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Industry Report

Wayne Johnson, (404) 442-5837, Wayne.Johnson@RaymondJames.com
Dustan Berg, Res. Assoc., (404) 442-5833, Dustan.Berg@RaymondJames.com

Transaction Processing: Industry Overview

Transaction Processing

Please read domestic and foreign disclosure/risk information beginning on page 98 and Analyst Certification on page 98.

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Introduction

The dynamic and evolving nature of the transaction processing sector requires us to include updates on a range of important topics, such as: mobile payment initiatives, alternative payment solutions, and Visa and MasterCard. We highlight VeriFone, a leading provider of point-of-sale (PoS) hardware, software, and related services, as our 2Q12 focus topic. We explain our investment thesis, financial analysis, and overview on seventeen publicly traded transaction processing companies in this referenceable quarterly publication. Investors may also be interested in reviewing our industry diagrams, flow charts, and descriptions of the most common functions.

The European and domestic economic outlook continued to be a central point of discussion for the transaction processing industry. Sentiment for the group remained fairly subdued over the quarter resulting in a range-bound multiple of approximately15x 2013 EPS. During the second quarter, the transaction processing group performed generally in line with the S&P 500; although, year-to-date the sector is outperforming the index by roughly 500 bp after a strong first quarter start. We believe solid financial results, more clarity around the Durbin legislation, and a renewed focus on shareholder friendly returns of capital (both dividend increases and share buybacks) have increased interest in the space. However, the overseas economic storm clouds and concern over ongoing legal challenges have kept a lid on potential multiple expansion, in our opinion.

The transaction processing group demonstrated resilience amid an uncertain macro-economic backdrop, with industry bellwethers, Visa and MasterCard, reporting solid worldwide transaction growth in 2Q12, despite domestic debit headwinds for Visa, and adverse forex trends impacting MasterCard. Visa's August cross-border volumes were up 13% y/y (but slower than 14% reported in F3Q12) and U.S. volume was up 2% y/y (12% credit growth and a 6% decline in domestic debit from the Durbin Amendment). MasterCard indicated July cross-border volume grew 14% y/y and U.S. volumes were up 7% y/y. MasterCard's July cross-border rate decelerated roughly 300 bp from 2Q12 due to forex headwinds, tough comps, and economic uncertainty.

Comparatively smaller constituents within the space experienced positive transaction trends, highlighting the durability of these companies. Global Payments reported North American transaction growth of 14% y/y; and, excluding deconverted clients, Total System Services grew PoS transactions 12%. FleetCor's in-line transaction growth of 48% y/y was upwardly skewed by recent acquisitions in the international segment. Heartland Payments' ninth consecutive quarter of positive same-store sale growth, up 2.2% y/y, and 6% y/y transaction growth in the small and medium enterprise segment was another testament to a resilient North American payment processing market. Alliance Data Systems benefitted from new customer additions, low charge-offs, and expanding receivables, supporting our thesis for a strong 2012.

The financial metrics of the transaction processing sector are attractive. These include clean balance sheets (cash heavy, debt light), low capital expenditures, strong free cash flow, 80%+ recurring revenue, 6-10% organic top-line growth, and EPS growth of 10-15% on 20% operating margin. These outsource service companies operate leverageable business models that expand profitability from processing incremental transaction volume over a fixed-cost infrastructure. The transaction processing industry benefits from a number of defensive growth characteristics, such as targeting large market opportunities with low overall service penetration.

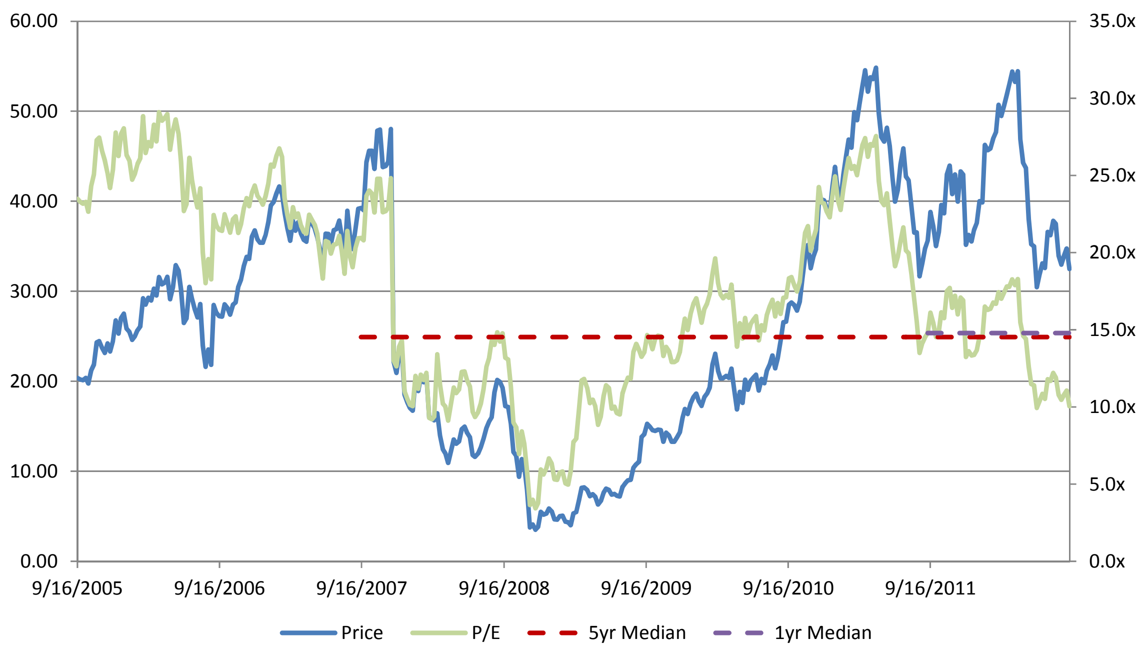
Company Profile: VeriFone Systems, Inc.

VeriFone is a global leader in the development of next generation point-of-sale (PoS) devices that enable retailers to accept payment cards in place of cash and check. The commercial success of VeriFone's unique, technologically advanced, interactive, and consumer facing payment accepting mechanisms has led to market share gains in the large retail store segment at home and abroad. The company is in the early stages of leveraging their PoS footprint at the checkout counter by electronically distributing novel, high-margin, fast-growing digital services, such as: retail centric payment-as-a-service deployments, remote software upgrades, PoS encryption, full-motion video advertising, consumer loyalty and inventory management programs, PayMedia terminals in taxis and gas pumps and a suite of cutting edge mobile payment solutions. We are convinced the company is in front of an imminent, nationwide, PoS replacement cycle, which could render our projections conservative.

In our opinion, VeriFone should deliver 10%+ long-term organic revenue growth with approximately 70% of sales expanding at least 15% annually from the Services segment (approximately 30% of sales) and robust PoS demand in developing countries (approximately 40% of sales). We believe there is a reasonably good chance VeriFone will exceed our and consensus' profitability expectations in F4Q12 and FY13, which could result in upward pressure on annual EPS estimates. These upward revisions may be driven by expanding margins as acquisition related synergies materialize, high-margin services revenue grows as a percentage of sales, and the potential for a nationwide upgrade cycle creates incremental revenue opportunities (not modeled).

Shares of PAY trade at 9.5x our FY13 non-GAAP EPS estimate of $3.31, an approximately39% discount to the current transaction processing group average of 15.6x and the company's five-year average of 15x. Our price target of $60.00 is based on 18x our FY13 non-GAAP EPS, which we believe better reflects the strong business prospects and solid financial position of VeriFone than current valuation would suggest. We believe multiple expansion is warranted given VeriFone's increasing mix of fast-growing, high-margin service revenue, healthy growth prospects from new product offerings and the potential Euro MasterCard Visa payment standard (EMV) upgrade cycle, exposure to underpenetrated emerging markets, and accretion from recent acquisitions.

PAY P/E Analysis



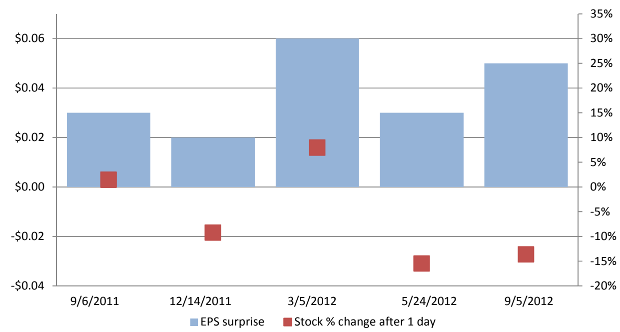
Source: VeriFone Systems, Inc., Thomson Reuters, and Raymond James research.
Note: All pricing data is as of the 9/13/12 close.

Investment Thesis

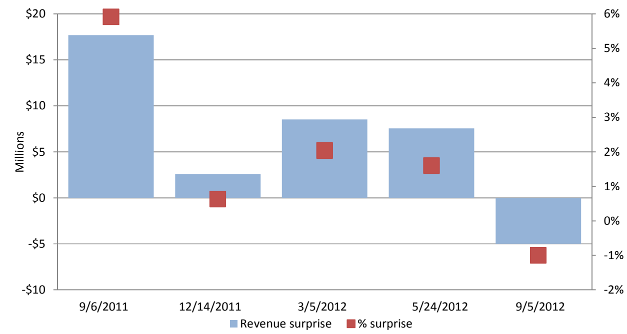
VeriFone has exceeded consensus EPS expectations for five consecutive quarters, since we upgraded its shares to **Strong Buy** on August 8, 2011, and we think that favorable trend will continue. In our opinion, the demand side of the VeriFone story remains healthy and combined with ongoing expense controls F2H12 may demonstrate above-consensus sequential and year-over-year profitability lift. We are excited about the near and long-term financial outlook for VeriFone because: 1) progress in cost synergies from the Hypercom acquisition have already helped VeriFone to achieve above-plan F3Q12 gross profit margins in System Solutions (where point-of-sale metrics are recorded) and could bear more fruit in F4Q12. The Hypercom acquisition closed on August 4, 2011, and at that time management stated 75% to 80% of Hypercom-related overhead reductions should be completed in the initial six months of ownership. Consequently, we think F3Q12 was the first full quarter the synergy benefits were realized. 2) Worldwide demand for VeriFone's products and services have tracked above our model over the last twelve months, 70% of the top line is growing 15% or better. In particular, emerging economies represent 40% of total sales, are expanding 15%+ organically; and, the higher-margin Services, which are 30% of total sales, are also growing at a rate of more than 15%. Despite the unfavorable European macro environment, demand for PoS devices has remained constant (driven by new functionality improvements; also, France-based Ingenico, VeriFone's largest competitor, posted 1H12 revenue growth of approximately13% in Europe). Furthermore, VeriFone's domestic year-over-year organic revenue growth comparisons should improve in F2H12, as the calendar advances past difficult comparisons, the traditional replacement cycle and growing service offering produces a blended mid-single-digit North American sales growth rate, which came in at 9% F3Q12, up from zero F2Q12 and negative 7% F1Q12. 3) An un-modeled wild card is the pending nationwide, top-to-bottom EMV upgrade, now coming to the U.S. within three years. Visa, MasterCard, Discover and American Express have endorsed a fall 2015 deadline for U.S. retailers to comply with EMV security standards (includes chip on a payment card). A PoS upgrade cycle is required because 10% or less of U.S. PoS systems are EMV compliant today and a dedicated slot inside the PoS device is necessary to read the information on the chip, which will be embedded on the newly issued payment cards (the U.S. is the only industrialized country not using EMV, but VeriFone has been selling EMV-enabled PoS devices to the rest of world for years). We believe the largest U.S. retailers will be the first to replace their PoS systems, and may result in an incremental $100 million annual revenue opportunity vs. our FY13E North America sales estimate of $554 million.

Nonetheless, fiscal year-to- date, a number of investor concerns have weighed heavily on shares of PAY, in particular those that are doubtful of management's credibility to communicate effectively or capability to successfully compete against emerging payment solutions, leverage recent acquisitions, achieve reported 10%+ organic revenue growth, and transform the business towards higher-margin services. To our knowledge, none of the just-mentioned negatives has resulted in slower sales yet, but the drum roll in the background is that one day all or some combination will coalesce into sub-consensus results. Over the next three to five years, we disagree with that logic. We believe the company has demonstrated its ability to consistently execute plans and exceed stated financial goals. Given the positive industry backdrop, benefit of recent acquisitions, and potential to expand service offerings, we would expect the trend of meeting or exceeding guidance to continue.

EPS Surprise



Revenue Surprise



Source: Thomson Reuters, Raymond James research.

Quarterly Share Price Drivers

F3Q12 Review

On September 5, 2012, VeriFone reported F3Q12 EPS of $0.75, $0.05 above our model and consensus. The earnings beat benefited from an approximately 150 bp of gross margin upside ($0.04/share) and a lower tax rate ($0.04) offset by a revenue miss (-$0.05). Revenue of $493 million was up 56% y/y (16% y/y organically and 21% constant currency) and was negatively impacted by a fire in Brazil. We are encouraged by the strong organic growth acceleration and believe the company is on track to deliver organic revenue expansion of more than 10%. Gross margins continue to impress us, with both systems solutions and services beating our expectations.

The stock sold off approximately 14% after earnings were announced, as investors grappled with lower headline revenue outlook, FY13 EPS below expectations after adjusting for a $0.16 benefit from a 400 bp lower tax rate, and ongoing concerns over growth profiles of acquired companies. FY13 revenue guidance implies an 8-11% organic revenue growth, which is below management's target for 10-15% this year. However, on an apples-to-apples basis, excluding the Brazil fire, product delays in Germany, and shortages in France, we believe management guidance is closer to plus 10%. In our opinion the core business is firing on all cylinders with 16% y/y organic growth, record high 45.4% gross margins, and demonstrated ability to generate revenue from merchants of all sizes and even so-called competitors (PayPal purchased 15,000 eWallet licenses during the quarter).

Free cash flow significantly improved at $66 million for the quarter, compared to our $49 million estimate and up strongly from $11 million on a sequential basis. We calculate organic revenue growth by subtracting acquisition related sales (see tables below) on a rolling twelve month basis from reported top line. In F3Q12, VeriFone grew revenue 16% y/y organically (21% constant currency). On a pro forma basis, which includes revenues for acquisitions, as if they closed at the beginning of the last fiscal year, in F3Q12, revenues grew 5.6% y/y (11% constant currency) and FY12 guidance could imply a mid- to high-single-digit growth rate. Theoretically, this pro forma revenue growth is one way to compare y/y performance. However, we believe that technique may be misleading in part because FY12 Hypercom revenue expectations were reduced from $350 million to $300 million in early January of this year and on the F4Q11 earnings conference call was on a $280 million run rate (not a positive, but not exactly a secret). Hypercom's more recent $69 million F3Q12 revenue performance puts year-to-date revenue for that acquisition at $223 million and feels like that acquisition could contribute $280-300 million in FY12, implying a F4Q12 revenue contribution of $60-75 million. The uneven Hypercom revenue performance (compared to initial guidance) is distorting y/y pro forma comparison, and so is Point's (closed December 30, 2011) transition towards a recurring revenue service model, spreading lower dollar value increments of top-line recognition over a longer time period compared to a more licensed-oriented model with lumpier, fewer but larger upfront fees. As the calendar rolls into FY13, and these acquisitions anniversary, growth calculations should normalize in F2Q13. Some of the concerns regarding organic growth have also stemmed from whether the sale of a VeriFone product to a legacy Hypercom customer (in essence, an acquired customer) should be considered organic or inorganic. Management has not broken out that number, we are hopeful they will; but recently the company stated it was not very significant. We note, at the time of the Hypercom acquisition, VeriFone PoS devices were generating a 1,000 bp higher gross profit margin at 41% vs. 31% for Hypercom.

($ millions)	F3Q11	F3Q12	y/y growth
Reported revenue	**317**	**493**	55.5%
- Hypercom		69	
- Point	6	56	
- Other	1	9	
= Organic revenue	**310**	**360**	15.9%

*$5.5 million of intercompany Point sales in F3Q11
Source: Company reports, Raymond James research.

F2Q12 Review

On May 24, 2012, VeriFone reported solid F2Q12 EPS of $0.64, $0.04 above our model and $0.03 ahead of consensus. The earnings beat and approximately 165 basis points of gross margin upside, at 44.6%, were driven by 7% revenue outperformance in system solutions, Hypercom cost synergies, and better-than-anticipated service margins. Revenue of $479 million was up 64% y/y (14.6% y/y organically) and better than management's guidance of $465-470 million and consensus of $472 million. Point and Hypercom revenues were separately categorized as acquired revenue and performed better than our expectations, contributing $58 million and $81 million, respectively, in F2Q12.

Following the quarterly report, the stock sold off approximately 15%, due to information whiplash on a number of topics, such as: 1) a lack of raised guidance because of foreign exchange concerns when management had stated a few weeks earlier that forex should not be a problem; and 2) concerns over limited cash flow. The May intra-month foreign exchange swing of 4.5% (USD vs. EUR) was historically severe for such a short time frame and caused management to reaffirm F2H12 guidance instead of increasing its financial targets. Management quantified the adverse forex influence of $10-20 million in F2H12 (20-25% of total revenue is euro denominated). However, the company noted that the Point acquisition represents the largest percentage of euro exposure but the negative effect on profitability may be limited, as Point maintains operations on the continent which carry some cost offsets.

The absolute level of free cash flow in F1H12 was unfavorably impacted by integration expenses, lumpy working capital adjustments, and investments in taxis, Point, and pump media assets. Over the next several quarters, integration cost should decline, resulting in a more normalized free cash flow trend line. Investors were also concerned with management reclassifying $12.7 million of expenditures for revenue-generating assets from an operating cash outflow to an investing cash flow just days after reporting the quarter. While the timing of the re-categorization was later than we would have liked, it does provide added transparency into the company's growth initiatives (essentially represents growth cap ex related to Point and taxis/pump digital media).

Additionally, when VeriFone filed its 10-Q for the quarter, it disclosed the company lost an initial patent case against CardSoft dating back to 2008. The contest was over methods of communicating with remote devices, like PoS equipment. Apparently, according to a jury, both VeriFone and, prior to its acquisition, Hypercom unknowingly used similar programming language to CardSoft and, as a result, recommended VeriFone to indemnify CardSoft $18 million, which a judge has not yet approved. Consequently, VeriFone stated the payment could be a $0.02 drag on EPS in FY12 and the company may be burdened with a similar amount of royalty payments in future periods; we have not seen a definitive resolution on this matter (VeriFone may appeal; the fine or penalty could be more than we discussed above). If our understanding is correct, our financial projections and investment thesis should not be materially impacted.

We believe F2Q12 revenue grew 14.6% y/y organically and expect at least 10% y/y organic top-line growth for the full year (management recently reiterated 10-15%). In F1H12, company filings disclosed pro forma revenue breakdowns as if all acquisitions were closed at the beginning of FY11. Using this method, F2Q12 pro forma revenue was up 10% y/y.

($ millions)	F2Q11	F2Q12	y/y growth
Reported revenue	**293**	**479**	63.7%
- Hypercom		81	
- Point	6	58	
- Other		13	
= Organic revenue	**286**	**328**	14.6%

*$6.4 million of intercompany Point sales in F2Q11
Source: Company reports, Raymond James research.

F1Q12 Review

On March 5, 2012, VeriFone reported F1Q12 EPS of $0.58, $0.04 above our model and $0.06 ahead of consensus. The earnings' solid beat and 350 bp of gross margin upside was driven by Service revenue, which was 16% above our model, and earlier than anticipated Hypercom cost synergies. Revenue of $425 million was up 50% y/y (11.8% y/y organically) and better than management's guidance of $415-420 million. Point performed better than expectations; its one-month contribution of $18 million in revenue to F1Q12 came in above management's $15 million guidance. Shares of PAY reacted favorably to the financial outperformance, raised FY12 guidance, and management highlighting the potential for EMV to expand the company's addressable U.S. market by 50%.

($ millions)	F1Q11	F1Q12	y/y growth
Reported revenue	**284**	**425**	49.7%
- Hypercom		74	
- Point	3	18	
- Other		19	
= Organic revenue	**281**	**314**	11.8%

*$2.8 million of intercompany Point sales in F1Q11
Source: Company reports, Raymond James research.

F4Q11 Review

On December 14, 2011, VeriFone reported F4Q11 EPS of $0.53, $0.04 above our model and $0.02 above consensus, including the Hypercom acquisition. The earnings beat was driven by stellar 96% y/y growth in services revenue ($23 million ahead of our projection) and cost controls leading to 33 bp of operating margin upside compared to our model. Revenue of $416 million was up 51% y/y (18% organically) and in line with the preannounced $414-416 million range. Adjusted gross margins met our expectations resulting from better than modeled system solutions gross margin that offset a soft services gross margin of 40% (down 570 bp sequentially), as a result of lower margin legacy Hypercom services (management expects to expand over time).

The stock sold off following the F4Q11 report in part over concerns that Hypercom was underperforming in its first full quarter as part of VeriFone. Hypercom posted $69 million of revenue while the Street was looking for plus $80 million-given initial twelve month top-line guidance of $350 million and FY12 guidance implied single-digit pro forma growth. Over the coming months, investors would wrestle with how to view growth (pro forma or organic); we view organic growth as the relevant gauge of core business trends and note that the metric was guided to 10-15% in FY12.

Investors may recall we further explored the F4Q11 organic growth trends in a note published on January 3, 2012, during which time there was significant discussion around the cause of the shortfall of Hypercom revenue, which was on a $280 million annual run-rate vs. initial guidance of $350 million (subsequently reduced to $300 million). At the time, we delved into the possibility that the Hypercom revenue shortfall was a function of VeriFone products sold into legacy Hypercom customers, a dynamic that management stated is probably happening to some degree but not in a meaningful amount. The shortfall compared to expectations was probably more a function of inflated inventory levels at distributors (possible channel stuffing prior to acquisition) and an impending product launch.

In F4Q11, VeriFone reported revenue of $416 million, which included $67 million from Hypercom and approximately $24 million from other acquisitions (mainly Gemalto and Destiny). Revenue grew nearly 18% y/y organically; even taking the conservative approach that the approximately $19 million Hypercom shortfall compared to annualized guidance was inorganically achieved through sales of VeriFone products to legacy Hypercom customers, organic growth would have been up a healthy 11% y/y.

($ millions)	F4Q10	F4Q11	y/y growth
Reported revenue	**276**	**416**	50.6%
- Hypercom		67	
- Other		24	
= Organic revenue	**276**	**325**	17.7%
- Potential PAY into HYC channel		19	
= Organic revenue (ex. PAY into HYC)	**276**	**306**	10.8%

Source: Company reports, Raymond James research.

F3Q11 Review

On September 6, 2011, VeriFone reported F3Q11 EPS of $0.49, $0.03 above our model and consensus estimates. The earnings beat was driven by robust top-line results with revenue coming in $20.6 million ahead of us and $17.8 million above the Street at $317 million. Adjusted gross profit margin was 244 bp ahead of our model at 42.6%. Shares reacted positively to both the financial outperformance and the raised FY11 outlook. There were no meaningful acquisitions impacting the quarter, but if we conservatively assume there was approximately$20 million of revenue contribution (slightly less than F4Q11) from Gemalto and one month of Destiny, implied organic growth would have been 14% y/y (compared to up 21% y/y as reported), a solid showing, in our opinion.

Services Revenue

The high-margin, fast-growing Services division (approximately 45-50%+ gross profit margin and 15%+ revenue growth vs. approximately 40-45% gross profit margin and 8-10% sales progression for system solutions) could potentially drive up total company profitability over the next several years. Growing transaction volume over a fixed cost infrastructure is expanding service margins and recurring revenue contribution. These services include: Point payment-as-a-service (mostly Europe), Taxi Media, PumpPAY media, VeriShield Protect, Global Bay (customer loyalty linked to inventory management and other mobile payment applications used with a tablet or smartphone), Mobile PayWare (including the micro-retail oriented tablet or smartphone SAIL service), remote software download, annual maintenance, and warranty fees. VeriFone's offerings in this segment are designed to enhance and secure the payment experience at the point of sale.

VeriShield Protect

A number of recent high-profile security breaches has renewed industry focus on the integrity of large retail-oriented payment systems. VeriFone's encryption solution, VeriShield Protect, encodes card data at the retail PoS so that it can be transported securely to the merchant acquirer. The technology is supported by nine of the top eleven payment processors providing meaningful distribution capabilities. The fee for this service may be roughly $0.02 per transaction and could provide data security cost savings for those retailers compared to an in-house solution, annual payment card industry (PCI) security reviews, or the near and long-term costs associated with resolving a security breach.

To date, the company has signed more than 105 large retail customers for the VeriShield solution and signing momentum appears robust. If VeriShield Protect achieves significant scale there is the opportunity for corporate-level gross margin expansion because we think that service could carry gross margins in excess of 50% vs. the corporate average of roughly 40%.

Recent Acquisitions

Investors may recall that VeriFone announced on November 17, 2010, an agreement to purchase Hypercom, the third largest point-of-sale manufacturer in the world, to boost its European business. Hypercom commands the number-1 market share position in Germany, Austria, and Switzerland, and the number-2 position in France. The all-stock deal closed on August 4, 2011, after the divestiture of Hypercom's businesses in the U.S., U.K., and Spain.

We believe the acquisition will strengthen and drive market share gains in the company's weakest geography, Europe. In the region, Hypercom was the number-2 player and shipped 4% more terminals last year than VeriFone, the number-3 player. Combined, VeriFone should control greater market share than France-based Ingenico.

Additionally, the acquisition of Point (closed December 30, 2011) provided VeriFone with what we consider to be a high-margin service offering in Northern Europe with significant potential for geographic expansion. Point acts as a service aggregator which delivers functionality from multiple vendors, through a single pipe, to a retail PoS device. Through Point, VeriFone can offer a managed service to easily accept all payment types, including new mobile wallet initiatives, or remote software provisioning. This service creates a single point of contact for retailers, reducing the burden of interacting with multiple constituents to add incremental, or modify existing, payment functionality.

Point predominantly operates a recurring subscription model (81%+), which ties in nicely with VeriFone's long-term stated goal of growing high-margin, recurring services revenue to 50% of total company sales by 2015. Point may enable VeriFone to efficiently manage the potential revenue bubble from domestic EMV adoption by offering payments-as-a-service. Payment-as-a-service is the bundling of a terminal sale with various services such as merchant analytics, maintenance, regulatory compliance, security, etc. priced as an all-in-one monthly fee. This model promotes add-on sales of ancillary services and should moderate the lumpy nature of hardware sales.

International Revenue Opportunity

We believe the Asia-Pacific region, particularly India and China, offers tremendous potential for future electronic payments growth. For example, companies conducting business in that region, such as HSBC and Global Payments, have released data on 10 countries (China, India, Sri Lanka, Maldives, Macau, Hong Kong, Taiwan, Brunei, Malaysia, and Singapore). These 10 countries average 10% Visa/MasterCard payment growth, with India and China averaging closer to 25%. The region covered by the HSBC/Global Payments joint venture averages 0.5 payment cards per person, compared to Western Europe's average of 1.2 and the U.S. at 3.7. Thirty-nine percent of the world's population in the joint venture region accounts for only 3% of the world's electronic payments. Furthermore, some industry estimates indicate there may be 800 million bank accounts in China; the initial groundwork has already been laid for increasing usage of payment cards at the PoS.

We believe China Union Pay (CUP) is the third largest payment card association in the world. CUP is a China-based bankcard association established under the Chinese State Council and the People's Bank of China in 2002. Since CUP's creation, bankcard transactions have reached over 35% of Chinese retail sales vs. 2.7% in 2001. With increased payment card penetration there is a greater need for widespread access to PoS systems and supporting services. This large, dynamic, and fast-changing economy represents a significant long-term opportunity for VeriFone.

Near Field Communications (NFC)

We believe VeriFone could eventually benefit from strong demand for NFC-compatible point-of-sale devices as mobile payments gain traction. A variety of high-profile domestic mobile payment programs are underway, including: 1) Visa; 2) mobile carriers, such as Verizon, AT&T, and T-Mobile; and 3) Google. PayPal intends to offer mobile phone access to its payments network through text and, eventually, NFC capabilities. Apple, in our opinion, has been suspiciously quiet on this topic, but the Passbook application (electronically aggregate loyalty cards, gift cards, and tickets) could give clues to the company's ability to tap its base of 400 million iTunes accounts (all of which must have a credit card on file).

VeriFone has partnered with Google, Isis, and PayPal on their mobile wallet initiatives, although we would note these are not exclusive partnerships. VeriFone has established an early position in the emerging NFC-enabled PoS market with several hundred thousand NFC-compliant devices deployed in the U.S. (which may still need to be upgraded depending on new security and data formatting requirements, like using global EMV in addition to NFC). Management stated NFC adoption in the U.S. could be concurrent with the EMV rollout, all included in a single device, may add an incremental $100-150 million annual top-line opportunity over the next several years (not modeled).

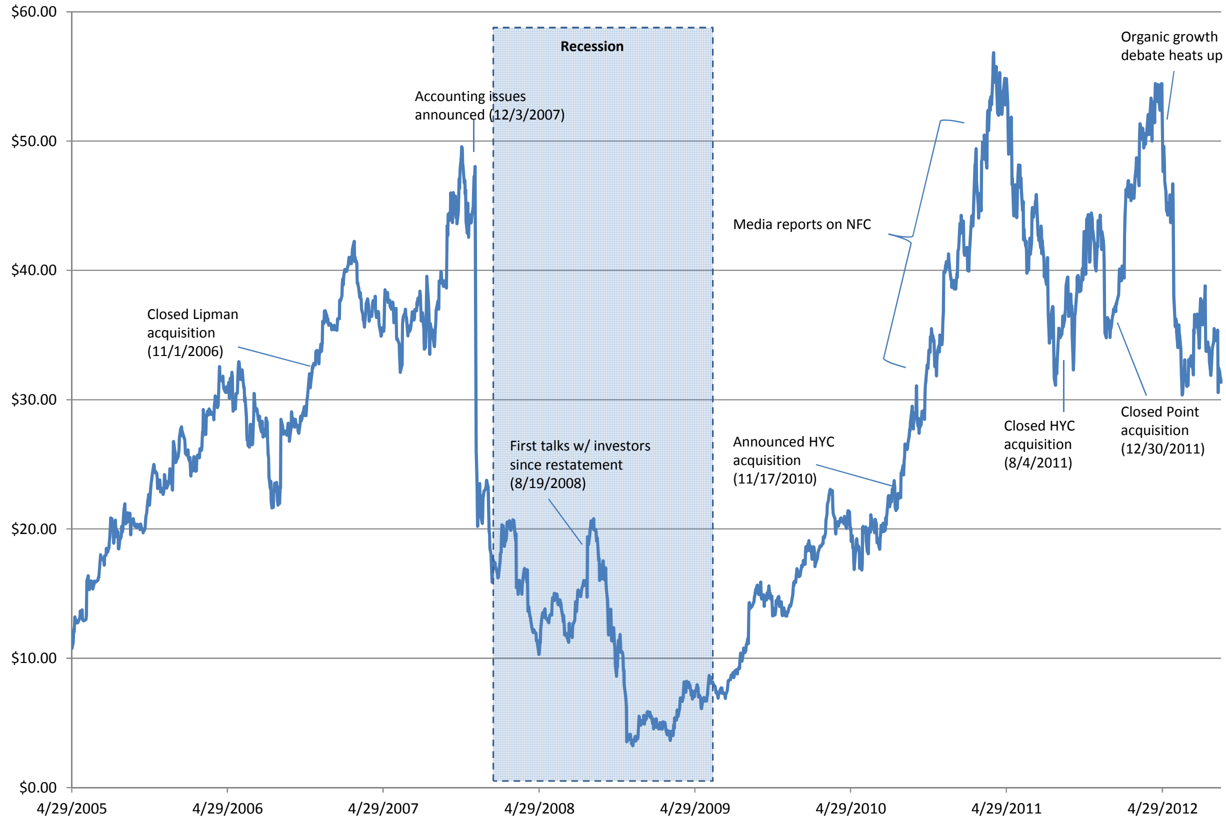
We believe there are roughly 10 million point-of-sale devices in the U.S., and out of those, approximately 700,000 to 1 million are at tier-one national retailers, which would likely purchase NFC-compliant devices, representing a low-hanging fruit revenue opportunity of $350-500 million (if we include mid- and small-size retailers, the NFC upgrade opportunity could be much larger, well in excess of $1 billion). EMV adoption could spur NFC add-ons by retailers as it may be viewed as cheap insurance preventing potential lost sales if NFC goes mainstream. Outside the U.S., VeriFone has initiated NFC trials in Singapore, China, Turkey, and Brazil.

MX 925 Consumer-Facing System

Source: VeriFone Systems, Inc. and Raymond James research

VeriFone's next generation, multi-functional, digital media capable, open-platform based point of sale solution for the multi-lane environment is the MX900 series. This device accepts eWallets, EMV cards, NFC transmitted payment information, traditional credit/debit cards, and more. We believe VeriFone will use their latest models to distribute high-margin services to consumers and retailers through their upgraded devices. These types of terminals are mostly used in a multi-lane retail environment, such as a grocery or large discount store, and as such are at times referred to as multi-lane systems. VeriFone's MX900 series is programmed with a common and open architecture allowing retailers easy connectivity to their existing payment related infrastructure (such as electronic cash registers and corporate IT systems). The higher-end of the product line offers rich multimedia (full-motion color video and digital sound), touch screen, and optional capabilities to deliver promotions direct to the retail PoS.

VeriFone Key Events



Source: VeriFone Systems, Inc., Thomson Reuters, and Raymond James research.
Note: All pricing data is as of the 9/13/12 close.

Conclusion

We think long-term investors should consider owning shares of PAY at current levels. Our positive VeriFone outlook is derived from: 1) solid industry fundamentals bolstered by consolidation and potential regulatory reform; 2) visible progress in cost synergies from Hypercom acquisition (through gross margin profile) and potential to leverage Point offering in new geographies; 3) robust sales to the large and underpenetrated Asian and South American markets; 4) highly profitable service revenues on track to grow 15%+ over the next few years, possibly expanding company margins; 5) we expect the $1 billion revenue opportunity in the domestic retail petroleum pay-at-pump market to gain more traction; 6) there is longer-term potential for a nationwide, top-to-bottom replacement cycle stimulated by EMV and demand for new NFC-compatible PoS devices at the retail point of sale as mobile payments gain popularity; and 7) since our initial upgrade, on August 8, 2011, the company has exceeded consensus expectations for every reported quarter, which has put upward pressure on margin and EPS expectations compared to our model at that time.

Transaction Processing
Industry Overview

- **Card Association Discussion**
- **Credit Card Processing**
- **Electronic Bill Presentment and Payment (EBPP)**
- **Money Transfer**
- **Mobile**
- **Industry Chart Book**

Visa vs. MasterCard

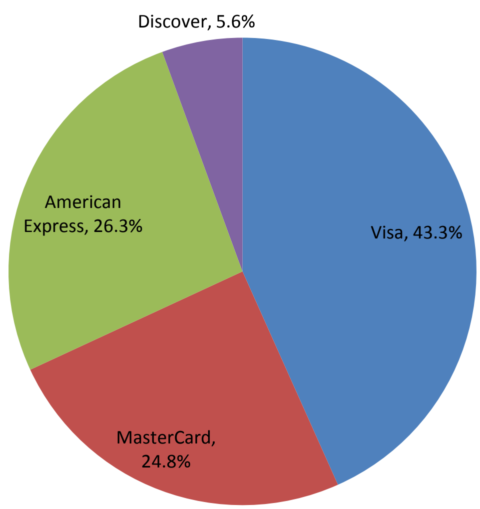
Card Associations: A Brief Overview

Credit card associations introduced the concept of a widely accepted, nationwide, general purpose credit card by uniformly governing the basic transaction fee structure, communication protocol, and data format for electronic payment acceptance at the retail point of sale (PoS). Each credit card association is a centralized transaction processing clearing house, which electronically records and forwards the request for a credit card purchase to related parties.

These associations have been remarkably successful at driving change in consumer preference to a plastic or electronic medium of payment and away from cash and check, a secular trend which should continue for the next decade. Credit and debit cards are increasingly utilized for non-discretionary, every day, consumer purchases which, at a minimum, provide a recurring backdrop of credit and debit card usage. Furthermore, the digital age is stimulating increased credit card transaction volume from consumers making on-line payments for eCommerce products and services with the added benefits of reward points and convenience over cash and check forms of payment.

The four largest credit card associations, in descending order, are: Visa, MasterCard, American Express, and Discover. In 2011, domestic general purpose credit cards accounted for 22 billion transactions worth $2 trillion at the retail PoS, or approximately 14% of the total U.S. retail transaction volume and 25% of the dollar value. Internationally, the market is less penetrated and more promising. We focus on Visa and MasterCard, which are the dominant forces encouraging the global migration to general purpose payment cards and other mediums of electronic payment.

U.S. Credit Card Market Share by Dollar Value Processed, 2011



Source: The Nilson Report.

Visa and MasterCard operate and maintain records for a four-party (also referred to as "open-loop") network system. The four parties are the retailer, the credit card processor, the card association (Visa or MasterCard), and the card issuer. On the other hand, American Express and Discover are very different; they predominantly operate and maintain records for a three-party (also referred to as "closed-loop") network but play the role of both card association and card issuer, assuming much greater credit risk. The three parties are retailer, merchant processor, and card association/card issuer.

