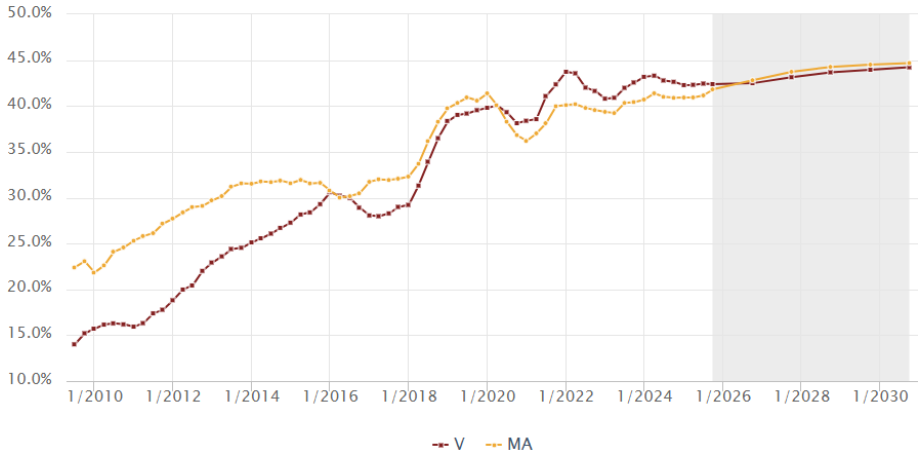
Payment Networks Q3 Update: MA Inches Closer to V

Two widely held names we come across are Visa Inc. (**V**, rated '*Hold*') and Mastercard Incorporated (**MA**, rated '*Overweight*'). With both firms having recently reported Q3 numbers we take the opportunity to compare the EVA trends for the two payment networks. Both the firms have been long-term EVA wealth compounders, registering a significant increase in Current Value Added (CVA) over the last 15 years: 10x in the case of **MA** and 12x for **V**. CVA is that part of the Enterprise Value of a firm which is derived from the current level of economic profitability taken into perpetuity, assuming a no-growth scenario.

Figure 1 plots the EVA Margin for V and MA. While both firms have followed a similar trend for the level of economic profitability historically, **V** has trended above **MA** since Q2 2020. The spread between the two peaked in Q4 2021, at 360bps, and has since seen an increasing convergence. EVA Margin for **V** has plateaued over the last six quarters and is currently at 42.4%. EVA Margin for **MA**, at 41.8%, is only 60bps lower than **V** and is at a record high as of September.

Figure 1: EVA Margin – V, MA



Both **V** and **MA** have registered a second consecutive quarter of acceleration in EVA Momentum (growth) as of the September quarter, reflected in the EVA Momentum Post-Inflection Count of 2 (**Figure 2**). The firms look attractive in the PRVit framework on a global-relative basis, driven by very strong Quality (Risk-Adjusted Profitability) that is slightly offset by very high Valuations.

Figure 2: EVA Fundamentals – V, MA

Name	Ticker	Country	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	EVA Mo Post-Inflection Count	PRVit Score	Quality (P-R)	Valuation Score (V)	Returns YTD (%)	ESG Perf Score
VISA INC	V	U.S.	647,404	42.4%	4.6%	2	67	97	96	7.16%	55.33
MASTERCARD INC	MA	U.S.	490,088	41.8%	7.5%	2	72	99	98	3.90%	58.24

In the following pages, we contrast the Capital composition for V and MA, followed by exploring in-depth firm-level EVA trends for both the firms.

Key Summary

- **V** and **MA** have been strong long-term EVA wealth compounders. With both firms having recently reported Q3 numbers we take the opportunity to compare the EVA trends for the two payment networks.
- The PRVit framework rates MA slightly higher than V at a time when MA is seeing stronger EVA Momentum.

EVA Primer

1. EVA measures the true economic profit of a business after compensating shareholders for use of their capital and is therefore superior to standard accounting measures.

2. The value of a company is the capital invested plus the present value of future EVA generation. The math is like a DCF: Market Value = Capital + PV(EVA).

