

Mastercard operates the world's second-largest electronic payments network, providing processing services and payment product platforms, including credit, debit, ATM, prepaid, and commercial payments under the Mastercard, Maestro, and Cirrus brands. Mastercard went public in 2006 and is a member of the S&P 500.

## Analyst's Notes

Analysis by Stephen Biggar, May 1, 2025

**ARGUS RATING:** **BUY**

- Resilient consumer spending volumes aid 1Q results
- On May 1, Mastercard reported adjusted 1Q25 operating EPS of \$3.73, up from \$3.31 a year earlier and above the consensus of \$3.56.
- Gross dollar volume rose 9%, a downtick from 12% in 4Q, while cross-border volume continued to impress, with 15% growth in 1Q.
- The 1Q adjusted operating margin was 59.3%, up from 58.8% a year earlier. Margin improvement remains a key factor behind our thesis for a higher valuation on the MA shares.
- Our target price is \$625, implying a multiple of 39-times our 2025 EPS estimate.

## INVESTMENT THESIS

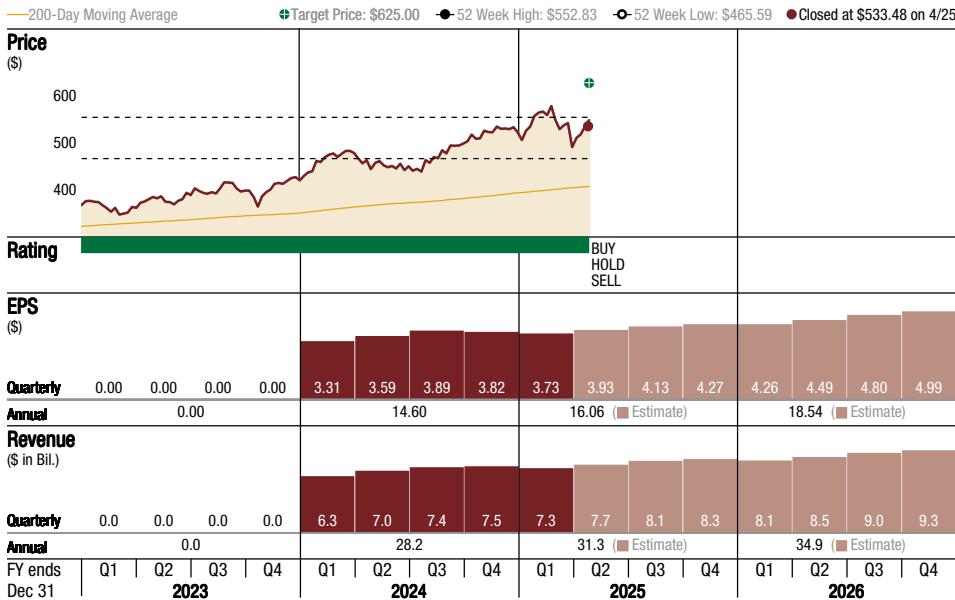
We are maintaining our BUY rating on Mastercard Inc. (NYSE: MA). First-quarter earnings reflected continued healthy growth in spending volume, even if a deceleration from the 4Q24 pace. The higher spending included an ongoing rebound in cross-border transactions as international travel increased. Management noted a slight acceleration in volumes in April, showing a resilient consumer despite macro headwind concerns, including tariffs.

At the company's Investor Day in November 2024, management emphasized significant opportunities in the areas of commerce (accelerated digitization, demands for personalized experiences, and B2B modernization), society (scaling of digital public infrastructure and an evolving regulatory landscape), and technology (acceleration of AI adoption, cybersecurity, and identity advancements). It said its priorities generate a virtuous cycle of payments volume, switching, incremental data, data-driven services, differentiated offerings, and share gains. In the consumer payments area, management noted a long runway of growth given that \$11 trillion of global annual transactions are still carried out using cash and checks. Management offered 2025-2027 financial guidance, including compound annual net revenue growth at the high end of the low-double-digits, an annual operating margin of at least 55%, and EPS growth in the mid-20% area.

We like Mastercard's long-term growth story, particularly relative to the broad market.

## Market Data

Pricing reflects previous trading week's closing price.



## Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

## Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

### Market Overview

Price	\$548.06
Target Price	\$625.00
52 Week Price Range	\$428.86 to \$582.23
Shares Outstanding	901.35 Million
Dividend	\$3.04

### Sector Overview

Sector	Financial
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	14.70%

### Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	74.5%
Return on Equity	230.1%
Net Margin	45.7%
Payout Ratio	0.19
Current Ratio	1.03
Revenue	\$28.17 Billion
After-Tax Income	\$12.87 Billion

### Valuation

Current FY P/E	34.13
Prior FY P/E	37.54
Price/Sales	17.54
Price/Book	77.19
Book Value/Share	\$7.10
Market Capitalization	\$493.99 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	10.00%
5 Year EPS Growth Forecast	20.00%
1 Year Dividend Growth Forecast	15.15%

### Risk

Beta	0.86
Institutional Ownership	88.53%

**Analyst's Notes** ...Continued

In our view, the company will continue to benefit from the secular shift from cash to credit cards, driven by growth of online shopping, the security and convenience of cards, and the opportunity to take advantage of rewards programs. Mastercard should also benefit from growth in emerging markets and expanded merchant acceptance. Our target price is \$625.

