

CASE STUDY IN BRIEF: PAYVERIS



Creating a Company to Meet the Digital Payments Challenge

INTRODUCTION

The digital tsunami is transforming society and business as new technologies collapse barriers not only between industries but within industries, eliminating middlemen, putting companies in direct contact with their customers, and creating an entirely new business ecosystem.

Black Dragon Capital works hard to identify and support the companies that are powering the transformation, companies that will create new categories of service that the tsunami makes possible.

The firm invests in and guides companies that promise to solve industry pain points in ways that others cannot, while having a significant impact on technology, spending and value. The goal is to grow these companies into market leaders.

Sometimes, however, Black Dragon finds an opportunity that no company has yet addressed. This is particularly true when we can see the friends and members of a community that we are an active part of suffering. When that happens, it creates the company that will seize the opportunity. munity that we are an active part of suffering. When that happens, it creates the company that will seize the opportunity.

That's how Payveris came to be a company designed to meet the urgent need for a viable alternative digital payments system (even more urgent today as our socially distanced world responds to COVID-19 by moving most of its transactions to digital applications) and to protect an essential part of our communities, the community based financial institutions that fund the American Dream.

THE MARKET NEEDS: THE FINANCIAL SERVICES INDUSTRY'S PAYMENT NETWORKS WEREN'T DESIGNED FOR THE DIGITAL MONEY-MOVEMENT ERA

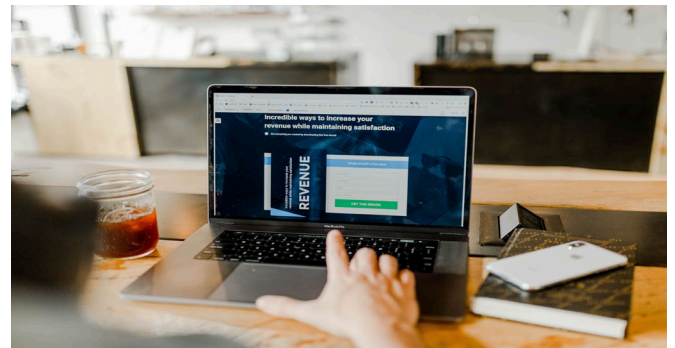
Black Dragon and its principals have been engaged with community financial institutions for decades. We have friends and partners in the community, it has provided for our families and we have written books and hosted rallies to highlight their importance. As an investor, Chairman and CEO in Open Solutions, the firm, and its principals, helped a disruptive financial services technology player grow into an almost \$1.5 billion company. Open Solutions created an open architecture banking technology platform that effectively gave banks an "operating system" focused on the needs of individuals and groups, one community at a time across the globe. Open Solutions' platform allowed financial institutions to tailor product offerings, grow revenue, realize efficiencies, and serve customers across geographies and jurisdictions. Open Solutions is now a part of Fiserv. See Open Solutions Case Study at: <https://blackdragoncap.com/2020/01/case-study-in-brief-open-solutions/>.

Even earlier, in the 1990s, Black Dragon and its principals helped found and back a media and e-commerce company that grew to hundreds of millions in revenues, went public and was sold. As part of its solution it had to address the online payment issue at a time when none existed during the early stages of the internet revolution. Their early understanding of e-commerce technology and the payment issues set a foundation for future strategies. It was clear that digital payments were an emerging area with an abundance of issues and opportunities.

Conventional payment systems are part of the traditional banking system, which evolved in an earlier, slower-moving era. Financial Institutions were created centuries ago to facilitate commerce. Their mission was and is to provide the basis of a strong economic system that in turn supports a strong society. To do that, they need to operate in a safe and sound way, terms that are in most regulatory language around the world. Because of the history, financial institutions are often formed or regulated by a sovereign state, country and often charter type (i.e., commercial bank, credit union, retail bank, etc.) and rules and regulations that determine how they will take in and distribute funds to facilitate the exchange of goods and services. Overtime the tools to facilitate payments and other funds flow evolved with societal norms and

technology advances, but they were anchored in this historical foundation and were more focused on how financial institutions would work with each other. As you can imagine, with the acceleration of digital commerce over the last 20 years, these foundation concepts for organizing and operation of our financial institutions payment networks, never contemplated the realities of today.