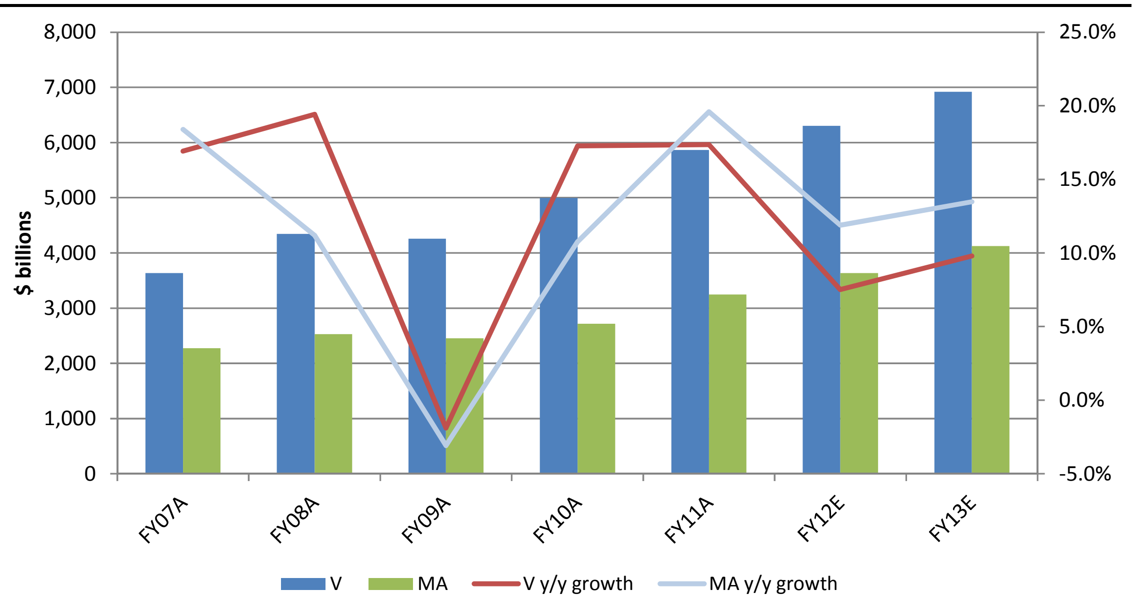
Visa and MasterCard are the two largest card associations representing approximately 74% of credit card purchase dollar value worldwide, with Visa representing 44% and MasterCard making up 30%. Operationally, the two companies are nearly identical, offering similar products to a common customer base. The most obvious difference between the two companies (please see comparison table on page 14) is that Visa is a larger company, commanding greater market share, profitability metrics, and a larger market cap.

Operating Metrics

Transaction processing companies generally perform automated services over a fixed cost infrastructure, meaning once the costs to purchase and build the processing platform, database, information sources, and engineers are absorbed, there is very little additional expense per transaction. We believe the incremental operating margin per transaction could be significantly higher than the corporate average operating margin. We also believe the recurring nature of payments and the use of payment cards on everyday spend items (groceries, gas, bills, etc.) could make the revenue streams for these companies less cyclical than other sectors of the economy.

Visa achieves greater than a 60% operating margin, compared to MasterCard's in the mid-50% range. This is a function of Visa having nearly twice as many cards outstanding as MasterCard and being accepted at more locations; these metrics help Visa generate higher transaction volumes and, hence, higher revenues and profitability. Globally, Visa processes over 76 billion transactions with a total gross dollar value (GDV) of more than $5.8 trillion annually, while MasterCard processes 40 billion transactions with a GDV of $3.3 trillion.

Visa and MasterCard GDV Trends



Source: Company reports and Raymond James research.

Both companies have diverse geographic scope, with MasterCard having more of an international focus (67% of dollar value processed vs. Visa at 60% of dollar value processed). Some of this discrepancy can be explained by Visa not including Western Europe in its financial results. Visa has exposure to this region through Visa Europe, which is a separate entity that is owned and governed by European member banks. The lack of European exposure can be seen as a positive for Visa, as profitability is lower in this region.

Visa and MasterCard Side-By-Side

Financial Metrics	Visa, Inc.	MasterCard
Market Capitalization ($ in millions)	$68,412	$52,206
FY11A Revenue ($ in millions)	$9,188	$6,714
FY12E Revenue ($ in millions)	$10,331	$7,439
FY13E Revenue ($ in millions)	$11,682	$8,482
FY11A y/y growth	*13.9%*	*21.2%*
FY12E y/y growth	*12.4%*	*10.8%*
FY13E y/y growth	*13.1%*	*14.0%*
3-Year Forward Growth Estimate	*10.0%*	*10.0%*
FY11A Operating Margin	*59.4%*	*51.9%*
FY12E Operating Margin	*60.7%*	*53.3%*
FY13E Operating Margin	*62.2%*	*54.9%*
FY11A EPS	$4.99	$18.71
FY12E EPS	$6.20	$21.78
FY13E EPS	$7.15	$25.33
FY11A y/y growth	*27.8%*	*33.1%*
FY12E y/y growth	*24.2%*	*16.4%*
FY13E y/y growth	*15.3%*	*16.3%*
3-Year Forward Growth Estimates	*20.0%*	*20.0%*
Shares Outstanding (in millions)	690	127.0
Unrestricted Cash ($ in millions)	$2,127	$3,753
Long-Term Debt ($ in millions)	$0.0	$0.0
FY11A Free Cash Flow ($ in millions)	$3,487	$2,485
FY12E Free Cash Flow ($ in millions)	$4,486	$3,242
FY12E y/y growth	*28.7%*	*30.5%*
Operating Metrics		
Domestic		
Credit and Debit Cards Outstanding (in millions)	651	308
FY11 Branded Transactions (in billions)	43.9	17.0
FY1 Dollar Value Processed ($ in billions)	$2,416	$1,070
International		
Credit and Debit Cards Outstanding (in millions)	1,252	752
FY11 Branded Transactions (in billions)	32.1	22.7
FY11 Dollar Value Processed ($ in billions)	$3,450	$2,179
Worldwide		
Acceptance Locations (in millions)	30+	30+
Credit and Debit Cards Outstanding (in millions)	1,903	1,060
FY11 Branded Transactions (in billions)	76.1	39.7
FY11 Dollar Value Processed ($ in billions)	$5,866	$3,249
% of FY11 Dollar Value Processed Overseas	*58.8%*	*67.1%*
2011 U.S. Market Share Data		
Credit Market Share (Dollar Value)	43.3%	24.8%
Credit Market Share (Transaction Volume)	46.8%	27.5%
Debit Market Share (Dollar Value)	74.6%	25.4%
Debit Market Share (Transaction Volume)	75.7%	24.3%
Combined Market Share (Dollar Value)	56.7%	25.1%
Combined Market Share (Transaction Volume)	65.6%	25.4%
Product Platfroms		
PoS Debit Enablement	InterLink	Maestro
Cash Access Enablement	PLUS	CIRRUS
Electronic Authorization Enablement	Electron	MasterCard Electronic
Affluent Card Program	Visa Signature	MasterCard World
Other Company Characteristics		
	Does not include Western Europe	Includes Western Europe
	Single Technology Platform	Multi-technology Platform

*U.S. debit card market share data does not reflect the negative effect of the Durbin Amendment on Visa or the positive impact on MasterCard which went into full effect on April 1, 2012. Please see discussion on page 17.

Source: Company reports and Raymond James research.

Bank Consolidation

From 2007-2009, the financial crisis led to a wave of bank consolidation which resulted in fewer but larger card issuers. In general, the big got bigger and the unstable were acquired. For example, JPMorgan Chase's acquisition of Washington Mutual, Wells Fargo's acquisition of Wachovia, and PNC's purchase of National City, all in 2008, had some of the most noticeable impacts on the market share of card issuers.

In general, Visa has tended to be the acquiring institutions' brand of choice in most recent bank M&A transactions, allowing it to maintain, or gain, market share, because a mostly Visa issuer acquired a mostly Visa issuer (as was the case with Wells Fargo/Wachovia merger), or win new business at the expense of MasterCard as a predominantly Visa issuer acquired a predominantly MasterCard issuer (as was the case with JPMorgan Chase/Washington Mutual acquisition).

Top U.S. Credit Card Issuers by Brand

	2007				2011			
	Visa	Cards out (mil)	Mastercard	Cards out (mil)	Visa	Cards out (mil)	Mastercard	Cards out (mil)
1)	Bank of America	94.7	Citi	82.0	JPMorgan Chase	66.4	Citi	46.3
2)	JPMorgan Chase	61.2	JPMorgan Chase	46.6	Bank of America	37.5	HSBC	33.4
3)	Capital One	26.3	HSBC	32.6	Capital One	26.5	JPMorgan Chase	20.0
4)	Target	21.4	Bank of America	25.4	Wells Fargo	15.5	Bank of America	15.3
5)	Citi	20.2	Capital One	24.5	US Bank	14.3	Capital One	9.9

Source: The Nilson Report.

The impact of recent M&A on market share amongst debit card issuers is more visible. In addition to the aforementioned acquisitions, Bank of America's purchase of Merrill Lynch and LaSalle Bank helped the bank maintain the top ranking as a Visa debit card issuer.

In 2007, JPMorgan Chase had dropped three positions to the tenth-largest issuer of MasterCard debit products, as it continued to transition its card base to the Visa brand. However, with the purchase of Washington Mutual in 2008, the company became the top issuer of MasterCard debit cards, as Washington Mutual had completed the conversion of its entire debit portfolio to MasterCard in 2007. JPMorgan Chase has stated it will transition at least a portion of the acquired MasterCard portfolio to the Visa brand.

Wells Fargo maintained its position as the second-largest issuer of Visa branded debit cards following the acquisition of Wachovia in 2008 but more than doubled purchase volume between 2007 and 2011. In 2007, Wachovia was the third-largest issuer of Visa debit cards. This acquisition could be viewed as a win for Visa in that Wachovia wasn't sold to a mainly MasterCard issuer such as Citi.

PNC became the fifth-largest issuer of Visa debit cards in 2008 and maintained this spot through 2011 after acquiring National City, which was the ninth-largest Visa debit issuer in 2007.

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Top U.S. Debit Card Issuers by Brand

	2007				2011			
	Visa	Purch vol ($bil)	Mastercard	Purch vol ($bil)	Visa	Purch vol ($bil)	Mastercard	Purch vol ($bil)
1)	Bank of America	105.9	Washington Mutual	35.0	Bank of America	143.1	JPMorgan Chase	40.3
2)	Wells Fargo	54.7	Fifth Third Bank	12.1	Wells Fargo	132.7	USAA	19.4
3)	Wachovia	37.2	USAA	12.0	JPMorgan Chase	72.6	SunTrust	17.9
4)	JPMorgan Chase	34.2	RBS Citizens	11.5	US Bank	33.0	Fifth Third Bank	17.4
5)	US Bank	15.3	Citi	10.8	PNC	29.1	Citi	15.0

Source: The Nilson Report.

As can be seen in the above tables, Visa has enjoyed a meaningful advantage in debit card purchase volumes when compared to MasterCard. We believe this is, in part, due to Visa targeting the largest financial institutions and being the payment card of choice on the acquiring side during the last wave of consolidation, at the expense of MasterCard. However, we would note that recent legislation, namely the Durbin Amendment, could stifle domestic debit card market growth, making it less lucrative (please see below). On the other hand, this legislation may provide a double positive for MasterCard: 1) the company's limited debit card exposure could expand and 2) network non-exclusivity provisions could lead to potential incremental domestic debit network routing wins.

Legislation

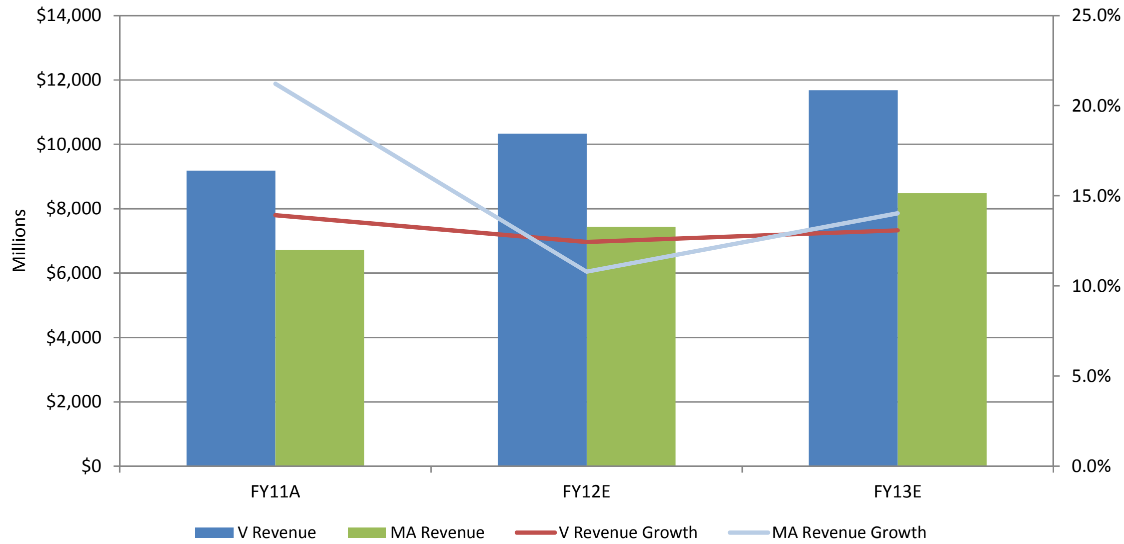
On October 1, 2011, the Durbin Amendment went into effect for financial institutions with greater than $10 billion of assets, capping interchange fees at $0.21 (up to $0.22 including charges for fraud), plus an additional ad valorem 0.05% (5 bp) fee for fraud losses. Under the legislation, signature debit fees are down 61% from historical levels of $0.56, and PIN debit fees are down only 4% from $0.23.

The Federal Reserve also determined that debit cards will now require at least two different networks on each card, one unique PIN brand and one unique signature brand. The rules became effective October 1, 2011 with card issuers given an extended phase-in deadline of April 1, 2012 to issue or replace newly compliant cards.

As a result of the ruling, Visa provided initial FY12 revenue guidance of high-single to low-double-digit growth and mid-to-high teens EPS advancement, below the company's typical 11-15% revenue and greater than 20% EPS growth. The subdued outlook resulted from potential lost debit routing decisions, increased incentives to win routing (a contra-revenue), and possible price compression. However, better than expected, higher-margin, credit transaction volumes more than offset the expected debit card slowdown and the company raised its outlook for FY12 three times. Most recently, after reporting F3Q12 (June quarter) earnings on July 25, Visa raised its outlook by effectively increasing the low end of the prior EPS growth range to low-twenties y/y growth, demonstrating confidence in its ability to offset the potential Durbin Amendment headwinds. Management has done a good job returning the company to historic financial growth trends in the face of uncertainty and financial headwinds.

MasterCard did not alter its 2011-2013 outlook of 12-14% top-line growth and 20%+ earnings growth given less debit exposure and the potential tailwind of increased debit routing decisions due to network non-exclusivity provisions of the recent legislation.

Visa and MasterCard Revenue Trends



Source: Company reports and Raymond James research.

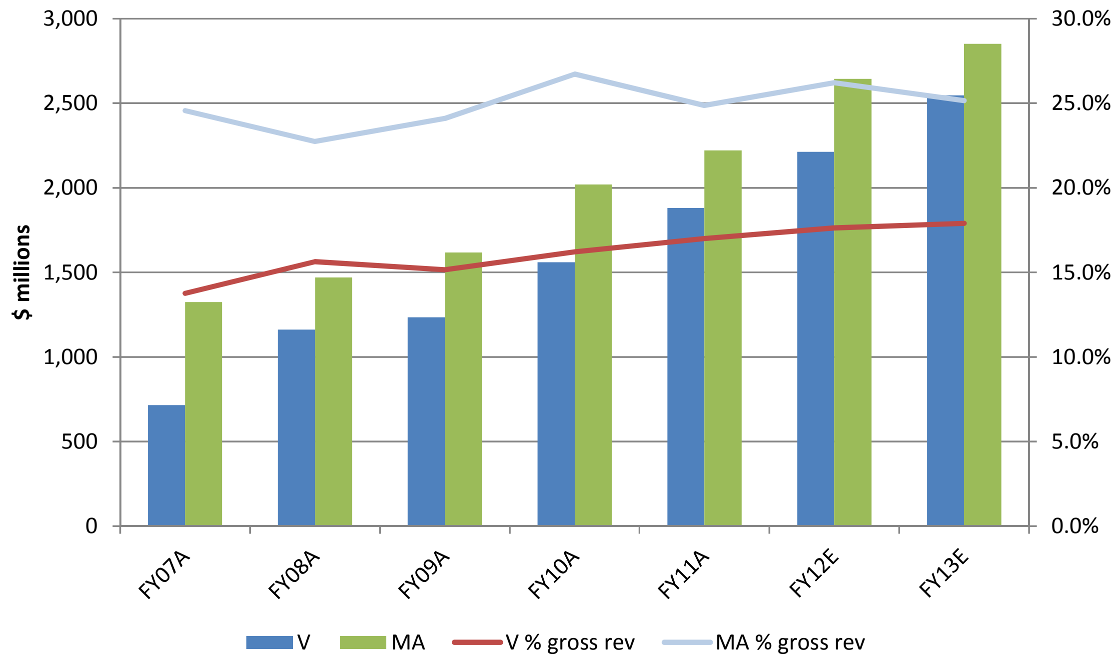
Visa is the incumbent in debit cards with over 75% market share versus MasterCard's roughly 25% share. This dynamic has led Visa and MasterCard to pursue divergent strategies to win routing decisions. Visa is increasing incentives and modifying pricing to encourage increased transactions, while MasterCard is attempting to gain placement on competitive debit cards, win new portfolios and routing decisions while not explicitly taking a broad-based increased incentive approach. MasterCard's strategy could serve to insulate the company from deteriorating deal economics, albeit at the expense of potential transaction volume increases.

Visa meaningfully accelerated incentive payments in F4Q11, up 37% y/y, as the company signed a disproportionate number of contracts with issuers in the quarter and also increased incentives to sign partnership contracts with merchants and acquirers. Management views these actions as investments aimed at influencing routing decisions to Visa's network in the U.S. and guided FY12 volume support and incentives to 17-18% of gross sales, up from an average in the 15-16% range and a 2.5% headwind to our FY12E revenue. Increased incentives (a contra-revenue) to drive routing decisions to Visa's network did not materialize as expected in F1H12 but stepped up meaningfully (as expected) in F3Q12.

Visa also modified its domestic debit card pricing structure by introducing a new fixed acquirer fee called the Network Participation Fee. Along with this fixed fee, Visa reduced variable fees, in an attempt to improve volume, because a retailer's average cost per transaction would decline with increased transactions. With the increased incentives and modified debit card pricing, Visa is attempting to offset any potential loss of routing resulting from the implementation of the Durbin Amendment.

Visa indicated the negative effects of the Durbin Amendment are already visible in decelerating debit card volumes (turned negative during F3Q12) mainly in the Interlink business, which was disclosed to contribute less than 10% of U.S. debit card revenue (2% of total company revenue) and was Visa's lowest revenue yield product. Visa Debit (Visa Check Card) has also been negatively impacted as issuers push credit products over debit ones. On the positive side, the company has not lost a major issuer relationship for Visa Debit and has extended agreements with 14 of its 15 largest debit issuers through at least FY15. Management stated it is still focusing on opportunities to secure back of card positioning on cards carrying competing brands, with potential announcements expected in the next few quarters.

Rebate and Incentive Trends



Source: Company reports and Raymond James research.

Given lower exposure to domestic debit cards when compared to Visa, MasterCard is in a position of strength, as it does not need to defend a large incumbent position. Management highlighted four strategic objectives regarding U.S. debit cards. The company aims to: 1) retain existing placement on cards that are exclusively MasterCard branded (minority of debit card portfolio); 2) gain placement on competitive debit cards; 3) continue to convert competitive portfolios to MasterCard; and 4) win routing preference with selected merchants and acquirers.

As of 2Q12, MasterCard appears to be gaining traction in debit cards given recent regulation regarding network non-exclusivity. Last year, MasterCard was enabled on an estimated 25% of U.S. debit cards, and on the 1Q12 earnings conference call management stated that they are enabled on 50%, including three of the largest debit card portfolios in the market. In addition, the company has grown its share of PIN debit card transactions from the low single digits last year to approximately plus 20%.

Litigation

Beginning in 2005, over 50 class action lawsuits were filed in multiple districts, on behalf of merchants, against Visa, MasterCard, and in some cases, financial institutions that issue those branded cards. The lawsuits claim violations of anti-trust acts regarding the setting of interchange fees, alleged tying and bundling of transaction fees, and provisions prohibiting surcharges based on payment type. The plaintiffs are seeking unspecified monetary damages, subject to trebling of attorney fees, and injunctive relief.

On July 13, 2012, Visa and MasterCard announced they reached a memorandum of understanding regarding outstanding merchant class action litigation. Both card associations, along with issuing financial institutions, settled for a total cash consideration of $6.6 billion, a temporary 10 bp reduction of interchange rates for an eight-month period (starting roughly mid-2013), and the allowance of surcharging based on payment method subject to a cap and level playing field clause, which limits retailers' ability to charge different fees based on card brand (likely implemented early 2013). We believe the announcement is in line with to slightly better than expectations and legal reserves taken by Visa and MasterCard.

Recent news reports indicate a number of large merchants oppose the settlement as they don't believe it addresses the underlying issues regarding interchange rates. Of note, during Visa's F3Q12 earnings call on July 25 legal counsel indicated that any merchant that chooses to opt-out of the settlement can only sue for monetary relief and all Visa rules in existence when settlement was approved are released (cannot make a claim for interchange reduction).

Payment Card Discount Fees Paid by Retailers in 2010

	Purchase volume ($bil)	Fees ($bil)	Weighted avg. rate
V/MA credit	$1,288.6	$26.0	2.02%
V/MA debit	$1,386.3	$22.0	1.59%
Amex	$476.3	$10.9	2.29%
Discover	$107.2	$2.0	1.87%
PIN debit	$262.5	$1.9	0.72%
Private label	$170.5	$1.7	1.00%
Total	**$3,691.4**	**$64.6**	**1.75%**

Source: The Nilson Report.

Visa's portion of the settlement is $4.4 billion, which is easily covered by its litigation escrow account, and the company took a one-time $4.1 billion charge in F3Q12. We believe Visa is well prepared to deal with this settlement given over $17 billion held in its litigation escrow account ($4.3 billion of which is cash), proven ability to generate significant free cash flow (over $4 billion expected in FY12), a debt-free balance sheet, $1.6 billion in cash, and $3 billion of liquidity on an undrawn revolver.

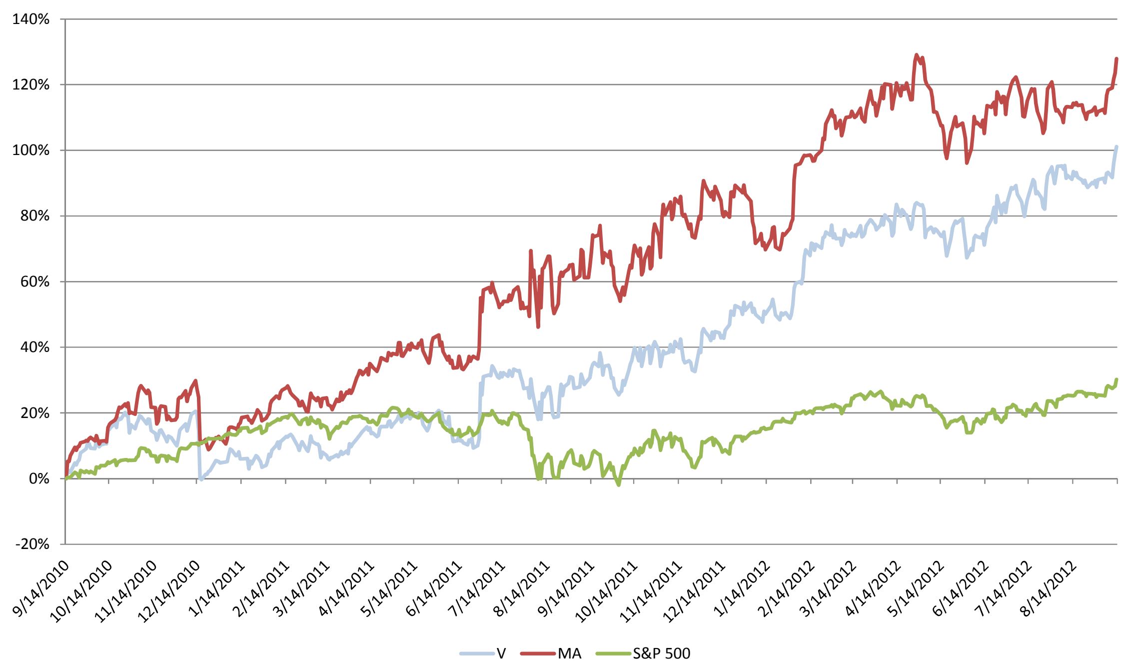
MasterCard will pay $790 million (pre-tax) and consequently took a $20 million pre-tax charge in 2Q12, as the company had already reserved $770 million in 4Q11. We remind investors, as of 2Q12 MasterCard maintained the aforementioned $790 million litigation accrual; $3.2 billion of cash on its debt-free balance sheet, with the potential to generate $2.5 billion of free cash flow in 2012; and $2.75 billion of available liquidity under an existing revolving credit facility.

In 2011, both companies entered into an omnibus agreement, including a number of member banks, distributing monetary exposure among the members. In accordance with this agreement, Visa would shoulder two thirds and MasterCard 12% of any joint settlement. MasterCard recognized a $770 million charge in 4Q11 relating to a potential negative settlement; assuming MasterCard would be liable for 12% of a global settlement, the amount reserved implied a total settlement of $6.4 billion including all other participants. This is the first time MasterCard has explicitly allocated cash for this purpose. Visa, on the other hand, attempts to mitigate the burden of an adverse settlement through its retroactive responsibility plan. Through the plan, Class B shares held by member financial institutions are kept in a litigation escrow account to pay for covered claims. Cash funding of the escrow account reduces the carrying value of Class B common stock through a lower conversion rate to Class A common shares (effectively a repurchase of Class A shares). If, at the final conclusion of pending litigation, funds remain in the escrow account, the conversion rate for Class B shares will increase. As of March 31, 2012, Visa had $4.3 billion of cash and roughly 245 million Class B shares (approximately 104 million as converted to Class A) in its litigation escrow account, bringing our estimate of total potential reserves to approximately $16 billion for covered litigation.

Valuation

Visa has historically had greater exposure to debit products. We estimate that debit transactions make up less than 20% of Visa's revenue and less than 15% for MasterCard. The higher weighting towards debit was a tailwind as consumer behavior (aided by an aversion to credit during the recession) grew debit transaction volume near 10% for over the past five years. This tailwind turned into a thorn in Visa's side as its earnings multiple compressed due to regulatory pressures regarding debit interchange, while MasterCard, with lower exposure, maintained more positive investor sentiment throughout much of 2011.

Visa, MasterCard, and S&P 500 Percentage Price Performance

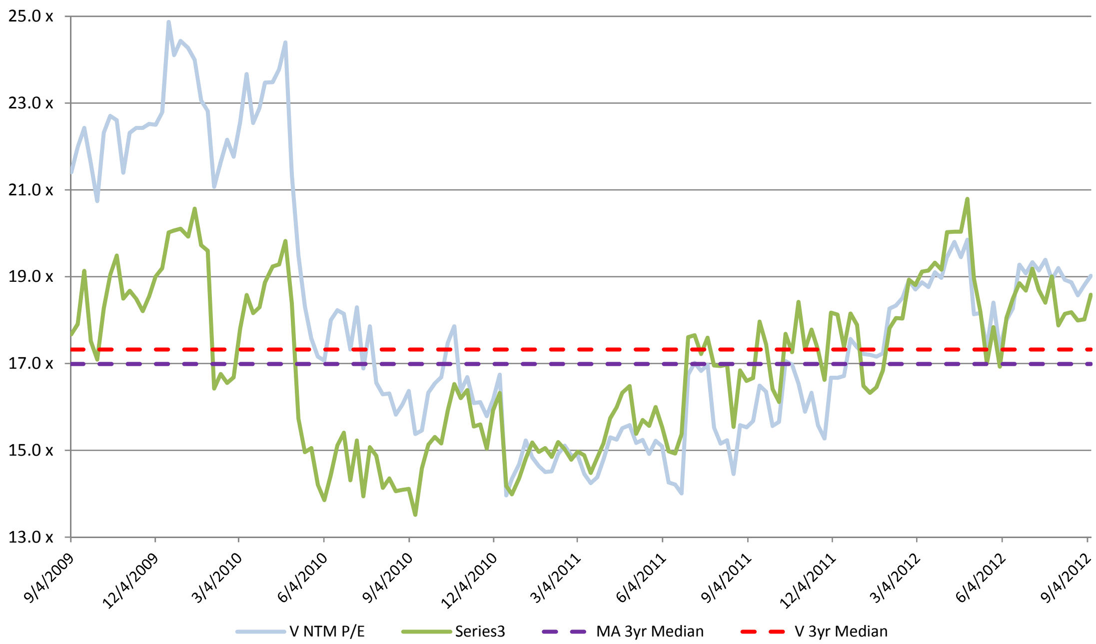


Source: Thomson Reuters and Raymond James research. Data as of 9/13/12

Historically, Visa had traded at a valuation premium to MasterCard because of higher profitability, stronger growth, and exposure to positive product trends. Some of this growth over the past few years can be explained by Visa's large-card issuing financial institution clients having principally been on the acquiring side of the recent wave of bank consolidation, leading to market share gains. Since going public in 2008, Visa has a median next-12-month (NTM) P/E of 19x, while MasterCard's median is 17x.

Currently, shares of V trade at 19x NTM earnings and MA trades at 18.5x, a slightly tighter range than the roughly one-turn historic valuation gap. During most of 2011, this was not the case, as MasterCard commanded a premium valuation to Visa given its lower debit exposure and potential to win network routing decisions from Visa as a result of network exclusivity provisions of the Durbin Amendment. Visa began trading at a discount to MasterCard after the Fed released its initial debit interchange fee cap ruling in December of 2010. While Visa does have more debit exposure than MasterCard, we believed that this valuation disconnect was unwarranted given the strong growth prospects for the rest of Visa's business and continued operational execution. The valuation disconnect corrected in December 2011 as MasterCard came off its highs on what could have been investors taking profits after outperforming Visa by approximately 10% in 2011.

V and MA P/E Analysis



Note: Based on NTM consensus EPS per Thomson Reuters

Source: Thomson Reuters and Raymond James research.

Data as of 9/13/12

We maintain positive ratings on both V (Strong Buy) and MA (Outperform) with a bias toward Visa given industry leading scale and, consequently, margin structure; positive growth trends; shareholder friendly capital allocation practices; and consistent execution.

Initial Public Offerings

On October 11, 2006, Visa announced plans to restructure its global organization and make part of its business a public company. On October 3, 2007, under the restructuring plan, the card association created Visa, Inc. by merging Visa USA, Visa Canada, and Visa International into one company. Visa International excludes Western Europe but includes the card association's operations in Asia Pacific, Latin America/Caribbean, Central and Eastern Europe, the Middle East, and Africa. On March 19, 2008, Visa, Inc. sold 446.6 million shares to the public at an offering price of $44 per share. Visa Europe will maintain its association structure, owned by 4,500 European member financial institutions. Visa believes this will better position the association to take advantage of opportunities arising from the Single Euro Payments Area (SEPA). Visa Europe will still be associated with Visa, Inc. through a minority position in the company's stock, and Visa, Inc. will have a minority investment interest in Visa Europe.

Prior to the reorganization, Visa operated as a group of five corporate entities: Visa USA; Visa Europe; Visa Canada; Inovant, which operated the VisaNet transaction processing system; and Visa International, which included Asia/Pacific (AP), Latin American and Caribbean (LAC), and Central and Eastern Europe, Middle East, and Africa (CEMEA). Each Visa corporate entity was owned by member card-issuing financial institutions. As part of the reorganization, Visa USA, Visa Canada, Visa International, and Inovant merged into Visa, Inc., with Visa Europe remaining independent and owned by its member financial institutions.

Visa, Inc. then divided its ownership into three classes of stock. Class A shares were sold to the public; Class B shares will remain under the control of Visa, Inc.'s member financial institutions; and Class C shares will be held by the Visa, Inc.'s various worldwide subsidiaries; the former Visa Canada and Visa International (Class C, Series I), and by Visa Europe (Class C, Series II, III, and IV). Of the $19.1 billion in initial public offering (IPO) proceeds, the company deposited $3 billion into its litigation escrow account, as part of the retrospective responsibility plan, and used $16.1 billon to redeem a portion of its Class B and Class C common stock during 2008.

On August 31, 2005, MasterCard announced its intention to become a publicly traded company through an IPO, which was completed on May 25, 2006. The IPO raised $2.4 billion, of which all but $650 million was used to repurchase shares from MasterCard's existing financial institution owners. The remaining $650 million could be used for acquisitions or as reserves for litigation pending against the company. In conjunction with the announcement of its initial public offering on August 31, 2005, MasterCard changed its board to consist primarily of independent directors with no affiliation to MasterCard or its member financial institutions.

Prior to the offering of shares to the public, MasterCard reclassified its 100 million shares of common stock owned by its member financial institutions. Each share of common stock was redeemed for 1.35 shares of Class B common stock and one share of Class M common stock. MasterCard subsequently issued 66.1 million of Class A common stock to the public and donated 13.5 million Class A shares to the MasterCard Foundation, a non-profit organization founded by the company. Class A and Class B common shares have the same economic rights, but Class B is non-voting. Class M shares, issued to MasterCard member financial institutions, do not have economic rights but grant the right to elect up to three of the corporation's directors and approve significant corporate transactions. Of the approximately $2.4 billion raised in the offering, about $1.75 billion was used to redeem class B shares.

Industry Overview

Transaction Processing Revenue Opportunity

	Revenue Opportunity ($ in Bil.)			CAGR	CAGR	CAGR
Credit Card Processing	**2006**	**2010**	**2015E**	2006-2010	2010-2015	2006-2015
Merchant Acquiring:						
Domestic	$8.6	$10.7	$15.0	5.5%	7.0%	6.3%
Global	$29.5	$38.0	$53.4	6.6%	7.0%	6.7%
Prepaid Domestic	$4.9	$5.1	$6.5	1.2%	5.0%	3.2%
Card Issuer Processing:						
Domestic	$3.5	$3.9	$4.1	3.0%	1.0%	1.9%
Global	$9.1	$20.6	$33.2	22.7%	10.0%	15.3%
EFT Processing Domestic	$0.7	$1.2	$1.6	15.4%	5.0%	9.4%
Total Credit Card Processing	**$44.2**	**$65.1**	**$94.7**	**10.1%**	**7.8%**	**8.7%**
Money Transfer	$20.0	$22.8	$30.0	3.3%	5.7%	4.6%
Total Transaction Processing	**$64.2**	**$87.8**	**$124.8**	**8.1%**	**7.3%**	**7.6%**

Source: The Nilson Report, World Bank, Raymond James research.

Transaction Processing Industry Revenue Opportunity and Growth Rates

Credit Card Processing

Merchant Acquiring

Merchant Acquiring is the electronic enablement of credit card processing for authorization and settlement between the retailer's point-of-sale devices and the bank, the consumer's card issuing institution, and the card association networks such as Visa and MasterCard.

Merchant Acquirers collect net 25-50 basis points of the dollar value for each sale processed. Merchant Processing revenues are directly influenced by the size and frequency of the purchase.

For 2010, the merchant acquiring top-line opportunity within credit card processing was $37-39 billion globally and $10-12 billion in the United States. We estimate the industry could grow worldwide at a 7% CAGR for the next several years and may reach $14-15 billion in the U.S. and $50-55 billion globally by 2015.

Prepaid

By 2015, we estimate there could be seven billion annual prepaid transactions in the U.S., thereby taking share away from cash. Transaction fees may decline as transaction volume accelerates; at $1.00 per transaction, it is a nearly $7 billion revenue opportunity, and even at $0.50 per transaction, it is an approximately $3.5 billion revenue opportunity. Prepaid cards also carry fees for activation, maintenance, and inactivity.

Card Issuer Processing

Card Issuer Processing provides transaction posting and accounting services on behalf of card issuing banks and retailers as well as card production, statement preparation, e-commerce services, portfolio management, account acquisition, credit evaluation, risk management, and customer service.

Card issuer processors receive a flat monthly fee for each card account managed from card issuing banks and retailers as well as for every transaction posted. Volume is the key to success, based on usage not dollar value.

For 2010, the total revenue opportunity for domestic outsourced card issuer processing was nearly $4 billion domestically and could reach over $4 billion by 2015. The more than 1.1 billion credit and debit cards in circulation, which require constant data management and monthly statements, are a recurring revenue driver for the industry. However, there are 3.7 general purpose credit cards for every man, woman, and child in the U.S. (excluding private label). We do not estimate significant growth for the industry in the U.S. because of payment card saturation. We believe the number of payment cards internationally could grow at a 10% CAGR and may expand the overseas card issuing and processing revenue opportunity to $33-34 billion by 2015.

Electronic Funds Transfer (EFT) Processing

Electronic Funds Transfer Services enable online debit card processing (online debit and ATM are virtually the same) through gateway processing, ATM driving, and network access to the financial services industry.

Electronic Funds Transfer Processors receive flat per-transaction fees for online debit card and ATM transaction processing as well as other network functions such as gateway switching. Volume is the key to success, based on usage not dollar value.

The revenue opportunity for EFT networks was $1.2 billion for 2010, based on more than 24 billion annual online debit transactions and an approximate $0.05 fixed fee per transaction. We estimate the industry could grow at a 5% CAGR for the next several years.

Electronic Bill Presentment and Payment (EBPP)

We project EBPP adoption growth in the United States to be 5% until 2015, resulting in 37 million households adopting EBPP by 2015 compared to 29 million in 2010. We estimate this would translate to penetration of 40% of households by 2015 from the current 30%.

According to the Online Banking Report, 73 million U.S. households will pay bills online by 2013, representing 62% of all U.S. households. This is up 30% since 2005.

While fees per user vary greatly depending on the size of the user’s financial institution and the frequency of transactions, we believe an average could be $4.00-4.50 per month, or $48-54 annually, translating to a current revenue opportunity of $1.5 billion per annum. We project this market could reach $1.8 billion by 2015.

Business Payments

The annual market size of the domestic business-to-business (B2B) electronic payments software and services was $4 billion in 2010 and organically growing 10% per annum (vs. a $10 billion annual processing market opportunity). In our opinion, the B2B electronic payments sector could double within the decade. For example, paper checks still account for nearly 60% of all domestic B2B payments, a stark contrast to the less than 15% of consumer transactions currently made by check. The production, delivery, and processing of paper based payments introduces unnecessarily high cost, time, and complexity into the corporate payment cycle compared to automated solutions. Our research suggests the adoption of electronic invoicing and payment methods could result in a cost savings of 50% or more compared to the traditional paper-based B2B payments process.

In 2010, there were 8.5 billion B2B payments in the U.S., 3.2 billion of which were made through an electronic channel (which include ACH, corporate credit card, wire, etc.). The reason for fewer annual total payments than invoices is because many large companies will remit a single large payment for multiple invoices.

