July 10, 2013

US Technology Strategy: Independent Insight

ETA-GS Merchant Acquirer and ISO Survey - 2013

Goldman Sachs

Equity Research

New entrant impact limited, mitigation strategies take shape

ETA-GS Merchant Acquirer and ISO Survey

This report presents key findings from the second annual Electronic Transactions Association – Goldman Sachs (ETA-GS) Merchant Acquirer and ISO Survey, which asked 77 merchant acquirers and independent sales organizations (ISOs) key questions on the payments landscape.

New entrant impact appears minimal thus far

Though still early, most new entrants (90%) suggested that new entrants represent a minimal percentage of attrition (up to 25% of their attrition). Additionally, only about 10% of respondents believe new entrants will have a disproportionately negative impact on pricing at the SME merchant level.

Partnerships and value-add services key mitigation strategy

Most respondents (40%) preferred to partner with new entrants in order to mitigate the risk of these new entrants. Mobile point-of-sale (mPOS), e-commerce and loyalty solutions topped the list of value-added services that merchant acquirers expect to offer merchants over the next year.

Loyalty solutions could improve retention, profitability

Most respondents believe that offering loyalty based solutions (such as targeted offers, advertising and coupons) or other value-added services could lower attrition (67%) or open new revenue streams (17%). Most respondents believe merchants are willing to pay 2X to 4X the average merchant discount rate (MDR) for loyalty based solutions.

POS appears more exposed to near-term disruption

Most respondents (46%) believe that terminal manufacturers are most “at risk” from new entrants and mPOS solutions. Roughly 30% of respondents expect to offer mPOS from a third party provider other than their existing POS partner, while another 25% expect to offer a proprietary mPOS solution.

Favorable backdrop for 2H13 acceleration

Our survey results suggest that the US merchant acquiring and ISO community are positive about the 2H13 backdrop as 60% of respondents expect electronic payment volume growth to accelerate, while another 38% suggest volume growth would remain stable.

Roman Leal, CFA
(415) 249-7468 roman.leal@gs.com
Goldman, Sachs & Co.

Julio C. Quinteros Jr.
(415) 249-7464 julio.quinteros@gs.com
Goldman, Sachs & Co.

Jac Charles
(415) 249-7467 jac.charles@gs.com
Goldman, Sachs & Co.

Franklin Jarman
(212) 902-7537 franklin.jarman@gs.com
Goldman, Sachs & Co.

Karl Blunden, CFA
(212) 357-2769 karl.blunden@gs.com
Goldman, Sachs & Co.

Table of Contents

Survey results highlight minimal impact from new entrants, mitigation strategies begin to take shape

This report presents key findings from the second annual Electronic Transactions Association – Goldman Sachs (ETA-GS) Merchant Acquirer and ISO Survey, which asked merchant acquirers and independent sales organizations (ISOs) key questions on the payments landscape.

We collected 77 survey responses from merchant acquirers and ISOs of all sizes and across the US. The survey addressed key risks to incumbent models, potential mitigation strategies and opportunities for further growth.

Key findings from our survey include: (1) New entrant impact appears minimal thus far; (2) Partnerships with new entrants and value-added services are key mitigation strategies; (3) Value-added services could lower attrition, loyalty solutions could enhance profitability; (4) Providers of POS Solutions appear more at risk of disruption; and (5) Merchant acquirers and ISOs are positive on the 2H13 payment volume backdrop.

Who is the Electronic Transactions Association?

The Electronics Transactions Transaction Association (ETA) is the leading international trade association for the electronic transaction processing community. The ETA has over 500 member companies worldwide, including leading financial institutions, transaction processors, independent sales organizations (ISOs) and equipment suppliers.

Why merchant acquirers and ISOs?

Merchant acquirers and ISOs play an important role in electronic transactions as they enable merchant adoption of electronic payments. They are the "feet on the street," actively engaging merchants on various topics in payments and charging merchants the cost to accept electronic payments (the merchant discount rate, or MDR). Additionally, given their relationship with merchants, acquirers and ISOs serve as an efficient distribution channel into retailers, including for POS vendors and providers of loyalty or offers based solutions. Finally, while large retailers typically have enough bargaining power and sophistication to make several payments related decisions unilaterally – merchant acquirers/ISOs can play a more influential role with smaller and mid-size merchants.

Key findings from the ETA-GS Survey on New Entrants in Payments

New entrants' impact on attrition and pricing appears minimal thus far

While we continue to see pricing as the key long-term risk for merchant acquirers, only 26% of respondents suggested that pricing was their biggest worry. Instead, most respondents remained concerned with the potential for new technologies to displace merchant acquiring (51%), with another 23% concerned about losing share to new entrants (Exhibit 1). Most respondents (90%) suggested that new entrants represent a minimal percentage of attrition (i.e. representing up to 25% of their attrition). Given new entrants' focus on penetrating the SME merchant segment, we would expect merchant acquirers and ISOs that cater to this segment to be more exposed to potential pricing pressure. However, only about 10% of respondents believe new entrants will have a disproportionately negative impact on pricing at the SME merchant level (Exhibit 4).

Partnerships with new entrants and value added services key mitigation strategy

Approximately 47% of respondents stated they prefer to partner with new entrants in order to enhance offering to merchants, while another 34% appear interested in developing and offering their own tablet/smartphone based solutions. At the other end of the spectrum, only 5% of respondents expect to reduce pricing in order to compete against new entrants (Exhibit 5). In our view, this suggests that pricing could serve as a last resort for acquirers and ISOs to protect market share. Instead, merchant acquirers will likely focus on adding value to their merchant clients to defend against potential attrition from new entrants. When asked about the type of value added services, they plan to offer merchants in the next 12 months, mPOS and e-commerce solutions were at top of the list (Exhibit 6), followed by loyalty solutions and dynamic currency conversion (DCC).

Value-added services could lower attrition, loyalty solution could enhance profits
Most respondents believe that offering loyalty based solutions (such as targeted offers, advertising and coupons) represent an opportunity to create stickier relationships with merchants (67%) or to monetize new revenue streams in addition to traditional merchant acquiring fees (17%). In terms of potential new revenue streams, 37% of respondents believed that merchants were willing to pay as much as 5% of offer value for loyalty based solutions. Another 23% believe that merchant would pay to 10% of the offer value (Exhibits 7-8). Given the potential positive impact to attrition and profitability, we expect to see a lot more merchant acquirers and ISOs offer loyalty-based solutions to merchants.

