Visa Inc.

Meeting Takeaways: Ready for Challenges Ahead

Overweight

V, V US

Price: $76.94

Price Target: $103.00

Last week we met with several members of senior management at Visa and came away with 1) a better understanding of the risks and opportunities ahead of Visa and 2) confidence that management has a reasonable plan in place to defend its market share. We believe challenges presented by pending regulation are real but manageable. Execution will be key, but we think Visa's network/processing scale, reach, brand, deep pockets, and capable leadership make it a tough incumbent to beat in a secular growth market. We remain Overweight but see limited near-term upside until initial Fed rules are released sometime in December.

- **Prepared for scenarios post Durbin.** In a nutshell, post Durbin, Visa must 1) make sure that its brand/mark/network stays intact with its debit card portfolio and 2) win merchant debit routing decisions. To achieve both goals without sacrificing significant yield, Visa is heavily focused on innovation and extending the network closer to the merchant. Consistent with our view, Visa seems confident that the battleground will be limited to PIN (not signature, as it relates to ban on network exclusivity) debit, which we believe represents well less than 5% of Visa's revenue.
- **Getting closer to the merchant.** With power shifting to the merchant post Durbin, Visa must hook in deeper with the merchant while balancing conflicts with its merchant processing partners. We believe Visa's acquisition of CyberSource, together with VisaNet's processing scale, can give Visa an edge in influencing merchant routing decisions beyond just price post Durbin in both offline and online channels.
- **Pricing intact, but not this year given early renewals.** Visa is still targeting 100-200 bps in average annual pricing benefit to revenue over the long term. But FY11 revenue growth guidance (11-15%) does not assume any net benefit from pricing due to the culmination of lots of large early contract renewals flowing through the P&L this year (now no major renewals until FY13) and some undisclosed F4Q11 impact from Durbin regulation. We did not learn anything to be concerned about the net economics of large renewals being unhealthy or unusual, other than a mix shift in price discounting (from list) over time rather than upfront (in the form of incentives—contra revenue).

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Price Performance

	YTD	1m	3m	12m
Abs	-12.0%	3.6%	5.4%	-3.7%

Related Research:

V/MA: Dissecting U.S. Debit Revenue Mix - Pricing Outlook Benign – September 24, 2010.

Visa Inc. (V;V US)

	2009A	2010E	2011E	2012E
EPS Reported ($)				
Q1 (Dec)	0.78	0.99A	1.26	1.45
Q2 (Mar)	0.73	0.96A	1.15	1.35
Q3 (Jun)	0.67	0.97A	1.20	1.42
Q4 (Sep)	0.74	0.95A	1.22	1.43
FY	2.91	3.87A	4.83	5.65
CY	3.12	4.14	5.03	5.89

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	76.94
Date Of Price	12 Nov 10
52-week Range ($)	97.19 - 64.90
Mkt Cap ($ mn)	56,243.14
Fiscal Year End	Sep
Shares O/S (mn)	731
Price Target ($)	103.00
Price Target End Date	31 Dec 11

See page 14 for analyst certification and important disclosures.

- **Mobile payments, eCommerce remain big priorities.** Visa remains committed to mobile payments, making key hires and investments in mobile, with an aim to be an enabler as Visa believes it can cure the inherent interoperability problem that carriers have in facilitating payments. Visa has several large pilots in place, including with major banks in the U.S. Visa's open Development Center should also help bridge its leadership in e-commerce to mobile, perhaps with open APIs on the way to enable payments on various networks. While competition will remain sharp (we expect the U.S. mobile carrier JV to be formally launched shortly), we believe Visa is making real progress in key markets.

- **International on track to be 50% of revenues by 2015.** Getting there will not be easy, with looming domestic schemes in the way. Focusing on BRIC nations, Visa remains bullish on Brazil even with pending Elo launch, Russia is starting to swing positive again, India is very promising with the acquiring JV securely in place, and China continues to grow despite the spat with CUP.

PM Summary

Last week we met with several members of senior management at Visa (in order of appearance: Jim McCarthy—Global Head of Product; Jennifer Schulz—Head of Global Product Strategy Innovation & eCommerce; Byron Pollitt—CFO; Oliver Jenkyn—Global Head of Strategy & Corp. Development; John Partridge—President; Bill Gajda—Head of Global Mobile Product; Bill Sheedy—Group President Americas) and came away with 1) a better understanding of the risks and opportunities ahead of Visa and 2) greater confidence in management's ability to navigate challenges. We believe challenges presented by pending regulation are real but manageable. Execution will be key, but we think Visa's network/processing scale, reach, brand, deep pockets, and capable leadership make it a tough incumbent to beat in a secular growth market. Below, we summarize key takeaways from the meeting.

