Banks turn to the software surgeon with magic touch

Fenergo boss Marc Murphy spends his days tackling financial regulations but finds time to eye a Nasdaq float

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Chief executive Murphy has overseen an increase in revenue to €30m a year

It is 8.30am on the first Monday in April, the start of a new financial year, and Marc Murphy is raring to go. The chief executive of Fenergo, a fast-growing financial software business, has run the 6.5km in to the office and chats easily as he makes the coffee.

A vast banner on the outside of the office in Dublin's north docklands advertises 200 jobs, and the interior has been given a €2m overhaul. It's bright and airy, with "break-out" spaces, a company timeline on the wall, and the obligatory pool table, foosball and beer-stocked fridge.

"You have to have them," says Murphy, who is dressed in a open-neck shirt, slacks and Lacoste sneakers. "Sometimes I look in here and there's fellas playing pool and drinking beer at 4 o'clock."

It's safe to say Murphy doesn't have much time for games. Founded in 2009, Fenergo makes specialist software that helps big banks such as UBS, HSBC and BNY Mellon to meet a plethora of regulations introduced after the financial crisis.

It was one of the best-kept secrets of the indigenous tech sector until July 2015, when it unveiled a $75m (€70m) investment from US private equity groups Insight Venture Partners and Aquiline Capital Partners. Fenergo was valued at more than $110m, and growth has exploded since then.

Revenues topped €30m in the financial year that ended on March 31, up from €18m the previous year, and €12m the year before that. The company already has more than 300 staff and offices in Dublin, London, Boston, New York, Sydney, Singapore, Tokyo and Abu Dhabi.

"We can't but do €50m [revenue] this year, on the basis of the deals we've signed," says Murphy. "In the eight weeks up to last Christmas, we closed deals with 13 banks, all household names."

He has a clear plan to get to €100m annual revenues by 2020. Fenergo should be worth at least €500m by then, he says, and the aim is to float the company on the Nasdaq that year.

"How many times in your life do you get a chance to build a multinational company from your home town, that has a chance to IPO on the Nasdaq?" asks Murphy. "It's a big prize."

He pulls up a picture on his phone of the cheering founders of Medidata Solutions, also backed by Insight, on the day of their IPO. "That's going to be me."

The Nasdaq HQ in New York is a long way from Finglas, north Dublin, where Murphy grew up one of five children of a plumber and a housewife. He went to the local school, Colaiste Eoin in Finglas, and did well academically. "It gets pretty bad press but it's a great school," he says.

He studied software engineering at nearby Dublin City University, and was picked up by IBM for a graduateship placement. After a year, he joined Ergo Services, an IT services company owned by his mother's brother, John Purdy.

Murphy started as a "tech guy" in pre-sales, then moved on to sales. His tech nous made him a strong performer for Ergo, which has big corporate and public sector clients. "I was never the greatest software engineer, but I'm a details guy," he says. "I've never met someone who could bullshit me on technology."

From the early years of the noughties, he built a financial services software business within Ergo. It developed an account-opening system for Bank of Scotland (Ireland) and had several other lenders on its books. "The business was going incredibly well, and then the credit crunch hit," Murphy says. With the blessing of "Uncle John", he took a small team of staff to look at opportunities in banking regulation and compliance. Murphy put up some of his own money and Purdy agreed to back the venture as a spin-out from Ergo. They planned to call it Fenero, Latin for to borrow or invest. Purdy had other views. "He said: 'Get a 'g' in there or you're getting nothing.' That's his legacy."

Murphy was betting the banks would be hammered by new regulation after the bust. Yet the period from 2009 to 2011 was "an absolute slog". There were times when his former life as an Ergo salesman looked attractive. "I was very well paid, I played golf a couple of times a week. Then you're stopping the gravy and taking a fraction of the money."

A turning point was meeting tech entrepreneur Paul Kerley, the founder of Norkom Technologies, which made anti-money laundering software for banks. Kerley took Norkom from a near-death experience to a stock market listing, then a €217m sale to BAE Systems in 2011.

Kerley invested €1m in Fenergo, on top of about €4m from Purdy, and became Murphy's mentor. They would meet for the full day every Monday, for two years. "I used to hate it at the start," says Murphy. "Now I'm a mini-me of Paul."