Providers of traditional POS solutions appear more at risk of disruption
Over 46% of our survey respondents believe that terminal manufacturers are most "at risk" from new entrants and tablet/smartphone based solutions (Exhibit 10). About 65% of respondents signaled tablet POS solutions as the biggest risk, while another 20% suggested that smartphone card readers (i.e. dongles) represented the key threat (Exhibit 12). Approximately 30% of survey participants expected to offer these mPOS from a third party provider other than their existing POS partner and another 25% suggested they would offer a proprietary mPOS solution. Only about 31% responded they would offer mobile based solutions from their current provider, which in the US is likely to be Verifone, Ingenico or Hypercom (Exhibit 13), pointing to a fragile relationship between merchant acquirers and POS providers.

Favorable backdrop for 2H13 payment volume
Our survey results suggest that the US merchant acquiring and ISO community are also positive about the near-term backdrop as 60% of respondents expect electronic payment volume growth to accelerate in 2H13, while another 38% suggest volume growth would remain stable (Exhibit 14). When asked to rank expected growth by payment type, survey participants expect mobile payments to grow the fastest followed by debit and prepaid. Conversely, credit volume is expected to growth the slowest, which in our view could reflect the slow recovery in US non-affluent consumer credit (Exhibit 15). Finally, most respondents believe that Durbin related pricing benefits will be fairly sticky through 2014, suggesting that profitability in the SME segment could remain high (Exhibit 16).

Payment processing not necessarily appealing to ISOs
The majority of respondents outsource at least part of their payment processing function to third-party processors, with 47% outsourcing both the front-end (transaction authorization) and back-end (transaction clearance and settlement) and 22% outsourcing at least the back-end processing (Exhibit 17). First Data (41%) and Global Payments (21%) stood out as the most preferred processing partners for our survey respondent (Exhibit 19). When asked for key determinants on preferred providers, most survey respondents pointed to reliability of processing (33.3%) and ability to offer value added services (21.7%). Only 17.4% of respondents signaled that pricing was a key factor in determining a preferred processing partner (Exhibit 20).

New entrant risk: still see little impact from new entrants

Incumbents remain concerned with displacement risk

While we continue to see pricing as the key long-term risk for merchant acquirers, only 26% of respondents suggested that pricing was their biggest concern. Instead, most respondents remained concerned with the potential for new technologies to displace merchant acquiring (51%), with another 23% concerned with losing share to new entrants (Exhibit 1). We attribute this concern to the proliferation of mPOS solutions (which could route transactions away from the existing payment terminal provider and/or merchant acquirers) and from Aggregators/Integrators (which compete with merchant acquirers by directly signing up merchants).

Square stands out as biggest potential threat….

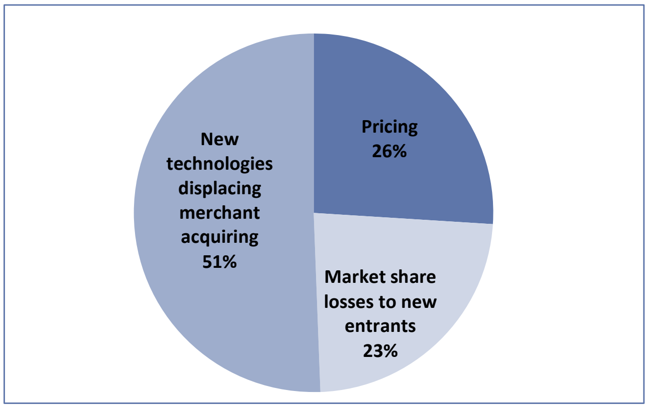
Survey participants ranked Square (42%) and Apple (20%) as the biggest potential threat for incumbents (Exhibit 2). We believe this reflects Square's Aggregator model, which directly competes with incumbents by providing retailers with both payment processing and POS solutions. With respect to Apple, we point out that there is a lot of uncertainty on the company's payments strategy. Specifically, it is unclear whether the Apple Passbook digital wallet will continue to work within the existing payments infrastructure like a Partner model or directly compete as an Aggregator or Integrator model.

…though LevelUp and Groupon were viewed as more benign

On the other hand, only about 1% of respondents saw LevelUp and Groupon as the biggest potential threat. We were particularly intrigued that Groupon was not seen as the key threat given its Integrator approach and competitive pricing. We believe this could merchant acquirers' interest in partnering with companies offering local offers/advertising to their existing merchant base. On the other hand, this could indicate that GRPN is having limited traction in gaining market share in merchant acquiring thus far.

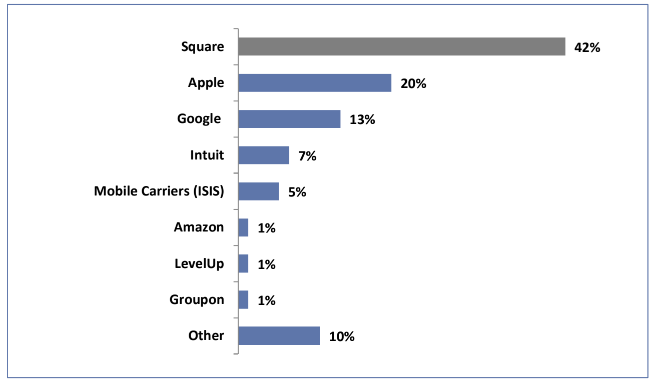
In our view, LevelUp is increasingly perceived as a key potential partner due to its recent national partnership with merchant acquirer, HPY, and willingness to partner with other incumbents to reach wider acceptance of its loyalty platform.

Exhibit 1: What do you view as the biggest risk posed by new entrants to the merchant acquiring industry?
51% of respondents are concerned with new technologies displacing merchant acquiring business



Source: ETA, Goldman Sachs Research

Exhibit 2: Which new entrant do you view as the biggest potential threat for merchant acquirers & ISOs?
Square and Apple stood out as the key potential threats, while respondents viewed LevelUp and Groupon as most benign.



Source: ETA, Goldman Sachs Research

New entrant impact on attrition remains minimal

That said, our survey results suggest that new entrants are still a minimal portion of total industry attrition (Exhibit 3). Approximately 72% of respondents disclosed manageable customer losses due to these technologies (10% or less of lost business attributed to new entrants). On the other hand, only about 8% of our respondents suggested that new entrants are driving a meaningful portion (over 25%) of their recent merchant attrition.

