

October, 27, 2017

Euronet Worldwide Inc.: EFFT

Connor Morelli

Sector: Information Technology

Industry: Software and Services

Current Price: \$98.55

Target Price: \$119.26

Euronet Worldwide is a global leader in providing electronic payment and transaction processing and distribution solutions to financial institutions, retailers, service providers, and individual consumers. Euronet operates in three distinct segments worldwide; Electronic Financial Transaction (EFT) Processing, epay, and Money Transfer. The EFT segment of Euronet provides electronic payment solutions, which include ATM cash withdrawal and payment services, point-of-sale (POS) management solutions and the issuance of credit and debit cards. The epay segment operates in the electronic distribution and processing of prepaid mobile airtime and other electronic payment products such as gift cards and vouchers. The Money Transfer segment provides consumer-to-consumer and account-to-account money transfer services, bill payment services and payment alternatives such as money orders and prepaid debit cards. This segment is also involved in foreign currency exchange and cash management and foreign currency risk management services.

BUY

Current Price:	\$98.55
Target Price:	\$118.72
Market Cap:	5.177B
EBITDA Margin	17.2%
WACC	11.0%
ROIC	28.3%
ROIC/WACC	2.57
Cost of Equity	12.1%
D/E Ratio	0.62
Volume	369,461



Catalysts:

- Short Term (within the year): High demand in the EFT and epay segment during the 4Q due to the holiday season.
- Mid Term (1-2 years): Expansion of ATM and POS systems into higher margin regions such as Europe. Continued processing volume growth of the Money Transfer Segment. Expansion of recent acquisitions XE and HiFX into new markets.
- Long Term (3+): Continued business strategy of acquisitions to expand company's portfolio.



Thesis: Euronet Worldwide is a global leader in electronic payment and processing solutions that serves a wide range of customers such as financial institutions, retailers, service providers, and the individual consumer. Euronet is poised to continue to expand their business portfolio of electronic payment and processing solutions both domestically and internationally through electronic financial transaction services, epay, and money transfer businesses. The expansion of ATM services and POS systems in emerging markets such as India along with the global trend of increasing electronic money transfer and transaction volumes will put Euro net in an exceptional position to gain market share in an increasingly globalized economy. Through managements continued strategy of acquisitions and expansion into high margin regions internationally, Euronet can expected to see continued growth into the near future.

Third Quarter Earnings Performance:

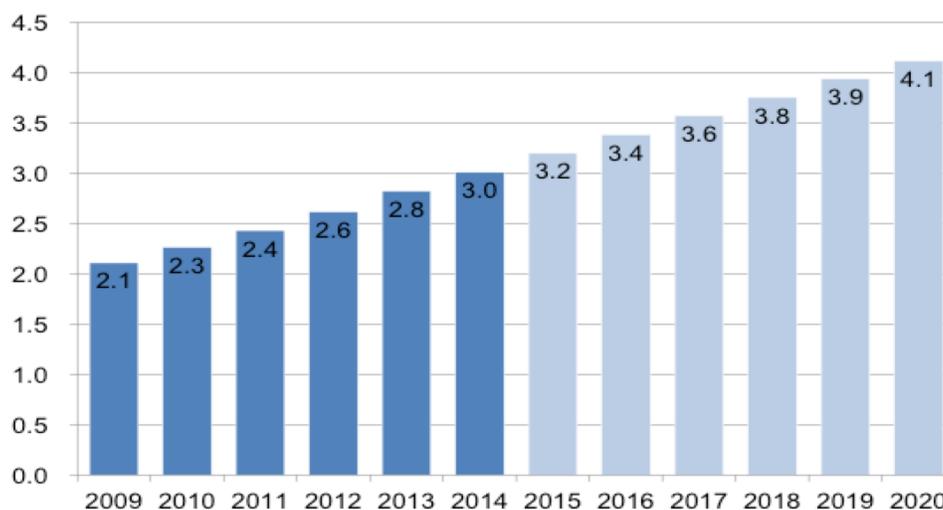
Euronet Worldwide recently released their 3Q 2017 earnings on October 20. Euronet reported constant currency revenue of \$638M, an increase of 21.71% from the prior year’s period. Adjusted EBITDA for the 3Q 2017 was reported at \$145M while adjusted operating income came to \$117M for the quarter. This represented an increase of 28.12% and 29.23% respectively compared to the 3Q of FY 2016. Euronet’s EFT segment reported a 26% increase in transactions due to the expansion of ATM networks in Europe and India. This increase also was impacted by the recent acquisition of YourCash in October 2016. The Money Transfer segment of Euronet saw transactions grow by 12% for the 3Q 2017. Money transfers in this segment grew by 13%, while non-money transfers grew 4%. The EFT segment reported currency revenue, operating income, and adjusted EBITDA growth at 40% for each measure. This increase was due to a 26% increase in transactions and a 30% year over year increase in physical ATMs. The epay segment of Euronet grew slower during the 3Q 2017 period due to a loss of a high volume, low margin costumer in the Middle East geographical region. Currency revenue increased 6% and operating income grew 1% for the epay segment. The growth of the epay segment was due to an increase in non-mobile product sales, which were offset by mobile declines. The Money Transfer segment of Euronet reported constant currency revenue growth of 10%. Double-digit revenue increases were the result of growth across RIA businesses, HiFX and the conversion of the xe business to the HiFX platform as well as the expansion of digital and physical networks internationally, primarily in India. Digital sourced transactions increased 37% year over year for the Money Transfer segment, which is indicative of management’s continued focus on digital delivery and costumer preferences. The Money Transfer segment now reaches 332,000 locations in 146 countries, a 6% increase year over year. This graph shows the increase in EFT transactions year over year from the past three years.



Industry Outlook:

The Information Technology sector is poised to continue to outperform the market and many other sectors as 2017 turns over to 2018. Companies have underinvested in technology upgrades over the past few years and are poised to upgrade their technology capabilities per Charles Schwab. Currently consumer confidence is at its highest level since 2001 according to a report issued by the Conference Board. This will give the technology sector support from businesses and the individual consumer, which Euronet having direct access to both lines of support. Euronet in particular operates in the software and services industry segment of the overall IT sector focusing on electronic and digital payment processing, a fast growing industry according to Business Insider. Within the digital and electronic payment industry, growth is accelerating at a pace at which payments are now faster, cheaper and more convenient for the modern business compared to tradition physical transferring of funds. According to McKinsey, electronic payment volume is expected to grow at CAGR of 7.3% over the next five years. Transactions via solutions such as integrated point of sale (POS) systems are expected to grow from 24 to 33% over the next five years as well. Currently, ATM penetration in emerging markets such as India, China, and other Eastern Asia countries is well below developed economies. This low penetration offers potential for ATM service providers such as Euronet to penetrate these markets. The growth in customer base, rise in R&D expenditures, and the increase in demand for ATM services will result in a steady pace of growth for this market. India, in particular, recently demonetized which has fueled the need for proper ATM services and management. By the 2020, the world ATM market is expected to see revenues of \$21.9B at a CAGR of 7.7% over the next three years. Currently, the money transfer market is valued at \$700B. The increased global mobility of consumers has resulted in the expansion of cross-border payment needs and the shifting away from traditional bank channels to more mobile and less expensive solutions. Traditional consumer remittance providers are expected to see mid to high single digit volume growth over the next five years while International Payment Specialists are expected to see strong double-digit growth over the same five-year period.

