



Technology

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COMPANY UPDATE / ESTIMATE CHANGE / TARGET CHANGE

Key Metrics

PAY - NYSE - as of	3/10/17	\$19.09
Price Target		\$26.25
52-Week Range	\$14.94 -	\$29.73
Diluted Shares Outstanding (000s)		111,700
Market Cap. (\$000s)		\$2,132,353
1-Mo. Average Daily Volume		1,744,109
Institutional Ownership		94.5%
Debt/Total Capital (net) % Q4'16		46.0
ROE Q4'16		18%
Book Value / Share		\$7.33
Price / Book Value		2.6x
Dividend Yield		0.0%
LTM EBITDA Margin		10.8%

Non GAAP EPS FY 10/31

	Prior 2016A	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.48	\$0.21	\$0.34	\$0.36
2Q	\$0.47	\$0.30	\$0.45	\$0.43
3Q	\$0.42	\$0.39	\$0.44	\$0.43
4Q	\$0.30	\$0.48	\$0.47	\$0.53
Year	\$1.66	\$1.38	\$1.70	\$1.75
P/E	11.5x	13.8x		10.9x

Revenue (\$mil)

	Prior 2016A	Current 2017E	Prior 2018E	Current 2018E
1Q	\$513.6	\$456.6	\$477.9	\$481.6
2Q	\$532.4	\$471.0	\$495.3	\$494.4
3Q	\$492.6	\$488.0	\$510.8	\$499.9
4Q	\$467.6	\$504.0	\$530.5	\$530.5
Year	\$2,006.2	\$1,914.8	\$2,014.5	\$2,006.5

Company Description: Verifone Systems Inc. is a global leader in secure electronic payment solutions, providing integrated point-of-sale (POS) devices, solutions, software, services and maintenance that add value to the POS with merchant-operated, consumer-facing, mobile and self-service payment systems. Verifone drives over \$4 trillion in global consumer transactions annually. Verifone Systems serves the financial, retail, hospitality, petroleum, transportation, government and healthcare markets. The company operates in 150 countries connecting over 30 million payment devices to the cloud.

Verifone Systems Inc.

PAY - NYSE – Long-term Buy – 4

Verifone Beats Q1'17 Consensus View; Reiterating Outlook; Increasing Price Target

- FQ1'17 Results.** Verifone reported Q1'17 revenue of \$455.6 million, a y/y decline of 11%. This was above our \$451.8 million view and consensus analyst estimate of \$450 million. Non GAAP EPS totaled \$0.21, a decline of 56% y/y, this beat our \$0.20 view which was in line with the consensus estimate. Revenue was better than expected in all geographic segments with significant outperformance in Brazil, Greece, India, and China. FY'17 is an important product launch year for Verifone as new Engage, Carbon, E-series and value products begin to ship. We expect profitability to remain below historical levels but begin ramping throughout future quarters as new products represent a larger portion of total sales. We expect shares to begin to outperform in the 2H'17 as we forecast double digit y/y growth in Q4'17 and FY'18.
- Guidance.** Management reaffirmed FY'17 revenue guidance of \$1.900 billion to \$1.915 billion and EPS guidance of \$1.35 to \$1.39. The reaffirmed outlook reflects better than expected performance in Asia Pacific, offset by a new JV that will lower top line results, as well as a stronger Dollar.
- Outlook.** Despite Verifone reporting better than expected Q1'17 operating results, we reduce our Q2'17 EPS estimate to \$0.30 from \$0.34 as we expect North America to continue to weigh on results. However, we forecast improving operating performance throughout FY'17 and maintain our FY'17 EPS estimate of \$1.38. We expect generally improving y/y results across our 4 year forecast, but believe execution risk remains a key concern going forward as expectations increase in Q4'17.
- Valuation.** We increase our price target to \$26.25 from our prior \$25.50 target. Our investment timeframe which spans through FYE'18 incorporates the positive effects of Verifone's significant new product ramp that we expect to expand margins and cash flows in FY'18 and beyond. Our \$26.25 price target is based on our FYE'18 EPS estimate of \$1.75 multiplied by a 15x forward P/E multiple which matches our prior multiple reflecting our view of improving profitability over our investment time period. We maintain our Long-term Buy rating.

