# Visa Inc V (NYSE) | ★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|---|---|---|---|---|---|---|---|---|
| 77.83 USD | 104.00 USD | 72.80 USD | 140.40 USD | Medium | Wide | Stable | Standard | Credit Services |

## Economic Headwinds Could Persist in 2016, but Visa's Wide Moat and Growth Prospects Remain Intact

See Page 2 for the full Analyst Note from 28 Jan 2016

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The primary analyst covering this company does not own its stock.

Research as of 28 Jan 2016
Estimates as of 10 Dec 2015
Pricing data through 04 Apr 2016
Rating updated as of 04 Apr 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

**Contents**



### Investment Thesis 09 Feb 2015

Visa dominates the global market for electronic payments, accounting for about half of all credit card transactions and roughly three fourths of debit card transactions in recent years, according to the Nilson Report. The company primarily earns fees based on the volume of payments made under the Visa brand and the number of transactions processed through the Visa network. In a world in which the number of digital payment transactions is constantly growing, this wide-moat company should flourish.

The next five years are likely to see rapid changes in the nature of the payment business as cards are slowly replaced by electronic payment methods. This presents an opportunity for Visa in the form of volume growth tailwinds, but also a threat as new competitors attempt to manage the payment process and develop new ways to authenticate payments. We think Visa is on track to ensure that its connections in the virtual world are as plentiful and secure as they are in the physical, and competitors will have a tough time replicating the network's offering.

Like many dominant businesses, Visa faces the threat of increased regulation. The company's ability to set interchange fees at an optimal rate is slowly being reduced as countries around the world lower maximum interchange limits. Thus, issuers' incentives (and cardholders', due to a resulting decline in rewards) to choose Visa have fallen considerably. That said, few competitors can match the investments in technology, security, and marketing that Visa makes, limiting possible alternatives in the payment space. Furthermore, although the networks maintain the largest number of connections within the payment ecosystem--and therefore the widest moat--the fees they receive make up only a small portion of the value chain.

We've long believed that new payment methods would incorporate, rather that disrupt, Visa's business. We think Apple Pay's early success supports this thesis. Complex international regulatory regimes create a significant barrier to entry, and we still see the successful coordination of financial institutions and merchants around the world as a herculean task.

### Vital Statistics

| | |
|---|---|
| Market Cap (USD Mil) | 169,985 |
| 52-Week High (USD) | 81.01 |
| 52-Week Low (USD) | 60.00 |
| 52-Week Total Return % | 20.0 |
| YTD Total Return % | 0.5 |
| Last Fiscal Year End | 30 Sep 2015 |
| 5-Yr Forward Revenue CAGR % | 10.7 |
| 5-Yr Forward EPS CAGR % | 11.5 |
| Price/Fair Value | 0.75 |

### Valuation Summary and Forecasts

| Fiscal Year: | 2014 | 2015 | *2016(E)* | *2017(E)* |
|---|---|---|---|---|
| Price/Earnings | 5.2 | 20.7 | *28.8* | *25.9* |
| EV/EBITDA | 13.8 | 10.3 | *12.1* | *11.2* |
| EV/EBIT | 14.6 | 14.1 | *160.4* | *14.7* |
| Free Cash Flow Yield % | 5.3 | 4.7 | *7.3* | *5.9* |
| Dividend Yield % | 0.8 | 0.9 | *1.4* | *0.8* |

### Financial Summary and Forecasts (USD Mil)

| Fiscal Year: | 2014 | 2015 | *2016(E)* | *2017(E)* |
|---|---|---|---|---|
| Revenue | 15,294 | 16,741 | *18,741* | *20,997* |
| Revenue YoY % | 8.5 | 9.5 | *11.9* | *12.0* |
| EBIT | 8,150 | 9,064 | *10,255* | *11,193* |
| EBIT YoY % | 12.6 | 11.2 | *13.1* | *9.2* |
| Net Income, Adjusted | 5,757 | 6,328 | *6,595* | *7,242* |
| Net Income YoY % | 15.6 | 9.9 | *4.2* | *9.8* |
| Diluted EPS | 9.12 | 2.58 | *2.70* | *3.01* |
| Diluted EPS YoY % | 20.2 | -71.8 | *5.0* | *11.5* |
| Free Cash Flow | 6,385 | 6,020 | *-1,340* | *10,212* |
| Free Cash Flow YoY % | 150.3 | -5.7 | *-122.3* | *-861.9* |

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

### Profile

Visa manages payment brands and an "open loop" global payment network, which allows it to provide authorization, clearing, and settlement of electronic payment transactions. The firm generates revenue by charging fees to its customers (issuers and acquirers) based on the dollar volume of card activity and the number of transactions processed through the network.

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## Morningstar Analysis

**Economic Headwinds Could Persist in 2016, but Visa's Wide Moat and Growth Prospects Remain Intact** 28 Jan 2016

Wide-moat Visa's results for the first quarter of its 2016 fiscal year reflect a more volatile global economy over the past few months, but support our thesis that payment volume, revenue, and income are likely to continue growing at impressive rates for years to come. We believe the stock is attractive at its current discount to our $104 per share fair value estimate, and see no reason to believe the company cannot achieve its 2016 goal of high-single digit to low double-digit EPS growth, including a 4 percentage point headwind from foreign currency movements but excluding the effects of the upcoming Visa Europe merger.

In fact, the company benefited from a lower-than-expected rate of rebates and incentives. Although this line item is lumpy, the results show no evidence that a more competitive issuing environment is impacting networks.

It's not surprising that the decline of economies linked to energy prices and China as well as a strong dollar had an impact on results. Over the course of the year to come, we expect these trends to continue. If the company's expenses also rise as it integrates its European counterpart, results could appear weak, but we'd view any further price declines as buying opportunities. In constant dollar terms, both credit and debit volume continue to grow at double-digit rates.

