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# **NOVA Information Systems**

## **Edward Grzedzinski**

**BancAnalysts Association of Boston**  
**2003 Fall Conference**  
**November 7, 2003**

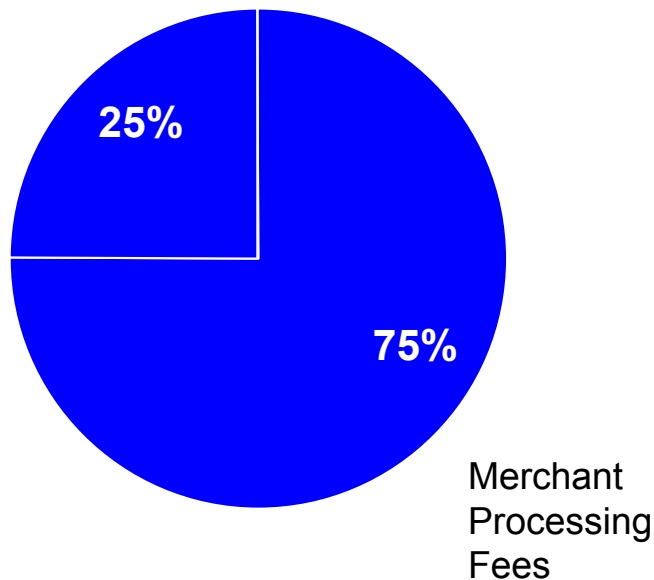
# NOVA Information Systems

## Description

NOVA is the 3rd largest merchant processor and the 7th largest ATM driver in the U.S., processing ATM, debit or credit transactions for 21% of all U.S. banks. EuroConex, NOVA's European subsidiary, has increased market share in the Republic of Ireland from 32% to 41% and expanded into 6 other countries in Europe over the past 2 years. NOVA's strategic vision is to become a top-tier global payments processor by capitalizing on market opportunities arising out of the increasing electronification of payments in the consumer, business and government market sectors.

## 2003 Revenue (%)

ATM  
Processing  
Fees



100% = \$0.8 Billion

## Key Growth Strategies

- **Build scale and increase distribution through continued penetration of the North American market**
- **Leverage ownership in euroConex to expand in Europe**
- **Establish U.S. Bank as the “Bank of Banks” for payments products and services**

The logo for NOVA INFORMATION SYSTEMS features the word "NOVA" in a large, bold, blue serif font. Below it, the words "INFORMATION SYSTEMS" are written in a smaller, blue, sans-serif font. The text is overlaid on a light gray globe with a grid of latitude and longitude lines.

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# **Merchant Processing**

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# Merchant Processing

## Background

- Third Largest Merchant Processor in the U.S.
  - Servicing over 600,000 merchant locations
  - Annual bankcard volume of \$100 Billion
- Headquartered in Atlanta, Georgia, with operations in Knoxville, Tennessee
- 1,400 bank clients comprising over 12,000 branches
- 1,714 employees, including 551 Sales and Marketing professionals

# Merchant Processing

## Innovative Products and Services

- Authorization
- Data Capture and Reporting
- Settlement, Accounting and Clearing
- Customer Service and Support
- Chargeback Processing
- Value-added Business Solutions
- Process All Card Types
- Electronic Check Service
- Electronic Gift Card
- Wireless Payment Processing
- EBT
- Procurement
- Online Reporting
- Affinity and Loyalty Programs
- Recurring Payment

# Merchant Processing

## Sales Channels

- Financial Institutions
  - Bank Alliances (including U.S. Bank)
- Joint Ventures
  - Key Merchant Services, LLC
  - euroConex
- Associations
  - 100+ trade associations
- MSPs
  - 150+ independent sales organizations
- TeleSales
  - In-bound and Out-bound

# Merchant Processing

## Bank Alliances

- Bank of the West
- City National
- KeyCorp
- MBNA
- Regions
- United Missouri
- Union Planters
- U.S. Bank
- Wachovia Bank
- Whitney Bank

