

# Navigator

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## Mobile & Commercial Cards: Helping Organizations Address T&E Challenges

If you own a smartphone, odds are that you've used it to check your credit card or checking account balance. You may have even paid a bill or snapped a photo of a check to make a remote deposit. As a consumer, the list of banking functions that you can... [More](#)

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Electronic person-to-person (P2P) payments began in the late 90's as the pairing of eBay and PayPal created a true online P2P marketplace. Fifteen years later, the electronic P2P payment is finding its niche in the mobile realm as the backbone behind local commerce platforms commonly referred to as 'share economy'... [More](#)

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Recent trucking sector industry news may indirectly shine a spotlight on a facet of commercial banking not typically under regulatory or compliance scrutiny – rebates paid for commercial card programs.

By way of background, an organization with a commercial card program of at least a few million dollars of annual spend... [More](#)

## Payments Industry Stock Price Tracker

Figure 1 is the Payments Industry Stock Price Tracker for May 2013. The chart measures current stock prices and market caps, as well as movement over the last month, and year-to-date. The companies that First Annapolis monitors across the payments value chain experienced positive results in May, and in aggregate... [More](#)

## U.S. Government Benefits Shift into Digital Age

By David Abraham and Sarah McCroy

The U.S. government provides billions of dollars to Americans through entitlement programs each year. The largest program is Social Security, which includes retirement pensions, disability income, and death and survivorship benefits. As of March 1, 2013, new Social Security benefit recipients will no longer have the option to receive monthly payments through checks. Recipients are provided with two alternatives for receiving payments: direct deposit or the Direct Express MasterCard issued by Comerica. The Treasury Department issued this mandate in 2011 to reduce the administrative costs associated with managing the program.

First Annapolis estimates that 88% of the 56 million Social Security recipients in 2012 received payments through direct deposit, while 6% received payments through a prepaid card. The remaining 6% continued to receive Social Security benefits via paper check. Although the Treasury Department has not set a firm date to end its use of paper checks, the government has indicated that these beneficiaries will be the target of extensive messaging and may automatically receive a reloadable prepaid card if they do not enroll in direct deposit.

While prepaid cards for Social Security account for a small share of payments relative to direct deposit, other government programs have experienced wider adoption. First Annapolis analyzed Department of Labor statistics and a recent National Consumer Law Center study which revealed that in 2012, an estimated 48% of the 102 million unemployment insurance recipients

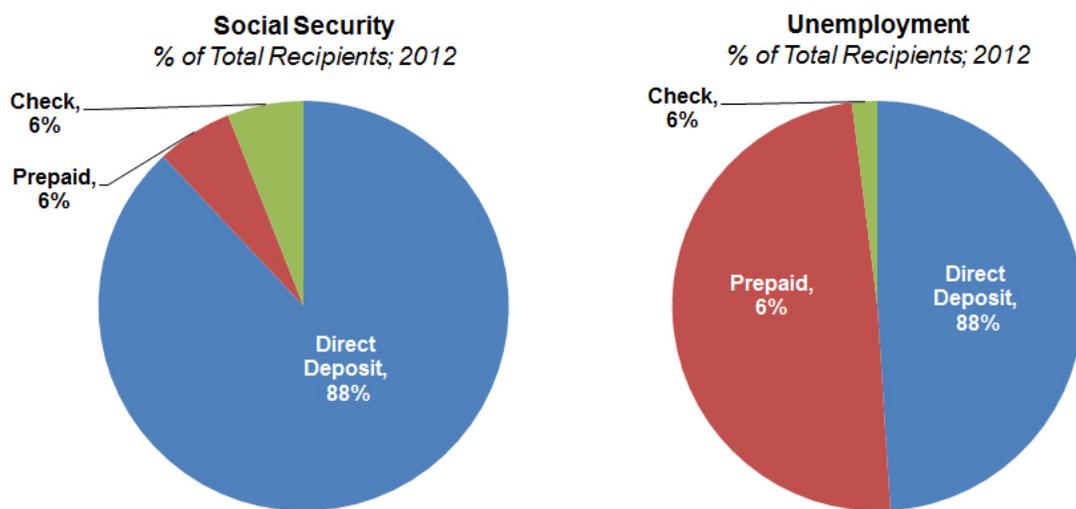
received benefits through a prepaid card. Only 2% were distributed through paper checks. Furthermore, of the 42 states that offer reloadable cards for unemployment, 90% to 100% of recipients in California, Indiana, Kansas, Maryland, and Nevada receive benefits via a card. In the handful of remaining states that issue paper checks, only 2-4% of funds are distributed through the mail.

