Payment Industry Introduction

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First Data

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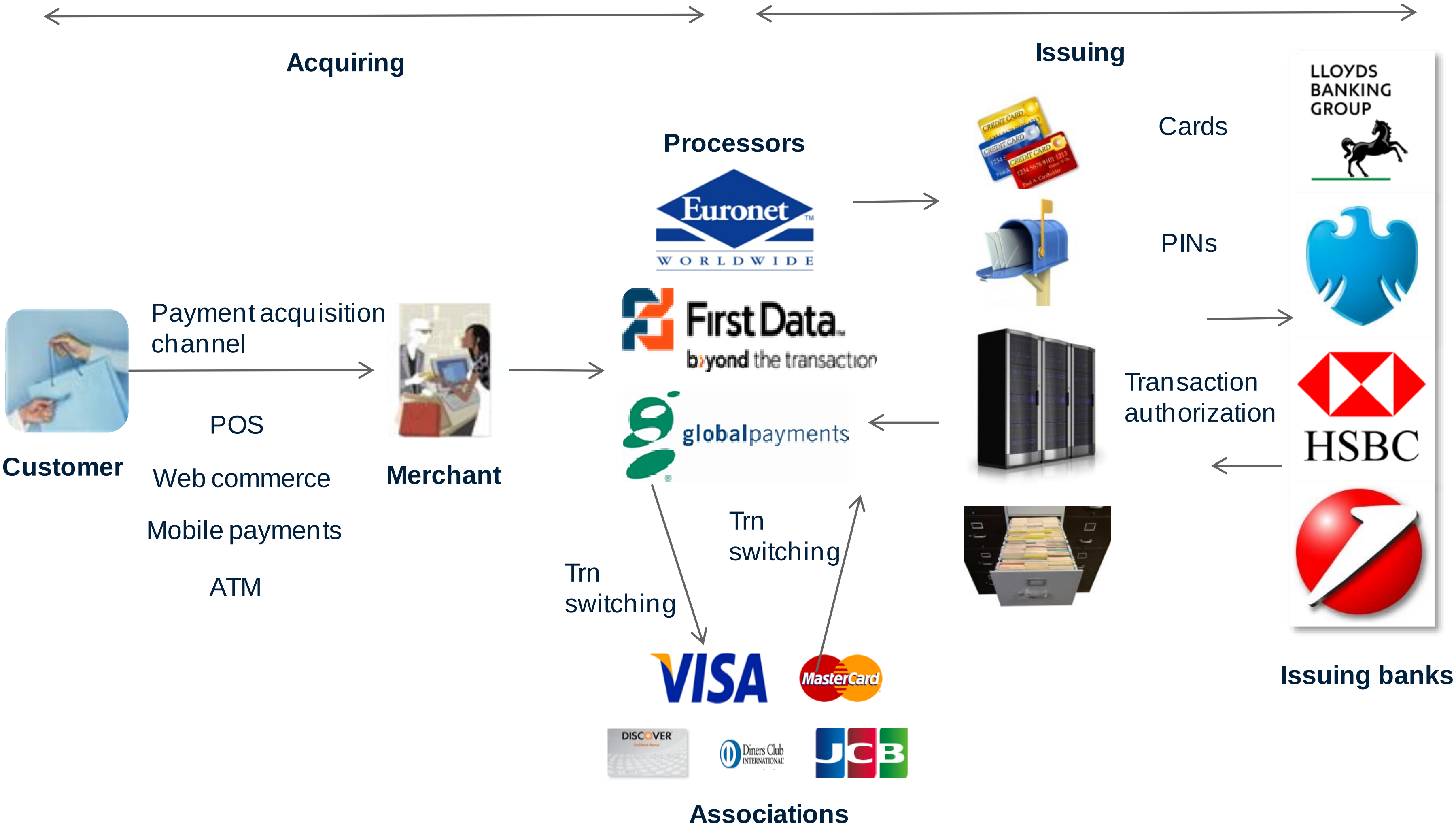
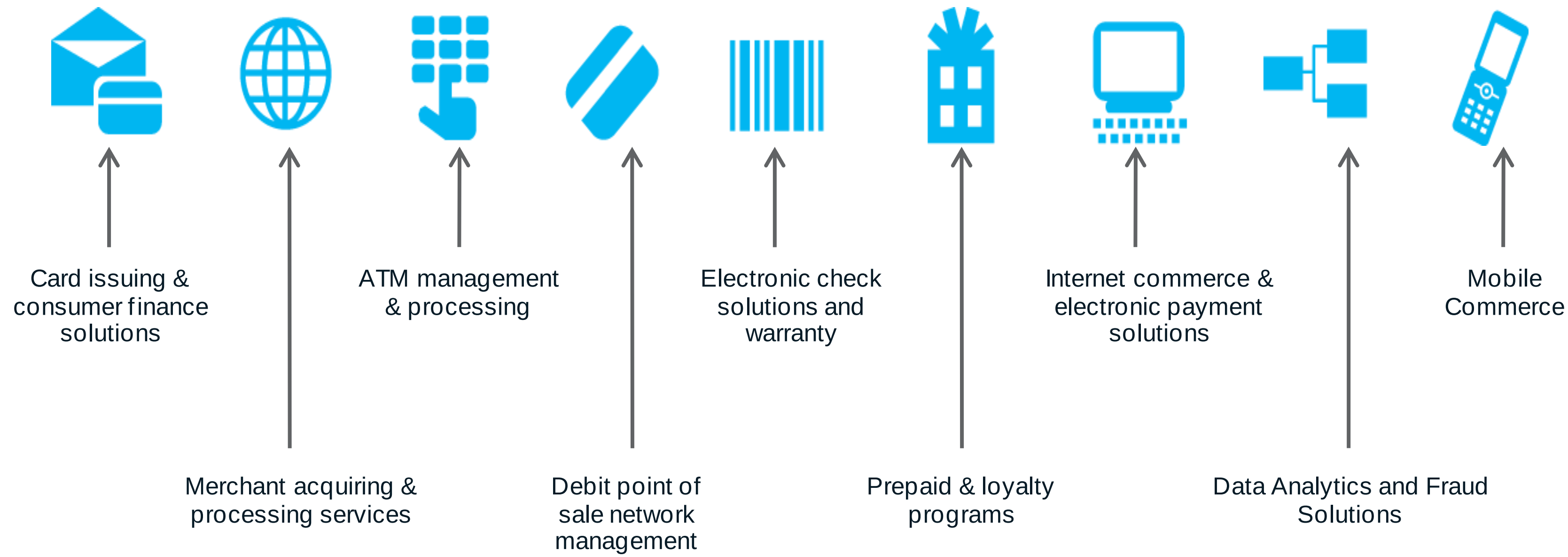
Payment Industry Ecosystem



