



02/13/2021 - Foley Trasimene Acquisition Corp (BFT, BFT/W, BFT.U): Leading The Way in Digital Commerce/iGaming

Operators,

VIX closed at 20, POWW bought GunBroker.com, XONE does nothing but churn higher. Another wild week in the books.

This weekend we're looking at a new SPAC that could quickly make its way into the MO portfolio: **Foley Trasimene Acquisition Corp (BFT)**, which merged with Paysafe.

Paysafe is a global leader in digital commerce, digital wallets, and e-payments. Its CEO has a long history of creating multi-billion-dollar value for his companies and shareholders. Plus, Paysafe is a global leader in the fastest-growing segment of digital commerce: iGaming.

You can currently buy Paysafe for ~28x this year's estimated EBITDA.

Let's dive in.

Paysafe: Leading The Digital Commerce Wave

Paysafe is a global leader in digital commerce. They offer three main products:

- Digital Wallets
- eCash
- Integrated Processing

Digital Wallets

Let's start with digital wallets. The company is #2 globally in digital wallets with 3.8M active users and ~\$1B in deposits. Digital wallets enable users to upload, store, withdraw, and pay for items through a virtual account. Paysafe's digital wallets will process \$23B in transaction volume this year.

Paysafe estimated a ~1.9% take rate on transaction volume, which gets the ~\$440M in revenue. And given the low incremental cost to bring on a new digital wallet customer, ~82% of that revenue flows through gross profit (\$361M).

eCash

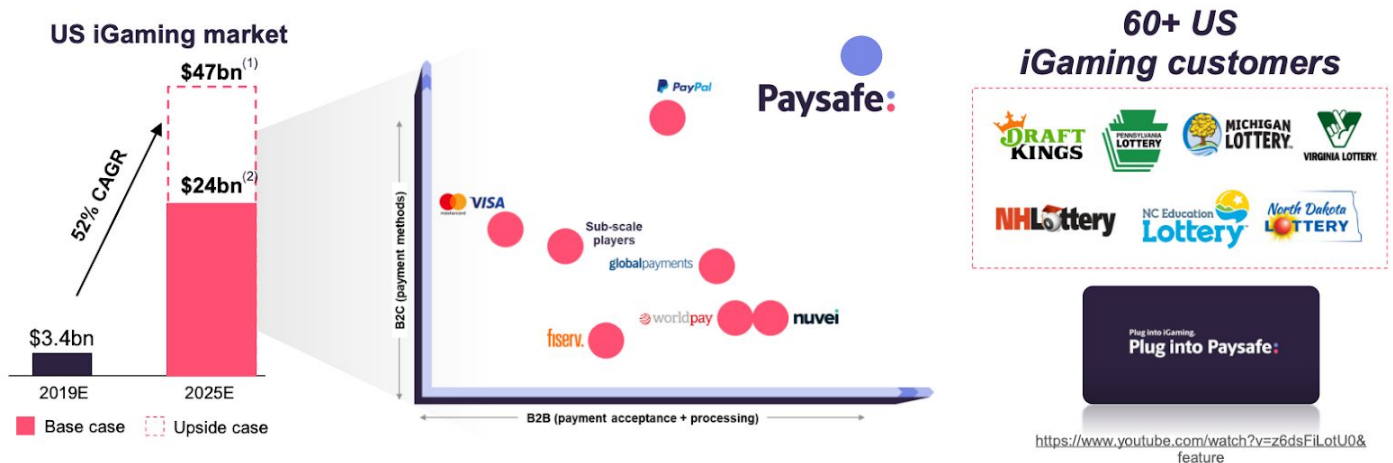
Next, there's eCash. eCash is one of the most exciting products in Paysafe's arsenal. With 12M active users and 650K+ distribution points, eCash is the industry leader in iGaming payments. eCash allows gamers/mobile users to conduct in-app or in-game purchases via digital currency. For example, users can buy new Fortnite

character skins with Paysafe's eCash. Another common application is sports betting. Paysafe's eCash integration allows online sports bettors (think DraftKings) to accept various payment forms on their website.

Paysafe estimates they'll process ~\$5B in transactions through eCash next year. Take rates in their eCash segment are *much higher* than digital wallets: **6.8%**. That gets us ~\$320M in revenue. eCash has lower gross margins at 53%.