Total B2B Payments Revenue Opportunity (millions)

	2010	2020	CAGR
Estimated electronic B2B transactions	3,240	8,135	10%
Implied paper B2B transactions	5,286	3,323	-5%
Estimated Total B2B	8,526	11,458	3%
Avg. revenue per electronic payment	$1.25	$1.25	
Electronic B2B revenue opportunity	**$4,050**	**$10,169**	**10%**
Total B2B revenue opportunity	**$10,657**	**$14,322**	**3%**

Source: NACHA, AFP, Bottomline Technologies, and Raymond James research.

While domestic B2B electronic payments methods are believed to be roughly 40% penetrated, the electronic invoice presentment and payment (EIPP) market is only a fraction of that amount. EIPP is defined as the process by which companies present invoices and make payments through a common settlement network. A consumer example of a payment network many investors are familiar with would be CheckFree (owned by Fiserv). CheckFree rose to investor and consumer prominence in the last decade by providing a neutral third-party outsourced service that hosted electronic consumer bills, which bank customers could access through their financial institution and remit through an electronic payment network. This service became very successful after Bank of America started offering these services for free (other banks adopted CheckFree's technology and offered similar pricing).

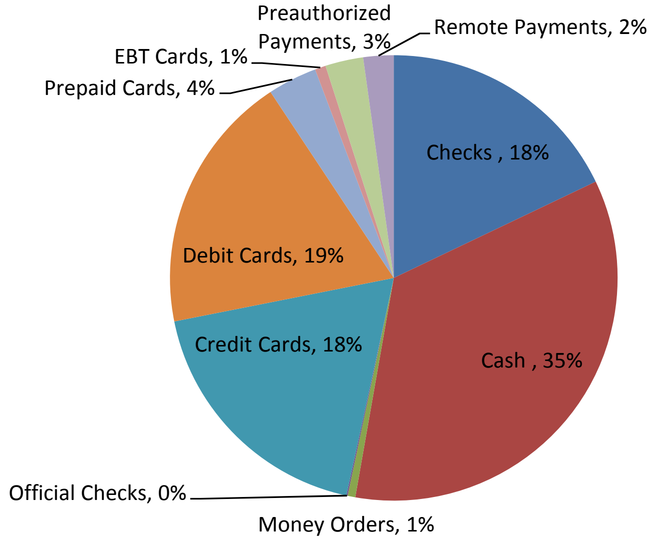
According to recent studies, the EIPP market represents only 16% of total B2B payments (40% of electronic B2B payments) with higher adoption rates at larger firms. We believe EIPP solutions could gain favor and expand as a percentage of electronic B2B payments as they create a standardized web-based portal in which invoices and payments can be exchanged and automatically adjudicated, reducing the integration and processing burden on corporate buyers and suppliers.

Money Transfer

According to the World Bank, the dollar value of money remitted to developing countries in 2011 was $351 billion, up 8% from $325 billion in 2010. With the average transaction fee of approximately 7.3% of the dollar value being sent, we think the revenue opportunity for 2011 was approximately $25 billion. We think this revenue opportunity will continue to grow as worldwide remittances advance at a mid-single-digit pace offset slightly by 1-3% per year price compression.

Technological advancement in the last decade of the twentieth century achieved unprecedented price-to-performance ratio improvements and encouraged the introduction of far more efficient, and in some cases novel, electronic payment processing services. These new outsourced functions included enabling Internet-based payment transactions for the then nascent but rapidly expanding e-commerce market.

Total Consumer Payments 2006A

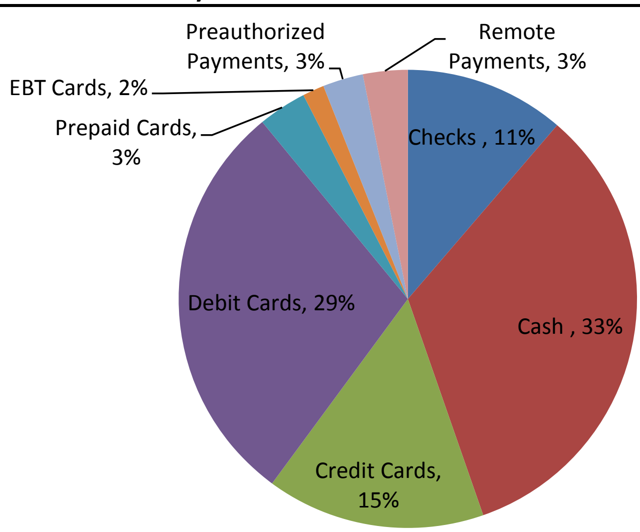


Source: The Nilson Report.

In the physical world, credit card processors benefited from expanding transaction volume (credit card usage), declining transaction processing (technology) expense, and relatively stable service pricing at mid-sized retailers. The variety and complexity of payment mediums grew with increased consumer usage and the launch of the following: debit cards, gift cards, pre-paid or stored value cards, private-label credit cards, general purpose (Visa/MasterCard/American Express/Discover) credit cards with loyalty rewards, ATM cards, and paper-to-electronic check conversion at the retail PoS.

The severe worldwide financial crisis that gripped global economies in the 2007-2009 timeframe drove change in the consumer payment method of choice, particularly in the U.S. For the first time, debit card transactions outnumbered credit cards, a trend we expect to continue over the next five years. Prior to the global economic crisis, domestic credit card transaction volumes were tracking in the high single digits, and debit card transaction volumes were in the high teens. We believe that the long-term trend will moderate to mid- to high-single-digit growth for credit and mid-single-digit expansion for debit.

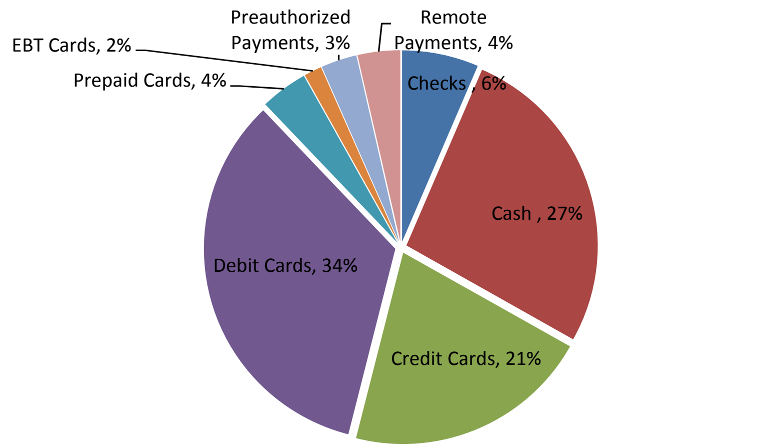
Total Consumer Payments 2010A



Source: The Nilson Report.

High interchange fees have also led to the development of new low-cost electronic payment alternatives, such as ACH linked accounts, which are less expensive for retailers to accept and more convenient for consumers to use. If current trends continue, we believe these new payment mediums could gain traction over the next few years in the physical and online worlds.

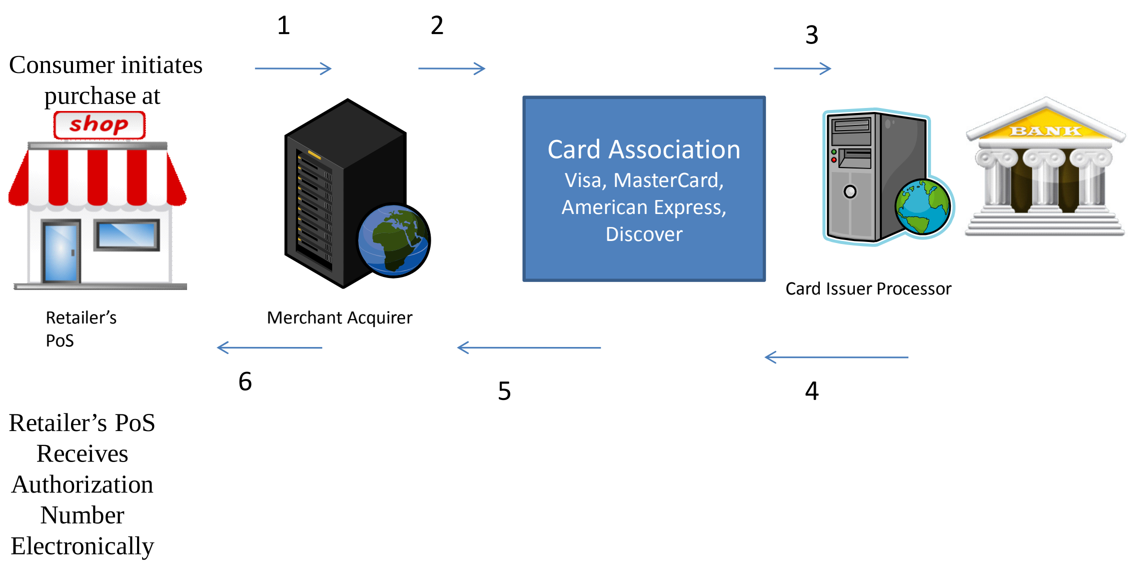
Total Consumer Payments 2015E



Source: The Nilson Report.

Traditional Credit Card Authorization Flow Chart

I. Authorization: Front End



Source: Raymond James research.

Authorization

A merchant processor acts as an electronic intermediary between the retailer's PoS system, the retailer's bank, a credit card association such as Visa, MasterCard or American Express, and the customer's credit card issuing financial institution (i.e., Bank of America or Wells Fargo). A co-branded or general purpose credit card is one that bears the brand of a card association, such as Visa, MasterCard, American Express, or Discover, and can be used wherever those cards are accepted. When the store clerk passes a credit card through a PoS device, the retailer digitally transmits transaction information (account number, cardholder name, account expiration date, security information, and requested purchase amount), along with the 10-digit Merchant Identification Number and a separate classification number for the specific PoS unit used, to the merchant processor (1).

The first six digits of the credit card number are referred to as the Bank Identification Number (BIN) and represent direction-finding data on the card association and the financial institution that issued the card. From this number, the merchant processor is able to determine and forward the transaction to the appropriate card association (2), which serves as a central network to connect acquirers and issuers and set the service prices between the two (card associations will be discussed in more detail later).

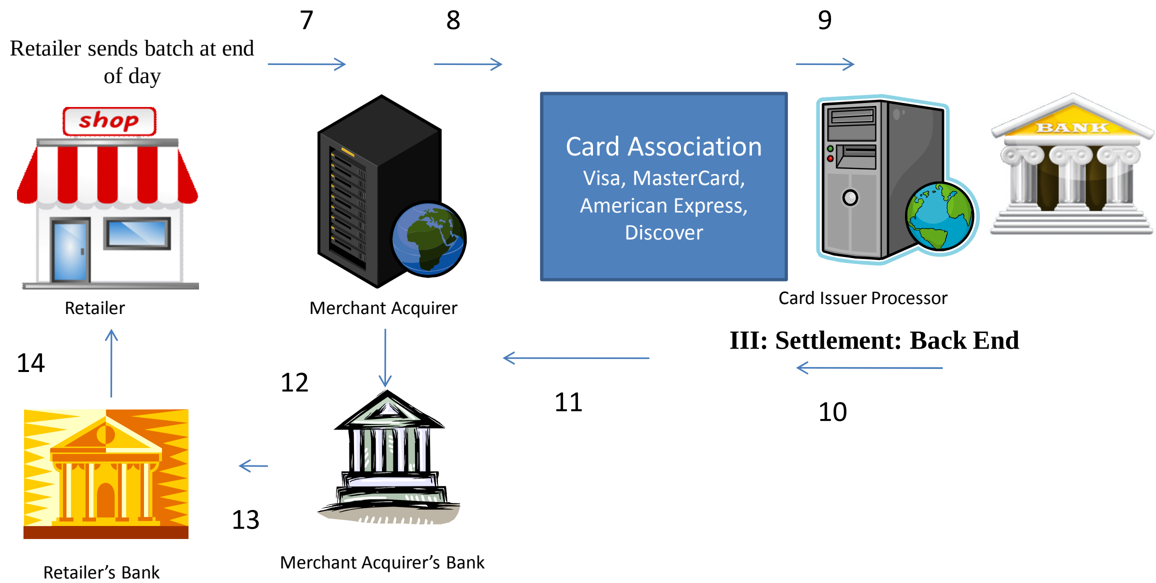
Prior to forwarding the transaction information to the card association, the merchant processor authenticates the merchant and terminal identification number. After receiving this information, the card association reads the BIN, which identifies to which card issuing bank it should relay the transaction information for approval (3).

The card issuing bank authenticates the customer's account number, reviews the customer's account and the requested purchase amount, and responds with an approval (or denial) code and some additional compliance data, referred to as an Authorization Characteristics Indicator (ACI). These indicators will vary based on the card association. For instance, Visa refers to its ACI as a Transaction Identifier, which is 15 characters and is a unique Visa-generated identification number that links authorizations to clearing messages. As part of its ACI, Visa also issues a four-digit validation code, which is calculated by Visa to match the authorization record with the clearing record. MasterCard's ACI consists of a nine-digit BankNet Reference Number, assigned to each authorization message, and four-digit BankNet date (in MMDD format).

After these numbers are generated, the transaction information, approval code, and ACI are then sent back to the card association (4) and the merchant processor (5). The merchant processor then uses the 10-digit merchant identification number and PoS identification number that were originally provided by the retailer to send the transaction information, approval code, and ACI back to the retailer, where the transaction is *authorized* (6). This entire process usually takes several seconds.

Traditional Credit Card Capture and Settlement Flow Chart

II. Capture: Front End to Back End



Source: Raymond James research.

At the conclusion of the business day, the retailer provides transaction information (customer name, account number, expiration date, transaction amount, and approval code and ACI provided during authorization by the card issuer) to the merchant processor (7).

The merchant processor, in turn, electronically submits this information to the card association (8), which forwards the information to the appropriate card issuing processor (9). These three steps are referred to as *capture*.

The card issuing bank will then ensure that the approval code and ACI match those issued during the authorization process and, if the numbers are validated, post the charges to the customer's credit card account and send the appropriate funds, through the card association (10) and the merchant processor (11), to the credit card processor's bank (12), the retailer's bank (13), and ultimately the retailer (14). These three steps are referred to as *settlement*.

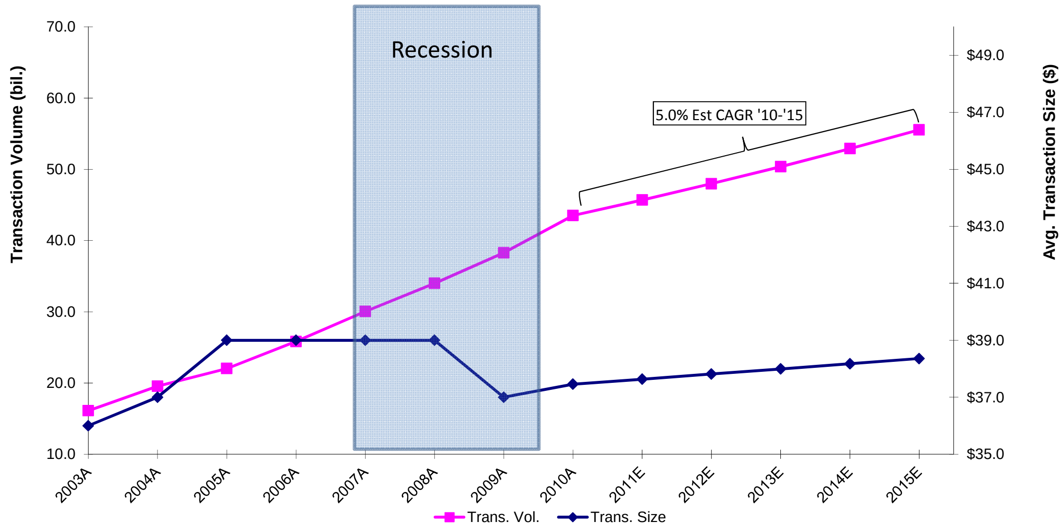
Shift to Electronic Payments

U.S. Total Consumer Payment Transactions

	2006		2010A			2015E			
	Transactions (Bil)	% of Total	Transactions (Bil)	% of Total	CAGR ('06-'10)	Transactions (Bil)	% of Total	CAGR ('10-'15)	CAGR ('06-'15)
Cash	47.8	34.9%	50.1	33.2%	1.2%	43.7	26.6%	-2.7%	-1.0%
Check	24.5	17.9%	17.0	11.2%	-8.8%	10.6	6.4%	-9.0%	-8.8%
Credit	25.3	18.4%	23.2	15.3%	-2.1%	34.1	20.7%	8.0%	3.3%
Debit	25.8	18.8%	43.5	28.8%	13.9%	55.5	33.8%	5.0%	8.8%
Prepaid	4.9	3.6%	5.1	3.4%	1.2%	6.5	4.0%	5.0%	3.3%

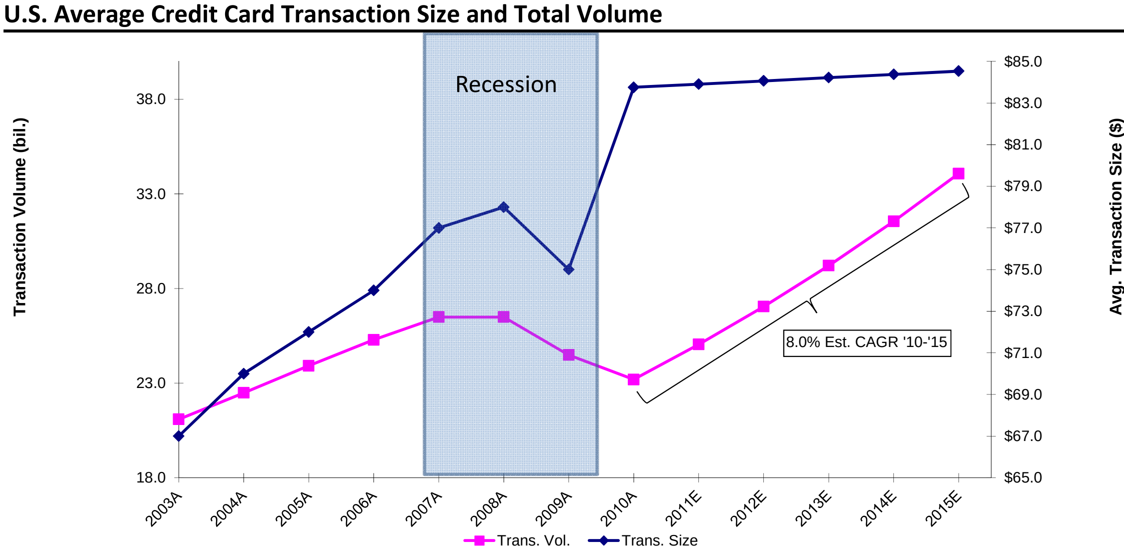
Source: The Nilson Report, Raymond James research.

U.S. Average Debit Card Transaction Size and Total Volume



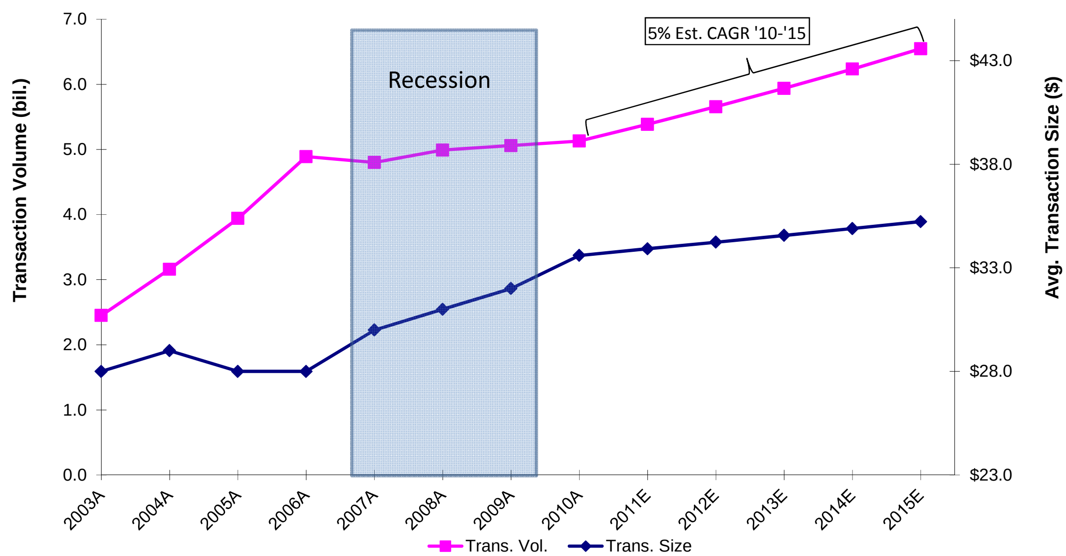
Note: Debit cards have emerged as the payment medium of choice by U.S. consumers due to credit limit contraction and accelerated replacement of paper-based form factors.
Source: The Nilson Report, Raymond James research.

U.S. Average Credit Card Transaction Size and Total Volume



Note: Credit card transaction size has been negatively influenced by the recession and the 20-25% reduction in available consumer credit in the U.S.
Source: The Nilson Report, Raymond James research.

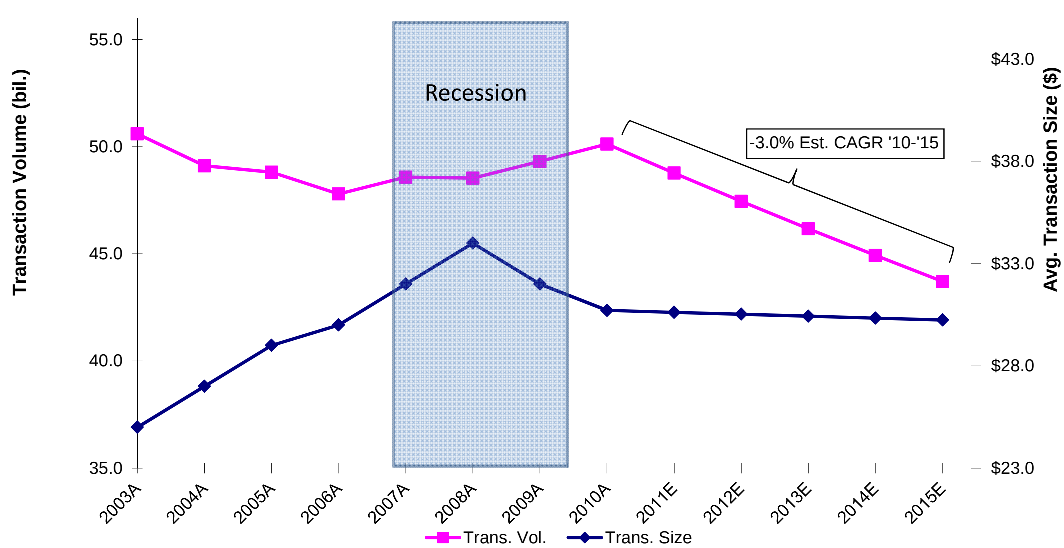
U.S. Average Prepaid Transaction Size and Total Volume



Note: 25% CAGR in transaction volume between 2003 and 2006.
Source: The Nilson Report, Raymond James research.

We think prepaid transaction size and volume could trend upward from our estimates, as it is used as a substitute for cash and traditional payment cards for the unbanked population in the U.S.

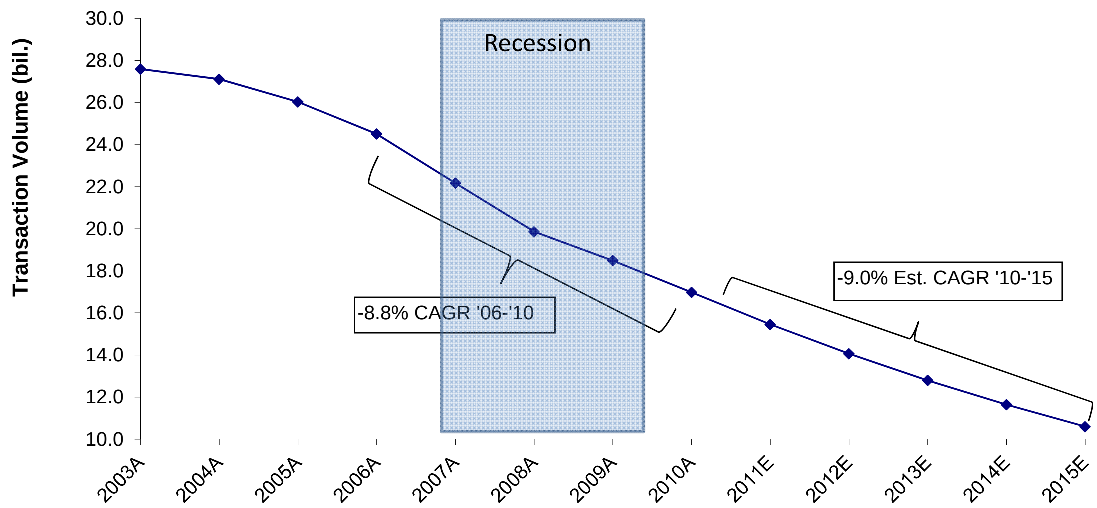
U.S. Average Cash Transaction Size and Total Volume



Source: The Nilson Report, Raymond James research.

We expect the volume of cash transactions to decline 10% from 2005-2015, as this payment medium is replaced by electronic form factors.

U.S. Total Check Volume at Point of Sale



Source: The Nilson Report, Raymond James research.

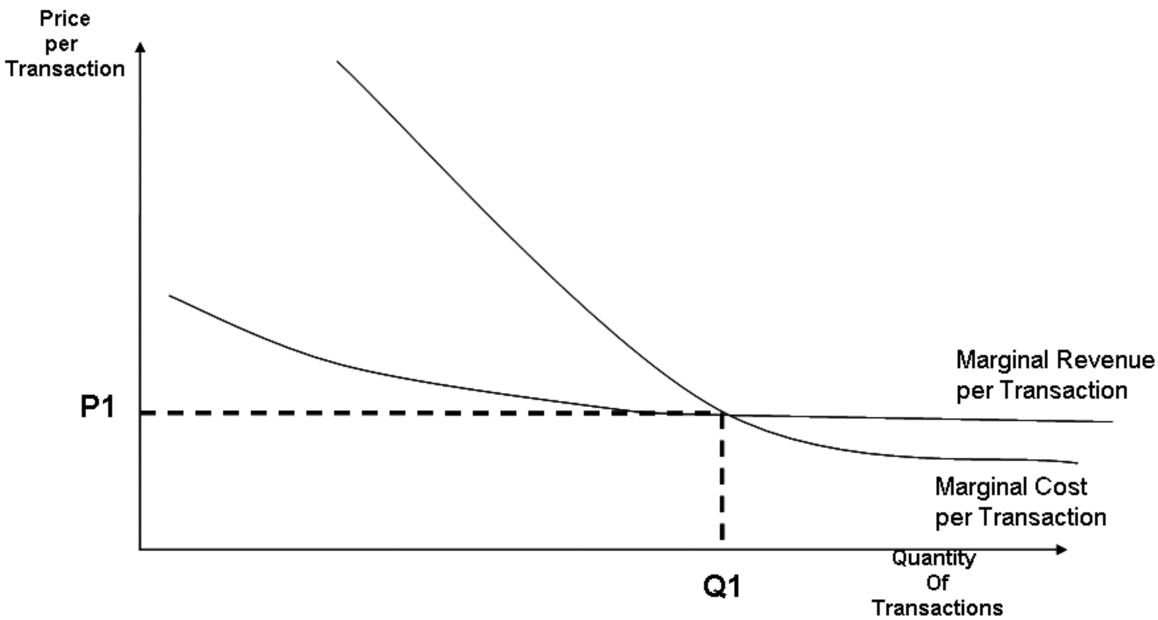
We expect check transactions to decline approximately 60% from 2005-2015, as this payment medium is replaced by electronic form factors.

Common Operating Metrics

Most of the companies we cover offer a hosted or outsourced service, which in some cases, is branded by the client and sold to its customers.

These outsource service companies usually charge on a tiered transaction volume basis and operate a fixed cost and recurring revenue business model (see the following description and diagram).

Transaction processing companies generally perform automated services over a fixed cost infrastructure, meaning once the costs to purchase and build the processing platform, database, information sources, and engineers are absorbed, there is very little additional expense per transaction.



Source: Raymond James research.

We believe the incremental operating margin per transaction or query could be significantly higher than the corporate or segment average operating margin.

We also believe there is low overall service penetration, which could make the revenue streams for these types of companies less cyclical than other sectors of the economy.

Companies in the transaction processing sector often generate 80%+ recurring revenue, strong free cash flow, low capital expenditures, top-line growth of 10%, and EPS growth of 15% on 20% operating margins.

Many transaction processing companies manage a clean balance sheet with no debt and lots of cash.

Mobile

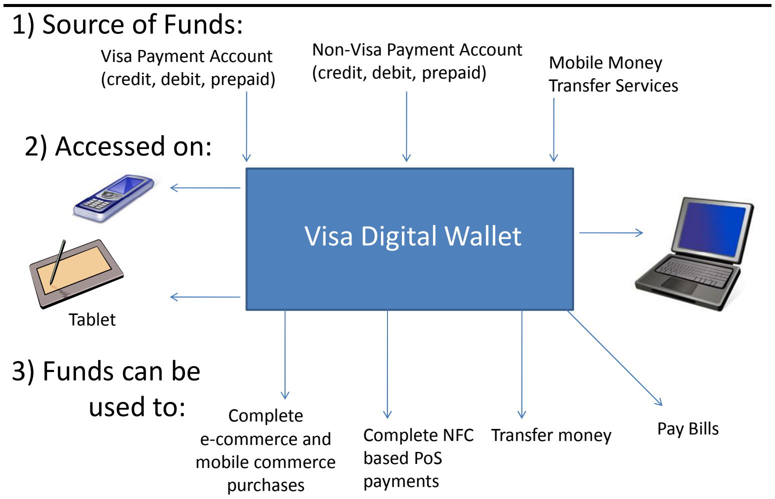
A digital wallet is a central electronic portal (mobile phone, tablet, Internet, or laptop based) where users can store and access a variety of payment methods. Within the digital wallet, users will be able to organize various payment accounts, customize settings (for example, set specific payment accounts for specific retailers), control privacy protocols, and opt in for discounts and promotions at participating retailers. The digital wallet serves as a neutral and brand-agnostic point of access for mobile payments.

Visa's Digital Wallet (V.me)

Visa introduced its new mobile/e-commerce payments strategy in F3Q11, which should expand the company's emerging payments footprint. The solution positions Visa as an agnostic, central, digital portal where users can store and access a variety of payment methods (Visa accounts, competing payment alternatives, or mobile money transfer services) to: 1) complete purchases on e-commerce, mobile, or social networking websites and the retail point of sale; 2) transfer money; and 3) complete mobile top-up transactions to pre-pay for cell phone air time. In other words, Visa is acting as a neutral mobile and e-commerce electronic payments aggregator (i.e., a digital wallet).

The product ended beta testing with 1,000 Visa employees during the F1Q12. Visa indicated they are on schedule for implementations with several financial institutions and expect mobile handset manufactures to incorporate a near field communication (NFC) chip while retailers upgrade their point of sale devices to include NFC signal readers are supposed to be more widely available in 2H12, which collectively could stimulate V.ME adoption by consumers and retailers.

We are excited by the long-term business prospects in the mobile payments space in general and Visa's potential role in particular. Users of the service will be able to conveniently make online payments without entering sensitive payment information on each individual site they visit (similar to PayPal). As the program expands, the company expects to enable targeted advertising and coupon offers to consumers.



Source: Visa and Raymond James research.

MasterCard's PayPass Wallet Services

On May 6, 2012, MasterCard announced its global mobile wallet offering, which enables brand-agnostic payment card NFC transactions at the point of sale or one-click checkout for mobile or e-commerce customers. The solution may be white labeled by banks, merchants, or other partners and its open architecture should allow existing mobile wallets to connect to the PayPass network. PayPass Wallet Solutions consists of three components: PayPass Acceptance, PayPass Wallet, and PayPass API.

PayPass Acceptance describes the transaction capabilities of the solution. Payment transactions at the physical point of sale will be NFC based while e-commerce payments will be enabled through the new PayPass checkout service (similar to PayPal).

Source: MasterCard.

PayPass Wallet enables banks, merchants, and other partners to offer white-labeled mobile wallet solutions to their customers. In our opinion, consumers might be more open to adopting a mobile wallet offered by their existing financial institution due to the inherent familiarity, trust, and ability to utilize the same login credentials (ease of use).

PayPass API allows partners to link existing mobile wallets to the PayPass network. This will allow those institutions to leverage PayPass e-commerce checkout capabilities, fraud detection, authentication services, and expand acceptance to all PayPass enabled locations.

Google Wallet

On May 26, 2011, Google unveiled a new mobile wallet and payments solution, which enables consumers to store payment card data in an Android-operated smartphone application and complete NFC-based transactions at the retail point of sale. In addition, users can search for, receive, and retrieve coupons, deals, and promotions directly onto the NFC compliant device. This announcement, along with other solutions introduced by Visa and ISIS (Verizon, AT&T, and T-Mobile) confirms our thesis that mobile payments will be offered on a broad scale in the U.S. once the digital wallet and NFC data formatting is established.

Google will initially partner with MasterCard (for the payment's network and acceptance at existing PayPass locations), Citibank (for card issuing), Sprint (for the Internet and NFC-enabled handset), and First Data (for mobile wallet management, retailer recruitment, and merchant acquiring) for Google Wallet.

The mobile wallet solution showcased at the launch event was initially funded by two solutions: 1) a Citi MasterCard and 2) a virtual Google (Mastercard) Prepaid card (can be funded with any payment card). On August 1, 2012, Google announced a cloud version of the wallet application enabling users to load any payment card into the online wallet (stored in a secured Google datacenter). The new version altered storage of secure card data from on the phone to in the cloud, and uses a virtual payment card on the phone to enact transactions (so the merchant of record on a given card would be Google because you are just funding the virtual card for each transaction). We think storing sensitive data remotely is a positive development given ongoing concerns regarding security of user information on the physical device.

The collaboration with MasterCard allowed Google Wallet to be immediately accepted at more than 124,000 PayPass-enabled retailers, thereby permitting consumers to simply tap and pay at the PoS. On September 19, 2011, Google received a worldwide license to Visa PayWave, Visa's contactless payments solution, setting the stage for Visa branded cards to be added to the Google Wallet. Over time, retail acceptance should increase as more retailers purchase NFC-compliant PoS devices.

Google has wraped up pilot programs in New York, San Francisco, and Oregon and has begun a larger rollout of the service. The company is working with PoS manufacturers (VeriFone, Ingenico, Hypercom, and VIVOTech) who will offer NFC-compliant PoS devices for retailers to accept mobile payments from the Google Wallet. In addition, retail partners, including Macy's, American Eagle Outfitters, Bloomingdale's, Champs Sports, and Subway, will be the first to accept the solution. The service will initially be offered on Google Android-based Sprint Nexus S 4G handsets (with built-in NFC chips) but will likely expand to solutions offered by Apple, Blackberry, and other Android-based handsets.

The solution suffered a setback when Verizon indicated it would not allow the service on its phones. This creates a meaningful issue in that Google is dependent upon carriers to allow the solution on their network, which would be in direct competition to their joint ISIS effort.

Source: Google.

Isis

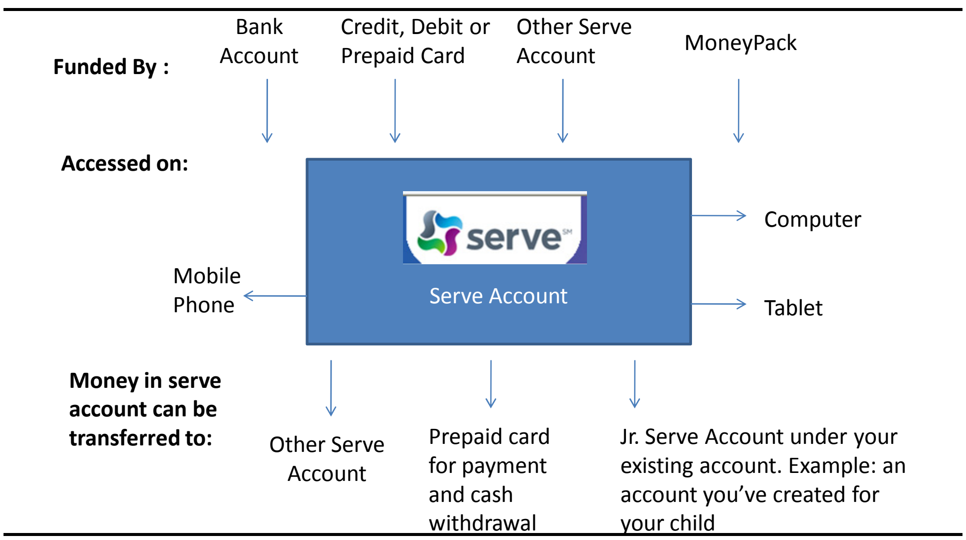
Organized on November 16, 2010 (news articles on Isis preceded the formal announcement), Isis is a mobile wallet joint venture originally between AT&T, Verizon, T-Mobile, and Discover. There are over 200 million mobile subscribers in the U.S. on the AT&T, Verizon, and T-Mobile networks who may be eligible for the service.

The proposed service would enable users to complete NFC-based mobile payments at the retail point of sale. We think the joint venture may permit an Isis mobile wallet to come preinstalled on new mobile handsets or could be downloaded on existing devices. The payment card account was initially to be issued by Barclays, and each transaction was expected to be cleared or managed by Discover. On July 19, 2011, Isis partnered with the remaining three large payments networks (Visa, MasterCard, and American Express), creating a more open environment. The company will run pilot programs in Austin, Texas, and Salt Lake City, Utah, in 2012.

On September 27, 2011, Isis took another step forward toward widespread acceptance of NFC-enabled payments by announcing major mobile device manufacturers HTC, LG, Motorola, Research in Motion, Samsung, and Sony Ericsson will launch NFC-enabled devices compatible with Isis technology. The announcement is a positive for the entire NFC mobile payments ecosystem, as it should provide more handset choices for consumers wanting to utilize NFC-enabled payments, driving increased adoption. Currently, there are a limited number of mobile devices that are NFC ready, with most being enabled through the addition of a microSD card or handset case containing an NFC chip.

Serve by American Express

Serve provides users a financial account in which money can be deposited through a variety of sources, accessed on multiple devices, and deposited into several platforms. Serve offers free money transfers and payments; however, the service imposes fees to fund a Serve account by credit card (2.9% of amount transferred plus $0.30) and for ATM withdrawals (first withdrawal per month is free, $2 after that).