Global installed ATM base, 2009–2020 (millions)



source: Global ATM Market and Forecasts to 2020 (RBR)

Segment Overview and Operations:

Currently, Euronet Worldwide operates in three distinct business segments. As previously stated, these segments are Electronic Financial Transaction (EFT) processing, epay, and Money Transfer. As of FY 2016, 72% of revenues come from currencies denominated in something other than the USD. The EFT processing segment provides comprehensive electronic payment solutions worldwide, which consist of ATM cash withdrawal and deposit services, ATM network participation and POS management solutions. This segment also is active in the outsourcing of credit and debit cards. This segment offers several value added services such as ATM and POS currency conversion, fraud management, bill payment, and foreign remittance payouts. These services are offered through Euronet owned ATMs and POS

systems and under contracts. The major sources of revenue generated by the ATM network consist of recurring monthly management fees, transaction-based fees, and margins earned on currency conversion transactions. The geographical region that is primarily served by the EFT segment are the developing markets of Central and Eastern Europe along with the developed economies of several Western European nations. As of 2016, the number of EFT processing transactions that occurred stood at 1.885 Billion. The EFT processing business sees its heaviest demand for cash withdrawals during the third quarter of the fiscal year. This trend is due to the coinciding tourist season in Europe. The fourth quarter has typically been strong for the EFT processing segment as well as the need for cash withdrawals increases due to the holiday season. The EFT processing segment represented 24% of total revenues for FY 2016. Total revenues for this segment for FY 2016 were \$464.3M, an increase of 22% compared to the prior year. The average monthly revenue per ATM was \$1,392 for 2016. Operating income for the EFT segment was reported at \$117.2M, an increase of 24% over the prior year. Operating margin for this segment was 25.2%.

Euronet's epay segment offers prepaid mobile airtime top-up services and other prepaid and payment products on a network of 661,000 POS terminals across 305,000 retailer locations worldwide. In addition to prepaid mobile airtime services, the epay segment offers products across their retail networks such as prepaid debit cards, gift cards, vouchers, and prepaid digital content such as music, games, and software. Epay primarily earns revenues through commissions or processing fees from telecommunications service providers from the sale and distribution of prepaid mobile airtime and the distribution of prepaid payment product. The epay segment offers a full cash collection and settlement service and processes approximately \$11B and 1.3B transactions annually. For FY 2016, total revenues for the epay segment were \$694M, a decrease of 2% compared to the prior year. This decrease can be attributed to competitive pressures on prepaid mobile carriers. Total operating income for FY 2016 was \$68.2M, an increase of 3% compared to FY 2015. Operating margins were reported at 9.8% for this segment. Significant customers of the epay segment include state owned lotteries as well as Florida's state run turnpike and Transurban Limited, the largest the manager of toll roads in Australia.



