



CASH IS KING...

...BUT...

...THE KING IS DEAD



By: Justin Hughes, CFA



## Short Idea Introduction

- Cardtronics is a case of **technical obsolescence**, their product being physical paper cash, which has been losing share to electronic payments for decades. Recently, cash usage has declined according to the Federal Reserve.
- The ATM business is heavily leveraged to volumes. We estimate a 10% revenue decline could impact earnings by 40%.
- Tap to Pay adoption likely results in **25% to 35% declines in ATM transactions** as witnessed in the U.K. and Australia. Adoption curves show Tap to Pay cannibalizes cash and will typically be 50% of in person transactions within 5 years.
- All 5 of the largest U.S. mass transit systems are adopting Tap to Pay within the next 12 to 18 months. International examples show that Tap to Pay adoption rapidly accelerates in areas with mass transit adoption.



## Outline

- Our case study is a short position on Cardtronics (CATM), an ATM owner and operator:

### Technological Obsolescence

- Then & Now
- Cash Is The New Check
- Federal Reserve Data Shows Cash In Decline
- More Recent Research Shows The Decline is Accelerating
- Demographics Make It Unlikely To Reverse Trend

### Tap To Pay Adoption Cannibalizes Cash

- Global Phenomenon
- U.K. Example: 25% ATM Volume Decline
- Australian Example: 35% ATM Volume Decline
- U.S. Adoption Has Started
- Transit Accelerates Adoption



# Outline

## Cardtronics Specific

- Are Challenges Behind?
- Leverage \* Leverage \* Declining Revenue = Trouble<sup>3</sup>
- CATM's Top Partners Embracing Contactless
- Revenue Metrics A Concerning Trend
- 2018 Metrics Had One-Time Benefits
- Tailwinds Becoming Headwinds
- Questionable 'Organic Growth'
- Economically Impaired Assets Weigh On The Balance Sheet
- Gap Widening Between GAAP And Adjusted Results
- Roller Coaster Guidance
- Refuting The Bull Case
- Earnings Beats Do Not Fix Fundamental Problems
- Is CATM A Software Or Hardware Company?
- High CapEx Relative To Peers Makes EBITDA Metrics Less Relevant

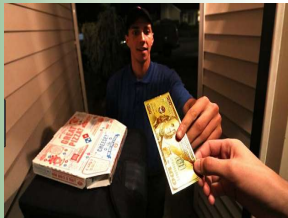
## Appendix



# Technological Obsolescence

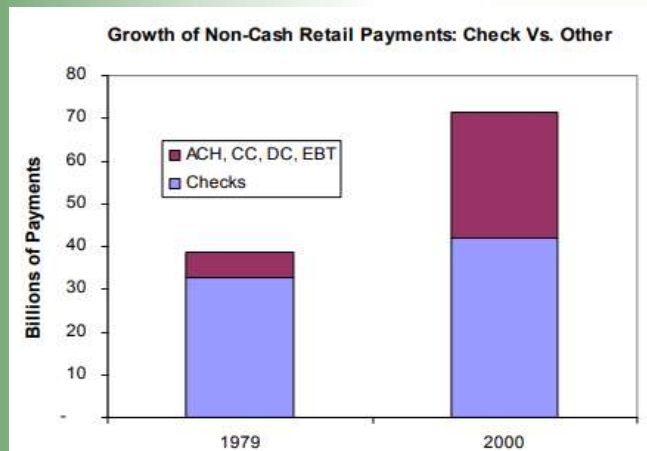


## Then & Now

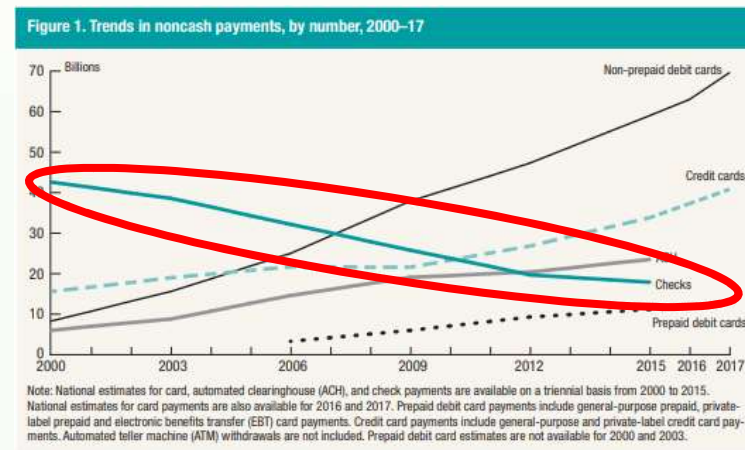


# Cash Is The New Check

*For hundreds of years, check volumes grew despite the introduction of credit cards, the internet, eCommerce, and the dot com boom. As we entered the new millennium, it seemed the check was unstoppable. However, year 2000 proved to be the tipping point as checks not only lost share, but went into absolute decline.*



Source: Triennial Federal Reserve Payments Study



Source: Federal Reserve Payments Study



## Cash Is The New Check

Consumers are making a rational choice to move away from cash:

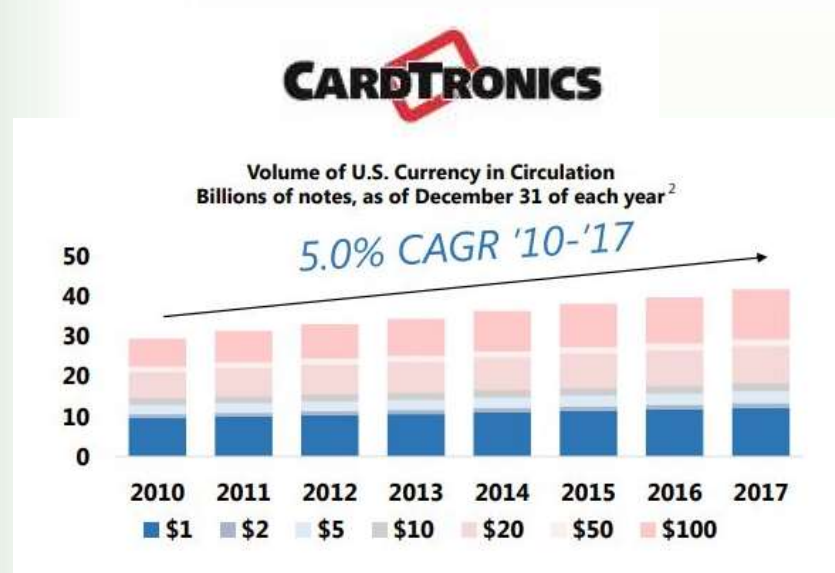
- *Faster checkout experience and no cumbersome coins*
- *Cards often offer cashback, points, or rewards*
- *Transactions can be disputed if not properly delivered*
- *Safer: A lost card can be deactivated, cash is gone*
- *Cards offer ability to revolve balance*
- *Cards can execute transactions much larger than would be practical with cash*
- *Government programs moving to card-based systems*





## CATM Overstates Its Addressable Market By Pointing Investors to Cash in Circulation

CATM management points investors to 'Total Cash in Circulation' even though CATM is not paid on cash outstanding. We believe CATM is more closely tied to 'Transactional Cash'.