Typical Revenue Streams of Industry Players



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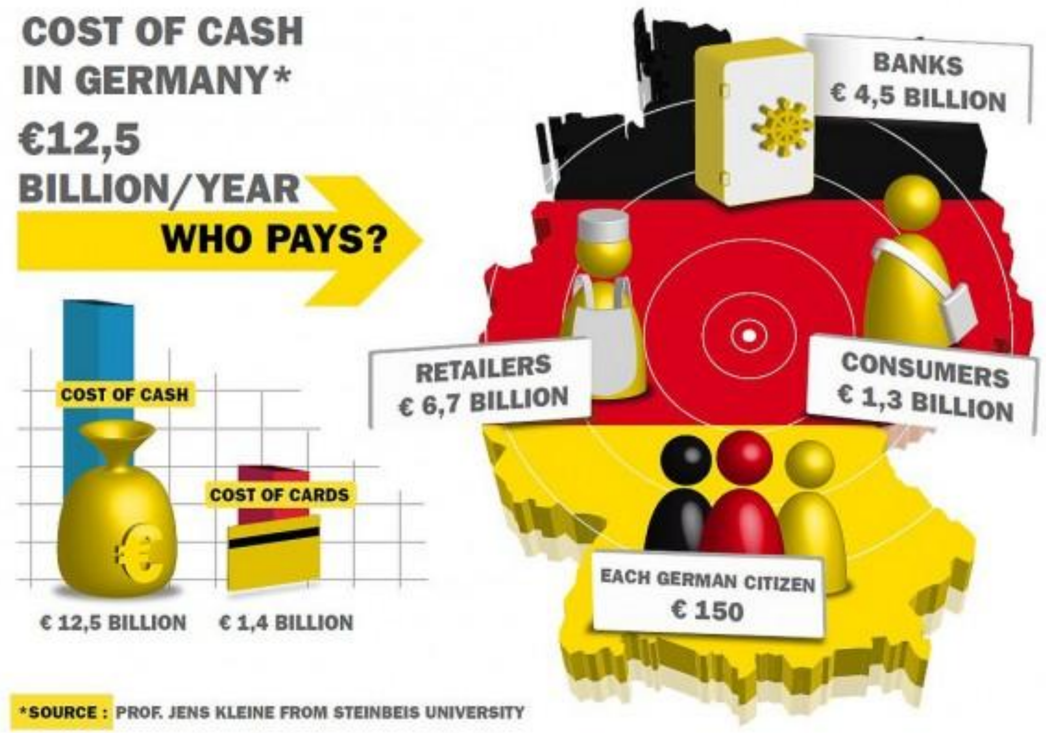
Economics of Payment Industry
Pay by cash or by a card?

