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Return on Investment

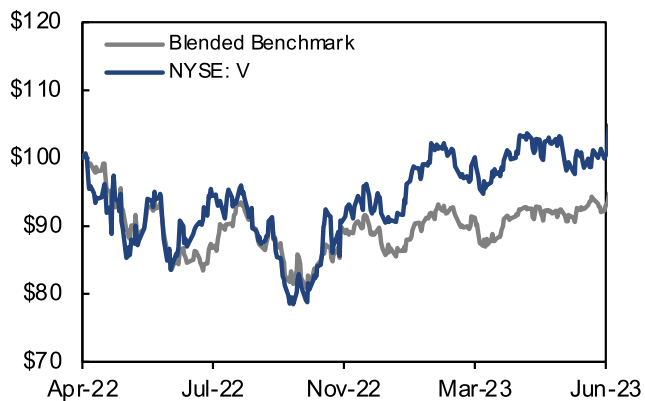
Current Share Price	\$237.48
Target Price	\$240.07
Dividend Yield	0.75%
Implied Return	2%
Conviction Rating	1

Market Profile

52-Week Range	\$174.6 - \$245.37
Market Capitalization (US\$m)	\$490,647
Net Debt (US\$m)	\$6,764
Enterprise Value (US\$m)	\$497,411
Beta (5-Year Monthly)	0.97

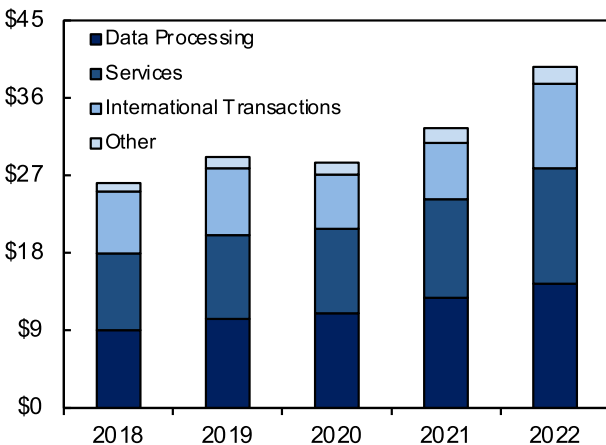
Metrics	2023E	2024E	2025E
Revenue (US\$m)	\$32,606	\$36,158	\$40,309
EBITDA (US\$m)	\$22,757	\$25,602	\$28,517
EPS (US\$)	\$8.23	\$9.64	\$11.01
EV/EBITDA	22.1x	19.4x	17.8x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Revenue Mix over Time (US\$B)



Source: Company Filings, FactSet

Business Description

Visa (NYSE: V) operates a virtual electronic payment network and manages global financial services related to payments and transaction processes. The Company facilitates global commerce among a network of customers, merchants, financial institutions, businesses, strategic partners, and government entities. V offers debit cards, credit cards, prepaid products, and commercial payment solutions. The Company earns revenue from four primary sources: (1) Data Processing, (2) Services, (3) International Transactions, and (4) Other. V is a world leader in digital payments, boasting ~3.9B credit and other payment cards in circulation across 200+ countries.

Industry Overview

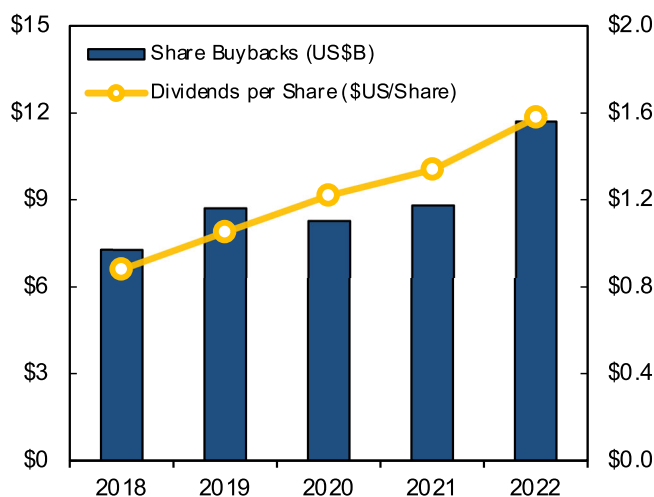
V operates within the global digital payments industry, allowing for seamless integration between financial systems. In recent years, this US\$2.1T market has seen significant technological innovation through the adoption of blockchain, cryptocurrencies, and increasing consumer demand for digital payment services expedited by the COVID-19 pandemic. The tight regulatory environment of this industry is evolving through the recent introduction of *FedNow*, the U.S. government's instant payment infrastructure that enables payments between individuals and banks; this service has traditionally been provided by companies such as PayPal (NASDAQ: PYPL). Furthermore, this has contributed to a 75% decrease in PYPL's share performance, posing potential risks to V. The competitive landscape of V is comprised of credit card issuers such as American Express (NYSE: AXP) and Mastercard (NYSE: MA). Additionally, financial institutions such as Discover Financial (NYSE: DFS) and Capital One (NYSE: COF), as well as fintech companies such as Square (NYSE: SQ) and PYPL operate in this market. With a five-year industry CAGR of 13%, the digital payments industry maintains substantial growth prospects through increasing internet penetration, e-commerce growth, and underbanked populations turning to digital solutions.

