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Subject: Our Second Quarter Results

Watching the U.S. Open Tennis Championship earlier this month, I was inspired by Andre Agassi—the only man in the past 20 years to prevail following a 2-1 deficit in sets. Agassi was focused, nimble, strong, singularly talented, and able to capitalize on the weaknesses of his competitor, the aggressive and galvanized Todd Martin.

And yet, just two years ago, Agassi was distracted and overweight—and had dropped to 110 in the rankings.

To me, the parallels are obvious. While just a year ago, MasterCard was relatively unfocused, unwieldy, unassured, and unaggressive, since then we have made some major changes in organizational structure, relationship and process management, and attitude.

Our results for the second quarter of 1999 show that we, too, are moving up in the rankings. And if we continue to focus, strengthen, and differentiate—and to champion and sustain the changes in our organization on a daily basis, no matter how difficult that may be—we will compete effectively, and we will win.

Key Market/Key Member Focus

Overall, gross dollar volume for the second quarter grew 12.9% to US\$177 billion, up from 6.5% growth in the first quarter, while MasterCard®-branded cards grew at a lower but steady rate compared to previous quarters.

Twelve of our 17 key markets experienced double-digit volume growth; and six key markets experienced double-digit card growth, compared to the second quarter of 1998.

We generated record growth in the United States in the most significant of our gross dollar volume measures—purchase volume. This means that consumers are using their MasterCard cards for an increasingly larger portion of their retail purchases.

Yet, due to a dip in our U.S. mail share levels at the end of 1998 and beginning of 1999, our overall U.S. share of bankcards declined. Mail share in the States since has recovered, so I expect improved results in the second half.

Those improved results also should elevate our worldwide share figures and our aggregate share in key markets, which declined slightly in the first quarter of 1999 as compared to the fourth quarter of 1998.

Perhaps most important for our future standings, we have made significant progress in sealing member business agreements worldwide. To date this year, eight agreements have been signed, representing a strong portfolio share commitment with key members. We expect to execute seven more agreements among our top 50 members before year-end. These agreements typically involve

contracts covering periods up to five years, so this is very good news for all MasterCard employees.

Financial Performance

MasterCard's impressive financial performance continued in the second quarter, with revenues, expenses, and income through June 30, all running ahead of our targeted objectives. We expect revenues to remain strong through year-end and our forecast indicates that we'll end 1999 ahead of our income targets.

Strategy Implementation

High on our list of objectives this year is to "unbundle" our programs and services—enabling members to select what's most appropriate for their needs from the entire range of MasterCard offerings. This move is consonant with the decision we made earlier this year—which generally was very well received—to offer more card branding flexibility options to members that make a significant commitment to MasterCard. In fact, Visa made a similar, but far more limited, move by announcing a brand-on-the-back option for its U.S. debit cards.

Customer Focus and Value-Added Service Delivery

Our annual Member Satisfaction Review, based on a representative sample of 55 members in 10 key markets, showed marked improvements over last year's results. Our "top box" scores, which combine the ratings of members that are "very satisfied" and "extremely satisfied" grew by 14 percentage points. Members' ratings in Japan, Korea, and Brazil improved the most, with scores in each of these markets up by more than 20 percentage points compared to last year.

What's more, 88% rated MasterCard as better than or equal to Visa, with 21% rating MasterCard as much better than Visa. This favorable comparison to Visa represents a 15 percentage point increase over the top box competition score of a year ago.

Overall satisfaction fell, as some members moved from "satisfied" to "neutral" in their ratings of MasterCard, and this decline must be stemmed. However we will continue to use top box scores as the most telling measure of satisfaction with our products and services, because when members are truly satisfied, they will be more likely to move more business to MasterCard.

Enhanced Organizational Abilities

As we all can attest, our Process Change efforts are gaining momentum. At the end of the second quarter, we celebrated the identification of US\$40.5 million for use in key member and key market initiatives.

Equally as important, during the second quarter, we launched a global diversity initiative, to ensure that we attract and retain highly skilled and motivated employees who reflect the full spectrum and understand the unique needs of our customers worldwide—and who all have an equal opportunity to leverage their skills and contribute to the fulfillment of our business objectives.

MasterCard values its employees and believes that success is inspired by the strengths, accomplishments, and commitment of our entire team, working together. Our diversity initiative

will not be an isolated effort; it will impact every point of contact with employees, including our recruitment, training, and career development programs.

On the personal side, I am very pleased to see that our Executive Management Group members and their direct reports are making a concerted effort to get to know everyone in their newly reorganized groups. We are not all extroverts, so we hope that employees will understand and appreciate the effort that each of us is making, to reach out to you, to answer your concerns and needs, and to enthusiastically move ahead to meet our objectives.

You can help, too, by reaching out to us. In the coming weeks, you will have an opportunity to discuss our strategy and performance within your business units and departments. I hope that you will participate actively in these discussions, and use these sessions to talk about how each of you is working in different ways to execute our strategy and contribute to our success.

We share a responsibility for this company's future. We all must work together to boost our ranking in the industry and to make my next quarterly e-mail on results against objectives something we can read with pride. Thanks for your continuing support!

Bob