What is my multiple?

Understanding Components of M&A Deals in the Payments Industry

Determining the true value and multiple of a merchant portfolio is not a simple task, especially as economic conditions shift and the line between a payments company and software company continues to blur.

Both buyers and sellers have had to adjust expectations relative to valuations and multiples in recent years. Identifying and strengthening the key drivers of value as you grow your company will help maximize your position and potential valuation when you begin engaging with buyers.



What is a Typical Multiple For a Payments Company?

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

SALES CHANNEL

Different sales channel strategies can determine the level of synergy between a buyer and seller.

- W2
- 1099
- Integrated
- Bank
- Referral
- Digital

MERCHANT TYPE

Synergies with a potential buyer are often due to the vertical focus of a portfolio and certain attributes that a buyer determines to be more important than others.

Examples of metrics that can be used to establish attractiveness of a merchant type are:

- Market Potential
- Merchant Life
- Lifetime Net Revenue
- Total Volume Growth

GEOGRAPHY

Considerations are made both at the micro and macro level.

Micro Level:
Is the merchant footprint in attractive geographies from the perspective of growth and profitability?

Macro Level:
Does the acquisition help me enter new markets?

TECHNOLOGY, PRODUCTS, AND SECURITY

As payments and software become increasingly intertwined, it is important to assess existing technology and product offerings. Areas such as technology infrastructure, product performance, security, compliance, and scalability can greatly impact the multiple in today's M&A market.

SIZE OF MERCHANTS

Merchant size is typically the **biggest driver** of a merchant portfolio's financial performance. Performance metrics that correlate with merchant size (annual card volume processed) include:

- Age
- Price
- Profitability
- Attrition



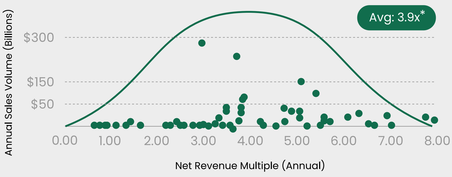
SYNERGIES TO BUYER

These dimensions, as well as other factors, determine the strategic value and resulting multiple to a buyer.

Payments Multiples Can Be Misleading

"If a net revenue multiple was truly meaningful, the plots would be clustered in one area of the chart."

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



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

How a Company Manages Risk, Fraud, & Emerging Technology Can Influence Its Value

Portfolio risk: Higher-risk merchants don't necessarily reduce value, but buyers will examine how effectively the portfolio is underwritten, monitored, and supported by reserves and controls.

Fraud management: Strong fraud prevention, compliance, and oversight can reduce potential financial, legal, and reputational exposure.

AI readiness: Buyers may consider how the company uses, governs, and prepares for AI as the technology becomes more involved in underwriting, fraud detection, and risk monitoring.

What Should We Be Doing Right Now?

Regardless of market conditions, it is important to identify key value of your company, and the factors that affect it.

Whether buying or selling, seeking investment funding, or planning your company's exit strategy, experience can be critical to achieving success. TSG can help validate your assumptions and unlock your full potential.

Learn more | **View case study**



TSG (The Strawhecker Group) is a fast-growing analytics and consulting firm focused on the electronic payments industry. The company serves the entire payments ecosystem, from fintech startups to Fortune 500 companies. The firm provides its clients with advisory services, research, and analytics to help them plan and execute their strategic initiatives. Based in Omaha, a recognized payments industry hub, TSG is an established leader in this high-growth, ever-evolving

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