Growth Strategy

Consumer Payments: V has focused on increasing access to credentials, acceptance of digital payments, and engagement with customers. In terms of expanding access, the Company has seen significant growth in the number of digital tokens, surpassing card credentials. Tap-to-pay transactions have gained traction, with the U.S. surpassing the UK as the largest country for transactions. V has established over 400 partnerships with fintech companies to advance money digitalization. Additionally, the Company has invested over US\$10B in technology-enhancing security, successfully preventing ~US\$27B in fraud.

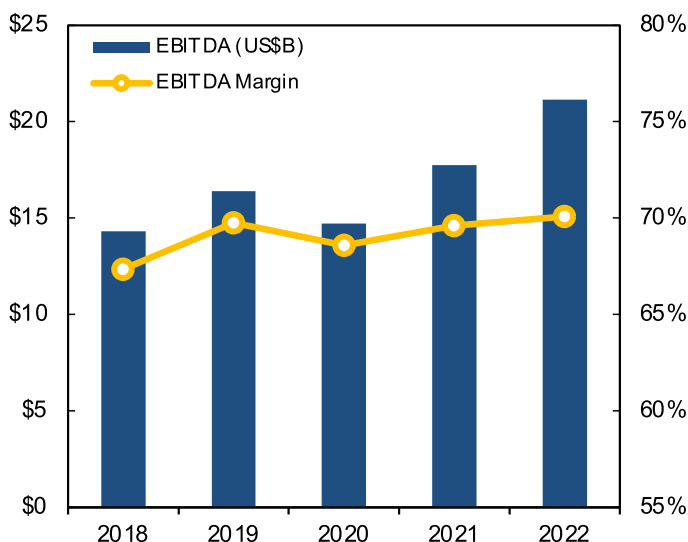
New Flows: V's focus extends beyond consumer payments to encompass various money movement flows, including B2B, B2C, G2C, and P2P. The Company continues to expand its presence by leveraging technologies such as Visa Direct, and partnerships with platforms such as Thunes (a network facilitating cross-border transactions) and Currencycloud (a cloud-based platform for international payments and currency management). In the past year, V's B2B segment recorded ~US\$1.5T in payments, while Visa Direct reached 5.9B transactions, ultimately offering faster (cont.)

Figure 2: LHS Buybacks vs RHS DPS



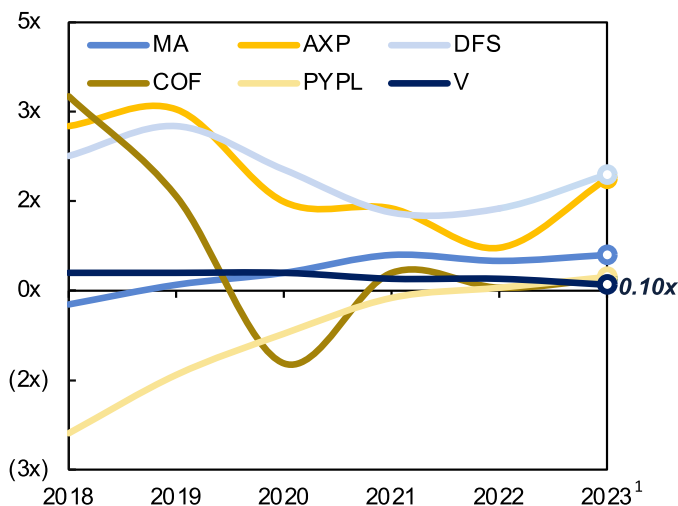
Source S&P Capital IQ

Figure 3: LHS EBITDA vs RHS EBITDA Margin



Source: S&P Capital IQ

Figure 4: LTM Net Debt/EBITDA



Source: Bloomberg

and more convenient payment solutions to its customers.

Value Added Services (VAS): VAS enables secure and efficient money movement for clients. In FY 2022, VAS generated \$6B in revenue, with over 50% of its clients using multiple services. The growth strategy includes expanding existing products, introducing new solutions (such as Tink's open banking platform), and expanding VAS globally. Cybersource has onboarded 1mm merchants and partnered with the Bank of New Zealand, while VAS expanded across Europe. V's suite of risk and identity solutions protects against fraud and addresses emerging payment security challenges, including card-not-present fraud.

