VISA

Company Overview:

Visa is the largest global card transaction processing firm, with leading positions across most worldwide geographies. As a percentage of payments volume, ~47% was generated in the US and ~53% internationally, and roughly ~48% from credit and ~52% from debit. The company has generated strong earnings growth in recent years driven by solid revenue growth (growth in spending, shift toward spending on cards, pricing increases) and expense leverage.

Name	Ticker	Yield	Growth	D + G
Visa Inc. Class A	V	0.64%	12.00%	12.64%

Highlights:

The next leg of growth for Visa is all about value-additive sources ("VAR"). The big question for investors is the company's growth algorithm given the shrunk delta between card volume and PCE growth especially in the U.S., and some dynamics in Asia. We are increasingly convinced that Visa can maintain its double-digit growth algorithm despite a headline US card volume growth of 6-7%. We are encouraged by Visa's share gains from domestic schemes (CB card, Girocard), runway in continental Europe, and ability to grow even in mature markets such as the Nordics.

While it has been hard for investors historically to underwrite VAS growth (given that there are hundreds of these services), Visa has been increasingly providing disclosures about this critically important business and has invested in new services/GTM and geographic penetration — driving 2-3% incremental revenue growth. There has been a lot of discussion around commercial growth and money movement (CMS) opportunity and how Visa is bringing tailored products, enhanced GTM, and pitch around higher ROI (despite high cost of acceptance) to drive growth. Our one nitpick on Visa's overall story has been around how the growth and revenue contribution of CMS (formerly new flows) has historically paled in comparison to the TAM opportunity. Separately, we are increasingly confident that Visa's moat will remain intact (and perhaps solidify) with changing nature of commerce (Agentic) and past frenemies (wallets, crypto/stablecoins) increasingly becoming partners for players.

Bull Case:

- ***Significant Barrier of Entry* –** Visa is the world's largest payment processing company, providing processing services to 30+ million merchants around the globe. Roughly ~3.6 billion Visa-branded cards are currently in circulation, with total annual purchase volume of ~$10.4 trillion. Given the company's well-established brand and extensive merchant-acceptance network, we believe Visa's business model would be difficult for competitors to replicate.
- ***Secular Shift Towards Card Payment* –** Over the past several years, card payments have gained market share, at the expense of cash and checks (we expect this to continue). US market share for card payments has increased from 32% in 2001 to over 50% in 2014 and continues to grow. Concurrently, the cash/check market share has decreased significantly.
- ***International Markets Provide both Diversification and Growth Opportunities* –** Approximately 45-50% of Visa's total revenue is generated in the United States – we expect this market to grow mid- to high-single-digits over the next several years, due largely by the continued shift from cash/check to plastic. The remaining 50-55% of revenue is driven by international regions, including APAC, Canada, Latin America, Africa, Europe and the Middle East– we believe these markets in aggregate can generate double-digit growth over the next several years, driven by consumer spending and the shift to cards. Given the penetration opportunities for these markets (and the relative immaturity versus the US), we believe Visa's international exposure provides the company with opportunities to further diversify its revenue base.
- ***Leverage Opportunities Create a More Resilient Business Model* –** Visa's processing costs are highly fixed, in our view, creating very high incremental margins (85-90%+). Importantly, managing the two largest variable expense items, personnel and advertising/marketing/promotions, could yield solid operating profit growth, despite potentially slowing purchase volumes.

Bear Case:

- ***Slower Consumer Spending* –** Uncertainty in the economy could lead to slower spending by consumers and subsequently lower credit and debit transactions/volumes for Visa. The secular shift toward card payments (away from cash/check) should mitigate some impact of reduced consumer spending. In recent quarters, growth has accelerated as the economy has recovered.
- ***Regulatory Risk* –** Interchange fees are an important component of the four-party payments system Visa facilitates. Recently, interchange fees have come under increasing scrutiny from regulatory authorities in a number of different geographies. If Visa is no longer allowed to set interchange rates, financial institutions may be less willing to issue new cards and/or may seek to subsidize their credit card businesses, either through fees to cardholders or reduced pricing from the networks.
- ***Alternative Payment Systems* –** A number of alternative payments systems have gained in popularity recently, particularly around internet-based payments (PayPal, Bill-Me-Later, etc.). Visa may lose some share of the paperless payments market if some of these alternative systems continue to gain acceptance.
- ***Reduced Global Travel* –** A significant portion of the company's revenues and profits are derived from fees on transactions taking place outside the country where the card was issued. If travel slows globally, a portion of the company's higher-margin revenue may be at risk.

Overview:

We like Visa a lot over time as a steady compounder with a big moat. We are encouraged by the recent earnings reports and the acceleration across several metrics. The recent guidance was reiterated with revenue expected to grow 10%+, a continuation of a nice pattern of 10%+ revenue growth since 2017 (outside of COVID year). We appreciate the reiteration of guidance and ongoing solid trends during a period of macro uncertainty. We expect high- single/low-double-digit revenue to drive 12-15% annual EPS growth over time, and like the setup, as the secular growth in payments continues, VAS/New Flows are growing fast (now 30%+ of revenue), and the moat is strong.

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