

WHAT IS MY MULTIPLE?

Understanding Components of M&A Deals in the Payments Industry



Determining the true value and multiple of a merchant portfolio is not a simple task, especially as economic conditions continue to shift.

COVID-19 had a direct impact on valuations and multiples, from both buyers' and sellers' perspectives. Now both parties must adjust to post-pandemic conditions.

What is a Typical Merchant Portfolio Multiple?

The simple answer is: It depends. Every merger and acquisition transaction in the payments space and its resulting multiple is unique based on factors such as:

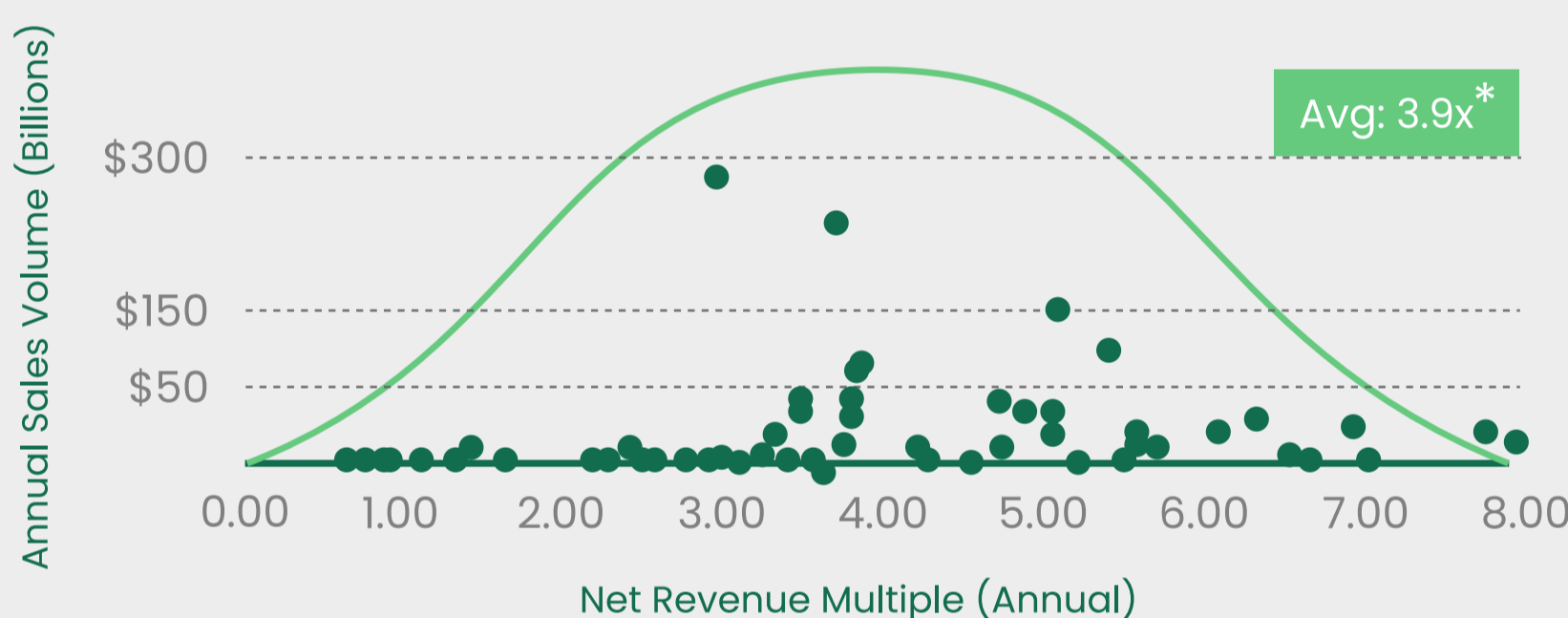
<p>SALES CHANNEL</p> <p>If a sales channel is part of the sale, its type and performance impact the value.</p> <ul style="list-style-type: none"> • W2 • 1099 • Integrated • Bank • Referral • Digital 	<p>GEOGRAPHY</p> <p>Considerations are made both at the micro and macro level.</p> <p>Macro Level: Does the acquisition help me enter new markets?</p> <p>Micro Level: Is the merchant footprint in attractive geographies from the perspective of growth and profitability?</p>	<p>SIZE OF MERCHANTS</p> <p>Merchant size is typically the <i>biggest driver</i> of a merchant portfolio's financial performance. Performance metrics that correlate with merchant size (annual card volume processed) include:</p> <ul style="list-style-type: none"> • Age • Price • Profitability • Attrition
<p>SYNERGIES TO BUYER</p> <p>The above dimensions as well as other factors determine the <i>strategic value</i> and resulting multiple to a buyer.</p>	<p>MERCHANT TYPE</p> <p>Synergies with a potential buyer are often due to the <i>vertical focus</i> of a portfolio and certain attributes that a buyer determines to be more important than others. Examples of metrics that can be used to establish attractiveness of a merchant type are:</p> <ul style="list-style-type: none"> • Market Potential • Merchant Life • Lifetime Net Revenue • Total Volume Growth 	



Ask TSG about our Value Optimization Service, which provides payments companies a compelling service to maximize their exit selling price.

Payments Multiples Can Be Misleading

These multiples range from **1x to 7x**, reflecting the basic value components that make up the core value of any business. This illustrates why a structured valuation exercise is critical to pinpoint the value of a payments company and shows that multiples are a result of a transaction not the driver of the value itself.



*The strength and sustainability of a business's sales engine is a key driver impacting the multiple.

Market Conditions and Regulatory Changes Will Impact Some Factors from Both Seller's and Buyer's Perspectives

	During Pandemic	Post-Pandemic Era
Sellers:	<ul style="list-style-type: none"> • Cost of capital at record low • Fintechs received higher multiples • Due diligence processes fast-tracked 	<ul style="list-style-type: none"> • Companies are realizing they may have missed out on a chance to sell during a period of heightened multiples.
Buyers:	<ul style="list-style-type: none"> • Buyers prioritized growth in acquisition targets • As rates increased, buyers shifted focus to companies with potential for profitability 	<ul style="list-style-type: none"> • Increase in deals structured with earnouts and seller notes • Cash at closing decreased • Elongated earnouts to validate portfolio value • Reduced maximum surcharge rates • Buyers discounting merchant portfolios heavily reliant on surcharging

Additionally, buyers consider other valuable assets like technology, sales channels, and unique tangible aspects of the business.

What Should We Be Doing Right Now?

The culmination of these factors may result in a buyer's rather than a seller's market. Now more than ever, it is important to understand the true value of a portfolio, and the factors that affect it.

Whether buying or selling, seeking investment funding, or planning your company's exit strategy, TSG's experience can be critical to achieving success, especially during these disruptive times.

TSG has performed more valuations of payments companies than any other firm, having completed more than 250 valuations in the last decade. Learn more and get started today by visiting our [website](https://www.thestrawgroup.com) or emailing us at info@thestrawgroup.com.