Durbin Regulation Update

Visa must accomplish two fundamental objectives post Durbin implementation:

1. Visa must make sure that its brand/mark/network stays intact with its debit card portfolio. To achieve this, Visa must maintain and deliver increasing value to issuer clients through innovation (e.g., fraud tools, uptime, loyalty/marketing tools, etc.) to differentiate beyond just pricing.
2. Visa must win merchant routing decisions for debit. We believe Visa is already taking steps to move its network closer to the merchant (e.g., CyberSource acquisition; real-time messaging) in order to influence routing decisions beyond just pricing in both the offline and online world

Still Waiting for Rules, but Visa Seems Well Prepared for Likely Outcomes

- **Timing** on the Fed's initial draft remains sometime in December followed by a comment period with rules finalized by April 2011 for implementation by July 2011. Visa said that it (and presumably its partners) will be ready for implementation, but the task of updating and testing the entire system (including those of its partners) will not be easy, and likely costly for its partners.
- **Visa seems ready,** with dedicated teams standing by to defend its business and respond to new rules and assist issuers and acquirers with compliance. Our sense is that Visa has left no stone unturned in analyzing the potential fallout from likely rules changes.
- **PIN-debit is the focus for change; signature unlikely to change.** Consistent with the feedback we have been hearing, Visa seems quite confident that the ban on network exclusivity (regulation will require debit cards to have at least two unaffiliated networks) applies only to PIN and not signature (i.e., signature debit cards can remain status quo post regulation with one primary signature network like Visa or MasterCard). This view is supported by the fact that the current PIN infrastructure is already built to meet this requirement and adequately satisfies the spirit of the law. The downsides of applying this rule to the signature side (making it a low probability risk in our view) would include 1) significant investment, time, and education required to implement for all members of the

food chain, and 2) the commoditization of the networks resulting in loss of innovation and arguably higher fraud and a weaker product for cardholders. At this point, the market seems to be pricing in the network exclusivity ban only to the PIN-side of the equation, but should the final rule also include signature, we would expect a negative reaction to Visa's stock and earnings outlook.

- **Visa's FY11 guidance assumes some financial impact from Durbin in F4Q11.** We speculate the impact covers some assumption of lost PIN-debit routing and/or degradation in PIN-debit yield, the impact of which is likely less than 2-3% of total revenues in that quarter. This estimate is our view as management did not provide any detailed explanation on their assumption, though we do expect the company to be forthcoming with their final assumptions after the Fed finalizes its rulemaking.
- **Mitigation** efforts and offsets should not be forgotten. We continue to expect Visa (and MasterCard) to adapt to regulation changes and find ways to preserve/enhance network economics post Durbin. For instance, we believe new ready-funds products outside the scope of regulation will emerge and add value for issuers, consumers, and merchants—like prepaid and charge cards—and drive attractive network economics back to Visa. We also expect Visa to invest more heavily in innovation and move closer to the merchant to help influence merchant routing decisions their way (see discussions below) and make pricing discussions an afterthought. Finally, Visa sees the potential for signature debit to benefit (assuming PIN and signature interchange rates compress and narrow) from greater merchant acceptance in more price sensitive categories including areas like bill payment. Of the 8 million merchants accepting Visa today, only 2 million can take PIN, and if the acceptance costs narrow, merchant adoption of PIN could slow (and reduce the risk of incremental PIN transactions being routed away from Visa).
- **Client contracts not likely to trigger any claw-backs due to regulation,** according to CFO. However, some contracts may be re-visited voluntarily as some contracts based on volume may not be applicable to influence certain intended behavior given the shift in routing power to the merchant post Durbin. The ban of the network exclusivity rule is most likely to drive some changes in contracts where Visa has exclusive PIN affiliation—about 50% of Visa's debit cards have no second unaffiliated network (i.e., exclusive). Bill Sheedy, Group President Americas, noted that he does not rank issuer pricing pressure as one of the top concerns he has as it relates to fallout from the Durbin legislation.

CFPB—No New News

When asked, Bill Sheedy did not point out any new movement or traction from the CFPB as it relates to new card pressure. Visa continues to work hard to protect against any incremental risk to credit. In our view, the recent shift in Congress favoring the Republicans should help the outlook.

U.S. Merchant Litigation (MDL 1720) —No New News

We did not hear anything new as it relates to the merchant litigation case as mediation efforts remain active and both sides still seem far apart. Bill Sheedy did not disagree with our view that the DOJ resolution (whereby Visa will allow discounting, but surcharging ban will remain intact) could be viewed as an indirect positive for the litigation case. Regardless, Sheedy made it a point to say that regardless of timing, Visa will support whatever happens with the case as it has a seat in the negotiations together with the banks.

