

UBS Investment Research

Visa Inc.

Visa 201: No better way to 'play the swipe'

■ You either own it for the long-term story or you don't

The global secular growth story of 'paper to plastic' should go unabated for the foreseeable future, both in the US (where V has a ~60% share in the faster growing debit market) and much higher growth regions around the globe (where V generates ~50% of its volumes). These trends, along with modest potential pricing increases, should help V sustain double-digit top-line growth for many years to come. This report is an extended/updated version of our April 28 initiation note.

■ Growth and potential margin upside will drive long-term value in shares

Combined with pricing upside, global and product expansion opportunities, a leverageable cost base, and litigation protection, we believe V's revenue growth and margin upside potential make it a very attractive story for the long haul. Commonly cited risks to the story include a consumer spending slowdown, rising unemployment, slower growth in cross-border transactions, and pricing pressure from large banks.

■ What will V be doing in three to five years that it isn't doing today?

We think V is well-positioned to leverage its powerful and scalable network, ubiquitous brand name and true global reach to develop new sources of revenue (e.g. processing, mobile, remittances, health care, etc). Success in these endeavours would represent a potential source of upside risk to our (and consensus) forecasts, while potentially providing greater customer and industry diversification.

■ Valuation: \$100 price target based on a blend of DCF and 30x CY10E EPS

We do not view shares of Visa and MasterCard (MA) as an 'either/or' call, but expect V to garner a slightly higher multiple to MA over time.

Highlights (US\$m)	09/06	09/07	09/08E	09/09E	09/10E
Revenues	3,902	5,193	6,108	6,853	7,682
EBIT (UBS)	954	1,733	2,542	3,080	3,660
Net Income (UBS)	704	1,086	1,563	1,933	2,291
EPS (UBS, US\$)	0.90	1.39	2.01	2.48	2.94
Net DPS (UBS, US\$)	0.00	0.00	0.22	0.44	0.44
Profitability & Valuation	5-yr hist av.	09/07	09/08E	09/09E	09/10E
EBIT margin %	-	33.4	41.6	44.9	47.6
ROIC (EBIT) %	-	-	33.5	16.2	17.5
EV/EBITDA (core) x	-	-	22.4	18.4	15.6
PE (UBS) x	-	-	41.2	33.4	28.1
Net dividend yield %	-	-	0.3	0.5	0.5

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$82.66 on 24 Jun 2008 19:43 EST

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Global Equity Research

Americas

Industrial, Diversified

12-month rating **Buy**
Unchanged

12m price target US\$100.00
Unchanged

Price US\$82.66

RIC: V.N BBG: V US

25 June 2008

Trading data

52-wk range	US\$88.50-56.50
Market cap.	US\$65.1bn
Shares o/s	787m (COM)
Free float	57%
Avg. daily volume ('000)	4,448
Avg. daily value (US\$m)	320.1

Balance sheet data 09/08E

Shareholders' equity	US\$22.2bn
P/BV (UBS)	2.9x
Net Cash (debt)	US\$4.66bn

Forecast returns

Forecast price appreciation	+21.0%
Forecast dividend yield	0.5%
Forecast stock return	+21.5%
Market return assumption	7.9%
Forecast excess return	+13.6%

EPS (UBS, US\$)

	09/08E	09/07
	UBS	Cons. Actual
Q1	0.55	0.57 0.34
Q2	0.52	0.52 0.35
Q3E	0.49	0.48 0.41
Q4E	0.45	0.48 0.30
09/08E	2.01	2.03
09/09E	2.48	2.54

Performance (US\$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 48.

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Investment Thesis

Initiated Coverage With Buy Rating

Visa Inc. (V) owns and operates the largest electronic payments network in the world and is one of the prime beneficiaries of the global secular trends that are driving the migration from paper- to electronic-based forms of payment. The strength of these trends and a highly visible and recurring revenue model give us confidence that V can sustainably post double-digit top-line growth into at least the medium term, and likely beyond. Meanwhile, a scalable and largely fixed-cost network that boards new business at high incremental margins, coupled with cost rationalization opportunities from V's conversion from a private association to a public company, should help drive meaningful margin expansion and ~20%-plus earnings growth potential for the next several years. We expect the business model to be supplemented by the deployment of high annual FCF via buybacks, dividends and M&A.

We believe V is well positioned to post double-digit revenue growth in the coming years through both its product and geographic strategies. Today, V is far and away the largest player in the rapidly growing US debit market, and has a leading market share in several key overseas markets (e.g. APAC, LATAM, CEMEA). Together, we believe these strong and leverageable positions will allow V to successfully implement and roll out new product offerings and services, enabling it to take advantage of the long runway of electronic payment adoption in what are (some) still-nascent payment markets.

MA's strong financial and stock performance (up ~615% since its IPO in May, 2006) has undoubtedly raised investor interest in this space, and while V has clearly had a strong run as well (up ~82% since its IPO in March, 2008), we believe the stock still remains an attractive candidate for those investors seeking a truly global business model, strong financial performance (driven by both secular growth trends and cost leverage), and an absence of direct consumer credit exposure. Although economic and regulatory/litigation headlines may significantly increase near-term volatility at times, their impacts are typically short term and generally create buying opportunities. Furthermore, the likelihood of many of these newsworthy issues actually causing long-term structural damage to V's (and MA's) business model remains rather small, in our view.

Given the similarities of both V and MA, the inevitable question will be, which one should I own? At this point, we do not see these stocks as an 'either/or' decision, and based on performance to date, we do not think investors do, either. Once the stocks' P&Ls settle into a more 'normalized' state, we believe V should trade at a slight premium to MA given its relatively faster growth, higher margins, stronger position in US debit and international markets, and more shareholder-friendly litigation structure.

V-Buy-\$100 PT

A prime beneficiary of global migration from paper- to electronic-based forms of payment

Investment Highlights

(1) Very powerful secular trends – more people, using more cards, at more places, for more things

In our opinion, this oft-used argument cannot be ignored given its powerful influence on V's ability to maintain sustainable, visible, and recurring double-digit top- and bottom-line growth. Simply stated, our favorable views are driven in part by the following data points since 2000 (as measured by The Nilson Report):

- The number of V-branded cards is up ~89%
- V's total volume is up ~146%
- Acceptance locations have grown 21% to ~29MM
- In the US, card-based payments have increased from ~28% of total (card + cash + check + other) payments in 1999, to ~43% today

To further illustrate this dynamic, consider all the places that accept electronic payments today that did not just a few years ago (e.g. taxis, fast food restaurants, governments, bill payment, and so forth). Furthermore, it helps to consider that once people start paying with plastic, they do not typically turn back to cash and checks. Looking more broadly, the fundamental story gets even stronger when you consider that while 64% of V's revenues are generated in the US, where major forms of electronic payments are growing at a 5-18% CAGR from 2006-11E, 36% of revenues are coming from overseas markets where growth trends are significantly higher. Taken together, simple math indicates that double-digit revenue growth should be possible, even before including any benefits from pricing and new product rollouts. To illustrate the ability for non-US markets to sustain electronic payment growth, consider the fact that penetration of electronic payments in the US today is only at ~43% after **decades** of card issuance programs and billions of advertising dollars spent. Then consider where emerging regions such as Latin America and Asia (together they represent 34% of V's GDV) likely lie on the adoption curve.

Strong secular and structural trends drive potential for double-digit top- and bottom-line growth

Table 1: Consumer Payments in the US

Methods of Payment	2006				2011					
	\$Volume (B)	% of Total	Trans. (B)	% of Total	\$Volume (B)	% of Total	'06-'11 CAGR	Trans. (B)	% of Total	'06-'11 CAGR
Paper										
Checks	\$1,807	25%	24.5	18%	\$1,138	12%	-9%	21.0	13%	-3%
Cash	\$1,439	20%	47.8	35%	\$1,511	17%	1%	36.0	23%	-6%
Money Orders	\$89	1%	0.8	1%	\$80	1%	-2%	0.6	0.4%	-3%
Official Checks	\$25	0.4%	0.1	0.1%	\$26	0.3%	0%	0.2	0.1%	1%
Travelers Checks	\$6	0.1%	0.1	0.1%	\$4	0.0%	-5%	0.0	0.0%	-11%
Food Stamps	\$0	0.0%	0.0	0.0%	\$0	0.0%	NM	0.0	0.0%	NM
Total Paper-Based	\$3,365	47%	73.3	53%	\$2,759	30%	-4%	57.8	37%	-5%
Cards										
Credit Cards	\$1,871	26%	25.3	18%	\$2,808	31%	8%	32.8	21%	5%
Debit Cards	\$1,010	14%	25.8	19%	\$1,752	19%	12%	43.2	28%	11%
Prepaid Cards	\$137	2%	4.9	4%	\$298	3%	17%	8.4	5%	12%
EBT Cards	\$30	0.4%	1.1	1%	\$38	0.4%	5%	1.2	1%	2%
Total Card-Based	\$3,048	43%	57.1	42%	\$4,897	54%	10%	85.6	55%	8%
Electronic										
Preauthorized Payments	\$443	6%	3.8	3%	\$748	8%	11%	6.0	4%	10%
Remote Payments	\$308	4%	3.0	2%	\$748	8%	19%	7.0	4%	18%
Total Electronic	\$751	10%	6.8	5%	\$1,496	16%	15%	13.0	8%	14%
Total Payments	\$7,165	100%	137.1	100%	\$9,152	100%	5%	156.3	100%	3%

Source: The Nilson Report

It is important to keep in mind that both V and MA only see 100% of the transactions (excluding ‘on-us’ transactions) in the US, Canada, UK, Australia and Brazil, with the rest of the world having various percentages of transactions that travel over local networks. Increasing processing capabilities (via acquisition of local networks or changes in the regulatory environment – like SEPA in Europe) remain a big growth and margin opportunity that we will continue to monitor.

(2) Recurring and visible revenue model

We like the processors overall because of the nature of their solid and stable revenue model, which is governed by long-term contracts, and V is no exception to this thesis. We estimate that approximately 80% of V’s revenues comes from long-term (at least five-year) contracts, which limits the amount of top-line volatility in any one year. That said, because issuers want to avoid customer disruption at all costs (e.g. issuing a new card), incumbent networks have a high rate of successfully renewing RFP’d business upon contract renewals. Another facet to the revenue visibility theme is our estimate that V does not have a large customer up for renewal until 2010. Furthermore, V’s large presence in debit (~50% of V’s total volume in the US, and globally) has caused a larger portion of its business (~42%) to be sourced from non-discretionary spend categories (e.g. food, gas) since, according to management, approximately 51% of debit volume comes from these categories versus 32% for credit.

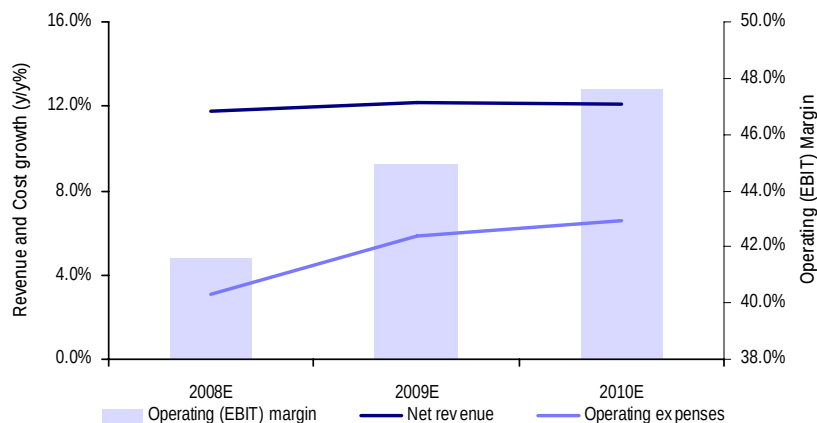
Long-term contracts limit the amount of renewal risk in any one year

(3) Natural operating leverage

Because V’s operating model is driven off a scalable and high fixed cost network (we estimate that over 60% of Visa’s expenses are fixed), incremental margins are very high and will contribute to natural margin expansion over time. Since secular trends are so powerful, it does not take much in the way of incremental costs to ‘capture’ new volume and its associated revenue. So as volume grows, one-for-one increases in things like marketing (which we discuss in more detail shortly), headcount, and physical assets are not needed. As Chart 1 illustrates, our revenue growth estimates of ~12% against cost growth of ~5% (both of which we think are somewhat conservative) yields ~400-500 basis points in annual margin expansion through 2010.

Powerful secular trends help V ‘capture’ new volume/revenue with relatively minimal incremental costs

Chart 1: As revenues grow faster than costs, margins will naturally increase



Source: UBS estimates. Note: Data is on a FY basis; revenue growth excludes pricing impacts, where applicable

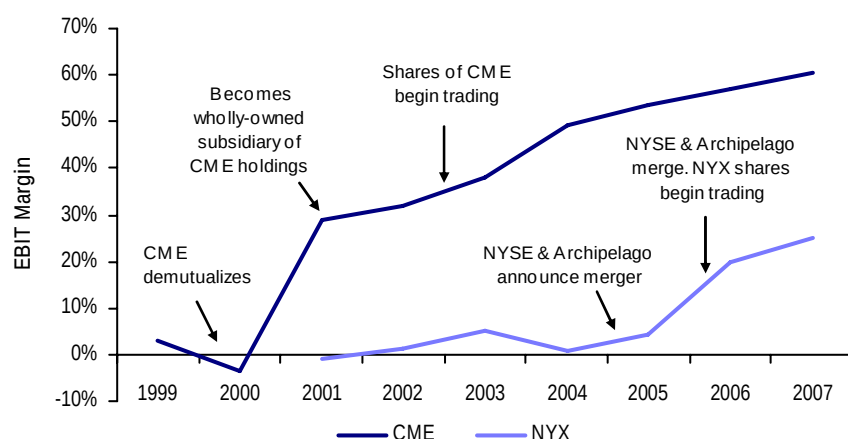
(4) Opportunities for cost rationalization

We believe V's conversion to a public entity and the resulting greater cost discipline will create continued margin expansion opportunities going forward. While it is quite difficult to handicap what is the 'right' level of potential cost savings, our anecdotal observations suggest that profit improvement off of current levels is likely for several reasons:

We believe profit improvement off of current levels is likely for several reasons

- a) **Look at the experience of other similar models.** We have looked at the trend in margin improvement at other 'network businesses' (like CME and NYX, illustrated in Chart 2), which moved from association-like models to public entities (which we hereinafter call 'networks'). To be clear, we are not proposing that V and MA will achieve 60%+ operating margins in the next few years. The point of this comparison is that given the spectrum of historical processor margins (generally in the range of 20-30%) and exchanges (which can be upwards of 60%), investor thought processes have changed significantly in the past 12 months, and it would appear that the networks are now thought of as at least in the middle of the two ends of the spectrum, if not even closer to the exchanges in the longer term.

Chart 2: Margin improvement in other 'associations' that became public companies

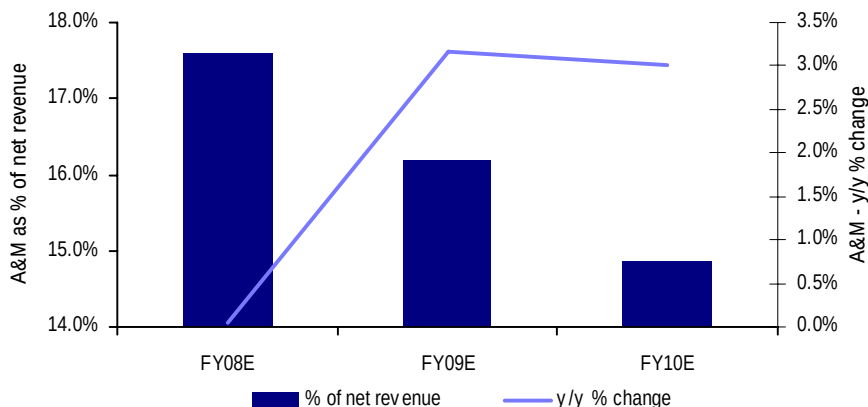


Source: Company filings, FactSet, and UBS

- b) **A&M spend levels will benefit from global optimization.** Because V had formerly been structured on a regional basis, there was never an integrated marketing plan with regard to developing efficient and non-duplicative messages, nor leveraging purchasing economies of scale. To address this issue, the company hired senior marketing executive and consumer products expert Antonio Lucio from Pepsico in 2007 to serve as V's chief marketing officer. Part of Mr. Lucio's mandate is to develop a global spend plan, which we believe could yield potentially meaningful A&M savings. We think Mr. Lucio will incorporate a comprehensive approach that involves a variety of factors and ROIC measures (including volume changes and incremental product sales) to determine how to optimize the company's spend level. We believe V will be providing updates on the progress of these efforts over the next several quarters and estimate that actual benefits could begin accruing in 2009.

c) **A trend toward more focused advertising spend.** Based on our conversations with industry experts, we believe another area that may contribute to A&M efficiencies is a movement toward channelling more spend directly through V's largest issuing customers. We have found that the largest issuers typically prefer that networks allocate more dollars to joint issuer/network 'localized' programs (e.g. a small business offering with a local issuer in a particular city, a gift card program around the holidays, etc) rather than broad nationwide efforts that benefit all issuers in the network. To that end, we think bigger issuers that contribute a disproportionate amount of network volume will continue to (and increasingly) demand more directed support from V (and MA) for their specific initiatives (*especially* as both organizations post higher margins). Given the more cost-conscious environment that V will be operating under and the higher ROIs that these local programs have been shown to generate, we believe this trend will become a larger component of V's marketing strategy. An ancillary, but still significant, benefit could be that it alleviates some pressure from larger banks on the rebate/incentive line, which would obviously help reported net revenues and the associated yield metrics. We believe this reallocation of advertising spend will likely result in this line item growing in the very low single digits, or even an absolute reduction (in the best case scenario) in the next few years (Chart 3).