Source: Cardtronics 2019 Investor Day

We have done a deep dive into Federal Reserve data to analyze 'Transactional Cash' using the definition provided by the Federal Reserve – Transactional Cash includes: \$1, \$5, \$10, and \$20s.

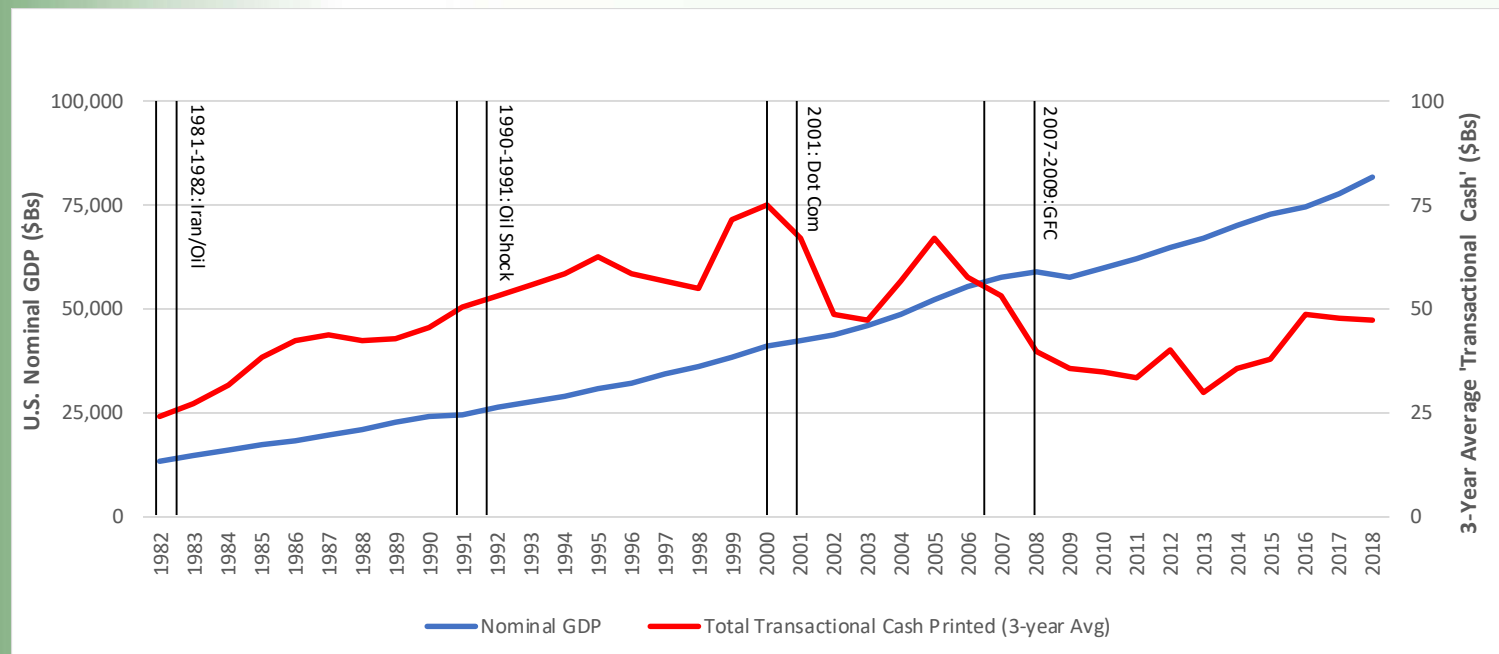


## Federal Reserve Data Shows Cash In Decline

**‘Transactional Cash’ Demand In Decline: \$1s, \$5s, \$10s, and \$20s**

Since 2000:

- Nominal GDP has nearly **doubled**
- U.S. Population **+16%**
- Transactional Cash 3-year average print orders **down 37%**



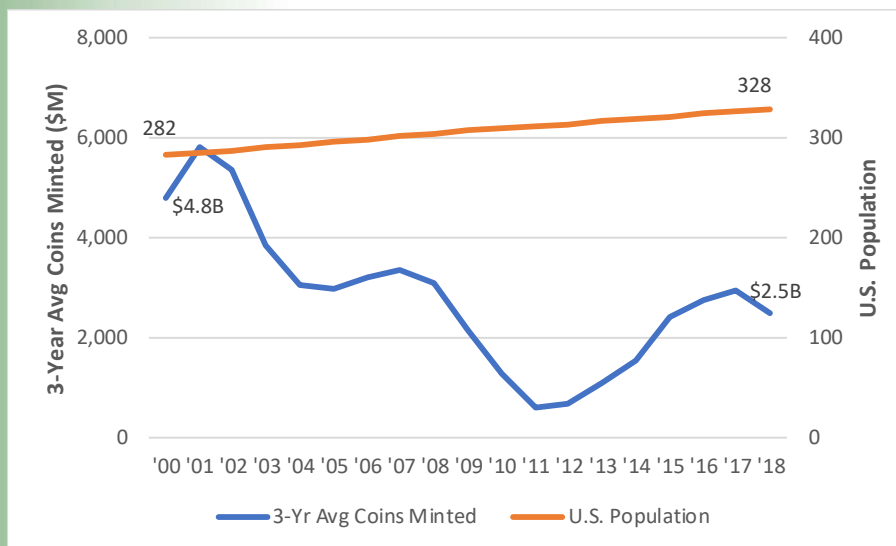
Source: Federal Reserve



# Federal Reserve Data Shows Cash In Decline

## Transactional Coin Demand In Decline

How much change is in your pocket?  
(pennies, nickels, dimes, and quarters)



Source: Federal Reserve



*We believe coins represent an important indicator of everyday cash usage.*



## Federal Reserve Data Shows Cash In Decline

- Transactional cash “velocity” is slowing as shown by the Fed’s unusually low 2019 print order. Bills are lasting longer, and banks sit with high inventory.

*“During FY 2018, Reserve Banks destroyed fewer notes than we estimated when we prepared the FY 2018 order. As a result, Reserve Banks will end the year with larger inventories.”*

- Cash outstanding (specifically \$100s, which CATM does not dispense) can be growing while transactional cash can be declining. The number of outstanding U.S. \$100 bills has doubled since the financial crisis and accounted for the vast majority of the growth in cash in circulation.



