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Feature: Selling on the Sly
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Playing hard-to-get, with a specialist boutique as a chaperone, has resulted in marital bliss at last for Lynk Systems, Inc.

When Lynk, a privately held credit-card payment processor, considered a sale about two years ago, it hired a top investment bank that shopped Lynk around to a wide circle of potential buyers. The bids it received, however, were disappointing, and Lynk severed the banking relationship and took itself off the market.

The Atlanta-based Lynk regrouped and hired a new adviser-this time not from the bulge bracket. Instead, their new adviser was a specialized San Francisco-based boutique, Financial Technology Partners LLC, which had only started operating in mid-2002. Headed by ex-Goldman Sachs banker Steve McLaughlin, FT Partners gave Lynk the exact opposite advice from its earlier advisers: tell buyers it was not for sale, while simultaneously work on several exit plans.

The hard-to-get strategy worked, as prospective buyers' appetites were only whetted further when they were turned away, forcing buyers to increase their bids until Lynk found a good match. On Aug. 3, Lynk signed an agreement to be acquired by Royal Bank of Scotland for $525 million-all cash-more than double the price of the earlier bids.

For CFOs and other dealmakers in corporate America, this higher valuation shows how the right fit with the right adviser, in this case an independent boutique focused specifically on the company's sector, can make a big financial difference.

A smaller adviser can work with much more freedom, Lynk officials said, because it lacks the extensive banking relationships that entangle most top-ranked Street firms. "The things that most positively influenced the decision were the lack of conflict of interest-not having concurrent relationships with potential acquirers we might be dealing with-and the fact that FT was small, energetic and anxious to serve," says David Howe, senior vp of business development at Lynk.

What also helped is that FT Partners took its time studying the relatively arcane business of credit card payment processing. "Steve McLaughlin took a lot of time to understand our business to a considerable depth, so when he spoke about us, he spoke with knowledge and authority," Howe says.

Having RBS as its new parent will enable Lynk to accelerate its growth and expand into new areas, says Howe. Having processed payments for mostly small, stand-alone merchants in the past, Lynk will now be able to target larger multilocation retailers and other national accounts. In the longer term, the RBS alliance will enable Lynk to expand outside the U.S. into such new markets as Canada, South America and the Far East.

Second time around

Of course, bankers' skills alone are not enough to make a deal, as other factors helped Lynk position itself far better the second time around.

Lynk's earlier sale attempt suffered from bad timing-it came at the end of the bear market in equities and also before Lynk hit new growth benchmarks that boosted its profits. It also helped that Royal Bank of Scotland commands roughly half of the electronic transaction processing market in the U.K. and wanted to expand into the U.S. payment market, which is growing at roughly 10% a year, according to industry sources.

But executives close to the company say that the lion's share of the deal's success is due to FT Partners. McLaughlin's boutique focuses on financial technology, or the point where FIGs and technology meet, which made it a perfect fit for Lynk. A narrow specialization translates into much more depth of knowledge: While most large banks have financial technology bankers, as McLaughlin was during his time in Goldman's FIG group, these bankers usually have to work in other sectors, as well. By contrast, FT Partners can spend much more time with clients and can accumulate much more industry knowledge than a banker at a large firm typically can.

"Traditional investment banks have been largely proven to be ineffective at focusing on the financial technology sector given the fragmented nature of the space, the multiple technologies involved and its numerous cross-functional characteristics," says McLaughlin. "We chose to define our firm exclusively around this sector and have built the largest, most focused and experienced team in this industry."

Had the earlier bankers done their homework, they should have been able to communicate to buyers why larger revenues were sure to come, given Lynk's business model, says Howe. "We simply didn't prove the case of what the company was capable of doing," he says. "We had some experience with a larger firm that was very well intended, but there was a disconnect between what we were interested in doing and what they wanted to do with us."

Slow motion

People close to the deal describe Lynk's recent sale as the culmination of a slow, strategic dance to the altar.

After failing in its first sale attempt, Lynk, which is owned by four venture capital investors as well as its employees, underwent a new round of pitches from bankers. The company was approached by just about every name, large and small, on the Street, says Howe.

Yet Lynk heard about FT Partners only through one of its venture capital investors, Technology Crossover Ventures. TCV knew of FT Partners from advisory work the boutique had done for another TCV portfolio company. In addition, another major privately-held player in the payments industry, VeriFone Inc., also hired FT Partners, which advised VeriFone on its overall strategy and helped it prepare a $292 million debt private placement, which closed June 30. William Nettles, director of corporate development at VeriFone, says that working with FT Partners before the actual deal took place helped VeriFone have more control over its message and its negotiations with debt underwriters.

Once hired by Lynk, FT Partners began working on several plans simultaneously, including an IPO, a recapitalization and a sale. Meanwhile, calls were coming in from people wondering if the company was for sale. "We were patient," says Will Griffith, general partner at TCV. "The company was approached on a weekly basis by numerous acquirers-strategic and financial."

Most were turned away. Only the strongest and most persistent candidates were given consideration, among them RBS, which already had acquired a number of banks in the U.S. and in this case did not use an outside adviser. This would be the first time RBS-or any foreign bank, for that matter-bought a U.S. electronic payment processing business. And it was happy to pay the price. "Steve navigated the process exceptionally well," says Griffith, adding that he finds it interesting that a small start-up demonstrated such "market focus and marketing savvy."

Part of that savvy was simply telling Lynk never to admit it was up for sale, until it was ready to sign the contract. "I did not say we were on the market," Lynk's Howe says. "I would only say we were on the market for the right price."