Paying by cash imposes costs to economy and citizens as well.

Cash costs add up from:

- production costs,
- transportation costs,
- insurance costs,
- cash handling,
- security
- losses of interest.

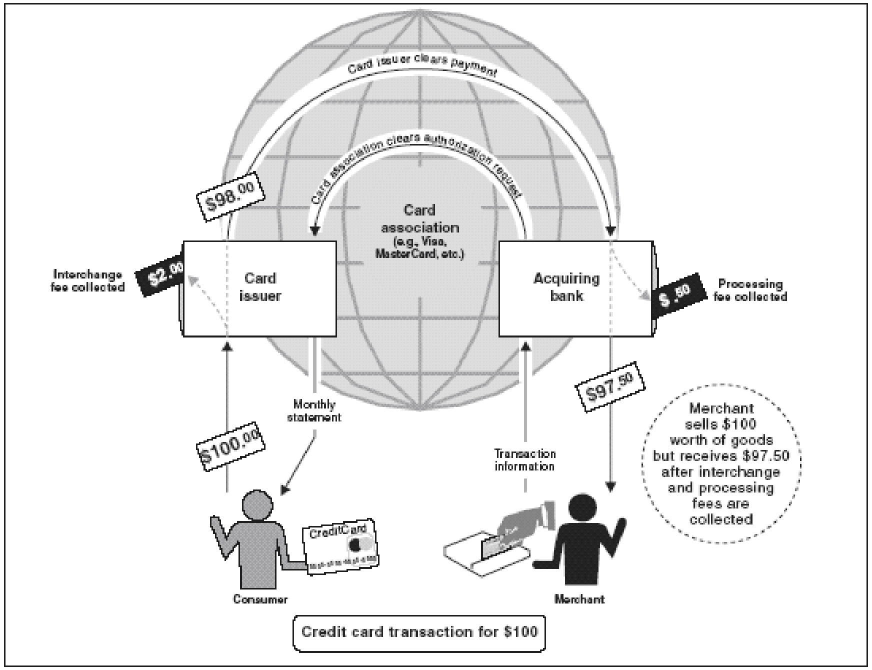


http://newsroom.mastercard.com/press-releases/the-cost-of-cash-german-consumers-pay-eur-150-per-year/

Economy of payment industry …
Who gets how much?

A customer pays $100 at a merchant …

Interchange fee is a term used in the payment card industry to describe a fee paid between banks for the acceptance of card based transactions. Usually it is a fee that a merchant's bank (the "acquiring bank") pays a customer's bank (the "issuing bank") however there are instances where the interchange fee is paid from the issuer to acquirer, often called reverse interchange. (Wikipedia)



$100 payment for goods/services

Event	**Customer**	**Merchant**	**Acquirer**	**Association**	**Issuing bank/card issuer**	**Customer account**
Purchase	+goods/services	-goods/services			$ 100.00	$ -100.00
Settlement - association				$ 98.50	$ -98.50	
Settlement - acquirer			$ 98.40	$ -98.40		
Settlement - merchant		$ 98.00	$ -98.00			
Summary	+goods/services	profit margin	$ 0.40	$ 0.10	$ 1.50	$ -100.00