# Merchant Processing

## Competitive Advantages

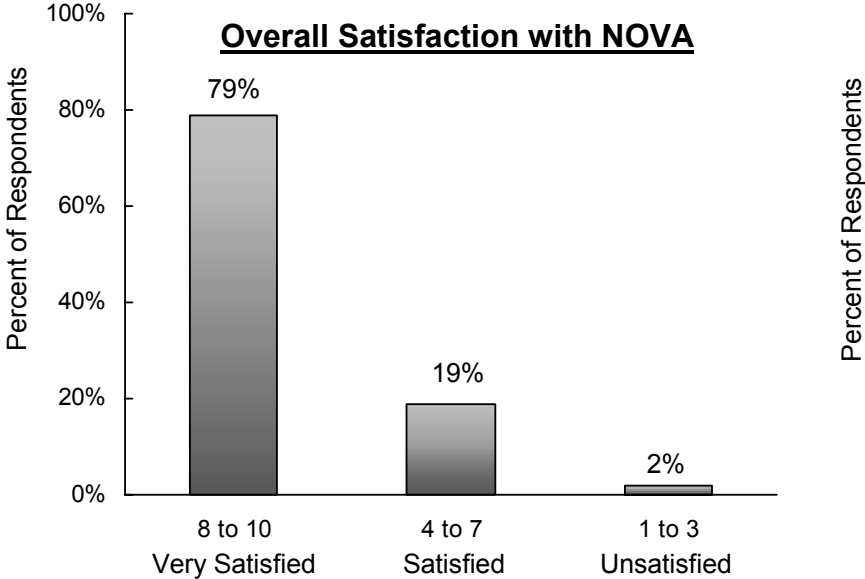
- Full service provider, from application generation through equipment deployment and service
- 24 x 7 availability
- Online service available via MerchantConnect & Merchant CARE
- Dedicated support for key partners
  - Alliance Banks
  - Agent Banks
  - MSPs
  - National Accounts



# Merchant Processing

## Competitive Advantages (continued)

### UNPARALLELED CUSTOMER SERVICE: HIGH LEVELS OF CUSTOMER SATISFACTION



**8 out of 10 merchant are very satisfied with NOVA**

# Merchant Processing

## Competitive Advantages (continued)

### TECHNOLOGY AND SYSTEM RELIABILITY:

#### THE NOVA NETWORK

- Rated by MasterCard as the most reliable in the industry
- Proprietary network utilizing Internet Protocol-based communications
- Fully redundant network and transaction switching systems
- Automated operations



**NOVA NETWORK**

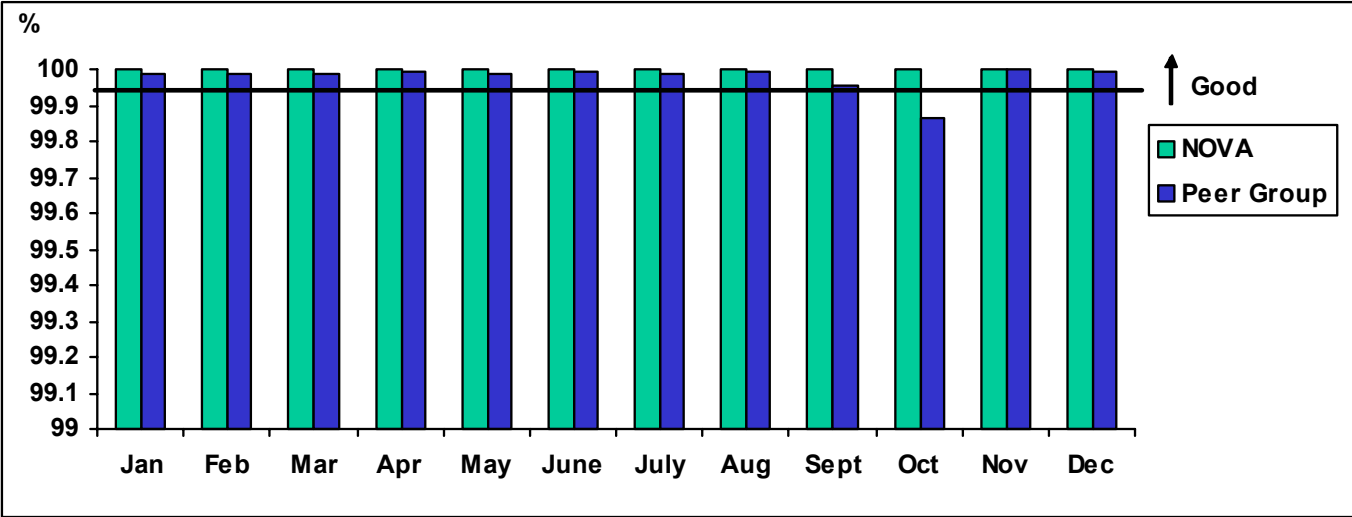
*The most reliable payment processing  
network in the industry*

