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About the Report

WHAT IS THIS REPORT?

This 21 page report provides an overview of the value-adding service known as merchant cash advance and includes an explanation of the service, the benefits it provides to both merchants and funders, and a look at leading funding providers and the landscape they are a part of. The report also gives insights into eight acquirers/ISOs that have deployed a successful MCA program and the reasons behind their success

WHY IS THIS USEFUL?

Acquirers/ISOs looking to improve their performance can consider offering a merchant cash advance program as it can lead to additional revenue opportunities and stickier merchants

HOW CAN IT BE PURCHASED?

To order online with a credit card, please <u>click here</u>. The report is \$2,250.

Topics Covered		
Merchant Cash Advance (MCA) defined		
Benefits of MCA		
U.S. Competitive Landscape: leading MCA funders		
U.S. Competitive Landscape: TSG estimate of U.S. Daily Remittance Funding market size		
MCA Funders' Primary Distribution Partners		
MCA Partners Among the Top 50 U.S. Merchant Acquirers		
Key Industry Trends Over the Last Five Years		
Successful ISOs and Acquirers		
Lessons Learned from Successful ISOs, Acquirers, and MCA Funders		
Where TSG Can Assist		

About the Author

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Barry Davis has 15 year's experience in the Electronic Payments and Financial Services industries. With a deep background in consulting, he has worked on a variety of engagements at TSG including business planning, M&A due diligence, portfolio sale advisory, processing and BIN bank RFP assistance, market research, and consultative sales. Barry's clients have included merchant acquirers, ISOs, processors, card networks, POS vendors, and other product, technology, and marketing firms that serve the merchant acquiring industry. Davis is also ETA CPP certified.





a principal at First Annapolis Consulting where he focused on the Merchant Acquiring and Transaction Processing industries for nine years. He supported his U.S. and Canadian clients in the areas of strategic & tactical planning, financial management and analysis, M&A advisory, portfolio valuations, portfolio performance analysis, vendor/processor selection, merchant retention, risk management, and market intelligence.

During Davis' consulting career, he personally managed over 125 project teams including 14 M&A related projects involving portfolio sales, over 20 risk and operational management reviews of bank acquirers and ISOs, and over 40 merchant acquiring valuations. Prior to First Annapolis, Davis worked at Accenture Consulting in its Change Management practice.

Davis began his career in the U.S. Navy, serving ten years as an F-14 jet aviator and instructor at the U.S. Naval Academy. During his distinguished service, he achieved the rank of Lieutenant Commander and was awarded the Navy's Air Medal for serving as a jet mission commander during Desert Storm. He recently retired from the Navy Reserves after 20 years of service.

Davis received his Masters of Business Administration from the Kellogg School of Management at Northwestern University, a M.S. in International Management from the University of Maryland, and a B.S. in Computer Science from the U.S. Naval Academy.

MCA Overview – Example Slide

Merchant Cash Advance (MCA) defined:

- MCA is a small business financing product that involves the sale of a business' future credit card receivables at a discounted purchase price
- The MCA is typically structured as a lump sum payment to a business in exchange for an agreed upon percentage of future credit and debit card sales
- Example: Merchant is provided a lump-sum of \$20,000 (purchase price) in exchange for rights to \$27,000 worth of card receivables. The MCA company withholds/debits a percentage (typically 5% to 50%) of the merchant's daily credit/debit card batches until repaid in full.
- Traditionally, the product was structured to be repaid over a six-month timeframe. Increased competition has led to shorter and longer term payback periods (commonly in the three to 18 month range now). This has led to a multitude of pricing levels by MCA competitors and is dependent on the merchant's risk and credit profile.
- MCA companies now offer loans and ACH financing that is based more on a merchant's total sales
 volume (not just credit card volume). Instead of a fixed % being debited from each daily card batch,
 a fixed dollar amount is debited daily from the merchant's card batch or DDA account.
- Consequently, the term, *Daily Remittance Funding*, is becoming more common to collectively describe the MCA and loan/ACH products offered by funders

MCA Overview - Example Slide

Benefits of the MCA:

For the merchant:

- Less paperwork required than a bank commercial loan
- Shorter approval and funding timeframe than a bank commercial loan
- More likely to be approved than via a bank commercial loan
- Collection requires minimal effort from merchant and occurs daily via processor splitfunding, ACH debit, or lockbox
- No late fees if business sales slow
- No obligation to repay if business failure occurs

For the MCA Funder or ISO:

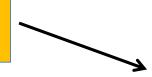
- Attractive returns
- High commissions
- Unregulated industry
- Low barriers to entry
- Growing need for capital from small businesses
- High loan renewal rate typically 50% to 60% of MCA customers renew multiple times

MCA Overview – Example Slide

U.S. Competitive Landscape: Several small business finance brokers ("cash brokers") and ISOs have been the primary distribution channel for the MCA funders. Some of the leading companies include:



MCA Funders'
Primary Distribution
Partners



Cash Brokers		
Yellowstone Capital	Pearl Capital	
Pearl Capital	Channel Partners	
Merchant Cash Group	Bankers Healthcare Group (BHG)	
Five Point Capital	Merchant Resources International	
Capital Stack	Swift Financial	
MCFunding	Rapid Capital Funding	
Merchant One Solutions	First Merchant Funding	
Biz2Credit		

ISOs/Acquirers	
iPayment	
Priority Payments	
Vantiv/NPC	
WorldPay	
IRN Payment Systems	
First American Payment Systems	
Benchmark Merchant Solutions	
Leaders Merchant Services	
Merchants' Choice Payment Solutions	
Advanced Merchant Services	
Citizens Bank	
Charter Bank	

About TSG

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.

TSG's Unparalleled Experience

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.

Other recent TSG reports and analysis include (Click for more information):

The Top 10 Ways Acquirers Can Block the Breach

TSG Analysis: Global Acquisition of PayPros

What Benefits Me By Paying a Credit Card Swipe Fee

TSG Mobile Payments Infographic

ETA/TSG Q3 2014 Economic Indicators Report

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