Note Important Disclosures on Pages 6-7
Note Analyst Certification on Page 6

ADDITIONAL DISCUSSION

Geographic Performance. **North America** revenue of \$169 million decreased 28% y/y following last year's difficult comp from the EMV rollout. In FY'17 we expect N.A. revenue to decline mid-single digits negatively impacting the company's margin profile. We expect N.A. results to begin to improve in the 2H'17 from continued EMV upgrades, strength from EMV in the Hospitality industry, quick service restaurant, lodging, healthcare, and government verticals. As a result of the strong services growth, deferred revenue reached \$177.7 million, growth of 18% y/y. Management noted they have formed a joint venture which will combine their media business with Gas Station TV. The effect of this will be to deconsolidate this revenue, negatively impacting top line growth but expected to improve longer term results. **EMEA** revenue of \$168 million decreased 1% y/y which benefitted as a result of M&A and strong results in Greece as the country transitions from a cash to cashless society. Weaker sales in Germany weighed on the segment. **Asia-Pacific** revenue of \$63 million increased 19% y/y. India was a leading contributor as the country continues its demonetization efforts. China, Malaysia, and Indonesia also performed better than expected. **Latin America** revenue of \$57 million increased 4% y/y as demand in Brazil improved, offset by weakness in Mexico.

Financial Management. Verifone's net debt position declined to \$757 million vs. \$778 million last quarter. Free cash flow was \$25 million vs. \$36 million last year but was ahead of our forecast. Management expects free cash flow to improve to \$120 million in FY'17, above the \$88.4 million recorded in FY'16. We believe this is achievable as we expect operating cash flow to ramp throughout the year. We note at \$120 million of FCF and higher more normalized levels of free cash flow in years thereafter, PAY shares remain an attractive long term investment opportunity, in our opinion.

Outlook. Management reaffirmed FY'17 revenue guidance of \$1.900 billion to \$1.915 billion and EPS guidance of \$1.35 to \$1.39. The reaffirmed outlook reflects better than expected performance in Asia Pacific, offset by a new JV that will lower top line results, as well as a stronger Dollar. Longer term, we expect FY'17 to FY'20 revenue to grow at a compound annual growth rate (CAGR) of 5-6%, slightly below our prior view resulting from recent revenue weakness, higher services vs. systems revenue, and F/X pressure. In 2020, over 50% of revenue is expected to be service revenue. Operating margin is expected to increase substantially to between 15% and 16% in FY'20 vs. FY'16's 12.9%. Corroborating revenue and margin increases, EPS is expected to grow at a 15% CAGR. Of note, 2017 will be the company's largest year of new product introduction including the Engage, Value, E-series, and Carbon devices, the benefit of which won't be immediately realized to shareholders.

We believe industry challenges have been material, however going forward growth opportunities provide a solid base for our Long-term Buy recommendation. Growth opportunities include Chinese consumer income growing above 4% per year, cashless initiatives in Thailand and Greece, fiscalization (tax enforcement) in Turkey, Demonetization in India, and greenfield EMV opportunities in the U.S. Other catalysts include new payment type acceptance, Verifone's high level of global security solutions, convergence of payments and commerce, and omni-channel shopping. Our initial investment thesis remains intact, calling for strong emerging market growth as 85% of consumer transactions globally remain cash based vs. 90% in 2014, representing a significant global runway for Verifone. Despite Verifone's better than expected Q1'17 operating results, we reduce our Q2'17 EPS estimate to \$0.30 from \$0.34 as we expect North America to continue to weigh on near term results. However, we forecast improving sequential results throughout FY'17 and maintain our FY'17 EPS estimate of \$1.38. We expect generally improving y/y results across our 4 year forecast, but believe execution risk remains a key concern going forward as expectations increase in Q4'17. Our FY'18 EPS estimate increases to \$1.75 from \$1.70 previously.

