



THE STRAWHECKER GROUP
The Trusted Advisor To The Payments Industry

Payments Industry Snapshot Vol. #1 – Acquiring/Processing

Q4 2009 – Q4 2010

The views expressed are those of TSG and are subject to change. They are shared for educational purposes only. The information is based upon public information we consider reliable, but its accuracy and completeness cannot be guaranteed.

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**All financial measures exclude non-recurring or extraordinary items*

Key

 **First Data™** = FD

 **globalpayments™** = GPN




 **Heartland Payment Systems** = HPY

 **TSYS®** = TSS

Section Two: Market Valuation Metrics

Analysis & Commentary

- Heartland currently has the highest PE ratio among the publicly traded acquiring companies as their growth expectations are above those of TSYS and Global
- TSYS is trading at the lowest multiple of earnings while Global is trading at the lowest multiple of expected earnings growth
- Global Payments possesses the highest return on equity
- The disconnect between Global's and Heartland's market valuation and growth expectations as compared to their financial results may be an indication of investor's uncertainty surrounding international and emerging markets

				<i>Average</i>
P/E	17	19	30	22
PEG	1.9	1.4	1.5	1.6
EV (\$BN)	\$3.3	\$3.5	\$0.8	\$2.5
EV/ EBITDA	7	9	13	10
EV/Sales	2	2	0.5	1.5
ROE - TTM	15%	19%	14%	17%
Implied Earning Growth	9%	14%	20%	14%

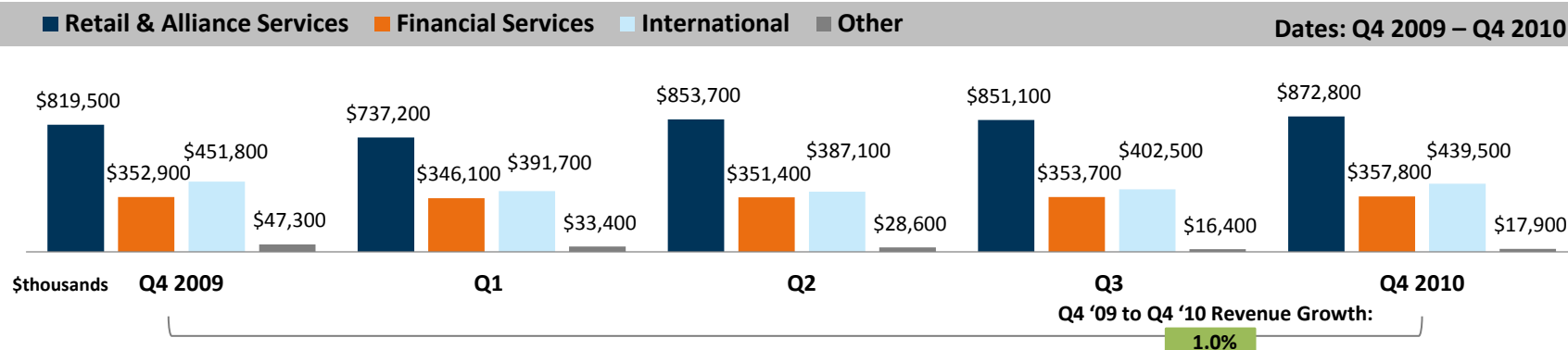
Definitions/Notes:

- **P/E** – Price to earnings ratio based on normalized trailing 12 months earnings and TTM average diluted shares outstanding, widely used valuation metric in investment community
- **PEG** – Price to earnings/expected 5 year EPS growth rate, a multiple of cost of future earnings growth, sourced from Yahoo! Finance
- **EV** – Enterprise value is market cap plus debt, minority interest and preferred stock minus cash and cash equivalents, often used as a measure to value whole companies
- **EV/EBITDA** – Enterprise value/earnings before interest, taxes depreciation and amortization, a metric used to value whole companies
- **EV/Sales** – Enterprise value to sales is a metric used to value whole companies, it displays how many times sales would need to turnover to payback the purchase price at EV
- **Implied Earnings Growth** – Five year projected annual earnings growth rate implied by the PEG ratio
- All multiples are calculated using share prices on a two month lag from the quarter's end

