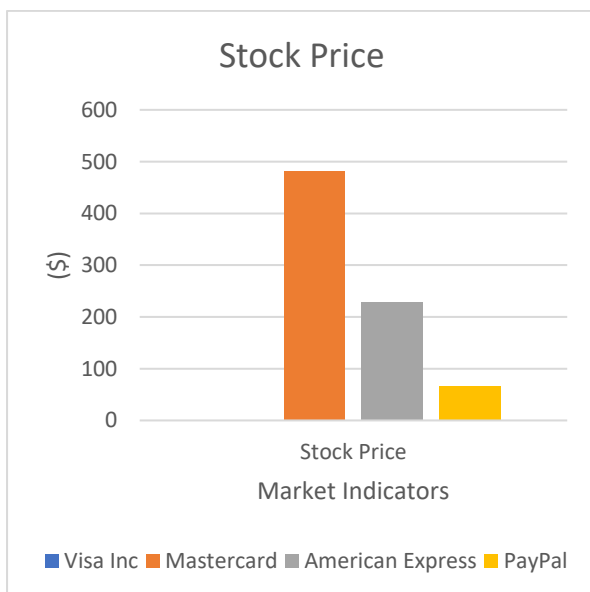
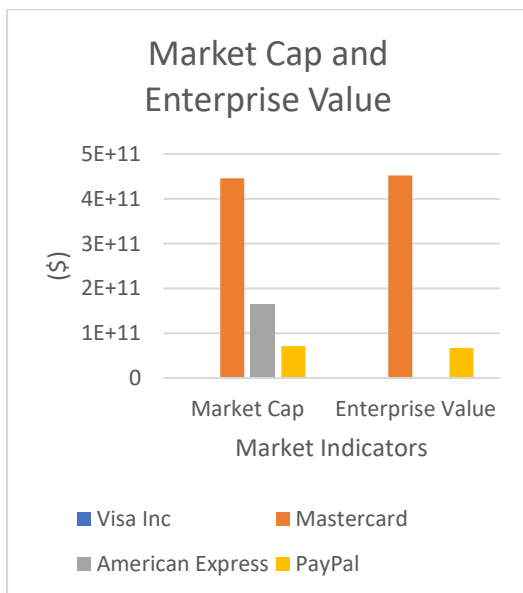
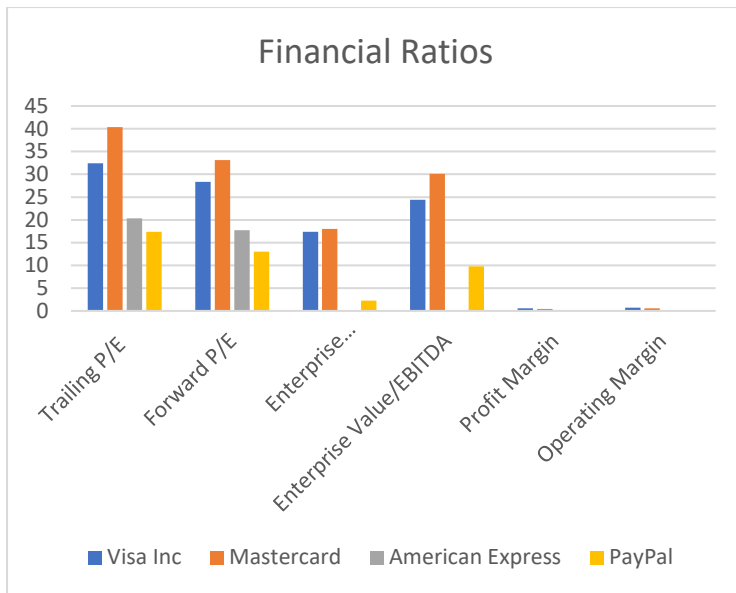


## Task 5 Report

Visa Inc is one of the largest companies in the Payment Card services industry with a market cap value of \$578 billion. The payment card industry has fulfilled a vital need of providing new sources of financing for consumers. In 2022, the significance of this market is indicated by how the global credit market is valued at \$510.87 billion and that it is projected to grow to \$884.36 billion at a compound annual growth rate of 7.1%. Visa acts as a middleman between financial intermediaries and merchant and they make money by charging a fee for these financial intermediaries to use their products like credit, debit and prepaid cards.

Company	Visa Inc	Mastercard	American Express	PayPal
Stock Price	\$280.6	\$ 481.57	\$ 227.69	\$ 66.99
Market Cap	\$57762000000	\$ 445,880,000,000.00	\$ 163,990,000,000.00	\$ 71,350,000,000.00
Enterprise Value	\$579730000000	\$ 452,380,000,000.00	N/A	\$ 66,960,000,000.00
Trailing P/E	32.4	40.4	20.32	17.34
Forward P/E	28.33	33.11	17.7	13.02
Enterprise Value/Revenue	17.38	18.02	N/A	2.25
Enterprise Value/EBITDA	24.4	30.13	N/A	9.8
Profit Margin	0.5392	0.446	0.1506	0.1426
Operating Margin	0.6906	0.5619	0.1736	0.1722

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The 2 peers for Visa I have chosen are Mastercard and American Express.