The broad availability of prepaid cards across the country has helped drive prepaid adoption higher for unemployment insurance. In contrast, direct deposit is the most popular method for distributing Social Security benefits. This is likely a result of the fact that 81% of Americans over 65 take full advantage of the banking system, which is significantly higher than any other age group<sup>1</sup>. First Annapolis predicts the percentage of Social Security check recipients to decline to 1% by 2014, driven primarily by a comprehensive marketing effort by the government and the possibility of Direct Express cards being issued by fiat to those receiving checks. Although direct deposit will continue to be the most popular option for disbursements, First Annapolis estimates that prepaid card users will grow to 10% of total Social Security beneficiaries by 2015.

<sup>1</sup> 2011 FDIC National Survey of Unbanked and Underbanked Households

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Figure 1: Estimated Benefit Disbursement by Type



Source: 2013 U.S. Treasury Go Direct Press Release; 2013 National Consumer Law Center Survey of Unemployment Prepaid Cards; First Annapolis Consulting research and analysis.

## Mystery Shops Show that Promoting Debit is not a Priority for Leading U.S. Banks

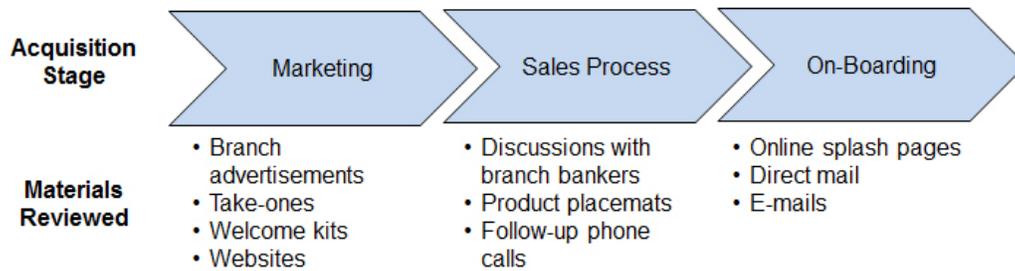
By Casey Merolla and James Solier

First Annapolis recently completed an assessment of debit card product positioning at 11 leading U.S. banks to gain insight into the promotion of debit in the post-Durbin environment. This assessment was based on a thorough review of bank websites and a series of mystery shops. Our findings show that in the post-Durbin environment, banks are expending less effort

promoting debit cards in marketing materials and during the sales process for new accounts.

Six of the 11 banks sampled have limited debit card content in branch or online marketing. Approximately half of all branch marketing materials, such as take-ones and welcome kits, detailed bank products or services but did not discuss debit card usage or benefits. A similar shortage of debit card content

**Figure 1: Assessment Framework**



Source: First Annapolis Consulting research and analysis.

was also observed on bank websites.

Of the banks that actively promoted debit cards, most limited the space used in their marketing materials to present a few bullet points covering core debit benefits. The debit benefits most frequently discussed included:

- Convenience
- Zero Liability
- Control
- Free ATM Access

Two of the banks in our sample dedicated most of their branch marketing to a description of their personal financial management (PFM) tool. These banks presented the debit card as an integral part of the PFM tool, promoting the debit card as a means of controlling personal finances. This approach re-introduces the debit card as a part of a new and valuable product offering and is an effective way to promoting usage.