Banking technologies have gone through various updates over the years, and often require collaborations between the commercial sector, financial institutions, and regulators. In addition, technology advances and changes in consumer behavior inevitably have a lagging effect on the ability for these networks and systems to meet the needs of the community.



But once we all became digitally connected via the internet and the cloud, everything changed. E-commerce sparked massive demand for high-volume, real-time, cross-border payments. People who buy over the internet, especially those buying digital content for download, want it instantly. They don't want to wait for payments to clear. The banking system, limited by networks designed primarily for banks to interact not for individuals, regulatory constraints, and fraud issues, made the banking infrastructure ill-equipped for the new realities. Normal delays for a payment to clear, familiar to anyone who ever waited for funds from a check to become available, seemed to be an acceptable tradeoff for trust and reliability.

PAIN POINTS: ALTERNATIVE PAYMENTS SYSTEMS ARE COMPLEX, SLOW, COSTLY, AND INACCESSIBLE TO COMMUNITY BASED FINANCIAL INSTITUTIONS

A variety of alternative payment systems were created or improvised and thrown into the breach. All of them had advantages but significant drawbacks too.

Starting in the 1970s, banks attempted to move to electronic payments via the Automated Clearing House (ACH) network. But it was subject to the same regulations and constraints as their traditional payment system, including the same clearing delays (all payments move through the ACH's own clearinghouse). Only recently has same-day clearing been introduced, and it is not real-time. The system supports financial institutions but really is not designed for individuals. As with many legacy systems, this one is needlessly complex. Bill pay, funds transfer, and peer-to-peer payments typically run on different technologies that are only partly interconnected.

Ongoing frustration with the traditional banking system, even in its electronic form, led to the development of "alternative payments." This takes many forms, from digital wallets like Apple Pay, to PayPal, to systems that piggyback on the "card rail" network used by MasterCard, Visa, Discover and American Express. But all of these involve various delays and fees, and they bypass and exclude the local community based financial institutions that were once the foundation for commerce. Only major card-issuing banks get to participate in any meaningful way

Among the problems: payments made using the card rail network are hampered because the network is not a payment system. Instead it is a credit system for short-term lending. It provides credit for bad transactions and covers purchases until payment can be made. To support these costs, it charges merchants fees. The fees are also imposed for direct payments made via the network, even though a payment to a merchant is a debit rather than a short-term loan. The fee represents a significant loss to merchants. A fee of 2 to 4 percent,

typical of the card rail network, can be devastating to a merchant in a low-margin business.

PayPal has created a hybrid system that works with the ACH network. When you make a purchase on PayPal, your funds are moved to PayPal's account and not cleared for 3-5 days. The process can be accelerated if you link a credit card to PayPal. At that point, the payment moves instantly, but with the same fees that apply to all card rail transactions.

There are additional disadvantages these alternative payment systems. Some of the fees are passed along by merchants to consumers in the form of higher prices. And local banks and credit unions can't participate because they lack the necessary technology infrastructure and software tools.

It was to fill those gaps between buyers and sellers, to address high costs, delays, and the damage to community banks, and to seize the growth opportunity that a viable payments system would present, that Payveris was founded.

PAYVERIS WAS BUILT TO SOLVE THE ALTERNATIVE PAYMENTS PROBLEM AND PUT COMMUNITY BASED FINANCIAL INSTITUTIONS BACK AT THE CENTER OF THE TRANSACTION AND COMMERCE IN THE COMMUNITY

The opportunity that led to Payveris was the flipside of the problems with alternative payments. An opportunity existed to create a true payment alternative that would operate in real time, eliminate merchant fees, reduce costs for merchants and consumers, open the door to local regulated banks and credit unions, to fulfill their trusted roll as a regulated facilitator of commerce in the community.