The company is continuing to buy back its own stock--in fact, the delay in repurchases due to the upcoming Visa Europe acquisition could actually benefit shareholders, as it now seems likely more buybacks will be done at a discount to fair value. The company has $5.8 billion of authorization remaining under its current plan.

Visa also appears well-positioned to adjust its expense base if current trends continue. Personnel and marketing expenses both declined from the first quarter of Visa's fiscal 2015 and the company has not been especially aggressive on this front to date.

**Valuation, Growth and Profitability** 04 Jan 2016

We are increasing our fair value estimate for Visa to $104 from $71 based on increased long-term growth assumptions, a slightly lower weighted average cost of capital because of the changes in capital structure associated with the Visa Europe merger, and the time value of money since our last update. This fair value represents 34.5 times our 2017 earnings per share estimate. After analyzing the prospects for electronic spending growth around the world, we believe revenue growth will average 11% annually over our five-year forecast period, with operating margin growing from 54.1% in 2015 to 57.3% in 2020. We think rebates and incentives will consume 17.8% of gross revenue over this period. We expect capital expenditures to more than double between 2015 and 2020 as the company invests in changing technology. Over the longer term, we think growth in earnings before interest will average 7% annually between 2020 and 2035.

**Scenario Analysis**

In an upside scenario, with gross revenue growth averaging 13% over the next five years and pretax operating earnings expanding at a 9% clip for the next 15 years, we think Visa could be worth $130 per share. In such a scenario, we think operating margin could average 57% over the next five years, versus an average of 55% in our base case. This estimate represents 39 times our upside 2017 earnings per share estimate and incorporates EPS growth averaging 14% over the next five years.

In a downside scenario, with revenue growth averaging just under 9% over the next five years along with operating margin averaging 52% over that time frame, we think Visa could be worth $80 per share. This downside estimate represents 29 times our downside 2017 earnings per share

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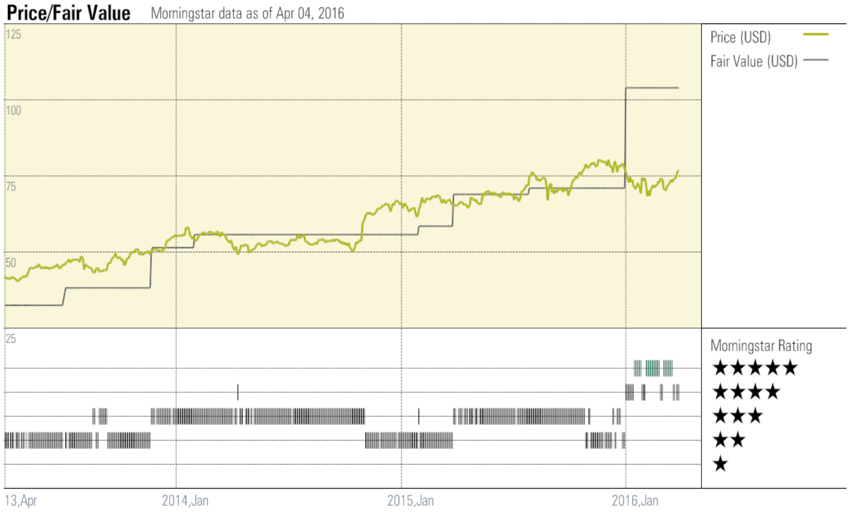
**Price/Fair Value** Morningstar data as of Apr 04, 2016




estimate and incorporates near-term EPS growth averaging just 7% annually, with pretax operating income growing at a pace averaging 6% annually thereafter.

**Economic Moat**

A powerful network effect is responsible for Visa's wide economic moat. A payment method widely accepted by merchants is attractive to cardholders, while a payment method used by many cardholders is attractive to merchants. Thus, each additional user of the Visa brand increases its value to others.

The company also benefits from other moat sources. A trusted brand is important to users of payment systems, and Visa has spent billions of dollars over decades on this intangible asset.

**Moat Trend**

We view Visa's moat trend as stable. Although a number of competitive threats are visible on the horizon, we don't foresee a substantial change in the company's near-term competitive position. In recent years, issuer and merchant consolidation and cooperation has strengthened the bargaining power of customers, yet Visa still maintains a strong position relative to its customers, as evidenced by the relatively small recent increases in rebates and incentive payments to customers. We believe that the potential effects of mobile applications are balanced. It may be marginally easier for cardholders to switch among payment methods using mobile technology, but these applications could also raise switching costs for cardholders and merchants by applying spending data to optimize rewards, discounts, and other offers.

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## Bulls Say/Bears Say

**Bulls Say**

- Visa is king of the hill in the digital payment market and will not be easily toppled.
- The ability to deal with hundreds of legal and regulatory frameworks around the world is a significant barrier to entry.
- Visa has an established network and brand and has only to adopt new technologies for its own purposes in order to fend off competition.

**Bears Say**

- The global financial system is becoming increasingly regulated, and the biggest players will be the first victims.
- Visa's already large market share, and its relative dependence on U.S. spending and debit cards, may place it at a growth disadvantage.
- The increasing use of mobile technologies will usher in a new payment paradigm at some point.