# Federal Reserve Data Shows Cash In Decline

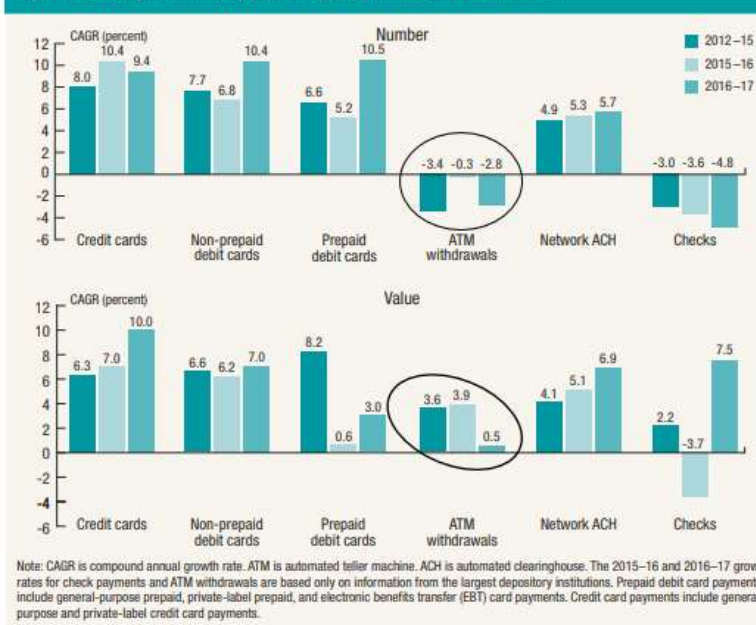
*The Federal Reserve's Most Recent Data Showed ATM Transactions Declined 2.8% In 2017.*

*These trends tend not to reverse:*

*UK reported its first decline in ATM activity in 2016. Every year has been negative since.*

*Australia never reported negative ATM activity until 2008. Every year has been negative since.*

Figure 2. Annual growth rates by payment type, by number and value, 2012–17



Source: The Federal Reserve Payments Study: 2018 Annual Supplement



## More Recent Research Shows An Acceleration

### Management teams across industries

- *“Cash as a tender continues to approach zero over time.” - Bradley Lukow, Sprouts Farmer’s Market Interim Co-CEO and CFO, on 3Q18 earnings call.*
- *“Delivery is so new, but it’s like credit card sales. At some point, you got to be in that game.” – Kevin Ozan, CFO of McDonald’s. McDonald’s is currently installing cashless kiosks at all locations.*
- *“New guest-facing technology that enhances the overall dining experience, such as our no-wait tool to provide more accurate wait times, server tables to increase order efficiency and accuracy, and wireless credit card devices to allow guests to easily pay.” - Darren Rebelez, President of IHOP, Dine Brands 4Q18 earnings call.*
- *“So, we’re seeing credit card charges continue to be a bit higher than what we typically run. Some of that is due to credit card transactions, more of those transactions being plastic versus cash, so that’s one thing we saw this quarter.” – 2Q18 earnings call, Tonya Robinson, Texas Roadhouse CFO.*



# More Recent Research Shows An Acceleration

## It's Not Just About Cards, Multiple Technologies Are Cannibalizing



- Square/Dongle

- Square has built a \$28B market cap company by targeting the 'micro-merchant', i.e. the cash based merchant that traditional merchant acquirers deemed too small for credit card processing – that has all changed and now we have a million impersonators: Toast, Lightspeed, Revel, etc.

- Venmo

- Venmo was used by 40 million people in the last twelve months for person to person payments.

- SQ Cash App

- Cash App (Square) reports 15 million monthly users.

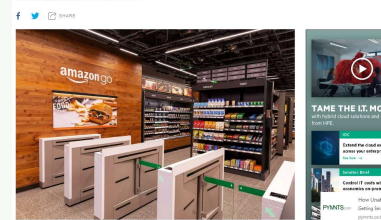
- Select businesses moving to cashless

- 60% of McDonald's U.S. locations now have kiosks and mobile ordering and 100% roll out is targeted by 2020.
- Mercedes-Benz Stadium in Atlanta is now cashless citing a better customer experience.



### Amazon's latest cashier-less Go store opens in San Francisco today

Amazon is speeding up its offline expansion  
By NICK SPERL | @SPERL | Oct 23, 2018, 10:46 AM EDT

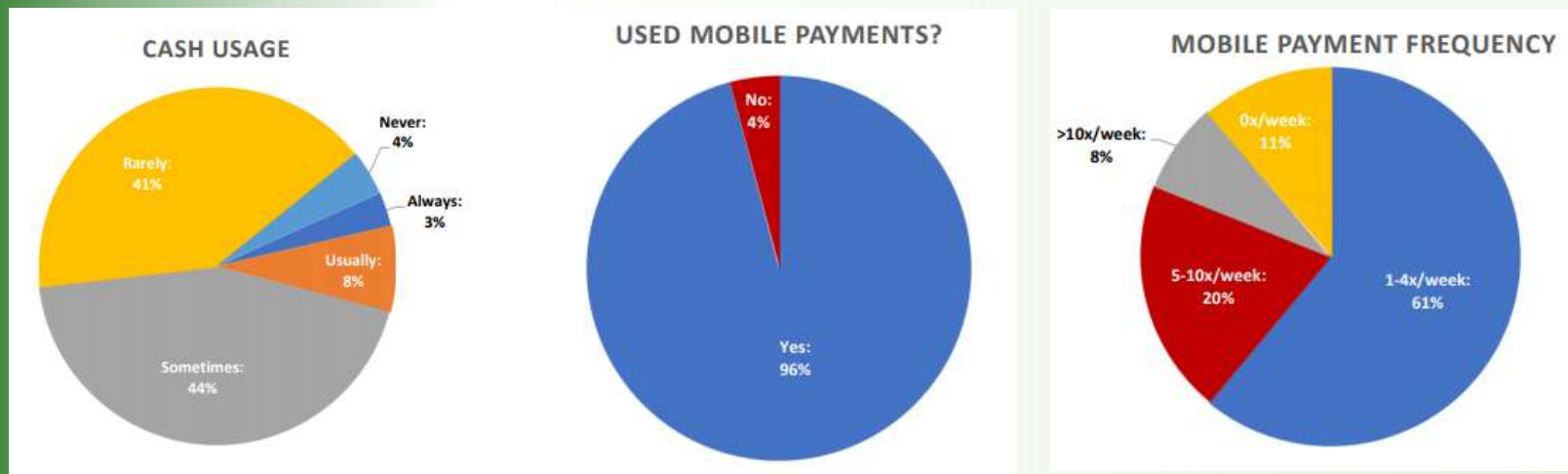




## Demographics Make It Unlikely To Reverse Trend

- Venmo #1 downloaded app on college campuses according to Paypal
- Half of Millennials use peer-to-peer payments at least once a week - Economist
- 75% of adults under 25 would rather be without their wallet than their phone
- 18-34 age group is now making 54% of their purchases online

