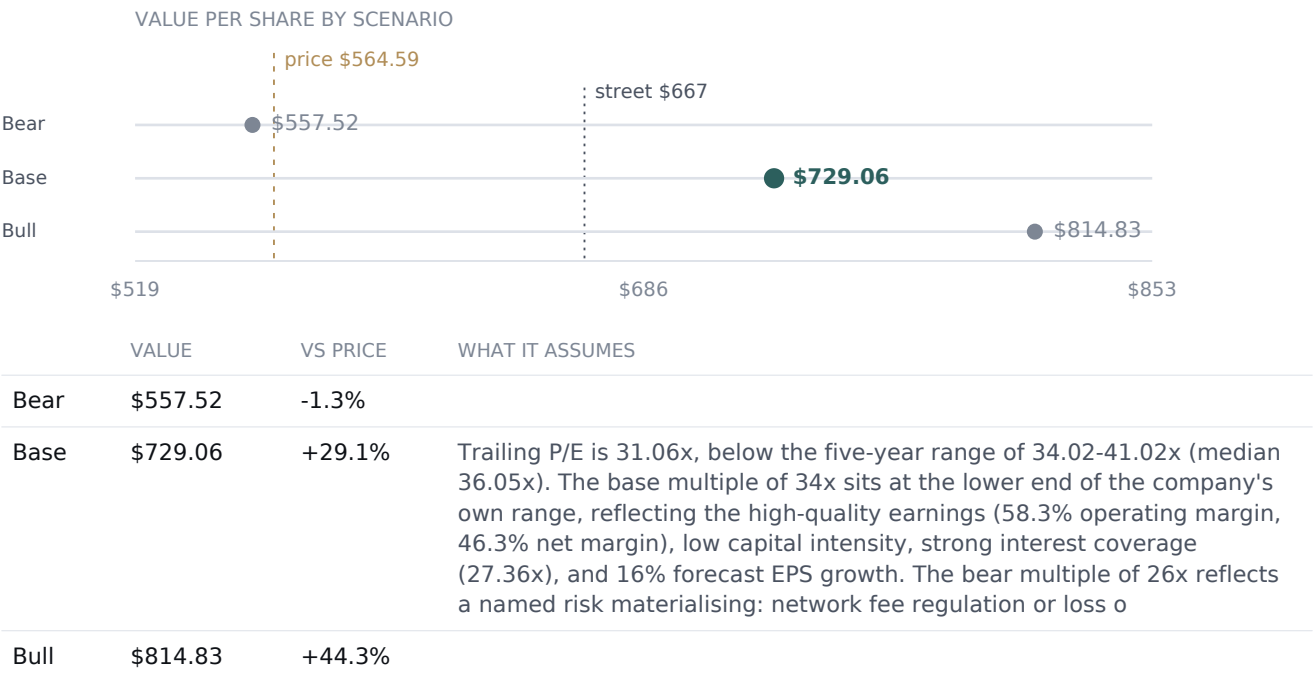


EQUITY RESEARCH / MA

Mastercard Inc

LONG CANDIDATE · historical study through 2026-10-05 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$564.59	\$729.06	+29.1%	\$707.62	n/a	31.1x



STREET CHECK

Street target **\$667** (+18.1% vs price) · 36 buy / 4 hold / 0 sell · forward P/E 24.2x · EPS estimates \$19.93 this year, \$23.02 next

Our base case is **1.09x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Mastercard's global payments network and value-added services portfolio generate highly predictable, high-margin cash flows with low capital intensity (FCFF margin 49.3%, capex intensity 2.1%, interest coverage 27.36x). Trailing P/E of 31.06x sits below the company's own five-year range of 34.02-41.02x (median 36.05x), implying the market has priced in a regulatory and competitive narrative that overshoots the actual business trajectory. Base case values the stock at \$729.06 on normalized EPS of \$18.49 growing 16% to \$21.44 at a 34x multiple, offering 29.1% upside from the \$564.59 price. The bear case at 26x yields \$557.52, essentially at the current price, so the long thesis depends on the base multiple being justified by the company's earnings quality, growth, and franchise durability rather than on a dramatic re-rating.

