# Wooing it's over in financial services: Fidessa has said yes to ION

**Fidessa Group plc (LON:FDSA) – market cap as of 04/04/2018: £1.57bn**

### *Introduction*

On April 20, the board of the UK software company Fidessa has agreed to a £1.5bn all-cash takeover offer from ION, an Ireland-based financial technology company backed by The Carlyle Group. The announcement comes after Fidessa had agreed to be acquired by the Swiss peer Temenos in February, in a deal valuing the target at approximately £1.4bn. Furthermore, on April 6, SS&C Technologies had also been identified as a potential bidder for Fidessa. However, as soon as ION's offer was announced, both Temenos and SS&C confirmed they do not intend to raise the offer price for Fidessa.

### *About ION*

ION Investment Group (IIG) is an Ireland-based Private Equity firm, which primarily acquires and consolidates financial technology companies. Its main focus is in developing trading and workflow automation software solutions, delivering updates and innovations to corporates, central banks, financial institutions, governments. It was founded in 1999 by Andrea Pignataro (current CEO), an Italian former bond trader at Salomon Brothers. Since 2016, the PE firm is backed by The Carlyle Group, which made a $400m minority investment in it. Cam Dyer, Managing Director in the Carlyle Global Technology, Media, and Telecommunications group declared: "We are delighted to partner with ION, a global leader in financial technology with over €300m in EBITDA, which is uniquely positioned to drive consolidation and innovation in the sector and has demonstrated a consistent track record of value creation with a long-term approach to both organic investments and acquisitions."

IIG owns ION Trading since 2004, a leading provider of electric flow trading. Since 2011, IIG started a wave of additional acquisitions, including IT2, a provider of SaaS-based treasury management solutions; Wall Street Systems, a supplier of FX trade processing and treasury services; Financial Software Systems, a financial risk-management software and consulting firm; Patsystems, a supplier of trading and exchange systems to the derivatives community; Triple Point Technology, a provider of commodity trading and risk management systems; FFastFill, a SaaS provider to the global derivatives community, following Dealogic and Openlink Financial.

### About Fidessa Group PLC

Fidessa was founded in 1981 as Intercom Data Systems and later renamed Royalblue Group. Its first structure was based upon two different businesses: Royablue Technologies and Royalblue Financial. In order to channel all efforts to the latter (that in 2007 became Fidessa) famous around the world for its trading platform, in 2001 it divested Royablue Technologies. As of today, it is listed on the London Stock Exchange and it is part of the FTSE250 since 1997, delivering £353.9m of Revenues and £35.7m of Net Income in 2017. In the latest 10 years, from 2007 to 2017, its revenues have been growing at a CAGR of 10.12%, from £135m to £353.9m.

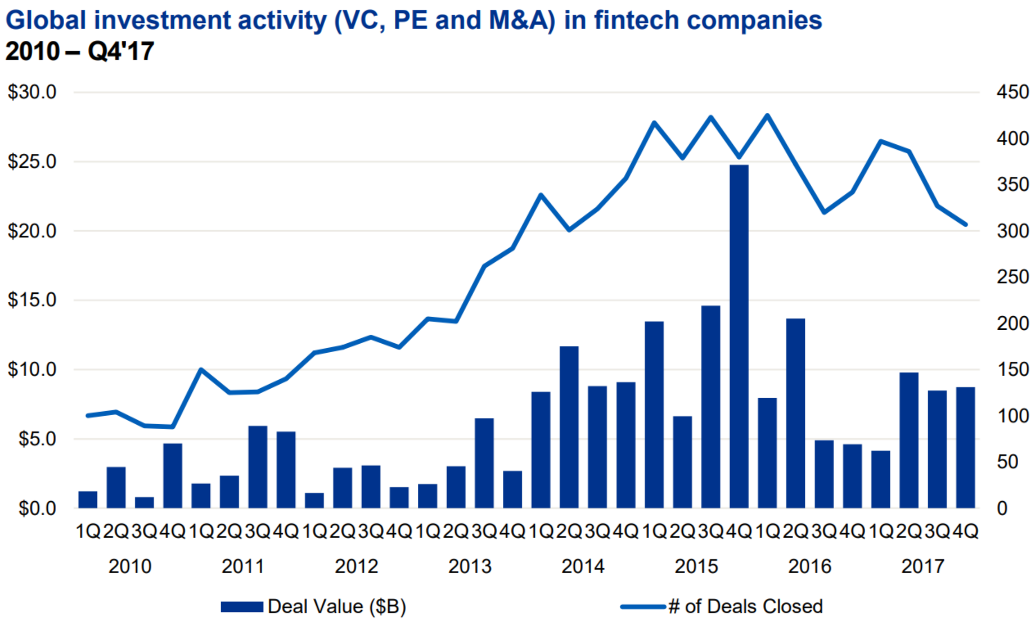
Fidessa's current main activity is the supply of computer software products to customers in the financial trading systems market. Its secondary activities consist in providing software development, related consulting, training, and support services. Current Fidessa's trading and information infrastructure delivers services to both buy- and sell-side professionals, processing transactions for a total value of circa $20t every year. The company's strong customer base is made of 24,500 users across 900 clients in more than 215 markets. The company currently employs c. 1,730 people.

