

VISA INC.
Form 10-Q
February 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-33977

VISA INC.

(Exact name of Registrant as specified in its charter)

Delaware 26-0267673
(State or other jurisdiction (IRS Employer
of incorporation or organization) Identification No.)

P.O. Box 8999 94128-8999
San Francisco, California

(Address of principal executive offices) (Zip Code)
(650) 432-3200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Smaller reporting company

Non-accelerated filer Emerging growth company

(Do not check if a smaller reporting company.)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of January 26, 2018 there were 1,802,624,578 shares of class A common stock, par value \$0.0001 per share, 245,513,385 shares of class B common stock, par value \$0.0001 per share, and 12,400,261 shares of class C common

stock, par value \$0.0001 per share, of Visa Inc. outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

VISA INC.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2017	September 30, 2017
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	\$8,138	\$ 9,874
Restricted cash—U.S. litigation escrow (Note 2)	883	1,031
Investment securities (Note 3):		
Trading	106	82
Available-for-sale	3,307	3,482
Settlement receivable	1,618	1,422
Accounts receivable	1,281	1,132
Customer collateral (Note 5)	1,155	1,106
Current portion of client incentives	295	344
Prepaid expenses and other current assets	504	550
Total current assets	17,287	19,023
Investment securities, available-for-sale (Note 3)	2,674	1,926
Client incentives	557	591
Property, equipment and technology, net	2,238	2,253
Other assets	1,127	1,226
Intangible assets, net	28,109	27,848
Goodwill	15,162	15,110
Total assets	\$67,154	\$ 67,977
Liabilities		
Accounts payable	\$108	\$ 179
Settlement payable	2,302	2,003
Customer collateral (Note 5)	1,155	1,106
Accrued compensation and benefits	389	757
Client incentives	2,355	2,089
Accrued liabilities	1,224	1,129
Current maturities of long-term debt (Note 4)	—	1,749
Accrued litigation (Note 11)	830	982
Total current liabilities	8,363	9,994
Long-term debt (Note 4)	16,621	16,618
Deferred tax liabilities	5,107	5,980
Deferred purchase consideration	1,330	1,304
Other liabilities	2,332	1,321
Total liabilities	33,753	35,217
Equity		
Preferred stock, \$0.0001 par value, 25 shares authorized and 5 shares issued and outstanding as follows:		
Series A convertible participating preferred stock, none issued (Note 7)	—	—
Series B convertible participating preferred stock, 2 shares issued and outstanding at December 31, 2017 and September 30, 2017 (the “UK&I preferred stock”) (Note 7)	2,295	2,326

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Series C convertible participating preferred stock, 3 shares issued and outstanding at December 31, 2017 and September 30, 2017 (the "Europe preferred stock") (Note 7)	3,181	3,200
Class A common stock, \$0.0001 par value, 2,001,622 shares authorized, 1,805 and 1,818 shares issued and outstanding at December 31, 2017 and September 30, 2017, respectively (Note 7)	—	—
Class B common stock, \$0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at December 31, 2017 and September 30, 2017 (Note 7)	—	—
Class C common stock, \$0.0001 par value, 1,097 shares authorized, 12 and 13 shares issued and outstanding at December 31, 2017 and September 30, 2017, respectively (Note 7)	—	—
Right to recover for covered losses (Note 2)	(5) (52
Additional paid-in capital	16,761	16,900
Accumulated income	9,966	9,508
Accumulated other comprehensive income (loss), net:		
Investment securities, available-for-sale	61	73
Defined benefit pension and other postretirement plans	(76) (76
Derivative instruments classified as cash flow hedges	(33) (36
Foreign currency translation adjustments	1,251	917
Total accumulated other comprehensive income, net	1,203	878
Total equity	33,401	32,760
Total liabilities and equity	\$67,154	\$ 67,977