Chart 3: A new approach to marketing spend could yield relative cost savings



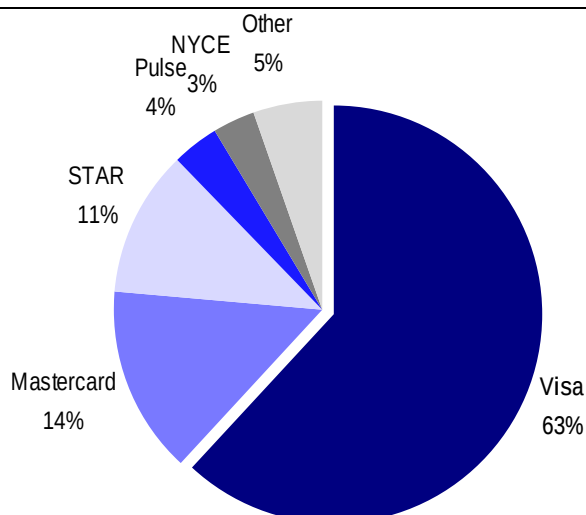
Source: UBS estimates

(5) High market share in US debit

We believe a large source of V's relatively higher growth rate can be attributed to its much larger presence in US debit, where it enjoys a substantial lead over its competitors (Chart 4). In 2007, debit actually accounted for 61% of V's total volume growth. The latest data from respected industry sources peg Visa with 41%, 79% and 63% market share in the PIN, signature and overall US debit market, respectively.

V should experience a higher growth rate owing to its larger presence in US debit

Chart 4: Visa is by far the leader in US debit (PIN + signature debit)



Source: The Nilson Report

According to The Nilson Report data in Chart 4 and Table 2, US debit markets (purchase volume) have grown by ~1,400 more basis points than credit over the 2001-06 period and are forecast to grow 11.6% over the next five years, versus 8.5% for credit. A recent McKinsey report suggested that CAGR from 2006-2011 for PIN debit could be as much as 16%, and signature debit as much as 13%. As we mentioned previously, debit's higher usage in non-discretionary spend channels provides a layer of protection during economic downturns. This is consistent with anecdotal observations of current trends that several senior payment executives in the industry have been describing recently.

Table 2: US debit growth is expected to continue to outpace credit

	2001	2006	2011	CAGR	
				'01-'06	'06-'11
Purchase vol.					
Credit	1,286	1,871	2,808	7.8%	8.5%
Debit	385	1,010	1,752	21.3%	11.6%
Transactions					
Credit	20	25	33	4.4%	5.3%
Debit	11	26	43	19.2%	10.8%

Source: The Nilson Report

(6) Shareholder-friendly litigation defense structure – banks own the liability, not investors

We believe that by cordoning off liabilities related to any known US anti-trust litigation (up until the IPO), Visa has created a more shareholder-friendly structure that we believe will lead to its ability to garner a higher multiple than MA until all major cases are resolved and/or settled. In V's case, any litigation settlements will be funded from \$3 billion of proceeds from the sale of US issuing bank shares, with anything over and above this amount (if applicable) to be indemnified by additional sales of US issuing bank shares and/or other means if necessary. Together, these activities effectively insulate V shareholders from any litigation obligations. Conversely, in MA's case, any litigation settlements will be funded from cash flow of the overall company, which will directly impact the value of shareholders' equity. We acknowledge that since litigation concerns are not at the forefront of investors' minds at the moment (as evidenced by these companies' share performance), this structure may play less of a role in relative valuation trends over the near term. However, we think it could become a more meaningful differentiator as current cases (e.g. AXP for MA, and DFS and merchant interchange for both MA and V) move closer to fruition.

V's more shareholder-friendly structure should help it garner a higher multiple than MA

Investment Risks

(1) Economic slowdown in the US...and possibly elsewhere

While V may not be totally immune to a slowing economy, a variety of cushioning effects do exist

Given that V's operating model is based, at its core, on consumer spending for goods and services, any material slowdown in these trends will obviously have an adverse impact on V's results. However, while consumer-driven concerns are not unfounded, we believe that there are various offsets that can serve to support revenue growth and operating fundamentals during times of deceleration. Broadly speaking, our view is that while V may not be totally immune to a slowing economy, a variety of cushioning effects do exist. On the revenue side, we estimate that about 30-40% of V's revenues are driven by transaction counts (as opposed to dollar volume), which have been shown to be more cyclically insulated to downturns (e.g. while a consumer may spend less, they shop more frequently to parcel out spend to a higher number of smaller purchases). Additionally, V's model has a natural hedge since incentives paid to customers (contra-revenue line) decline as volume growth does.

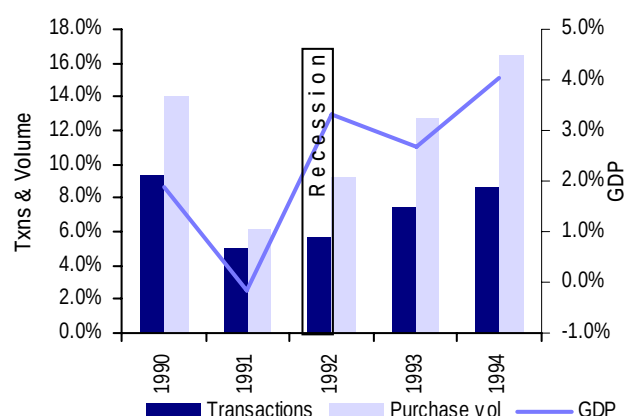
On the fundamental side, Chart 5 and Chart 6 show that during the past two recessions, when GDP slowed, volumes and transactions followed suit, but their growth rates did not go below the mid-single digits, illustrating that secular trends (e.g. paper to plastic) provide a strong counterbalance to cyclical trends. Furthermore, growth rates returned to normal fairly quickly after the downturn. It is important to note, however, that these data points are somewhat outdated, as the number of cards in circulation, number of acceptance locations, and the rapid growth of debit makes it difficult to compare the past to the present.

(2) A rise in unemployment

Industry experts suggest using employment markets as a gauge for future consumer spending health

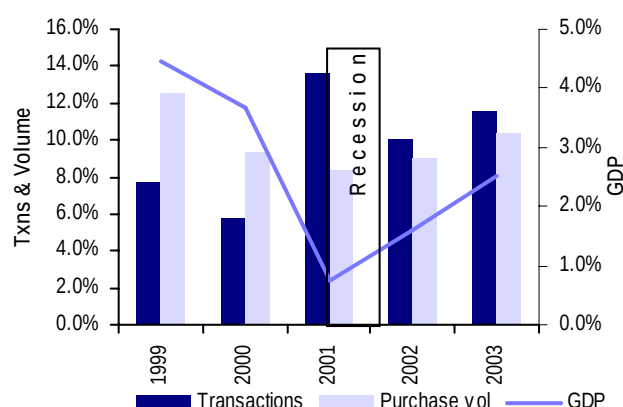
In addition, our extensive discussions with merchant acquirers indicate that one metric they monitor very closely is employment fundamentals, under the assumption that "if consumers are making money, they will keep spending money." Although US employment markets are not doing great, fundamentals remain closer to where they were in 2001 where unemployment reached 5.7% (versus UBS' 2008 forecast of 5.5%) than 1991, when unemployment reached 7.3%. And as Chart 5 and Chart 6 indicate, volume growth did not drop off nearly as much in 2001 as it did in 1991, though this was likely due in part to the still strong housing market. We would be more concerned if unemployment approaches 1991's levels.

Chart 5: 1991 Recession: Card Spend vs. GDP (US - y/y %)



Note: Payment data based on MA, V, American Express, Discover and Diners Club performance. Volumes and transactions represent those from credit cards.
Source: The Nilson Report, Bureau of Economic Analysis, and UBS

Chart 6: 2001 Recession: Card Spend vs. GDP (US - y/y %)



Note: Payment data based on MA, V, American Express, Discover, and Diners Club performance. Volumes and transactions represent those from credit and debit cards.
Source: The Nilson Report, Bureau of Economic Analysis, and UBS

(3) Heavy reliance on cross-border growth/profitability

We believe that revenue and earnings growth could be meaningfully impacted if there is a slowdown in V's cross-border transaction growth. These transactions drive V's 'international transaction fee' revenues and are made up of cross-border/currency transactions that earn substantially higher fees per transaction than a regular domestic transaction, without a corresponding increase in costs. Although these revenues amount to only about 20% of V's total gross revenues, we believe they make up a significantly larger portion of profits given the relatively higher margins on these transactions. Excluding pricing effects, these revenues grew at 17.6% in 2007 (and were the fastest-growing revenue line) because of a relatively strong global economy and a weak USD that stimulated travel around the world and to the US.

Though cross-border transactions generate only about 20% of revenues, they comprise a relatively higher proportion of total profits given the higher margins on these transactions

Table 3: In evaluating the impact of a shortfall to our revenue growth estimates, the EPS impact varies depending on the associated margin on these transactions

		FY08E International Transaction Fees (yly%)					
		-20.0%	-10.0%	0.0%	20.0%	34.4%	40.0%
Op Margin	42%	(\$0.17)	(\$0.14)	(\$0.11)	(\$0.04)	\$0.00	\$0.02
	60%	(\$0.24)	(\$0.20)	(\$0.15)	(\$0.06)	\$0.00	\$0.03
	70%	(\$0.28)	(\$0.23)	(\$0.18)	(\$0.07)	\$0.00	\$0.03
	80%	(\$0.32)	(\$0.26)	(\$0.20)	(\$0.09)	\$0.00	\$0.03
	90%	(\$0.36)	(\$0.30)	(\$0.23)	(\$0.10)	\$0.00	\$0.04

The impact to our estimates from a shortfall to our 34.4% growth forecast depends on how profitable these transactions are

No impact to our estimates if fees grow 34.4%

Source: UBS estimates

Not only are trends in these transactions fairly difficult to monitor given their global nature, but they are also at risk of large global ‘shocks’ such as wars, terrorist activities, SARS outbreaks, weather effects, and so forth. These impacts are impossible to handicap, but Table 3 illustrates how a shortfall to our 2008 international transaction fee forecast could impact EPS.

(4) Pricing pressure from large and/or consolidating banks

A key risk facing V’s profitability (and most of the processors, for that matter) is the risk that consolidation in the banking industry (which represents the lion’s share of their issuing customers) continues, resulting in increased pressure on pricing and demand for volume and support agreements (MA calls these ‘rebates and incentives’). We also see a risk that V’s profitability could also prompt banks to ask for more pricing concessions. As Table 4 illustrates, the US issuing market is concentrated at the top, and has become more so over the last seven years. The general expectation is that this trend will continue into the future.

Bigger and consolidating banks could command a greater amount of price concessions

Table 4: The US issuing market is becoming increasingly concentrated at the top

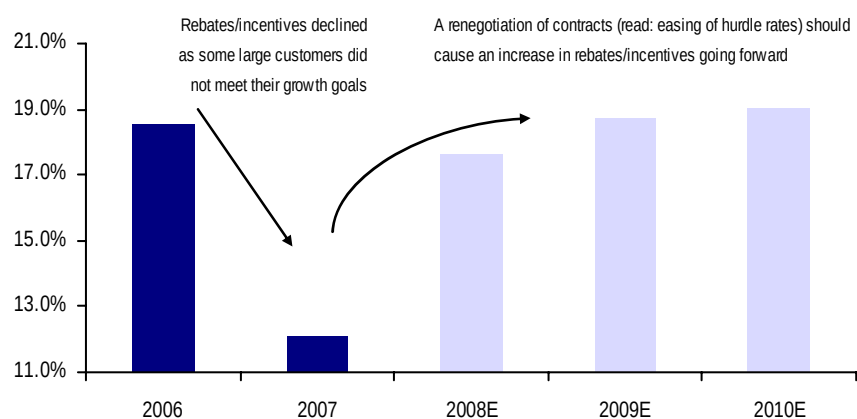
Issuer	2000		Issuer	2007	
	Outs. (B)	Share		Outs. (B)	Share
Citigroup	\$96	21.4%	Bank of America	\$158	23.9%
MBNA	\$70	15.7%	JPMorgan Chase	\$150	22.7%
First USA/Bank One	\$67	14.9%	Citigroup	\$110	16.6%
Chase	\$36	8.0%	Capital One	\$59	8.9%
Providian	\$27	5.9%	HSBC	\$31	4.6%
Capital One	\$26	5.8%	Washington Mutual	\$27	4.1%
Bank of America	\$24	5.2%	Wells Fargo	\$26	3.9%
Household	\$15	3.4%	USAA Savings	\$16	2.5%
Fleet Boston	\$15	3.3%	U.S. Bank	\$16	2.4%
Wells Fargo	\$10	2.2%	Target	\$8	1.2%
Top 10	\$386	85.8%	Top 10	\$602	90.8%

Note: Share is calculated as a percentage of volume of top 50 issuers, which is a large majority of the total market.
Source: The Nilson Report

Although it is difficult to say whether or not further consolidation will be put on hold given the current banking crisis, we believe that once the financial storm clears, merger activity will likely resume at its historical pace. We point out that our forecasts already assume a continued increase in volume and support agreements going forward (Chart 7), reflecting the possibility of additional pressure from pricing and incentives.

Also worth considering, is that while price pressure may increase at V’s top customers (and we think it will as Visa’s margins continue to increase), there remain several thousand other customers representing over 50% of V’s revenue that do not have similar pricing leverage. Furthermore, our estimates for incentives could be viewed as conservative since we estimate that V does not have a large bank contract up for renewal until 2010, and slowing volume growth (due to the economic backdrop) may reduce incentive growth given the natural hedge we alluded to previously.

Chart 7: Volume and support agreements as % of gross revenues forecast to increase



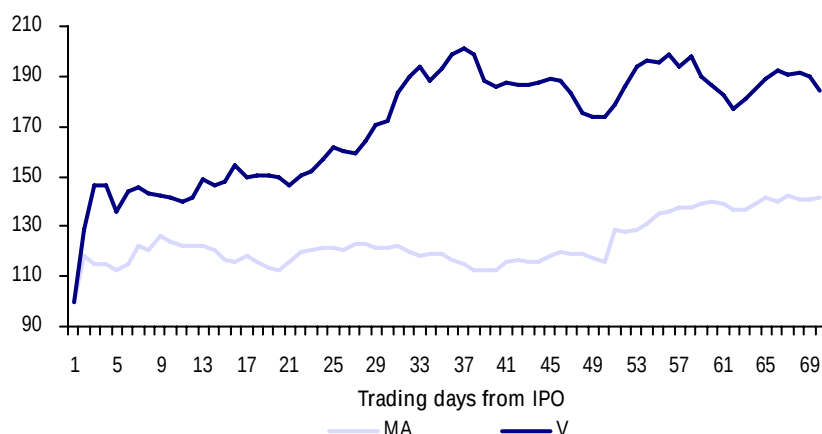
Source: Company filings and UBS estimates

(5) Expectations for another 'MasterCard-like' performance

We believe the potential for outsized expectations for V could arise in relation to both earnings and stock price performance, resulting in a bar being set that the company is not able to meet (or beat). This could come about as investors look to MasterCard's stock performance since its IPO and see that MA is up about seven times its offering price and has exceeded quarterly expectations every quarter by 32% on average (and by as much as 82% at one point). As we saw with V's FQ2 release, the initial response (aftermarket trading) to a solid quarter (revenue was in line, and EPS beat consensus by 13%) was down about 5%. That said, we believe expectations have since been somewhat level-set, though until V has more of a track record behind it with respect to possible upside surprises and management's disclosure levels, the formation of outsized expectations remain a risk. In our view, there are several reasons why investors should not expect the same magnitude of upside surprises for V that MA has experienced:

- V is starting at a much higher level of profitability (~42% FY08E operating margin versus 33.4% in FY07, and compared to 33.9% for MA in 2008).
- Expectations from bank owners are much different now than when MA went public (e.g. preference for more profits up front in order to maximize current proceeds to offset other balance sheet issues).
- At 23% (excluding pricing benefits [33% including pricing benefits]) FY07 revenue growth for V, FY08 comps are significantly tougher than they were in FY07, and materially higher than MA's 22.3% in 2007.

Chart 8: Over the first 68 trading days since its IPO, V's stock has been significantly stronger than MA's was over its first 68 days, suggesting that expectations are high



Note: Stock prices have been indexed to 100.

Source: FactSet

(6) Regulatory risk

We believe that V could be at risk if the current investigations of the interchange model in multiple European countries and the US translate into regulatory actions. While the absolute level of interchange has no direct impact on V's financials, as it is a complete pass-through fee paid to the issuing bank, the more relevant concerns are the indirect effects. These include how lower returns for issuers might affect their investment in the card business and the possibility for greater pushback from issuers on V's pricing to them. We note that the impact on Australian activity here was temporary (e.g. six to eight months) before bouncing back to pre-regulation levels.

Although the track record of the (limited) examples of interchange regulation in the world is not good in that the results fell far short of the desired outcomes, this has not stopped the various European and US constituents to pursue actions here. We are less concerned about near-term action on the domestic front given the precedence in the US from the Fed's 2005 decision not to regulate interchange, US regulators' propensity to let free markets compete, and the current financial crisis.

In turning to Europe, the situation is more difficult to handicap given the multiple players involved, such as the EC and domestic regulators, and the fact that regulatory inquiries have already been in place for several years. However, even if interchange were to be cut, we believe that issuers have plenty of levers on the cost side that would be easier to pull than proceeding with difficult negotiations with networks (that we estimate make up less than 2% of an issuer's total costs), such as lower rewards and/or increasing APRs and annual fees (as was the case in Australia). Furthermore, it is possible that the Reserve Bank of Australia's recent decision to potentially pull back on its regulation of interchange could limit the appetite for European and US authorities to pursue meaningful moves here, but it is still too early to say for sure.

(7) European structure may not yield expected benefits

We believe that the decision to keep Visa Europe (VE) as a separate entity may not yield the benefits originally intended, and could even set V further back in European debit markets if the structural aspect impacts issuers' willingness to join the network. Furthermore, V could face material dilution if VE does not sufficiently improve its growth and margin profile and 'puts' itself back to V at some point. However, while one could point to both positive and negative implications of this structure, the bottom line is that it is still too early to say whether or not it is the right decision. In fact, European-based industry experts that we have spoken with have fairly consistently dismissed the structural aspect as materially weighing into the issuer's decision-making process (which in fact was confirmed at our recent Electronic Payments Summit). However the business might pan out, what is important in our view is the fact that there is a mechanism for keeping this asset within the V franchise, namely the Put/Call option structure.

