
CONTRARIAN RESEARCH REPORT

December 8, 2010

Global Cash Access Holdings, Inc.

(BUY)

Price:	\$2.80	Ticker:	GCA
52-Week Range:	\$2.36-\$9.26	Dividend:	n/a
Shares Outstanding:	64.8 million	Yield:	n/a
Market Capitalization:	\$181 million		

Data As of 12-7-10



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The Contrarian Report*

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Investment Thesis

Global Cash Access is a specialized company that provides cash access services to patrons of casinos. Simply, the company operates ATM machines within gambling establishments. Global Cash Access's business has declined dramatically, as domestic gaming weakened sharply due to the economic recession.

Following the company's announcement in July that its largest customer, representing about 14% of sales, elected not to renew their contract, in conjunction with disappointing earnings for the third quarter, investors have abandoned the company's shares. Its stock price has declined by approximately 62% for the year, relegating its market capitalization to about \$180 million.

While business has indeed remained soft, it should be stressed that Global Cash Access has historically been a highly profitable company. Throughout the credit crisis of 2007-2009, it continued to produce profits at levels not much lower than that prior to the crisis. More importantly, even at depressed revenue levels, the company appears to be able to remain profitable. If consensus estimates are any guide, Global Cash Access might generate almost \$17 million in net income and \$48 million of free cash flow in 2011. Thus, at current prices, the company is being valued at 10.7x estimated earnings and only 3.8x free cash flow. It should be noted that Global Cash Access also reports an adjusted earnings figure that takes into consideration deferred tax assets, which it calls "cash earnings," which is the accepted metric among analysts that follow the company. On this basis, the company's P/E multiple would be 6.4x 2011E cash earnings. Such low valuations applied to what are likely to be severely depressed earnings and cash flow clearly indicates that it is an out-of-favor security. If one believes that the economic cycle is near the bottom, a subsequent recovery should ultimately increase gaming activity. It should follow, then, that the company's earnings should likewise improve. Yet, investors seem to be focusing on its short-term weakness and extrapolating the trend into the future, without entertaining the possibility of any potential recovery in earnings.

Therefore, a patient investor who can wait for an economic recovery to take hold could enjoy robust returns. For example, if the shares were to be re-valued at only 10x the cash earnings level of 2011, a return of 55% would be achieved. Over a two-year holding period, the annualized return would be 24%; over three years, it would be 15% per annum. Such a re-rating would not necessarily require a jump in earnings. Merely stabilizing its earnings could be sufficient to attract a higher earnings multiple.

In the absence of a multiple expansion, there are other techniques that could be employed to lift the share price. For example, with a free cash flow yield of 26%, management could utilize the abundant cash flow to repurchase shares or pay dividends. Indeed, over the last several years, the company had repurchased over \$144 million of its own stock. However, at the currently depressed level, the marginal effect of a stock repurchase program would

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have a greater influence on its share price. If Global Cash Access were to apply \$48 million of free cash flow to repurchasing its shares, it could theoretically retire over 26% of its stock. Alternatively, if the company were to pay dividends, the shares would almost certainly rise in response. In effect, there are a number of catalysts that could be initiated by the company to propel its share price higher.

A decline in consumer discretionary spending amid the weak domestic economy has caused a sharp decline in the Global Cash Access business. Nevertheless, its economics are such that the company can still remain profitable. Although it does face debt maturities occurring within 1½ years (\$96.2 million in November 2011 and \$127 million in March 2012), the company should have no problems refinancing these debts, given its cash flow history. While it is unclear what the fair value of Global Cash Access's shares should be, it nonetheless appears to be too low. As a result, the Global Cash Access shares currently possess an attractive risk/return profile, and hereby recommended for purchase.

Business Description

Global Cash Access is, according to the company, the largest provider of cash access products for the gaming industry in the United States, with a market share of roughly 70%. Since its formation in 1998 as a joint venture between Bank of America, First Data Corporation and M&C International, a privately-held technology development firm, Global Cash Access has expanded its reach to the point that it now operates within 1,100 casinos and other gaming properties in the United States, Europe, Canada, the Caribbean, Central America and Asia, although the bulk of its revenues are still derived domestically.

The core of its operations consists of providing gaming patrons access to cash through a variety of methods, most notably ATM withdrawals, credit card cash access transactions (i.e. cash advances) and point-of-sale debit card transactions. Additionally, Global Cash Access offers check verification and warranty services, typically for patrons who require cash in excess of ATM or credit card advance limits. As well, the company maintains a proprietary database of gaming customers that is utilized by casinos for determining whether to provide credit to the customer (i.e. "markers").

ATM Cash Withdrawals

ATM cash withdrawals represent the largest category of electronic payment transactions processed by Global Cash Access. In 2009, it processed 83.4 million transactions representing \$14.5 billion of aggregate dollars withdrawn.