Mystery shoppers found that debit holds a similarly low position during the sales process. Of the 16 mystery shopper visits in the study, only six discussed the debit card. In general, bankers focused on selling loan and savings products rather than discussing payment behaviors with the mystery shoppers. Those few bankers who discussed the debit card mostly set expectations around card delivery and activation. Even at banks offering debit rewards (primarily merchant-funded rewards), few bankers made any mention of how the rewards program works or where our shoppers could go for more information.

While most of banks in our sample followed-up with our mystery shopper within a month of opening the account, we found that the content and frequency of these messages were related to the contact method. Only three banks in our sample performed a traditional follow-up call, most of which focused on our shoppers' branch experience. Those that used email were more likely to send our shoppers a clear, concise message about account set-up and features on a regular basis.

In general, banks were mostly concerned with helping our shoppers set up direct deposit or online bill pay in the follow-up process, potentially to enhance stickiness and generate payment-active accounts. Only three banks in our sample reminded shoppers to activate their debit card, though they did not mention the benefits of debit usage in their messages. While this emphasis on direct deposit and online bill pay is good business practice, the banks in the sample appear to miss the best, and perhaps only, direct opportunity to influence how a customer uses debit.

Debit remains the largest and one of the fastest-growing payment forms, and is still the most profitable deposit-based payment form available. Despite these facts, debit's position in the deposit account relationship appears to have been downplayed since the passage of the Durbin Amendment. Banks that are not actively promoting debit cards should consider enhancing the positioning of debit in their account opening processes.

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## Digital Adds New Flavor to M&A in Payments Space

By John Grund and Jenny Yi

There is little doubt that digitalization is defining the next stage of payments industry evolution. New concepts, alliances and companies are flooding the market faster than most end-users can vet them. Legacy players are assessing both the risk of disruption as well as potential opportunities to leverage existing assets - huge customer bases, merchant relationships in issuing and/or acquiring, and deep pockets. At the same time, it is apparent that the pace of change is driving larger institutions to consider acquiring early stage firms to accelerate product development, lure management talent, and build out potential new businesses in a manner that is unencumbered by existing infrastructure. It is clear that digitalization is driving a different type of M&A activity. Banks, better known for executing large asset-based transactions,

have been quite active in acquiring or investing in smaller companies with specialized capabilities. At the same time, payment networks are acquiring or partnering with companies that can enhance their value-added service offering or expand their footprints on the acceptance and issuing side of the business.

While the table below is not a comprehensive list, it is representative of the types of transactions that are being consummated as players across the payments value chain stake out their positions in areas such as mobile payments, rewards, data analytics, social media, and other digital spaces.

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**Figure 1: Sample of Acquisitions / Investments by Payments Players**

