

BERKERYNOYES

INVESTMENT BANKERS

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

White Paper

Introduction

Acquirers are actively seeking to fill voids in their current product lines. Security for instance remains a crucial issue for many payments companies. This is even more pertinent with the rise in international e-payment transaction volume and mobile banking. Card providers and merchants are seeking to gain a competitive edge and reduce fraud related costs by acquiring the best technology available. This includes acquisition targets that provide compliance or security for card-not-present transactions, particularly as the U.S. shifts to EMV cards at the physical point of sale. As EMV capable systems reduce in-person fraud, fraudsters will shift online, thus requiring merchants to adopt even more advanced technology.

Big corporations tend to wait for one or two smaller companies to compete with similar payments technologies, then focus on the one that survives as a company to approach for a potential acquisition. In other instances, a company may be wiser to continue concentrating on its own core competencies and simply lease good technology because developing e-wallets or point of sale technology is an expensive endeavor.

Digital commerce is also being revolutionized by more than just better detailed transaction records. Some payments companies are looking to build consumer profiles based on search histories, social media insight, location based technologies, and other seemingly disparate statistics found in both structured and unstructured data. Strategic acquirers are enhancing their product suites by acquiring

leading-edge mobile payments, e-wallet, and e-commerce companies.

Banks meanwhile are facing numerous financial pressures, such as tighter profit margins and increased operating demands. Some factors contributing to these conditions are uncertainty about the regulatory environment and the ability to maintain compliance without too severely impacting the bottom line. A fully integrated payments approach has the potential to inspire new product development and improve service levels. Payment hubs and ACH electronic transfer payments can also lead to economies of scale. And in order to counteract fees passed onto customers, banks have recognized the need to improve their payment offerings to better compete with one another.

Current M&A Market Landscape

Transaction volume experienced an eight percent increase over the past year, with a total of 371 deals in 2014. Aggregate deal value increased from \$27.37 billion to \$28.70 billion, a five percent gain.

Strategic Buyers

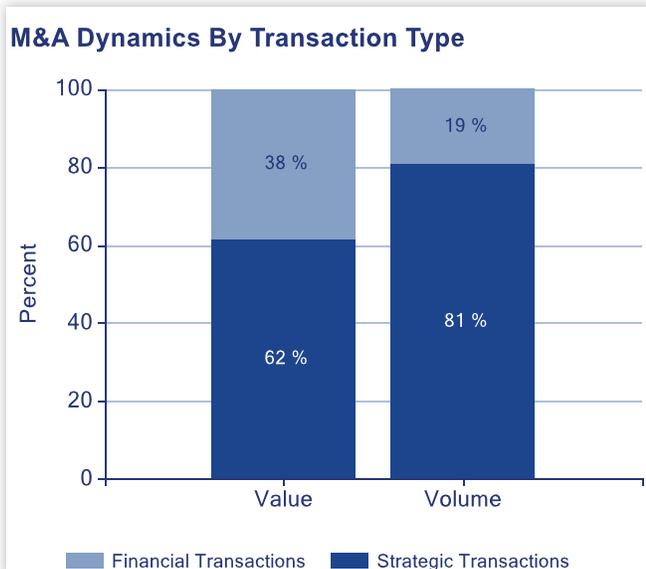
- Strategic buyers accounted for 80 percent of volume in 2014, which was down slightly from 82 percent in 2013.
- The largest strategic transaction in 2013 was FleetCor Technologies’ acquisition of Comdata Corporation, a global provider of fuel cards and workforce payment products to businesses, for \$3.01 billion.

Financial Sponsors

- Financial sponsors accounted for 20 percent of volume in 2014, which was up from 17 percent in 2013.
- Private equity deal value rose modestly, from 40 percent to 43 percent of the industry’s overall value. However, this followed a 21 percent increase in the prior year-over-year period.

Industry Wide Valuations

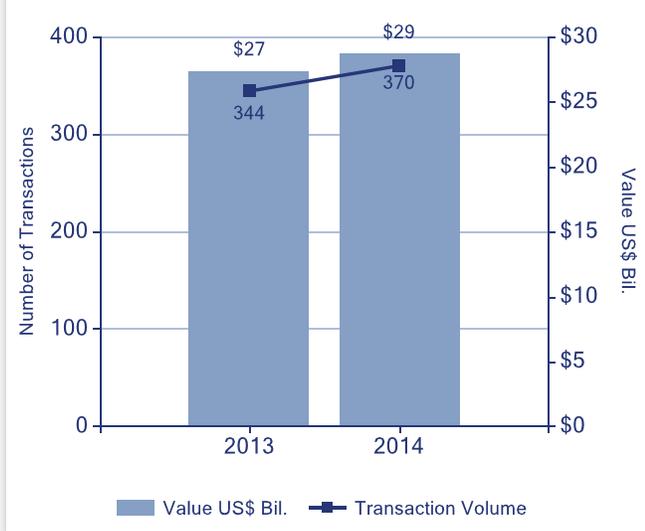
Enterprise value multiples over the past 24 months have been strong. The median revenue multiple during this timeframe was 2.7x, while the median EBITDA multiple was 12.0x.