For transactions using an ATM card, the patron's bank account is debited by the amount of cash disbursed plus a service fee that is assessed by the company. Historically, the service fee charged by the company has averaged over \$3 per transaction. This compares to the typical ATM fee of \$1.00-\$1.50 banking customers normally pay. Typically, the

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maximum amount allowed to be withdrawn is \$300-\$500 per day. Oftentimes, Friday, Saturday and Sunday are considered to be one day, which is disadvantageous for gambling patrons who wish to withdraw more than \$500 during weekend play.

ATM transactions, as well as credit card transactions detailed below, are conducted on kiosks owned and operated by Global Cash Access. The service fee assessed by the company is a fixed dollar amount, in which a percentage is paid to the casino operator as commission.

Credit Card Cash Access/Point-of-Sale Debit Card Transactions

Gaming patrons who wish to withdraw cash using credit cards or debit cards can utilize the same kiosks that support ATM card withdrawals. The credit card access limit is usually a fraction of the customer's total credit line set by the issuing bank. However, a patron's debit card allows for cash withdrawals at the point of sale in an amount equal to the lesser amount of funds in his or her account or the daily limit that is generally 5x-10x as large as the daily ATM limit. Thus, for those patrons who wish to withdraw more than \$500, access via their ATM cards would not suffice. Any additional cash patrons wish to withdraw above their ATM limit must then be supplemented by either a credit card withdrawal, debit card withdrawal, cashing a personal check, or obtaining credit from the casino.

For a transaction using a credit or debit card, the patron's account is charged by the amount of the cash disbursed plus the company's service fee. If the credit card or debit card transaction involves one of the issuing institutions that permit dispensing cash at a machine, the transaction will be completed then, which is not dissimilar to a regular ATM withdrawal. However, for those financial institutions that do not allow credit/debit cash withdrawals at the machine, the patron must then proceed to the casino's cashier or, when available, a booth operated by the company, to complete the transaction. This is because the patron's signature is required before cash can be dispensed.

To facilitate cash access, the company offers the Casino Cash Plus 3-in-1 ATM, an unmanned cash-dispensing machine that offers patrons a quick way to access cash through ATM cash withdrawals, debit card transactions and credit card advances using its rollover functionality. When a patron is denied a standard ATM transaction¹, the machine automatically provides the option of obtaining funds via a debit card transaction or a credit card cash advance. This increases the ease of access to the patrons' money.

Once completed, the company then collects its service fee, which is either a fixed amount, a percentage of the transaction size, or a combination of the two. In turn, the company pays the gaming operator a portion of the fee as commissions. Generally, the fees charged

¹ Approximately 30% of standard ATM transactions taking place in gaming properties are denied due to bad Personal Identification Numbers (PINs), exceeded limits, insufficient funds, and other miscellaneous reasons, according to the company.

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for cash advances are much greater than for ATM withdrawals: during the first nine months of 2009, cash advance fees averaged \$24.72 per transaction vs. \$3.90 for ATM withdrawals. Moreover, the commissions paid to casino operators are smaller for cash advances than for ATM withdrawals. As a result, ATM withdrawals are not as profitable for the company as credit card and debit card transactions.

Check Verification and Warranty Services

In instances in which patrons wish to cash checks to fund their gaming play, the casinos can obtain third-party verification information about the check writer and the check to manage risk or obtain a warranty on payment of the check. Warranty entitles the casino to reimbursement of the full face amount of the check if it is not honored by the patron's bank.

Global Cash Access offers two platforms for check warranty services: Central Credit Check Warranty and TRS Recovery Services (the latter is operated by a third party). Upon the notification of a dishonored check, the company will purchase the check from the casino for the face amount and pursue collections on its own behalf.

Check warranty revenues are earned based upon a percentage of the face amount of checks warranted. Historically, check warranty services contribute a very small portion of total revenues (7%-8%). However, it is very profitable, with operating margins exceeding those of cash advance and ATM revenues.

Central Credit

Central Credit is a credit bureau specifically designed for the gaming industry. It maintains a database of credit history and transaction data on gaming patrons. Casinos utilize Central Credit reports when considering the extension of credit to a patron.

In addition to the above services, Global Cash Access provides other ancillary services. These include, but are not limited to, money transfer through its Western Money operation, and QuikTicket, a cashless transaction system that stores a patron's gaming balance on a ticket. With QuikTicket, the patron purchases a ticket (ticket out) with a bank card at a self service kiosk, ATM or redemption device by inserting and removing their bankcard, entering their PIN number and requesting an amount. A bar-coded debit ticket is then dispensed from QuikTicket's voucher printer and an optional receipt is provided. The ticket may then be inserted into a slot machine, electronic game or redeemed for cash.

Global Cash Access serves a multitude of customers, primarily within the United States. Although it does not disclose its client list, the company has in the past confirmed relationships with some of the largest gaming companies, such as MGM Resorts, Boyd Gaming, Mandalay Resorts, Station Casinos and, until recently, Harrah's Entertainment. In addition to traditional casinos, Global Cash Access also serves gaming establishments that operate on Native American land, riverboats and cruise ships, as well as

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restaurants/bars with gaming operations and pari-mutual wagering facilities and card rooms.