Pricing Intact, But Not This Year Given Early Renewals

In our meeting with the CFO, we clarified two important points related to pricing:

1. **Visa is still targeting 100-200 bps in average annual pricing benefit to revenue over the long term.** However, the CFO emphasized Visa's view on pricing from the IPO, which is that their revenue growth objectives are more based on driving volume than relying on pricing.
2. **FY11 revenue growth guidance (11-15%) does not assume any net benefit from pricing.** Our sense is that the July 1 U.S. acquirer assessment fee increase (will show up in Visa's revenue starting F1Q11; about 250bps benefit) that matched MasterCard's increase will presumably be washed out by the culmination of lots of large early contract renewals flowing through the P&L this year (now no major renewals until FY13) and some undisclosed F4Q11 impact from Durbin regulation. We still think the lack of net pricing benefit in FY11 will ultimately be conservative, but we have tempered our prior view as we learned that **the large renewal in F4Q10 had a higher mix of custom pricing (discount to list pricing) and a lower mix of up-front incentives (contra revenue)—we did not learn anything to be concerned about the net economics of the deal being unattractive or unusual other than a shift in price discounting over time rather than upfront.**

Revenue yield (net revenue divided by purchase volume) an outcome, not a focus. The CFO does not focus on revenue yield as a metric per se but rather views yield as an outcome influenced by various structural differences in discrete countries/economies that make it difficult to analyze in isolation. The CFO believes that if Visa is executing overseas, then yields will naturally move down since emerging markets typically first adopt high-yielding products like cross-border and T&E spend and then gradually move downstream into traditional yielding products. We had underappreciated this view.

MasterCard remains competitive. The CFO dismissed the notion of Visa being in a price war with MasterCard for new business, other than to say pricing has been, and will continue to be, highly competitive. He reiterated that contract pricing is purely a function of head-to-head competition against MasterCard and other networks and not clients just negotiating straight price cuts. The CFO said competition can be aggressive in winning contracts in several ways beyond price, such as through term structure, claw-backs, etc.

Bill Sheedy, Group President Americas, noted that he does not rank issuer pricing pressure as one of the top concerns he has as it relates to fallout from the Durbin legislation.

Revisiting Debit Revenue Exposure

According to Visa management, a little more than 20% of the company's total revenues are exposed to U.S. debit interchange/rule (Durbin) reform. Visa estimates roughly two-thirds of its debit transactions are signature based, while the remaining third are PIN debit. Importantly, PIN debit revenue yields are meaningfully lower than signature debit yields, which suggests PIN-debit accounts for well less than 7% of revenues (possibly as low as 2-3% in our estimation). For more details on this topic, please see our report published September 24, 2010: *V/MA: Dissecting U.S. Debit Revenue Mix—Pricing Outlook Benign*.

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Framing the Exposure

We've identified four simple ways Visa could be impacted by debit interchange and rule reform: 1) issuer side pricing pressure, 2) merchant/acquirer side pricing pressure, 3) a mix shift from signature debit toward PIN debit, and 4) PIN debit volume being routed to competing networks. Of the four, we think merchant/acquirer-side pricing pressure and PIN debit market share losses are the most probable and impactful outcomes. The payments industry is a competitive and complex ecosystem, and the four outcomes referenced above are by no means a comprehensive list, but we believe they represent a good starting point for framing the financial impact to Visa.

Issuer-Side Pricing Pressure

The "pound of flesh" theory suggests card issuers will push for lower debit network fees if debit interchange is reduced. Today, debit issuers earn ~130bps in interchange revenues on signature debit transactions and pay less than 8bps in network fees (we believe some of the larger issuers are paying only a fraction of this). In anticipation of lower interchange income, several issuers have already said they would levy new cardholder fees, bank fees, and/or reduce card reward offerings to mitigate lower interchange fees. While it is possible issuers could push for lower network fees, which would hurt revenue yields at Visa and MasterCard, the reality is interchange revenues dwarf network fees, and even a 50% network fee reduction wouldn't have much of an impact to a debit issuers' bottom line (debit interchange in the U.S. is estimated to be about $20 billion). Issuers have historically (and will continue to) expect pricing concessions at contract renewal, but we do not believe issuer-side pricing pressure will materially intensify in response to debit interchange regulation. At a 5bps average yield, we estimate debit issuer fees could account for ~$480mm (or less than 5%) in gross annualized revenues. We estimate every 10% reduction in signature debit issuer fees could be worth ~$0.04 in annualized earnings to Visa.