What the market may be missing

The market prices MA at 31.06x, below its own five-year P/E range (34.02-41.02x, median 36.05x). I believe this reflects an overemphasis on regulatory fee compression and competitive displacement by digital public infrastructure (PIX, FedNow, UPI) and CBDCs. The evidence contradicts a structural deterioration: YTD 2026 revenue grew 15% as reported (12% currency-neutral), value-added services grew 21% YTD versus 11% for the payment network, operating margin expanded to 59.4% YTD (61.0% adjusted), cross-border assessments grew 21% in Q2 2026, and tokenization reached 40% of transactions in 2025. The franchise model, settlement guarantee, and multi-rail capabilities remain intact. The sub-range multiple likely reflects narrative overshoot rather than fundamental impairment.

Why the opportunity exists

A narrative overshoot. The market prices MA at 31.06x, below its own five-year range (34.02-41.02x, median 36.05x). The narrative driving this discount is regulatory fee compression and competitive displacement by digital public infrastructure and CBDCs. However, the actual business trajectory contradicts this narrative: YTD 2026 revenue grew 15% as reported, value-added services grew 21% YTD, operating margin expanded to 59.4% YTD, cross-border assessments grew 21% in Q2 2026, and tokenization reached 40% of transactions. The franchise model, settlement guarantee, and multi-rail capabilities remain intact. The market appears to have priced in a structural impairment that the filings do not evidence, creating a gap between narrative and delivery. Evidence: Trailing P/E 31.06x vs. five-year range 34.02-41.02x (median 36.05x). YTD 2026 revenue growth 14.9%, value-added services +21% YTD, operating margin 59.4% YTD (61.0% adjusted), cross-border assessments +21% in Q2 2026. Key risks list network fee regulation and digital public infrastructure as threats, but the actual growth and margin data show no impairment.

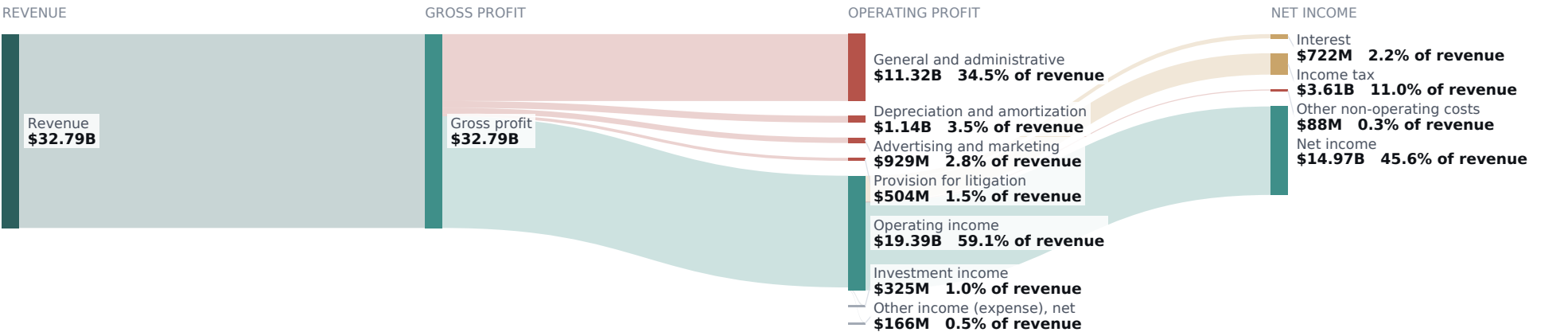
Since our last note

Thesis intact against our note of 2026-10-02 (investigate long). The shares have moved +2.2% since. No numeric forward guidance was provided in either the prior memo's filings or the current filings. SINCE THEN shows no guidance-versus-delivery entries. Management's stated strategy (growing the core, diversifying customers and geographies, building new areas) is qualitative. The absence of guidance makes it impossible to grade management on delivery versus promises. The consistent execution of growth (16.4% FY2025 revenue, 14.9% YTD 2026, margin expansion) suggests management delivers on its qualitative strategy, but no specific guidance was made to grade against.

