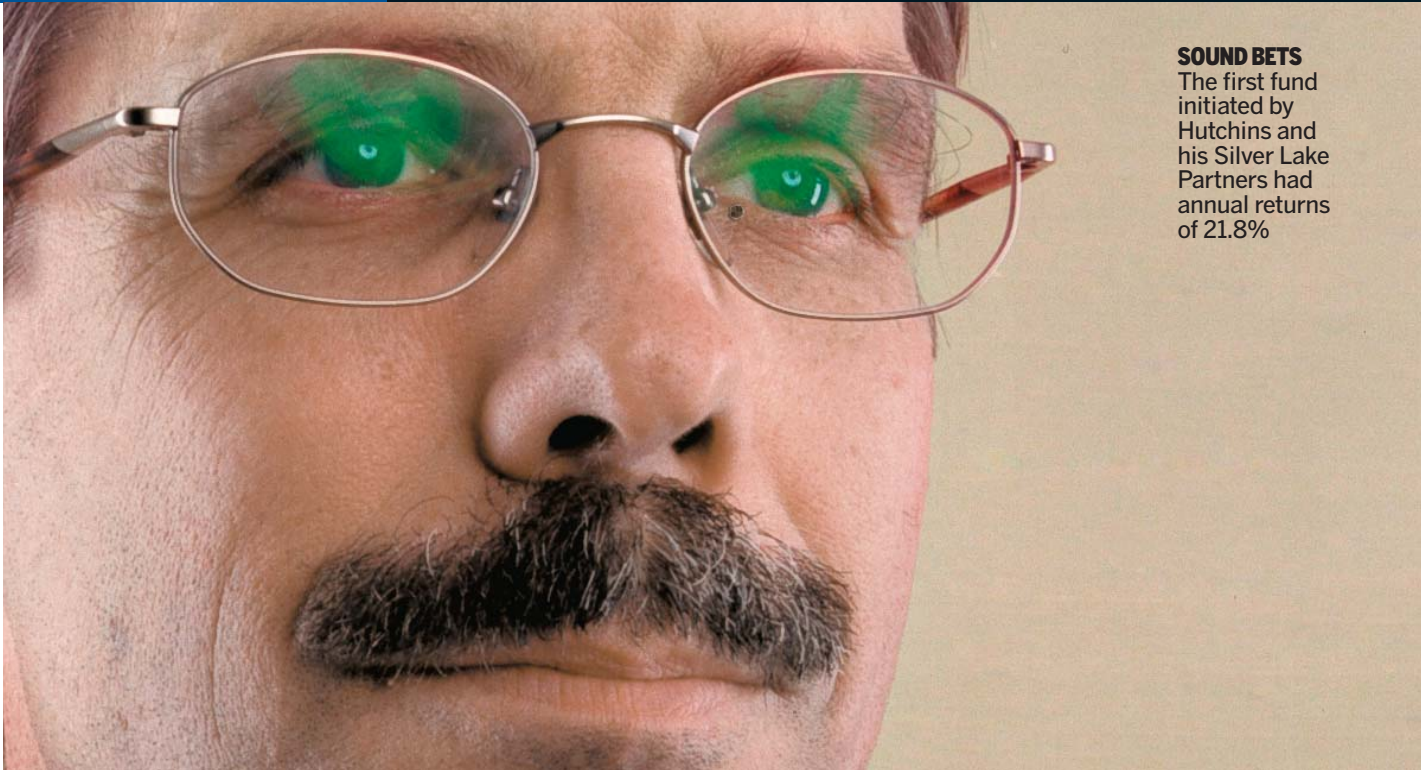


BusinessWeek

Finance Dealmakers



SOUND BETS
The first fund initiated by Hutchins and his Silver Lake Partners had annual returns of 21.8%

Wall Street's New Alchemist

Buyout specialist Glenn Hutchins is behind discount brokerage and electronic exchange deals that could reshape stock trading

DIRECTORS OF SUNGARD Data Systems Inc. sat around a conference table on Mar. 22 at a midtown Manhattan law firm and listened to some bad news. A consortium of seven private-equity firms had been pursuing a buyout of SunGard, which processes transactions for Wall Street

firms, for four months. Now five of them were balking at the price. The lead firm, Silver Lake Partners, had agreed to the amount but needed more time to convince co-investors. But James L. Mann, SunGard's 70-year-old chairman and a former bomber pilot, is not one to haggle. Mann and the board delivered an ultimatum: accept the price within 48 hours, or the deal is off.

