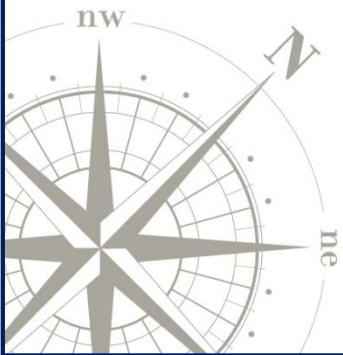


Acquiring Analyst Report Trends and Themes

Prepared by:



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First Annapolis examined over 30 recent analyst reports to look for themes and key considerations on the minds of the equity analyst community, one prism into the acquiring industry.

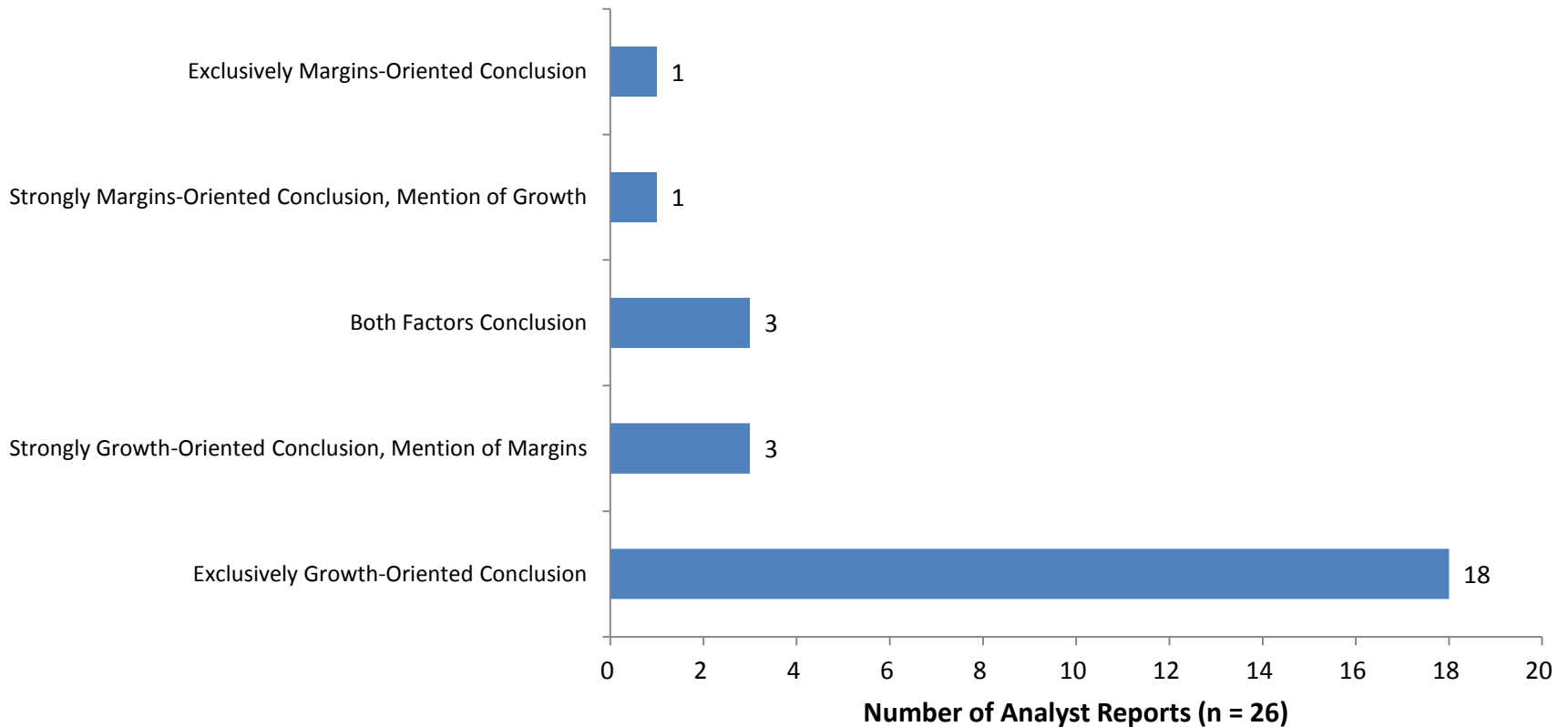
1. First Annapolis examined equity analyst reports and industry commentary articles that either analyzed specific companies or reported on the merchant acquiring industry or payments space in general.
2. In total, the following slides contain information from over 30 analyst reports in Q1 and Q2.
 - a) Company focus: 17 reports
 - b) Industry focus: 15 reports