3. Therefore, more Economic Value Added (EVA) is better.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

Visit our website www.EVAexpress.com

Figures 3 and 4 show the EVA-adjusted Capital components for **V** and **MA**, respectively. Both firms have a large portion of Capital tied to Intangible assets. For **V**, Intangible Capital is nearly 50% of the total Capital base, while that percentage is lower for **MA**, at 30%. When we look at the Intangible Capital Charge as a percentage of sales, we see that V has been spending around 150bps more than MA on advertising and promotion as a percentage of sales at a time when sales growth for V has been 10% plus (TFQ) but behind MA's 12-15% top-line growth over the past 2 years. The firms also have a sizable chunk of Goodwill (EVA-adjusted) as part of their Capital base, reflecting the companies' reliance on M&A as an EVA growth driver.

Figure 3: Capital Components – Visa Inc. (V)

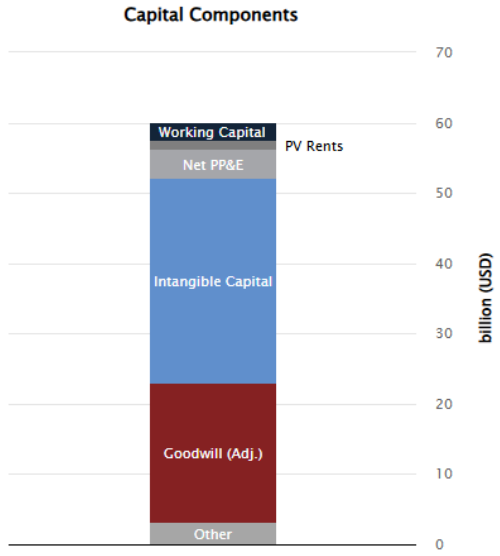


Figure 4: Capital Components – Mastercard Inc. (MA)

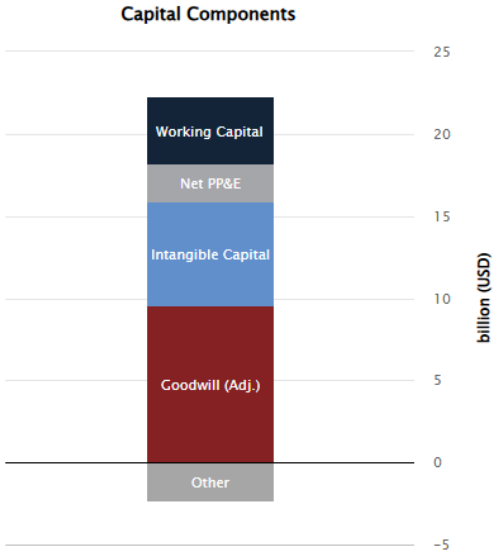
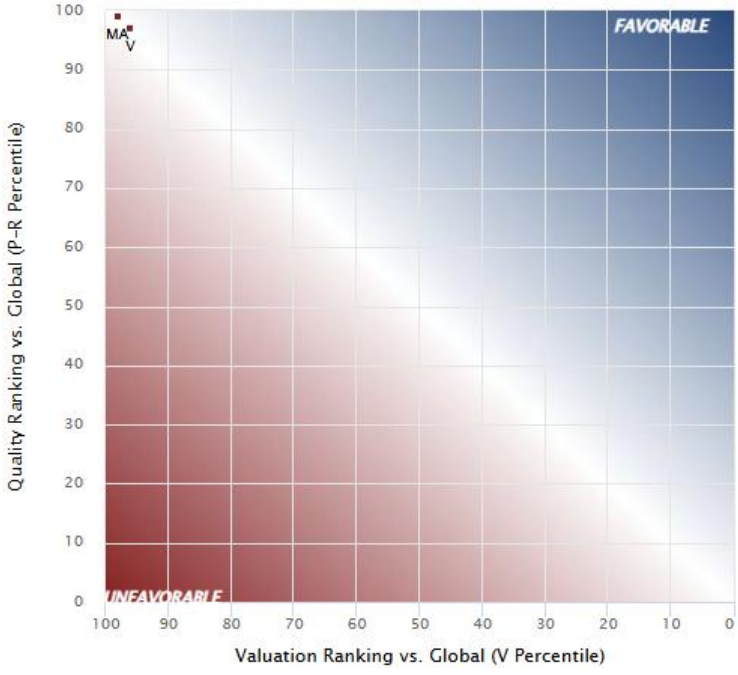


