

Computer & IT Services Weekly

July 14th: IT/BPO Services Data "Flurry" – What to Make of It?

■ **Upcoming Events** — (1) July 16th trip with ACN's Steve Rohleder. (2) Citi Tech conference in NYC on Sep 3rd-4th. (3) Our FinTech Conference at the Four Seasons in Boston on Nov 7th.

■ **Flurry of IT/BPO Data Points – Our Takeaways Are...** — Details on these data points are inside. Our takeaways: Offshore Outsourcing is still strong; BPO is resilient and in much better shape than ITO; overall, buyers are extremely disciplined and not really doing more than contracted for – there isn't much "extra" to go around between the legacy work, transformational work and regulatory work; still, companies are investing in new technology, just that the buyers are different – specifically, digital / mobile / analytics / e-commerce are areas of strength; EPAM, WNS and CTSH are doing quite well on a fundamental standpoint.

■ **Recent IT Services Reports** — (1) Can IBM Grow Revenues Again? [The Debate on IBM's Growth](#) (2) Immigration Reform: [IT Services Impact from US Immigration Bill](#) (3) Offshore IT Services Market Evolution: [Changing Face of IT Services](#) (4) IT Services Share Shift Analyses: [1Q13 Share Shift](#) and [4Q12 Share Shift](#) (5) 2Q13 CIO survey, [click here](#) (6) 2013 IT / BPO Market Evolution: [click here](#)

■ **Recent Processor Reports** — (1) GPS report on Mobile Payments: [Eight Crucial Questions, Answered](#); (2) Cross-Border Analysis: [click here](#) (3) Acquirer Impact Chase-Visa deal: [click here](#); (4) 2013 Processor Preview: [Processors - Go for Growth](#)

■ **What's In This Report?** — In our editorial, we provide a stepped-back view of the recent flurry of IT/BPO data points. Following that, the "Our Take" section has our quick takes on this week's economic and stock news items. We also provide stock price performance charts and comments; and our comp sheets.

Ashwin Shirvaikar, CFA

+1-212-816-0822

ashwin.shirvaikar@citi.com

Philip Stiller, CFA

+1-212-816-4494

philip.stiller@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Flurry of IT/BPO Data – Our Takeaways Are...

We have had a flurry of IT/BPO data points recently and thought it would be useful to step back and take a look at what they might mean for IT/BPO Services names.

Our takeaways are as follows:

1. There is steady demand for lower-cost resources (offshore outsourcing).
2. There is good demand for transformative work – particularly the SMAC stack (Social / Mobile / Analytics / Cloud). Our belief is this demand partly flows through CxOs other than the CIO.
3. BPO demand is resilient.
4. ITO demand is weak, although it seems there are renewals that keep the overall "bookings" number high.
5. Overall, the IT/BPO buyer remains highly disciplined and unwilling to spend beyond what is planned.
6. Buy EPAM and WNS. Beyond this, investors should consider a "Core IT" name such as ACN, CTSH or IBM. Longer-term investors can consider EXLS as well.

Specifically, we note the following data-points recently.

For our CIO Survey, [click here](#)

1. **Citi's 2Q13 CIO Survey** – Overall growth rate tweaked down – But most responses were indicative of stability and resilience in the approved level of spending – There is evidence of new project starts, which is consistent with investments in mobility / digital / analytics – Pricing is stable – CIO desire to send more work to lower cost regions is strong – Vendor consolidation is also a consistent influence – EPAM, CTSH and WNS were the best "wallet share" gainers in our coverage.

For our CIO Panel note, [click here](#)

2. **Citi's 2Q13 CIO Panel Call** – Our panel actually indicated a desire to bring through incremental "growth spending" If they got a chance – Each panelist indicated they were investing in digital / mobile / social / analytics – All three panelists supported the need for a solid level of offshore outsourcing (in one case through a captive).

For our INFY takeaways, [click here](#)

3. **ISG's Quarterly Survey of RFP-related statistical takeaways** – This was clearly a negative data-point as ISG data indicated one of the weakest quarters of bookings in a long time – BPO did better than ITO – Contract restructuring held relatively steady while new scope took a hit – Smaller contracts declined in number as did the mega-contracts, while mid-range contracts did better.