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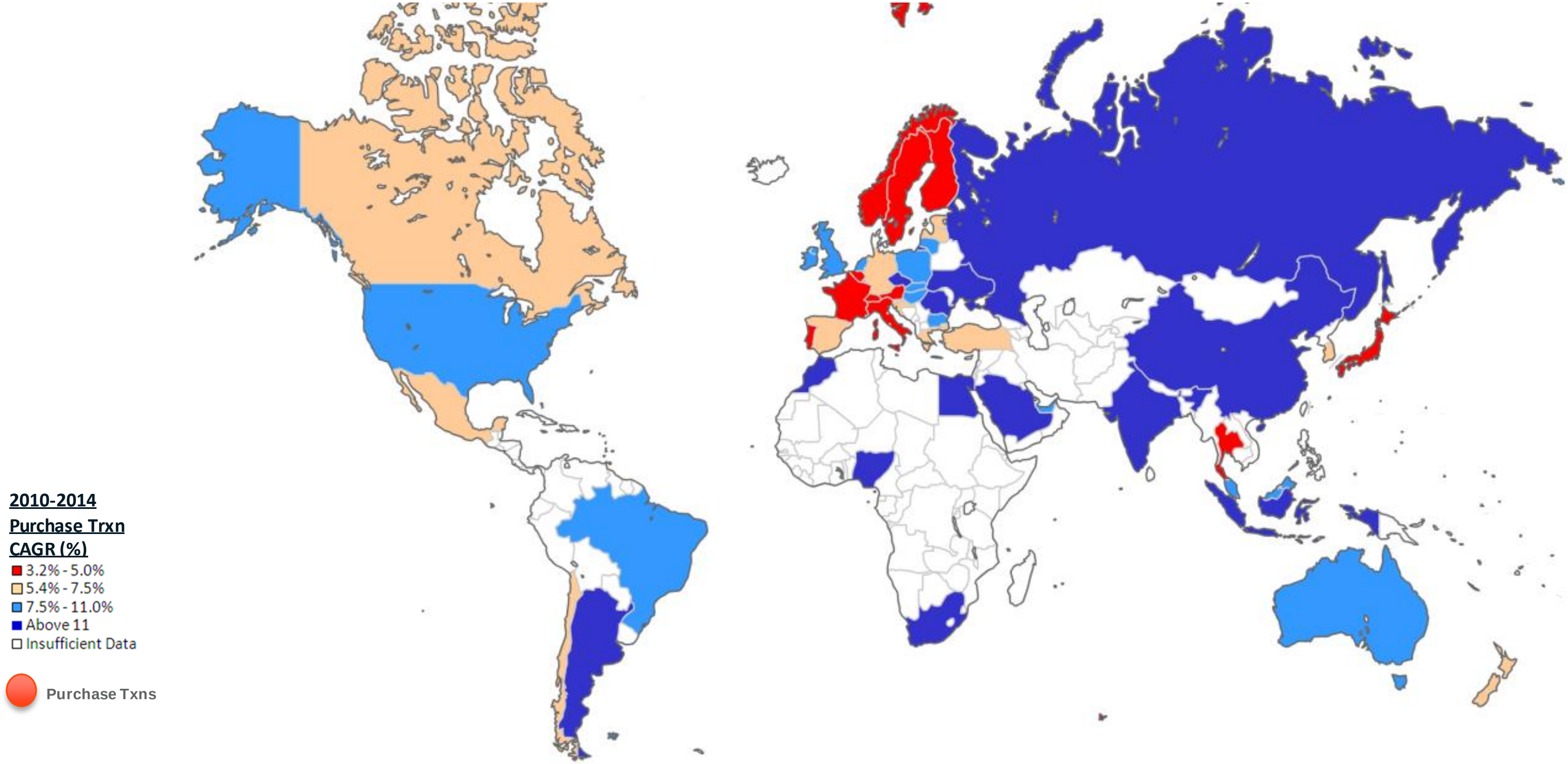
Technology



Source: International Monetary Fund

Enterprise Valuation and Initial Public Offering

Valuation of companies

- **Enterprise value:** A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. (www.investopedia.com)
- **Calculation methods**:
  - Comparable Companies Analysis
  - Comparable Transactions Analysis
  - Discounted Cash Flows Analysis

Initial Public Offering

- Initial Public Offering or **stock market launch** is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time. Through this process, a private company transforms into a public company. Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors.