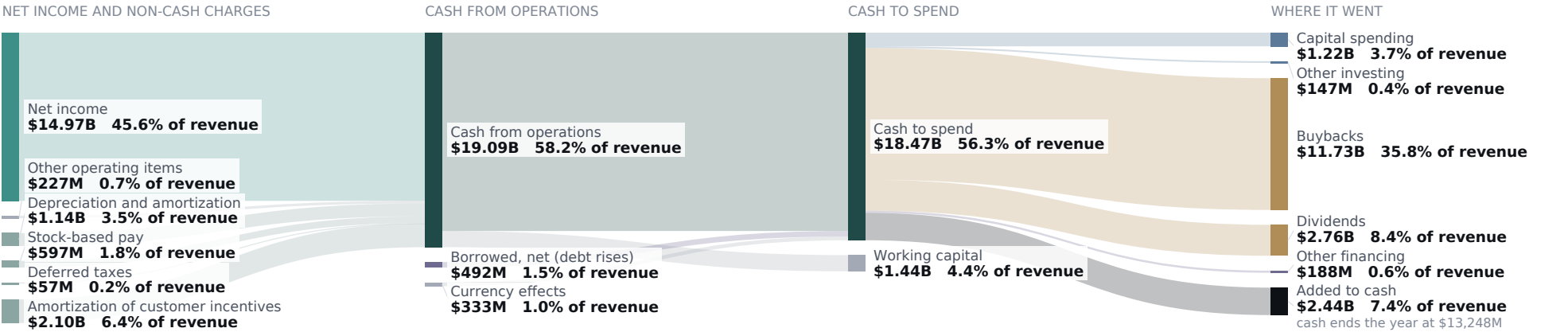
Follow the money: fiscal 2025

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$42 to operating costs and \$13 to interest and tax, and \$46 became net income. Operations turned that into \$54 of cash; \$1.5 went to capital spending and \$44 back to shareholders. Operations turned that into \$54 of cash; \$1.5 went to capital spending and \$44 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 1.9 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0001141391-26-000013. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Mastercard is a global payments technology company that operates a four-party network switching transactions for issuers and acquirers, earning fees based on gross dollar volume and providing value-added services including security, insights, digital authentication, and processing solutions.

What it sells

Mastercard sells payment network services (authorization, clearing, settlement) across a four-party network linking issuers and acquirers, generating fees based on gross dollar volume (GDV) and switching services. It also sells value-added services and solutions: security solutions (fraud scoring, cyber threat intelligence, identity verification), consumer acquisition and engagement services (marketing, personalization, loyalty), business and market insights (analytics, consulting, agentic solutions), digital and authentication solutions (tokenization, Click to Pay, biometrics), processing and gateway services, and other solutions including ACH batch and real-time account-based payments, bill payments, cross-border services, and open finance. Revenue is classified into two categories: (i) payment network and (ii) value-added services and solutions. Mastercard does not issue cards, extend credit, or earn revenue from interest rates or fees charged to account holders. Mastercard sells access to its global payments network (switching, clearing, settlement, connectivity, network access) and value-added services and solutions. It does not issue cards, extend credit, or receive revenue from interest rates or fees charged by issuers or acquirers. Revenue comes from assessments (domestic, cross-border, transaction processing, other network) and value-added services including security solutions, consumer acquisition and engagement, business and market insights, digital and authentication, processing and gateway solutions. It also offers ACH transactions (batch and real-time account-based payments). Brands include Mastercard, Maestro, and Cirrus.

Customers and channels

Customers are financial institutions (issuers and acquirers), merchants, governments, digital partners, businesses, and other organizations. Channels include the global payments network (hundreds of millions of acceptance locations and digital access points), a dedicated sales force and global account teams, and embedded services with partners such as tech platforms, system integrators, processors, and other networks. Mastercard operates in more than 220 countries and territories in more than 150 currencies. Account holder relationships belong to and are managed by customers (issuers). Distribution includes direct sales, partner embedding, and the Mastercard Developers platform for API integration. Customers are financial institutions (issuers), merchants, governments, digital partners, businesses, and other organizations. Account holder relationships belong to and are managed by customers. In 2025, the five largest customers generated approximately \$6.9 billion, or 21%, of total net revenue. No individual country other than the United States generated more than 10% of net revenue. The franchise model sets standards and ground-rules balancing value and risk across all stakeholders.

