

# THE GORES GROUP

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## A REJUVENATED VERIFONE FACES A SLUGGISH MARKET

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Douglas G. Bergeron, Gores Technology Group's new boss at Verifone Inc., isn't one to mince words. Here's how he assesses computer giant Hewlett-Packard Co.'s recently ended four-year tenure as the point-of-sale terminals maker's owner: "They gummed it up with H-P bureaucracy and sucked the entrepreneurial oxygen out of it."

It's clear that the Gores VeriFone is a much feistier and brasher company. Gores, a privately held buy-out firm based in Los Angeles, officially took ownership of VeriFone July 20 for an undisclosed price.

On the surface, Gores' goal for 20-year-old VeriFone seems simple: return the Santa Clara, Calif.-based company to its POS roots. But no matter who owns it, VeriFone will face a market growing tougher by the day as terminal makers are locked in price competition and many merchants are content with their existing machines.

Plus, foreign terminal makers are moving into VeriFone's North American heartland as never before. On Aug. 8, France's Ingenico S.A. bought IVI Checkmate Corp., the No. 3 terminal seller in the U.S. and Canada, and is poised to challenge leaders VeriFone and Hypercom.

Bergeron, who also is a group president at Gores, is undaunted. "This is a business with a great franchise and great customer value," he says. "This is not a business that is at the end of its life cycle." Bergeron adds that despite the alleged H-P mediocrity, "VeriFone's organs are not damaged. There are great VeriFone managers waiting to be set free."

### **Buying Mode?**

In fact, VeriFone might be doing some buying if its own. "We think there's a great roll-up play in this industry," says Bergeron, a technology-industry veteran who joined Gores in 2000. "There are a lot of wounded birds."

Bergeron predicts VeriFone will have revenues of \$350 million to \$400 million over the next 12 months, adding that his long-term target for annualized revenue growth is 10% to 20%. Rival Phoenix-based Hypercom Corp. posted revenues of \$327.6 million in 2000.

Gores' reputation among VeriFone's competitors is that of a can-do owner of tech companies. "Certainly the bureaucracy will be eliminated, and with any luck, Gores will be able to return the company to its entrepreneurial roots," says VeriFone veteran George E. Devitt, now Phoenix-based Hypercom's senior vice president and chief marketing officer.

When H-P paid \$1.18 billion for VeriFone in 1997, VeriFone's payment software didn't provide the scope of server-based products and other services H-P ultimately concluded it wanted to offer to Internet service

providers, Web retailers, and related players, according to Stuart Taylor, VeriFone's vice president of marketing. Instead, H-P lost much of that early business to International Business Machines Corp. and Sun Microsystems Inc. H-P did not respond to requests for comment for this story.

Meanwhile, aggressive competitors cut into VeriFone's market share. Not long before H-P sold it, VeriFone claimed to have 9 million units placed worldwide-more than double Hypercom's. But last year, Hypercom sold the most POS terminals worldwide, nearly 1.11 million versus 980,000 for Ingenico and an estimated 945,000 for VeriFone, according to ADN sister magazine Card Technology. VeriFone still sold the most hardware in North America, an estimated 651,000 units compared with 513,894 for Hypercom and 253,677 for IVI Checkmate (ADN, 2/15).

### **Seeing Red**

VeriFone, widely believed to be unprofitable under H-P, was not the only terminal maker to see red. Both Hypercom and IVI Checkmate reported quarterly losses earlier this year. Hypercom's weak earnings even caused it to slip into technical default of its loan agreements, though it never missed any payments. The company recently arranged new financing.

"There is certainly a lot of price competition. In part, that is because a lot of people have gone for the market-share game," Taylor says. "That always looks good on PowerPoint presentations to management."

Bergeron claims Gores has already restored VeriFone to profitability, though he won't give numbers. He says Gores did so without damaging VeriFone's ability to develop new products despite the loss of some of the development staff. In fact, he insists that Gores is increasing the amount of money for developing new POS equipment and software.

### **A Brief VeriFone History**

1981: Incorporated in Hawaii. First product was a check-verification and credit authorization device.

1983: ZON terminals introduced.

1986: Hatim Tyabji hired as CEO. Introduction of the ZON Jr. XL, the first electronic data inter-change-capable terminal.

1987: The Tranz 330, VeriFone's first terminal to accept credit and debit cards, is introduced. First PIN pad for debit cards debuts.

1990: Company goes public on NASDAQ stock exchange. Omni terminals introduced.

1991: First smart card reader/writer.

1992: Ruby SuperSystem launched for gas station/convenience store market.

1993: Buys Perdata Corp.

1995: Stock switches to New York Stock Exchange.

1996: Introduces suite of Internet commerce products.

1997: Acquired by Hewlett-Packard Co. Introduces Softpay products.

1999: Introduces the Omni 3200.

2000: Launches multi-application products for electronic commerce.

2001: Sold to Gores Technology Group in July. Source: VeriFone Inc.

### **Future Focus**

VeriFone is expected to concentrate its resources on areas where it has been strong in the past, including the growing niche of electronic benefits transfer. "We still have very close to 100% share in the EBT market," says Taylor.

Bergeron, without revealing details, also says VeriFone will be a major play in smart card acceptance. VeriFone could be in for a big win-or a big loss-when Minneapolis-based Target Corp. picks a vendor, or vendors, for the smart card terminals it will place in its 900-plus stores for the first large-scale chip card rollout in the U.S. The program is centered on a Target-issued Visa credit card currently being tested in three cities. VeriFone is Target's current terminal supplier.

"Nirvana for the manufacturers would be a U.S. mandate for smart cards," says C. Marc Abbey, noting that Visa and MasterCard are requiring smart card infrastructure to be installed in Europe and Latin America in upcoming years.