Buyer	Seller / Partner	Description / Commentary
American Express	Payfone*	Technology that makes mobile payments cheaper and more secure; the company also received funding from Verizon Investments, Rogers Comms, Relay Ventures, BlackBerry Partners Fund, Opus Capital, and RRE Ventures
	Sometrics	Launched in 2007, Sometrics monetizes virtual currency transactions and provides users with targeted offers
Capital One	Bankons	Technology company founded in 2010 that can deliver targeted rewards based on geo-location and transaction history. Capital One acquired select software and several Bankons employees joined Capital One Labs, but Bankons continues to operate as a separate, independent company
	Bundle	Card-focused data analytics company (10+ employees) that is now part of Capital One Labs. Bundle's platform analyzes customer spending patterns to create tailored products and offers based on customer preferences
	Sail (launched as SparkPay)	Acquired technology/platform from Verifone less than a year after its launch in May 2012; enables merchants to accept credit and debit cards for payment, using a secure dongle attachment for iOS or Android devices
Chase	Bloomspot	Merchant-driven offer platform that was launched in 2010 and acquired by Chase in December 2012. Bloomspot has 100 employees, 2 million members, and 500,000 merchants. Platform allows merchants to make targeted offers to their best customers as opposed to mass offers in the daily deal space
eBay/ PayPal	Card.io	Technology company that allows developers to capture credit card information by using a smartphone's built-in camera will continue to support PayPal Here
	FigCard	Technology that enables merchants to accept mobile payments using a USB device that plugs into a POS terminal
	Where	Technology company launched in 2004 to enhance capability to deliver local, real-time suggestions and deals for over 4 million active users
	Zong	Launched in 2008, Zong uses the social commerce space to let customers charge online purchases to their phone bill and recently launched an extension that would allow customers to charge those purchases to their credit, debit or prepaid card instead. Key partnerships with Facebook Credits, Zynga, Sony Online Entertainment, etc.
	The Gifts Project	The Gifts Project platform powers online group gifting. Designed as a white label solution to help online retailers improve sales and allow customers the ability to buy gifts as a group. Launched in 2009, the platform gained traction initially through its integration with Facebook and is now used to power eBay Group Gifts
Google	Lending Club*	A peer-to-peer lending platform launched in 2007 that has funded over \$1.8 billion in loans. Google's investment opens up a range of collaboration opportunities. Investors include Morgenthaler Venture, Kleiner Perkins Caufield & Byers, Foundation Capital, and others
	TxVia	Prepaid processing platform likely acquired to enhance the features and functionality of Google Wallet.
	Zave Networks (Zavers)	Company focused on digitized coupons and loyalty rewards programs since its launch in 2006; platform has the potential to expand Google's Commerce and Wallet offerings
MasterCard	Linkable Networks*	Platform launched in 2010 turns online, mobile, email, print, TV, and radio ads into linkable offers tied directly to a customer's credit or debit card; the company has received funding from Bain Capital, Kepha Partners, Common Angels, and Citi Ventures
	Truaxis	Technology launched in 2007 that provides targeted merchant-funded credit and debit card-linked offers that can be used real-time
Visa	Fundamo	Platform launched in 2000 enabling mobile financial services to unbanked and under-banked consumers with the potential to add enhanced functionality and new services for Visa's mobile financial services platforms
	PlaySpan	Launched in 2006 and provides over 85 payment options in 180 countries for applications, games, videos, and digital goods based on a user's location
	Square*	Launched in 2009, Square focuses on enabling small merchants to accept credit card payments and raised funding from Sequoia Capital, Kleiner Perkins Caufield & Byers, Khosla Ventures, Citi Ventures, and Starbucks

Note: \* Investments or partnerships.

Source: Company press releases, Reuters, Bloomberg Businessweek, TechCrunch.

## Mobile & Commercial Cards: Helping Organizations Address T&E Challenges

By Dan O'Neill

If you own a smartphone, odds are that you've used it to check your credit card or checking account balance. You may have even paid a bill or snapped a photo of a check to make a remote deposit. As a consumer, the list of banking functions that you can complete with your phone is growing ever longer. Certainly, beyond banking apps, the ability to check email, post on social media sites, and get driving directions virtually anywhere has become a part of everyday life for many.

Commercial card issuers and technology providers have taken note of this. After all, commercial card holders are first and foremost consumers

themselves, and are constantly plugged in. Business travelers in particular have developed an expectation that emails, itineraries, and boarding passes should always be at their fingertips while on the road. As such, travel tools have come a long way in enhancing traveler productivity.

However, business travelers and their employers still face some pain points in the expense management process. As shown in Figure 1, these challenges can be summarized in terms of the need for Information, Control, and Reconciliation. Commercial card issuers and technology providers have worked to address these three areas by increasingly incorporating mobile functionality with commercial cards.