### **Generation Z (ages 12-23) Is Clearly More Comfortable With Mobile Payments Than Cash**





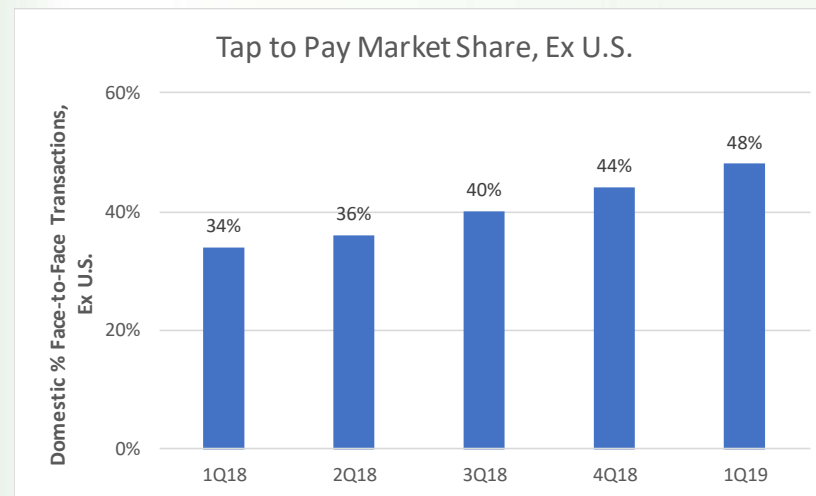
# Tap To Pay Cannibalizes Cash

- Visa



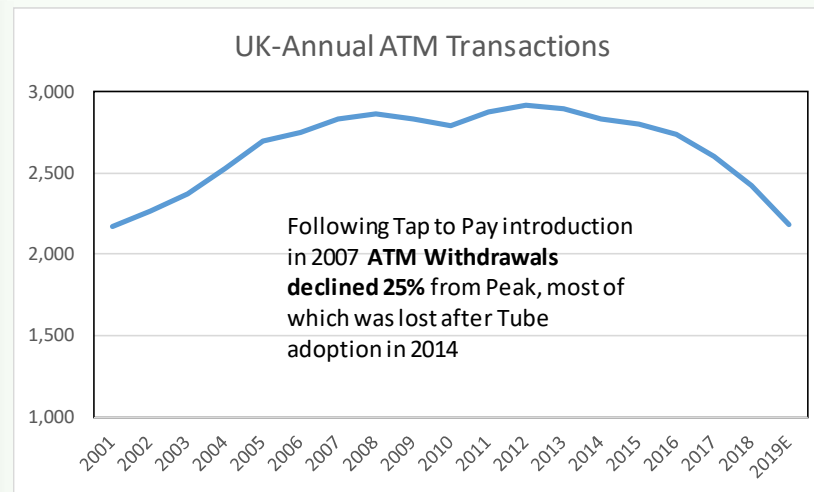
## Global Phenomenon

- Tap to Pay technology executes a transaction instantaneously by ‘tapping’ the card by the POS machine.
- Mobile wallets (Apple & Samsung) offer a similar experience.
  - Outside the U.S., 48% of face-to-face transactions are tap to pay.
  - Apple Pay volumes more than doubled and are on pace for 10 billion this year
  - “Tap to pay has proven it can displace cash at a more rapid rate and one of the most effective ways to accelerate the shift from cash to card.” – F2Q19 Visa earnings call.



## U.K. Example: 25% ATM Volume Decline

**Tap to Pay led to a 25% decline in ATM volumes**



Source: LINK (U.K.)

***CATM has highlighted the pressure this has created in the company's U.K. business***

*Withdrawal transaction and revenue trends - U.K.* Historically, the majority of our ATMs in the U.K. have been free-to-use ATMs, meaning the transaction is free to the consumer and we earn an interchange rate paid by the customer's bank. We also operate surcharging or pay-to-use ATMs, which are now increasing in the market and our ATM estate due to the LINK interchange rate reduction discussed above. During the year ended December 31, 2018, same-store cash withdrawal transactions in the U.K. decreased approximately 4% compared to the same period in 2017. We believe the growth rate was adversely impacted by changes in consumer payments behavior, where consumers are conducting more tap and pay transactions for small payments at retailers.

***Australia and the UK have reported increasing rates of contactless payment use as cash-based payments have declined as a percentage of total payments in recent years, with growth in contactless payments appearing to be the primary driver of the decline. - 2018 10K***



## U.K. Example: 25% ATM Volume Decline

- “The continuing adoption of new payment methods is reducing the demand for cash and therefore ATM withdrawals.” – Link’s (Largest UK cash machine network) February 2019 Monthly ATM Footprint Report

### Chairman’s Message



LINK is a vital national payment system relied on by almost every consumer in the UK to provide safe, reliable, and easy access to cash.

Cash usage in the UK is declining. LINK’s challenge is to maintain good free access to cash for those many consumers who will need it for years to come. Given LINK’s role, we are rightly seen by policy makers as systemically important to the UK economy. Hence, LINK’s other key task is to

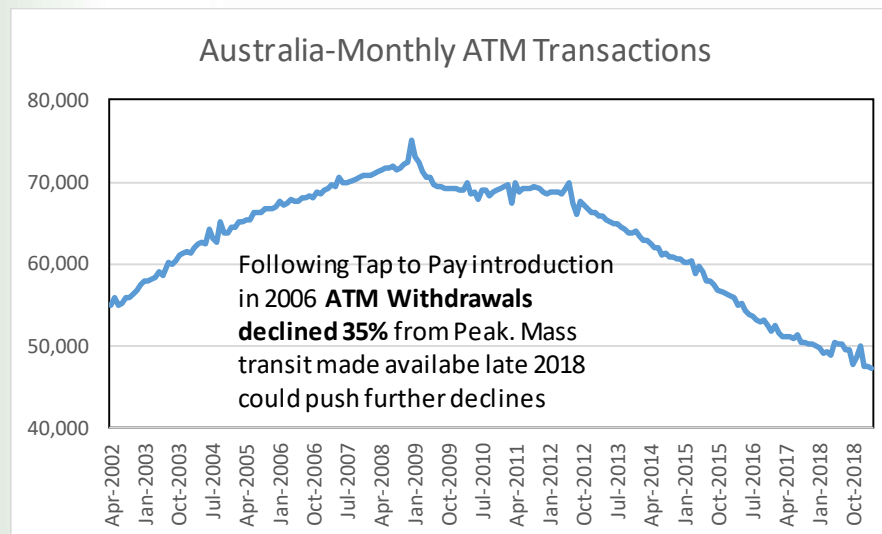
Our reforms will only stabilise the po few years, given the reducing demand from consumers underway. LINK has commissioned an independent review access and how it should be develop a key ingredient in shaping LINK’s lor

**Sir Mark Boleat**  
LINK Chairman



## Australia Example: 35% ATM Volume Decline

*“Around the turn of decade, Australians went to an ATM, on average, around 40 times per year. Today, we go to an ATM around 25 times a year and the downward trend is likely to continue.” - Reserve Bank of Australia Governor Philip Lowe*



Source: Reserve Bank of Australia

***CATM has highlighted the pressure this has created in the company's Australian business***

*Alternative payment options.* We face indirect competition from alternative payment options, including card-based and mobile phone-based contactless payment technology in all of our markets. Australia and the U.K. have reported increasing rates of contactless payment use. Prior to our acquisition of DCPayments and since our ownership of the Australian component of the business, we have observed declines in transactions at Australian ATMs, as cash-based payments have declined as a percentage of total payments in recent years, with growth in contactless payments appearing to be the primary driver of the decline.



