

02 April 2009

Metavante - FIS

Offer Terms	
1 MV US = 1.35 FIS US	
Target: Metavante	
Country	USA
Bloomberg	MV US
Sector	Software
Share price (US\$)	22.68
Market cap (US\$m)	2717
Free float (%)	~75
Acquirer: FIS	
Country	USA
Bloomberg	FIS US
Sector	Software
Share price (US\$)	17.39
Market cap (US\$m)	3320
Free float (%)	~100
Metavante price chart	
Deal Status	
Metavante – FIS merger announced – 1 April 2009	
Next critical date	
Proxy published - ~mid-April 2009	
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Merger

- Strong strategic rationale for merger
- Risks include potential competition issues

Summary

On 1 April 2009, **Fidelity National Information Services, Inc. ("FIS")** and **Metavante Technologies, Inc. ("Metavante")** announced that the boards of directors of both companies have approved a definitive agreement under which FIS will acquire Metavante

- Terms of the offer: 1 MV US = 1.35 FIS US.

Conclusion

We believe that the merger of FIS and Metavante is likely to complete.

- However, there are risks
 - Full terms and conditions have not yet been published
 - Antitrust issues are possible

We believe that there is a strong strategic rationale to combine the 2 companies.

- FIS and Metavante are estimating synergies of \$260m per annum, which is equivalent to 19% of Metavante's operating expenses
- The merger will combine the #2 and #3 players in the industry, making the combined company a stronger competitor to challenge the market leader
- The clients of Metavante and FIS include banks are consolidating resulting in fewer potential sales
 - The market leader, Fiserv, has a market share of 62% among large (>\$500m in assets) financial institutions

However, the merger would bring together the #2 and #3 player in an industry dominated by the top 4 players

- On this basis, we would not rule out a second request under HSR.
- The rapid consolidation of the banking industry the market share of the leading players could become even higher and might make it more difficult for smaller players with an incomplete product offering and geographic presence to compete
- Switching vendors is both expensive and time consuming and the back office services provided by FIS and Metavante are non-discretionary
- However, mitigating factors include the fact that there is a clear market leader, the existence of smaller players, new entrants such as Oracle and IBM and the ability of companies to provide the services in-house
- FIS and Metavante could argue that the merging would allow the combined company to cut costs and compete more effectively with Fiserv

Potential counterbids seem unlikely.

- Fiserv, as the overwhelming market leader, would likely encounter competition issues
 - Alliance Data may want to shy away from corporate activity after the terminated bid from Blackstone
 - There is a break fee of \$175m (~4% of transaction value)
- Metavante and FIS are estimating a close in July 2009
- However, we wouldn't rule out slippage due to regulatory issues

Terms of the Merger

1 MV US = 1.35 FIS US

Premia

The offer values Metavante at a 23% premium to its March 31, 2009 share price.

- Based on FIS' March 31, 2009 share price

Structure

The transaction will be structured as a tax-free reorganization whereby Metavante will be merged with and into a newly formed subsidiary of FIS

- FIS would issue approximately 162 million basic shares to Metavante shareholders.
- In addition, a simultaneous equity investment by affiliates of Thomas H. Lee Partners, L.P. and Fidelity National Financial, Inc. in FIS common stock will result in approximately 16 million additional newly issued shares

The current FIS shareholders will own ~52% of the combined company

- Current Metavante shareholders will own ~44%
- New equity investors will own ~4%

Dividends

Currently Metavante does not pay dividends.

FIS pays a dividend of \$0.20 per year

- Next xd forecast for June 11, 2009
 - \$0.05 per share

FIS said that the combined company would pay dividends.

Financing

The combined company is projected to have approximately \$3.8 billion of debt outstanding at closing

- IFC will assume Metavante debt of \$1.7b
- The requisite Metavante lenders have agreed to waive their change of control provisions and permit the merger to proceed
 - As part of the discussions with Metavante lenders, one of the incentives was a partial paydown of their debt through the equity investment
 - Metavante was looking to fill a \$400 million hole which was partially subsidized by cash flow and the revolver

Break Fee

FIS said in the M&A Presentation that the break-up fee would be \$175m

Conditions to the Merger

Shareholder Approvals

The transaction is subject to approval by FIS and Metavante shareholders.

