



TSG ANALYSIS

Vantiv's Acquisition of Mercury Payment Systems

vantiv™

MERCURY®

With the announcement of the planned acquisition of Mercury, Vantiv continues its aggressive acquisition strategy to increase penetration into the SMB market; this includes Litle & Co., National Processing Company (NPC), Element Payment Services, and now Mercury Payment Systems.

These transactions benefit Vantiv by:

- Extending current sales channels - for example using Value Added Resellers (VARs) and Independent Software Vendors (ISVs) as an indirect sales force extension
- Targeting more growth-oriented merchant verticals, which are attractive as defined by volume growth, attrition, and/or profitability
 - Mercury's merchant base includes types that are attractive in that they have high profitability and low attrition – these include Education & Non-Profits, Healthcare, Services, and Entertainment. Mercury also has merchants within historically saturated card accepting verticals which are Retail, Restaurants, and Grocery (See page 4)
- Expanding the current focus on the VAR/ISV channel, where Vantiv's solutions are embedded in enterprise software packages, which should increase merchant stickiness and decrease attrition
- Acquiring technology and processes that can be leveraged across the Vantiv merchant acquiring business
- All of the points listed above will help to diversify the profitability contribution which has historically been dominated by Vantiv's legacy major merchant accounts

TSG sees this as both an offensive and defensive move:

- **Offensive** - The Element acquisition helped Vantiv strengthen its VAR/ISV channel and the acquisition of Mercury adds significant scale, as they are generally recognized as among the leaders, if not the leader, in the VAR/ISV distribution channel
- **Defensive** - Mercury would have been a tough competitor for Vantiv in a hypothetical go forward environment within the VAR/ISV channel

Other comments:

- TSG sees significant cost savings/synergies around processing costs related to back-end merchant accounting and front-end authorization switching systems
- Industry experience would suggest that a 3% - 7% range of EBITDA lift could be expected due to processing scale efficiencies post system consolidations
- The existing Mercury front-end authorization intercept switch (Developer Integration System) that performs multiple value add functions can make subsequent front-end authorization conversions somewhat less complex and more time efficient than more traditional routing scenarios
- The transaction introduces the ability for Vantiv to cross-sell a broader range of additional services into the Mercury merchant base, therefore increasing revenue and retention benefits

Other content in this analysis:

- **Page 2:** A look at 10 other recent merchant acquiring transactions
- **Page 3:** Transaction Multiples Charts - Net Revenue & EBITDA
- **Page 4 & 5:** A look at the performance of the merchant verticals that make up Mercury's portfolio





| BUYER | vantiv™ SILVERLAKE | | TRADING STAT | TRADING STAT | TRADING STAT | TRADING STAT | cielo | TSYS™ | vantiv™ | VISA |
|--------------------------|--------------------|-----------|--------------|-------------------------------|----------------|--------------|--|---------------------------|-------------|--------------------------------------|
| TARGET | MERCURY® | MERCURY® | vantiv™ | Heartland PAYMENT SYSTEMS™ | globalpayments | TSYS™ | MERCHANT e-SOLUTIONS a cielo company | PROPAY A TSYS™ Company | Life &Co | CyberSource® the power of payment |
| YEAR | 2014 | 2010 | 2013 | 2013 | 2013 | 2013 | 2012 | 2012 | 2012 | 2010 |
| # OF MERCHANTS | 88,700 | 51,000 | 400,000 | 230,000 | 629,000 | 325,000 | 70,000 | 112,000 | N/A | 295,000 |
| VOLUME (BILLIONS) | \$34 | \$19 | \$610 | \$120 | \$120 | \$100 | \$14 | \$1 | \$17 | \$120 |
| VOLUME/ACCT | \$383,000 | \$373,000 | \$1,525,000 | \$521,000 | \$191,000 | \$308,000 | \$200,000 | \$9,000 | N/A | \$407,000 |
| SALE PRICE/EV (MILLIONS) | \$1,650 | \$1,166 | \$5,940 | \$1,430 | \$4,840 | \$5,950 | \$670 | \$124 | \$361 | \$1,700 |
| NET REVENUE (MILLIONS) | \$237 | \$122 | \$1,173 | \$599 | \$2,376 | \$2,100 | \$124 | \$21 | \$50 | \$196 |
| EBITDA (MILLIONS) | \$93 | \$47 | \$532 | \$153 | \$469 | \$470 | \$56 | \$8 | \$22 | \$53 |
| NET REVENUE MULTIPLES | 7 | 10 | 5 | 2 | 2 | 3 | 5 | 6 | 7 | 9 |
| EBITDA MULTIPLES | 18 | 25 | 11 | 9 | 10 | 13 | 12 | 15 | 16 | 32 |

