



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$122.62	\$111.89	\$112.92	\$75.17	31.93	\$254.60 B	.71%	.94

Business Description

Visa is a global payments processing technology company operating the world's largest open-loop network. Visa enables global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities. It operates a processing network that enables authorization, clearing, and settlement of payment transactions. They offer fraud protection for account holders and assured payments for merchants. The company strives to innovate in order to offer new products and services to add value to its clients and network.

Industry Trends

Visa operates in an industry experiencing significant macroeconomic tailwinds. Cash remains the mainstream form of payment globally, leaving significant runway for the continuation of the lower double-digit growth in non-cash transaction volume seen globally over the past 5 years. Driven by strong growth in emerging markets, this trend is expected to continue through 2020 as many governments increase focus on financial inclusion and technological progress further accelerates the global transition to a cashless world. Fundamental economic measures point to a strengthening and growing global economy, fostering the increases in consumer spending levels and cross-border transaction volume that is critical to Visa's growth.

Investment Thesis

Put simply, we believe that Visa controls the biggest and best payments processing network globally. In an industry where scale is extremely important, Visa is twice the size of MasterCard, its only open-loop competitor, in both number of transactions and dollar volume of transactions. Additionally, their market leading 66% gross margins means more of every dollar of revenue will find its way to the bottom line. It outclasses MA in this regard by approx. 11%. Their status as open-loop network is favorable as it eliminates any loan default or interest rate risk that faces some of their closed-loop competitors. In our eyes, Visa is the best positioned firm in the industry to take advantage of the macro-level tailwinds and technological advancements as management have proven themselves able to drive significant volume growth while maintaining their industry leading margins.

Valuation Assumptions

WACC: 7.39%
Terminal Growth Rate: 2%
Ave. 5 year Rev Growth Rate: 10%

Key Financials

ROA: 11.61%
ROE: 20.04%
ROIC: 13.65%
Net Income: \$6.70B

Corporate Social Responsibility

2016 Full CSR Report: <https://goo.gl/x3uu86>
CSRHub Rating: 56 (Above Average)
Included in 2017 Dow Jones Sustainability North America Index

5-Year Stock Performance



Competitive Analysis

Visa operates in the payments processing industry dominated by the duopoly of MasterCard and Visa. Alongside MasterCard, Visa is one of only two major global open-loop payments processing networks. However, major closed-loop competitors include American Express and Discover Financial, as well as the online-focused Paypal. Disruptors in the space include a more small-business focused Square, Inc. which offers hardware and a suite of other payment services to its customer in addition to its core payments processing services. Bitcoin, especially the underlying blockchain ledger technology, while still young, is also becoming an important point of discussion within the space despite not yet being directly attributable to a single firm.

Competitive Advantages

Visa's major competitive advantages are its scale, the strength of its brand, its global footprint, experienced management and focus on innovation. Visa's scale and entrenched position in the global financial system affords it a significant economic moat and as a result they occupy dominant market shares in most of the markets in which they operate. Visa's management has been successful in driving volume, which has resulted in industry leading gross and net margins. Furthermore, Visa's strong focus on innovation positions them well to continue to take advantage of technological advancements in the payments industry. Finally, Visa has no exposure to loan default or interest rate risk as opposed to all of their non-MasterCard competitors.

Risks

Visa faces numerous risks. One critical risk is data security. Visa collects very sensitive personal and corporate data, which can be subject to hacks and significant litigation expenses. Visa revenue is economically sensitive in nature, and will move in tandem with global payments volume and consumer spending, thus any systemic economic downturn could materially affect Visa's performance. In addition, Visa's model faces disruption from more online or mobile focused payments systems as well as the rise of cryptocurrency technology.

Report Prepared By:

Jack Leyland and Mike Pehota on 11/1/17
Sources: Bloomberg & Value Line

