TSG Analysis - WorldPay Auction Postmortem

June 12, 2013

Following the cancellation of the WorldPay sales process, announced exclusively by Reuters, some analysts and media outlets have commented that the payments industry may be declining in attractiveness from previous levels. For example, according to the Reuters article, "Once a lucrative sector, payment processing has come under pressure from increased competition and technological change that has seen many companies struggle to retain their customers and maintain their pricing models."

The above statement may assume that all payments companies are exposed to the same competitive threats and that valuations are strictly based on sector attractiveness; this may be inappropriately painting the entire industry with a broad brush (see previous TSG analysis). It should also be noted that the three final bidders were major investment firms that are not currently highly invested in the merchant acquiring industry, yet are pursuing opportunities in this segment, indicating that they find it to be attractive.

Using publicly available data, TSG has analyzed WorldPay as well as several large public payments companies. TSG's analysis would indicate a more nuanced review of the industry is needed to fully understand its current dynamics. WorldPay's ownership (Advent/Bain) likely saw more value in retaining WorldPay relative to reinvestment alternatives. In 2012 TransFirst and First American Payment Systems made the decision not to sell in potentially similar scenarios.

Data in the Reuters article states WorldPay average EBITDA of $110 million ($90 to $130 million) and an offer price of $800 million to $1 billion indicating a 7.3x to 9.1x EBITDA. The analysis on the following page utilizes these assumptions.

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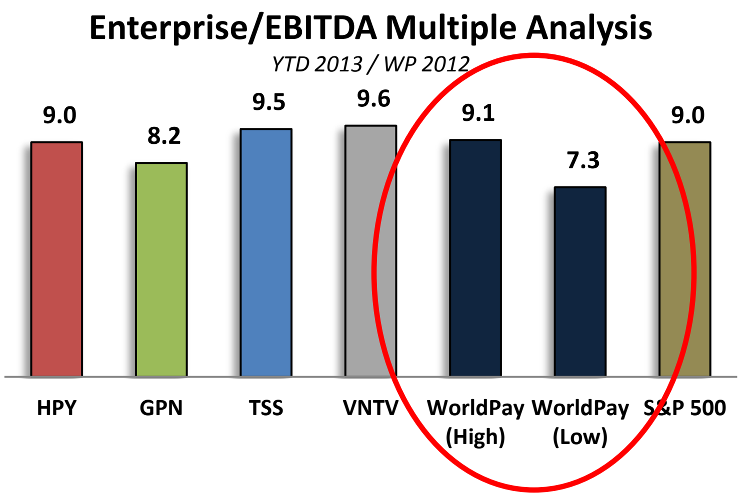
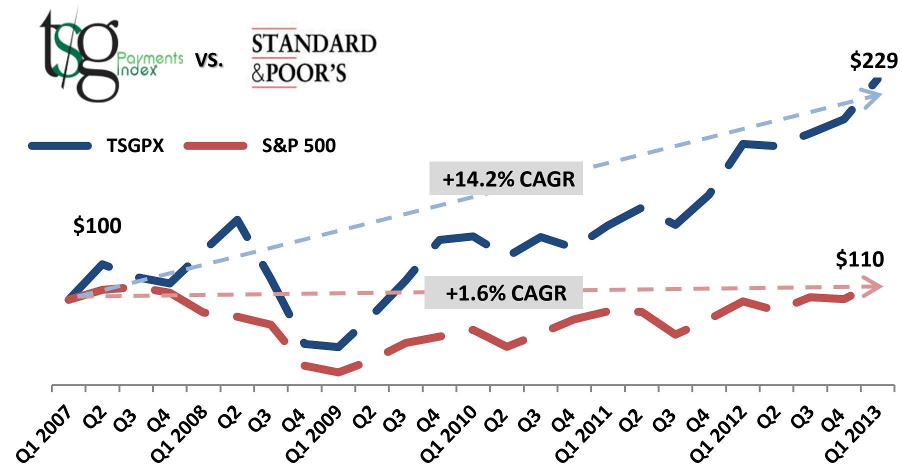
Apparently WorldPay ownership saw more value in retaining the asset than other reinvestment alternatives; the fact that they did not sell at a 7.3 multiple indicates ownership is confident in WorldPay's future performance





Bidders' Perspective on Low Offering

- Bidders are likely at low end of offer range near $800 million equating to an EV/EBITDA multiple of 7.3x which is well below current market valuations
- Bidders' growth projections may be more conservative than that of seller leading to a lower multiple and a difference in agreed upon value; this is one of many drivers that are unknown
- Payments companies as a whole have been outperforming the market as indicated by the TSG Payments Index (upper right chart) performance compared to the S&P 500, as is WorldPay's high multiple of 9.1
- The average multiple of the public payments companies listed in the chart above is 9.1 (HPY, GPN, TSS, VNTV), the same as the high multiple of WorldPay; comparatively speaking, a seller would not settle for less than market

Sources: TSG Metrics, Yahoo Finance, InFinancials.com, Reuters

Seller's Perspective on Removing Offer From Market

- Seller is likely at high end of offer range of $1 billion equating to an EV/EBITDA multiple of 9.1x which is consistent with current market valuations
- Failed deals in 2012, TransFirst and First American Payment Systems, may indicate sellers are seeing more value in retaining acquiring businesses relative to reinvestment alternatives
- Moody's Investor Service commented that sale of WorldPay U.S. would lead to slower growth in WorldPay Group due to resulting heavy concentration on Eurozone economy; could be indicative of credit downgrade upon sale if recapitalization not possible due to too low an offer price
- Moody's comment would also indicate higher relative growth in WorldPay's U.S. business, which is an incentive to the seller to retain this asset if not able to obtain a market valuation

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