# Merchant Processing

## Competitive Advantages (continued)

### TECHNOLOGY AND SYSTEM RELIABILITY:

### #1 IN THE INDUSTRY FOR AVAILABILITY



**NOVA NETWORK**  
*The most reliable payment processing network in the industry*

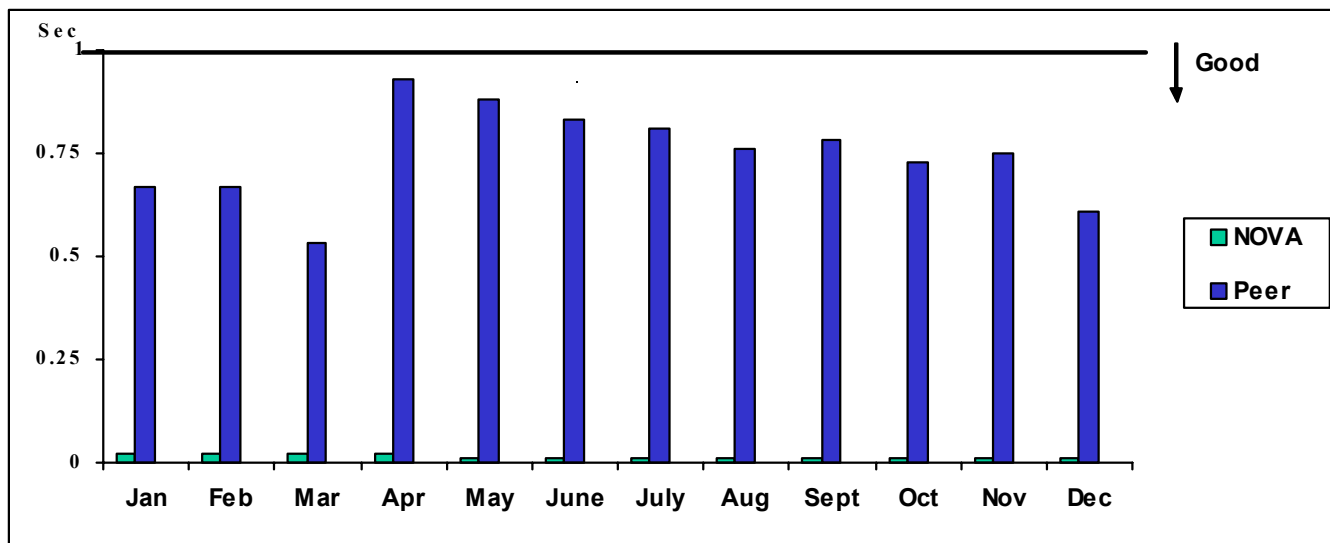
[Source: 2002 MasterCard Processor Certification Overview]

# Merchant Processing

## Competitive Advantages (continued)

### TECHNOLOGY AND SYSTEM RELIABILITY:

### #1 IN THE INDUSTRY IN RESPONSE TIME



**NOVA NETWORK**

*The most reliable payment processing  
network in the industry*

[Source: 2002 MasterCard Processor Certification Overview]

# Merchant Processing

## A Typical Merchant Transaction

Consumer makes \$100 purchase with their credit card



Merchant transmits purchase information to NOVA

NOVA sends purchase information to Visa or MasterCard.

