INVESTOR'S BUSINESS DAILY
THURSDAY, DECEMBER 17, 2009

THE NEW AMERICA

BOTTOMLINE TECHNOLOGIES *Portsmouth, New Hampshire*

Software Maker Sees Big Upside To Its Bank Of America Contract

BY MARILYN ALVA
INVESTOR'S BUSINESS DAILY

A good relationship can pay off, even if it's not one of equals. Take small, Portsmouth, N.H.- based **Bottomline Technologies**[EPAY] and banking giant **Bank of America**[BAC].

In mid-September, BofA let Bottomline take over its PayMode business-to-business electronic-transaction network, one of the largest of its kind in the U.S.

The bank will pay Bottomline for managing the network for its own customers.

It seemed a good fit: Bottomline specializes in business-to-business e-payment and invoice management software and services.

"Bank of America had scale and distribution. We had technology," said Bottomline CEO Robert Eberle.

As part of the deal, Bottomline paid Bank of America $9 million and gave it the right to buy 1 million Bottomline shares at $8.50 each. Bottomline closed Tuesday at 16.60.

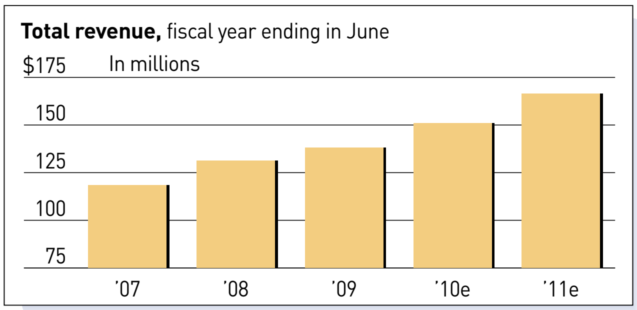
A Matter Of Perspective

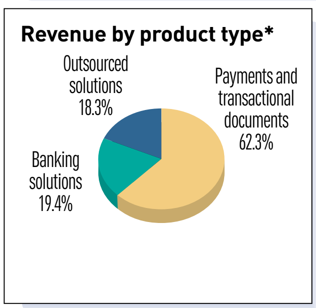
For Bank of America, PayMode was "one of their little side initiatives," said analyst John Kraft of D.A. Davidson & Co. But for Bottomline, Kraft said, "it's a major initiative."

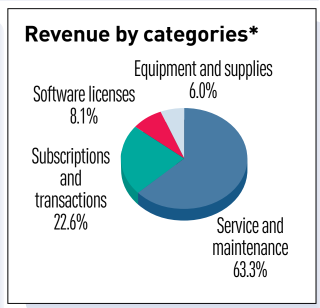
"Bank of America has a lot going on right now. It needed to invest and improve the technology, and Bottomline was an expert in that small niche of business-to-business payments," he said.

Building Blocks

With a subscription and transaction-based business model, Bottomline Technologies aims to grow by leveraging its expertise in electronic business-to-business payments for banks and corporations to pick up new customers







Sources: Company reports, Needham & Co. *three months ending in September

Bottomline plans to invest $5 million in tech upgrades.

PayMode gives Bottomline a leg up in the business of automating paper invoices and payments for corporate clients. At least 80% of those functions are still paper-based.

"The opportunity we have and our ambition is to become one of the major settlement networks that corporations use to invoice and pay each other," Eberle said.

Bottomline posted just $138 million in revenue in its last fiscal year. But Eberle sees the company becoming the settlement network for business-to-business invoices and payments, just as **MasterCard**[MA] and **Visa**[V] are the settlement networks for point-of-sale consumer transactions.

"No one is doing this on a large scale," Eberle said.

He sees banks as partners in building out the network.

At the time of the deal, Bank of America had 80,000 vendors enrolled in PayMode. Bottomline has some 10,000 vendors.

Bottomline Technologies
bottomline.com

Ticker	EPAY
Share price	Near 17
12-month sales	$139 mil
5-year profit growth rate	14%

IBD SmartSelect Corporate Ratings

Composite Rating	94
Earnings Per Share	95
Relative Price Strength	92
Industry Group Rank	149
Sales+Profit Margins+ROE	B
Accumulation/Distribution	A

See Investors.com for more details

"PayMode has the potential to be significant to Bottomline because it brings scale," said Colin Gillis, an analyst with Brigantine Advisors.

PayMode customers remain Bank of America customers. But Bottomline will be paid undisclosed subscription and transaction fees for managing the network and upgrading the technology.

Both parties plan to sell the PayMode service to new customers. Those Bottomline adds will bring in added revenue for the firm.

PayMode was owned by FleetBoston until Bank of America acquired FleetBoston in 2004. Earlier, it was part of a venture-backed startup founded in 2000.

Bottomline has been doing just fine without PayMode. In its first quarter ended in September, profit soared 125% from the prior year to 27 cents a share, topping Wall Street estimates by 9 cents. The firm's core operating margin jumped to 20% vs. 7% in the year-ago period, well ahead of the target.

(Continued)

The stock soared on the news, which was reported on Oct. 22.

And PayMode didn't figure much into the picture then. "PayMode is not what's driving results now," said Gillis. It'll be "the next wave of growth."

Additional growth will likely come from Bottomline's ties with the global interbank association known as Swift, the Society for Worldwide Interbank Financial Telecommunication.

The association has asked Bottomline to provide technology for a new program it's setting up to help smaller corporations facilitate money transfers and payments between themselves. It would be an alternative to having traditional banking channels handle the work.

About $1 million in revenue is expected from Swift in 2010, the first year of the program.

"It's not in and of itself (big), but it's a huge vote of confidence," Kraft said. "This is a big, well-known organization that has relationships with virtually all banks."

It's About Trust

Bottomline has other large banking customers, though none on the scale of Bank of America. They often sell the firm's software and services to their corporate clients.

"When you're moving people's money, trust is important," Eberle said. "We've been around 20 years. We have a competitive advantage."

He says Bottomline is gaining market share on rival **S1 Corp.**SONE because of his firm's focus on both banks and corporations. "Their forte is smaller banks and automating a broader spectrum of things within banks," he said. We're tighter and more specialized around corporate customers to the bank."

Deutsche BankDB recently had Bottomline handle new work for its outsourced payment program, which leverages Bottomline's Web Series platform. The Web Series platform is sold to major banks. Swift is also buying it.

Several Web-based products reside in the Internet "cloud," accessed through a browser.

Some of Bottomline's newer products help companies manage legal and insurance bills more efficiently.

Meanwhile, recurring revenue is growing as Bottomline's business model transitions from perpetual licenses to one that's based on subscriptions and transactions.

In the last quarter, recurring revenue totaled $22.9 million, or 63% of the $36.6 million in overall revenue. Service and maintenance revenue rose $2 million vs. the prior year to $23.1 million, the biggest portion of the pie.

About half of its customers are based outside the U.S., most notably in the U.K. and Australia.

Bottomline plans to expand PayMode outside the U.S. Right now, the network only works in the U.S.

"When it has international capabilities, we'll have a bigger market and it'll be more attractive even for U.S. providers," Eberle said. "And as a result, we'll have higher revenue and higher profits."

Analysts say it's hard to forecast potential revenue streams from PayMode at this time.

But analysts polled by Thomson Reuters see company profit rising 61% this fiscal year vs. last to $1 a share. They see earnings gaining 17% the next year.