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Discounted Cash Flows Valuation

1. Study the Target and Key Performance Drivers

- Key financial performancd drivers
- Financial reports: 10-K, 10-Q, 8-K
- In M&A - Confidential Information Memorandum (CIM)

2. Project Free Cash Flow

- Unlevered FCF - cash generated by a company after paying all cash operating expenses and taxes, as well as funding of capex and working capital, but prior to the payment of any interest expense

3. Calculate Weighted Average Cost of Capital

- FCFs will be discounted at WACC rate

4. Determine Terminal Value

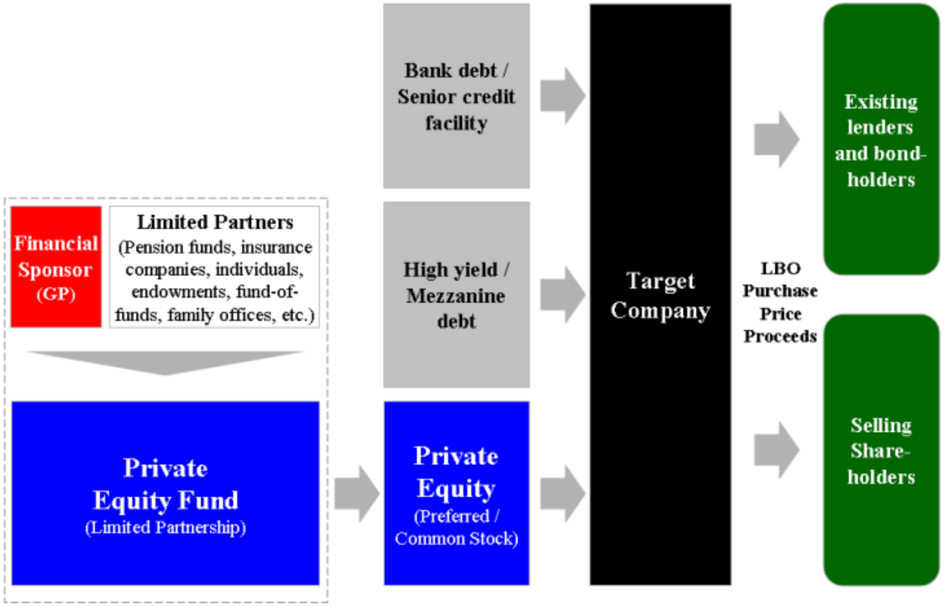
- 1st approach - the exit multiple method (EMM) for terminalyear's EBITDA
- 2nd approach - perpetuity growth method (PGM) applied to terminal year's EBITDA

5. Calculate Present Value and Determine Valuation

- Discounted FCFs + terminal value at WACC rate
- Sensitivity analysis used due to existing assumptions in performance drivers, WACC and terminal value

Leveraged Buyouts

- A **leveraged buyout** (**LBO**) is when a company or single asset (e.g., a real estate property) is purchased with a combination of equity and significant amounts of borrowed money, structured in such a way that the target's cash flows or assets are used as the collateral (or "leverage") to secure and repay the money borrowed to purchase the target-company/asset. Since the debt (be it senior or mezzanine) has a lower cost of capital (until bankruptcy risk reaches a level threatening to the lender[s]) than the equity, the returns on the equity increase as the amount of borrowed money does until the perfect capital structure is reached. As a result, the debt effectively serves as a *lever* to increase returns-on-investment.



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Industry examples

- **VISA – IPO**
  - VISA IPO shares pricing at $44, expected price $37-$42 (by J.P. Morgan Chase)
  - Volume – 406 million shares (totalling to $17.86 billion)
  - Underwriters J.P. Morgan ($1.1 bil, 29 million shares), Goldman Sachs Group
  - Banks offering shares: J.P. Morgan ($1.1 bil, 29 million shares), Bank of America (14 million shares), Citigroup Inc. (6.8 million shares) and National City (10 million shares).
  - Overallotment – 40.6 million shares
  - Slightly more then half of the shares sold to the public
- **Mastercard - IPO**
  - IPO May 2006
  - IPO share price $39 per share (May 2006)
  - March 2008 price $210.25
- **Recent IPOs**
  - Facebook
  - Twitter

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Valuation example

See a separate spreasheet

Investment Banking: Valuation, Leveraged Buyouts., and Mergers & Acquisitions. Joshua Rosenbaum, Joshua Pearl; Wiley Finance, 2009

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Thank you.

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