Merchant/Acquirer-Side Pricing Pressure

The no network exclusivity provision gives acquirers more bargaining leverage, in our view, consistent with the power large merchants already have in influencing PIN-debit routing decisions at the point-of-sale. Historically, acquirers routed PIN-debit transactions based on the issuer's instructions and had little negotiating leverage when it came to network fees (essentially price takers), while large merchants had the scale to route transactions to the lowest cost network resident on the card regardless of issuer preferences. The no network exclusivity provision may change this, giving merchant acquirers the power to route PIN transactions (on behalf of smaller merchants) to competing networks based on price to enhance acquirer economics. As such, we think Visa (and MasterCard other EFT networks like NYCE and Star) will increasingly offer rebates and volume based discounts to retain or win debit switching volume. We think large acquirers, particularly bank acquirers with large card issuing portfolios, have the greatest bargaining power. The key offset to watch for this risk lies in the differential in PIN versus signature interchange—should these fees compress and narrow, the motivation to promote PIN acceptance (only 2M of Visa's 8M merchants have a PIN-enabled terminal) goes down, making least cost routing less of a risk (assuming signature network exclusivity does not change, as we expect). Moreover, we believe deep discounting for PIN is already a reality today pre-regulation since PIN is primarily dominated by large merchants (with high volume and low profit margins such as discount retailers like Walmart, grocery, petrol) that already enjoy lots of buying power—in other words, we don't think there's that much more room to cut among the existing PIN-install base. We believe PIN revenue represents well less than 5% of Visa's total revenues.

Mix Shift Toward PIN Debit

As discussed earlier, we think a mix shift from signature debit toward PIN debit becomes less likely if signature and PIN interchange rates are set at more comparable levels. Low-margin, high-volume retailers have historically favored PIN debit because the interchange rate was lower. We believe merchants would be less inclined to purchase PIN pads (only 2M of Visa's 8M merchants have a PIN-enabled terminal) and would be largely indifferent to signature or PIN if the cost of acceptance were comparable.

PIN Volume Routed to Competing Networks

We believe PIN debit could account for 2-3% of Visa's net revenues and estimate every 10% reduction in PIN debit volume/price could be worth ~$0.03 in annualized earnings.

Today, many of Visa's debit issuers have exclusive PIN routing relationships with Interlink—about 50% of Visa's debit cards have no second unaffiliated network (i.e., exclusive). We estimate Interlink switches ~40% of all domestic PIN debit purchase volume. The no network exclusivity provision will require all debit cards to have at least two non-affiliated networks on the card (which we believe will be limited to PIN, not signature, as discussed throughout this report), which would give merchants/acquirers the ability to route transactions away from Visa's PIN-debit network branded Interlink. We think non-affiliated networks like STAR (owned by First Data), NYCE (owned by FIS), and ACCEL/Exchange (owned by Fiserv) could compete aggressively on price to gain market share, but Visa could obviously match on price and differentiate through services as we discuss throughout this report. As we mention above, PIN debit revenue yields are meaningfully lower than signature yields. We believe PIN debit could account for 2-3% of Visa's net revenues and estimate every 10% reduction in PIN debit volume/price could be worth ~$0.03 in annualized earnings.

Product Discussion—Innovating and Moving Closer to Merchants

The meeting left us with an incrementally more positive view of Visa's product suite and powerful data vaults backed by VisaNet processing that give Visa a distinct competitive advantage in adding value to massive amounts of transaction flow that it handles as a network. This should help Visa combat pricing pressure as we've been incrementally more negative on the pricing outlook post Durbin regulation. Looking ahead, we expect more innovation to come on the merchant side, which should help differentiate Visa at the point-of-sale and help influence routing decisions their way beyond just focusing on price. Balancing conflicts with merchant processors will be essential for Visa in achieving this shift in strategy focusing more on the merchant.