For our EPAM takeaways, [click here](#)

4. **INFY earnings** – Relative to expectations, revenues were better – clearly trends have been volatile over the past couple of quarters and visibility continues to be low – it is quite clear INFY (INFY.BO; Rs2,802.75; 1) faces a multi-year turnaround.
5. **Our recent meeting with EPAM** – Demand trends remain quite solid – this is based on strength in areas like e-commerce / digital / mobile / analytics as well as ongoing demand for offshore services.

For our ACN takeaways, [click here](#)

6. **Slightly older, but....ACN and ORCL earnings** – Highlighted a tough revenue conversion environment and specific areas of geo weakness (worsening Europe, weak Japan and Australia) – Weak ERP environment – But solid bookings highlight there is demand for transformative work and offshore outsourcing. (ORCL.K; US\$31.25; 1).

Weekly News-flow for our Sector

Payment Processing Update(s):

1. **Remittances to Bangladesh Decline** – Remittances to Bangladesh totaled \$1.06 billion in June, representing a decline of 1.2% compared with the prior year. For full 2Q13, remittances of \$3.34 billion rose 0.8% compared with the prior year, down from 1Q13's growth rate of 7.4%.
2. **First Data Releases Consumer Data for June 2013** – First Data Corporation released First Data SpendTrend analysis for June 1-28, 2013. Overall dollar volume grew 7.1% in June, led by growth in dollar volumes at garden equipment dealers and building materials. By spending type, growth was strongest in Credit.
3. **FIS Enables Mobile Payments for Merchants** – MCX members will use FIS to power its mobile commerce payments network, which will enable consumers to pay using Smartphone or tablet at the point of sale. MCX members account for an estimated \$1 trillion in annual sales of the nation's leading merchants including Wal-Mart, 7-Eleven, and Bed Bath & Beyond.
4. **GPN Signs Agreement with ShopKeep for POS System** – Global Payments announced an agreement with ShopKeep to offer an iPad POS solution to Global Payments' merchants throughout the United States. The system allows merchants to facilitate transactions and manage sales, inventory, staff and customers using an iPad. ShopKeep is a leader in iPad point-of-sale solutions for brick and mortar businesses.

Note: FIS will provide the switch and the settlement, but not the NYCE network itself. FIS will collect a per-click fee. Contract size indeterminate as it depends on pickup.

Payroll Processing Update(s):

1. **PAYX Declares 6% Increase in Quarterly Dividend** – PAYX declared a \$0.02 increase in its quarterly dividend. The dividend, \$.35 per share, is payable August 15, 2013 to shareholders of record August 1, 2013.

BPO Services Update(s):

1. **EXLS Partners with GT Nexus** – EXL partnered with GT Nexus to provide platform-based business process solutions to the global transportation and logistics industry. The solution will give companies real-time insight into their global supply chains. GT Nexus is a leading operator for cloud-based business network solutions and for global trade and supply chain management execution platform.

Consulting & IT Services Update(s):

1. **ACN Signs Agreement With Predixion for Analytics Solution** – Accenture entered into an agreement with Predixion Software, a predictive analytics software company, to jointly develop advanced analytic solutions for businesses in industries such as life sciences. This solution will reduce the time and cost of decision making by embedding predictive analytics models into existing enterprise software application.
2. **ACN Completes Acquity Group Acquisition** – Accenture completed its acquisition of Acquity Group, a digital marketing and technology company. Accenture believes the \$316 million deal will strengthen and expand the broad range of digital marketing services it provides clients through Accenture Interactive.

3. **ACN Launches Life Science R&D Services** – Accenture launched Accenture Accelerated R&D Services, a service aimed to help life sciences companies bring drugs to market faster, at less cost and with reduced execution risks using a pay-for-performance business model for business process outsourcing. The service utilizes cloud computing, mobility and analytics to help clients modernize R&D and accelerate new products to market. The company invested over \$200 million for this service.
4. **ACN Signs Deal with University of Michigan** – Accenture will implement a new Shared Services Center at the University of Michigan, designed to improve operational efficiency. The estimated annual operation cost savings is approximately \$17 million. Targeted to launch in 2014, the Shared Services Center will provide finance and human resources services for the university.
5. **ACN Launches Patient Navigation Program** – Accenture, along with Highmark Foundation, partnered with the Jameson Health System Hospitals to pilot a patient navigator program. The system benefits both the hospital and the patients, by reducing appointment “no-show” rates, reducing unnecessary emergency room visits, and increasing access to high-quality care among low-income and uninsured populations.
6. **INFY Reports 1Q14 Results** – Infosys reported a 13.6% y/y increase in revenue that modestly beat expectations from strength in manufacturing, retail and financial services. EPS of \$.73 was in line with consensus, while INFY maintained its full year revenue guidance of 6-10%.

