



Mastercard Incorporated Annual Report 2021

Form 10-K (NYSE:MA)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

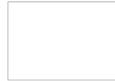
For the fiscal year ended December 31, 2020

Or

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

For the transition period from to

Commission file number: 001-32877



Mastercard Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

2000 Purchase Street
Purchase, NY
(Address of principal executive offices)

13-4172551
(IRS Employer
Identification Number)

10577
(Zip Code)

(914) 249-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange of which registered
Class A Common Stock, par value \$0.0001 per share	MA	New York Stock Exchange
1.1% Notes due 2022	MA22	New York Stock Exchange
2.1% Notes due 2027	MA27	New York Stock Exchange
2.5% Notes due 2030	MA30	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Class B common stock, par value \$0.0001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
	(do not check if a smaller reporting company)	Emerging growth company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's Class A common stock, par value \$0.0001 per share, held by non-affiliates (using the New York Stock Exchange closing price as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$261.3 billion. There is currently no established public trading market for the registrant's Class B common stock, par value \$0.0001 per share. As of February 9, 2021, there were 985,146,914 shares outstanding of the registrant's Class A common stock, par value \$0.0001 per share and 8,215,424 shares outstanding of the registrant's Class B common stock, par value \$0.0001 per share.

Portions of the registrant's definitive proxy statement for the 2021 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

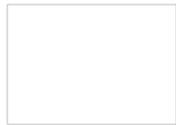


TABLE OF CONTENTS

PART I	6	Item 1.	Business
	20	Item 1A.	Risk factors
	33	Item 1B.	Unresolved staff comments
	33	Item 2.	Properties
	33	Item 3.	Legal proceedings
	33	Item 4.	Mine safety disclosures
	34	-	Information about our executive officers
PART II	38	Item 5.	Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities
	40	Item 6.	Selected financial data
	41	Item 7.	Management's discussion and analysis of financial condition and results of operations
	55	Item 7A.	Quantitative and qualitative disclosures about market risk
	56	Item 8.	Financial statements and supplementary data
	105	Item 9.	Changes in and disagreements with accountants on accounting and financial disclosure
	105	Item 9A.	Controls and procedures
105	Item 9B.	Other Information	
PART III	107	Item 10.	Directors, executive officers and corporate governance
	107	Item 11.	Executive compensation
	107	Item 12.	Security ownership of certain beneficial owners and management and related stockholder matters
	107	Item 13.	Certain relationships and related transactions, and director independence
	107	Item 14.	Principal accountant fees and services
PART IV	109	Item 15.	Exhibits and financial statement schedules
	109	Item 16.	Form 10-K summary

In this Report on Form 10-K ("Report"), references to the "Company," "Mastercard," "we," "us" or "our" refer to the business conducted by Mastercard Incorporated and its consolidated subsidiaries, including our operating subsidiary, Mastercard International Incorporated, and to the Mastercard brand.

Forward-Looking Statements

This Report contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words "believe", "expect", "could", "may", "would", "will", "trend" and similar words are intended to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements that relate to the Company's future prospects, developments and business strategies.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by Mastercard or on its behalf, including, but not limited to, the following factors:

- regulation directly related to the payments industry (including regulatory, legislative and litigation activity with respect to interchange rates and surcharging)
- the impact of preferential or protective government actions
- regulation of privacy, data, security and the digital economy
- regulation that directly or indirectly applies to us based on our participation in the global payments industry (including anti-money laundering, counter financing of terrorism, economic sanctions and anti-corruption; account-based payment systems; and issuer practice legislation and regulation)
- the impact of changes in tax laws, as well as regulations and interpretations of such laws or challenges to our tax positions
- potential or incurred liability and limitations on business related to any litigation or litigation settlements
- the impact of the global coronavirus (COVID-19) pandemic and containment measures taken in response
- the impact of competition in the global payments industry (including disintermediation and pricing pressure)
- the challenges relating to rapid technological developments and changes
- the challenges relating to operating a real-time account-based payment system and to working with new customers and end users
- the impact of information security incidents, account data breaches or service disruptions
- issues related to our relationships with our customers (including loss of substantial business from significant customers, competitor relationships with our customers and banking industry consolidation), merchants and governments
- exposure to loss or illiquidity due to our role as guarantor and other contractual obligations
- the impact of global economic, political, financial and societal events and conditions, including adverse currency fluctuations and foreign exchange controls
- reputational impact, including impact related to brand perception and lack of visibility of our brands in products and services
- the inability to attract, hire and retain a highly qualified and diverse workforce, or maintain our corporate culture
- issues related to acquisition integration, strategic investments and entry into new businesses
- issues related to our Class A common stock and corporate governance structure

