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Did VeriFone Hit Bottom in 2016?

Maker of credit-card readers was hurt by delays, Chinese rivals; the worst may be over

Paul Galant, CEO of VeriFone, said in an interview that the 2016 decline in Asia was partly due to the sudden loss of a regulatory certification in China, which has since been rectified. *PHOTO: JACOB KEPLER/BLOOMBERG NEWS*

By **AARON BACK**
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VeriFone Systems had a rough 2016. The company hopes to turn things around next year, but the outlook remains unclear.

VeriFone makes machines that read credit cards at stores. The company was hit by a surprisingly slow transition to chip-reading cards in the U.S., which was expected to drive growth. Big retailers switched to the more secure chip technology early on, but others have been dragging their feet.

Investors have also been concerned about rising competition from low-cost Chinese rivals, who have been taking share in China and other emerging markets.

VeriFone took another hit this month when Visa and Mastercard pushed back the deadline by three years, to 2020, for gas stations to switch to chip readers at fuel pumps. VeriFone shares fell 3.7% in a single day on the news.

When VeriFone reported earnings on Monday evening, it lowered its guidance for fiscal year 2017, which ends in October, mainly due to the gas station move. But this negative factor was already priced in, and shares rallied 7% in Tuesday morning trading. So far this year, the stock is still down by more than a third.

As VeriFone points out, the transition to chip readers will still take place, just at a slower pace. The bigger long-term worry is rising competition, especially in emerging markets. In 2015, VeriFone's global market share fell by around 2 percentage points to 14%, while several Chinese rivals gained ground, according to a survey by the Nilson Report, an industry newsletter.

This seems to have continued in 2016. Sales to Asia-Pacific fell 14.5% in the year to October, while Latin America sales fell 10.1%.

VeriFone Chief Executive Paul Galant said in an interview that the 2016 decline in Asia was partly due to the sudden loss of a regulatory certification in China, which has since been rectified. But clearly, the company is feeling the heat from low-cost Chinese competitors, and not just in China.

It has responded with new, cheaper terminals for emerging markets, which have already been introduced in Southeast Asia. Somewhat optimistically, the company now forecasts 15% sales growth in Asia Pacific in fiscal 2017, aided by the Indian government's drive to move away from a cash-based economy.

If there are no more bumps in the U.S. transition to chip cards, and if the company really has turned a corner in emerging markets, its toughest days could now be behind it. But those are two big ifs. Given its record this year, investors might want to wait for more certainty before wading back in.

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