Black Dragon founded Payveris in 2011, at a time when digital commerce began to rapidly accelerate and when community banks and credit unions were struggling to recover from the 2008-2009 financial crisis. These community based financial institutions had been the cornerstone of their communities, often living and working together with the communities they serve. They had emerged from the crisis with good balance sheets but were staggering under the burden of new regulatory and compliance costs imposed on them as the result of the failures of the major national banks and lenders. Naturally, this increased the struggle to remain competitive and relevant in a world shifting toward a digital lifestyle.

The question was why isn't there a modern technology payments hub that could accommodate the real-time payment needs of digital payment customers, without the unnecessary cost and complexity of using the card network, as simple and easy for consumers as other payment networks, and that can put the trusted community based financial institution back in the center of commerce for their community. Unfortunately for the community financial institutions, they are burdened with the rigid, dated, and costly technology from the legacy payment providers, each of which was acquired by one of the three large core processors. The end result: community financial institutions are at risk of becoming irrelevant in a digital economy!

Payveris was built around a technology core: a cloud native architecture based upon an Open API interface. The two in combination made the payments process accessible to community banks and credit unions that lacked the IT infrastructure necessary to participate. These technology components were the basis for a highly streamlined solution, the MoveMoney Platform(SM), which was designed to give banks, merchants and individuals control, simplification, and extension of digital money movement on any application or device. MoveMoney provides for peer-to-peer transfers as well as business and consumer bill payment in a fully streamlined cohesive experience on any device across any channel.

The Payveris solution works like this: Instead of requiring that bank accounts be linked to the payment system, as ACH and PayPal do in different ways, Payveris instead supports a "guaranteed funds" model that serves funds in an-existing account to cover payment. If a hypothetical consumer had \$100 in a checking account and initiated a \$10 payment, \$10 would be reserved by Payveris, eliminating any transaction risk, and allowing for expedited (i.e., same/next day) delivery.

Unlike the ACH network, there are no delays because there are no intervening steps. Unlike PayPal, there is no need to set up additional accounts, with resulting time lag. In contrast to the card rail system, there are no merchant fees because they don't use the card rail to process the transaction. If the world, used this approach, Merchants and consumers are assured of funds because they are drawn from FDIC-insured bank and credit union accounts. And those small banks and credit unions are able to participate without processing costs, without having to make their own technology investments, and without have to manage multiple

platforms for different functions such as bill pay, peer-to-peer payment and funds transfer. The Open API platform provides all of those functions. And best of all, consumers get the same simple and easy way to pay but with their trusted and FDIC insured bank or credit union.

Also, because the platform is based on an Open API, community financial institutions are able to customize the user interface and use it to reestablish and strengthen their ties to their customers. In effect, by using the Payveris MoveMoney Platform, they have been able move back into the center of their relationships with customers. A couple examples of strategic moves by Payveris help illustrate this point.

First, Payveris partnered with a top-five Connecticut bank and an innovative, Canadian-based content provider to deliver personalized P2P messaging that leverages curated audio and video content to create a highly engaging, relevant, and unique experience. Payveris is in the process of rolling the new functionality out to its other financial institution clients to help them compete against the Venmos of the world.

Second, after discussions with some of the most progressive credit unions in the country, a general theme came to the fore: credit unions were not only frustrated with the rigidity and lack of innovation of the legacy providers, but also the lack of any opportunity to have true input and influence on product direction. As a response to this need, Payveris created a credit union services organization (CUSO), Payveris CU, as a vehicle for credit unions to invest in the company as well as sit on PayverisCU's board, which is responsible for the CUSO's governance as well as setting its strategic product and platform direction. With a formal seat at the table, credit unions members of PayverisCU have significant influence on and clear visibility into one of their mission critical technology providers. This demonstrated the commitment to the community it was created to serve!

Payveris' value proposition is concisely expressed as *Simplify* (because of the open, cloud-based technology platform and the broad range of functionality it provides), *Control* (because the banks can use the Open API platform to customize and brand the user experience) and *Extend* (because modern, open APIs can be modified and customized with open apps). Those are the specific building blocks of a better payment experience for community banks and their customers.