Please see "Risk Factors" in Part I, Item 1A for a complete discussion of these risk factors. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this Report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

PART I

Item 1. Business

Item 1A. Risk factors

Item 1B. Unresolved staff comments

Item 2. Properties

Item 3. Legal proceedings

Item 4. Mine safety disclosures

Information about our executive officers

Item 1. Business

Overview

Mastercard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments, digital partners, businesses and other organizations worldwide, enabling them to use electronic forms of payment instead of cash and checks. We make payments easier and more efficient by providing a wide range of payment solutions and services using our family of well-known brands, including Mastercard®, Maestro® and Cirrus®. We operate a multi-rail network that offers customers one partner to turn to for their domestic and cross-border payment needs. Through our unique and proprietary global payments network, which we refer to as our core network, we switch (authorize, clear and settle) payment transactions and deliver related products and services. We have additional payment capabilities that include automated clearing house (“ACH”) transactions (both batch and real-time account-based payments). We also provide integrated value-added offerings such as cyber and intelligence products, information and analytics services, consulting, loyalty and reward programs, processing and open banking. Our payment solutions offer customers choice and flexibility and are designed to ensure safety and security for the global payments system.

A typical transaction on our core network involves four participants in addition to us: account holder (a person or entity who holds a card or uses another device enabled for payment), issuer (the account holder’s financial institution), merchant and acquirer (the merchant’s financial institution). We do not issue cards, extend credit, determine or receive revenue from interest rates or other fees charged to account holders by issuers, or establish the rates charged by acquirers in connection with merchants’ acceptance of our products. In most cases, account holder relationships belong to, and are managed by, our customers.

We generate revenues from assessing our customers based on the gross dollar volume (“GDV”) of activity on the products that carry our brands, from the fees we charge to our customers for providing transaction switching and from other payment-related products and services.

For a full discussion of our business, please see page 8.

Our Performance

The following are our key financial and operational highlights for 2020, including growth rates over the prior year:

GAAP		
Net revenue \$15.3B down 9%	Net income \$6.4B down 21%	Diluted EPS \$6.37 down 20%
Non-GAAP ¹ (currency-neutral)		
Net revenue \$15.3B down 8%	Adjusted net income \$6.5B down 17%	Adjusted diluted EPS \$6.43 down 16%
\$6.1B in capital returned to stockholders	\$4.5B Repurchased shares \$1.6B Dividends paid	\$7.2B cash flows from operations
<input type="checkbox"/> Gross dollar volume (growth on a local currency basis) \$6.3T flat	<input type="checkbox"/> Cross-border volume growth (on a local currency basis) down 29%	<input type="checkbox"/> Switched transactions 90.1B up 3%

¹ Non-GAAP results exclude the impact of gains and losses on equity investments, Special Items and/or foreign currency. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Financial Results Overview” in Part II, Item 7 for the reconciliation to the most direct comparable GAAP financial measures.

The coronavirus ("COVID-19") outbreak and its negative impact on the global economy affected our 2020 performance, during which we saw unfavorable trends compared to historical periods. For a full discussion of this impact, see "Management's Discussion and Analysis of Financial Condition and Results of Operation" in Item II, Part 7.

Our Strategy

We grow, diversify and build our business through a combination of organic and inorganic strategic initiatives. Our ability to grow our business is influenced by:

- personal consumption expenditure ("PCE") growth
- driving cash and check transactions toward electronic forms of payment
- increasing our share in the payments space
- providing integrated value-added products and services
- providing enhanced payment capabilities to capture new payment flows, such as business to business ("B2B"), person to person ("P2P"), business to consumer ("B2C") and government payments.



ENABLED BY BRAND, DATA, TECHNOLOGY AND PEOPLE

Grow. We focus on growing our core business globally, including growing our consumer and commercial products and solutions, as well as increasing the number of payment transactions we switch. We also look to provide effective and efficient payments solutions that cater to the evolving ways people interact and transact in the growing digital economy. This includes expanding merchant access to electronic payments through new technologies in an effort to deliver a better consumer experience, while creating greater efficiencies and security.

