

# The First Data/Fiserv combo is bigger, but still slow

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Financial-services technology provider and processing behemoth Fiserv announced an all-stock acquisition of the world's biggest payment processor First Data, at a premium of 29.6% over its January 15<sup>th</sup> closing stock price.

The combination will be a processing giant. But does it offer "[compelling strategic benefits](#)" or is it size for size's sake?

As a rationale for the deal Fiserv CEO Jeff Yabuki and First Data CEO Frank Bisignano tout increased scale, an expanded footprint and richer product suite, and forecast \$900 million and \$500 million in annual cost and revenue synergies, respectively, five years out.

Since Fiserv's 1984 launch it's been a disciplined and relentless acquirer of competitors and firms broadening its offering, and divested assets that no longer fit. First Data would be the Wisconsin consolidator's biggest acquisition.

In 2007 KKR took First Data private at [a \\$26 billion valuation](#) - the largest payments LBO ever. LBOs don't always create value. By any measure the payment-processing giant's disappointed. Fiserv's buying First Data for \$22

billion, and is also assuming the debt. Notwithstanding a decade-plus of lackluster growth, First Data remains the world's largest portfolio of payment-processing assets.

First Data and Fiserv are low-organic-growth, lumbering giants. Both have been acquisitive over the years and rationalized delivery systems, albeit slowly. There isn't, however, much overlap and therefore opportunities for consolidation and cost savings among their existing businesses are limited.

Both have debit networks and debit-issuer processing. Combining the Accel and Star networks will generate modest cost savings. Plus, redundant corporate overhead and data centers and debit processing can be rationalized. But that won't eliminate almost a billion dollars in annual operating costs.

While Fiserv's payments are growing faster than its core-banking businesses, and Bisignano characterizes First Data as reaching "jogging speed," neither is noteworthy for organic growth. Will the combination turbo-charge sales? Not likely. Additional complexity will be a drag. High-growth payments enterprises like Adyen, PayPal, Paytm, Square and Stripe are simpler, nimbler, and more focused.

Agile acquirers Adyen and Square have enterprise value/revenue multiples of 12.1 and 9 respectively. Acquirer Worldpay competes head-to-head with First Data across the merchant-size continuum and enjoys an EV/S multiple of 8. In contrast, First Data's and Fiserv's EV/S valuation multiples are 4.2 and 5.9 respectively.

Management predicts additional sales from boosting distribution of First Data's acquiring, including the point of sale platform Clover, and enriched payments. First Data enjoys massive distribution in merchant acquiring and processing in the US and abroad. It already serves roughly 40% of US merchants accepting payment cards.

Acquiring competition is fierce and intensifying. Banks have been ceding share and relevance in acquiring, globally. Fiserv's relationships with thousands of small and medium-sized US banks are unlikely to prove a major channel originating new merchants.

First Data is the world's largest third-party credit-card-issuer processor. Its signal US opportunities are winning over inhouse giants like Citi, American Express, Discover, U.S. Bank, Chase, and ADS. Fiserv can't help there. Nor will it help with takeaways from competitors like Total Systems, FIS, Worldline, Nets and SIA/SSB, domestically and overseas.

While First Data already has the richest payments offer in the market, integrating EBPP, P2P, mobile banking, and credit, debit, and prepay cards, might have some appeal.

In the network realm Accel does best with Fiserv banks. Smaller FIs prefer using fewer suppliers. Combined with First Data's Star it will still be much weaker than Mastercard and Visa, and not clearly better than Discover or NYCE. If where it processed for both the issuer and merchant the combined network were to offer additional value for cardholders and merchants, and richer interchange for banks, that would potentially be a

compelling differentiator. Network revenue synergies near-term however are doubtful.

Core-bank processing is sticky. The number of U.S. banks has been declining for many decades. Banks aren't going to convert from FIS and Jack Henry to Fiserv because of Clover. And selling Fiserv's core-banking products to First Data issuers and merchants, isn't plausible.

The combination is being promoted as creating the "[global leader in payments and fintech](#)." While the transaction will lower the cost of servicing First Data's massive debt, the fintech-and-processing giant will be more complex and ponderous. It won't improve either business's trajectory.

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