First Annapolis believes the recent analyst press has six main conclusions.

1. *Growth Over Margin*: Analysts favored growth-oriented strategies over margin-oriented strategies.
2. *ISV (or VAR) over ISO*: Analysts were almost unanimously bullish on software developer and VAR strategies and bearish on ISO strategies.
3. *Small Merchants Over Large Merchants*: Analysts favored a focus on the SME space.
4. *Distribution Over Product*: There was more discussion on distribution strategies over product strategies, but we found this to be very close and came to the conclusion that both matter.
5. *Omni-Channel and EMV are Trends to Watch*: Omni-channel strategies and EMV concerns are beginning to reach the analyst reports.
6. *Regulatory Risks a Concern*: Analysts are concerned about regulatory issues and how it will impact the industry.

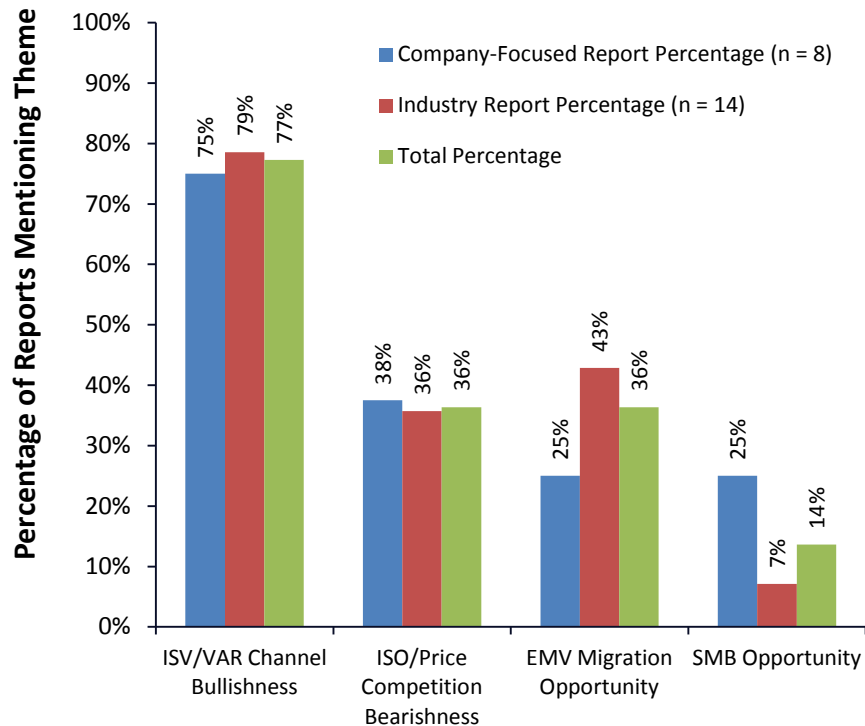
To understand if investors favored growth or margin, First Annapolis looked and examined analysts' recommendations or take-away opinions and categorized them as focusing more on growth or margin. In the acquiring and payments space, analysts' conclusions tended to focus more on actual or expected growth as opposed to margins.

Analyst Conclusions: Growth vs. Margin



Investment and industry analysts largely agree that the ISV/VAR channel is a growing sales method preferable to traditional sales channels competing primarily on price.