(8) Possibilities for a competing network to emerge

Although we do not believe the creation of a network that can viably compete with V is a meaningfully large risk at this point, we do not think it is something that should be ignored either. In the US, we can envision this scenario emerging if one of the large integrated issuer/acquirers (e.g. BAC, JPM, USB, C) were to attempt to create a 'closed-loop' network by coupling their massive amount of branded consumer cards with the hundreds of thousands of merchant locations for which the issuer also performs merchant acquiring services. Another possible route would be to acquire DFS and merge both cardholder bases and utilize DFS's incumbent network and acceptance reach. Alternate networks like PayPal, Google, Revolution Money or even some form of mobile payment model that somehow excludes V and MA are also potential threats worth monitoring.

While these initiatives could generate some incremental savings in the form of lower operation and assessment fees from V or MA, it does not consider: 1) the cost to buy/create this infrastructure and capabilities and 2) the impact from resultant higher costs paid to V/MA (since the bank would fall to a higher-priced/lower-volume tier). Furthermore, these cards would still need to be co-branded with V or MA since there would be millions of merchants in the US and elsewhere that would not accept this 'closed-loop' card. Overall, given the banks' remaining several-year lock-up periods with their equity in V and MA, near-term activity on this front does not appear likely.

Turning to Europe, it was recently announced that several large European banks are planning to develop a credit/debit network to compete with V and MA. On one hand, we are not ready to dismiss this initiative since merchant 'acceptance' is the key to any network's success, and in Europe banks currently own the acquirers and debit schemes that are already being accepted by the merchants. Alternatively, we cannot ignore the challenge facing the development of a network that crosses multiple borders, languages and cultures, while delivering all of the seamless (and flawless) routing, settlement, risk management, and dispute resolution procedures that V and MA perform today. We do not doubt that if successful, this initiative could impact V (and MA even more due to its market share advantage there), but we see it as more of a marginal impact than a wholesale threat.

UBS Estimates versus Consensus

Table 5 compares our revenue and pro-forma EPS estimates to consensus expectations for FQ308 and FY08 and FY09.

Table 5: UBS and Consensus Estimates, FQ308E, FY08E, and FY09E (\$ millions, except EPS; FY Sept.)

	FQ308E		FY08E		FY09E	
	UBS	Consensus	UBS	Consensus	UBS	Consensus
Revenues	\$1,544	\$1,557	\$6,108	\$6,141	\$6,853	\$7,004
EPS (ongoing)	\$0.49	\$0.48	\$2.01	\$2.03	\$2.48	\$2.53

Source: First Call and UBS estimates

When looking at consensus estimates, one must keep in mind that (similar to MA's case) they are likely on the conservative side as it appears that the Street still does not appreciate the true earnings power of the network-based model. Continuing on from V's Q2 experience, we **do not** anticipate seeing a level of earnings beats like we did with MA (where it has been ~32% on average), though we do believe V will continue to post consistent, steady and modest upside to realistic expectations. Going into the quarter we felt that expectations were a little ahead of themselves (and given the stock's decline in the aftermarket, they were), however we believe 2Q's performance helped level-set investors with respect to upside and near-term guidance provisions which may serve to reduce future volatility around the print.

Forthcoming catalysts

We view V (and MA) as being subject to a variety of catalysts, including economic and financial releases, regulatory and litigation activities, and new contract signings. Given that there is a high degree of emotion attached to some of these potential news items (and sometimes limited visibility into the resultant economic impact), we divided the impact of potential events into two categories: the impact of such event on sentiment and the extent to which we believe such event could actually impact financial results (Table 6).

Table 6: Perceived and actual impacts may not always correlate exactly

Catalyst	Impact	
	On sentiment	On financials
Quarterly results	High	High
Litigation/settlement actions	High	TBD
Economic releases	High	Med/Low
US/Europe interchange regulation	High	Low/TBD
Bank earnings	High	High
Unemployment	Medium	High
Visa Europe transaction	Medium	High
Customer wins	Medium	Low-Medium

Source: UBS

Valuation: 12-Month Price Target of \$100

Our 12-month price target is based on a blend of: (1) \$92, which is based on a multiple of 30x our CY10 EPS estimate of \$3.07, and (2) \$105, which is derived from our DCF valuation analysis. In addition, we have performed a sensitivity valuation analysis using UBS's proprietary VCAM model, which yields a one-year-forward valuation range of \$98-105 per share.

PE Analysis

We have derived a 12-month price target of \$92 based on applying a PE of 30x to our CY10 estimate of \$3.07. This multiple represents a 6% discount to where V is currently trading on our CY09 estimate, and a 10% discount using consensus estimates (Figure 1). Our target multiple premiums (versus MA) for V is about 8-12% lower than V's current premiums to MA (on UBS's and consensus).

Figure 1: Our target multiple for V is a discount to its current multiple and where it is currently trading vs. MA

	V	MA	Current V Prem/(Disc) to MA
UBS Estimates			
Current CY09 PE	32x	26x	21%
V target PE on CY10 EPS	30x	30x	
Target PE Prem/(Disc) to current	-6%	13%	
Consensus Estimates			
Current CY09 PE	33x	26x	28%
V target PE on CY10 EPS	29x	29x	
Target PE Prem/(Disc) to current	-10%	16%	

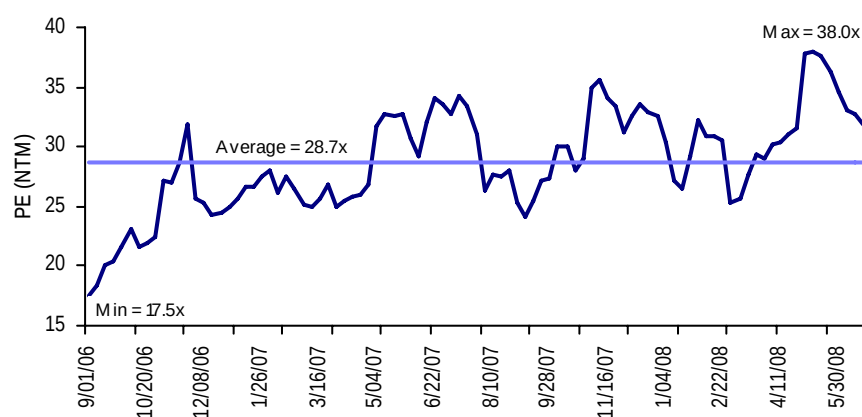
Our target multiples for V are a **discount** to where V is currently trading

Our target V multiple premiums to MA are **below** V's current premiums to MA

Source: FactSet, I/B/E/S, and UBS. Note: Valuation based on closing prices as of June 24, 2008

Although these PEs may seem high when considering the processing sector overall, which has historically traded as a group in the low 20s (although 30+ times is also not unheard of for certain names), we do not look at V/MA with hard and fast rules with regard to multiple targets given their growth and margin profiles which are significantly better than the peer group. Additionally, as has been (and still is) the case with MA, V is a company whose growth and margin potential is still largely unknown, making valuation multiples and premiums to the peer group less meaningful, in our view. As MA's 32% average quarterly earnings upside surprises over the past two years can attest to, consensus estimates have not presented an accurate near-term assessment of the complete earnings power of the network-based model, although we expect the gap to narrow over time and with additional quarters reported.

Chart 9: Our 30x target multiple for V is only 5% above MA's average NTM PE



Source: FactSet and UBS

In addition to the MA example, we have seen a similar situation over the last five years with shares of Cognizant Technology Solutions (CTSH)—albeit more so from just the revenue growth side, but we think the analogy holds true here as well. CTSH has historically been a relatively expensive stock with valuations that have scared off some investors, but prior to 2008, the consensus estimates have rarely (if ever) accurately reflected the growth potential and trajectory of the company, rendering the trading multiples somewhat of a moot point.

DCF Analysis Supports \$105 Price Target

Our 12-month price target derived using a 20-year DCF model is \$105 and assumes: 1) a WACC of 8.5% (derived using CAPM); 2) a terminal growth rate of 2.25%; 3) a 2008-2018 revenue CAGR of 11.5%; and 4) ~12.5% of EBIT margin expansion between 2008 and 2019, with EBIT margins peaking at ~54% in 2018.

Table 7: UBS DCF financial illustration (\$ millions except per share data)

	2008 FY E	2009 FY E	2010 FY E	2011 FY E	2012 FY E	2013 FY E	2014 FY E	2015 FY E	2016 FY E	2017 FY E	2018 FY E	2028 FY E
Revenues (net)	6,108	6,853	7,682	8,619	9,654	10,812	12,082	13,472	14,987	16,561	18,217	31,021
Y/Y%	17.6%	12.2%	12.1%	12.2%	12.0%	12.0%	11.8%	11.5%	11.3%	10.5%	10.0%	2.3%
Personnel	1,125	1,179	1,258	1,371	1,506	1,655	1,813	1,981	2,159	2,336	2,515	4,220
% of revenues	18.4%	17.2%	16.4%	15.9%	15.6%	15.3%	15.0%	14.7%	14.4%	14.1%	13.8%	13.6%
Network, EDP and communications	331	356	389	427	449	470	489	505	517	572	629	1,071
% of revenues	5.4%	5.2%	5.1%	5.0%	4.7%	4.4%	4.1%	3.8%	3.5%	3.5%	3.5%	3.5%
Advertising, marketing and promotion	1,075	1,109	1,142	1,182	1,305	1,440	1,585	1,740	1,936	2,139	2,353	4,007
% of revenues	17.6%	16.2%	14.9%	13.7%	13.5%	13.3%	13.1%	12.9%	12.9%	12.9%	12.9%	12.9%
Professional and consulting	495	545	584	627	734	822	918	1,024	1,139	1,259	1,385	2,358
% of revenues	8.1%	8.0%	7.6%	7.3%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%
Administrative and other	356	390	415	444	497	557	622	694	772	853	938	1,598
% of revenues	5.8%	5.7%	5.4%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Depreciation and amortization	177	194	234	276	309	346	387	404	450	497	547	931
% of revenues	2.9%	2.8%	3.1%	3.2%	3.2%	3.2%	3.2%	3.0%	3.0%	3.0%	3.0%	3.0%
EBIT	2,549	3,080	3,660	4,293	4,854	5,523	6,268	7,124	8,015	8,906	9,852	16,838
EBIT Margin	41.7%	44.9%	47.6%	49.8%	50.3%	51.1%	51.9%	52.9%	53.5%	53.8%	54.1%	54.3%
Change in margin (bps)	837	321	271	215	48	80	80	100	60	30	30	0
EBITDA	2,726	3,274	3,895	4,568	5,163	5,869	6,655	7,528	8,465	9,403	10,398	17,768
EBITDA Margin	44.6%	47.8%	50.7%	53.0%	53.5%	54.3%	55.1%	55.9%	56.5%	56.8%	57.1%	57.3%
Investment Income, net	124	129	125	121	130	141	151	162	172	182	191	310
% of revenues	2.0%	1.9%	1.6%	1.4%	1.4%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.0%
Interest Expense	(94)	(87)	(75)	(62)	(68)	(22)	(24)	(27)	(30)	(33)	(36)	(62)
% of revenues	-1.5%	-1.3%	-1.0%	-0.7%	-0.7%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Other income/(expense)	83	46	46	46	-	-	-	-	-	-	-	-
% of revenues	1.4%	0.7%	0.6%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax Income	2,661	3,168	3,756	4,397	4,916	5,642	6,395	7,259	8,158	9,055	10,007	17,086
Tax Rate	41.1%	39.0%	39.0%	38.0%	37.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Net income before items	1,567	1,933	2,291	2,726	3,097	3,611	4,093	4,645	5,221	5,796	6,404	10,935
Other Cash Impacts												
Depreciation & Amortization	177	194	234	276	309	346	387	404	450	497	547	931
% of revenues	2.9%	2.8%	3.1%	3.2%	3.2%	3.2%	3.2%	3.0%	3.0%	3.0%	3.0%	3.0%
Capital Expenditures	(498)	(289)	(269)	(302)	(338)	(378)	(423)	(404)	(450)	(497)	(547)	(931)
% of revenues	-8.1%	-4.2%	-3.5%	-3.5%	-3.5%	-3.5%	-3.5%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Other Non Cash Items	(49)	(55)	(61)	(69)	(77)	(86)	(97)	(108)	(120)	(132)	(146)	(248)
% of revenues	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Change in Net working capital	(49)	(55)	(61)	(69)	(77)	(86)	(97)	(108)	(120)	(132)	(146)	(248)
% of revenues	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Free Cash Flows	1,149	1,728	2,134	2,562	2,914	3,405	3,863	4,430	4,981	5,531	6,113	10,439
PV factor		1.08	1.18	1.28	1.38	1.50	1.63	1.77	1.92	2.08	2.26	5.09
PV of Free Cash Flows		1,593	1,813	2,007	2,104	2,267	2,370	2,506	2,597	2,658	2,708	2,049
Terminal Cash Flow												157,904

Source: Company filings and UBS estimates

Table 8: DCF inputs and sensitivity analysis (\$ millions except per share data)

Inputs		Valuation		Sensitivity analysis					
WACC	8.5%	PV of cash flows in years 2009-2010	3,406	Terminal Growth	Discount Rate				
2007-2008 rev growth rate	17.6%	PV of cash flows in years 2011-2028	44,286		6.5%	7.5%	8.5%	9.5%	10.5%
2008-2018 rev growth rate	11.5%	PV of terminal value	30,997	1.5%	\$151	\$121	\$100	\$84	\$73
2019-2028 rev growth rate	5.0%	Total PV of FCF (Firm Value)	78,689	2.0%	\$160	\$126	\$103	\$86	\$74
Terminal rev Growth Rate	2.3%	Less: Debt	1,218	2.3%	\$165	\$128	\$105	\$87	\$74
Terminal FCF multiple	15.1	Plus: Cash	4,031	3.0%	\$184	\$138	\$110	\$91	\$77
		Equity value	81,502	3.5%	\$202	\$147	\$115	\$93	\$78
		Diluted shares outstanding	779.0						
		Implied share price in one year	\$105						

Source: UBS estimates

UBS Value Creation Analysis Model (VCAM)

We also use UBS's proprietary Value Creation Analysis Model (VCAM) to estimate V's intrinsic value. Our forecast suggests a VCAM-derived one-year-forward valuation range of \$98-105 per share.

Table 9: UBS VCAM Analyst Inputs for Visa, priced as of 6/23/08

Company Name:	Visa Inc.				WACC Used:	8.50%
Ticker:	V.N				Value Creation Horizon (VCH):	20 years
Market Equity PV [US\$ m]:	65,101	Current Price [US\$/sh]:				83.57
VCAM Equity PV [US\$ m]:	76,548	VCAM Equity PV [US\$/sh]:				98.26
12-mo. VCAM Target [US\$ m]:	81,832	12-mo. VCAM Target [US\$/sh]:				105.05
VCAM Present EV [US\$ m]:	63,588	Estimated Dividend Yield:				0.5%
Forecast Stages (yrs):	1-3	4-5	6-10	11-15	16-25	CAGR*
Key Analyst Inputs						
Sales Growth:	13.9%	12.1%	11.0%	7.8%	2.5%	9.9%
EBIT Margin:	45.0%	49.7%	50.8%	51.0%	51.0%	na
Capex/Sales:	5.1%	3.3%	3.0%	3.0%	3.0%	na
Growth Rates						
EBIT:	18.1%	13.4%	11.5%	8.5%	4.4%	10.4%
NOPAT:	19.9%	14.2%	12.1%	8.5%	4.4%	10.9%
EPS:	22.1%	16.6%	15.5%	13.1%	10.5%	14.9%
Invested Capital:	[neg]	[neg]	[neg]	[neg]	[neg]	[neg]
UNFCF:	5.8%	13.9%	12.3%	8.5%	4.5%	8.9%
Economic Profitability						
ROIC:	-194.8%	-230.7%	-406.1%	-633.0%	-898.4%	na
Economic Profit [US\$ m]:	2,690	3,488	6,082	9,089	13,924	10.8%
Absolute [US\$ m], except per share amounts						
Sales:	8,611	10,800	18,309	27,478	42,258	9.3%
EBIT:	4,191	5,391	9,309	14,014	21,552	10.4%
NOPAT:	2,578	3,364	5,957	8,969	13,793	10.9%
EPS:	3.65	4.97	10.19	18.83	51.14	14.9%
UNFCF:	2,527	3,280	5,867	8,839	13,721	8.9%
Capex:	293	350	549	824	1,268	4.0%
Invested Capital:	(1,460)	(1,456)	(1,470)	(1,395)	(1,601)	[neg]
Multiples	EV/EBIT	EV/EBITDA	EV/NOPAT	EV/UNFCF	P/E	Based on
Current Market Multiple	21.7x	20.0x	35.9x	33.8x	35.7x	0% of FY07
VCAM Present Value Multiple	26.2x	24.0x	43.2x	40.7x	41.9x	27% of FY08
VCAM Target-Implied Multiple	28.0x	25.7x	46.2x	43.5x	44.8x	73% of FY09
						0% of FY10

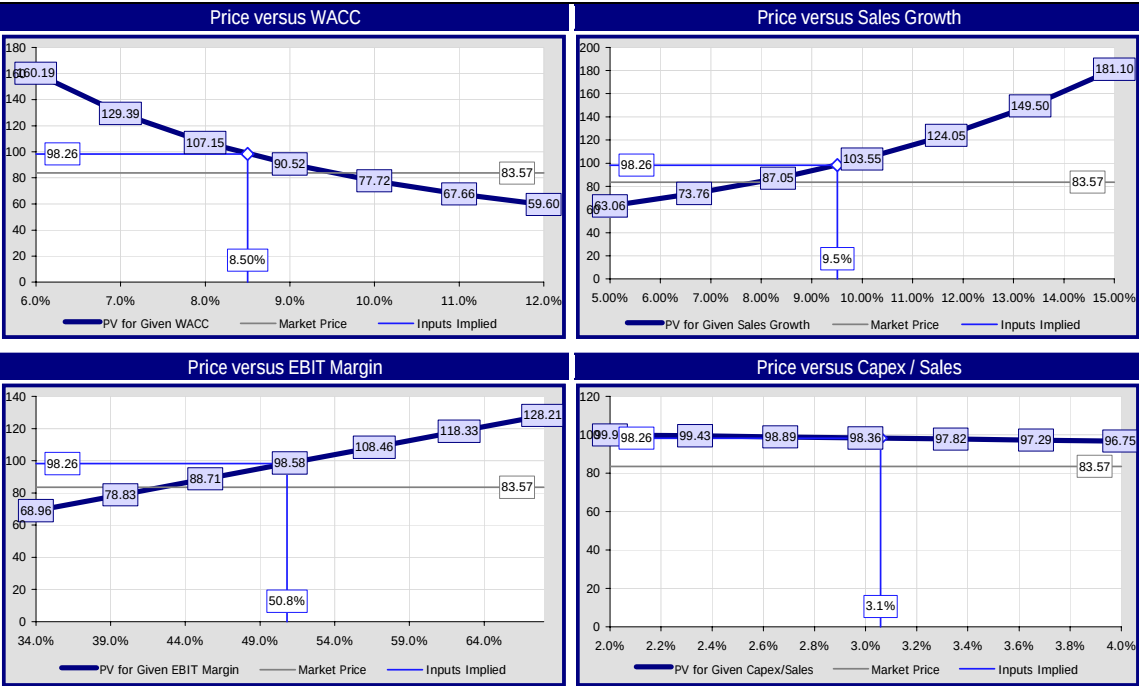
All financial and economic profitability figures represent the final year in the designated period.