Fenergo developed a debt collection and recovery product, which was in demand, and a product for so-called "client life-cycle management", which ticked regulatory boxes. They shut down the collections and recovery product, which was used by Lloyds, and focused exclusively on the compliance software.

Big banks liked the product but not the company's "terrible" balance sheet, Murphy says. To land deals, they needed a letter of credit, backed up with money in the bank, saying how the product would be financed.

"John and Paul invested, and Marc mortgaged the house," he says. "They were high-risk stakes."

JP Morgan knocked back a deal because the Fenergo product didn't include a particular feature, so they added it to the next version. His confidence and optimism helped get through the tough times. "For me, the glass is full, not even half-full. You learn from your mistakes, you dust yourself down. It's win or learn."

In 2012, the company signed deals with Scotiabank, State Street and SunTrust in the US. "Those are the pillars on which the company was made," he says.

In October 2013, the Ulster Bank Diageo Venture Fund, managed by Investec Ventures, invested €4m and got a 20% stake, valuing Fenergo at €20m. The letter of credit was released. "In hindsight, €4m is nothing," says Murphy. "But it gave us solidity. It really took off from there."

Murphy and Kerley went to the US every six months and did the rounds of big investment firms, describing the business and its targets. "You don't just turn up and get a cheque for $75m," he says. "You set targets and then go back six months later and show them you've done what you said. It was a huge learning curve. At the start, I'd walk out [after meetings] and get the Kerley-bashing, but we got pretty slick at it."

By the time Fenergo needed the money, it had 18 private equity options. Insight and Aquiline, which is owned by the Greenberg family that founded insurance group AIG, invested $75m for a 65% stake. About $65m of the money went towards buying out existing shareholders, including the Investec Ventures fund, which cleared about €10m. Purdy got nearly €20m, a 400% return, and still owns a 1% stake. "He deserves it," says Murphy. "He had the balls to back this."

Murphy took some money off the table – "enough to taste it" – but he and Kerley remain the biggest individual shareholders. There is a "very attractive" share option scheme for staff. About $10m of the private equity money went into Fenergo's coffers.

"We were in talks with HSBC, UBS and BNY Mellon, who loved the product but said our balance sheet needed to be sorted out. Insight signed [the investment] on a Friday, and we landed the three banks the next Monday."

Fenergo has since "replatformed" its technology, added hundreds of staff and bolstered its management team. Eimer McGovern, former chief financial officer at Openet Telecom, is now Fenergo's finance boss, and Colm Heffernan, a former Adobe executive, is chief operating officer.

Peter Sobiloff, managing director of Insight and a movie producer in his spare time, chairs Fenergo and Murphy can also bounce ideas off the top brass at 60-plus software companies in Insight's portfolio. "I have so much to learn," he says, then brightens up. "But I know in a week's time, I'll have read the same books."

The 200 new staff will work on software engineering, sales and business development, taking Fenergo to the next level. Staff have been relocated from Dublin to New York, Sydney and Singapore, but Murphy still does a lot of the hard yards personally.

"I took 170 flights last year. I was in with 60 or 70 banks. That's what it takes to build a business like this.

"I say to people that there's a problem at the heart of the banks and we're the heart surgeons. We're specialists. If you do one thing all day every day since 2009, you're going to get good at it."

If he pulls off his plans for Fenergo, the slog will be well worth it. Murphy taps the vein on his wrist. "It gets in there and really does flow through you," he says. "It consumes you. And, having done this, I have three of four more ideas in me."

FENERGO IN NUMBERS

$75m

Funding secured from two US private equity groups in July 2015

THE LIFE OF MARC MURPHY

VITAL STATISTICS

Age: 39
Home: Clontarf, Dublin
Family: Married to Jacqui; they have a two-year-old son, Sam, and number two is on the way
Education: Colaiste Eoin in Finglas; a software engineering degree and MBA, both from Dublin City University
Favourite book: The Hard Thing About Hard Things: Building a Business When There Are No Easy Answers, by Ben Horowitz
Favourite film: Good Will Hunting — "It's my go-to movie"

WORKING DAY

I get up about 7am and usually run in to the office. I shower here and have my porridge. We are flexible on working hours. We all have our own stuff in our lives, so people can get the job done and go. No one is watching the clock. If I'm travelling, I'm sleepwalking out the door at 5am to get the red-eye somewhere. If it's Asia, I'm flying at midday on Saturday — that's the horrific one, and there are tears at home.

