

# European Card Acquiring® *Forum* 2011

## Acquiring Alliances in Europe

– Insight Report 2010 –

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Berlin, February 22<sup>nd</sup> 2011

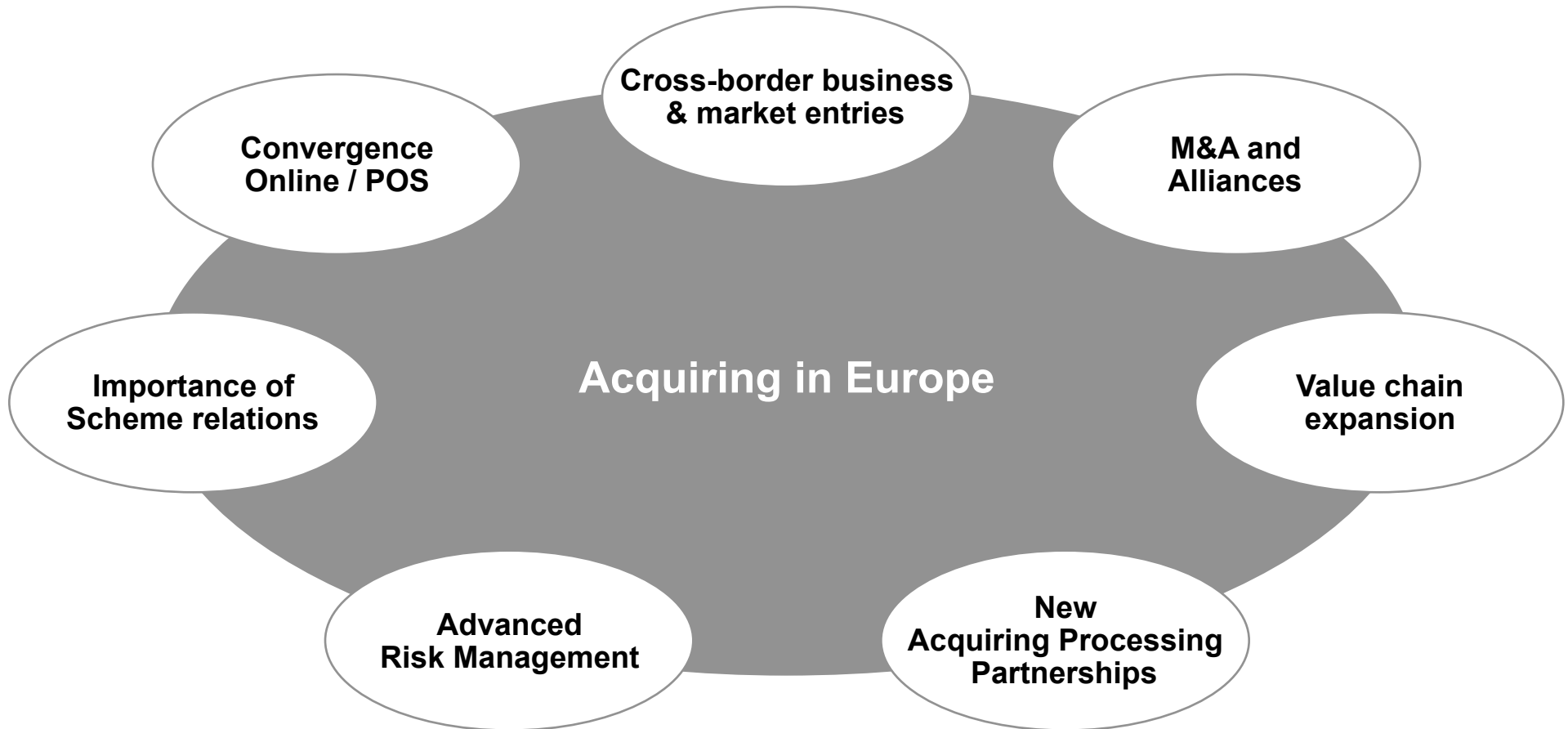
**INNOVALUE**  
MANAGEMENT PARTNER

# Agenda

- I. Trends and Observations**
- II. Acquiring Alliances in Europe: Insight Report 2010
- III. Conclusion & Outlook