Analyst Report Themes

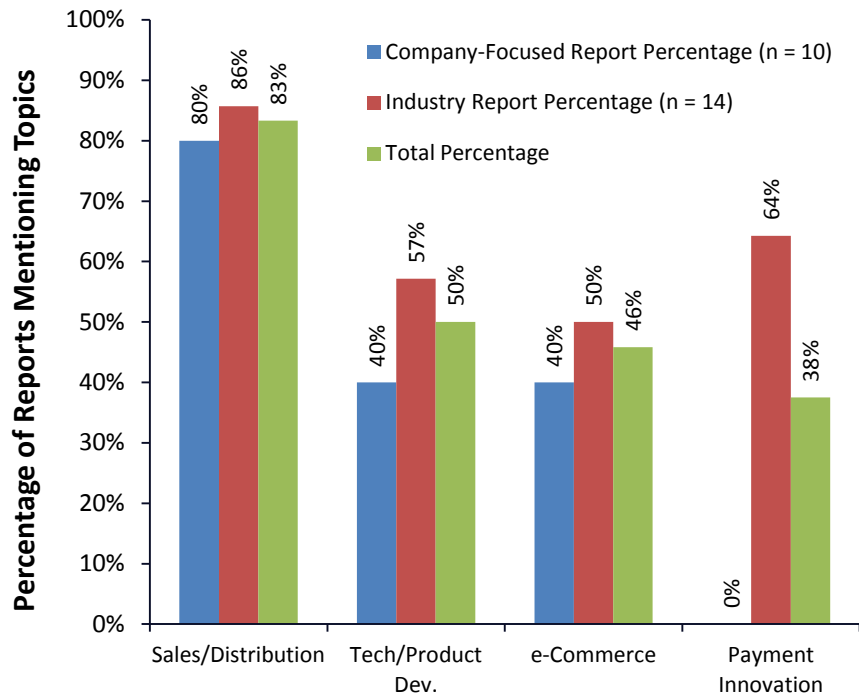


Select Analyst Report Excerpts

- JPMorgan:** “We like the integrated payment solutions space as it’s one of the faster growing channels in payments and is generally characterized by stickier, less price sensitive merchants.” (January 24, 2014)
- Credit Suisse:** “We prefer acquirers such as VNTV that are more aggressively moving into the SMB space.” (March 12, 2014)
- Digital Transactions:** “It’s now ISVs – not ISOs – that have the superior payments-distribution model. If you want to make money in payments, the lesson is clear: You must either sell through the ISV, or you must be an ISV. Both require a new product strategy. Neither requires an ISO.” (May 14, 2014)
- JPMorgan:** “The key theme among merchant acquirers is that integrated payments or tech-led distribution is the preferred growth channel. [...] Strategically, this feels a lot like the payment processors aligning with fast growing ISOs several years ago, except this time they are buying and controlling the asset.” (May 22, 2014)
- Credit Suisse:** “We expect EMV migration in the U.S. to be the biggest ‘theme’ in payments over the next several years. The need for SMB merchants to upgrade their POS terminals will in our view drive further iPOS adoption (we estimate only 10% of U.S. POS terminals are EMV enabled today) benefiting integrated payments providers such as Mercury.” (June 24, 2014)
- JPMorgan:** “Integrated payments is the distribution wave to ride.” (July 7, 2014)

Whether reports pertained to specific companies or the industry in general, the topic of sales and distribution as a focus came up more often than other potential strategies like technology/product development, e-commerce, or payment innovation.