Exhibit 1: Geographic Concentration

<u>State</u>	<u>2009 Revenue</u>	<u>2008 Revenue</u>
Arizona	4.8%	5.2%
California	14.1%	15.9%
Connecticut	4.6%	5.1%
Florida	7.7%	3.8%
Illinois	3.1%	3.3%
Indiana	5.3%	4.8%
Louisiana	3.0%	3.3%
Michigan	3.4%	3.1%
Mississippi	3.1%	3.6%
Nevada	22.4%	25.4%
New Jersey	5.7%	7.2%
Oklahoma	3.5%	n/m
Pennsylvania	3.9%	n/m
US Virgin Islands	n/m	n/m
Wisconsin	n/m	n/m
All Other*	15.4%	19.3%

*Jurisdictions representing less than 3% of the company's revenues

Notably absent are the geographic areas of Macau, in the Republic of China, and Singapore. These are areas that are experiencing breathtaking growth in gaming activity in which the industry has benefitted from an explosion of wealth occurring in China, in addition to support by the Chinese and Singaporean government in each respective country. Although the company is exploring ways to serve the Asian market, it has been difficult to penetrate mainly because cash access services provided in the casinos are typically the province of the local banking institutions.

Harrahs' Entertainment Contract

Global Cash Access provides its services under contracts with gaming organizations that usually last from 1-3 years. These contracts stipulate that the company is to be the sole provider of cash access products within the customer's casinos.

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In July 2010, Global Cash Access disclosed that Harrah's Entertainment, its largest customer, would not be renewing its contract upon expiration on November 30, 2010. Representing 14% of revenues, this implied that the company will be losing approximately \$85 million of revenues. Ultimately, Global Cash Access contends the contract loss was due to price.

Harrah's Entertainment is the world's largest casino operator, with 52 casinos located in 12 U.S. states and 7 countries. While it operates under a variety of names, its most well-known brands include Caesar's, Harrah's and Horseshoe. Although the company's shares had been publicly traded since 1971, it was taken private in 2008 through a leveraged buyout sponsored by Apollo Management and Texas Pacific Group.

As a result of the LBO, the company became highly leveraged, amassing a debt load of \$19.7 billion against only \$1.0 billion of equity. The timing of the transaction was unfortunate in that it coincided with the credit crisis and the ensuing economic recession. Harrah's business was subsequently injured to the point that it is still struggling to recover. During the first nine months of this year, Harrah's produced a net loss of \$629 million, in part caused by its annual interest expense of approximately \$2 billion, which is equivalent to 20% of revenues. Given the economic pressures borne by the gambling concern, the company has sought to slash costs and increase liquidity wherever possible. Just recently, Harrah's attempted to raise capital by selling shares to the public in an initial public offering, but cancelled the transaction citing adverse market conditions. This cost-cutting effort appears to be the reason Harrah's decided to end the Global Cash Access relationship, presumably awarding the business to another provider at more favorable economic terms. While the action is understandable, the absolute dollar amounts seem to be insignificant relative to Harrah's overall revenues to warrant a disruption in providing cash access services to its customers.

Aside from the loss of the Harrah's revenue, investors appear to be concerned that Global Cash Access might lose additional contracts or have its terms of trade weakened by the Harrah's loss. This was manifest in the 44% decline of the company's shares the day of the announcement.

Financial Review

Despite the fact that Global Cash Access is the operator of cash dispensing machines, it is not considered to be a financial services company. The currency dispensed by its kiosks is supplied by Bank of America, where the money remains the sole property of Bank of America until it is dispensed. While Global Cash Access never takes title to the currency, it does pay Bank of America fees for the cash usage, which are assessed on the outstanding

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balance at a rate of Libor + 25 basis points. The fees are reflected as interest expense on the company's financial statements.

As such, Global Cash Access is more properly characterized as a transaction processor. In this capacity, it generates revenues by charging transaction fees. Thus, the most important variable for the company relates to the number of transactions completed by gaming patrons, with a further emphasis on credit card-based withdrawals, as they generate higher fees than ATM withdrawals.

In its third quarter conference call, CEO Scott Betts disclosed that business remained soft, with revenue and net income declining on a year-over-year basis. The weak economic environment has reduced gaming expenditures and is reflected in the company's transaction statistics: the decline in the number of transactions resulted in the decline in revenues.

Exhibit 2: Year-To-Date Summary Results

Revenues (millions)	9mos.2010	9mos.2009	Change
Cash advance	\$ 190.51	\$ 225.90	-15.7%
ATM	242.14	252.59	-4.1%
Check services	22.03	30.79	-28.5%
Central Credit & other revenues	13.10	9.69	35.2%
	<u>\$ 467.78</u>	<u>\$ 518.96</u>	-9.9%
Number of transactions completed (millions)			
Cash advance	7.9	9.1	-13.2%
ATM	60.4	64.7	-6.6%
	<u>68.3</u>	<u>73.8</u>	-7.5%

In addition to a drop in total transactions, the average amount withdrawn per transaction declined. For example, the average amount withdrawn via cash advance was \$532 in 2008 and \$487 in 2009. During the first nine months of 2010, the figure was \$481, down from \$494 in the comparable previous year period. ATM withdrawals, which on average are roughly one-third those of cash advances in dollar amount, have also declined after peaking in 2007, reflective of a lessened propensity for gambling amid a weak economy and high unemployment.