Sources: Company press releases, public filings, and websites; TSG Estimates; TSG Research

Note: Numbers above are rounded

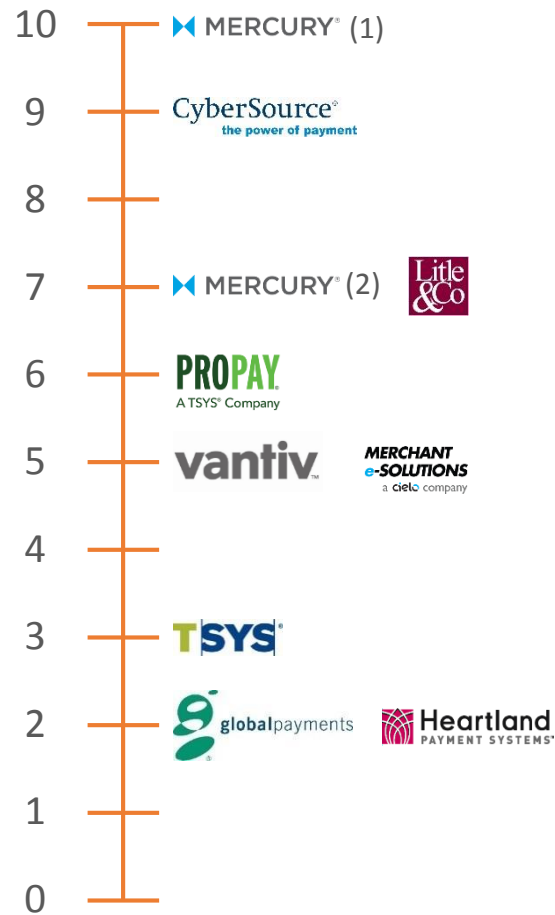
N/A = Not Available

For discussion & educational purposes only. This report is based upon information we consider reliable, but its accuracy and completeness cannot be guaranteed.

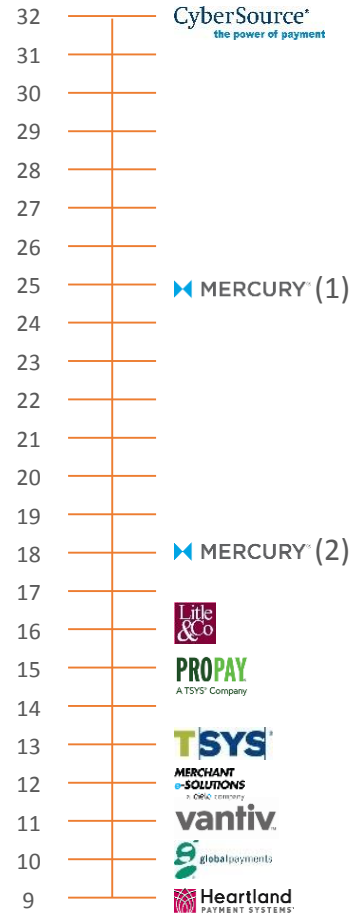
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NET REVENUE



