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The FinTech Vendor Marketplace: Is the Future Dynamic or Dull?

Webcast June 24, 2008

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Who is Financial Insights?

- Provider of independent market research, custom research and strategic consulting
- Focus on the strategic business application of financial services technologies
- Provide unique insights on how to improve business through the use of technology
- Breadth & depth with global reach of IDC and our industry knowledge

Introducing Our Speakers



- Jeanne Capachin, VP Research, Global Banking & Insurance Practices
 - Directs the research and analysis for the all Financial Insights' Banking and Insurance Practices, IT Spending Guides, Industry rankings (FinTech 100 and Insurer's Choice)
 - Taught thousands of bankers, vendors, and regulators about banking and payment systems issues and trends through NEACH (New England Automated Clearing House) association
 - Previously at Bank of Boston and Guaranty Bank and Trust with responsibility for product management, operations management, and systems development and integration

Introducing Our Speakers



- Bill Bradway, President, Bradway Research
 - Research focused on the attributes that make a difference in the performance of banks (including thrifts and credit unions)
 - Over 30 years experience in senior executive roles in banking, research and consulting
 - Formed Bradway Research LLC in late 1996
 - Research career includes Group VP, Banking and Insurance at Financial Insights, president and co-founder of Meridien Research before its merger with IDC, and founding member of TowerGroup
 - 15 year career at senior executive at Coast Federal Bank, including IT, mortgage servicing, asset based lending, insurance agency, and marketing

Today's Agenda

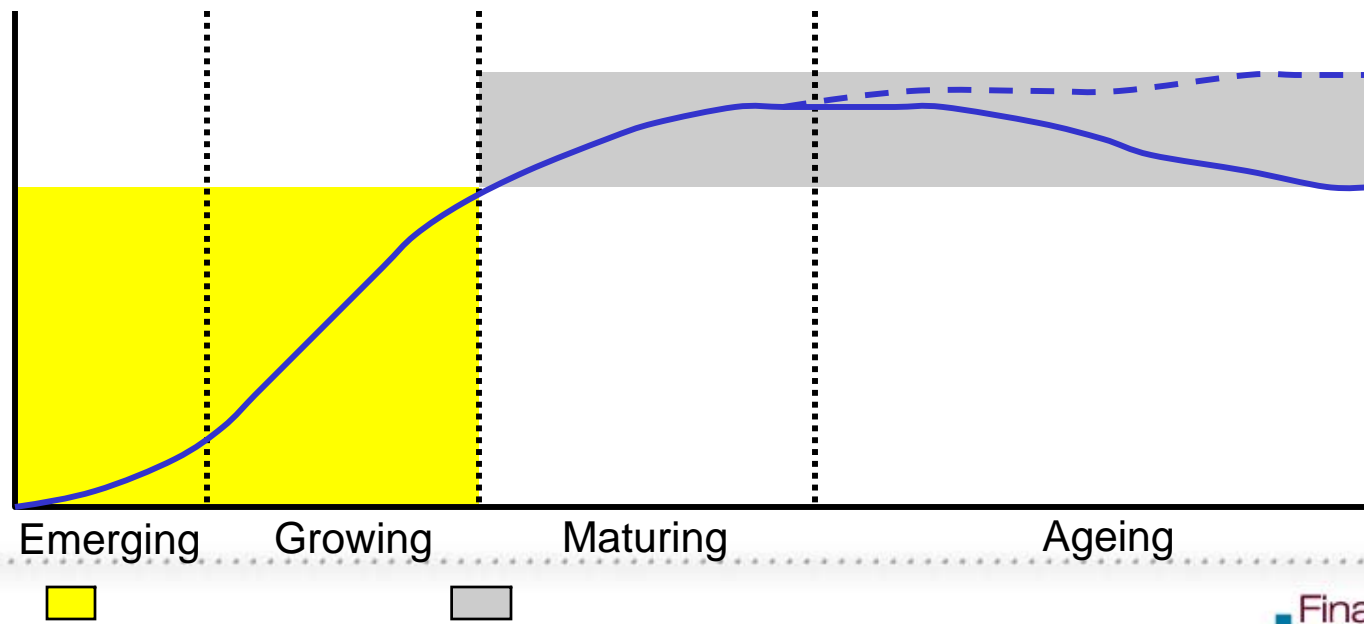
- Analysis of the forces behind the change in the FinTech market
 - Is the FinTech industry going to be “dull” or “dynamic?”
 - Enterprise and FinTech vendor markets
- What needs to happen to sustain a “dynamic” FinTech market?
- Lingering Issues That Never Go Away
 - How does a CIO support the business users when an acquisition can disrupt ongoing projects?
 - How do FinTech vendors manage their businesses when M&A can disrupt ongoing projects?
- Future Outlook and Essential Guidance
- Questions? Live Meeting Chat or Audio