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Exhibit 3: Average Amount Processed Per Transaction

	Cash	
	Advance	ATM
2005	\$ 516.48	\$ 168.08
2006	548.08	177.75
2007	566.37	185.03
2008	532.79	179.46
2009	487.18	173.86
9Mos.2009	494.51	173.11
9Mos.2010	481.01	173.84

Source: Company reports

The company also states that its financial results weakened due to a preference for ATM withdrawals over credit card cash advances. In point of fact, both types of transactions declined, although cash advance transactions declined more than ATM transactions. This is relevant insofar cash advances are more profitable for the company than ATM transactions, as the following table illustrates:

Exhibit 4: Operating Margins by Transaction Type

	2010*	2009	2008	2007
ATM	12.9%	13.5%	15.8%	18.2%
Cash Advance	20.7%	21.9%	22.9%	24.6%
Check Services	59.3%	56.0%	81.2%	85.0%

*Through Sept. 30

Source: Company reports

However, even though the domestic gaming sector remains stressed, Global Cash Access continues to be profitable. In fact, Global Cash Access has historically generated a high level of free cash flow relative to its revenues. Even during the turbulent period of 2007/2008, when the credit crisis reached a peak, and spending collapsed, Global Cash Access managed to generate profits not much lower than only a few years prior. And even though the company expects fundamentals to remain subdued for a few more quarters, it is still expected to be profitable on a going forward basis, at a level that can support its balance sheet.

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Exhibit 5: Historical Summary Earnings Results

	2006	2007	2008	2009	2010E	2011E
Revenues	\$ 548.15	\$ 597.94	\$ 671.61	\$ 667.72	\$ 612.25	\$ 545.13
Operating income	85.2	78.22	78.65	72.05	53.64	40.48
Net income	26.61	23.70	23.56	33.64	23.02	16.95
Free cash flow	55.88	82.37	63.19	90.96	46.01	47.91
<i>FCF/Rev</i>	10.2%	13.8%	9.4%	13.6%	7.5%	8.8%

(\$ in millions)

Source: Company reports, Bloomberg

GAAP Earnings vs. Cash Earnings

As a supplement to its reported earnings computed in accordance to generally accepted accounting policies, the company also provides investors with so-called “cash earnings.” Cash earnings are, essentially, the pre-tax earnings generated by the company. The reason for this is because the company had recorded a deferred tax asset upon its conversion from a limited liability company to a corporation (in 2004), which is amortized over 15 years for tax purposes. As a result, its annual pretax income is lower for tax purposes than for financial accounting purposes. As of September 30th, the company had \$137.2 million of deferred income taxes remaining on its balance sheet. Thus, at the level of taxes paid in 2009 (which is much higher than that anticipated in the next fiscal year), the cash earnings metric could persist for at least six more years (or over 10 years at the 2011 estimated level).

Exhibit 6: Comparison of GAAP Earnings vs. Cash Earnings (2007-Present)

	GAAP Earnings	Cash Earnings	% Diff.
2007	\$ 23,704	\$ 44,702	89%
2008	23,556	50,758	115%
2009	33,638	53,412	59%
9mos.2010	17,809	30,180	69%

(\$ in millions)

Source: Company reports

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Balance Sheet

Although Global Cash Access does employ leverage in its balance sheet, the amount of debt utilized is not excessive. Aggregate debt as of September 30, 2010 was \$224 million, consisting of two issues: a term loan and the senior subordinated notes under discussion.

The term loan has an outstanding balance of \$96.2 million. Borrowings under the term loan facility bear interest at Libor plus a margin based on the company's Senior Leverage Ratio which as of the most recent reckoning was 112.5 basis points, compared to 87.5 basis points and 112.5 basis points as of year-end 2009 and 2008, respectively. As a result, the weighted average interest rate applied to the term loan facility is 1.381%, or \$1.32 million of annual interest. The term loan facility is scheduled to be repaid on November 1, 2011, or in slightly less than one year.

The senior secured notes, of which \$127.8 million is still outstanding out of an initial issue size of \$235 million, represent the remainder of the Global Cash Access indebtedness. The notes were originally issued to supply the funds required to buy out First Data Corp., one of its original joint venture partners, in 2004. Subsequently, the company had periodically repurchased bonds, culminating in a 46% reduction of notes outstanding. At present, the senior secured notes are callable at a price of 100, and will mature on March 15, 2012, or about four months after the term loan facility is due. The annual interest expense required to service the notes amounts to \$11.2 million. However, Global Cash Access anticipates repurchasing \$25 million of the notes during the fourth quarter, which should reduce the annual interest expense to \$8.9 million.