Unit economics and costs

Mastercard does not earn revenue from interest rates or fees charged to account holders by issuers, nor does it establish rates charged by acquirers. Interchange fees are collected from acquirers and paid to issuers; Mastercard administers collection and remittance but does not earn revenue from interchange. The merchant discount rate is established by acquirers. Total workforce cost for 2025 was \$7.3 billion (approximately 39,800 employees, ~70% outside the U.S., plus ~6,000 contingent workers). Capital returned to stockholders was \$14.5B (\$17.6B repurchased shares, \$2.8B dividends paid). Cash flows from operations were \$11.7B. No specific per-transaction unit economics or cost-per-switched-transaction figures are disclosed in the excerpt. GAAP operating margin 57.6% in 2025 (up 2.3 ppt from 55.3% in 2024); adjusted operating margin 59.2% (up 0.8 ppt). Operating expenses \$13,894M: G&A \$11,318M (+11%), advertising and marketing \$929M (+14%), depreciation and amortization \$1,143M (+27%), provision for litigation \$504M (-26%). Adjusted operating expenses \$13,389M (+14%). G&A driven by higher personnel costs (\$7,251M, +9%) for strategic initiatives, data processing and telecommunications (\$1,272M, +14%), fulfillment costs for marketing and consulting services. D&A increase driven by higher capitalized software amortization. Effective tax rate 19.4% GAAP, 19.6% adjusted, up 3.8 ppt due to Singapore operations Pillar 2 Rules (15% global minimum tax) effective 2025 and geographic mix of earnings.

Segments

- **Payment Network** - Revenue from fees charged to customers based on GDV (domestic and cross-border) on cards carrying Mastercard brands, plus switching and other network-related services. Driven by domestic assessments (\$11,029M, +8%), cross-border assessments (\$12,021M, +18%), transaction processing assessments (\$15,930M, +17%), other network assessments (\$1,018M, +9%). Includes \$20,522M of rebates and incentives, up 16%.
- **Value-Added Services and Solutions** - Revenue from security solutions, consumer acquisition and engagement, business and market insights, digital and authentication, processing and gateway, and other solutions (ACH, bill payments, cross-border services, open finance). Growth driven by underlying key drivers, security and digital/authentication solutions, consumer acquisition and engagement services, pricing, and business and market insights. 3 percentage points from acquisitions completed in 2024.
- **Consumer Credit** - Products enabling issuers to provide consumers with credit, covering standard, premium, and affluent segments.
- **Consumer Debit and Prepaid** - Debit and prepaid payment products and solutions for consumer access to deposit accounts, including fintech, gig economy, payroll, health savings accounts, and social benefit programs.
- **Commercial Credit and Debit** - Commercial credit, debit, and prepaid products for large corporations, midsize companies, small businesses, and government entities at point of sale and for invoiced payments.

Revenue drivers

- Fees based on gross dollar volume (GDV) on cards carrying Mastercard brands, both domestic and cross-border
- Switching and other network-related services (authorization, clearing, settlement)
- Cross-border volume growth (up 9% on local currency basis in 2025)

- Switched transactions (175.5B, up 10% in 2025)
- Value-added services: security solutions, consumer acquisition and engagement, business and market insights, digital and authentication, processing and gateway
- Other solutions: ACH batch and real-time account-based payments, bill payments, cross-border services, open finance
- Commercial invoiced payments and B2B marketplace expansion
- Disbursements and remittances via Mastercard Move (17 billion endpoints, 60 originating countries, 155 receiving countries)

Competitive position

Mastercard competes globally with Visa, American Express, JCB, China UnionPay, and Discover in general-purpose payments networks, as well as with debit/local networks, real-time account-based payment systems, digital wallets and fintechs, digital public infrastructure (PIX, FedNow, UPI), central bank digital currencies, stablecoins, and services/solutions providers. Competitive advantages cited include: a highly adaptable global network, franchise model with settlement guarantee backed by strong credit standing, multi-rail capabilities, globally recognized brands, data and AI assets, world-class talent, leading-edge technology, and local presence/government engagement. Some competitors have more market share in certain jurisdictions or different business models providing pricing or regulatory advantages. Intense competitive pressure exists on prices charged to issuers and acquirers. Mastercard operates a unique and proprietary global payments network. Its franchise model sets standards and ground-rules balancing value and risk across all stakeholders, allowing interoperability. It employs a multi-layered approach to protect the global payments ecosystem. Well-known and trusted brands include Mastercard, Maestro, and Cirrus. Capabilities (security, consumer engagement, insights, digital, processing) are fundamentally interdependent and reinforce each other. Mastercard is not a financial institution and does not issue cards or extend credit.

Industry direction

Key secular trends: cash displacement driving card adoption; growth in real-time account-based payments and ACH; tokenization of credentials, identities, assets, and data (40% of Mastercard transactions tokenized in 2025); agentic commerce and AI-driven payments; commercial B2B invoiced payments and embedded payments in platforms/workflows; digital public infrastructure and government-backed payment systems as alternatives; stablecoins and crypto becoming more regulated (GENIUS Act in 2025); open finance enabling data sharing and lending; expansion of cross-border money movement; increasing regulatory oversight of network fees and systemically important payment systems. The global payments industry is shifting toward electronic payments, digital and authentication solutions, real-time account-based payments (ACH), and cross-border transactions. Mastercard captures new payment flows through consumer and commercial payment products. Cross-border volume growth (18%) outpaced domestic growth (9%), reflecting continued international transaction expansion. Value-added services and solutions grew faster (23%) than the payment network (12%), indicating a shift toward services beyond pure transaction switching.