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31, 2017 2016 (in millions, except per share data)	
Operating Revenues		
Service revenues	\$2,146	\$1,918
Data processing revenues	2,147	1,892
International transaction revenues	1,666	1,489
Other revenues	229	203
Client incentives	(1,326)	(1,041)
Net operating revenues	4,862	4,461
Operating Expenses		
Personnel	679	571
Marketing	223	218
Network and processing	160	145
Professional fees	92	80
Depreciation and amortization	145	146
General and administrative	236	186
Litigation provision (Note 11)	—	15
Total operating expenses	1,535	1,361
Operating income	3,327	3,100
Non-operating Income (Expense)		
Interest expense	(154)	(140)
Other	66	19
Total non-operating expense	(88)	(121)
Income before income taxes	3,239	2,979
Income tax provision (Note 10)	717	909
Net income	\$2,522	\$2,070
Basic earnings per share (Note 8)		
Class A common stock	\$1.07	\$0.86
Class B common stock	\$1.77	\$1.41
Class C common stock	\$4.30	\$3.43
Basic weighted-average shares outstanding (Note 8)		
Class A common stock	1,811	1,860
Class B common stock	245	245
Class C common stock	13	17
Diluted earnings per share (Note 8)		

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Class A common stock	\$1.07	\$0.86
Class B common stock	\$1.77	\$1.41
Class C common stock	\$4.29	\$3.42

Diluted weighted-average shares outstanding (Note 8)

Class A common stock	2,353	2,421
Class B common stock	245	245
Class C common stock	13	17

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended December 31, 2017 2016 (in millions)	
Net income	\$2,522	\$2,070
Other comprehensive income (loss), net of tax:		
Investment securities, available-for-sale:		
Net unrealized gain (loss)	9	(3)
Income tax effect	(3)	(1)
Reclassification adjustment for net gain realized in net income	(28)	—
Income tax effect	10	—
Defined benefit pension and other postretirement plans:		
Amortization of actuarial loss and prior service credit realized in net income	—	6
Income tax effect	—	(2)
Derivative instruments classified as cash flow hedges:		
Net unrealized (loss) gain	(1)	74
Income tax effect	(5)	(7)
Reclassification adjustment for net loss realized in net income	11	12
Income tax effect	(2)	(2)
Foreign currency translation adjustments	334	(988)
Other comprehensive income (loss), net of tax	325	(911)
Comprehensive income	\$2,847	\$1,159

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended December 31, 2017 2016 (in millions)	
Operating Activities		
Net income	\$2,522	\$2,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Client incentives	1,326	1,041
Share-based compensation (Note 9)	68	45
Depreciation and amortization of property, equipment, technology and intangible assets	145	146
Deferred income taxes	(919)	77
Right to recover for covered losses recorded in equity (Note 2)	(3)	(94)
Other	(23)	13
Change in operating assets and liabilities:		
Settlement receivable	(180)	56
Accounts receivable	(146)	(89)
Client incentives	(986)	(1,129)
Other assets	92	66
Accounts payable	(51)	(102)
Settlement payable	275	79
Accrued and other liabilities	794	316
Accrued litigation (Note 11)	(152)	13
Net cash provided by operating activities	2,762	2,508
Investing Activities		
Purchases of property, equipment, technology and intangible assets	(141)	(171)
Investment securities, available-for-sale:		
Purchases	(1,636)	(1,032)
Proceeds from maturities and sales	1,076	788
Purchases of / contributions to other investments	(6)	(2)
Net cash used in investing activities	(707)	(417)
Financing Activities		
Repurchase of class A common stock (Note 7)	(1,778)	(1,893)
Repayments of long-term debt (Note 4)	(1,750)	—
Dividends paid (Note 7)	(458)	(399)
Proceeds from issuance of commercial paper	—	566
Payments from litigation escrow account—U.S. retrospective responsibility plan (Note 2 and Note 11)	150	—
Cash proceeds from issuance of common stock under employee equity plans	53	56
Restricted stock and performance-based shares settled in cash for taxes	(88)	(60)
Net cash used in financing activities	(3,871)	(1,730)
Effect of exchange rate changes on cash and cash equivalents	80	(156)
(Decrease) increase in cash and cash equivalents		