Favourite film: Matt Damon in Good Will Hunting

DOWNTIME

I'm into any sport with a ball, whether it's football, rugby, golf or cricket. I played Gaelic football for Erin's Isle [in Finglas] and there's a big Erin's Isle contingent at Fenergo. I crave playing golf but it's on hold because of work and the young family. I have no interest in motorsport or horse racing.

Better the devil you know than bank on a stranger

Bank of Ireland could now raise its salary cap to hire an outsider but like most Irish firms it's unlikely to break with tradition and look elsewhere, writes *Niall Brady*

When Enda Kenny talked pay scales at Bank of Ireland last week, he must have realised his intervention was largely academic. The government's salary cap of €500,000 for bankers might be relaxed, the taoiseach signalled, if the bank hires an outsider as its next chief executive. Yet if precedent is any guide this will not happen.

Ireland's top companies prefer to promote from within rather than gamble on the unknown. Bank of Ireland is unlikely to break with tradition in its search to replace Richie Boucher.

Paddy Power's favourites – Liam McLoughlin, the head of retail, and finance director Andrew Keating – are not Bank of Ireland lifers but are definitely insiders. Both are known in the bank as UB40s, a clutch of Ulster Bank executives in their forties who jumped with Boucher when he defected from Ulster Bank in the early part of the last decade. The pair enjoyed rapid promotion after Boucher became chief executive in 2009. Both men would be subject to the €500,000 pay cap if they get Boucher's job, leaving little scope for an increase on their current salaries. For now the field remains open.

Internal candidates should have the edge because of their knowledge of the organisation and the business, according to Mark O'Donnell at Amrop, an executive search consultant.

"An external candidate needs to be 10%-15% stronger to be successful, assuming there's a good field of internal candidates," he said. "The downside for internal candidates is that they may lack an external perception. They may also lack an unbiased view of their peers within the organisation."

PHOTOCALL IRELAND

Favourites to replace Bank of Ireland's Richie Boucher would see little increase on their current salaries at the €500,000 cap

Kerry Group is perhaps the most insular of Ireland's major firms. Stan McCarthy, its chief executive since 2008, has been with Kerry since 1976, when he joined as part of a graduate recruitment programme. Edmond Scanlon, who will take over after McCarthy retires in September, is another lifer, recruited in 1996 also under a graduate programme.

Loyalty is also prized. Tony Smurfit, chief executive of Smurfit Kappa, has been on the board of the group founded by his grandfather for almost 30 years. Kingspan's Gene Murtagh joined his family's building materials company in 1993.

Tommy Breen started work at DCC more than 20 years before becoming chief executive in 2008. His successor, Donal Murphy, will have been in DCC for almost 20 years when he takes over in July. Siobhán Talbot joined Glanbia in 1992, working her way through the ranks to become chief executive in 2013.

Some companies, though, have recruited new blood. Aer Lingus hired two chief executives in succession from outside: Dermot Mannion from Emirates and, in 2009, Christoph Mueller, who had worked for Lufthansa and Belgium's defunct Sabena.

Grafton hired Gavin Slark from its rival BSS in 2011 to take over from Michael Chadwick, who had led for 30 years. Independent News & Media appointed a former Tesco executive in 2014, although relations soured and Robert Pitt has since obtained protection under whistleblower legislation.

Shareholders tend not to have fixed views on corporate Ireland's preference for insiders, according to a leading fund manager, judging the outcome of each succession race on its merits.

"Bank of Ireland is an interesting case because it's a big bet on technology," he said, referring to a €1bn infrastructure programme that Boucher's successor will have to oversee.

"It's got a strong management team and the potential internal candidates are relatively new to the bank, which means they've probably less DNA invested in the existing technology model. Whoever gets the job will have a big bank to bring with him. A well-liked internal candidate would have a big advantage."

A well-chosen candidate from outside can rejuvenate an organisation that has lost its way, according to O'Donnell, referring to Dave Lewis's success at Tesco. "It will probably cost less to hire internally but an organisation that needs a quick positive reaction from investors may have to go externally," he said.

Otherwise, the mantra appears to be if the company is not broken, it does not need an outsider.