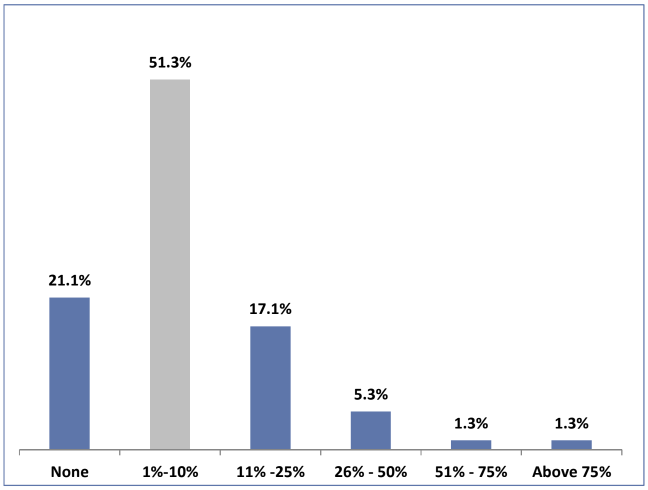
Thus, the majority of merchant attrition is likely still due to traditional competition and involuntary attrition (i.e. business bankruptcies/closures). Though it is still early, we believe our results could reflect either (1) limited success in new entrants' efforts to gain share in the core SME segment of the market thus far or (2) a positive impact from incumbents' mitigation strategies.

SME pricing not signaled out as most at-risk

Given new entrants' focus on penetrating the small and mid-sized segment (SME) of the market, we would expect merchant acquirers and ISOs that cater to this segment to be more exposed to potential pricing pressure. However, only about 10% of respondents believe new entrants will have a disproportionately negative impact on pricing at the SME merchant level.

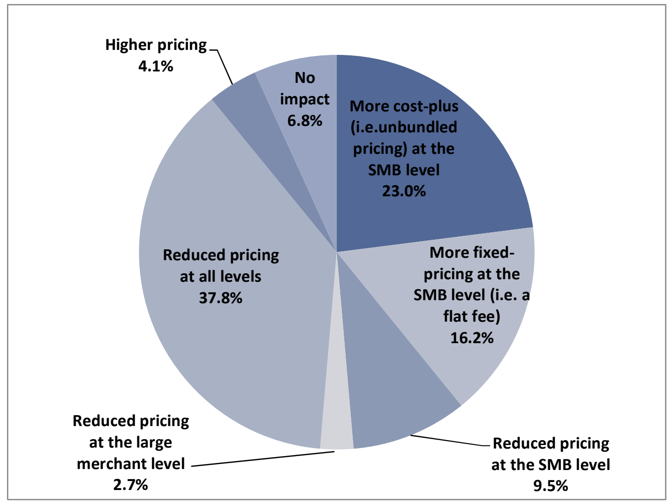
Instead, about 38% of respondents believe that if new entrants were to pressure pricing for the industry, pricing will be reduced across all merchant sizes. This would suggest that even acquirers which cater to relatively large merchants could face pricing pressure. Additionally, 23% expect to see more cost-plus (i.e. unbundled pricing) at the SME level, while 16% expect to see more fixed pricing at the SME level (Exhibit 4). Either one of these moves would represent a significant shift for the industry, which has primarily relied on relatively opaque, bundled pricing at the SME level (with few exceptions).

Exhibit 3: What percentage of lost business (attrition) over the last 12 months do you attribute to new entrants?
New entrants are still a minimal portion of attrition for incumbents.



Source: ETA, Goldman Sachs Research

Exhibit 4: If you believe pricing will be impacted, please select how:
Most respondents believe that new entrants could bring down pricing across the industry, not just in SME.



Source: ETA, Goldman Sachs Research

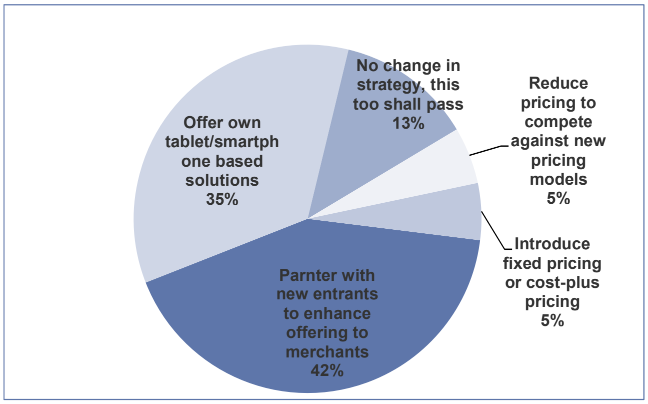
Mitigation strategies: partnerships, value-added services are key

Partnership with new entrants still preferred mitigation strategy

When asked about their new entrant mitigation strategy, most respondents (40%) prefer to partner with new entrants in order to enhance offering to merchants, while another 33% appear interested in developing and offering their own tablet/smartphone based solutions. At the other end of the spectrum, only 5% of respondents expect to reduce pricing in order to compete against new entrants (Exhibit 5). In our view, this suggests that pricing could serve as a last resort for acquirers and ISOs to protect market share.

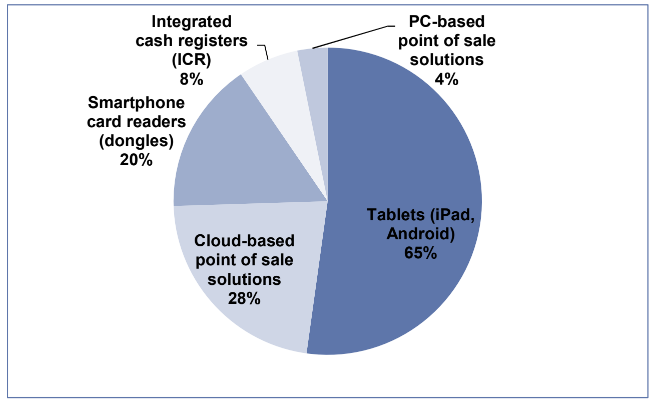
Instead, merchant acquirers will likely focus on adding value to their merchant clients to defend against potential attrition from new entrants. When asked about value added services they plan to offer merchants in the next 12 months, mPOS and e-commerce solutions were at top of the list, followed by loyalty solutions and dynamic currency conversion (DCC) (Exhibit 6).

Exhibit 5: What is your strategy to adapt to the new competitive environment?
New entrant partnerships are still the preferred mitigation strategy…



Source: ETA, Goldman Sachs Research

Exhibit 6: Which of the following value-added services are you planning to offer your merchants in the next 12 months (Choose all that apply)?
…mPOS solutions e-commerce and loyalty solutions among value-added services that acquirers plan to offer



Source: ETA, Goldman Sachs Research

Loyalty solutions could improve retention, open new revenue streams

The majority of respondents believe offering value-added services represent an opportunity to create stickier relationships with merchants (67%) or to monetize new revenue streams in addition to traditional merchant acquiring fees (17%). In other words, merchant acquirers and ISOs expect these value added services to help reduce merchant attrition (which could run into the 20% range in the SME segment) and enhance profitability.