Diversify. We diversify our business by:

- working with new customers, including governments, merchants, financial technology companies (fintechs), digital players, mobile providers and other corporate businesses
- scaling our capabilities and business into new geographies, including growing acceptance in markets with limited electronic payments acceptance today
- broadening financial inclusion for the unbanked and underbanked

Build. We build our business by:

- creating and acquiring differentiated products and platforms to provide unique, innovative solutions that we bring to market to support new payment flows and related applications, such as real-time account-based payments and the Mastercard Track™ suite of products
- providing services across data analytics, consulting, marketing services, loyalty, cyber and intelligence, and processing
- providing open banking capabilities to enable the reliable access, transmission and management of consumer-consented data

Strategic Partners. We work with a variety of stakeholders. We provide financial institutions with solutions to help them increase revenue by driving preference for our products and services. We help merchants, financial institutions, governments, and other organizations by delivering data-driven insights and other services that help them grow and create simple and secure customer

experiences. We partner with technology companies such as digital players, fintechs and mobile providers to deliver digital payment solutions powered by our technology, expertise and security protocols. We help national and local governments improve financial inclusion and efficiencies, reduce costs, increase transparency of financial transactions and data to reduce crime and corruption and advance social programs. For consumers, we provide faster, safer and more convenient ways to pay and transfer funds and exchange information to enable services.

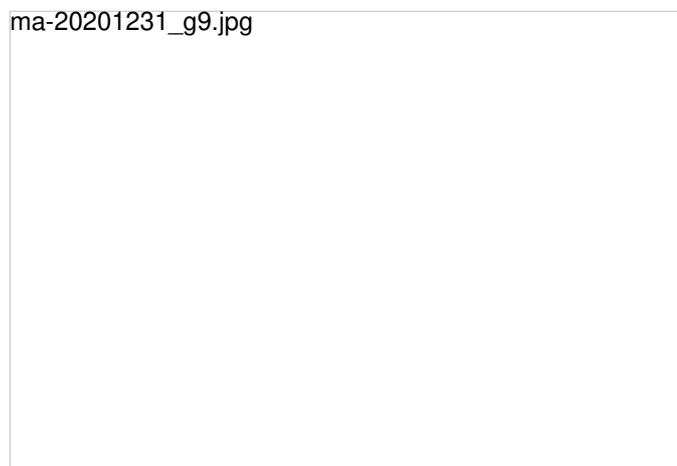
Talent and Culture. Our success is driven by the skills, experience, integrity and mindset of the talent we hire. We attract and retain top talent from diverse backgrounds and industries by building a world-class culture based on decency, respect and inclusion where people have opportunities to perform purpose-driven work that impacts customers, communities and co-workers on a global scale. The diversity and skill sets of our people underpin everything we do.

Our Business

Our Operations and Network

We operate a multi-rail network that offers our customers one partner to turn to for their domestic and cross-border needs. Our core network links issuers and acquirers around the globe to facilitate the switching of transactions, permitting account holders to use a Mastercard product at millions of acceptance locations worldwide. Our core network facilitates an efficient and secure means for receiving payments, a convenient, quick and secure payment method for consumers to access their funds and a channel for businesses to receive insight through information that is derived from our network. We enable transactions for our customers through our core network in more than 150 currencies and in more than 210 countries and territories. Our range of capabilities extend beyond our core network into real-time account-based payments and open banking.

Core Network Transactions. Our core network supports what is often referred to as a “four-party” payments network. The following diagram depicts a typical transaction on our core network, and our role in that transaction:



In a typical transaction, an account holder purchases goods or services from a merchant using one of our payment products. After the transaction is authorized by the issuer, the issuer pays the acquirer an amount equal to the value of the transaction, minus the interchange fee (described below), and then posts the transaction to the account holder's account. The acquirer pays the amount of the purchase, net of a discount (referred to as the “merchant discount” rate), to the merchant.