What Do We Mean by Dynamic or Dull?

- According to Webster's Dictionary
 - Dynamic means:
 - Relating to physical force or energy
 - Marked by usually continuous and productive activity or change
 - Dull means:
 - Mentally slow (stupid)
 - Slow in perception or sensibility
 - Lacking zest or vivacity
 - Lacking sharpness
- In the world of FinTech Vendors and financial institution clients
 - Dynamic can mean: strong growth potential, shifting priorities at clients, changing competitive threats, new technology capabilities and/or rapidly reacting to technology change
 - Dull means: few new business requirements, more of the same each year, incremental changes, no new competitive threats

EGMA: Using an S-curve to Plot Dynamic & Dull

- **E**merging – dynamic, new solution opportunity, variety of causal factors from competition, regulation, new IT developments
- **G**rowing – emerging opportunities proven, market demand accelerates, rapid adoption by institutions
- **M**aturing – growth slows as penetration expands, solution accepted as standard requirement
- **A**ging – flat to declining revenues, little to no room for growth



Analyzing the Options

- Consolidate
 - Acquire direct and/or peripheral competitors
 - Acquire complementary solution capabilities (e.g., software vendor + services vendor)
- Diversify
 - Acquisitions in new solution areas
 - New product development in new markets
- Expand
 - Organic growth from existing solutions
 - New product development in existing and/or new markets

A Look at the Top FinTech Enterprise Vendors

- The Top 20 FinTech Enterprise Vendors from 2005 to 2007 are the same players, but...**EDS will soon disappear**

1. IBM
2. Hewlett Packard
3. Dell
4. Fujitsu Limited
5. Cisco Systems
6. Microsoft
7. **Electronic Data Systems**
8. Hitachi
9. Siemens
10. Accenture
11. Sun Microsystems
12. Intel
13. EMC
14. Computer Sciences (CSC)
15. Oracle
16. ATOS Origin
17. Capgemini
18. Getronics
19. LogicaCMG
20. SAP