- Visa Inc had lower trailing P/E, forward P/E, Enterprise/Revenue and Enterprise/EBITDA values than Mastercard meaning that Visa is undervalued compared to Mastercard. Visa Inc has a higher market cap than Mastercard indicating that Visa has a larger market presence. Both Visa's and Mastercard's enterprise values were similar to their respective market cap values so both companies aren't very dependent on debt financing. Visa has a higher profit margin and operating margin suggesting that Visa has a higher customer base and is much more effective at controlling costs than Mastercard.
- Visa Inc had lower trailing P/E and forward P/E than American Express suggesting that Visa is undervalued compared to Mastercard. However, American Express' enterprise value and the enterprise ratios are not available. Visa Inc's market cap is much higher than American Express' so Visa has a much stronger market presence. Moreover, Visa has a higher profit margin and operating margin than American Express indicating that Visa has a greater customer base and are much more effective at controlling costs.

PayPal was chosen as a substitute to Visa Inc. This company is a payment processor within the peer-to-peer market where they charge a fee as a percentage of the money that a seller receives as part of a purchase/transfer. This would be referred to as transaction fees. PayPal had lower trailing P/E, forward P/E, Enterprise/Revenue and Enterprise/EBITDA values than Visa which indicates that PayPal is much more undervalued than Visa. This means there is great potential for investors in this company especially when looking at the Peer-to-Peer market. Peer to Peer lending refers to payments between 2 individuals and is usually faster than bank transfers. The Peer-to-Peer lending market is valued at \$147.05 billion and that it is projected to grow to \$1506.24 billion at a compound annual growth rate of 29.5%. This is quadruple the growth rate of the Payment Card services industry, which makes this market and PayPal as effective substitutes against Visa and payment cards. However, payments cards are more useful for transfers involving large businesses than Peer to Peer transactions.

Another new market is Buy Now Pay Later, which is a method of financing where a consumer buys a product but pay for it at a later agreed upon time. This has gained notoriety due to the pandemic and consumers wanting to avoid interest on credit cards. The next significant new market is cryptocurrency. Bitcoin and other cryptocurrencies have grown in popularity which has led them to be used more as payment services. Nevertheless, this is a relatively new, underdeveloped market, so it will take time for cryptocurrency to be a mainstream form of payment if it ever does. Credit card companies like Visa can maximise the benefit of this market if they enter it now, but it will take time to yield a return on their investment and that the returns in this market are uncertain.

According to the 2023 Visa annual report, the 3 main revenue drivers are consumer payments, value added services and new flows. Consumer payments was effective in generating revenues due to utilizing 'Tap to pay' which uses a contactless card or mobile phone for payments has over 90% contactless penetrative in 50 countries and provide account holders with their core products like credit and debit cards in over 200 countries by working with financial institutions and independent ATM operators. Visa Token services, which uses a token and safeguarding data to replace account pin numbers instead, was also instrumental in consumer payments revenues as they provided more than 7.5 billion tokens which will help to that enhances

authorisation and cut fraud. In addition, Visa's new flows allows for Visa's network of networks to gain new sources of money across the globe such as Visa Direct helping to facilitate the delivery of funds in over 190 countries and Visa Cross-Border Solutions building the infrastructure that allows for efficient delivery of cross border products. These new flow strategies are a stronger driver of revenue growth for Visa. Moreover, Visa's value added services includes acceptance solutions, issuing solutions, open banking, advisory services and risk and identity solutions. These strategies are quite innovative such as Visa DPS, buy now pay later capabilities, account verification and analytical models for business decisions which enables Visa's value added services to be a major driver of their revenues.

	Costs			Percentages		
	2023	2022	2021	2023	2022	2021
Personnel	5831	4990	4240	49.88%	50.81%	49.53%
Marketing	1341	1336	1136	11.47%	13.60%	13.27%
Network and processing	736	743	730	6.30%	7.57%	8.53%
Professional fees	545	505	403	4.66%	5.14%	4.71%
Depreciation and amortization	943	861	804	8.07%	8.77%	9.39%
General and administrative	1330	1194	985	11.38%	12.16%	11.51%
Litigation provision	927	868	3	7.93%	8.84%	0.04%
interest expense	-644	-538	-513	-5.51%	-5.48%	-5.99%
Investment income (expense) and other	681	-139	772	5.83%	-1.42%	9.02%
	11690	9820	8560			