Source: American Express and Raymond James research.

At this time, Serve is mostly available as a money transfer service and is capable of making retail purchases through a physical Serve reloadable prepaid card, which can be linked to a Serve account. Eventually, users will be able to use Serve accounts to make payments and redeem offers. An August 1, 2011, announcement indicated that Verizon will integrate Serve on many mobile devices, and Serve expects to simplify the checkout process by authenticating a mobile number to allow customers to make purchases. A purchase could be made using a Serve account at the checkout counter by customers providing their phone number and unique Personal Identification Number (PIN) or through a physical reloadable prepaid card.

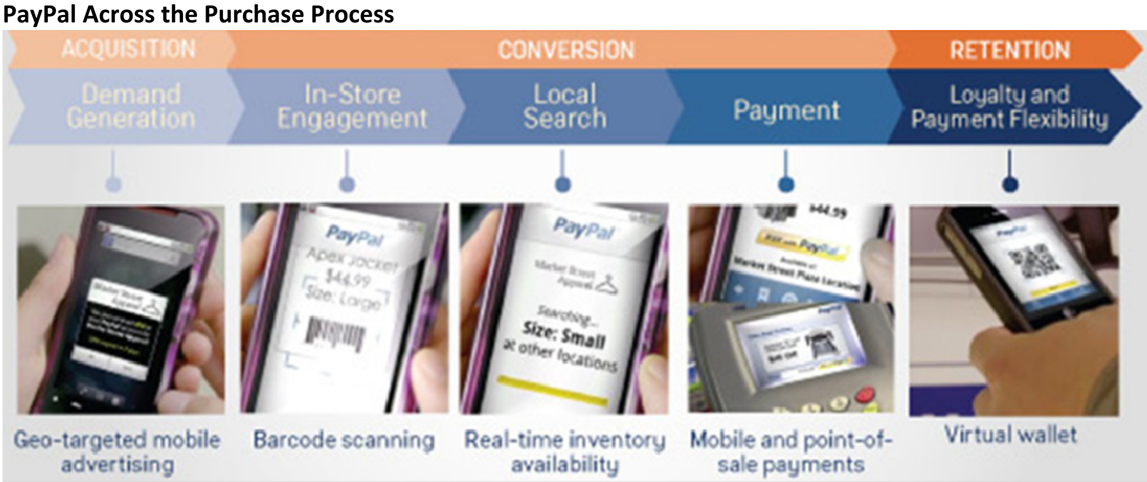
PayPal

PayPal offers a smartphone application that can be used to view account information, transfer money, complete mobile commerce transactions, and fund point-of-sale transactions. Over the next one to two years, PayPal is moving toward technology that enables consumers to pay at the point of sale through NFC technology, entering a mobile phone number and four-digit PIN, or through a physical card linked to a PayPal account. As with many digital payments initiatives, PayPal is also planning on offering advertising, loyalty, and couponing services to drive adoption and use of the services. PayPal is delivering value to consumers through multiple channels.

PayPal is currently rolling out in store acceptance with 15 major retailers following a successful launch with Home Depot which ramped from a five store pilot to fully deployed at all 2,000 stores in roughly two months. PayPal might try and subsidize some amount of the traditional merchant discount in an attempt to capture increased market share and acceptance at retailers. The company may be able to compete in such a manner given some percentage of transactions through PayPal are funded with a user's bank account, circumventing costs associated with traditional payment card transactions. The higher margin earned on these account funded transactions may be used to offset potential price concessions.

On August 22, 2012, PayPal announced it would issue payment cards to its online subscribers and by mid-2013 those cards are scheduled to be accepted at approximately 7 million retailers served by the Discover network. We view this announcement as a positive for PayPal as it should accelerate acceptance at the physical point of sale and may provide a stepping stone for adoption of their mobile solutions.

PayPal Across the Purchase Process



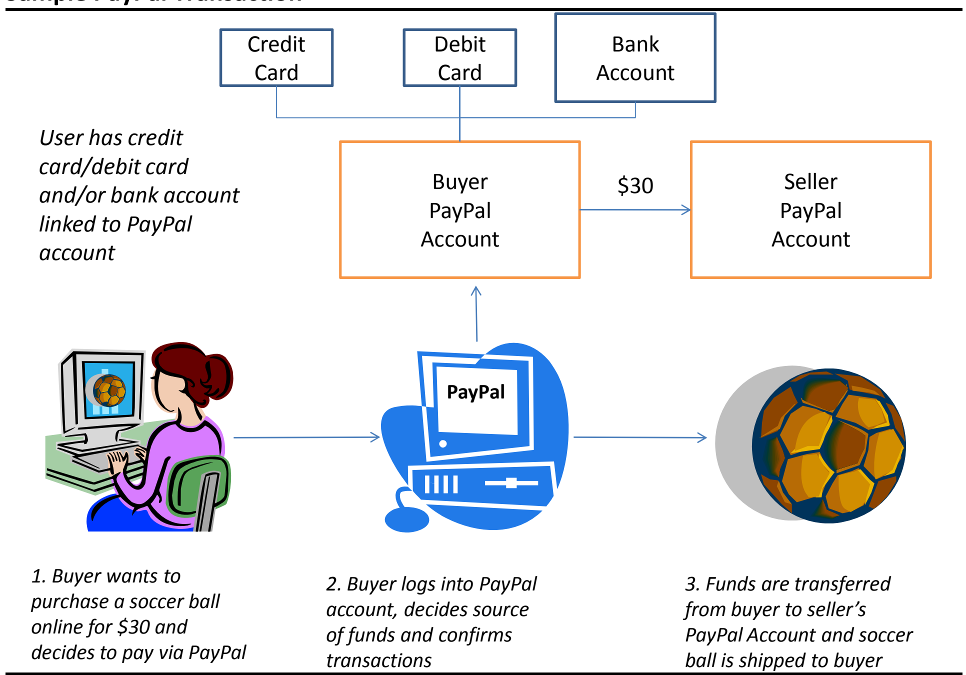
Source: PayPal

PayPal is a global online payments channel owned by eBay that allows users to make and receive payments and money transfers online. The service has been extremely successful in driving adoption by providing a service that is convenient and trusted by more than 94 million users and 8 million e-commerce websites worldwide. Founded in 1998, PayPal was a pioneer in the online payments space and capitalized on its first mover advantage by quickly signing up large numbers of users and merchants. In 2002, the service was purchased by eBay for $1.5 billion. In 2011, eBay reported mobile payments volume of $4 billion, a fivefold increase over 2010. Furthermore, the company anticipates $10 billion in mobile volume in 2012 (revised upward from $7 billion in 2Q12).

When users shop online, they can choose PayPal as a payment option at participating websites and log into their PayPal account using an email address and password. Users can link their bank accounts, debit cards, or credit cards to their PayPal accounts to fund purchases. The company continues to expand its reach; after a recent agreement with Green Dot, consumers who were previously excluded from PayPal because they did not have bank accounts or any payment cards may now utilize Green Dot Money Paks to open and load funds onto their PayPal account.

Once a user has logged into PayPal during the online shopping payment process, he or she chooses the source of funds for the payment (existing PayPal balance, credit card, Bill Me Later account, or bank account), and after confirming the payment, the balance is credited (transferred) to the seller's PayPal account. Since the funds are simply transferred to the seller's PayPal account, he or she does not receive the buyer's credit card, bank account, or other secure financial and personal information. Users can also use the website for money transfer, both domestic and international, between one PayPal user account and another.

Sample PayPal Transaction



Source: eBay and Raymond James research.

Square – Pay With Square

Square, started by Twitter founder Jack Dorsey, launched in 2010, is probably best known for its free card reader and application for the iPhone, iPad and Android offered to small merchants and individuals, which can be used to accept Visa, MasterCard, American Express and Discover cards. Investors should be aware Square is not a credit card processor, that function is outsourced to Paymentech, the fourth largest domestic acquirer. The company also offers user facing customer loyalty and transaction record keeping functions specifically designed for the micro merchant segment. On May 23, 2011, the company introduced a mobile application (initially called Card Case but subsequently renamed to Pay With Square) enabling users to "check in" to retail locations and complete payment transactions without swiping a card.

On August 8, 2012, Starbucks announced it will process credit and debit card transactions with Square, invest $25 million in the payments startup, and assume a board seat at Square (occupied by Howard Shultz, CEO of Starbucks). Initial details are limited; but, later this fall customers will be able to use the Pay with Square app downloaded on their smartphone to make payments at approximately 7,000 company owned stores. According to news reports, Starbucks will integrate Square`s applications into existing PoS technology; and, it appears the overall goal is to provide customers with a mobile-based payments option, first barcode and eventually fully mobile. As a reminder, Starbucks runs a well-received barcode based mobile payments program already (reportedly with 1 million transactions per week).

We view the announcement as a significant positive for Square, giving them a large and recognizable reference customer, moving them upstream from their targeted micro-merchant segment. We assume there were price concessions given to Starbucks below the typical 2.75% of total transaction value charged to Square customers (the board seat may also sweetened the deal for Starbucks).

Pay with Square users download a mobile application and enter payment card information (can support multiple cards). The application has a search function which can locate nearby retailers equipped to accept payment through the application. When the customer enters a store and enables the application (by clicking a button labeled "open a tab") a picture and name appear on the retailers PoS (must use Square's iPad solution). When the customer is ready to check out at the retail PoS they inform the cashier to charge the purchase to their account the cashier then selects the customer's name from the customer list on their PoS (verifying identity through the included picture) to complete the transaction. Payment card data is transferred electronically (through the Internet) with no need to physically swipe, tap, or manually enter card data.

Source: Square.

Pay with Square offers an interesting mix of products, combining search, information (can pull up menus, hours, etc.), social, payments, and loyalty. Additionally, the use of geofencing, or recognizing when a user is within a certain proximity of an enabled site, may provide incremental marketing opportunities and allows payments to be made by simply asking to "put it on my tab", negating the need to take a payment card or smart phone out of one's pocket to complete a transaction.

White Labeled Solutions: Shaking Up the Status Quo

On January 26, Fidelity National Information Services (FIS) announced it will distribute a new mobile wallet capability to its customer base of 14,000 predominantly financial institutions, and 18 of the top 25 national retailers. A private mobile payments company, Paydient, has designed a white labeled mobile wallet solution that can be branded by financial institutions and marketed through FIS (MasterCard pursuing a similar strategy). The agreement could stimulate the adoption of mobile wallets, as financial institutions might be more willing to promote this type of offering because of a new branding opportunity and consumers may feel more comfortable using a bank sponsored mobile wallet. Additionally, allowing the adopting institution to maintain branding could increase customer loyalty and enables enhanced marketing opportunities, such as couponing and directed advertisements.

We believe the announcement may be a slight negative for competing branded mobile wallet providers. These competing solutions must build product awareness and drive adoption through marketing initiatives, while financial institutions already have a captive audience of customers, many of which use mobile banking. Adoption of FIS' offering could be viewed as a customer acquisition and retention tool by many financial institutions looking to increase customer loyalty and brand awareness. We view this announcement as an interesting divergence from the development of branded mobile payment solutions by Visa, PayPal, Google, and others.

Conceptually, we think consumers will be able to download a mobile wallet application sponsored by their financial institution to their smartphone. Account data would be hosted by Paydient in a payment card industry (PCI) level-1 compliant datacenter, isolating sensitive card credentials from retailers and the mobile device itself. To use the wallet, the consumer would access a password protected application, select the desired payment method (account or card), and complete the transaction through a barcode-based capability, NFC (if phone is enabled), or e-commerce.

Mobile PoS Devices

Mobile PoS readers enable smartphones to be utilized as card-accepting point-of-sale devices. In addition to replacing low-end PoS devices at low-volume retailers, mobile PoS can also be used in situations where access to traditional point-of-sale devices is either impractical or impossible (examples include home and business deliveries, street vendors, remote entertainment venues, etc.). The three main providers for Mobile PoS add-ons for smartphones are Square, VeriFone, and Intuit. All three solutions require a hardware extension to a smartphone and the downloading of a corresponding software application. Once the point-of-sale software is open, an individual can swipe a payment card through the hardware extension in order to begin the transaction authorization process. Transaction confirmation, payer signature, and record-keeping functionality are all completed within the software application. A receipt can be emailed to the payer once the transaction is complete. Upon transaction settlement, fees are deposited into the retailer's bank account.

Recently, there has been an increase in the number of iPad-based PoS solutions, which could signal rising competition in the mobile PoS solutions segment. The mobile payments space in particular is evolving and moving rapidly. In our opinion, since that functionality is so new and early in its life cycle, no clear winner has been established. We believe when retailers consider mobile transactions, they will look to utilize solutions that 1) are cost effective; 2) are supported by recognizable and respected manufacturers; and 3) offer value-add applications that can drive efficiency and customer loyalty. For these reasons, many of the smaller players who lack significant backing could be at a disadvantage.

Square

Square offers users a free card reader and application for the iPhone, iPad, and Android devices and can be used to accept Visa, MasterCard, American Express, and Discover cards. Square was initially created as a way for very small merchants that traditionally accepted cash-only payments (due to volume and cost constraints or lack of storefront) to offer payment card acceptance. By offering a free card reader and application download to the retailer's smartphone, Square has directly targeted these cost-conscientious small lower-end retailers and enabled them to potentially convert more sales to payment cards. Investors should be aware Square is not a credit card processor, that function is outsourced to Paymentech, the fourth largest domestic acquirer. The company also offers user facing customer loyalty and transaction record keeping functions specifically designed for the micro merchant segment.

In late February 2011, the company eliminated a $0.15 transaction fee and will now charge retailers a flat merchant discount (total cost for accepting payment cards) rate of 2.75% for all transactions. On August 16, 2012, the company introduced a flat $275 per month fee option for retailers with less than $250,000 of annual volume. On January 10, 2011, the company received a $27.5 million round of financing from Sequoia Capital valuing the company at $240 million. In late April 2011, Visa also made a strategic investment in Square (undisclosed amount), representing a vote of confidence from an important industry participant, in our opinion. On June 28, 2011, Square announced it had closed a $100 million round of funding, reported to value the company at over $1 billion, from Kleiner Perkins Caufield & Byers. In conjunction with the August 8, 2012, Starbucks deal (which included a $25 million investment) many press outlets indicated the company was raising $200 million at a $3.25 billion valuation.

Square Reader plugs into phone's headphone jack

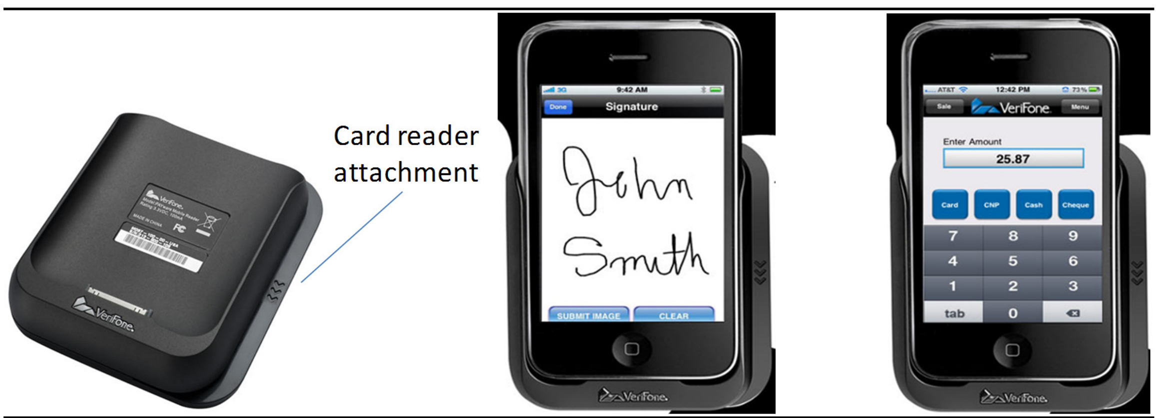
Source: Square.

VeriFone PAYware Mobile and SAIL

On May 8, VeriFone announced the rollout of a new low-end point-of-sale device/service called SAIL, which will directly compete with Square, PayPal, and other low-end payment acceptance solutions. We are excited about this announcement because the company is expanding its addressable market opportunity at small retailers, which were previously ignored in VeriFone`s push to target larger multi-lane retailers. The solution also integrates with larger existing systems, tablets, and smartphones allowing for in-store add-on connectivity at retailers and restaurants. Industry observers have been looking for the next generation low-end payment acceptance device from VeriFone and now the company has answered. SAIL comes bundled with transaction processing capability and is priced as a payment-as-a-service similar to competitors. In addition, VeriFone has taken the step to link with social media and online guides such as Twitter and Yelp.

Source: VeriFone Systems, Inc.

PAYware Mobile is a hardware and software solution that allows a retailer to turn a smartphone into a portable point-of-sale device. Currently, the full solution is only offered for the Apple iPhone, with downloadable applications for BlackBerry and Google Android but no card reader at this time. In order to turn the smartphone into a point-of-sale device, retailers must connect a credit card encryption sleeve to the phone (through the charger jack) and download and install a PAYware Mobile application onto the device. The sleeve and application are free for retailers who sign up for a two-year PAYware Mobile secure gateway service agreement. Retailers swipe payment cards through the encryption sleeve and transactions are enabled by First Data. Transactions initiated by PAYware Mobile will be managed through VeriFone’s PAYware Mobile secure gateway and, over time, could be routed to one of many credit card processors for authorization and settlement. In order to accept payment cards via PAYware, users must open a merchant account and sign a processing contract. The hardware is currently available through VeriFone distributors and Apple retail stores. VeriFone has established PAYware mobile gateway processing relationships with more than 70 independent sales organizations (ISOs) to date.



Source: VeriFone Systems, Inc.

VeriFone also offers an enterprise version of PAYware mobile. The enterprise solution is a more robust design featuring a built-in PIN pad, barcode scanner, smart card (EMV), magnetic stripe reader, and NFC reader. The enterprise solution is made for more demanding and higher-volume environments.

Management stated First Data completed Class A certification for PAYware mobile during F2Q11 and will begin marketing the solution as its exclusive smartphone solutions. The company stated the PAYware gateway achieved an annual payments volume run-rate over $10 billion. Furthermore, VeriFone signed 43 new resellers for the solution and went live with processors, including Elavon.

On November 1, VeriFone acquired mobile PoS solution provider Global Bay for an undisclosed sum. The acquisition enhances VeriFone's position in mobile payment solutions, enabling not just payment transactions but value-added applications leveraging a single software platform with existing retail systems, which may create new selling opportunities and could lead to improving in-store time management and sales per associate. Capabilities include capturing sales away from the traditional checkout counter, on-the-spot inventory management, clienteling, and interactive media.

Inventory management applications extend existing inventory system functions (receiving, physical counts, product locator, marking items as "out-of-stock," price lookups, etc.) to mobile devices, enabling flexibility for associates to perform tasks throughout the store environment.

Retailing applications can turn a multimedia device (iPad) into a customer self-serve kiosk capable of delivering advertising content and allowing self-checkout. Features also could include credit card and loyalty enrollment, loyalty awards account lookup, electronic promotions, and coupons.

Clienteling applications can be used to track unique customer information and order history, empowering sales associates to better engage customers and drive cross sale opportunities. One interesting feature of Global Bay's application suite is a virtual wardrobe, which visually displays what a customer has purchased and allows the sales associate to make suggestions that can be added to a virtual wish list or shopping cart.

Global Bay Mobile Application Samples

Retailing Application

Clienteling Application

Source: VeriFone Systems, Inc.

Intuit GoPayment

Intuit offers retailers a free card reader and software application. The company charges a per-transaction fee of 2.7% and is compatible with most Apple, BlackBerry, and Android products. For more established businesses, the company offers a solution where users can pay $12.95 a month and the per-transaction charge is reduced to 1.7%.

Intuit has signed up 300,000 payments customers through the company-owned merchant acquiring service, or about 10% of its QuickBooks base. While not all payment customers use GoPayment, it represents an incremental driver of adoption, leading to increased cross-sell opportunities to existing customers and a differentiated offering to expand market share.

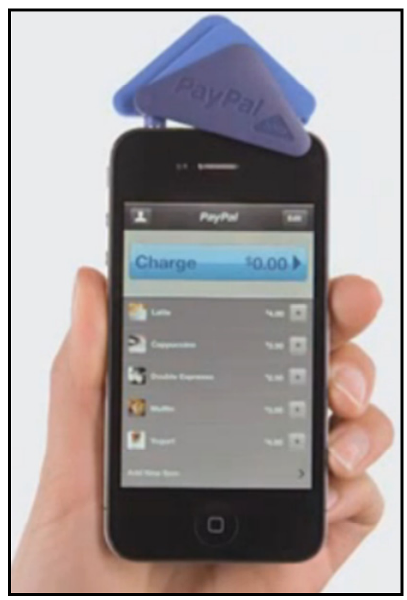
Source: Intuit.

During its F1Q12 earnings call, management stated it now processes nearly $5 billion in annualized transaction volume through GoPayment; and, on the F3Q12 indicated it generated over 400% user growth since last year. Intuit also indicated that the GoPayment solution has been a motivating factor to drive Intuit small business customers who already have a merchant service provider to switch to an Intuit payments solution, highlighting the opportunity presented by mobile payments.

One attraction of GoPayment over other mobile card readers is the integration with QuickBooks small business software, creating an Intuit connected eco-system (financial management, taxes, payroll, and payments).

PayPal Here

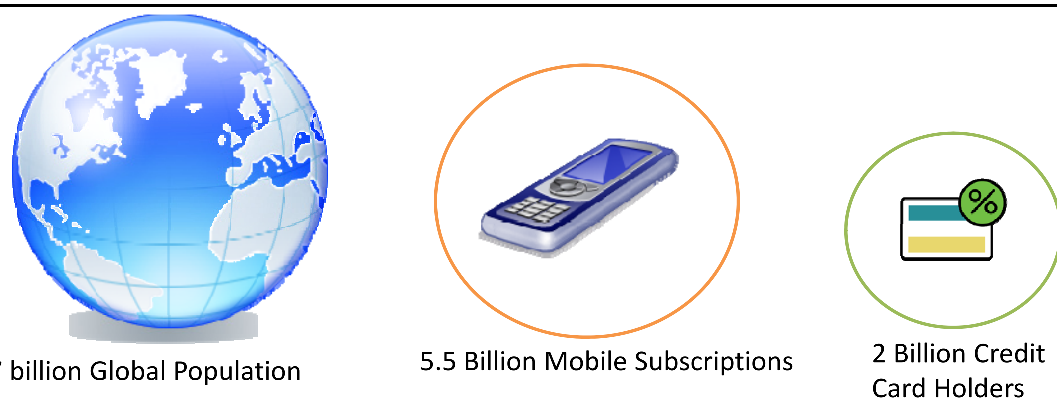
Introduced in March 2012 PayPal Here extends PayPal's reach from the Internet into the physical world. The solution is just being rolled out and will offer users a free card reader and application for Apple and Android mobile devices. It can be used to accept Visa, MasterCard, American Express, Discover, PayPal, checks, and send invoices. PayPal advertises a flat 2.7% fee per transaction for card present swipes or 3.5%+ $0.15 per transaction for keyed or scanned transactions. These rates appear comparable to rates available from incumbent solution providers Square, VeriFone, and Inuit.



Source: PayPal.

Mobile Phone Market

There are over 5.5 billion mobile phone subscriptions globally vs. approximately 2 billion credit card accounts. At the end of 2011, 36% of the 1.3 billion mobile phone units shipped globally were smartphones. Furthermore, we believe the penetration rate of smartphones will increase to nearly 45%, or 620 million units, in 2012.

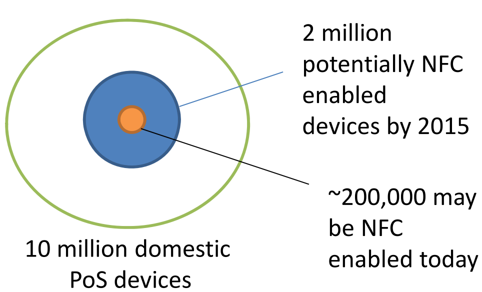


Source: Visa, MasterCard, and Raymond James research.

Hurdles to Adoption

Today: Mobile technology is used for short messaging service (SMS)-based money transfer, mobile Internet shopping, and mobile Internet-based money transfer. According to Gartner, in 2011, there may have been $86 billion worth of some type of mobile transactions, either e-commerce or person-to-person (P2P). Smartphone-based point-of-sale payments are still in their development phase and are not yet widely used.

Potential: According to Gartner, there could be $245 billion worth of transactions processed by 340 million global users in 2014. There are several NFC-based mobile payment initiatives that may be live in the next several years.



Today: We believe less than 2% of the approximately 10 million point-of-sale devices in the U.S., or roughly 200,000, are NFC-enabled.

Potential: We think that figure could grow to 25%, or 2 million devices, by the end of 2015.

Source: VeriFone and Raymond James research.

Transaction Processing Coverage Universe

ACI Worldwide Inc. (ACIW)	Designs, markets, and sells electronic payments-related software and services to large financial institutions, third-party payment processors, and retailers
Alliance Data Systems Corp (ADS)	Loyalty and reward programs, card and statement processing
Bottomline Technologies (EPAY)	Provider of electronic business-to-business payment, invoice, and document management solutions
Fidelity National Information Services (FIS)	Core bank processing, credit and debit card issuer processing, check risk management, and real estate-related services
FleetCor Technologies (FLT)	Fleet card program operator for the transportation industry
Global Payments Inc. (GPN)	Mid-market merchant acquirer
Green Dot Corporation (GDOT)	Leading provider of general purpose reloadable prepaid cards
Heartland Payment Systems (HPY)	Merchant acquirer for restaurant and small retailers in the United States
Higher One Holdings Inc. (ONE)	Leading provider of payment and disbursement solutions to higher education market
Intuit Inc. (INTU)	Financial record-keeping solutions for small businesses and electronic tax preparation for consumers
MasterCard Inc. (MA)	Second largest worldwide credit card association
Online Resources (ORCC)	Internet banking and bill pay
Total System Services (TSS)	Credit card issuer processing, outsourced merchant processing for banks, and merchant acquirers
Vantiv (VNTV)	Integrated merchant acquirer and issuer processor
VeriFone Systems, Inc. (PAY)	Point-of-Sale (PoS) devices
Visa Inc. (V)	Largest worldwide credit card association
Western Union (WU)	Money transfer services

Source: Raymond James research.

Transaction Processing Stock Price Risk Sensitivity

Legend

- Green: Little or No Risk
- Yellow: Moderate Risk
- Red: Significant Risk

		Economic Risks								General Risks											
Company Name	**Ticker**	Foreign War	Home Sales	Interest Rate Increase	International Exposure	Oil Price Increase	Recession	Consumer Spending/Retail Sales	Unemployment	Acquisition Integration	Balance Sheet	Customer Concentration	Customer Turnover	Information Storage	Limited Public History	Non-Recurring Revenue	Regulatory Risk	Reliance on Third Parties	Seasonality	Sector Concentration
ACI Worldwide	ACIW	Yellow	Green	Green	Red	Green	Yellow	Yellow	Yellow	Yellow	Green	Green	Yellow	Yellow	Green	Yellow	Red	Red	Red	Red
Alliance Data	ADS	Yellow	Green	Red	Green	Yellow	Red	Red	Red	Yellow	Yellow	Yellow	Yellow	Red	Green	Yellow	Red	Green	Yellow	Red
Bottomline Technologies	EPAY	Yellow	Green	Green	Yellow	Green	Yellow	Yellow	Yellow	Red	Green	Green	Yellow	Red	Green	Green	Red	Yellow	Yellow	Red
Fidelity National Information Svcs.	FIS	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Red	Yellow	Yellow	Red	Yellow	Yellow	Red	Yellow	Yellow	Red
FleetCor	FLT	Red	Green	Green	Yellow	Red	Yellow	Green	Green	Green	Green	Yellow	Green	Red	Red	Green	Red	Yellow	Green	Red
Global Payments	GPN	Yellow	Green	Green	Red	Yellow	Red	Red	Red	Red	Green	Green	Yellow	Yellow	Green	Green	Red	Green	Red	Green
Green Dot	GDOT	Green	Green	Yellow	Green	Green	Yellow	Red	Yellow	Green	Green	Red	Red	Red	Red	Green	Red	Yellow	Yellow	Yellow
Heartland Payment Systems	HPY	Yellow	Green	Yellow	Green	Yellow	Red	Red	Red	Red	Yellow	Green	Red	Red	Green	Green	Red	Green	Yellow	Red
Higher One	ONE	Green	Green	Red	Green	Green	Red	Yellow	Yellow	Yellow	Green	Green	Green	Red	Green	Green	Red	Red	Red	Red
Intuit	INTU	Green	Green	Green	Green	Green	Red	Red	Red	Yellow	Green	Green	Green	Red	Green	Green	Red	Yellow	Red	Red
MasterCard	MA	Yellow	Green	Green	Red	Yellow	Red	Red	Red	Green	Green	Yellow	Green	Yellow	Red	Green	Red	Yellow	Green	Red
Online Resources	ORCC	Green	Green	Red	Green	Green	Red	Yellow	Yellow	Green	Yellow	Yellow	Red	Red	Green	Green	Red	Green	Green	Red
Total System Services	TSS	Yellow	Green	Green	Red	Yellow	Red	Red	Red	Yellow	Green	Red	Red	Red	Green	Yellow	Red	Green	Yellow	Red
Vantiv	VNTV	Yellow	Green	Green	Green	Yellow	Red	Red	Red	Green	Yellow	Red	Yellow	Yellow	Red	Green	Red	Yellow	Yellow	Red
VeriFone Systems	PAY	Yellow	Green	Green	Red	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Green	Green	Red	Green	Red	Red	Red	Green	Yellow
Visa	V	Yellow	Green	Green	Red	Yellow	Red	Red	Red	Green	Green	Yellow	Green	Yellow	Yellow	Green	Red	Yellow	Green	Red
Western Union	WU	Red	Green	Green	Red	Yellow	Red	Red	Red	Green	Yellow	Yellow	Green	Red	Green	Yellow	Red	Red	Green	Red

Source: Raymond James research.

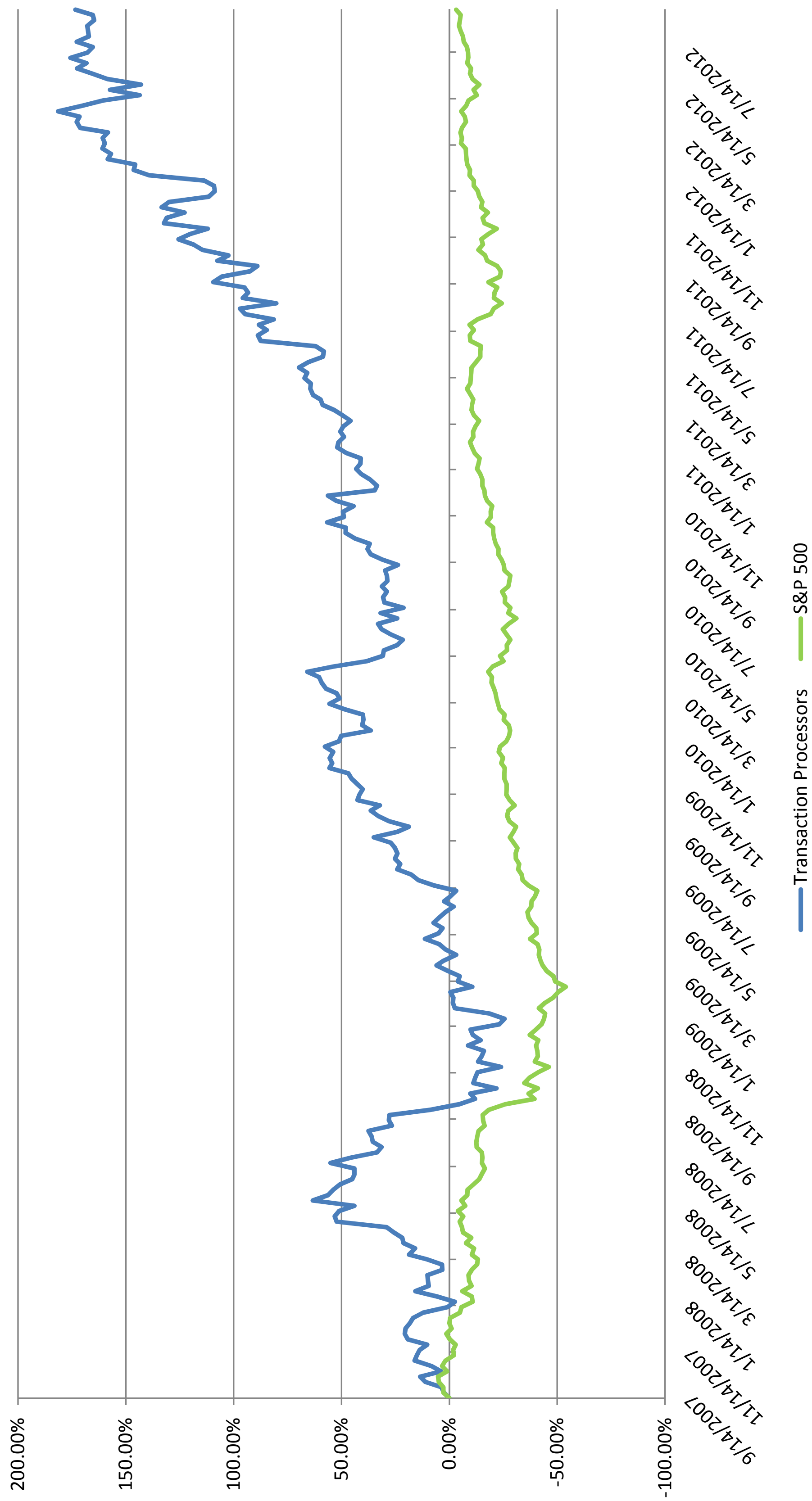
Market Data

9/14/2012

Company	Ticker	Close Price	52-Week High	52-Week Low	% of 52-Wk High	1 Month Avg. Vol. (000's)	3 Month Avg. Vol. (000's)	1 Month Avg. Daily $ Value (mil)	Fully Dil. Shares	Float	Float % Total	Short Int.	Short Int. as a % Float
ACI Worldwide	ACIW	$45.21	$46.90	$24.23	96.4%	320.6	436.4	$13.89	34.31	33.94	98.9%	2.25	6.6%
Alliance Data Systems	ADS	$141.35	$141.81	$84.91	99.7%	391.9	353.8	$50.31	58.60	56.94	97.2%	9.35	16.4%
Bottomline Technologies	EPAY	$23.81	$29.90	$16.96	79.6%	131.2	1,468.7	$2.40	35.09	34.17	97.4%	1.59	4.7%
Fidelity National Information Services	FIS	$31.92	$34.85	$22.53	91.6%	2,228.6	979.0	$68.44	306.80	304.31	99.2%	1.56	0.5%
FleetCor Technologies	FLT	$44.25	$44.60	$25.43	99.2%	403.0	118.7	$14.67	83.65	71.78	85.8%	1.07	1.5%
Global Payments	GPN	$43.02	$53.93	$38.26	79.8%	712.4	1,214.3	$30.08	78.88	78.00	98.9%	0.89	1.1%
Green Dot	GDOT	$12.79	$36.59	$9.05	35.0%	1,153.2	213.5	$11.71	44.14	32.75	74.2%	3.98	12.1%
Heartland Payments	HPY	$31.82	$34.00	$18.49	93.6%	614.3	429.6	$18.49	40.50	39.43	97.4%	2.44	6.2%
Higher One Holdings	ONE	$12.54	$20.48	$9.59	61.2%	508.6	178.4	$5.66	59.72	45.73	76.6%	11.63	25.4%
Intuit	INTU	$59.97	$62.33	$44.82	96.2%	1,498.8	2,100.1	$86.82	300.00	283.51	94.5%	7.00	2.5%
MasterCard	MA	$455.26	$466.98	$293.01	97.5%	2,172.3	1,080.1	$928.01	127.00	108.74	85.6%	1.15	1.1%
Online Resources	ORCC	$2.78	$3.42	$2.04	81.3%	45.4	96.8	$0.11	32.03	31.32	97.8%	0.03	0.1%
Total Systems Services	TSS	$23.59	$25.06	$16.59	94.1%	1,735.1	1,148.1	$40.77	190.71	183.26	96.1%	3.14	1.7%
Vantiv	VNTV	$22.63	$24.43	$18.49	92.6%	254.6	324.8	$5.59	692.00	406.54	58.7%	1.28	0.3%
VeriFone Systems	PAY	$31.35	$55.89	$30.10	56.1%	1,333.3	2,874.0	$47.71	108.34	107.61	99.3%	7.09	6.6%
Visa	V	$134.98	$136.65	$81.71	98.8%	2,903.0	3,369.1	$370.02	692.00	449.38	64.9%	8.69	1.9%
Western Union	WU	$18.73	$19.82	$14.55	94.5%	7,712.4	7,465.8	$131.96	627.00	626.57	99.9%	11.32	1.8%
Average					*85.1%*	*1,418.8*	*1,403.0*	*$107.4*			*89.6%*		*5.3%*
Median					*84.4%*	*1,487.4*	*1,463.4*	*$113.3*			*89.0%*		*5.2%*

Source: ThomsonOne, Raymond James research

Transction Processing Group vs. S&P 500



Source: Thomson Reuters and Raymond James research.
Note: Data pricing as of the 09/13/2012 close.