**RECENT DEVELOPMENTS**

The MA shares have risen 21% over the past year, compared with an 11% increase for the broad market.

On May 1, Mastercard reported adjusted 1Q25 operating EPS of \$3.73, up from \$3.31 a year earlier and above the consensus of \$3.56. Net revenue rose 14%, to \$7.3 billion, with a 17% increase in currency-neutral revenue.

Gross dollar volume rose 9% from the prior year to \$2.4 trillion (7% growth in the U.S. and 10% in the rest of the world), while the number of switched transactions (formerly processed transactions, or transactions that Mastercard has authorized, cleared, or settled) also rose 9% on an adjusted basis to 40.1 billion. The number of cards issued rose 6% to 3.53 billion.

Adjusted operating expenses rose 13%. The 1Q adjusted operating margin was 59.3%, up from 58.8% a year earlier. Adjusted net income increased 10% to \$3.4 billion, while EPS rose a greater 13%, helped by a 2% decline in shares outstanding.

**EARNINGS & GROWTH ANALYSIS**

Cross-border volume growth continues to impress, with 15%

growth in 1Q25. However, gross dollar volume growth has seen some deceleration, slowing to 9% in 1Q from 12% in 4Q. Despite macro headwinds, including concerns about tariffs, consumer spending has remained relatively robust, with Mastercard management offering April switched transaction data showing a slight acceleration from the 1Q pace.

Along with 1Q results, the company offered updated 2025 financial guidance calling for net revenues to grow at the high end of a low-double-digits to low-teens range, on a currency-neutral basis and excluding acquisitions. Acquisitions are expected to add 1.0%-1.5% to growth for the year, and the company now sees only minimal impact from foreign exchange. For operating expenses, it expects growth to be at the low end of a low-double-digits range, on a currency-neutral basis and excluding acquisitions and special items. MA sees acquisitions increasing the expense growth rate by about 5%, and also minimal impact on expenses from foreign exchange.

After a 12% rise in 2024 revenue, we look for 11% revenue growth in 2025, reflecting some slowing of economic growth. We expect cross-border transactions to remain a growth driver for spending volume, aided by a strong dollar that has boosted international travel by Americans. We also expect MasterCard to benefit from favorable secular trends in the payments industry as more spending moves online.

We are moderating our 2025 EPS estimate to \$16.06 from \$16.34 on somewhat slower consumer spending in the second half.

**Growth & Valuation Analysis**
**GROWTH ANALYSIS**

(\$ in Millions, except per share data)	2020	2021	2022	2023	2024
Revenue	15,301	18,884	22,237	25,098	28,167
COGS	3,787	4,489	5,263	6,022	6,673
Gross Profit	11,514	14,395	16,974	19,076	21,494
SG&A	2,771	3,442	3,502	3,647	4,270
R&D	—	—	—	—	—
Operating Income	8,163	10,227	12,722	14,630	16,327
Interest Expense	380	431	471	575	646
Pretax Income	7,760	10,307	11,732	13,639	15,254
Income Taxes	1,349	1,620	1,802	2,444	2,380
Tax Rate (%)	17	16	15	18	16
Net Income	6,411	8,687	9,930	11,195	12,874
Diluted Shares Outstanding	1,006	992	971	946	927
EPS	6.37	8.76	10.22	11.83	13.89
Dividend	1.60	1.76	1.96	2.28	2.64
<b>GROWTH RATES (%)</b>					
Revenue	-9.4	-0.1	17.8	12.9	12.2
Operating Income	-15.8	25.3	24.4	15.0	11.6
Net Income	-21.0	35.5	14.3	12.7	15.0
EPS	-19.8	37.5	16.7	15.8	17.4
Dividend	21.2	10.0	11.4	16.3	15.8
Sustainable Growth Rate	96.4	102.1	121.2	139.4	144.7
<b>VALUATION ANALYSIS</b>					
Price: High	\$367.25	\$401.50	\$399.92	\$428.36	\$537.70
Price: Low	\$199.99	\$306.00	\$276.87	\$340.21	\$416.53
Price/Sales: High-Low	24.1 - 13.1	21.1 - 16.1	17.5 - 12.1	16.1 - 12.8	17.7 - 13.7
P/E: High-Low	57.7 - 31.4	45.8 - 34.9	39.1 - 27.1	36.2 - 28.8	38.7 - 30.0
Price/Cash Flow: High-Low	46.6 - 25.4	46.9 - 35.7	34.6 - 24.0	37.3 - 29.6	35.6 - 27.6

**Financial & Risk Analysis**

FINANCIAL STRENGTH	2022	2023	2024
Cash (\$ in Millions)	7,008	8,588	8,442
Working Capital (\$ in Millions)	2,435	2,697	504
Current Ratio	1.17	1.17	1.03
LT Debt/Equity Ratio (%)	218.3	207.0	269.5
Total Debt/Equity Ratio (%)	222.7	226.3	281.0
<b>RATIOS (%)</b>			
Gross Profit Margin	76.3	76.0	76.3
Operating Margin	57.2	58.3	58.0
Net Margin	44.7	44.6	45.7
Return On Assets	26.0	27.6	28.4
Return On Equity	145.9	169.3	191.9
<b>RISK ANALYSIS</b>			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	10.2	11.0	12.4
Oper. Income/Int. Exp. (ratio)	25.9	24.7	24.6
Payout Ratio	26.6	19.1	19.2

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## Analyst's Notes ...Continued

Our 2036 forecast moves to \$18.54 from \$18.83.