The same day, Silver Lake co-founder and managing director Glenn H. Hutchins began working the phone. Compared with the other consortium members, which included Kohlberg Kravis Roberts & Co. and the Blackstone Group, the \$5.8 billion Silver Lake was small fry. Still, Hutchins could draw on 20 years of relationships in private equity. By the deadline, only two original consor-

tium members, Thomas H. Lee Co. and the Carlyle Group, had dropped out and Silver Lake had helped persuade Goldman Sachs Group Inc. and Providence Equity Partners Inc. to replace them. "It's a tribute to the credibility that Glenn has in the sector that people wanted to be partners with him," says Jane Wheeler, senior managing director at New York investment bank Evercore Partners Inc.

FINANCE POINT MAN

TODAY, THE TALL 49-year-old Virginian, who habitually punctuates his sentences with a folksy "you know what I mean," is reshaping the securities industry. Hutchins not only led the SunGard deal but also is deeply involved in the merger of discount brokerages Ameritrade Holding Corp. and TD Waterhouse, the merger of the NASDAQ Stock Market Inc. and electronic securities exchange Instinet Group Inc., and the spin-off of Instinet's institutional brokerage Instinet LLC.

The deals will bring Hutchins much more than money. When they close by the first quarter of 2006, he will occupy the cat-bird seat in financial technology. He and his Silver Lake colleagues will likely serve on the boards of SunGard, NASDAQ, a retitled TD Ameritrade, and Instinet LLC. Consider the links: Ameritrade and Instinet LLC execute orders through the Instinet exchange, soon to be owned by NASDAQ; NASDAQ's Brut ECN electronic exchange processes transactions through SunGard; NASDAQ Chief Executive Robert Greifeld formerly ran Brut; and Instinet CEO Edward J. Nicoll—who managed online brokerage Datek Online Holdings Corp. when Silver Lake owned a stake—will be CEO of Instinet LLC. The result: Silver Lake will be better positioned than most in the business to spot trends and new deals.

Already this dense network is drawing scrutiny. Some Instinet Group shareholders have questioned whether the \$207 million that Silver Lake and Nicoll are paying for Instinet LLC is too little. "There was concern that Silver Lake had come in the back door," says analyst Harrell Smith with financial consultants Celent Communications LLC. Silver Lake declined to comment.

How did a partner at a small, six-year-old buyout firm that specializes in technology suddenly emerge as a top player in finance? Since its inception, Silver Lake has set out to prove that large buyouts can succeed in

Hutchins expects electronic markets will rival the big exchanges

Sterling Collection

Silver Lake is parlaying a small initial investment in online brokerage Datek into a financial-technology empire

| COMPANY | STAKE | COST (MILLIONS) |
|---|-------------|-----------------|
| SunGard Data* Transaction-processing and data storage | 15% | \$540 |
| NASDAQ Stock Market* Automated stock market | 15% | \$232 |
| Ameritrade Online retail brokerage | 3% | \$227 |
| Instinet* Electronic institutional brokerage | 100% | \$207 |

* Deal not yet closed

Data: Thomson Financial, companies

technology and related industries such as finance. Traditionally, private-equity firms have steered clear of tech, fearing its risk and complexity. But the approach has enabled Silver Lake to rack up 21.8% annualized returns on its initial \$2.2 billion fund founded in 1999, putting it among the top 25% of its peers. However, the SunGard deal—one of the largest leveraged buyouts in recent years—will put the thesis to a severe test. Hutchins declined to be interviewed formally, but people close to him gave details of his dealmaking.