Read more in US and India INFY notes -
[click here](#) and [click here](#)

Economic Updates

1. **US – Jobless Claims Rise** – Weekly jobless claims rose 16k to 360k, which was far above the consensus at 337k. The 4-week moving average rose 6k to 351.75k, which is above the previous month's average of 345.75k.
2. **Germany – Industrial Production** – Nation wide industrial production for May in Germany dropped by -1.0%, compared to last month's 2.0% increase. Consensus was at -0.6%.
3. **United Kingdom – Industrial Production** – Industrial production for May in the United Kingdom remained unchanged, compared to last month's -0.1%. Consensus was at 0.2%.

Company Events Calendar (Jul 15– Aug 9)

Figure 1. Company Events Calendar

Date	Time	Company / Topic	Ticker	Event Details
17-Jul-13	4:30 PM ET	IBM	IBM	2Q13 Earnings and Conference Call
17-Jul-13	8:00 AM ET	WNS	WNS	1Q14 Earnings and Conference Call
18-Jul-13	9:30 AM ET	TATA Consultancy	TCS	1Q14 Earnings and Conference Call
18-Jul-13	10:00 AM ET	BlackHawk	HAWK	2Q13 Earnings and Conference Call
23-Jul-13	5:00 PM ET	TSYS	TSS	2Q13 Earnings and Conference Call
24-Jul-13	5:00 PM ET	Visa	V	3Q13 Earnings and Conference Call
25-Jul-13	9:00 AM ET	MoneyGram	MGI	2Q13 Earnings and Conference Call
25-Jul-13	5:00 PM ET	Global Payments	GPN	Fiscal 2013 Earnings and Conference Call
30-Jul-13	8:00 AM ET	ExlService Holdings	EXLS	2Q13 Earnings and Conference Call
30-Jul-13	8:30 AM ET	Alliance Data Systems	ADS	2Q13 Earnings and Conference Call
30-Jul-13	8:30 AM ET	FIS	FIS	2Q13 Earnings and Conference Call
30-Jul-13	8:30 AM ET	Nielsen Holdings	NLSN	2Q13 Earnings and Conference Call
30-Jul-13	8:30 AM ET	Western Union	WU	2Q13 Earnings and Conference Call
30-Jul-13	5:00 PM ET	Fiserv	FISV	2Q13 Earnings and Conference Call
31-Jul-13	9:00 AM ET	Convergys	CVG	2Q13 Earnings and Conference Call
31-Jul-13	9:00 AM ET	MasterCard	MA	2Q13 Earnings and Conference Call
31-Jul-13	5:00 PM ET	Amdocs	DOX	3Q13 Earnings and Conference Call
1-Aug-13	8:30 AM ET	Automatic Data Processing	ADP	Fiscal 2013 Earnings and Conference Call
6-Aug-13	8:00 AM ET	Cognizant	CTSH	2Q13 Earnings and Conference Call
6-Aug-13	4:30 PM ET	Genpact	G	2Q13 Earnings and Conference Call

Source: Citi Research

Sector Stock Price Performance

Figure 2. Computer & IT Services Weekly Stock Price Performance (As of Thursday, July 11, 2013)