M&A Analysis of the Past Two Years

Berkery Noyes recorded 714 financial technology and information industry merger and acquisition (M&A) transactions from the beginning of 2013 through the end of 2014. The median revenue multiple increased from 2.3x to 3.0x, which was driven in large part by payments deals, while the median EBITDA multiple improved from 11.9x to 13.3x. Mid-market transactions in the \$10-\$20 million range received a median revenue multiple of 1.8x. Deals above \$160 million in enterprise value had a median revenue multiple of 3.9x.

M&A Market Dynamics

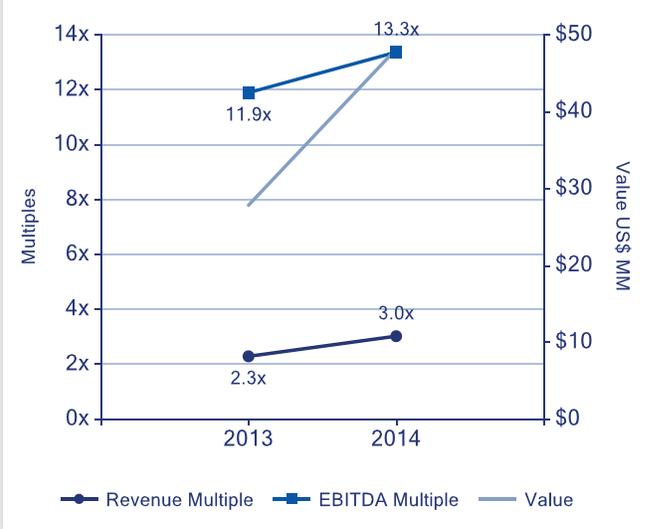


M&A Activity Per Industry Segment

• **Payments.** The Payments segment saw deal volume increase 44 percent on a year-to-year basis. Moreover, four of the industry's top five largest deals in 2014 occurred in the segment. The industry's highest value transaction was Bain Capital, Advent International, and ATP Private Equity Partners' acquisition of Nets Holding A/S, a provider of payments, information, and digital identity solutions, for \$3.14 billion. Regarding the mobile payments subsector, the largest deal in 2014 was Intuit's acquisition of Check for \$360 million.

Credit unions and banks, realizing the advantage of a recurring payment system, are utilizing automatic e-bills and online banking services to generate sustained revenue from their payments business. Consumers who regularly use e-billing services tend to have higher satisfaction rates and

Median Enterprise Value Multiples



more prompt repayment schedules. This is important as financial institutions deal with heightened competition from third party payment providers. Each of these factors bodes well for M&A in the electronic bill payment & presentment (EBPP) sector.

In addition to Nets Holding A/S, other notable transactions in the Payments segment during 2014 included:

- Ingenico Group's acquisition of GlobalCollect, a full-service Payment Service Provider ("PSP") that allows online merchants to accept a broad range of electronic payment types and currencies for \$1.1 billion.
- FIS' acquisition of Clear2Pay, which provides payment-related solutions for financial institutions and their clients, for \$493 million.
- Heartland Payment System's acquisition of TouchNet Information Systems, an integrated commerce solutions provider to higher-education institutions, for \$360 million.
- **Capital Markets.** As for the Capital Markets segment, volume declined nine percent from 2013 to 2014. This followed a 17 percent improvement from 2012 to 2013.

Advances in automation are leading trading venues, institutional brokers, technology vendors and information providers to converge on this market and offer integrated, end-to-end solutions. Likewise, governmental and exchange level regulations are changing constantly and growing in

complexity, increasing risk to financial services participants and sharpening their appetite for tools to manage risk.

Notable transactions in the Capital Markets segment during 2014 included:

- Centerbridge Capital Partners' acquisition of IPC Information Systems, a provider of trading communication technology, for \$1.2 billion.
- The acquisitions of Ipreo Holdings for \$962 million and Deal Logic for \$700 million.
- Ipreo, a provider of market intelligence, data, and technology solutions was acquired by Blackstone Group and Goldman Sachs' Merchant Banking Division from Kohlberg Kravis Roberts & Co. (KKR). This followed KKR's acquisition of Ipreo for \$425 million in 2011.
- Deal Logic, a data and analytics provider for financial institutions, was acquired by a consortium led by The Carlyle Group.

Conclusion

In general, end-users of financial technology solutions tend to be diverse, often global, and well capitalized institutions

with significant IT spend at their disposal and unbridled enthusiasm and requirements for new, cutting-edge technology particularly those that drive alpha, reduce costs or assist in compliance. As a result, private equity firms as well as strategics that are looking to extend their product offerings in an ever expanding and rapidly changing market are showing a high level of interest in making acquisitions. The return on investment for financial technology and information customers is high, encouraging users to view these technologies as not only productivity solutions but also profit generators.

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.

SELECTED FINANCIAL TECHNOLOGY & INFORMATION TRANSACTIONS COMPLETED BY BERKERY NOYES



HAS BEEN ACQUIRED BY




HAS ACQUIRED




A DIVISION OF

Top Right Group

ACQUIRED & ENTERED LONG TERM PARTNERSHIP WITH




HAS BEEN ACQUIRED BY




HAS BEEN ACQUIRED BY



A PORTFOLIO COMPANY OF




HAS BEEN ACQUIRED BY