# Acquiring in Europe is in transition – acquirer are repositioning around markets, products, partnerships and operations

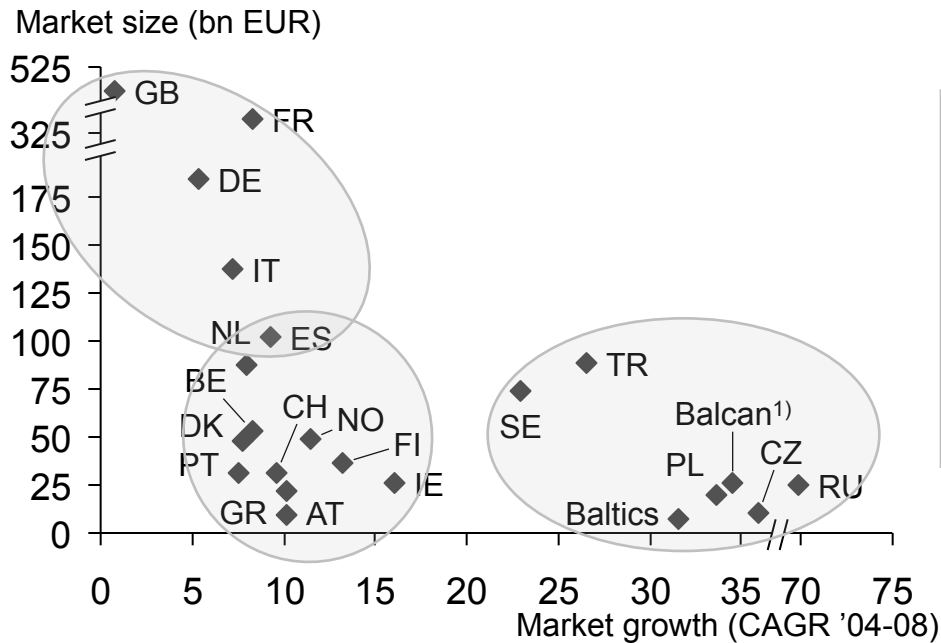
– Acquiring: Trends and observations –



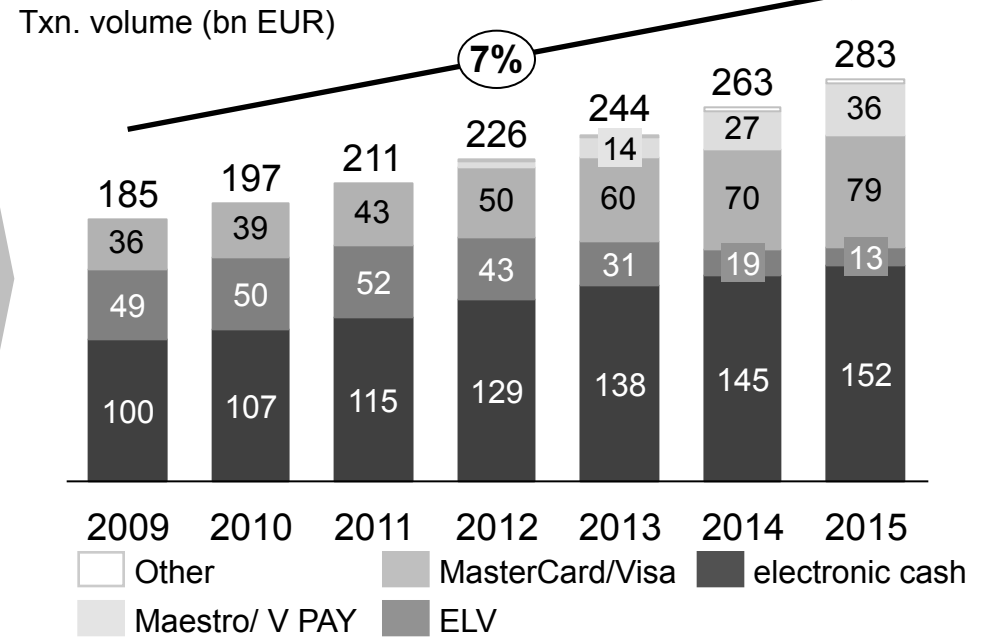
# Choosing the right market is not trivial – besides historic data analysis future market prediction is key for optimizing revenues and profit