- **Interchange Fees.** Interchange fees reflect the value merchants receive from accepting our products and play a key role in balancing the costs and benefits that consumers and merchants derive. Generally, interchange fees are collected from acquirers and paid to issuers to reimburse the issuers for a portion of the costs incurred. These costs are incurred by issuers in providing services that benefit all participants in the system, including acquirers and merchants, whose participation in the network enables increased sales to their existing and new customers, efficiencies in the delivery of existing and new products, guaranteed payments and improved experience for the customers. We (or, alternatively, financial institutions) establish “default interchange fees” that apply when there are no other established settlement terms in place between an issuer and an acquirer. We administer the collection and remittance of interchange fees through the settlement process.
-

- **Additional Four-Party System Fees.** The merchant discount rate is established by the acquirer to cover its costs of both participating in the four-party system and providing services to merchants. The rate takes into consideration the amount of the interchange fee which the acquirer generally pays to the issuer. Additionally, acquirers may charge merchants processing and related fees in addition to the merchant discount rate. Issuers may also charge account holders fees for the transaction, including, for example, fees for extending revolving credit.

Switched Transactions

- **Authorization, Clearing and Settlement.** Through our core network, we enable the routing of a transaction to the issuer for its approval, facilitate the exchange of financial transaction information between issuers and acquirers after a successfully conducted transaction, and help to settle the transaction by facilitating the exchange of funds between parties via settlement banks chosen by us and our customers.
- **Cross-Border and Domestic.** Our core network switches transactions throughout the world when the merchant country and country of issuance are different ("cross-border transactions"), providing account holders with the ability to use, and merchants to accept, our products and services across country borders. We also provide switched transaction services to customers where the merchant country and the country of issuance are the same ("domestic transactions"). We switch over 55% of all transactions for Mastercard and Maestro-branded cards, including nearly all cross-border transactions. We switch the majority of Mastercard and Maestro-branded domestic transactions in the United States, United Kingdom, Canada, Brazil and a select number of other countries.

Core Network Architecture. Our core network features a globally integrated structure that provides scale for our issuers, enabling them to expand into regional and global markets. It is based largely on a distributed (peer-to-peer) architecture with an intelligent edge that enables the network to adapt to the needs of each transaction. Our core network accomplishes this by performing intelligent routing and applying multiple value-added services (such as fraud scoring, tokenization services, etc.) to appropriate transactions in real time. Our core network's architecture enables us to connect all parties regardless of where or how the transaction is occurring. It has 24-hour a day availability and world-class response time.

Real-time Account-based Payment Infrastructure and Applications. Augmenting our core network, we offer real-time account-based payment capabilities, enabling payments between bank accounts in real-time in countries in which it has been deployed.

Open Banking. We offer a platform that enables data providers and third parties to reliably access, securely transmit and confidently manage customer-consented data to improve the customer experience.

Payments System Security. Our payment solutions and products are designed to ensure safety and security for the global payments system. Our core network and additional platforms incorporate multiple layers of protection, providing greater resiliency and best-in-class security protection. Our programs are assessed by third parties and incorporate benchmarking and other data from peer companies and consultants. We engage in many efforts to mitigate information security challenges, including maintaining an information security program, an enterprise resilience program and insurance coverage, as well as regularly testing our systems to address potential vulnerabilities. Through the combined efforts of our Security Operations Centers, Fusion Centers and Mastercard Intelligence Center, we work with experts across the organization (as well as through other sources such as public-private partnerships), to monitor and respond quickly to a range of cyber and physical threats.

As part of our multi-layered approach to protect the global payments system, we also work with issuers, acquirers, merchants, governments and payments industry associations to help develop and put in place standards (e.g., EMV) for safe and secure transactions.

Digital Payments. Our network supports and enables our digital payment platforms, products and solutions, reflecting the growing digital economy where consumers are increasingly seeking to use their payment accounts to pay when, where and how they want. For a full discussion of the ways our innovation capabilities enable digital payments, see "Our Products and Services - Digital Enablement" below.

Customer Risk. We guarantee the settlement of many of the transactions from issuers to acquirers to ensure the integrity of our core network. We refer to the amount of this guarantee as our settlement exposure. We do not, however, guarantee payments to merchants by their acquirers or the availability of unspent prepaid account holder account balances.

Our Franchise. We manage an ecosystem of stakeholders who participate in our network. Our franchise creates and sustains a comprehensive series of value exchanges across our ecosystem. We ensure a balanced ecosystem where all participants benefit from the availability, innovation and safety and security of our network. We achieve this through the following key activities:

- **Participant Onboarding.** We ensure the capability of new customers to use our network, and define the roles and responsibilities for their operations once on the network

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