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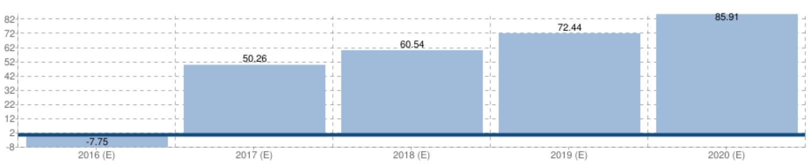
**Five Year Adjusted Cash Flow Forecast** (USD Mil)

| | 2016(E) | 2017(E) | 2018(E) | 2019(E) | 2020(E) |
|---|---|---|---|---|---|
| Cash and Equivalents (beginning of period) | 3,518 | 18,260 | 23,734 | 29,304 | 35,758 |
| Adjusted Available Cash Flow | -6,672 | 9,005 | 9,111 | 9,995 | 10,850 |
| Total Cash Available before Debt Service | -3,154 | 27,265 | 32,844 | 39,299 | 46,609 |
| | | | | | |
| Principal Payments | — | — | — | — | — |
| Interest Payments | -407 | -543 | -543 | -543 | -543 |
| Other Cash Obligations and Commitments | — | — | — | — | — |
| Total Cash Obligations and Commitments | -407 | -543 | -543 | -543 | -543 |

**Cumulative Annual Cash Flow Cushion**




**Adjusted Cash Flow Summary**

| | USD Millions | % of Commitments |
|---|---|---|
| Beginning Cash Balance | 3,518 | 136.5 |
| Sum of 5-Year Adjusted Free Cash Flow | 32,289 | 1,253.0 |
| Sum of Cash and 5-Year Cash Generation | 35,807 | 1,389.6 |
| | | |
| Revolver Availability | — | — |
| Asset Adjusted Borrowings (Repayment) | — | — |
| | | |
| Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments | 35,807 | 1,389.6 |
| Sum of 5-Year Cash Commitments | -2,577 | — |

## Financial Health

Visa's capital structure is exemplary. More than three fourths of Visa's assets are funded by equity, and the firm has no long-term debt outstanding. Current liabilities and deferred taxes make up almost all of the remainder.

## Enterprise Risk

The largest risk to Visa, in our view, is related to regulation and litigation. As an extremely profitable participant in an oligopoly, Visa is often the target of lawyers and politicians. For example, the Dodd-Frank Act limited debit interchange fees in the United States in 2010, and the European Union has taken the first steps toward new regulations covering interchange and other aspects of the payment system. Merchants in the United States have also taken issue with the company's fee-setting practices. Additionally, Visa could be vulnerable to disruption via new technologies or innovative agreements between issuers and acquirers.

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## Management & Ownership

**Management** 04 Jan 2016

We view Visa's stewardship as standard. Charles Scharf was named CEO in late 2012, after spending time at JPMorgan Chase, where he was head of retail financial services, as well as Bank One, Citigroup, and Salomon Smith Barney. We think his background is a good fit for Visa, and we are impressed by the firm's capital actions since he took over the top spot.

We like the company's efforts to return capital to shareholders. Visa effectively returned all of its net income to shareholders via buybacks and dividends in its fiscal 2013 and 2014 years. At the same time, the company has spent only a few hundred million dollars on acquisitions over the past three years, limiting the risk of a bad capital-allocation decision. We believe the company's acquisition of Visa Europe will strengthen both its economic moat and its growth prospects, and view the high-priced deal as a strategic necessity.

### Management Activity

| Name | Position | Shares Held | Report Date* | InsiderActivity |
|---|---|---|---|---|
| WILLIAM M. SHEEDY | | 235,528 | 16 Dec 2015 | — |
| CHARLES W. SCHARF | Director | 233,844 | 19 Nov 2015 | — |
| MR. RAJAT TANEJA | | 115,947 | 04 Feb 2016 | — |
| VASANT M. PRABHU | | 95,461 | 09 Feb 2016 | — |
| CATHY E. MINEHAN | Director | 75,612 | 19 Nov 2015 | — |
| KELLY MAHON TULLIER | | 70,241 | 19 Nov 2015 | — |
| MR. RYAN MCINERNEY | | 62,810 | 19 Nov 2015 | — |
| JOHN A.C. SWAINSON | Director | 62,472 | 19 Nov 2015 | — |
| DAVID J. PANG | Director | 61,612 | 19 Nov 2015 | — |

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

### Fund Ownership

| Top Owners | % of Shares Held | % of Fund Assets | Change (k) | Portfolio Date |
|---|---|---|---|---|
| Vanguard Total Stock Mkt Idx | 1.70 | 0.69 | 603 | 29 Feb 2016 |
| Fidelity® Contrafund® Fund | 1.45 | 2.27 | -283 | 29 Feb 2016 |
| VA CollegeAmerica Growth Fund of America | 1.10 | 1.36 | 150 | 31 Dec 2015 |
| Vanguard 500 Index Fund | 1.11 | 0.83 | 139 | 29 Feb 2016 |
| Vanguard Institutional Index Fund | 0.98 | 0.83 | 167 | 29 Feb 2016 |
| Concentrated Holders | | | | |
| Fidelity® Select IT Services Portfolio | 0.20 | 17.10 | -106 | 29 Feb 2016 |
| Vellón Investment SICAV | — | 10.63 | 0 | 30 Sep 2015 |
| Provident Trust Strategy Fund | 0.01 | 10.34 | — | 31 Dec 2015 |
| Touchstone Sands Capital Select Growth | 0.25 | 9.76 | -1,625 | 31 Jan 2016 |
| Touchstone Sands Capital Inst Gr Fd | 0.17 | 9.74 | -1,081 | 31 Jan 2016 |

### Institutional Transactions

| Top 5 Buyers | % of Shares Held | % of Fund Assets | Shares Bought/ Sold (k) | Portfolio Date |
|---|---|---|---|---|
| Fidelity Management and Research Company | 5.01 | — | 109,777 | 31 Dec 2015 |
| Managed Account Advisors LLC | 0.49 | 0.65 | 10,796 | 31 Dec 2015 |
| ALLEGHANY CAPITAL Corp | 0.14 | 8.21 | 3,000 | 31 Dec 2015 |
| Lone Pine Capital LLC | 0.58 | 4.23 | 3,000 | 31 Dec 2015 |
| Lansdowne Partners Limited Partnership | 0.78 | 9.12 | 2,803 | 31 Dec 2015 |
| Top 5 Sellers | | | | |
| MFS Investment Management KK | 2.20 | 1.99 | -6,254 | 31 Dec 2015 |
| BlackRock Fund Advisors | 2.38 | 0.67 | -5,900 | 31 Dec 2015 |
| Janus Capital Management LLC | 0.19 | 0.42 | -4,884 | 31 Dec 2015 |
| Citadel Advisors Llc | 0.14 | 0.26 | -2,990 | 31 Dec 2015 |
| Enhanced Investment Technologies Inc | 0.12 | 0.51 | -2,767 | 31 Dec 2015 |

