



KEY M&A TAKEAWAYS

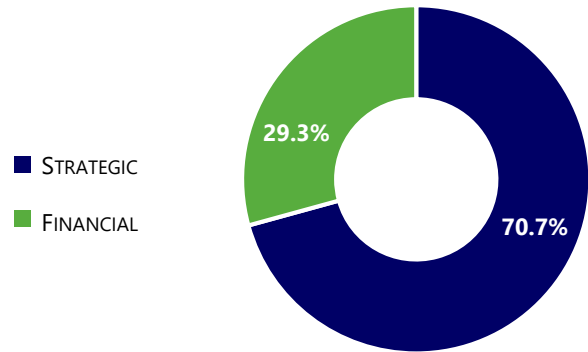
- ▶ As mobile, machine learning and biometric technology continue to mature, payment processing solutions continue to evolve and increase in demand. As a result, the Payment Processing industry continues to experience strong M&A activity.
- ▶ Valuations are at premium levels through Q2 2017, indicating a strong seller's market in the Payment Processing industry. Over the last twelve months, public company EBITDA multiples have grown by 6.1% indicating healthy valuations in public markets. In addition, disclosed transaction valuations are hitting premium levels this year with a median EBITDA multiple of 13.4x compared to 8.5x in 2016. This increase can be attributed to both strong strategic buyer interest and several larger acquisitions (~\$500 million), which tend to drive higher multiple results.

KEY TRENDS & VALUE DRIVERS

- ▶ **Mobile point-of-sale (mPOS) device usage continues to grow.**
As consumers expect the ability to pay digitally anytime and anywhere, the demand for mPOS systems continues to grow. According to ABI Research, the installed base of mPOS systems is expected to reach 51 million by 2019, approximately 46% of the overall POS base. As a result of growing usage, demand to acquire mPOS companies and technology is strong. Capstone has identified 14 acquisitions in 2017 (34.1% of total volume) that include mobile payment solutions as part of their offering.
- ▶ **Demand for solutions with strong security & fraud protection.**
The adoption of digital payment technology has naturally driven demand for security solutions. Biometrics, EMV technology and machine learning are all helping to propel this trend. Machine learning has especially become a helpful tool to defend against fraud, which has seen average monthly fraudulent transactions rise by 32.5% from 2015 to 2016 according to a LexisNexis study. Sandra Wrobel-Konier of SecuirionPay explained, "The system creates deep profiles based on gathered data and analyses it to make the most accurate predictions and prevent fraud attempts."

BUYER BREAKDOWN

- ▶ Through YTD June 2017, 41 transactions were recorded in the Payment Processing sector. Of these transactions, 29 were led by strategic buyers while 12 were by financial buyers.
- ▶ 2017 has seen a slight uptick in the percentage of strategic buyers who made acquisitions in comparison to 2016. In 2017 strategic buyers accounted for 70.7% of deal volume compared to 66.3% in 2016.

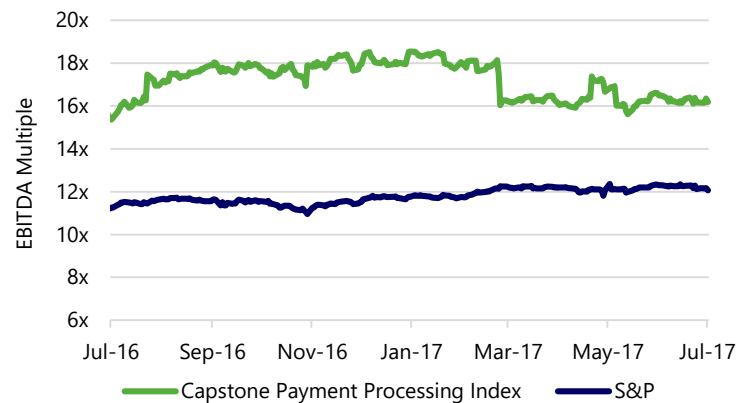


NOTABLE TRANSACTIONS

- ▶ **GTCR acquires Sage Payment Solutions for \$260 million (June 2017)** – Chicago-based private equity firm GTCR announced the acquisition of Sage Payment Solutions (SPS) for \$260 million. GTCR plans to support the acquisition with up to an additional \$350 million in equity capital that will be used for both organic growth initiatives and to fund future add-on acquisitions. SPS provides credit card, ACH, check, gift and loyalty card processing services to small and medium-sized businesses in North America. Aaron Cohen, Managing Director at GTCR, commented, "We believe the Company is well positioned to continue its growth and success within the rapidly evolving area of integrated payments, and we look forward to supporting greater organic growth and expansion through acquisition."
- ▶ **First Data acquires Card Connect (May 2017)** – First Data, a provider of electronic commerce solutions, acquired Card Connect for an implied enterprise value of \$757.6 million at revenue and EBITDA multiples of 1.2x and 28.1x, respectively. Card Connect provides payment processing solutions for about 67,000 merchant customers with \$26 billion of annual volume.

PUBLIC COMPANY AVERAGE EBITDA MULTIPLE

- ▶ Valuations for public Payment Processing companies have been at a high level over the past year. While they are slightly down compared to the end of 2016, valuations still remain at a premium. In fact, over the course of the last twelve months, valuations have risen by a net of 6.1% to 16.3x EBITDA.



All chart sources: CapIQ and Capstone Partners LLC Research