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2009 Tech M&A Outlook

By Anthony Garritano, Editor, Mortgage Technology Magazine

While 75% of just four respondents think technology vendor merger and acquisition activity will be low in 2009, the facts tell a different story. Sure traditional buyers like Fiserv, Fidelity and First American have slowed their usual acquisition speed, but nontraditional buyers are entering the space.

"MarketWise tracks very closely the financial condition of the top 50 mortgage vendors across North America which comprise over 95% of the mortgage technology revenue," said the company's CEO Jordan Brown. "Over 20% of the top 50 vendors are actively engaged in M&A sell-side discussions.

"There will be at least five major trades among the top 50 vendors in 2009. It will be the most active year ever. There are M&A pressures from both the origination and servicing vendor sides. Servicing technology vendors are seeking to take advantage of their newly achieved value. Origination technology vendors are seeking capital bases and safe havens often with larger public entities."

But who is buying? Prominent Indian firms like Wipro and ISGN for one. Richmond Title Services out of Plano, Texas, joined the ISGN family, giving a significant boost to ISGN's title business. RTS is one of the top 25 independent title agents in the US and has 40+ employees. ISGN's vision is to cross-sell their services to existing ISGN customers as well as through the firm's e-services platform, Lenstar, Bridgelink and the Plug-in Partner network. A plug-in will be written for all MORvision customers. ISGN seeks to gain market share in the Title business leveraging ISGN KPO onshore and offshore processing capabilities.

Also, Wipro Technologies, the global IT services business of Wipro Ltd., and Citigroup Inc. reached an agreement for Wipro to acquire Citi Technology Services Ltd., the India-based provider of information technology services and solutions to Citi entities worldwide, for an all cash consideration of \$127 million.

As part of the transaction, Wipro and Citi will sign a master services agreement for the delivery of technology infrastructure services and

application development and maintenance services for a period of six years. The agreement provides for the delivery of at least \$500 million in service revenue over the period of the contract. The transaction is expected to be closed by March 2009, subject to customary closing conditions and regulatory approvals.

In addition to new entrants there were opportunistic buys in 2008 that will likely continue into 2009 as vendors look for an exit strategy. Those committed to mortgage will look for fire sales to increase market share. A prime example would be Data-Vision acquiring NetUpdate. Another example would be the recent acquisition of Online Documents by Ellie Mae.

And although traditional buyers have retrenched, they'll likely be opportunistic in 2009 as well. IBM recently acquired ILOG to flesh out its service offering. Similarly, Fiserv Inc. entered into an agreement to acquire i_Tech Corp., a provider of outsourced account and payment processing services for the same reason.

"Approximately 10% of the mortgage vendor industry is in financial distress and will not survive 2009," pointed out Mr. Brown. "Asset purchases will continue to occur. 2009 is about liquidity, survival and innovation. M&A activity (whether on the buy or sell side) is a strategic tool."