

July 26, 2013

Dear clients and colleagues,

The world is going through huge technological changes. Things that we can do with both smartphones and non-smartphones are very different from what existed in the world three or four years ago. One of the beneficiaries of these changes is the electronic payment processing industry. A study done by Moody's and Visa showed that over the last five years in seven developed markets, electronification of payments, "had an accelerating effect of GDP annually by 0.8%".

Twenty-four hours a day, 365 days a year, consumers are initiating electronic payment transactions; getting cash at ATMs; using debit, credit, contactless or prepaid cards in stores and online, at home or overseas; banking by phone, mobile and over the internet.

This week we profile ACI Worldwide, a company which stands to benefit from these trends. ACI software enables \$13 trillion in payments each day.

ACI Worldwide (ACIW US - \$47.19)

www.aciworldwide.com

Business Overview

ACI is a payments company. Their BASE24 family of products is the gold standard of the global payment network. Their software authenticates, verifies and facilitates the electronic movement of money across devices.

Every time a customer uses a credit or debit card, a number of systems are involved, including the merchant processor; Visa, MasterCard, or the ATM; and the card issuer systems. ACI software essentially provides the "electronic handshake" that connects these systems.

Target Market

According to IDC the market is growing at 10% annually. The opportunity ahead is still vast thanks to cash transactions which account for \$11 trillion globally according to Visa. Global transaction volume growth is expected to be 9% CAGR through 2020. Another opportunity is financial inclusion. There are about 2.5 billion underbanked people across the globe, 1.7 billion of which have access to a mobile phone.

Serviceable software industry spend in 2016 is estimated to be \$14.2B of which ACI has an 8% market share. Electronic payment volumes worldwide grew in the high single-digits annually.

The industry is also focusing on risk management in banks dealing with fraud as their home-built systems are old and difficult to maintain especially due to the very difficult coding in some of the languages that these systems were built in.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

Competition

FundTech, Bottomline, Fiserv Inc. Brightpoint, Inc., First Data, Broadridge Financial, Intuit.

Competitive advantages

- Sticky business as installation is large and complex and can take 2 years
- High customer retention rate (attrition in the low single-digits.)
- Long term license (5 – 10 year contracts)

Growth strategy

- Cross selling (on average customers use less than 3 ACI products)
- Lead payments transformation with Universal Payments Platform
- Geographical expansion

Risks

- Integration of large acquisitions
- Execution on sales pipeline

Market Data

Market Cap \$1.8B, Debt 670M, Cash 112M, p/e (2014) 12.5x, ev/sales (2014) 2.5x, ev/ebitda (2014) 8.3x.

Have a nice weekend ahead.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.