## Tap To Pay: U.S. Adoption Has Started

- More than 100 million contactless cards will be issued in the US by the end of 2019 – according to Visa. Wells Fargo, Capital One, American Express, Citi, and Chase are all issuing Tap to Pay cards.
- 78 of the top 100 merchants (by transactions) currently enabled for contactless payments. 92% of pharmacies and 82% of quick service restaurants are accepting Tap to Pay cards.
- Contactless enabled merchants already represents 68% of all face to face transactions in the US.

Finally, we face indirect competition from alternative payment mechanisms, such as card-based payments, including contactless, or other electronic forms of payment, including payment applications on mobile phones. While it has been difficult to specifically quantify the direct effects from alternative payment sources on our transaction volumes, cash-based payments have declined as a percentage of total payments in our primary geographic markets in recent years. Further expansion in electronic payment forms and the entry of new and less traditional competitors could reduce demand for cash at merchant locations. We expect to continue to face competition from emerging payments technology in the future. See *Item 1A. Risk Factors - The proliferation of payment options and increasingly frictionless methods of payment other than cash, including credit cards, debit cards, stored-value debit cards, contactless, and mobile payments options could result in a reduced need for cash in the marketplace and a resulting decline in the usage of our ATMs.*



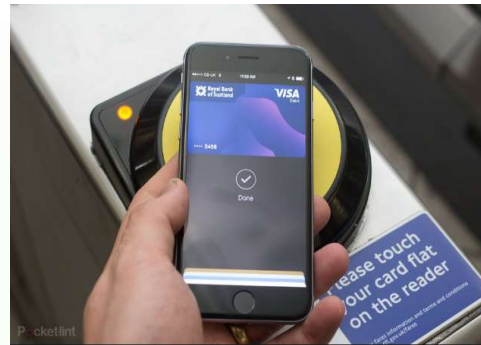


## Transit Accelerates Adoption

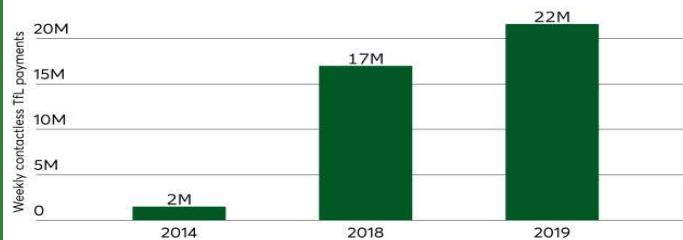
*London Tube: Accepts contactless payments*



*NY Contactless payments...NOW: May 31<sup>st</sup> Launch*



**London's contactless fast track**



Source: Transport for London, April 2019

*When transit adopts 'Tap to Pay,' the adoption curves are much steeper - Visa*



## **Transit Accelerates Adoption: U.S. Conversions Underway**

- NY Subway & Staten Island Bus: Friends & family testing now, release to public May 31st on limited lines. NY is the largest mass transit system in the U.S., moving more people than the next 10 systems combined.
- Chicago: Apple & Samsung Pay and Tap to Pay cards enabled 2H19. Chicago is 2nd largest mass transit system in the U.S.
- Washington DC: Expects to be ready in 2019. This is 3rd largest system.
- Boston: Tap to Pay and mobile roll out over the next 12 months. Boston is the 4<sup>th</sup> largest mass transit system in the U.S.
- SF Bay Area: Tap to Pay in next year. This is the 5<sup>th</sup> largest system.
- Portland: Tap to Pay available now.
- We estimate 25% of CATM's ATMs are in MSAs in the process of rolling out Tap to Pay and mobile payments within the next 18 months.





# Cardtronics Specific



## Are Challenges Behind?

The company has had to deal with:

1. Tap to Pay adoption in the U.K. and Australia
2. Australian banks eliminating ATM surcharge fees while CATM is all surcharge (i.e. competition went to free)
3. Interchange fees reduced in the U.K.
4. Loss of largest partner: 7-Eleven, who is now part of the MoneyPass surcharge free network.

*The company has maintained pro forma profitability, but we believe **new challenges** are ahead.*



## Leverage \* Leverage \* Declining Revenue = Trouble<sup>3</sup>

CATM's business model has the following characteristics:

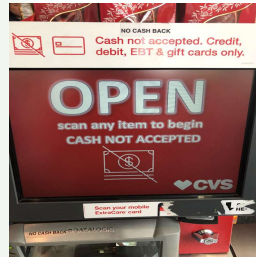
- Declining revenue outlook driven by technological obsolescence
- High operating leverage
  - Example: 7-Eleven loss accounted for 12% of revenues, but nearly 40% pre-tax income
- Balance Sheet Leverage
  - Debt/Adjusted EBITDA at 2.8x



## CATM's Top Partners Embracing Contactless

CATM lists the following retailers as among their largest partners

### ➤ CVS

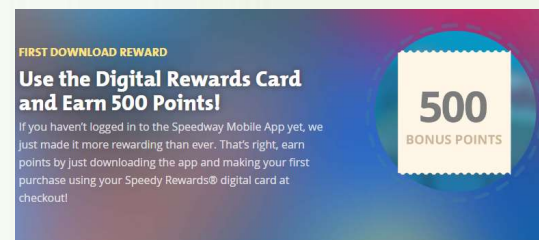


### ➤ Walgreens

**Walgreens exec: NFC payments doubled following Apple Pay integration**

### ➤ Speedway

- 3,000 Speedways now accept Apple Pay



## Revenue Metrics A Concerning Trend

- Constant currency organic revenue growth trending in wrong direction

Constant Currency Organic Growth						
	<u>1Q18</u>	<u>2Q18</u>	<u>3Q18</u>	<u>4Q18</u>	<u>2018</u>	<u>1Q19</u>
North America	-14%	-18%	-19%	-10%	-15%	-2%
- Ex-7-11	7%	4%	2%	2%	4%	1%
Europe & Africa	-1%	-2%	-4%	-3%	-2%	-1%
Australia & NZ	<u>-12%</u>	<u>-12%</u>	<u>-10%</u>	<u>-8%</u>	<u>-9%</u>	<u>-7%</u>
Subtotal	N/D	-13%	-14%	-8%	-11%	-2%
<b>Corporate</b>	<b>N/D</b>	<b>-1%</b>	<b>7%</b>	<b>-2%</b>	<b>-7%</b>	<b>-3%</b>
Consolidated	<u>N/D</u>	<u>-14%</u>	<u>-14%</u>	<u>-8%</u>	<u>-11%</u>	<u>-2%</u>
<b>- Ex-7-11</b>	<b>3%</b>	<b>1%</b>	<b>-1%</b>	<b>-1%</b>	<b>0%</b>	<b>0%</b>

Source: Company reports

ND = Not disclosed

Data not provided prior to 1Q18

- CATM has reduced its ATM fleet for 5 consecutive quarters before stopping disclosure

