

13-Jun-2018

i3 Verticals (IIIV)

Provides integrated payment processing and software to SMBs.

EARLY TAKE

Preliminary View: Strong

Report Sections

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Offering Data (in mil, except per share)

File Date	25-May-2018
Expected Offer Date	20-Jun-2018
Price Range	\$11.00 - \$13.00
Shares Filed (% insider)	6.7 (0%)
Deal Size	\$79.8
Use of Proceeds	Repay debt

Capitalization (in mil, except per share)

Price (at midpoint)	\$12.00
Shares Outstanding	25.6
Market Value	\$306.8
Enterprise Value	\$359.0

IPO Underwriters (*bookrunner)

Cowen & Company*	Raymond James*
KeyBanc Capital Markets*	

Corporate Data

Employees	326
Year Founded	2012
Headquarters	Nashville, TN
Website	www.i3verticals.com

Balance Sheet	Actual	Adjusted
(\$ in mil)	3/31/18	3/31/18
Cash	\$3.6	\$0.8
Working Capital	-9.8	-12.7
Total Assets	172.8	168.8
Total Debt	132.9	53.0
Shareholders' Equity	0.7	28.7

Company Overview

Led by the former executives behind PMT Services and iPayment, i3 Verticals provides integrated payment and software solutions to over 24,000 SMBs across six strategic market verticals, including education (11% of FY17 adjusted EBITDA), non-profit, public sector, property management, healthcare, and, increasingly, B2B payments. Its solutions feature embedded payment capabilities (86% of 1H18 net revenue) tailored to the specific needs of clients within its market verticals and can be integrated into existing business management systems or through i3 Verticals' proprietary software. Founded in 2012, management has completed 21 acquisitions to date (FY17 acquisitions totaled \$64 million), relying heavily on M&A to fuel growth (acquisitions accounted for 35% of FY17 gross revenue).

Bull Insights

- Targets market verticals with relatively low card penetration (no retail exposure)
- Processed \$10.3 billion in transactions in FY17 (+26% y/y)
- High-value integrated payments comprised 41% of payment volume (+18% y/y)
- Led by experienced management team
- Recent payments IPOs have been well received

Bear Insights

- Small scale relative to other payment solution companies
- Processing margin fell from 22.8% to 21.6% in the FY17
- Legacy portfolio has weighed on organic growth
- 1H18 SG&A increased 47% y/y (37% of net revenue)

Preliminary Income Statement†

FY Sep (\$ in mil)	2016A	2017A	2018E	2019E	2020E
Net Sales	\$58.6	\$73.5	\$109.6	\$122.9	\$132.1
EBITDA	17.6	19.3	29.7	33.2	37.0
Adj. EBIT	7.6	8.8	25.8	20.6	23.8
Adj. Net	1.6	2.1	11.9	14.4	16.7
Adj. EPS	0.08	0.11	0.46	0.56	0.64

Margins

EBITDA Margin	30.0%	26.2%	27.1%	27.0%	28.0%
Adj. EBIT Margin	13.0%	11.9%	23.6%	16.8%	18.0%
Adj. Net Margin	2.7%	2.8%	10.8%	11.8%	12.7%

Cash Flow Data

CFFO	\$10.0	\$7.7	\$24.2	\$27.0	\$29.9
Less: Capex	2.9	2.1	3.3	3.7	4.0
Free Cash Flow	7.2	5.6	20.9	23.4	26.0

†Income data excludes all 1x and non-cash charges.

Management and Shareholders

Key Executive	Age	Position	Corporate Background
Gregory Daily	59	CEO, Chairman	Founder; served as CEO since 2012 formation; appointed Chairman in January 2018. Previously founded iPayment (Nasdaq: IPMT) in 2001 and served as Chairman and CEO until 2011. Prior to that, co-founded PMT Services (Nasdaq: PMT) and served as President until its 1998 acquisition by NOVA Corporation, and stayed on as Vice Chairman until 2001.
Clay Whitson	60	CFO, Director	Since May 2014. Previously served as CFO of Edo Interactive from 2010 to 2014. Prior to that, served as CFO and Treasurer of iPayment (Nasdaq: IPMT) from 2002 to 2006. From 1998 to 2002, served as CFO of The Corporate Executive Board (Nasdaq: EXBD). From 1996 to 1998, served as CFO and Treasurer of PMT Services (Nasdaq: PMT) from 1996 to 1998.

Key Shareholder	Holdings	Additional Details
Gregory Daily	28.7%	CEO, Chairman
First Avenue Partners	12.4%	London, England-based hedge fund.
Harbert Management	7.0%	Birmingham, AL-based venture firm.
Capital Alignment Partners	6.9%	Nashville, TN-based investment firm.
Clay Whitson	1.2%	CFO.

