



Is payment-processing behemoth First Data waking from its torpor?

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* Views expressed are strictly the author's.



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First Data is the world's largest portfolio of payment-processing and network assets.

Robust secular growth in its served market(s)

- US general-purpose credit and debit card payments volume and transactions in 2017 increased 7.9% and 6.2% respectively. –a)
- Global general-purpose credit and debit card payments volume and transactions in 2017 increased 14.3% and 18% respectively. –b)
- In the 4th quarter of 2017 US e-commerce increased 16.9% yoy. –c)
- Global e-commerce in 2017 grew a sizzling 24.8% yoy. –d)

(a- Nilson Report, February, 2018, p. 8

(b- Nilson Report, April, 2018, p. 9

(c- “U.S. Census Bureau News,” U.S. Commerce Department, February 16, 2018, p. 1

(d- eMarketer Report, January 29, 2018

Retail and general-purpose credit-card issuer processing

- The credit-card-issuer-processing industry is an oligopoly
- High entry barriers
- First Data's the world's largest credit-card-issuer processor. Earns account and transaction fees. Clients generally are sophisticated financial institutions.
- Virtually all small and medium-sized financial institutions outsource credit-card issuer processing

The network and other businesses

- Star
 - Debit-network competitive dynamics, how Star matches up
 - The brand
 - Pin, pinless, signature and signature-free debit
- Prepaid-card processing
- Debit-issuer processing
- Card-management software
- Check verification and guarantee
- Official checks

Merchant acquiring and processing

- First Data's locomotive
- With its bank joint-ventures First Data is the world's largest merchant acquirer and processor
- Employs full-suite of origination channels: direct sales, ISOs, ISVs, bank-referral partnerships and bank-jvs.
- Competes across the merchant-size continuum, at the physical pos and online
- Competition is intensifying with new and nontraditional entrants, and traditional players upping their games

Integrated payments

- Why integrated payments matter
- First Data's approach
- In 2012 for \$56.1 million First Data acquired Clover
 - Trying to build platform economics into its SME acquiring business
 - Curates its own and third-party software, more than 200 apps
 - In 1st quarter ~ \$58 billion annualized payment-volume run rate, up 50% yoy ^{-a)}
 - 400,000 Clover units. Including Clover Go 750,000 active stations. ^{-b)}
- May, 2017 it acquired CardConnect for \$750 million ^{-c)}
 - ~ \$26 billion payment volume, 67,000 merchants
 - ERP integrations with Oracle, SAP, J.D. Edwards and Info M3

(a- First Quarter, 2018 First Data Earnings Conference Call, April 30, 2018

(b- Fourth quarter, 2017. Matthew Cochrane, "3 Big Takeaways From Fourth Quarter," the Motley Fool, February 23, 2018

(c- Neil Ainger, "First Data, one of the world's biggest card payment processors, agrees to buy CardConnect for \$750 million," CNBC, May 30, 2017

Integrated payments

- December, 2017 it bought BluePay for \$760 million –a)
 - ~\$19 billion payment volume, 77,000 merchants –a)
 - Omnichannel
 - Integrations with ~ 380 software platforms
 - Integrations with property management, bill pay and various ERP systems including SAP, Oracle and J.D. Edwards
- In 2018 First Data participated in a \$12 million round for Salido, a restaurant software company –b)

(a- “First Data to Acquire Blue Pay,” Business Wire, October, 2017

(b- “First Data makes another bet on restaurant software,” CNBC, May 8, 2018

Global payment-processing land rush

- First Data, Worldline Equens, Worldpay, Global Payments, Total Systems, Nets, Ingenico, Wirecard, Ant Financial, PaySafe, Evo, Elavon, and Chase Paymentech, with varying intensities and ambitions, are in the mix
 - Extending delivery footprint
 - Building scale
 - Enriching product suite
- However, First Data has been decidedly less aggressive since 2007
- Banks continue to cede payment-processing share.

How does First Data match up against noteworthy traditional and specialist competitors

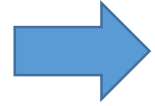
- Multi-line payment processors
 - Total Systems
 - Worldline Equens
 - Nets
 - FIS
 - Fiserv
- Traditional full-suite merchant acquirers and processors
 - Worldpay
 - Global Payments
 - Elavon
 - Chase Paymentech

How does First Data matches up against noteworthy traditional and specialist competitors

- Nontraditional payment processors
 - Adyen
 - Ingenico
 - Intuit
 - PayPal
 - Square
 - Stripe
 - Wirecard
- Networks
 - Accel (Fiserv)
 - Discover
 - Mastercard
 - NYCE (FIS)
 - Visa

Strengths and weaknesses

- Strengths relative to the field
 - Scale
 - Breadth of product,
 - Distribution
 - Delivery footprint,
 - Industrial-strength processing
- Weaknesses
 - Punches under its weight
 - Failure to realize synergies across and between different payments businesses
 - Redundant delivery platforms
 - Culture, slow, lack of service touch
 - Still overleveraged
 - Has underperformed against its opportunity for at least a decade



The payments Gargantua has a plausible story particularly in its acquiring business, but it hasn't turned the corner yet.

What to look for

- Outpacing market growth, likely driven by merchant acquiring
- Increased share in higher-growth markets abroad
- Clover performance
- Wrapping additional value around the network
- A breakout in issuer processing

Q&A