

BERKERYNOYES

INVESTMENT BANKERS

**Payments 2013:
The Evolving M&A
Landscape**

White Paper

Introduction

There are significant changes occurring in the payments (PMT) industry,¹ which is drawing heightened attention from both strategic and financial acquirers. This includes the creation of enterprise payments hubs that can lower processing costs, as well as the more extensive use of mobile payments systems. Demand in emerging markets, regulations, and mobile payments technology is also having an impact on growth projections.

Three Year M&A Market Overview

Berkery, Noyes & Co. LLC (BNC) has been tracking the PMT industry for over a decade. From 2010 to 2012, BNC recorded 243 PMT industry mergers and acquisitions (M&A), which accounted for \$15.73 billion in value. VeriFone was the most active payments acquirer over the past three years, completing six transactions. The highest value deal of the six was Verifone's 2012 acquisition of Point Transaction Systems AB for \$1.05 billion.

The largest acquirer by value, with an estimated \$3.70 billion paid since 2010, was Advent International Corporation. The buyout firm's most notable payments acquisitions consisted of RBS WorldPay, Inc. for \$2.72 billion in 2011 and Litle & Co. (through its backing of

Vantiv) for \$360 million in 2012. Transactions valued at greater than \$160 million had a median EBITDA multiple of 15.5x, whereas those in the \$40 to \$160 million range had a median EBITDA multiple of 9.2x. Private equity buyers were responsible for 17% of transaction volume but represented 33% of value between 2010 and 2012.

2012 Transaction Activity

Top Ten Notable Transactions 2012

Deal Date	Target Name	Buyer	Value MM US\$
07/02/12	Merchant e-Solutions, Inc.	Cielo S.A.	\$614
08/15/12	Accelerated Payment Technologies	Global Payments, Inc.	\$413
08/09/12	Argus Information & Advisory Services, LLC	Verisk Analytics, Inc.	\$405
10/31/12	Litle & Co.	Vantiv	\$361
10/17/12	T-Chek Systems, Inc.	Electronic Funds Source	\$303
03/26/12	Clairmail, Inc.	Monitise plc	\$174
07/11/12	CTF Technologies Inc.	FleetCor Technologies, Inc.	\$166
07/09/12	Electronic Merchant Systems	UBPS	\$80
09/24/12	LML Payment Systems, Inc.	Digital River, Inc.	\$67
12/19/12	Yandex Money	Sberbank	\$60
2012 Aggregate Transaction Value			\$3,407
Top 10 Aggregate Transaction Value			\$2,642
Top 10 Aggregate Value as a Percentage of All Transactions			78 %

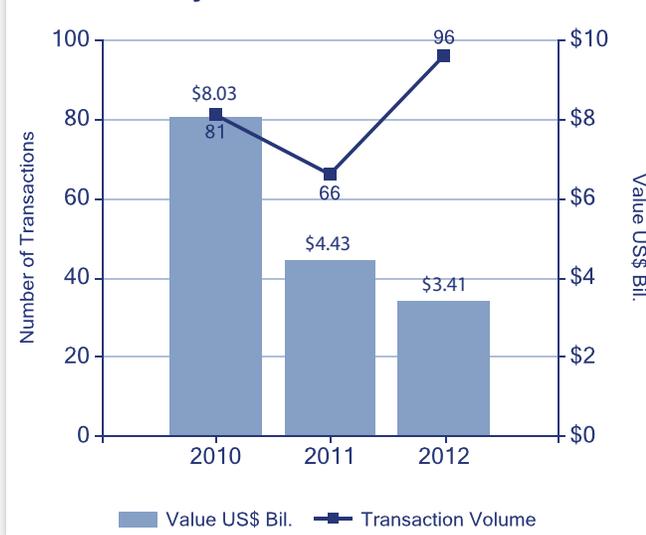
Payments M&A volume improved 45 percent on a year-to-year basis (see graph to the bottom left). Upon further inspection, 86% of PMT industry transactions in 2012 were completed by strategic acquirers.

Monitise plc was the most active acquirer tracked by Berkery Noyes during the year. The UK based mobile payments company purchased Clairmail, Inc. for \$174 million, The Mobile Money Network for \$24.16 million, and eMerit Solutions Ltd. for \$2.40 million.

The top ten acquisitions in 2012 had a combined value of \$2.64 billion, which comprised 78% of the industry's aggregate value (see graph above). Brazilian payment processor Cielo S.A completed the largest transaction, acquiring Internet based e-commerce company Merchant e-Solutions for \$614 million.