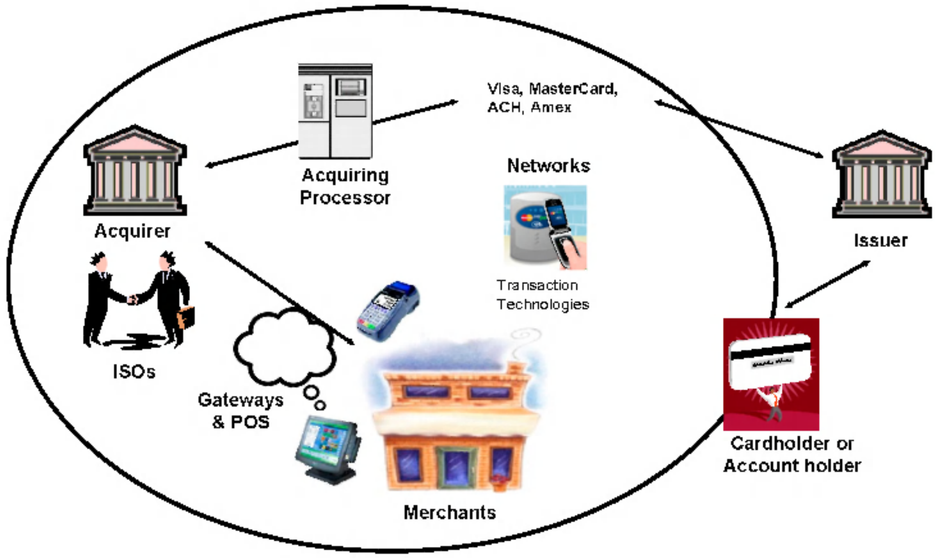
Debit Alive and Well

Despite all the worry around debit regulation, Visa was firm in their view that debit remains an attractive product, and the ready-funds model will remain the primary secular driver of payments growth in the foreseeable future with or without Durbin regulation. Our survey work supports this view—debit will remain a popular payment choice for consumers.

- **Prepaid** remains one of Visa's highest growth products. As a DDA-lite product, Visa expects the category to benefit from regulation, assuming the banked population will likely shrink in response to higher bank fees and gravitate to DDA-lite products like prepaid instead.
- **Signature debit** should continue to thrive, assuming PIN and signature interchange rates compress and narrow. With interchange moving lower, it is logical to assume that cost-sensitive and/or high-ticket merchants could be more open to taking debit cards, notably billers (for bill payment). Certain merchant categories are best suited for signature (over PIN) since it is built on a dual-message framework, whereby the authorization and clearing message is sent separately (PIN is a single message network where auth and clearing is settled in one message)—examples include restaurants or hotels where the initial authorization is sent for an initial amount, and then later cleared at a final bill amount (including final tip amount for a restaurant or incidentals for hotel stay)—a network service that should be appropriately valued. Moreover, if acceptance costs narrow between signature and PIN, the merchant community could slow its investment in PIN-enabled point-of-sale systems—of the 8 million merchants accepting Visa today, only 2 million can take PIN.

CyberSource—More than Just eCommerce—a Gateway to the Merchant
CyberSource is well known for its online gateway and fraud management tools, but it also has a strong offline gateway solution that we expect Visa to leverage more aggressively. As shown in Figure 1, the gateway can be a transaction's last or primary point of interaction with a merchant, and merchants increasingly want a single point of interaction across multiple channels (offline/face-to-face, online, phone, etc.). Post Durbin, with merchants gaining greater power in routing decisions, we believe Visa must extend the network closer to the merchant to better influence routing decisions at the point-of-sale, and CyberSource gives it this capability. The challenge will be managing conflicts with merchant processors, and Visa must play an agnostic role and not creep too far into its merchant services partners' (many of which are owned by issuing clients) sandbox. Visa manages a similar conflict with its issuer procession solution (DPS), so it has managed this kind of conflict before. But, it may not matter—with merchants gaining greater power, Visa must play offense and defense, and it seems willing to do so based on our meeting takeaways. We will watch this balancing act closely.

Figure 1: Merchant Services Ecosystem



Source: Moneris Solutions. Used with permission.

Visa's Network Now Open to Independent Developers
Visa's Development Center is an extension of Authorize.Net's existing platform (from CyberSource), enabling developers to create applications and push innovation to the edges of payment networks including VisaNet. According to Visa, "The Development Center acts as a central community with tools and advice that developers at any level can use to readily connect through CyberSource to VisaNet along with other payments networks, and will be available free of charge." Given Apple and PayPal's success with such open development efforts, we hope the initiative gains traction, and we will watch if Open APIs develop to link Visa into other popular networks like Facebook and Twitter. Visa's brand and processing scale should make it a magnet for development efforts, in our view, and it will be interesting to see how various players utilize the innovation and if it enhances the entire payments food chain or if it levels the playing field and creates greater competition (e.g., in the acquiring community) to fuel growth

Fraud Products Like Visa Advanced Authorization and Risk Manager Are Differentiators
Since all of Visa's processed transactions are sent through its centralized VisaNet system, Visa has tremendous insight on global transaction flow. With products like Advanced Authorization and Risk Manager, Visa can help score transactions for fraud in real-time to lower fraud losses and respond faster to emerging fraud trends. With fraud likely to increase once merchant routing becomes more prevalent post Durbin implementation, such fraud screening tools could prove to be differentiators for Visa to win routing decisions (beyond just price) at the point of sale, especially against sub-scale networks.

