



Mastercard's AI-Driven Software Is Uniquely Positioned

Thesis & Assumptions

The Market's View: MA stock has de-rated to 24x forward P/CF (10-year median: 37x) based on fears that regulation will erode Mastercard's (MA) interchange fee pricing power and increase competition, and AI will pressure VAS growth.

My View: (1) MA's pricing power is shifting rather than eroding, and (2) the company remains uniquely positioned to benefit from inflecting AI reasoning, with recent acquisitions adding multiple intelligence layers to its data platform.

1. Pricing Power: MA is shifting its pricing power from interchange fees to Value-Added Services (VAS) with Credential Continuity Fees (effective Q1 '24) economically incentivizing merchants accelerating transaction services adoption. Importantly, patent filings reflect MA increasingly decoupling VAS revenue from seat growth by shifting pricing to a consumption-based model, *tying its revenue to transaction complexity rather than user count.*

2. Operating Leverage: Although a competitor can replicate MA's AI model algorithms and capital investments, it cannot replicate its AI input data. Therefore, I view inflecting AI reasoning as the catalyst for VAS acceleration as it bridges the contextual gap between (1) its global payment network data and (2) recent acquisitions that add multiple intelligence layers beyond payments, collectively translating to higher value delivered to clients and continued TAM expansion.

3. Projections: Consensus models 14% EPS growth in '26, whereas I project 20% EPS growth and VAS accelerating to a 20–22% CAGR over the next 5 years (vs. 18% since 2022), driven by a pricing power shift to VAS pricing and continued innovation.

4. Re-rating: I see MA re-rating to its *normalized 35x EV/CF by late '26.* My bull case inputs 42x EV/CF as MA's growing government client network (45 currently) increases cash flow reliability while pricing power fears dissipate.

5. '26 Catalysts: (1) meaningful Agent Pay revenue (global monetization in Q2), (2) Recorded Future synergies, and (3) sustained VAS acceleration (23–25%)

Scale & Monetization Advantages

As AI improves, unique scaling and monetization advantages will become increasingly important for capturing AI value. For reference, MA only started breaking out VAS as a revenue segment in '22, which has already *reached scale comparable to major enterprise platforms on a revenue basis* (e.g., ServiceNow \$13B 2025 vs VAS \$13B).

1. Structural Cost Advantage: By layering software onto its global payment network, MA has bypassed key long-term software profitability and scaling constraints.

i. Data Acquisition: MA faces nearly zero data acquisition cost, as most of its AI inputs are a byproducts of businesses/segments already generating revenue, whether it is MA's payment network or recent acquisitions. As such, its AI-related variable costs are largely external data processing, *suggesting structurally higher incremental margins as fixed costs normalize* (compute and acquisition integration).

ii. R&D: MA's existing payment network infrastructure supports high incremental margins by developing software for its payment network and *repackaging the same software into VAS products.* Importantly, inflecting AI reasoning accelerates this advantage by increasing the monetization yield of its existing infrastructure.

2. Product Development: While the market believes that improving AI will broadly disrupt software, the dynamic does not change the fact that AI outputs are based on input data.

i. Data Context & AI Models: Recent acquisitions extend MA's visibility far beyond payments to include *SKUs, flight itineraries, open banking financials (income/assets), behavioral biometrics (foot traffic, weather), dark web, and open internet.* By combining proprietary generative AI models with this extended context, MA creates a context moat that allows it to train structurally superior models (e.g., fraud prediction) that competitors with less detailed or fragmented data cannot replicate.

ii. Data Volume: 14,400 transactions per second gives MA unmatched consumer

Price Targets

Base Case: \$755 (+44%)

Bull Case: \$887 (+69%)

Key Data

Market Cap: \$492B

Dividend Yield: 0.57%

Performance

1-Year: -2%

3-Year: 47%

5-Year: 66%

10-Year: 548%

ITD: 12,157%

52 Week High: \$601

52 Week Low: \$465

Current Price: \$539

Valuation

Fwd. Price/CF: 24x
(37% discount rel. 10yr median)

Fwd. FCF Yield: 3.6%
(29% discount rel. 4yr av.)

Fwd. EV/EBITDA: 21x
(19% discount rel. 5yr av.)