Recent developments

- Q2 2026 net revenue \$9,277M, up 14% as reported and 12% currency-neutral; payment network \$5,451M up 10% (8% currency-neutral), value-added services and solutions \$3,826M up 20% (18% currency-neutral).
- YTD 2026 net revenue \$17,675M, up 15% as reported and 12% currency-neutral; payment network \$10,399M up 11% (8% currency-neutral), value-added services and solutions \$7,276M up 21% (18% currency-neutral).
- Q2 2026 operating margin 60.2% (up 1.5 ppt); adjusted operating margin 61.1% (up 1.2 ppt). YTD operating margin 59.4% (up 1.3 ppt); adjusted 61.0% (up 1.3 ppt).
- Q2 2026 net income \$4,388M (+19%), diluted EPS \$4.97 (+22%); adjusted net income \$4,453M (+18%), adjusted diluted EPS \$5.04 (+21%). YTD net income \$8,270M (+18%), diluted EPS \$9.32 (+22%); adjusted diluted EPS \$9.64 (+22%).
- Key drivers Q2: GDV up 9% USD / 8% local to \$2.9 trillion; cross-border volume up 14% USD / 12% local; switched transactions up 9%. YTD: GDV up 10% USD / 8% local to \$5.6 trillion; cross-border up 17% USD / 12% local; switched transactions up 9%.
- Payment network assessments Q2: domestic \$3,154M (+13%), cross-border \$3,460M (+21%), transaction processing \$4,508M (+14%), other network \$326M (+25%).
- Restructuring charge of \$202 million recorded in Q1 2026 (\$158M after tax, \$0.18 per diluted share); savings intended to enable reinvestment for long-term growth.
- Q2 2026 litigation provisions of \$82 million (\$59M after tax, \$0.07 per diluted share) including ATM non-discrimination rule surcharge complaints, merchant class litigation change in estimate, and other legal matters.

Management outlook

CEO Michael Miebach stated results reflect 'our role in powering more ways to shop, pay and do business' and highlighted 'new partnerships in Mexico and the UAE' and 'market-first Agentive Payment capability' as unlocking opportunities. No numeric forward guidance (revenue, margin, EPS, capex, cash flow ranges) was provided in the quarter's filings. Management states existing liquidity, cash flow generating capabilities, and access to capital are sufficient to satisfy future operating cash needs, capital asset purchases, outstanding commitments, and potential obligations including litigation provisions and credit and settlement exposure. It intends to continue paying a quarterly cash dividend. No specific forward-looking revenue, margin, EPS, or capex guidance ranges are provided in the excerpt. The OBBBA is not expected to have a material impact on financial statements. Management's strategy centers on growing the core, diversifying customers and geographies, and building new areas for the future through organic and inorganic initiatives. Three strategic priorities: consumer payments (cash displacement, brand preference, tokenization, real-time payments), commercial and new payment flows (commercial POS, invoiced payments, B2B marketplaces, Mastercard Move disbursements/remittances), and services and other solutions (security, insights, digital, processing, open finance). These priorities are described as fundamentally interdependent. Six enablers: people, brand, data and AI, technology, franchise, and doing well by doing good. No specific numeric forward guidance is provided in the excerpt.

Accounting flags

- Restructuring charge of \$202 million in Q1 2026 treated as a Special Item excluded from non-GAAP results.
- Effective 2026, key drivers include Venezuela cross-border activity, as applicable.
- Non-GAAP measures exclude gains/losses on equity investments (mark-to-market fair value adjustments, impairments, disposition gains/losses) and Special Items (litigation judgments/settlements and certain one-time items).
- Non-GAAP adjustments exclude gains/losses on equity investments (mark-to-market fair value adjustments, impairments, disposition gains/losses) and Special Items (litigation judgments, settlements, one-time items)
- Litigation provisions are recurring: \$504M in 2025, \$680M in 2024, \$539M in 2023
- Restructuring charge of \$190M in 2024 excluded from adjusted results