All required inputs for the UBS VCAM have been made.

*All CAGRs represent current fiscal year to the Value Creation Horizon for the company.

Source: UBS estimates

Sensitivity Analysis: VCAM
Chart 10: UBS VCAM Sensitivities for V



Notes: Sensitivities are derived from assuming Sales Growth, EBIT Margin, or Capex / Sales is flat annually for years 4 through the VCH.
Years 1 through 3 do not vary, and always represent the assumptions on the Inputs Page.
For each chart, one parameter is varied while the others are held constant. Those held constant are set as they appear on the Inputs Page. "PV" = "Present Value".

Source: UBS's Value Creation Analysis Model (VCAM)

You asked... and we answered

In the following section we address the main and recurring questions (that have not been answered elsewhere in this report) investors have asked us over the past several months (before and after the quiet period). We believe this will help put into perspective some color on the primary issues on investor's minds today, along with providing an overview of the main factors that are relevant to the story.

Why did V (and MA) go public?

Given the structure of the networks prior to their IPOs, the industry has been a lightning rod for litigation claims. With ownership, governance and rule-making concentrated in the hands of a few large banks (an industry that itself is very concentrated), it created ammunition for anti-trust litigation, including numerous merchant and consumer claims of collusion, price-fixing, conspiracy, and the like. With lawsuits mounting (merchant interchange being one of the main 'straws'), it was decided that breaking away from bank ownership via the creation of a mostly independent board would 'stop the clock' on the accrual of liability and provide the best insulation (and defense) against future damage claims. It was clear that MA had a desire to go public several years ago given its efforts to restructure and roll up globally, along with putting public reporting procedures in place. Until MA went public however, we do not believe V shared the same goals and we believe that V entertained other structural options (e.g. private equity ownership) in lieu of a public offering. However, once MA made the move to public ownership we believe V felt they had to follow suit, as it became clear that MA's strong equity currency could put V at a disadvantage with regard to access to capital, acquisition possibilities and overall competitive concerns.

Public ownership will help limit litigation claims

Why are V's margins higher than MA's?

Several reasons:

Structure, spending levels and scale all contribute to V's higher margins

- **Structure** – Because networks like V and MA do not perform the domestic processing within most of the countries in Europe (except for the UK), they do not charge for the transactions, therefore margins are lower. Because V does not have this 'lower margin' business within its portfolio, it avoids that pressure on profitability. However, because we have little data on the percentage of transactions that V and MA actually process on their networks (and the economics per transaction), it is difficult to translate this into what the actual impact is, but, suffice it to say, there is some. Another factor in the margin gap is caused by V's receipt of a \$133MM fixed license fee from VE which is straight pre-tax profit. At our FY08 revenue estimate of \$6.108 billion, this license fee alone translates to ~220 basis points of operating margin differential.
- **Spending** – At the outset, not only does V spend proportionately less than MA does on advertising as a percent of net revenue (at ~18% versus 23% for MA), but V is also forecasting almost \$300MM in cost reductions in FY08 across a wide range of cost items. We believe V's relatively higher aggressiveness in eliminating costs has stemmed from the influence of its prior (large) bank owners who, after seeing MA's tremendous EPS beats

after going public, did not want to make the same mistake (in their eyes) twice and sell out at an inordinately low valuation. Despite the potential for reaching 40%+ operating margins in 2008, we believe there is room for continued expansion given the previously explained relationship between revenue and cost growth. Furthermore, we believe this implied cost potential is a positive indication for what MA may be able to accomplish over the relatively near term as well.

- **Scale** – Given the disparities in metric disclosures between V and MA (V includes PIN debit and ATM volume; MA does not), it is not possible to determine **exactly** how much bigger V is, but generally accepted observations throughout the industry indicate that V does have a meaningful size advantage over MA. Even without pinning down an exact number, when you imagine the extremely high margins on each incremental transaction (because not many ‘new’ costs are required to capture another transaction), the resultant enormous effect on overall profitability illustrates how scale can impact the financial model.

What do we think of management?

We believe V’s management team is very strong and has been a key source of V’s above-average growth over the past several years, along with its success in gaining relatively higher penetration in emerging markets. While several members of the senior management team are relatively new and the team is still gelling, the process so far appears to be going well. Importantly, we see the fact that folks with long tenures with Visa such as Elizabeth Buse (products) and Bill Sheedy (strategy) are leading the areas that are going to be key drivers to Visa’s growth going forward. In our view, a key differentiating factor for V’s management team is its propensity to look more ‘outside the box’ when exploring the possible roles that their valuable network could play in the current and extended payment value chain. Examples of this entrepreneurial spirit are V’s views on its ability to move into other payment-related services that leverage their powerful network such as remittances, healthcare, information processing, etc, which we discuss later in this report.

We believe V’s management team has a solid long-term plan in how to best leverage V’s powerful network

Other than size, what’s the difference between V and MA?

At a broad level, the fact of the matter is that they are very similar companies when considering that they sell to the same customers, have business models driven off similar metrics (e.g. dollar volume and transactions) and are impacted by the same secular trends. From an objective perspective, we believe V is viewed as a more ‘global’ brand, as evidenced by its high rankings in name/brand recognition studies. Looking under the covers a little deeper, one can discern *some* differences along various lines, such as V being stronger in US debit, MA being stronger in European debit; V is stronger in US commercial card, MA is stronger in international commercial card. While the list goes on depending on how granular one takes it, what will matter for both V and MA is their ability to appropriately position themselves along the right product and geographical lines that will maximize the value of their portfolio.

At a broad level, V and MA are very similar companies, though they do differ (sometimes materially) in product, service and geographic capabilities

Why does a bank choose one network over the other?

On the credit side, it is rare for an issuer to be 100% committed to one network, and many of the largest keep a sizeable proportion of volume with both. Under this strategy issuers benefit not only from the ability to get the advantage of tiered pricing, but also from the ability to pit the networks against each other for new business opportunities in order to best optimize/maximize costs/benefits. In the event that a network improves its volume share with an issuer, it will usually come in the form of **future** issuance activity (e.g. 75% of new cards issued going forward will be branded network 'A') rather than a wholesale flip of cards from one network to the other given the desire to avoid customer disruption.

In speaking with industry experts, it seems that while there are a multitude of factors that drive the decision on network choice, selection criteria can generally be boiled down into three primary categories:

We see price, flexibility and relationships as the key drivers of an issuer's network decision

- **Price:** In our conversations, price is frequently mentioned as the primary concern when negotiating a new contract and is where most of the time is spent. The primary reason for this is due to competition. At the most basic level a card issuing division within a large bank is allocated a certain amount of capital on which it must maximize returns. Considering the fact that the card business is extremely competitive, business models and drivers are fairly similar, and all players face similar constraints on capital makes it critical for competitors to continually differentiate themselves. This typically is achieved through marketing, new product development or increased cardholder benefits (e.g. rewards and experiences). All of this comes at a cost and the issuer that is able to direct more dollars toward these efforts (rather than allocating them to network/infrastructure requirements) will be better able to set themselves apart.
- **Flexibility and new product development:** As we alluded to above, issuers need to continually differentiate their offering and remain on the cutting edge of new product rollouts. Some examples of applicable rollouts in recent years include contactless, bill payment and QSR offerings. In addition to a network's ability to develop new products, issuers look for flexibility and a willingness/ability for both issuer and network to work together to achieve common goals. For example, if BAC wants to do a rollout of a parking garage payment product in the Charlotte region, it likely will be looking for not only the features and functionality, but also marketing dollar support, competitive studies/surveys and other various forms of assistance.
- **Legacy relationships:** A key aspect that cannot be dismissed is the legacy relationship between a bank and its network. As these partnerships have sometimes spanned decades, some banks simply just migrated more toward one network versus the other, either through Board representation, M&A activity, business considerations, etc. Adding to these effects, the gradual cross-pollination of personnel between them (at both an executive and business line level) leads to a further cementing of relationships over time.

Are AXP and DFS valid threats to V and MA?

While AXP and DFS are solid franchises, we continue to believe that V and MA will continue to hold a sizeable and sustainable advantage given their vastly

larger scale, global acceptance and product breadth. While the 2004 court decision allowing US V/MA issuers to also issue AXP and DFS cards was clearly a positive for AXP and DFS, the relatively modest uptake of these new networks among large US banks (even under the threat of a lawsuit) illustrates just how difficult it could be for even a well-established and capitalized brand to compete against the scale and scope of the largest networks. Furthermore, as AXP and DFS explore partnering with alternative distribution channels, the issue of revenue cannibalization needs to be considered. This arises from the fact that AXP will make significantly more revenue on a card that is only AXP-branded as they get to keep all the interchange. If AXP issues a card that is co-branded with a bank AXP will need to share some of its interchange with the bank partner at a rate level equal to, or even greater than, that which the bank would get from V or MA. So if that co-brand card takes away from a card AXP would have otherwise issued on its own, AXP would actually be worse off economically. Nevertheless, we acknowledge that investors wishing to play the 'consumer credit' cycle may migrate toward AXP or DFS.

If you could only buy either V or MA (but not both), which would you choose?

When taking a long-term, high level view, we remain very positive on the outlook for both V and MA. The fact that the very strong global secular trends will yield similar benefits to both, coupled with the fact that ~50% of their dollar volume (and ~40% of transactions) is coming from overseas markets (which are growing multiples ahead of the US) makes it a prime driver of their revenue and earnings momentum. Under this assumption, it is hard to see whether one player's competitive advantages will sustainably win out over the other, though we believe V's better positioning in emerging markets and US debit will allow it to experience a prolonged advantage in overall growth versus MA.

Between the stocks, we believe investors will be attracted to V based on its relatively higher margins and growth, and more shareholder-friendly litigation structure; in MA, we believe investors will appreciate the relatively greater margin expansion possibilities. We see the potential for making near-term calls on the stocks similar to how we view ADP and PAYX, who are also very similar competitors and subject to strong secular trends, yet also have some key differences to their business models. Under this assumption, we see possible calls based on the relative spread between trading multiples, though we don't expect the spread between V/MA to be nearly as wide as it has been (at times) for ADP/PAYX.

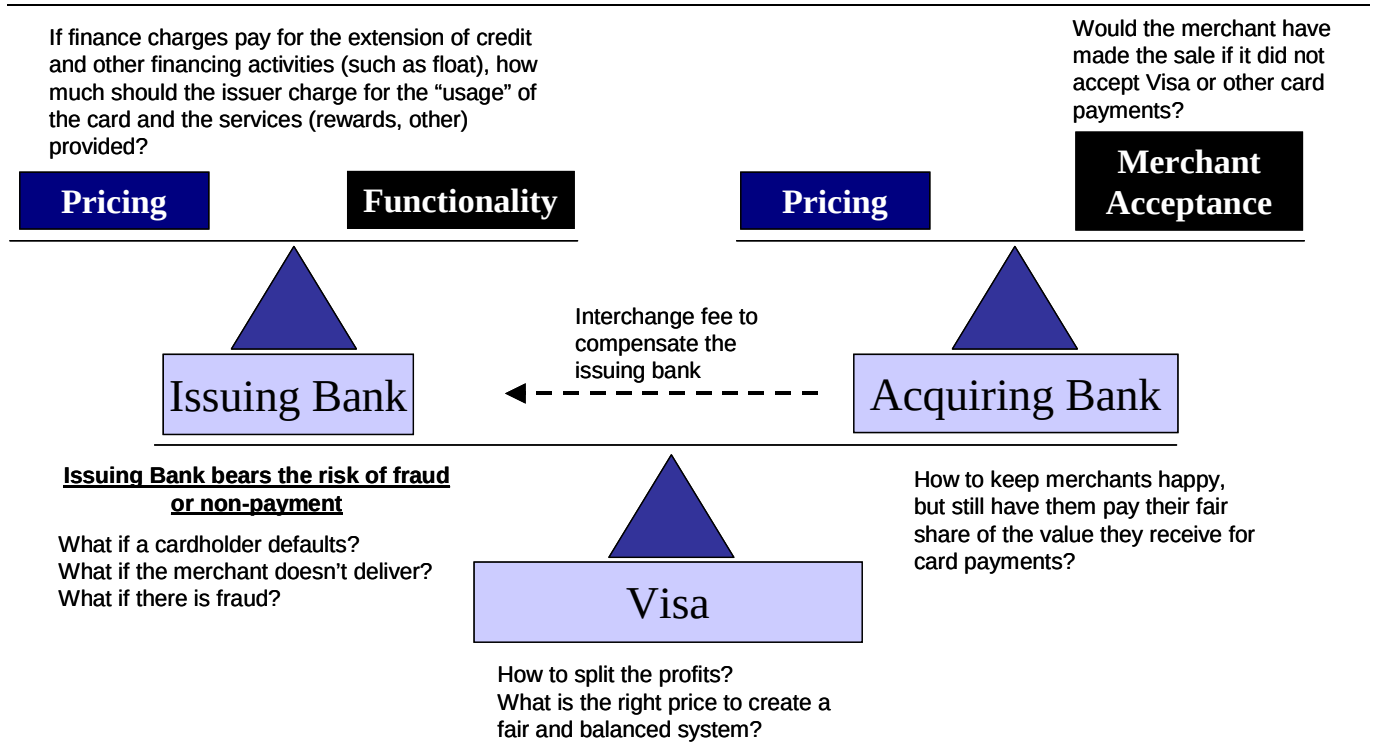
What is 'interchange'?

Interchange is a system designed by the networks to partially reimburse card issuers for providing services to cardholders that also benefit merchants and acquirers on transactions that are 'interchanged' between acquiring banks and issuing banks. While issuers provide a financing function to their cardholders (paid for by finance charges), their card products also provide a value or 'service' to merchants, acquirers, and cardholders by simply providing a payment mechanism that is more convenient for all parties to transact with than cash and checks.

Though we believe V will garner a higher multiple to MA over time, we believe there is an investment case for buying both

To help compensate issuing banks for developing and maintaining this payments infrastructure, the networks charge acquirers an interchange fee, which is typically based on the amount of the sale. Acquirers incorporate this fee into the 'merchant discount' which is what the acquirer charges merchants for the ability to accept electronic payments. In many respects the interchange fee helps issuers recuperate some of the value that merchants receive from the large investment that banks have made in developing and maintaining various payments networks (like V and MA), along with potential losses from the extension of credit.

Figure 2: Interchange tries to balance the value of electronic payments to all participants

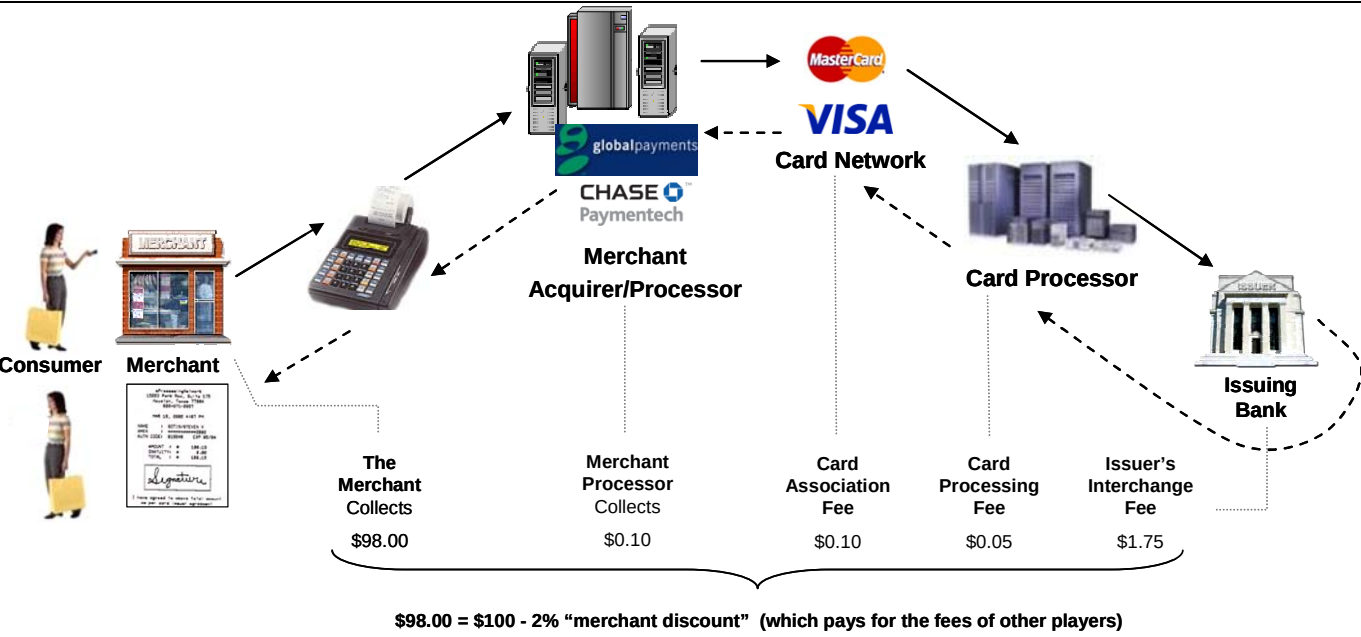


Source: UBS

What are the economic flows of a payment transaction?

