

TSG Analysis: TSYS Acquisition of NetSpend



Acquisition of:



March 2013

Bob Loewens, *Director of Analytics*
BLoewens@thestrwegroup.com

Powered By:



For discussion purposes only.

Please reference cited sources for more detailed statistics. The views expressed are those of TSG and are subject to change. They are shared for educational purposes only. The information is based upon information we consider reliable, but its accuracy and completeness cannot be guaranteed. © Copyright 2013. The Strawhecker Group. All Rights Reserved.

For our comparison, we used GreenDot – NetSpend’s closest public competitor

- TSYS paid an approximate 30% premium to NetSpend’s share price just prior to the acquisition announcement
- NetSpend management expanded guidance in Q2 2012 and again in Q4 2012 amid continued execution and confidence in retail distribution expansion
- Concerns on increased competition led GreenDot management to substantially cut guidance, by 50% for revenue, in Q2 2012 leading to a 60% drop in share price

Financial Results	NetSpend	
	Year End 2012	IPO (2010)
# of Active Cards (mil.)	2.4	2.0
YOY % Chg.	14%	24%
Gross Dollar Volume ⁴ (\$ bil.)	\$13	\$10
Net Revenue ¹ (\$ mil.)	\$162	\$148
YOY % Chg.	11%	28%
EBITDA ² (\$ mil.)	\$96	\$68

GreenDot	
Year End 2012	IPO (2010)
4.4	3.3
4%	22%
\$13	\$7
\$259	\$188
14%	29%
\$111	\$100

Valuation Metrics	TSYS Acquisition Price \$16/Share	Pre Acquisition Announcement	IPO
Enterprise Value ³ (\$ mil.)	\$1,399	\$1,076	\$920
Debt/Equity	0.59	0.59	0.39
EV/Net Revenue	8.6x	6.6x	6.2x
EV/EBITDA	14.5x	11.2x	13.6x

Current	IPO
\$333	\$1,364
-	-
1.3x	7.3x
3.0x	13.6x

Sources: Company press releases and SEC filings

¹Net revenue is equal to gross revenue less commissions paid to distribution partners (retailers etc.), card processing and networks fees and advertising and marketing costs and is presented for comparability purposes

²EBITDA is adjusted for stock based compensation expense and any litigation related expenses/losses for NetSpend in addition to the normal treatment of interest expenses, taxes and depreciation and amortization

³Enterprise value for NetSpend is that using TSYS acquisition share price of \$16

⁴Dollar volume is amount of volume at POS transactions and/or ATMs using pre-paid cards, GreenDot dollar volume estimated based on 2011 and 2012 purchase volume to gross dollar volume Enterprise value for both companies based on total number of class A and B shares

A large untapped market, emerging uses and a strong product offering becoming similar to that of a traditional checking account provides an attractive opportunity

Transaction Comments

- Nearly **68 million** individuals meet the NetSpend definition of “underbanked” and represent their target market opportunity
- NetSpend’s strategy is aimed at increasing the number of users with direct deposit functions linked to their pre-paid cards for their wages, government benefits and tax refunds
- The transaction is expected to be accretive to TSYS financial results in first full year following acquisition as NetSpend will account for nearly 18% of the combined company revenues
- Provides diversification of TSYS revenue stream and will complement TSYS’ presence in the pre-paid processing area
- Pre-paid use is a rapidly growing market expected to double in next 4-5 years through use among new verticals and emerging applications
- Ability to distribute pre-paid solutions through TSYS existing banking relationships
- Expands TSYS’ customer base directly to consumers for the first time
- Agreement with Intuit in late 2012 enabling customers to load their tax refunds on NetSpend prepaid cards provides a significant opportunity

NetSpend Products, Services & Technology

- NetSpend’s products are increasingly offering services similar to that of a traditional bank account
 - Direct deposit
 - Overdraft protection, allowance of up to \$10 in overdraft without a fee for certain customers
 - Insurance coverage
 - Online bill payment
 - Card to card funds transfer
 - Interest bearing deposit accounts linked to pre-paid cards
 - Online financial management tools
 - Text message account interaction services for balance inquiries and transaction information (NetSpend believes they are the first pre-paid provider to offer text message services to their customers)
- NetSpend has developed all critical operations software and applications in-house which provides for a scalable business model

Source: Company press releases

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 - Partners and Associates of the firm have average industry experience of more than 20 years. With clients from card issuers to merchant acquirers, TSG has the experience and expertise to provide real-time strategies.

Strategic Acquisitions - In the Payments Industry, success in buying and selling relies heavily on relationships and industry knowledge. At TSG, these areas are our forte. Over the past three years, we provided services to 30 of the top 50 U.S. Acquirers and have prepared more than 75 valuations and assessments of payments properties; with individual values ranging up to \$2.3 Billion. In aggregate, these analyses represent more than \$5 billion in value.

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 USA, 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 300 projects for more than 175 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):

Should Merchant Acquirers
Beware of Square?

Cielo Acquisition of
Merchant e-Solutions

What Benefits Me By
Paying a Credit Card
Swipe Fee

Vantiv - Initial Public
Offering Analysis

Durbin Amendment's
Unintended Consequences

For more information, contact TSG at info@thestrawgroup.com

[Subscribe to TSG's NewsFilter](#) * [PaymentsPulse.com](#) * [Follow TSG on Twitter](#) * [Follow TSG on LinkedIn](#) * [TheStrawGroup.com](#)