

AMERICAN BANKER[®]

THE FINANCIAL SERVICES DAILY

Tuesday, November 8, 2005

FINTECH 100

As Muma's Exit Looms, Should Fiserv Switch Gears?

■ BY WILL WADE

Should **Fiserv Inc.**, which under Leslie M. Muma has become the revenue leader in financial services technology, switch its strategy when he leaves the job next June?

Some analysts of the business think so.

The much-admired Mr. Muma, 61, has been the president and chief executive of the Brookfield, Wis., provider of software and outsourced services since 1999. Before that — since its founding, in 1984 — he had been the chief operating officer.

All that time Fiserv has had an unusual growth strategy: buy healthy companies with growth potential (it has taken over 136) and then let them run pretty much on their own.

The theory is that eventually, as old technology is updated, the acquired operation becomes integrated into the rest of Fiserv's business — but the process can take years.

"People said our strategy wouldn't work, but it's been 20 years, and it is," Mr. Muma said in a recent interview.

Under his successor, he conceded, Fiserv's mergers and acquisitions playbook may change. If it wants to sell off some of the businesses he has carefully assembled — "I could handle that," he said. And if it decides to integrate acquisitions instead of letting them run at arm's length, he's fine with that too.

"Whoever runs the company will run it their way," Mr. Muma said. "The only strategy that's basic to Fiserv is to grow, organically as well as by acquisition."

Fiserv leads the FinTech 100 list for the second year straight, with nearly \$2.9 billion of 2004 revenue from



"People said our strategy wouldn't work, but it's been 20 years, and it is."

financial services.

Mr. Muma has played a big part in making it a perennial powerhouse in banking technology, but competition among the largest banking vendors is tougher than ever.

Nipping at Fiserv's heels in the FinTech 100 are Wayne, Pa.'s **SunGard Data Systems Inc.**, which sells disaster-recovery products and services, and the fast-growing **Fidelity National Financial Inc.** of Jacksonville, Fla.

Fidelity National — one of Fiserv's biggest direct competitors — moved up to No. 3 in this year's ranking, from No. 11 last year, and was the only new company to join the top 10. Furthermore, its financial services revenue plus that of **Certegy Inc.**, which it is buying, totaled more than \$3.1 billion last year — enough to knock Fiserv down to No. 2.

A more immediate question than what strategy Fiserv will follow after Mr. Muma is who will

succeed him.

In October 2004, when he announced his intention to step down, a succession committee formed to evaluate potential candidates.

An essential qualification, Mr. Muma said in the interview, "is the same burning desire to take this company and continue its growth." He declined to discuss possible successors but said the committee will announce one "by the end of the year." (As of press time, for this special report no announcement had been made.)

Many had considered Norm Balthasar, Fiserv's chief operating officer, his obvious heir apparent, but Mr. Balthasar said last October that he did not want to be considered for the job,

because he plans to retire in 2008.

The succession question worries some analysts, among them Carla Cooper, an analyst at the Robert W. Baird & Co. brokerage firm.

“There is no clear heir,” she said, and Mr. Muma “has created some big shoes to fill.”

Ms. Cooper downgraded Fiserv’s stock in August, from “outperform” to “neutral.” One reason, she said, was that the price — then around \$45 — was as high as she expected it to get. (At press time, the stock was trading at around \$44.) But another was uncertainty over who will succeed Mr. Muma.

“No matter who takes over, even with the best person in the world, there will be transition risks,” Ms. Cooper said. “It’s one of the things the company is going to have to work through.”

Fiserv’s current market strategy “has less risk,” says analyst Kraft, but potentially less return too.

That is not to say Fiserv will sink without Mr. Muma. Jack Prim, who leads one of its main rivals, does not think it will.

Mr. Prim is the CEO of the banking technology and outsourcing vendor **Jack Henry & Associates Inc.** of Monett, Mo. “For most of our business, Fiserv is our most direct competitor,” he said, and he goes head to head with it “in every deal that’s core-related.”

But he does not think Mr. Muma’s passing the torch will make Fiserv vulnerable. “I’d love to think so, but I don’t,” he said. “They are a strong organization, and I’m sure they’ll find a good person to step in.”

Chris Penny, an analyst at Friedman, Billings, Ramsey Group Inc. in Arlington, Va., agreed. “It’s still going to be the same car, just driven by a different driver,” he said.

Mr. Penny said that since the company went public in 1986, Fiserv’s stock has increased in value 430%. (By compari-

son, over the same time period the S&P 500 index has grown 120%.)

“Mr. Muma, over the long run, has done a lot to add shareholder value,” Mr. Penny said.

Though the succession committee says it is looking inside the company and outside, Fiserv is well known for promoting from within.

Current Fiserv executives on hand-cappers’ short list include Michael D. Gantt, who left in 2003 but returned in August 2004 to become the president of Fiserv’s bank systems and e-products group; and Patrick C. Foy, the president of the company’s bank servicing division.

