

# Repay Holdings Corporation

## (RPAY, Buy, \$20.00 PT)

Reiterating Buy, Raising PT to \$20; 2H19 Acquisitions Adding Back-End Processing Capabilities and B2B Payment Vertical Boosted Prospects

**WHAT YOU SHOULD KNOW:** We are reiterating our Buy recommendation on Repay Holdings (RPAY) while raising our price target to \$20 (from \$16) based on 15.5x our FY22E adjusted EBITDA of \$89.8mm. While shares of RPAY have appreciated by almost 41% in just over five months, we believe the stock still has ample upside, especially when considering the potential impact of a couple of acquisitions – TriSource and APS – executed during 2H19 that provided the company with its own back-end payment processing platform and added the B2B payment vertical to its mix.

- We are reiterating our Buy recommendation on Repay Holdings (RPAY) while raising our price target to \$20 (from \$16) based on 15.5x our FY22E adjusted EBITDA of \$89.8mm. While shares of RPAY have appreciated by almost 41% in just over five months (versus 15% for the S&P 500), we believe the stock still has ample upside, especially when considering the potential impact of a couple of acquisitions – TriSource and APS – executed during 2H19 that provided the company with its own back-end payment processing platform and added the B2B payment vertical to its mix. Contributions from these acquisitions are reflected in the FY22 estimates for RPAY we are introducing with this report.
- We believe RPAY's proprietary, cloud-based payment processing technology platform, which enables it to customize solutions for clients in the market verticals it targets, combined with its burgeoning list of software partners (59 and counting), should allow it to post growth in payment volume and revenue in the high-teens context over the next few years. A key part of the company's strategy is to expand to new vertical markets and enhance its product capabilities by acquiring integrated payment companies, and we believe it has a strong acquisition pipeline.
- By providing RPAY with back-end settlement solutions, the acquisition of TriSource for \$65mm in August enabled the company to offer an end-to-end payment processing platform while supporting its M&A strategy by reducing the processing costs of the firms it acquires and expediting the realization of synergies. TriSource also supports RPAY's efforts to develop new payment solutions, and it should continue to generate strong organic growth in providing transaction processing services to independent sales organizations (ISOs).
- RPAY's acquisition in October of APS Payments for \$60mm added a fourth vertical to its three existing core verticals: personal loans, automotive loans and receivables management. The addition of APS gave RPAY a foothold in the B2B vertical from which it likely will expand, following the playbook it had used to build out its other verticals. B2B payments accounted for about 20% of RPAY's pro forma transaction volume after the closing of the APS deal. Management has said they believed B2B could become the company's largest segment depending on adoption rates and the traction gained by the "click to pay" option.
- **Valuation:** Our price target of \$20 for RPAY is based on 15.5x the company's FY22E adjusted EBITDA of \$89.8mm. The multiple we employ is based on comparable company analysis



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COMPANY DATA	
Closing Price:	\$15.91
Price Target:	\$20.00
Market Cap (\$M):	997.97
Shares Out (M):	62.7
Avg Daily Vol - 3 Months (M):	0.15
Dividend/Yield:	\$0.00/0.0%

REVISIONS		
	Previous	Current
Rating	Buy	Buy
Price Target	\$16.00	\$20.00
FY19E EPS	\$0.53	\$0.53
FY20E EPS	\$0.49	\$0.49
FY19E Rev. (M)	\$162.90	\$162.90

Diluted EPS (Adjusted)			
FY Dec	2018A	2019E	2020E
Q1	-	-	0.10
Q2	-	0.13	0.10
Q3	-	0.18	0.14
Q4	-	0.10	0.15
<b>Calendar EPS</b>	-	<b>0.53</b>	<b>0.49</b>
Calendar P/E	-	29.7x	32.5x

