MarketWatch From DOW JONES

Wall Street's new tech focus

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Bankers eye M&A between financial-technology firms

As Wall Street's largest firms open their wallets for technology spending, investment bankers in increasing numbers are staking out ground for potential deal-making in a resurgent industry. From boutique investment houses like Financial Technology Partners to blue-chip firms like J.P. Morgan Chase, bankers say the time is ripe for consolidation among fragmented tech companies that specialize in software, computers and other information technology services catering to the financial sector.

FT Partners, a San Francisco-based investment bank, was founded in 2002 to specialize in deals for the growing tech market. The firm is close to completing the sale this week of "the largest privately held financial technology firm in the past five years," said Steve McLaughlin, managing director and founder. Last year, Putnam Lovell NBF formed a special unit to advise the wide range of different technology companies that cater to the financial services industry.
With sales now running about $300 billion a year, financial-oriented tech companies include developers of trading and risk-management software, credit-card processing firms and online brokerage houses.

Big guns

That money appears likely to keep flowing. Banking giants like Merrill Lynch (MERMerrill Lynch & Co., Inc all recently earmarked technology spending as a priority as they search for ways to deliver more efficient services at ever-lower costs.

Despite its huge stream of revenues and its global reach, the financial technology industry still is populated by hundreds of companies. Some are big fish like Sungard. That makes it a prime sector for consolidation, says Lado Gurgenidze, who heads Putnam Lovell's financial tech group in London. "Frankly we love it," says the 33 year-old banker. "There aren't many large, global industries that are as fragmented or as rapidly evolving. There's a lot work to be done."

Consolidation is already happening. In June, Morgan Stanley agreed to acquire Barra Inc., a risk-management tech specialist, for more than $800 million. Earlier this year, Canada's Thomson (CA:TOC: news, chart, profile) moved to buy TradeWeb for more than $380 million, and Investment Technology Group purchased privately held Radical.

Putnam Lovell, which is part of National Bank of Canada, and FT Partners aren't the only bankers making a play in this industry. J.P. Morgan Chase (JPMjp morgan chase & co com JPM) and Morgan Stanley were the advisers on Thomson's TradeWeb pact. However, larger investment banks often land these types of deals via their general technology or financial services advisory groups and usually don't have specific practice areas devoted to financial technology.

One-off deals
"No other bulge bank has a comprehensive effort in this area," says McLaughlin of FT Partners. "They just do one-off deals here and there, mostly via their general tech bankers."

Last year's stock market rebound has sparked a clutch of new deals among financial technology firms, leaving enough work to go around. At Putnam Lovell, Gurgenidze said he's working on five M&A deals. His colleague in New York, Steven Pierson, has more than seven in progress, he said. In the group's latest deal, which closed earlier this month, Putnam helped Radianz, a financial extranet provider, to sell its voice services unit to WestCom, a privately held telecommunications company.

Two directors in Putnam's New York office, Scott Schubert and Colette Rabbat, now devote most of their time to the new group. In London, Gurgenidze has brought in Alexis Kalmanovitz. The two worked together in ABN Amro's technology corporate finance team before joining Putnam Lovell. McLaughlin, an ex-Goldman Sachs banker who started FT Partners with a total of five staff, says the firm now has 10 bankers working on eight deals. FT Partners advised on the $280 million sale of Tradescape to E-Trade (ETET SCH) acquisition of Soundview Technology Group for $350 million last November.

McLaughlin's FT Partners says it's often the case that small tech companies that are prime candidates to merge with other tech firms start out as financial specialists because banks and insurers were among their first customers. But that's one reason they may make for good merger partners. "When these companies want to start selling to health-care providers or government agencies, combining with another technology firm already serving those markets is often the easiest way forward," McLaughlin says.

Putnam Lovell's Gurgenidze sees other reasons for consolidation. Small financial-technology companies often struggle, he says, when sales increase beyond about $30 million a year because a growing and more geographically diverse customer base requires management expertise that founders may lack.

"The landscape is littered with $15 million to $30 million companies with very interesting technology," he says. "But it's very difficult to see how most of them will grow big enough for an IPO, which leaves M&A as the only real alternative as a route to liquidity."

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