

Hyperion Asset Management

Company Profile

Visa Inc. Class A

Main Business Activities

Visa Inc. (Visa) provides Banks/Traditional Financial Institutions, and their end-customers (individual consumers and merchants), with a reliable and secure payments system (network) that is accepted and trusted across the globe. Visa (and Mastercard) are most often described as global payment rails.

Consumer payment solutions are provided in a number of ways (both offline and online) through a wide range of Visa-branded products, allowing service providers (largely banks and traditional financial institutions), to facilitate consumer to merchant money movements through credit, debit, and prepaid cards/tokens (physical and virtual) as well as cash access programs.

Visa has a 'network of networks' strategy, which allows them to reach more consumers, merchants, banks and governments globally than any other payment network. In addition to the core-payment network (VisaNet), Visa utilise other networks they own including Plus (Visa's ATM network which is enabled on many non-Visa branded debit cards, which allows Visa to 'push' payments to these cards), Earthport (Automatic Clearing House network that adds 1.5 billion incremental bank accounts, allowing Visa to reach 99% of bank accounts in 88 countries) and the internally developed Visa B2B Connect (to allow for cross-border business payments). Through partnerships, Visa can also use non-Visa owned networks (like local Real Time Payment & Automatic Clearing House networks, SWIFT, SEPA and correspondent banks) extending its reach to more accounts globally.

Visa also provides other value-added services like fraud and risk management, debit issuer processing, loyalty services, dispute management, digital services like tokenisation, consulting and analytics.

Key Value Proposition to Customers

Merchants want a reliable payment system that is widely used by consumers and consumers want an electronic payment mechanism that is accepted by all mainstream merchants globally.

Visa provides fast, reliable, and secure payment processing for merchants and issuers (as well as lucrative fees for the banks), and in addition, offers consumers generous consumer protection policies (zero liability).

Visa is also expanding outside of this traditional consumer payments network to offer payment solutions with a superior value proposition to traditional methods in Business-to-Business (B2B), Business-to-Consumer (B2C), Peer-to-Peer (P2P) and Government-to-Consumer (G2C). For example, for traditional cross-border B2B payments there is a lack of visibility to the timing and direction of flows, slow speeds, high fees, and data loss. Visa's B2B Connect network offers speed (often same day), payment transparency and visibility, rich data flows and liquidity management. Another example is Visa Direct which allows gig economy workers to be paid instantaneously. The company has noted that 70% of Postmates' U.S. delivery force are enrolled to use Visa Direct as their payroll preference, and that Postmates saw a 22% increase in driver retention as a result of instant deposits.

Given the size of the payments market and the customer insights payment data can provide, many players attempt to enter the space, but largely try to improve the consumer experience and partner with a payment processor. The value proposition to these entrants is they can focus on innovating the consumer experience and leave Visa to take care of the payments 'plumbing'.

Visa in recent years has made significant investments into what it terms Value-added-Services. These include issuer and consumer solutions, merchant and acquirer solutions, fraud management and security services, data solutions, and consulting. These products and services bolster the value proposition and more importantly aid in winning deals.

Sustainable Competitive Advantages and Outlook

Being the dominant network in a global oligopoly where both consumers, merchants and issuing banks are all incentivised to use the biggest networks (convenience and security) is the primary component of the Visa's sustainable competitive advantage. The advent of artificial intelligence (AI) and machine learning (ML) will expand Visa's sustainable competitive advantage due to the massive amount of data they're able to leverage.

Visa benefits from an extremely strong network effect with global coverage across merchants, consumers, and banks. Card acceptance is a necessity in developed countries and now becoming increasingly important in emerging markets. Visa and Mastercard provide the backbone of the global payments network and it would be extremely difficult if not impossible to disintermediate their core business. This is even more true over shorter time periods and over the longer term it is highly likely they defend their competitive advantage vigorously. Visa is choosing to partner with FinTech's rather than ignore them and face the risk of being disrupted. The platform is also very efficient due to huge scale benefits that are growing as more volume accrues to the networks. This scale is only replicated by Visa's main competitor Mastercard.

Overall Company Growth Options

Visa has the benefit of the secular trend away from paper-based forms of payment to electronic transactions. According to Visa, roughly 43% of global Personal Consumption Expenditure is still cash or cheque and until the COVID-19 pandemic this continued to increase year-over-year. The number of transactions in cash remains high given the relatively faster economic growth being experienced in emerging markets (which are significantly cash based). This has meant the ratio has remained unchanged historically despite the pervasiveness of digital payments in the western world. Visa also has a meaningful opportunity to target small-value transactions through contactless or tap-and-pay transactions with cash still accounting for 55% of all transactions under \$10.

More recently Visa noted that digital wallet providers represent the potential for a further 2 billion cards/credentials as well as a further 70 million acceptance points. As a reference point, as of today, Visa is accepted at 80 million merchant locations and has 3.7 billion card/credentials in market which implies they have line of sight on a nearly doubling of acceptance points and see the opportunity for over 50% growth in cards/credentials.

Visa is using its 'Network of Networks' strategy to target \$205 trillion in new payment flows, in B2B, B2C, P2P and G2C and also diversifying its business from solely transaction processing. The company offers a range of value added services such as business/data analytics, increased fraud/risk prevention, online marketing analysis. These services not only increase the total addressable market but also more importantly, assist in winning core payment business deals.

We note that the COVID-19 pandemic has created a short-term disruption to the business, largely in cross-border volumes. Hyperion believe the long-term growth is ongoing with the migration from cash/cheque to digital payments being structural. Hyperion expect cross-border travel, specifically personal travel, to return as global vaccination rates continue to improve.

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