



ANALYST QUICK NOTES

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Visa Inc. (NYSE: V: BUY)

Target Price: \$93

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Investment Thesis

- Visa reporting 1Q (Dec.) EPS on February 2, after market close:
 - Argus is at \$0.86 for 1Q (\$0.78 consensus) and \$3.33 for FY17 (\$3.29 consensus).
 - Visa exceeded consensus past four quarters including \$0.05 in Sept. quarter.
- Good read from MasterCard's earnings on January 31:
 - Transactions up 17% vs. 15% consensus.
 - EPS exceeded consensus by \$0.01.
 - Maintained guidance of low-double-digit revenue growth, mid-teens EPS growth.
 - Sees manageable 2% FX hit to revenues in 2017.
 - Revenue missed estimates slightly, hurt by high rebates/incentives line (contracts renegotiated), but Visa's has been better controlled.
 - Visa has exceeded MA's payment volume growth in seven of the last eight quarters on greater global footprint and market share gains.
- Visa Europe acquisition (closed June 2016) will provide for very strong headline comparisons though mid-year and also provides upside catalysts:
 - Cost synergies could prove conservative, with pretax margin improvement and better net revenue yield.
 - Low integration risk given already common platform investments, leveraging of marketing spend.
- Secular growth story remains:
 - Cash to credit/debit cards for convenience, safety and to benefit from rewards programs.
 - A recent Nilson Report shows U.S. card spending is growing 2-3-times the pace of consumer spending.
 - Visa had a 47% share for credit/debit cards, followed by MasterCard at 21%.

- Other catalysts for earnings upside:
 - Low gas prices were a big headwind in the first half of 2016, while retail spending continues to provide upside surprises.
 - Dollar may have peaked with DXY just over 100.
 - Recent Costco/USAA deal wins demonstrate strong competitive positioning vs. MasterCard/Amex.
 - We believe Visa's direction is well-developed over the next several years:
 - Visa Europe integration.
 - Large-scale co-brand renewals or new wins have taken place.
 - Digital and tokenization efforts.
 - Shares have rebounded since post-election dip and following CEO Scharf's departure for personal reasons.
 - Believe November Fed ruling related to debit routing is priced in:
 - Could result in modest market share loss as merchants choose from at least two debit networks.
 - Our target price of \$93 is 27.2-times our forward four-quarters EPS estimate of \$3.42.
 - Shares typically trade at mid-20 multiple on forward earnings.
 - Record mid-60s operating margin justifies valuation at upper end of range.
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