

CyberSource (CYBS)

April 12, 2010

AB Analytical Services

Summary

- E-Commerce Enabler
- Small and Large Businesses
- Strong Alliances - Network
- Value-Added Services
- Increasing Global
- Highly Recurring Revenue – Transactions
- Strong Balance Sheet
- Reasonable Valuation

Description

CYBERSOURCE

04/09/10

Corporate Information

Corporate Address:

1295 Charleston Road
Mountain View, CA 94043
650-813-5682

Additional Information:

| | | | |
|------------------|--------------------|-------------------------------|------------------------------|
| Ticker: | CYBS | Contact: | Katrina Rymill, 650-965-6154 |
| Cusip: | 23251J106 | SIC Code: | 7374 |
| Exchange: | NASDAQ | # Employees: | 654 |
| FYE: | DEC | Convertible Bonds: | NO |
| Industry: | Services-Data Proc | Convertible Preferred: | NO |
| Sector: | Information Tech | Option Indicator: | PHIL & PAC |

Current Data & Growth Rates

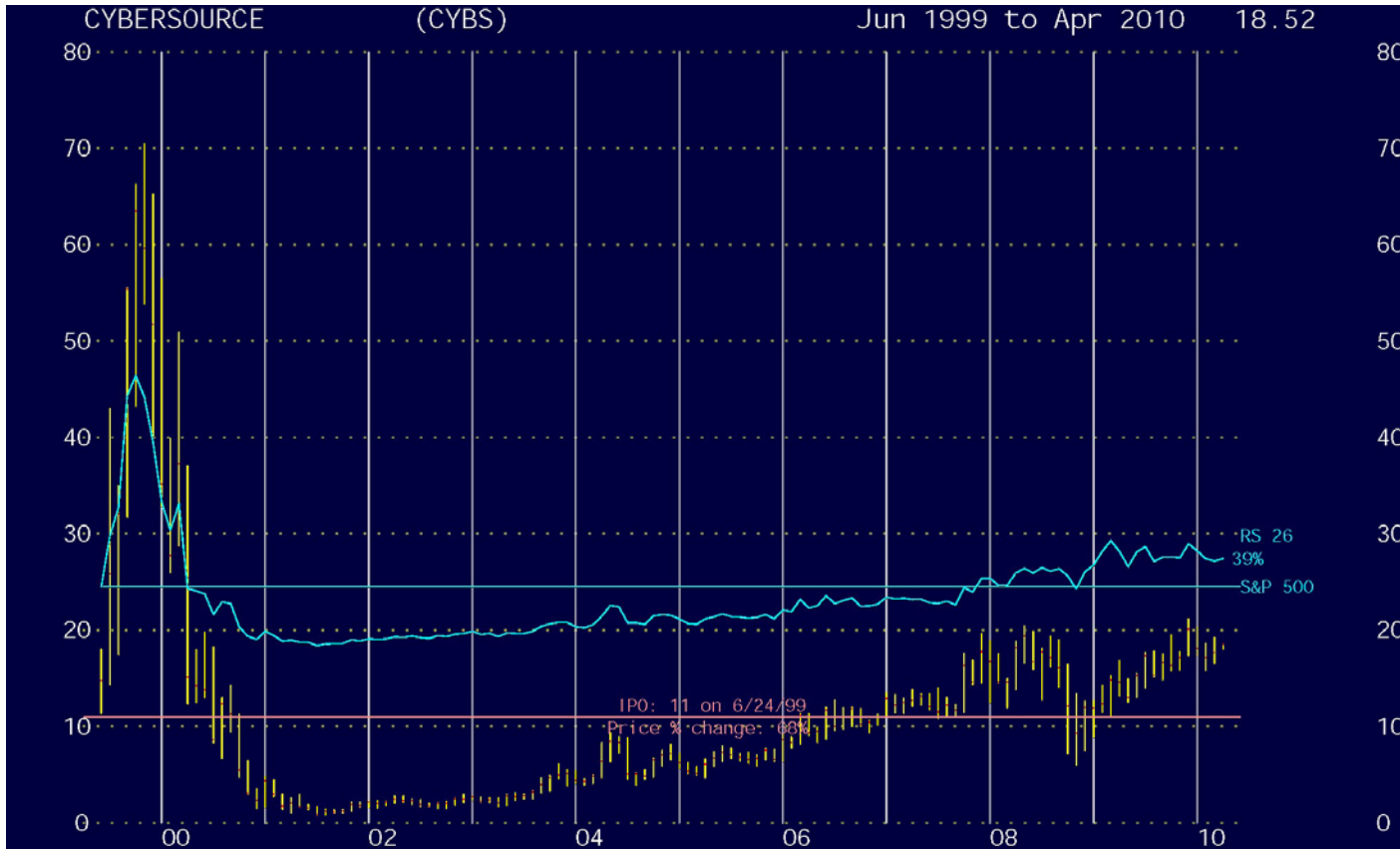
| | | | | | |
|---------------------------------|-------------|------------------------------|------|--------------------------------------|------|
| Current Price | 18.52 | 2009 Calendar EPS | 0.81 | EPS % Chg. '09 v. '08 | 21 |
| 52 Wk Range | 2.12 - 1.25 | 2010 Calendar EPS | 0.92 | EPS % Chg. '10 v. '09 | 13 |
| Market Cap (MM) | 1,307 | 2011 Calendar EPS | 1.02 | EPS % Chg. '11 v. '10 | 12 |
| Shares Out (MM) | 71 | 2009 Price / Earnings | 22.9 | 5 Yr Hist EPS Growth Rate (%) | 48 |
| (%) Held By Institutions | 94.1 | 2010 Price / Earnings | 20.2 | EPS LT Fut Gr Rate (%) | 20 |
| Return on Capital (%) | 10.7 | 2011 Price / Earnings | 18.1 | Earnings Stability (R2) | 0.96 |

