

BERKERYNOYES

INVESTMENT BANKERS

**An Overview of
M&A in the Financial
Technology and
Information Industry**

White Paper

Introduction

M&A volume in the financial technology and information market has shown solid gains over the past year. In the Payments segment, acquirers are looking to take advantage of big data, address holes in data security, and adapt to new regulations. From a commercial business standpoint, paper-to-electronic conversion and mobile check depositing for corporate customers is having a noticeable impact on the banking market.

Regarding deal activity the Banking segment, scalable technologies capable of supporting electronic document delivery and record keeping are vital for lenders, servicers, and sub-servicers as they adapt to a quickly changing landscape.

In addition, banks and credit unions are using social media to solicit new customers and disseminate information to a broad audience. Certain firms are also using monitoring software and other tools to avoid potential compliance issues, which can easily occur when consumer complaints are initiated via social media. Given these factors, the strong interest in technology that assists the banking sector with mitigating risk and strengthening compliance is likely to continue.

In terms of the Capital Markets segment, algo trading software solutions present an opportunity for firms to improve execution quality and achieve higher commissions. With the transformation of the derivatives market by regulations such as the Volcker rule, technology companies

in the capital markets sector are still facing some elements of lingering uncertainty. Businesses that are taking steps to adapt to the changing capital markets landscape are well situated to continue generating a healthy level of interest from acquirers.

Deal volume in the Insurance segment is on an upward trajectory as well. Technologies such as data visualization solutions are providing more insight into existing datasets. Moreover, the ability to interpret unstructured data from multiple external sources can improve the ability to collect information and thus market to new clients.

Current M&A Market Landscape

Transaction volume experienced a ten percent increase over the past year, with a total of 341 deals in 2013. Aggregate deal value decreased from \$32.49 billion to \$30.03 billion, an eight percent decline.

Strategic Buyers

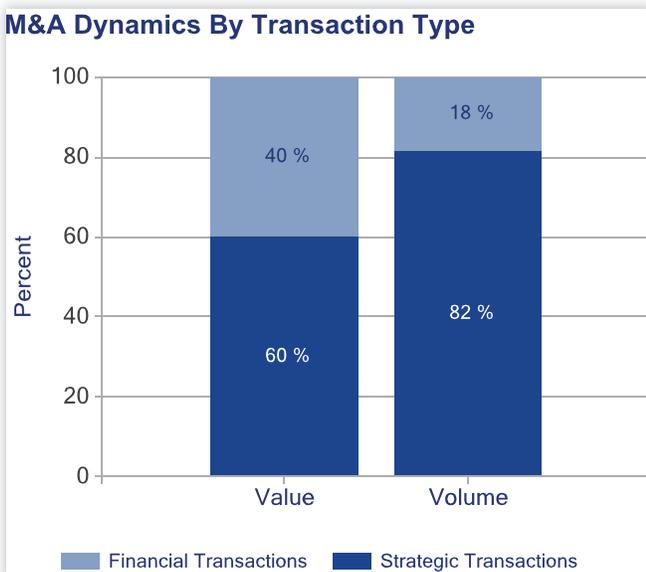
- Strategic buyers accounted for 82 percent of volume in 2013, which was down slightly from 85 percent in 2012.
- The largest strategic transaction in 2013 was Fidelity National's acquisition of Lender Processing Services, which provides technology and services to the mortgage and real estate sectors, for \$3.89 billion.

Financial Sponsors

- Financial sponsors accounted for 17 percent of transaction volume in 2013, which was about the same as in 2012.
- Private equity deal value rose from 19 percent to 40 percent of the industry's overall value. This included five of the top ten highest value deals in 2013.
- TA Associates was the industry's most active financial sponsor in 2013 with six transactions.

Industry Wide Valuations

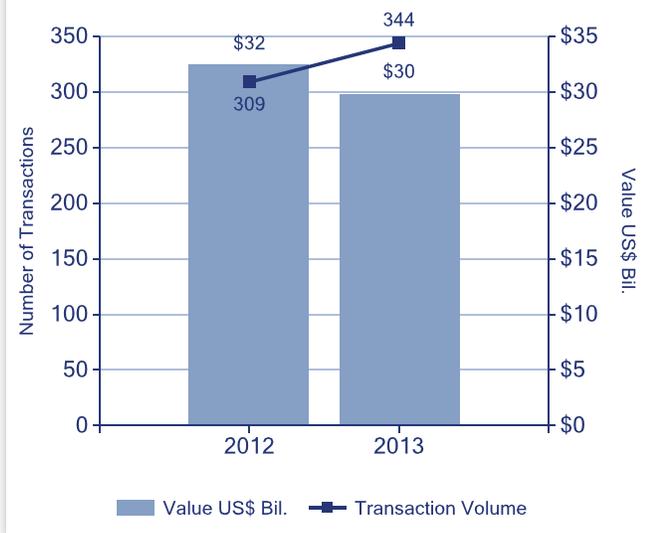
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.6x, while the median EBITDA multiple was 11.7x.