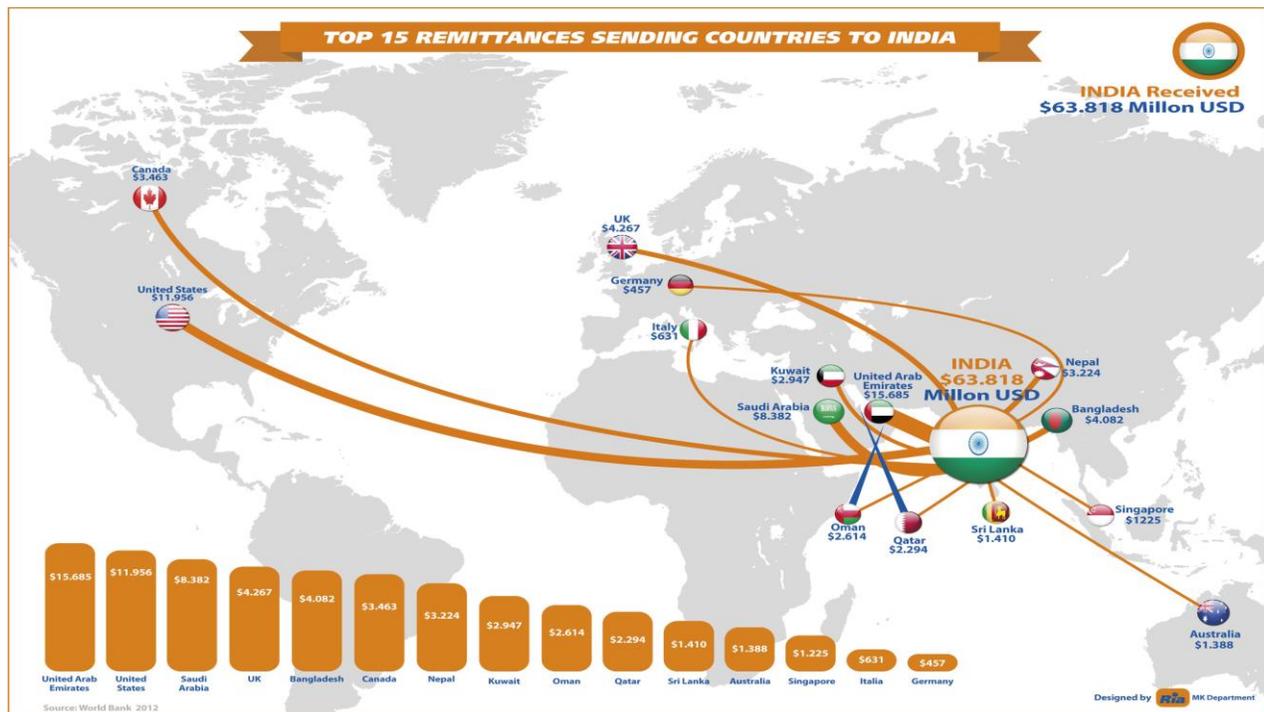
The Money Transfer segment provides global money transfer services under the brand names Ria, IME, XE, and HiFX. Ria and IME provide consumer to consumer money transfer services through a network of 317,000 locations and through their respective websites. Money transfer delivery was completed in 146 countries over FY 2016, through sending agents. Consumer money transfer occurs through brand retail agents, company owned stores, or online while the delivery of the funds occur with bank correspondents, retailer agents, or from ATMs. XE and HiFX are involved in global account-to-account money transfer services. XE also provides foreign currency exchange information and offers money transfer services on its currency data websites. Over the last five years, transactions processed on Euronet platforms has grown at CAGR of 28%. Many large retailers are involved in Euronet's money transfer network such as Walmart and several other smaller retailers, convenience stores, and multi-service shops. The Walmart-2-Walmart money transfer service allows customers to transfer money to and from Walmart stores throughout the United States. This contract allows Ria to be the only party through which Walmart will sell U.S domestic money transfers. Most of the Money Transfer segment are earned through the charging of a transaction fee, as well as a margin earned from purchasing foreign currency at wholesale exchange rates and selling at retail exchange rates. The Money Transfer segment processed approximately \$33.3B in transfers in FY 2016. Total revenues for FY 2016 reached \$801.9M, an increase of 17% from the prior year. These increases were due to the increase in volume of money transfers processed. The Walmart-2-Walmart money transfer service and overall organic growth accounted for a significant portion of total growth as well. Revenues per transaction were reported to be \$9.74 for FY 2016. Total operating margin was \$101.5M for FY 2016, an increase of 29% compared to FY 2015. Operating margins climbed to 12.7% compared to 11.5% in FY 2016. The acquisitions of XE and IME and the increased activity in the HiFX business contributed to revenue, operating income, and margin growth for FY 2016.



Growth Strategy and Drivers:

Management currently has outlined growth strategies for each business segment, and should these initiatives come to fruition and are successful, Euronet should be able to capitalize on its growth potential. The EFT segments current strategy is to continue to expand the network of ATMs and POS terminals into both developed and emerging markets. The trend for value added services has increased primarily in the small bank industry, as these smaller banks are looking for integrated ATM and POS solutions that will allow them to lower their own costs of transactions. Through Euronet's software and solutions, Euronet is well positioned to take advantage of this trend. Currently in the EFT segment 95% of ATMs operated by Euronet are Euronet owned machines. However, in India outsourcing contracts are much easier to acquire in conjunction with banks. Under these contracts Euronet ATMs are operated under the brand name of the bank and they carry half of the risk while Euronet still controls the transaction revenue. India represents an extremely large potential market. With outsourcing, the risk for Euronet is cut in half and there is no CAPEX while margin to the bottom line is typically around 95%.