Real-Time Messaging—Another Way to Differentiate
Visa is already live with real-time messaging—transaction alerts triggered by VisaNet transaction activity—designed to provide cardholders with dynamic information and offers based on real-time purchasing behavior. The service is designed to reduce fraud (cardholders can receive real-time messages identifying

unusual transaction activity) as well as drive volume (through loyalty and marketing). This service is not just for issuers but also for merchants such as The Gap, which we believe will utilize real-time messaging this holiday season to alert buying customers with additional promotions across their various store brands. Again, the idea is to differentiate Visa at the point-of-sale, drive volumes, and even help influence routing decisions at the point of sale post Durbin (routing away from Visa could limit the consumer's ability to receive offers, for example).

Mobile Payments—Not If, but When

The topic of mobile payments came up several times throughout our meeting but was the focal point for our meeting with Bill Gajda, Head of Global Mobile Product. Mr. Gajda joined Visa earlier this year from the GSMA (association that represents the global mobile industry, including nearly 800 mobile operators and over 200 companies in the mobile ecosystem), where he was the chief commercial officer. Mr. Gadja made it very clear that despite mobile operator's desire to administer payment networks in national markets, that "payments is hard" and Visa is in a prime position to facilitate mobile payments because Visa can cure the inherent interoperability problem that carriers have.

- Contactless. Visa has a partnership with DeviceFidelity whereby it is pushing mobile contactless solutions. Specifically, this technology can transform a mobile phone with a microSD memory slot into a mobile contactless payment device. **U.S. trials are underway,** and we expect to see some movement next year with broader merchant acceptance. It was very clear that Visa's U.S. mobile strategy is to support the issuer, allowing users to use existing bank accounts and build upon mobile banking solutions in conjunction with smartphones. Visa reiterated that it has pilots in place with J.P. Morgan, Wells Fargo, Bank of America, and U.S. Bank.
- Competing U.S. mobile carrier JV official launch should be imminent. Our understanding has been that the widely reported (Bloomberg, Dow Jones) pending joint-venture of AT&T, Verizon Wireless, and T-Mobile will be made official before year-end (could be in the next few weeks), focusing on an NFC-based mobile payment service in the U.S. Details are still vague, but Visa sounded confident that it has the solutions in place to stand up against this JV.
- ROW—Visa must get closer to the consumer, especially where banking is less established. India could be a solid case study for this—Visa discussed its joint venture (with Monitise) in India to offer a technology platform for banks and mobile operators to provide a range of mobile banking services to consumers. The launch will initially focus on mobile remote payments (mobile top-up and bill payments), where many consumers currently struggle with long queues to make such payments. Visa believes that the convenience of its service can command a per usage fee from the consumer. All told, Visa has at least 23 live mobile programs in 19 countries.

International Remains a Focus

According to Oliver Jenkyn, Global Head of Strategy & Corporate Development, Visa is on track to generate over 50% of its revenues from outside the U.S., one of Visa's key aspirations shared at its first investor day back in March. We believe the path will not be easy, with national/domestic schemes like Canada's Interac and China's CUP posting challenges. Some takeaways to consider:

- **Brazil a priority.** Visa remains bullish on Brazil, a market growing volumes in the 20% range. The market remains active as it transitions to a multi-acquiring market, and Visa's Bill Sheedy noted that the response has been better than expected. Visa has had active dialogue with new and existing acquirers, including Redecard, which should result in better economics for Visa (new acquirers command better pricing) and broader merchant acceptance (new hungry acquirers pushing merchant relationships) to drive volumes. On the competition front, Brazil's Elo, a new credit card network joint venture backed by Banco do Brasil, Bradesco, and Caixa Economica Federal, remains on the radar for Visa, but management downplayed the risk of share loss as it believes Elo is primarily designed for low-income consumers that will eventually graduate to a more sophisticated Visa product rich with rewards and cross-border capabilities. Cielo, at JPM's Ultimate Services Conference last week, reiterated that Elo aims to achieve 15% market share.

- Focusing on the rest of the BRIC nations: Russia is starting to swing positive again as talks of a national network have faded for now; India sounds very promising with the acquiring JV (with State Bank of India and Elavon) securely in place (analogous to the Cielo JV in Brazil) as well as separate mobile ventures (see mobile discussion above); China continues to grow rapidly despite the spat with CUP, and it will be interesting to see how China's version of EMV (PBOC 2.0) will play out.

- **Will work with national domestic schemes.** We learned that Visa is willing to try different approaches in working with national domestic payment schemes. Options include doing on-shore processing (to circumvent stigma of switching transactions in the U.S.), joint-ventures, or white label services.