Mandate Fit

Quality Management: Ryan M. McInerney assumed the role of CEO in 2023, having served as President for 10 years. Prior to joining V, McInerney served as CEO of Consumer Banking for JPMorgan Chase (NYSE: JPM) from 2010 to 2013. CEO compensation is 93% performance-based to incentivize senior management to drive company success. V's management and board has four females, representing 33% of the board.

Competitive Advantage: V holds a dominant position in the digital payments industry, particularly in a sector where trust plays a pivotal role. In the duopoly shared with MA, V leverages its position to capitalize on higher payment penetration, a factor heavily reliant on partnerships and the ability to capitalize on the electronic payment transition. V's extensive network of over 400 partners globally and its Visa Acceptance Cloud (VAC) enables various connected devices to accept cloud-based payments, granting the Company an edge over MA and other peers. The conjunction of a highly scalable business, elevated barriers to entry, regulatory compliance, and network effects with existing partners provides V with a best-in-class LTM EBITDA margin of 70%, compared to MA's margin of 60%.

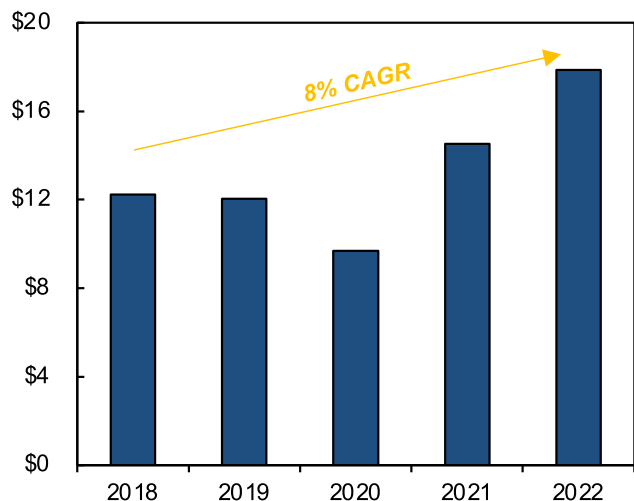
Strong Balance Sheet: V's total debt is US\$22.5B, with only a small portion of this, US\$2.2B, due within the following year. This is easily covered by the Company's US\$15B of cash. In addition, V secured a five-year, unsecured US\$7B revolving credit facility in May 2023. The company's Net Debt/EBITDA is ~0.0x, compared to its peer average of 0.6x. An interest coverage ratio of 39.7x further underscores the strength of the Company's financial position, compared to MA's 28.4x and PYPL's 16.9x. These strong fundamentals are reflected in V's credit ratings of Aa3 and AA- from Moody's and S&P, respectively.

Growing Free Cash Flow: V's business model is characterized by high incremental margins, low capital expenditures, and significant FCF generation. The Company has grown FCF at a five-year CAGR of 8%. V has a consistent policy for share repurchases, having repurchased US\$2.9B in Q3 2023, representing a 21% increase YoY. The Company's primary cash uses are acquisitions, dividends, share repurchases, and debt repayment.

Recent Acquisitions

Pismo: On June 28, 2023, V announced an agreement to purchase Brazil-based Pismo Soluções Tecnológicas, a cloud-native banking and payment processing platform, for US\$1B in cash. The acquisition allows the Company to provide better support for emerging payment infrastructures, such as Brazil's Pix, a platform used by 150mm people. The transaction, which compliments V's ongoing fintech expansion efforts, will be finalized by the end of 2023, pending regulatory approvals. Pismo's existing management team will continue to run the company post-acquisition, (cont.)

Figure 5: Free Cash Flow (US\$B)



Source: Bloomberg

which benefits V, given its extensive experience operating in international markets.

Tink: On March 10, 2022, V acquired 100% of Tink AB, an open banking platform, for US\$1.9B in cash. Tink enables financial institutions, financial technology firms, and merchants to facilitate money transfers and make financial products and services.

Currencycloud: On December 20, 2021, V acquired The Currency Cloud Group Limited for US\$893mm. Currencycloud is a leading global platform that facilitates innovative cross-border foreign exchange solutions for financial institutions and fintech companies.