Fidessa has always been closely focusing on one of the key aspects concerning its customer base: the fast-changing regulatory environment. The recent introduction of MiFID II in Europe and the regulatory uncertainty in America are pushing for programs upgrade: providing enhanced controls and increased transparency. Some effects of the MiFID II are already visible: trading shifts from the over-the-counter (OTC) market to more transparent platforms, whereas some elements have not been figured yet, like the implementation of dark pool caps and the Open Access for derivatives trading, postponed until 2020.

## Industry Overview

Financial technology sector has matured considerably over the past five years. As corporate players and investors are gaining more exposure to the Fintech sector, we have witnessed strong consolidation trends in it. According to a report from KPMG, in 2017 global fintech M&A reached 336 transactions completed for a total of $18bn in aggregate deal value. Consolidation is still a considerable driver of overall fintech M&A, as financial services companies look for external innovation drivers and also increase potential synergies in the face of stiff competition from nonfinancial services startups. Especially in Europe, as PSD2 (a directive which will enable bank customers to use third-party providers to manage their finances) kicks into gear in early January 2018, the scene will be marked by incumbents grappling with a regulatory regime that is ever-friendlier to consumers. This in turn could put further pressure on bottom lines and ensure that mobile-first, digital interfaces and sufficiently robust enterprise tools will remain key areas of focus.

On the other hand, financial sponsors and investors with financial services industries are becoming active in the Fintech M&A activities. Gradually, they are shifting their focus from experimentation and smaller investments to proven and sustainable fintech business models. This has created a market characterized by larger average deal sizes, with growth likely to continue for the foreseeable future on a more sustainable trajectory. The ION-Fidessa deal is a good example of the trends mentioned above. Heading into 2018, besides the main consolation theme, the adoption of machine learning, AI and IoT enablement is expected to continue at a rapid pace in the fintech sector, with corporates and fintech companies looking to find ways to embed financial services offerings into home automation systems and other enabled products.



## Deal Structure

ION Investment Group has finalized the bid for the competitor Fidessa in a deal worth £1.5bn. The two counterparties have agreed for an aggregate purchase of £39.50 per share, composed by a cash offer of £38.703 per share plus £0.797 dividend per share Fidessa is due to pay to its shareholders in June. The offer, that came just few hours before the 5pm deadline set by the UK Takeover Panel, beats Swiss software group Temenos' bid of £1.4bn cash for the company, made on February of this year. Temenos' offer was due to be signed by shareholders last week, but the vote was postponed since ION had made approaches and was considering counter-offer at a premium to the Temenos proposal.

The price offered by ION represents roughly a 50% premium with respect to Fidessa's share price before Temenos's interests were made public, when the share was trading in the region of £26. Fidessa's main financial investors, including Lindsell Train, Evenlode Investment Management and Elliott International and representing about 25% of the company's shares, have promptly agreed on supporting the take-over via an irrevocable undertaking.

The acquisition financing will be provided to ION by UBS through a dollar-denominated bridge facility of $2.1bn (£1.5bn), the only source for the payment to Fidessa shareholders - making the deal 100% debt financed.

## Deal Rationale

These deal falls into the active trend of consolidation in the fintech industry that has been going on recently. In particular, during the previous years, ION has grown largely by acquisitions denoting an interest in non-organic expansion and consolidation in the same industry, looking for complementary businesses to integrate its services with. ION previous acquisitions, including Patsystems, Ffastfill, Rolfe and Nolan and Wall St Systems, are indeed a clear evidence of this strategy.

The fintech panorama offers a fertile ground for acquisitions: the current fragmented supply, characterized by many providers offering specific services, represents a great opportunity for ION to consolidate and reshape its business into a highly differentiated multi-asset-class B2B platform, that will efficiently provide a broad spectrum of data and services.
ION and Fidessa share the same vision of disrupting the current market by fostering automation in the financial markets and featuring high potential complementarities: Fidessa competes with Reuters in providing equity and derivatives trading tools as well as market data for IBs, brokers and fund managers worldwide; ION focuses instead on fixed income and foreign exchange markets.

In terms of tangible synergies, ION management said they will carry out a further strategic review of Fidessa once the deal will be settled but already forecasts job cuts of roughly 15 and 20 per cent of the total 3,300 people of the combined entities, that would generate about £50m per year in savings. The aforementioned cost saving will materialize into a substantial value creation and a modification of the multiple. Assuming the synergies benefit will be equally shared by the two companies, Fidessa's 2018 post-synergies EV/EBITDA will decrease to 12.36x from the actual value of 15x. Moreover, from the 2017 earnings release, Fidessa management as well as market analysts believe the margins could improve from 2019 when MiFID II rules will come into force.

## Market Reaction

On Apr 20, the stock of Fidessa was trading at £40.55 and it adjusted to £39.30 as of the latest trading day on April 27. The current stock price of Fidessa in on level with the final financial outcome for the shareholders. On April 5, Fidessa disclosed that it had received approaches from two new potential suitors, ION and the U.S. firm SS&C

Technologies. On April 6, SS&C confirmed its interest in Fidessa and its share was trading at $48.32. Following the confirmation, SS&C's stock price kept on rising and reached its highest level at $51.73 on Apr 18. However, after SS&C walked away from the deal when the Ion proposal was announced, its stock price plunged and, as of the latest trading day, it was priced at $48.26.

## Advisors

Fidessa was advised by Rothschild and Jefferies, whereas the financial advisor for Ion was UBS.