While there are several types of POS transactions (credit, signature debit and PIN debit) the parties and directional flows involved in each are fairly similar, but sometimes very different with respect to economic levels. Overall, from a merchant's perspective credit card transactions (illustrated in Figure 3) are the most expensive, followed by signature debit, and then PIN debit. Conversely, revenue levels to all other parties in the value chain follow this same order.

Figure 3: The economics of a \$100 credit card transaction



Source: UBS

What is Visa?

It is the world's largest payment network

Formed in October of 2007, Visa Inc. (V) is the establishment of five (including Visa USA, Visa Canada, and Visa International – which includes Asia-Pacific, Latin America and Central Europe, Middle East and Africa [CEMEA]) of the six major corporate regions around the globe (with Europe the only exclusion) as subsidiaries of a single holding company. While the structural and legal transition of a private card-association to a public entity with greater than 50% outside ownership was a Herculean undertaking, the changes to cardholders, merchants, and to a lesser extent the issuers, were much less apparent.

V is a payments network that helps connect merchant acquiring entities with issuing banks so that they can authorize and settle electronic payments over a central system quickly and securely. It is not a ‘credit card’ company as it does not issue cards, set cardholder fees, nor determine interest rates charged to cardholders – these tasks are taken on by its issuing customers, such as large banks (BAC, JPM, C) or monoline issuers like COF. To help its members and merchants benefit from this network infrastructure, V sets processing rules and interchange rates, guarantees payment (on behalf of its member banks), provides liability protections (for all merchants and consumers), and develops new products and services. At its core, V is the world’s largest payments network that can also be described as a massive processing engine. Its primary clients are the approximate 17,000 financial institutions that issue cards under its brand. Other statistics that put the company’s scale into perspective include:

- 48 billion transactions processed annually
- \$3.6 trillion in total volume processed annually
- 1.5 billion Visa-branded cards in circulation
- 29 million global merchant outlets (includes Europe)

Further data points reveal the sheer magnitude of the company and its key relative position in the global payments landscape. According to company reports, for the 12 months ending September 2007, V (including VE) comprised ~60% of the total ~3B cards in circulation, ~65% of the approximate \$8.5T of total volume, and ~65% of the 103B transactions completed around the world. As illustrated in Table 10, V is larger than its four largest competitors **combined** when considering total volume, transactions, and number of cards in circulation.

Table 10: V is far and away a leader in the payments landscape

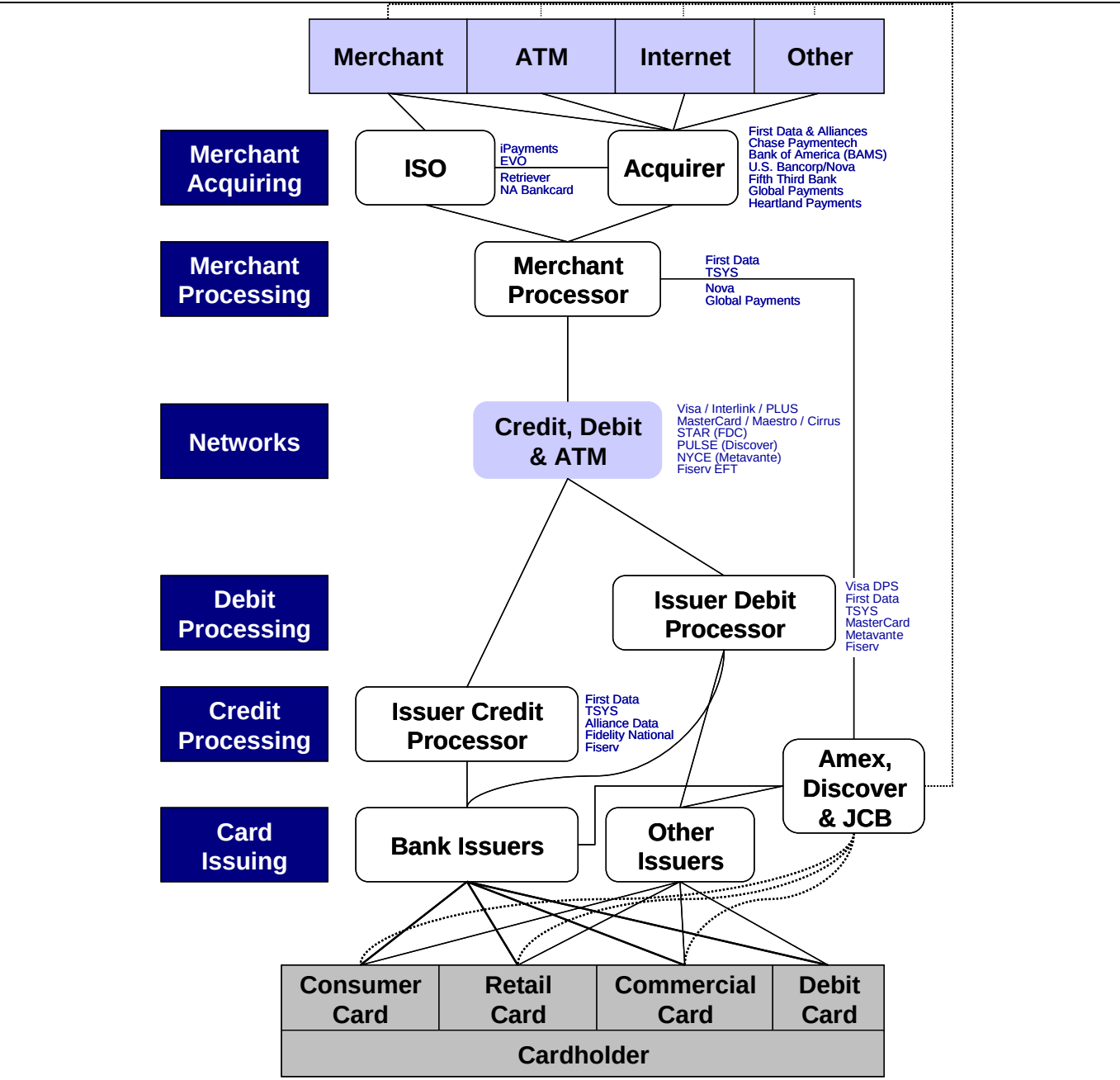
	Visa	Mastercard	American Express	Discover	JCB
Total Volume (\$B)	\$3,627	\$2,172	\$623	\$198	\$70
Transactions (B)	48	26	5.0	3.7	0.7
Cards (MM)	1,520	878	85	57	59
Merchant outlets (MM)	29	26	9.4	4.4	14.1
ATMs (MM)	1.2	0.9	N/A	0.3	N/A

Source: Visa, MasterCard, American Express, Discover, The Nilson Report and ATM & Debit News

Note: Data for Visa, MasterCard and American Express is as of the 12 months ended 9/07, unless otherwise noted; JCB data is for CY 2006; Discover data is for the 12 months ending 11/07, except for cards and merchant outlets, which are valid as of 12/06; ATM data is valid as of 12/06

V is a network that acts as an intermediary between millions of merchants and thousands of banks around the world to facilitate electronic commerce

Figure 4: The payments landscape



Source: TSS and UBS

Visa Provides a Common Set of Rules That Help Competing Banks and Merchants Cooperate for the Benefit of All

V provides order, accountability, and security to the electronic payments system by issuing and administering a common set of 'rules' and operating procedures that all participants in the network must adhere to. This is a necessity because, although its member banks (that issue Visa-branded cards) are part of the same network, they often 'customize' V's products to fit their own customer bases. As an impartial 'payments referee', V helps ensure that when a consumer uses his card, all parties along the electronic payments system cooperate to make that transaction a success. Although the details are not apparent to most, the Visa brand implicitly assures all participants that a transaction will be completed successfully and assures:

- **Cardholders** that their Visa card will be accepted by the merchant (regardless of whether the card was issued by a small bank unknown to the merchant, or a large multinational bank that the merchant recognizes);
- **Merchants** that the transaction will work and that they will ultimately be paid the funds promised;
- **Acquiring banks** that the transaction will be authorized and settled properly; and
- **Issuing banks** that the transaction was secure and that the cardholder was able to access funds in his credit or debit account quickly and easily

Visa Europe

Visa Europe (VE) is a separate entity and not technically part of V, yet it remains an integral part of the story in its 'licensed franchisee' form. V receives royalty fees each year from VE, provides authorization services for cross-border transactions, and provides clearing and settlement within the region as well. Further, VE can only monetize its franchise thru V (whereby V will acquire VE via a call option, or VE can 'put' itself back to V via a put option), and there is a formula (illustrated below) to value the region upon its potential addition to the larger corporate entity.

$$VE \times price = (VE's \text{ sustainable NI} * V's \text{ forward P/E}) + Synergies$$

V explained the structure as one that enables the company to be better positioned in the dynamic and increasingly regulated European payments landscape, as a non-US and European-based entity would have a better chance of signing up European banks in a market that is expected to be redefined by SEPA (Single European Payments Area). While it is too early to know if this in fact will prove to be true, several experts from the region have indicated that issuers will likely pay little attention to the ownership structure between V and MA when making a brand decision. The important point to understand is that there is a mechanism for keeping the asset within the V corporate umbrella, as described above. The other part of the issue we point to is VE's less competitive position in the region (as evidenced by significantly lower transaction market share versus MA). We believe that at the time V was coming together, VE realized its lower growth and profitability would not compare well to other

V sets the rules, operating procedures and (some) economics for those participating in its system, but does not take on credit risk

Visa Europe is an independent 'licensee' of the Visa brand; a put/call option structure creates a mechanism for keeping it within the 'Visa Inc.' fold

regions of the organization, resulting in an ownership level that was not sufficient versus their expectations. We think VE will make a significant attempt in the next few years to improve its market position and financial performance, and that could prove to be materially beneficial to the financial institutions that continue to own the entity. If performance lags, a transaction with V could be dilutive when/if it ever happens.

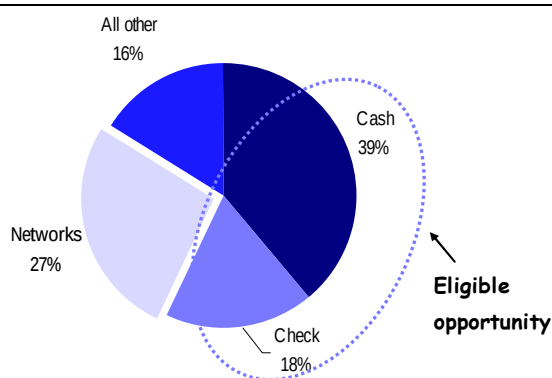
V's strategy is growth, growth and more growth

When we consider V's largely fixed-cost business model that requires fewer (and slower growing) investments in infrastructure and capacity to support greater top-line expansion, the company's growth strategy is the key component to higher margins and greater profitability levels. In our view, one of the most compelling highlights of this story (as well as MA's) is the enormous potential to continue to penetrate cash and checks, which we estimate comprise about 57% (or ~\$12T) of personal consumption expenditures found in V's regions. As Chart 11 illustrates, the 'growth runway' in automated payments is still immense. Fortunately for investors, the company has several major tools and assets to effect significant and sustainable levels of growth, including its:

A high fixed-cost model and little investment requirement drives ample margin expansion and earnings growth

- **Processing network:** It is called VisaNet and while it is already very large it can be further scaled and leveraged; near-term, management has indicated that volume could double before new capacity will need to be added
- **Various products and services:** Existing and new ones (in various stages of development) help round out an already comprehensive product set
- **Brand:** 'Visa' is ranked among the most recognized and trusted in the world
- **Relationships:** At the recent count (worldwide), currently almost 17,000 financial institutions and approximately 29MM merchants issue or accept V's products.

Chart 11: Networks have a 27% share of the \$21T in eligible PCE spend across V's regions



Source: V, Euromonitor Int'l, MA, AXP and The Nilson Report

Note: PCE = Personal Consumption Expenditures. Data excludes Europe and commercial volumes; includes purchase and cash transactions.

We believe V has the right, two-pronged growth strategy that can be divided into the following ‘defend and extend’ mantra:

■ **Defend and grow** its core product offering, which includes credit, debit, commercial and prepaid. This part of the strategy will be customized for individual markets as we believe ‘new accounts’ are the greatest source of growth in emerging areas (like CEMEA and LatAm), while new merchant outlets and incremental spending are larger contributors to growth in more mature geographies. For example, one area in which V has focused on converting cash payments has been in bill payment (which the company estimates to be a \$1.7 trillion marketplace), and V’s efforts have resulted in mid-to-upper teens volume growth. Another area is quick service restaurants (QSRs), which V estimates to be a \$150 billion industry and where V has grown its volumes by about 30% yoy.

■ **Extend** the network and find new ways to monetize it in order to diversify and maintain and/or accelerate top-line growth. Some examples include prepaid, e-commerce, mobile, money transfer and possibly even non-financial processing businesses (at some point in the future). Details include:

- **Mobile** - While mobile receives a lot of attention in trade rags and at conferences, we think it will be several years before this payment medium at the point-of-sale is really ready for prime time and generating material volumes (at least outside of very specific markets like Japan where development is already very advanced). In the interim, we expect person to person money transfers (via basic SMS messaging) to be the primary beneficiary of mobile technology but believe it will take several more years for this market to really become viable. We believe basic formatting and industry data standards have yet to be agreed upon, and the role and economic models for key players (including both payment and wireless networks, handset manufacturers, banks, and processors) have not yet been determined.
- **Money transfer** – We have been writing about the potential for increasing competition for cash-based remittance vendors from non-traditional players, and it appears as though the change in corporate structure is the key catalyst towards V’s initiative. We think V’s foray into remittances will be broad-based and across multiple platforms, including a reloadable prepaid card, the Internet, and mobile phones. We expect these new mediums to be competitive, as MasterCard spoke to some of these opportunities at its 2007 and 2008 Analyst Days, and Western Union has also recently announced a few initiatives in these areas as well. It remains to be seen which company and/or business model will be more successful, but we continue to believe that the cash-based model will be facing serious challenges in the next several years. The basis of our thesis is that various third parties (as well as Western Union) have confirmed that about 75% of current remittance transactions have at least one participating party that has a bank account. We believe this basically renders many of the stereotypes about the current user base to be largely inaccurate, and certainly makes new

Mobile, money transfer, prepaid and processing represent some of the new initiatives we expect to see out of V in the coming years

remittance models (most of which are cheaper, faster, and more convenient) very viable.

- **Prepaid** – The prepaid market is one that is marked by a broad range of products with material growth opportunities. Products in this area include Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), gift cards, payroll cards, government disbursement, and reloadable cards, which we view as the best way for issuers to penetrate the under- and non-banked population. The prepaid arena remains an area of great interest for many industry participants as it offers some of the most promising areas of new product development and potential volume growth. Our checks with industry players indicate that V has a particularly good business model here, a strong desire to capture new growth opportunities, and pragmatic approach to the market overall.
- **Processing** – V already provides debit processing with its well-regarded DPS offering (and is the number-one provider in the world); however, given V's position in the value chain we believe a move into other card processing segments (e.g. credit) could be a logical progression. While these markets have been historically dominated by large incumbent players like TSS and First Data, the ability of V to offer a fully integrated end-to-end service could be a compelling offering for issuers to consider. However, important considerations to address would be the issue of one network processing (and in effect, 'seeing') the transactions of the other, as well as the less attractive growth and profitability characteristics of those transactions not on V's network.
- **Ancillary and other services** - In addition, we expect V to attempt to increase its overall processing capabilities, expand value-added offerings (like risk and fraud services), and continue to invest in faster growth areas like the underbanked (largely via the company's general purpose reloadable prepaid card), bill payment, and small-ticket segments (like quick-service restaurants).

Table 11: Our informal poll of payment industry participants indicates that V scores very well across a number of metrics when considering their products, services and overall capabilities

	Consumer					Commercial			
	Credit	Signature Debit	PIN Debit	ATM	Prepaid/Other	Small Bus Credit	Small Bus Debit	Large/Mid-Mkt	Direct/Data Intensive
Visa	●	●	●	●	●	●	●	●	●
MasterCard	●	●	●	●	●	●	●	●	●
American Express	●	N/A	N/A	○	●	●	N/A	●	●
Discover	●	○	○	●	○	○	○	N/A	N/A

Strong: ● Moderate: ● Weaker: ○

Source: UBS and industry sources

V deserves a lot of credit (no pun intended) for its platform

V's platform capabilities allow issuers to offer a variety of products to their targeted customer bases, and use a plethora of tools to customize their programs and monitor progress and growth. We divide V's offerings into four major products:

- **Visa Classic/Traditional** – Geared toward the emerging markets or consumers that are new to the credit world (e.g. sub-prime)
- **Visa Gold (Platinum)/Traditional rewards** – Caters to the middle and upper middle market
- **Visa Signature/Platinum** – Targets the new affluent and value sensitive
- **Visa Infinite/Signature Preferred** – Aimed at the affluent and biggest spenders

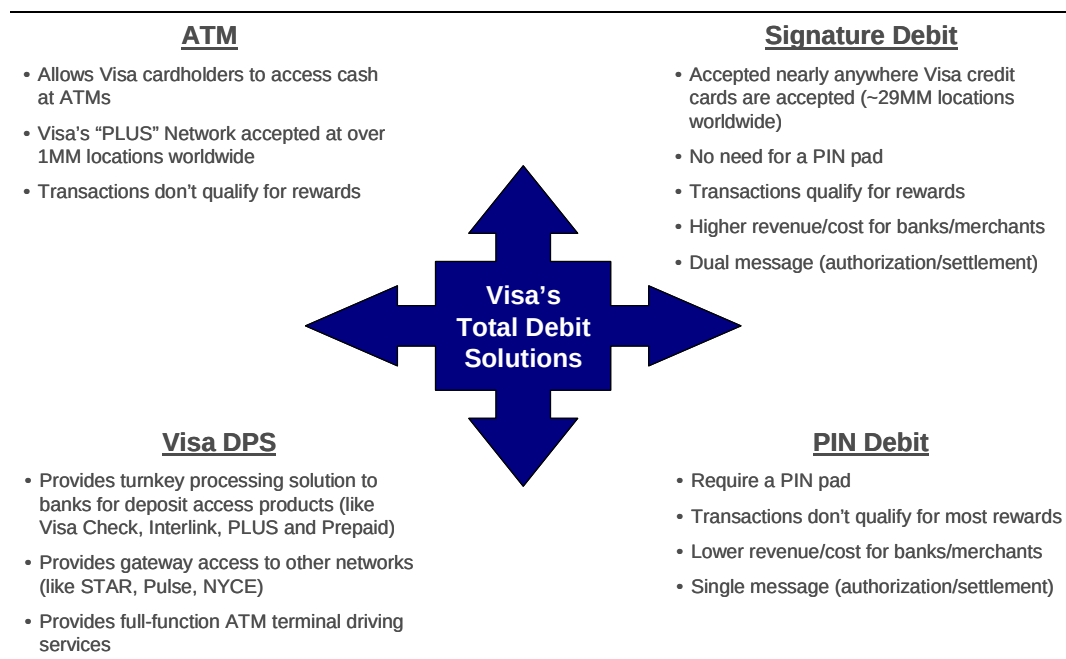
V's Debit strategy is a big growth differentiator

V has garnered more market share on the signature debit side for quite some time, but it really burst on the PIN debit scene in 2003-2004 when it was able to win a slew of contract from banks that formerly were on the STAR network (which was then owned by Concord EFS before being acquired by FDC). Those key signings (including Wells Fargo, Wachovia and Bank One, among many others) enabled V to become the largest player in the fastest growing payment type in the largest single market in the world. The latest data from our industry sources peg V with 41%, 79% and 63% market share in the PIN, signature and overall US debit market, respectively.