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## Analyst Notes

**Merchant-Friendly Firms Will Win the Payment Wars** 04 Jan 2016

Three major trends will drive developments in the payment industry over the next five years. First is the end-to-end facilitation of commerce. Consumers once found out about products on TV or through their co-workers, shopped at the mall, and paid with cash or checks. Today, firms like Facebook and Alphabet (Google) are inserting themselves into the entire shopping process, and merchants are using technology to create closer ties with customers. Second, merchant scale and regulation are strengthening the hands of merchants relative to the banks that long dominated the payment industry. Third, new firms and technologies are increasing the number of options consumers have for storing funds, obtaining credit, and making payments, further diminishing the importance of banks. At the same time, mobile technology is enabling payments to recede further into the background, as in the case of Uber.

As a result, we think card issuers' moats are at risk as the balance of power shifts to merchants and online commerce platforms and options to store funds and obtain credit multiply. A combination of heightened regulation and merchant control of customer relationships will necessitate a major shift in American Express' business model, and we are lowering our fair value estimate to $72 per share. Merchant-friendly firms such as MasterCard, Visa, PayPal, and Synchrony are poised to produce growing profits as the historically well-defined lines in the payment competitive landscape become increasingly blurred. We are raising our fair values for wide-moat networks Visa and MasterCard to $104 and $120, respectively. These two firms are well-positioned to grow both processing volume and ancillary revenue for years to come, and we have recently boosted our fair value for Synchrony to $39 per share.

Finally, while emerging markets will experience rapid growth in electronic payment volume, the evolution of the payment landscape will be dominated by developments in the U.S. and China.

**Visa Finally Acquiring Visa Europe; Full Price Offsets Strategic Benefits** 02 Nov 2015

Along with its fiscal 2015 fourth-quarter results, Visa announced that it will finally acquire Visa Europe, which has continued to operate as a member association since Visa's 2008 initial public offering. Visa Europe serves a number of developed and developing markets, including Germany, Poland, the United Kingdom, and Turkey. The long-awaited merger will geographically diversify Visa's business away from the mature North American market, which has historically made up more than half of volume and revenue. We agree that the move is strategically beneficial, but think the costs offset this in terms of shareholder value. Visa is paying at least EUR 16.5 billion in exchange for EUR 1.3 billion in 2014 net revenue and EUR 343 million in pretax profits and plans on $600 million-$650 million in closing and integration costs over time, offset by $200 million of potential annual cost savings. We note that Visa's operating margins expanded dramatically in the years following its IPO, and management's goal of achieving margin parity over time would more than double reported operating income out of the European segment, making the price appear reasonable. We plan to raise our fair value estimate for the wide-moat firm by $1, to $72 per share.

Though the year's results were negatively affected by the strength of the U.S. dollar against various other currencies, the company still managed to generate double-digit growth (11%) in net revenue and operating income (14%). Client incentives consumed 18.3% of gross revenue as the company renewed agreements. We continue to believe the increasing bargaining power of customers will result in growing incentive payments, but think this will be offset by revenue growth and the ability to leverage other expenses.

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## Analyst Notes

Visa Checkout's growing acceptance at e-commerce merchants is not in itself notable, but we think the proliferation of such options may actually bolster the position of the few major networks.

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## Morningstar Analyst Forecasts

### Financial Summary and Forecasts

Fiscal Year Ends in September

| Growth (% YoY) | 3-Year Hist. CAGR | 2013 | 2014 | 2015 | *2016* (Forecast) | *2017* (Forecast) | *5-Year Proj. CAGR* |
|---|---|---|---|---|---|---|---|
| Revenue | *10.0* | 12.1 | 8.5 | 9.5 | *11.9* | *12.0* | *10.7* |
| EBIT | *61.8* | 238.4 | 12.6 | 11.2 | *13.1* | *9.2* | *12.0* |
| EBITDA | *71.3* | 208.9 | 12.4 | 44.7 | *9.9* | *7.2* | *9.4* |
| Net Income | *43.4* | 132.3 | 15.6 | 9.9 | *4.2* | *9.8* | *10.1* |
| Diluted EPS | *-6.6* | 140.1 | 20.2 | -71.8 | *5.0* | *11.5* | *11.5* |
| Earnings Before Interest, after Tax | *12.6* | 34.4 | -14.1 | 23.5 | *5.9* | *3.2* | *7.1* |
| Free Cash Flow | *9.6* | -44.2 | 150.3 | -5.7 | *-122.3* | *-861.9* | *17.1* |

| Profitability | 3-Year Hist. Avg | 2013 | 2014 | 2015 | *2016* | *2017* | *5-Year Proj. Avg* |
|---|---|---|---|---|---|---|---|
| Operating Margin % | *52.9* | 51.3 | 53.3 | 54.1 | *54.7* | *53.3* | *54.9* |
| EBITDA Margin % | *61.5* | 54.2 | 56.1 | 74.2 | *72.8* | *69.7* | *70.1* |
| Net Margin % | *36.9* | 35.3 | 37.6 | 37.8 | *35.2* | *34.5* | *35.3* |
| Free Cash Flow Margin % | *31.9* | 18.1 | 41.8 | 36.0 | *-7.2* | *48.6* | *36.8* |
| ROIC % | *26.7* | 26.8 | 20.5 | 32.9 | *30.4* | *28.2* | *36.4* |
| Adjusted ROIC % | *51.7* | 52.6 | 40.3 | 62.4 | *71.0* | *89.5* | *197.4* |
| Return on Assets % | *14.6* | 13.1 | 14.6 | 16.1 | *13.1* | *11.6* | *12.7* |
| Return on Equity % | *20.1* | 18.3 | 20.0 | 22.1 | *21.7* | *22.3* | *22.7* |

| Leverage | 3-Year Hist. Avg | 2013 | 2014 | 2015 | *2016* | *2017* | *5-Year Proj. Avg* |
|---|---|---|---|---|---|---|---|
| Debt/Capital | — | — | — | — | *0.30* | *0.29* | *0.27* |
| Total Debt/EBITDA | — | — | — | — | *1.14* | *1.06* | *0.97* |
| EBITDA/Interest Expense | — | — | — | — | *33.54* | *26.96* | *31.61* |