The following table illustrates the company's historical and anticipated interest coverage. One can observe that since its initial public offering, Global Cash Access has amply covered its interest expense, both on an EBITDA basis and operating income basis. Moreover, interest coverage has actually improved since its IPO. This is due to a steady decline in the company's interest burden, prompted by the periodic repurchase of debt as well as a sharp reduction in interest rates. However, on a forward basis, the interest coverage is expected to fall, although the interest expense will still be adequately covered. It can be observed that despite an anticipated decrease in earnings, Global Cash Access could still maintain healthy debt servicing ratios. For example, even though operating income in 2011 is forecasted to decline by 43% from the 2009 period, it would still exceed interest expense by roughly 2.8x, indicating that the company is not a distressed credit. It should be noted that in addition to the interest expense recorded by the two debt issues discussed above, the company's stated interest payments also include the cash usage fees paid to Bank of America for supplying the company's ATMs.

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Exhibit 7: Interest Coverage

	EBITDA	Operating Income	Interest Expense	EBITDA/ Interest Exp.	Op. Inc./ Interest Exp.
2005	\$ 96.33	\$ 82.28	\$ 51.88	1.86 x	1.59 x
2006	96.67	88.24	42.04	2.30	2.10
2007	90.98	78.22	34.52	2.64	2.27
2008	95.84	78.65	27.89	3.44	2.82
2009	89.99	72.05	17.96	5.01	4.01
2010E	73.30	53.64	16.49	4.44	3.25
2011E	61.83	40.48	14.59	4.24	2.77

(\$ in millions)

Source: Company reports, Bloomberg, Horizon Research

Therefore, unless Global Cash Access deteriorates substantially from the currently depressed levels, it should not be overly difficult to refinance the upcoming maturities. We would expect the company to renew its term loan facility when it comes due in November 2011, just as it had done in 2008, which, as readers may recall, was a period when many companies found it extremely difficult to access credit. Moreover, management has not ignored the impending maturity of the senior secured notes. The company has previously announced that it is in the process of securing financing in anticipation of the maturity. Given that the company has periodically retired portions of the debt and if it continues this practice (it anticipates repurchasing \$25 million of the securities during the fourth quarter of 2010), the funds required to repay the notes might be less than \$100 million at the time of maturity.

Since the company generates ample cash flow to fund its operations, the amount of cash held on the balance sheet is a function of investment opportunities that arise from time to time. Over the past several years, Global Cash Access has utilized its free cash flow to repurchase debt and stock. This year alone, the company repurchased \$33.1 million of its own shares, reducing the share count by over 7.5 million shares, or 10.3%. As of September 30th, the company's cumulative share repurchases totaled \$144.7 million. If it had instead diverted the funds to debt repayment, its borrowings would have been reduced by around 60%, to less than \$100 million (assuming a price paid of par or even a slight premium).

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Exhibit 8: Debt and Share Repurchases

Year	Shares Repurchased	Net Debt (Issued)/Redeemed
2005 ¹	\$ (128.90)	\$ 164.03
2006	-	46.93
2007	40.38	11.00
2008	9.49	(2.27)
2009 ²	61.34	16.00
9mos.2010	33.16	25.75

(\$ in millions)

¹IPO on 9/22/05

²\$36.2 million of stock repurchased from former founder

How is the company's free cash flow achieved? Surprisingly, it is a business that does not require substantial capital to operate. While the cash dispensing machines do eventually wear out, at about \$8 million per year, the cost to replace the equipment is minimal, and is almost exactly offset by its depreciation expense. Moreover, since it is not a bona fide financial services company, it is not subject to credit risk, other than that borne by its check warranty business. Even then, at an average annual level of \$8 million, the amount of bad debt written off by the check warranty business is not debilitating, given the small size of the warranty business relative to its primary operations.

Valuation

At its current market capitalization, Global Cash Access trades cheaply relative to its peer group of transaction processing firms and absolutely based on its anticipated earnings and cash flow. Although the company's earnings have declined over the past several quarters, it is simply the result of a still-weak economy.

Comparative Valuation (Earnings Approach)

The following table illustrates the range of earnings multiples accorded to a sample group of transaction processing firms. It can be observed that based on 2011 estimates, Global Cash Access trades at approximately 40% of the group average, even after excluding the high outlier (Green Dot, 40x P/E). This seems to be unduly low, penalizing the company for reducing its earnings outlook.