EBITDA



General High Multiple Characteristics

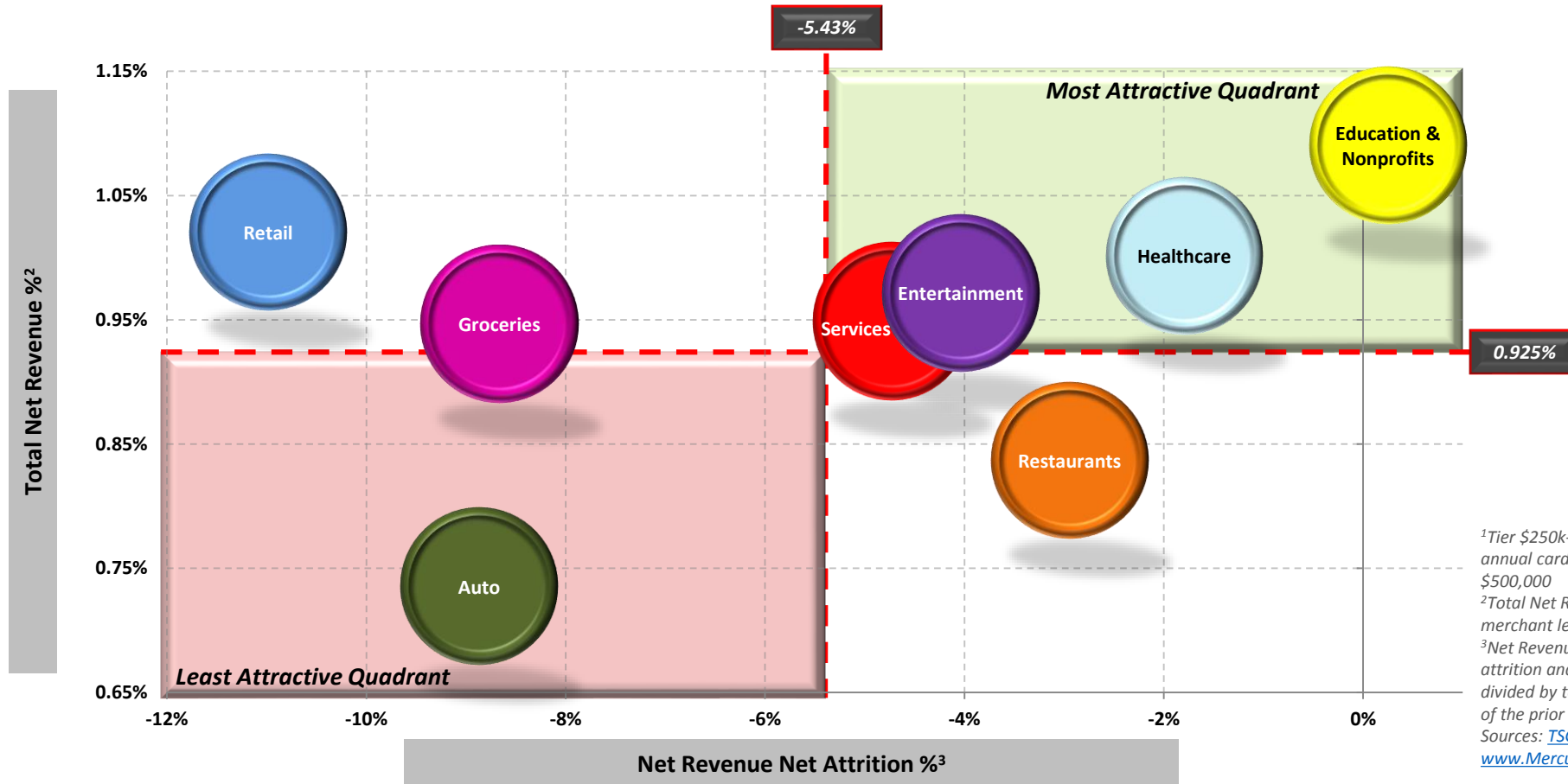
- Sustainable strategy or market niche
- Unique sales channel(s) included in sale
- Focus on attractive merchant verticals
- Solid sales growth (> 10% per year)
- Low attrition (< 15% per year)
- Solid net revenue margin
- Strong management team
- Market leading technology/product offering that could be leveraged across broader portfolio
- Ease of merchant account portability
- Low credit losses
- Increasing profitability trends
- Cost synergies to buyer

Sources: Company press releases and public filings, TSG Estimates
1= 2010, 2 = 2014



Mercury’s merchant base includes types in the most attractive quadrant in the chart below (those with high profitability and low attrition) – this includes Education & Nonprofits, Healthcare, Services, and Entertainment. Mercury also has merchants within historically saturated card accepting verticals which are Retail, Restaurants, and Grocery. The chart below contains only merchants of size between \$250k and \$500k in annual card sales in order to normalize for merchant size.