Verifone Systems, Inc. Consolidated Balance Sheet (USD \$ 000's)

Current assets:	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17
Cash and cash equivalents	\$ 157,160	\$ 324,996	\$ 445,137	\$ 594,562	\$ 454,072	\$ 268,200	\$ 250,200	\$ 208,900	\$ 185,700	\$ 156,600	\$ 156,600	\$ 148,400	\$ 148,400	\$ 147,000
Accounts receivable, net of reserves	170,234	157,357	132,988	294,440	366,887	284,000	305,500	362,000	356,300	397,400	370,100	323,400	323,400	322,600
Inventories	168,360	95,921	111,901	144,316	178,274	138,700	124,300	129,700	136,700	154,600	183,100	175,200	175,200	155,900
Prepaid expenses and other current assets	57,631	36,526	60,112	88,086	136,210	134,100	105,600	81,700	118,600	132,000	136,500	110,400	110,400	105,500
Total current assets	562,850	622,193	761,091	1,160,448	1,135,443	825,000	785,600	782,300	797,300	840,600	846,300	757,400	757,400	731,000
Property, plant and equipment, net	52,309	46,978	46,007	65,504	146,803	172,200	177,700	191,000	203,300	217,200	195,500	202,300	202,300	202,700
Purchased intangible assets, net	92,637	52,974	50,121	263,767	734,808	642,900	457,600	317,500	339,300	368,000	340,200	306,300	306,300	283,000
Goodwill	321,903	150,845	169,322	561,414	1,179,381	1,252,400	1,185,900	1,084,000	1,095,900	1,164,700	1,134,500	1,110,500	1,110,500	1,111,700
Deferred tax assets	1,276	4,158	9,933	205,496	215,139	23,900	30,400	35,900	34,300	38,000	39,000	37,000	37,000	35,800
Other assets	37,073	32,749	38,852	54,183	79,033	77,300	65,000	62,400	71,100	79,900	80,000	81,300	81,300	79,100
Total assets	1,079,752	917,290	1,075,326	2,313,561	3,490,607	2,993,700	2,702,200	2,473,100	2,541,200	2,708,400	2,635,500	2,494,800	2,494,800	2,443,300
Current liabilities:														
Accounts payable	81,188	87,094	64,016	144,278	193,062	116,500	161,200	189,400	185,300	217,500	191,800	154,600	154,600	133,400
Accruals and other current liabilities	91,168	64,478	51,715	57,399	230,867	292,100	207,000	229,900	220,100	228,500	226,800	213,400	213,400	206,700
Deferred revenue, net	47,687	45,668	55,264	68,824	91,545	86,600	92,100	82,900	92,100	112,900	108,600	104,800	104,800	107,900
Short-term debt	5,022	5,699	5,280	5,074	54,916	92,500	32,100	39,100	49,300	55,300	65,700	66,000	66,000	67,200
Total current liabilities	266,534	245,653	259,806	703,280	570,390	587,700	492,400	541,300	546,800	614,200	592,900	538,800	538,800	515,200
Deferred revenue, net	13,292	18,294	22,344	31,467	37,062	42,600	51,000	55,300	58,300	61,700	62,500	66,500	66,500	69,800
Deferred tax liabilities	68,928	67,495	62,081	92,594	214,537	176,000	136,100	102,900	112,900	113,500	110,900	99,400	99,400	100,900
Long-term debt	543,357	463,165	468,231	211,756	1,252,701	943,300	851,000	760,200	883,200	899,500	907,800	859,900	859,900	836,600
Other long-term liabilities	41,939	45,326	53,552	78,971	70,440	92,500	101,000	78,900	83,300	88,100	90,100	76,800	76,800	75,400
Total liabilities	935,540	842,871	867,863	1,118,068	2,145,130	1,842,100	1,631,500	1,538,600	1,684,500	1,777,000	1,764,200	1,641,400	1,641,400	1,597,900
Redeemable noncontrolling interest			866	855	861	600	800	-	-	-	6,300	5,000	5,000	3,500
Stockholders' equity:														
Common stock:	845	845	868	1,058	1,081	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Additional paid-in capital	655,974	727,497	763,212	1,468,862	1,543,127	1,598,700	1,675,700	1,726,500	1,737,200	1,749,400	1,760,800	1,771,900	1,771,900	1,781,300
Accumulated deficit	(504,173)	(650,287)	(551,460)	(269,056)	(204,023)	(500,100)	(538,200)	(535,700)	(585,600)	(582,600)	(613,800)	(618,300)	(618,300)	(634,900)
Accumulated other comprehensive loss	(10,492)	(6,037)	(6,595)	(6,671)	(32,390)	14,900	(104,800)	(292,300)	(331,000)	(270,200)	(317,200)	(341,000)	(341,000)	(340,300)
Total stockholders' equity	142,154	72,018	206,025	1,194,193	1,307,795	1,114,600	1,033,800	899,600	821,700	897,700	830,900	813,700	813,700	807,200
Noncontrolling interests in subsidiaries	2,058	2,401	572	445	36,821	36,400	36,100	34,900	35,000	33,700	34,100	34,700	34,700	34,700
Total stockholders' equity	144,212	74,419	206,597	1,194,638	1,344,616	1,151,000	1,069,900	934,500	856,700	931,400	865,000	848,400	848,400	841,900
Total liabilities and equity	1,079,752	917,290	1,075,326	2,313,561	3,490,607	2,993,700	2,702,200	2,473,100	2,541,200	2,708,400	2,635,500	2,494,800	2,494,800	2,443,300

