

Brazil's Cielo buys U.S. payment company for \$670 million

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Brazil's Cielo said on Monday it will buy U.S. payment solutions provider Merchant e-Solutions for \$670 million to enable the South American country's largest card payment processor to settle more online transactions.

Cielo will pay cash for Merchant e-Solutions once the transaction is concluded, according to a securities filing. MeS, as the Redwood City, California-based company is known, specializes in settling e-commerce and mobile payments and annually processes more than \$14 billion in transactions for some 70,000 retailers.

The deal will allow Cielo to diversify its services base amid a rapid expansion of debit and credit card use in the world's sixth-largest economy, especially as Brazilians buy more goods and services over the Internet. According to the filing, MeS's commerce processing platform currently accounts for 57 percent of the company's annual revenue.

"We understand that one of the reasons Merchant e-Solutions had such success ... was their ability to think out of the box, execute quick and good solutions to their customers," Chief Executive Officer Romulo Dias said in a conference call.

Merchant e-Solutions had revenue of \$124 million in the 12 months that ended May 31. MeS's earnings before tax, interest, depreciation and amortization, a gauge of operational profitability known as EBITDA, was 45 percent of revenue in the same period.

Cielo and smaller rival Redecard want to expand their services as new competitors make a play for a greater share of Brazil's \$300 billion-a-year payment processing market. Diversification may help fend off a government drive to entice competition in the sector - Cielo and Redecard currently dominate about 80 percent of the market.

According to Cielo, the acquisition of MeS will allow it to provide "complete end-to-end service for the sector," including e-commerce and retail stores coverage, while offering more competitive fees to its customers.

Cielo paid for MeS the equivalent of 11 times enterprise value to EBITDA, a gauge used to measure the value of a company.

"We view the deal as a win for Cielo and appreciate the importance and focus that they are putting on bringing the best technology to the Brazilian market at a time when they might have the opportunity to win significant business from a Redecard in flux," Craig Maurer, an analyst with Credit Agricole Securities USA, said in a report.

With the MeS acquisition, Cielo gains a foothold in Silicon Valley, Dias said in the call.

Maurer said he is encouraging investors "to view this as a technology-platform purchase" instead of a merchant-acquiring acquisition since it is difficult to see Cielo seeking to enter the U.S. card processing sector.

The shares of Barueri, Brazil-based Cielo were down 0.5 percent on Monday to 58.50 reais. The stock is up 16 percent this year.