### Valuation Summary and Forecasts

| | 2014 | 2015 | *2016(E)* | *2017(E)* |
|---|---|---|---|---|
| Price/Fair Value | 1.25 | 0.96 | — | — |
| Price/Earnings | 5.2 | 20.7 | *28.8* | *25.9* |
| EV/EBITDA | 13.8 | 10.3 | *12.1* | *11.2* |
| EV/EBIT | 14.6 | 14.1 | *160.4* | *14.7* |
| Free Cash Flow Yield % | 5.3 | 4.7 | *7.3* | *5.9* |
| Dividend Yield % | 0.8 | 0.9 | *1.4* | *0.8* |

### Key Valuation Drivers

| | |
|---|---|
| Cost of Equity % | 9.0 |
| Pre-Tax Cost of Debt % | 5.3 |
| Weighted Average Cost of Capital % | 8.2 |
| Long-Run Tax Rate % | 33.0 |
| Stage II EBI Growth Rate % | 7.0 |
| Stage II Investment Rate % | 12.7 |
| Perpetuity Year | 20 |

Additional estimates and scenarios available for download at http://select.morningstar.com.

### Discounted Cash Flow Valuation

| | USD Mil | Firm Value (%) | Per Share Value |
|---|---|---|---|
| Present Value Stage I | 33,894 | 13.9 | 14.01 |
| Present Value Stage II | 109,207 | 44.7 | 45.14 |
| Present Value Stage III | 100,990 | 41.4 | 41.74 |
| **Total Firm Value** | **244,091** | **100.0** | **100.88** |
| Cash and Equivalents | 5,835 | — | 2.41 |
| Debt | — | — | — |
| Preferred Stock | — | — | — |
| Other Adjustments | -3,000 | — | -1.24 |
| **Equity Value** | **246,925** | **—** | **102.06** |
| Projected Diluted Shares | 2,420 | | |
| **Fair Value per Share** (USD) | — | | |

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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## Morningstar Analyst Forecasts

**Income Statement** (USD Mil)
Fiscal Year Ends in September

| | | | | Forecast | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | *2016* | *2017* |
| **Revenue** | **14,099** | **15,294** | **16,741** | ***18,741*** | ***20,997*** |
| Cost of Goods Sold | 2,321 | 2,592 | 2,861 | *3,326* | *3,727* |
| **Gross Profit** | **11,778** | **12,702** | **13,880** | ***15,414*** | ***17,270*** |
| Selling, General & Administrative Expenses | 2,383 | 2,382 | 2,626 | *2,731* | *3,520* |
| Advertising & Marketing | 876 | 507 | 474 | *498* | *523* |
| Other Operating Expense (Income) | 883 | 1,228 | 1,222 | *1,399* | *1,463* |
| Depreciation & Amortization (if reported separately) | 397 | 435 | 494 | *531* | *571* |
| **Operating Income (ex charges)** | **7,239** | **8,150** | **9,064** | ***10,255*** | ***11,193*** |
| Restructuring & Other Cash Charges | — | 453 | — | *150* | — |
| Impairment Charges (if reported separately) | — | — | — | — | — |
| Other Non-Cash (Income)/Charges | — | — | — | — | — |
| **Operating Income (incl charges)** | **7,239** | **7,697** | **9,064** | ***10,105*** | ***11,193*** |
| Interest Expense | — | — | — | *407* | *543* |
| Interest Income | — | 27 | -69 | — | — |
| **Pre-Tax Income** | **7,239** | **7,724** | **8,995** | ***9,698*** | ***10,651*** |
| Income Tax Expense | 2,277 | 2,286 | 2,667 | *3,103* | *3,408* |
| Other After-Tax Cash Gains (Losses) | 18 | — | — | — | — |
| Other After-Tax Non-Cash Gains (Losses) | — | — | — | — | — |
| (Minority Interest) | — | — | — | — | — |
| (Preferred Dividends) | — | — | — | — | — |
| **Net Income** | **4,980** | **5,438** | **6,328** | ***6,595*** | ***7,242*** |
| Weighted Average Diluted Shares Outstanding | 656 | 631 | 2,457 | *2,438* | *2,402* |
| **Diluted Earnings Per Share** | **7.59** | **8.62** | **2.58** | ***2.70*** | ***3.01*** |
| Adjusted Net Income | 4,980 | 5,757 | 6,328 | *6,595* | *7,242* |
| **Diluted Earnings Per Share (Adjusted)** | **7.59** | **9.12** | **2.58** | ***2.70*** | ***3.01*** |
| Dividends Per Common Share | 0.88 | 1.32 | 0.48 | *0.56* | *0.56* |
| **EBITDA** | **7,636** | **8,132** | **12,419** | ***13,497*** | ***14,625*** |
| **Adjusted EBITDA** | **7,636** | **8,585** | **12,419** | ***13,647*** | ***14,625*** |

# Visa Inc V (NYSE) | ★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|---|---|---|---|---|---|---|---|---|
| 77.83 USD | 104.00 USD | 72.80 USD | 140.40 USD | Medium | Wide | Stable | Standard | Credit Services |