Source: Company reports (October 31 fiscal year end)

Verifone Systems, Inc. Consolidated Income Statement (non GAAP USD \$ 000's)

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY17E	FY18E
Net revenues:																
System Solutions	792,289	807,465	727,650	828,960	1,036,691	1,345,605	1,071,161	1,162,200	1,309,600	1,236,500	265,400	263,000	263,000	269,000	1,060,400	1,075,021
Services	114,338	116,130	117,466	172,606	272,819	540,735	638,041	708,900	691,700	769,700	191,200	208,000	215,000	235,000	849,200	931,532
Total net revenues	\$906,627	\$923,595	\$845,116	\$1,001,566	\$1,309,510	\$1,886,340	\$1,709,202	\$1,871,100	\$2,001,300	\$2,006,200	456,600	471,000	478,000	504,000	\$1,909,600	\$2,006,553
Cost of net revenues:																
Systems Solutions	491,808	520,323	475,417	509,826	609,973	758,764	645,686	687,500	753,900	731,500	164,800	163,060	160,430	166,780	655,070	651,778
Services	56,976	72,372	65,862	98,585	154,453	290,962	346,628	399,500	395,500	436,000	114,000	118,560	121,475	131,600	485,635	528,091
Total cost of net revenues	548,784	592,695	541,279	608,411	764,426	1,049,726	992,314	1,087,000	1,149,400	1,167,500	278,800	281,620	281,905	298,380	1,140,705	1,179,869
Gross profit	357,843	330,900	303,837	393,155	545,084	836,614	716,888	784,100	851,900	838,700	177,800	189,380	196,095	205,620	768,895	826,684
Operating expenses:																
Research and development	59,493	66,163	59,154	71,554	104,158	139,141	164,519	187,100	191,050	199,100	47,000	47,000	46,000	45,000	185,000	193,250
Sales and marketing	87,130	82,252	64,810	84,892	116,831	158,403	176,851	192,000	204,700	201,800	47,000	47,500	46,000	46,000	186,500	188,300
General and administrative	59,014	73,117	62,919	70,909	80,107	126,502	140,383	160,900	169,050	179,700	46,000	45,000	43,000	42,500	176,500	170,300
Total operating expenses	205,637	221,532	186,883	227,355	301,096	424,046	481,753	540,000	564,900	580,600	140,000	139,500	135,000	133,500	548,000	551,850
Operating income	152,206	109,368	116,954	165,800	243,988	412,568	235,135	244,100	287,000	258,100	38,100	49,880	61,095	72,120	221,195	274,834
Net Interest & Other income, net	(27,551)	(21,384)	(16,202)	(14,347)	(12,166)	(6,425)	(3,652)	(4,200)	(35,700)	(37,800)	(10,500)	(10,200)	(9,500)	(9,000)	(39,200)	(38,700)
Income before income taxes	97,104	70,458	87,111	139,516	221,083	362,965	187,750	200,700	251,300	220,300	27,600	39,680	51,595	63,120	181,995	236,134
Provision (Benefit) from income taxes	34,903	24,636	28,211	35,600	46,364	57,510	25,971	28,985	36,350	33,423	4,000	5,754	7,481	9,152	26,387	34,239
Net income	62,201	45,822	58,900	103,916	174,719	305,455	161,779	171,715	214,950	186,877	23,600	33,926	44,114	53,968	155,608	201,894
Net income attributable to VeriFone Systems	62,201	45,822	58,900	103,916	174,719	302,182	159,725	171,715	212,700	184,977	23,200	33,426	43,614	53,968	154,208	198,294