Figure 5: PRVit HEAT Map – V, MA



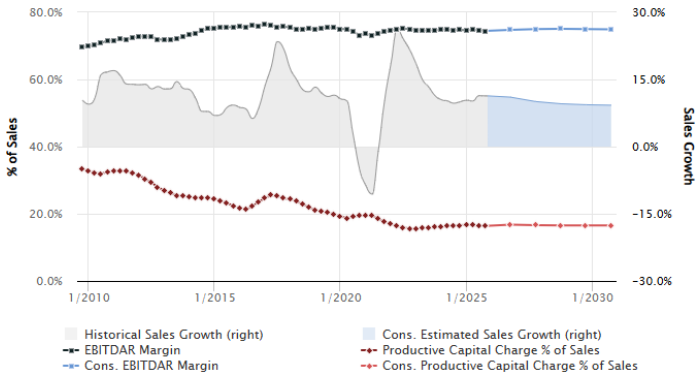
Both **V** and **MA** are currently in the 'Expensive but Worth It' HEAT Map zone, reflecting very strong Quality (P-R), which is offset by expensive Valuation levels.

In the following pages, we take a deeper dive into firm-level EVA trends for V and MA.

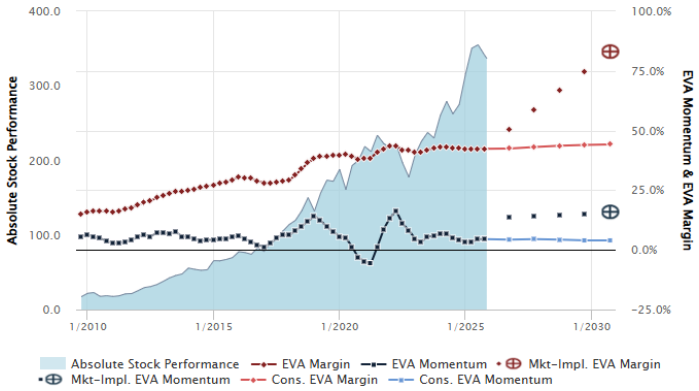
Visa Inc.

Visa Inc. (**V**, rated '**Hold**'**):** On a U.S. market relative basis, **V** is rated 'Hold.' When we compare it to the global market relative, **V** is rated 'Overweight'. EVA Momentum (growth) has accelerated to 4.6% as of the latest reported quarter, driven by strong top-line growth and improving asset efficiency trends. EBITDAR Margin for the firm has been pressured since peaking out in Q2 2022 and is currently trending 30bps lower over the last two quarters, at 74.5%. Embedded expectations for growth (Future Value Added, FVA) have declined slightly but remain at historically high levels. Future Growth Reliance (FGR), our P/E ratio equivalent, is currently at 59%, near record highs of 62% seen in March. We are bullish on the firm's strong EVA growth trends, which contribute to very strong Risk-Adjusted Profitability (Quality) but remain watchful of the elevated Valuation levels.

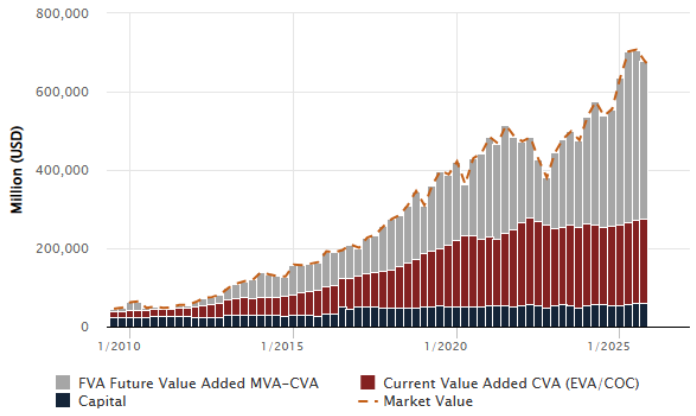
EVA Drivers: Sales, Margins, and Turns



EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



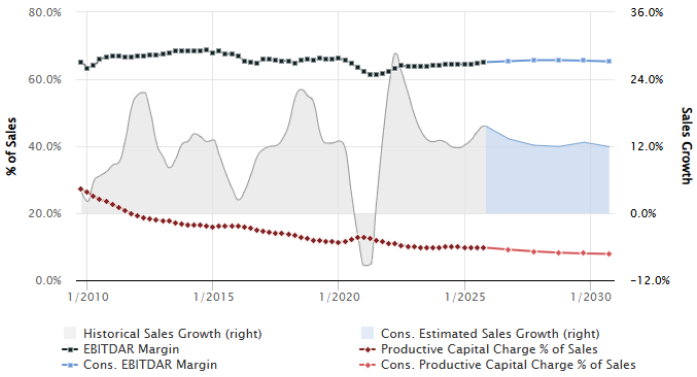
Future Growth Reliance (FGR): Market Expectations



