



CUTTER

Determining Merchant Portfolio Value

Optimizing your merchant portfolio before actually putting it up for sale can significantly enhance its appeal to potential buyers while simultaneously boosting its value.

Here are key factors that play a crucial role in portfolio valuation:

Size - The size of your portfolio can change the residual multiple you realize drastically—it's simple supply and demand. Most buyers have a minimum deal size that needs to be met before they will spend time and resources evaluating a portfolio. Growing your portfolio to hit breakpoints of \$2,500, \$5,000, \$10,000, \$25,000, \$50,000 or even \$100,000 in residuals expands your opportunity to pique the interest of more prospective buyers.

Age - The age of your portfolio matters, as merchants with more established processing histories tends to instill confidence in potential buyers about future security of the portfolio's revenue streams and its relative risks.

Diversity - Having a diversified portfolio also contributes to the overall attractiveness of your portfolio by lowering risk. Ideally, your portfolio should contain a number of merchants generating reliable revenue streams without being too top-heavy earning income from just a few large accounts. Merchants should represent a variety of Standard Industrial Classification (SIC) codes or Merchant Category Codes (MCC) to distribute risk in case a particular industry vertical experiences a catastrophic situation or event. Think about how restaurants were affected during the recent COVID pandemic or how the nutraceutical industry is continually threatened by regulatory challenges.

Pricing - Potential buyers will also assess whether your portfolio is priced fairly with reasonable basis point spreads or poorly. They take a look at merchants locked into unfavorable leases too. The reality is that bad pricing with big markups and long contract terms for the most part means big attrition which lowers valuation. Newer on the scene, buyers evaluate the percentage of merchants with various pricing structures, including interchange-plus, flat rate, tiered, and even the amount of merchants offering cash discount, surcharging and dual pricing.

Attrition - Having a low merchant attrition rate is highly attractive to buyers because it signals portfolio stability and the potential for ongoing customer retention. You want to focus on doing things to make the merchants in your portfolio stickier not just today, but during a sale and afterward. Transferability with little to no attrition is always more desirable for buyers.

Average Residual - Average monthly residual income plays a pivotal role not only in influencing buyer interest, but ultimately in determining your portfolio's offer value. When conducting a thorough valuation, potential buyers scrutinize the most recent 12 to 24 months of residual data reports to understand the revenue stream and any volatility.

Sale on the Horizon

While the information provided is great for long-term preparation, what if you want to sell in the next few weeks or months? How should you prepare your book of business for sale?

Here are three action items to complete:

- Get rid of any negative residuals in your portfolio. Ensure all your merchants are priced to generate positive residuals each month, despite their volume.
- Define the goal(s) for your buyout. Do you want to generate cash for a large purchase? Focus more on selling than servicing merchants? Stop working with a particular ISO? Exit the business? Other?
- Gather all the information potential buyers will require. You'll need at least 12 months of residual reports and your ISO or agent agreement with any addendums. Providing access to this information is essential for transparency and completeness during the evaluation process.

Summary

Size, age, diversity pricing, attrition and average residual are all key factors that contribute to creating a compelling proposition for potential merchant portfolio buyers, fostering trust and maximizing the value of your residual multiple.

About Cutter

Cutter is the payments industry's trusted source for capital. We purchase merchant portfolios from ISOs, agents, ISVs and software companies with superior and honest valuations, customized offers and flexible terms, plus rapid funding and quick closures. Cutter never requires new business placement after the sale and provides expert full servicing to stem merchant attrition and maximize portfolio value on an ongoing basis.



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