The largest cost driver is personal expenses which is employee salaries, benefits, contract expenses, share-based expenses and incentive compensation made up roughly 50% of costs from 2021 to 2023. The main reason for personal expenses rising is due to a greater number of employees and compensation which could be attributed to Visa investing in future growth and acquisitions. In addition, the next largest cost driver is general and administrative expenses are card benefits with costs mainly linked to airport lounge access, extended cardholder protection, facilities costs, and foreign exchange costs. It made up around 11% of costs and this is mostly because of unfavourable foreign currency fluctuations , higher usage of travel related card benefits and travel expenses. Other important cost drivers are depreciation and amortization expenses and litigation provision which represents litigation expenses. Depreciation and amortization expenses made up between 8 and 9% of costs due to mostly greater depreciation and amortization from Visa's current investments and acquisitions while litigation provision fluctuated between 0 and 8% of costs due to higher accruals related to US covered litigation.

Within the payment card industry and related markets, various trends and innovations have affected Visa and its competitors especially in terms of revenues and costs. Technological trends such as tokenisation, Biometric, cryptocurrency and generative AI. The latter has gained prominence for its potential to better serve customers and more innovation. But these technologies are very unpredictable, especially with barriers such as intellectual property rights which can force Visa to obtain licensing, change existing designs, or even discontinue the technology in more extreme cases. Regardless, Visa has already adapted to some of these technological trends such as their token services giving 7.5 billion tokens to consumers which massively contributes to their consumer payment revenues. However, these trends may also be drivers of higher costs as they incentivise Visa to be more innovative and expand investment.

This can lead to Visa investing more in future growth and greater acquisitions which was theorised to have increased the number of Visa's employees and compensation which contributes to personal expenses, a cost driver that made up roughly 50% of Visa's costs. This rise in investment can also increase the amortisation and depreciation of Visa's current investments and acquisitions which is a driver of 8 to 9% of Visa's costs.

Furthermore, consumer payment revenues were also enhanced by another trend which is contactless payments. Contactless payments utilize near field communication technology (NFC) so that customers can authorise transactions simply by holding their phone or device close to a payment terminal. Visa took advantage of this trend with their Tap to pay feature which led to over 90% contactless penetrative in 50 countries, which was a strong driver of consumer payment revenues. Another vital market trend in the payment card industry is cross border payments which are payments that are sent from one country to another country. The technology for these payments were initially slow, but fintech companies have developed them to be faster through innovative solutions. Also, for these types of transactions, online banks like Wize also charges a lower conversion fee than banks. Visa Inc's forward-thinking nature has clearly enable them to take the initiative in exploiting this market trend, through Visa Cross-Border Solutions which builds infrastructure for cross border products as mentioned before. This is an effective driver of Visa's new flows revenues.

#### SWOT:

Strength: Contactless payments	Weakness: Investment cost control
Opportunities: Technology	Threats: Peer to Peer lending

Strengths – Visa's strength is the utilisation of their contactless payment technology since they have over 90% contactless penetration in 50 countries.

Weaknesses – Personal costs and depreciation and amortization expenses rose primarily because of increases in Visa's investments and acquisitions. Visa would need to focus on cost control when spending on investments.

Opportunities – Trends in technology such as tokenisation, biometrics, cryptocurrency and generative AI can improve Visa's services for customers.

Threats – PayPal & peer to peer market (Peer to Peer lending) Substitute markets to Visa have stringer growth such as the Peer-to-Peer lending market has quadruple the compound annual growth rate of the Payment card market. PayPal is more undervalued than Visa which can make PayPal a more valuable investment opportunity and hence a strong competitor.

#### Pestel:

Political	Economic	Social	Technological	Environmental	Legal
Trade Barriers	Exchange Rates	Changing Demographics	Generative AI Cryptocurrency Biometric Tokenisation	Innovation	Intellectual Property Rights

Political – Many countries may implement protectionist measures such as India passing their data localisation mandate makes it harder to compete against domestic Indian payment providers or China's phasing of dual branded cards hurting Visa in the Chinese market.

Economic – Economic factors such as exchange rates are significant for Visa as in 2023, foreign exchange movements lowered net revenues by 1.5%. This can be attributed to the market risk that arises from Visa dealing with foreign currencies.

Social: Changing demographics can affect demand of Visa products like credit and debit cards.

Technological – The Payment card industry is dealing with technological trends such as tokenisation, Biometric, cryptocurrency and generative AI. Visa has already exploit some of these trends such as Visa Token Services.

Environmental – Visa launched Visa Eco Benefits which allows consumers to use sustainability-focused solutions within their Visa credit and debit cards such as the Carbon footprint calculator which converts a customer's transaction details to an estimated carbon footprint. This indicates that Visa is willing to be innovative in solving environmental problems.

Legal – Visa's new potential for technology can have legal barriers that include intellectual property rights which prevents Visa from working with these technologies.