PE Hub

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PE DEALS

Payment tech offers everything private equity firms like GTCR love

'All commerce ultimately requires payment, so the space is always highly relevant and evolving,' said GTCR's Aaron Cohen.

GTCR made a big splash with the acquisition of Worldpay, a provider of payment technology and services. "This is the largest transaction in GTCR's history," said Aaron Cohen, a managing director and head of financial services and technology at the firm.

The deal, which was announced July 6, 2023 and closed Jan 31, 2024, puts Worldpay at a valuation of $18.5 billion. GTCR, founded in 1980, acquired 55 percent of the Cincinnati-based company for $11.7 billion from FIS, a global payments service headquartered in Jacksonville, Florida. FIS will retain a 45 percent stake in Worldpay.

Cohen added, however, that the deal has less to do with size and more with the fact that Worldpay is an "incredible fit" for the firm's Leaders Strategy investment approach of partnering with industry executives, and it's an opportunity to back CEO Charles Drucker to reinvigorate an independent Worldpay.

"As a firm, we like growing industries with a lot of complexity so payments is a great fit. All commerce ultimately requires payment, so the space is always highly relevant and evolving," Cohen said. "Industry participants must be both innovative and great executors. As a result, there are many ways to play different themes and pull different levers to create value."

Aaron Cohen, GTCR

Why private equity firms like payments processing

PE firms like payments investments for the same reasons they like most technology investments, according to Jamie Hamilton and Dan Daul, managing directors in William Blair's technology investment banking group, in a joint interview with PE Hub. The Chicago investment bank advised GTCR on the Worldpay deal, among advising on many other payment deals.

"High recurring revenue, even though transactional, durable through cycles, high retention rates (generally) of end client base, particularly when payment workflows are coupled with software or embedded and integrated into the software running the end client's operations," are what appeal to Hamilton and Daul.

However, there is less investment in horizontal payments today than there was over the last decade, according to Hamilton and Daul, as a lot of the companies in the sector have been consolidated. Examples include Worldpay and other non-PE deals such as Global Payments/TSYS and Fiserv/First Data.

But investments in software companies looking to monetize embedded payments as well as B2B payments continue to be a core theme.

Though GTCR has owned the business for a short time, Cohen said the Worldpay team is already executing on a pipeline of product and technology initiatives, which will enhance the company's services. "There is a plethora of opportunities, and we are very enthusiastic about what we can do with the Worldpay team," he said.

GTCR has other payments companies, such as Verifone, TransFirst and Fundtech. In 2023, the firm exited Paya, an integrated payments platform, to Nuvei. "Like Worldpay, Paya was a corporate carve-out where we brought in a Leaders Strategy CEO to accelerate the business," added Cohen.

GTCR is certainly not alone in picking up opportunities in this industry. One recent example is Vista Equity Partners' take-private acquisition of EngageSmart, a provider of customer engagement software and integrated payments services, in a transaction valued at $4 billion.

Among EngageSmart's offerings is a service called InvoiceCloud, which helps government, utility and financial services

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Jamie Hamilton and Dan Daul, William Blair

customers streamline their workflows for billing, external communications and bill payment collection. The platform also helps customers receive and pay invoices digitally, enroll in personalized payment notifications and use AutoPay, among other services.

EngageSmart's previous backer, General Atlantic, retained a minority stake.

The pandemic effect

Over the last 10 years there has been a significant shift away from cash and checks and toward digital payments.

"This trend continues to gain steam as more consumers and businesses around the world embrace the ease and convenience of digital payments. The covid-19 pandemic only accelerated this shift as consumers and businesses moved to remote environments and increased their participation in digital payments offerings," said Priyanka Naithani, a managing director at Harris Williams' Technology Group.

Naithani cited a report from McKinsey that shows that since the pandemic, consumer adoption of online digital payments increased from 46 percent in 2019 to 73 percent in 2023.

"The sheer volume of these transactions creates an enormous and steadily growing opportunity that has caught the attention of investors," Naithani added. "Vertically focused integrated software and payments models where payments are attached to a core software capability have been especially attractive."

Sticky business

The secret sauce in the payments business model is that it generates repeat customers, Ashutosh Somani, a managing director at investment firm Warburg Pincus, told PE Hub earlier this year.

In January, Warburg Pincus agreed to sell Procare Solutions – a provider of childcare center management software and payments processing based in Denver – to Roper Technologies for $1.86 billion. Warburg bought a majority stake in Procare from TA Associates in 2018.

"Because Procare makes most of its money through payments, it has an interesting dynamic, where as customers grow, classroom size grows and tuition increases," said Somani. "That actually benefits Procare because the company is paid as a percent of the payments volume it processes."

Investors often consider payments models in the same light as software models, as their revenue streams are highly predictable and recurring, according to Julien Oussadon, a managing director at Harris Williams' Technology Group.

"The inherent predictability and solid growth of the space can provide welcome stability to PEG portfolios, even in uncertain times, which drives their continued interest," Oussadon said, adding that valuations in the payments sector are closely aligned with software valuations and are driven by factors such as end-market focus, organic growth, profitability profile, size, and retention and predictability metrics.

"On exit, multiples vary from business to business, but top-quality, scaled payments companies generally trade at EBITDA multiples in the mid to high teens, with some vertically focused integrated payment assets trading north of 20x EBITDA," added Oussadon. "If there are significant payment volumes to be unlocked, there can be even more value attributed to those."

Growth prospects

PE firms investing in this sector like the growth prospects for the payments business, both organically and inorganically. In February, Mainsail Partners invested in Teamfront, an Austin-based provider of business management software, payments solutions and services.

Teamfront's CEO Cameron Darby telegraphed growth prospects under Mainsail Partners.

Parthenon Capital Partners' portfolio company Payroc WorldAccess recently acquired SterlingCard Payment Solutions, a payment solution provider for both retail and e-commerce applications that is based in Markham, Ontario.

Payroc's head Jim Oberman also signals more growth ahead. "This strategic move positions Payroc uniquely with an exceptional card-present offering in Canada, providing a substantial competitive advantage over most other ISO/agents," he said in a press statement.

As multiple industries are digitized and manual workflows are replaced with software, digital payments are usually the next step in the automation journey, said Naithani.

"Our experience in the payments space suggests that private equity interest remains strong and persistent," explained Naithani. ■

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