They don't specify *why* margins are lower in this segment, but one guess would be that there are revenue-sharing agreements with various gaming customers (like Fortnite, twitch, etc.). Either way, 53% gross margin gets us \$170M in gross profit.

It's important to note that Paysafe **dominates** the iGaming market. They're the global leader with over 1,000 operators in Europe/Rest of the world. Every Canadian iGaming website switched to Paysafe's services when they launched in 2010. Finally, Paysafe covers ~75% of the US market, serving 60+ iGaming operators.



The reason eCash and iGaming is Paysafe's most exciting segment lies in the industry's rapid growth. As of 2019, the US iGaming market was a \$3.4B industry. By 2024, Paysafe management expects US iGaming to reach \$24B in a *base case* and \$47B in an *upside case*. That's a 52% CAGR.

Integrated Processing

Finally, there's the Integrated Processing (IP) segment. Paysafe's IP segment is the fourth-largest independent merchant acquirer in the US. Through its IP, Paysafe offers Point-of-Sale (POS) and eCommerce solutions to small and medium-sized businesses (SMBs). The solutions allow companies to accept digital payments across various platforms.

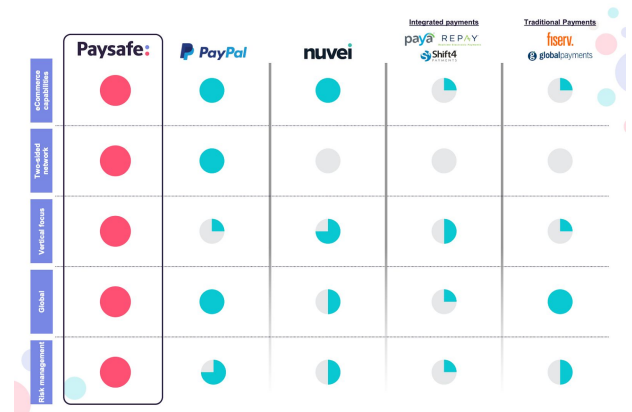
As of September 2020, the IP segment had 250K+ merchants and 150+ Independent Software Vendors (ISVs). Paysafe estimates that in 2021 IP will do ~\$75B in transaction volume. At a 1% take rate (industry average = 0.8%) that gets us \$764M in revenue. 57% of those revenues flow through to gross profit, roughly \$432M.

These three segments should generate ~\$103B in transaction volume with a 1.5% average take rate. That gets us \$1.52B in revenue and \$961M in gross profit (63% GM). IP provides 50% of total revenue, with digital wallet (29%) and eCash (21%) filling in the remaining half.

Solving The Two-Sided Marketplace

Paysafe solves the two-sided marketplace problem by providing solutions to both consumers and businesses. The merchants love Paysafe because of its seamless, full-stack vertical integration and its ability to accept all forms of digital payment from its customers.

And consumers love it because they can use their Alternative Payment Methods (APMs) through a proprietary network of digital wallet solutions. They can also deposit, withdraw, pay, and transfer money to eCash accounts to pay for digital goods in video games or bet on sports.

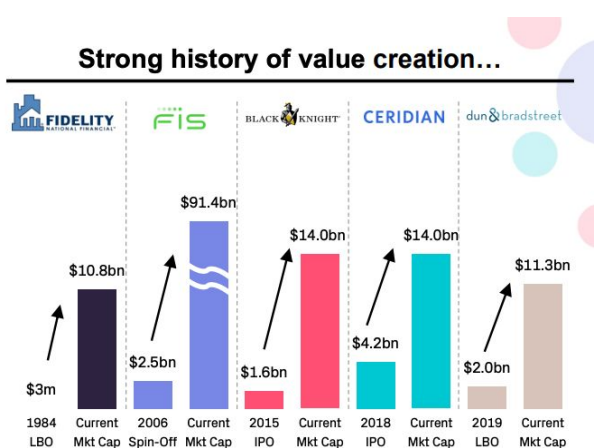


This two-sided marketplace solution is crucial because it reduces the number of competitors down to one: **PayPal**. Other solutions (Nuvei, Repay, Shift4 Payments, etc.) provide *some* shared capabilities. But none of them solve the marketplace issue.

A Founder With History of Value Creation

A great founder/CEO is a must-have in any SPAC merger. The better the founder/CEO, the better the chances the merger *creates* value for its shareholders. BFT has one of the best executives in the game in William Foley.

