payments, new payment flows, and value-added services.** On 1/12/21, V and Plaid announced they had mutually agreed to terminate the planned acquisition. The deal was originally announced about a year ago (1/13/20) but was thrown into question in October 2020, when the DoJ sued to block the deal, saying it could limit competition in the debit transaction processing market. On an investor update call, V indicated they would look to partner with data network providers—including Plaid—going forward, as well as focusing on accelerating the business via V's three growth pillars: consumer payments, new payment flows, and value-added services. For more, see our 1/20/21 note, *4Q Macro Roundup: Leading Global Indicators Show Flattening Recovery*.

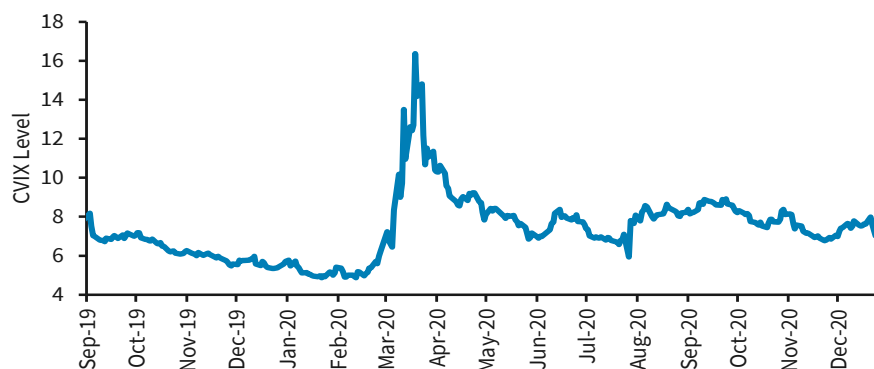
#### Other puts and takes on FQ1 and F21:

**Revenue:** On the F4Q20 call, V indicated that like F20, F21 is very much expected to be a year of “two very different halves”, with net revenue growth expected to decline in the first half, and rebound in the second, with the highest growth in the fiscal fourth quarter. However, the magnitude the decline and recovery is yet to be seen, and we would not be surprised to see V again refrain from issuing F21 guidance on the upcoming call. Additionally, the management commented they expect value-added services to continue to grow in the mid-teens, and that there would be some incremental pricing benefits in F21 as well. Lastly, we note the Plaid acquisition was previously expected to add as much 80-100 bps to V's F21 growth rate. That said, we had not baked this into our model yet given prior uncertainty around deal completion and timing.

For FQ1, V indicated on the F4Q20 call that if transaction and cross-border volume growth stayed at levels seen so far in October at the time (these levels have worsened, in fact), revenue would be down in the high-single to low-double digit range, including a 1.0-1.5-point negative impact from the service fee lag. Separately, we believe V should enjoy some benefit from FX volatility in the quarter, which was up ~23% y/y (Figure 2).

FIGURE 2

Currency Volatility Is Expected to be a FQ4 Tailwind for V



Source: Bloomberg-Deutsche Bank Currency Volatility Indicator

**Incentives:** On the FQ4 call, management indicated that incentives would increase as a percentage of gross profit in the near-term due to: 1) incentives are tied more to domestic volumes than cross-border volumes; 2) performance (i.e., the volume declines in F20 resulted in many clients failing to meet certain volume thresholds, and in F21 as volumes

rebound the company expects this to reverse); and 3) the impact of renewals, as ~25% of volume was renewed in FY20 with another 15%-20% likely to be renewed in F21. All in all, the company expects F21 incentives to come in at 25.5%-26.5% of gross revenues. We are forecasting this to come at 25.6% for FQ1, and 25.7% for the year, largely because V has historically come in at the low end, or below its guidance range for this metric.

Expenses: On last quarter's call, V indicated non-GAAP operating expenses to be down in FQ1, in line with F2H20 trends (i.e., down mid-single digits). Expenses are expected to grow in the mid-single digits in FQ2 as the company begins to lap expense pullbacks from F20. Additionally, expenses are likely to grow double-digits in F2H, in part due to the timing of the Olympics. Lastly, non-operating expenses are expected to be \$145M-\$150M per quarter due to: 1) low interest rates on cash balances, and 2) the \$4B in additional debt.