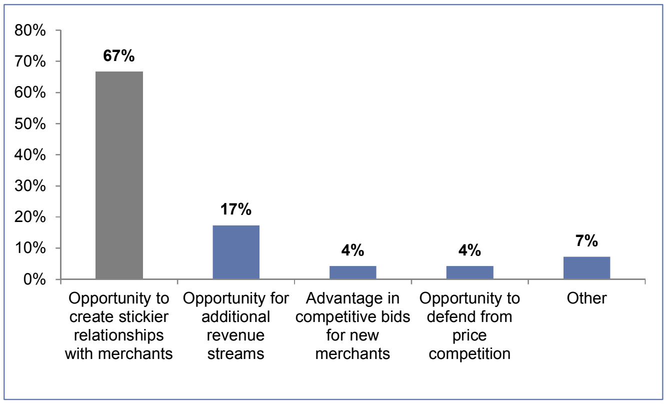
Given the recent JPMorgan Chase-Visa alliance, the rollout of the Visa Offers Platform and the emergence of card-linked offer providers, we asked merchant acquirers whether they expected to provide loyalty based solutions to merchants specifically. Most respondents expect to offer loyalty solutions, such as advertising, targeted offers or card-linked offers in the near-term (Exhibit 9).

In terms of potential revenue impact, 37% of respondents believed that merchants were willing to pay as much as 5% of offer value for loyalty based solutions (Exhibit 8). Another 23% believe that merchant would pay up to 10% of the offer value. We note that this would be between 2X-4X what the average merchant discount rate (MDR), which is what a merchant pays for accepting debit and credit card payments.

While we acknowledge that merchant acquirers and ISOs will likely only get a portion of this revenue (i.e. the provider of the loyalty platform would likely get most of the economics), we point out that the incremental margin on these transactions could be very high (i.e. little additional cost of acquisition as merchants are existing clients). Given the potential positive impacts to both attrition and revenue per customer, we expect to see a lot more merchant acquirers and ISOs offer loyalty-based solutions to merchants.

Exhibit 7: How do you expect to benefit from offering loyalty solutions or other value-added services for merchants?

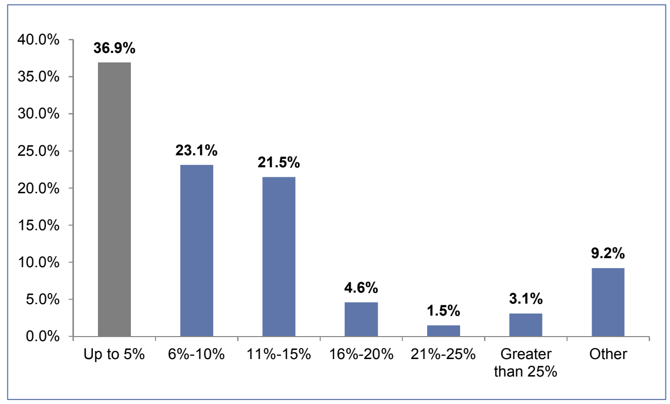
Most respondents believe that offering value added services could improve retention.



Source: ETA, Goldman Sachs Research

Exhibit 8: If you are currently offering (or planning to offer) loyalty solutions (such as targeted offers), how much do you believe merchants are willing to pay as a percentage of offer value (i.e. what is your average take rate on the transaction)?

Acquirers believe that merchants are willing to pay 2X to 4X the average merchant discount rate for loyalty solutions.

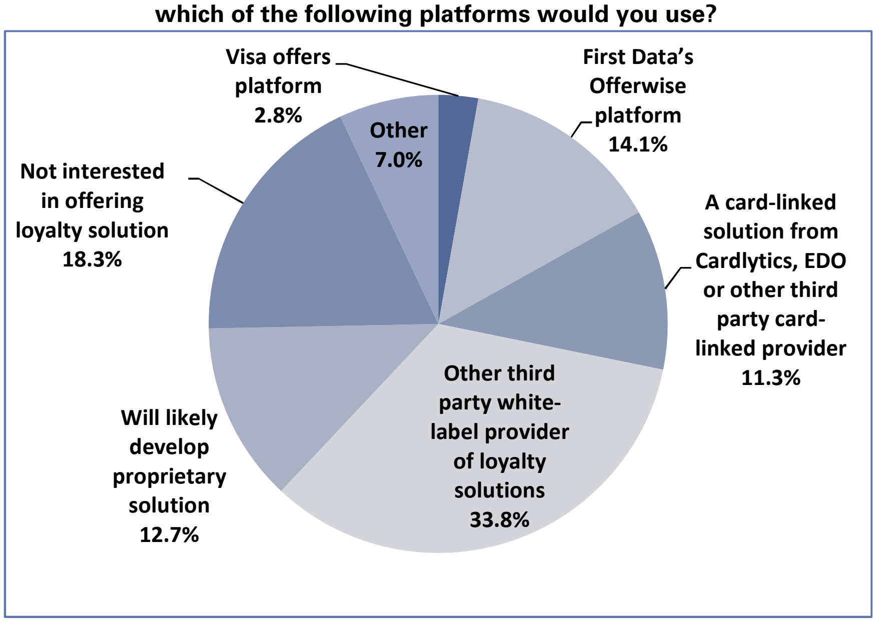


Source: ETA, Goldman Sachs Research

No clear preferred loyalty platform yet

That said, there was no clear preferred provider of a white label loyalty platform (Exhibit 9). About 14% of respondents suggested they would use First Data's Offerwise platform, while 13% preferred to offer their own proprietary solution. An even larger percentage of respondents (34%) stated they would likely work with another third-party provider of loyalty solutions.

Exhibit 9: If you are planning to offer loyalty solutions/targeted offers for your merchants, which of the following platforms would you use?



Source: ETA, Goldman Sachs Research

Point-of-sale appears more exposed to near-term disruption

Providers of point-of-sale (POS) solutions are viewed most at risk

Over 46% of our survey respondents believe that terminal manufacturers are most "at risk" from new entrants and tablet/smartphone based solutions, while another 13% see providers of traditional cash registers as more exposed to disintermediation risk. Interestingly, only 22% of responses signaled that ISOs are most exposed to new entrant risk, while large merchant acquirers, value-added resellers (or VARs) and the payment networks were viewed as relatively insulated (Exhibit 10).