2025 Growth

Revenue: 16%

Op. Income: 21%

Margin: 57.6%

Expansion: 230 bps

FCF/Share Growth: 23%

VAS Revenue: 23%

2024: 17%

Payment Revenue: 12%

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visibility and enables its AI engineers to quickly and definitively fine-tune its AI models and develop new products, as reflected in its transformer models updating weekly.

iii. Compute: Running its models on existing payment switches (<50ms) vs. a fintech sending transaction data to an AWS center (~500ms) *implies structurally higher transaction approval rates*, which becomes increasingly relevant as payment digitization and agentic commerce grow.

iv. Network Effects: Enables MA to bypass scaling constraints and immediately monetize new software through its global network. Notably, *60% of VAS revenue is payment network-linked*.

Growth Drivers

1. Consulting: While pure-play consulting firms are susceptible to survey bias, MA's AI input data carries far more context at structurally lower data acquisition costs, implying a widening profitability and performance gap.

i. Store expansion based on *"10k cardholders in this zip code spent >\$15 on coffee between 8–9AM the last year, and their average credit limit is \$15k,"* while using its *"twin store" software that predicts the potential store's performance based on existing stores* that match the profile of the potential new store.

ii. Government policy planning: serves 45 governments, where MA identifies which visitors spend the most, where they are from, and which attractions drive the highest return based on MA's data platform.

2. Cybersecurity/Fraud Detection: While pure-play firms are largely limited to endpoint data (device/server), MA offers visibility into both (a) the start and end points of transactions. Importantly, the Recorded Future acquisition (Q4 '24) offers AI models that prevent fraud before it occurs, *shifting VAS from reactive fraud detection to proactive prevention, with MA noting that fraud detection improved 300% in '25*.

i. The combined platform scans *the dark web, consumer identity, and MA's transaction data on a global scale*, which I see scaling rapidly through the company's global presence, specifically with payment rail innovation and increasing usage of multi-rail processing offering growth levers going forward.

ii. I utilized Python to scrape public government Recorded Future cybersecurity contract data from 2021–2025, which showed *100% retention while clients increased service contracts 12% of the time*, reflecting its major scaling potential as the platform monetizes through MA's globally embedded network.

3. Personalization: AI-driven real-time visual adjustments to digital menu boards or website designs by coordinating its transaction data, external data (e.g., *weather, time of day, local spending patterns*) to optimize sales.

i. Re-order the McDonald's digital menu: MA's AI models can promote McFlurries and iced drinks on a hot day, or if a customer orders a Big Mac, the model updates the sidebar to show a side item (e.g., McNuggets) with the highest add-on rate for the customer's profile in the region.

4. Agent Pay: With major distribution partners (PayPal, U.S. Bank, Google Wallet) and a global merchant rollout in Q2 '26, the rail allows AI agents to negotiate and execute purchases within pre-set limits on behalf of consumers through MA's established payment network. While the Agent Pay application layer (fintechs and banks) record revenue as agentic commerce grows, *MA immediately records contract revenue as clients use MA's Agent Pay rails, and consumption revenue as the commerce layer scales*.

i. Integration: I utilized Python to scrape agent pay SDK download volume data, which revealed a 350% spike (relative to Q4 '25) following the Google partnership announcement (1/21/26), meaning *MA's clients are quickly moving from "announcement" to active "integration" phases*.

5. Network Tokenization: With highly publicized antitrust litigation pressuring fees, MA has successfully decoupled its growth from interchange fees by hiking 'Compliance' and 'Security' fees.

i. Credential Continuity Fee: Effective Q1 '26 (\$0.09 per non-tokenized recurring transaction). Rather than regulation broadly eroding MA's pricing power, the company has shifted pricing power *from pressured interchange fees to uncapped consumption-based software service pricing*, as merchants are forced to adopt MA's transaction services to avoid the fee.

Margin Expansion Drivers

1. M&A Cost Normalization: MA has incurred four undisclosed and \$7.5B in disclosed M&A costs in the last five years to extend its AI capabilities beyond transactions themselves. As the upfront costs spread and AI lowers data integration costs within 18–24 months of its last acquisition, *margins are positioned to expand by Q4 '26–Q2 '27*.

2. AI Inference & Training Efficiency: While compute costs constrained VAS profitability in '23–'25, custom silicon AI chips (Google TPU v6, AMD MI350) are expected to lower the cost per token by 30–50% annually. *This not only supports margin expansion, but also allows MA to run its complex models more often, implying higher value and volume of services per transaction as the company's products and compute efficiency improves*.