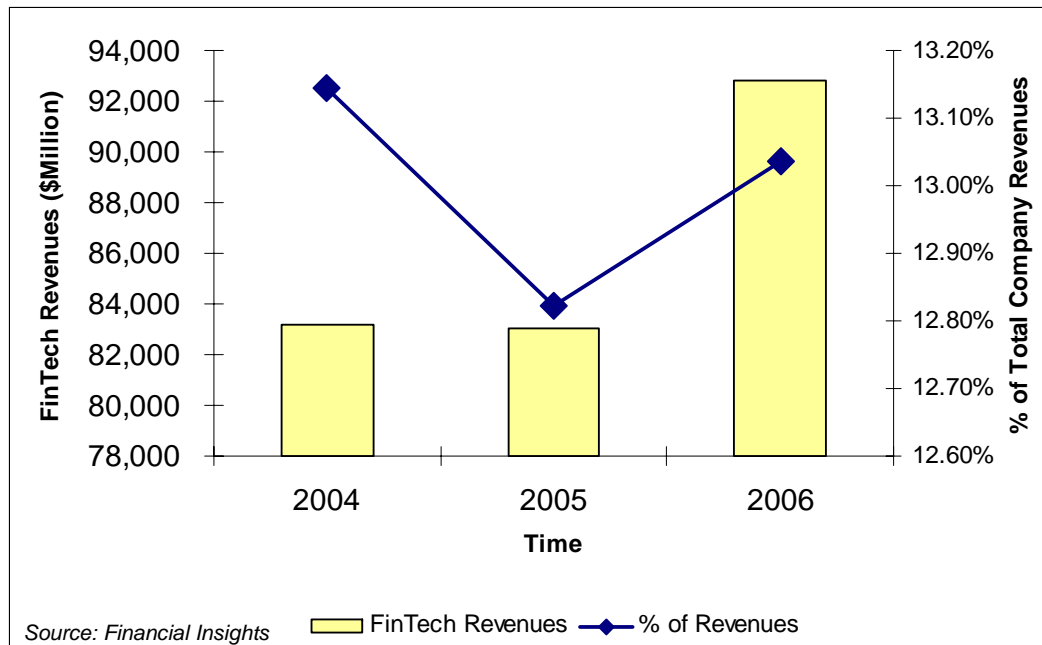
- IBM, HP, Cisco, EMC, Oracle, and SAP have been busy on the M&A front, but not for the same reasons

Enterprise Vendor M&A Strategies

- IBM – Continues to add software and services capabilities to provide richer capabilities in hot areas like BI/BA
- HP – EDS deal adds bulk to services business with notable (but stagnant) presence in financial services
- Cisco – Buying up infrastructure solutions to expand footprint, introduce new capabilities (e.g., video conferencing)
- EMC – Using M&A to add capabilities in software and services to expand potential for growth that can also sustain core storage business: document imaging, enterprise content management, document/workflow processing and virtualization
- Oracle – Buying both horizontal (BEA) and vertical applications (iflex, AdminServer, Hyperion) to bulk up software related footprint
- SAP – Business Objects was one of the few remaining BI/BA plays to stay in the game with Oracle (Hyperion) and avoid being boxed out; pressure on organically expanding may have faced limited resources and low odds of success

These Top 20 Vendors Continue to Expand

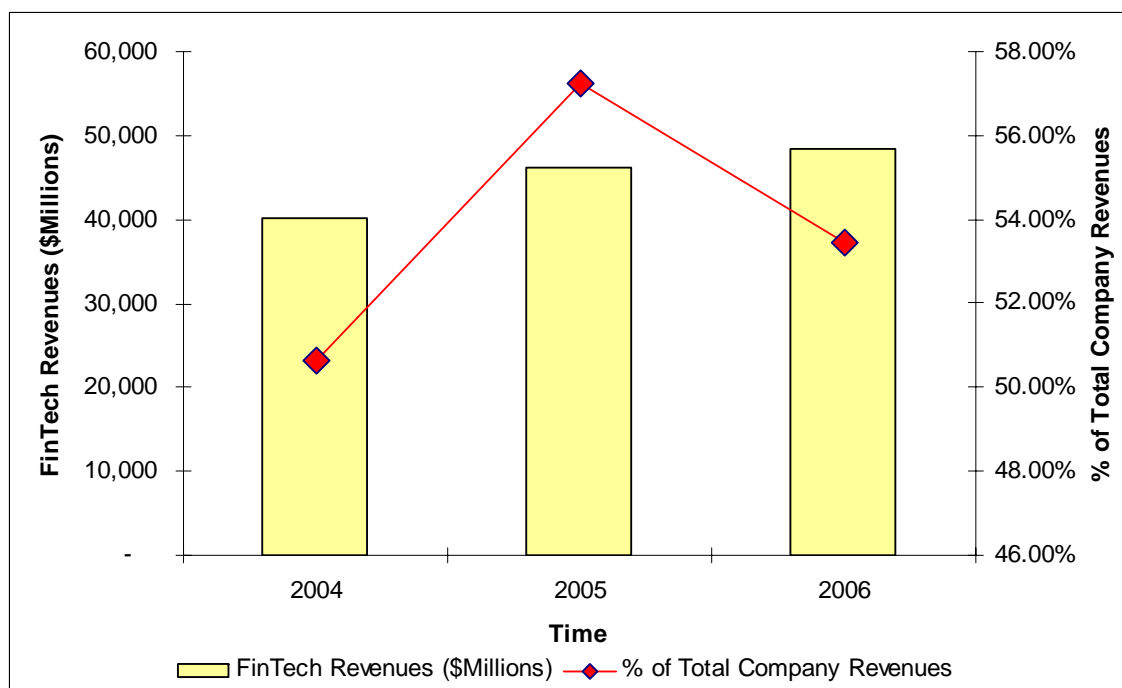
- FinTech Revenues exceeded \$92 billion in 2006, up 9%
- FinTech accounts for about 13% of total company revenues