Business Description & Price Action



CyberSource Corporation provides secure electronic payment and risk mgmt solutions to organizations that process orders for goods and services over the Internet. Its payment solutions allow eCommerce merchants to accept a wide range of online payment options, from credit cards and electronic checks, to global payment options and emerging payment types. Its reporting and management tools facilitate the automation of the flow of complex eCommerce processes, such as recurring billing and payment reconciliation. It partners with and connects to a large network of payment processors and other payment service providers to offer merchants a single source solution.

Since IPO vs S&P 500



- Above IPO price, Outperforming S&P 500 since IPO and since 2001

History

- Founded 1994 as software.net (online software store)
- Based in Mountain View, CA
- 1997 – spin off of Internet Commerce Services, which became CyberSource
- Public 1999
- Acquired Authorize.Net in 2007

- 2009:
 - 2.5bln transactions (+28%)
 - \$120bln in authorizations (+10%)

What CYBS Does

CyberSource Corporation is a leading provider of electronic payment and risk management solutions to merchants that process orders for goods and services over the Internet. CyberSource partners with and connect to a large network of payment processors and other payment service providers to **offer merchants a single source solution that simplifies ePayment Management.** CyberSource's payment solutions allow eCommerce merchants to accept a wide range of online payment options, from credit cards and electronic checks, to global payment options and emerging payment types. CyberSource also offers industry leading risk management solutions to help online merchants address complexities such as **credit card fraud, online tax requirements, and export controls.** CyberSource Professional Services help to design, integrate, and optimize commerce transaction processing systems for merchants.

Small and Large Business

Small (Authorize.Net)

<\$3mm Annual Sales

An Authorize.Net Payment Gateway account enables you to authorize, settle, and manage credit card and electronic check payments.

Medium & Large

Complete Payment Management and Automation

- Global Payment Acceptance & Processing
- Order Screening and Fraud Management
- Enterprise Payment Security Solutions