Payment Network Revenue (Millions)	2024 (actual)	2025 (actual)	2026 (e)	2027 (e)	2028 (e)	2029 (e)	2030 (e)
Domestic Volume	\$ 3,038,000.00	\$ 3,322,000.00	\$ 3,554,540.00	\$ 3,812,244.15	\$ 4,079,101.24	\$ 4,354,440.57	\$ 4,648,365.31
<i>GDV Growth (%)</i>	7.00%	6.00%	7.00%	7.25%	7.00%	6.75%	6.75%
Implied Assessment Fee Per Transaction	\$ 0.00337	\$ 0.00342	\$ 0.00342	\$ 0.00342	\$ 0.00342	\$ 0.00342	\$ 0.00342
<i>YoY Growth (%)</i>	-	1.56%	0.00%	0.00%	0.00%	0.00%	0.00%
Domestic Assessment Fee Revenue	\$10,245	\$ 11,376.93	\$ 12,173.32	\$ 13,055.88	\$ 13,969.79	\$ 14,912.75	\$ 15,919.37
<i>YoY Growth (%)</i>	7.00%	11.05%	7.00%	7.25%	7.00%	6.75%	6.75%
Cross Border Volume	\$ 6,741,000.00	\$ 7,752,150.00	\$ 9,031,254.75	\$ 10,498,833.65	\$ 12,152,399.95	\$ 14,036,021.94	\$ 16,141,425.23
<i>YoY Growth (%)</i>	9.00%	15.00%	16.50%	16.25%	15.75%	15.50%	15.00%
Implied Assessment Fee Per Transaction	\$ 0.00151	\$ 0.00154	\$ 0.00154	\$ 0.00154	\$ 0.00154	\$ 0.00154	\$ 0.00154
<i>YoY Growth (%)</i>	-	2.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cross-Border Assessment Fee Revenue	\$ 10,181.00	\$ 11,942.31	\$ 13,912.79	\$ 16,173.62	\$ 18,720.97	\$ 21,622.72	\$ 24,866.13
<i>YoY Growth (%)</i>	17.00%	17.30%	16.50%	16.25%	15.75%	15.50%	15.00%
Switched Transaction Volume	159400.00	175340.00	194627.40	216036.41	239260.33	264980.81	292803.80
<i>YoY Growth (%)</i>	11.00%	10.00%	11.00%	11.00%	10.75%	10.75%	10.50%
Implied Assessment Fee Per Transaction	\$ 0.08533	\$ 0.08789	\$ 0.09141	\$ 0.09415	\$ 0.09603	\$ 0.09699	\$ 0.09796
<i>YoY Growth (%)</i>	-	3.00%	4.00%	3.00%	2.00%	1.00%	1.00%
Switched Transaction Processing Revenue	\$ 13,602.00	\$ 15,411.07	\$ 17,790.53	\$ 20,339.92	\$ 22,976.99	\$ 25,701.49	\$ 28,684.14
<i>YoY Growth (%)</i>	14.00%	13.30%	15.44%	14.33%	12.97%	11.86%	11.61%
Other Network Fees (\$M)	\$936	\$ 954.72	\$ 973.81	\$ 993.29	\$ 1,003.22	\$ 1,013.26	\$ 1,023.39
<i>YoY Growth (%)</i>	-3.00%	2.00%	2.00%	2.00%	1.00%	1.00%	1.00%
Gross Payment Network Revenue	\$ 34,964.00	\$ 39,685.03	\$ 44,850.46	\$ 50,562.71	\$ 56,670.98	\$ 63,250.22	\$ 70,493.02
<i>YoY Growth (%)</i>	13.50%	13.02%	12.74%	12.74%	12.08%	11.61%	11.45%
Gross Volume Growth (%)	13.19%	13.61%	13.67%	13.67%	13.38%	13.26%	13.01%
Payment Network Rebates and Incentives	\$ (17,335.00)	\$ (20,108.60)	\$ (23,325.98)	\$ (26,824.87)	\$ (30,848.00)	\$ (35,475.89)	\$ (40,797.28)
<i>YoY Growth (%)</i>	13.10%	16.00%	15.00%	15.00%	15.00%	15.00%	15.00%
% of Total Revenue	49.58%	50.67%	52.01%	53.05%	54.43%	56.09%	57.87%
Net Payment Network Revenue	\$17,335	\$ 19,576.43	\$ 21,524.48	\$ 23,737.84	\$ 25,822.37	\$ 27,774.32	\$ 29,695.75
<i>YoY Growth (%)</i>	10.00%	12.93%	9.95%	10.28%	8.78%	7.56%	6.92%
% of Total Revenue	61.54%	59.70%	57.17%	54.89%	52.24%	49.51%	46.63%
Value-Added Services Revenue (Millions)	2024 (actual)	2025 (actual)	2026 (e)	2027 (e)	2028 (e)	2029 (e)	2030 (e)
Net Value-Added Services Revenue	\$ 10,832.00	\$ 13,215.04	\$ 16,122.35	\$ 19,508.04	\$ 23,604.73	\$ 28,325.68	\$ 33,990.81
<i>YoY Growth (%)</i>	17.00%	22.00%	22.00%	21.00%	21.00%	20.00%	20.00%
% of Total Revenue	38.46%	40.30%	42.83%	45.11%	47.76%	50.49%	53.37%
Total Operating Expense per \$1 Value-Added Service Revenue	\$ (0.86)	\$ (0.95)	\$ (0.94)	\$ (0.88)	\$ (0.78)	\$ (0.72)	\$ (0.66)
% Increase (Reduction)	-	10.51%	-0.65%	-8.83%	-9.00%	-8.47%	-8.46%
Consolidated Revenue (Millions)	2024 (actual)	2025 (actual)	2026 (e)	2027 (e)	2028 (e)	2029 (e)	2030 (e)
Total Net Revenue	\$ 28,167.00	\$ 32,791.47	\$ 37,646.83	\$ 43,245.88	\$ 49,427.10	\$ 56,100.00	\$ 63,686.56
