



WHITE PAPER

With Increasing Costs & EMV Liability Shifts Approaching . . . **Should You Stay or Should You Go?**



Most people dream of retirement or, at the very least, a time when all their hard work will reap rewards. It's safe to say at some point independent ATM deployers (IAD) will retire, sell or leave the business for one reason or another.

Operating a fleet of ATMs can be an extremely lucrative business, however decreasing interchange rates as well as increasing costs and regulatory burdens have many IAD feeling like they are working harder to earn less. Couple this with ATM saturation and rapidly changing technology and it's no wonder some IADs are wondering if now may be the time to sell their portfolio.

Challenges Facing IADs

Decreasing interchange rates have had a detrimental effect on many IADs – so much so that industry surveys have reported this issue as a major concern for several years running. ATM deployers are consistently looking for ways to counteract declining rates have caused.

One factor effecting the industry is increased costs – hardware, software, labor...and fraud. If regular software updates and new government mandates like ADA were not enough, now IADs must upgrade

aging ATMs to be EMV compliant by October 2016 to not be liable for counterfeit fraud costs on MasterCard transactions. Those failing to upgrade by October 2017 will absorb the risk from Visa as well. The question for many IADs is whether EMV liability shifts are the worst of the required responses to increasing fraud, or just the tip of the iceberg.

Interchange rate reductions, principally led by Visa and MasterCard, have resulted in an aggregate net income reduction to the U.S. IAD averaging more than 25% since 2011.

— Sam Ditzion, Tremont Capital Group

Criminals are not the only ones changing their tactics and technology on a regular basis. Technology innovations have continued to pick up pace and have slowly begun to transform the payments landscape. Today's news is full of talk about NFC mobile payments through Apple Pay and Google Wallet as well as biometric security options for payments. While most of these new technologies remain virtually untested and unrequired, businesses that fail to keep up may end up absolute.

Most industries face these types of issues on a regular basis. Competition, innovation and regulations are continual challenges for everything from footwear to video game consoles. The truth is the ATM industry has had a long run of steady success however the key to business survival may be reinvestment and innovation.

Many IADs are utilizing the same business model now that they have been following for years. In fact, the [2015 U.S. IAD Industry Survey](#) from the ATM Industry Association and Kahuna ATM Solutions reported the majority of IADs, just under 55 percent, offer transaction processing (ATM, credit and debit card) and ATM equipment – and nothing else. It may be time for those in the industry to start thinking outside the ATM box and begin diversifying.

In addition to diversification or and/or a new business model, IADs also have the option to combat shrinking interchange and ATM saturation through network expansion. While interchange rates may be out of an ATM operator's control, this is not the case when it comes to the number of total transactions.

“Purchasing additional portfolios is one way to quickly grow transaction volume,” says, Darrin Ginsberg, CEO of Super G Funding, a top residual lender and trusted partner among ISOs, ATM deployers and merchant services. “A thorough evaluation of current business and finances as well as the proposed portfolio being purchased could reveal a purchase to be the right investment to quickly increase revenues, despite some additional operational costs.”

Ultimately, the best move any IAD can make is a reinvestment in their business – especially as it applies to upgrades and new technologies.

“These measures help keep an IAD's network more secure, protect them from the nebulous costs of fraud liability and work to meet cardholder demand,” says Bruce Renard, Executive Director of the National ATM Council.

While it is required to meet government security and ADA standards and is in an IAD's best interest to meet the EMV liability shift demands of the card networks, the cardholder is ultimately the end user of any ATM.



Upgrading based on regulations protects the business now. Investing in new technologies protects the business for the future.

— Bruce Renard, National ATM Council

“Providing consumers with top technologies and a multitude of convenient services through contactless transactions and advanced functionality could very well be what keeps these machines relevant and top-of-mind,” says Renard.

He notes, “upgrading based on regulations protects the business now. Investing in new technologies protects the business and industry for the future.”

Reinvesting in the Business

There are several ways to reinvest, other than using company profits or personal cash.

“A good investor can help put money into the business, but will likely require a bit of say in how the money is allotted,” notes Super G Vice President of Business Development Bob Sliker.



Residual loans fit the ATM model well with fast approvals, an easy repayment process and at the end of the day the IAD still retains ownership and control.

— Bob Sliker, Super G Funding

Sliker says, “another option is a bank loan which are a bit harder to get as financial institutions have been keeping a tighter rein on their business loan approvals and their lack of knowledge in regard to the ATM business makes the process more difficult.”

“A third option is to borrow against residuals,” Sliker continues. “The availability of residual loans is good news for ATM deployers looking to tackle EMV migration or simply grow their business. This loan format fits the ATM model well with fast approvals, an easy repayment process and at the end of the day the IAD still retains ownership and control.”

Selling an ATM Business

Should the decision to sell the business turn out to be the best option, there are several items to be taken into consideration: valuing the portfolio, preparing to sell, finding the right buyer and tax implications.

Portfolio sales all have one thing in common, says Jack Milford Ford, an attorney that specializes in helping IADs navigate legal issues, “whether you are a buyer or a seller, the parties’ negotiations are the most aggressive regarding the valuation of the ATM assets being acquired/sold.”

Those wishing to sell off their ATM portfolios should be most conscious of how they present their business for sale.

Ford recommends any seller first identify what ATM portfolio assets they are willing to sell and what a prospective buyer may be willing to purchase. ATM processing contracts are typically the primary assets with ATMs owned, managed and operated coming in a close second.

IADs looking to sell their portfolios should have a complete inventory of all contracts for these assets as well as any additional items such as third party contracts with processors, sponsoring banks, service providers, etc., Ford says. Having all of these contracts in order is key to the valuation process as the actual value of an ATM portfolio is based on calculating recurring and growing incremental revenue streams and subtracting business and operational expenses.

“While it is possible to evaluate the business from contract and accounting documentation, it is almost always best to seek professional advice to complete the evaluation,” says Jon Engleking, Super G Chief Operating Officer. “An outside professional is more capable of presenting an unbiased opinion and see

issues those inside the business might not notice. Quite often, some housekeeping is in order prior to an attempted sale.”

Being prepared to sell means having all of your contracts in order but it also means an evaluation of the status of those contracts as well as a better understanding of the business’s revenue streams and expenses. “I recommend you implement a methodology to track specific financial data to analyze how your portfolio is performing via a monthly portfolio report card by generating at least two monthly financial reports,” says Ford.

However, the evaluation should not stop at your financials. IADs looking to sell also need to review the equipment in the field. Do the machines meet ADA standards? How many are upgraded for EMV? Making sure the entire fleet is clean, compliant and in good working order is important in order to get the best price for the portfolio. This includes being as prepared for the EMV liability shift as possible. ATMs won’t be worth much if they aren’t upgraded, says Ford.

Once the portfolio is in order, it is time to start searching for a potential buyer. “While there are a number of venues available for listing your portfolio, including ATM industry groups and publications, it is often best to seek professional advice to help you find the right buyer and walk you through the sales process,” Engleking says.

Should You Stay or Should You Go ...

No matter if you decide to leave the business now or stay in, the ATM business is changing and IADs need to be prepared for the future. Proper planning, investment and diversification can help the innovative ATM owner broaden their current portfolio with additional revenue streams that could help them continue to prosper – and even help them be at the forefront of change as they work to meet cardholder demands.

IADs seeking to close their doors and sell their portfolio should make sure they have performed a thorough housekeeping evaluation – including a full contract, expenses and equipment evaluation – in order to determine the real value of their business.

No matter if you decide to stay or leave the business, IADs need to be prepared for the future.



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