



FIFO, PAIN POINTS *and* NEW RULES: *Three Things You Need to Know About Financial Technology M&A*

Peter Ognibene, Richard O'Donnell, and John Guzzo | Berkery Noyes Managing Directors

By all accounts the recession is over. Now what?

That's the question savvy owners and investors in the Financial Information and Technology ("FinTech") arena are asking themselves...or should be. Many are concluding that, after sitting on the sidelines waiting to see what unfolds on the field, it's time to get back in the M&A game.

There are lots of technical explanations why this is true, but the three most compelling are these:

1. Based on historical patterns, the pace of mergers & acquisitions across all our information and technology markets is about to accelerate dramatically. Sharp drops in M&A activity are always followed by equally sharp spikes.
2. Pricing has firmed up to the point where valuations based on revenue and EBITDA multiples are consistent with historical norms--neither inflated to bubble-induced heights nor softened to post-burst lows.
3. Significant pent-up demand among cash-rich buyers who are eyeing a diminished pool of willing targets creates a seller's market.

While these conditions apply to high-quality information and technology companies across a wide spectrum of sectors, there are additional considerations that are unique to the FinTech marketplace.

First In, First Out

The financial markets were the first to feel the full impact of the global economic slowdown, with the liquidity crisis and credit crunch affecting financial services businesses first and most dramatically. M&A activity among these companies declined faster and further, and we forecast they'll be the first to recover. We're already seeing signs of robust life in the mortgage industry and the capital markets, two areas most squarely impacted by the deep and lingering recession.

Pain Points Drive Deals

Change is a good thing for M&A. When markets change, participants suffer as they react to the altered conditions. As the pain point gets higher they become open to new solutions. Small, entrepreneurial firms with specific solutions to complex problems can benefit disproportionately from such adversity, and we're seeing a nice pickup in business with the resultant attractiveness to large strategic acquirers who are always looking to meet their customers' needs with new products and services.

Among the new offerings that are attracting the most interest are lower-risk financial products to replace the more speculative trading and lending schemes that drove the markets so powerfully, and helped lay them so low, in the past two years.

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Regulation Creates Opportunities

Unless you're living under a rock, you know that the financial markets can expect to see wholesale regulatory changes at a global, national and industry level. Such changes, which cannot be avoided by market participants, create huge opportunity for publishers, solution providers and consultants to help institutions quickly understand the changes and become compliant with them. Providers of niche and specialized products and services can expect to be acquisition targets for buyers.

The intense debate over health insurance is shining a light on insurance practices in general. This new focus may lead to a sea change in the way insurance providers operate, with the possibility of erasing state-by-state barriers in favor of national standards, and the regulation of business practices that currently escape the scrutiny of federal watchdogs.

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It makes sense that FinTech, more than any other information segment, is poised for substantial change. Once only about 12% of total U.S. GDP in the 1950's, financial services grew to roughly 22% in 2006/7. With the current consolidation, the industry should level off at around 15% to 17%, preserving its rank among the nation's largest industrial sectors.

These FinTech-specific conditions, combined with the favorable macro trends in the overall information and technology market discussed earlier, create fertile ground for both private sellers and portfolio investors looking to gain liquidity through a sale of a business. However willing the universe of buyers, their prevailing sense of caution will temper any impulse toward inflated pricing; we do not expect valuation multiples to increase appreciably from current levels over the next two to three years.

About Berkery Noyes

Founded in 1980, Berkery Noyes is the leading independent investment bank specializing in the information content and technology industries. The firm has initiated, managed and closed more than 400 merger and acquisition transactions for privately held and publicly traded companies in the business, technology, education, health, financial and legal information segments. Berkery Noyes is unique among investment banking firms in that we combine truly independent strategic research and industry intelligence with senior information technology banking expertise. With no equity fund or brokerage business to manage, our partners and investment banking professionals are one hundred percent focused on M&A advisory services. Berkery Noyes employs over 40 individuals with deep industry knowledge and experience who strive to exceed our clients' expectations by maximizing the full value of their information technology and content assets.

For a more detailed discussion of these concepts and how they apply to your individual situation, contact Peter Ognibene or Dick O'Donnell, managing directors, or John Guzzo, director, in the Berkery Noyes Financial Information & Technology Group at 212.668.3022.

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berkerynoyes.com | One Liberty Plaza | New York, New York 10006 | 212.668.3022