Tkr.	Major Market Indices	Close	-1W	-1M	-6M	QTD	YTD	-12M	-3Y	-5Y
	S&P 500	\$1,675.02	4%	3%	14%	4%	17%	25%	55%	35%
	NASDAQ	\$3,578.30	4%	4%	14%	5%	19%	24%	63%	60%
Tkr.	Customer Care/Billing	Close	-1W	-1M	-6M	QTD	YTD	-12M	-3Y	-5Y
DOX	Amdocs	\$38.14	3%	8%	8%	3%	12%	28%	36%	29%
CVG	Convergys	\$19.10	5%	8%	13%	10%	16%	28%	88%	33%
WSTC	West Corp	\$24.39	7%	4%	N/A	10%	N/A	N/A	N/A	N/A
Tkr.	BPO Services	Close	-1W	-1M	-6M	QTD	YTD	-12M	-3Y	-5Y
EPAM	EPAM Systems	\$28.59	11%	11%	42%	5%	58%	88%	N/A	N/A
EXLS	ExlService Holdings	\$30.45	3%	2%	5%	3%	15%	32%	69%	99%
G	Genpact	\$20.77	5%	9%	25%	8%	34%	26%	34%	56%
WNS	WNS Holdings	\$17.38	3%	8%	55%	4%	67%	75%	70%	5%
Tkr.	HR Services	Close	-1W	-1M	-6M	QTD	YTD	-12M	-3Y	-5Y
ADP	Automatic Data Processing	\$71.85	2%	5%	21%	4%	26%	30%	76%	73%
PAYX	Paychex	\$38.89	5%	6%	22%	7%	25%	23%	48%	24%
TW	Towers Watson	\$85.28	5%	13%	47%	4%	52%	42%	111%	59%
Tkr.	Consulting	Close	-1W	-1M	-6M	QTD	YTD	-12M	-3Y	-5Y
ACN	Accenture	\$75.20	3%	-6%	8%	5%	13%	32%	91%	92%
CTSH	Cognizant	\$71.05	10%	10%	-9%	13%	-4%	26%	33%	152%
CSC	Computer Sciences	\$47.70	5%	6%	14%	9%	19%	106%	4%	3%
IBM	IBM	\$192.80	0%	-5%	-1%	1%	1%	4%	51%	58%
NLSN	Nielsen	\$34.26	1%	1%	10%	2%	12%	30%	N/A	N/A
Tkr.	Financial Processing	Close	-1W	-1M	-6M	QTD	YTD	-12M	-3Y	-5Y
ADS	Alliance Data Systems	\$187.61	4%	6%	21%	4%	30%	40%	222%	262%
FIS	Fidelity National Info Services	\$45.35	5%	2%	23%	6%	30%	33%	64%	118%
FISV	Fiserv	\$91.14	4%	5%	10%	4%	15%	28%	97%	94%
FLT	FleetCor Technologies	\$86.65	4%	-1%	53%	7%	62%	143%	N/A	N/A
GPN	Global Payments	\$48.08	3%	1%	-2%	4%	6%	11%	28%	8%
GDOT	Green Dot	\$19.89	5%	4%	43%	0%	63%	-15%	N/A	N/A
HAWK	Blackhawk Network	\$25.67	8%	-3%	N/A	11%	N/A	N/A	N/A	N/A
MA	MasterCard	\$601.02	3%	7%	14%	5%	22%	43%	179%	134%
TSS	Total Systems	\$25.67	4%	11%	8%	5%	20%	8%	78%	17%
PAY	VeriFone Systems	\$17.63	5%	5%	-44%	5%	-41%	-50%	-13%	47%
V	Visa	\$189.96	2%	6%	18%	4%	25%	57%	145%	155%
VNTV	Vantiv	\$27.39	0%	5%	34%	-1%	34%	17%	N/A	N/A
WU	Western Union	\$17.41	3%	5%	26%	2%	28%	4%	10%	-28%
WEX	WEX Corp.	\$84.63	7%	12%	9%	10%	12%	37%	164%	265%

Source: FactSet and Citi Research

Citi Research IT & BPO, Consulting, and Analytics Comp Sheet

As of Thursday, July 11, 2013

Figure 3. Consolidated Financial Statistics (\$ in millions, except per-share data)