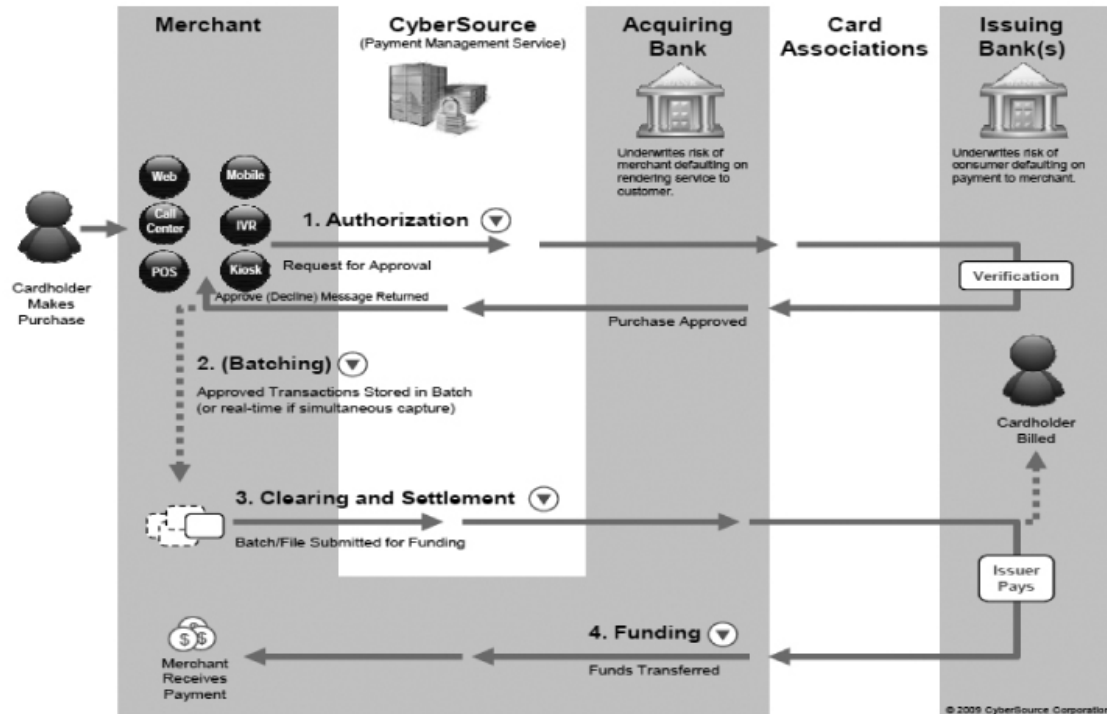
Process for Authorize.net

1. Merchant submits credit card transaction to Authorize.net
2. Secure transaction info passed to Merchant Bank's Processor (MBP)
3. MBP submits to Credit Card Network (CCN)
4. CCN routes to Customer's Issuing Bank
5. Bank Approves or Declines
6. CCN relays to MBP
7. MBP relays to Authorize.net
8. Transaction stored and results sent to customer and/or merchant (**1-8 all in 3 seconds**)
9. Settlement Funding – 2-4 days later

Service Offerings

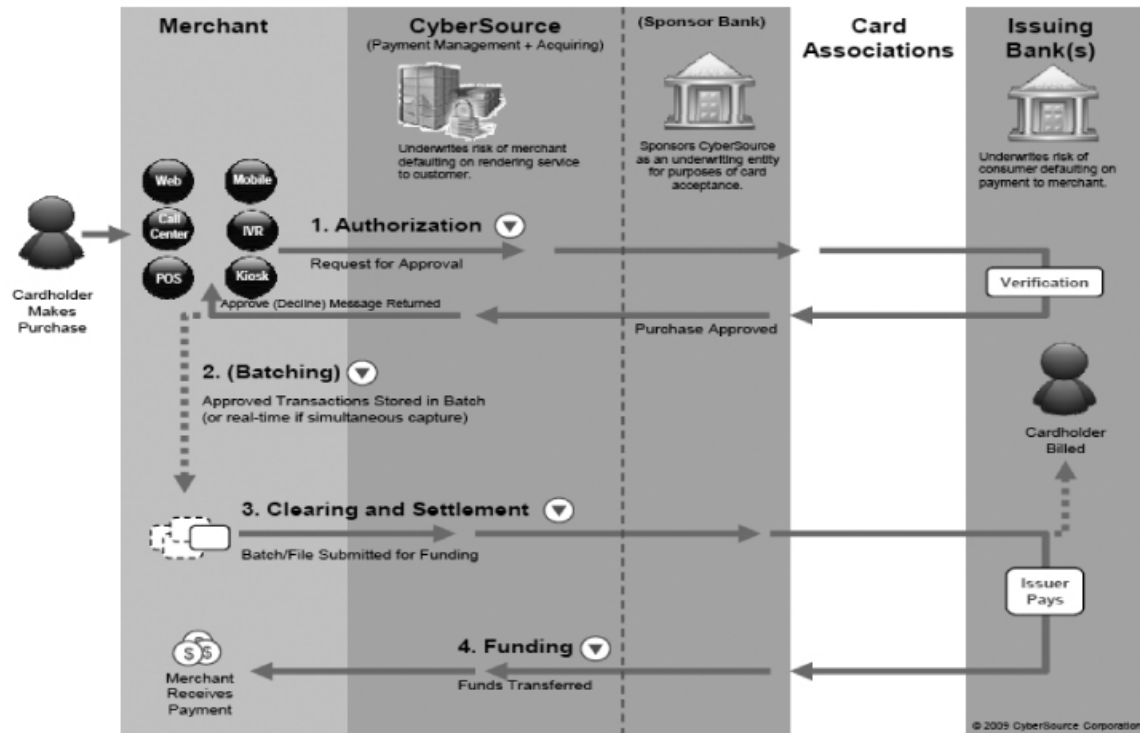
- Global Payment Acceptance
 - 190 countries, 40 processors
 - Web, call center, kiosk, POS, mobile
 - Credit/debit/country cards/PayPal, eChecks
- Fraud Control
- Processing Management
- Reconciliation and Collection
- PCI Compliance (secure storage of data)