Combining mobile technology with commercial cards allows an organization to address the pain points above, optimizing its travel program while creating a consumer-like experience for its employees. In fact, both commercial cards and mobile travel apps are utilized in the highest-performing organizations' travel programs (see Figure 2). From this perspective, mobile and commercial cards are inextricably linked.

**Information** – From a last-minute flight cancellation alert to a late-night email rescheduling the next morning's meeting, timely information is a necessity for business travelers. Providers recognize that timely card information is also important, so some solutions allow mobile access to account- and transaction-level data or card statements. Perhaps more helpful, some solutions will push email or text alerts to cardholders when their payment is due, when their statement is ready to be viewed, or when they are getting close to their limit.

These alerts are not limited to cardholders; a manager can be alerted when they receive a new expense report for approval. Similarly, with some tools a travel program administrator can set up exception alerts notifying them in real time of cardholder transactions that are outside company policy. Each user may choose to take action or not – but the key is that they have real-time visibility.

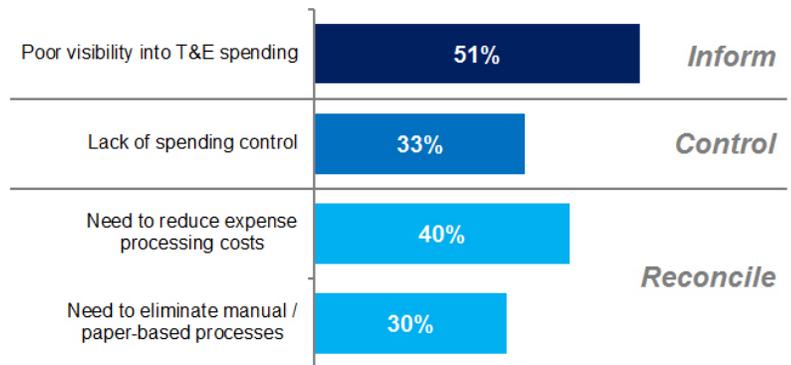
**Control** – Sometimes, merely accessing information via mobile is not enough; cardholders and administrators need real-time control. For cardholders, this can take the form of paying a bill or booking travel on their corporate card via mobile. If a card is lost or stolen, a smartphone can allow users to shut it off immediately. Some mobile solutions also allow authorized users to change spending limits and other card controls in real time from a phone. These features can make a card program run more efficiently and lessen the fear of fraud and abuse.

**Reconciliation** – Perhaps the most universal pain point in T&E management, the reconciliation process also provides the greatest opportunity. Manual reconciliation processes are costly and time consuming not only for the cardholder on the front end, but also for the organization on the back end (see Figure 3). Mobile T&E expense applications address these challenges by reducing the amount of paper needed to file an expense claim, while removing the expense report from a user's desk or computer screen.

In some apps, cardholders can create an expense claim, either with imported commercial card data or data entered manually based on a cash or personal card transaction. Cardholders can take a photo of a receipt, upload and attach it to an expense item, and then throw away the paper receipt. After allocating their expense to the General Ledger and adding comments, a cardholder can submit expenses via mobile. The expense claim can then proceed through the approval workflow, with each approver able to accept or reject the claim via their phone. By pushing each workflow action directly to the hand of the next decision maker, mobile functionality can dramatically speed the expense management process.

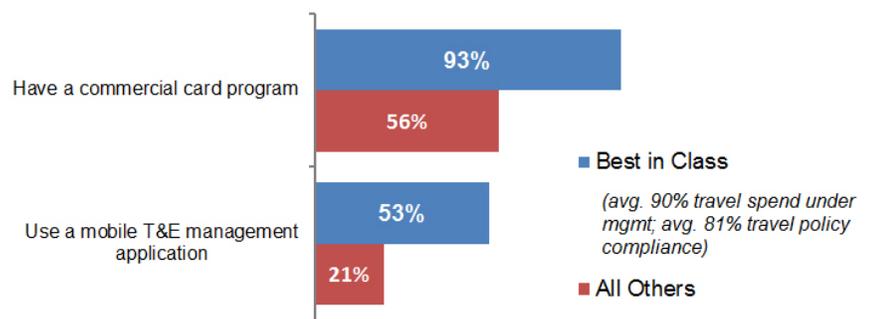
While many mobile innovations in commercial cards to date have focused on travel, there are certainly applications beyond the world of T&E. Plastic purchasing cards must be monitored and controlled in much the same way that plastic T&E cards are; through real-time visibility and spending controls such as merchant category restrictions or transaction velocity controls. Even when purchasing cards are virtual or embedded within the Accounts Payable process, many organizations utilize a system of approvals that parallels a

