

January 20, 2017

Dear clients and colleagues,

It comes as no surprise that e-commerce for goods and services is growing fast. Structural changes in consumer behaviour combined with faster and cheaper broadband have contributed to an increased flow in online traffic. Internet users are demanding that more products and services be available for purchase online through secure networks and with multiple payment options. That's good news for the payment service industry.

Payment companies have been severely de-rated in the past year, and most of them trade more or less in line with the broader market. On average, payment companies are expected to deliver high single-digit to low double-digit revenue growth for the next few years, which is not negligible in this low-growth environment.

Paysafe, a company we added to our EAFE portfolios at the end of last year, is a leading European payment services provider that focuses on e-commerce and online transactions. We believe that Paysafe is attractively positioned in the rapidly expanding online payments space. With the acquisition of Skrill, management is now ready to take the company to the next growth cycle. As shown by its latest 2016 results, where it delivered 18% revenue growth, the company continues to perform above its long-term target of low double-digit growth.

Market

While it is hard to assess Paysafe's exact market size, we know for certain that both online retailing and online payments represent a huge market opportunity that will continue to grow at a rapid pace. Here are some interesting figures that summarize the overall market and its potential:

- Global non-cash payment volume should grow to \$660B by 2020, representing a 9% annual growth rate.
- Global consumer online spending should increase to \$4T by 2019, growing at 14% per annum.
- The global online gambling market is about \$40B and should grow by 11% per annum.
- The online payment services market (excluding China) was a \$6.5B market in 2015 and is expected to grow by 16% per annum.

Growth Strategy

- Paysafe will benefit from structural growth within the online payment industry.
- The acquisition of Skrill will enable the company to begin the development of the next- gen global data platform to deliver enhanced analytics including a global merchant onboarding service.
- Targeting niche-oriented solutions (e.g.: online gaming, gaming).
- Increasing business with existing customers and expand into new markets (Eastern Europe, Middle East, Latin America, Asia).
- Doing bolt-on acquisitions.

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Strengths

- High barriers to entry in highly regulated industries.
- The management team has proven itself capable of expanding the company through acquisitions which has enabled it to increase its product offering.
- Quality of service — the company was named a Best-In-Category winner for Best Online or Mobile Commerce Solution at the 2016 All Payments Expo.
- Strong positioning in Europe and in niche markets (gambling, gaming).
- Entrepreneurial spirit.
- With a strong balance sheet, we believe the company is well-positioned to increase market share and acquire smaller players within its markets.

Opportunities

- Development of the next-gen platform.
- Merchants need to offer quality payment-related services to their online customers.
 - Surveys shows that 86% of consumers will pay more for a superior shopping experience, 80% of retailers say legacy technology is holding them back.
- Growing consumer demand for simple, safe and quick global payments.
- Acceptance of e-Wallets for mobile devices is growing and is outpacing other non-cash payment methods.
- Government initiatives to limit cash withdrawals (e.g: Italy, Greece) reinforce the online payment industry.

Risks

- The company still shows some merchant concentration in select areas of the business.
- Change in payment processing regulations.
- Integration risk associated with acquisitions could impact the business.
- Cybersecurity issues, fraud, worsening relationship with financial institutions and loss of a major customer would negatively impact the business.

Have a good weekend.

The Global Alpha Team

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