## – Cross-border business & market entries –

### European market development 2008



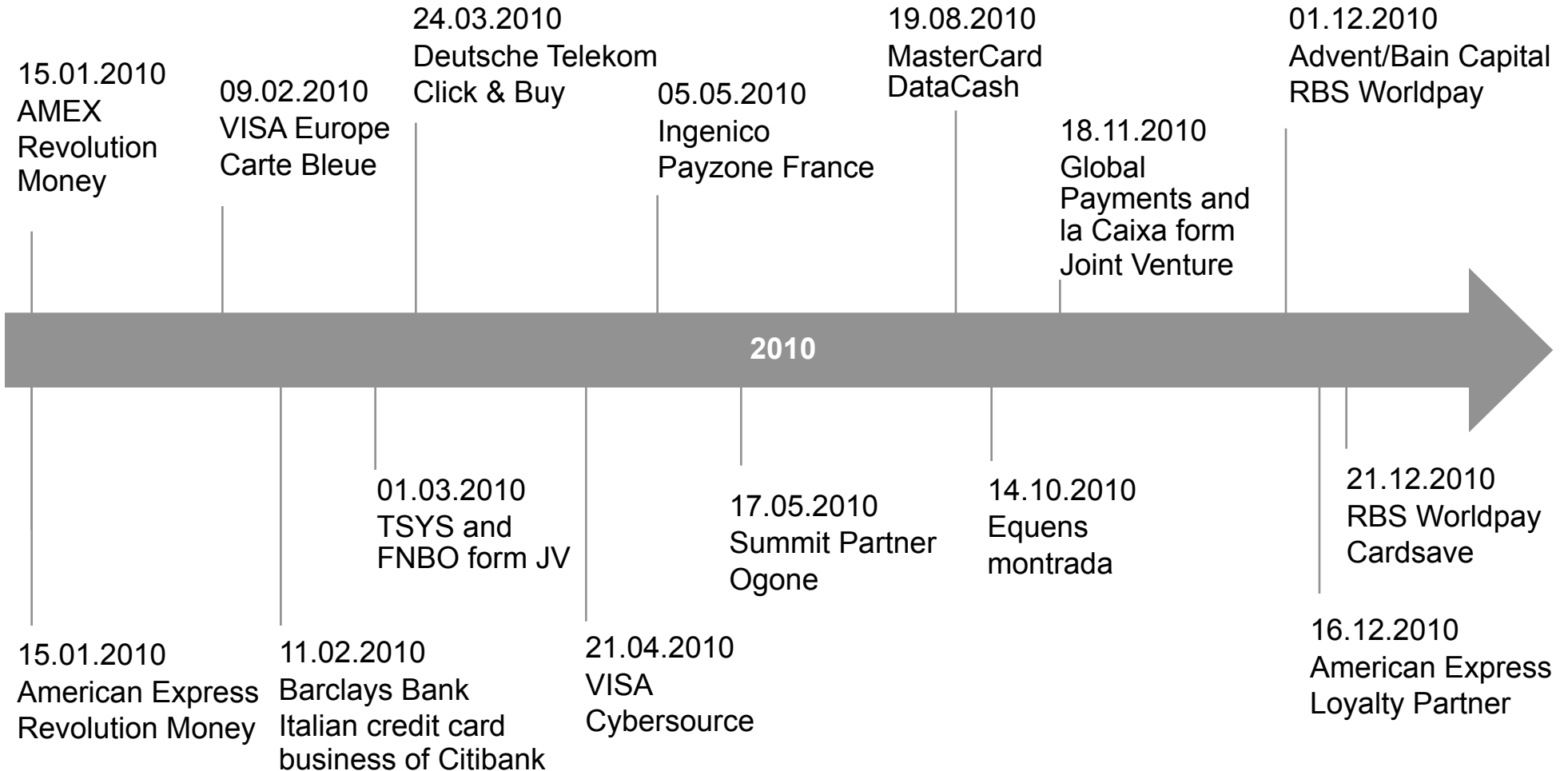
### German market development until 2015



