The Deal

The Architect of Financial Technology

by Luisa Beltran

Steve McLaughlin, founder and managing partner of **Financial Technology Partners LP**, has some advice for companies thinking about being sold: Run the business as though you are never going to sell.

McLaughlin, 38, knows a thing or two about selling a company. He spent nearly seven years in **Goldman, Sachs & Co**.'s financial institutions group, where he worked on several big transactions before leaving to start San Francisco-based FT Partners, which has advised on 40 financial tech deals in the past four years.

The best way to get a big price for a company, McLaughlin says, is to operate the business as though it's not going to be sold. "You don't know if a deal is going to get done," he warns. "You don't want to run the company to sell it, only to have to keep it."

McLaughlin exudes zeal. He's irrepressibly bullish on nearly everything, including the auction process and the role of advisers in the middle-market sector his firm serves. Investment bankers, he says, can enormously affect the value of a company. Bankers use their relationships and familiarity with bigger companies to find buyers. "Usually, we know the buyers personally and call them to discuss the target company," he says.

But companies need to pick their financial advisers with care, he adds. "Entrepreneurs will spend years building a company. A lot of time they spend a week picking a banker," McLaughlin says.

Sometimes would-be sellers will choose a bulge-bracket firm such as Goldman Sachs or Morgan Stanley as their adviser, thinking the move will provide more security. This can lead to disappointment, though; deals with valuations of less than $1 billion aren't typically a high priority at large investment banks, McLaughlin says.

He cites a transaction involving **Lynk Systems Inc**., a non bank merchant processor. Lynk hired **Merrill Lynch & Co.** in 2003 to advise on a potential sale. After about six months, he says, Lynk received valuations of roughly $175 million to $200 million. It replaced Merrill with FT Partners in 2004. The firm spent six months getting to understand the company, its people and its products. FT Partners did bump into a major problem: A senior executive was so upset by Lynk's prior low valuation that FT Partners was banned from speaking to certain bidders. It had to search globally — but still found a buyer at a price that pleased the seller. In August 2004, Lynk announced a sale to Royal Bank of Scotland plc for $525 million in cash.

"The difference was being prepared and having the right banker," McLaughlin says. "We made an enormous difference with the CEO and shareholders."

The enthusiastic young banker is known both to friends and competitors, as he acknowledges with a grin, as "Stick 'em Up Steve," a play on Lazard chief Bruce Wasserstein's nickname of "Bid 'em Up Bruce." (Wasserstein is the chairman of The Deal LLC.)

McLaughlin is considered a formidable adversary when pitching a deal. He has earned a reputation, one banker says, for strongly promoting companies. "He's very outgoing, very personable," the banker says.

Adds **TA Associates Inc.** managing director Jonathan Meeks, "He does a wonderful job for his clients. He's probably the first guy to get fantastic valuations in this market."

McLaughlin started FT Partners as a one-person boutique in April 2002, after his stint at Goldman Sachs, where he worked on deals that included the $9 billion merger of **U.S. Bancorp** with First Bank System Inc. in 1997 and the $1.7 billion initial public offering of **Accenture Ltd.**

His move followed the 2001 technology crash. The collapse cut valuations of companies dramatically; many eventually shut down as Wall Street laid off scores of bankers. But McLaughlin says it actually helped him. Big firms such as Goldman, Merrill and Morgan switched their sights back to large deals. This allowed FT Partners to advise on transactions that, while not in the multibillion-dollar range, were still meaningful.

Also, many bankers were out of work, and compensation at the big banks was down. The cost of hiring new people was reasonable, he says. "In a bad market, you can steal people," he adds. Within a few months, FT Partners' ranks had expanded to eight people.

Now, with 15 employees, FT Partners competes against the big firms as well as such smaller boutiques as Greenhill & Co. LLC, Evercore Partners, Lazard, Jefferies & Co. and Putnam Lovell NBF Group Inc.