### FINANCIAL STRENGTH & DIVIDEND

We rate Mastercard's financial strength as High, the top point on our five-point scale.

Long-term debt was \$18.8 billion as of March 31, 2025, up from \$17.5 billion at the end of 2024.

Mastercard repurchased 4.7 million shares for \$2.5 billion in 1Q25 and 23.0 million shares for \$11.0 billion in all of 2024. In 2Q25 through April 28, the company repurchased 1.7 million shares for \$884 million, leaving \$11.8 billion on its buyback authorization.

In December 2024, Mastercard announced a 15% increase in its quarterly dividend to \$0.76 per share, or \$3.04 annually, for a yield of about 0.6%. Our dividend estimates are \$3.04 for 2025 and \$3.28 for 2026.

### MANAGEMENT & RISKS

Mastercard is led by President & CEO Michael Miebach, who took over from Ajay Banga at the beginning of 2021. Sachin Mehra is CFO.

Government regulation remains a risk for the company. Interchange fees, in particular, are constantly being reviewed in the U.S., as well as in other countries. In March 2024, the company said it had reached an agreement to reduce its U.S. credit-card interchange rates for at least a five-year period (through 2030) as part of a legal settlement with merchants. However, the settlement

was later rejected by a district court in June 2024. Mastercard said it will continue to work towards another settlement.

While the secular shift from cash to electronic payments remains a long-term tailwind, Mastercard's revenues are still subject to near-term trends in consumer spending. Cross-border transactions may also face pressure from geopolitical developments, exchange rates, and international travel restrictions.

### COMPANY DESCRIPTION

Mastercard operates the world's second-largest electronic payments network, providing processing services and payment product platforms, including credit, debit, ATM, prepaid, and commercial payments under the Mastercard, Maestro, and Cirrus brands. Mastercard went public in 2006 and is a member of the S&P 500.

### VALUATION

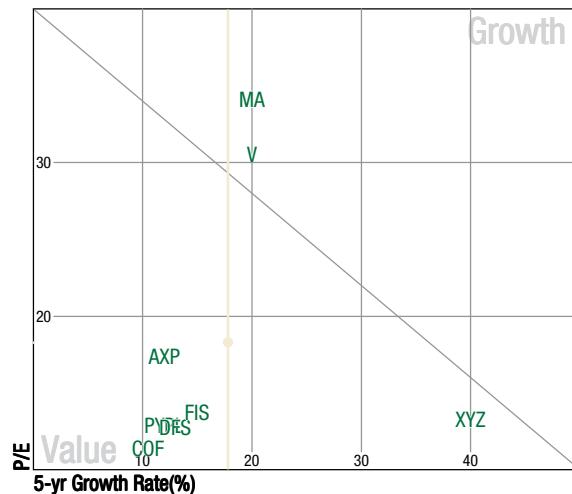
The MA shares trade at about 34-times our 2025 EPS estimate, above the historical average in the high 20s but reflecting higher-than-normal operating margins. Given strong secular trends in the payments processing industry, we expect revenue at Mastercard to continue to grow at least at a low-teens rate over the next several years. Operating margins in the high 50% range are also enviable, even if slightly below those of peer Visa Inc.

We believe that Mastercard's overall operating metrics, particularly its record margins, merit a valuation above the stock's historical average. Our 12-month price target of \$625 implies a

## Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare MA versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how MA stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how MA might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
V	Visa Inc	595,422	20.0	30.5	52.9	11.8	BUY
MA	Mastercard Incorporated	493,992	20.0	34.1	45.7	15.4	BUY
AXP	American Express Co.	186,644	12.0	17.4	13.6	13.7	BUY
COF	Capital One Financial Corp.	68,765	10.5	11.5	9.0	14.5	BUY
PYPL	PayPal Holdings Inc	64,032	12.0	13.0	14.3	8.3	BUY
DFS	Discover Financial Services	45,961	13.0	12.8	20.4	10.0	BUY
FIS	Fidelity Natl Information Serv	41,477	15.0	13.8	14.3	8.4	BUY
XYZ	Block Inc.	32,717	40.0	13.3	12.0	22.7	BUY
<b>Peer Average</b>		<b>191,126</b>	<b>17.8</b>	<b>18.3</b>	<b>22.8</b>	<b>13.1</b>	



**Analyst's Notes** ...Continued

multiple of 39-times our EPS estimate for 2025.

On May 1 at midday, BUY-rated MA traded at \$546.02, down \$2.04.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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