- Review market size and dynamics
- Develop a clear view on the growth of the schemes in focus

## M&A activity in the payment industry has remained steady during the previous 12 months with special focus on acquiring and PSPs

### – Selected M&A transactions 2010 –



# Acquiring processing goes Europe – several large processing contracts expire and the new RfPs include plenty of new business requirements

## – Acquiring processing in Europe –

EXTRACT

Processor	DE	AU	CH	BE	IT	ES	NL	FR	UK	PL	EE	RoW
 Atos Worldline <small>An Atos Origin Company</small>	✓	✓		✓			✓	✓	✓			✓
 Elavon	✓	✓		✓	✓	✓		✓	✓		✓	✓
 EQUENS <small>PAYMENT SERVICES FOR EUROPE</small>	✓				✓		✓					
 First Data.	✓	✓			✓	✓	✓		✓	✓	✓	✓
 globalpayments <small>Europe</small>									✓		✓	✓
 OmniPay	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 SIX MULTIPAY	✓	✓	✓	✓	✓							
 TSYS	✓				✓	✓	✓	✓	✓	✓		✓

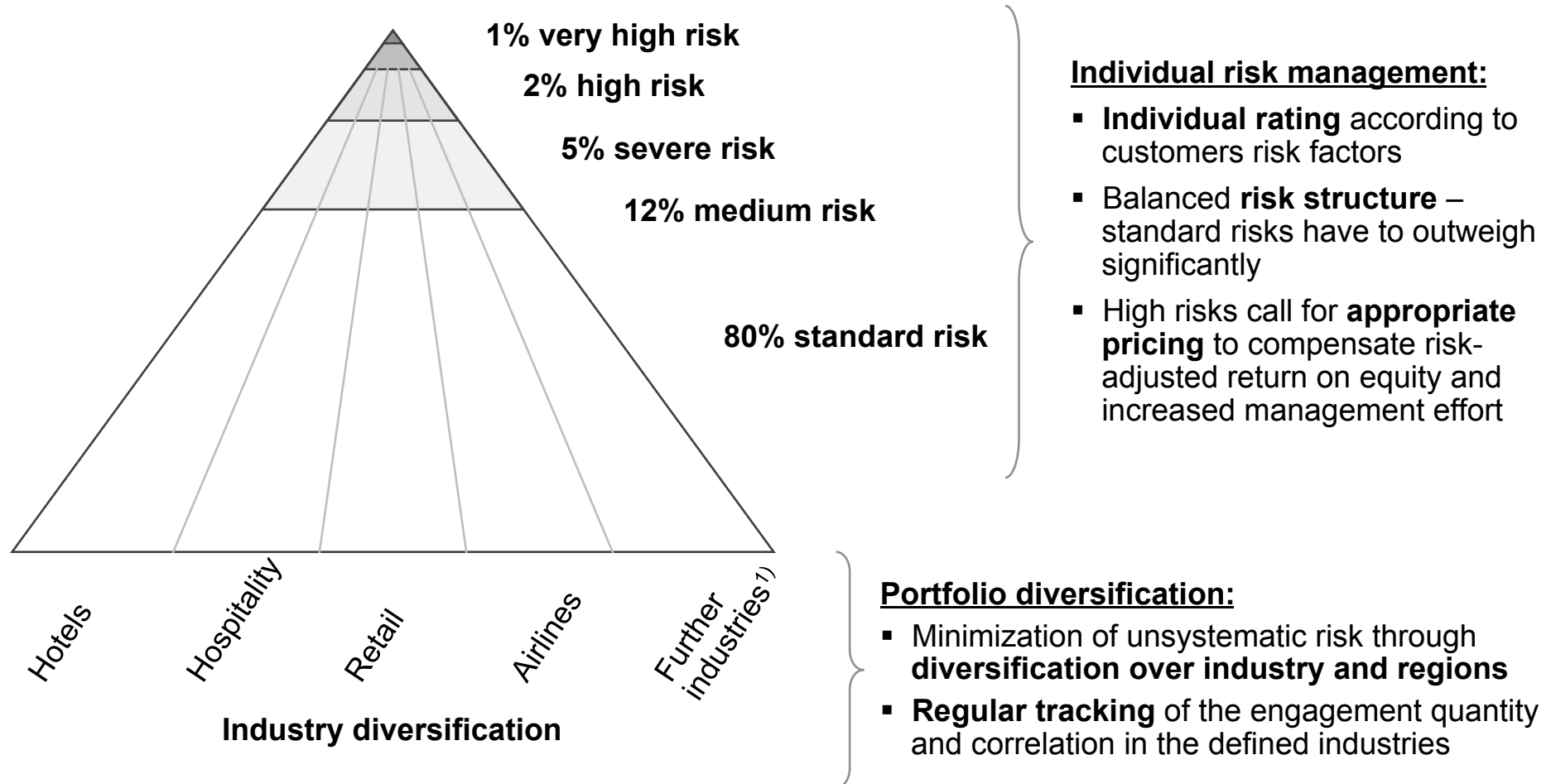


### Selected key requirements:

**Costs, flexibility, cross-border capabilities, convergence of POS and Card Non-Present business**

# Risk management becomes more advanced – focus is on individual risk management and portfolio diversification with improved instruments