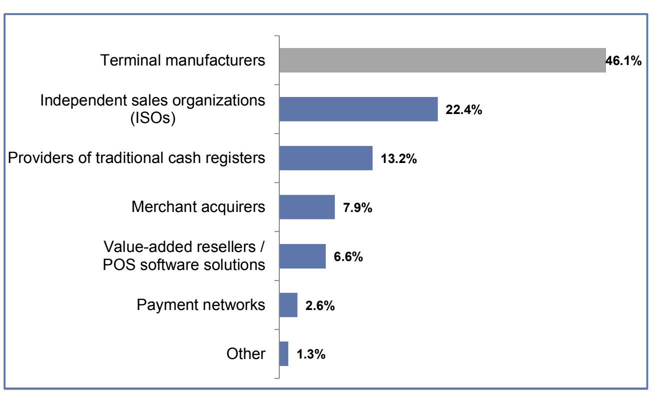
This appears consistent with our view that most of the pricing risk will be concentrated at the small merchant level, where ISOs tend to focus, while tiered pricing and distribution will serve as key hurdles to new entrants that wish to go up stream. Additionally, we note that most new entrants essentially act as ISOs, signing up new merchants, making underwriting decisions and performing customer servicing functions. As a result, these models are capturing a greater share of the "acquiring fee" economics (expressed as a percentage of purchase volume). However, these new entrants pay large merchant acquirers a transaction-based fee for back-end processing.

Merchant interest in new POS technologies remains relatively high

Our survey results suggest that merchant interest in mobile POS (mPOS) solutions, including tablet and smart phone devices, remained relatively high. Approximately 36.8% of our respondents suggested that between 11%-25% of their existing merchant base has expressed interest in new POS technologies. Moreover, 22% of survey participants articulated that 26%-50% of their merchant client base has expressed interest (Exhibit 11).

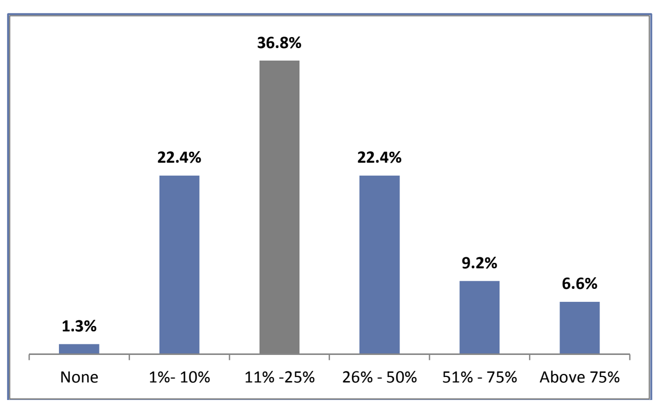
These results point to strong merchant awareness of new payment technologies, which we see as a precursor to merchant adoption. The timing and magnitude of adoption could have significant implications for incumbent providers of POS solutions, though we note that the ultimate impact will depend on whether incumbent POS providers could provide their own mobile based offerings into existing merchant relationships.

Exhibit 10: Who do you view as more "at risk" from new entrants and tablets/smartphone based point-of-sale solutions?
POS vendors are viewed as most at risk, followed by ISOs.



Source: ETA, Goldman Sachs Research

Exhibit 11: What percentage of your merchant base has expressed interest in new point-of-sale technologies (e.g., tablets, smartphones, dongles, etc.)?
Merchant interest in new technologies remained relatively high.

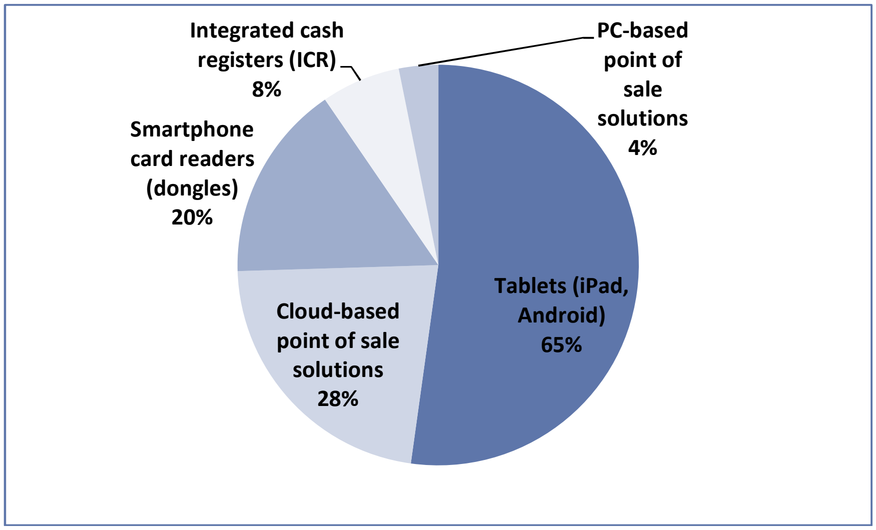


Source: ETA, Goldman Sachs Research

Mobile POS solutions key threat to the traditional POS

These same mPOS solutions represent the biggest potential threat for traditional POS providers, according to our survey respondents. About 65% of respondents signaled tablet POS solutions as the biggest risk, while another 20% suggested that smartphone card readers (i.e. dongles) represented a bigger threat (Exhibit 12).

Exhibit 12: Which new technology do you view as the biggest risk to the providers of traditional point of sale solutions?
mPOS solutions (tablets and smartphones) viewed as the key risk to traditional POS providers.