non-GAAP Net income per weighted average share:																
Basic	\$ 0.76	\$ 0.54	\$ 0.70	\$ 1.22	\$ 1.89	\$ 2.82	\$ 1.47	\$ 1.54	\$ 1.87	\$ 1.67	\$ 0.21	\$ 0.31	\$ 0.40	\$ 0.50	\$ 1.42	\$ 1.82
Diluted	\$ 0.74	\$ 0.54	\$ 0.69	\$ 1.18	\$ 1.81	\$ 2.74	\$ 1.44	\$ 1.51	\$ 1.84	\$ 1.66	\$ 0.21	\$ 0.30	\$ 0.39	\$ 0.48	\$ 1.38	\$ 1.75
Weighted average shares:																
Non GAAP Diluted	84,409	84,736	84,845	87,785	96,512	110,222	110,873	113,825	115,850	111,450	111,700	112,000	112,000	112,300	112,000	113,250
Year/Year Growth Rates																
Total Revenue	56.0%	1.9%	-8.5%	18.5%	30.7%	44.0%	-9.4%	9.5%	7.0%	0.2%	-11.1%	-11.5%	-3.0%	7.8%	-4.8%	5.1%
Total cost of Revenue	71.7%	8.0%	-8.7%	12.4%	25.6%	37.3%	-5.5%	9.5%	5.7%	1.6%	-5.0%	-8.1%	-0.9%	5.5%	-2.3%	3.4%
R&D Expense	25.6%	11.2%	-10.6%	21.0%	45.6%	33.6%	18.2%	13.7%	2.1%	4.2%	-5.4%	-9.4%	-8.0%	-5.3%	-7.1%	4.5%
Selling & Marketing	48.7%	-5.6%	-21.2%	31.0%	37.6%	35.6%	11.6%	8.6%	6.6%	-1.4%	-10.0%	-12.7%	-6.1%	-0.4%	-7.6%	1.0%
General & Administrative	38.6%	23.9%	-13.9%	12.7%	13.0%	57.9%	11.0%	14.6%	5.1%	6.3%	0.2%	-5.3%	-2.3%	0.5%	-1.8%	-3.5%
Total operating expenses	38.4%	7.7%	-15.6%	21.7%	32.4%	40.8%	13.6%	12.1%	4.6%	2.8%	-5.3%	-9.3%	-5.6%	-1.8%	-5.6%	0.7%
Operating Income	34.7%	-28.1%	6.9%	41.8%	47.2%	69.1%	-43.0%	3.8%	17.6%	-10.1%	-47.2%	-30.9%	-6.0%	48.1%	-14.3%	24.2%
Net Income	-3.1%	-26.3%	28.5%	76.4%	68.1%	73.0%	-47.1%	7.5%	23.9%	-13.0%	-56.8%	-35.6%	-5.8%	63.2%	-16.6%	28.6%
Non GAAP Earnings Per Share	-20.9%	-26.6%	28.4%	70.5%	52.9%	51.4%	-47.5%	4.6%	21.8%	-9.7%	-56.5%	-35.8%	-6.9%	61.4%	-17.0%	27.2%
Diluted Shares Outstanding	19.3%	2.5%	0.3%	3.9%	10.1%	14.2%	0.5%	2.7%	1.8%	-3.8%	-0.6%	0.4%	1.2%	1.1%	0.5%	1.1%
Percentage of Revenue																
System solutions revenue	87.4%	87.4%	86.1%	82.8%	79.2%	71.3%	62.7%	62.1%	65.4%	61.6%	58.1%	55.8%	55.0%	53.4%	55.5%	53.6%
Services revenue	12.6%	12.6%	13.9%	17.2%	20.8%	28.7%	37.3%	37.9%	34.6%	38.4%	41.9%	44.2%	45.0%	46.6%	44.5%	46.4%
Total cost of revenue	60.5%	64.2%	64.0%	60.7%	58.4%	55.6%	58.1%	58.1%	57.4%	58.2%	61.1%	59.8%	59.0%	59.2%	59.7%	58.8%
R&D expense	6.6%	7.2%	7.0%	7.1%	8.0%	7.4%	9.6%	10.0%	9.5%	9.9%	10.3%	10.0%	9.6%	8.9%	9.7%	9.6%
Sales and marketing	9.6%	8.9%	7.7%	8.5%	8.9%	8.4%	10.3%	10.3%	10.2%	10.1%	10.3%	10.1%	9.6%	9.1%	9.8%	9.4%
General & administrative	6.5%	7.9%	7.4%	7.1%	6.1%	6.7%	8.2%	8.6%	8.4%	9.0%	10.1%	9.6%	9.0%	8.4%	9.2%	8.5%
Total operating expenses	22.7%	24.0%	22.1%	22.7%	23.0%	22.5%	28.2%	28.9%	28.2%	28.9%	30.7%	29.6%	28.2%	26.5%	28.7%	27.5%
Margin Analysis																
Total Gross profit	39.5%	35.8%	36.0%	39.3%	41.6%	44.4%	41.9%	41.9%	42.6%	41.8%	38.9%	40.2%	41.0%	40.8%	40.3%	41.2%
Operating income	16.8%	11.8%	13.8%	16.6%	18.6%	21.9%	13.8%	13.0%	14.3%	12.9%	8.3%	10.6%	12.8%	14.3%	11.6%	13.7%
Net income	6.9%	5.0%	7.0%	10.4%	13.3%	16.0%	9.3%	9.2%	10.6%	9.2%	5.1%	7.1%	9.1%	10.7%	8.1%	9.9%