<i>YoY Growth (%)</i>	12.00%	16.42%	14.81%	14.87%	14.29%	13.50%	13.52%
Cost Structure (Millions)	2024 (actual)	2025 (actual)	2026 (e)	2027 (e)	2028 (e)	2029 (e)	2030 (e)
General and Administrative	\$ (10,193.00)	\$ (11,318.00)	\$ (12,676.16)	\$ (14,070.54)	\$ (15,618.30)	\$ (17,336.31)	\$ (19,243.30)
<i>YoY Growth (%)</i>	14.00%	11.04%	12.00%	11.00%	11.00%	11.00%	11.00%
% of Total Revenue	36.19%	34.52%	33.67%	32.54%	31.60%	30.90%	30.22%
Advertising and marketing	\$ (815.00)	\$ (929.00)	\$ (1,068.35)	\$ (1,175.19)	\$ (1,233.94)	\$ (1,270.96)	\$ (1,296.38)
<i>YoY Growth (%)</i>	0.00%	13.99%	15.00%	10.00%	5.00%	3.00%	2.00%
Depreciation and Amortization	\$ (897.00)	\$ (1,143.00)	\$ (1,440.18)	\$ (1,555.39)	\$ (1,648.72)	\$ (1,714.67)	\$ (1,783.25)
<i>YoY Growth (%)</i>	12.00%	27.42%	26.00%	8.00%	6.00%	4.00%	4.00%
Provision for Litigation	\$ (680.00)	\$ (504.00)	\$ (50.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)
<i>YoY Growth (%)</i>	26.00%	25.88%	90.08%	90.00%	0.00%	0.00%	0.00%
Total Operating Expenses	\$ (12,585.00)	\$ (13,894.00)	\$ (15,234.69)	\$ (16,806.12)	\$ (18,505.96)	\$ (20,326.94)	\$ (22,327.94)
% of Total Revenue	44.68%	42.37%	40.47%	38.86%	37.44%	36.23%	35.06%
<i>YoY Growth (%)</i>	13.00%	10.00%	9.65%	10.31%	10.11%	9.84%	9.84%
Operating Income	\$ 15,582.00	\$ 18,897.47	\$ 22,412.14	\$ 26,439.77	\$ 30,921.14	\$ 35,773.06	\$ 41,358.62
Operating Margin	55.32%	57.63%	59.53%	61.14%	62.56%	63.77%	64.94%
Operating Income YoY Growth (%)	13.10%	21.28%	18.60%	17.97%	16.95%	15.69%	15.61%
Total Other Expenses	\$ (328.00)	\$ (319.00)	\$ (319.00)	\$ (319.00)	\$ (319.00)	\$ (319.00)	\$ (319.00)
<i>YoY Growth (%)</i>	2.00%	2.74%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before taxes	\$ 15,254.00	\$ 18,578.47	\$ 22,093.14	\$ 26,120.77	\$ 30,602.14	\$ 35,454.06	\$ 41,039.62
Income Tax Expense	\$ (2,380.00)	\$ (3,610.00)	\$ (4,418.63)	\$ (4,962.95)	\$ (5,508.39)	\$ (6,027.19)	\$ (6,976.74)
Effective Tax Rate (%)	15.60%	21.79%	20.00%	19.00%	18.00%	17.00%	17.00%
Net Income	\$ 12,874.00	\$ 14,968.47	\$ 17,674.51	\$ 21,157.82	\$ 25,093.76	\$ 29,426.87	\$ 34,062.88
Net Income Margin	45.71%	45.65%	46.95%	48.92%	50.77%	52.45%	53.49%
<i>YoY Growth (%)</i>	15.00%	16.27%	18.08%	19.71%	18.60%	17.27%	15.75%
Per-Share Metrics							
Diluted weighted-average shares outstanding	925	905	885	867	849	832	816
Buyback (%)	2.10%	2.21%	2.20%	2.10%	2.00%	2.00%	2.00%
Adjusted Diluted EPS	\$ 13.92	\$ 16.54	\$ 19.97	\$ 24.42	\$ 29.55	\$ 35.36	\$ 41.77
<i>YoY Growth (%)</i>	21.00%	18.84%	20.73%	22.28%	21.02%	19.66%	18.12%
Free Cash Flow (Millions)	2024 (actual)	2025 (actual)	2026 (e)	2027 (e)	2028 (e)	2029 (e)	2030 (e)
NOPAT	\$ 13,202.00	\$ 15,287.47	\$ 17,993.51	\$ 21,476.82	\$ 25,412.76	\$ 29,745.87	\$ 34,381.88
Depreciation and Amortization	\$ 897.00	\$ 1,143.00	\$ 1,440.18	\$ 1,555.39	\$ 1,648.72	\$ 1,714.67	\$ 1,783.25
<i>YoY Growth (%)</i>	12.00%	13.00%	11.50%	8.00%	6.00%	4.00%	4.00%
Net Change in Working Capital	\$ (2,473.00)	\$ (1,442.00)	\$ (1,581.17)	\$ (1,729.84)	\$ (1,977.08)	\$ (2,244.00)	\$ (2,547.46)
Portion of Revenue (%)	8.78%	4.40%	4.20%	4.00%	4.00%	4.00%	4.00%
<i>YoY Growth (%)</i>	-435.00%	-41.69%	9.65%	9.40%	14.29%	13.50%	13.52%
Capex	\$ (474.00)	\$ (1,215.00)	\$ (1,397.25)	\$ (1,550.95)	\$ (1,706.04)	\$ (1,876.65)	\$ (2,064.31)
<i>YoY Growth (%)</i>	27.00%	156.33%	15.00%	11.00%	10.00%	10.00%	10.00%
Unlevered Free Cash Flow	\$ 11,152.00	\$ 13,773.47	\$ 16,455.28	\$ 19,751.43	\$ 23,378.35	\$ 27,339.89	\$ 31,553.36
<i>YoY Growth (%)</i>	28.10%	23.51%	19.47%	20.03%	18.36%	16.95%	15.41%