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Exhibit 9: Comparative Valuation Multiples

Company	Ticker	Price	EPS		P/E	
			2010E	2011E	2010E	2011E
Wright Express	WXS	\$ 44.39	\$ 2.72	\$ 3.18	16.3	14.0
Green Dot Corp.	GDOT	64.74	1.25	1.61	51.9	40.2
Total System Services Inc.	TSS	15.58	0.99	1.07	15.7	14.6
Global Payments Inc. ¹	GPN	42.64	2.69	3.08	15.8	13.8
Jack Henry & Assoc. ²	JKHY	28.84	1.48	1.62	19.5	17.8
Western Union	WU	18.43	1.38	1.50	13.4	12.3
				Average:	22.1	18.8
				Average excl. GDOT:	16.1	14.5
Global Cash Access ³	GCA	\$ 2.80	0.59	0.44	4.7	6.4

(\$ in millions)

¹Fiscal Year ending 5/2011 & 5/2012

²Fiscal Year ending 6/2011 & 6/2012

³Cash earnings basis

If the company were instead deserving of a multiple nearer to its peers, but still incorporating a discount to reflect an elevated risk profile perceived by the investment community, it could nonetheless provide substantial returns.

Conceivably, a multiple of 10x earnings would not be considered to be overly generous. It is about 20% below the low end of the comparable range, and is lower than multiple on the S&P 500 (which is currently 15x). Applying a 10x multiple to Global Cash Access's estimated earnings of \$.44 per share would yield a stock price of \$4.20, for a return of over 55%. If this were achieved over a two year period, the annualized return would approach 24%. If, instead, three years were to required, the annualized return would still be 15% per annum.

Free Cash Flow Approach

Regardless of how inexpensive Global Cash Access appears to be on an adjusted earnings basis, the company is even more inexpensive on a free cash flow basis. This is remarkable in that free cash flow is oftentimes judged to be a more suitable representation of a company's true earnings power. Whereas earnings calculations are subject to a myriad of accounting conventions that are rigid in their application and therefore may or may not be appropriate, free cash flow measures the actual cash earnings that an owner of an

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enterprise can expect to receive after necessary capital expenditures. For this reason, free cash flow is also known as “owner’s earnings.”

At the current market capitalization, Global Cash Access is valued at approximately 3.8x its 2011 estimated free cash flow of \$47.9 million. The free cash flow yield (the inversion of the price/free cash flow multiple) exceeds 26%. One would be hard-pressed to find investments that offer such a high rate of prospective returns. In principle, were the company to merely sustain its currently depressed level of earnings, one could recoup one’s cost of purchase of the shares in less than four years.

While an appropriate free cash flow multiple is subject to debate, let us assume a required free cash flow yield of 20%. This is sufficiently high to ensure conservatism in the valuation exercise. A 20% free cash flow yield is functionally equivalent to a free cash flow multiple of 5x; applied to free cash flow of \$47.9 million would result in a fair value of \$239.5 million, or \$3.69 per share. This would result in capital appreciation of 31%. A more generous multiple of 8.3x (12% free cash flow yield) would produce a share price of \$6.16 per share, 120% higher than currently. The following table illustrates the theoretical share price based on a range of free cash flow multiples/yield.

Exhibit 10: Return Matrix – Free Cash Flow

FCF Yield	=	FCF Multiple	@	FCF/share	=	Share Price	% Change
8%		12.5	x	\$ 0.74		\$ 9.24	230%
10%		10.0		0.74		7.39	164%
12%		8.3		0.74		6.16	120%
14%		7.1		0.74		5.28	89%
16%		6.3		0.74		4.62	65%
18%		5.6		0.74		4.11	47%
20%		5.0		0.74		3.70	32%
22%		4.5		0.74		3.36	20%
24%		4.2		0.74		3.08	10%
26%		3.8		0.74		2.84	2%
28%		3.6		0.74		2.64	-6%
30%		3.3		0.74		2.46	-12%

Current share price: \$ 2.80

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Therefore, regardless of one's opinion of the "appropriate" multiple, it is nevertheless likely to be higher. In other words, one may not know precisely what the correct price for Global Cash Access should be, other than that it is too low.

Further, the above returns are based upon depressed earnings. One can imagine the returns to be achieved when the company's earnings rebound: over the five-year period from 2005-2009, its average free cash flow was \$70.3 million.

It should be noted that the investor may not necessarily be required to wait for the equity market to recognize the undervaluation and bid its shares higher; the company can initiate the process by itself. For example, Global Cash Access has had a history of repurchasing its own stock. As discussed earlier, the company has repurchased \$144 million of stock to date. However, given that the shares are trading near their all-time lows, these were made at much higher prices than available today. Hence, every marginal dollar diverted to a share repurchase would have a greater impact on the share count.

For example, if Global Cash Access were to utilize just one-half of its free cash flow to share repurchases, the company could retire 8.3 million shares, or over 12.5% of the outstanding total. If the entirety of its free cash flow were devoted to buybacks, it could remove 26% of its shares from circulation. This should cause the share price to rise, all else equal.