Hutchins is Silver Lake's point man in New York's financial world. After graduating from Harvard College in 1977, Hutchins began his career as a credit analyst at the then-Chemical Bank in New York. He returned to Harvard to earn an MBA and law degree simultaneously in 1984, then helped build pioneering private-equity firm Thomas H. Lee Co. In 1992, Hutchins joined the transition team of newly elected President Bill Clinton, focusing on economic policy. Two years later, he returned to private equity at the Blackstone Group in New York. David Stockman, budget director under President Ronald Reagan, who worked with

Hutchins at Blackstone, says: "He played an important role as a steadying influence. He had a temperament where if other people got more excited, he could listen, absorb, and remain calm." At the end of any long meeting, Hutchins could be found looking for his shoes, which he had invariably kicked off.

Hutchins' co-founders—David J. Roux, James A. Davidson, and Roger McNamee—were all steeped in tech and based in Silicon Valley. Back in 1999, at the height of the tech boom, their principles seemed heretical: They believed the tech industry was maturing and that hundreds of its big, lumbering companies would soon need to be fixed. Eschewing traditional ideas about diversification, the firm aimed to specialize in one industry. Although Silver Lake is very hands-on in trying to improve its companies' performances, the partners don't take management positions. The firm remains an investor, mainly seeking to profit by eventually selling its stakes.

VANTAGE POINT

SILVER LAKE MADE its first finance investment in 2000, when Boston's TA Associates approached Hutchins about joining a \$700 million buyout of Datek. With the Internet bubble by then deflating, trading volumes were falling. But Datek had a hidden gem: an 85% stake in electronic securities exchange Island ECN. Although such traditional markets as the New York Stock Exchange still dominated trading, Hutchins believed it was only a matter of time before electronic markets rivaled them. As part of the deal, four firms including Silver Lake got majority ownership of Island. In 2002, the partners sold Datek to Ameritrade for \$1.3 billion and Island to Instinet for \$568 million, nearly doubling Silver Lake's initial investment. More important, Hutchins joined the boards of the acquiring companies. From that vantage point, he could spot trends and learn of potential deals before rivals did.

By February, 2004, Hutchins and his colleagues had gotten wind of a regulation the Securities & Exchange Commission was drafting. Due to go into effect in April, 2006, it aims to guarantee that investors get the best prices that can be executed automatically. This, says Sang Lee, an analyst with Boston financial-services researcher Aite Group, will "institutionalize electronic trading as the major method of trading."

Silver Lake believed the rule would spark a wave of mergers in electronic trading venues. Hutchins acted fast. In November, 2004, he told SunGard that Silver Lake wanted to buy it for \$9.3 billion, a 20% premium over its market value. The bid sounded audacious. But SunGard stood to gain value in the new environment. After studying SunGard for four

months, Silver Lake and its co-investors announced on Mar. 27, 2005, they would acquire the company for \$11.3 billion. The sale will likely close in August.

Meanwhile, Instinet decided to field offers from potential acquirers. NASDAQ wanted to buy only part of the company, the Inet electronic exchange. But Instinet wanted to unload Instinet LLC and another business, too. In April, NASDAQ struck a deal to buy the two for \$1.1 billion and then sell Instinet LLC to Silver Lake and Nicoll, with Silver Lake lending NASDAQ \$205 million to finance the transaction. As part of the bargain,

Hutchins joined NASDAQ's board in May. The deal will close by early next year.

On the heels of the NASDAQ-Instinet transaction, Hutchins was dragged into the consolidation of online brokerages. In May, E*Trade Financial Corp. bid to buy Ameritrade for more than \$5.5 billion. Ameritrade's board, including Hutchins, mulled the offer. "He was very much involved with helping us try to make the right decision," says Ameritrade CEO Joe Moglia. In the end, the company opted to buy rather than sell, and on Jun. 22 Ameritrade announced it would acquire TD Waterhouse for \$3 billion.

With the knowledge and contacts it's gaining, Silver Lake can move into other financial services. A likely next step: investing abroad. On Jul. 19, the firm hired Asia whiz and former head of IBM Global Services, John Joyce. And partner Egon Durban, a key player in the SunGard deal, now heads Silver Lake's London office. As global capital markets fuse together, Hutchins and his firm will be ready to provide the connective tissue. ■

—By Justin Hibbard
in San Mateo, Calif.