- On this basis, we believe that the affirmative vote of a majority of outstanding shares will be needed to approve the acquisition

Support Agreements

Metavante said that its largest shareholder, an entity affiliated with Warburg Pincus that currently owns 25% of the outstanding common stock of Metavante, has entered into a Support Agreement with FIS pursuant to which it has agreed, subject to the terms and conditions of the Support Agreement, to vote in favor of the transaction

Regulatory Approvals

Details on regulatory approvals were not specified.

- However, based on precedent transactions, we believe that the following regulatory approvals are likely to be needed
 - HSR Clearance
 - EU Commission, if necessary
 - SEC approval
 - Bank Approvals
 - As providers of technology services to financial institutions such as banks, thrifts and credit unions, Metavante and FIS are subject to regulatory oversight and examination by
 - FDIC
 - The Office of Thrift Supervision
 - Office of the Comptroller of the Currency
 - National Credit Union Administration
 - Federal Reserve
 - Various state regulatory authorities
 - Most precedent transactions did not specifically list approvals under these regulatory agencies as a condition to the bid
 - However, in the terminated acquisition of Alliance Data Systems by Blackstone, a ruling from the Office of the Comptroller of the Currency was the reason given for the termination of the merger despite OCC approval not being specifically included as a condition to the offer
 - Note that this was a private equity acquisition at the beginning of the credit crisis and we wouldn't expect a similar issue in this transaction

Other Conditions

We believe that other conditions to the offer are likely to include

- No breach of representations and warranties
- No legal impediments
- No Material Adverse Effect (MAE)

Estimated Transaction Timing

FIS and Metavante expect to complete the transaction in the third quarter of 2009.

- The proxy is expected to be posted in "the next couple of weeks"
- The shareholder votes are expected to take place in Q2 2009

In the M&A Presentation, FIS estimated a closing date of July 1, 2009 for modelling purposes

- However, FIS confirmed that a July closing took into account slippage from the requisite antitrust and SEC reviews and is a reasonable estimate of the closing date

We believe that timing is likely to be driven by regulatory approvals.

- We would not rule out a second request as both companies are leading players in software and outsourcing for the financial industry
- We believe that other banking regulatory approvals are likely to be necessary, which could have the affect of delaying the close of the merger

Estimated Transaction Timing

Event	Date
Announcement of merger	1 April 2009
Proxy published	~16 April 2009
HSR Filing	~May 2009
HSR Approval (assuming no second request)	~June 2009
Shareholder EGMs	~June 2009
Merger effective/Settlement	~July 2009

Source: Internal estimates, M&A Presentation

Metavante

Metavante delivers banking and payments technologies to approximately 8,000 financial services firms and businesses worldwide

- Metavante began operations in 1964 as a wholly-owned subsidiary of M&I providing community and regional banks with outsourced account processing services
- In 2007, M&I separated into Marshall & Ilsley and Metavante
- 75% of Metavante stock was distributed to M&I shareholders
- 25% was distributed to Warburg Pincus in exchange for a \$625m equity investment

Metavante segments its businesses by:

- **Financial Solutions Group** - 39% of Metavante's revenue in 2008
 - *Metavante Banking Solutions* offer integrated products and services for financial service providers that are centered on core customer and account management, specializing in deposit and loan accounts and customer information systems.
 - *Metavante Commercial Treasury Solutions* provide technology and related outsourcing services to allow commercial customers of financial institutions to manage their cash and investments, as well as certain income statement items
 - *Metavante eBanking Solutions* deliver a suite of retail and business electronic commerce services designed to enhance financial institutions' abilities to sell and service through a variety of channels and provide consumers and businesses with real-time self-service banking and payments.
 - *Metavante Risk and Compliance Solutions* help financial institutions mitigate threats to their business by enabling comprehensive risk management and regulatory compliance.
 - *Metavante Sales & Service Solutions* offer a strategic approach that incorporates technology solutions, people, and processes enabling an organization to develop a customer relationship management strategy supporting its business goals while maximizing customer relationships
 - *Metavante Wealth Management Solutions* offer a set of products and services to financial services providers that address the specific needs of the rapidly-growing wealthy, affluent, and emerging affluent markets as well as commercial clients
- **Payment Solutions Group** – 61% of Metavante's revenue in 2008
 - *Metavante Acquiring Solutions* deliver the card-based transaction acquiring solutions that support the paperless transactions demanded by the marketplace, including ATM driving, merchant acquiring, biller-direct payments, and government payments.
 - *Metavante Issuing Solutions* deliver the electronic funds transfer ("EFT") and card processing solutions that help facilitate the expansion of electronic payments and card-based transactions including debit and credit card account processing
 - *Metavante Image Solutions* help clients transition from paper to electronic payments and image processing through distributed capture, check and remittance processing, fraud detection, and document and report management.
 - *Metavante Payment Network Solutions* includes traditional ATM and PIN-based debit network access and emerging real-time payment alternatives from the NYCE[®] Payment Network
 - *Metavante Healthcare Payment Solutions* help transform the healthcare payments industry by accelerating the exchange of information and funds between patients, payers, providers and financial institutions.

Metavante Financial Results

Metavante FY2008 Results of Operations			
(US\$m)	2008	2007	% change
Revenue	1707	1598	7%
Operating Expenses	1370	1445	-5%
Earnings from operations	338	153	121%
<i>EBIT margin</i>	<i>20%</i>	<i>10%</i>	
Other (income) expense, net	-3	8	
Interest expense	-104	-41	
Income tax (recovery)	-83	-71	
Net earnings for the period	147	49	198%
<i>Net profit margin</i>	<i>9%</i>	<i>3%</i>	<i>179%</i>

Source: SEC Filings

FIS

FIS is a leading provider of technology solutions, processing services and information-based services to the financial services industry.

- FIS was spun off from Fidelity National Financial in 2006
- FIS was initially part of Alltel Information Services

FIS segments its operations into

- Financial Solutions
 - The primary focus of our Financial Solutions segment is servicing the core and related ancillary processing needs of U.S. banks, credit unions, automotive financial companies, commercial lenders, independent community and savings institutions
- Payment Solutions
 - This segment is focused on servicing the payment and electronic funds transfer needs of U.S. banks, credit unions, automotive financial companies, commercial lenders, independent community and savings institutions
- International
 - FIS's international operations leverage existing domestic applications and provide services for the specific business needs of its customers in targeted international markets

Rationale for the Merger

Market Drivers

Metavante and FIS provide services to the banking industry.

- Current market conditions, declining profitability and capital constraints are forcing banks to reduce costs
- FIS also believe that banks coming out of the crisis will outsource more
 - FIS explained this in the April 1, 2009 M&A Conference
 - In the past, banks "looked out into the industry", "picked the best of breed", and then integrated those capabilities in-house with their own development teams
 - In the future, banks will not be able to afford to integrate the products once they're put in place
 - The days of developing in-house systems and capabilities are waning as banks go back to basics
 - FIS and Metavante provide the same capabilities on a much more cost effective basis

The merger will better position the combined company by reducing costs and widening the product offering

- FIS believes that, in the future, scale will be very important to successfully compete
 - Product breadth and presence in multiple markets is an important consideration for clients
 - Metavante and FIS have complementary products and customer bases
 - The new combined organization will have over 25 operating centers internationally serving over 90 countries

Revenue Synergies

FIS and Metavante estimate long term organic revenue lift of 2%.