**Figure 1: Top Travel and Expense Management Challenges**



Source: Based on survey conducted for March 2013 Aberdeen Group Analyst Insight Report "Your 2013 Guide to Travel and Expense Management"; n=170.

**Figure 2: Best-in-Class Technology Utilization**



Source: Based on survey conducted for March 2013 Aberdeen Group Analyst Insight Report "Your 2013 Guide to Travel and Expense Management"; n=149. Travel spend under management is defined by the source as the percentage of planned travel spend that is actively managed and accounted for in corporate budgeting, planning, or forecasting.

**Figure 3: Expense Management Performance Metrics**

	Mobile Users	Non-Mobile Users
Cost to process a single expense report	\$8.72	\$24.63
Expense reimbursement length	5.1 days	8.6 days
Expense approval period	3.3 days	4.5 days

Source: Based on survey conducted for March 2011 Aberdeen Group research brief "Mobile Technology: Filling the Gap in Modern Expense Management."

T&E expense workflow. Incorporating these functions into a mobile interface can facilitate a smoother purchasing process. For embedded virtual cards, mobile interactions with suppliers, including initiating supplier payments, represents a significant non-T&E opportunity.

For years, commercial card issuers have stressed the benefits of adding a commercial card as a payments tool for organizations. These benefits are very real and well-documented. However, as market needs and expectations shift towards mobile, there is an opportunity for issuers and other providers to capitalize on the "win-win" scenario that mobile expense management brings. Cardholders' lives are made easier, while the entire organization's travel program is streamlined and controlled more effectively. In short, addressing the consumer-like needs of individuals in the value chain improves the travel program as a whole.

*For more information, please contact Dan O'Neill, Associate specializing in Commercial Payments, dan.oneill@firstannapolis.com.*

# The 'Share Economy' and the Rise of Mobile P2P Commerce

By Patrick Carroll

Electronic person-to-person (P2P) payments began in the late 90's as the pairing of eBay and PayPal created a true online P2P marketplace. Fifteen years later, the electronic P2P payment is finding its niche in the mobile realm as the backbone behind local commerce platforms commonly referred to as 'share economy' applications. Services like Airbnb, SideCar, Lyft, TaskRabbit, and SnapGoods are early share economy applications that empower micro-entrepreneurs (i.e., individuals) with a platform and a network to provide goods and services to other people.

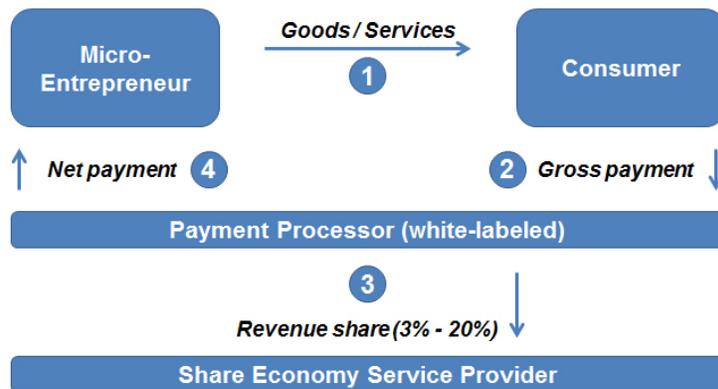
Share economy models can be pretty nifty. Are you looking to make some extra cash this weekend? Sign-up for TaskRabbit and help others nearby complete mundane tasks, like assembling newly-purchased Ikea furniture. Or sign-up for SideCar to find a group of people nearby that are looking for a ride home from the local pub. And maybe if you receive positive reviews you'll be able to command a higher price the next time around.