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$35.08B	\$32.79B	+16.4% y/y
Operating income	\$20.46B	\$18.90B	58.3% margin
Net income	\$16.26B	\$14.97B	
Diluted EPS	\$18.18	\$16.52	31.1x trailing P/E
Operating cash flow	\$17.44B	\$17.65B	+19.4% y/y
Capital spending	\$735.0M	\$489.0M	2.1% of revenue
Unlevered FCFF	\$17.29B		
Cash and short-term investments	\$11.29B	\$10.57B	
Net debt	\$13.35B		
Share repurchases	\$15.82B	\$11.73B	

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-30). Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$2,459.0M (Short-term debt) falls due within twelve months of 2026-06-30; the price date is 97 days later, so check in the filing whether any of it matured or was refinanced before 2026-10-05.

The counter-case

The base multiple of 34.0x sits just below the company's own five-year minimum of 34.02x, flagged by the software as outside the range. If the market's 31.06x is correct and the five-year range reflects a structural shift (regulatory compression, competitive displacement), then the base case overstates value. The bear case at 26x yields \$557.52, essentially at the price, meaning the long thesis has no meaningful downside cushion. Additionally, no peer comparables are available to cross-check the multiple, so the valuation rests entirely on the company's own history, which may not be a valid anchor if the business model is being structurally challenged. The 16% forecast growth is above the 5-year revenue CAGR of 6.78% and within the 3-year CAGR of 13.82%, making it an optimistic assumption that depends on value-added services sustaining 21% growth. The bear case at 26x on \$21.44 forecast EPS yields \$557.52, which is essentially at the current price of \$564.59. This means the stock is not meaningfully overvalued even in a bear scenario; the downside is limited to roughly fair value. A short would require the multiple to compress below 26x or EPS growth to stall materially. The primary short risk is regulatory: if central banks cap cross-border fees (which grew 18% in FY2025 and 21% in Q2 2026) or if digital public infrastructure displaces the four-party network in key markets, the premium multiple erodes. However, the current price already embeds much of this risk, leaving limited margin for a short. Borrow availability is not disclosed in the material; squeeze risk is low for a mega-cap index constituent; timing is uncertain given no guidance; and the unbounded loss is mitigated by the fact that the bear case is essentially fair value, not a clear downside.

Valuation

Mastercard generates positive, highly predictable cash flows (FCFF margin 49.29%, capex intensity 2.1%, interest coverage 27.36x) and positive, sustainable earnings (diluted EPS \$18.18 TTM, net margin 46.34%). The earnings multiple is the feasible method because the DCF calculator cannot run: point-in-time shares are missing (shares_for_per_share_values is null) and no net-debt bridge is available, even though FCFF is positive. The business is asset-light, low-capital-intensity, and its earnings quality is high, making a P/E multiple the appropriate valuation lens.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	26.0x forward EPS \$21.44 (normalized, growth +16.0%)	\$557.52	-1.3%
Base (P/E)	34.0x forward EPS \$21.44 (normalized, growth +16.0%)	\$729.06	+29.1%
Bull (P/E)	38.0x forward EPS \$21.44 (normalized, growth +16.0%)	\$814.83	+44.3%

- Anchors from the company's own history: base-case growth band +6.8% to +19.6% a year; worst revenue decline -25% (2021-2022); own trailing P/E 34.02-41.02x (median 36.05x) over the last five fiscal year ends.
- Probability-weighted value \$707.62 (+25.3% vs price) at 25%/50%/25% weights.

Bear case (25% probability, 26x, \$557.52): Network fee regulation caps cross-border assessments, digital public infrastructure displaces switching revenue in key markets, value-added services growth decelerates below 10%, and the premium multiple compresses to

26x. This scenario yields essentially fair value at the current price, not a clear downside. Base case (50% probability, 34x, \$729.06): Mastercard sustains 16% EPS growth driven by cross-border volume (18% FY2025, 21% Q2 2026), value-added services (21% YTD), tokenization, and agentic commerce. Operating margin holds above 58%. The multiple reverts to the lower end of the company's own five-year range. Bull case (25% probability, 38x, \$814.83): Value-added services sustain 20%+ growth, agentic commerce and open finance create new revenue streams, regulatory risks resolve favorably, and the multiple reverts toward the upper end of the five-year range (38x, consistent with 2021's 41.02x peak).

