Visa Inc

S&P Capital IQ
Recommendation HOLD
S&P Capital IQ Equity Analyst Erik Oja

UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION

GICS Sector Information Technology
Sub-Industry Data Processing & Outsourced Services

Summary Visa is the world’s largest retail electronics payment network and leading payments brand, providing services to consumers, businesses and governments globally.

Key Stock Statistics (Source S&P Capital IQ, Vickers, company reports)

| 52-Wk Range | $235.50 – 180.11 |
| Trailing 12-Month EPS | $8.74 |
| Trailing 12-Month P/E | 24.5 |
| $10K Invested 5 Yrs Ago | $30,739 |
| S&P Oper. EPS 2014E | $8.93 |
| Beta | 0.78 |
| Market Capitalization(B) | $105.904 |
| Yield (%) | 0.75 |
| Dividend Rate/Share | $1.60 |
| Institutional Ownership (%) | 91 |

Price Performance

Past performance is not an indication of future performance and should not be relied upon as such.

Highlights

- Global credit and debit payments volume grew by a relatively slow 4.7%, year to year, in the March quarter, or 10.2% on a constant currency basis, a slowdown from the December quarter, partly due to the severe weather. Payment volumes were based on 12.2% credit growth in constant dollars and 11.2% debit growth, also in constant dollars. We believe growth in payment volumes, particularly in overseas markets, will continue to drive service fees and that if the U.S. economic recovery accelerates, payment volume growth will pick up. Due to international economic softness, we estimate that operating revenues will grow just over 10% in FY 14 (Sep.) and 11% in FY 15, following a robust 13% increase in FY 13. We think electronic payments growth will be increasingly driven by mobile payments over the next few years.

- Given Visa’s operating leverage and scale as well as expense controls, we expect efficiency ratios to be improved in FY 14 and FY 15.

- We see EPS of $8.93 in FY 14 and $10.10 in FY 15.

Investment Rationale/Risk

- We view favorably V’s business model, as well as what we consider its high level of cash flows and healthy balance sheet. We see healthy payment volume growth ahead, given a U.S. economic recovery, aided by the secular trend toward non-cash payments and strong growth prospects in emerging markets. We are optimistic about V’s growth initiatives, including expansion in prepaid cards, mobile payments, money transfer, and e-commerce. Also, we expect the new CEO to work to make V’s systems more flexible in order for it to be better able to compete as new digital technologies are adopted by consumers.

- Risks to our opinion and target price include the potential for a notable slowdown in global economic growth and/or consumer sentiment, negative implications associated with the implementation of new regulations limiting interchange fees, and customer losses.

- Our 12-month target price of $234 is 24.9X our forward EPS estimate of $8.41. V currently trades at 22X forward estimates, and V’s one and three year trailing average forward P/E multiples have been 23.1X and 20.4X, respectively, all slightly below Mastercard’s.

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CORPORATE OVERVIEW. Visa Inc. (V) operates the world’s largest retail electronic payments network, providing financial institutions with a broad range of platforms for consumer credit, debit, prepaid and commercial payments. In October 2007, V completed a reorganization via which Visa U.S.A., Visa International, Visa Canada and Inovant, which operated the VisaNet transaction processing system and other related processing systems, became subsidiaries of V.

V derives revenues primarily from card service fees, data processing fees, and international transaction fees. Service fees (38% of September quarter gross operating revenue) reflect payments by customers for their participation in card programs carrying Visa brands. They also include acceptance fees, which are used to support merchant acceptance and ongoing volume growth initiatives. Data processing fees (32%) consist of fees charged to customers for providing transaction processing and other payment services, including processing services provided under V’s bilateral services agreement with Visa Europe. International transaction fees (25%) are charged to customers on transactions where the issuer and the merchant are located in different countries. Its other revenues (5%) consist primarily of optional service or product enhancements, such as extended cardholder protection and concierge services, cardholder services and fees for licensing and certification, as well as licensing and other service-related fees from Visa Europe.