- Over 70% of new revenue growth will come from cross selling additional products into FIS' existing base
- The combined company will have, according to FIS, "the most comprehensive range of products and services available in today's marketplace".
- Metavante has a larger presence in bill payment and online banking, while FIS has a larger presence in credit card/loyalty schemes
 - FIS loyalty solutions can be extended to Metavante clients
 - Metavante's bill payment solutions can be extended to FIS' large bank relationships

Cost Synergies

Cost synergies will be realised by combining infrastructures, product capabilities, development staff and operating organizations

- Metavante and FIS expect to realise \$260m in annual cost synergies.
 - Payment processing: \$85m
 - Core processing: \$70m
 - IT/Operations: \$55m
 - Corporate: \$50m
- Cost of integration \$165m

Valuation

We valued Metavante and FIS on the basis of comparable companies including Alliance Data, DST, Jack Henry, and Fiserv.

- Comparables trade relatively closely in line, with the exception of Fiserv and Metavante, which trade at ~11% premium to competitors
 - Prior to the announcement of the merger with FIS, Metavante traded at an 11% premium to comparables
 - Prior to the announcement of the merger with Metavante, FIS traded at 7.0x EBITDA, a 3% premium to comparables

Comparable Companies – Financial Services Software

	Ticker	Sh Price US\$	Market Cap US\$m	EV/EBITDA		Growth	EBITDA Margin
				2009	2010	2009	2009
Alliance Data	ADS US	37.95	2,262	6.76	6.35	8%	31%
DST Systems	DST US	37.1998	1,850	6.49	6.37	1%	29%
Jack Henry	JKHY US	17.83	1,497	6.78	6.30	7%	29%
Fiserv	FISV US	37.17	5,799	7.33	6.95	3%	30%
FIS	FIS US	17.46	3,333	6.80	6.38	5%	25%
Average				6.83	6.47	5%	29%
Metavante	MV US	22.73	2,723	8.15	7.60	5%	29%
Premium/Discount				19%	18%	-1%	1%

Source: Bloomberg

Valuation of Synergies

We estimate that the NPV of synergies is worth ~\$5.5 per Metavante share.

- Using FIS' estimate of annual pre-tax cost synergies of \$260m
 - Capitalisation of synergies: 10x
 - 36% tax rate
 - \$165m cost of integration
 - 42% of synergies paid to Metavante
- On this basis, Metavante could be valued at ~\$24 per share as an acquisition target

Merger Terms

The merger terms appear to be favourable to Metavante.

- The merger ratio of 1.35 is at a significant premium to the historic ratio between Metavante and FIS's share prices

FIS/MV



EPS Accretion

We estimate that the merger is earnings neutral to FIS by 2011.

- Metavante and FIS estimate that the merger is 11% accretive in 2009
- However, this estimate is made using the (unlikely) assumption that 100% of synergies are realised in 2009, with no cost of integration assumed
- In addition, earnings estimates for Metavante are ~5% higher than BEST estimates

We assumed

- BEST estimates for earnings
- Pre-Tax synergies of \$260 per annum fully realised by 2011
- Cost of synergies of \$165m, in line with FIS estimates, incurred during the first 2 years
- Tax rate of 36%, in line with FIS guidance
- Additional interest charges of \$8m, in line with FIS guidance

EPS Accretion

Earnings Accretion			
<i>US\$m</i>	2009	2010	2011
Metavante's EPS	1.54	1.69	1.71
Metavante Shares Outstanding	121	121	121
Metavante Earnings	187	206	207
FIS's EPS	1.63	1.82	2.03
FIS Shares Outstanding	194	194	194
FIS Earnings	315	353	393
Metavante-FIS Earnings	502	559	600
Synergies	65	195	260
% of synergies realised	25%	75%	100%
Cost of synergies	82.5	82.5	
Tax rate	36%	36%	36%
Synergies After Tax	-11	72	166
Add'l Interest charges before tax	8	8	8
Interest charges after tax	6	6	6
Pro-Forma Earnings	486	625	761
Merger Ratio	1.35	1.35	1.35
New FIS Shares Issued	180	180	180
Total FIS Shares	374	374	374
Pro-Forma eps	1.299	1.672	2.035
FIS's EPS	1.626	1.821	2.025
FIS Premium/(discount)	-20%	-8%	0%
Metavante's equiv. EPS	1.141	1.254	1.263
Metavante Premium/(discount)	14%	33%	61%

Source: Internal Estimates, Bloomberg BEST

Consolidation in Financial Services Software/Outsourcing

On 2 August 2007, Fiserv, which provides core banking, check-related processing, loan services and solutions to small and midsize banks and credit unions, announced its intention to buy CheckFree, a payments, investment services and online banking solutions provider, for \$4.2 billion.

