

## **MAXIMIZE YOUR COMPANY'S VALUE**

People often call me for advice about what they need to do to be able to build up their ISO and sell it to get that proverbial pot of gold at the end of the rainbow. They want to be like Innovative Merchant Solutions that was sold to Intuit or like Verus that was sold to Sage in order to collect a pay day of tens, if not hundreds of millions of dollars. There are a lot of intangibles that go into these types of blockbuster deals. But, there are also some similarities between most of the companies that are involved in such sales that I will outline below.

### **Being An Agent Will Not Work:**

The first thing we need to discuss in this analysis is some of the things you can't do and expect to sell your company for a lot of money. As a general rule, if you stay as a sales agent, you are never going to get a huge pay day. What I mean by a sales agent is a company that is mainly a sales and marketing organization that originates merchant applications, submits them to an ISO and then has little or no substantive involvement in underwriting or servicing the merchant. The typical sales agent is just interested in making the sale and leaves all the operational issues like underwriting, customer service and risk monitoring to the ISO.

Sales agents are compensated for their companies, even if they sell the whole company, based upon a multiple of the average monthly residuals that are paid to the sales agent. Since the sales agent really does not have any infrastructure as such other than a sales and marketing team, buyers really do not care about purchasing the sales agent's company per se. The only part of the sales agent's company a purchaser wants is to be able to collect the residuals that the sales agent has built up. The buyers may agree to pay more for the residuals if the sales agent will guarantee to send its future business to the buyer. But that is about the only way to increase the sales price a buyer is willing to pay to any substantial degree.

In the current market, sales of residuals fall into a set price range with little variation. Sales agents will hear rumors that they can get 40, 50, even 60 times their average monthly residual if they want to sell. The reality is much different. Sales over a multiple of 30 are extremely rare, especially if the seller is not willing to guarantee the buyer a set return on the buyer's investment (i.e. guarantee the residuals will only fall 10% or less a year). Most sales actually fall far below 30 with purchase prices in the teens being fairly common. So if you want that big pay day, being a sales agent is not the way to go. You have to build up a valuable, full service ISO to have any meaningful chance of hitting that home run.

### **The Perfect ISO:**

There are a number of different things that you need to build into your ISO in order to obtain the maximum value in a sale. One of the first things is to have your own segregated BIN/ICA. This allows the potential buyer to move the merchants over to its systems without having to reprogram the merchants, if its systems are compatible. This is often a huge selling point to potential buyers that are already in the bankcard business. It allows the buyer to merge the portfolio it buys with its existing portfolio using its existing technology platform and allows it to service the portfolio with its existing employees. This allows for economies of scale in the buyer's operation and make the portfolio more valuable than if the buyer had to operate the portfolio as a stand-alone entity.

Another part of the portability puzzle is the direct relationship with a bank that allows the ISO to be a party to the merchant agreement. In many relationships the bank, the merchant and the credit card processor are parties to the merchant agreement. This leaves the ISO without any direct contractual relationship with the merchant which is less than ideal from the ISO's perspective. If the ISO is a party to the merchant agreement, it can obtain the right to assign all of its merchant agreements to a buyer with the consent of the bank, which it can effectively secure in advance. This allows a buyer to have the potential to become a party to all the merchant agreements through an assignment, without having to rewrite all the merchant agreements, which is another bonus to a potential buyer.

ISOs should also build up a robust operating arm to maximize potential value. Many of the recent transactions in the industry have involved companies that are not in the bankcard industry purchasing companies in our industry in order to leverage their existing customer base. As mentioned above, that happened with Intuit. It purchased Innovative Merchant Solutions in order to sell payment processing to Intuit's existing customers that were using its accounting software. Since these types of buyers are not in the bankcard industry, they need to buy an ISO that already has in place an underwriting, customer service and risk management staff that can service the merchants and also expand to accommodate the new business the buyer expects to garner from its existing customer base.

It seems obvious but buyers are also looking for quality merchants. They want a merchant base that has merchants that are brick and mortar type, merchants that have higher processing volumes and merchants that are more likely to have a low attrition rate. Buyers want to know that they are going to get a return on their investment that makes the purchase attractive. Originating quality merchants is another way to increase the likelihood of attracting a buyer that is willing to pay a premium price.

Then there is the list of those intangibles that will attract a buyer. A motivated and enthusiastic employee base is always a plus. Buyers sometimes look for certain

technologies, for instance a payment gateway or enterprise operating system, that the buyer is lacking. Another thing that can make an ISO more attractive is if it has a great plan to expand operations, but just needs that cash infusion that the buyer can supply. These are the types of things that can give a buyer that added value it needs to justify a certain sales price.

That pot of gold at the end of the rainbow is not easy to find. But with good planning and hard work it could be yours one day.

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