RAYMOND JAMES®
EQUITY CAPITAL MARKETS

Transaction Processing Comparison Valuation

Wayne Johnson
Wayne.Johnson@RaymondJames.com
404.442.5837

LAST UPDATED
9/14/2012

Company	Ticker	Rating	Price	Shares (Mil)	Mkt Cap (Mil)	2013E Rev. (Mil)	EPS 2011A	EPS 2012E	EPS 2013E	P/E 2011A	P/E 2012E	P/E 2013E	Growth Rate Est.	P/E to Growth 2011A	P/E to Growth 2012E	P/E to Growth 2013E	Mkt Cap to 2013E Rev.
ACI Worldwide	ACIW	MO2	$45.21	41	$1,846	$762	$1.34	$1.64	$2.26	33.8x	27.6x	20.0x	15%	2.3x	1.8x	1.3x	2.4x
Alliance Data Systems[1,2]	ADS	SB1	141.35	64	9,004	3,913	7.64	8.55	9.60	18.5x	16.5x	14.7x	15%	1.2x	1.1x	1.0x	2.3x
Bottomline Technologies[6]	EPAY	MO2	23.81	35	844	252	1.06	0.99	0.93	22.5x	24.1x	25.6x	20%	1.1x	1.2x	1.3x	3.4x
Fidelity National Information Services	FIS	MO2	31.92	298	9,522	6,163	2.22	2.51	2.75	14.4x	12.7x	11.6x	15%	1.0x	0.8x	0.8x	1.5x
FleetCor	FLT	MO2	44.25	86	3,794	732	2.16	2.78	3.11	20.5x	15.9x	14.2x	20%	1.0x	0.8x	0.7x	5.2x
Global Payments[3]	GPN	MO2	43.02	79	3,407	2,360	3.08	3.53	3.61	14.0x	12.2x	11.9x	15%	0.9x	0.8x	0.8x	1.4x
Green Dot	GDOT	MP3	12.79	44	562	603	1.56	1.38	1.47	8.2x	9.3x	8.7x	20%	0.4x	0.5x	0.4x	0.9x
Heartland Payment Systems	HPY	MP3	31.82	40	1,287	593	1.09	1.52	1.71	29.2x	21.0x	18.6x	10%	2.9x	2.1x	1.9x	2.2x
Higher One	ONE	MP3	12.54	58	724	232	0.76	0.80	1.00	16.6x	15.7x	12.6x	20%	0.8x	0.8x	0.6x	3.1x
Intuit	INTU	MO2	59.97	302	18,111	4,971	2.55	2.95	3.35	23.6x	20.3x	17.9x	15%	1.6x	1.4x	1.2x	3.6x
MasterCard	MA	MO2	455.26	126	57,454	8,482	14.83	21.68	25.33	30.7x	21.0x	18.0x	20%	1.5x	1.1x	0.9x	6.8x
Online Resources	ORCC	MP3	2.78	32	90	169	0.15	0.20	0.23	18.4x	13.6x	12.3x	10%	1.8x	1.4x	1.2x	0.5x
Total System Services	TSS	MU4	23.59	191	4,505	1,730	1.15	1.28	1.43	20.5x	18.4x	16.5x	6%	3.4x	3.1x	2.8x	2.6x
VeriFone Systems	PAY	SB1	31.35	111	3,473	2,111	1.91	2.75	3.31	16.4x	11.4x	9.5x	20%	0.8x	0.6x	0.5x	1.6x
Vantiv	VNTV	MP3	22.63	214	4,843	1,132	0.87	1.16	1.35	26.1x	19.5x	16.8x	15%	1.7x	1.3x	1.1x	4.3x
Visa	V	SB1	134.98	675	91,112	11,682	4.99	6.20	7.15	27.1x	21.8x	18.9x	20%	1.4x	1.1x	0.9x	7.8x
Payment Processor Average					**$13,161**	**$2,868**				**21.3x**	**17.6x**	**15.5x**	**16%**	**1.5x**	**1.5x**	**1.2x**	**3.1x**
Payment Processor Median					**$3,633**	**$1,431**				**20.5x**	**17.4x**	**15.6x**	**15%**	**1.3x**	**1.3x**	**1.1x**	**2.5x**
Western Union	WU	MO2	18.73	613	11,483	6,053	1.57	1.77	1.92	11.9x	10.6x	9.7x	12%	1.0x	0.9x	0.8x	1.9x
MoneyGram	MGI		15.70	72	1,125	1,447	0.82	0.97	1.27	19.1x	16.1x	12.4x	15%	1.3x	1.1x	0.8x	0.8x
Money Transfer Average[5]					**$6,304**	**$3,750**				**15.5x**	**13.4x**	**11.1x**	**12%**	**1.1x**	**1.0x**	**0.8x**	**1.3x**
Fiserv	FISV		72.15	138	9,942	4,730	4.58	5.18	5.77	15.8x	13.9x	12.5x	12%	1.3x	1.2x	1.1x	2.1x
Jack Henry[6]	JKHY		37.56	87	3,270	1,095	1.59	1.74	1.92	23.6x	21.6x	19.6x	11%	2.1x	1.9x	1.8x	3.0x
Core Processor Average[5]					**$6,606**	**$2,913**				**19.7x**	**17.8x**	**16.1x**	**11%**	**1.7x**	**1.6x**	**1.4x**	**2.5x**
S&P 500	.SPX-ut		1,459.99	NM	**NM**	**NM**	97.82	101.64	108.19	**14.9x**	**14.4x**	**13.5x**	**8%**	**1.9x**	**1.8x**	**1.7x**	**NM**

Company	Ticker	Rating	Price	Shares (Mil)	Mkt Cap (Mil)	Cash & Equiv. (Mil)	LT Debt (Mil)	Enterprise Value (Mil)	2013E EBITDA (Mil)	2013E EV/EBITDA	2013E EV/Revenue	2013E FCF Per Share	2013E P/FCF	2013E EV/FCF	Price to Book Value
ACI Worldwide	ACIW	MO2	$45.21	40.8	$1,846	$150	$364	$2,060	$213	9.7x	2.7x	$3.24	14.0x	15.6x	3.7x
Alliance Data Systems	ADS	SB1	141.35	63.7	9,004	642	2,428	10,790	1,299	8.3x	2.8x	$14.70	9.6x	11.5x	24.9x
Bottomline Technologies[6]	EPAY	MO2	23.81	35.4	844	125	0	719	46	15.5x	2.9x	$0.87	27.2x	23.2x	2.7x
Fidelity National Information Services	FIS	MO2	31.92	298.3	9,522	534	4,736	13,724	1,866	7.4x	2.2x	$3.27	9.8x	14.1x	1.4x
FleetCor	FLT	MO2	44.25	85.7	3,794	256	286	3,824	396	9.7x	5.2x	$3.53	12.5x	12.6x	4.0x
Global Payments	GPN	MO2	43.02	79.2	3,407	270	237	3,373	490	6.9x	1.4x	$3.66	11.8x	11.7x	2.9x
Green Dot	GDOT	MP3	12.79	43.9	562	194	0	367	120	3.1x	0.6x	$2.64	4.8x	3.2x	1.9x
Heartland Payment Systems	HPY	MP3	31.82	40.4	1,287	43	60	1,304	132	9.9x	2.2x	$2.25	14.1x	14.3x	5.5x
Higher One	ONE	MP3	12.54	57.7	724	37	0	687	96	7.2x	3.0x	$0.87	14.4x	13.7x	5.9x
Intuit	INTU	MO2	59.97	302.0	18,111	744	499	17,866	1,915	9.3x	3.6x	$4.21	14.3x	14.1x	6.6x
MasterCard	MA	MO2	455.26	126.2	57,454	3,153	0	54,301	4,873	11.1x	6.4x	$25.72	17.7x	16.7x	9.2x
Online Resources	ORCC	MP3	2.78	32.5	90	34	140	197	32	6.1x	1.2x	$0.48	5.8x	12.7x	0.7x
Total System Services	TSS	MU4	23.59	191.0	4,505	419	222	4,309	576	7.5x	2.5x	$1.76	13.4x	12.8x	3.2x
VeriFone Systems	PAY	SB1	31.35	110.8	3,473	410	1,269	4,332	535	8.1x	2.1x	$2.72	11.5x	14.4x	2.9x
Vantiv	VNTV	MP3	22.63	214.0	4,843	309	1,246	5,780	555	10.4x	5.1x	$1.62	14.0x	16.7x	3.5x
Visa	V	SB1	134.98	675.0	91,112	1,558	0	89,554	7,587	11.8x	7.7x	$7.36	18.4x	18.0x	3.2x
Payment Processor Average										**8.9x**	**3.2x**	**$4.93**	**13.3x**	**14.1x**	**5.1x**
Payment Processor Median										**8.8x**	**2.7x**	**$2.98**	**13.7x**	**14.1x**	**3.4x**
Western Union	WU	MO2	18.73	613.1	11,483	1,404	3,673	13,753	1,829	7.5x	2.3x	$2.02	9.3x	11.1x	10.9x
MoneyGram	MGI		15.70	71.7	1,125	0	811	1,936	292	6.6x	1.3x	$2.21	7.1x	12.2x	NM
Money Transfer Average										**7.1x**	**1.8x**	**$2.12**	**8.2x**	**11.7x**	**10.9x**
Fiserv	FISV		72.15	137.8	9,942	302	3,237	12,877	1,558	8.3x	2.7x	$6.46	11.2x	14.5x	3.1x
Jack Henry	JKHY		37.56	87.1	3,270	157	225	3,337	355	9.4x	3.0x	$2.88	13.0x	13.3x	3.3x
Core Processor Average										**8.8x**	**2.9x**	**$4.67**	**12.1x**	**13.9x**	**3.2x**

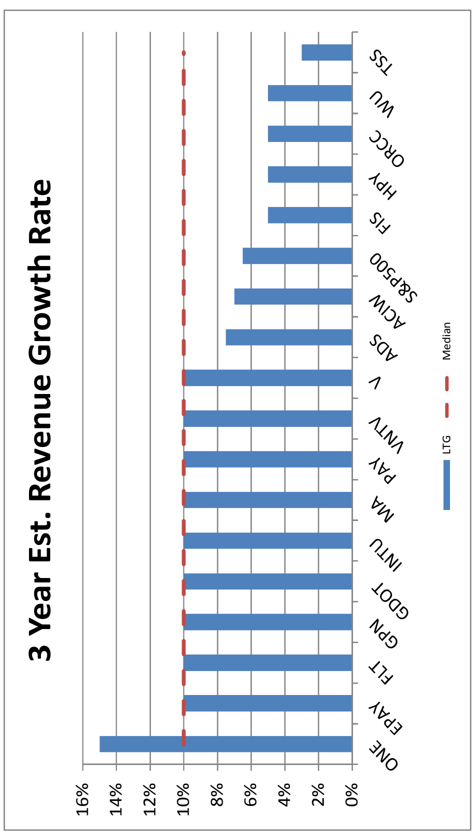
1-All earnings estimates exclude stock compensation expense.
2-Bold type indicates companies under coverage.
3-Company has a May fiscal year and EPS is on a cash basis.
4-Thomson Reuters consensus estimates used for all companies not under coverage
5-Money Transfer and Core Processor median is the same as average as there are only two publicly traded companies in each of these groups.
6-Company has a June fiscal year.
Source: Raymond James Research

Dupont Analysis		ROE	=	Op Efficiency	x	Asset Efficiency	x	Leverage
		NI /		NI /		Sales /		Assets /
Company	Ticker	Equity		Sales		Assets		Equity
ACI Worldwide	ACIW	16.4%		11.9%		0.6x		2.3x
Alliance Data Systems	ADS	227.3%		14.8%		0.4x		41.0x
Bottomline Technologies	EPAY	11.6%		15.5%		0.6x		1.3x
Fidelity National Information Services	FIS	10.7%		12.8%		0.4x		2.1x
FleetCor Technologies	FLT	25.2%		35.2%		0.3x		2.5x
Global Payments	GPN	20.6%		11.0%		0.7x		2.6x
Green Dot	GDOT	28.0%		51.3%		0.3x		1.6x
Heartland Payments	HPY	25.2%		10.9%		0.8x		2.8x
Higher One Holdings	ONE	37.4%		23.4%		1.2x		1.4x
Intuit	INTU	33.4%		21.3%		0.9x		1.8x
MasterCard	MA	44.6%		36.8%		0.7x		1.7x
Online Resources	ORCC	6.2%		5.2%		0.5x		2.3x
Total Systems Services	TSS	17.6%		13.0%		1.0x		1.4x
VeriFone Systems	PAY	33.7%		15.2%		0.8x		2.9x
Vantiv	VNTV	16.8%		22.7%		0.3x		2.6x
Visa	V	14.8%		40.1%		0.3x		1.3x
Western Union	WU	144.3%		18.3%		0.7x		12.0x
Average		*42.0%*		*21.1%*		*0.6x*		*4.9x*
Median		*25.2%*		*15.5%*		*0.6x*		*2.3x*

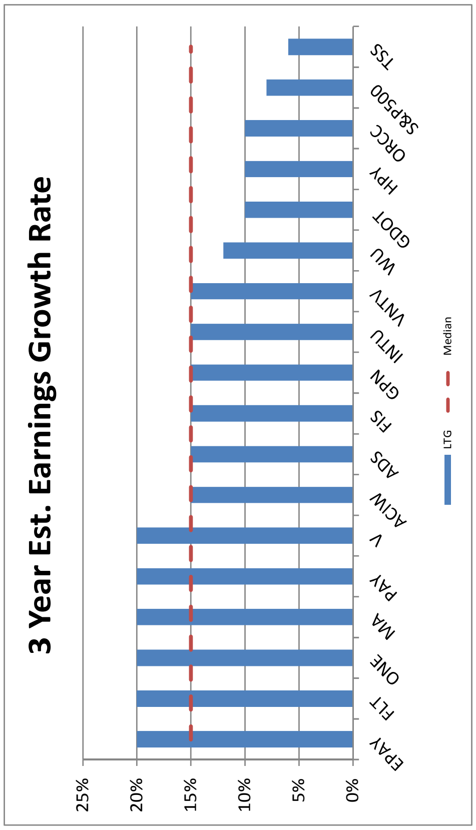
1. Balance sheet items are as of latest reporting period.

2. Net income and sales are trailing twelve month.

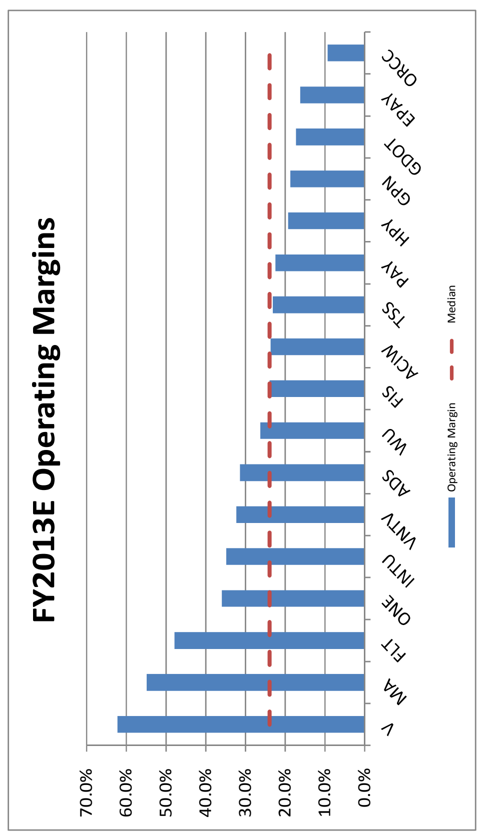
Source: Company reports and Raymond James Research.



S&P 500 based on implied growth rate from consensus estimates.
Source: Company reports, Raymond James research.



Source: Company reports, Raymond James research.



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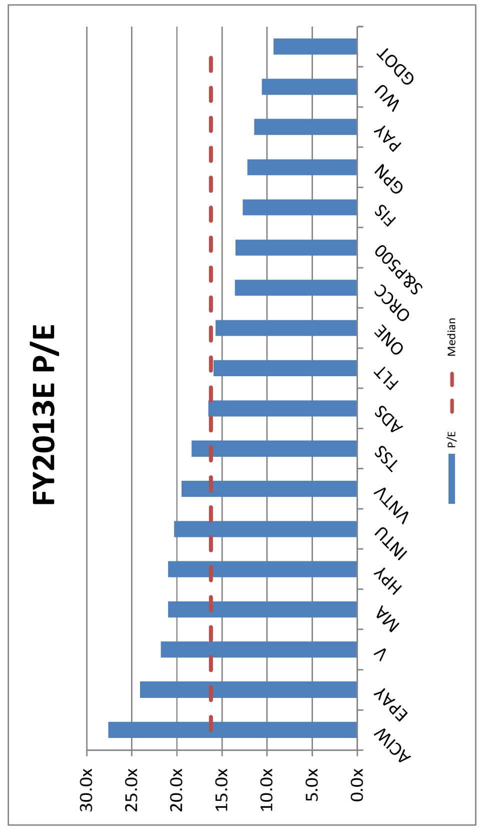
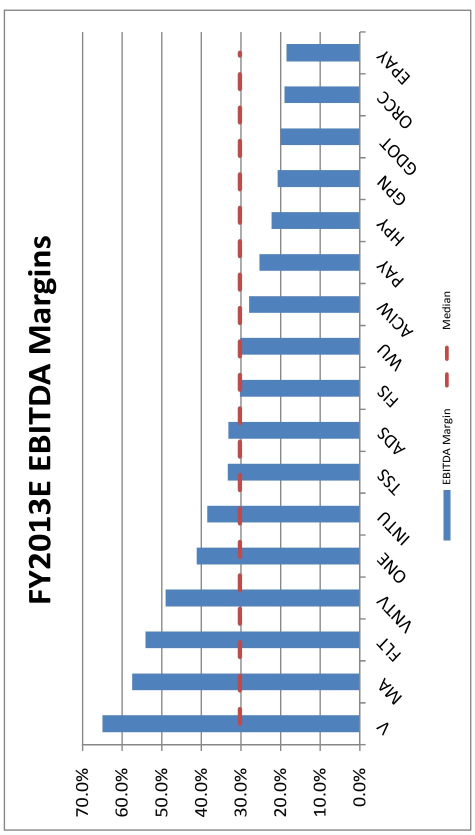
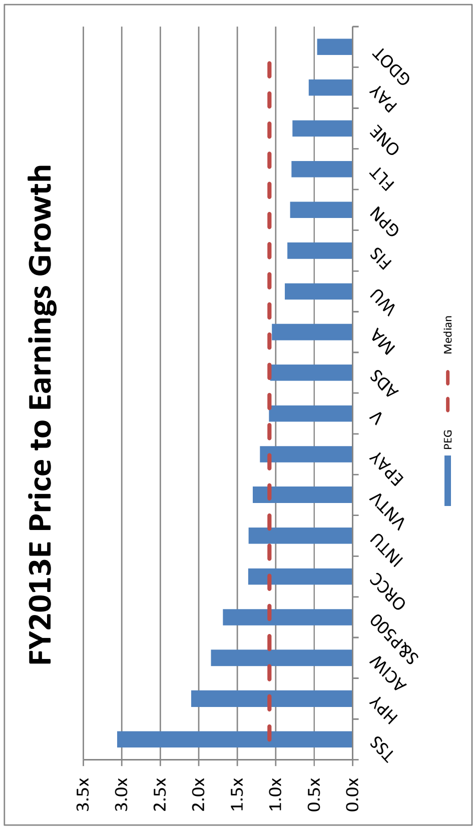


Source: Company reports, Raymond James research.
Data as of 9/14/12



S&P 500 based on consensus EBITDA and revenue estimates.
Source: Company reports, Raymond James research.



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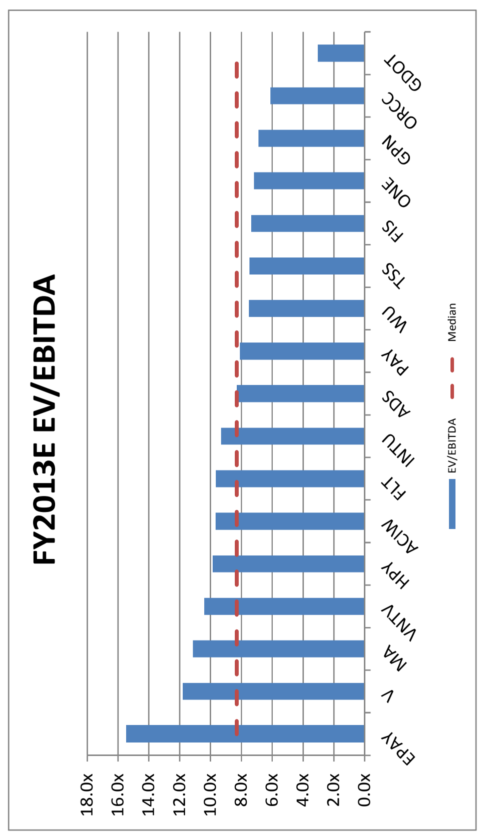
Data as of 9/14/12



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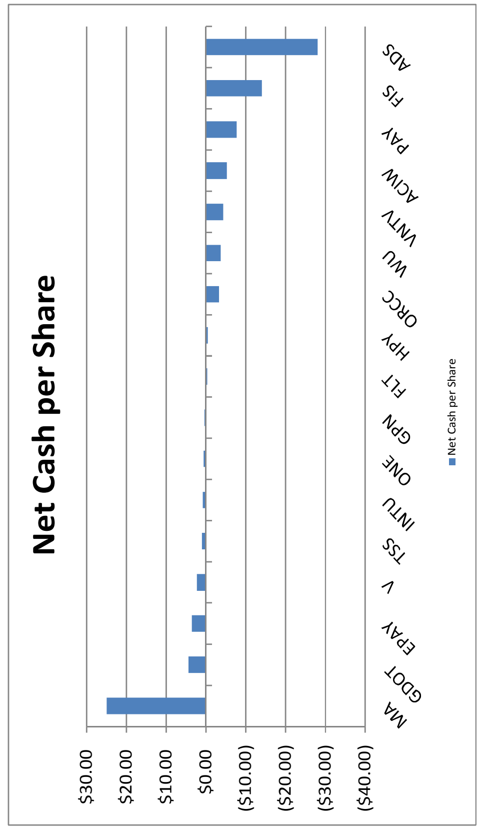

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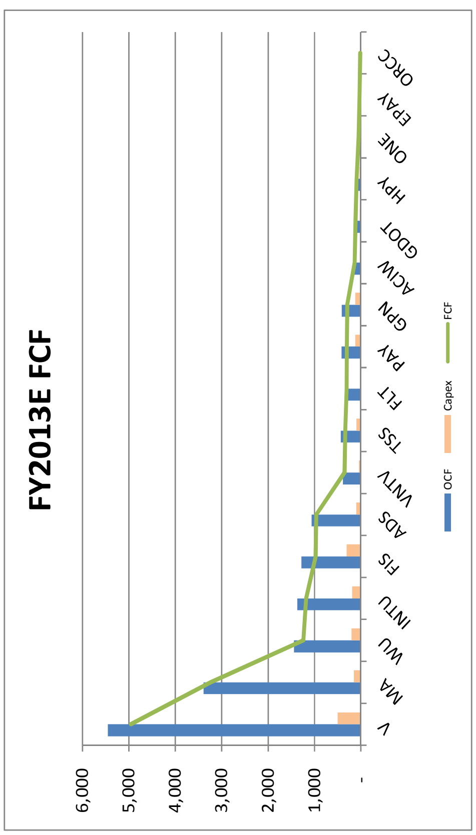

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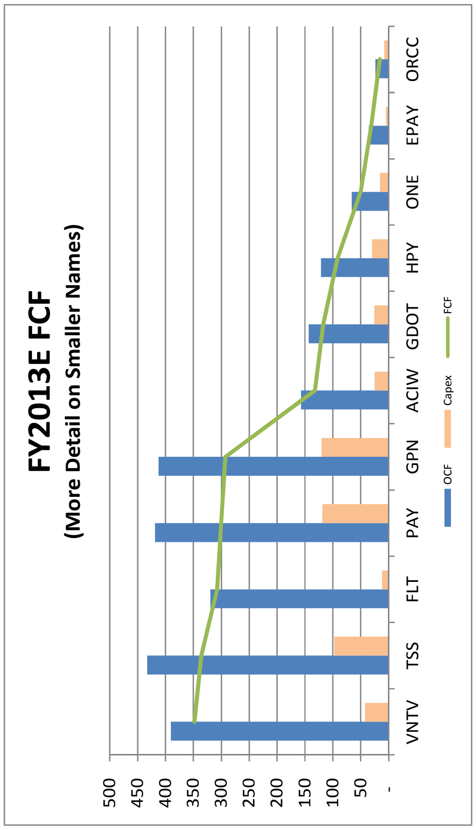

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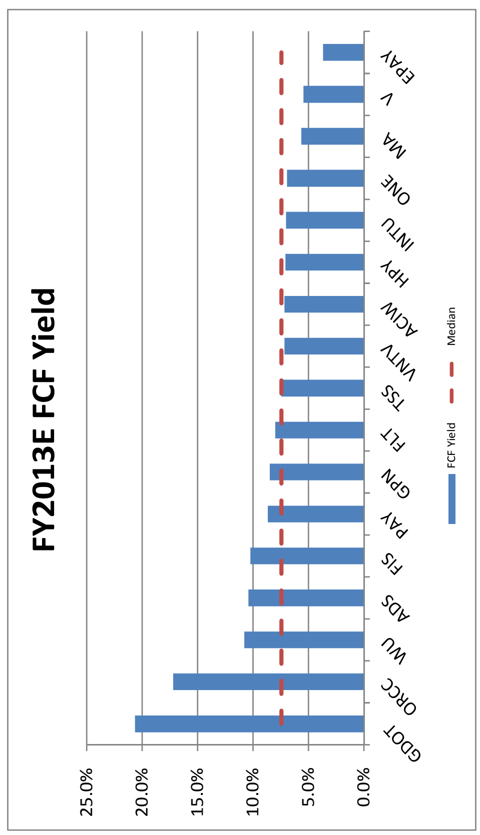

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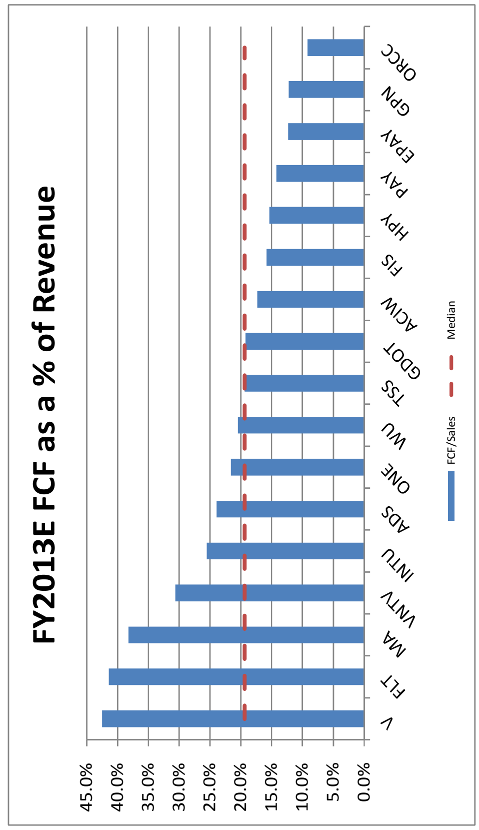

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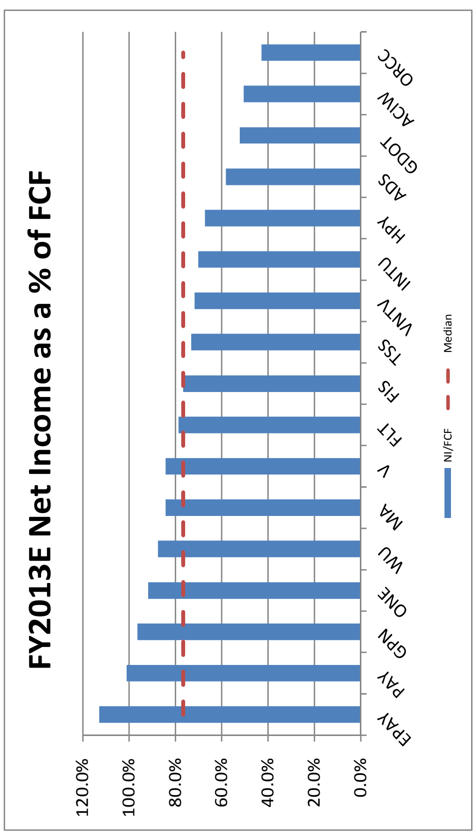

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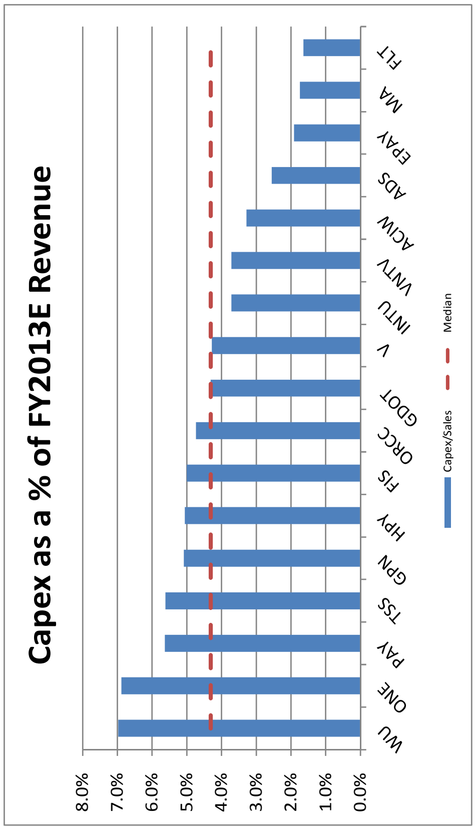

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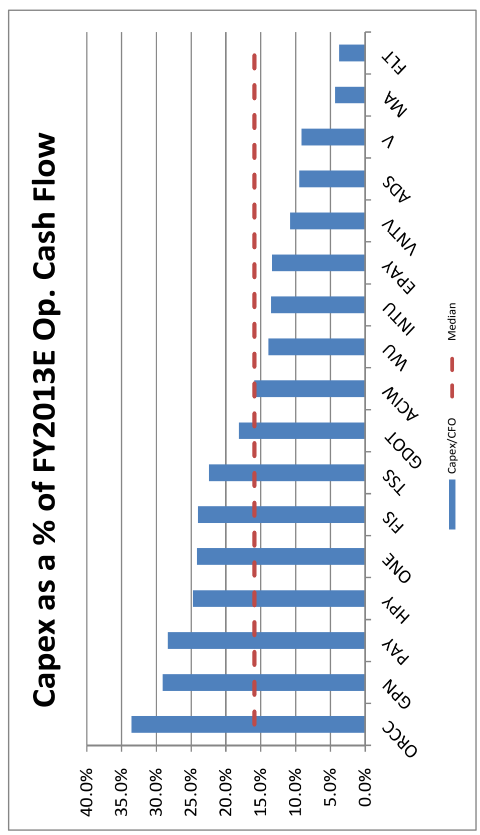

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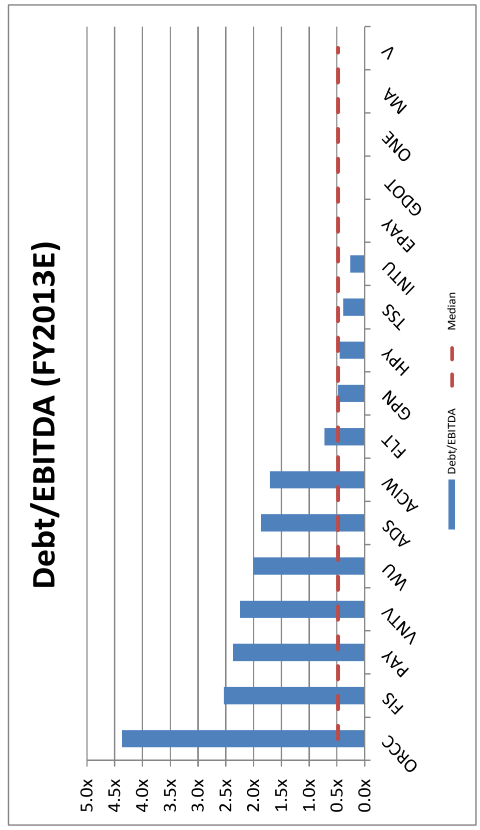

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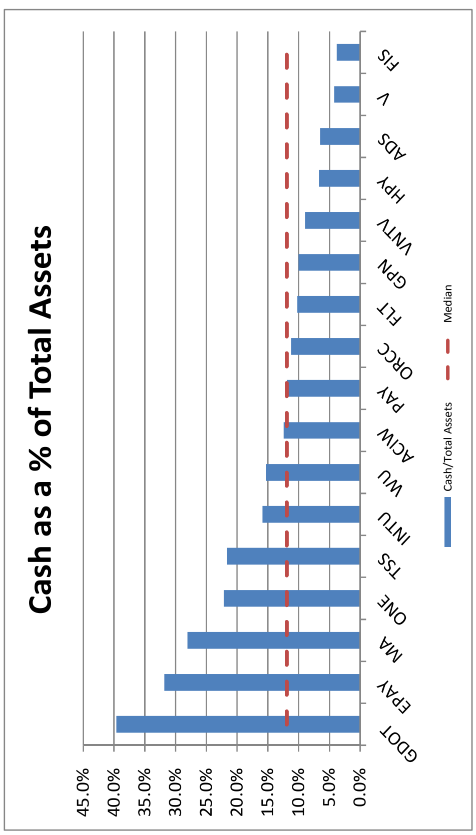

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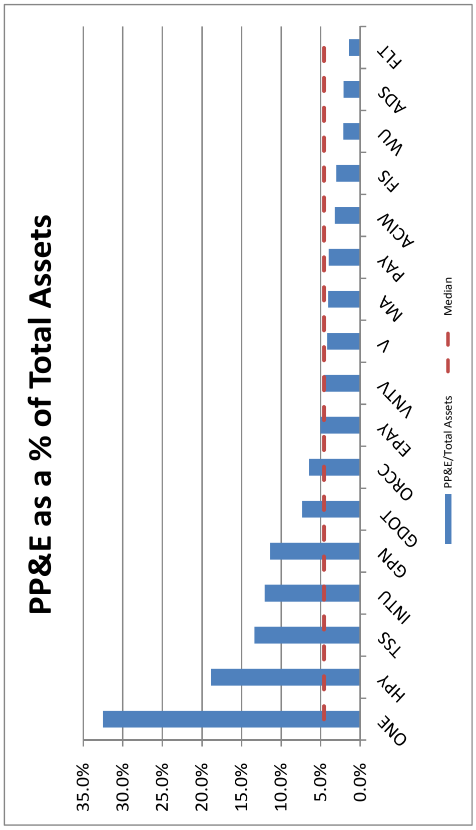
Source: Company reports, Raymond James research.



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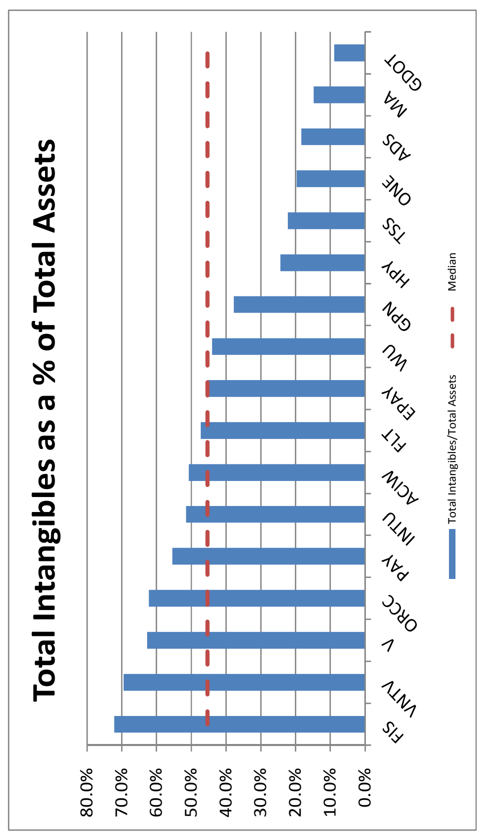

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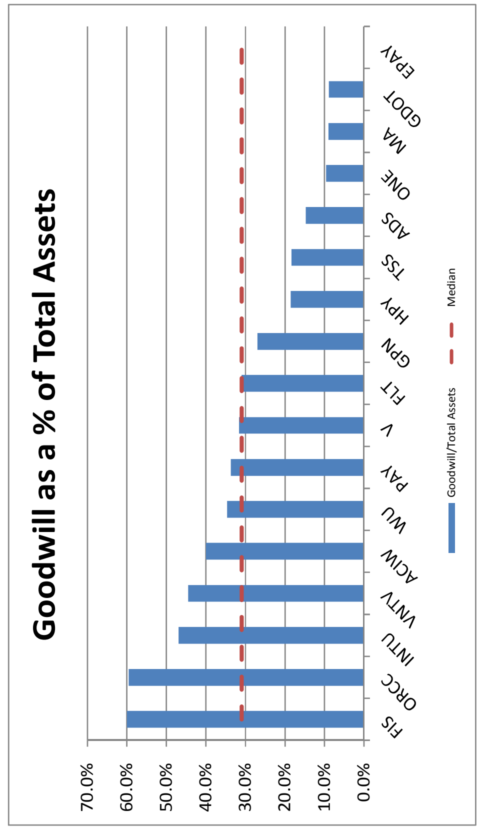

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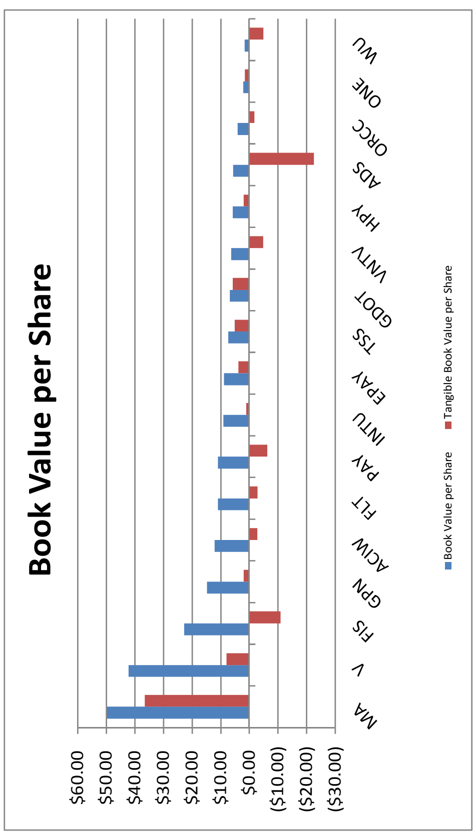

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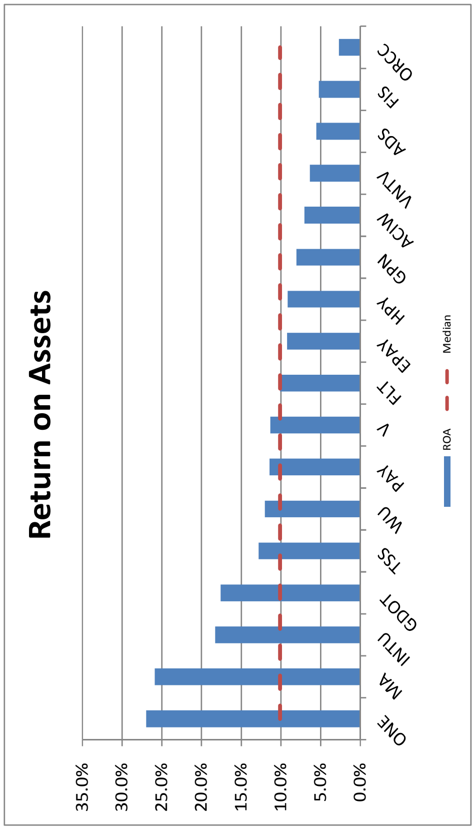
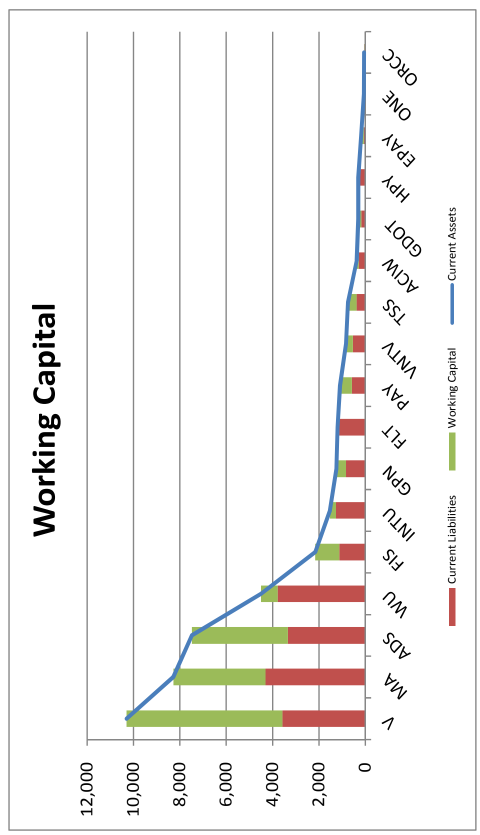
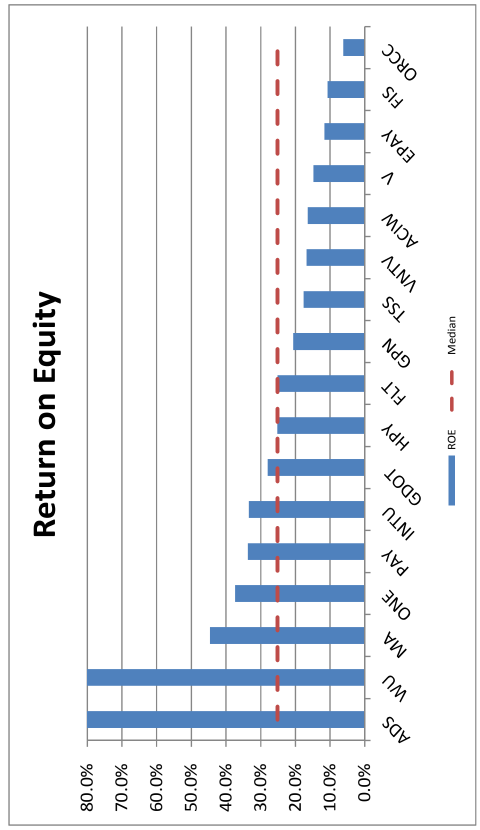


Based on trailing 12-month earnings and average assets over trailing 12 months.
Source: Company reports, Raymond James research.