## – Advanced Risk Management –

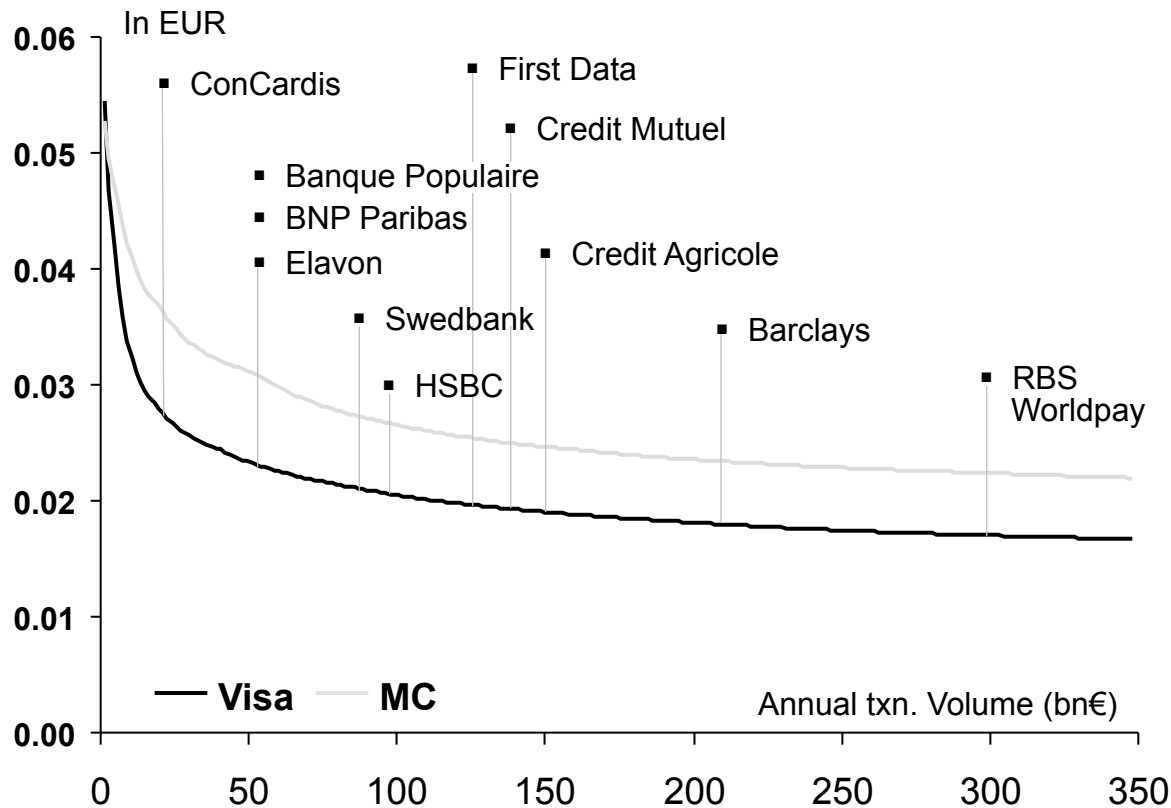


1) e.g. Oil and gas, Funitures, Gambling, Adultery  
Source: Innovalue

# Size matters when managing schemes licences – consolidation initiatives are underway, being a challenge in particular for alliances

– Scheme fee scale effects –

## Scheme fees p. txn.<sup>1)</sup> for the 10 biggest European acquirers:



### Consolidation of Scheme fees:

- A non-consolidated acquirer can **save up to 30%** of scheme fees through full consolidation under one license
- Growing the acquiring volume **under one license** is an important lever to reduce scheme fees p. txn.
