



What's my multiple?

Or, understanding a valuation of your portfolio

Recent Bombshell Acquisitions

- Transfirst acquired by TSYS: \$2.35B (14X)
- Hartland Payment Systems acquired by Global: \$4.3B (16X)
- New territory in multiples: 14 – 16 X EBITDA
- Multiples in “bombshell” category are based on proj. 2016 EBITDA, not monthly residual
- In monthly residual terms, this multiple is 168X to 192X

So what's my multiple?

- Multiples are misleading (the “body count” statistic of the merchant services industry)
- A credible valuation will be based on many factors
- Size of the portfolio/scale of the business is the leading factor
- Few of us fall in the “bombshell” category
- Our multiples will be based on monthly residual

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3

EBITDA vs. Monthly Multiple

- EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
- EBITDA – annual computation, net earnings
- Residual – monthly payment from processor
- $5 \times \text{EBITDA} > 60 \times \text{monthly residual}$...Because
- Monthly residual is usually gross revenue, not earnings – must first net out payments to agents, operational costs, other expenses

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4

Possible reasons for seeking valuation

- Exiting
 - Want to sell part or all of the portfolio
 - Want to sell the business
- Changes
 - In ownership
 - In market segments, products, services
- Growth
 - Security for loan
 - Cash flow
- Need/want to know

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“For Sale” or Just “Window Shopping”

- Expert will need to know which applies
- Motivated seller: Needs a “cash event”
- If window shopping, why do you need this information?
 - Get financing
 - Merger or sale is a possibility
 - Check your progress; see if you’re on plan

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Sale vs. Valuation

- Let's look at a Sale:
- What are you selling? Portfolio, whole company?
- How will you be compensated? Stock, cash, etc.
- What will you have to do? Earn-out, retention
- What terms will you consider? Claw-back, etc.
- Who owns a piece of it? Partners, investors, agents, etc.
- Who will take the company to market?

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What makes bankcard portfolio valuation different?

- Most sellers want to receive cash
 - Won't finance the sale to the buyer
 - Want 80% - 90% or more of sale price at closing in cash
- Primary asset is residual stream from portfolio
- Residual stream roughly equals net earnings
- Most sellers have few assets, equipment, buildings
- Professional practice – how much do merchants rely on the agent or ISO for service, advice, trust?
- Projected merchant attrition is a key metric

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Discounted cash flow

- Value of company is value of future earnings to owners
- Method
 - Project earnings out over 5-10 years
 - Discount the cash flow back to the present
- Example (Spreadsheet)

Small vs. medium portfolios

- Small – under 1,000 merchants
- Medium – 1,000 to 4,999 merchants
- Comparison
 - Who buys them and why
 - Differences in terms

How to Begin: Engage an Expert

- What's your budget for a valuation?
- What's your timeframe?
- Independence of expert is critical
- Experience with valuations is essential
- WSA will post:
 - List of questions to ask
 - List of companies, consultants that do valuations

Gather Data

- 12-24 months of residual reports
- Last 2 years financials: P&L, Balance Sheet
- List of all liabilities, UCC filings
- Losses and chargeback detail for last 2 years
- Proforma business plan for next 3 years
- Standard pricing program, fee approach
- All agreements (processor, bank, sub-ISOs, agents, etc)
- Sales reports, merchants boarded by MCC codes

Answer Questions

- Merchant categories or niches sold, served
- Products/services promoted, supported
- Merchant retention program
- Sales team, agent network
- IT development team, apps, solutions
- Future markets and development opportunities

Critical Factors

- Size and breadth of portfolio/business
- Sales growth, merchant retention
- Dominance in your chosen niches, segments
- Uniqueness of sales program, value added solutions, operations
- Dependency on processing partners
- Upline and downline agreements:
 - Terms and conditions in processor/bank agreement(s)
 - Terms and conditions in agent/sub-ISO agreement(s)

The Valuation

- Report
- Analysis
 - Propel
 - Drag
- Range of valuation, methods used
- Current market conditions
- Other conditions that apply
- Disclaimer

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15

Results of Valuation

- Only free market sale will deliver actual value
- Valuation Range
- Range is conditional based on
 - How much is sold
 - Future opportunities
 - Scalability of business
 - “Work out” conditions for owners/senior mgmt

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16

What do you do with the valuation?

- Preparing for the sale
- Strategic planning for the business
- Building value to improve the valuation
 - How do you build value?
 - Expanding your value to the merchant
 - Higher value sales results
 - Better merchant retention
 - Products/services with integration

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17

Keeping your portfolio?

- Stay completely engaged in your business
- Work toward your sales and retention goals
- Make future sales happen to realize future earnings
- Keep your valuation goal in mind and work toward it
- Consider selling when you reach your valuation goal

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18

Buying a portfolio?

- Seek help with valuing your purchase
- Make sure you understand completely what you are buying
- Watch carefully for complications with upline and downline
- Don't pay prices today based mostly on
 - A portfolio that is about to suffer attrition
 - Future earnings based on new services/products

More Resources

- Companies that do valuations
- Companies that buy ISO and agent portfolios, ISO businesses
- Contacts
- Articles
- Links

Q & A

- Time for questions

Contact

Mark Dunn
Field Guide Enterprises, LLC
Office: 262-966-2215
mark@gofieldguide.com