The lynchpin for this commerce model, from both a logistic and business perspective, is its payments functionality. The model relies on mobile electronic payments to facilitate secure transactions between two people in real time.

The mobile functionality embedded within these applications is provided by a small group of players focused on payment processing and turnkey payment user interfaces. This segment is lead by Braintree and Stripe, which provide developer-friendly payments systems that leave the merchant account set-up and bank dealings to the processor. While this payments opportunity is relatively small, it is growing fast: recent press<sup>1</sup> suggests that Braintree processed \$1B-\$2B in payments for Airbnb in 2012 alone.

The rise of the share economy model, and its reliance on mobile P2P

Figure 1: Illustrative 'Share Economy' Payments Process



Source: First Annapolis Consulting research and analysis.

commerce, highlights a noticeable trend across the P2P payments industry in the United States. The number of standalone mobile P2P applications, designed for consumers to whip out their phones and split the dinner bill, are simply declining. We are seeing a growing number of mobile P2P payment platforms perform as the backbone of a broader service that connects people for commerce purposes. This observation should come as no surprise given that online commerce was the catalyst for PayPal's rise to prominence during the internet era.

<sup>1</sup> Forbes (9/12), Airbnb press.

For more information, please contact Patrick Carroll, Senior Analyst, [patrick.carroll@firstannapolis.com](mailto:patrick.carroll@firstannapolis.com), specializing in Mobile Commerce.

## Commercial Cards: The Rebate Calculation Imperative

By Allan Reynolds

Recent trucking sector industry news may indirectly shine a spotlight on a facet of commercial banking not typically under regulatory or compliance scrutiny – rebates paid for commercial card programs.

By way of background, an organization with a commercial card program of at least a few million dollars of annual spend will often be offered a rebate paid by the commercial card issuer calculated on the basis of quarterly or annual spend with progressively higher rebates paid for higher spend amounts. While annual spend is typically a major driver of the rebate amount, calculating the rebate can be quite complex as issuers seek to balance the competitiveness of their offer with the profitability of the card program.

Numerous factors that can impact rebate calculations include:

- Program type (corporate / purchasing)
- Physical plastics or virtual accounts
- Expected annual spend
- Rebate grid spend tiering approach
- Growth thresholds (if any)

- Rewards (corporate travel only)
- Large ticket spend (purchasing only)
- Average ticket size
- Payment terms (billing cycle / due date)
- Fraud loss responsibility (issuer / end-user)
- Delinquencies / losses (individual liability)
- Target profitability levels

Although the forward-looking calculation of rebate quotation should clearly remain internal to issuers, creating more transparency around the backward-looking rebate calculation of actual amounts paid may now become more common.

For an issuer, selecting a rebate value to bid and calculating the rebate dollar value to pay out can be labor intensive. With the right calculation tools, issuers can improve pricing efficiency and rebate calculation accuracy.

For more information, please contact Allan Reynolds, Associate specializing in Commercial Payments, [allan.reynolds@firstannapolis.com](mailto:allan.reynolds@firstannapolis.com).

# Payments Industry Stock Price Tracker

By Collin Bauer

Figure 1 is the Payments Industry Stock Price Tracker for May 2013. The chart measures current stock prices and market caps, as well as movement over the last month, and year-to-date. The companies that First Annapolis monitors across the payments value chain experienced positive results in May, and in aggregate are exceeding the broader market's 16% YTD gain.