Data as of most recent reporting period.
Source: Company reports, Raymond James research.



Based on trailing 12-month earnings and average assets over trailing 12 months.
Source: Company reports, Raymond James research.

Wayne Johnson
Wayne.Johnson@RaymondJames.com
404.442.5837

2Q12 EPS & REVENUE SURPRISE

EPS

	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual EPS	Actual Y/Y	Actual Seq	Vs. Consensus
ACIW	$0.29	$0.21	None	$0.26	-10.3%	23.8%	$0.25	$0.01	-96.6%	-95.2%	MISSED
ADS	$1.75	$2.38	1.85	$1.91	9.1%	-19.7%	$1.88	$2.13	21.7%	-10.5%	BEAT
EPAY[1]	$0.29	$0.21	$0.21	$0.22	-24.1%	4.8%	$0.21	$0.26	-10.3%	23.8%	BEAT
FIS	$0.54	$0.55	None	$0.59	9.3%	7.3%	$0.62	$0.66	22.2%	20.0%	BEAT
FLT	$0.57	$0.60	None	$0.65	14.0%	8.3%	$0.66	$0.73	28.1%	21.7%	BEAT
GDOT	$0.37	$0.48	None	$0.38	2.7%	-20.8%	$0.39	$0.35	-5.4%	-27.1%	MISSED
GPN[2]	$0.86	$0.83	None	$0.96	11.6%	15.7%	$0.96	$0.97	12.8%	16.9%	BEAT
HPY	$0.31	$0.34	None	$0.40	29.0%	17.6%	$0.36	$0.44	41.9%	29.4%	BEAT
INTU[3]	$0.02	$2.51	$0.06-0.08	$0.06	200.0%	-97.6%	$0.06	$0.03	50.0%	-98.8%	MISSED
MA	$4.76	$5.36	None	$5.58	17.2%	4.1%	$5.66	$5.65	18.7%	5.4%	BEAT
ONE	$0.12	$0.25	None	$0.12	0.0%	-52.0%	$0.11	$0.09	-25.0%	-64.0%	MISSED
ORCC	$0.03	$0.09	$0.02-0.04	$0.04	33.3%	-55.6%	$0.04	$0.06	100.0%	-33.3%	BEAT
PAY[4]	$0.49	$0.64	$0.68-0.70	$0.70	42.9%	9.4%	$0.70	$0.75	53.1%	17.2%	BEAT
TSS	$0.28	$0.30	None	$0.32	14.3%	6.7%	$0.31	$0.35	25.0%	16.7%	BEAT
VNTV	$0.28	$0.20	None	$0.28	0.0%	40.0%	$0.24	$0.32	14.3%	60.0%	BEAT
V[5]	$1.26	$1.60	None	$1.45	15.1%	-9.4%	$1.49	$1.56	23.8%	-2.5%	BEAT
WU	$0.42	$0.40	None	$0.43	2.4%	7.5%	$0.41	$0.46	9.5%	15.0%	BEAT

Revenue

$ in millions	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual Rev	Actual Y/Y	Actual Seq.	Vs. Consensus
ACIW	$113.4	$137.6	None	$175.7	54.9%	27.6%	$176.8	$149.8	32.1%	8.8%	MISSED
ADS	$740.5	$891.6	13% y/y	$834.8	12.7%	-6.4%	$827.0	$866.5	17.0%	-2.8%	BEAT
EPAY[1]	$54.2	$55.3	$59-60	$59.8	10.1%	8.0%	$60.0	$61.4	13.2%	11.0%	BEAT
FIS	$1,413.0	$1,413.0	None	$1,465.3	3.7%	3.7%	$1,510.0	$1,457.2	3.1%	3.1%	MISSED
FLT	$134.2	$146.2	None	$159.4	18.8%	9.1%	$160.6	$171.8	28.0%	17.6%	BEAT
GDOT	$119.4	$145.5	None	$141.7	18.7%	-2.6%	$147.3	$139.3	16.7%	-4.3%	MISSED
GPN[2]	$519.8	$533.5	None	$577.3	11.1%	8.2%	$587.0	$597.0	14.9%	11.9%	BEAT
HPY	$122.2	$128.7	None	$137.8	12.8%	7.1%	$136.8	$135.3	10.7%	5.1%	MISSED
INTU[3]	$593.0	$1,945.0	$647-662	$653.0	10.1%	-66.4%	$641.0	$651.0	9.8%	-66.5%	MISSED
MA	$1,667.0	$1,758.0	None	$1,878.9	12.7%	6.9%	$1,897.0	$1,820.0	9.2%	3.5%	MISSED
ONE	$35.1	$57.8	None	$39.2	11.9%	-32.1%	$39.5	$38.9	11.0%	-32.7%	MISSED
ORCC	$38.3	$41.3	$37.3-39.3	$38.8	1.3%	-6.0%	$38.9	$40.4	5.5%	-2.1%	BEAT
PAY[4]	$317.2	$479.4	$495-500	$498.4	57.1%	4.0%	$499.0	$493.2	55.5%	2.9%	MISSED
TSS	$447.6	$461.2	None	$461.7	3.2%	0.1%	$456.2	$462.7	3.4%	0.3%	BEAT
VNTV	$216.9	$232.6	None	$247.1	13.9%	6.2%	$243.0	$260.4	20.0%	11.9%	BEAT
V[5]	$2,322.0	$2,578.0	None	$2,521.5	8.6%	-2.2%	$2,537.0	$2,565.0	10.5%	-0.5%	BEAT
WU	$1,366.3	$1,393.4	None	$1,446.9	5.9%	3.8%	$1,384.0	$1,425.1	4.3%	2.3%	MISSED

1. F4Q12-Company operates on a June fiscal year
2. F4Q12 - Company operates a May fiscal year
3. F4Q12- Company operates a July fiscal year
4. F3Q12-Company operates on an October fiscal year
5. F3Q12-Company operates on a September fiscal year

Source: Company Documents and Raymond James Research

Wayne Johnson
Wayne.Johnson@RaymondJames.com
404.442.5837

1Q12 EPS & REVENUE SURPRISE

EPS

	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual EPS	Actual Y/Y	Actual Seq	Vs. Consensus
ACIW	$0.05	$0.70	None	$0.14	180.0%	-80.0%	$0.12	$0.21	320.0%	-70.0%	BEAT
ADS	$2.03	$1.70	2.13	$2.19	7.9%	28.8%	$2.15	$2.38	17.2%	40.0%	BEAT
EPAY[1]	$0.26	$0.27	$0.19-0.21	$0.21	-19.2%	-22.2%	$0.21	$0.21	-19.2%	-22.2%	IN-LINE
FIS	$0.45	$0.66	None	$0.51	13.3%	-22.7%	$0.51	$0.55	22.2%	-16.7%	BEAT
FLT	$0.47	$0.56	$0.56-0.59	$0.58	23.4%	3.6%	$0.59	$0.60	27.7%	7.1%	BEAT
GDOT	$0.39	$0.40	None	$0.46	17.9%	15.0%	$0.47	$0.48	23.1%	20.0%	BEAT
GPN[2]	$0.63	$0.86	None	$0.84	33.3%	-2.3%	$0.84	$0.83	31.7%	-3.5%	MISSED
HPY	$0.20	$0.28	$0.21-0.23	$0.24	20.0%	-14.3%	$0.22	$0.34	70.0%	21.4%	BEAT
INTU[3]	$2.33	$0.51	$2.47-2.51	$2.48	6.4%	386.3%	$2.49	$2.51	7.7%	392.2%	BEAT
MA	$4.29	$4.03	None	$5.30	23.5%	31.5%	$5.29	$5.36	24.9%	33.0%	BEAT
ONE	$0.24	$0.21	$0.27-0.30	$0.28	16.7%	33.3%	$0.29	$0.25	4.2%	19.0%	MISSED
ORCC	$0.02	$0.02	$0.04-0.06	$0.06	200.0%	200.0%	$0.06	$0.09	350.0%	350.0%	BEAT
PAY[4]	$0.46	$0.58	$0.59-0.60	$0.61	32.6%	5.2%	$0.60	$0.64	39.1%	10.3%	BEAT
TSS	$0.25	$0.31	None	$0.30	20.0%	-3.2%	$0.31	$0.30	20.0%	-3.2%	IN-LINE
V[5]	$1.23	$1.49	None	$1.51	22.8%	1.3%	$1.51	$1.60	30.1%	7.4%	BEAT
WU	$0.35	$0.39	None	$0.40	14.3%	2.6%	$0.41	$0.40	14.3%	2.6%	IN-LINE

Revenue

$ in millions	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual Rev	Actual Y/Y	Actual Seq.	Vs. Consensus
ACIW	$104.54	$135.04	None	$137.03	31.1%	1.5%	$129.77	$137.63	31.6%	1.9%	BEAT
ADS	$740.40	$847.60	12% y/y	$833.61	12.6%	-1.7%	$846.00	$891.60	20.4%	5.2%	BEAT
EPAY[1]	$48.81	$55.09	$55.00	$56.00	14.7%	1.6%	$56.10	$55.32	13.3%	0.4%	MISSED
FIS	$1,383.40	$1,494.40	None	$1,445.28	4.5%	-3.3%	$1,452.00	$1,446.90	4.6%	-3.2%	BEAT
FLT	$111.01	$140.16	None	$142.80	28.6%	1.9%	$144.00	$146.17	31.7%	4.3%	BEAT
GDOT	$123.19	$123.23	None	$141.80	15.1%	15.1%	$145.10	$145.52	18.1%	18.1%	BEAT
GPN[2]	$456.38	$530.51	None	$529.34	16.0%	-0.2%	$526.00	$533.54	16.9%	0.6%	BEAT
HPY	$112.70	$125.10	None	$125.88	11.7%	0.6%	$125.10	$128.70	14.2%	2.9%	BEAT
INTU[3]	$1,848.00	$1,019.00	$1,950-1,990	$1,957.00	5.9%	92.1%	$1,972.00	$1,945.00	5.2%	90.9%	MISSED
MA	$1,501.00	$1,728.00	None	$1,728.36	15.1%	0.0%	$1,725.00	$1,758.00	17.1%	1.7%	BEAT
ONE	$51.38	$41.73	$58-62	$59.66	16.1%	43.0%	$61.04	$57.78	12.4%	38.5%	MISSED
ORCC	$39.28	$38.41	$41.2-41.7	$41.30	5.1%	7.5%	$41.34	$41.30	5.1%	7.5%	IN-LINE
PAY[4]	$292.78	$425.20	$465-470	$471.80	61.1%	11.0%	$468.60	$479.36	63.7%	12.7%	BEAT
TSS	$429.43	$472.23	None	$424.19	-1.2%	-10.2%	$454.77	$461.16	7.4%	-2.3%	BEAT
V[5]	$2,245.00	$2,547.00	None	$2,482.04	10.6%	-2.6%	$2,522.00	$2,578.00	14.8%	1.2%	BEAT
WU	$1,283.00	$1,431.30	None	$1,365.46	6.4%	-4.6%	$1,384.00	$1,393.40	8.6%	-2.6%	BEAT

1. F3Q12-Company operates on a June fiscal year
2. F3Q12 - Company operates a May fiscal year
3. F3Q12- Company operates a July fiscal year
4. F2Q12-Company operates on an October fiscal year
5. F2Q12-Company operates on a September fiscal year

Source: Company Documents and Raymond James Research

Wayne Johnson
Wayne.Johnson@RaymondJames.com
404.442.5837

4Q11 EPS & REVENUE SURPRISE

EPS

				Consensus				Actual			
	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Y/Y	Seq.	RJ Estimate	EPS	Y/Y	Seq	Vs. Consensus
ACIW	$0.80	$0.31	None	$0.69	-13.8%	122.6%	$0.76	$0.70	-12.5%	125.8%	BEAT
ADS	$1.56	$2.16	1.46	$1.49	-4.5%	-31.0%	$1.47	$1.70	9.0%	-21.3%	BEAT
EPAY[1]	$0.25	$0.62	$0.26	$0.26	4.0%	-58.1%	$0.26	$0.27	8.0%	-56.5%	BEAT
FIS	$0.64	$0.62	$0.62-0.68	$0.65	1.6%	4.8%	$0.64	$0.66	3.1%	6.5%	BEAT
FLT	$0.49	$0.56	$0.48-0.52	$0.50	2.0%	-10.7%	$0.50	$0.56	14.3%	0.0%	BEAT
GDOT	$0.29	$0.39	None	$0.40	37.9%	2.6%	$0.39	$0.40	37.9%	2.6%	IN-LINE
GPN[2]	$0.70	$0.79	None	$0.88	25.7%	11.4%	$0.85	$0.86	22.9%	8.9%	MISSED
HPY	$0.18	$0.31	$0.21-0.23	$0.24	33.3%	-22.6%	$0.24	$0.28	55.6%	-9.7%	BEAT
INTU[3]	$0.32	-$0.10	$0.43-0.47	$0.45	40.6%	-550.0%	$0.43	$0.51	59.4%	-610.0%	BEAT
MA	$3.16	$5.63	None	$3.95	25.0%	-29.8%	$3.90	$4.03	27.5%	-28.4%	BEAT
ONE	$0.17	$0.19	$0.19-$0.22	$0.21	23.5%	10.5%	$0.19	$0.21	23.5%	10.5%	IN-LINE
ORCC	$0.04	$0.02	$(0.02)-$0.00	$0.00	-100.0%	-100.0%	$0.00	$0.02	-50.0%	0.0%	BEAT
PAY[4]	$0.40	$0.49	$0.49-$0.50	$0.50	25.0%	2.0%	$0.49	$0.53	32.5%	8.2%	BEAT
TSS	$0.24	$0.30	$0.30-0.31	$0.31	29.2%	3.3%	$0.31	$0.31	29.2%	3.3%	IN-LINE
V[5]	$1.23	$1.27	None	$1.45	17.9%	14.2%	$1.45	$1.49	21.1%	17.3%	BEAT
WU	$0.38	$0.40	$0.38-0.41	$0.40	5.3%	0.0%	$0.40	$0.39	2.6%	-2.5%	MISSED

Revenue

$ in millions				Consensus				Actual			
	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Y/Y	Seq.	RJ Estimate	Rev	Y/Y	Seq.	Vs. Consensus
ACIW	$141.24	$112.15	$120-130	$129.51	-8.3%	15.5%	$128.50	$135.04	-4.4%	20.4%	BEAT
ADS	$755.70	$844.80	None	$847.79	12.2%	0.4%	$843.30	$847.60	12.2%	0.3%	MISSED
EPAY[1]	$44.28	$52.48	$54.00	$54.01	22.0%	2.9%	$54.00	$55.09	24.4%	5.0%	BEAT
FIS	$1,397.40	$1,426.20	None	$1,490.48	6.7%	4.5%	$1,485.40	$1,494.40	6.9%	4.8%	BEAT
FLT	$106.55	$134.21	$120-130	$128.44	20.5%	-4.3%	$128.19	$140.16	31.5%	4.4%	BEAT
GDOT	$97.54	$118.94	None	$127.89	31.1%	7.5%	$126.50	$123.23	26.3%	3.6%	MISSED
GPN[2]	$443.53	$542.77	None	$523.91	18.1%	-3.5%	$514.50	$530.51	19.6%	-2.3%	BEAT
HPY	$110.50	$122.20	None	$121.91	10.3%	-0.2%	$117.50	$125.10	13.2%	2.4%	BEAT
INTU[3]	$878.00	$594.00	$1,000-$1,020	$1,010.57	15.1%	70.1%	$1,000.00	$1,019.00	16.1%	71.5%	BEAT
MA	$1,438.00	$1,818.00	None	$1,730.06	20.3%	-4.8%	$1,661.35	$1,728.00	20.2%	-5.0%	MISSED
ONE	$39.78	$48.14	$47-$51	$51.43	29.3%	6.8%	$50.70	$41.73	4.9%	-13.3%	MISSED
ORCC	$36.80	$38.33	$35.4-$37.4	$36.59	-0.6%	-4.5%	$36.70	$38.41	4.4%	0.2%	BEAT
PAY[4]	$275.97	$317.16	$409-$411	$401.95	45.6%	26.7%	$396.00	$410.70	48.8%	29.5%	BEAT
TSS	$439.99	$459.75	$449-463	$451.15	2.5%	-1.9%	$457.00	$472.23	7.3%	2.7%	BEAT
V[5]	$2,238.00	$2,383.00	None	$2,466.99	10.2%	3.5%	$2,450.00	$2,547.00	13.8%	6.9%	BEAT
WU	$1,357.00	$1,410.80	None	$1,445.17	6.5%	2.4%	$1,400.88	$1,431.30	5.5%	1.5%	MISSED

1. F2Q12-Company operates on a June fiscal year
2. F2Q12 - Company operates a May fiscal year
3. F2Q12- Company operates a July fiscal year
4. Represents last Q's (F4Q11) results-Company operates on an October fiscal year
5. F1Q12-Company operates on a September fiscal year

Source: Company Documents and Raymond James Research

Wayne Johnson
Wayne.Johnson@RaymondJames.com
404.442.5837

3Q11 EPS & REVENUE SURPRISE

EPS

	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual EPS	Actual Y/Y	Actual Seq	Vs. Consensus
ACIW	$0.07	$0.29	None	$0.18	157.1%	-37.9%	$0.12	$0.31	342.9%	6.9%	BEAT
ADS	$1.55	$1.75	1.85	$1.90	22.6%	8.6%	$1.86	$2.16	39.4%	23.4%	BEAT
FIS	$0.52	$0.55	None	$0.61	17.3%	10.9%	$0.60	$0.62	19.2%	12.7%	BEAT
FLT	$0.47	$0.57	None	$0.51	8.5%	-10.5%	$0.50	$0.56	19.1%	-1.8%	BEAT
GDOT	$0.30	$0.37	None	$0.38	26.7%	2.7%	$0.38	$0.39	30.0%	5.4%	BEAT
GPN[1]	$0.56	$0.76	None	$0.74	32.1%	-2.6%	$0.77	$0.79	41.1%	3.9%	BEAT
HPY	$0.20	$0.31	None	$0.29	45.0%	-6.5%	$0.29	$0.31	55.0%	0.0%	BEAT
INTU[2]	-$0.12	$0.02	$(0.11)-$(0.13)	-$0.12	0.0%	-700.0%	-$0.13	-$0.10	-16.7%	-600.0%	BEAT
MA	$3.94	$4.76	None	$4.82	22.3%	1.3%	$4.60	$5.63	42.9%	18.3%	BEAT
ONE	$0.15	$0.12	$0.17-$0.19	$0.19	26.7%	58.3%	$0.18	$0.19	26.7%	58.3%	IN-LINE
ORCC	$0.04	$0.03	$(0.02)-$0.00	$0.00	-100.0%	-100.0%	$0.00	$0.02	-50.0%	-33.3%	BEAT
PAY[3]	$0.40	$0.49	$0.49-$0.50	$0.05	-87.3%	-89.6%	$0.49	$0.53	32.5%	8.2%	BEAT
TSS	$0.25	$0.28	None	$0.29	16.0%	3.6%	$0.30	$0.30	20.0%	7.1%	BEAT
V[4]	$0.95	$1.26	None	$1.25	31.6%	-0.8%	$1.23	$1.27	33.7%	0.8%	BEAT
WU	$0.37	$0.42	None	$0.39	5.4%	-7.1%	$0.39	$0.40	8.1%	-4.8%	BEAT

Revenue

$ in millions	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual Rev	Actual Y/Y	Actual Seq.	Vs. Consensus
ACIW	$97.02	$113.37	None	$104.57	7.8%	-7.8%	$101.00	$112.15	15.6%	-1.1%	BEAT
ADS	$702.40	$740.50	None	$793.72	13.0%	7.2%	$776.80	$844.80	20.3%	14.1%	BEAT
FIS	$1,287.10	$1,441.70	None	$1,428.33	11.0%	-0.9%	$1,389.00	$1,426.20	10.8%	-1.1%	MISSED
FLT	$111.65	$134.21	None	$125.06	12.0%	-6.8%	$121.90	$134.21	20.2%	0.0%	BEAT
GDOT	$94.12	$119.39	None	$120.96	28.5%	1.3%	$121.50	$118.94	26.4%	-0.4%	MISSED
GPN[1]	$440.14	$519.75	None	$518.47	17.8%	-0.2%	$467.00	$542.77	23.3%	4.4%	BEAT
HPY	$115.42	$122.22	None	$125.36	8.6%	2.6%	$127.00	$122.20	5.9%	0.0%	MISSED
INTU[2]	$532.00	$593.00	$575-$585	$580.70	9.2%	-2.1%	$579.00	$594.00	11.7%	0.2%	BEAT
MA	$1,428.00	$1,667.00	None	$1,707.72	19.6%	2.4%	$1,583.00	$1,818.00	27.3%	9.1%	BEAT
ONE	$37.23	$35.07	$46-$48	$47.31	27.1%	34.9%	$46.16	$48.14	29.3%	37.3%	BEAT
ORCC	$36.80	$38.33	$35.4-$37.4	$36.59	-0.6%	-4.5%	$36.70	$38.41	4.4%	0.2%	BEAT
PAY[3]	$261.46	$283.90	$409-$411	$408.13	56.1%	43.8%	$396.00	$410.70	57.1%	44.7%	BEAT
TSS	$433.24	$447.55	None	$439.05	1.3%	-1.9%	$451.86	$459.75	6.1%	2.7%	BEAT
V[4]	$2,117.00	$2,322.00	None	$2,392.73	13.0%	3.0%	$2,320.00	$2,383.00	12.6%	2.6%	MISSED
WU	$1,329.60	$1,366.30	None	$1,407.36	5.8%	3.0%	$1,367.20	$1,410.80	6.1%	3.3%	BEAT

1. F1Q12-Company operates on a May fiscal year
2. F4Q11- Company operates a July fiscal year
3. F3Q11-Company operates on an October fiscal year
4. F4Q11-Company operates on a September fiscal year

Source: Company Documents and Raymond James Research

Wayne Johnson
Wayne.Johnson@RaymondJames.com
404.442.5837

2Q11 EPS & REVENUE SURPRISE

EPS

	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual EPS	Actual Y/Y	Actual Seq	Vs. Consensus
ACIW	$0.10	$0.15	None	$0.08	-22.9%	-46.7%	$0.10	$0.39	276.1%	160.0%	BEAT
ADS	$1.38	$2.03	1.60	$1.68	21.7%	-17.2%	$1.62	$1.75	26.8%	-13.8%	BEAT
FIS	$0.46	$0.45	None	$0.54	17.4%	20.0%	$0.54	$0.55	19.6%	22.2%	BEAT
FLT	$0.41	$0.47	None	$0.50	22.0%	6.4%	$0.51	$0.57	39.0%	21.3%	BEAT
GDOT	$0.36	$0.39	None	$0.38	5.6%	-2.6%	$0.36	$0.37	2.8%	-5.1%	MISSED
GPN[1]	$0.56	$0.63	None	$0.73	30.4%	15.9%	$0.71	$0.76	35.7%	20.6%	BEAT
HPY	$0.23	$0.20	None	$0.27	17.4%	35.0%	$0.25	$0.31	34.8%	55.0%	BEAT
INTU[2]	-$0.05	$2.33	$(0.02)-$0.02	$0.00	-100.0%	-100.0%	$0.00	$0.02	-140.0%	-99.1%	BEAT
MA	$3.49	$4.29	None	$4.23	21.2%	-1.4%	$4.00	$4.76	36.4%	11.0%	BEAT
ONE	$0.09	$0.24	$0.09-$0.11	$0.10	11.1%	-58.3%	$0.11	$0.12	33.3%	-50.0%	BEAT
ORCC	$0.03	$0.02	$(0.03)-$(0.01)	-$0.02	-166.7%	-200.0%	-$0.01	$0.03	0.0%	50.0%	BEAT
PAY[3]	$0.26	$0.43	$0.38-$0.39	$0.39	50.0%	-9.3%	$0.37	$0.43	65.4%	0.0%	BEAT
TSS	$0.25	$0.25	None	$0.27	8.0%	8.0%	$0.27	$0.28	12.0%	12.0%	BEAT
V[4]	$0.97	$1.23	None	$1.23	26.8%	0.0%	$1.17	$1.26	29.9%	2.4%	BEAT
WU	$0.36	$0.35	None	$0.37	2.8%	5.7%	$0.35	$0.42	16.7%	20.0%	BEAT

Revenue

$ in millions	Prior Year	Prior Quarter	Mgmt Guidance	Consensus	Consensus Y/Y	Consensus Seq.	RJ Estimate	Actual Rev	Actual Y/Y	Actual Seq.	Vs. Consensus
ACIW	$92.42	$104.54	None	$99.13	7.3%	-5.2%	$98.00	$113.37	22.7%	8.4%	BEAT
ADS	$669.80	$740.40	None	$721.45	7.7%	-2.6%	$720.30	$740.50	10.6%	0.0%	BEAT
FIS	$1,291.40	$1,383.40	None	$1,416.01	9.6%	2.4%	$1,388.00	$1,441.70	11.6%	4.2%	BEAT
FLT	$111.44	$111.05	None	$121.11	8.7%	9.1%	$122.00	$134.21	20.4%	20.9%	BEAT
GDOT	$92.78	$123.19	None	$121.16	30.6%	-1.6%	$120.50	$119.39	28.7%	-3.1%	MISSED
GPN[1]	$425.05	$443.50	None	$476.20	12.0%	7.4%	$467.00	$519.75	22.3%	17.2%	BEAT
HPY	$115.14	$112.70	None	$124.67	8.3%	10.6%	$118.00	$122.22	6.1%	8.4%	MISSED
INTU[2]	$537.00	$1,848.00	$567-$587	$583.06	8.6%	-68.4%	$582.00	$593.00	10.4%	-67.9%	BEAT
MA	$1,365.00	$1,501.00	None	$1,550.25	13.6%	3.3%	$1,504.00	$1,667.00	22.1%	11.1%	BEAT
ONE	$26.94	$51.40	$33-$35	$34.59	28.4%	-32.7%	$34.05	$35.07	30.2%	-31.8%	BEAT
ORCC	$36.36	$39.28	$35-$37	$36.86	1.4%	-6.2%	$36.85	$38.33	5.4%	-2.4%	BEAT
PAY[3]	$223.40	$276.00	$265-$270	$270.00	20.9%	-2.2%	$266.00	$283.90	27.1%	2.9%	BEAT
TSS	$433.75	$429.40	None	$438.29	1.0%	2.1%	$434.52	$447.55	3.2%	4.2%	BEAT
V[4]	$2,029.00	$2,245.00	None	$2,296.67	13.2%	2.3%	$2,240.00	$2,322.00	14.4%	3.4%	BEAT
WU	$1,273.40	$1,283.00	None	$1,333.03	4.7%	3.9%	$1,312.90	$1,366.30	7.3%	6.5%	BEAT

1. F4Q11-Company operates on a May fiscal year
2. F4Q11- Company operates a July fiscal year
3. Represents last Q's (F2Q11) results-Company operates on an October fiscal year
4. F3Q11-Company operates on a September fiscal year

Source: Company Documents and Raymond James Research

ACI Worldwide, Inc.

(ACIW/$45.21/Outperform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$1,718	Op Cash Flow ($ Mil)	$157	Revenue ($ Mil)	$465	$682	$762
Shrs Outstanding ($ Mil)	38.0	CapEx ($ Mil)	25	Op Margin	14.2%	15.5%	19.4%
Float	99%	FCF ($ Mil)	132	GAAP EPS	1.34	1.64	2.26
Avg Daily Vol (30-Day)	321K	FCF Yield	7.7%	P/E	33.8x	27.6x	20.0x
Avg Daily Dollar Val	$13.9M						
Cash ($ Mil)	$201						
LTD ($ Mil)	$353			3 Yr EPS CAGR	15%		
Net Int Cov Ratio	31.5x			3 Yr Rev CAGR	7%		
LTD/Mkt Cap	20.5%						

Pricing as of 9/13/12 close.

ACI Worldwide, Inc. designs, markets, and sells electronic payments-related software and services to large financial institutions, third-party payment processors, and retailers. The company's enterprise-wide technology platform is the in-house engine, which enables its customers to manage and track all aspects of electronic payments. ACI enjoys a 70% recurring fee structure, and approximately 60% of the top line originates overseas.

ACI Worldwide reported soft 2Q12 sales results, but the company was on track with planned overhead reductions, to date; and, we were encouraged, by the announcement on the conference call, of the incremental $20 million of cost synergies from the S1 acquisition. We believe shares warrant consideration given multi-year revenue visibility ($2.3 billion five-year backlog), improving margin structure, and potential upside from deleveraging and share buybacks. We expect significant financial improvement sequentially and y/y in coming quarters.

Management lowered its initial 2012 revenue guidance by $13 million to $683-693 million due to higher purchase accounting adjustments and $10 million of forex headwinds. Other metrics were unchanged calling for $99-104 million of operating income, and $165-170 million of adjusted EBITDA. Guidance excludes one-time costs related to the S1 acquisition (estimated to be $31 million in 2012).

On February 13, ACI Worldwide announced that it completed the acquisition of S1 Corporation for $360 million and 5.9 million shares of ACIW common stock. During 2Q12, S1 contributed $43.1 million (includes a $9.6 million deferred revenue haircut for GAAP purchase accounting) of revenue and incurred $45 million of expenses, representing an operating loss of $1.9 million. Backing out the S1 contribution, ACI organic revenue declined 6% y/y to $107 million and generated operating income of $1.6 million at an uninspiring 1.5% margin. If we add back the $9.6 million purchase accounting adjustment, operating margins would have been 5.9%, adjusted EBITDA $25 million, and EPS $0.16.

Management indicated their new business pipeline is strong across all geographies. Of note was that demand in continental Europe remains robust, albeit with pockets of weakness in certain, mostly Southern European, countries being offset by strength in Northern Europe. The company recorded a term extension with Barclays, a customer for 25 years, in the EMEA region. In addition to U.S. and Canadian banks, Africa and Asia Pacific were called out as areas with strong pipelines. The company highlighted the consumer facing mobile and online banking offerings specially designed small and mid-sized financial institutions services acquired through S1 as opportunities moving forward.

2Q12 Results

On July 26, ACI Worldwide reported a messy 2Q12 with EPS of $0.01 (excludes $7.6 million of one-time acquisition expenses), $0.24 below our model and consensus. Revenue of $150 million was 15% below our model in part due to a higher than anticipated write-down of deferred revenue due to GAAP purchase accounting, $3 million of forex headwinds, and $10 million of revenue pushed into 2H12. Investors should note our model only adds back acquisition related expenses not deferred revenue write-downs in the quarter.

BASE24-eps

On December 1, 2011, the annual maintenance pricing on Base24 classic increased 50-100% (depending on the contract) on an estimated 400 existing Base24 classic customers. Investors may recall that ACI spent $600 million and more than eight years developing BASE24-eps and has won more than 85 new customers with it since its commercial release several years ago. The company has 200 core BASE24-classic customers earmarked for conversion, of which about 12 have converted or signed up for conversion thus far. Over the next several years, we think the pace could pick up. Demand to simplify the existing technology infrastructure for cross-border and domestic transactions, and at the same time relieve the strain of processing rising transaction volume on old systems is stimulating interest from financial institutions in ACI Worldwide's BASE24-eps product line.

Metrics

60-Month Backlog

In 2Q12, the company's backlog accounted for 95% of quarterly revenues vs. 91% in 2Q11. The high percentage of revenue generated from the backlog indicates that the company's revenues are becoming more predictable.

At the end of 2Q12, the company's five-year (60-month) backlog was $2.3 billion, up 40% y/y and flat sequentially. Backlog was negatively impacted by $23.5 million due to forex.

Sales

ACI Worldwide discloses sales for its reporting periods, which includes any kind of booking for the company. However, quarterly revenues are not recognized in most cases until the delivery of the software when the collection of payment is considered probable.

ACI Worldwide posted 2Q12 sales of $156 million, up 6% y/y. Sales growth faced tough comps from large renewals last year (none scheduled for 2Q12) and customers froze their purchasing decisions pending the newly combined company's product road map (S1+ACIW), which was released at the end of the quarter in June. The bright spot was add-on sales, up 89% y/y. Management stated its robust pipeline is strong across all geographies and the proliferation of electronic payments, regulatory pressures, and mobile may all contribute to sales decisions moving forward.

Alliance Data Systems Corp.

(ADS/$141.35/Strong Buy)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$9,004	Op Cash Flow ($Mil)	$1,059	Revenue ($ Mil)	$3,173	$3,583	$3,913
Shrs Outstanding (Mil)	63.7	CapEx ($Mil)	$100	Op Margin	29.6%	30.5%	31.4%
Float	97%	FCF ($Mil)	$959	Non- GAAP EPS	7.64	8.55	9.60
Avg Daily Vol (30-Day)	.4M	FCF Yield	10.7%	P/E	18.5x	16.5x	14.7x
Avg Daily Dollar Val	$50.3M						
Cash ($Mil)	$642						
LTD ($Mil)	2,405			Forward 3 Yr EPS CAGR	15%		
Int Cov Ratio	9.9x			Forward 3 Yr Rev CAGR	7.5%		
LTD/Mkt Cap	26.7%						

Pricing as of 9/13/12 close.

Alliance Data Systems (ADS), based in Dallas, Texas, is the largest private label credit card processing firm for mid-market specialty retail stores in the U.S. The company also provides outsourced loyalty, marketing, and statement processing services to the same specialty retail customers and others. Alliance Data Systems generates a 95% recurring revenue stream from more than 300 different customers, with an average contract length of three to five years. The firm operates three reporting segments: Loyalty Services, Epsilon, and Private Label. The Loyalty Services division manages the Air Miles coalition loyalty program in Canada. Epsilon provides permission-based integrated direct email marketing, customer management, and loyalty solutions to clients, primarily in the healthcare, finance, travel/consumer, telecom/hi-tech, and nonprofit sectors in the U.S. Private Label enables a suite of outsourced loyalty card processing functions for the private label business, which includes card issuance, embossing and mailing, monthly statement generation and mailing, and recording payment receipts.

On July 19, Alliance Data Systems easily exceeded 2Q12 consensus projections and all three divisions surpassed our top-line and profitability expectations. We remind investors results were even stronger than reported core EPS because, on an apples-to-apples basis, excluding the y/y “phantom share” increase of 3.8 million in 2Q12 (phantom shares result from GAAP accounting for in-the-money convertible notes; however, ADS has hedged its converts, thereby, effectively removing that obligation), core EPS would have been up a robust 29% y/y or $2.26. Furthermore, our current 2012 EPS estimate of $8.55 would be $1.33 higher (or $9.88) without the phantom shares which expire in March 2014.

In our opinion, ADS represents an attractive growth story with a demonstrated ability to execute and drive shareholder value higher. We believe the company will continue to deliver stellar fundamental results, as the ramp-up of existing along with the prospects for new larger Private Label opportunities provide multi-year visibility; and, the roll-out of Dotz in Brazil offers incremental growth potential. Furthermore, potential share repurchases could be $0.35-0.40 accretive annually (not modeled).