- **License strategy** needed for organic growth, M&A, rent-a-bin & lend-a-bin

1) Assuming an average transaction value of 80,- € with domestic business only and an equal Visa / MC split, assuming full consolidation under one license, considering only fees for service, clearing and settlement, transmission, system access, marketing and license  
Source: Nielsen Report 2009, Innovalue

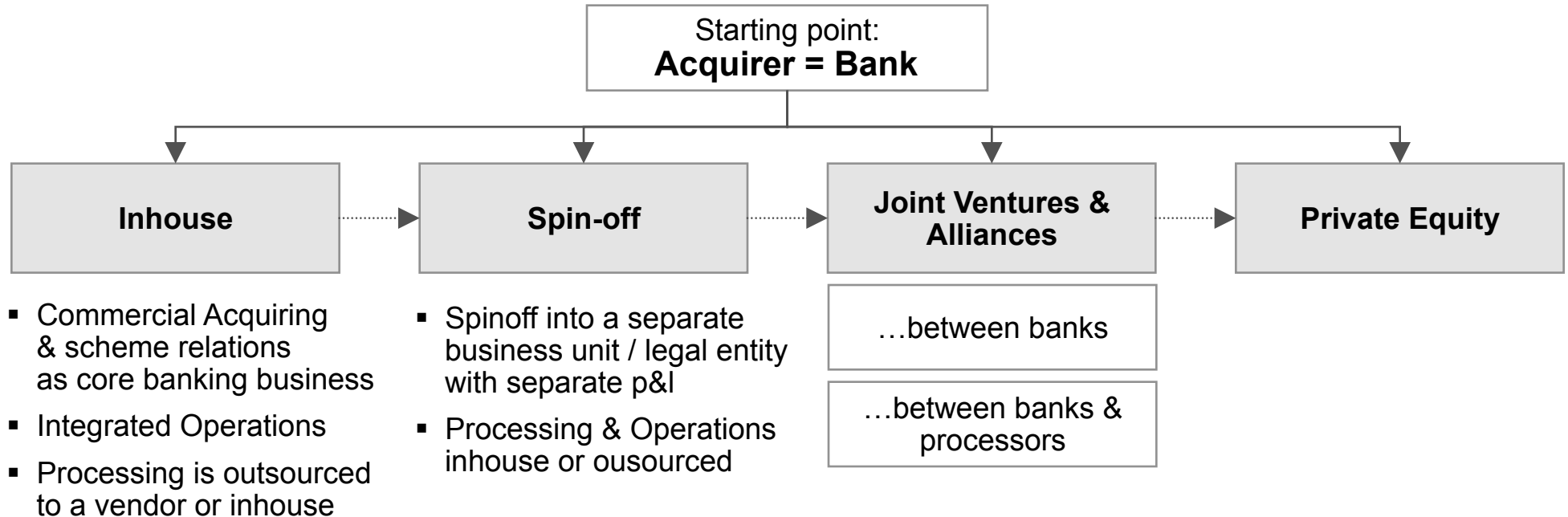


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# In recent years business models in acquiring have changed dramatically – today joint ventures & alliances play an important role

