

# KAI SPOTLIGHT

## Q3 - September 2023

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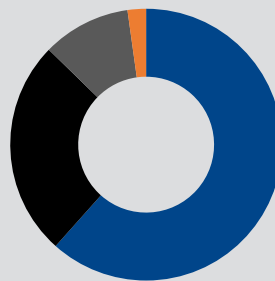


### Company Spotlight **VISA**

In July of 2023, Visa Inc. was added to client portfolios across our equity allocations. At the time of this investment decision, we qualified Visa as a business with strong economic barriers, a sound balance sheet, and also found its shares to be attractively priced. We are pleased to have added Visa to client portfolios as we are confident about the prospects of its business and optimistic about the potential for long-term value creation for shareholders.

Visa stands as a leader in the digital payments space. The company was founded in the United States in 1958 but has evolved into the world's largest credit card payment network. In the United States, Visa's market share has grown over time to 62% versus its closest rival MasterCard at 26%.<sup>1</sup> Accepted in over 200 countries and by a vast network of more than 40 million merchants, Visa enables transactions among consumers, businesses, financial institutions, and government entities on a global scale.<sup>2</sup> It is our belief that Visa lays claim to one of the strongest network effects of any company we have analyzed.

Credit Card Market Share  
by Processor in the U.S.  
(2021)<sup>3</sup>



■ Visa 61.6%
■ MasterCard 25.7%
■ American Express 10.5%
■ Discover 2.2%

A network effect occurs when the value of a company's services increases as more participants use the network or service. Consumers who spend with Visa cards derive value through the ability to pay nearly any vendor across the globe, as well as receiving perks such as extensive rewards programs, insurance coverage, and shopping discounts. For merchants, Visa's network provides value through guaranteed payments and access to a vast customer base. For financial institutions, Visa's network provides value as a conduit to extend credit and grow their lending activities. Ultimately, Visa provides a secure network for all participants to pay and be paid and where the value increases for all participants as the network expands.

Our assessment is that Visa's network effect has created a barrier that defends against the potential for new entrants seeking to capture its business. In our view, some evidence of this can be seen in Visa's consistently robust profit margins, a common trait for businesses that enjoy a dominant competitive advantage. Notably, Visa generated a free cash flow margin of 51% over the twelve-month period ended June 30, 2023.<sup>4</sup> Put differently, for every \$100 in revenue that Visa earns, just over half is converted into cash profits. Perhaps even more impressive is Visa's demonstrated ability to grow their free cash flow, with a 5-year compound annual growth rate of 9.8%.<sup>4</sup> With a significant capacity for cash generation, Visa has the ability to reinvest in growth initiatives, distribute dividends, or repurchase shares, all of which can be beneficial to shareholders. Furthermore, Visa's ability to generate cash flow also reinforces financial security as it relies less on debt to finance its operations, which in our view provides a more defensible business in times of economic uncertainty.

As Visa continues to expand its reach and enhance its services, we believe its network effects are likely to strengthen further, solidifying its position as a cornerstone of the global financial ecosystem. As we move to the final quarter of 2023 and look beyond, we are encouraged by the resilience of the underlying businesses that make up our equity allocations. We remain committed to our investment approach to build portfolios that can endure and even thrive during periods of market turmoil, leveraging businesses like Visa which prosper on the principles of financial strength and continued value creation for stakeholders.

<sup>1</sup>Brian Martucci, *Credit Card Market Share – 2023 Analysis & Data on Processors* (March 6, 2023) <sup>2</sup>Visa, *Visa Fact Sheet* (March 31, 2023) <sup>3</sup>2022 Nilson Report qtd. in Brian Martucci, *Credit Card Market Share – 2023 Analysis & Data on Processors* (March 6, 2023) <sup>4</sup>S&P Capital IQ, KAI Asset Management Inc. analysis (June 30, 2023) | © KAI Asset Management Inc. (KAM) 2023. KAM is a Portfolio Manager and Exempt Market Dealer registered in the provinces of Manitoba, Saskatchewan, British Columbia, Alberta, and Ontario. The firm is also registered as an Investment Fund Manager (IFM) in the provinces of Manitoba and Ontario. This communication is directed only to persons resident in those jurisdictions. The information contained herein is for general information purposes only and does not constitute an offer or solicitation of securities, managed account services, or advice on any specific security. The opinions set out herein are effective as of the date of publication and the authors do not undertake to notify the reader of subsequent changes. Certain general or market information contained herein has been obtained from sources believed to be reliable however KAM cannot guarantee their accuracy. Any opinions expressed in this newsletter are just that, and are not guarantees of any future performance or returns. 231015