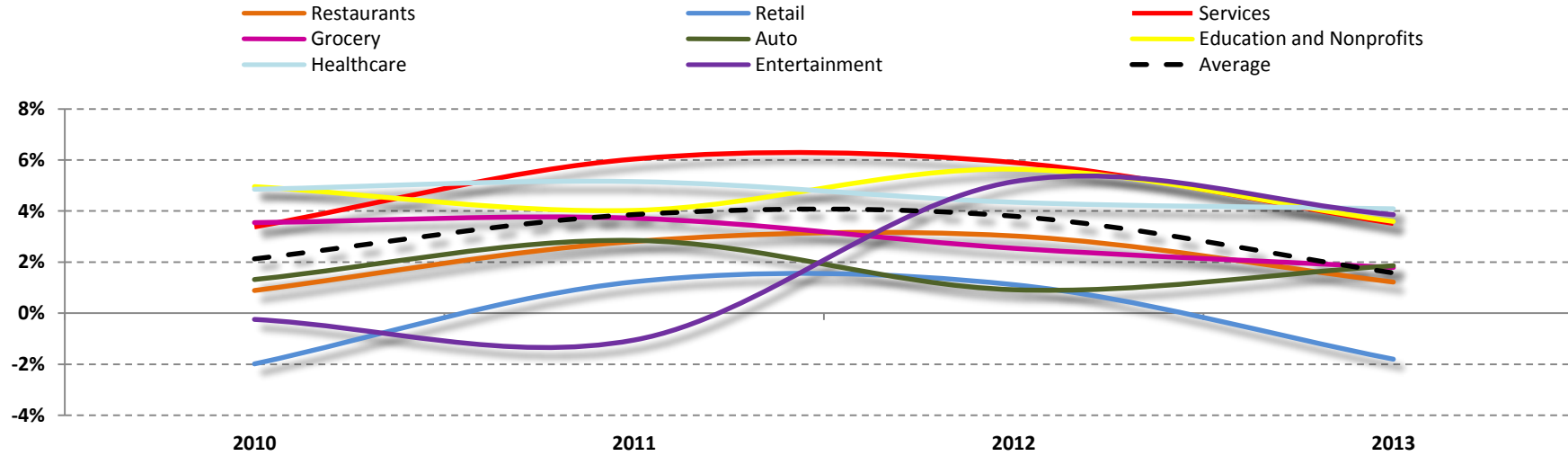
Tier \$250k to \$500k¹: Industry Vertical Total Net Revenue by Net Revenue Net Attrition
(Q4 2013)



¹Tier \$250k-\$500k - A group of merchants, each with annual card sales volume between \$250,000 and \$500,000
²Total Net Revenue – Total gross revenue charged to merchant less total cost of sales divided by total volume
³Net Revenue Net Attrition – Sum of net revenue gross attrition and change in retained account net revenue divided by total SIC code’s net revenue from same period of the prior year
 Sources: TSG Database of 2.1 Million U.S. Merchants, www.MercuryPay.com



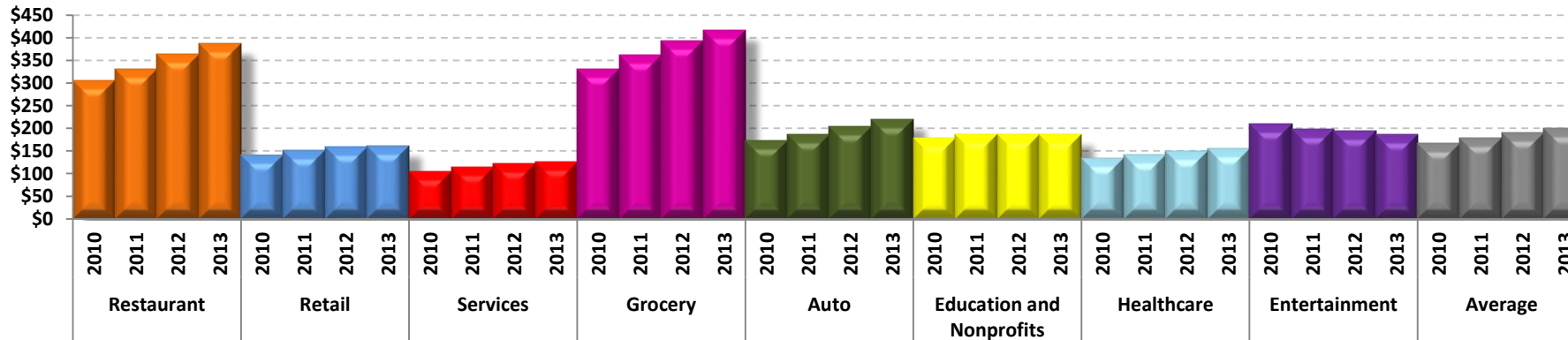
Retained Account Volume Growth¹ 2010 - 2013
(TTM)