Analyst Report Topic

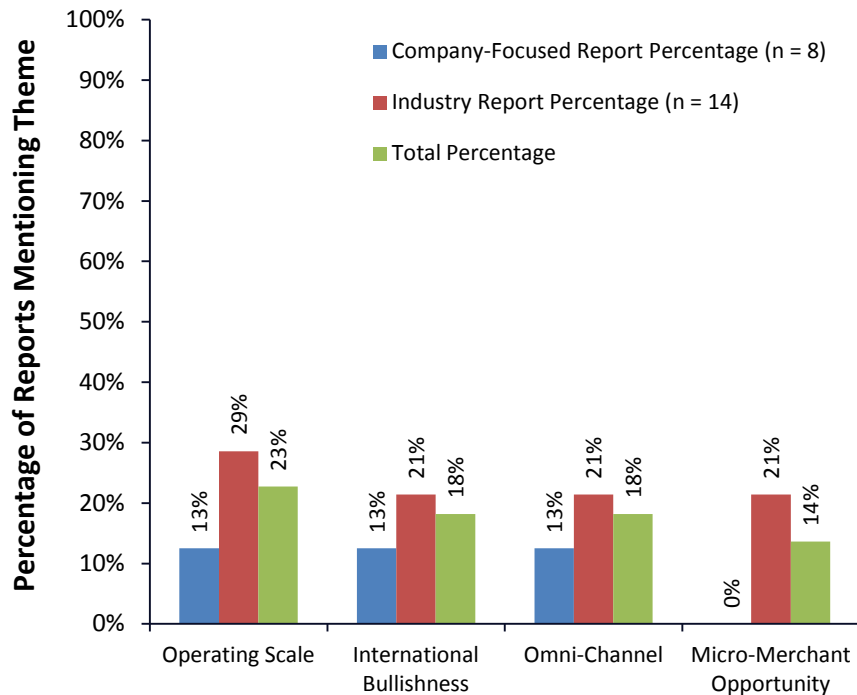


Select Analyst Report Excerpts

1. **JPMorgan:** “No surge likely in mobile payment adoption, but expect greater focus on faster, cheaper, and smarter payment experiences for consumers and merchants—watch QR-codes, Bluetooth LE, tokenization, and alternative payments (ACH, Bitcoin); beware of delays in EMV and NFC.” (January 14, 2014)
2. **Digital Transactions:** “Vantiv Inc.’s deal to acquire Mercury Payment Systems LLC was noteworthy for its size – the deal carried a \$1.65 billion price tag – but it was also exemplary of a key industry transformation from distribution-centric to product-centric acquiring.” (May 14, 2014)
3. **Credit Suisse:** “In our view, the acquirer landscape will continue to evolve over the coming years favoring fewer processors boasting significant operating scale and a wider array of technological offerings beyond standard transaction processing.” (June 24, 2014)
4. **Credit Suisse:** “While the ISO channel will remain a distribution channel for targeting SMBs, we believe the VAR (Value Added Reseller) channel is simply a better mousetrap – with a meaningful portion of the double-digit growth in integrated payments coming at the expense of traditional ISOs.” (June 24, 2014)
5. **JPMorgan:** “We rate shares Overweight as we believe VNTV is in the early stages of benefiting from several initiatives (e.g., expanded sales force/distribution, small merchant focus, e-commerce, integrated merchant acquiring) that should sustain premium growth.” (July 7, 2014)
6. **Credit Suisse:** “Relative to last year’s conference, we are more encouraged on the progress we are seeing and would not be surprised to see evolving technology have a more meaningful impact on the payments landscape as early as 2016.” (June 17, 2014)

The analyst coverage also mentions other themes such as the continued importance of operating scale and opportunities for growth like international expansion, omni-channel solutions, and micro-merchants.