Company Owned Ending # of Transacting ATMs:								
	<u>1Q17</u>	<u>2Q17</u>	<u>3Q17</u>	<u>4Q17<sup>1</sup></u>	<u>1Q18</u>	<u>2Q18</u>	<u>3Q18</u>	<u>4Q18</u>
North America	52,583	52,288	51,962	47,082	45,726	44,393	43,943	43,233
Europe & Africa	24,850	25,512	25,988	26,148	25,291	24,369	24,335	23,768
Australia & NZ	<u>9,100</u>	<u>8,784</u>	<u>8,636</u>	<u>8,312</u>	<u>8,249</u>	<u>8,010</u>	<u>7,813</u>	<u>7,585</u>
Company Owned	86,533	86,584	86,586	81,542	79,266	76,772	76,091	74,586
<b>Q/Q Change</b>		<b>0.1%</b>	<b>0.0%</b>	<b>-5.8%</b>	<b>-2.8%</b>	<b>-3.1%</b>	<b>-0.9%</b>	<b>-2.0%</b>

Merchant Owned Ending # of Transacting ATMs:								
	<u>1Q17</u>	<u>2Q17</u>	<u>3Q17</u>	<u>4Q17<sup>1</sup></u>	<u>1Q18</u>	<u>2Q18</u>	<u>3Q18</u>	<u>4Q18</u>
North America	15,327	15,279	15,045	14,357	14,238	14,177	13,979	13,406
Europe & Africa	743	881	793	537	300	218	0	231
Australia & NZ	<u>103</u>	<u>103</u>	<u>103</u>	<u>103</u>	<u>103</u>	<u>103</u>	<u>103</u>	<u>103</u>
Merchant Owned	16,173	16,263	15,941	14,997	14,641	14,498	14,082	13,740
<b>Q/Q Change</b>		<b>0.6%</b>	<b>-2.0%</b>	<b>-5.9%</b>	<b>-2.4%</b>	<b>-1.0%</b>	<b>-2.9%</b>	<b>-2.4%</b>

<sup>1</sup>Most of 7-Eleven rolls off

Source: Company reports

Company stopped disclosing end of period machine counts



## **2018 Metrics Had One-Time Benefits**

1. 7-Eleven volume recapture: When 7-Eleven went off CATM's free Allpoint network, the company believed some of the volume was recaptured. So, while the 7-Eleven loss was 'pro forma'd' out of organic growth, the recapture benefit remained as an organic benefit. See below.
2. CATM likely eliminated its lowest performing machines. Thus, the reported "SSS" number only shows the performance of their best performing machines. Even post the 7-Eleven machine removals, ATMs are declining at a 7% annualized rate.
3. 2017 EMV upgrades led to high "downtimes" in 2017 so 2018 "uptimes" were bound to improve and the company currently claims "record" levels of "uptimes."

*"We estimate that the year ended December 31, 2018 was also positively impacted by transactions which migrated back to our network following the removal of Allpoint from 7-Eleven stores on July 1<sup>st</sup>, 2017. Finally, we believe the growth rate during the year ended December 31<sup>st</sup>, 2018 was positively impacted by higher ATM availability relative to the prior year as a result of the software upgrades and outages in 2017 that negatively impacted transaction volumes during the first part of that year." - CATM 2018 10K*



## **Tailwinds Becoming Headwinds**

- CATM annualized 7-Eleven volume recapture in 1Q19
- Machines will be comparing against the 'record uptimes' reported in 2018 and thus difficult to show further improvement
- Machines will incur downtime for Windows 10 upgrades
- Machine fleet has been rationalized, but the company now has fewer machines deployed



## Tailwinds Becoming Headwinds

- New competition: MoneyPass boasts 32,000 surcharge-free ATMs versus the 55,000 at Allpoint. MoneyPass partners include: 7-Eleven, Fifth Third, US Bancorp, Zions, East West Bank, Mechanics Bank, Provident Credit Union, etc.
- Customers likely to change their behavior to avoid surcharge fees. In the UK, CATM added surcharges to 4,000 machines in 1Q19 and we believe this could negatively impact volumes.
- In Australia, 77% of CATM revenues are from surcharge while all major banks offer free ATM transactions to not only their own customers, but customers of their competitors, essentially creating a free to use utility. We believe consumers will continue to rationally take advantage of free ATMs.
- Post the 7-Eleven loss, North America ATM count (CATM owned) has declined at a 7.4% annualized rate. For all of 2018, ATMs in Europe declined 9.1% and Australia ATMs declined 8.7%. Because of seasonality, it is more difficult to measure trends in the number of ATM transactions post 7-Eleven, however if trends were strong or even stable, we do not believe CATM would be removing ATMs.

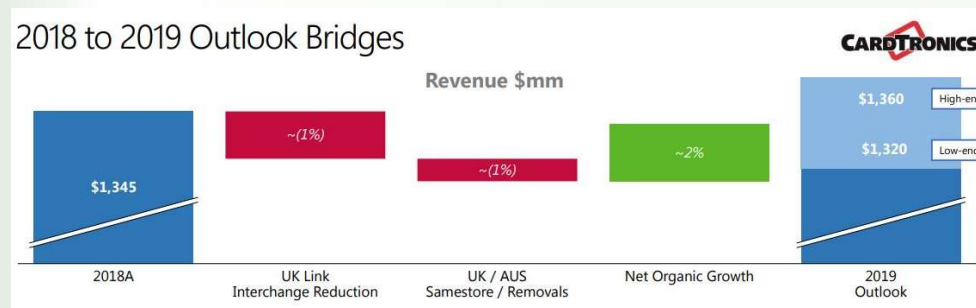




## Questionable 'Organic Growth'

CATM Has Inconsistencies In Its Definition Of 'Organic Growth'

- Organic growth excludes price cuts due to LINK price changes
- Includes price increase via added surcharge to offset the LINK price reductions
- Excludes all geographies with negative same store sales



- Excludes machine removals
- Despite all these inconsistencies, claimed revenue growth is still roughly in line with inflation

## Economically Impaired Assets Weigh On The Balance Sheet

- **The company has 4,000 ATMs out of operation, yet has not impaired the value of these assets.** With continued declining ATM counts, we think it is unlikely that these ATMs will be put back into service.

*We may accumulate excess or obsolete inventory or assets that cannot be used or re-deployed, which could result in unanticipated write-downs and adversely affect our financial results.*

We have a substantial number of ATMs, approximately 4,000, as of December 31, 2018, that are not currently in service, yet have remaining net carrying value. To the extent we are not able to re-deploy the assets, we may in future periods incur write-downs of these and other assets which could materially, adversely affect our business, results of operations, and stockholders' equity.

*We may accumulate excess or obsolete inventory or assets that cannot be used or re-deployed, which could result in unanticipated write-downs and adversely affect our financial results.*

As a result of the 2017 EMV upgrade and the loss of our largest customer 7-Eleven, which occurred mostly during the last five months of 2017, we now have a substantial number of ATMs, approximately 5,000, as of December 31, 2017, that are not currently in service, yet have remaining net carrying value. To the extent we are not able to re-deploy the assets, we may in future periods incur write-downs of these and other assets which could materially, adversely affect our business, results of operations, and stockholders' equity.

- We estimate these assets have a carrying value of \$10M to \$20M. The impact of a write off would be noncash, but we question why the company sits on so many unused machines.