Merchant receives **\$97.60** of the \$100 transaction.



Visa / MasterCard submit purchase information to the Issuing Bank of the consumers credit card for payment.

NOVA makes payment to Merchants bank.

NOVA keeps **\$0.56** of the \$100 transaction.

Visa / MasterCard keep **\$1.84** of the \$100 transaction.

# Merchant Processing

## Financial Model

Net Revenue	\$	.563
Cost of Service	\$	.084
Gross Margin %		85.1%
Operating Expenses	\$	.154
EBITDA	%	57.7%

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# **Transaction Services**

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# Transaction Services

## Background

Provides electronic processing services for financial institutions and corporations

- 3<sup>rd</sup> largest bank ATM owner
- Processes 8% of all POS/ATM transactions in the industry
- Debit card gateway services

# Transaction Services

## Business Units

- ATM Banking
  - Deploys and operates USB's proprietary ATM network of 6,081 units
- Merchant ATM Services
  - Operates ATMs at merchant locations under revenue share agreements
  - Supports approximately 2,200 ATMs
  - Targeting grocery, convenient stores, casinos, malls, and offline locations

# Transaction Services

## Business Units (continued)

- élan Financial Services
  - Third party credit card, debit card and ATM transaction processing services
  - Customer base
    - ATM/Debit - 2,200 financial institutions
    - Credit/Merchant – 1,100 financial institutions
    - Debit Gateway – provides connectivity to various regional networks



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**euroconex**

# euroConex

## Background

- Established June 2000 as a joint venture between NOVA and the Bank of Ireland
  - NOVA contribution – perpetual license to NOVA technology platform
  - Bank Of Ireland contribution – perpetual outsourcing contract for its merchant portfolio
- 50/50 share ownership and governance rights
- Headquartered in Arklow, Ireland
  - State-of the-art operations facility
  - Modeled after NOVA U.S. operations facility

# euroConex

## Background (continued)

- Servicing approximately 40,000 merchants representing €6BN of annualized volume
- Approved for central acquiring/cross-border acquiring September 2000
- Operating platform live September 2001
- Euro conversion implemented January 2002
- Chip card certification October 2002

# euroConex

## Competitive Advantages

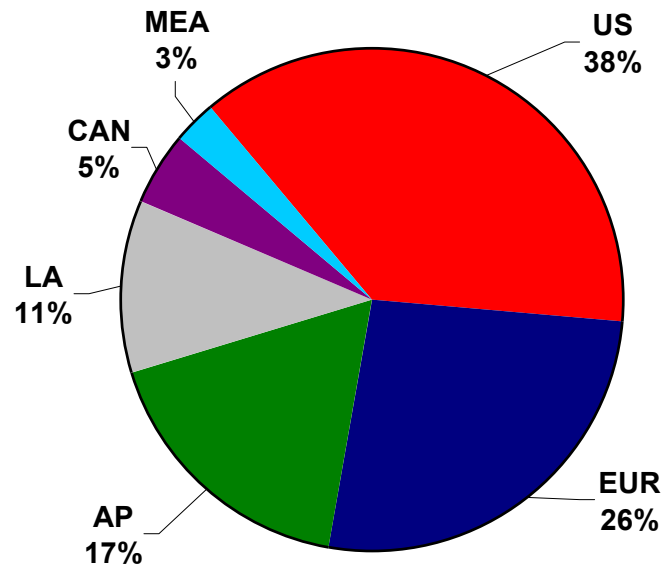
- Single source provider of high quality merchant processing services across major European markets with fully integrated multi-currency processing, cross-border acquiring and dynamic currency conversion
- Sophisticated technology platform delivering market-leading performance
- Systems architecture to support single point of entry and access to all reporting systems to provide centralized or distributed customer service support to all jurisdictions