Payments volumes, the basis for card service fee revenue, and transactions, which drive data processing revenue, are key drivers of V’s business. Payments volume increased 9% in FY 13 (Sep.) to $4.3 trillion, driven by 10% growth in transactions processed, to 58 billion.

CORPORATE STRATEGY. V seeks to grow by expanding its core payments business in new and established geographies and market segments, as well as by broadening its processing capabilities and value-added service offerings for payments and related opportunities. The company intends to continue to expand the size of its payments network to drive the issuance, acceptance and usage of its products globally. V believes that there is a significant opportunity for expanding the usage of its products and services in high-growth geographies in which it currently operates.

The company intends to increase the number of countries in which it provides value-added services, including risk management, debit issuer processing, loyalty services, dispute management and value-added information services. It also intends to continue to target and penetrate new consumer and merchant segments across all its geographic markets, including the U.S. V intends to continue to provide new products and services and increase the functionality, utility and cost effectiveness of its products and services.

IMPACT OF MAJOR DEVELOPMENTS. In October 2013, Visa and its closest peer card network operators introduced a proposed framework for a new global standard to enhance security, with the traditional account number to be replaced by a token. In our view, this is a logical step toward enhanced security for mobile/digital payments.

In July 2012, Visa and MasterCard signed a memorandum of understanding to settle a merchant lawsuit lingering from 2005 related to credit card processing fees. Visa’s settlement of $4.4 billion included $4.1 billion for the class plaintiffs and $285 million for management’s estimate to resolve the individual plaintiffs’ claims. As a result, Visa’s rules have been altered to allow retailers to impose a surcharge on credit transactions (subject to a cap). V paid for the settlement through its litigation escrow account.

In July 2010, new regulations were signed into law governing debit interchange fees garnered by bank issuers and set by card networks such as Visa and MasterCard. Directly impacting the card networks are provisions that prevent the networks from specifying that their branded debit cards can only be used on their corresponding network. Merchants will be allowed to encourage the use of one payment form over another (i.e. cash vs. card or check) by offering a discount to consumers, and they will also be able to set a minimum threshold of $10 for payment with a credit card.

In October 2008, V settled an antitrust suit with Discover Financial and agreed to pay $472 million each quarter for four quarters through September 2009. In March 2008, V completed its IPO of 406 million shares of Class A common stock at $44 per share. It deposited $3 billion from the IPO offering in an escrow account from which settlements of, or judgments in, the covered litigation were payable. During FY 09, V deposited an additional $1.8 billion into this account. Covered litigation includes any claim that challenges the reorganization or its consummation. V also used a portion of the net proceeds of the offering to redeem shares held by Class B and Class C shareholders. In November 2007, V entered into an agreement with American Express to settle pending litigation. Under this agreement, American Express was to receive $945 million from V and an additional payment from the bank defendants on or before March 31, 2008. Beginning March 31, 2008, V was to pay American Express an additional amount of up to $70 million per quarter for 16 quarters, for a maximum of $1.1 billion. V funded its payment obligations under this settlement with amounts in the escrow account.

FINANCIAL TRENDS. In FY 13, operating revenues increased 10%, to $12 billion, driven by growth in payment and transaction volumes. Operating expenses, excluding litigation expenses, increased 8%. Net income grew by 14% in FY 13, aided by share repurchases.
Quantitative Evaluations

S&P Capital IQ Fair Value Rank

Based on S&P Capital IQ’s proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation

$221.20

Analysis of the stock’s current worth, based on S&P Capital IQ’s proprietary quantitative model suggests that V is slightly undervalued by $5.16 or 2.4%.

Investability Quotient

Percentile

V scored higher than 97% of all companies for which an S&P Capital IQ Report is available.

Volatility

LOW AVERAGE HIGH

Since September, 2014, the technical indicators for V have been NEUTRAL.

Key Growth Rates and Averages

Sales

Net Income

Past Growth Rate (%)

Growth Rate (%)

1 Year

3 Years

5 Years

9 Years

Sales

Net Income

Ratio Analysis (Annual Avg.)