Deal value decreased 23% throughout the prior twelve months, totaling \$3.41 billion for the year. Although there was a \$1.02 billion decline in value from 2011 to 2012, 30 additional transactions were completed within the same timeframe. **This is a strong indicator that more mid-market deals are occurring.**

M&A Market Dynamics

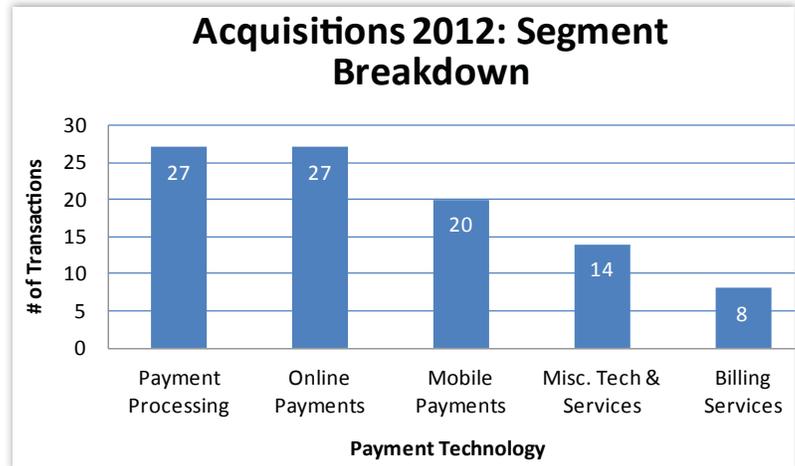


¹ BNC defines the PMT industry as payment processors, credit and debit card networks, wire transfer firms, prepaid card service providers, merchants, acceptance locations, mobile network operators (MNO's), handset manufacturers (OEMs), technology providers, and consumers.

Payments Segment Breakdown for 2012

BNC's research department separates payments acquisitions into five broad categories: Payment Processing, Online Payments, Mobile Payments, Billing Services, and Miscellaneous Technology & Services.² Payment Processing refers to full service providers and associated card technologies, while card-not-present technology is separated into both an Online Payments and a Mobile Payments segment.

The Online Payments category features e-commerce payment processing deals, such as MH Pillars' acquisition of AlertPay (which is now known as Payza). It also contains M&A activity for payments technology that is utilized online, for instance TransFirst's acquisition of CurveNorth. The Mobile Payments M&A segment consists of payments technology intended for primary usage on cell phones and portable devices. This includes Braintree's acquisition of Venmo, a social payments application, for \$26.20 million. Business process outsourcing (BPOs) and printing service acquisitions make up the Billing Services segment.



Payment Processing and Online Payments were tied as the most active M&A groupings (see graph above). When combined, these two categories represented 56 percent of deal volume in 2012. Acquisitions in both the Online Payments and Mobile Payments segments are especially likely to rise as buyers look to fill voids in their current product lines.

Rapid Transformation in the PMT Industry

Several important PMT industry trends are occurring. For one thing, there is more competition between the traditional credit card model and peer-to-peer payments schemes for online transactions. Secondly, businesses are adopting software and centralized gateways that improve the efficiency of e-commerce transactions management.

Five notable factors in particular are shaping the M&A landscape for payments companies: the proliferation of big data, ongoing adoption of electronic bill presentment & payment (EBPP) solutions, the growing popularity of mobile banking, maintaining data security, and confronting a changing regulatory outlook.

BIG DATA

Big data consists of large sets of data that are usually too complex to be processed by traditional databases. With the proliferation of data over the past few years, software solutions focused on credit, loan, and deposit analysis have become more prominent. This information can also be analyzed to obtain insight on consumer preferences and purchasing habits. Digital commerce, however, is being revolutionized by more than just better detailed transaction records. Payments companies are looking to build consumer profiles based on search histories, social media insight, location based technologies, and other seemingly disparate statistics found in both structured and unstructured data.

Moreover, the quickly evolving nature of payments has led some banks to alter their business models. This involves confronting information silos and the lack of streamlining between departments. Siloed payments systems often lead to infrastructure duplication, outdated technology platforms, and a surplus of back-office staff to monitor and execute payment processing. All of these factors have the potential to limit strategic growth if not appropriately addressed.

² The Miscellaneous Technology & Services segment includes, but is not limited to, automated clearing services, wire transfers, and the recovery of delinquent payments.