# euroConex

## Global Payments Market

Global payments processing opportunity is concentrated in the U.S. & Europe, with 64% of payment transactions in the 2 regions

Global Non-Cash Consumer Payment Transactions by Region - 2002



100% = 167 Billion Transactions

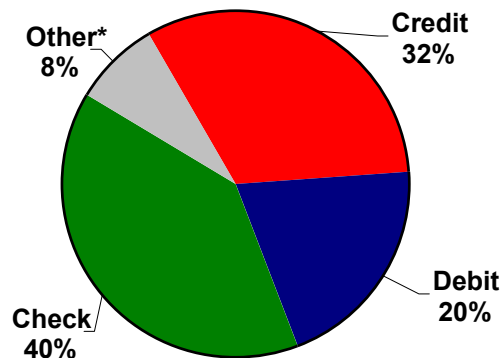
# euroConex

## European Payments Market

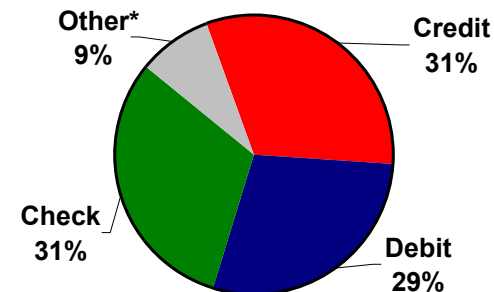
Europe is roughly 2/3<sup>rd</sup>s the size of the U.S. market but has better mix and growth characteristics