- Fiserv also announced its intention to achieve annualized cost savings of \$100 million and more than \$125 million in synergistic revenue through the purchase of CheckFree

In June 2007, FIS announced the acquisition of eFunds for \$1.8b in cash.

- The acquisition was at a premium of 5.5%
- However, eFunds had been the subject of merger speculation since May 2007 when KKR acquired First Data

In May 2007, Kohlberg Kravis Roberts paid \$29b for First Data, the world's top payment processor

- The offer was at a 26% premium to First Data's pre-bid share price
- The offer was completed in September 2007

In May 2007, Blackstone announced the acquisition of Alliance Data Systems, a credit card services company for \$7.8b.

- However, the deal was terminated in April 2008
- The Office of the Comptroller of the Currency required a \$400m capital injection to provide liquidity support for ADS
- Blackstone decline to meet the conditions of the OCC and terminated the merger

In February 2007, CheckFree acquired Corillian for \$212 million.

- Corillian is the market leader of online banking, payment and security solutions to the financial services industry with 30 of the top 100 U.S. banks and 21 of the top 100 U.S. credit unions as customers
- CheckFree received a request from the US FTC and DOJ for additional information
 - This was not a second request, but part of the pre-merger notification process
 - However, this request did have the effect of resetting the 30-day waiting period
- The merger was completed in May 2007, 3 months after announced

Competition Issues

We would not rule out a second request.

- We understand that FIS and Metavante are the #2 and #3 players in the financial services software and outsourcing
- We understand that the industry will be reducing from 4 key players to 3 key players

We believe that the relevant markets could be separated by core processing, bill payment, and cards.

- Cards could be further segmented into prepaid, debit, credit and loyalty
- We understand that the industry is comprised of leaders in individual segments of the financial services and payment processing
- However, the largest players have a presence in most of the segments
 - According to FIS, the industry is changing such that banks will want one provider for all of their processing needs
 - On this basis, the antitrust agencies could view overall market share as the relevant product market

According to a 2008 presentation from Fiserv, the combined FIS and Metavante would have a market share by client of 29%

- Fiserv has a market share of 33%
- Jack Henry has a market share of 20%
- The next largest player, Harland, has a market share of 7%

In clients with assets over \$500m, the combined FIS and Metavante would have a market share of 26%

- Fiserv has a market share of 62%
- Jack Henry has a market share of 8%
- The next largest player, Harland, has a market share of 4%

Core Processing

We understand that 55% of the market is controlled by the top 3 players, namely Fiserv, FIS and Metavante

- The back office services which FIS and Metavante provide are non-discretionary
- Also, we understand that it is costly and time consuming for customers to switch providers
- The cost advantages that would be provided to the merged entity would further separate top players from the smaller competitors
- However Fiserv is the overwhelming market leader with ~34% of the core processing market with Jack Henry in second place with 13% of institutions
- On this basis, we believe that competition issues are unlikely in core processing

Mitigating Factors

We believe that mitigating factors include:

- The presence of a large market leader
 - Metavante and FIS are unlikely to be able to exhibit pricing pressure with the presence of a strong market leader
 - In fact, the merger of Metavante and FIS may actually improve the competitive situation as the combined company will be a more effective competitor to Fiserv
- Several smaller players
 - The smaller players could be sufficient to constrain pricing
- New entrants such as IBM and Oracle, which have a natural entry into the market by providing infrastructure for financial clients

Precedent

We believe that the merger of Thomson-Reuters provides a good precedent.

- The merger of Thomson and Reuters created a market duopoly with Bloomberg as the other dominant player
- The argument for the merger was that, by merging, Thomson and Reuters created a more effective competitor to Bloomberg
- The merger was cleared after Thomson-Reuters agreed to provide databases to competitors

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