2Q12 Results

Alliance Data reported $867 million of revenue, up 17% y/y and $40 million above our model, $293 million of EBITDA, up 23% y/y and $27 million better than our projection, and EPS of $2.13 up 22% y/y and beating our estimate by $0.25 and consensus $0.22. Management raised 2012 full-year cash net income guidance by $6 million to $542 million, revenue by $0.4 million to $3.5 billion, but maintained EPS of $8.45 due to an expected increase in phantom share count from a rising share price, expected 2H12 softness in Epsilon, and a seasonal reserve build in 4Q12. Investors should be aware 3Q12 EPS was guided to $2.18, implying 4Q12 EPS of $1.77, both of which were below the Street. We believe guidance was light from the dilutive impact of phantom shares, near-term headwinds for Epsilon as pharmaceutical companies (10% segment revenue) decrease marketing spend, and conservatism. We think these issues should abate and investors will reward the company's continued operational outperformance.

Private Label

Sales on Private Label Credit Cards

Dollar value of all sales made on Alliance Data Systems' private label credit cards were up 18% y/y to $2.87 billion in 2Q12.

Managed Receivables

Managed receivables refers to the dollar value of credit card receivables maintained by Alliance Data's Private Label Credit division. In 2Q12, managed receivables were $5.5 billion, up 13% y/y and better than our 8% projection.

Charge-Off Rate

The charge-off rate is a percentage of the securitized receivables portfolio that is written off as uncollectible in a given time period. Alliance Data Systems reported a 2Q12 Private Label charge-off rate of 4.9%, 160 basis points (bp) below (better than) our 6.5% 2Q12 projection. Month of June charge-offs of 4.7% were down 10 bp sequentially from the month of May and down 220 bp year-over-year. Every 25-bp movement in the charge-off rate impacts annual EPS by $0.10-0.15. The announcement puts the company on track to exceed our credit quality expectations for the Private Label Credit division; we assume charge-off rates to continue their favorable (downward) trajectory to 5.2% in 2012, from an average of 6.8% in 2011.

Delinquency Rate

The delinquency rate is a percentage of receivables that are approximately 90 days or more past due but not yet classified as "charged off." The delinquency rate is a directional indicator (worse or better) of the future charge-off rate. On June 30, the company's delinquency rate was 3.9%, down 60 basis points y/y.

Loyalty (Canada)

Air Miles Issued

Air miles issued refers to the number of air miles (loyalty points) issued in a given quarter based on consumers' non-discretionary everyday spending patterns. The top line is driven by the quantity of air miles issued. Miles issued in 2Q12 were up 8% y/y to 1.3 billion. This year ADS introduced an instant rewards program which could accelerate the velocity of issuance and redemptions and may limit deferred revenue growth.

Air Miles Redeemed

Air miles redeemed refers to the number of air miles (loyalty points) redeemed by collectors. Alliance Data incurs expenses when air miles are redeemed. In 2Q12, air miles redeemed were up 25% y/y to 1 billion, 34% higher than our projection, and continued to be impacted by recent modifications to the rewards program, including limiting the life of an air mile to five years.

Bottomline Technologies

(EPAY/$23.81/Outperform) **June Fiscal Year**

			2013E		F12A	F13E	F14E
Market Cap ($ Mil)	$839	Op Cash Flow ($ Mil)	$36	Revenue ($ Mil)	$224	$252	$277
Shrs Outstanding (Mil)	35.2	CapEx ($ Mil)	$5	Op Margin	18.0%	16.2%	19.2%
Float	98%	FCF ($ Mil)	$31	Core EPS	0.99	0.93	1.21
Avg Daily Vol (30-Day)	131.2M	FCF Yield	3.7%	P/E	24.1x	25.6x	19.7x
Avg Daily Dollar Val	$3,123M						
Cash ($ Mil)	$125						
LTD ($ Mil)	0.0			Forward 3 Yr EPS CAGR	20%		
Int Cov Ratio	NA			Forward 3 Yr Rev CAGR	10%		
LTD/Mkt Cap	0%						

Pricing as of 9/13/12 close.

Bottomline Technologies is a leading services provider of electronic payment, invoice, and document management solutions. The company's cutting edge capabilities simplify, automate, and manage business to business (B2B) invoicing, payments, and treasury functions for global organizations and financial institutions. Bottomline serves small-to-medium-sized businesses to large corporations, providing both traditional software licenses (deployed on-site by the user) or hosted solutions, which can minimize customer investment and maintenance costs. Roughly 32% of revenue is derived internationally.

We expect the electronic B2B payments market to double over the next 10 years from $4 billion of revenue in 2010 to approximately $8 billion by 2020 at a CAGR of 10%. We size the total potential domestic B2B payments industry (includes paper-based and electronic processing) at $10 billion of revenue in 2010 expanding 3% annually. The much faster growth rate should result from increased adoption of electronic payments methods (currently 40%) due to potentially substantial cost savings and, for the first time, information visibility into the payment lifecycle.

Replacing paper-based payments with electronic methods could reduce costs to less than $2 per payment from the current average of more than $4 per paper check. Likewise, automating the invoicing process could cut the average expenditure per invoice from $17 to $7. The 50-60% in cost savings provides a stimulus for business customers to increase adoption of the company's services and drives 10% long-term revenue growth for Bottomline, in our opinion.

We believe our long-term thesis is intact and the subscription and transaction revenue should continue to gain traction driven by the successful Legal eXchange, Paymode-X, and acquired Intuit cash management business.

F4Q12 Results

Bottomline Technologies reported F4Q12 revenue of $61 million, beating our and Street estimates by approximately $1 million, and core EPS of $0.26 was $0.05 above both our estimate and consensus. We note the fast growing subscription and transaction segment was a source of revenue upside, up 64% y/y and 17% above our model, which we believe is a long-term positive given its high margin and recurring nature. A $2.5 million share repurchase contributed approximately $0.01 per share and lower than modeled taxes added $0.04 per share, compared to our model, excluding which the quarter was in line. However, in our opinion, the positive revenue and gross margin (approximately110 bp above our estimate) performance makes up for the increased growth investments that suppressed the magnitude of the revenue beat. Also of note, service and maintenance revenue may be pressured as banking customers convert from a license to a subscription revenue model over the coming quarters.

Bottomline posted another strong business-win quarter, signing eight new legal spend management customers (and two extensions). The incremental customers should increase future subscription and transaction revenue growth, which may lead to improved financial visibility, recurring revenue, and increasing margins. Additionally, management indicated vendor pay pilot programs were progressing well and sounded confident it could transition the Paymode-X revenue model at some point in the future, a meaningful positive for future revenue growth in our opinion.

Management raised F1Q13 core EPS guidance by $0.01 to $0.22 while maintaining its revenue outlook of $60 million. Likewise, FY13 revenue guidance of $250 million was maintained while core EPS was increased by $0.01 to a range of $0.86-0.96.

Segments

Subscription and Transaction Fees

Subscription and transaction revenue was the standout performer of F4Q12, up 64% y/y to $28 million and $4 million above our model. Division gross margin of 54% was approximately580 bp higher than our estimate and segment core gross margin (excludes stock based comp, acquisition, and restructuring related expenses) was 55%. As we highlighted last quarter, the segment benefited from banking customers converting from perpetual licenses to subscription based revenue models (slows near-term software license and service/maintenance growth). The trend of banking customers moving towards SaaS offerings should continue moving forward. For FY13, we project $116 million of segment revenue, 37% y/y growth, and 52.8% core gross margins. Our FY14 estimates assume 13% y/y revenue growth to $131 million and 55% core gross margins.

Service and Maintenance Fees

Service and maintenance revenue was $3 million lower than our F4Q12 expectation at $26.4 million. Consequently, gross profit margin was also approximately380 bp lower at 51%. We anticipate revenue to decline 4% y/y to $109 million in FY13 (mainly a function of migration to SaaS solutions) and we estimate $118 million, up 8% y/y, in FY14, with core gross margins of 58% in both years.

Software License Fees

Software license revenue of $5 million was up 3% y/y and $0.5 million above our model. Segment gross margin of 91% was approximately270 bp higher than our estimate. For FY13, we project revenue to remain flat at $18 million and 89% core gross margins; our FY14 estimates are $19 million in revenue, up 7 y/y, and flat y/y core gross margins.

Equipment and Supplies Fees

Equipment and supply revenue was in line with our model at $2 million and gross margins were approximately20 bp higher than expected at 18.7%. We estimate FY13 segment revenue and gross margin of $8 million, up 3% y/y, and 20.8%, respectively. For FY14, we expect flat y/y revenue and gross margins of $8 million and 20.8%, respectively.

Fidelity National Information Services

(FIS/$31.92/Outperform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$9,522	Op Cash Flow ($ Mil)	$1,283	Revenue ($ Mil)	$5,626	$5,846	$6,163
Shrs Outstanding (Mil)	298.3	CapEx ($ Mil)	$308	Op Margin	22.7%	23.3%	23.9%
Float	99%	FCF ($ Mil)	$975	Non-GAAP EPS	2.22	2.51	2.75
Avg Daily Vol (30-Day)	2.2M	FCF Yield	10.2%	P/E	14.4x	12.7x	11.6x
Avg Daily Dollar Val	$71M						
Cash ($ Mil)	$534						
LTD ($ Mil)	4,735.6			Forward 3 Yr EPS CAGR	15%		
Int Cov Ratio	7.2x			Forward 3 Yr Rev CAGR	5%		
LTD/Mkt Cap	50%						

Pricing as of 9/13/12 close.

Fidelity National Information Services (FIS) is a leading outsourced information and technology services provider to financial institutions. Fidelity's Payment Solutions division provides financial institutions and retailers with payment processing and risk management services. Fidelity's Financial Solutions division is a leading provider of outsourced core bank processing services and software that enables financial institutions to manage all aspects of their technology and information infrastructure in general and their deposit and loan operations in particular. The International Solutions group provides core and payment solutions outside of the United States.

On July 17, Fidelity National Information Services reported a mixed 2Q12. The company continues to execute well in a tough environment and is divesting non-core assets such as its Healthcare Benefit Solutions segment. In our opinion, FIS remains an attractive investment opportunity generating significant free cash flow, expanding margins, and returning cash to shareholders through buybacks and dividends.

After adjusting for 2Q12 results and incorporating the reclassification of the healthcare business to discontinued operations, we reduced our 2012 revenue projection by $196 million to $5.8 billion and lowered our EPS estimate $0.06 to $2.51. Our 2013 revenue and EPS estimates are reduced to $6.2 billion and $2.75, respectively, from $6.4 billion and $2.91.

The company repurchased $50 million worth of shares in the quarter and we believe there is $950 million remaining on its current authorization. If executed at the current price, this could provide $0.25-0.30 EPS accretion annually (not modeled).

2Q12 Results

Fidelity National Information Services posted lower than expected revenue of $1.46 billion (approximately$53 million below our model and $8 million below consensus) while cash EPS of $0.66 beat our estimate by $0.04 and the Street by $0.07. Forex was a $35 million revenue drag and investors should note EPS benefitted by $0.05 from a lower than modeled tax rate while a higher than modeled share count was a $0.01 headwind. Excluding these items EPS was in line with our estimate and $0.03 above Street estimates. The company reaffirmed 2012 guidance of 3-5% organic revenue growth and EBITDA growth of 5-7%. Management lowered its EPS from continuing operations outlook by $0.02 to a range of $2.45-2.55, which resulted from a $0.07 headwind from reclassifying its healthcare business as a discontinued operation offset by the $0.05 benefit from a lower tax rate.

Segments

Financial Solutions (39% of 2Q12 Revenues)

FIS reported 2Q12 Financial Solutions revenue of $563 million, up 9% year-over-year and 4% above our projection. The segment benefitted from growth in processing and services revenues. The company indicated it is seeing traction with its two recent acquisitions, ICS Compliance and Memento, which offer compliance consulting and fraud management solutions. Total division EBITDA was up 3% y/y to $215 million but EBITDA margin declined 210 bp y/y to 38.2% due to higher professional services and consulting revenue (lower margin) as well as increased security and infrastructure related spend.

The company indicated it expects to migrate legacy M&I accounts from an outsourced solution to an in-house FIS solution in 4Q12. As a reminder, BMO Harris announced the purchase of M&I approximately 18 months ago and since both banks are FIS customers and FIS revenue streams are going to be reduced from two clients to one management anticipates a $60 million annual run-rate EBITDA decline with an impact of half that ($30 million) for 2013.

Fidelity's Financial Solutions division is a leading provider of outsourced core bank processing services and software that enables financial institutions to manage all aspects of its technology and information infrastructure in general, and its deposit and loan operations in particular.

Payment Solutions (42% of 2Q12 Revenues)

The company posted 2Q12 Payment Solutions top line of $606 million, up 0.4% y/y and 6% below our model; top-line growth would have been up 3% y/y excluding the retail check portion of Payment Solutions. Revenues continued to be negatively impacted by the retail check business, which represented an $11 million revenue headwind for the segment. Total Payment Solutions EBITDA was $250 million, up 9% y/y with a 310 bp increase in EBITDA margin from 38.1% to 41.2% as higher transaction volumes are leveraged over a mostly fixed-cost infrastructure.

Regarding the Durbin Amendment, the company indicated its transactions on the NYCE network have seen growth since the network non-exclusivity rules became effective on April 1 but are cautious due to Visa's aggressive pricing. NYCE accounts for approximately3% of total revenue.

Fidelity's Payment Solutions division provides financial institutions and retailers with payment processing and risk management services. The segment provides card issuer services that allow banks and credit unions to issue Visa and MasterCard credit and debit cards and private label cards. The company also provides risk management services to retailers and financial institutions.

International (20% of 2Q12 Revenues)

The International division posted revenue of $287 million, down 2% y/y and $33 million lower than our projection mainly driven by a $35 million forex headwind, excluding which revenue would have been up 10% y/y. The top line benefitted from increased payment volumes in Brazil, European processing and consulting business, and an increased presence in Asia. Forex did not materially impact profitability as it was a benefit to certain costs, namely Fidelity's captive operation in India. Management indicated Europe has held up well and the majority of revenue is generated in Northern Europe with less than 0.5% exposure to the PIIGS (Portugal, Italy, Ireland, Greece and Spain) nations. Total EBITDA was up 3% y/y to $63 million, and EBITDA margin was up 110 bp to 22%, as the company continues to build scale in the segment.

FleetCor Technologies

(FLT/$44.25/Outperform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$3,794	Op Cash Flow ($ Mil)	$319	Revenue ($ Mil)	$520	$671	$732
Shrs Outstanding (Mil)	85.7	CapEx ($ Mil)	$12	Op Margin	43.6%	45.6%	47.8%
Float	86%	FCF ($ Mil)	$307	Non-GAAP EPS	2.16	2.78	3.11
Avg Daily Vol (30-Day)	403K	FCF Yield	8.1%	P/E	20.5x	15.9x	14.2x
Avg Daily Dollar Val	$14.7M						
Cash ($ Mil)	256						
LTD ($ Bil)	286			Forward 3 Yr EPS CAGR	20%		
Int Cov Ratio	23.5x			Forward 3 Yr Rev CAGR	10%		
LTD/Mkt Cap	8%						

Pricing as of 9/13/12.

FleetCor Technologies is a leading transaction processing service provider of customized payment card solutions to the small-to-medium fleet truck market (less than 150 vehicles). The company offers these targeted trucking fleets a charge card for its drivers to use for purchasing gas and additional items at fueling and auto repair stations and provides the fleet operators with detailed spending and other transactional data about their drivers. FleetCor also provides a membership-driven hospitality card service, which guarantees low rates and room availability. Roughly 60% of revenues are domestic, and 40% are international.

On August 8, FleetCor posted a clean $0.07 beat, raised guidance, and held an upbeat earnings conference call regarding the potential acquisition pipeline. The company continues to generate strong financial results in a tough macro environment, demonstrating the resiliency of the model in our opinion. We remain bullish on FLT's opportunity to expand into new markets, gain share, and improve profitability.

Management raised revenue 2012 guidance by $50 million at the midpoint to a range of $665-675 million and EPS by $0.19 to a range of $2.74-2.77 to account for the stronger than expected 1H12, sustained organic improvement in 2H12, and $0.06-0.07 of accretion from the CTF and the Russian acquisition closed during 2Q12.

FleetCor has completed over 40 acquisitions since 2002. The company reiterated the acquisition pipeline is healthy and intends to expand its business footprint beyond North America and Europe. Since fleet cards are less penetrated in regions such as Asia, Africa, and South America, we believe an accretive international acquisition could contribute significant upside to our projections.

On July 11, 2012 FleetCor closed the acquisition of CTF Technologies, a Brazilian fuel payments processor, and announced the closing of a Russian fuel card company for an undisclosed sum (closed June 15). Together the acquisitions were guided to be $0.06-0.07 per share accretive to cash EPS in 2H12. We are encouraged by the company's continued ability to acquire accretive assets, expand its international footprint, and diversify its revenue streams to fee-based models (i.e., not fuel price-sensitive).

2Q12 Results

FleetCor reported 2Q12 EPS of $0.73, $0.07 ahead of our model and $0.08 above the Street; $172 million in revenue was $11 million better than our estimate and $13 million ahead of consensus. Revenue in the quarter benefitted from recent acquisitions and strong growth of existing products. Operating margin of 47.4% was 220 bp better than our model as the company leveraged the revenue upside. The company stated there was approximately$1 million of deal related costs ($0.01 headwind).

The company stated that it saw strong 48% y/y growth in its U.S. universal MasterCard product, double-digit y/y growth in Russia, and 16% y/y growth in the hotel business (CLC).

Metrics

North America

North America Transactions Processed

Transaction volume of 39.3 million, up 2% year-over-year and 1% above our model.

North America Revenue per Transaction

Revenue per transaction was up 13% y/y at $2.73, $0.19 above our projection.

International

International Transactions Processed

Transaction volume of 34.9 million, up 198% y/y, was 3% below our projection.

International Revenue per Transaction

The company reported revenue per transaction down 48% y/y to $1.85 but was $0.14 higher than our estimate. International revenue per transaction continues to decline from increased mix of lower revenue-per-transaction regions (Mexican and AllStar acquisitions).

Global Payments Inc.

(GPN/$43.02/Outperform) **May Fiscal Year**

			2013E		12A	13E	14E
Market Cap ($ Mil)	$3,378	Op Cash Flow ($Mil)	$412	Revenue ($ Mil)	$2,204	$2,360	$2,554
Shrs Outstanding (Mil)	79.5	CapEx ($ Mil)	120	Op Margin	17.8%	16.6%	17.0%
Float	98.9%	FCF ($ Mil)	292	Cash EPS	$3.53	$3.61	$3.96
Avg Daily Vol (30-Day)	712K	FCF Yield	8.7%	P/E	12.1x	11.8x	10.7x
Avg Daily Dollar Val	$30.1M						
Cash ($ Mil)	270						
LTD ($ Mil)	237			3 Yr EPS CAGR	15%		
Int Cov Ratio	30.0x			3 Yr Rev CAGR	10%		
LTD/Mkt Cap	7.0%						

Pricing as of 9/13/12.

Global Payments Inc. is a leading outsourced credit card processor to mid-market merchants, enabling retailers' PoS devices to accept electronic mediums of payment in the U.S., Canada, Europe, and Asia.

On July 26, GPN pre-reported solid F4Q12 but lowered FY13 outlook. While near-term financial results are pressured by adverse f movements, weaker Canadian business, security-breach-related investments in technology infrastructure, and compliance, we believe the long-term model remains attractive. Additionally, the apparent conclusion of the processing system attack and removal of associated overhang may position the stock for future multiple expansion.

On August 15 Global Payments announced it agreed to acquire Accelerated Payment Technologies (APT), an existing independent sales organization (ISO) partner, from private equity firm Great Hill Partners for $413 million cash. Management anticipates the deal closing during F2Q13 (November quarter). We view this transaction as a positive for Global Payments, which may improve the optics around North American margins as an ISO partner is converted to direct acquiring.

APT is a merchant acquirer predominantly serving small- and-medium sized retailers. The company markets its services through the Value-added reseller (VAR) channel and currently has relationships with approximately700 such resellers. APT processes $8 billion on an annualized basis. Management indicated the deal should eventually be "significantly accretive" to cash operating margins on an annualized basis. Furthermore the deal is expected to be dilutive to FY13 GAAP EPS and neutral to cash EPS, turning accretive on a cash basis after FY13. Management stated it will provide further financial details when the deal closes.

Financially, we view the deal as a positive, improving optics around North American margins, which in our opinion was a point of contention for some investors. As an ISO partner Global Payments was already processing the majority of APT's transactions and recognizing revenue on a gross basis, so post-deal there should not be a material change to reported revenue. Margins should improve meaningfully; however, the company relationship transitions from an ISO partnership to direct acquiring. As a reminder regarding ISO partnerships, Global Payments recognizes the full fee charged to a retailer but then expenses revenue in excess of its contractual ISO fee in SG&A optically suppressing margins.

On its F4Q12 earnings call, the company announced it will acquire the remaining 44% interest in its Asian joint venture with HSBC for $242 million funded by cash and existing credit facilities. Management anticipates $0.07 annual benefit to FY13 cash EPS if the deal closes in F2Q13, which is included in guidance.

On March 29, Global Payments announced there was an unauthorized breach of its North American processing system, and the company indicated 1.5 million account numbers were compromised; however, no customer names, addresses, or social security numbers were exposed. The company stated it identified and self-reported the breach, immediately contacting the relevant card associations, issuing banks, and federal law enforcement. Despite Global Payment's compliance with PCI regulations at the time of the breach, Visa has automatically removed the company from a PCI compliant vendor processing list. We believe this to be a cautionary measure on Visa's part, and Global Payments indicated that it is working with a qualified security assessor to independently review the progress. This action has no impact on the company's ability to process transactions.

On the F4Q12 conference call, management stated it has completed the investigation into the breach and the company took an $84 million charge to indemnify effected card issuers, payment networks, costs for the investigation, and initial expenses related to remediation. The company expects to incur further charges in 2013 of $25-35 million net of $28 million of insurance.

F4Q12 Results

Global Payments reported F4Q12 revenue of $597 million, $10 million better than our model and $20 million higher than consensus. Cash EPS was $0.97, $0.01 above our model and the Street. Currency fluctuations negatively impacted revenue and EPS by $9 million and $0.03, respectively. Cash operating margin of 20.5% met our estimate as higher-than-modeled SG&A limited upside.

Management provided initial FY13 guidance below our estimate and the Street, calling for cash EPS of $3.59-3.66 (includes $0.08 headwind for forex) and revenue of $2.36-2.40 billion ($25 million forex headwind). FY13 cash operating margins were guided down 150 bp due to incremental technology and compliance spend as well as negative impacts of forex over a mostly fixed-cost infrastructure. Guidance excludes any incremental processing intrusion charges.

Metrics

Domestic Transaction Growth

The percentage growth of transactions processed in the U.S. was up 13% y/y in F4Q12.

Revenue by Geography

United States (59% of F4Q12 sales): $352 million, up 25% y/y and 8% above our model.

Canada (15% of F4Q12 sales): $79 million, down 9% y/y and 4% worse than our model.

Europe (22% of F4Q12 sales): $129 million, up 11% y/y but 6% below our projection. The division continued to benefit from the la Caixa acquisition in Spain (acquired December 2010).

Asia-Pacific (6% of F4Q12 sales): up 5% y/y at $38 million but was 11% below our model. Revenue was below our estimate partly due to tough comps in the region from last year's new product roll-out. The company expects Asia to return to double-digit growth in FY13 and beyond. Additionally, management indicated it recently added three new regions to process China Union Pay transactions in China, which represent a population over 175 million.

Green Dot Corporation

(GDOT/$12.79/Market Perform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$562	Op Cash Flow ($ Mil)	$143	Revenue ($ Mil)	$485	$546	$603
Shrs Outstanding ($ Mil)	43.9	CapEx ($ Mil)	$26	Op Margin	22.8%	17.7%	17.3%
Float	74%	FCF ($ Mil)	$117	Non-GAAP EPS	1.56	1.38	1.47
Avg Daily Vol (30-Day)	1153K	FCF Yield	20.8%	P/E	8.2x	9.3x	8.7x
Avg Daily Dollar Val	$11.7M						
Cash ($ Mil)	$121						
LTD ($ Mil)	0			3 Yr EPS CAGR	10%		
Net Int Cov Ratio	NA			3 Yr Rev CAGR	10%		
LTD/Mkt Cap	NA						

Pricing as of 9/13/12 close. Revenue shown is non-GAAP.

Green Dot Corporation is a leading technology and service enabler of general purpose reloadable prepaid cards (GPR) co-branded under the Visa and MasterCard payment card association logos. These cards may be purchased and reloaded at more than 60,000 retail locations in the United States, including large national chains such as Wal-Mart, CVS, Walgreens, Kroger, Radio Shack, 7-Eleven, Rite Aid, Duane Reed, Meijer, Kmart, Fred Meyer, Sunoco, Valero, Hess, and Safeway. The company is targeting the un-banked and under-banked consumer and empowers that constituency with electronic payment capability in the physical and digital world anywhere Visa and MasterCard are accepted.

On July 26, Green Dot reported a weak 2Q12 and drastically reduced 2012 outlook due to 1) decelerating active cards from strengthened risk policies and controls negatively impacting approval rates of customers trying to activate cards (5-10% growth headwind) and 2) the threat of competition at previously exclusive retailers starting in 4Q12. We believe management's guidance may prove conservative given current trends remain better than guidance implies; however, we do not find shares attractive given limited visibility into longer-term trends and margin profile. In our opinion management seemed more likely to pursue future acquisitions with available capital as opposed to repurchasing shares despite the depressed valuation of GDOT.

The company announced it signed a long-term exclusive partnership with a leading higher education financial services provider where it will serve as the issuer and program manager. Green Dot also entered into a multi-year agreement to issue the retail version of the RushCard and co-manage the portfolio, leveraging the recently acquired bank.

The recently closed Bonneville Bank and eCommLink acquisitions should provide long-term cost savings through vertical integration and potential revenue opportunities through float income and greater control over product. We are encouraged by these developments and believe long-term value exists; however, integration and transition related costs could be a headwind for much of 2012.

On April 4 Green Dot completed the acquisition of Loopt, a mobile technology company, for $43.4 million in cash. Green Dot believes it can improve customer retention, target new consumer segments, and provide mobile wallet solutions through the acquired assets. Loopt offers (and holds the patents for) location-based social applications, enabling users to connect with their community through reviews and real-time rewards.

2Q12 Results

Green Dot reported 2Q12 adjusted revenue of $139 million, 5% below our model and 2% below Street expectations. Adjusted EPS was $0.35, $0.04 lower than our model and $0.03 below consensus. Management drastically reduced topline growth rate guidance by 50% to 11% y/y from 22% y/y as the company takes a conservative stance on possible competitive pressures from retailers offering competing products. EBITDA is now expected to be in a range of $104-106 million (down $30 million at mid-point) and EPS guidance was reduced $0.37 at the midpoint to a range of $1.29-1.32.

Trends in the quarter appear better than reported when adjusted for the lost TurboTax business. On this adjusted basis revenue was up 23% y/y, activated cards grew 18% y/y and active cards 16% y/y, and GDV advanced 24% y/y with 43% of GDV from direct deposit customers who may have a longer average life and higher life-time value.

Metrics

Number of GPR Cards Activated

In 2Q12, the company activated 2 million cards, up 10% y/y but 6% lower than our projection and ended 2Q12 with 4.4 million cards in use. Excluding the discontinued TurboTax business cards activated grew 18% y/y and cards outstanding were up 16% y/y. We expect the number of cards activated to expand 7% to 8.5 million in 2012 and 9% to 9.3 million in 2013.

Number of Cash Transfers

Number of cash transfers refers to the total number of MoneyPak and PoS swipe reload transactions sold through the company's retail channel. In 2Q12, the company processed 10.1 million cash transfers, up 22% y/y and 1% above our model. Management lowered cash transfer guidance from 20%+ y/y to 15%+ y/y growth in 2012 implying mid-high single digit growth in 2H12. We expect cash transfers to grow 16.5% to 40 million in 2012 and 14.5% to 46 million in 2013.

Number of Active Cards

At the end of 2Q12, the company had 4.4 million Green Dot cards active, up 7% y/y and 4% below our projection. Management indicated excluding the discontinued TurboTax business number of active cards would have improved 16% y/y. We expect active cards to grow 5% y/y in 2012 to 4.4 million and 10% in 2013 to 5 million, which is in line with management's revised outlook for approximately5% growth (down from greater than 20% y/y growth).

Gross Dollar Volume (GDV)

Gross dollar volume refers to the total dollar value of funds loaded onto GPR cards and MoneyPak products. In 2Q12, consumers loaded $4 billion on to Green Dot cards or MoneyPak products, up 10% y/y and 15% lower than our projection. The shortfall was attributable to the loss of TurboTax; excluding that business GDV would have increased 24% y/y in the quarter and the lumpy characteristics of this line item. Management will no longer provide guidance on this item and will now report a purchase volume number (which was $2.9 billion and up 16% in the quarter) as it better correlated to interchange revenues. We expect GDV to grow 15% to $18.5 billion in 2012 and 17% to $21.6 billion in 2013.

Heartland Payment Systems

(HPY/$31.82/Market Perform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$1,247	Op Cash Flow ($ Mil)	$121	Net Revenue ($ Mil)	$482	$544	$593
Shrs Outstanding (Mil)	40.4	CapEx ($ Mil)	$30	Op Margin	16.2%	18.8%	19.3%
Float	97%	FCF ($ Mil)	$91	Non-GAAP EPS	1.09	1.52	1.71
Avg Daily Vol (30-Day)	614K	FCF Yield	7.3%	P/E	28.3x	20.3x	18.0x
Avg Daily Dollar Val	$18.5M						
Cash ($ Mil)	43.0						
LTD ($ Mil)	60.0			Forward 3 Yr EPS CAGR	10%		
Int Cov Ratio	45.3x			Forward 3 Yr Rev CAGR	5%		
LTD/Mkt Cap	5%						

Pricing as of 9/13/12 close.

Heartland Payment Systems is one of the largest outsourced credit card processors in the U.S. by purchase volume. More than 95% of revenues are generated from transaction processing service fees related to enabling merchants with the acceptance of a wide variety of payment card mediums (credit and debit cards, check services, micropayments, etc.) at the retail PoS. The small portion of remaining sales is linked to the rental and, in some cases, the sale of third-party retail PoS equipment such as credit card and check readers, in addition to a growing payroll processing solution offered to Heartland's credit card processing customers.

On July 31, Heartland posted mixed 2Q12 results with slightly lower revenue more than offset by solid cost controls, leading to a $0.08 bottom-line beat. The company's operational performance and business prospects continue to improve with same-store sales, new margin installed [i.e., the company's estimate of annual margin (revenue less processing costs) of new contracts signed in the quarter], and sales force productivity trending positively.

Same-store sales were up 2.2% y/y (ninth consecutive quarter of positive growth) with all but one of the 11 reporting verticals posting y/y improvements. Dollar value processed among small and medium enterprise (SME) was up 6% y/y at $18.6 billion.

During 2Q12 the company acquired Lunch Byte Systems, expanding their position in the K-12 education market. Lunch Byte is Heartland's fifth acquisition in the space since 2011 and brings total K-12 market share to 30% or roughly 29,000 schools. The acquisition is expected to contribute $3 million in 3Q, $4 million in 4Q, and put the segment (includes other education related services) on track to achieve a $40-45 million annual revenue run-rate.

The company repurchased 738,000 shares in 2Q12 for roughly $27 per share. The board authorized a new $50 million repurchase program, which if utilized around $30 per share could buy back approximately1.2 million shares and potentially add roughly $0.04-0.06 to our 2012 and 2013 annual EPS estimates.

2Q12 Results

Heartland Payment Systems reported 2Q12 EPS of $0.44, $0.08 above our model and $0.04 higher than consensus. Net revenue of $135 million was up 11% y/y but $1.5 million lower than our projection and $3 million light of the Street. Operating margin was impressive at 22%, approximately400 basis points (bp) stronger than our projection because of solid cost controls such as a 7% y/y decline in customer acquisition costs.

Management raised 2012 net revenue guidance from $530-540 million to $540-545 million. Management also raised its EPS guidance by $0.11 at the midpoint to $1.70-1.74 or $1.48-1.55 excluding stock based comp, which was increased from a $0.19 headwind to $0.22 due to strong stock performance to date. The board of directors authorized a new $50 million buyback program, which we estimate could be $0.04-0.06 accretive on an annual basis (not modeled).

Metrics

Same-Store Sales

Same-store sales were up 2.2% year-over-year in 2Q12, a modest sequential deceleration but the ninth quarter of positive growth in the past two years. All but one (petroleum) of the 11 verticals posted positive quarterly same-store sales, with the strongest being quick service restaurant, electronic/furniture, and convenience, grocery and liquor. The weakest performing verticals were petroleum, automotive, and restaurants. Small and medium enterprise (SME) volume was up 6% to $18.6 billion.

New Margin Installed

New margin installed refers to the company's estimate of annual margin (revenue less processing costs) of new contracts signed in the quarter. New margin installed was up 20% with six out of the last seven quarters experiencing positive growth (after two years of contractions), and management indicated that merchant retention levels continue to trend favorably.

Network Services Transactions

The Network Services business processed 892 million transactions in 2Q12, up 5% y/y, but revenues were down 3% y/y at $12.6 million. Revenues were not impacted by fluctuating gas prices in this business, because the Network Services Business charges flat processing fees (priced pennies per transaction, no interchange expense to net).

Higher One Holdings Inc.

(ONE/$12.54/ Market Perform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$724	Op Cash Flow ($Mil)	$66	Revenue ($ Mil)	$176	$202	$232
Shrs Outstanding (Mil)	57.7	CapEx ($ Mil)	$16	Op Margin	26.9%	32.8%	35.9%
Float	77%	FCF ($ Mil)	$50	Non-GAAP EPS	$0.76	$0.80	$1.00
Avg Daily Vol (30-Day)	509K	FCF Yield	6.9%	P/E	16.6x	15.7x	12.6x
Avg Daily Dollar Val	$5.7M						
Cash ($ Mil)	$25						
LTD ($ Mil)	0			3 Yr EPS CAGR	20%		
Int Cov Ratio	NA			3 Yr Rev CAGR	15%		
LTD/Mkt Cap	NA						

Pricing as of 9/13/12 close.

Higher One Holdings is the leading domestic third-party transaction processing service for enabling electronic payments and disbursements between students and colleges in the large and underpenetrated higher education industry. Higher One offers a comprehensive suite of services specifically designed for disbursement (primarily financial aid) and payment (student tuition and university bill pay) for higher education institutions and their students. Approximately 90% of revenues are recurring transaction fees.

On August 7, Higher One reported soft 2Q12 (seasonally slow quarter) and reiterated guidance. While we believe the company's disclosures and fee structure appear fair, shares may continue to be pressured until there is sustained improvement in OneAccount trends and clarity on pricing. We are encouraged by the potential for cross-sell opportunities from acquiring Campus Labs and significant new share repurchase authority.

Higher One announced it has agreed to acquire Campus Labs (deal may close in 3Q12), a provider of data analytics software to 650 campuses representing 5.8 million students, for $38.4 million, warrants to purchase 150,000 shares of ONE, and a potential earn out based on 2013 revenue. Campus Labs is on a $10 million revenue run-rate is anticipated to grow at 30% per year, and be accretive to 2013. As is our practice we will wait until the deal closes to adjust our model although management indicated there should be minimal impact to 2012. On a combined basis ONE would serve 1,250 campuses and have SSE of 10.5 million (company indicated mid-teens overlap of customers) upon closing.

Subsequent to the quarter Higher One announced a new OneAccount product called Edge which would have a simplified $4.95 per month fee structure eliminating transactional fees. We view this announcement as a potential positive as it could provide clarity around the company's fee structure.

2Q12 Results

Higher One reported 2Q12 EPS of $0.09, $0.02 below our model and $0.03 below the Street. Revenue of $38.9 million was approximately$1 million shy of our estimate and consensus. Average revenue per OneAccount continued to decline, down 6% y/y. Gross margin of 56% missed our model by approximately580 bp due to mix, fraud costs, and data processing (lower incentives from network). The company indicated it may look to improve the terms of its network deal with MasterCard as it is up for renewal next year.

Higher One reiterated 2012 revenue guidance of $200-215 million and EPS of $0.80-0.90 which assumes flat enrollment growth at the midpoint with minimal adoption of the new Flex and Premier products. The board authorized a new $100 million share buyback program, if utilized at $10 could buy back 10 million shares and be $0.15-0.20 accretive annually.

Metrics

OneAccounts Outstanding

Total OneAccounts outstanding at quarter end were 1.9 million (0.2 million below our projection), up 8% year-over-year. The OneAccount is an FDIC-insured account linked with a MasterCard debit card which enables a student to receive financial aid disbursements from the government (net of tuition).

SSE

Signed School Enrollment is the number of students enrolled at client institutions, providing insight into the number of possible customers that could utilize one or more of Higher One's offerings.

CashNet Suite SSE

The CashNet Suite SSE metric refers to the number of students enrolled at institutions that have signed contracts to use one or more CashNet payment products. At the end of 2Q12, the company had 2.9 million students enrolled at institutions that have signed contracts to use one or more CashNet payment product, up 13% y/y. The company continues to target legacy CashNet customers for the cross-sell of OneAccount and other services (15% overlap). The CashNet service allows students/parents to make electronic payments for tuition or other education related charges to universities similar to an online bill pay service.

OneDisburse SSE

The OneDisburse SSE refers to the number of students enrolled at universities that use the company's OneDisburse product. Approximately 4.5 million students were enrolled at universities that use the company's OneDisburse product at the end of 2Q12, up 22% y/y. The OneDisburse service is associated with the OneAccount (discussed above) and enables the funds to be electronically disbursed to students.

Intuit Inc.

(INTU/$59.97/Outperform) July Fiscal Year

			2013E		F12A	F13E	F14E
Market Cap ($ Mil)	$18,156	Op Cash Flow ($ Mil)	$1,367	Revenue ($ Mil)	$4,209	$4,562	$4,971
Shrs Outstanding (Mil)	302.8	CapEx ($ Mil)	$185	Op Margin ($ Mil)	33.0%	34.8%	35.0%
Float	95%	FCF ($ Mil)	$1,182	EPS	2.95	3.35	3.67
Avg Daily Vol (30-Day)	1.5M	FCF Yield	6.5%	P/E	20.3x	17.9x	16.3x
Avg Daily Dollar Val	$87M						
Cash ($ Mil)	$744						
LTD ($ Mil)	499			3 Yr EPS CAGR	15%		
Int Cov Ratio	30.6x			3 Yr Rev CAGR	10%		
LTD/Mkt Cap	3%						

Pricing as of 9/13/12 close.