Revenues & Performance Drivers



Revenues increase 1% driven by gains in Retail & Alliance Services division and increases in debit network fees



Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
<ul style="list-style-type: none"> TEB-BNP Paribas ATMs Sovereign Bank extension Deutsche Bank extension VeriFone partnership Yahoo! – PayPal 	<ul style="list-style-type: none"> Republic of Egypt agreement International Bank of Qatar National Bank of Kuwait ICICI acquiring alliance Turkey ATM network MicroSD Contactless agreement 	<ul style="list-style-type: none"> Media Markt, Netto Turkey managing director German IT service provider Commerzbank New Brazil hires Arab Financial Services SunTrust POS/ATM 	<ul style="list-style-type: none"> Switzerland issuer T&E services Deutsche Bank contactless processing New Polcard retail clients India Maestro internet acceptance Cold Stone Creamery Facebook gift STAR PIN one time card number Availability of Transarmor, BofA Mobile payments partnership New CEO 	<ul style="list-style-type: none"> Vanquis Bank online account solution Issuing relationships with Ikano Bank and bank cooperative in Poland Mint of Poland transportation solution TeleCash 'pocketcash launch 10 new eGifting merchants 100,000+ TransArmor merchants Cardinal Commerce alternative solution CardWorks Servicing agreement Information and Analytics Solution Kohl's, Fairwinds CU agreements

Revenue Breakdown – Definitions

Retail and Alliance Services – Revenue generated from merchant acquiring and processing services which enable merchants the ability to accept credit and debit cards by authorizing and settling credit, debit, and loyalty card transactions as well as providing back office solutions

Financial Services – Fees generated from providing financial institutions with credit, debit, and retail card processing solutions, statement and letter printing, embossing and mailing services, check verification, remittance processing services, as well as services facilitating government payments

International Services – Provides services similar to those of retail and alliance and financial services in the U.S. and has operation in 36 countries, including the U.S.

Other – all other and corporate and official check and money order revenues; net of intersegment revenues

*Earnings exclude interest expense and non-recurring items, revenues are net of reimbursable items

Business Segments



Accounts on file decline for second consecutive year; deconversions dropped 41%, new account production relatively flat

TSYS' Geographic Targets

United States

- Revenues comprised of 72% North America Services and 28% merchant services, total revenue grew 2% YoY

Canada

- Revenues comprised mainly, 99%, of North America Services, total revenue grew 16% YoY

Europe

- Revenues comprised of only international services, total revenues declined 7% YoY

Japan

- Revenues comprised of only international revenues, total revenues grew 25%

Mexico

- Revenues comprised of only North America Services, total revenues declined 2%

Accounts on File (AOF)

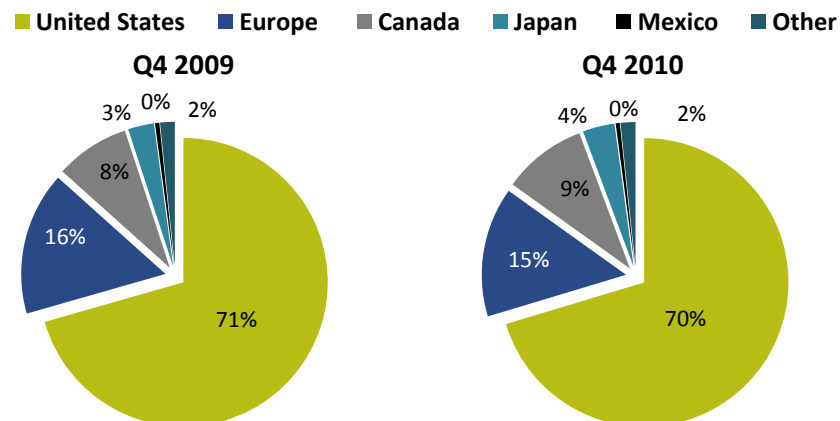
2008 – 2009

- Total AOF declined from 352.5 to 344.8
- Deconversions of 26.9 and purges/sales of 34.1 from 2008
- New accounts added were 28.1 with additional 25.2 from existing clients