Price Targets

Base Case: \$730 (+39%)

35x EV/FCF
(in-line with 10-year median multiple)

Bull Case: \$858 (+63%)

42x EV/FCF
(13% premium to 10-year median multiple)

Notes

Projection Period: 5 Years

Discount Rate: 13%

Payment Network Growth:

Decelerates from 12% (2025) to 7-10% as pricing power shift to VAS

VAS Growth:

20-22% as innovation and pricing power drive growth

Op. Margin Expansion:

654 bps, AI productivity gains and cost normalization

FCF Growth:

Decelerates from 23% (2025) to 14%

CAPEX Growth:

Normalizes (rel. to spike in 2025) to 10% annualized

Share Reduction:

2% - 2.2% annualized

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Company	Ticker	Annual Revenue (Billions)	Growth Rate (TTM)	Primary Sector
Intuit	INTU	\$16.3B	16%	Financial Software
ServiceNow	NOW	\$13.3B	21%	Enterprise IT Automation
Mastercard's VAS	MA	\$13.2B	22%	Data, Fraud, Consulting
Fiserv	FI	\$10.1B	4%	Banking Technology
Shopify	SHOP	\$8.9B	20%	E-commerce Platform
Workday	WDAY	\$8.5B	13%	HR & Finance SaaS
Palo Alto Networks	PANW	\$8.0B	15%	Cybersecurity
Synopsys	SNPS	\$6.1B	15%	Chip Design Software