Net Margin (%) 42.28 34.19 34.68 21.23

% LT Debt to Capitalization NA NA 0.08 NA

Return on Equity (%) 18.21 13.45 12.65 NA

For further clarification on the terms used in this report, please visit www.standardandpoors.com/stockreportguide

Company Financials Fiscal Year Ended Sep. 30

Per Share Data (U.S. $)


Tangible Book Value 5.10 5.96 4.22 2.45 2.48 NM NM NA NA NA

Cash Flow 7.93 3.65 5.73 4.52 3.40 0.95 NA NA NA NA

Earnings 7.59 3.16 5.16 4.01 3.10 0.96 -1.15 0.60 NA NA

S&P Capital IQ Core Earnings 7.58 6.97 5.06 3.95 2.67 1.95 1.87 0.57 NA NA

Dividends 1.32 0.88 0.60 0.50 0.42 0.11 NA NA NA NA

Payout Ratio 17% 28% 12% 12% 14% 11% NA NA NA NA

Prices:High 222.72 152.51 103.45 97.19 89.69 89.84 NA NA NA NA

Prices:Low 153.93 98.33 67.51 64.90 41.78 43.54 NA NA NA NA

P/E Ratio:High 29 48 20 24 29 94 NA NA NA NA

P/E Ratio:Low 20 31 13 16 13 45 NA NA NA NA

Income Statement Analysis (Million U.S. $)

Revenue 11,778 10,421 9,188 8,065 6,911 6,263 5,193 4,980 4,959 4,959

Operating Income 7,466 6,572 5,751 4,809 3,766 3,106 2,238 1,419 1,271 1,111

Depreciation 224 333 288 265 226 115 143 104 108 111

Pretax Income 7,257 2,207 5,656 4,638 4,000 1,336 -1,007 738 456 355

Effective Tax Rate 31.4% 2.95% 35.5% 36.1% 41.2% 39.8% NM 37.0% 40.2% 37.3%

Net Income 4,980 2,144 3,650 2,966 2,353 804 -892 465 465 216

S&P Capital IQ Core Earnings 4,959 4,724 3,559 2,999 2,353 804 -892 465 465 216

Balance Sheet & Other Financial Data (Million U.S. $)

Cash 4,255 2,817 3,398 4,051 4,732 6,287 7,935 822 340

Current Assets 7,822 11,786 9,190 8,734 9,241 11,174 11,321 1,432 898

Total Assets 35,956 40,013 34,760 33,408 32,281 34,981 33,250 2,745 2,294

Current Liabilities 4,335 7,954 5,461 4,240 4,142 7,165 5,141 1,275 1,047

Long Term Debt NA Nil Nil 32.0 44.0 55.0 40.0 73.6 106

Common Equity 26,870 27,630 26,437 24,803 23,189 21,141 20,709 126 126 220

Total Capital 26,870 27,630 26,437 24,803 23,189 21,141 21,141 126 126 220

Capital Expenditures 471 376 353 241 306 415 NA NA NA NA

Cash Flow 5,204 2,477 3,334 3,231 2,579 1,041 NA NA NA NA

Current Ratio 1.8 1.5 2.7 2.5 2.1 1.6 1.7 1.1 0.9

% Long Term Debt of Capitalization Nil Nil Nil 0.1 0.2 0.2 0.2 29.0 NA

% Net Income of Revenue 42.3 20.6 38.7 36.8 34.1 12.8 11.9 10.0 9.0

% Return on Assets 13.1 5.7 10.7 9.0 7.0 2.4 1.7 NA NA NA

% Return on Equity 18.2 7.9 14.2 12.3 10.6 3.9 NA NA NA NA

Figures based on calendar year-end price

For further clarification on the terms used in this report, please visit www.standardandpoors.com/stockreportguide

Data as originally reported in Company reports.; bef. results of disc oper/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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Our fundamental outlook for the data processing & outsourced services sub-industry is neutral. Providers of these services posted earnings growth in 2013, and this trend should continue through 2014. They are benefiting from growth of outsourcing, the prevalence of electronic transactions, and entry into international markets. However, we remain concerned that consolidation, increased regulation, and anticipated revenue loss for clients in major end markets like financial services could result in business delays or price erosion.