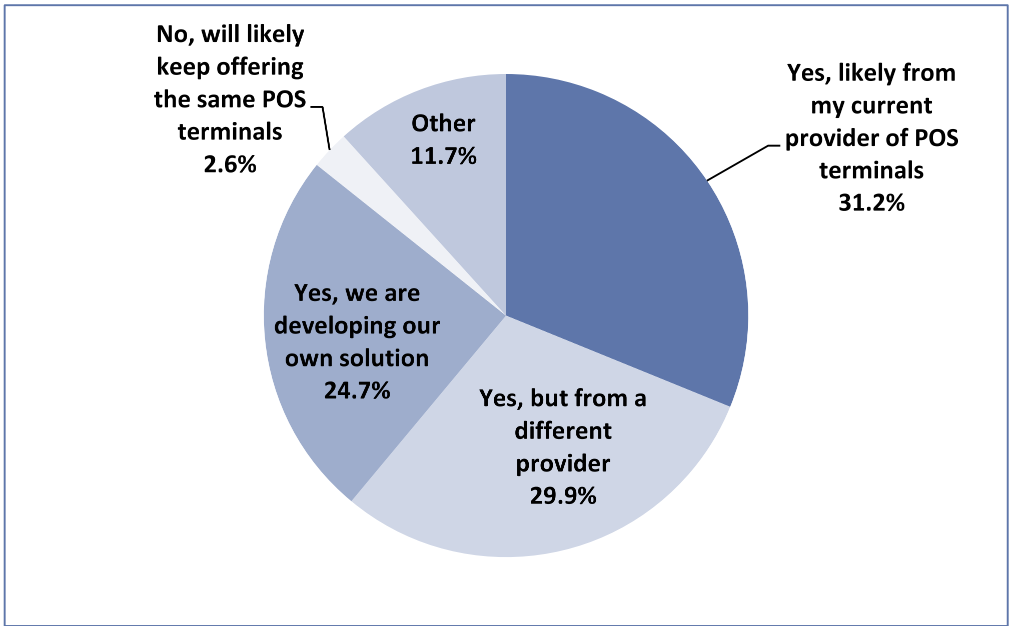
Source: ETA, Goldman Sachs Research

Relationship between acquirers and terminal POS providers at risk

As we noted above (see Exhibit 8), offering mPOS solutions was one of the preferred mitigating strategies that merchant acquirers expected to deploy to adapt to the new competitive landscape. Approximately, 30% expected to offer mPOS from a third party provider other than their existing POS partner and another 25% suggested they would offer a proprietary mPOS solution. Only about 31% responded they would offer mobile based solutions from their current provider, which in the US is likely to be Verifone, Ingenico or Hypercom (Exhibit 13).

As we noted in our December 12, 2012 report, *Payments Deep Dive – Version 1.0: A closer look at the threats and opportunities posed by new entrants,* we see the competitive risks for terminal manufacturers as primarily concentrated in the US SME segment, where merchant acquirers and ISOs typically distribute terminals to merchants. It is through this distribution model that there is an opening for new entrants to disrupt the market for POS solution providers as acquirers, in our view.

Exhibit 13: Are you planning to offer your merchants a smartphone or tablet based solution in the next 12 months?
Most respondents offer mPOS solutions from a third-party different than their current POS partner or develop their own solution.



Source: ETA, Goldman Sachs Research

Favorable 2H13 set up given volume outlook and minimal new entrant impact

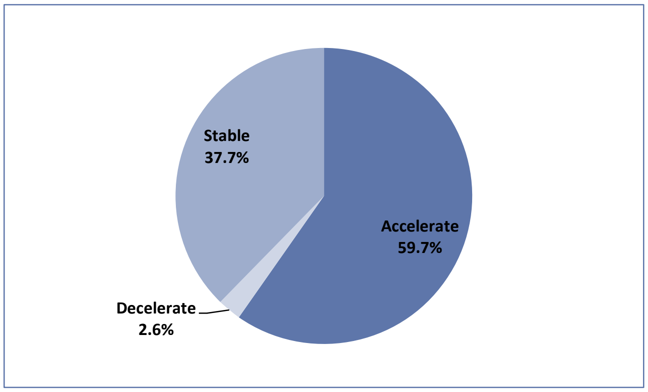
Payments volume expected to accelerate in 2H13

We remain constructive on the potential for a second half acceleration in US payment volume given positive macro data points on the consumer, encouraging same-store sales trends and easing comps. Our survey results suggest that the US merchant acquiring and ISO community are also positive about the near-term backdrop as 60% of respondents expect electronic payment volume growth to accelerate in 2H13, while another 38% suggest volume growth would remain stable (Exhibit 14).

When asked to rank expected growth by payment type, survey participants expect mobile payments to grow the fastest followed by debit and prepaid. Conversely, credit volume is expected to growth the slowest, which in our view could reflect a rather slow recovery in US non-affluent consumer credit (Exhibit 15).

Exhibit 14: Do you expect electronic payments growth to accelerate, decelerate or remain stable in the second half of 2013?

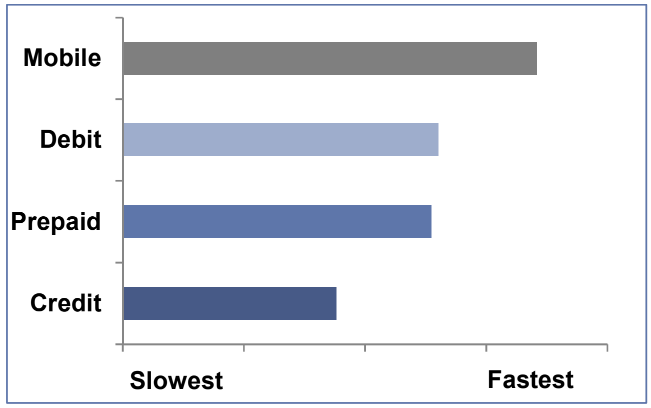
60% of respondents expect payments volume growth to accelerate in 2H13...



Source: ETA, Goldman Sachs Research

Exhibit 15: What payment types do you expect to grow fastest in 2013?

...with growth expected to be led by mobile and debit, trailed by credit.



Source: ETA, Goldman Sachs Research

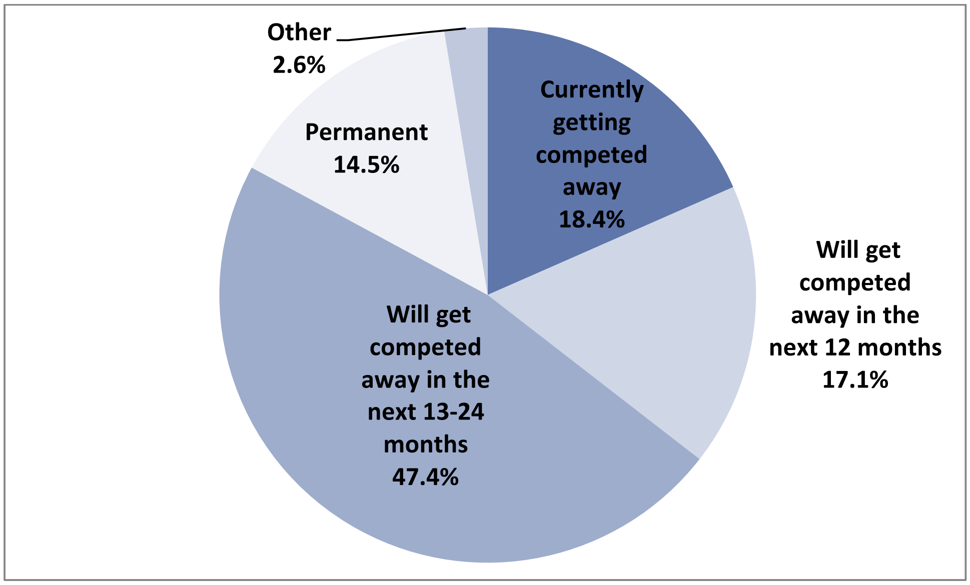
Durbin pricing benefits appear stickier than originally expected

Our survey results suggest that Durbin pricing benefits appear stickier than originally expected, as 47% of respondents believe these benefits will get competed away in the next 13-24 months (Exhibit 16). While merchant acquirers are facing tougher comps through October 2013 (as the Durbin pricing benefits lapped in October of 2012), this indicates that incremental margins on new transactions are still relatively high. In addition, this could suggest that the increased competition from new entrant has not put downward pressure on the current level of industry pricing.