PAYVERIS GREW TO COMPETE WITH, AND THEN PARTNER WITH, THE MAJOR NATIONAL BANKS

Payveris started slowly but steadily, then gained momentum as community banks and credit unions came on board.

After being founded and initially funded by Louis Hernandez Jr, an award-winning entrepreneur, he brought in other sophisticated investors and then a proven management team. They added Marcel King, COO, who worked with Mr. Hernandez at Open Solutions, and then Ron Bergamesca, a highly recognized payments executive, as CEO. Under Mr. Bergamesca, who came on board in early 2017, Payveris set out to seize the up-market opportunity, including regional banks, which are burdened and frustrated by the lack of innovation of the legacy payments providers due to their dated, siloed payment technology. The strategy was validated when Payveris won business from a number of large banks and credit unions, resulting in a 75 percent compounded annual growth rate (CAGR) between 2016 and 2019. “We are a mission-critical service,” said Bergamesca. “Our clients must have the utmost confidence in us, and we have been able to achieve that level of trust.”

A recent success of note is the company’s introduction of its real-time P2P service that provides community and regional FIs an attractive alternative to Zelle. Unlike Zelle, Payveris’s real-time P2P service integrates seamlessly into the user’s money movement experience, maintains the prominence of the financial institution’s brand, and eliminates the operational overhead all with a modest upfront investment. Based on the demand the company is seeing for its P2P service, they clearly identified a significant need in the market. This is a perfect example of how Payveris’s is leveling the playing field so regional and community FIs can compete effectively with the large banks and upstart fintechs.

Today, Payveris provides innovative payment services to over 250 financial institutions, including banks, credit unions and a growing community of technology providers. It has become one of the fastest growing and recognized alternatives to traditional payment players. And the only new technology provider that is proven at scale with some of the most recognized brands in community financial institutions.

PAYVERIS ILLUSTRATES BLACK DRAGON’S MARKETPLACE INSIGHT AND COMMITMENT TO THE COMMUNITY

The creation of Payveris illustrates the kind of insight that Black Dragon brings to bear on behalf of all its portfolio companies. Black Dragon is thesis driven. Every decision, every investment and every strategic model is based on an informed analysis of trends within each industry sector and of the ways in which digitization is collapsing workflows, destroying barriers within industries, and creating value. In addition, the firm is operationally led. Black Dragon professionals with significant industry experience work alongside company leaders to meet day-to-day challenges and seize opportunities. “Black Dragon has been highly supportive,” said Bergamesca. “As an entrepreneurial CEO, that level and quality of support has been critical to me.” Among their principals and advisors have created some of the largest and most recognized financial technology brands in the world.

Payveris also illustrates the values that are central to Black Dragon, in particular its commitment to community. Payveris exists because of a market opportunity but also because Black Dragon understands the vital role of community-based financial institutions and stood ready to act to support them. Said Black Dragon CEO Louis Hernandez Jr: “These institutions represent a unique pillar of economic stability. They have literally financed the American Dream. When they are under threat, we are all weakened. Our goal with Payveris has been not only to leverage a growth opportunity but also to support the banks and credit unions that have been an essential support for so many others. Our goal is to do well and to do good.”



ABOUT BLACK DRAGON CAPITAL

Black Dragon Capital, LLC ("BDC") is a minority founder led private equity firm making control investments in technology companies. BDC was formed by technology operating executives with a track record of building market leading companies and providing above market investment returns.

Learn more at <https://blackdragoncap.com/> or follow us on LinkedIn at <https://www.linkedin.com/company/black-dragon-capital>.

ABOUT PAYVERIS

Payveris is the creator of The MoveMoney Platform, an Open API cloud-based platform enabling FIs to control, simplify and extend digital money movement capabilities to any application/device while lowering user experience friction, significantly reducing operating costs & future-proofing the IT investment.

Shift from a product-centric digital payments model to a platform-centric model today Visit www.payveris.com to learn more.