Graphical Depiction: Payment



CyberSource Advanced enables merchants to accept payments made by all major credit and debit cards including American Express®, Discover®, Diners Club International®, JCB, MasterCard®, and Visa® cards. Our customers can also accept payment by corporate procurement cards, electronic checks, PayPal® Express Checkout, and the Bill Me Later® service. Merchants that have business models based on subscriptions can utilize the CyberSource recurring billing service with automated account updating services. For merchants selling internationally, we support direct debit, and bank transfers, as well as regional card brands such as Carte Bleue, Carta Si, Dankort, Laser, Solo, and Visa Electron. We provide these services for online, call center, kiosk, integrated voice response ("IVR"), and IP-enabled point of sale ("POS") transactions.

Graphical Depiction: Merchant Acquiring Service



We underwrite merchants to enable them to accept card payments within the United States, as well as accept and process major and regional payment types worldwide. We interface with payment systems on behalf of the merchant to authorize the payment presented by a merchant's customer, collect funds from their customer's bank, and deposit the funds into the merchant's designated checking account. These services are available as an integrated offering with our payment solution packages and software

Partnership Message

Financial

Your Merchant Account + Our Payment Management Services

You'll win more business when you combine your merchant account with our payment management services. You'll help your customers sell more and keep more profit. Why? We're a payment management company—not just a gateway. Our services help you deliver superior value to your customers, large and small:

- Global processing (supports your merchant account/augment as needed)
- Single transaction and subscription payments
- Fraud management tools and fully managed services
- Payment data storage (secure storage and hosted payment forms)
- Payment security/PCI compliance (w/built-in security scanning)
- Professional services and much more

Technology

Expand Your Solution with Our Payment Management Services

With CyberSource, your solution can support a broader range of services that actually optimize profits for your customers, all from one source. We're a payment management company—not just a gateway or bank. We serve half of the Internet 500, leading brands, as well as small businesses:

- Global payments (merchant accounts, multiple payment types/currencies)
- Single transaction and subscription payments
- Fraud management tools and fully managed services
- Payment security/PCI compliance (w/built-in security scanning)
- Professional services and much more

Customer Base

- Sole proprietorships to global corporations
- Named Customers: Air France, Borders, British Airways, Christian Dior, Eastman Kodak, Home Depot, Louis Vuitton, MIT, Microsoft, Nike, Starbucks and Yahoo!
- Enterprise: High volume, sophisticated tools
- Small business: Simplicity, ease of use
- No customer > 10%
- 295K customers

Sales

- 124 employees in sales and marketing
- Alliances
 - Enterprise Resellers (banks/payment service providers)
 - Enterprise Referral Partners (payment industry, independent software vendors, integrators and consulting firms)
 - Small Business Resellers (banks, ISOs, merchant service providers)
 - Small Business Affiliate Resellers

Competition

- Merchant Acquirers, ISOs and Payment Processors (Chase Paymentech, First Data, Royal Bank of Scotland)
- Transactions Service Providers (PayPal, Retail Decisions)
- eCommerce Platforms (Accertify, Digital River, GSI Commerce)
- Internal Custom—made Systems

Management

- Executive Chairman – William McKiernan (53), founder
- CEO – Mike Walsh (41), since 1/10, Joined 1998, previously head of sales, joined from Oracle
- CFO – Steve Pellizzer (40), since 2003, joined firm in 1999
- Long Tenure among Key Execs
- Bonus related to just non-GAAP OI
- Salaries seem fair