- IBM, EDS, Accenture, Sun Microsystems, EMC, ATOS Origin, Getronics and LogicaCMG are have > 20% of total revenues
- Siemens, Hitachi, Intel, and HP are all < 10%

FinTech 100 Vendor Lineup Has Changed

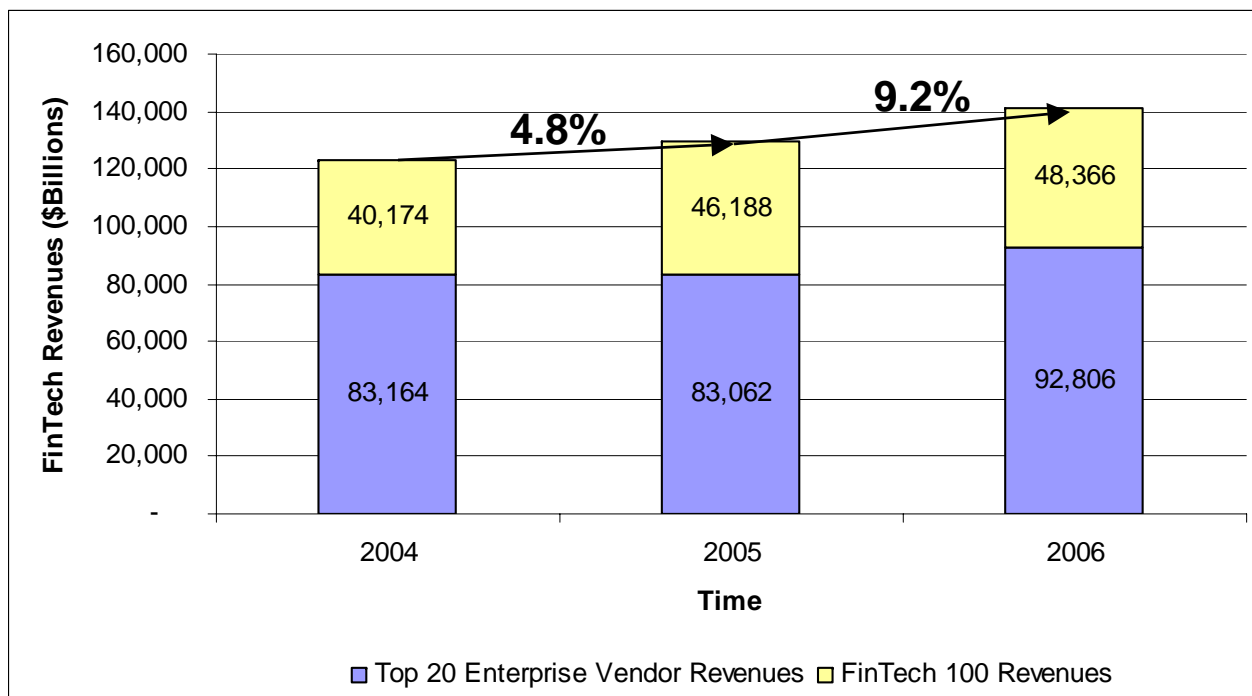
- 46 of the FinTech 100 for 2007 were not on the list in 2004
 - M & A or spin offs of bigger enterprise companies (e.g., Broadridge)
 - Big companies expanding share of FinTech revenue mix (CA, TCS)
 - Growing into the Top 100 and startups since 2003
 - Definitions have been modified (e.g., data/analytic service providers)