CHANGED MARKET

Mr. Muma’s successor will have to contend with a consolidating industry. Many of Fiserv’s rivals, especially **Meta-**

vante Corp. and Fidelity National, have been on buying sprees for years. In fact, the banking technology market is now coming to look like the endgame that Mr. Muma has long predicted.

“Ever since we’ve been in this business we’ve said the industry would be dominated by a handful of very big, very good providers,” Mr. Muma said.

Ms. Cooper of the Robert W. Baird firm agreed — and she said the consolidation may force Fiserv to change its integration strategy.

There were once many banking technology vendors, but a small number — including Fiserv, Metavante, and Fidelity National — took the lead, she said. They grew by buying second- and third-tier providers, thereby increasing competition among themselves and reducing customers’ choices.

One way to stand out now is to offer multiple banking functions designed to work together, according to Ms. Cooper — and Fiserv’s strategy does not foster

that, she said.

Integrating their businesses would be “the right strategy,” she said. “That’s a step in the right direction.”

John Kraft, an analyst with the investment firm D.A. Davidson & Co. in Great Falls, Mont., described Fiserv’s M&A strategy as conservative. Buying a company and letting it operate independently, “has less risk” than trying to merge it with other business units, but potentially less return.

“Some people say that when you integrate an acquisition, you can get more than the sum of the parts — one plus one can equal three,” Mr. Kraft said. “But anytime you make the effort to integrate acquisitions, you set yourself up for missteps.”

But in today’s market, integration is becoming more necessary because customers want to buy more products from fewer suppliers, and they want those products to work together seamlessly. “There is a perception in the market that if different pieces are not integrated, they don’t fit together as well,” he said. “And that perception has truth in it.”

And Mr. Penny said that despite the widespread perception that companies acquired by Fiserv are left alone, the various products are always integrated over time.

When something becomes obsolete, or is upgraded, the technology is often bolstered with pieces from other Fiserv units, in the process becoming both better, and more closely linked to the company’s different product lines.

The company’s many acquisitions have equipped it to offer a wide variety of services and technologies, ranging from banking core processing to managing health-care payments to investment-support services.

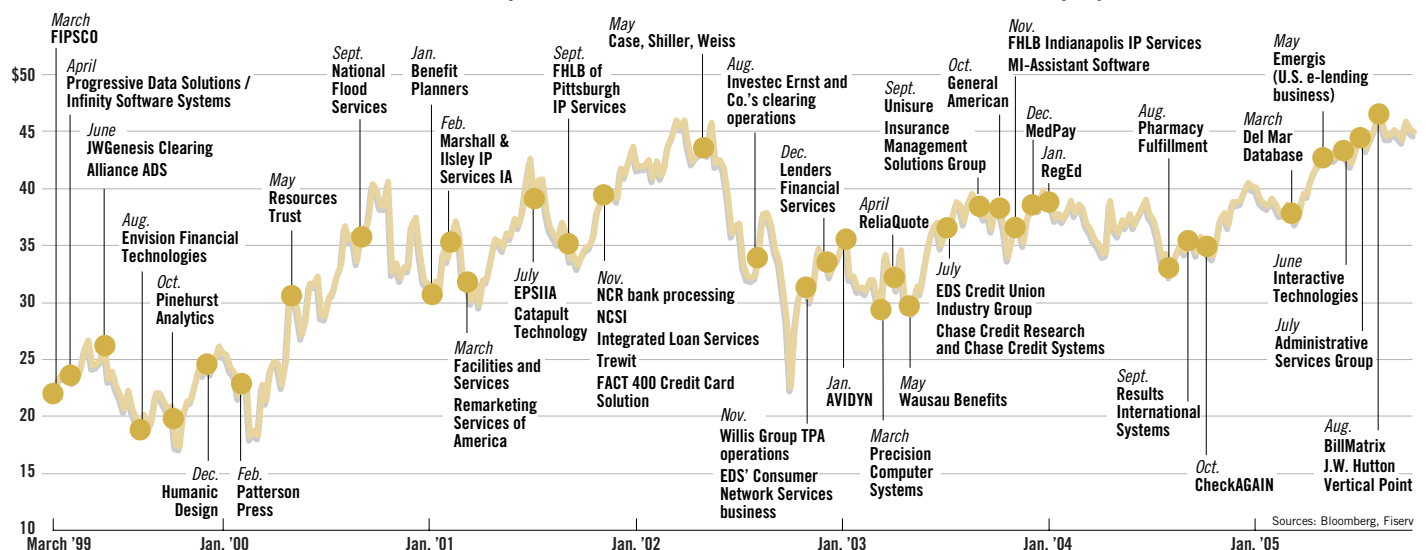
Mr. Muma also said Fiserv is widening its focus, and that he expects its health-care processing business to be an important source of growth.

In many ways, health-care payments are much like banking payments, he said; both involve settlement and clearing.

