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Misys $2 Billion Deal Seen Too Cheap to Guarantee Sale: Real M&A

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March 22 (Bloomberg) -- Misys Plc’s agreement to be acquired at Europe’s cheapest valuation for a software takeover is leaving the door open for rival bidders.

Vista Equity Partners said this week it will purchase Misys for 1.3 billion pounds ($2.1 billion), valuing the British financial software maker at 13 times earnings before interest, taxes, depreciation and amortization. That’s the least expensive on record for a software takeover in Europe greater than $1 billion, according to data compiled by Bloomberg. At 21 percent more than Misys’ 20-day trading average before merger talks with Temenos Group AG were disclosed last month, Vista’s bid is also half the industry’s average premium, the data show.

As banking regulations become stricter, Misys is seeking to sell more products that handle risk management, derivatives trading and lending. While Misys said the private equity firm’s proposal is likely the “best deal,” the stock is trading 1.7 percent above the cash bid of 350 pence a share, indicating some traders project a richer offer. Temenos, which ended talks over an all-share merger last week, can still make a counteroffer and Misys’ biggest investor ValueAct Capital, which teamed up with CVC Capital Partners, said it’s weighing a possible joint bid.

“The market is pricing in a fair chance of another offer,” Laurie Pinto, chief executive officer of event-driven research firm North Square Blue Oak Ltd. in London, said in a telephone interview. “The arbitrage community is still betting there could be a higher offer because ValueAct and CVC put out a statement after the bid was made by Vista saying ‘take no action.’”

Risk Management

Representatives for Misys, Temenos and CVC declined to comment on the possibility of a counter bid. Spokesmen for Vista and ValueAct didn’t return phone calls seeking comment.

Founded in 1979, Misys makes software for cash, wealth and risk management as well as for syndicated lending, over-the- counter derivatives trading and post-trade processing. It has more than 1,300 banking customers and employees based in more than 120 countries.

Vista, a San Francisco-based firm that invests in software and technology businesses and bought Thomson Reuters Corp.’s trade and risk management software division this year, announced the takeover of Misys on March 19. Misys shares have traded higher than the offer price every day since and closed at 356 pence yesterday, the most above the bid since it was disclosed, signaling some merger arbitragers anticipate a sweeter deal.

“It is trading through the terms because there is still another potential bidder out there and there is a little bit of room in an LBO model for a higher price,” Christie Groves, a London-based analyst at Churchill Capital UK Ltd., said in a phone interview. “I would maybe put a 20 percent chance of a higher bid.”

Binding Support

Misys' independent directors recommend that shareholders vote in favor of the deal and investors owning almost 22 percent of the stock have pledged their support. The so-called "irrevocable undertakings" from Schroder Investment Management Ltd. and Threadneedle Asset Management Ltd. are binding unless Misys receives a competing offer that is at least 10 percent higher, according to a statement, or 385 pence a share. The firms also aren't bound to the commitment if Vista's takeover offer is withdrawn or lapses.

"You're paying 5 or 6 pence for the option to get 35 pence," said Pinto of North Square. "That's what the arb community is making the bet on. The chance of Vista completing the deal is still high, so you're stopped out at 350."

'Best Deal'

Vista's offer is valuing Misys' equity and net debt at 13 times Ebitda of 101 million pounds in the 12 months through November, compared with a median multiple of 24 times for software acquisitions in Europe worth at least $1 billion, data compiled by Bloomberg show. Based on analysts' average Ebitda estimate for 112 million pounds in fiscal 2012 ending in May, the deal would represent a multiple of 12 times, the data show.

While the price was only a 5.9 percent premium to the stock's 20-day trading average before the Vista deal was announced, it was 21 percent higher than the average before Feb. 3 when Geneva-based Temenos confirmed it was in talks with Misys. Still, the industry's average premium for a takeover in Europe is 43 percent, the data show.

Misys acting Chief Executive Officer Tom Kilroy said Vista's cash proposal is likely to be the "best deal" for the company and its shareholders. Kilroy, who was made acting CEO in February, will step down from the role after the transaction is completed and remain with the company, he said in a phone interview March 19.

Failed Talks

Misys traded as high as 430 pence in 2011 before ending the year at about 232 pence after Jacksonville, Florida-based Fidelity National Information Services Inc. broke off talks in August to acquire the company. The two failed to agree on price, a person familiar with the matter said at the time.

Revenue fell 12 percent in the third quarter through Feb. 29, while orders dropped 18 percent, as customers delayed purchases while the company's ownership was being decided, Misys said March 19.

Temenos, which makes software for data management and payments, reached a merger agreement on Feb. 7 that would have exchanged 4.1 Misys shares for 1 Temenos share and given Misys investors almost 54 percent ownership. When Temenos terminated discussions to create the largest vendor of banking software earlier this month, it also reserved the right to make an offer if Misys agreed to a deal with a third party.

Temenos already stated "how far they can go" and its shareholders probably won't allow the company to sweeten its offer for Misys, according to Josep Bori, an analyst at Exane BNP Paribas in London.

'Bottom Line'

“The Swiss company had a chance to do a deal with them, that fell through, so ultimately you just have Vista and presumably an opportunity for ValueAct and CVC to bump its offer,” Sachin Shah, a Jersey City, New Jersey-based special situations and merger arbitrage strategist at Tullett Prebon Plc, said in a phone interview. “People are betting that two financial buyers could come up with something better than 350.
That’s the bottom line here.”

Earlier this month, San Francisco-based ValueAct, which owns more than 21 percent of Misys’ shares and was initially a backer of Temenos’s merger proposal, joined forces with London- based buyout firm CVC Capital to work on a cash bid for Misys.

When the Vista deal was announced, the two firms said they continue to consider their options, including a “possible recommended joint cash offer.” They urged Misys shareholders not to take any action.

‘White Knight’

CVC and ValueAct could pay 370 pence a share and still generate an internal rate of return of about 15 percent within six years, Groves of Churchill Capital wrote in a March 20 note.

Still, CVC may not step in with an offer richer than Vista’s because it has fewer strategic opportunities than the current buyer, Bori said in a phone interview.

“CVC doesn’t own that many assets that are in the financial markets, so they don’t have the same synergies,” Bori said.
“They would struggle to make a higher bid.”

While it may be hard to beat out Vista’s friendly deal, the potential risks are low betting on a higher price, Jean-Francois Comte, co-founder of Lutetia Capital, which manages a $100 million event-driven fund in Paris, said in a phone interview.

“Some people are expecting a potential party, a white knight, somebody to step in and bid more,” he said. “Your downside is not that big compared to the offer price. They’re willing to trade the stock to see what’s going to happen.”

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