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HOT GROWTH

## Vasco Data Security: Online Banking's Security Guard

**HOT  
GROWTH  
COMPANIES**

After he was fired at age 40, T. Kendall Hunt concluded he was "tired of working for the man." There was just one problem with striking out on his own: He didn't really know what kind of business he wanted to run. He knocked around for a half-dozen years as a consultant. Then, in 1989, a former colleague told him about a startup that had been selling security devices to Amsterdam banking giant ABN Amro for its new dial-up banking option.

WHAT'S HOT	
<b>#4</b>	Digital encryption devices that foil would-be hackers and allow banks to keep financial information safe.
<b>SALES*</b>	<b>EARNINGS*</b>
<b>\$88.8 million</b>	<b>\$16.4 million</b>
<b>LOCATION</b>	
<b>Oakbrook Terrace, Ill.</b>	

\*12 months ended Mar. 31

Although the company was losing money, Hunt figured its anti-hacker technology must have been special to land such a huge client. So he hired on with the firm as chief executive, with an option to buy the company, and took out a \$300,000 second mortgage on his home to pay its bills. By mercilessly chopping expenses—he slashed headcount from 30 to just 4—he put the place into the black. And then in 1991, he bought it. Today, Vasco Data Security International Inc. ([VDSI](#)) has had 17 consecutive profitable quarters and adds a new bank client every day.

Vasco's moneymaker is what might be called an electronic key for online banking. To safeguard Internet transactions, banks in the U.S. often ask customers a "life question," such as the name of a favorite pet or the street they grew up on. In Europe, though, many financial institutions rely on Vasco's Digipass, a handheld gizmo that uses a microprocessor to generate a random number every time a customer types in his name and password. The sequence in that mobile-phone-sized device matches a number that's synchronously generated by the bank's computer. No match, no transaction.

After rising 64% in 2006, the Oakbrook Terrace (Ill.) company's net income should climb another 20% this year, to \$24 million, on a 58% jump in sales, to \$120 million, forecasts Amit Dayal, an analyst with Rodman & Renshaw in New York. Its share price has nearly tripled in the past 12 months, to 21.26 on May 21. "These guys are the ones to beat," says Dayal.

Hunt, 63, knows a thing or two about life-changing moments. As a sophomore at the University of Miami, the Mt. Vernon (Ill.) native was the starting halfback for the Hurricanes in 1962, with the dream of making it into the NFL. But after football season ended, Hunt was accidentally shot through the left ankle with a .45-caliber pistol while target shooting with a few fraternity brothers at a nearby levee. "That sort of thing enables you to get through just about anything," he says. Permanently sidelined from the game, Hunt earned a bachelor's degree in business administration and became a sales rep for IBM ([IBM](#)). He then held a succession of jobs, before his 1983 firing from a tech-training company for lopping too many heads as its CEO.

Vasco has put Hunt's resilience to the test. He retired a year after taking the company public in 1998. But by late 2002, he was back on the job. A poorly timed hiring binge had coincided with weak demand due to recessions in both Europe and the U.S. Hunt once again reduced payroll. He also slashed prices, making it cheaper for banks to hand out Digipasses to corporate customers. The moves worked, and the pickup in volume led to economies of scale. Vasco's gross margin, a fat 66%, is helped by the technology lead the company has over rivals. This means it doesn't have to spend much on R&D, says Hunt.

While online banking is no longer new, e-piracy is bigger than ever. Now staffed with 200 employees, the company signed up 94 new banks in the first quarter and sells its Digipass to 750 financial institutions, including HSBC ([HBC](#)), Rabobank, and ING ([ING](#)). Seven of the eight foreign banks recently permitted to do retail banking in China are customers.

In the U.S., growth has been far slower, but Hunt's not concerned. "I get my business where I can get it, to be honest," he says. Riches, after all, sometimes come from randomness.

By Michael Arndt

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