## – Acquiring Business Models –



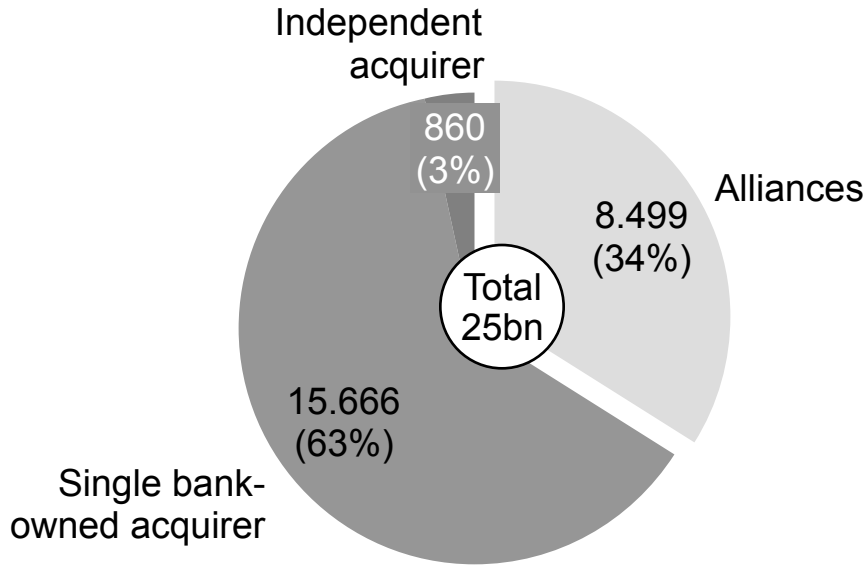
### EXAMPLES

- |  |  |  |   |
|--|--|--|---|
| <ul style="list-style-type: none"> <li>▪ Credit Agricole</li> <li>▪ Credit Mutuel</li> </ul> | <ul style="list-style-type: none"> <li>▪ Citibank Card Acceptance (now Elavon)</li> <li>▪ RBS WorldPay (now WorldPay)</li> </ul> | <ul style="list-style-type: none"> <li>▪ Nets</li> <li>▪ CartaSi</li> <li>▪ ConCardis</li> <li>▪ AIB / First Data</li> <li>▪ La Caixa / Global Payments</li> </ul> | <ul style="list-style-type: none"> <li>▪ First Data (KKR)</li> <li>▪ WorldPay (Advent / Bain)</li> <li>▪ easycash (Warburg Pincus, now ingenico)</li> </ul> |
|--|--|--|---|

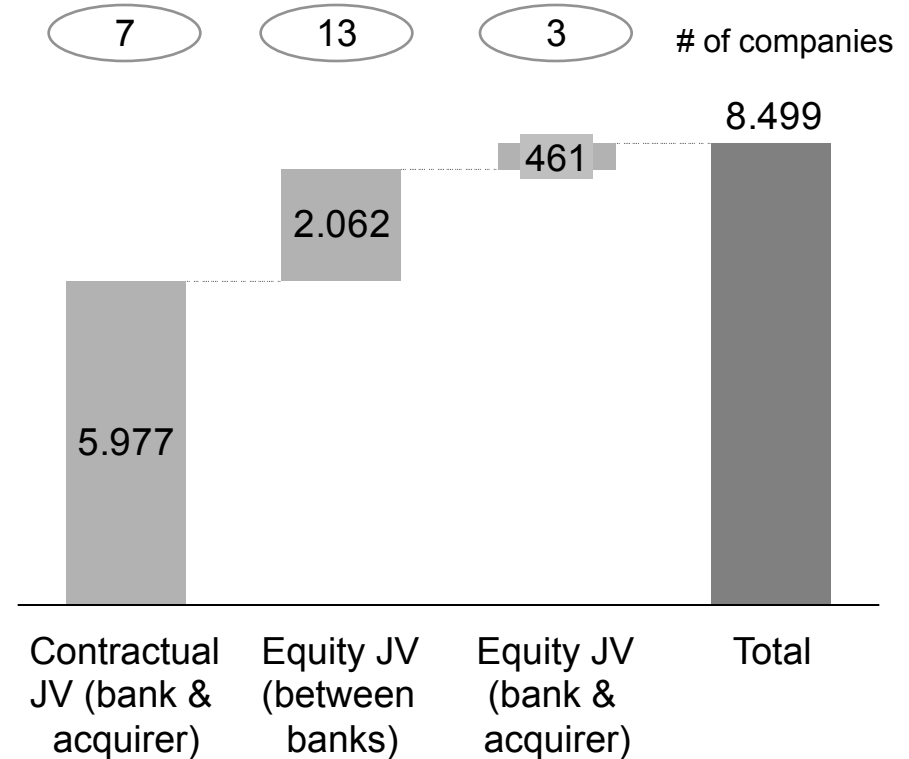
# In 2009, 23 acquiring alliances ranked among the 75 largest acquirer in Europe, accounting for more than 34% of the total acquiring volume