Source: Financial Insights

Revenue Growth As a Dynamic/Dull Indicator

- Regardless of how revenue growth is achieved
 - Dull is probably between 3% and 5% year over year growth
 - Dynamic is >10%, depends on the market size for a solution domain
- Check the key factors that affect near term and long term growth



Source: Financial Insights

FinTech Vendor Success Criteria

- Success criteria by vendor focus (or lack of focus)
 - Enterprise vendors (e.g., IBM, HP, EMC, Oracle)
 - Industry specific vendors (e.g., SunGard, FISV, FIS, MV, JKHA)
- New product development models (which vendors, what products)
 - Business intelligence/business analytics/visualization
 - Structured vs. unstructured data (e.g., Full Capture Solutions)
 - End user hands on vs. centralized; who controls what?
 - Changing requirements to cope with business environment
 - Exposure management, recycle time using real or near time valuation
 - Calibrating or Re-modeling because of the broken models
 - Payments markets: evolution or revolution?
- Go to market models (direct, partners, alliances)
- Assessing vendor value to client institutions
- Which Vendors Walk the Talk?
 - Industry knowledge, plans backed up with specifics & commitments
 - Successful institution references, proof points beyond the “wins”

Attributes of FinTech Leaders

- Core processing vendors are well represented:
 - US based: Fiserv, Fidelity National Financial, Metavante, Jack Henry, Harland Financial, Open Solutions, COCC
 - International: Temenos, iflex, Misys, Infosys, TCS
- Data services providers expand – Reuters Thomson, Experian, Equifax, Reed-Elisvier (LexisNexis, Choicepoint)
- M&A Players – SunGard, Fiserv, Fidelity, Metavante, Jack Henry
 - SunGard has acquired 9 FinTech firms since January 2007
 - Fiserv (1984, total of 147 deals); recent deals reshaping with both strategic (NetEconomy) and bigger (Checkfree); divests health-related and investment services divisions
 - Fidelity morphing every 18+ months, now spinning off LPS Services, sold gaming ops, buys 5 vendors (includes EFD, CEY) since 2006
 - Metavante has acquired 10 FinTech vendors since 2005
 - Jack Henry has acquired 6 FinTech vendors since 2005
- Industry centric hardware base is smaller – NCR, Unisys, Diebold

(Dynamic or Dull) Issues That Won't Go Away

■ CIO

- Balancing regulatory and compliance requirements that do not generate any revenue, just more costs
- Being responsive to M & A when it happens => cost take out from consolidating IT & operations without losing customers
- Inflationary and expansion pressures drive up infrastructure costs
 - Forces a fresh look at the entire IT framework and future options
 - Green IT issues also become a factor
- Finding new ways for IT to displace non-IT spending at a lower cost

■ FinTech vendors

- Succeeding with fewer new business opportunities
- Help client institutions use IT to displace non-IT spending at a lower cost to create more new business opportunities
- Manage R & D and balance cost structures against fluid revenues
- Staying “smart” on the buy side in the vendor consolidation game