Intuit is a leading source of comprehensive and user-friendly online financial record-keeping solutions for small businesses and consumer oriented electronic tax preparation services in the U.S. The company provides an easy-to-use, modular financial program that links and stores information related to the front-end retail PoS transactions, back-end inventory management, and other important operational categories such as employee payroll and vendor management. Across all of its business lines, we think Intuit enjoys a more than $20 billion domestic revenue opportunity, targeting 30 million small businesses and 140 million tax-paying consumers. The company has penetrated 10% of the small business market and less than 20% of the consumer tax vertical.

On August 21, Intuit posted a mixed F4Q12 and provided what was likely seen as disappointing guidance (appears in line when adjusted for divestitures and higher tax rate). Solid growth in connected services reaffirmed our positive long-term thesis of 10% revenue and 15% earnings growth. We believe over time the stock should outperform as investors appreciate Intuit's growth profile, high margin product mix, recurring revenue, substantial cross-sell opportunities, and shareholder-friendly capital allocation practices including substantial share buybacks and growing dividend (announced 13% dividend raise to $0.17 per quarter).

Management reiterated its strategy of 1) growing core businesses, 2) building adjacent offerings/entering new geographies, and 3) accelerating transition to connected services. The company continues to execute on its goal to generate 75% of sales from high margin, recurring revenue, and Internet based connected services by 2015 (at 64%).

Inuit repurchased $107 million of its common stock in F4Q12. The company has a $1.7 billion share repurchase authorization in place through 2014. If utilized at $60 per share, Intuit could buy back 28 million shares which may be $0.35-0.40 accretive on an annual (not modeled).

F4Q12 Results

Intuit posted F4Q12 EPS of $0.03, $0.03 below us and consensus; however, EPS was in line excluding $15 million ($0.03 in EPS) of restructuring as the company has decided to outsource its consumer money card business again. Revenue of $651 million beat our model by $9 million but missed the Street by $2 million, which may in part be from the recent decision to divest the website business and classify that segment as discontinued operations. Adjusted operating margin of 2.9% missed our model by nearly 200 basis points (bp) given the restructuring charge, excluding it would have beat our 4.9% estimate by 30 bp.

Initial FY13 revenue guidance of $4.55-4.65 billion was generally in line at EPS of $3.32-3.38 (includes $0.05 headwind from higher tax rate). F1Q13 revenue was guided approximately$20 million light of the Street to a range of $630-640 million while EPS of $(0.07)-(0.06) is in line with our estimate and consensus.

Metrics

Small Business

Total Number of QuickBooks Units Sold

366,000, down 3% y/y.

QuickBooks Online Subscriptions

362,000 QuickBooks Online subscriptions, up 28% y/y.

Total Payroll Customers

1.19 million payroll customers, up 2% y/y.

Total Payment Processing Customers

363,000 payment processing customers, up 13% y/y.

Turbo Tax

Number of Turbo Tax Desktop Units Sold

Turbo Tax desktop unit sales were not meaningful in the seasonally weak F4Q.

Turbo Tax Online Sales

Web-based Turbo Tax sales were down 29% y/y at 0.5 million units.

Professional Tax Unit Sales

Professional Tax unit sales were not meaningful in the seasonally weak F4Q.

Financial Institutions

Number of Internet Banking End-Users

Intuit ended F4Q12 with 10.9 million Internet banking end-users.

Number of Electronic Bill Pay End-Users

Intuit ended F4Q12 with 4.4million electronic bill pay end-users.

MasterCard, Inc.

(MA/$455.26/Outperform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$57,454	Op Cash Flow ($ Mil)	$3,390	Revenue ($ Mil)	$6,714	$7,439	$8,482
Shrs Outstanding (Mil)	126.2	CapEx ($ Mil)	$148	Op Margin	51.9%	53.3%	54.9%
Float	86%	FCF ($ Mil)	$3,242	Non-GAAP EPS	18.71	21.78	25.33
Avg Daily Vol (30-Day)	2172K	FCF Yield	5.6%	P/E	24.3x	20.9x	18.0x
Avg Daily Dollar Val	$928M						
Cash ($ Mil)	3,153						
LTD ($ Mil)	0			Forward 3 Yr EPS CAGR	20%		
Int Cov Ratio	NM			Forward 3 Yr Rev CAGR	10%		
LTD/Mkt Cap	0%						

Pricing as of 9/13/12 close.

MasterCard is the second-largest card association in the world, and its branded payment cards are issued by financial and retail institutions (MasterCard does not assume receivable risk since it is not the card issuer). The company provides and governs a global payments communication network that standardizes and unifies all MasterCard-branded cards so that a common communication, data, and security protocol is consistent within and across international boundaries. On a combined credit and debit card transaction volume and dollar value basis, MasterCard commands 25% of the domestic card market. Globally, this brand has one billion credit and debit cards in circulation and is accepted at over 30 million locations, which led the company to process 39.7 billion transactions totaling $3.2 trillion in 2011.

On August 1, MasterCard posted a mixed 2Q12. Solid cost controls led to in-line margins (despite revenue shortfall) and favorable constant currency payment card volume. On the negative side; revenue came in light due to foreign exchange headwinds and EPS was aided by a one-time tax benefit. Our numbers moved lower after adjusting for forex and an uncertain economic backdrop; however we believe shares can trade higher if management continues the trend of solid operational execution and share buybacks.

Management reiterated its two to three year outlook of 12-14% top-line growth, 50%+operating margins, and 20%+ earnings growth but tempered revenue expectations for 2H12 indicating trends would likely be below 2Q12's 13% constant currency growth. Through July cross-border volume was up 14% globally, a 300 bp deceleration from 2Q12, U.S. processed volume was up 7% and rest of world processed volume was up 14% y/y, a deceleration from 1H12. Headwinds include forex, tough comps, and economic uncertainty

On July 13, MasterCard announced it reached a memorandum of understanding regarding outstanding merchant class action litigation. Mastercard's portion of the settlement is $770 million, a temporary 10 bp reduction of interchange rates for an eight-month period (starting roughly mid-2013), and the allowance of surcharging based on payment method subject to a cap and level playing field clause, which limits retailers' ability to charge different fees based on card brand (likely implemented early 2013).

The company has $1.4 billion in repurchase authority remaining, which, if utilized around current levels, could buy back 3.29 million shares and may be $0.65-0.70 accretive on an annual basis to our 2013 EPS estimates (not modeled).

2Q12 Results

MasterCard posted 2Q12 normalized EPS of $5.65, $0.01 lower than our model but $0.07 above consensus. Revenue of $1.82 billion was up 9% y/y (13% constant currency), $77 million below our projection and $59 million below the Street. Operating margin of 54.6% was in line with our model as forex headwinds on the topline were mitigated by cost offsets. An approximately280 bp lower tax rate benefitted the bottom line by $0.22 which reducing the quality of the beat, in our opinion (taxes should normalize at 31% for 2012).

Metrics

Transaction Volume

Total transactions processed (including cash transactions) were up 15% y/y.

Dollar Value Processed

Total dollar value processed in 2Q12 was up 10% y/y (15% constant currency) to $890 billion with solid growth in all regions.

Transactions Processed on MasterCard's Network

MasterCard Worldwide Network facilitates transaction processing by linking issuers to acquirers around the globe. MasterCard processes transactions on this network in more than 210 countries. Processed transactions were up 29% year-over-year to 8.5 billion, management indicated less than half of the growth came from increases due to domestic PIN debit.

Credit Dollar Value Processed

This metric refers to the total dollar value processed on MasterCard-branded credit cards. U.S. credit card dollar value processed was up 3% y/y in 2Q12.

Debit Dollar Value Processed

This metric refers to the total dollar value processed on MasterCard-branded debit cards. U.S. debit dollar value processed was up 14% in 2Q12.

Accounts

The accounts metric refers to the total number of MasterCard-branded payment card accounts outstanding. As of June 30, the company had 990 million accounts outstanding.

Cards

The cards metric refers to the total number of MasterCard-branded payment cards outstanding. As of June 30, the company had 1.1 billion cards outstanding.

Online Resources

(ORCC/$2.78/Market Perform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$90	Op Cash Flow ($ Mil)	$24	Revenue ($ Mil)	$155	$161	$169
Shrs Outstanding (Mil)	32.5	CapEx ($ Mil)	$8	Op Margin ($ Mil)	3.4%	8.2%	9.3%
Float	98%	FCF ($ Mil)	$16	Non-GAAP EPS	0.15	0.20	0.23
Avg Daily Vol (30-Day)	45K	FCF Yield	17.5%	P/E	18.4x	13.6x	12.3x
Avg Daily Dollar Val	$109K						
Cash ($ Mil)	$34						
LTD ($ Mil)	0			3 Yr EPS CAGR	10%		
Int Cov Ratio	20.8x			3 Yr Rev CAGR	5%		
LTD/Mkt Cap	0%						

Pricing as of 9/13/12 close.

Online Resources is a leading outsourced provider of end-to-end online banking solutions, including Internet banking, electronic bill presentment and payment, collection, and other solutions, to small financial institutions with assets of less than $10 billion. The firm has developed the only patented technology enabling real-time payment of bills on the Internet through the electronic funds transfer (EFT) networks.

On August 2, Online Resources reported favorable 2Q12 results and provided a mostly in-line 3Q12 outlook. Financial results continue to improve, but management indicated increased investments could limit profitability through 1H13, causing a sequential step-down in adjusted EBITDA margins from current (very strong 20%+) levels. Additionally, the company is still seeking a replacement CFO and expects to fill the role in the coming months.

Management guided 3Q12 to $37.9-39.9 million revenue (consensus of $39.7 million), $5.8-7.1 million adjusted EBITDA (consensus of $6.6 million), and $0.01-0.02 core EPS (consensus of $0.05).

Restructuring is progressing, as evidenced by continued platform consolidation and staffing of the India technology center (increased staff by 10 to 80 and growing to 125 in 2012). We remind investors that management indicated its turnaround would take longer than originally anticipated, but it believes this is a timing issue and displayed confidence in reaching mid-teens revenue growth and mid-20% adjusted EBITDA margins over the next few years.

Management gave some color regarding the outstanding redeemable preferred shares, which are expected to represent a $129 million obligation in July 2013. The company is working with advisors, but indicated that the preferred shares have no legal obligation to be paid in full if non-sufficient funds were available at redemption date. In addition, management stated that capital spending should not be adversely impacted.

As investors may recall, management went through a lengthy discussion of its new strategic growth plan (on the 4Q10 earnings call) that could, by 2013 (now pushed out further), lead to top-line growth in the mid-teens range and adjusted EBITDA margin in the mid-20% range (currently around 20% on an annual basis). The company intends to reduce IT and data center costs by 66%, lower IT headcount costs by 35%, reduce client enhancement requests by 50%, lower new client implementation durations by 50%, increase brand awareness, and generate 40% higher revenue per salesperson.

2Q12 Results

Online Resources beat 2Q12 core EPS projections by $0.02 at $0.06, driven by revenue of $40.4 million, $1.5 million above both our estimate and consensus. Higher-than-anticipated professional service fees due to consulting revenue (not expected to persist) and lower operating expenses, from new hire delays, helped generate $8.5 million of adjusted EBITDA at a 21% margin, approximately360 bp above our model.

Similar to recent quarters, revenue benefited from strong same-store transaction growth in the e-commerce segment (up 11% y/y) and higher professional services revenues, offset by persistent higher-margin bank bill pay revenue declines.

Metrics

Biller-Paid Transactions

This metric refers to the number of biller-paid transactions in the EBPP division. Biller-paid transactions were up 18% y/y in 2Q12. This portion of the e-commerce segment has average revenue per transaction of roughly $0.50.

User-Paid Transactions

This metric refers to the number of user-paid transactions in the EBPP division. User-paid transactions were flat y/y in 2Q12. This segment has average revenue per transaction of roughly $3.00.

Total System Services

(TSS/$23.59/Underperform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	**$4,505**	**Op Cash Flow ($ Mil)**	**$433**	**Revenue ($ Mil)**	**$1,809**	**$1,862**	**$1,990**
Shrs Outstanding (Mil)	**191**	**CapEx ($ Mil)**	**$97**	**Op Margin**	**20.9%**	**22.2%**	**23.1%**
Float	**96%**	**FCF ($ Mil)**	**$336**	**Non-GAAP EPS**	**1.15**	**1.28**	**1.43**
Avg Daily Vol (30-Day)	**1735K**	**FCF Yield**	**7.4%**	**P/E**	**20.5x**	**18.4x**	**16.5x**
Avg Daily Dollar Val	**$41M**						
Cash ($ Mil)	**419**						
LTD ($ Mil)	**38**			**Forward 3 Yr EPS CAGR**	**6%**		
Int Cov Ratio	**NM**			**Forward 3 Yr Rev CAGR**	**3%**		
LTD/Mkt Cap	**1%**						

Pricing as of 9/13/12 close.

Total System Services (TSS) is a leading global card-issuing services provider that electronically manages 440 million accounts for credit, private label, commercial, and debit cards on behalf of financial institutions and retailers. We estimate that card-issuing services should generate approximately 76% of revenue before reimbursables in 2012. The remaining 24% of estimated 2012 revenue before reimbursables consists of acquiring solutions, which enable credit card processing on behalf of financial institutions and independent sales organizations (ISOs). Following the acquisition of a 100% stake in the First National Merchant Solutions venture (January 2011), TSS has now entered into the merchant acquiring space and improved its strategic positioning in the payments industry.

On July 24, Total System Services reported solid 2Q12 results with higher than expected revenue and EPS but indicated growth in 2H12 may be hindered by conversion delays and price concessions. We are turning incrementally more positive given the company's solid execution, favorable long-term trends (such as signing Bank of America to a long-term processing agreement), new, un-modeled, buyback program ($0.07-0.08/share accretive annually), and robust pipeline of 100 million accounts (includes BAC); however, we continue to favor names with higher growth/margin profiles and lower valuations.

Management now expects to come in at the high end of 2012 guidance of $1.26-1.28 of EPS with 1H12 outperformance tempered by a softer 2H12 expectation. We raised our 2012 revenue estimate by $23 million to $1.86 billion (vs. the $6 million beat in part due to favorable international pricing) and EPS by $0.02 to $1.28. We raised 2013 revenue by $67 million to $1.99 billion and EPS by $0.07 to $1.43.

2Q12 Results

Total System Services posted a solid 2Q12 with EPS of $0.35 beating our model by $0.04 and consensus by $0.03. Excluding a $0.03 one-time tax benefit EPS would have been in line with Street expectations. Revenue of $463 million was up 3% y/y and $6 million better than our projection, with forex acting as a $2.6 million headwind and a $2 million boost from a de-conversion fee.

In North America, revenue of $206 million was up 3% y/y, 2% above our model. Total cardholder transactions were up 14% y/y to 2,038 million, with same-client transactions up 13% y/y to 2,010 million. Bank of America's consumer portfolio is expected to convert in mid-2014, which could add 65 million+ accounts – a meaningful win in our opinion. Furthermore, the deal validates the benefits of outsourcing, even to large banks.

The International segment posted revenue of $99 million, up 6% y/y and 4% better than our estimate. Segment margin of 9.5% benefitted from a $2 million de-conversion fee and margins are expected to remain pressured as resources are shifted from North America and conversions are completed (no effect on consolidated margin). Total transactions were up 18% y/y to 402 million, and same-client transactions were up 11% y/y to 375 million.

Merchant Services reported $98 million of revenue, up 5% y/y and 2% below our projection. The Segment benefitted from the TermNet acquisition (May 2011), but ongoing de-conversions continue to impact growth. Point-of-sale transactions increased 0.8% y/y to 1,280 million, although excluding de-converted clients transactions increased 12% y/y.

Metrics

Accounts on File (AOF)

The total number of accounts serviced under long-term payment processing agreements (typically three to 10 years) with financial and non-financial institutions. A portion of revenues are generated from charges associated with the number of accounts on file. The company ended 2Q12 with 440 million accounts on file, which resulted from a 2Q11 starting point of 376 million accounts, plus 34 million accounts gained from existing clients and 51 million accounts from new clients, less 20 million accounts lost to purges and deconversions.

Transactions

The number of transactions originating from accounts on file is covered under this metric. A portion of revenue is derived from per transaction fees. North American transactions increased 14% y/y to 2 billion and International transactions grew 18% y/y to 1.3 billion. Same-client transactions were healthy, in our opinion, at low double digits y/y growth for each segment.

PoS Transactions

The number of transactions processed at the point of sale drives Merchant Services results. PoS transactions increased 1% y/y to 1.3 billion, although excluding de-converted clients transactions increased 12% y/y (slight acceleration from 11% y/y in 1Q12).

VeriFone Systems, Inc.

(PAY/$31.35/Strong Buy) **October Fiscal Year**

			2013E		11A	12E	13E
Market Cap ($ Mil)	$3,473	Op Cash Flow ($ Mil)	$419	Revenue ($ Mil)	$1,310	$1,896	$2,111
Shrs Outstanding (Mil)	110.8	CapEx ($ Mil)	$119	Op Margin	18.6%	21.8%	22.5%
Float	98%	FCF ($ Mil)	$300	Non-GAAP EPS	1.91	2.75	3.31
Avg Daily Vol (30-Day)	1.3M	FCF Yield	8.6%	P/E	16.4x	11.4x	9.5x
Avg Daily Dollar Val	$48M						
Cash ($ Mil)	$361						
LTD ($ Mil)	$1,283			3 Yr EPS CAGR		20%	
Int Cov Ratio	11.9x			3 Yr Rev CAGR		10%	
LTD/Mkt Cap	37%						

Pricing as of 9/13/12 close.

VeriFone designs, manufactures, and sells a wide variety of electronic point-of-sale (PoS) devices to retailers that enable them to accept payment cards in place of cash and check. Over the last few years, the company has introduced a number of high-margin, fast-growing services such as: Taxi PayMedia, PoS encryption, mobile-pay, remote software upgrades, distribution of full-motion digital advertising through consumer-facing payment terminals, warranty and refurbishment, and enterprise wide payment-oriented infrastructure consulting to tier-one national retailers. The company is the largest provider of PoS devices worldwide and enjoys a virtual duopoly with Ingenico, its most formidable competitor. VeriFone is a leader in engineering and designing PoS devices, which enables the physical point of convergence for the next generation of payments.

Our positive investment thesis on shares of VeriFone was supported by solid F3Q12 results highlighted by 16% organic growth and 45.4% gross profit margins, both healthy and above our model. In particular, system solutions' (where point of sale [PoS] revenues are recorded) top line was strong globally. We expect results to continue to benefit from the high-margin and accelerating payment-as-a-service PayMedia services expansion through taxis and at the pump, and the growing adoption of the VeriShield Protect encryption service at large, national retailers. We think VeriFone will overcome near-term challenges as it did in F3Q12, when the positive performance beat our organic revenue growth and overall profitability expectations despite Hypercom-related product delays, a fire in a Brazil service center which hurt sales, and a $14.6 million constant currency (CC) headwind. In our opinion investors should consider purchasing these shares given the growth/margin profile and secular tailwinds, such as increasing PoS complexity and the potential regulatory-driven upgrade cycle.

The company continues to make headway with new service offerings in the North American markets. In the quarter VeriFone closed payment-as-a-service deals with L'Oreal, Little Caesar's Pizza, Sizzler Steakhouse, and Overland Rentals. These deals offer hardware, device management, security, encryption, and helpdesk services rolled into a long-term monthly recurring revenue package. We expect more of these types of contracts in the coming years as the company strives to achieve 50% service revenue, up from our 30% estimate this year. Additionally, the company indicated that 29% of units shipped in the U.S. were EMV-enabled and that it may see meaningful revenue benefits as soon as 2014. EMV potential was highlighted by a win at Choice Hotels International, which franchises 6,200 hotel locations, demonstrating the desire for alternative verticals which generally didn't use payment terminals to deploy EMV-capable solutions. VeriFone also won a new transportation-related contract serving MTA buses in the Bronx, NY, similar to last year's Staten Island award. The New York City taxi advertising revenues were up 37% in F3Q12 and the rest of the country close to 100%.

Acquisitions

The company appears to be on track to realize significant Hypercom-related cost synergies (potentially 80% realized), having quickly trimmed duplicate operations, improved the supply chain, and integrated support functions. In the quarter Hypercom contributed roughly $69 million of revenue, a sequential decline from $81 million in F2Q12 (and $74 million in F1Q12) which may be attributable to some of the product issues in France and Germany.

Point contributed roughly $56 million of revenue to F3Q12, flat sequentially. We believe revenue can accelerate from these levels to achieve the $260 million of incremental revenue for the 12-month period ending January 2013. Point has operations in 11 Northern European countries and serves a captive network of nearly 475,000 merchants; as mentioned above, management indicated it is expanding the offering to Germany, Poland, the Netherlands, and Australia (with a win at the Bank of Queensland). Point also signed its largest deal to date with S Group in Finland, with 1,600 locations. Point leverages its outsourced network to deliver retailers services and solutions such as PoS technology and support, gateway services, and multi-channel e-commerce processing. Point predominantly operates a recurring subscription model (81%+) which ties in nicely with VeriFone's long-term stated goal of growing high-margin services revenue. Point was acquired for approximately €600 million ($819 million) and VeriFone retired €170 million ($232 million) of Point's debt at closing, bringing the total consideration to €770 million ($1.05 billion).

F3Q12 Results

VeriFone reported F3Q12 EPS of $0.75, $0.05 above our model and consensus. The earnings beat benefited from approximately150 bp of gross margin upside ($0.04/share) and a lower tax rate ($0.04) offset by a revenue miss (-$0.05). Revenue of $493 million was up 56% y/y (16% y/y organically and 21% CC) and was negatively impacted by a fire in Brazil. We are encouraged by the strong organic growth acceleration and believe the company is on track to deliver on its organic revenue expansion target of 10-15%. Gross margins continue to impress us, with both systems solutions and services beating our expectations.

FY12 EPS guidance was raised $0.11 to $2.75-2.77 (approximately$0.04 from lower tax) and revenue guidance was lowered by $17 million to $1.893-1.898 billion (due to the Brazil fire discussed on page 4). FY13 revenue was guided to $2.05-2.1 billion and EPS to $3.25-3.30. For both years profitability was guided in-line with to above Street expectations, aided by a lower tax rate. We believe this is a solid guide given the Brazilian disruption, forex impacts, and Hypercom-related issues in France and Germany which should all prove transitory.

Visa, Inc.

(V/$134.98/Strong Buy) **September Fiscal Year**

			2013E		11A	12E	13E
Market Cap ($ Mil)	$91,112	Op Cash Flow ($ Mil)	$5,456	Revenue ($ Mil)	$9,188	$10,331	$11,682
Shrs Outstanding (Mil)	675.0	CapEx ($ Mil)	$500	Op Margin	59.4%	21.0%	62.2%
Float	65%	FCF ($ Mil)	$4,956	Non-GAAP EPS	4.99	6.20	7.15
Avg Daily Vol (30-Day)	2.9M	FCF Yield	5.4%	P/E	27.1x	21.8x	18.9x
Avg Daily Dollar Val	$370M						
Cash ($ Mil)	1,558						
LTD ($ Mil)	0			Forward 3 Yr EPS CAGR	20%		
Int Cov Ratio	NM			Forward 3 Yr Rev CAGR	10%		
LTD/Mkt Cap	0%						

Pricing as of 9/13/12 close.

Visa is the leading global payment card organization with 2 billion branded cards in circulation and acceptance at 30 million locations worldwide (Visa does not assume receivable risk since it is not the card issuer). The company provides and governs a global payments communication network, which standardizes and unifies all Visa-branded cards so that a common communication, data, and security protocol is consistent within and across international boundaries. The company processed 76 billion transactions totaling $5.8 trillion in FY11. On a combined transaction volume and dollar value basis, Visa commands 40-50% of the domestic general-purpose credit card market and 75%+ of the domestic debit market. Visa-branded cards are issued globally by 16,400 of the largest retail and financial institutions. Approximately 60% of revenues are domestic and 40% are international.

On July 25, Visa reported a solid F3Q12 highlighted by healthy transaction volumes in nearly all geographies. Domestic debit continues to be a drag on growth but solid progression from credit and international debit highlight the resiliency of the model. In our opinion, Visa continues to be an attractive growth investment given defensive characteristics, positive operating leverage, and capacity to return cash to shareholders through buybacks (new $1 billion authorization not modeled) and dividends. We are encouraged by the continued execution but also remain vigilant for any deterioration of volume trends given the uncertain macro environment.

On July 13, Visa announced they reached a memorandum of understanding regarding outstanding merchant class action litigation. Visa's portion of the settlement is $4.4 billion, a temporary 10 bp reduction of interchange rates for an eight-month period (starting roughly mid-2013), and the allowance of surcharging based on payment method subject to a cap and level playing field clause, which limits retailers' ability to charge different fees based on card brand (likely implemented early 2013).

Visa's portion of the settlement is $4.4 billion, which is easily covered by its litigation escrow account, and took a one-time $4.1 billion charge in F3Q12. We believe Visa is well prepared to deal with this settlement given over $17 billion held in its litigation escrow account ($4.3 billion of which is cash), proven ability to generate significant free cash flow (over $4 billion expected in FY12), a debt-free balance sheet, $1.6 billion in cash, and $3 billion of liquidity on an undrawn revolver.

Domestic debit growth was down 7% y/y as negative Durbin impacts continued. Management noted Debit appeared to trough in April. Visa continues to generate solid growth in credit, international debit, and e-commerce. Volume and revenue growth should accelerate as the company laps the April 2011 implementation date of Durbin.

F3Q12 Results

On a normalized basis (excluding $4.1 billion litigation expense) Visa earned $1.56 in EPS, $0.07 above our estimate and $0.11 higher than the Street. Excluding $56 million of tax credits normalized EPS would have been $1.48, $0.01 below our model but $0.03 ahead of consensus (tax credit was one-time in nature). Revenue of $2.57 billion beat us by $28 million and the Street by $42 million however margins were 130bp light of our model on higher personnel expense and professional fees.

Management raised FY12 guidance by effectively increasing the low end of the prior EPS growth range. The company now expects low-double-digit revenue growth, low-twenties EPS growth, approximately60% operating margins, and over $4 billion of annual free cash flow.

Metrics

Transaction Volume

The total number of transactions (including cash transactions) on Visa-branded cards was up 3% y/y.

Dollar Value Processed

The total dollar value of transactions processed on Visa-branded cards (including cash transactions) was up 4% y/y.

Transactions Processed on Visa's Network

In F2Q12, the company processed 13 billion transactions over its network, up 1% y/y (although pricing improved 17% y/y as lower yielding Interlink transactions rolled-off).

Credit Dollar Value Processed

The total dollar value processed on Visa-branded credit cards worldwide in F3Q12 was up 8% y/y.

Debit Dollar Value Processed

The total dollar value processed on Visa-branded debit cards worldwide in F3Q12 was up 1% y/y.

Accounts

The total number of Visa-branded payment card accounts outstanding as of March 31, 2012 (latest available data) was 1.7 billion.

Cards

The total number of Visa-branded payment cards outstanding as of March 31, 2012 (latest available data) was 2 billion.

Western Union

(WU/$18.73/Outperform)

			2013E		11A	12E	13E
Market Cap ($ Mil)	$11,483	Op Cash Flow ($ Mil)	$1,439	Revenue ($ Mil)	$5,491	$5,789	$6,053
Shrs Outstanding ($ Mil)	613.1	CapEx ($ Mil)	$200	Op Margin	25.1%	24.3%	26.3%
Float	100%	FCF ($ Mil)	$1,239	Non-GAAP EPS	1.57	1.77	1.92
Avg Daily Vol (30-Day)	7.7M	FCF Yield	10.8%	P/E	11.9x	10.6x	9.7x
Avg Daily Dollar Val	$132M						
Cash ($ Mil)	1,404						
LTD ($ Mil)	3,673			3 Yr EPS CAGR	12%		
Net Int Cov Ratio	9.1x			3 Yr Rev CAGR	5%		
LTD/Mkt Cap	32%						

Pricing as of 9/13/12 close.

Western Union is the leading consumer-to-consumer and consumer-to-business global money transfer services provider. The company operates and enables cash-to-electronic-oriented transactions through a specialized payments communication network that connects 510,000 worldwide agent locations in more than 200 countries and territories.

On July 24, Western Union reported solid 2Q12 results in a difficult economic environment. We are encouraged by the ongoing share repurchase program and the out-year prospect for operational improvement. Furthermore we estimate the stock trades at an 11.5% 2013 free cash flow (FCF) yield and pays a $0.40 annual dividend (may expand).

Management stated that revenue from electronic initiatives (WesternUnion.com, account-based money transfer, and mobile money transfer) was up 26% y/y, on transaction growth of 35%, and represented 3% of total sales in 2Q12. Account-based money transfer transactions, which enabled bank account-to-cash transactions, were up 34% y/y, and the company stated it has agreements with nearly 100 banks (approximately 47 active) to offer account-based money transfer services. The company also offers ATM money transfers at approximately30,000 locations throughout Europe and Asia.

Prepaid revenue was up 6% y/y and represented 1% of total company revenue. Additionally the company has retail distribution at over 22,000 locations, including 21,000 in the US, up from approximately15,000 in 4Q11. The company expects prepaid to accelerate in 2H12 as the ramp of distribution in Seven Eleven stores is augmented by the roll-out at Dollar General which will add 10,000 locations.

Western Union reported in-line 2Q12 results and raised initial 2012 EPS guidance by $0.03 to a range of $1.73-1.77 (mostly to account for lower than anticipated tax rate). Results were adversely impacted by forex headwinds, slowing global trade, regulatory/compliance costs, and global economic softness. The company reported solid free cash flow of $185 million and maintains slightly over $300 million of share repurchase authority (potentially $0.05-0.06 annual accretion). We estimate the company can generate approximately$915 million in 2012 FCF and $1.2 billion in 2013.

2Q12 Results

2Q12 EPS of $0.46 was $0.02 above our model and $0.03 higher than consensus. Revenue of $1.43 billion was up 4% year-over-year but $26 million below our estimate; constant currency revenue was $1.46 billion and $9 million above us. Higher-than-modeled expenses (attributable to Travelex Global Business Payments [TGBP] and compliance costs) contributed to an operating margin of 25.3%, approximately60 bp lower than our projection. However, lower taxes and share count compared to our estimates contributed $0.02-0.03 to EPS.

Management reiterated 2012 revenue outlook of 6-8% constant currency revenue growth (implies $5.88 billion midpoint) with a potential 2% forex headwind and raised EPS to $1.73-$1.77 excluding approximately$50 million TGBP integration expense. The operating margin outlook was reduced 50 bp to 25.5% excluding TGBP integration due to $15 million of compliance costs related to Dodd Frank.

Metrics

Consumer-to-Consumer Money Transfer Transactions

In 2Q12, the company processed 58 million consumer-to-consumer transactions, up 4% y/y and in line with our model.

Revenue per Consumer-to-Consumer Money Transfer Transaction

2Q12 revenue per consumer-to-consumer money transfer transaction was $19.75, down 4% y/y and 2% below our projection.

Agent Locations at End of Period

At the end of 2Q12, the company had 510,000 agent locations. Management believes the company can reach one million agents long term. We estimate the company could have 520,000 locations by the end of 2012 and 540,000 by the end of 2013.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
ACI Worldwide, Inc.	ACIW	NASDAQ	$	45.21	2	RJ & Associates
Alliance Data Systems Corp.	ADS	NYSE	$	141.35	1	RJ & Associates
Apple Inc.	AAPL	NASDAQ	$	682.98	2	RJ & Associates
AT&T Inc.	T	NYSE	$	38.15	3	RJ & Associates
Bank of America Corporation	BAC	NYSE	$	9.40	1	RJ & Associates
Bottomline Technologies	EPAY	NASDAQ	$	23.81	2	RJ & Associates
Citigroup, Inc.	C	NYSE	$	34.45	2	RJ & Associates
CVS Caremark Corporation	CVS	NYSE	$	47.45	2	RJ & Associates
eBay Inc.	EBAY	NASDAQ	$	48.88	2	RJ & Associates
Fidelity National Information Services	FIS	NYSE	$	31.92	2	RJ & Associates
Fifth Third Bancorp	FITB	NASDAQ	$	15.61	1	RJ & Associates
FleetCor Technologies	FLT	NYSE	$	44.25	2	RJ & Associates
Global Payments Inc.	GPN	NYSE	$	43.02	2	RJ & Associates
Google Inc.	GOOG	NASDAQ	$	706.04	2	RJ & Associates
Green Dot Corporation	GDOT	NYSE	$	12.79	3	RJ & Associates
Heartland Payment Systems	HPY	NYSE	$	31.82	3	RJ & Associates
Hess Corp.	HES	NYSE	$	55.60	3	RJ & Associates
Higher One Holdings Inc.	ONE	NYSE	$	12.54	3	RJ & Associates
Intuit Inc.	INTU	NASDAQ	$	59.97	2	RJ & Associates
JPMorgan Chase & Co.	JPM	NYSE	$	41.40	2	RJ & Associates
MasterCard, Inc.	MA	NYSE	$	455.26	2	RJ & Associates
Online Resources	ORCC	NASDAQ	$	2.78	3	RJ & Associates
PNC Financial Services Group, Inc.	PNC	NYSE	$	65.74	2	RJ & Associates
RadioShack	RSH	NYSE	$	2.73	4	RJ & Associates
Research in Motion	RIMM	NASDAQ	$	7.43	3	RJ LTD.
Rite Aid Corporation	RAD	NYSE	$	1.30	3	RJ & Associates
Sprint Nextel Corp.	S	NYSE	$	5.20	2	RJ & Associates
SunTrust Banks, Inc.	STI	NYSE	$	28.87	2	RJ & Associates
Total System Services	TSS	NYSE	$	23.59	4	RJ & Associates
U.S. Bancorp	USB	NYSE	$	34.87	1	RJ & Associates
Valero Energy Corp.	VLO	NYSE	$	32.79	1	RJ & Associates
Vantiv, Inc.	VNTV	NYSE	$	22.63	3	RJ & Associates
VeriFone Systems, Inc.	PAY	NYSE	$	31.35	1	RJ & Associates
Verizon Communications	VZ	NYSE	$	45.58	3	RJ & Associates
Visa, Inc.	V	NYSE	$	134.98	1	RJ & Associates
Wal-Mart Stores Inc.	WMT	NYSE	$	75.14	3	RJ & Associates
Walgreen Co.	WAG	NYSE	$	36.02	3	RJ & Associates
Wells Fargo & Co.	WFC	NYSE	$	35.55	1	RJ & Associates
Western Union	WU	NYSE	$	18.73	2	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
Market Perform (MP3) Expected to perform in line with the underlying country index.
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	Coverage Universe Rating Distribution				Investment Banking Distribution			
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Strong Buy and Outperform (Buy)	53%	65%	29%	53%	16%	36%	0%	0%
Market Perform (Hold)	40%	33%	62%	31%	7%	20%	2%	0%
Underperform (Sell)	7%	3%	9%	16%	0%	50%	0%	0%

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Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, at least a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

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Specific Investment Risks Related to the Industry or Issuer

Competition
Strong competition exists between a number of large processors within the electronic payments industry, some of which have the advantage of greater financial and operational resources.

Card Association Fees
Increases in card association fees may have a negative impact on profitability if rate hikes cannot be passed along to customers.

Economic Downturn
Economic downturn may reduce consumer spending and credit/debit card usage, which could negatively affect the processing business.

Consolidation
Consolidation within the industry may make acquisitions more difficult and expensive due to increased competition for merchant portfolios.

Pricing Pressure
Downward pricing pressure due to increased competition may negatively impact financial performance of industry participants.

Check Write-Offs
Profits from check guarantee services are highly dependent on write-offs of uncollected check losses.

Declining Check Usage
The check risk management services are dependent on consumer check usage at the point of sale, which is expected to decline over time.

International Risks
Global payment processors are subject to the risks of conducting international business, including: (1) currency exchange rates, (2) foreign regulatory requirements, and (3) foreign economic conditions.

Interchange Fees
Interchange fees are subject to increasing regulatory scrutiny worldwide, and retailers are seeking to reduce interchange through litigation. If issuers collect lower interchange fees, they may be less willing to participate in the payment card network or may charge higher fees to consumers to recoup the cost. Either scenario could lead to lower transaction volume.

Government Regulations
Transaction processing companies are subject to increasing global regulation, including anti-money laundering requirements by the USA PATRIOT Act and the Office of Foreign Assets Control (OFAC) and prohibition on certain types of Internet gambling payments.

Security Breach
Unauthorized access to a company's payment network could result in sensitive consumer and merchant information loss. Corrective procedures to such an event could be expensive but are not limited to hiring a third-party forensic computer expert to determine what went wrong, implementing a solution, reimbursing card holders for any unauthorized use related to a security breach and fines imposed by regulators or card associations.

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The Raymond James Technology Research Team

Brian G. Alexander, CFA, Electronic Manufacturing Services/IT Hardware and Distribution

Robert P. Anastasi, CFA, Director of Equity Research

Ric Prentiss, Director of Telecommunications Services Research

Brian Gesuale, IT Services and Security

Wayne Johnson, Transaction Processing

Aaron Kessler, CFA, Internet

Simon Leopold, Communications Equipment

Frank G. Louthan IV, Telecommunications Services

Tavis C. McCourt, CFA, Communications Technology

Hans Mosesmann, Semiconductors

Shyam Patil, CFA, Communications Software/Internet

Chris Quilty, Defense Communications/Mobile Data Technology/Satellite & Space

J. Steven Smigie, Analog and Communications Semiconductors

Terry Tillman, Application Software

Michael Turits, Ph.D., Communications Software/Infrastructure Software

William A. Warmington, Jr., Information Services

Kurt Batinich, Sr. Research Associate

Matt Bugarin, Sr. Research Associate

Charlie Castillo, Sr. Research Associate

Bethany Caster, Sr. Research Associate

Victor Chiu, Sr. Research Associate

Elizabeth J. Howell, Sr. Research Associate

Jeffrey Koche, CFA, Sr. Research Associate

Georgios Kyriakopoulos, Sr. Research Associate

Eric Lemus, Sr. Research Associate

Eric Mallis, CFA, Sr. Research Associate

Brian Peterson, CFA, Sr. Research Associate

Ryan Rackley, Sr. Research Associate

Daniel Toomey, CFA, Sr. Research Associate

James Wesman, Sr. Research Associate

Dustan Berg, Research Associate

Alexander Sklar, CPA, Research Associate

International Headquarters: The Raymond James Financial Center | 880 Carillon Parkway | St. Petersburg, Florida 33716 | 800-248-8863