Currently, the epay segment is operating at lower margins compared to EFT processing and Money Transfer. While mobile top up transactions are declining in many developed markets, the strategy of management in the epay segment is to focus on non-mobile products such as gift cards, prepaid debit cards, and the transport of digital content which includes music, software, and games. Non-mobile gross margins make up 58% of the total gross margins of the epay segment. This indicates that there is an active effort by management to shift to this segment of operations. By continuing this trend of moving away from the declining mobile business to non-mobile products, Euronet should expect to see the tightening of margins and increased profitability. For the 3Q 2017, the epay segment partnered with Microsoft and Xbox to launch the pre-order of FIFA 2018, one of the most popular sports based video games in the world. This agreement allowed the epay segment a portion of revenues associated with sale of the game. Epay also continues to expand the distribution of valuable software products. In Portugal, epay launched Microsoft Office and McAfee antivirus software and in Australia similar antivirus protection software was also launched. In India, epay enabled Google Pay recharge codes on ICICI Bank mobile apps and on the Yes Ban ATM network of ATMs. This was the first-time codes have been available through these methods in India. This diversification of the products and services in the epay segment, position it to expand globally through a number of markets.



The Money Transfer segment offers perhaps the most intriguing growth potential of Euronet’s three segments. During the 3Q 2017 Money Transfer added 19 new correspondents in 17 countries. One of the strategic developments during the 3Q 2017 was the launch of remittances to Cuba. Euronet’s Ria business is only the second major money transfer company to offer these services in Cuba. Cuba’s remittance market is currently valued at \$3.5B according to the Havana Consulting Group. Much of this market is concentrated in informal channels and due to Ria being a highly respected and reliable money transfer business, there is immense potential for Ria to break into this market. Money Transfer also formed relationships with two cash remittance payout services in India over the 3Q 2017. These agreements are poised to add 9000 additional locations in India. India’s money transfer market is valued at \$6B. Overtime management expects to continue

to expand into this market through the signing of agents and marketing initiatives. Thailand also offers the Money Transfer segment tremendous room to grow into an emerging market. Ria recently signed an agreement with the Government Savings Bank of Thailand which will add 1100 locations in Thailand. Currently, Thailand is a \$6.3B receive market according to World Bank. Euronet is currently continuing to invest in digital growth strategies as well for the Money Transfer segment. During the 3Q 2017, Euronet launched MyRia, a mobile app that partners with Spanish supermarket chain Dia. Through this app, customers are able to transfer money between users on this apps platform and when at Dia grocery stores, customers are able to show a bar code to the cashier and money will be directly transferred to Dia. This agreement adds 2600 locations to Ria’s Spanish network. Digital sourced transactions grew 37% year over year. This is primarily the result of investment and operating focus on digital delivery and customer experience. In the near future, Euronet expects to launch riamoneytransfer.com in the UK. Euronet is also looking at expanding this service to other countries over the next 12 months. xe has been able to convert four times as many new costumers to the HiFX platform, which will result in earnings growth over the next few quarter, coupled with the xe money transfer app, there is strong growth potential for the xe business as well. The continued strong growth in this segment will allow management to explore more direct money transfer agreements such as the Walmart-2-Walmart agreement.

\$10,000 will get you		+ Fees
HiFX	€9,319	No Fees
PayPal	€9,184	\$4.99
Chase	€9,140	\$25
Citibank	€9,124	\$35
BofA	€9,093	\$35

Recent Acquisitions:

Euronet management has a long history of prioritizing acquisitions as growth strategy. For FY 2016, Operating Cash Flow and Free Cash Flow were reported to be the highest in the company’s history at \$368.2M and \$280.8M respectively. The company also has excess cash and cash equivalents valued at \$1.062B while total debt is \$744M. This capital allocation gives Euronet the opportunity to continue to evaluate companies to add to their portfolio of businesses and services. The most recent acquisition by Euronet was the purchase of YourCash Europe Limited, a UK based ATM operator with approximately 5000 ATMs across the UK, Netherlands, Belgium, and Ireland. This acquisition provides Euronet with additional expertise in key Western European markets and access to retailers in the UK Euronet was previously not exposed to. Euronet purchased YourCash for \$62.2M in cash. In 2015, Euronet made to significant acquisitions in the purchase of xe and IME. In July of 2015, Euronet completed the acquisition of all of the capital stock of xe Corporation. xe operates xe.com and x-rates.com websites, which provide currency related data and international payment services. The acquisition of xe gives Euronet a substantial presence in the

digital space where Euronet can offer their products through an internationally recognized brand in a cost effective manner. This acquisition cost Euronet \$79.9M in cash as well as 642,912 shares of Euronet common stock. The second major acquisition made by Euronet in 2015 was the acquisition of IME. IME is a leading Malaysian-based money transfer provider that gives Euronet the opportunity to expand the Money Transfer Segment into Asian and Middle Eastern Send markets. Euronet purchased IME for \$78.9M in cash along with 49,941 shares of Euronet common stock. These selected acquisitions are expected to contribute to the continued growth of Euronet's Money Transfer and EFT segments in markets that are currently underserved by Euronet.



- Rapid expansion of Euronet's Money Transfer segment growing from
 - \$205 million in pro forma revenue to \$802 million, representing a CAGR of revenue of 16%, since 2007
- Integrated several acquisitions in the money transfer industry (Ria, IME, HiFX, and XE)

Management Overview:

Euronet Worldwide was founded in 1994 in Budapest, Hungary as Bank Access 24 with the aim of establishing the first independent ATM network in Central and Eastern Europe. Euronet is now headquartered in Leawood, Kansas. Euronet was co-founded by Michael J. Brown and he has served as the CEO since the company's inception. The majority of the management of Euronet has been tenured for over ten years. This signals that shareholders of Euronet have been satisfied with the performance that the executive management team has been responsible for over the long term as no major core changes have occurred. Euronet recently hired two Executive VP's and CEO of specific segments. Kevin J. Caponecchi and Nikos Fountas were hired in December of 2014 as Executive VP and CEO of the epay segment and EFT Europe segments respectively. The EFT segment has grown substantially since Mr. Fountas hiring. The number of ATMs has increased by nearly 13,000 units under his tenure and year over year revenue, operating margin, and EBITDA margin have all increased by at least 25% year over year. Currently, Michael J. Brown is the highest salaried employee of Euronet whose annual compensation is \$6,413,811, which in my opinion is warranted based on the company's performance since his tenure and compared to peers within the industry. The longevity of the executive management team signals the confidence shareholders have in management to continue to grow the business at rates either corresponding with market or greater than market growth rates. Over the course of the last several years, the acquisitions that have been made by management have been successful in contributing to the growth of the business. As long as management continues to find business that will aid in value creation, this strategy seems to be beneficial to the company and shows the competence of the management team.

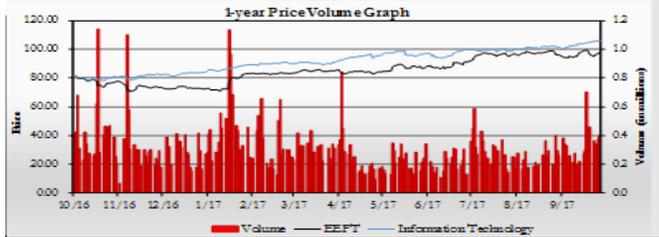
Name	Title	Board	Age	Tenure	Start
1) Michael J Brown	Chairman/Pres/CEO/Co-Found...	✓	60 *	16.1	09/10/2001
2) Rick L Weller	Exec VP/CFO		59 *	14.9	11/2002
3) Juan C Bianchi	Exec VP/CEO:Money Transfer		46 *	10.5	04/2007
4) Jeffrey B Newman	Exec VP/Secy/General Counsel		62 *	16.1	09/10/2001
5) Kevin J Caponecchi	Exec VP & CEO:epay Software		50 *	2.8	12/16/2014
6) Nikos Fountas	Exec VP & CEO:EFT Europe		53 *	2.8	12/10/2014