REVENUE (\$M)			
FY Dec	2018A	2019E	2020E
Q1	32.80	39.25	50.75
Q2	31.07	36.23	46.88
Q3	32.29	41.06	53.33
Q4	33.86	46.35	57.49
<b>FY</b>	<b>130.01</b>	<b>162.90</b>	<b>208.44</b>

Source: IDC, BTIG Estimates and Company Documents  
(\$ in millions, except per share amount)

## Investment Thesis

We believe RPAY's proprietary, cloud-based payment processing technology platform, which enables it to customize solutions for clients in the market verticals it targets, combined with its burgeoning list of software partners (59 and counting), should allow it to post growth in payment volume and revenue in the high-teens context over the next few years. A key part of RPAY's strategy is to expand to new vertical markets and enhance its product capabilities by acquiring integrated payment companies, and we believe the company has a strong acquisition pipeline.

## Upcoming Catalysts

- Announcements of new acquisitions, potentially in the recreational vehicle and/or credit union spaces, or in Canada, given management's commentary regarding potential targets.
- Q419 report and conference call providing management with platform to highlight company's growth story.

## Base Case Assumptions

- Our price target of \$20 for RPAY based on 15.5x the company's FY22E adjusted EBITDA of \$89.8mm.
- RPAY posts growth in payment volume and revenue in the high-teens context over the next few years

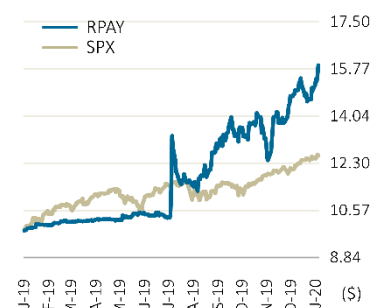
## Upside Scenario

- RPAY successfully identifies, executes on and integrates several accretive acquisitions that meaningfully boost its growth in revenue and adjusted EBITDA.
- RPAY benefits from economies of scale as a result of its faster-than-expected revenue growth as seen in expanding margins. The stock trades up to \$24.

## Downside Scenario

- RPAY's growth stalls as it is unable to execute on the M&A front and competition weighs on its revenues as larger payment providers aggressively enter the market verticals it targets.
- RPAY, in the absence of the strong revenue growth we are anticipating, fails to realize economies of scale and its margins stagnate. The stock trades down to \$10.

## Price Performance



Source: IDC

## Company Description

RPAY (NASDAQ: RPAY) provides integrated payment processing solutions through its proprietary technology platform to three verticals: personal loans, automotive loans and receivables management. Those three end markets have been underserved by payment technology and service providers due to their unique dynamics. RPAY provides its clients with credit and debit card processing, ACH processing and instant funding, which allows clients to push loan funds directly to a borrower's debit or prepaid card. The company processes these payment and funding methods through several proprietary payment channels.

- We believe the addition of B2B payments to RPAY's business mix makes it even more likely that the company will be targeted for acquisition. As we stated in our FinTech 2020 Outlook published on January 2, we believe consolidation of the fragmented B2B payment space is likely to accelerate meaningfully during the year ahead.
- While we believe RPAY's acquisitions of TriSource and APS were game-changers for the company, they were also impressed with the fact that it was able to keep its net leverage ratio essentially unchanged on a pro forma basis at 3.5x since the acquired firms' EBITDA was poised to grow fast enough to offset the leverage added to finance the deals. The acquisitions extended RPAY's history of acquiring businesses with high EBITDA growth rates such that they added additional M&A capacity while accelerating growth.
- Management has made it clear that M&A will remain an important part of RPAY's strategy going forward. While the company had previously encountered some competition on the M&A front from the six large merchant acquirers involved in the three megamergers that occurred in the space during 2019, the surviving firms in those deals are now even larger such that acquisitions of the size that the company targets would most likely be beneath their radar screens, management said. At the same time, the payment giants' internal focus as they seek to realize synergies from their deals makes it even more likely that RPAY will have a clearer field in pursuing acquisitions.
- Management said RPAY has the bandwidth to execute on a few deals per year if it sees opportunities. They said that while they would allow the company to increase its net leverage ratio above 3.5x to facilitate an attractive acquisition, it would then focus on deleveraging to a level closer to 3x within six to 12 months. They described RPAY's M&A pipeline as "active," noting that some of APS's competitors could be targets and would enable the company to continue to expand in the B2B vertical.
- RPAY went live in Canada during 2Q19, and on August 13 it launched in that country its Instant Funding product, through which lenders can send funds directly in real time to eligible Visa (V, Not Rated) debit and prepaid cards, thereby replacing traditional checks and electronic funds transfer (EFT) transactions in which funds may not be available for days. Management said during the company's 3Q19 conference call in November that they viewed the company's Canada organic initiative as requiring a multi-year commitment, with its focus during its first year there on building its ecosystem including integrations with various software partners. They said they would look to bring on new customers during year two in 2020, with the effort likely to contribute to RPAY's operating performance starting in 2021.