Global Non-Cash Consumer Payment Transactions - 2002

### U.S. = 64 Billion Transactions



### Europe = 43 Billion Transactions

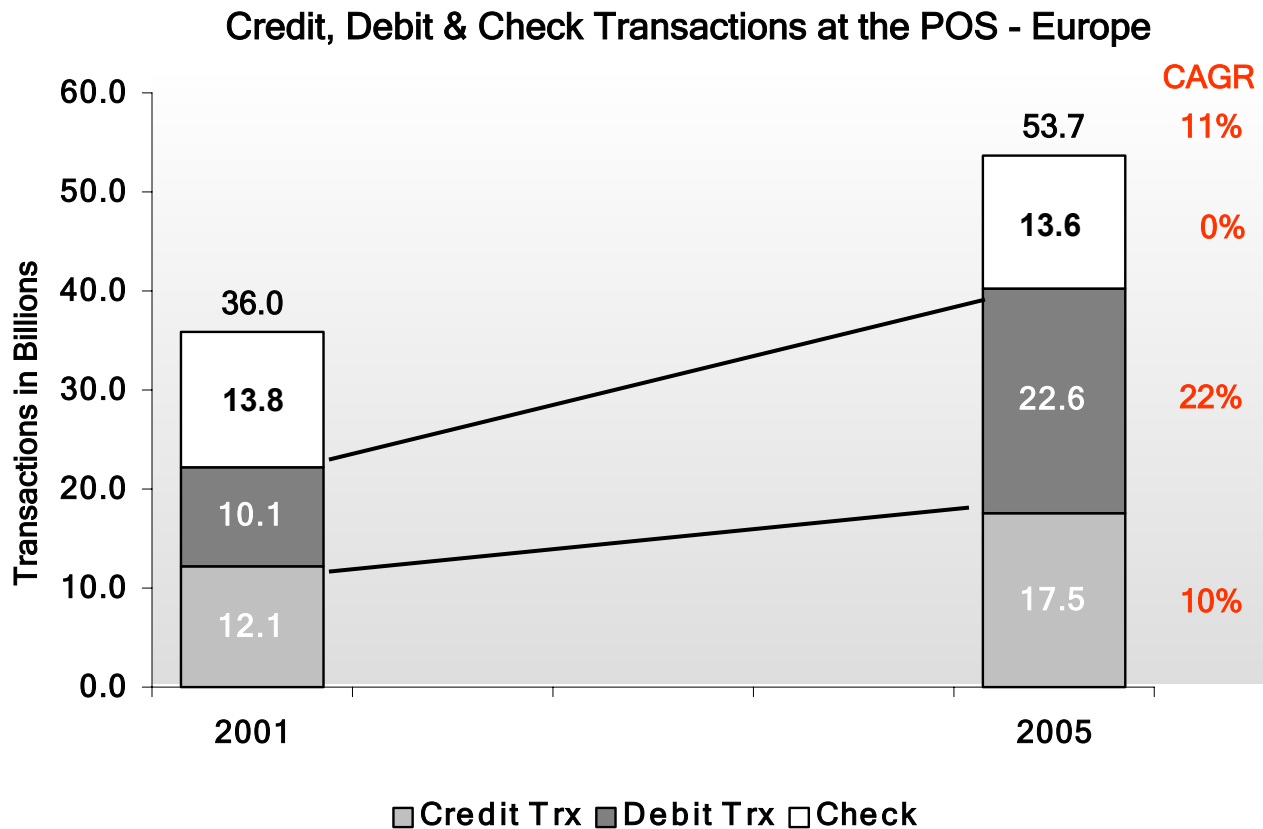


\* Other includes electronic / non electronic transactions

# euroConex

## Growth

With strong growth in both credit and debit transactions, Europe is the top expansion market for U.S. processors



# euroConex

## Summary

- European market is reminiscent of U.S. 15 years ago, with banks owning both the issuing & acquiring franchise
  - Transaction processing business enjoys strong margins, supported by country-level monopolies & cartels
  - European unification is bringing new dynamics to the marketplace
    - Regionalization/globalization of merchants creates demand for cross-market processing services
    - Current processors facing large expenditures to upgrade technology to meet new requirements
  - Acquisition opportunities are plentiful



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# Bank of Banks

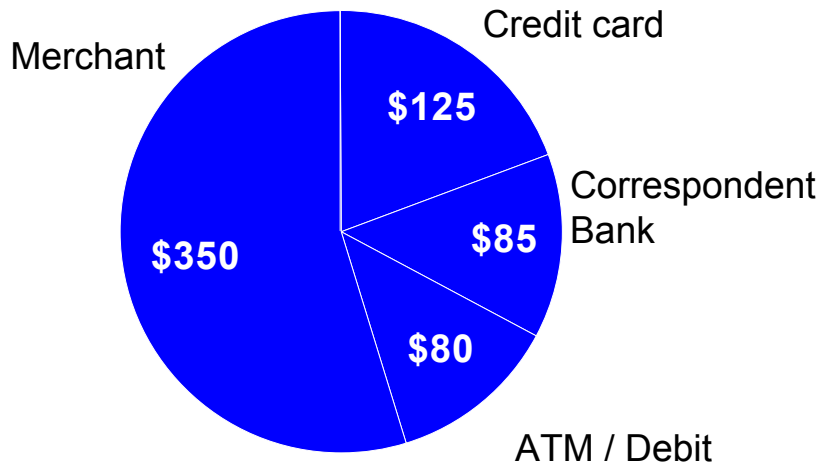
# Bank of Banks

## Background

U.S. Bank is a leading player serving financial institutions with a broad product line . . .