In addition to its account access offerings that focus on purchasing capabilities (including signature debit, Interlink, and Visa Electron) and Cash/ATM access (including Visa, Plus, and Visa Electron), the company also offers full service issuer processing capabilities. This includes, but is not limited to, services such as authorization processing, ATM terminal driving, fraud/risk management, call center services, card management and marketing support. While we believe V is the world's largest debit issuer processor, MA recently announced its IPS initiative, which it will first market in the US and then likely on a global basis in the future. Because debit is so different from credit, we believe DPS has been a big differentiator for V in its very impressive efforts to grow its US debit share.

V's success in taking away a meaningful share of FDC's largest customers made Interlink the pre-eminent player in US debit

Figure 5: V's debit solutions provide end-to-end capabilities



Source: Visa and UBS

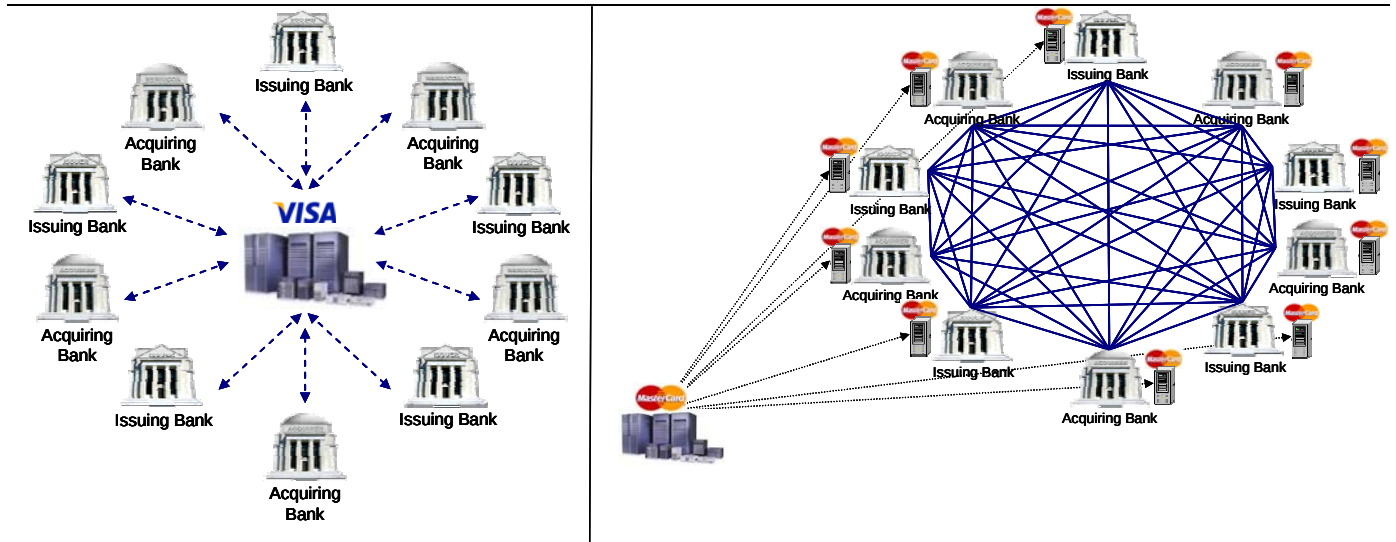
VisaNet: The 'not-so-hidden' gem

The most basic, yet most admirable and leverageable asset in both V and MasterCard's arsenal is the network. Both have networks that are extremely scalable and extendable; they can both add incremental transactions and volume at minimal cost. In addition to its scale and flexibility to process different kinds of transactions, V's network (like MA's) is extremely secure and reliable. We view the fact that it has posted 99.999% availability and has never been hacked into as key necessities, without which none of the other growth or expansion would even be possible.

VisaNet is a global network with real time synchronization in four data centers (two in the US, and one in both Europe and Asia). Based on our conversations with management, it is our understanding that actual peak usage of the system is a relatively modest fraction of total capacity, while normal usage patterns suggest this fraction is much lower.

We have written in the past about the differences between V's (more centralized) and MA's (more distributed) network design, and for the most part believe that, despite the nuances, there is not much of a difference when it comes to the safety, reliability, maintenance costs, or ability to launch new products. While each network will claim that its structure provides certain competitive advantages, it is difficult to say which model (distributed or centralized) is the optimal solution for issuers and acquirers alike, and we suspect that there is no 'one-size-fits-all' application given the needs and requirements of the disparate issuing constituents. According to our conversations with issuers, what does set the networks apart, and what is a large part of contract negotiations, are the general terms and conditions that surround the processing agreement. These may include things like penalties (e.g. how they are calculated, their level) in the event the network goes down, indemnification for the issuer if the network is hacked and general rights/regulations relating to co-developed intellectual property.

Figure 6: V's 'Hub and Spoke' processing system (VisaNet) vs. MA's 'Distributed' system (Banknet VPN)



Source: Company reports and UBS

As we indicated previously, both V and MA only see 100% of the transactions in the US, Canada, UK, Australia and Brazil, with the rest of the world having various percentages of transactions traveling over local networks. Increasing the ability to process these 'local network' transactions remains a large growth and margin opportunity that we will continue to monitor.

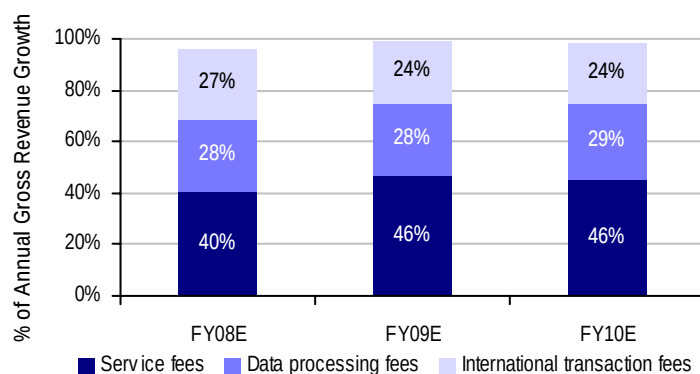
Visa's Business Model

V's primary source of revenues are from fees charged to its issuing and acquiring bank customers. Depending on the type of customer, transaction and/or geographic region, V will charge basis points on volume or fees per transaction, much of which is tier-based and gradually declines as volume levels increase. V's revenues are comprised of the following categories:

V's model is driven off a combination of fees charged based on both volume and transactions processed

- **Service fees** (44% of FY07 gross revenue) – These include fees paid by their issuing customers for the use of the Visa brand and also fees to acquiring banks for merchant acceptance and other growth initiatives. Service fees are primarily based on the level of payments volume (excluding cash) on cards that carry the Visa brand and are analogous to MA's 'assessment fee' category. Because V previously had a decentralized structure and no need to perform a global roll-up according to regulatory timelines, the current quarter's revenues have historically been based off of prior quarter's volume. This is dissimilar to MA's method, which bills customers based on current quarter's volume. We believe that as V becomes better accustomed to operating under a centralized structure and further refines its reporting capabilities, that billing procedures may change to a current-on-current period basis and conform with its competitor's standards. In 2007 these fees grew 25% (14% excluding price effects) and we expect 2008 and 2009 to see growth of 24% (19% excluding price effects) and 15% in 2009.

Chart 12: Contributing to almost 50% of growth, service fees are a key driver of V's business model

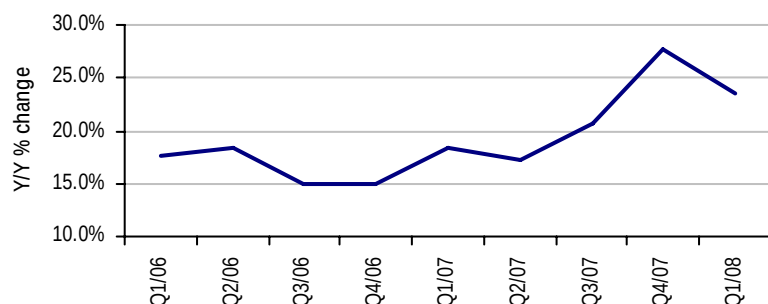


Source: Visa and UBS

- **Data processing fees** (28% of FY07 gross revenue) - These represent fees charged to both issuers and acquirers for authorization, clearing, switching, settlement and general operations associated with transactions processed over VisaNet. Also included here are processing fees paid to V from VE and fees from issuers using V's debit processing service, Visa DPS. They are based on the number, size and type of transactions within the current period and are analogous to MA's 'operation fee' category (excluding currency conversion revenues). In 2007 these fees grew 18% (15% excluding price effects) and we expect 2008 and 2009 to see growth of 26% (19% excluding price effects) and 14% in 2009.

- **International transaction fees** (20% of FY07 gross revenue) – These represent charges for cross border payment and cash transactions which are executed in a country that is outside that of the issuer. They are comprised of fees incurred on single currency transactions that cross discrete borders (e.g. a French cardholder transacts in Germany in Euros), in addition to fees generated from currency exchange (e.g. a French cardholder transacts in the US and has Euros converted to USD). These are based on current quarter transactions and are heavily influenced by global travel trends. In 2007 these fees grew 31% (18% excluding price effects) and we expect 2008 and 2009 to see growth of 34% (28% excluding price effects) and 15% in 2009. We expect growth in these fees to continue to be robust as standards of living and individual mobility increases around the globe. While V's historical cross-border transaction growth is not available, we have presented MA's metrics in Chart 13 for illustration purposes, as we believe V's trends are likely to be relatively similar.

Chart 13: MA's cross-border transaction growth



Source: MA and UBS

- **Other** (8% of FY07 gross revenue) – These are comprised of fees charged for optional services, product enhancements and various cardholder services, in addition to license fees (~\$133MM annually) paid to V by VE. These are recognized in the same period in which the underlying service or transaction takes place. In 2007 these fees grew 15% and we expect 2008 to see growth of 13% and 2009 to see an increase of 2%. Given the lack of visibility in the components that drive these revenues, we have built in only modest growth expectations for this line item post-FY09.
- **Volume and support incentives** (-12% of FY07 gross revenue) – These fees are recorded as 'contra-revenue' and bridge the gap between 'gross' and 'net' revenue. These fees represent the amount that V pays/reimburses customers in exchange for committing certain levels of volume to V, along with meeting specified growth criteria and are recorded in the same period as the performance targets are met. We believe these rebates and incentives (which are better described as 'pricing concessions' or 'fee adjustments') have become increasingly material and will likely continue to grow year over year due to the intense competition in the payment's industry and recent retail banking trends (such as bank consolidation and globalization), which are shifting control

of payment volumes to fewer, yet increasingly larger banks and issuing alliances. As illustrated in Chart 7, rebates declined in 2007 due to several large banks not meeting their volume hurdle requirements. We believe the contracts have since been renegotiated to improve the likelihood that future volume goals would be met. As such, we have assumed an increase in volume and support incentives to increase as a percent of gross revenue from 12% in 2007 to 19% by 2009, with continued modest increases thereafter.

Revenue Yield: A misguided (and sometimes misunderstood) metric

In our discussions with investors, a lot of attention and questions were directed to comparing revenue yields between V and MA. We believe the absolute yield levels are fairly incomparable due to a variety of nuances in the measurement process and the metric overall, such as:

■ Definition:

- V defines yield as Net Revenue/Payment (Purchase) Volume
- MA defines yield as Net Revenue/Total GDV

■ Metrics basis (denominator):

- V includes volume from Interlink (PIN debit and ATM), while MA does not include the equivalent from its Maestro network

■ Other drivers:

- Yields can be impacted by transaction mix (domestic vs. cross border), product type (commercial vs. consumer), incentive levels and pricing, all of which are not in the same proportions to the total portfolios of V and MA

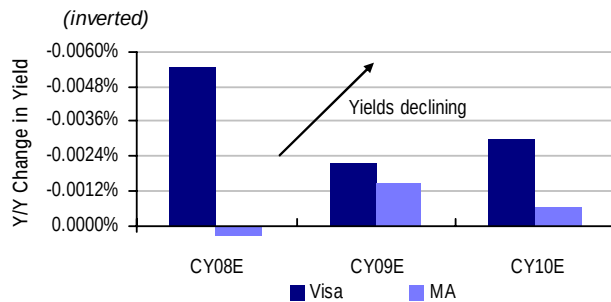
Table 12: Yields vary depending on who's definition is used

	Yield For:	
	V	MA
Based on:		
V's definition	0.22%	0.24%
MA's definition	0.14%	0.18%

Source: UBS. Note: Figures are for CY08E

To that end, we prefer to look at the **direction** of the yield as we believe that is a more telling metric of how pricing and incentives are trending over time. According to management (of both V and MA), yields are expected to decline over time due to the increasing pressure from large customers that continue to get even larger. In addition, since debit (which has a lower yield) is growing faster than credit, this will put pressure on yields as it becomes a larger proportion of the portfolio and subsequently weighs down the yield measure. Chart 14 illustrates our forecast of the expected y/y change in yields for both V and MA.

Chart 14: We expected continued declines in revenue yields



Source: UBS estimates

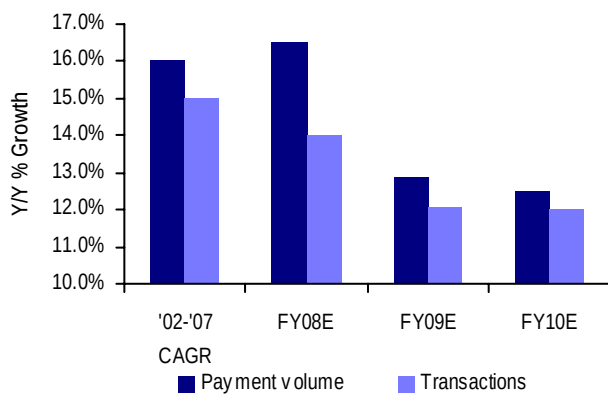
Financial outlook

Secular trends point to solid revenue growth

The core of V's business model is driven by the strong global secular trends that are driving the shift from paper to electronic-based forms of payment. As we alluded to previously, these powerful trends create what is the beauty of this model, which is that capturing new volume/revenue does not require a large degree of incremental costs. In fact, over the near term we see the potential for even greater margin expansion driven by the above dynamic, along with the potential for V's estimated \$300MM in operating cost savings currently underway.

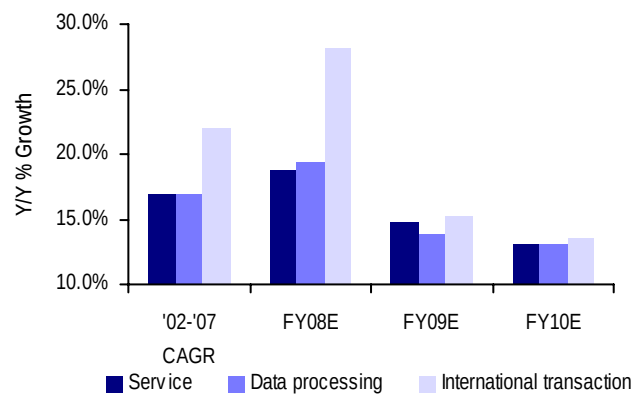
Powerful secular trends preclude the need for large increases in costs to garner new volume

Chart 15: Our '09 and '10 forecasts of volume and transaction growth appear conservative vs. recent history...



Source: Visa and UBS estimates

Chart 16: ...as do our expectations for revenue growth



Source: Visa and UBS estimates. Note: Revenue growth excludes pricing impacts

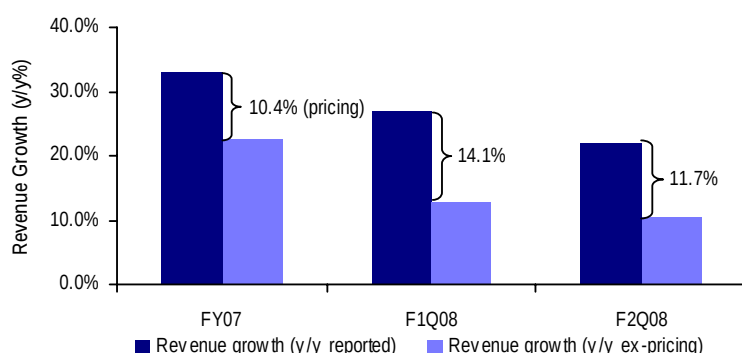
Pricing should provide a modest contribution to top line growth

We believe V will be able to garner at least a 1-2% addition to top line growth from pricing, supported by what is a relatively concentrated network industry structure along with V's recent conversion to a 'for profit' entity. While we do not doubt the large banks will indeed exert pricing pressure on V and MA (which is in our forecast), we also acknowledge that this still leaves thousands of other customers (both issuing banks and merchant acquirers) that do not share this same negotiating position. Importantly, V and MA have shown to be disciplined players when it comes to price (kind of like the payroll market), and our channel checks indicate that both networks have walked away from business that did not meet return hurdle rates. To that end, our conversations with key issuers have indicated that since the networks became public, many products and services that were previously free (or subsidized) now have a price tag on them.