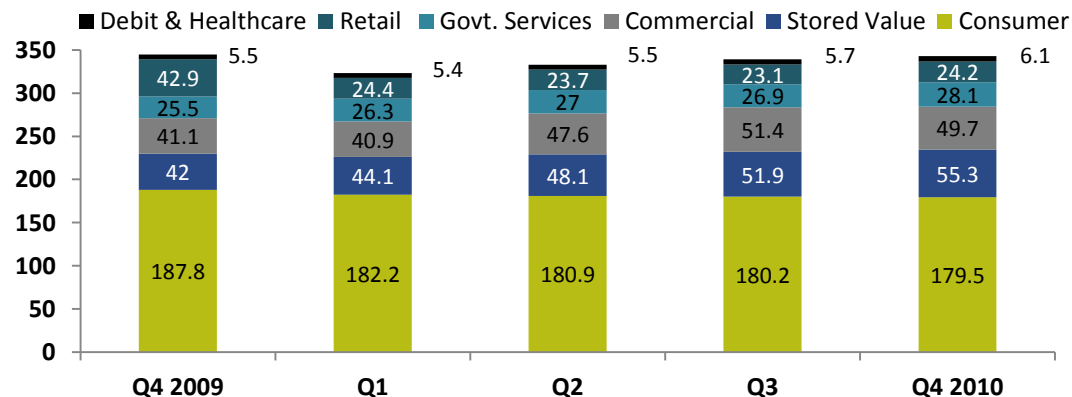
2009 – 2010

- Total AOF declined from 344.8 to 342.9
- Deconversions of 15.8 and purges/sales of 39.3 from 2008
- New accounts added were 30.8 with additional 22.4 from existing clients

TSYS' Geographic Revenue Mix



Accounts on File - Millions



- Revenues in pie charts include reimbursable items
- AOF may not total due to rounding

About TSG



The Strawhecker Group (TSG) is a management consulting company focused on the payments industry. The company specializes in providing financial institutions, merchant acquirers, card associations, ISOs, processing companies, large merchants, technology providers, and the investment community with advisory services to maximize their growth and profitability. TSG is also a resource of merchant acquiring industry research, benchmark studies and developing trends.

Over the past three years, TSG has completed 300 projects for 175 clients, including providing services to 30 of the top 40 US Acquirers and has prepared more than 50 valuation assessments of merchant portfolio properties. Additionally, TSG has performed Due Diligence Services for financial institutions including, Arsenal Capital Partners, Caritas Capital, Comerica Bank, The ComVest Group, First National Merchant Solutions, Goldman Sachs, and Merrick Bank. The Strawhecker Group is composed of seasoned veterans of the payments industry. Both Partners and Associates of the firm have held key senior management positions at leading industry companies including First Data Corporation, VISA USA, Humboldt Merchant Services, RBS World Pay, Cardservice International, iPayment, Alliance Data, RapidAdvance, Accenture Consulting, Redwood Merchant Services, and Chase Paymentech.

The Strawhecker Group (TSG) was named *2010 Business Partner of the Year* by the Electronic Transactions Association (ETA). ETA is an international trade association which represents companies who offer electronic transaction processing products and services. Other nominees for this award included Discover, TSYS, National Processing Company (NPC) and Security Metrics. Please visit TheStrawGroup.com for more information.

Additional TSG Research

Other TSG Industry studies include:

- [Industry Enterprise and Merchant Portfolio Net Revenue Multiples](#) (FREE)– a collection and distribution of recent M&A transactions
- [Pricing Benchmark Study](#) – Processor pricing by portfolio size; study in progress – please contact TSG to participate or pre-order study
- [ETA/TSG Economic Indicators Report](#) (FREE)– Quarterly economic analysis and what it means to for the payments industry
- [TSG Analysis of TSYS' Acquisition of FNMS](#) (FREE)- A six page overview of the potential motivation and impacts of the acquisition
- [Top 120 U.S. Acquirer Analysis](#) – Analysis of the current top 120 players in the U.S. acquiring market

Please visit PaymentsPulse.com for more information.