## Income Statement

REPAY - Income Statement	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Dec-22
\$ thousands	2016A	2017A	2018A	1Q19A	2Q19A	3Q19A	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E
Processing and service fees	51,342	57,063	82,186	24,321	22,649	27,041	31,031	105,042	32,833	30,576	36,505	39,100	139,014	40,057	37,303	44,537	47,702	169,598	200,125
Interchange and network fees	30,953	36,888	47,827	14,928	13,585	14,022	15,322	57,857	17,914	16,302	16,826	18,387	69,429	21,855	19,888	20,528	22,432	84,703	99,949
<b>Total Revenue</b>	<b>82,295</b>	<b>93,951</b>	<b>130,013</b>	<b>39,249</b>	<b>36,234</b>	<b>41,063</b>	<b>46,354</b>	<b>162,900</b>	<b>50,747</b>	<b>46,878</b>	<b>53,332</b>	<b>57,486</b>	<b>208,443</b>	<b>61,911</b>	<b>57,191</b>	<b>65,065</b>	<b>70,133</b>	<b>254,300</b>	<b>300,075</b>
Interchange and Network Fees	30,953	36,888	47,827	14,927	13,585	14,022	15,322	57,856	17,914	16,302	16,826	18,387	69,429	21,855	19,888	20,528	22,432	84,703	99,949
Other cost of services	22,285	20,713	27,160	6,417	5,592	7,616	7,556	27,181	7,967	7,360	8,373	9,025	32,726	9,720	8,979	10,215	11,011	39,925	47,112
<b>Gross Profit</b>	<b>29,057</b>	<b>36,350</b>	<b>55,026</b>	<b>17,905</b>	<b>17,057</b>	<b>19,425</b>	<b>23,476</b>	<b>77,863</b>	<b>24,866</b>	<b>23,216</b>	<b>28,132</b>	<b>30,074</b>	<b>106,289</b>	<b>30,337</b>	<b>28,324</b>	<b>34,321</b>	<b>36,691</b>	<b>129,672</b>	<b>153,014</b>
Gross Profit Margin	56.6%	63.7%	67.0%	73.6%	75.3%	71.8%	75.7%	74.13%	75.7%	75.9%	77.1%	76.9%	76.5%	75.7%	75.9%	77.1%	76.9%	76.5%	76.5%
SG&A	23,574	14,604	29,097	8,677	8,456	55,072	10,661	82,866	11,672	10,782	12,000	12,934	47,388	13,620	12,582	14,314	15,429	55,946	66,016
D&A	3,737	7,457	10,421	2,914	2,975	3,783	3,778	13,450	4,161	3,844	4,373	4,714	17,092	5,077	4,690	5,335	5,751	20,853	24,606