- **Will spend overseas.** President John Partridge noted that the vast majority of Visa's new hires will be overseas. Moreover, the majority of advertising and marketing will also go overseas. The strategy remains squarely focused on localizing Visa's effort while exploiting its global processing scale in winning new business.

Valuation & Rating

Visa trades 15.3 times our CY11 EPS estimates versus MasterCard at 15.0 times and a payment processing group average of 15 times. We remain Overweight based on our view that the indirect impact from debit interchange reform is manageable and on the company's attractive PEG ratio (0.8 times). Our December 2011 price target is \$103; the price target applies an ~18x multiple to our CY12E EPS of \$5.89. We note our target multiple is in line with EPS growth and a slight premium to our MasterCard target multiple (based on litigation settlement exposure). We believe Visa's multiple will expand from current levels as investors get more clarity on debit interchange reform.

Risks to Our Price Target and Rating

Downside risks include 1) uncertainty surrounding the Fed's final ruling on Durbin legislation and the ultimate indirect impact to volumes, fees and share; the inclusion of signature debit to the no network exclusivity provision poses the biggest risk in our view; 2) sudden deceleration in cross-border travel and related spending; 3) slower than expected GDV growth; 4) increased pricing pressure from end-market consolidation (acquirers and issuers); 5) a major issuer defection or loss; and 6) brand and put risk with Visa Europe.

Visa Inc.: Summary of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E
Revenues	**8,065**	**9,021**	**9,908**	**-**
Cost of Revenues	-	-	-	-
Gross profit	**-**	**-**	**-**	**-**
SG&A	-	-	-	-
Other operating expenses	-	-	-	-
Operating Income	**1,222**	**1,302**	**1,328**	**-**
EBITDA	4,809	5,732	6,550	-
Non-operating Income / (expense)	49	(14)	6	-
Pretax income	**4,518**	**5,458**	**6,296**	**-**
Income taxes	1,661	2,020	2,329	-
Tax rate	-	-	-	-
Net income - recurring	**-**	**-**	**-**	**-**
Diluted shares outstanding	739	712	702	-
EPS	3.87	4.83	5.65	-

Income Statement - Quarterly	1Q11E	2Q11E	3Q11E	4Q11E
Revenues	**2,255**	**2,172**	**2,250**	**2,345**
Cost of Revenues	-	-	-	-
Gross profit	**-**	**-**	**-**	**-**
SG&A	-	-	-	-
Other operating expenses	-	-	-	-
Operating Income	**293**	**330**	**305**	**374**
EBITDA	1,503	1,371	1,424	1,434
Non-operating Income / (expense)	(5)	(4)	(3)	(2)
Pretax income	**1,433**	**1,302**	**1,356**	**1,367**
Income taxes	530	482	502	506
Tax rate	-	-	-	-
Net income - recurring	**-**	**-**	**-**	**-**
Diluted shares outstanding	716	713	710	707
EPS	1.26	1.15	1.20	1.22

Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	4,051	6,004	8,508	-
Accounts receivable	-	-	-	-
Current assets	**8,734**	**10,745**	**13,188**	**-**
PP&E	1,357	1,357	1,377	-
Goodwill	-	-	-	-
Intangibles	-	-	-	-
Total assets	**33,338**	**35,349**	**37,812**	-
Short-term Debt	-	-	-	-
Current liabilities	3,498	3,428	3,345	-
Long-term Debt	-	-	-	-
Total liabilities	8,394	8,324	8,241	-
Net Income (including charges)	2,858	3,439	3,966	-
D&A	265	260	260	-
Other adjustments	-	-	-	-
Change in working capital	-	-	-	-
Cash flow from operations	**-**	**-**	**-**	**-**
Capex	(241)	(280)	(280)	-
Free cash flow	**2,200**	**3,946**	**3,946**	**-**
Free cash flow / share	-	-	-	-
Cash flow from investing activities	-	-	-	-
Cash flow from financing activities	-	-	-	-
Dividends	-	-	-	-
Dividend yield	-	-	-	-
Payout ratio	-	-	-	-

Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Sales growth	16.7%	11.9%	9.8%	-
EBITDA growth	25.4%	19.2%	14.3%	-
EBIT growth	-	-	-	-
Net Income growth	29.5%	20.3%	15.3%	-
EPS growth	32.7%	24.9%	17.0%	-
Free Cash Flow growth	-	-	-	-
Gross margin	-	-	-	-
EBIT margin	56.3%	60.7%	63.5%	-
EBITDA margin	59.6%	63.5%	66.1%	-
Net margin	-	-	-	-
Free Cash Flow margin	-	-	-	-
DSOs	-	-	-	-
Debt / EBITDA	-	-	-	-
Debt / Capital (book)	-	-	-	-
Return on invested capital (ROIC)	-	-	-	-
Return on equity (ROE)	-	-	-	-
Return on assets (ROA)	-	-	-	-
Enterprise value / Revenues	-	-	-	-
Enterprise value / EBITDA	-	-	-	-
Market Cap / Free Cash Flow	-	-	-	-
P/E	19.9	15.9	13.6	-