## Morningstar Analyst Forecasts

**Balance Sheet** (USD Mil)

Fiscal Year Ends in September

| | 2013 | 2014 | 2015 | *Forecast* *2016* | *2017* |
|---|---|---|---|---|---|
| Cash and Equivalents | 2,186 | 1,971 | 3,518 | *18,260* | *23,734* |
| Investments | 2,069 | 1,979 | 2,497 | *1,200* | *1,224* |
| Accounts Receivable | 1,560 | 1,608 | 847 | *1,797* | *2,013* |
| Inventory | — | — | — | — | — |
| Deferred Tax Assets (Current) | 481 | 1,028 | 871 | *481* | *481* |
| Other Short Term Assets | 1,526 | 2,976 | 3,159 | *1,500* | *1,750* |
| **Current Assets** | **7,822** | **9,562** | **10,892** | ***23,238*** | ***29,202*** |
| Net Property Plant, and Equipment | 1,732 | 1,892 | 1,888 | *1,807* | *1,887* |
| Goodwill | 11,681 | 11,753 | 11,825 | *22,825* | *22,825* |
| Other Intangibles | 11,351 | 11,411 | 11,361 | *8,500* | *5,639* |
| Deferred Tax Assets (Long-Term) | — | — | — | — | — |
| Other Long-Term Operating Assets | 610 | 936 | 886 | *930* | *977* |
| Long-Term Non-Operating Assets | 2,760 | 3,015 | 3,384 | *3,384* | *3,384* |
| **Total Assets** | **35,956** | **38,569** | **40,236** | ***60,684*** | ***63,914*** |
| Accounts Payable | 1,409 | 1,479 | 127 | *1,640* | *1,838* |
| Short-Term Debt | — | — | — | — | — |
| Deferred Tax Liabilities (Current) | — | — | — | — | — |
| Other Short-Term Liabilities | 2,926 | 4,527 | 780 | *873* | *978* |
| **Current Liabilities** | **4,335** | **6,006** | **907** | ***2,514*** | ***2,816*** |
| Long-Term Debt | — | — | — | *15,500* | *15,500* |
| Deferred Tax Liabilities (Long-Term) | 4,149 | 4,145 | 4,123 | *4,149* | *4,149* |
| Other Long-Term Operating Liabilities | 602 | 1,005 | 3,443 | *602* | *632* |
| Long-Term Non-Operating Liabilities | — | — | 1,921 | *1,921* | *1,921* |
| **Total Liabilities** | **9,086** | **11,156** | **10,394** | ***24,686*** | ***25,018*** |
| Preferred Stock | — | — | — | *5,000* | *5,000* |
| Common Stock | — | — | — | — | — |
| Additional Paid-in Capital | 18,875 | 18,299 | 18,073 | *18,073* | *18,073* |
| Retained Earnings (Deficit) | 7,974 | 9,131 | 11,843 | *15,999* | *21,896* |
| (Treasury Stock) | — | — | — | *-3,000* | *-6,000* |
| Other Equity | 21 | -17 | -74 | *-74* | *-74* |
| **Shareholder's Equity** | **26,870** | **27,413** | **29,842** | ***35,998*** | ***38,895*** |
| Minority Interest | — | — | — | — | — |
| **Total Equity** | **26,870** | **27,413** | **29,842** | ***35,998*** | ***38,895*** |

# Visa Inc V (NYSE) | ★★★★

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|---|---|---|---|---|---|---|---|---|
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## Morningstar Analyst Forecasts

**Cash Flow** (USD Mil)

| Fiscal Year Ends in September | 2013 | 2014 | 2015 | *Forecast 2016* | *Forecast 2017* |
|---|---|---|---|---|---|
| Net Income | 4,980 | 5,438 | 6,328 | *6,595* | *7,242* |
| | | | | | |
| Depreciation | 397 | 435 | 494 | *531* | *571* |
| Amortization | — | — | 2,861 | *2,861* | *2,861* |
| Stock-Based Compensation | — | — | 103 | *107* | *138* |
| Impairment of Goodwill | — | — | — | — | — |
| Impairment of Other Intangibles | — | — | — | — | — |
| Deferred Taxes | 1,527 | -580 | 195 | *416* | — |
| Other Non-Cash Adjustments | 2,516 | 2,916 | 148 | — | — |
| | | | | | |
| (Increase) Decrease in Accounts Receivable | -383 | -40 | -19 | *-950* | *-216* |
| (Increase) Decrease in Inventory | — | — | — | — | — |
| Change in Other Short-Term Assets | -2,879 | -2,774 | — | *1,659* | *-250* |
| Increase (Decrease) in Accounts Payable | 546 | 51 | -13 | *1,513* | *198* |
| Change in Other Short-Term Liabilities | -3,682 | 1,511 | -3,513 | *93* | *105* |
| **Cash From Operations** | **3,022** | **6,957** | **6,584** | ***12,825*** | ***10,649*** |
| | | | | | |
| (Capital Expenditures) | -471 | -553 | -404 | *-450* | *-651* |
| Net (Acquisitions), Asset Sales, and Disposals | — | — | -93 | *-11,000* | — |
| Net Sales (Purchases) of Investments | -693 | -239 | -925 | *1,297* | *-24* |
| Other Investing Cash Flows | — | — | -13 | *-2,885* | *-16* |
| **Cash From Investing** | **-1,164** | **-792** | **-1,435** | ***-13,038*** | ***-691*** |
| | | | | | |
| Common Stock Issuance (or Repurchase) | -5,365 | -4,118 | -2,910 | *-3,000* | *-3,000* |
| Common Stock (Dividends) | -864 | -1,006 | -1,177 | *-2,438* | *-1,345* |
| Short-Term Debt Issuance (or Retirement) | — | — | — | — | — |
| Long-Term Debt Issuance (or Retirement) | — | — | — | *15,500* | — |
| Other Financing Cash Flows | 4,483 | -1,354 | 484 | *4,893* | *-138* |
| **Cash From Financing** | **-1,746** | **-6,478** | **-3,603** | ***14,955*** | ***-4,483*** |
| | | | | | |
| Exchange Rates, Discontinued Ops, etc. (net) | — | — | 1 | — | — |
| **Net Change in Cash** | **112** | **-313** | **1,547** | ***14,742*** | ***5,474*** |