As economic conditions recover, we see transaction volumes for credit and debit cards and other payment methods dependent on consumer spending improving. Persistent unemployment and other economic difficulties (including the struggles in Europe) may dampen growth for payroll processors.

We view diversification into overseas regions favorably, particularly as an offset to the slower growth in the mature domestic market. Our enthusiasm for international growth is tempered somewhat by rising competition that we see, particularly as companies compete for acquisitions and other means of entry.

We believe that many data processors garner recurring revenues, generate free cash flow, and generally have healthy balance sheets. We also think these stocks provide an opportunity to participate in the IT sector without the risk associated with unproven business models. There remains potential for consolidation among market participants, in our view, as we have seen interest in the sub-industry from buyout firms in the past.

We think companies will continue to outsource to third parties to focus on core competencies and to seek greater profitability. Globally, companies spent an estimated $159 billion on business outsourcing in 2012, and IDC, a market research firm, forecasts that this will rise to $209 billion by 2017. Also, we expect the proportion of electronic payments to rise at the expense of paper-based payments. We believe these trends bode well for data processors, although we think regulatory changes remain a concern.

The S&P 1500 Data Processing & Outsourced Services Index was down 3% through February 14, while the S&P 1500 was up down 0.5%. In 2013, the sub-industry index was up 51%, versus the S&P 1500’s 30% increase. We note that recurring revenues, long-term contracts, and cash flows that many in the group have offered support in turbulent times.

--Scott Kessler
S&P Capital IQ Analyst Research Notes and other Company News

July 25, 2014
12:37 pm ET ... S&P CAPITAL IQ KEEPS HOLD RECOMMENDATION ON SHARES OF VISA INC. (V 212.45***): We keep our $234 target price, a peer-egal 24X our forward four quarters EPS estimate of $9.75. V reports FY (Sept) Q3 EPS of $2.17 vs. $1.88, above our $2.16 estimate and above the Capital IQ consensus view of $2.10. Revenues of $3.155B vs. $3.0B were also above consensus views. However, V moderates its top-line outlook for FY 14, partly due to F/X, and also to turmoil in Russia/Ukraine, and lower US debit spending, in part due to the Dec 13 breach at Target (TGT 60****). V also notes competitive threat from possible development of alternate payment systems in Russia. /Erik Oja

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June 4, 2014
Visa Inc. announced that Byron H. Pollitt, Jr. inform his decision to retire as Chief Financial Officer within the next twelve months. Mr. Pollitt has served as Visa’s CFO for the past seven years.

May 8, 2014
08:12 am ET ... VISA INC. (V 208.7) UNCHANGED, NOMURA MAINTAINS BUY ON VISA INC., LOWERS PT TO $228.00... Nomura maintains Visa Inc. (NYSE: V) with a Buy and lowers the price target from $264.00 to $228.00. 2014 Benzinga.com. Benzinga does not provide investment advice. All rights reserved. Acquire Media

April 29, 2014
03:29 pm ET ... S&P CAPITAL IQ KEEPS HOLD RECOMMENDATION ON SHARES OF VISA INC. (V 203.59***): We lower our target price by $12 to $234, 25X our forward four quarters EPS estimate of $9.45, a multiple about in-line with V’s peers. V posts Mar-Q GAAP EPS of $2.52 vs. $1.92, beating our forecast and the Capital IQ consensus view of $2.18 each, on a one-time tax gain. Mar-Q revenues grew just 6.9% year over year, a much slower pace than prior quarters, on a stronger US dollar. V also expects Jun-Q revenues to grow slowly, and to rebound in the Sep-Q. Although we have a favorable view of V’s high level of cash flows and healthy balance sheet, we see the stock as fully valued. /Erik Oja

April 25, 2014
UP 0.00 to 209.40... V posts $2.52 vs. $1.92 Q2 EPS on 6.9% revenue rise. Notes softer net revenue growth was impacted by a strengthening US$ and difficult y/y comps due to non-recurring items. Expect this impact to be slightly more pronounced in Q3 before rebounding in Q4. Sees low double-digit constant revenue growth in 10%-11% range for FY 14, with an expectation of two percentage points of negative foreign currency impact, operating margin in low to mid-60s.