No listed peer was judged comparable. No peer comparables are available: anchors.peers status is 'unavailable' (no frozen peer tree for this quarter). Mastercard's own trailing P/E of 31.06x sits below its five-year range (34.02-41.02x, median 36.05x). Growth (16.4% revenue, 19.4% OCF, 18.9% EPS last year), margins (58.3% operating, 46.3% net, 49.3% FCFF), and leverage (interest coverage 27.36x, net debt \$13.35B) are all strong. Without peer data, the multiple is justified against the company's own history and quality. The sub-range P/E likely reflects the market's pricing of regulatory and competitive risks rather than a fundamental deterioration in earnings quality.

What would change the view

Key debates

- Network fee regulation and cross-border assessment trajectory: Cross-border assessments (\$12,021M in FY2025, +18%) are the fastest-growing payment network component. If central banks or legislatures cap or reduce cross-border fees, the core network revenue growth decelerates sharply, compressing the multiple toward the bear case. (Fact sheet: cross-border assessments grew 18% in FY2025; key_risks list 'network fee regulation, systemically important payment system designations'; Q2 2026 cross-border assessments +21%.)
- Value-added services growth versus payment network growth: Value-added services grew 21% YTD versus 11% for the payment network. If services growth sustains at 18-20% while network growth moderates to 8-10%, the blended margin and EPS trajectory support the base or bull multiple. If services growth stalls, the premium multiple erodes. (Fact sheet: value-added services YTD +21% (18% currency-neutral), payment network YTD +11% (8% currency-neutral); Q2 2026 services +20%, network +10%.)
- Competition from digital public infrastructure and CBDCs: Digital public infrastructure (PIX, FedNow, UPI) and CBDCs bypass the four-party network model. If adoption accelerates in key markets, Mastercard's switching and assessment revenue faces structural displacement, which the market currently prices in the sub-34x multiple. (Key risks: 'Competition from fintechs, digital wallets, real-time payment systems, digital public infrastructure (PIX, FedNow, UPI), CBDCs, stablecoins'; industry_direction notes these as alternatives.)

Exposures (verified against the filing)

- Currencies, negative for the equity: Mastercard operates in more than 150 currencies; a stronger US dollar reduces the USD-translated value of cross-border and international revenue, and FX derivative positions carry mark-to-market risk.
- Interest rates, mixed for the equity: Higher rates increase the cost of the \$24.6B debt stack and commercial paper (\$710M at 3.84%), but Mastercard's investment portfolio and interest coverage (27.36x) are largely insensitive to rate moves; the net effect on equity value is modest and mixed.

Sensitivities the company discloses

- Foreign exchange derivative contracts (functional currencies): 10% adverse change in value of functional currencies gives Fair value loss of approximately \$405 million at December 31, 2025
- Foreign exchange derivative contracts (functional currencies): 10% adverse change in value of functional currencies gives Fair value loss of approximately \$475 million at December 31, 2024
- Net investment hedge FX derivatives: 10% adverse change in value of the U.S. dollar gives Fair value loss of approximately \$279 million at December 31, 2024
- Available-for-sale debt investments: 100 basis point adverse change in interest rates gives Not material impact to fair value at December 31, 2025 and 2024
- Interest rate derivative contracts (fair value hedge of fixed-rate debt): 100 basis point adverse change in interest rates gives Not material impact to fair value at December 31, 2025 and 2024
- Short duration foreign exchange derivative contracts (settlement activities): 10% adverse change in value of functional currencies gives Not material impact to fair value at December 31, 2025 and 2024

Catalysts

- Q3 2026 earnings release confirming continued margin expansion (YTD adjusted operating margin 61.0%) and value-added services growth above 18% currency-neutral
- Legislative or regulatory clarity on network fee caps, interchange rate legislation, or systemically important payment system designations
- Acceleration of tokenization, agentic commerce (Mastercard Agent Pay), and open finance adoption beyond the 40% tokenization rate in 2025
- Cross-border volume growth sustaining above 12% currency-neutral, supporting the 18% FY2025 assessment growth
- Continued share count reduction via buybacks (17.6M shares YTD 2026 at \$508.11 average) supporting EPS accretion

Invalidation

- Effective tax rate rises materially above 21% due to Pillar 2 or geographic mix, compressing net margin below 40%
- Regulatory cap on cross-border or network fees results in payment network revenue growth falling below 5% for two consecutive quarters
- Value-added services growth decelerates below 10% YTD, undermining the premium multiple
- Operating margin compresses below 55% for two consecutive quarters, signaling competitive pricing pressure
- Digital public infrastructure (PIX, FedNow, UPI) or CBDC adoption displaces Mastercard's switching revenue in a top-10 market
- Share repurchases halt or reverse, removing the EPS accretion engine that supports the multiple