# Visa Inc V (NYSE) | ★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|---|---|---|---|---|---|---|---|---|
| 77.83 USD | 104.00 USD | 72.80 USD | 140.40 USD | Medium | Wide | Stable | Standard | Credit Services |

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Valuation Analysis

| Company/Ticker | Price/Fair Value | Price/Earnings 2015 | 2016(E) | 2017(E) | EV/EBITDA 2015 | 2016(E) | 2017(E) | Price/Free Cash Flow 2015 | 2016(E) | 2017(E) | Price/Book 2015 | 2016(E) | 2017(E) | Price/Sales 2015 | 2016(E) | 2017(E) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MasterCard Inc MA USA | 0.79 | 26.0 | *24.9* | *23.0* | 16.3 | *14.3* | *13.0* | 24.9 | *23.6* | *19.4* | 17.2 | *16.4* | *19.1* | 8.0 | *7.1* | *6.5* |
| Average | | 26.0 | *24.9* | *23.0* | 16.3 | *14.3* | *13.0* | 24.9 | *23.6* | *19.4* | 17.2 | *16.4* | *19.1* | 8.0 | *7.1* | *6.5* |
| **Visa Inc V US** | **0.75** | **20.7** | ***28.8*** | ***25.9*** | **10.3** | ***12.1*** | ***11.2*** | **21.3** | ***13.7*** | ***17.0*** | **4.4** | ***4.7*** | ***4.4*** | **7.9** | ***9.1*** | ***8.1*** |

### Returns Analysis

| Company/Ticker | Last Historical Year Total Assets (Mil) | ROIC % 2015 | 2016(E) | 2017(E) | Adjusted ROIC % 2015 | 2016(E) | 2017(E) | Return on Equity % 2015 | 2016(E) | 2017(E) | Return on Assets % 2015 | 2016(E) | 2017(E) | Dividend Yield % 2015 | 2016(E) | 2017(E) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MasterCard Inc MA USA | — USD | 190.5 | *175.5* | *171.2* | 685.4 | *429.7* | *358.8* | 57.8 | *66.2* | *73.5* | 25.3 | *29.1* | *30.8* | 0.7 | *0.4* | *0.8* |
| Average | | 190.5 | *175.5* | *171.2* | 685.4 | *429.7* | *358.8* | 57.8 | *66.2* | *73.5* | 25.3 | *29.1* | *30.8* | 0.7 | *0.4* | *0.8* |
| **Visa Inc V US** | **40,236** USD | **32.9** | ***30.4*** | ***28.2*** | **62.4** | ***71.0*** | ***89.5*** | **22.1** | ***21.7*** | ***22.3*** | **16.1** | ***13.1*** | ***11.6*** | **0.9** | ***1.4*** | ***0.8*** |

### Growth Analysis

| Company/Ticker | Last Historical Year Revenue (Mil) | Revenue Growth % 2015 | 2016(E) | 2017(E) | EBIT Growth % 2015 | 2016(E) | 2017(E) | EPS Growth % 2015 | 2016(E) | 2017(E) | Free Cash Flow Growth % 2015 | 2016(E) | 2017(E) | Dividend/Share Growth % 2015 | 2016(E) | 2017(E) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MasterCard Inc MA USA | 13,621 USD | 6.9 | *9.1* | *9.5* | 2.5 | *12.8* | *10.4* | 7.4 | *15.0* | *8.0* | 9.3 | *-0.2* | *24.7* | — | *19.4* | *8.0* |
| Average | | 6.9 | *9.1* | *9.5* | 2.5 | *12.8* | *10.4* | 7.4 | *15.0* | *8.0* | 9.3 | *-0.2* | *24.7* | — | *19.4* | *8.0* |
| **Visa Inc V US** | **16,741** USD | **9.5** | ***11.9*** | ***12.0*** | **11.2** | ***13.1*** | ***9.2*** | **-71.8** | ***5.0*** | ***11.5*** | **-5.7** | ***-122.3*** | ***-861.9*** | **-63.6** | ***16.7*** | — |

# Visa Inc V (NYSE) | ★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|---|---|---|---|---|---|---|---|---|
| 77.83 USD | 104.00 USD | 72.80 USD | 140.40 USD | Medium | Wide | Stable | Standard | Credit Services |

## Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

### Profitability Analysis

| Company/Ticker | Last Historical Year Net Income (Mil) | Gross Margin % | | | EBITDA Margin % | | | Operating Margin % | | | Net Margin % | | | Free Cash Flow Margin % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) |
| MasterCard Inc MA USA | 3,781 USD | 72.0 | 71.8 | 71.5 | 47.2 | 48.2 | 48.4 | 38.4 | 39.7 | 40.0 | 27.8 | 28.3 | 27.0 | 32.0 | 30.1 | 33.5 |
| Average | | 72.0 | 71.8 | 71.5 | 47.2 | 48.2 | 48.4 | 38.4 | 39.7 | 40.0 | 27.8 | 28.3 | 27.0 | 32.0 | 30.1 | 33.5 |
| **Visa Inc V US** | **6,328** USD | **82.9** | **82.3** | **82.3** | **74.2** | **72.8** | **69.7** | **54.1** | **54.7** | **53.3** | **37.8** | **35.2** | **34.5** | **36.9** | **66.0** | **47.6** |

