The Daily Deal

"Sage Group Picks U.S. Target"
by Danny Fortson
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(excerpts from article published in The Deal)

In its biggest deal in five years, acquisitive British enterprise software provider Sage Group plc agreed Monday, Jan. 9, to pay £184 million ($325 million) for Nashville, Tenn., credit-card processor Verus Financial Management Inc.

The deal represents an exit for Financial Technology Ventures of San Francisco, a venture capital firm specialized in enterprise software that provided the company its startup funding in July 2002. Rich Roberts, former CEO of PMT Services, which he sold for $1.3 billion to Nova Information Systems Inc. in 1998, founded Verus in April 2002 to roll up payment service companies. The company, which earned £12 million before taxes on £36 million in 2005 revenue, is the product of half a dozen acquisitions, the first of which, Network 1 Financial, marked its founding.

Newcastle, U.K.-based Sage already draws 41% of its revenue from the U.S. Verus, which processes point-of-sale credit card and check transactions for small and medium-sized businesses, will serve as Sage's North American merchant services unit. Most of the company's revenue in the region comes from payroll services.

Tom Gidley-Kitchin of Charles Stanley & Co. Ltd. in London called the deal "a sensible progression of [Sage's] growth by acquisition." Sage is an aggressive buyer, having made five purchases last year in Spain, France, Poland and Switzerland.

The purchase price, which equates to about 27 times earnings, is one of the highest ever paid for a payment processor, which usually go for multiples that are in the mid-teens times earnings. "It's not a steal," Gidley-Kitchin said. Sage will pay for the deal in cash via an extended credit facility.

The price was driven up in the auction run by San Francisco investment bank Financial Technology Partners LLC, which attracted 10 private equity and trade bidders. "This was one of the strongest auctions this space has ever seen," said FT managing director Steve McLaughlin. Payment process companies have attracted increasing interest from the private equity realm because of their maturity and reliable cash flows, which sets them apart from many other technology companies, he said. "No one in this space wants to be public. The market doesn't like roll-up plays."

Indeed, publicly traded iPayment Inc. last month announced it was going private in an LBO after being unsatisfied with the valuation the market had given it.