Conclusion:

Based on current market conditions and the growth potential of Euronet into emerging markets across the globe, I believe Euronet is a buy. Euronet management has consistently shown that they are able to grow their business through numerous strategic acquisitions that provide value and diversity to the company's business portfolio. The EFT and Money Transfer markets are poised to continue their upwards growth potential over the next five years and I believe Euronets expansion into new markets and the signing of contracts with banks and other retailers in the money transfer market will push Euronets share price higher in the next one to two years. The digitization of payments and money transfers is expected to continue to dominate this market space. As Euronet shifts their solutions into this space, there is opportunity for continued growth of this company in all three of their operating segments.

Euronet Worldwide, Inc. (EFT) **CENTER FOR GLOBAL FINANCIAL STUDIES** **BULLISH**

Analysis by Connor Morelli **Current Price: \$98.55** **Intrinsic Value: \$119.51** **Target 1 year Return: 21.11%**
 10/27/2017 **Dividend Yield: 0.1%** **Target Price: \$119.26** **Probability of Price Increase: 96%**



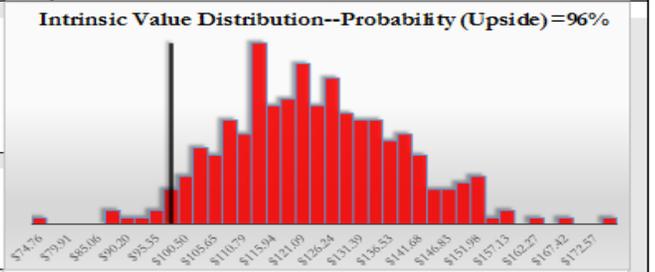
Description: Euronet Worldwide, Inc. provides payment and transaction processing and distribution solutions to financial institutions, retailers, service providers, and individual consumers worldwide.

General Information:
 Sector: Information Technology
 Industry: IT Services
 Last Guidance: November 3, 2015
 Next earnings date: February 9, 2018
 Estimated Country Risk Premium: 5.83%
 Effective Tax rate: 24%
 Effective Operating Tax rate: 23%

Market Data	
Market Capitalization	\$5,177.20
Daily volume (mil)	0.37
Shares outstanding (mil)	52.53
Diluted shares outstanding (mil)	54.53
% shares held by institutions	84%
% shares held by investment Managers	93%
% shares held by hedge funds	5%
% shares held by insiders	4.40%
Short interest	3.70%
Days to cover short interest	6.51
52-week high	\$101.07
52-week low	\$70.51
Volatility	26.47%

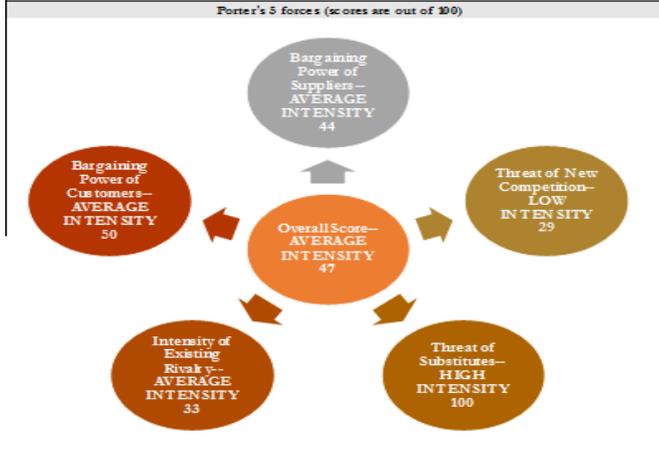
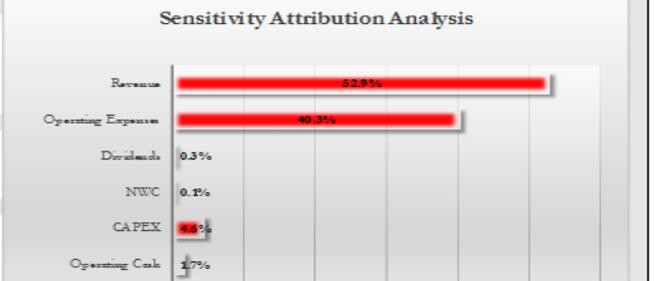
Past Earning Surprises	
Quarter ending	Revenue
9/30/2016	-3.07%
12/31/2016	0.94%
3/31/2017	-0.13%
6/30/2017	3.40%
9/30/2017	3.24%
Mean	0.50%
Standard error	1.6%