### Leverage Analysis

| Company/Ticker | Last Historical Year Total Debt (Mil) | Debt/Equity % | | | Debt/Total Cap % | | | EBITDA/Interest Exp. | | | Total Debt/EBITDA | | | Assets/Equity | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) |
| MasterCard Inc MA USA | 1,494 USD | 23.7 | 23.2 | 27.1 | 19.2 | 18.9 | 21.3 | 94.5 | 104.2 | 114.5 | 0.2 | 0.2 | 0.2 | 2.3 | 2.2 | 2.6 |
| Average | | 23.7 | 23.2 | 27.1 | 19.2 | 18.9 | 21.3 | 94.5 | 104.2 | 114.5 | 0.2 | 0.2 | 0.2 | 2.3 | 2.2 | 2.6 |
| **Visa Inc V US** | — USD | — | **43.1** | **39.9** | — | **30.1** | **28.5** | — | **33.5** | **27.0** | — | **1.1** | **1.1** | **1.3** | **1.7** | **1.6** |

### Liquidity Analysis

| Company/Ticker | Market Cap (Mil) | Cash per Share | | | Current Ratio | | | Quick Ratio | | | Cash/Short-Term Debt | | | Payout Ratio % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) | 2015 | 2016(E) | 2017(E) |
| MasterCard Inc MA USA | 105,576 USD | 3.15 | 2.78 | 2.06 | 1.74 | 1.79 | 1.56 | 1.74 | 1.79 | 1.56 | — | — | — | 19.3 | 20.0 | 20.0 |
| Average | | 3.15 | 2.78 | 2.06 | 1.74 | 1.79 | 1.56 | 1.74 | 1.79 | 1.56 | — | — | — | 19.3 | 20.0 | 20.0 |
| **Visa Inc V US** | **169,985** USD | **1.43** | **7.49** | **9.88** | **12.01** | **9.24** | **10.37** | **12.01** | **9.24** | **10.37** | — | — | — | **62.1** | **37.0** | **18.6** |

# Research Methodology for Valuing Companies

**Components of Our Methodology**

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.
The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

**Morningstar Research Methodology for Valuing Companies**


Source: Morningstar, Inc.

**Detailed Methodology Documents and Materials***

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

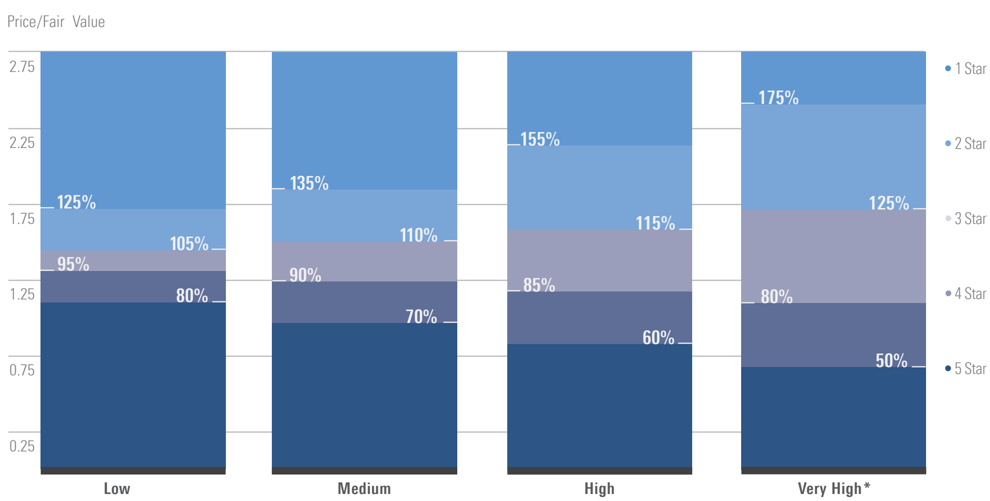
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

**Morningstar Margin of Safety and Star Rating Bands**




* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

# Visa Inc V (NYSE) | ★★★★

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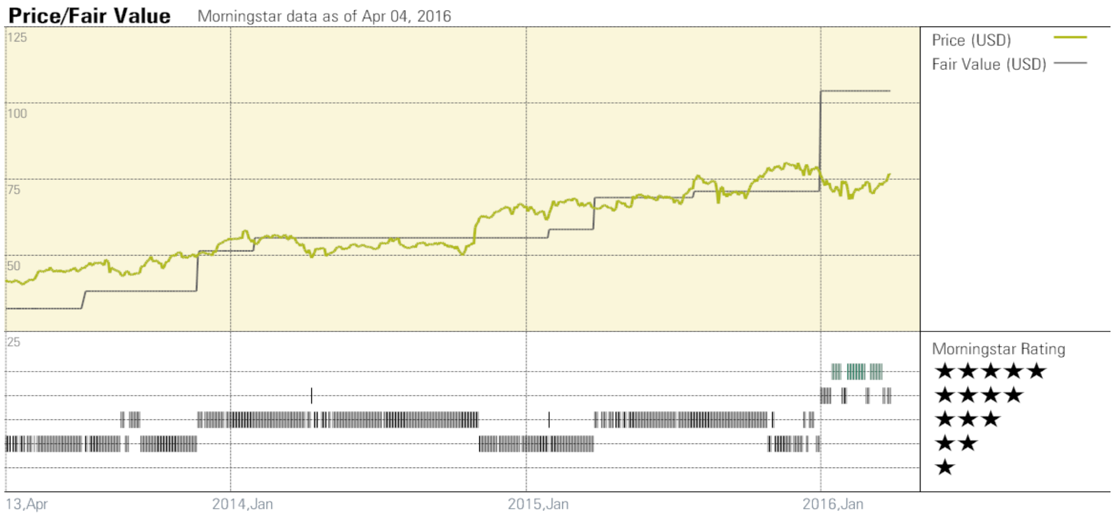


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The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value. Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate, and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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-Equity Analysts use publicly available information.

# Visa Inc V (NYSE) | ★★★★

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# Visa Inc V (NYSE) | ★★★★

| Last Price | Fair Value | Consider Buy | Consider Sell | Uncertainty | Economic Moat™ | Moat Trend™ | Stewardship | Industry Group |
|---|---|---|---|---|---|---|---|---|
| 77.83 USD | 104.00 USD | 72.80 USD | 140.40 USD | Medium | Wide | Stable | Standard | Credit Services |

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