Risks

- Network fee regulation and systemically important payment system designations could cap cross-border assessments, the fastest-growing payment network component
- Competition from digital public infrastructure, CBDCs, stablecoins, and fintechs bypasses the four-party network model
- FX exposure: 10% adverse currency move could cause \$405M fair value loss on derivative contracts; operations span 150+ currencies
- Recurring litigation provisions (\$504M FY2025, \$680M FY2024, \$539M FY2023) create earnings volatility
- Total debt of \$24.6B with \$2.5B payable within 12 months of June 30, 2026; refinancing risk if rates rise
- No forward guidance provided, making the 16% forecast growth assumption unanchored to management's own outlook
- Concentration risk: five largest customers generated 21% of net revenue in 2025

Short side

A short is not compelling. The bear case at 26x yields \$557.52, essentially at the current price of \$564.59, so the stock is not meaningfully overvalued even in a downside scenario. Borrow availability is not disclosed in the material; as a mega-cap index constituent, borrow is likely available but squeeze risk is low. Timing is uncertain because no forward guidance exists to anchor a catalyst. The unbounded loss concern is mitigated by the fact that the bear case is fair value, not a clear downside. A short would require the multiple to compress below 26x or EPS growth to stall, neither of which is supported by the current trajectory (15% YTD revenue growth, 21% services growth, margin expansion). The risk-reward for a short is poor.

Open questions

What is the forward EPS growth assumption management implies, given no numeric guidance was provided in the filings? (forecast uncertainty)

The 16% forecast growth is above the 5-year revenue CAGR of 6.78% and within the 3-year CAGR of 13.82%. It is supported by YTD 2026 growth of 14.9% and services growth of 21%, but is not anchored to management guidance. Monitor Q3 2026 earnings for any forward commentary. Watch: Q3 2026 earnings release or investor conference commentary on forward growth

Has any of the \$2.5B short-term debt due within 12 months of June 30, 2026 matured or been refinanced before October 5, 2026? (missing fact)

The fact sheet notes this as a check item. Interest coverage of 27.36x and \$11.3B cash at June 30, 2026 make refinancing risk low. This does not block the conclusion. Watch: Next quarterly filing or 8-K disclosure on debt maturities

Are peer comparables available to cross-check the 34x base multiple against the company's own 5-year range? (missing fact)

The software reports anchors.peers as unavailable. Without peer data, the multiple is justified solely against Mastercard's own history. If peers trade at 28-30x, the base case may be too optimistic. Monitor for peer data availability in subsequent quarters. Watch: Peer tree availability in next quarter's fact sheet

Limitations

The base multiple of 34.0x sits just below the company's own five-year minimum of 34.02x, flagged by the software as outside the range. No peer comparables are available (anchors.peers status is unavailable), so the multiple cannot be cross-checked against industry peers. The DCF method was not feasible because point-in-time shares are missing (shares_for_per_share_values is null) and no net-debt bridge is available. The bear case at 26x yields \$557.52, essentially at the current price, meaning the long thesis has no meaningful downside cushion; the upside depends entirely on the base multiple being justified. The 16% forecast growth is an assumption not anchored to management guidance. Normalization of the \$158M restructuring charge is appropriate as a one-time Special Item, but litigation provisions (\$504M FY2025, \$680M FY2024) are recurring and not normalized, which is correct but means the normalized EPS still carries recurring legal costs. The assumption that the 34x base multiple is justified by earnings quality and growth is reasonable but not independently verifiable without peer data. Software checks raised during valuation: the base P/E 34.0x sits outside the company's own five-year range 34.02-41.02x; the stated reason: Base multiple of 34x is within the company's own five-year P/E range (34.02-41.02x). No peer comparables are available (anchors.peers status is unavailable), so the multiple is justified solely against the company's own history, growth, quality, and leverage.. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: multiple outside anchors.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-11 (accession 0001141391-26-000013).

10-Q for the quarter ended 2026-06-30, filed 2026-07-30 (accession 0001141391-26-000083).

8-K for the earnings release dated 2026-07-30, filed 2026-07-30 (accession 0001141391-26-000081).

- Price: historical close of \$564.59 on 2026-10-05.
- 8 cited claims and 12 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 540 · memo SHA-256 5bd6de63e90d5cbd... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.