A fully integrated payments business is one viable approach for financial institutions. This type of wide-ranging payments structure controls corporate, retail card, corporate payments, and merchant acquiring services.

ELECTRONIC BILL PRESENTMENT & PAYMENT (EBPP)

Paper-to-electronic conversion is having a noticeable effect on the consumer payments market. Credit unions and banks, realizing the advantage of a recurring payment system, are utilizing automatic e-bills and online banking services to generate sustained revenue from their payments business. Consumers who regularly use e-billing services tend to have higher satisfaction rates and more prompt repayment schedules. This is important as financial institutions deal with heightened competition from third party payment providers.

MOBILE BANKING

Smartphones are slowly becoming digital wallets. This in turn can enable a host of commerce and banking activities. One of the most frequently touted capabilities is mobile check depositing. Meanwhile, merchants are utilizing POS tablet based payments to increase efficiency, boost sales, and improve the retail experience.

There are several benefits to implementing a mobile ACH system. With ACH payments, merchants generally encounter lower transactional fees in comparison to card-not-present rates. Doing so helps avoid interchange fees associated with card present transactions. The ability to leverage existing POS hardware systems is another valuable aspect of ACH mobile payments.

As for consumers in emerging markets, mobile payments are being adopted at an impressive pace. This trend has several components, including the relative dearth of brick and mortar banks, limited banking infrastructure, and the subsequent focus on banking the under-banked. Mobile channels present marketers with an array of opportunities too, such as promoting the use of loyalty and discount apps.

DATA SECURITY

Security remains a crucial issue for payments companies. This is even more pertinent with the rise in international e-payment transaction volume and mobile banking. Consumers who have security concerns will be more hesitant to adopt new payment technologies. Therefore,

enterprises must take concrete steps to ensure that their customers' data is safe and remains private. This can be demonstrated in part through the adoption of Europay, Mastercard, and Visa (EMV) standards for credit and debit transactions. At the same time, it is imperative to find the right balance between security and convenience.

Financial institutions also realize the necessity of having a robust payments platform. For example, the establishment of an adaptable IT structure that supports advanced security measures can be thought of as an investment instead of just a compliance-related expense.

REGULATORY FRAMEWORK

Heightened regulatory scrutiny is influencing the PMT industry, as new reporting and record keeping requirements come into effect. Some payments companies, responding to these regulations, will look to diversify their revenue streams by launching new products and services.

Full implementation of the CARD Act, Dodd-Frank Wall Street reform, and other legislation is only starting to have an impact. The Consumer Financial Protection Bureau (CFPB) has begun using its broad investigative authority under Title X of Dodd-Frank to respond to a high number of billing and credit card complaints. The interchange fee limits enacted by the Durbin Amendment, another provision of Dodd-Frank, may encourage larger banks to promote credit cards over debit cards. This can be done by limiting debit card rewards programs. Smaller banks and credits unions that are exempt from these regulations thus have an opening to address a void in the market.

Other legislative initiatives, for instance the Single European Payments Area (SEPA), have been implemented to simplify payment transfers.

CONCLUSION

The PMT industry continues to evolve, and companies are innovating at an impressive pace. Whether it is taking advantage of big data, addressing holes in data security, or adapting to new regulations, payments companies are seeking a technological advantage over their competitors. Mobile banking and EBPP are taking hold in the marketplace, which is fostering a broad spectrum of M&A opportunities. BNC believes the robust level of M&A activity and strong valuations for payments companies looking to sell will continue over the next 12 to 24 months.

ABOUT BERKERY NOYES

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries. The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

ABOUT JOHN GUZZO

John Guzzo is a managing director in the Financial Technology Group at Berkery Noyes. He has worked on over 80 M&A transactions during his career, representing more than \$3 billion in value.

In 2012, John was selected as a winner of The M&A Advisor's 40 under 40 Award, a highly competitive distinction bestowed upon accomplished leaders in the investment banking community. He is also frequently featured in the press and has published articles in leading trade journals such as Mortgage Banking Magazine, HousingWire, and Waters Technology Magazine.

John is a Certified Public Accountant, holds Series 7 and 63 Licenses, and received his MBA from Columbia Business School.

**SELECTED FINANCIAL TECHNOLOGY TRANSACTIONS
COMPLETED BY BERKERY NOYES**



Venture
HAS BEEN ACQUIRED BY
Taylor

PRIMUS
HAS MADE AN INVESTMENT IN
G2 Web Services



HAS BEEN ACQUIRED BY
SUNGARD AvantGard LLC
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MortgageCadence
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