Analyst Report Themes

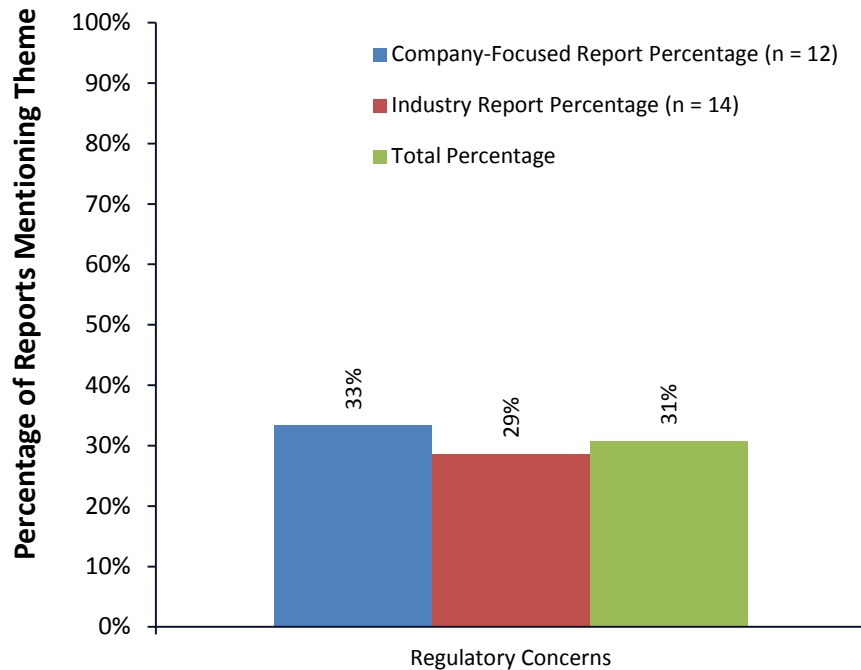


Select Analyst Report Excerpts

- Credit Suisse:** "International is All the Rage. Given the relative maturity of U.S. Payments markets, we expect acquirers, card processors and bank processors to increasingly focus on International opportunities." (January 7, 2014)
- Digital Transactions:** "Besides providing plug-and-play payments solutions, a large part of aggregators' appeal to merchants is their ability to remove the friction from doing business with them. [...] Payment experts fully expect ISOs and acquirers to warm to the idea of frictionless merchant on-boarding as the model proves to be a sound risk-management strategy." (April 1, 2014)
- JPMorgan:** "Rest of world growth continues to grow at a healthy premium to U.S. growth rates, given lower penetration of electronic payments. We expect this premium to persist for many years to come." (May 6, 2014)
- Credit Suisse:** "Strong growth in the space is being driven by declining costs of software and hardware (tablets), the demand by merchants for vertical specialization services as well as an increasing demand for more omni-channel solutions." (June 24, 2014)
- Credit Suisse:** "In our view, the acquirer landscape will continue to evolve over the coming years favoring fewer processors boasting significant operating scale and a wider array of technological offerings beyond standard transaction processing." (June 24, 2014)

About a third of the analyst reports mentioned regulatory concerns as an industry theme or a potential company investment risk.

Analyst Report Themes



Select Analyst Report Excerpts

- JPMorgan:** “Downside Risk [to Global Payments]: Increased regulation of the card industry. The most damaging outcome would be some form of regulation of merchant discount fees. Canada is seeing effects of greater regulation currently, and could get worse before it gets better.” (January 9, 2014)
- JPMorgan:** “Increased regulatory scrutiny of either network fees or interchange (which we think is less likely in the U.S.) could indirectly result in greater pricing pressure in the sector, harming investor sentiment.” (January 14, 2014)
- Credit Suisse:** “Risks to our \$35 Target Price include competition, VNTV’s organizational structure, regulation, security breaches, a rebound in credit relative to debit, reliance on third parties, a lack of core processing capability and the share overhang.” (February 13, 2014)
- Credit Suisse:** “However, absent a near-term catalyst and with prepaid regulatory risks looming near-term, we think the shares [of Total System Services] are likely ‘stuck’ over the intermediate-term.” (April 22, 2014)
- JPMorgan:** “[Jeff Sloan, Global Payments President & CEO] said the biggest risk [of its Russian exposure] would be broader sanctions that prevent business in Russia.” (May 22, 2014)

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