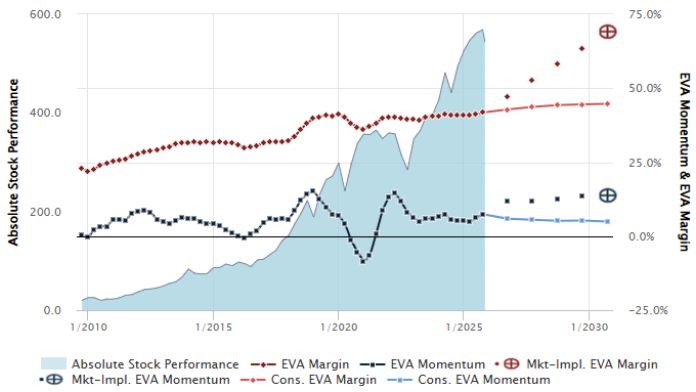
Mastercard Incorporated

Mastercard Incorporated (**MA**, rated '**Overweight**'): EVA Momentum (growth) for **MA** has seen two sequential quarters of improvement and is at a very strong 7.4% as of September. This was driven by an acceleration in top-line growth to 15.6% and a sustained expansion in EBITDAR Margin to the highest level in five years, at 65%. The Productive Capital Charge (higher is less preferable) has increased slightly as of the latest reported quarter but remains near historically low levels. Embedded expectations for growth (FVA) are at very elevated levels at a time when Current Value Added (CVA) has expanded to record highs. FGR has decreased to 60% as of November 3 but remains near the upper end of the long-term range and close to the all-time high of 64% (March 2025). We are cognizant of the firm's very expensive Valuations but remain bullish amidst very strong Risk-Adjusted Profitability, a record-high level of economic profitability, and accelerating EVA Momentum trends.

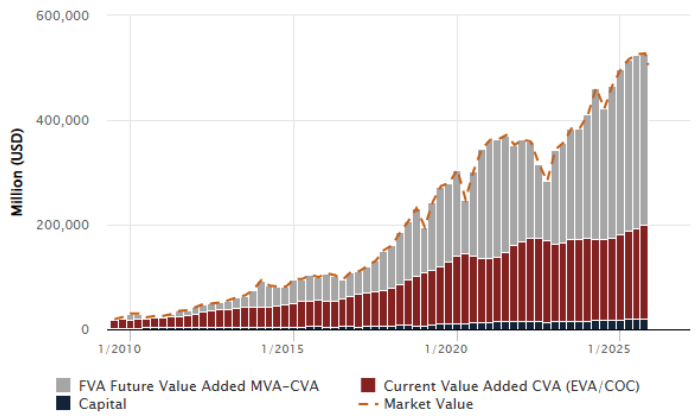
EVA Drivers: Sales, Margins, and Turns



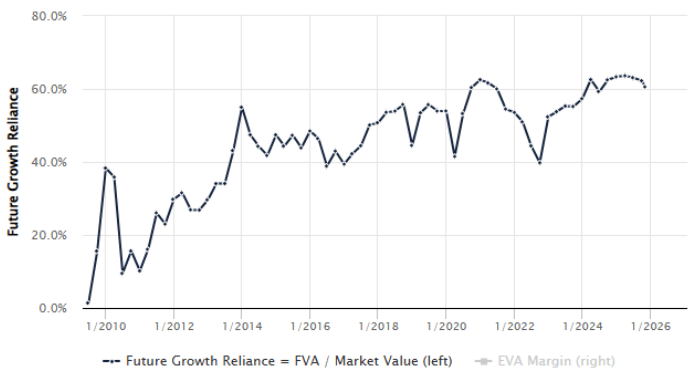
EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance (FGR): Market Expectations



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Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA
If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge
EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales
A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales
An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum
Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV
Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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