Source: Company reports & Hilliard Lyons estimates

VALUATION

We increase our FYE'18 price target to \$26.25 from \$25.50 and maintain our Long-term Buy rating. Our price target is based on our FY'18 EPS estimate of \$1.75 multiplied by a 15x P/E multiple. Our 15x forward price to earnings multiple matches our prior forward P/E multiple. With our Q2'17 EPS estimate declining, our 2H'17 expectations increase which may create some execution risk, however operating performance is expected to trend up sequentially throughout the year. Shares of PAY currently trade at a forward P/E multiple of 13.8x our FY'17 EPS estimate of \$1.38 and 11x our FY'18 EPS estimate of \$1.75. Forecasting out several years to FY'20, in what we expect to be a more normalized operating environment, shares trade at just 8.4x. In our view, PAY shares are suitable for aggressive growth oriented investors seeking long-term capital appreciation over a multiyear timeframe through a multinational corporation with significant exposure to international and emerging markets.

SUITABILITY

We assign shares of PAY a suitability rating of 4 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). We believe Verifone is suitable only for the most aggressive investors. A 4 rating is given based on high net debt levels, lower than historical near term free cash flow generation, and weak visibility from management, offset by the gradual increase in recurring revenue from new service offerings. Also, a significant percentage of total revenue is derived from emerging market economies which have struggled to provide stable growth in recent years. We believe longer term, the company has ample ability to generate significant free cash flow and has a manageable balance sheet, yet currently carries significant debt, greater than our typical technology holding. We believe a suitability rating of 4 incorporates these attributes. We note Verifone is in good financial standing and remains compliant with all financial covenants. We believe shares of PAY are suitable for aggressive growth oriented investors seeking long-term capital appreciation through global exposure to the growing electronic payments industry.