Change in fair value of contingent consideration	0	-2,100	-1,103	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Operating Costs</b>	<b>80,549</b>	<b>77,562</b>	<b>113,402</b>	<b>32,935</b>	<b>30,608</b>	<b>80,493</b>	<b>37,317</b>	<b>181,353</b>	<b>41,714</b>	<b>38,288</b>	<b>41,572</b>	<b>45,060</b>	<b>166,634</b>	<b>50,272</b>	<b>46,139</b>	<b>50,393</b>	<b>54,623</b>	<b>201,427</b>	<b>237,684</b>
<b>EBIT</b>	<b>1,746</b>	<b>16,389</b>	<b>16,611</b>	<b>6,314</b>	<b>5,626</b>	<b>-39,430</b>	<b>9,037</b>	<b>-18,453</b>	<b>9,033</b>	<b>8,590</b>	<b>11,759</b>	<b>12,426</b>	<b>41,809</b>	<b>11,639</b>	<b>11,052</b>	<b>14,672</b>	<b>15,510</b>	<b>52,874</b>	<b>62,391</b>
Interest Expense	-2,251	-5,706	-6,073	-1,449	-1,470	-2,913	-3,221	-9,053	-3,179	-3,137	-3,096	-3,056	-12,468	-3,016	-2,977	-2,939	-2,901	-11,833	-11,233
Interest Income	0	0	0	0	0	-451	0	-451	0	0	0	0	0	0	0	0	0	0	0
Other Expense	-7	-1,235	-1	0	0	-1,316	0	-1,316	0	0	0	0	0	0	0	0	0	0	0
<b>Profit before tax</b>				<b>4,865</b>	<b>4,156</b>	<b>-44,109</b>	<b>5,816</b>	<b>-29,273</b>	<b>5,855</b>	<b>5,453</b>	<b>8,663</b>	<b>9,370</b>	<b>29,341</b>	<b>8,623</b>	<b>8,075</b>	<b>11,733</b>	<b>12,610</b>	<b>41,041</b>	<b>51,158</b>
Income tax expense (benefit)							843	-1,876	849	791	1,256	1,359	4,254	1,250	1,171	1,701	1,828	5,951	7,418
<b>Net Income</b>	<b>-512</b>	<b>9,448</b>	<b>10,537</b>	<b>4,865</b>	<b>4,156</b>	<b>-41,390</b>	<b>4,973</b>	<b>-27,396</b>	<b>5,006</b>	<b>4,663</b>	<b>7,407</b>	<b>8,011</b>	<b>25,087</b>	<b>7,373</b>	<b>6,904</b>	<b>10,032</b>	<b>10,781</b>	<b>35,090</b>	<b>43,740</b>
<b>Adjusted Net Income</b>				<b>8,896</b>	<b>7,813</b>	<b>10,428</b>	<b>6,414</b>	<b>33,551</b>	<b>6,469</b>	<b>6,106</b>	<b>8,884</b>	<b>9,510</b>	<b>30,970</b>	<b>8,915</b>	<b>8,421</b>	<b>11,590</b>	<b>12,369</b>	<b>41,295</b>	<b>50,184</b>
Shares Outstanding					60,639	57,531	62,726	62,726	62,852	62,977	63,103	63,229	63,229	63,356	63,483	63,610	63,737	63,737	64,248
<b>Adjusted EPS</b>					\$ 0.13	\$ 0.18	\$ 0.10	\$ 0.53	\$ 0.10	\$ 0.10	\$ 0.14	\$ 0.15	\$ 0.49	\$ 0.14	\$ 0.13	\$ 0.18	\$ 0.19	\$ 0.65	\$ 0.78