In 2006, FT Partners jumped to eighth place among advisers in the financial tech space, up from No. 15 in 2005, according to rankings from SNL Financial. FT Partners worked on three transactions last year with a total deal value of $340 million. **J.P. Morgan Securities Inc.** came in first in the rankings with six deals, while **Banc of America Securities LLC** placed second, with five. FT Partners was one of two non bulge-bracket firms to make the top 10.

Says one of McLaughlin's competitors: "His results speak for themselves. He's a very knowledgeable banker."

FT Partners has made its mark focusing solely on its namesake sector. McLaughlin charges that financial technology isn't adequately serviced by the big investment banks. He defines the space as tech companies that are financial services-oriented, such as Liquidnet Inc., or those whose clients are in financial services, such as SunGard Data Systems Inc. Typically, large investment banks will approach financial tech companies with advisers who are generalists, McLaughlin says, or who specialize in either technology or financial services — but rarely both.

Ray Killian, chairman of Investment Technology Group Inc. and an FT Partners client, agrees that many major firms don't cover the financial tech field well. **J.P. Morgan Chase & Co.** and Banc of America Securities do a good job focusing on the sector, Killian says, but he adds that "boutiques do a better job ferreting out small, midsized deals that we can look at."

Some players in the sector say that since most financial tech companies are middle-market businesses, they won't get the attention of a big bank. The larger banks tend to focus on bigger companies, one banker says. They're "prone to cover financial techs opportunistically when it's a hot company looking to sell," the source says. But the big banks won't sustain servicing or cover such a company unless it's "hot," the person says.

Another banker, however, counters that most big banks have a unit, usually in an FIG sub-sector, that focuses on financial techs.

McLaughlin claims no single firm on Wall Street has a group dedicated solely to financial technology. "Everyone can put together tombstones, but there are no real full-time specialists in the space," he says.

The FT Partners founder's background reads like a primer on doing everything right. Born in Philadelphia, he graduated from Villanova University in 1990 and spent three years at General Electric Co.'s financial management program, whose alums include such notables as Larry Bossidy, ex-chairman of Honeywell International Inc. McLaughlin was part of the corporate audit staff, which reported directly to Jack Welch, then GE's chief executive.

After GE, McLaughlin attended the Wharton School at the University of Pennsylvania with one objective: to work on Wall Street. A 1994 summer internship at Goldman Sachs, where he worked under J. Christopher Flowers — arguably one of the most successful investment bankers — helped him clinch a spot at the New York investment bank. In 1995, McLaughlin started out as part of Goldman's FIG under Flowers.

McLaughlin remembers his boss' encounter with several bankers during the final negotiations for **CoreState Financial Corp.**'s $3.2 billion buy of **Meridian Bancorp Inc.** in 1996. Goldman and J.P. Morgan were representing Meridian, but the two teams disagreed when calculating the effects of the merger. Flowers, McLaughlin says, had apparently worked out the pro forma outcome of the transaction in his head. The J.P. Morgan bankers challenged him to explain his conclusions. Rather than describe it orally, he illustrated his math on a blackboard, painstakingly writing each item line by line.

"His answer came out 100% accurate to the multiple decimal points."

The J.P. Morgan bankers, chastised, dropped their objections.

Flowers left Goldman in 1999 to head his own private equity firm, J.C. Flowers & Co. LLC. It is known for its $1.11 billion takeover in 2000, along with Ripplewood Holdings LLC, of what was then Japan's **Long-Term Credit Bank** — the first time foreign investors gained control of a Japanese bank.

FT Partners now faces a potential quandary. Nearly five years after launching, the firm is a success. Other successful boutique banks have tapped the equity markets to strong results. Greenhill & Co. was the first, raising $88 million when it went public in May 2004. Lazard raised about $850 million in 2005. More followed.

But FT Partners appears unwilling to join their ranks.

"We are not looking to sell or go public," McLaughlin says. "Goldman Sachs didn't go public for 125 years. We are trying to build a partnership."