



ANALYST QUICK NOTES

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Visa Inc. (NYSE: V: BUY)

Target Price: \$96

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Investment Thesis

- For Visa, there are several upside earnings catalysts in addition to strong secular growth trends.
- Visa Europe acquisition (closed June 2016) will provide for favorable comparisons though mid-year:
 - Potential upside catalysts if cost synergies prove conservative.
 - Looking for 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.
 - U.S. card spending is growing 2-3-times the pace of consumer spending.
 - Visa has a 47% share for credit/debit cards, followed by MasterCard at 21%.
- Other catalysts for earnings upside:
 - Higher gas prices should improve spending volumes in 1Q versus prior year.
 - U.S. retail spending continues to surprise on the upside.
 - Recent U.S. dollar pullback versus strong FX headwinds of past two years.
 - Better cross-border volumes expected, particularly from a weak U.K. pound.
 - Costco/USAA deal wins will help comparisons through mid-2017.
 - Expanded buyback following reduced purchases during Visa Europe negotiations.
- We believe Visa remains well-positioned with respect to:
 - Large-scale co-brand renewals or new wins.
 - Digital and tokenization efforts.
- We believe concerns over lack of clarity on revenue recognition accounting rules and Fed ruling on debit routing are priced in. These should not alter underlying secular trends.

- Along with 1Q17, Visa reiterated financial guidance:
 - Revenue growth of 16%-18%.
 - Client incentives of 20.5%-21.5%.
 - Adjusted EPS growth in mid-teens.
 - Our target price of \$96 is 27.0-times our forward four-quarters EPS estimate of \$3.56.
 - 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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