Ownership Issues

- Insiders own 8% (Chairman/Founder = 5%)
- Institutional Owners >5%: Just Blair
- Index Membership: S&P 600 and R2000
- Short-Interest: Very High at 12% of float (16 days)

Income Statement

- GAAP vs Pro Forma: Options, Amortization of Authorize.net, 5% cash tax vs. 32% GAAP (normalize in 4 years)
- 2009 vs 2008 is “apples to apples”
- Sales Grew 16%, 91% of sales were repeat customers
- Acquiring= 31.6% of sales vs. 34.3%
- GM 52.8 vs. 51.2
- Product Development: 10.8% vs. 10%

Balance Sheet

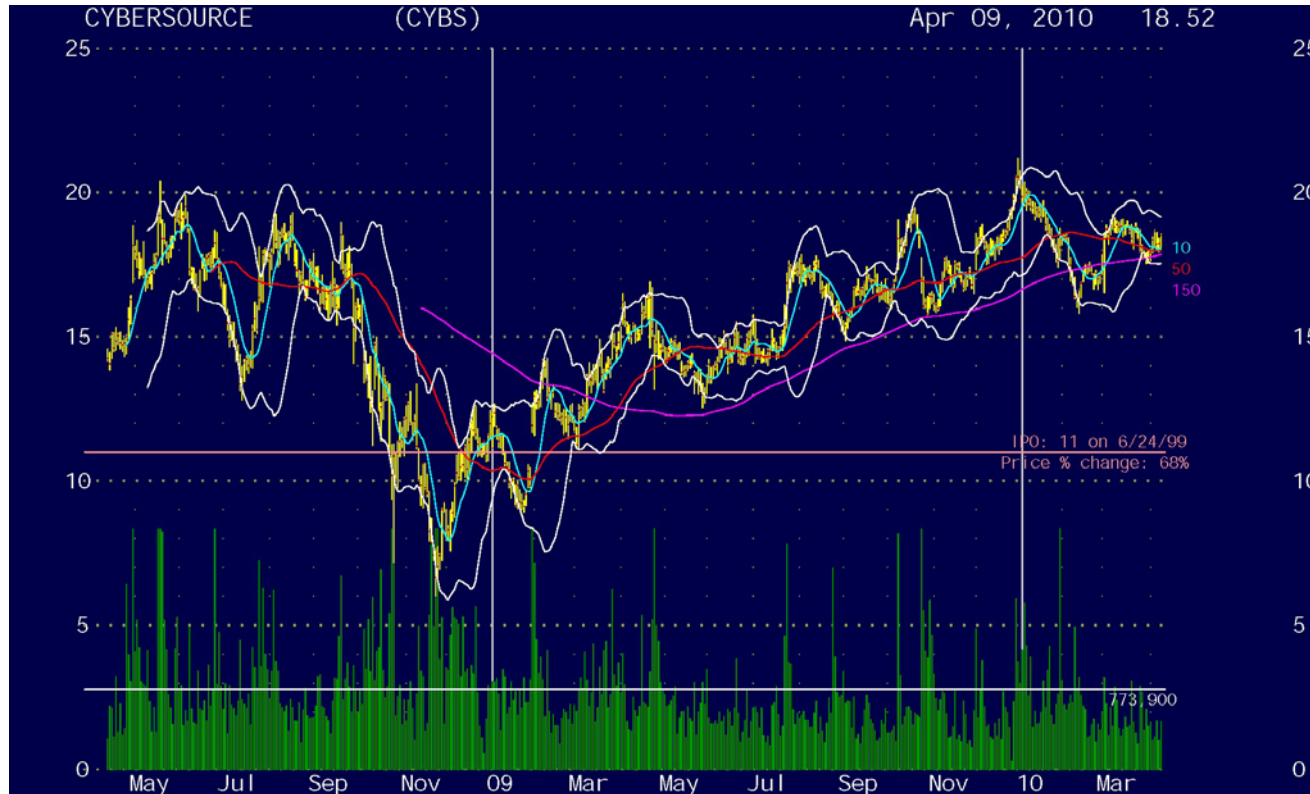
- Cash \$128mm
- Current Assets \$162mm
- Intangibles/GW \$394mm
- Total Liabilities \$47mm
- Equity \$550mm
- Tangible Equity \$156mm