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- Risk of a major security breach of consumer data
- The inability to comply with security standards, government mandated regulations, industry certifications, or card association standards, or noncompliance with payment processors or financial institutions
- Unexpected challenges integrating an acquired company, which could reduce the combined company's fair value, causing impairment charges to goodwill, impacting GAAP results
- Inability to properly manage international operations due to geopolitical concerns or other issues
- Weak global demand due to poor macroeconomic conditions
- Heavy reliance on a small number of large customers could materially affect ongoing operations
- Credit risks, currency fluctuations, and other operational risks
- Interest rate risk. The company has high levels of debt due to acquisitions that could have adverse effects if interest rates rise substantially
- Third party risk; VeriFone relies on manufacturers, typically in Asia, to supply parts or manufacture entire systems; any disruptions from these suppliers could impact sales
- Technological disruptions associated with advancements in the mobile payments industry, including mPOS providers and highly innovative competitors in the SMB market
- Negative effects associated with currency translation, as a large percentage of total revenue is derived from international sales
- Retail industry weakness from lower foot traffic could delay or reduce future payment terminal deployments
- Delays in product delivery or adoption of new technology

Additional information is available upon request.

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

The author of this report or members of his household have a long position in the common stock of Verifone Systems, but may not engage in buying or selling contrary to the recommendation.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

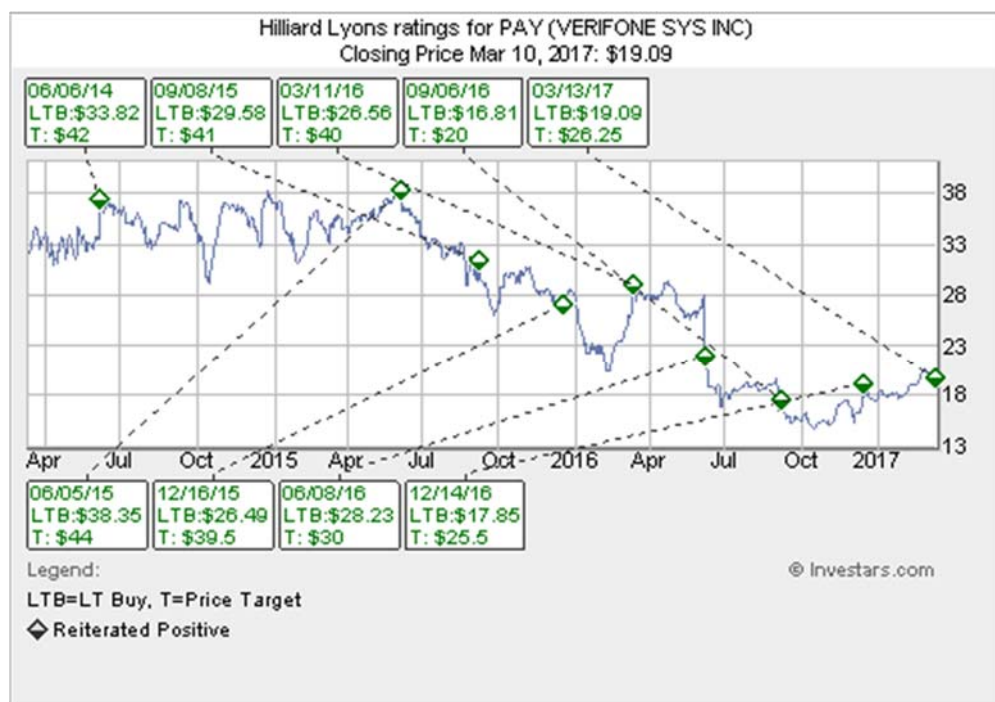
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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