. . . and has significant opportunity to capture additional revenue

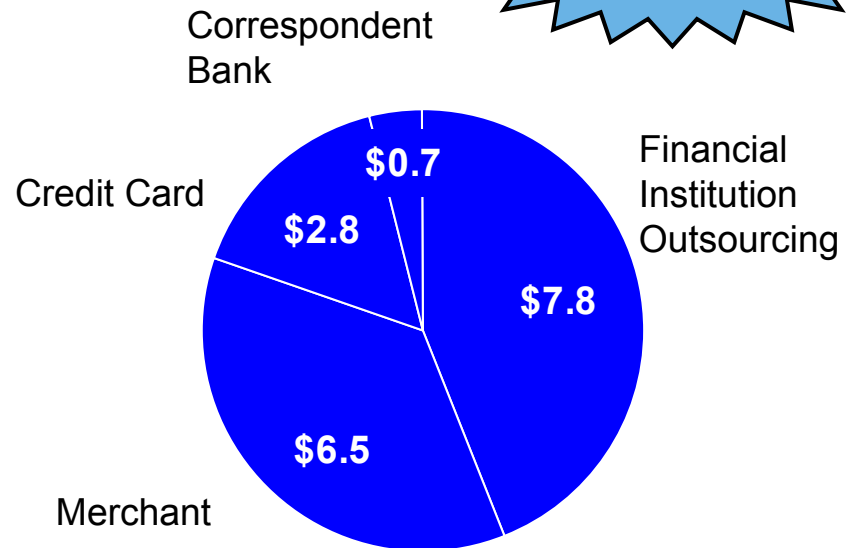
USB Revenue Distribution  
2002 Actuals  
Millions