EPS & Revenues				Calendar EPS				EPS Growth				Revenues				Revenue Growth			
	Ticker	Rating	MktCap	2011	2012	2013E	2014E	2011	2012	2013E	2014E	2011	2012	2013E	2014E	2011	2012	2013E	2014E
Accenture	ACN	1	\$53,767	\$3.63	\$3.95	\$4.31	\$4.74	27%	9%	9%	10%	\$26,789	\$28,098	\$28,724	\$30,214	19%	5%	2%	5%
Amdocs Limited	DOX	1	6,212	2.45	2.81	3.01	3.28	7%	14%	7%	9%	3,210	3,266	3,398	3,583	6%	2%	4%	5%
Cognizant Technology Solution	CTSH	1	21,683	2.85	3.44	4.04	4.77	20%	21%	18%	18%	6,121	7,346	8,752	10,371	33%	20%	19%	19%
Computer Sciences Corp.	CSC	2H	7,400	4.38	2.23	3.80	3.96	-17%	-49%	70%	4%	16,211	15,706	14,869	15,250	0%	-3%	-5%	3%
Convergys Corporation	CVG	1	2,107	1.03	0.92	1.09	1.20	3%	-11%	18%	11%	2,262	2,005	2,055	2,147	3%	-11%	3%	4%
EPAM Systems	EPAM	1	1,329	2.66	1.41	1.57	1.87	45%	-47%	11%	19%	335	434	542	667	51%	30%	25%	23%
EXLServe Holdings, Inc.	EXLS	1	1,027	1.39	1.58	1.83	2.17	29%	14%	16%	19%	361	443	499	579	43%	23%	13%	16%
Genpact	G	2	4,852	0.98	0.96	1.02	1.18	32%	-1%	6%	16%	1,600	1,902	2,183	2,486	27%	19%	15%	14%
IBM*	IBM	1	216,707	13.49	15.30	16.71	18.77	15%	13%	9%	12%	106,917	104,507	104,738	109,641	7%	-2%	0%	5%
Nielsen	NLSN	1	12,990	1.61	1.87	2.15	2.38	69%	17%	14%	11%	5,507	5,590	5,830	6,114	7%	2%	4%	5%
Towers Watson	TW	1	6,061	4.97	5.26	5.70	6.18	29%	6%	8%	8%	3,407	3,508	3,687	3,871	10%	3%	5%	5%
West Corp	WSTC	1	1,594	3.02	3.05	2.75	2.97	189%	1%	-10%	8%	2,491	2,638	2,718	2,826	4%	6%	3%	4%
WNS Holding	WNS	1	905	1.15	0.99	1.15	1.33	7%	-14%	16%	15%	390	423	466	522	5%	9%	10%	12%

Source: Company Reports and Citi Research Estimates. *IBM is jointly covered with Citi Research analyst Jim Suva.

Figure 4. Valuation Metrics

Valuation				P/E				PEG			PEG (using NOPAT earnings)			EV/EBITDA			
	FYE	Price	Target	2011	2012	2013E	2014E	FY11/14 GR	2012	2013E	FY11/14 GR	2012	2013E	2011	2012	2013E	2014E
Accenture	Aug	\$75.20	\$84.50	20.7x	19.1x	17.5x	15.9x	10%	1.9x	1.7x	6%	3.1x	2.8x	11.5x	10.6x	10.2x	9.5x
Amdocs Limited	Sep	38.14	41.00	15.5x	13.6x	12.7x	11.6x	11%	1.2x	1.1x	5%	2.6x	2.5x	8.3x	8.0x	7.6x	7.1x
Cognizant Technology Solution	Dec	71.05	90.00	25.0x	20.7x	17.6x	14.9x	19%	1.1x	0.9x	18%	1.1x	1.0x	15.1x	12.5x	10.7x	9.0x
Computer Sciences Corp.	Mar	47.70	47.00	10.9x	21.4x	12.5x	12.1x	-8%	NA	NA	1%	15.2x	8.9x	4.3x	4.5x	4.2x	3.7x
Convergys Corporation	Dec	19.10	19.50	18.6x	20.8x	17.6x	15.9x	5%	3.9x	3.3x	NA	NA	NA	6.2x	7.0x	6.6x	6.2x
EPAM Systems	Dec	28.59	29.00	10.7x	20.2x	18.2x	15.3x	-11%	NA	NA	16%	1.2x	1.1x	18.1x	14.5x	12.4x	10.0x
EXLServe Holdings, Inc.	Dec	30.45	35.00	21.9x	19.2x	16.6x	14.0x	16%	1.2x	1.0x	25%	0.8x	0.7x	12.6x	10.0x	9.0x	7.5x
Genpact	Dec	20.77	N/A	21.3x	21.6x	20.4x	17.7x	6%	3.4x	3.2x	22%	1.0x	0.9x	17.3x	14.6x	13.2x	12.0x
IBM*	Dec	192.80	250.00	14.3x	12.6x	11.5x	10.3x	12%	1.1x	1.0x	8%	1.5x	1.4x	9.3x	9.0x	8.3x	7.6x
Nielsen	Dec	34.26	38.00	21.3x	18.3x	16.0x	14.4x	14%	1.3x	1.1x	3%	6.6x	5.7x	12.6x	12.1x	11.2x	10.6x
Towers Watson	Jun	85.28	91.00	17.1x	16.2x	15.0x	13.8x	10%	1.7x	1.5x	5%	3.6x	3.3x	8.6x	8.7x	8.1x	7.6x
West Corp	Dec	24.39	25.00	8.1x	8.0x	8.9x	8.2x	-1%	NA	NA	2%	3.8x	4.2x	7.3x	7.0x	7.1x	6.9x
WNS Holding	Mar	17.38	21.00	15.1x	17.5x	15.1x	13.1x	0%	NA	NA	3%	5.6x	4.8x	11.6x	12.2x	11.0x	9.5x
Averages				17.0x	17.6x	15.4x	13.6x	6%	1.9x	1.7x	10%	3.8x	3.1x	11.0x	10.1x	9.2x	8.2x