Preliminary Relative Valuation
Comparable Financial Analysis

<i>IPO vs. Peers</i>	<i>Sales (US\$)</i>	<i>SG&A</i>	<i>EBITDA</i>	<i>EBIT</i>	<i>Net</i>	<i>Capex</i>	<i>Debt/Cap</i>	<i>CY17 Growth</i>	<i>CY18 Growth</i>	<i>CY19 Growth</i>	<i>CY20 Growth</i>
i3 Verticals	\$90.2	36.9%	27.4%	11.9%	-6.5%	3.0%	64.9%	25%	49%	12%	7%
Evo Payments	\$523.4	44.0%	25.5%	8.5%	-7.9%	8.3%	99.0%	15%	16%	11%	9%
Worldpay	\$3,949.0	28.0%	22.2%	10.6%	0.1%	3.0%	43.1%	11%	84%	10%	9%
Global Payments	\$3,850.4	37.1%	27.9%	15.8%	13.3%	4.7%	53.3%	62%	10%	9%	8%
First Data	\$11,533.0	27.6%	24.5%	15.0%	13.3%	2.5%	75.1%	4%	18%	5%	6%
Total System Services	\$4,730.4	13.5%	24.5%	16.0%	13.2%	1.7%	62.2%	15%	-15%	7%	5%
Fiserv	\$5,742.0	20.5%	38.9%	30.9%	24.8%	5.0%	60.8%	3%	3%	4%	6%
PayPal Holdings	\$13,804.0	0.2%	22.0%	16.2%	13.9%	5.0%	17.0%	20%	19%	16%	17%
Square	\$2,421.3	22.7%	-1.0%	-2.5%	-3.0%	1.1%	31.3%	42%	49%	33%	23%
Euronet Worldwide	\$2,329.5	22.5%	15.9%	11.6%	6.7%	4.2%	36.0%	16%	13%	10%	9%
Wirecard AG	\$1,921.0	11.9%	27.1%	21.0%	17.2%	1.0%	41.0%	44%	32%	24%	23%
SafeCharge International Group	\$111.7	21.8%	26.7%	22.1%	21.3%	3.4%	0.0%	-7%	18%	12%	11%
Group Average		22.7%	23.1%	15.0%	10.3%	3.6%	47.2%	21%	22%	13%	12%

Note: All dollars are in millions. All financial metrics are based on LTM data; return metrics are based on forward estimates.

Comparable Valuation Analysis

<i>IPO vs. Peers</i>	<i>Ticker</i>	<i>Price</i>	<i>Market Value</i>	<i>Enterprise Value</i>	<u><i>EV/EBITDA</i></u>			<u><i>P/E</i></u>		
					2018	2019	2020	2018	2019	2020
i3 Verticals	IIIV	\$12.00	\$306.8	\$359.0	12.1x	10.8x	9.7x	25.8x	21.4x	18.7x
Evo Payments	EVOP	\$20.69	\$1,595.6	\$2,280.6	15.7x	13.7x	12.3x	43.3x	26.8x	22.1x
Worldpay	WP	\$84.73	\$23,223.0	\$31,104.2	16.7x	14.5x	12.9x	22.4x	18.8x	16.2x
Global Payments	GPN	\$118.78	\$19,009.0	\$22,735.1	16.8x	15.0x	14.0x	23.2x	20.1x	17.5x
First Data	FDC	\$21.54	\$20,372.1	\$38,798.1	11.6x	10.9x	10.2x	14.8x	13.2x	11.5x
Total System Services	TSS	\$88.18	\$16,307.8	\$19,956.7	14.9x	13.9x	12.8x	20.4x	18.6x	16.3x
Fiserv	FISV	\$76.13	\$32,096.4	\$36,318.4	17.0x	15.9x	14.9x	24.4x	21.6x	19.4x
PayPal Holdings	PYPL	\$85.37	\$103,895.3	\$100,589.3	25.0x	21.1x	18.1x	36.5x	30.3x	25.7x
Square	SQ	\$62.68	\$24,818.0	\$24,248.2	96.3x	55.6x	35.7x	136.0x	80.4x	52.3x
Euronet Worldwide	EEFT	\$86.11	\$4,645.9	\$4,395.7	9.2x	8.0x	6.9x	16.3x	14.2x	12.9x
Wirecard AG	WDI.GR	€151.50	\$21,987.5	\$20,811.0	32.2x	24.8x	19.3x	51.4x	38.8x	29.7x
SafeCharge International Group	SCH.LN	£3.36	\$677.8	\$568.9	15.3x	13.7x	12.3x	23.1x	20.5x	18.4x
Key Peer Average					15.2x	13.5x	12.3x	26.0x	19.7x	16.8x
Group Average					24.6x	18.8x	15.4x	37.4x	27.6x	22.0x

Note: All dollars are in millions except for per share amounts.

Technical Strength
Peer Group Technical Analysis:

<i>Key Peers</i>	<i>Ticker</i>	<i>Stock Price</i>	<i>Rel. Price Strength</i>	<i>Inst. Money Flow</i>	<i>1-Mo. Return</i>	<i>3-Mo. Return</i>	<i>1-Yr. Return</i>
Evo Payments	EVOP	\$20.69	Very Strong	Very Weak	29%*	n/a	n/a
Worldpay	WP	\$84.73	Strong	Very Strong	5%	0%	34%
Global Payments	GPN	\$118.78	Strong	Weak	2%	1%	31%
First Data	FDC	\$21.54	Very Strong	Neutral	11%	38%	15%
Total System Services	TSS	\$88.18	Neutral	Very Weak	0%	-1%	48%
Fiserv	FISV	\$76.13	Strong	Very Weak	5%	3%	22%
PayPal Holdings	PYPL	\$85.37	Strong	Neutral	8%	6%	64%
Square	SQ	\$62.68	Strong	Neutral	15%	21%	167%
Euronet Worldwide	EEFT	\$86.11	Strong	Neutral	4%	-1%	-2%
Wirecard AG	WDLGR	€151.50	Very Strong	Neutral	26%	49%	158%
SafeCharge International Group	SCH.LN	£3.36	Neutral	Neutral	2%	9%	27%
<i>Indexes</i>							
Nasdaq	CCMP	7,710.28	n/a	n/a	4%	3%	24%
S&P 500	SPX	2,785.68	n/a	n/a	2%	1%	14%
Renaissance IPO Index	IPOUSA	335.71	n/a	n/a	8%	4%	23%

*Stock prices as of 6/13/18. *From IPO.*

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