Recall that the Durbin Amendment to the Dodd-Frank Financial Services Reform legislation had a significant impact on US debit pricing. The legislation granted the Federal Reserve Bank the authority to set the US debit interchange rate, which is a source of revenue for debit issuing banks and the largest component of a merchant's cost of accepting debit. On June 29, 2011, the Fed capped debit interchange from an average of $0.44 per transaction to an average of $0.24 per transaction ($0.21 per transaction plus a 5 bp ad valorem fee and a potential $0.01 for fraud-related loss). The interchange cap went into effect on October 1, 2011, for banks with assets above $10 bn.

Throughout 2012, results from publicly traded companies and commentary from the merchant acquiring community suggested that several in the industry kept a portion of the $0.20 reduction in debit interchange. This pricing benefit resulted in revenue boost for the merchant acquirers. When Durbin was first implemented, however, many merchant acquirers believed those benefits would get competed away over a twelve month period. That said, only about 18% of our survey respondents suggested that Durbin pricing benefits are currently getting competed away.

Exhibit 16: What do you expect to happen to Durbin related debit pricing benefits?
Durbin pricing benefits appear stickier than originally expected, which could bode well for near-term profitability.



Source: Source: ETA, Goldman Sachs Research

In-house payment processing not necessarily appealing to ISOs

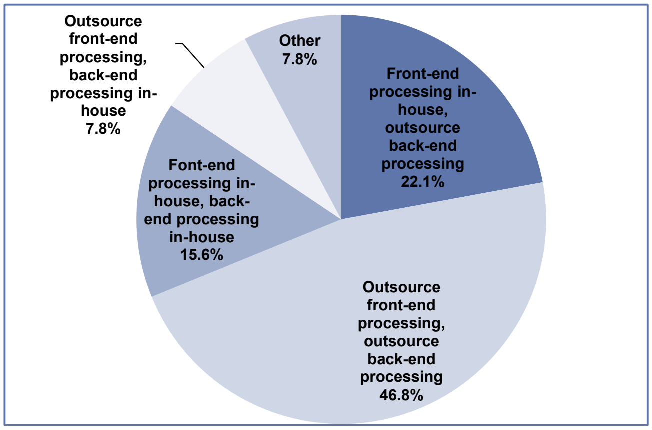
Payment processing not necessarily appealing to ISOs

The majority of respondents outsource at least part of their payment processing function to third-party processors, with 47% outsourcing both the front-end (transaction authorization) and back-end (transaction clearance and settlement) and 22% outsourcing at least the back-end processing (Exhibit 17).

This appears reasonable, as based on our demographic data (Exhibit 21), approximately 48% of respondents were Independent Sales Organizations (ISOs). We believe most ISOs, particularly smaller ISOs, are primarily focused on selling merchant contracts than setting up the infrastructure to process transactions.

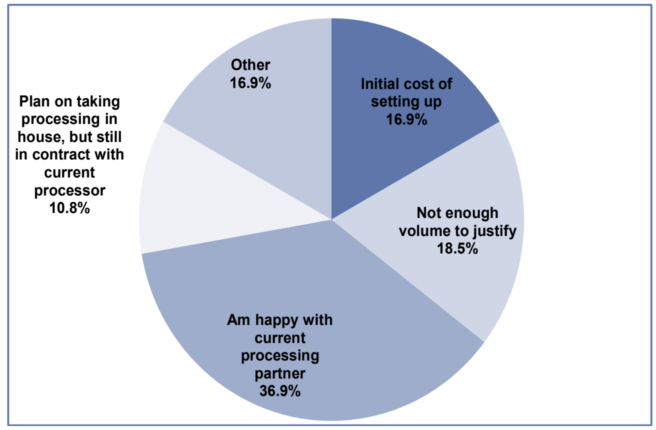
Respondents listed light volumes (19%), initial cost of setting up processing (17%), or happiness with current processing partner (37%) as factors driving them to outsource at least part of their processing function. Additionally, only 11% of respondents states that they planned on taking processing in house, which are likely to be a few large or more established ISOs (Exhibit 18).

Exhibit 17: Which of the following best describes your current processing relationship?
Most respondents (47%) outsource both front-end and back-end transaction processing…



Source: ETA, Goldman Sachs Research

Exhibit 18: If you do not process transactions in-house, what do you see as the biggest hurdle?
… with 37% of respondents listing they are content with current processing partner.