In summary:

Companies within the issuing sector posted gains of 10% as a whole over the past month, with gains experienced by all issuers tracked. Chase posted a 12% gain in May and outperformed the other issuers we track. This performance was largely guided by a shareholder vote that rejected splitting the role of Chairman and CEO. In addition to Chase, American Express, Citi, and FleetCor also posted double-digit gains in May, with FleetCor's stock price gaining 54% since January 2013.

The processor / acquirer sector posted positive results during May with an overall gain of 2% for the period. The sector is up 19% in aggregate YTD with FIS, the largest company tracked, posting a 30% gain in 2013. This month, FIS repurchased its former unit, Lender Processing Services, Inc. (LPS), for \$2.9 billion, helping drive the stock's 7% increase in May. Vantiv posted a 17% gain this month, the most of any company tracked. The stock-price uptick was largely driven by Vantiv's secondary public offering and new multi-year partnership with NCR to develop small business POS terminals.

In aggregate, MasterCard and Visa posted an 8% gain in May, and are up 18% YTD. Positive stock momentum for the companies was driven by strong first quarter earnings. However, both networks' stock prices were influenced by the news that several top retailers, including Wal-Mart and Target, would opt out of the recent \$7 billion swipe-fee settlement and retain their ability to pursue the networks in court in the future.

For more information, please contact Collin Bauer, Senior Analyst specializing in Credit Card Issuing, [collin.bauer@firstannapolis.com](mailto:collin.bauer@firstannapolis.com).

Figure 1: Monthly Average Stock Price Tracker

Companies	May 24, 2013	Month Δ	YTD Δ	Current Market Cap (\$Billions)
<b>Issuers</b>				
American Express	\$75.27	10%	32%	\$84.33
Bank of America	\$13.24	9%	14%	\$144.67
Capital One	\$61.13	7%	6%	\$36.01
JPMorgan Chase	\$53.66	12%	24%	\$206.08
Citi	\$50.52	10%	28%	\$156.89
Discover	\$47.68	9%	24%	\$23.50
FleetCor	\$82.54	10%	54%	\$6.90
U.S. Bank	\$35.41	8%	11%	\$66.18
WEX	\$71.98	6%	-4%	\$2.85
Weighted Average	-	10%	22%	-
<b>Acquirers / Processors</b>				
FIS	\$45.16	7%	30%	\$13.44
Fiserv	\$88.09	1%	11%	\$11.90
Global Payments	\$47.10	1%	4%	\$3.63
Heartland	\$31.23	-4%	6%	\$1.16
TSYS	\$23.65	1%	11%	\$4.47
Vantiv	\$26.11	17%	28%	\$3.67
Weighted Average	-	2%	19%	-
<b>Networks</b>				
MasterCard	\$571.46	6%	17%	\$70.61
Visa	\$180.45	9%	20%	\$117.56
Weighted Average	-	8%	18%	-
<b>Market Index</b>				
S&P 500	\$1,649.60	4%	16%	-

Note: Weighted Averages are based on current market caps. Source: Yahoo Finance, First Annapolis Consulting research and analysis.



Founded in 1991, First Annapolis is a specialized advisory firm focused on electronic payments. Our market coverage is international in scope with a primary focus on North America, Latin America, and Europe. First Annapolis is headquartered in the Baltimore / Washington, D.C. corridor and Europe is served through our office in Amsterdam. In total, we have over 70 professionals across our practice areas giving us one of the largest and strongest advisory teams focused exclusively on electronic payments.

## Practice Areas

- Card Issuing
- Deposit Access Payments Strategy
- Merchant Acquiring
- Retailer Services
- Mobile Commerce Alternative Payments
- Commercial Payments

## Services

- Management Consulting
- Partnership Finance
- Strategic Sourcing
- Portfolio Management
- Strategy Development / Implementation
- Loyalty Program Support
- Commercial Risk Compliance

## M&A Advisory Services

- End-to-End Transaction Support
- Valuations
- Fairness Opinions
- Diligence / Negotiation Support