We believe industry structure, coupled with V and MA's move to 'for-profit' entities supports the ability to achieve at least a 1-2% top-line contribution from pricing

As part of V's conversion to a for profit entity, they needed to 'true-up' several regions around the world to prices that were more in-line with the market. As a result, FY07 and FY08 revenue growth looks abnormally high; in Chart 17 we illustrate what revenue growth would have looked like without pricing impacts, which we believe have anniversaried (for the most part) by F2Q08.

Chart 17: 2007's pricing moves have added over 10% to top line growth



Source: Visa and UBS estimates

Debit is bolstering the defensive nature of the model

Debit's relatively higher growth rate, along with its more active use in non-discretionary spend categories has made it an important driver of V's ability to post continued solid growth rates despite the economic slowdown. As we alluded to previously, ~42% of V's volume comes from non-discretionary spend categories (where debit has higher usage rates). Worth noting is that senior management teams in the payment industry first began to highlight emerging the shift from discretionary to non-discretionary spending categories back in mid-2007, and continue to highlight that this trend remains underway.

Global tax planning could be meaningfully accretive to EPS

Because V was financially managed on a decentralized basis there was never any tax planning involved, which has resulted in a relatively high tax rate of 41% for FY08E. By incorporating a 'global' tax plan, the company expects to lower this rate to 35-36% over the next 3-5 years. As Table 13 indicates, moving to a lower tax rate could generate over 4% of EPS accretion for V, and even more if they move quicker in lowering their tax rate than our estimates suggest.

Table 13: Taking down the tax rate from current levels could generate over 4% of EPS accretion over the near term

	FY09E	FY10E	FY11E
Tax rate - UBSe	39%	39%	38%
Tax rate - FY08E	41%	41%	41%
EPS Accretion	\$0.09	\$0.10	\$0.18
EPS Impact	4%	4%	5%

Source: Visa and UBS estimates

What to do with over \$1B in free cash flow?

In addition to a solid and visible business model, V (and MA) generate a substantial amount of free cash flow driven by limited capex requirements, high incremental margins and favorable secular trends. As we illustrate in Table 14, we expect V to generate over \$1B in FCF over the coming years.

Table 14: V generates ample FCF

	FY08E	FY09E	FY10E
Net income (before items)	1,563	1,933	2,291
D/A	245	262	302
Capex	(498)	(289)	(269)
Legal settlement	(139)	(150)	(162)
FCF	1,171	1,755	2,163
Dividends	(171)	(343)	(343)
FCF (after dividends)	1,000	1,412	1,820

Source: UBS estimates

We expect V to utilize its FCF as follows:

- **Product development:** As we alluded to previously, we anticipate V making a meaningful push into remittances, pre-paid, mobile and processing.
- **Dividends/Share repurchase:** Management has stated that it plans to begin buying back stock after October 2008 upon completing the repurchase of some European shares; we currently are forecasting only modest buybacks (~1MM shares annually, or <0.5% of total outstanding) but believe the company is likely to do more.
- **Acquisitions:** Management has indicated that they do not have a desire to do a 'major' acquisition, and we expect the company to focus on niche/specialized opportunities (e.g. multi-currency processing capabilities).
- **Visa Europe:** While a transaction here is at least a year away (and likely farther out), we believe the company will prepare for this eventuality, and the possibility that it could be dilutive to EPS.

Table 15: V Quarterly Income Statement, FY07A-FY10E (FY = September)

	'07 FY A	Dec '07A 1 Q	Mar '08A 2 Q	June '08E 3 Q	Sept '08E 4 Q	'08 FY E	Dec '08E 1 Q	Mar '09E 2 Q	June '09E 3 Q	Sept '09E 4 Q	'09 FY E	Dec '09E 1 Q	Mar '10E 2 Q	June '10E 3 Q	Sept '10E 4 Q	'10 FY E
Service fees	2,582	732	792	807	861	3,192	842	911	926	986	3,664	955	1,029	1,046	1,114	4,145
year-over-year growth	25.3%	26.9%	29.0%	22.0%	18.0%	23.6%	15.0%	15.0%	14.8%	14.5%	14.8%	13.5%	13.0%	13.0%	13.0%	13.1%
Data processing fees	1,659	492	494	557	542	2,085	563	566	632	613	2,373	637	639	714	692	2,682
year-over-year growth	17.6%	30.6%	33.4%	24.0%	17.0%	25.6%	14.5%	14.5%	13.5%	13.0%	13.8%	13.0%	13.0%	13.0%	13.0%	13.0%
International transaction fees	1,193	381	379	399	445	1,603	442	436	458	511	1,848	503	495	520	580	2,098
year-over-year growth	31.0%	54.0%	34.6%	28.0%	26.0%	34.4%	16.0%	15.0%	15.0%	15.0%	15.2%	13.8%	13.5%	13.5%	13.5%	13.6%
Other revenues	473	133	126	132	144	535	129	130	138	150	546	133	134	142	154	562
year-over-year growth	15.4%	23.1%	11.9%	11.0%	8.0%	13.1%	-3.0%	3.0%	4.0%	4.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Gross revenue	5,908	1,738	1,791	1,894	1,991	7,415	1,976	2,042	2,154	2,259	8,431	2,228	2,297	2,422	2,540	9,487
year-over-year growth	23.3%	32.7%	29.9%	22.9%	18.6%	25.5%	13.7%	14.0%	13.7%	13.4%	13.7%	12.7%	12.5%	12.5%	12.5%	12.5%
Volume and support incentives	(715)	(250)	(338)	(350)	(368)	(1,307)	(366)	(378)	(405)	(429)	(1,577)	(423)	(439)	(460)	(483)	(1,805)
as a % of Gross revenue	-12.1%	-14.4%	-18.9%	-18.5%	-18.5%	-17.6%	-18.5%	-18.5%	-18.8%	-19.0%	-18.7%	-19.0%	-19.1%	-19.0%	-19.0%	-19.0%
Net revenue	5,193	1,488	1,453	1,544	1,623	6,108	1,611	1,664	1,749	1,830	6,853	1,804	1,858	1,962	2,058	7,682
year-over-year growth	33.1%	26.8%	22.0%	13.1%	10.9%	17.6%	8.2%	14.5%	13.3%	12.7%	12.2%	12.0%	11.6%	12.2%	12.5%	12.1%
Net Rev as a % of Purchase Volume (V method)	0.221%	0.219%	0.226%	0.221%	0.227%	0.223%	0.210%	0.229%	0.222%	0.226%	0.222%	0.209%	0.228%	0.221%	0.226%	0.221%
year-over-year growth		0.014%	0.008%	-0.004%	-0.008%	0.002%	-0.009%	0.003%	0.001%	0.000%	-0.001%	-0.001%	-0.002%	-0.001%	0.000%	-0.001%
Net Rev as a % of GDV (MA method)	0.143%	0.139%	0.142%	0.140%	0.142%	0.141%	0.131%	0.141%	0.138%	0.139%	0.138%	0.128%	0.138%	0.135%	0.137%	0.135%
year-over-year growth		0.006%	0.002%	-0.006%	-0.008%	-0.002%	-0.008%	-0.001%	-0.002%	-0.003%	-0.003%	-0.003%	-0.004%	-0.003%	-0.003%	-0.003%
Personnel	1,138	260	270	280	315	1,125	274	284	294	328	1,179	289	303	315	351	1,258
year-over-year growth	12.8%	-2.9%	2.1%	-2.6%	-1.1%	-1.1%	5.5%	5.0%	5.0%	4.0%	4.8%	5.4%	7.0%	7.0%	7.0%	6.6%
Network, EDP and communications	289	83	78	80	90	331	89	83	86	97	356	96	91	95	107	389
year-over-year growth	-39.2%	25.7%	19.0%	4.5%	11.5%	14.5%	7.0%	7.0%	8.0%	8.0%	7.5%	8.0%	9.0%	10.0%	10.0%	9.3%
Advertising, marketing and promotion	1,075	210	215	315	335	1,075	227	232	315	335	1,109	234	239	324	345	1,142
year-over-year growth	24.4%	2.5%	18.1%	28.8%	-24.4%	0.0%	8.0%	8.0%	0.0%	0.0%	3.2%	3.0%	3.0%	3.0%	3.0%	3.0%
Professional and consulting	434	89	96	145	165	495	104	109	155	177	545	110	117	167	190	584
year-over-year growth	3.8%	12.4%	-10.2%	16.0%	34.0%	14.1%	17.0%	14.0%	7.0%	7.0%	10.2%	6.0%	6.5%	7.5%	7.5%	7.0%
Administrative and other	353	66	75	90	125	356	76	84	96	134	390	80	89	103	143	415
year-over-year growth	93.9%	-18.8%	-5.8%	2.2%	20.2%	0.9%	15.0%	12.0%	7.0%	7.0%	9.5%	5.6%	6.0%	6.5%	7.0%	6.4%
Depreciation and amortization	172	45	42	45	45	177	45	47	49	53	194	54	56	61	64	234
year-over-year growth		4.7%	-2.3%	4.7%	4.7%	2.9%	0.2%	11.0%	8.8%	17.9%	9.4%	20.0%	19.6%	24.2%	20.2%	21.0%
Total Operating Expenses	3,460	753	783	955	1,075	3,566	815	839	996	1,123	3,773	863	895	1,064	1,199	4,022
year-over-year growth	17.4%	1.5%	5.6%	10.4%	-3.4%	3.0%	8.2%	7.2%	4.3%	4.5%	5.8%	5.9%	6.6%	6.9%	6.8%	6.6%
Operating Income (EBIT)	1,733	735	670	589	548	2,542	795	825	753	707	3,080	941	963	898	858	3,660
year-over-year growth	81.6%	70.5%	49.0%	17.6%	56.2%	46.7%	8.2%	23.1%	27.8%	29.0%	21.2%	18.3%	16.7%	19.2%	21.5%	18.8%
Operating Margin	33.4%	49.4%	46.1%	38.1%	33.8%	41.6%	49.4%	49.6%	43.1%	38.6%	44.9%	52.2%	51.8%	45.8%	41.7%	47.6%
Investment Income, net	197	35	27	31	31	124	33	32	31	33	129	31	30	31	33	125
Interest Expense	(97)	(38)	(18)	(19)	(19)	(94)	(23)	(24)	(20)	(20)	(87)	(20)	(20)	(17)	(17)	(75)
Other Income/(Expense)	8	-	-	43	40	83	-	-	23	23	46	-	-	23	23	46
Income Before Taxes, etc.	1,841	732	679	643	600	2,654	805	833	787	742	3,168	952	973	935	897	3,756
Income Taxes (Benefit)	755	302	278	264	248	1,091	314	325	307	290	1,236	371	379	365	350	1,465
Tax Rate	41.0%	41.3%	40.9%	41.0%	41.4%	41.1%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%	39.0%
Net Income Before Ex. Items	1,086	430	402	380	352	1,563	491	508	480	453	1,933	580	593	570	547	2,291
year-over-year growth	54.3%	62.8%	47.6%	19.2%	52.2%	43.9%	14.3%	26.6%	26.4%	28.7%	23.6%	18.1%	16.8%	18.8%	20.8%	18.6%
EPS - Diluted (Before Ex. Items)	\$1.39	\$0.55	\$0.52	\$0.49	\$0.45	\$2.01	\$0.63	\$0.65	\$0.62	\$0.58	\$2.48	\$0.74	\$0.76	\$0.73	\$0.70	\$2.94
year-over-year growth	54.3%	62.8%	47.6%	19.2%	52.2%	43.9%	14.0%	26.3%	26.2%	28.6%	23.4%	18.3%	16.9%	18.9%	21.0%	18.7%
Wtd. Avg. Diluted Shares	779.0	779.0	779.0	779.0	779.0	779.0	780.8	780.5	780.3	780.0	780.4	779.8	779.5	779.3	779.0	779.4

Source: Visa company reports and UBS estimates

Table 16: V Quarterly Metrics Forecast, FY07A-FY10E (FY = September)

	'07 FY A	Dec '07A 1 Q	Mar '08E 2 Q	June '08E 3 Q	Sept '08E 4 Q	'08 FY E	Dec '08E 1 Q	Mar '09E 2 Q	June '09E 3 Q	Sept '09E 4 Q	'09 FY E	Dec '09E 1 Q	Mar '10E 2 Q	June '10E 3 Q	Sept '10E 4 Q	'10 FY E
Total GDV (in \$billions)																
U.S.	\$1,874	\$514	\$489	\$527	\$533	\$2,063	\$556	\$529	\$571	\$577	\$2,233	\$602	\$572	\$619	\$625	\$2,419
year-over-year growth (USD)	9.1%	11.3%	10.9%	9.2%	9.0%	10.1%	8.2%	8.2%	8.3%	8.3%	8.3%	8.3%	8.2%	8.3%	8.3%	8.3%
% of total GDV	52%	48%	48%	48%	47%	48%	45%	45%	45%	44%	45%	43%	42%	43%	42%	42%
Asia Pacific	\$793	\$241	\$241	\$251	\$266	\$999	\$284	\$283	\$296	\$312	\$1,174	\$327	\$327	\$341	\$359	\$1,355
year-over-year growth (USD)	22.9%	28.4%	27.0%	25.1%	24.1%	26.0%	17.7%	17.7%	17.7%	17.3%	17.6%	15.4%	15.5%	15.4%	15.1%	15.3%
% of total GDV	22%	23%	24%	23%	23%	23%	23%	24%	23%	24%	24%	23%	24%	24%	24%	24%
Latin America	\$448	\$146	\$135	\$146	\$153	\$579	\$179	\$166	\$179	\$187	\$712	\$218	\$202	\$219	\$228	\$868
year-over-year growth (USD)	25.4%	33.3%	31.1%	28.0%	26.1%	29.5%	22.9%	23.0%	22.9%	22.6%	22.9%	21.6%	21.6%	22.4%	22.1%	21.9%
% of total GDV	12%	14%	13%	13%	13%	13%	15%	14%	14%	14%	14%	16%	15%	15%	15%	15%
Canada	\$167	\$51	\$44	\$53	\$56	\$204	\$59	\$51	\$62	\$65	\$237	\$69	\$59	\$71	\$75	\$274
year-over-year growth (USD)	16.2%	29.3%	25.8%	17.4%	16.4%	22.0%	16.5%	16.5%	16.4%	16.4%	16.5%	15.5%	15.5%	15.4%	15.4%	15.5%
% of total GDV	5%	5%	4%	5%	5%	5%	5%	4%	5%	5%	5%	5%	4%	5%	5%	5%
CEMEA	\$351	\$115	\$114	\$123	\$135	\$488	\$148	\$147	\$158	\$173	\$627	\$188	\$186	\$200	\$219	\$794
year-over-year growth (USD)	42.3%	43.8%	41.8%	37.2%	35.2%	39.1%	28.8%	28.8%	28.4%	28.3%	28.6%	26.8%	26.8%	26.4%	26.4%	26.6%
% of total GDV	10%	11%	11%	11%	12%	11%	12%	12%	13%	13%	13%	13%	14%	14%	15%	14%
Total GDV	\$3,632	\$1,067	\$1,022	\$1,101	\$1,142	\$4,333	\$1,227	\$1,176	\$1,266	\$1,314	\$4,984	\$1,405	\$1,347	\$1,451	\$1,506	\$5,709
year-over-year growth (USD)	16.8%	21.5%	20.5%	18.0%	17.5%	19.3%	15.0%	15.1%	15.0%	15.1%	15.0%	14.5%	14.5%	14.6%	14.6%	14.5%
Total Transactions (in millions)																
U.S.	29,590	8,146	7,690	8,310	8,464	32,610	8,838	8,343	9,017	9,183	35,382	9,572	9,036	9,765	9,945	38,318
year-over-year growth	10.7%	12.5%	10.5%	9.0%	9.0%	10.2%	8.5%	8.5%	8.5%	8.5%	8.5%	8.3%	8.3%	8.3%	8.3%	8.3%
as a % of Total Transactions	61%	60%	59%	59%	58%	59%	58%	57%	57%	56%	57%	56%	55%	55%	55%	55%
Asia Pacific	8,256	2,383	2,383	2,503	2,662	9,931	2,788	2,788	2,929	3,115	11,620	3,234	3,234	3,397	3,613	13,479
year-over-year growth	19.2%	20.3%	20.3%	20.3%	20.3%	20.3%	17.0%	17.0%	17.0%	17.0%	17.0%	16.0%	16.0%	16.0%	16.0%	16.0%
as a % of Total Transactions	17%	17%	18%	18%	18%	18%	18%	19%	19%	19%	19%	19%	20%	19%	20%	19%
Latin America	6,469	1,889	1,846	1,908	2,004	7,647	2,153	2,105	2,175	2,284	8,718	2,455	2,400	2,480	2,604	9,938
year-over-year growth	16.4%	18.2%	18.2%	18.2%	18.2%	18.2%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
as a % of Total Transactions	13%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	15%	14%	14%	14%
Canada	1,403	391	352	400	411	1,554	422	380	432	444	1,678	456	411	466	479	1,813
year-over-year growth	9.3%	10.8%	10.8%	10.8%	10.8%	10.8%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
as a % of Total Transactions	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	2%	3%	3%	3%
CEMEA	2,766	825	844	902	967	3,538	1,064	1,089	1,163	1,247	4,564	1,362	1,394	1,489	1,597	5,842
year-over-year growth	31.2%	27.9%	27.9%	27.9%	27.9%	27.9%	29.0%	29.0%	29.0%	29.0%	29.0%	28.0%	28.0%	28.0%	28.0%	28.0%
as a % of Total Transactions	6%	6%	6%	6%	7%	6%	7%	7%	7%	8%	7%	8%	8%	8%	9%	8%
Total Transactions	48,484	13,634	13,116	14,023	14,508	55,280	15,267	14,706	15,715	16,273	61,961	17,079	16,474	17,597	18,238	69,390
year-over-year growth	13.8%	15.4%	14.2%	13.2%	13.3%	14.0%	12.0%	12.1%	12.1%	12.2%	12.1%	11.9%	12.0%	12.0%	12.1%	12.0%

Source: Visa company reports and UBS estimates

Visa Inc.