**\$640 million in current revenue**

**Sector already represents significant source of current revenue**

Potential Market  
Billions

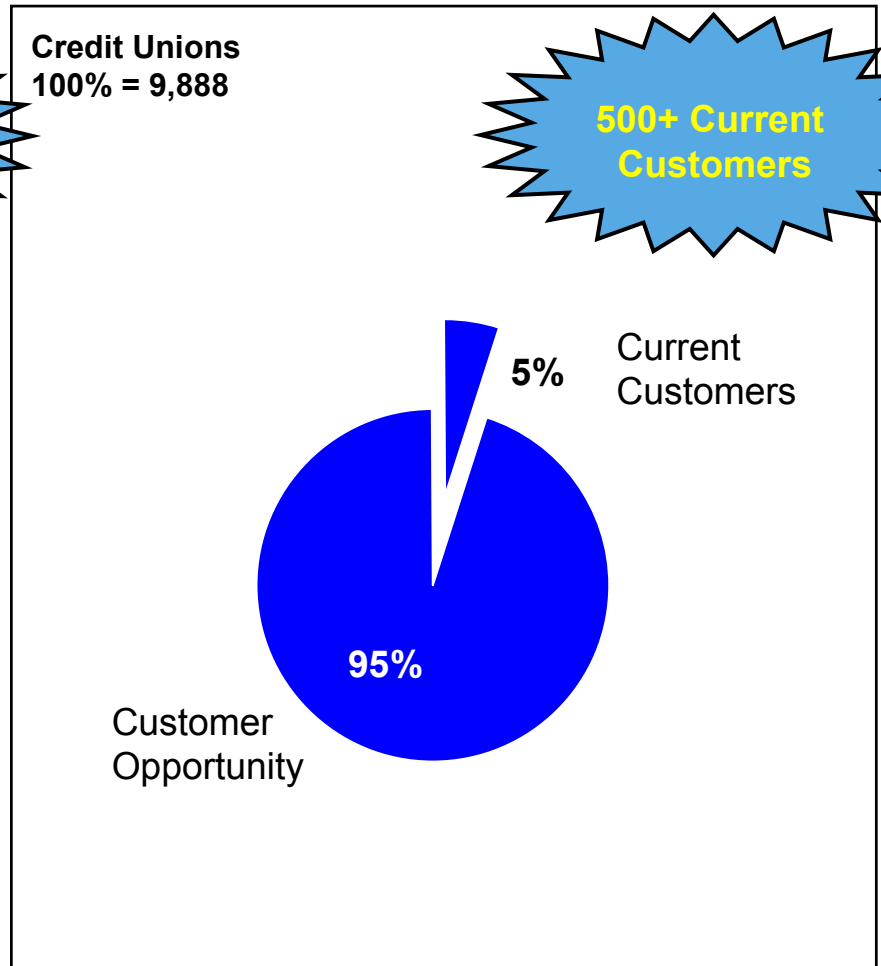
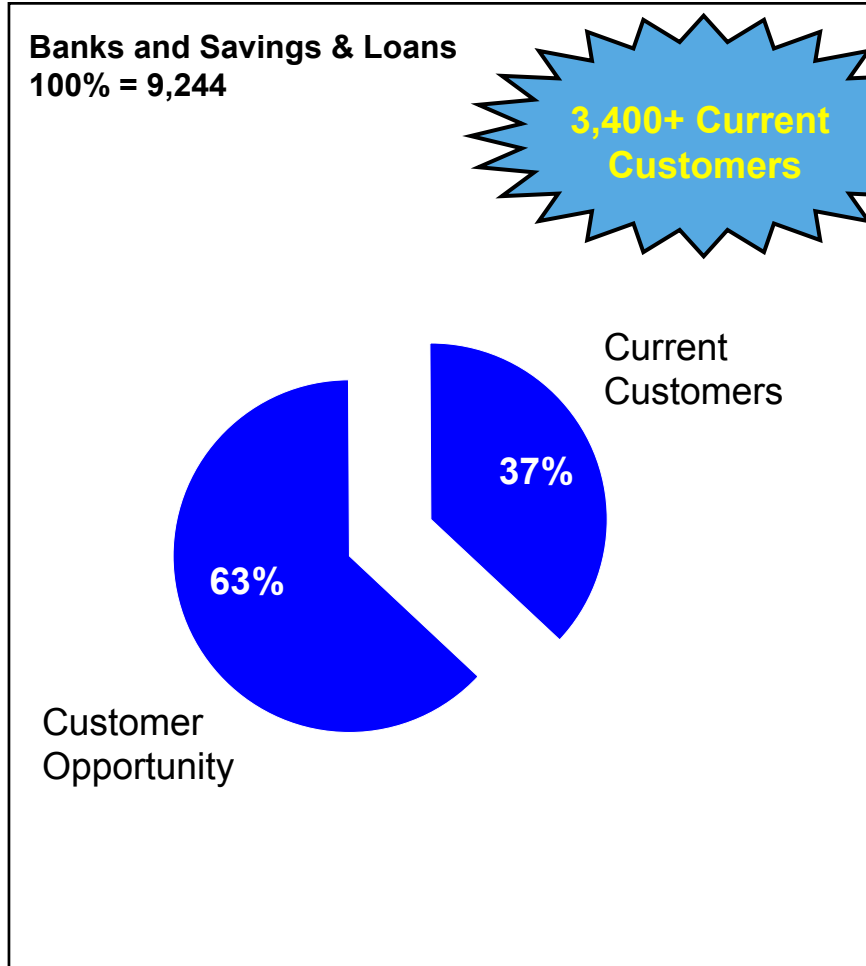


**\$17.8 billion in potential market revenue**

# Bank of Banks

## Market Opportunity

### Significant Cross-sell and Market Penetration Opportunities



# Bank of Banks

## Capitalizing on the Opportunity

- Cross-sell products to existing financial institution customers
- Develop new products through extensions of existing capabilities to meet identified market needs
- Source new financial institution customers
- Opportunistically pursue acquisitions

# Bank of Banks

## Timeline

### Short Term

- Develop tactics that will test theories and pilot with a select cross-business unit set of individuals
- Learn and modify medium and long term plans accordingly
- Generate revenue through incremental cross sales and expansion of select products with sound business cases

### Medium Term

- Launch cross sale effort across full sales and relationship management teams
- Segment customer base to provide high quality leads to sales force (via Relationship Management Systems)
- Refine products launched in short term and add new products that have solid business case

### Long Term

- Address organizational alignment and pursue customer focused approach