Foley has a history of creating *multi-billion-dollar* value for shareholders over the last few decades. He's led **five** separate multi-billion dollar public market companies. He also founded Fidelity National Financial (FNF) and built it into the largest title insurance company, growing FNF from \$3B in equity value to \$11B.



He bought, spun-out, and IPO'd a few other businesses that have gone on to generate **monster** mark-to-market value returns:

- FIS: \$2.5B spin-off to \$91.4B market cap
- Black Knight: \$1.6B IPO to \$14B market cap
- Ceridian: \$4.2B IPO in 2018 to \$14B market cap
- Dun & Bradstreet: \$2B LBO in 2019 to \$9B market cap

Paysafe is a perfect business for someone like Foley. In some ways, Paysafe feels like Fidelity National Information Services (FIS). In 2003, Foley bought Alltel Systems for \$1B and changed the name to FIS. Foley used FIS's platform/tech stack to consolidate a highly fragmented industry and improve margins.

Foley's strategy worked wonders. The company went from \$14/share in 2003 to \$135/share today. That's a cool 938% return. Almost good enough for Chris Mayer's 100-Bagger book.

It makes sense why Foley chose Paysafe as his next value-creating vehicle. The company operates in a highly-fragmented industry. It generates strong top-line growth with robust gross/EBITDA margins. Moreover, Paysafe has very few Capex or balance sheet requirements. That allows the company to generate ~80% cash conversion margins.

Where Are The Future Growth Channels?

Digital commerce is a **big** business with **massive** tailwinds at its back. Digital payments/commerce will grow from four primary demand sources:

1. Millennials/Sophisticated Digital Consumers
2. Gamers
3. Gen Z
4. Underbanked Consumers

The way we pay for things in ten years will look **nothing** like the way we pay for something now. We see this overseas, particularly in Africa, where digital commerce is the norm. In Africa, consumers pay for retail goods through their mobile phones, sending money directly to the store in a seamless, 100% digital process.

iGaming will be the leading driver of revenue growth over the next decade as Paysafe penetrates ancillary verticals like:

- Education
- Online remittance
- Gas/Fuel
- Rental
- Property management
- Health & Wellness

Paysafe can also leverage its existing network of IP users to cross-sell existing products like digital wallets or eCash. Or they could cross-sell the other way, providing digital wallets to its SMB Integrated Processing customers on the merchant marketplace.

What's Paysafe Worth In 2023?

The company's provided revenue and EBITDA guidance to 2023 in their investor pitch deck. Management assumes transaction volumes will grow at a 15% CAGR till 2023, leaving us with \$135B in total dollar volume. They're also assuming take rate compression from 1.5% to 1.39% by 2023.

At a 1.39% take rate, Paysafe would generate \$1.88B in top-line revenue. If we assume historical 63% gross margins on that revenue, we get \$1.19B in gross profit.

Paysafe should improve EBITDA margins over time as they reduce operating cost growth while expanding organic revenue growth. For example, adjusted operating expense as a percentage of revenue was 30% in 2019. The company expects this percentage to fall to 28% by 2023, increasing EBITDA margins to 36%. A 36% EBITDA margin on 2023 revenue gets us \$677M in EBITDA

What would a reasonable buyer pay for Paysafe in 2023 at these figures? Let's look at a few comparables. The company notes a few businesses to compare multiples: Shift4 Payments, Repay, Paya, Nuvei, and PayPal.

The eCommerce/Focus payment companies trade at an average 35x 2021 EV/EBITDA multiple. Integrated payments companies trade ~31x 2021 EV/EBITDA. Paysafe estimates 2021 EBITDA of \$501M. That means we can buy the business for ~28x 2021 EV/EBITDA. BFT will own 22.5% of Paysafe post-merger. This gives Paysafe a market cap of roughly \$14B.

Concluding Thoughts

Digital commerce is a fierce business with numerous competitors in a highly fragmented industry. A few significant risks to the bull thesis include an inability to grow iGaming market share, loss of merchants on their IP platform, increased leverage ratio (above 3x), and meaningful take rate compression.

Paysafe is at the center of a massive change in consumer online spending behavior. The company brings otherwise inaccessible consumers to high growth digital merchants. They're also at the forefront of the iGaming industry and will provide the necessary rails for sports bettors and online games to accept digital payments.

There's a lot we don't know about the future of the digital commerce and iGaming industry. But what we *do know* is that this business will generate significantly more revenue in five years than it does now because it will process significantly more digital payments in five years than it does now.