But the health-care variety is still based mostly on paper, he said. “The

Muma's March

Fiserv's stock price has more than doubled since he took over the company in March 1999



health-care system is a mess, so there is plenty of opportunity,” Mr. Muma said. “We have a chance to be something significant.”

Ms. Cooper, however, said the business had yet to deliver much growth for Fiserv. In the second quarter its health-care processing revenue was only 4% higher than a year earlier, and 5% is her benchmark for acceptable growth at big financial technology companies.

If health care “is the next chapter of Fiserv, you need to see more growth,” she said. “It’s an open question in my mind, and it will be important for the next CEO to demonstrate what that unit can do.”

Banking technology is still Fiserv’s biggest business, Ms. Cooper noted, and of the other two big ones, support for investment companies has more synergy with its banking technology than health-care processing does, she said.

HISTORY

Fiserv was created by the merger of Sunshine State Systems of Tampa (Mr. Muma led a management buyout) and First Data Processing of Milwaukee. George Dalton, who led First Data Processing, became the CEO of the newly

created company; Mr. Muma became its chief operating officer.

“I’ve had a leadership role for the entire 20 years of Fiserv’s existence,” Mr. Muma said.

There have been some missteps along the way, he said. “Getting into securities processing was not the best move.”

Fiserv entered that business in 1997 by buying BHC Securities Inc. of Philadelphia for \$211 million, when the stock market was sizzling. But Mr. Muma said that a few years later, when the market had cooled off, he realized that settling securities “is a different business than financial-institution processing.”

BHC unit’s problems over the years included fraudulent dealers, fines from the Securities and Exchange Commission, and having to cover short positions for “investors who walked away,” according to Mr. Muma. “The result was “millions” in lost revenue,” he said. “The unit was profitable, but it could have done better.”

Fiserv sold it last December to Boston’s **Fidelity Investments** for \$365 million. Buying BHC had “seemed like the right thing to do at the time,” Mr. Muma said, “but I’m glad we’re out of that business now.”

Though he is proud of Fiserv’s growth, he says he is even prouder that it has grown while taking good care of its employees, who now number nearly 22,000.

“The best way to get to the top is to grow profitably and ethically without stepping on people on the way up,” he said.

That view is consistent with Mr. Muma’s reputation in the industry as a regular guy.

Jack Henry’s Mr. Prim said that a few years ago, when a client was shifting its business from Fiserv to his firm, some confidential Jack Henry data ended up at Fiserv by mistake. But instead of a turning into messy legal dispute, the problem went away in less than a day, he said — because “Les picked up the phone and called.”

“They could have gotten the attorneys involved,” Mr. Prim said, but Mr. Muma “didn’t assume the worst and go nuclear.”

Frank Martire, the president and CEO of Metavante, the technology subsidiary of the Milwaukee banking company **Marshall & Ilsley Corp.**, also has a lot of respect for Mr. Muma.

Before joining Metavante, Mr. Martire worked for 10 years at Fiserv, which

bought his previous employer, Citicorp Information Resources, in 1991.

Now, at Metavante, “I want to take Fiserv’s business, and they want to take mine,” Mr. Martire said. “That’s what we should be doing; it’s what our shareholders expect.”

But the two companies often must work together on projects, and Mr. Martire said these are made much easier by the simple fact that he trusts Mr. Muma.

“He’s a straight-shooter,” Mr. Martire said.

For now, Mr. Muma is definitely still running the show at Fiserv. Though he bought a house this year in Bellaire, Fla., outside Tampa, he said he is on the road making sales calls about 40% of the time and spends about quarter of his

time at the Brookfield headquarters.

When he is in Florida he works out of the Tampa office. He usually arrives there by 7 a.m., having risen at 4:15 to exercise for at least an hour, he said.

He works about 70 hours a week but hopes to cut that figure — a bit — once the new CEO is officially named. He likes to play golf in his spare time and to ride one of his two Harley-Davidson motorcycles — though never to work. “When you’re riding a motorcycle you have to pay attention,” he said, and when I’m going to work I’m always thinking about work.”

Mr. Muma said he will stay on to advise his successor, but only for a while. “My intent is to get off the board and out of the hair of the new CEO as soon as it makes sense,” he said.” Old

CEOs that hang around just get in the way, and that’s not fair to the new guy.”

By leaving Fiserv, he said, he will be keeping two promises.

One he will keep on time, he said — a promise to “retire when I was 61 or 62 — and I’ll be 62 then.”

But on one promise he will be 14 years late. In 1987, when he moved his family from Tampa to Milwaukee, “I said we’d only be there for five years, so I missed that.”

His post-retirement plan include more time riding his motorcycles, playing golf, and traveling with his wife.

Will he miss running Fiserv? “You bet I’m going to miss it,” he said. “But I’ve got other things to do.”

Mr. Wade is American Banker’s technology editor.