## – Acquiring Alliances: Market size –

**Market volume acquiring**  
(bn transactions in 2009)



**Acquiring alliances by type**  
(bn transactions in 2009)



Note: Data shows the top 75-acquirers of credit, debit and prepaid card systems from merchants based on Visa and MasterCard transactions in 2009

## Access to new geographic markets and achieving scale effects have been named as the most important rationales for forming an acquiring alliance

### – Rationale for the Alliance –

INSIGHT REPORT 2010

<p><b>Growth</b></p>	<ul style="list-style-type: none"> <li>▪ (Access to) new geographic markets</li> <li>▪ New sales channels</li> <li>▪ New customer segments</li> </ul>
<p><b>Efficiency</b></p>	<ul style="list-style-type: none"> <li>▪ Scale effects in transaction processing</li> <li>▪ Scheme fees (scale effects)</li> <li>▪ Specialized sales force/ improved sales efficiency</li> </ul>
<p><b>Risk &amp; compliance</b></p>	<ul style="list-style-type: none"> <li>▪ Fulfilling requirements by regulators and schemes</li> <li>▪ Credit/ risk management know-how of alliance partner</li> <li>▪ Sharing of credit &amp; operating risk</li> </ul>




- **Cross-border expansion and eCommerce were named the most important areas of improvement over the next 1 to 3 years**
- **Margin pressure is considered to be the biggest upcoming challenge**

## Most of the alliances have achieved their goals – all participants would enter the alliance again

### – Achievements of the Alliance –

INSIGHT REPORT 2010

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-  The satisfaction of the alliance are either slightly or strongly above the expectations
- All participants in the survey would enter the alliance again

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## Conclusion & Outlook

1

**Market environment** remains **competitive** for European acquirer – even if the total **market size** is still **growing**

2

**Risk management**, realizing **scale effects** and **cross-border business expansion** are gaining importance

3

**Alliances** and **partnerships** remain a **growth strategy** for acquirer and **processors**

4

**Evolution** of acquiring in Europe indicates still a growing number **banks** looking for **partnerships** in acquiring

5

**Alliances** have proven **high degrees of achievement** in terms of **growth, risk & compliance**

6

**Acquiring Alliances** are a **sustainable business model** on the background of future challenges in **European acquiring**

**Innovalue** is one of the leading top management consulting firms in the European payment industry. Our clients encompass banks, acquirers, card schemes, processors, network operators and terminal producers. Our functional capabilities are focused on selected competency areas with high and visible value creation:

### **Growth**

- Go-to-Market-Strategy
- Market Entry & Cross-border Business
- Sales Force & Channel Optimization

### **Efficiency**

- Performance Improvement
- Operational Excellence
- Corporate Restructuring

### **M&A**

- M&A & Alliance Strategy & Transaction Support
- Due Diligence & Valuation
- Post Merger Integration

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