

Business First of Louisville - May 17, 2010
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BUSINESS FIRST

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iPay Technologies sale one of state's largest deals in years

Business First of Louisville - by [Terry Boyd](#) Staff Writer

For consumers, **iPay Technologies Inc.** is one of those invisible companies that provides services behind clients' corporate facades.

For clients, such as banks, Elizabethtown, Ky.-based iPay — the United States' largest independent electronic bill pay provider — develops and maintains the software that allows consumers to pay bills online.

For the private-equity community, iPay's growth to become an industry leader with 40 percent of the electronic transaction market is symbolic of how powerful a good idea — backed by sophisticated financing and consulting — can become.

So good that last Friday, **Jack Henry & Associates Inc.**, based in Monett, Mo., announced it would buy iPay Technologies for \$300 million in a cash deal scheduled to close in June.

It's one of the largest sales of a Kentucky-based company since Genscape Inc., an energy-monitoring firm, sold in 2006 for \$200 million. The iPay sale is under review by the Federal Trade Commission, a process that takes about 30 days.

The deal follows a sale and a buyback for iPay — and a 2006 recapitalization with Boston-based private-equity firms **Bain Capital LLC** and Spectrum Equity Investors.

Publicly traded Jack Henry & Associates had been an iPay client for three years, said iPay co-founder and managing partner Dana Bowers. Her company has provided transaction services such as online bill paying for Jack Henry & Associates, which in turn provides technology and data processing for financial institutions.

"They know our ability to execute. It was a great partnership prior to the announcement," she said. "They understand the payment space, and they understand iPay."

Calls to Jack Henry & Associates were not returned.

Bowers and her husband, iPay co-founder and chairman, Mike Bowers, will stay on, as will Bill Ready, iPay's president.

Dana Bowers said that before the sale, she and her husband had turned over daily management to Ready and now are in support roles — Mike Bowers in risk and compliance, and Dana Bowers strategy and business development.

The acquisition will mean virtually no changes at iPay, which employs about 250 people at its Elizabethtown headquarters, Dana Bowers said.

Other than integrating details such as e-mail and benefits, Jack Henry & Associates will leave all iPay operations intact, she said.

"They're smart acquirers," Bowers said. "They don't buy (companies), then screw them up."

In acquisitions, it's typical that founders and executives stay on with the company. During the transition to Jack Henry & Associates, iPay executives will remain for the foreseeable future "and perhaps even long term," Bowers said.

Jack Henry & Associates CEO Jack Prim "has my word I'll be here as long as he needs me," she said.

Coup for private equity

The iPay deal is a notable success for the region's entrepreneurs as well as the private-equity firms that back them, said Ken Berryman, director of the Louisville office of CapitalSouth Partners LLC, a private-equity firm based in Charlotte, N.C.

"This is a private-equity success story in addition to being a Mike and Dana Bowers success story," Berryman said.

The sale of the Kentucky company, with homegrown management and technology, is noteworthy in and of itself, he added. A \$300 million acquisition "would be significant in New York or California and means we can do this as well as they can do it elsewhere."

Jack Henry & Associates' acquisition of iPay makes strategic sense, Berryman said.

It gives the acquiring company "a bolt-on, complementary" business in the growing financial-services sector as well as instant cash flow for a company that has virtually no debt, he said.

Jack Henry & Associates reported revenue of \$746 million for the fiscal year ended June 30, up slightly from \$743 million for fiscal 2008.

Net income for the fiscal year dropped slightly, to \$103 million from \$105 million.

The company's balance sheet shows long-term debt decreasing to zero for 2009 from \$24,000 in 2008.

Keep on truckin'

The sale comes after a 2006 recapitalization of iPay by Bain and Spectrum.

Bowers declined to give specifics of the recapitalization of the privately held company, but such a deal typically involves a restructuring of equity stakes and debt through the addition of a private-equity investor or investors.

Bowers did say that a previous stakeholder left, that the new ownership structure bought out the interests of two commercial banks she declined to identify and that iPay took on additional debt for expansion.

But Bowers said the involvement in day-to-day management by the private-equity firms was minimal, with Bain and Spectrum consultants helping map out quarterly strategy and implementing lessons learned from their other portfolio companies.

"They said, 'Keep doing what you're doing. That's why we invested in you. You're a fast-growing, well-managed, niche business. We're just here to help you do it better,'" Bowers said.

Bain spokesman Alex Stanton did not return calls for comment.

The involvement of private-equity firms typically means a long-term investment along with a complex strategy predicated on an eventual exit.

That payoff typically comes through a sale to a larger competitor, with the price based on a multiple of net income.

Bowers said there was no timeline or even a firm plan that the recapitalization would lead to an exit.

"There was no script that we would turn this company for this kind of multiple, no plan like that," she said.

Bowers added that she believes management can't run a company successfully with an exit as the goal.

Successful exits "have to come your way. You can't manufacture a successful exit," she said.

"You develop a strategy and execute, and the exit is a byproduct of that."

iPay history

In 1986, Dana Bowers founded her first company, Military Services Inc., a third-party bill-payment service for active-duty military personnel.

In 1997, Bowers became part of a partnership between MSI, **Fort Knox National Co.**, a payroll-deduction business, and Elizabethtown-based businessman Jim Fugate, a partnership that became Call Me Bill, a bill-payment service.

In 1999, Call Me Bill was sold to Netzee Inc., an Atlanta-based Internet banking company. Netzee was "a casualty of the dot.com bust," Bowers said. She and a group of investors, including her husband, Mike Bowers, bought back Call Me Bill in 2001 and renamed it iPay Technologies Inc.

iPay started with 150 customers from Call Me Bill and 11 employees. Today, it has 250 employees. Through 50 financial-services clients, iPay reaches 3,800 financial institutions, which represents a 40 percent market share.

Bowers said that in the transaction-processing business, iPay strives to be error free. She said it has one of the lowest — if not the lowest — error rates in the nation.

"But if you goof up, you say so, then you fix it," she said. "That's what people appreciate. When you say to them, 'That one, that was our problem. Here's what I'm going to do to fix it,' and you fix it, they have a tremendous amount of respect for that."

Customers don't expect you to be perfect, Bowers said. "They know you're not. But they expect you to be honest. And they expect to be able to trust you."

iPay Technologies Inc.

Headquarters: Elizabethtown, Ky.

Owners: Mike Bowers and Dana Bowers with private-equity firms Bain Capital LLC and Spectrum Equity Investors

Date founded: 2001

Services: Person-to-person payments, account-to-account interbank transfers, electronic bill presentment, payment tracking, automatic text alerts and payment reminders

Number of clients: Through its 50 service providers, iPay is used by about 3,600 banks and credit unions. That includes about half the nation's credit unions and about 40 percent of the nation's community banks.

Transaction volume: For 2009, 60 million transactions, totaling more than \$14.5 billion in value

Send comments to tboyd@bizjournals.com