Risks

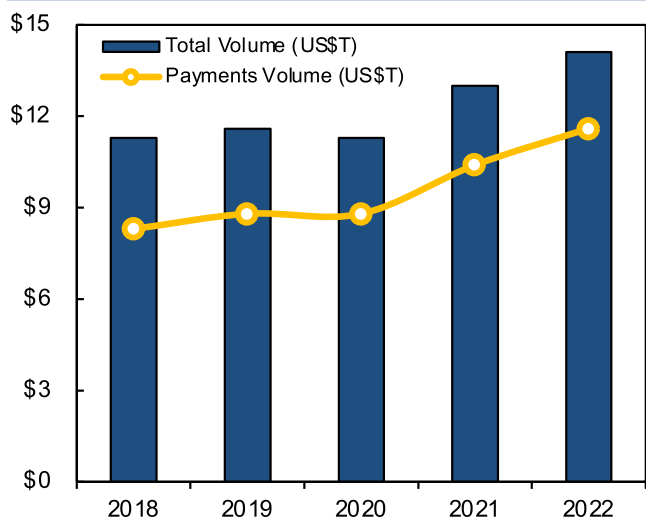
V's global operations require it to adhere to regulations in over 200 countries. Regulators are becoming increasingly critical of interchange reimbursement fees. As a result, in-house payment infrastructure has been created, as seen in the case of *FedNow*. Similar pressure has been put on by merchants, who reference the intense competition in the industry and continually push for lower acceptance costs. These risks pose the potential to further compress margins and ultimately threaten the Company's future profitability.

Investment Thesis and Valuation

V was valued at US\$237 using a 10-year DCF with a WACC of 8.8%. The terminal value was determined through a 50/50 blend of (1) the Gordon Growth method, using a 2.0% terminal growth rate, and (2) an EV/EBITDA exit multiple of 20x. V and MA both trade at a premium compared to the industry average. However, V's NTM EV/EBITDA is ~20% lower than that of MA. Since the Fund's initial position in April 2022, the trading gap between the two companies has narrowed by 10%.

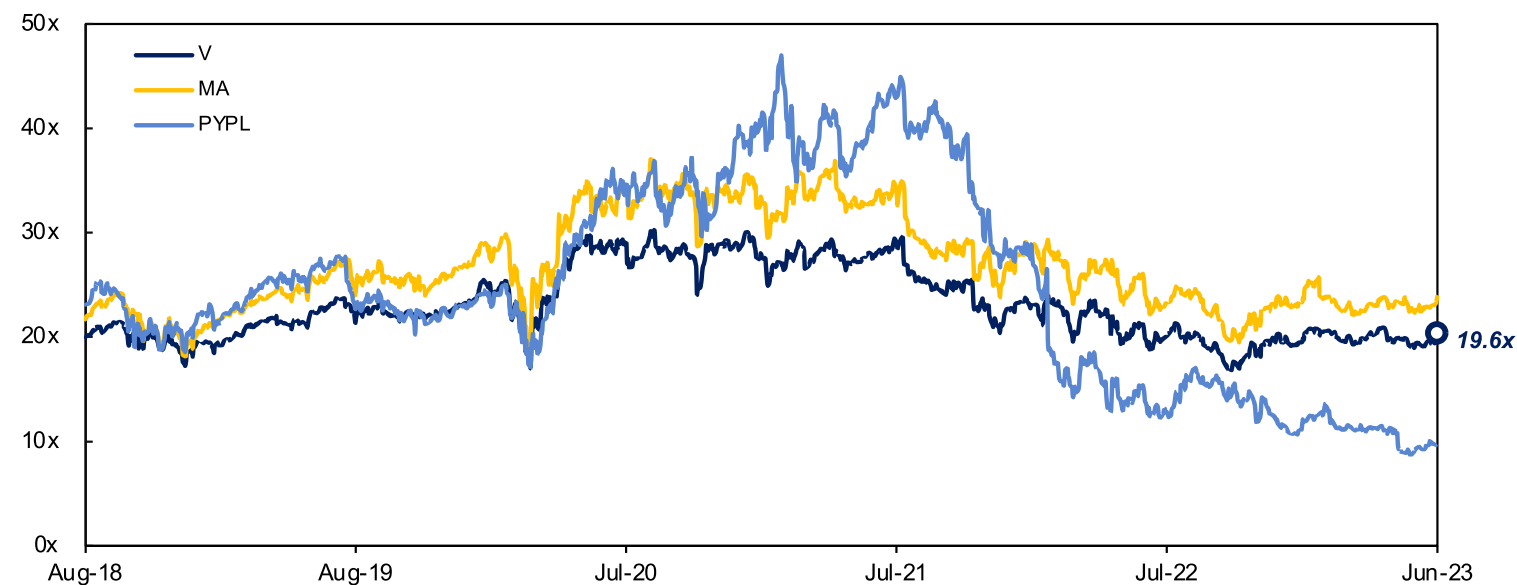
The Fund remains confident in V's potential for growth due to increasing customer penetration and strong partnerships. V's evolving growth strategy is evident through its acquisition integration, alongside the global expansion of digital payments, which proves advantageous for companies in the industry.

Figure 6: Total Volume and Payments Volume



Source: Company Filings

Figure 7: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