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Little to Fear in a Buyer's Market

In the “build-to-sell” world of merchant processing ISOs, sellers assume they are building a book of business that will have buyers beating a pathway to their door when they are ready to sell. ISOs may want to re-evaluate the notion that buyers will be coming out of the woodwork to buy their ISO or portfolio in the present state of the market. It isn't doom and gloom as some folks may lead you to believe, but it isn't as easy as it may have been 6-12 months ago to find a strong group of qualified potential buyers who are all eager to purchase your ISO or portfolio.

Many of the “cowboys”, ISOs which had perhaps 1,000 or less merchant accounts and were making offers to purchase ISOs with 10-20,000 merchant accounts, have all but disappeared. That may not be a bad thing, either. Many of the offers that these buyers were generating weren't worth the paper they were written on – if they bothered to actually write them down on paper. Also, like the dot-com bubble of 2000, many of the groups that were funding these buyers are no longer dripping in cash and are no longer eager to deploy funds. Ultimately, the negative effects of these buyers have manifested in the setting of unrealistic expectations in the minds of sellers—expectations which are unattainable.

We are now seeing the marketplace transitioning towards a “buyer's market”. Now, fear not, we are nowhere near the state of the buyer's market presently seen in the US housing sector; however buyers definitely have significantly more opportunities than they did 6-12 months ago. What does that mean? It means that buyers who were looking for very specific types of portfolios and ISOs to acquire have a better chance of finding something that meets their exact specifications. It means that buyers will be able to be much more selective in their purchases. Buyers can now be “choosy” as to which deals they actually pull the trigger on as opposed to trying to make something work which wasn't exactly what they were looking to purchase.

What can a seller do to make their portfolio or ISO more saleable in the current marketplace – other than obviously reducing their pricing expectations? Sellers need to do their best to “clean up” their ISO or portfolio prior to putting it on the market. Does anyone out there watch some of the many home improvement programs that focus on home renovation prior to selling the house? When you are contemplating selling your ISO or portfolio, you want to clean it up as much as possible prior to bringing it to market.

How does one clean up their ISO? They review all of their agent residual agreements and either buy them back prior to sale or negotiate terms of the agent buy-backs prior to selling the ISO. Agent and employee non-solicit and non-compete agreements should be reviewed and organized. ISOs should review their ISO agreement with an experienced attorney or advisor in order to understand – prior to a transaction – what is the potential impact of the transfer or sale of the business or portfolio on the underlying residual stream and their ability to continue to write for the existing processor or a different processor going forward. Financial statements should be reviewed with an accountant and/or advisor in order to determine the actual gross “owner's benefits” which are buried in the financials. Understand that most private business owners have a multitude of expense items such as leased vehicles, travel,

spousal employment, etc. that needs to be added back to net income in order for the buyer to have a better understanding of how much potential profitability is in it for them. Unless you are a publicly traded ISO focusing on showing the greatest level of profitability possible to shareholders by minimizing the effect of expenses on your bottom line, most likely you too have expenses which need to be backed out of your P&L in order to maximize your potential selling price.

How does one clean up a portfolio? Analyze and segregate the residual reports and data prior to sharing it with a potential buyer. For instance, some portfolios contain non-transacting accounts which typically diminish the value of the overall portfolio. Sellers may wish to analyze these accounts and may opt to remove them from the portfolio sale altogether if they feel that buyers may use these as substantial leverage against the overall portfolio's pricing. Sellers may want to be prepared in advance on issues such as: am I willing to reload accounts in the portfolio in order to minimize attrition? Am I potentially willing to write new business with the purchaser of my existing portfolio? If the seller is willing to do both or either of these things, they will go a long way to enhancing the overall value of the portfolio.

I'm not preaching doom and gloom here—however, I am suggesting that sellers may actually need to work a little bit harder in order to achieve the best price and terms possible for their ISO or portfolio. Sellers who seek out the highest and best match in the form of a buyer for their ISO or portfolio will truly be helping themselves. Now, more than ever, I would advise potential sellers NOT to go to their best friend – who also owns an ISO and made an offer for their business, in order to put together a transaction. In the present marketplace, it pays to get together, review, and organize all of your financial, corporate and portfolio documentation. The seller who seeks out appropriate buyers, who actually begins to anticipate the buyer's concerns and objections and who makes a strategic marketing plan in advance, will truly be rewarded.

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