

## M&A Heating Up In The Mobile Payment Space

**We have long been saying that the payment processing market (or, more basically, the handling of electronic payment transactions) is highly fragmented and that companies with sufficient financial firepower will try to expand their geographic footprint and show off the scalability of their business model through EPS-enhancing acquisitions.**

The acquisition today of UK-based processor **Worldpay** by leading US player **Vantiv** and the announcement earlier this week by Scandinavian processor **Nets** that it had been approached by potential bidders are a clear indication that the consolidation process is gathering pace and that European players appear as major M&A targets.

While we had no exposure to Worldpay in our Mobile Payments portfolio, we are exposed to other European names from **Wirecard** in Germany to **Paysafe** in the UK that could meet the same fate. They appear as rather small players (their average market cap. is around EUR5bn vs. \$15bn for US players) in an industry where scalability is key (high proportion of fixed costs) and are close to reaching an inflection point in terms of electronic transaction volumes and earnings. Indeed, increased marketing around payment platforms (such as Apple Pay), new features (such as loyalty programs and peer-to-peer payments) and government incentives (merger of the IBAN with the mobile phone number starting in early 2018 in Europe) could give a massive boost to adoption of mobile payment solutions in 2017-18.

The earnings multiples paid for Worldpay (24x FY17 EPS, 2x PEG) also suggest European peers are trading at bargain levels: Wirecard and Paysafe show 50% discounts in terms of PEG and Worldline a 15% discount.

Importantly, these valuation levels do not take into account the earnings upside expected from the takeoff of mobile payments. While most processors already boast revenue growth in the low to mid teens, a growth pace in the high teens – low twenties will be within reach when mobile payments become ubiquitous. This, combined with the scalability of their business models, points to 20-30% EPS growth over coming years.

Hence, US predators such as Vantiv today with Worldpay could make highly value-creative deals in coming years and could be major winners of this M&A wave.

In all, we stick to our large exposure to payment processors in our portfolio, with a mix of US, European, Asian and South American names. Fundamental catalysts and upcoming corporate action make mobile payments one of the most attractive areas in the Tech space right now.