## Gap Widening Between GAAP and Adjusted Results



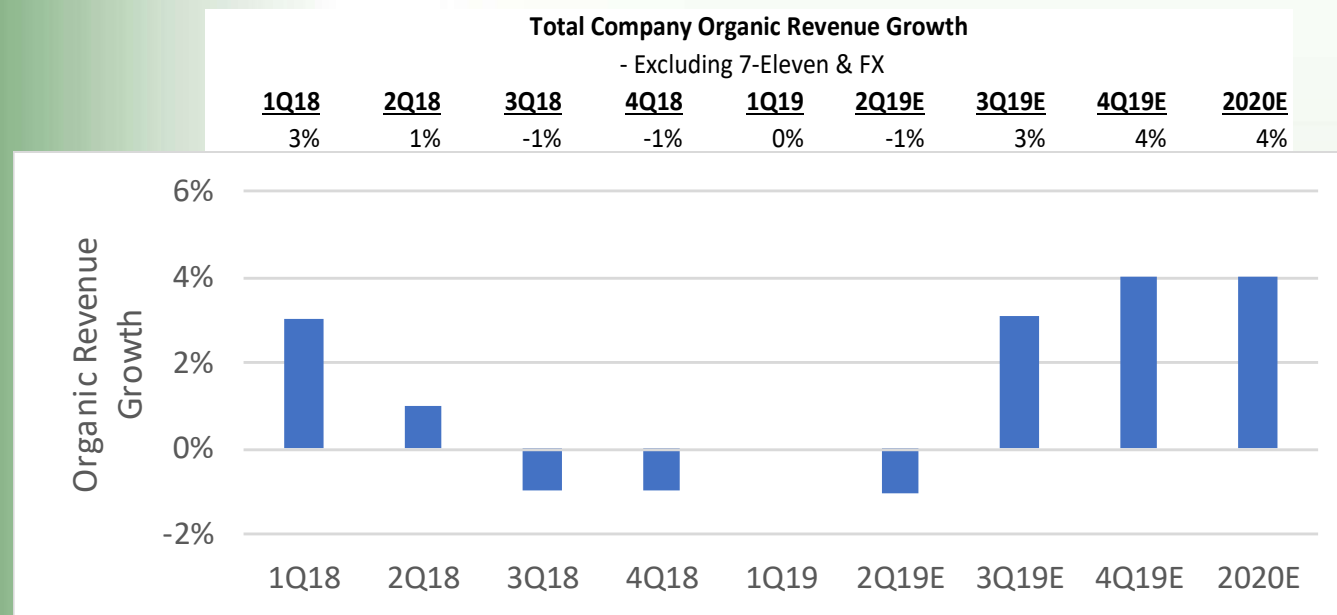
Source: Company reports



## Roller Coaster Guidance



- We are usually skeptical when a company projects accelerating trends.
- Given all the industry headwinds we have cited thus far, we are even more skeptical of CATM's projected ramp in organic growth.



Source: Company reports



## Refuting The Bull Case: Allpoint

CATM highlights the value of their surcharge free Allpoint network, particularly highlighting the growth in Allpoint transactions. However, minimal financial information is provided.

- Despite highlighting 'almost 10%' growth in surcharge free transactions (Allpoint) in 1Q19, total domestic revenue growth was negative 2% in 1Q19.
- It is generally believed that Allpoint transactions are at a significantly lower price point than non-Allpoint transactions. Thus, Allpoint volume may be cannibalizing higher priced surcharge transactions.
- Allpoint either charges a fixed monthly fee per cardholder or a fixed fee per transaction, but the mix between the two is not disclosed. The fixed monthly pricing mechanism is listed first, making us suspect that is more common. Thus, revenue is not necessarily correlated with transactions.
- At the end of 1Q19, 20,000 ATMs were branded with 500 institutions offering surcharge-free transactions, unchanged from 2017. Revenue from bank branding & surcharge free network revenue only increased 3% in 1Q19 (negative 6% for all of 2018).



## Refuting The Bull Case: Outsourcing

One positive argument is that as cash demands decline, banks are more likely to outsource to specialists like CATM. We disagree:

- In Australia, ATM transactions are 35% below their peak, but CATM's Australian managed services business is contracting, not growing. Australian Managed services revenue declined 35% in 1Q19. It seems a shrinking market is bad for all.
- In the UK, ATM transactions are 25% below their peak, but CATM does not even offer managed services in this market.
- In the US, where Federal Reserve data shows transactions just starting to decline, managed services revenue was down 2% in 1Q19.
- Managed services revenue today is less than 5% of total revenue. It does not appear material enough to us to change the overall growth.
- Many ATMs are already outsourcing cash needs with Brink's and servicing with NCR or Diebold. Further outsourcing to CATM may not represent material savings.
- "We would never outsource our ATMs, that would be too much of a compliance risk." – Bank of America Executive



## **Refuting The Bull Case: Expanded Service**

- CATM is testing new ATM machines that accept check deposits. Most banks offer mobile check deposit. We see little demand for these services and even less consumer willingness to pay when there are so many more convenient and free alternatives.
- Mobile: Testing ability to get ATM cash using a smart phone rather than a debit card. In other words, this will do for the ATM what calling cards did for pay phones. Like the calling card, we don't see this saving the ATM.
- Wells Fargo sells stamps at some ATMs, but demand is limited. We believe this shows limited consumer interest in expanded ATM services.



## Refuting The Bull Case: International Expansion

*CATM is citing growth opportunities in Germany, Spain, and South Africa:*

- Card payments in Germany surpassed cash payments for the first time in 2018.
  - ❖ A survey by EHI Retail Institute showed that last year, card payments made up **48.6 percent** of all retail sales, while cash payments made up **48.3 percent** (source: *pymnts.com*).
- Cash in Spain is still the preferred in person payment. But, the ATM industry is mature and in slight decline. ATM usage in Spain peaked in 2008 and has generally declined since (latest data 4% below peak), according to a CATM industry report.





## Refuting Bull Case: Government Regulations

*For every positive, we see at least one negative*

- **Several cities (Philadelphia, San Francisco, etc.) have banned stores from not accepting cash.** Some bulls point to these bans as bullish for continued cash usage. We see it as a sign of dwindling demand for cash.
- **California has proposed a bill requiring e-receipts rather than paper.** We believe if this is passed, it forces all businesses to accept electronic payments.
- **Several states are proposing digital IDs.** If enacted, consumers will have one less reason to carry a physical wallet.