Source: Company Reports and Citi Research Estimates. *IBM is jointly covered with Citi Research analyst Jim Suva.

Citi Research Processors Comp Sheet

As of Thursday, July 11, 2013

Figure 5. Consolidated Financial Statistics (\$ in millions, except per-share data)

EPS & Revenues				Calendar EPS				EPS Growth				Revenues				Revenue Growth			
	Ticker	Rating	MktCap	2011	2012	2013E	2014E	2011	2012	2013E	2014E	2011	2012	2013E	2014E	2011	2012	2013E	2014E
Alliance Data Systems^	ADS	2	12,626	7.63	8.71	10.25	12.50	30%	14%	18%	22%	3,173	3,641	4,274	4,629	14%	15%	17%	8%
Automatic Data Processing	ADP	2	34,955	2.61	2.78	3.02	3.32	9%	6%	9%	10%	10,326	10,920	11,729	12,622	11%	6%	7%	8%
Blackhawk Network	HAWK	2	1,307	0.76	0.99	1.07	1.36	38%	30%	8%	27%	752	959	1,207	1,467	30%	28%	26%	21%
Fidelity National Info Services	FIS	1	13,401	2.22	2.50	2.84	3.19	11%	13%	14%	12%	5,626	5,808	6,096	6,430	6%	3%	5%	5%
Fiserv	FISV	2	12,313	4.58	5.13	5.96	6.65	13%	12%	16%	12%	4,337	4,471	4,937	5,160	5%	3%	10%	5%
FleetCor Technologies^	FLT	1	7,275	2.17	2.99	3.90	4.50	22%	38%	30%	15%	520	708	847	938	20%	36%	20%	11%
Global Payments	GPN	1	3,766	3.35	3.61	3.90	4.33	19%	8%	8%	11%	2,076	2,325	2,521	2,741	20%	12%	8%	9%
Green Dot	GDOT	2	878	1.55	1.37	1.17	1.25	N/A	-11%	-15%	7%	484	555	554	598	N/A	15%	0%	8%
MasterCard*	MA	1	73,865	18.71	22.04	25.44	30.00	33%	18%	15%	18%	6,714	7,391	8,166	9,120	21%	10%	10%	12%
Paychex	PAYX	3	14,230	1.49	1.55	1.61	1.77	6%	4%	4%	10%	2,176	2,277	2,398	2,536	7%	5%	5%	6%
Total Systems Services	TSS	1	4,828	1.15	1.29	1.43	1.62	14%	13%	11%	13%	1,809	1,871	1,967	2,108	5%	3%	5%	7%
Vantiv	VNTV	1	5,877	0.86	1.22	1.56	1.80	21%	41%	28%	15%	866	1,023	1,212	1,349	12%	18%	19%	11%
VeriFone Systems^	PAY	2	1,949	2.03	2.69	1.34	1.19	41%	33%	-50%	-12%	1,403	1,889	1,675	1,712	35%	35%	-11%	2%
Visa*	V	2	125,374	5.25	6.64	7.82	9.16	25%	26%	18%	17%	9,497	10,720	12,027	13,337	14%	13%	12%	11%
Western Union	WU	2	9,918	1.57	1.74	1.41	1.59	11%	11%	-19%	13%	5,491	5,665	5,449	5,587	6%	3%	-4%	3%
WEX Corp^	WEX	2	3,316	3.64	4.06	4.35	4.75	32%	11%	7%	9%	553	623	716	783	42%	13%	15%	9%

Source: Company Reports and Citi Research Estimates. *Visa and MasterCard are jointly covered with Citi Research analyst Donald Fandetti; ^Philip Stiller is the lead analyst on ADS, PAY, WEX and FLT.