Cashflow

| | 2007 | 2008 | 2009 |
|------------|-------|-------|-------|
| NI | 2.43 | 10.73 | 10.97 |
| D | 2.36 | 6.31 | 8.76 |
| A | 4.22 | 28.67 | 26.23 |
| Stock Comp | 6.96 | 9.50 | 7.93 |
| CapEx | 4.57 | 11.85 | 13.59 |
| FCF | 11.40 | 43.36 | 40.30 |

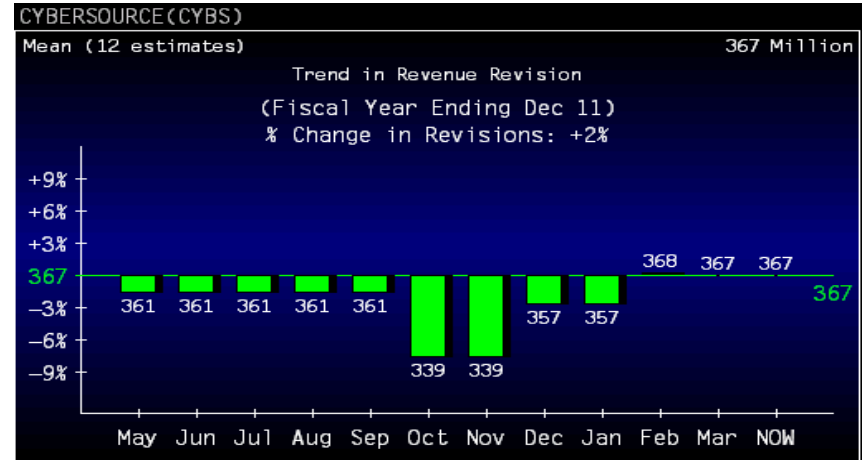
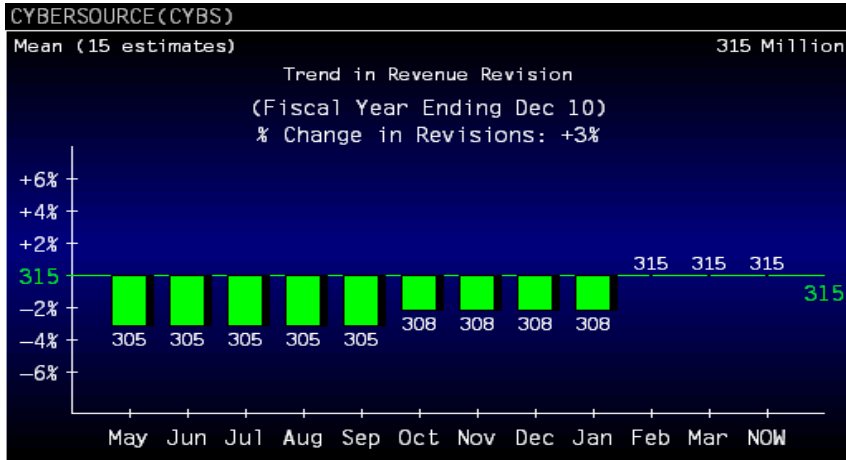
- Acquisitions and Share Repurchases are Uses of Cash
- FCF for 2010 → 50mm