Indeed, if the company were confident that its free cash flow would not decline further, it could actually repurchase additional shares by borrowing the funds. This would be an astute capital allocation decision, as the financial returns achievable from buying back its own shares would exceed the interest expense: for every 100 shares repurchased, assuming a constant price of \$2.80, the company would retain \$73 of free cash flow, but would only pay \$6 in interest (assuming a coupon of 9%)

To illustrate, let us assume that the company borrows an amount equivalent to one year's free cash flow (\$48 million) at a cost of 9% per annum. This could be viewed as "borrowing" a future year's cash flow, which can be repaid in the subsequent year. The annual interest expense on the new debt would be \$4.3 million per annum. Combined with its existing free cash flow, less the additional interest expense, the company would have approximately \$92 million available to buy back stock. This would reduce the shares outstanding by over 32.5 million shares, or 50% of the shares outstanding. Cash earnings in one year would be reduced by the interest expense, to \$23.9 million. However, since the share count would be halved, the earnings per share would increase to \$0.74 per share. Thus, even at a price/cash earnings multiple of only 10x, the stock would be worth \$7.40 per share, or about 2.5x higher than the current price.

It must be noted that pursuing a recapitalization using leverage is not without precedent in the company's history, as it had undergone a leveraged buyout in 2004. Indeed, its

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primary sponsor of the LBO, Summit Partners, still owns approximately 21% of the company's shares.

Otherwise, the company could utilize its cash flow to pay dividends or, if the opportunity arises, make acquisitions to grow revenues. Ultimately, the economics of its business gives it the flexibility to increase shareholder values in one way or another.

Summary and Recommendation

Global Cash Access is a profitable company with a unique niche. Although its business is currently under pressure, it nonetheless appears capable of generating an amount of earnings and free cash flow that is large relative to its equity market capitalization. Thus, the Global Cash Access equity appears to be discounting a permanent impairment in its business, making no allowance for a recovery, even if it were to occur further in the future. The valuations accorded to its stock are sufficiently low to provide a favorable risk/reward tradeoff. Consequently, Global Cash Access is hereby recommended for purchase.

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GLOBAL CASH ACCESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(amounts in thousands)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 84,768	\$ 77,148
Restricted cash and cash equivalents	369	388
Settlement receivables	11,001	51,604
Other receivables, net	24,523	16,759
Prepaid and other assets	10,415	11,867
Assets held for sale	—	1,540
Property, equipment and leasehold improvements, net	19,419	24,419
Goodwill, net	174,354	183,929
Other intangibles, net	28,154	34,982
Deferred income taxes, net	<u>148,764</u>	<u>156,514</u>
 Total assets	 <u>\$ 501,767</u>	 <u>\$ 559,150</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Settlement liabilities	\$ 61,313	\$ 79,150
Accounts payable	28,482	35,561
Accrued expenses	16,813	17,811
Borrowings	<u>249,750</u>	<u>265,750</u>
 Total liabilities	 <u>356,358</u>	 <u>398,272</u>
 COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value, 500,000 shares authorized and 83,344 and 82,961 shares issued and outstanding at December 31, 2009 and 2008, respectively.	83	83
Convertible preferred stock, \$0.001 par value, 50,000 shares authorized and 0 shares outstanding at December 31, 2009 and 2008, respectively.	—	—
Additional paid in capital	183,486	172,119
Retained earnings	71,302	37,659
Accumulated other comprehensive income	2,190	1,243
Treasury stock, at cost, 15,404 and 6,017 shares at December 31, 2009 and 2008, respectively.	<u>(111,564)</u>	<u>(50,226)</u>
Total Global Cash Access Holdings, Inc. stockholders' equity	<u>145,497</u>	<u>160,878</u>
Minority interest	<u>(88)</u>	<u>—</u>
Total stockholders' equity	<u>145,409</u>	<u>160,878</u>
Total liabilities and stockholders' equity	<u>\$ 501,767</u>	<u>\$ 559,150</u>

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GLOBAL CASH ACCESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(amounts in thousands, except earnings per share amounts)

	For the Years Ended December 31,		
	2009	2008	2007
Income Statement Data:			
REVENUES:			
Cash advance	\$ 289,314	\$ 326,476	\$ 316,094
ATM	325,953	289,122	240,575
Check services	38,525	42,366	31,126
Central Credit and other revenues	13,928	13,644	10,145
Total revenues	667,720	671,608	597,940
Cost of revenues (exclusive of depreciation and amortization)	(501,810)	(492,974)	(428,508)
Operating expenses	(76,005)	(83,962)	(79,614)
Depreciation and amortization	(17,851)	(16,026)	(11,600)
OPERATING INCOME	72,054	78,646	78,218
INTEREST EXPENSE, NET	(17,960)	(27,888)	(34,515)
INCOME FROM CONTINUING OPERATIONS BEFORE			
INCOME TAX PROVISION	54,094	50,758	43,703
INCOME TAX PROVISION	(20,556)	(23,349)	(16,709)
Income from continuing operations, net of tax	33,538	27,409	26,994
Income (loss) from discontinued operations, net of tax	44	(3,939)	(3,526)
Net income	33,582	23,470	23,468
Plus: net loss attributable to minority interest	56	86	236
Net income attributable to Global Cash Access Holdings, Inc. and subsidiaries	33,638	23,556	23,704
Foreign currency translation, net of tax	947	(1,465)	547
COMPREHENSIVE INCOME	\$ 34,585	\$ 22,091	\$ 24,251
Basic earnings per share:			
Continuing operations	\$ 0.45	\$ 0.36	\$ 0.34
Discontinued operations	\$ —	\$ (0.05)	\$ (0.05)
Net income	\$ 0.45	\$ 0.31	\$ 0.29
Diluted earnings per share:			
Continuing operations	\$ 0.45	\$ 0.36	\$ 0.33
Discontinued operations	\$ —	\$ (0.05)	\$ (0.04)
Net income	\$ 0.45	\$ 0.31	\$ 0.29
Weighted average number of common shares outstanding:			
Basic	74,232	76,787	81,108
Diluted	75,356	76,796	81,377