April 24, 2014
04:18 pm ET ... SNAPSHOT - CORPORATE EARNINGS - VISA (V 209.40***): V reports fiscal Q2 EPS of $2.20 vs. $1.92 a year ago. The last S&P Capital IQ consensus estimate was $2.18. Operating revenue rose 7% to $3.2 billion on growth in service revenues, data processing sales, and international transactions. The strengthening of the U.S. dollar detracted 2% from revenues, V said. “We expect this impact to be slightly more pronounced next quarter before rebounding in our fiscal fourth quarter, which will be more reflective of the fundamental strength of the business model,” V said. /Global Markets Intelligence
Analysts' Recommendations

- **Monthly Average Trend**:
  - **Buy:** B
  - **Buy/Hold:** BH
  - **Hold:** H
  - **Weak Hold:** WH
  - **Sell:** S
  - **No Opinion:** V
  - **V Trend:**

- **Wall Street Average**:

- **Number of Analysts Following Stock**:

- **Stock Price ($)**:

Of the total 37 companies following V, 32 analysts currently publish recommendations.

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<th>Recommendations</th>
<th>No. of Recommendations</th>
<th>% of Total</th>
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### Wall Street Consensus Estimates

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<th>Low Est.</th>
<th># of Est.</th>
<th>Est. P/E</th>
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<td>10.73</td>
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<td>2014</td>
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<td>9.10</td>
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<td>2015 vs. 2014</td>
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<td>▲ 18%</td>
<td>▲ 17%</td>
<td>▲ 18%</td>
<td>▼ -14%</td>
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**Q4'15**

- 2.65
- 2.79
- 2.50
- 20
- 80.8

**Q4'14**

- 2.11
- 2.36
- 2.03
- 27
- NM

**Q4'15 vs. Q4'14**

- ▲ 26%
- ▲ 18%
- ▲ 23%
- ▼ -26%
- NA

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A company’s earnings outlook plays a major part in any investment decision. S&P Capital IQ organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.
Glossary

S&P Capital IQ STARS
Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), S&P Capital IQ equity analysts rank equites according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Capital IQ Quality Ranking
(also known as S&P Capital IQ Earnings & Dividend Rankings) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to capsule the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest
A High
A- Above Average
B+ Average
B Below Average
NR Not Ranked

S&P Capital IQ EPS Estimates
S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Capital IQ Core Earnings
S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the S&P Capital IQ definition are employee stock option grants, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

S&P Capital IQ 12-Month Target Price
The S&P Capital IQ equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Capital IQ Fair Value.

S&P Capital IQ Equity Research

Abbreviations Used in S&P Capital IQ Equity Research Reports
- CAGR - Compound Annual Growth Rate
- CAPEX - Capital Expenditures
- CV - Calendar Year
- DCF - Discounted Cash Flow
- DDM - Dividend Discount Model

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

S&P Capital IQ Qualitative Risk Assessment
Reflects an S&P Capital IQ equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The S&P Capital IQ Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARS (Strong Buy):
Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★ 4-STARS (Buy):
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★ 3-STARS (Hold):
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★ ★★ 2-STARS (Sell):
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★ ★ 1-STARS (Strong Sell):
Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:
In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

STARS Glossary
Visa Inc

Stock Report | September 13, 2014 | NYS Symbol: V

EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value
PEG Ratio - P/E-to-Growth Ratio
PV - Present Value
R&D - Research & Development
ROCE - Return on Capital Employed
ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
S&GA - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital
Past performance is not necessarily indicative of future results.

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