EBITDA		Peers	
9/30/2016	-3.50%	DST Systems, Inc.	
12/31/2016	-11.43%	Fiserv, Inc.	
3/31/2017	-14.62%	Global Payments Inc.	
6/30/2017	-10.44%	JPMorgan Chase & Co.	
9/30/2017	-4.51%	MoneyGram International, Inc.	
Mean	-8.90%	The Western Union Company	
Standard error	2.1%	SS&C Technologies Holdings, Inc.	
		Total System Services, Inc.	



Management		Position		Total compensations growth		Total return to shareholders	
Euronet, Michael	Founder, Chairman, Chief Executive Officer	10.98%	per annum over 5y	9.29%	per annum over 5y		
Waller, Rob	Chief Financial Officer, Chief Operating Officer	6.23%	per annum over 5y	9.29%	per annum over 5y		
Capozzoli, Kevin	Executive Vice President and Chief Technology Officer	1.19%	per annum over 5y	9.29%	per annum over 5y		
Essels, Juma	Executive Vice President and Chief Technology Officer	4.86%	per annum over 4y	22.1%	per annum over 4y		
Foucault, Nikos	Executive Vice President and Chief Technology Officer	6.07%	per annum over 5y	9.29%	per annum over 5y		
Evans, Martin	Chief Technology Officer	N/A		N/A			

Profitability		EEFT (LTM)		Peers' Median (LTM)	
Return on Capital (GAAP)	28.3%	22.08%	22.81%		
Operating Margin	10%	7.95%	16.99%		
Revenue/Capital (GAAP)	2.81	2.78	1.34		
ROE (GAAP)	23.2%	13.9%	14.9%		
Net margin	9.6%	6.1%	9.4%		
Revenue/Book Value (GAAP)	2.41	2.61	1.58		



Period	Revenue Growth Forecast	NO PAT Margin Forecast	Revenue to Capital Forecast
Base Year	14%	14.4%	1.14
9/30/2018	8%	1.2%	0.76
9/30/2019	11%	2.9%	1.00
9/30/2020	11%	3.7%	1.02
9/30/2021	10%	7.7%	1.02
9/30/2022	9%	14.1%	0.99
9/30/2023	8%	13.6%	0.91
9/30/2024	7%	13.2%	0.84
9/30/2025	6%	12.7%	0.79
9/30/2026	6%	12.2%	0.74
9/30/2027	5%	11.7%	0.71
Continuing Period	4%	11.2%	0.67

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	16.4%	6.9%	\$121.31
9/30/2018	0.9%	6.0%	\$120.01
9/30/2019	2.9%	6.3%	\$131.05
9/30/2020	3.7%	6.5%	\$142.40
9/30/2021	7.9%	6.7%	\$153.96
9/30/2022	14.0%	7.2%	\$166.29
9/30/2023	12.4%	7.4%	\$182.43
9/30/2024	11.1%	7.6%	\$193.48
9/30/2025	10.0%	7.9%	\$209.00
9/30/2026	9.1%	8.1%	\$223.06
9/30/2027	8.3%	8.4%	\$237.76
Continuing Period	7.5%	8.6%	