M&A Analysis of the Past Two Years

Berkery Noyes recorded 653 financial technology and information industry merger and acquisition (M&A) transactions from the beginning of 2012 through the end of 2013. The median revenue multiple fell from 2.9x to 2.2x, marking a return to the industry’s 2011 revenue valuation, while the median EBITDA multiple remained nearly constant at 11.7x. Mid-market transactions in the \$10-\$20 million range received a median revenue multiple of 1.3x. Deals above \$160 million in enterprise value had a median revenue multiple of 3.8x.

M&A Market Dynamics

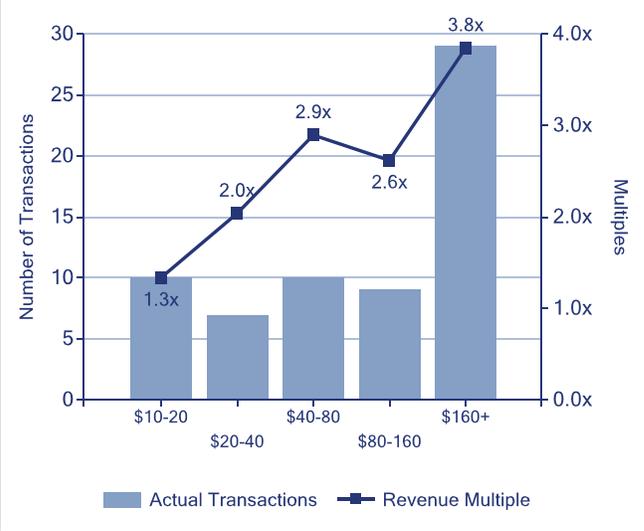


M&A Activity Per Industry Segment

- **Payments.** The Payments segment saw deal volume stay consistent on a year-to-year basis. This followed a 45 percent increase between 2011 and 2012.

Regarding strategic acquirers, the segment’s highest value transaction in third quarter 2013 was eBay’s acquisition of Braintree Payment Solutions for \$800 million. eBay is planning to integrate Braintree’s online and mobile payment processing platform with its PayPal division, in an effort to continue growing PayPal’s mobile business. Meanwhile, the segment’s largest financially sponsored deal during the quarter was CVC Capital Partners’ acquisition of Skrill Group, an online payments company and digital wallet provider based in Europe, for a purchase price of \$601 million. In addition to the changes occurring around digital

Median EV/Revenue Multiples By Size



commerce, one notable trend is that more merchants are beginning to utilize point-of-sale (POS) tablet and mobile based payment systems to increase efficiency, boost sales, and improve the retail experience.

- **Banking.** M&A activity in the Banking segment rose ten percent relative to 2012. Six of the industry’s top ten largest deals were also in the Banking segment. In addition to this, there were several transactions completed by notable acquirers that were focused on fraud and security solutions.

This included Experian’s acquisition of The 41st Parameter, a provider of fraud detection services, for \$310 million; and IBM’s acquisition of Trusteer, an endpoint security software company that protects financial institutions against fraud and data breaches. As for other areas within the segment, there is strong demand for electronic record keeping solutions that facilitate compliance.

- **Insurance.** As for the Insurance segment, deal volume increased 16 percent from 2012 to 2013. The two highest value transactions in the segment were completed by private equity firms. This consisted of Hellman & Friedman’s acquisition of Applied Systems for \$1.8 billion and Kohlberg Kravis Roberts & Co.’s (KKR’s) acquisition of Mitchell International for \$1 billion. Applied Systems was acquired from Bain Capital, while Mitchell International was acquired from Aurora Capital Group.

Other notable transactions in the Insurance segment during 2013 included:

- CoreLogic's \$78 million acquisition of CDS Business Mapping, which supplies digital mapping solutions to the property and casualty insurance sector through its RiskMeter Online platform.
- LexisNexis' acquisition of Mapflow, which provides geographic risk assessment technology and underwriting solutions.
- SAP's acquisition of Camilion, a software company that provides product development and management solutions to insurance organizations. Oracle, one of SAP's main rivals, acquired insurance software companies Skywire and AdminServer back in 2008.

Conclusion

The outlook for M&A in the financial technology and information market remains positive, as acquirers seek innovative solutions to fill certain voids, expand their product offerings, and maintain their competitive advantage.

Two factors broadly impacting M&A activity are the desire to provide fuller product suites and the need to maintain compliance with new regulations. We are seeing technological growth in specific niches, which is often followed by investments in products and companies that offer these innovative solutions. The outlook for M&A therefore remains robust, especially while the regulatory landscape continues to rapidly evolve.

This should hold true for companies across the Payments, Capital Markets, Banking, and Insurance segments.

About Berkery Noyes

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries.

The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

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