Retained Account Volume Growth (aka same store sales – top chart) shows that Mercury’s key customer segments predominantly have positive growth and are above average.

Increased consumer usage and merchant acceptance of credit/debit cards, as well as improved economic performance have contributed to the increased average account size for all but one of Mercury’s core merchant types.

Average Annual Retained Account Size² (\$000s) 2010 - 2013
(TTM)



¹Retained Account Volume Growth – Annual volume change growth of retained (non-attributed) accounts for given period divided by total industry vertical volume from same period of the prior year

²Average Annual Retained Account Size – Total industry vertical volume less attrited volume (volume gross attrition) divided by total industry vertical accounts less attrited accounts (account attrition); measures size of retained (non-attributed) accounts
Sources: TSG Database of 2.1 million U.S. Merchants, www.MercuryPay.com

Some other free resources from TSG

- [INFOGRAPHIC: The Top Ten Ways Acquirers Can Block the Breach](#)
- [Q1 2014 U.S. Economic Indicators Report with Special TRANSACT 14 Introduction](#)
- [TSG Roundtable on the Target Breach, EMV, and the Ramifications](#)
- [TSG Analysis - Global Payments' Acquisition of PayPros at a Glance](#)
- [Brave New World in Payments - Tapping the Power of Big Data in Merchant Portfolio Management](#)
- [INFOGRAPHIC: Why are Electronic Payments Important?](#)
- [Trend Graphs of Payments Industry Google Search Terms](#)
- [Is Aggregation for Everyone?](#)
- [INFOGRAPHIC: What Benefits Me by Paying a Credit Card Swipe Fee?](#)



The Strawhecker Group (TSG) is a management consulting company focused on the electronic payments industry.

TSG's Service Groups

Payments Strategy - Payments Strategy encompasses the full spectrum of advisory services within the Payments Industry. The depth of these services is built on deep industry knowledge - the Partners and Associates of the firm have an average of over 20 years of industry experience. With clients from card issuers to merchant acquirers, TSG has the experience and expertise to provide real-time strategies.

Transaction Advisory - Whether buying or selling, seeking investment funding, or planning your company's exit strategy, TSG's experience can be critical to achieving success. TSG has performed more than 100 Payments Company Valuation and/or Business Assessments in the past three years - ranging in value from \$1 million to \$1 billion.

TSG Metrics - TSG Metrics, the strategic research and analysis division of TSG, provides the Payments Industry with highly focused research and industry-wide studies. TSG Metrics takes data, boils it down to information, transforms it to knowledge and presents it to provide wisdom to its client partners.

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TSG consists of Industry leaders with extensive experience leading teams through explosive growth periods, mergers and acquisitions, and international and domestic expansion within the Payments Industry. Both Partners and Associates of the firm have held key senior management positions at leading industry companies including First Data / First Data International, Visa Inc., MasterCard, TSYS, Humboldt Merchant Services, WorldPay, Heartland Payment Systems, Cardservice International, iPayment, Alliance Data, RapidAdvance, Accenture Consulting, Redwood Merchant Services, Chase Paymentech, as well as other leading financial institutions and Payments companies.

TSG's Influence Shapes the Payments Industry

Over the last three years, TSG has completed over 400 projects for more than 200 different clients including financial institutions, merchant acquirers, card issuers, card associations, technology providers, ISOs, processing companies and the investment community. Additionally, the firm and its Associates sit on several industry committees whose focuses range from emerging product development to governmental regulation advisement.

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