## Earnings Beats Do Not Fix Fundamental Problems

- Ed West was promoted from CFO to CEO of Education Management Corp. in 2012
- *Ed West was promoted from CFO to CEO of CATM in 2017*
- In Mr. West's first 6 quarters as CEO, Education Management rationalized expenses and exceeded EBITDA estimates by 9% on average. Shares peaked over \$16 in 2013.
- *In Mr. West's first 6 quarters, Cardtronics rationalized expenses and exceeded EBITDA estimates by 15% on average.*
- In the 7<sup>th</sup> quarter under Mr. West, Education Management reported only 'in-line' results. Shares started trading below \$1 in 4Q14 and have stayed below that level since.
- "As CEO of Education Management, Ed did a great job of rationalizing expenses, he just didn't have the ability to fix the revenue problem." – Sell-side analyst covering Education Management



## Is CATM A Software Or Hardware Company?

	<u>Company Name:</u>	<u>Ticker</u>	<u>'20 P/E</u>	<u>5-Yr Return</u>
<b>Software:</b>	Fidelity National Info Serv	FIS	15.6x	138.3%
	Fleetcor Technologies Inc	FLT	20.3x	123.4%
	Global Payments Inc	GPN	21.3x	347.9%
	Total System Services Inc	TSS	18.3x	230.9%
	Wex Inc	WEX	19.1x	125.9%
<b>Software Median:</b>			<b>19.1x</b>	<b>138.3%</b>
<b>CATM</b>	<b>Cardtronics Plc - A</b>	<b>CATM</b>	<b>14.7x</b>	<b>7.4%</b>
<b>Hardware:</b>	Diebold Nixdorf Inc	DBD	11.0x	-69.5%
	Ncr Corporation	NCR	10.1x	1.7%
<b>Hardware Median:</b>			<b>10.5x</b>	<b>-33.9%</b>

*Source: Company reports, Bloomberg L.P.*



## High CapEx Relative to Peers Makes EBITDA Metrics Less Relevant

	<u>Company Name:</u>	<u>Ticker</u>	<u>CapEx / EBITDA</u>
<b>Software:</b>	Fidelity National Info Serv	FIS	19.9%
	Fleetcor Technologies Inc	FLT	8.4%
	Global Payments Inc	GPN	15.2%
	Total System Services Inc	TSS	17.7%
	Wex Inc	WEX	16.7%
<b>Software Median:</b>			<b>16.7%</b>
<b>CATM</b>	<b>Cardtronics Plc - A</b>	<b>CATM</b>	<b>36.5%</b>
<b>Hardware:</b>	Diebold Nixdorf Inc	DBD	17.7%
	Ncr Corporation	NCR	33.5%
<b>Hardware Median:</b>			<b>25.6%</b>

*Source: Company reports*

**\*Using 2018 PP&E and Capitalized Software / 2018 EBITDA**



## Disclosures

- **No Investment Advice**
- *This article is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. This article is distributed for informational purposes only and should not be construed as investment advice or a recommendation to sell or buy any security or other investment, or undertake any investment strategy, **nor does it constitute any prediction of likely future movement in rates or prices or any representation that any such futures movements will not exceed those shown in any illustration.** It does not constitute a general or personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. The price and value of securities referred to in this article will fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of all of the original capital invested in a security discussed in this article may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. **Projections and estimates presented in this presentation are subject to change without notice.***

*Note: Pricing as of May 21<sup>st</sup>, 2019.*



## Appendix: Revenue Declines Could Devastate Earnings

*Given the Street forecasts \$2.27 for 2020, we see several revenue decline scenarios wiping out all of earnings*

	<b>UK Example</b>				<b>AUS Example</b>	
<b>Revenue % Decline</b>	<b>-10%</b>	<b>-15%</b>	<b>-20%</b>	<b>-25%</b>	<b>-30%</b>	<b>-35%</b>
Revenue Impact	(132)	(198)	(264)	(330)	(396)	(462)
Assumed Gross Margin*	40%	40%	40%	40%	40%	40%
EBITDA Impact	(53)	(79)	(106)	(132)	(158)	(185)
<b>Per share Impact</b>	<b>-\$0.86</b>	<b>-\$1.29</b>	<b>-\$1.72</b>	<b>-\$2.15</b>	<b>-\$2.58</b>	<b>-\$3.01</b>

*Source: Company reports*

*\*Using the company's guidance from the 7-Eleven loss*



## Appendix: Concentrated Holders

Top 5 ~55%

CATM US Equity

25) Export

Settings

Security Ownership

CARDTRONICS PLC - A

ISIN GB00BYT18414

1) Current

2) Historical

3) Matrix

4) Ownership Summary

5) Insider Transactions

6) Options

7) Debt

Search Name

All Holders, Sorted by Size

21) Save Search

22) Delete Search

23) Refine Search

Text Search

Holder Group

All Holders

Investment Manager View

24) Color Legend

Shrs Out

46.3M

% Out

119.47

Float/Shrs Out

80.67

SI % Out

11.88

+

Q

Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	File Dt	
		All	All					
1. Hudson Executive...		Form 4		8,130,743	17.55	3,810	03/08/19	
2. BlackRock Inc		13G		5,500,254	11.88	0	12/31/18	
3. Vanguard Group I...		13G		4,747,900	10.25	0	06/29/18	
4. Wellington Manag...	WELLINGTON MA...	13F		4,336,799	9.36	-75,792	12/31/18	
5. BANK OF NEW YOR...		ULT-AGG		2,715,224	5.86	557,850	12/31/18	
6. Van Berkomp & As...		13G		2,555,054	5.52	0	12/31/18	
7. ClearBridge LLC		ULT-AGG		1,850,773	4.00	138,762	12/31/18	
8. Dimensional Fund...	DIMENSIONAL F...	13F		1,848,641	3.99	-11,583	12/31/18	
9. Fuller & Thaler A...	FULLER & THALE...	13F		1,433,267	3.09	-195,365	12/31/18	
10. State Street Corp		ULT-AGG		1,101,316	2.38	-14,111	12/31/18	
11. T Rowe Price Gro...		ULT-AGG		842,618	1.82	0	12/31/18	
12. Rothschild & Cie ...		ULT-AGG		750,241	1.62	-7,570	03/31/19	
13. Renaissance Tech...	RENAISSANCE T...	13F		732,600	1.58	224,665	12/31/18	
14. Dreyfus Corp/The	Multiple Portfol...	MF-AGG		715,773	1.55	-24,144	03/29/19	
15. DE Shaw & Co LP	D E SHAW & CO	13F		701,255	1.51	-12,761	12/31/18	
16. NewSouth Capital...	NEW SOUTH CAP...	13F		595,203	1.29	-47,522	12/31/18	
17. Caisse de Depot ...	Multiple Portfol...	MF-AGG		557,042	1.20	0	12/31/17	
18. Two Sigma Inves...		ULT-AGG		545,972	1.18	-83,717	12/31/18	
19. Northern Trust C...	NORTHERN TRU...	13F		522,889	1.13	-7,533	12/31/18	

Source: Bloomberg L.P.



## **Appendix: Mass Transit Rollouts**

***Boston: (Massachusetts Bay Transportation): Limited rollout 2019***

<https://afc2.mbta.com/>

***New York MTA: Testing Now, Public rollout May 31, 2019***

[https://new.mta.info/system\\_modernization/omny](https://new.mta.info/system_modernization/omny)

***San Francisco (BART): Rolling out new mobile app***

<https://sf.curbed.com/2018/9/24/17897210/clipper-transit-card-transportation-fare-system-payment-tech>

***Chicago Transit Authority: Live***

<https://www.ventrachicago.com/how-to/mobile-wallet-apps/>

***Washington, DC: Expects to be mobile ready in 2019***

<https://www.wmata.com/about/news/mobile-ready.cfm>