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GLOBAL CASH ACCESS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except par value)
(unaudited)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 43,249	\$ 84,768
Restricted cash and cash equivalents	469	369
Settlement receivables	16,862	11,001
Other receivables, net	17,300	24,523
Inventory	4,970	—
Prepaid and other assets	9,020	10,415
Property, equipment and leasehold improvements, net	18,670	19,419
Goodwill	184,571	174,354
Other intangibles, net	24,603	28,154
Deferred income taxes	137,207	148,764
Total assets	<u>\$ 456,921</u>	<u>\$ 501,767</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Settlement liabilities	\$ 45,138	\$ 61,313
Accounts payable	31,153	28,482
Accrued expenses	14,328	16,813
Borrowings	224,000	249,750
Total liabilities	<u>314,619</u>	<u>356,358</u>
COMMITMENTS AND CONTINGENCIES (NOTE 5)		
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value, 500,000 shares authorized and 84,925 and 83,344 shares issued at September 30, 2010 and December 31, 2009, respectively	85	83
Preferred stock, \$0.001 par value, 50,000 shares authorized and 0 shares outstanding at September 30, 2010 and December 31, 2009, respectively	—	—
Additional paid in capital	195,497	183,486
Retained earnings	89,055	71,302
Accumulated other comprehensive income	2,386	2,190
Treasury stock, at cost, 20,545 and 15,404 shares at September 30, 2010 and December 31, 2009, respectively	(144,721)	(111,564)
Total Global Cash Access Holdings, Inc. stockholders' equity	142,302	145,497
Minority interest	—	(88)
Total stockholders' equity	<u>142,302</u>	<u>145,409</u>
Total liabilities and stockholders' equity	<u>\$ 456,921</u>	<u>\$ 501,767</u>

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GLOBAL CASH ACCESS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(amounts in thousands, except per share)
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
REVENUES				
Cash Advance	\$ 60,546	\$ 69,741	\$ 190,514	\$ 225,899
ATM	79,727	81,544	242,136	252,585
Check Services	6,442	9,464	22,030	30,791
Central Credit and other revenues	5,406	3,570	13,103	9,689
Total revenues	152,121	164,319	467,783	518,964
Cost of revenues (exclusive of depreciation and amortization)	(116,077)	(123,996)	(355,744)	(390,662)
Operating expenses	(18,740)	(18,595)	(57,036)	(58,722)
Amortization	(1,729)	(1,883)	(5,418)	(6,212)
Depreciation	(2,252)	(2,376)	(7,011)	(7,338)
OPERATING INCOME	13,323	17,469	42,574	56,030
INTEREST INCOME (EXPENSE), NET				
Interest income	44	63	123	262
Interest expense	(3,977)	(4,463)	(12,517)	(13,886)
Total interest expense, net	(3,933)	(4,400)	(12,394)	(13,624)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX PROVISION				
	9,390	13,069	30,180	42,406
INCOME TAX PROVISION	(4,471)	(4,966)	(12,371)	(16,114)
INCOME FROM CONTINUING OPERATIONS, NET OF TAX				
	4,919	8,103	17,809	26,292
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX				
	—	—	—	44
NET INCOME	4,919	8,103	17,809	26,336
PLUS: NET INCOME (LOSS) ATTRIBUTABLE TO MINORITY INTEREST	—	12	(56)	45
NET INCOME ATTRIBUTABLE TO GLOBAL CASH ACCESS HOLDINGS, INC. AND SUBSIDIARIES				
	4,919	8,115	17,753	26,381
Foreign currency translation, net of tax	376	345	196	796
COMPREHENSIVE INCOME	\$ 5,295	\$ 8,460	\$ 17,949	\$ 27,177
Basic net income per share of common stock:				
Continuing operations	\$ 0.08	\$ 0.11	\$ 0.27	\$ 0.35
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Basic net income per share of common stock:	\$ 0.08	\$ 0.11	\$ 0.27	\$ 0.35
Diluted net income per share of common stock:				
Continuing operations	\$ 0.07	\$ 0.11	\$ 0.26	\$ 0.34
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Diluted net income per share of common stock:	\$ 0.07	\$ 0.11	\$ 0.26	\$ 0.34
Weighted average number of common shares outstanding:				
Basic	65,384	72,182	66,543	75,692
Diluted	66,240	73,845	68,186	76,566