Source: BTIG Estimates and Company Documents

REPAY - Adj. EBITDA Bridge	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Dec-21	Dec-22
\$ thousands	2016A	2017A	2018A	1Q19A	2Q19A	3Q19A	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E
<b>EBITDA</b>	<b>5,476</b>	<b>22,611</b>	<b>27,031</b>	<b>9,228</b>	<b>8,601</b>	<b>-37,414</b>	<b>12,815</b>	<b>-6,770</b>	<b>13,194</b>	<b>12,434</b>	<b>16,133</b>	<b>17,140</b>	<b>58,901</b>	<b>16,716</b>	<b>15,742</b>	<b>20,007</b>	<b>21,261</b>	<b>73,726</b>	<b>86,997</b>
Loss on extinguishment of debt	7	1,235	1	0	0	1,316	0	1,316	0	0	0	0	0	0	0	0	0	0	0
Non-cash change in fair value of contingent consideration	0	-2,100	-1,103	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share-based compensation expense	137	622	797	127	124	10,409	232	10,892	254	234	267	287	1,042	310	286	325	353	1,274	1,504
Transaction expense	15,342	1,351	4,751	1,686	810	35,017	0	37,513	0	0	0	0	0	0	0	0	0	0	0
Management fees	213	400	400	100	100	11	0	211	0	0	0	0	0	0	0	0	0	0	0
Legacy commission related charges	188	782	4,168	0	550	1,877	100	2,527	100	100	100	100	400	100	100	100	100	400	400
Employee recruiting costs	0	278	256	15	0	18	9	42	10	9	11	11	42	12	11	13	14	51	60
Loss on disposition of property and equipment	7	8	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	122	98	216	59	168	32	60	319	60	60	60	60	240	80	80	80	80	320	320
Strategic Initiatives and related costs	15	164	272	124	93	80	100	397	100	100	100	100	400	120	120	120	120	480	480
Other non-recurring charges	187	-23	-27	0	0	565	0	565	0	0	0	0	0	0	0	0	0	0	0
<b>Adjusted EBITDA</b>	<b>21,694</b>	<b>25,426</b>	<b>36,779</b>	<b>11,339</b>	<b>10,446</b>	<b>11,910</b>	<b>13,316</b>	<b>47,012</b>	<b>13,718</b>	<b>12,938</b>	<b>16,670</b>	<b>17,699</b>	<b>61,025</b>	<b>17,338</b>	<b>16,339</b>	<b>20,645</b>	<b>21,929</b>	<b>76,252</b>	<b>89,761</b>
Adj. EBITDA Margin	42.3%	44.6%	44.8%	46.6%	46.1%	44.0%	42.9%	44.8%	41.8%	42.3%	45.7%	45.3%	43.9%	43.3%	43.8%	46.4%	46.0%	45.0%	44.9%
Adj. EBITDA Growth		17.2%	44.7%	20.1%	23.8%	29.4%		27.8%	21.0%	23.9%	40.0%	32.9%	29.8%	26.4%	26.3%	23.8%	23.9%	25.0%	17.7%

Source: BTIG Estimates and Company Documents



## BTIG Covered Companies Mentioned in this Report

REPAY HOLDINGS CORP (RPAY, Buy, \$20.00 PT; Current Price: \$15.91; Analyst: Mark.Palmer)

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Andrew Harte, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Regulatory Disclosures

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**Distribution of BTIG's Research Recommendations (as of December 31, 2019):**

**BUY: 66.3%; NEUTRAL: 32.4%; SELL: 1.3%**

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**BUY: 28.0%; NEUTRAL: 11.9%; SELL: 0.0%**

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### Company Valuation and Risk Disclosures

#### Repay Holdings Corporation (RPAY, Buy, \$20.00 PT)

**Valuation:** Our price target of \$20 for RPAY is based on 15.5x the company's FY22E adjusted EBITDA of \$89.8mm. The multiple we employ is based on comparable company analysis.

**Risks:** Risks include competition, macroeconomic risks, reliance on software integration partners, risk of unauthorized disclosure of merchant or consumer data, regulatory risks, and risks associated with execution and integration of acquisitions.

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 Repay Holdings Corporation (RPAY)  
 BTIG LLC had an investment banking services client relationship during the past 12 months with:  
 Repay Holdings Corporation (RPAY)

## Other Disclosures

Additional Information Available Upon Request

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