Figure 6. Valuation Metrics

Valuation				P/E				PEG			PEG (using NOPAT earnings)			EV/EBITDA			
	FYE	Price	Target	2011	2012	2013E	2014E	FY11/14 GR	2012	2013E	FY11/14 GR	2012	2013E	2011	2012	2013E	2014E
Alliance Data Systems^	Dec	187.61	171.00	24.6x	21.5x	18.3x	15.0x	18%	1.2x	1.0x	13%	1.6x	1.4x	14.6x	12.4x	10.5x	9.7x
Automatic Data Processing	Jun	71.85	68.50	27.5x	25.9x	23.8x	21.6x	8%	3.3x	3.1x	6%	4.1x	3.8x	15.2x	14.6x	13.6x	12.7x
Blackhawk Network	Dec	25.67	26.00	33.6x	25.8x	23.9x	18.9x	21%	1.2x	1.1x	26%	1.0x	0.9x	15.8x	12.4x	10.8x	8.5x
Fidelity National Info Services	Dec	45.35	52.00	20.4x	18.1x	16.0x	14.2x	13%	1.4x	1.2x	4%	4.2x	3.7x	10.5x	10.1x	9.6x	9.1x
Fiserv	Dec	91.14	89.00	19.9x	17.8x	15.3x	13.7x	13%	1.3x	1.2x	6%	3.1x	2.7x	11.6x	11.2x	10.1x	9.5x
FleetCor Technologies^	Dec	86.65	97.00	39.9x	29.0x	22.2x	19.3x	27%	1.1x	0.8x	27%	1.1x	0.8x	28.3x	20.3x	16.0x	13.9x
Global Payments	May	48.08	52.00	14.4x	13.3x	12.3x	11.1x	10%	1.4x	1.2x	7%	2.0x	1.9x	9.6x	9.0x	8.4x	7.7x
Green Dot	Dec	19.89	N/A	12.9x	14.5x	17.0x	15.9x	-7%	NA	NA	NA	NA	NA	4.1x	4.5x	5.0x	4.5x
MasterCard*	Dec	601.02	700.00	32.1x	27.3x	23.6x	20.0x	17%	1.6x	1.4x	15%	1.9x	1.6x	18.5x	16.3x	14.3x	12.4x
Paychex	May	38.89	34.00	26.1x	25.1x	24.1x	22.0x	6%	4.3x	4.1x	4%	5.6x	5.4x	14.8x	14.0x	13.2x	12.4x
Total Systems Services	Dec	25.67	26.00	22.4x	19.9x	17.9x	15.9x	12%	1.6x	1.5x	10%	2.0x	1.8x	10.0x	9.3x	8.8x	8.0x
Vantiv	Dec	27.39	32.00	31.7x	22.5x	17.5x	15.3x	28%	0.8x	0.6x	5%	4.3x	3.4x	17.4x	15.0x	12.8x	11.4x
VeriFone Systems^	Oct	17.63	18.50	8.7x	6.6x	13.1x	14.8x	-16%	NA	NA	NA	NA	NA	10.0x	6.2x	9.7x	10.2x
Visa*	Sep	189.96	211.00	36.2x	28.6x	24.3x	20.7x	21%	1.4x	1.2x	16%	1.8x	1.6x	20.4x	18.1x	15.8x	13.9x
Western Union	Dec	17.41	15.00	11.1x	10.0x	12.4x	10.9x	0%	NA	NA	NA	NA	NA	7.5x	7.6x	8.9x	8.4x
WEX Corp^	Dec	84.63	74.00	23.2x	20.9x	19.4x	17.8x	9%	2.2x	2.1x	7%	2.9x	2.7x	12.1x	11.3x	10.2x	9.4x
Averages				24.0x	20.4x	18.8x	16.7x	11%	1.8x	1.6x	11%	2.7x	2.4x	13.8x	12.0x	11.1x	10.1x

Source: Company Reports and Citi Research Estimates. *Visa and MasterCard are jointly covered with Citi Research analyst Donald Fandetti; ^Philip Stiller is the lead analyst on ADS, PAY, WEX and FLT.

Appendix A-1

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