Income statement (US\$m)	-	-	-	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
Revenues	-	-	-	3,902	5,193	6,108	17.6	6,853	12.2	7,682	12.1
Operating expenses (ex depn)	-	-	-	(2,948)	(3,460)	(3,320)	-4.1	(3,511)	5.8	(3,719)	5.9
EBITDA (UBS)	-	-	-	954	1,733	2,788	60.9	3,342	19.9	3,963	18.6
Depreciation	-	-	-	0	0	(246)	-	(262)	6.4	(302)	15.6
Operating income (EBIT, UBS)	-	-	-	954	1,733	2,542	46.7	3,080	21.2	3,660	18.8
Other income & associates	-	-	-	136	205	207	0.7	175	-15.2	171	-2.5
Net interest	-	-	-	(104)	(97)	(94)	-3.0	(87)	-7.4	(75)	-13.9
Abnormal items (pre-tax)	-	-	-	0	0	0	-	0	-	0	-
Profit before tax	-	-	-	986	1,841	2,654	44.2	3,168	19.4	3,756	18.6
Tax	-	-	-	(282)	(755)	(1,091)	44.6	(1,236)	13.2	(1,465)	18.6
Profit after tax	-	-	-	704	1,086	1,563	43.9	1,933	23.6	2,291	18.6
Abnormal items (post-tax)	-	-	-	0	(1,978)	(98)	-95.1	(37)	-62.5	(34)	-6.7
Minorities / pref dividends	-	-	-	0	0	0	-	0	-	0	-
Net income (local GAAP)	-	-	-	704	(892)	1,465	-	1,896	29.4	2,257	19.0
Net Income (UBS)	-	-	-	704	1,086	1,563	43.9	1,933	23.6	2,291	18.6
Tax rate (%)	-	-	-	29	41	41	0.3	39	-5.1	39	0.0
Pre-abnormal tax rate (%)	-	-	-	29	41	41	0.3	39	-5.1	39	0.0
Per share (US\$)	-	-	-	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
EPS (local GAAP)	-	-	-	0.90	(1.15)	1.88	-	2.43	29.2	2.90	19.2
EPS (UBS)	-	-	-	0.90	1.39	2.01	43.9	2.48	23.4	2.94	18.7
Net DPS	-	-	-	0.00	0.00	0.22	-	0.44	100.0	0.44	0.0
Cash EPS	-	-	-	0.90	1.39	2.32	66.6	2.81	21.1	3.33	18.4
BVPS	-	-	-	-	(0.59)	28.47	-	29.56	3.9	32.25	9.1
Balance sheet (US\$m)	-	-	-	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
Cash and equivalents	-	-	-	-	275	5,364	1850.4	4,471	-16.6	6,453	44.3
Other current assets	-	-	-	-	2,232	5,199	132.9	5,547	6.7	5,833	5.2
Total current assets	-	-	-	-	2,507	10,562	321.3	10,018	-5.2	12,286	22.6
Net tangible fixed assets	-	-	-	-	313	1,189	279.8	1,284	8.0	1,318	2.7
Net intangible fixed assets	-	-	-	-	0	21,065	-	20,997	-0.3	20,929	-0.3
Investments / other assets	-	-	-	0	1,570	928	-40.9	1,076	15.9	1,214	12.9
Total assets	-	-	-	-	4,390	33,744	668.7	33,375	-1.1	35,747	7.1
Trade payables & other ST liabilities	-	-	-	-	3,241	5,366	65.6	3,990	-25.6	4,143	3.8
Short term debt	-	-	-	-	41	72	75.6	72	0.0	72	0.0
Total current liabilities	-	-	-	-	3,282	5,438	65.7	4,062	-25.3	4,215	3.8
Long term debt	-	-	-	-	0	40	-	40	0.0	40	0.0
Other long term liabilities	-	-	-	-	1,571	6,090	287.6	6,202	1.8	6,358	2.5
Total liabilities	-	-	-	-	4,853	11,568	138.4	10,304	-10.9	10,612	3.0
Equity & minority interests	-	-	-	-	(463)	22,177	-	23,071	4.0	25,135	8.9
Total liabilities & equity	-	-	-	-	4,390	33,744	668.7	33,375	-1.1	35,747	7.1
Cash flow (US\$m)	-	-	-	09/06	09/07	09/08E	% ch	09/09E	% ch	09/10E	% ch
Net income	-	-	-	704	(892)	1,465	-	1,896	29.4	2,257	19.0
Depreciation	-	-	-	0	0	246	-	262	6.4	302	15.6
Net change in working capital	-	-	-	-	0	(2,632)	-	(439)	-83.3	(367)	-16.4
Other (operating)	-	-	-	-	0	1,516	-	474	-68.7	526	10.8
Net cash from operations	-	-	-	-	(892)	596	-	2,193	268.1	2,718	24.0
Capital expenditure	-	-	-	-	0	(498)	-	(289)	-41.9	(269)	-7.0
Net (acquisitions) / disposals	-	-	-	-	0	1,002	-	0	-	0	-
Other changes in investments	-	-	-	-	0	691	-	(113)	-	(124)	-
Cash from investing activities	-	-	-	-	0	1,196	-	(402)	-	(393)	-2.2
Increase/(decrease) in debt	-	-	-	-	0	(14)	-	0	-	0	-
Share issues / (repurchases)	-	-	-	-	0	5,538	-	0	-	0	-
Dividends paid	-	-	-	-	0	(171)	-	(343)	100.4	(343)	-0.1
Other cash from financing	-	-	-	-	0	(2,055)	-	(2,340)	-	0	-
Cash from financing activities	-	-	-	-	0	3,297	-	(2,683)	-	(343)	-87.2
Cash flow chge in cash & equivalents	-	-	-	-	(892)	5,089	-	(892)	-	1,982	-
FX / non cash items	-	-	-	-	-	0	-	0	134.6	0	-67.1
Bal sheet chge in cash & equivalents	-	-	-	-	-	5,089	-	(892)	-	1,982	-
Core EBITDA	-	-	-	954	1,733	2,788	60.9	3,342	19.9	3,963	18.6
Maintenance capital expenditure	-	-	-	-	0	(498)	-	(289)	-41.9	(269)	-7.0
Maintenance net working capital	-	-	-	-	0	1,516	-	474	-68.7	526	10.8
Operating free cash flow, pre-tax	-	-	-	-	1,733	3,807	119.7	3,527	-7.3	4,220	19.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

Americas

Industrial, Diversified

12-month rating

Buy

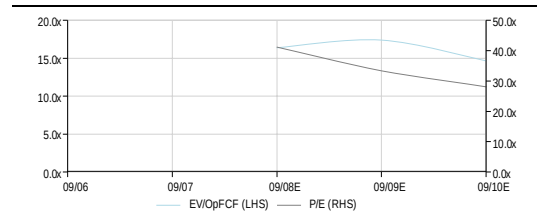
12m price target

US\$100.00

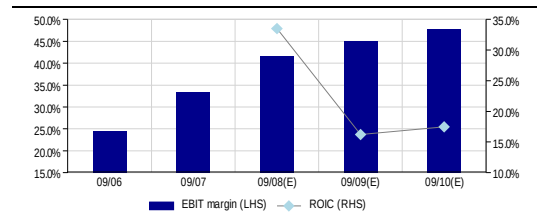
Company profile

Visa (V) is one of the largest payment solutions companies worldwide. V acts as a central party to connect and securely facilitate billions of annual payment transactions involving millions of consumers and merchants and thousands of financial institutions. V's centralized system provides technology to authorize these payments in real time and accurately settle and reconcile transactions. V establishes and enforces processing rules and standards for its members, sets participation fees and criteria, and ensures that cardholders are adequately protected.

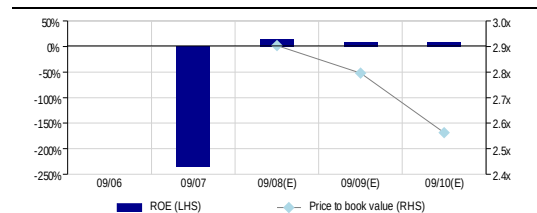
Value (EV/OpFCF & P/E)



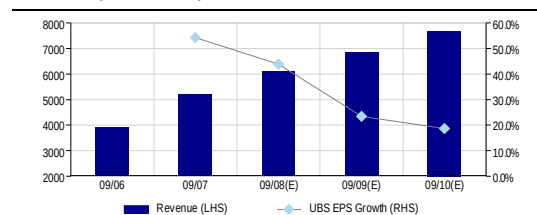
Profitability



ROE v Price to book value



Growth (UBS EPS)



Visa Inc.

Valuation (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
P/E (local GAAP)	-	-	-	43.9	34.0	28.5
P/E (UBS)	-	-	-	41.2	33.4	28.1
P/CEPS	-	-	-	35.6	29.4	24.8
Net dividend yield (%)	-	-	-	0.3	0.5	0.5
P/BV	-	-	-	2.9	2.8	2.6
EV/revenue (core)	-	-	-	NM	9.0	8.1
EV/EBITDA (core)	-	-	-	22.4	18.4	15.6
EV/EBIT (core)	-	-	-	24.5	19.9	16.9
EV/OpFCF (core)	-	-	-	16.4	17.4	14.7
EV/op. invested capital	-	-	-	8.2	3.2	3.0

Enterprise value (US\$m)	09/06	09/07	09/08E	09/09E	09/10E
Average market cap	-	-	65,053	65,053	65,053
+ minority interests	-	0	0	0	0
+ average net debt (cash)	-	(234)	(2,445)	(3,411)	(2,895)
+ pension obligations and other	-	0	0	0	0
- non-core asset value	-	(1,435)	(217)	(244)	(275)
Core enterprise value	-	-	62,392	61,398	61,884

Growth (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
Revenue	-	-	33.1	17.6	12.2	12.1
EBITDA (UBS)	-	-	81.6	60.9	19.9	18.6
EBIT (UBS)	-	-	81.6	46.7	21.2	18.8
EPS (UBS)	-	-	54.3	43.9	23.4	18.7
Cash EPS	-	-	54.3	66.6	21.1	18.4
Net DPS	-	-	-	100.0	0.0	0.0
BVPS	-	-	-	3.9	9.1	9.1

Margins (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
EBITDA / revenue	-	24.4	33.4	45.6	48.8	51.6
EBIT / revenue	-	24.4	33.4	41.6	44.9	47.6
Net profit (UBS) / revenue	-	18.0	20.9	25.6	28.2	29.8

Return on capital (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
EBIT ROIC (UBS)	-	-	-	33.5	16.2	17.5
ROIC post tax	-	-	-	19.7	9.9	10.7
Net ROE	-	-	(234.6)	14.4	8.5	9.5

Coverage ratios (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
EBIT / net interest	-	10.5	19.9	28.4	NM	NM
Dividend cover (UBS EPS)	-	-	-	9.1	5.6	6.7
Div. payout ratio (% UBS EPS)	-	-	-	11.0	17.8	15.0
Net debt / EBITDA	-	-	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
Revenue / op. invested capital	-	-	-	0.8	0.4	0.4
Revenue / fixed assets	-	-	-	0.5	0.3	0.3
Revenue / net working capital	-	-	-	NM	3.3	1.9

Investment ratios (x)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
OpFCF / EBIT	-	-	1.0	1.5	1.1	1.2
Capex / revenue (%)	-	-	0.0	8.1	4.2	3.5
Capex / depreciation	-	-	-	2.0	1.1	0.9

Capital structure (%)	5Yr Avg	09/06	09/07	09/08E	09/09E	09/10E
Net debt / total equity	-	-	50.5	(21.0)	(9.4)	(14.4)
Net debt / (net debt + equity)	-	-	33.6	(26.6)	(10.4)	(16.8)
Net debt (core) / EV	-	-	-	(3.9)	(5.6)	(4.7)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.
Valuations: based on an average share price that year, (E): based on a share price of US\$82.66 on 24 Jun 2008 19:43 EST Market cap(E) may include forecast share issues/buybacks.

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■ Visa Inc.

Visa (V) is one of the largest payment solutions companies worldwide. V acts as a central party to connect and securely facilitate billions of annual payment transactions involving millions of consumers and merchants and thousands of financial institutions. V's centralized system provides technology to authorize these payments in real time and accurately settle and reconcile transactions. V establishes and enforces processing rules and standards for its members, sets participation fees and criteria, and ensures that cardholders are adequately protected.

■ Statement of Risk

Visa's stock price is at risk to 1) a potential drop off in consumer spending; 2) a renewed weakness in the broad economic indicators such as GDP and the labor market; 3) a slowdown in credit and debit transaction growth; 4) pricing pressure from bank consolidation; 5) potential litigation risk; 6) negative news flow attached to the payments industries; and 7) the evolution of new payment systems and technologies.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	38%
Neutral	Hold/Neutral	34%	35%
Sell	Sell	7%	26%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
MasterCard Inc. ^{6b, 16}	MA.N	Buy	N/A	US\$280.37	24 Jun 2008
Visa Inc. ^{2, 4, 6a, 16}	V.N	Buy	N/A	US\$82.66	24 Jun 2008

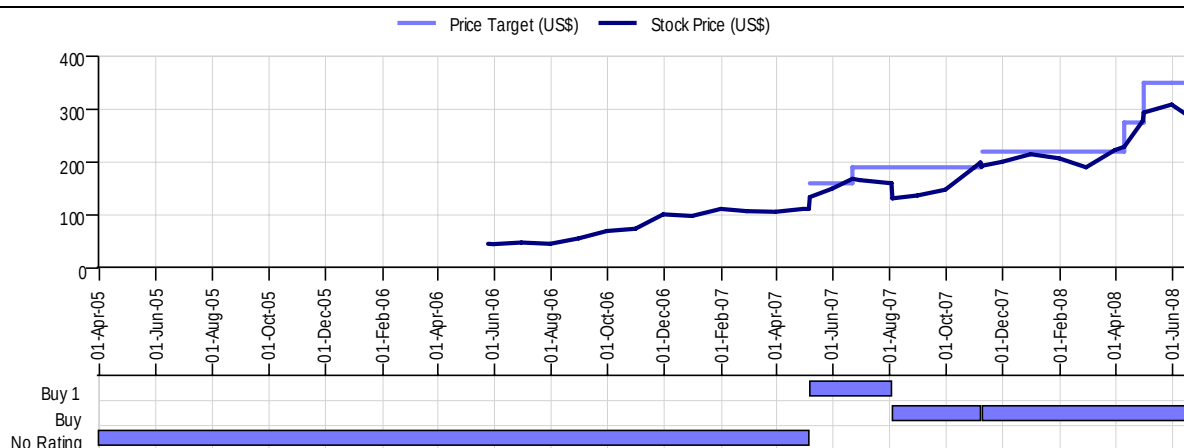
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
- 6a. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
- 6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-securities services are being, or have been, provided.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

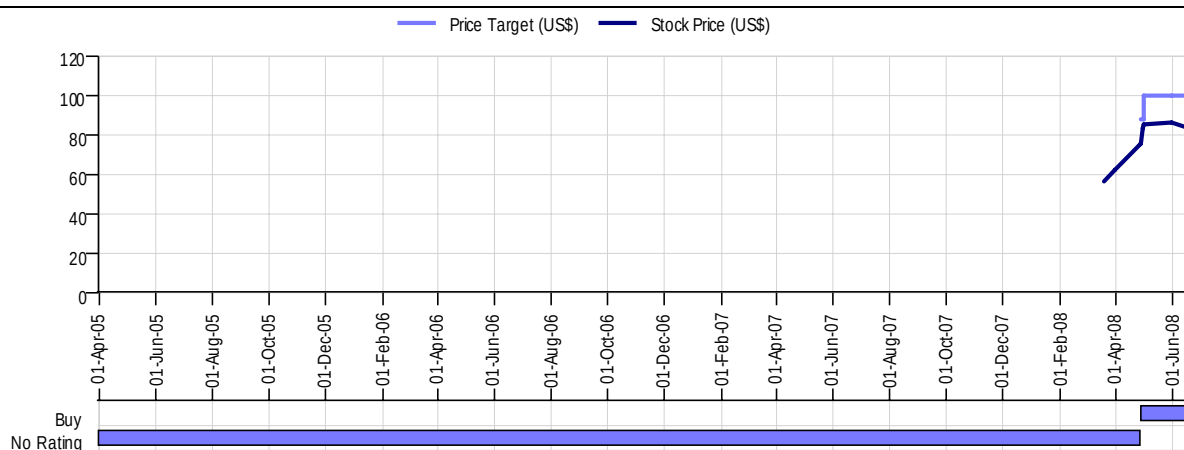
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

MasterCard Inc. (US\$)



Source: UBS; as of 24 Jun 2008

Visa Inc. (US\$)



Source: UBS; as of 24 Jun 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Additional Prices: Alliance Data Systems, US\$58.21 (24 Jun 2008); American Express, US\$42.10 (24 Jun 2008); Automatic Data Processing, US\$42.07 (24 Jun 2008); Bank of America Corp., US\$26.62 (24 Jun 2008); Discover Financial Services, US\$15.04 (24 Jun 2008); Fidelity National Information Services, US\$37.65 (24 Jun 2008); Fifth Third Bancorp, US\$10.16 (24 Jun 2008); Fiserv Inc., US\$47.58 (24 Jun 2008); Global Payments, US\$48.35 (24 Jun 2008); Heartland Payment Systems Inc., US\$22.78 (24 Jun 2008); JPMorgan Chase & Co., US\$37.72 (24 Jun 2008); Paychex, US\$31.60 (24 Jun 2008); Total System Services Inc., US\$22.92 (24 Jun 2008); US Bancorp, US\$29.93 (24 Jun 2008); Source: UBS. All prices as of local market close.

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