Future Outlook

- Continued acquisition of specialized firms by broad-based solution providers and core processors
- Private investors trolling around for deals, expect value to expand in 3 to 5 years, but will they be right?
 - Silverlake and 6 other firms buyout Sungard for \$11.3 billion
 - Warburg Pincus (Metavante, Wall St. Systems, Tradecard, NYFIX)
 - ValueAct Capital builds up Misys stake (26%)
 - Carlyle Group and Providence Equity (Open Solutions)
- Impact of consolidation on banking means fewer purchase points
 - Non-interest expense will continue to expand
 - IT spending has increased at almost twice the rate of other NIE
 - 77% of the NIE spending is at the top tier banks
 - IT automates more functions, displaces non-IT spending
 - Small US banks will shrink by 2,000 institutions by 2014
 - Acquired bank IT spend shifts to larger banks
 - Survivors still growing, IT expands

Future Outlook – continued

- Vendors in high-growth spending areas will leapfrog others
 - Business intelligence/business analytics
 - Risk management (including Basel II)
 - Compliance (AML, BSA, KYC, FACT)
 - Payments (card-based, corporate payments, enterprise payments)
 - Selective infrastructure and/or sourcing (including outsourcing)
 - Emerging economies (Asia/Pacific, Latin America, Eastern Europe)
 - Core banking
 - Mobile and other electronic channels
- Small vendors or startups will have a hard time punching through the Emerging – Growing S curve as financial institutions will be more risk averse and conservative with new IT spending budgets
- Vendors that help institutions reduce complexity and the dependency on tight integration of legacy systems will succeed

Essential Guidance

- Dynamic or Dull? It depends
 - Nothing sexy on the map (e.g., Internet), back office, analytics, infrastructure projects
 - Industry wide looks more like dull, modest growth except in AP, Eastern Europe and Latin America
 - Hot spots will be much more dynamic: [BI/BA, Risk (credit, Basel II), Core banking in AP/EE/LA, Payments]
- Expect consolidation waves will continue into the future
- Large vendor transactions have escalating operational risk factors
- Successful FinTech vendor M & A needs symmetry between business models, cultures and buyer's acquisition strategy
- FinTech vendors gain (or lose) competitive advantage with (out) a planning framework that delivers well executed integration
 - Sales and marketing synergy, effective account management
 - Effectively resolve sunset questions for overlapping solutions
- Vendors need to plan for their customer portfolio of the future

Questions? Live Meeting Chat or Audio



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Latest Research:

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Visualizing Better Decisions Faster: Can You Really See the Answers?

Pondering the Prospects of Winning the “Millennials”

Slides will be posted within 24 hours

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 - June 27, 2008
- Barristas or Bankers: Open Coffee Chat with Our Banking Analysts
 - July 2, 2008
- Green Business: How Businesses are Reducing their Carbon Footprint and the Technologies they are Using
 - July 23, 2008
- Fuel Your Business Analytics Engine: Improve Your Mileage Using Unstructured Data
 - July 24, 2008
- Beyond the Traditional Short List: Up & Coming Insurance Technology Firms Class of 2008
 - August 7, 2008

Join Us Soon at an Upcoming Event

- IDC Brazil 3rd Annual Financial Insights Conference 2008
 - August 19, 2008 Sao Paulo, Brazil
 - Join **Jeanne Capachin**, VP Research, Banking and Insurance, along with **Mauro Peres**, Country Manager, Brazil

- Asia Pacific InsureTech Summit 2008
 - August 22, 2008 Singapore
 - Join **Li-May Chew**, research manager, Asia/Pacific and her colleagues at this annual event

- Fall Conference Season – Are Your Ready ?
 - **Sibos** 2008: Vienna Austria - September 15-19, 2008
 - **AFP** Annual Conference: Los Angeles, CA October 19-22, 2008
 - Financial Technology Insight: **Best Practices in Global Banking**, Jacksonville, October 26-28 (hosted by PPM Media)
 - **FST Summit** 2008: November 5-7, 2008, Miami (hosted by GDS International)
 - **BAI** Retail Delivery: Orlando, FL, November 18-20



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Thank you for your time and attention

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