Technical

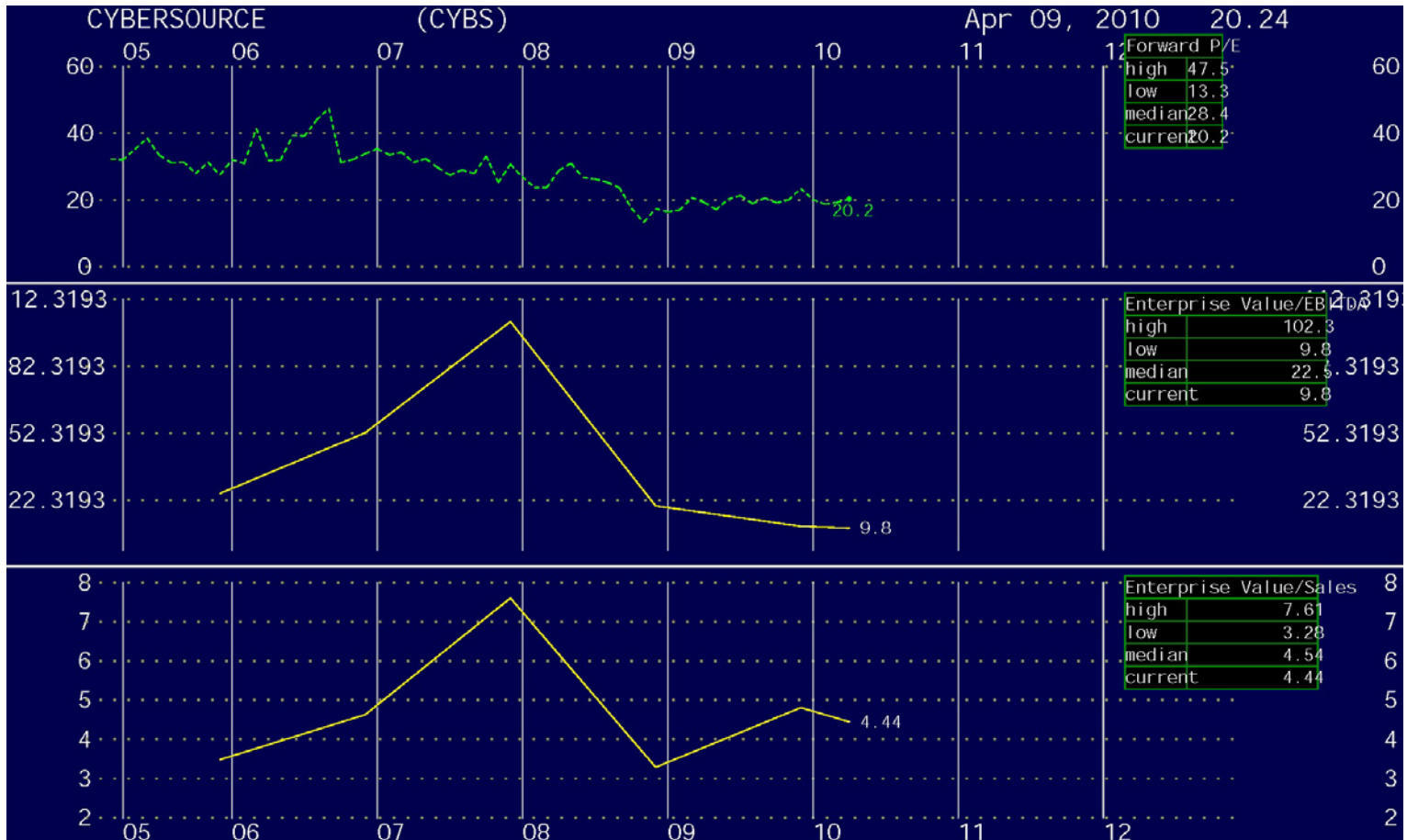


- Lagging market after strength during downturn
- Resistance at 20 (10yr high), Support at 18 and 17

Sales and EPS Revisions



Valuation



Relative Valuation

- Cheap to MA and V
- Cheap to GSIC

One-year Target???

- 25X PE+ cash of 2 → 28
- EV/S = 5.5 → 26.5

Issues

- GAAP vs Non-GAAP – options and tax but mainly very large amortization
- Paypal: Friend or Foe? Very Strategic Partner but minor competitor
- Taxes: Not paying much now – full tax in 4 years (GAAP includes 32%, Cash is 5%)
- Timing of CEO change and ouster of COO – seems benign

15 Analysts

- **Barrington Research Associates**
- **Craig-Hallum**
- **First Analysis Corp.**
- **Goldman Sachs**
- **Janney Montgomery Scott LLC**
- **JMP Securities**
- **Morgan Keegan & Company**
- **Needham & Company**
- **Oppenheimer**
- **Raymond James and Associates**
- **Signal Hill Capital Group**
- **Stephens**
- **SunTrust Robinson Humphrey**
- **Wedbush Securities**
- **William Blair & Co.**

Drivers and Risks

Drivers

- E-Commerce Growth
- International =7%
(Alibaba.com win,
European merchant
acquiring bank but
also Asia and LatAm)
- Bundling
- Acquisitions

Risks

- Competition
- Security Breach
- Small Biz Formation
Decline

Conclusion

- Terrific Biz Model – bet on eCommerce
- Reasonable Valuation
- Drivers of International and bundling
- Don't underestimate value of PCI solution (security)