Taxes and EPS: V is expecting the F21 tax rate to be in the 19.0%-19.5% range, though this is predicated on current US corporate tax rate of 21%. The company did not provide FY21 or FQ1 EPS guidance.

Capital spend and return: Capital spending in FY21 is expected to be around \$700M, and management expects to return most of the company's free cash flow to shareholders in the form of buybacks and dividends.

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Visa Inc. (V, 21-Jan-2021, USD 205.14), Overweight/Positive, A/CD/CE/D/FC/J/K/L/M/N

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Fleetcor Technologies (FLT)	Global Payments Inc. (GPN)	Green Dot Corp. (GDOT)



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Square, Inc. (SQ)	Upstart Holdings Inc. (UPST)	Visa Inc. (V)
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## IMPORTANT DISCLOSURES

Visa Inc. (V / V)

USD 205.14 (21-Jan-2021)

Stock Rating

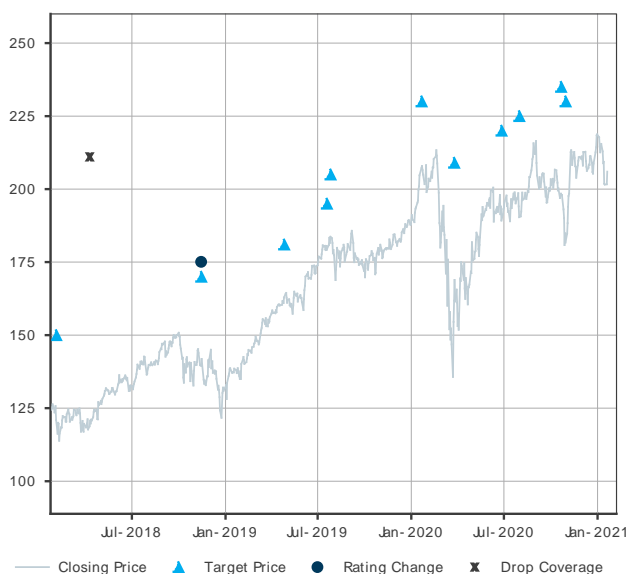
OVERWEIGHT

Industry View

POSITIVE

## Rating and Price Target Chart - USD (as of 21-Jan-2021)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
30-Oct-2020	181.71		230.00
21-Oct-2020	198.43		235.00
31-Jul-2020	190.40		225.00
26-Jun-2020	189.27		220.00
25-Mar-2020	161.78		209.00
21-Jan-2020	207.29		230.00
26-Jul-2019	183.69		205.00
19-Jul-2019	179.24		195.00
26-Apr-2019	162.93		181.00
14-Nov-2018	139.49	Overweight	170.00
03-Apr-2018	119.20	Coverage Dropped	
02-Feb-2018	120.91		150.00

On 22-Jan-2018, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 145.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

**A:** Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Visa Inc. in the previous 12 months.

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**D:** Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Visa Inc. in the past 12 months.

**FC:** Barclays Bank PLC and/or an affiliate beneficially owns a short position of more than 0.5% of a class of equity securities of Visa Inc., as calculated in accordance with EU regulations.

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**L:** Visa Inc. is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

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**Valuation Methodology:** Our \$230 price target is derived from a blend of two valuation techniques, equally weighted: 1) relative P/E valuation, which yields a value of \$236 per share, and 2) our discount cash flow (DCF) model, which yields a value of \$224. Relative P/E: We apply a multiple of 33x to our CY2022 EPS estimate. The multiple is a premium to the average P/E multiple of a group of acquirers and issuer processors (based on 2019-20 consensus EPS estimates), reflecting the ongoing mix shift to tech-enabled payments that we expect to drive revenue acceleration at the company. DCF: We assume free cash flow growth at a 9.3% CAGR from 2019 to 2028, a WACC of 7.3%, and a terminal growth rate of 3.5%.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** We believe V's largest risk is legal and regulatory actions. Also, in specific global markets such as China and India, government regulation, pricing limits, and protectionism have created competitive challenges.

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