

IN DEPTH: RISING STARS

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Pack of debit cards deals company a winning hand
Mark Chediak

Kabira was the little startup that could. Now it's the big firm that can.

The San Rafael software company chugged its way through the tech downturn while improving its technology and adding new customers. With the market on an upswing, Kabira has gained momentum thanks in part to deals with Visa and Sun Microsystems.

"We've laid low for the past couple of years," said CEO Paul Sutton. "Now we're growing the company."

Sutton said he would like the company to go public by the end of this year under the right market conditions. The company "dipped into profitability" last summer and expects to be profitable again next summer, Sutton said.

Revenues for the fiscal year ending in March should come in the mid-\$20 million range.

"I actually think the last two or three years is the toughest economic environment I've ever seen," Sutton said.

Kabira initially filed for an IPO in July 2000, but was driven to withdraw nine months later by the nasty investment climate.

Central to Kabira's resurgence is its software that can process thousands of digital transactions in seconds.

"That's really the secret sauce of the company," Sutton said.

Kabira's technology was originally designed to help wireless and telecom service providers with instant messaging and similar services. But the company recently moved into the financial services market by offering a product that helps credit card companies and other financial firms quickly process large volumes of financial transactions.

With the rise of debit cards, online payments and so-called micropayments -- online transactions around \$5 or less -- the volume of card-based financial transactions has increased considerably over the past few years.

The number of credit and debit transactions that Visa International, for example, processed last year rose 12.3 percent to 38 billion, according to American Banker magazine.

Hence, Sutton's desire to move into financial services. Nearly 90 percent of the company's business comes from telecom providers and about 5 percent is with financial services companies.

But Sutton said he wants 25 percent of the company's business to be in financial services in three years.

Kabira's deal with Visa is a step in the right direction. Under an agreement inked in March 2003, Visa is using Kabira's software to help instantly process thousands of transactions.

The San Francisco card association, which handles more than \$2.4 trillion in sales annually, recently said that global use of its products exceeded 1 billion in transactions for the year ended June 2003, with a 23.8 percent increase in sales volume.

Jeff Green, editor of ATM & Debit News, said the percentage of credit card transactions processed in "real time" instead of at the end of the business day is increasing.

"It leads to a faster settlement, which means the issuer gets their money faster and the merchant would get their money faster," Green said. He also said that instant processing can reduce credit card fraud by quickly checking the status of the user's card.

All of this is good news for Kabira.

But Sutton also notes that the company's bread-and-butter remains wireless and telecom firms. Kabira boasts more than 50 customers in more than 30 countries.

"One of the ways we survived the downturn was our ability to sell around the world," Sutton said.

Jennifer Gill Roberts, a venture capitalist who sits on Kabira's board for Seven Rosen Funds, said Kabira's technology allowed it to target a wide range of industries beyond telecom and financial services.

"It's for any transaction-rich system," Roberts said.

She added that Kabira should benefit this year from wireless carriers adding new real-time data services to attract customers.

"I think 2004 is the time to watch them take off," Roberts said.

Mark Chediak is a reporter for the San Francisco Business Times.