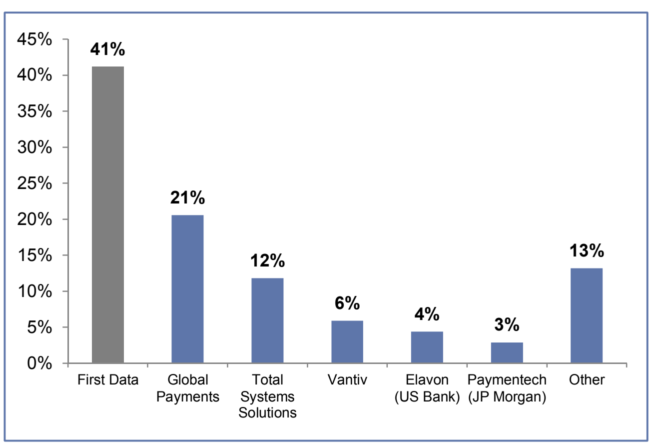


Source: ETA, Goldman Sachs Research

Reliability of processing and value-added services more important than pricing

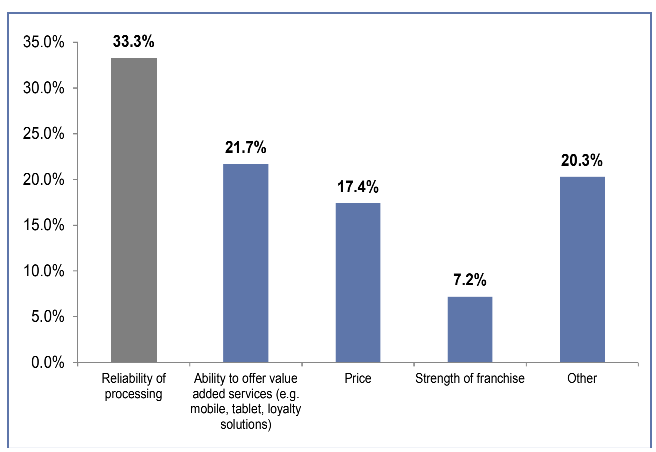
First Data (41%) and Global Payments (21%) stood out as the most preferred processing partners for our survey respondents (Exhibit 19). When asked for key determinants on preferred providers, most survey respondents pointed to reliability of processing (33.3%) and ability to offer value added services (21.7%). Only 17.4% of respondents signaled that pricing was a key factor in determining a preferred processing partner (Exhibit 20).

Exhibit 19: Who do you consider a preferred processing partner?
First Data and Global Payments stood out as the most preferred processing partners for our survey respondents.



Source: ETA, Goldman Sachs Research

Exhibit 20: How do you determine a preferred processing partner?
Reliability of processing and ability to offer value-added services appear more important than pricing.



Source: ETA, Goldman Sachs Research

Respondent overview

This report presents key findings from the Electronic Transactions Association – Goldman Sachs (ETA-GS) Survey on New Entrants in Payments, which asked merchant acquirers, ISOs and providers of point-of-sale (POS) solutions key questions on the rise of new entrants. Our survey collected responses from 77 merchant acquirers/ISOs from all sizes and across the US, reflecting the following:

Exhibit 21: Merchant acquirer/ISO respondent demographics

By Company Type		By Title		By Active Merchant Outlets		By Price Controlled Merchants		By Share of Bundled Pricing	
Merchant acquirer	24.7%	C-level executive	63.7%	Under 10K	49.4%	Up to 25%	13.2%	Up to 25%	52.7%
Independent Sales Organization (ISO)	35.1%	Marketing	9.1%	10K - 100K	27.3%	26% - 50%	10.5%	26% - 50%	16.2%
Super ISO	13.0%	Sales	13.0%	101K - 250K	10.4%	51% - 75%	10.5%	51% - 75%	16.2%
Value Added Reseller (VAR)	7.8%	Other	14.3%	Over 250K	13.0%	76% - 100%	65.8%	76% - 100%	14.9%
Other	19.5%								

Source: ETA, Goldman Sachs Research

Disclosure Appendix

Reg AC

We, Roman Leal, CFA, Julio C. Quinteros Jr., Jac Charles, Franklin Jarman and Karl Blunden, CFA, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

GS SUSTAIN

GS SUSTAIN is a global investment strategy aimed at long-term, long-only performance with a low turnover of ideas. The GS SUSTAIN focus list includes leaders our analysis shows to be well positioned to deliver long term outperformance through sustained competitive advantage and superior returns on capital relative to their global industry peers. Leaders are identified based on quantifiable analysis of three aspects of corporate performance: cash return on cash invested, industry positioning and management quality (the effectiveness of companies' management of the environmental, social and governance issues facing their industry).

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Roman Leal, CFA: America-Transaction Processors. Julio C. Quinteros Jr.: America-ATM/POS and Self-Service, America-IT Consulting and Outsourcing, America-Transaction Processors.

America-ATM/POS and Self-Service: VeriFone Systems, Inc..

America-IT Consulting and Outsourcing: Accenture Plc, Amdocs Limited, CGI Group Inc., CGI Group Inc. (US), CSG Systems International, Inc., Cognizant Technology Solutions, Computer Sciences Corp., Convergys Corporation, ExlService Holdings, Inc., Fidelity National Information Svcs., Fiserv, Inc., Genpact Ltd., Lender Processing Services, Inc., NeuStar, Inc., Performant Financial Corp., Sapient, Synchronoss Technologies, Inc., Towers Watson & Co., WNS (Holdings) Ltd., West Corporation.

America-Transaction Processors: Automatic Data Processing Inc., Blackhawk Network Holdings. Inc., Equifax, Inc., Evertec Inc., FleetCor Technologies, Inc., Global Payments Inc., Green Dot Corp., Heartland Payment Systems, Inc., Higher One Holdings, Inc., Mastercard Inc., MoneyGram International, Inc., Paychex, Inc., Total System Services, Inc., Vantiv, Inc., Visa Inc., WEX Inc., Western Union Co..

Company-specific regulatory disclosures

Compendium report: please see disclosures at http://www.gs.com/research/hedge.html. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	54%	15%	49%	42%	36%

As of April 1, 2013, Goldman Sachs Global Investment Research had investment ratings on 3,492 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)

Compendium report: please see disclosures at http://www.gs.com/research/hedge.html. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs usually makes a market in fixed income securities of issuers discussed in this report and usually deals as a principal in these securities.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman, Sachs & Co. and therefore may not be subject to NASD Rule 2711/NYSE Rules 472 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Distribution of ratings: See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at http://www.gs.com/research/hedge.html.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. **Brazil:** Disclosure information in relation to CVM Instruction 483 is available at http://www.gs.com/worldwide/brazil/area/gir/index.html. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 16 of CVM Instruction 483, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** Goldman, Sachs & Co. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited; **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/126/EC is available at http://www.gs.com/disclosures/europeanpolicy.html which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau under registration number Kinsho 69, and a member of Japan Securities Dealers Association, Financial Futures Association of Japan and Type II Financial Instruments Firms Association. Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S) -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at http://www.gs.com/research/hedge.html. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Not Rated (NR). The investment rating and target price have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; in Canada by Goldman, Sachs & Co. regarding Canadian equities and by Goldman, Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman

Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorized and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs AG and Goldman Sachs International Zweigniederlassung Frankfurt, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman, Sachs & Co., the United States broker dealer, is a member of SIPC (http://www.sipc.org).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analysts' published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts' fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at http://www.theocc.com/about/publications/character-risks.jsp. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

In producing research reports, members of the Global Investment Research Division of Goldman Sachs Australia may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For all research available on a particular stock, please contact your sales representative or go to http://360.gs.com.

Disclosure information is also available at http://www.gs.com/research/hedge.html or from Research Compliance, 200 West Street, New York, NY 10282.