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data). Fiscal year ends Sep

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Other Companies Recommended in This Report (all prices in this report as of market close on 12 November 2010)
MasterCard (MA/$243.17/Overweight)

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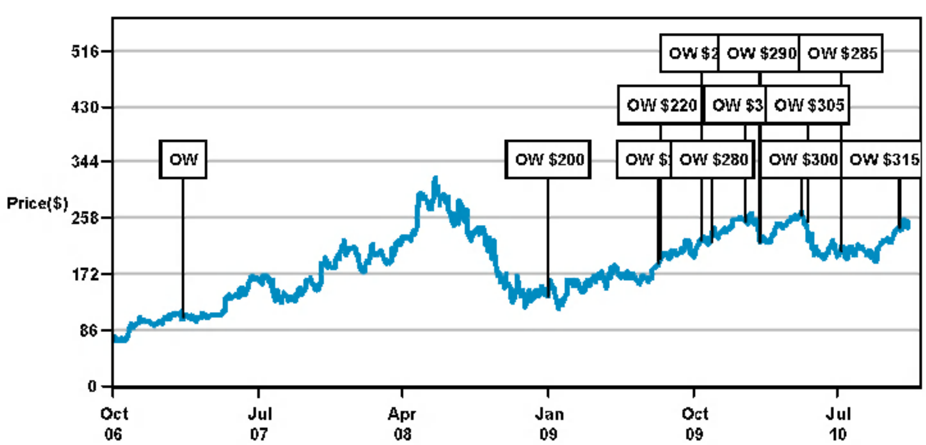
MasterCard (MA) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
13-Feb-07	OW	104.69	-
31-Dec-08	OW	139.09	200.00
27-Jul-09	OW	189.13	210.00
31-Jul-09	OW	194.03	220.00
16-Oct-09	OW	225.36	277.00
04-Nov-09	OW	219.20	280.00
08-Jan-10	OW	253.98	328.00
05-Feb-10	OW	220.74	290.00
23-Apr-10	OW	261.60	300.00
04-May-10	OW	251.25	305.00
07-Jul-10	OW	207.57	285.00
25-Oct-10	OW	242.64	315.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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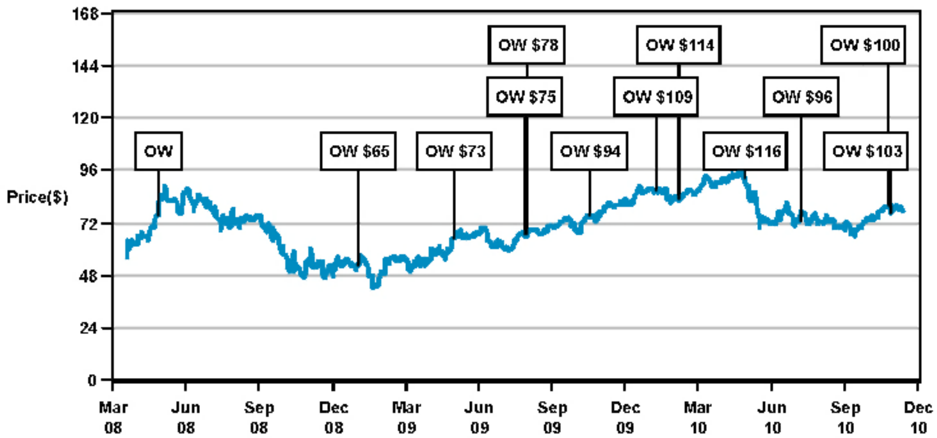
Visa Inc. (V) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
28-Apr-08	OW	75.63	-
31-Dec-08	OW	52.45	65.00
30-Apr-09	OW	64.96	73.00
27-Jul-09	OW	67.29	75.00
30-Jul-09	OW	66.78	78.00
16-Oct-09	OW	75.08	94.00
08-Jan-10	OW	86.76	109.00
04-Feb-10	OW	83.52	114.00
29-Apr-10	OW	92.82	116.00
07-Jul-10	OW	72.27	96.00
25-Oct-10	OW	80.63	100.00
28-Oct-10	OW	76.45	103.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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