

How We Got Here

Jim Mann was appointed chief operating officer of SunGard Data Systems Inc. in 1983 and president in 1986. He served as chief executive officer between 1986 and 2002, chairman of the board between 1987 and 2005 and is now a director. In this interview, Jim Mann talks about the early days of the company.



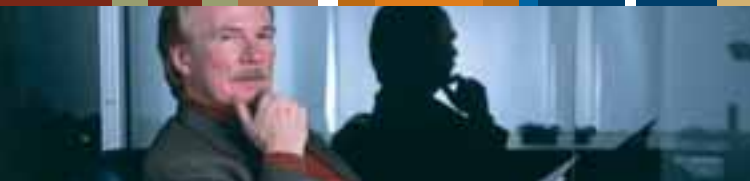
Tell us about the early days of SunGard.

SunGard was formed in 1983, as a spin-off of a division of Sun Oil Company. Back in the 1970s, during a period of very low oil prices, many oil companies were diversifying their operations. Sun Oil got into many other businesses, including a trucking company network, a shipbuilding company, and a computer services division that eventually turned into SunGard. That computer services division – again, like many big companies of that time – incorporated Sun Oil’s own computing center, so Sun Oil became SunGard’s first and largest customer. Of course, having a single customer wouldn’t make a very viable public company. And given that there weren’t that many oil companies interested in having their computer services outsourced to others, Sun Oil sought acquisitions. They determined that financial services applications would be a growth area and made some acquisitions in that segment. They also, somewhat by accident, invented the disaster recovery business in 1978. Sun and about 20 other Philadelphia-area companies came together as a group and decided to develop a disaster recovery backup center, and even signed a lease at 401 Broad Street in Philadelphia. But the group fell apart when it came to deciding how expenses were going to be shared among the participants. At this point, the people running this early incarnation of SunGard said, in effect, “Well, what if we took on all the expense and converted this back-up center into a commercial business? How many of you would sign up?” And all the hands went up. But when Sun Oil tried to convert the upraised hands into signed contracts, only a couple came on board. By then it was too late for Sun Oil to get out – and that’s how the business started, in 1978. By 1983, oil prices had improved, and the diversification efforts of virtually every oil company, including Sun Oil, were not successful. Most of these ventures were losing money and were a drag on earnings. So Sun Oil put the division up for sale. It was just about this time that leveraged buyouts (LBOs) were beginning to attract attention. Most of the LBOs done in that era were done by

management, using venture capital financing to buy a business for a mixture of cash and debt. But the SunGard case was a little different because management was not in control. So the parent company hired Broadview Associates to sell the business. Broadview couldn’t find any professional computer companies that were interested. This wasn’t a big surprise: without the Sun Oil business, the company was generating revenues of \$30 to \$40 million a year but losing \$2 or \$3 million – not a very appetizing opportunity. But they did find a buyer in the form of a New York venture capital group with two lead investors: Welsh, Carson, Anderson & Stowe and JH Whitney & Company. The venture-capital investors organized the buyout, which is why the in place management didn’t end up owning a very large percentage of SunGard. John Ryan was leading the company before the buyout, and served as chairman of the company until late 1986. The purchase price paid by the investors was \$20.5 million. The investors put up \$3 million, and two banks, Chemical Bank and Bank of Boston, put up another \$6 million for a total of \$9 million in cash. The remaining \$11.5 million was a note that the new company – called SunGard – signed to Sun Oil Company. If the company didn’t make money, they wouldn’t have collected the note. That was typical of the way LBO transactions were configured in those days. The idea was that the cashflow would pay off the debt; and when the debt was paid off, the investors would own the business, having risked very little of their own money. Investors would make money if the business was successful, even if it didn’t do spectacularly well.

How did you come to SunGard?

Well, the transaction closed in January 1983 and the investor group wanted someone in charge of the business who had successful operating experience in the computer service and software business. They located me through my good friend, Bernie Goldstein, who was a SunGard board member, and formerly of Broadview Associates. At the time I was president and chief operating officer of Bradford National Corporation, a New



York computer services firm. I joined SunGard in April as COO. The disaster recovery business was relatively new, and even though it showed signs of being a growth opportunity, it was selling slowly and hadn't been able to make any money. This was a monumental negative as far as the investors were concerned. In fact, I was pretty skeptical of any business that didn't make money. But it seemed to me it was worth persevering as long as we could afford to, because it was a new business selling into a new market, instead of having to displace competitors, which always is difficult to do. In addition to disaster recovery, there were three financial services computing businesses. Our investors originally perceived these first three businesses as generalist financial services software businesses. From my previous experience, I knew they were more specialized; they represented a subset we now call investment support systems. As luck would have it, the disaster recovery business started making money in August 1983, just a few months after the buyout. This removed investor pressure to abandon the business. As a matter of fact, it began to look a little bit like a growth business. The other three businesses, subject to fits and starts because they were small, also began to do well and prosper. We began to achieve good profits and cashflow. We paid off the bank debt in less than one year, leaving \$11.5 million due to Sun Oil Company. We did a mezzanine round of financing, bringing in another level of investors, and paid off the Sun Oil debt. At this point, SunGard was completely owned by the investors and the management shareholders. By 1986, we'd built enough of a record of increasing earnings that we began to look like a candidate for an IPO (initial public offering). We planned to go public in the spring of 1986.

How did you choose the name SunGard?

Up until the preparation for the IPO, the name of the company was SunData Corporation. We registered the name as we set about going public. We did our roadshows. The response by

potential investors was positive; it looked like it was going to be a sold-out IPO. But about two weeks before the proposed effective date, we got notice of a lawsuit from an Atlanta corporation named Sun Data Corporation. They sought to enjoin us from going public as SunData Corporation. Since we were just two weeks away from a very successful IPO, this constituted a major annoyance. We got our law firm – Blank Rome Comisky & McCauley – on the case; their belief was that this company didn't have much of a case because SunData was related to Sun Oil, which had long had a copyright to the Sun name. The name had been in wide use with many vendors around the country, and the other Sun Data Corporation was a very small company that didn't really compete for the same customers we were selling to. The case looked like a slam dunk, given Sun Oil's pre-existing claims to the name, but we were called to a hearing in an Atlanta court. Blank Rome's chief litigator and I went to the hearing. The judge issued a temporary restraining order prohibiting us from going public under the SunData Corporation name. And by this time it was about a week before we were supposed to go effective on the IPO. So we had to do a quick name change. We knew "SunGard" was safe – that name actually dates back to the creation of the disaster recovery business; it originally stood for "Sun Guaranteed Access to Recovered Data". So we became SunGard Data Systems, out of necessity more than design.

Many people associate SunGard with its active acquisition strategy. In your mind, when did it start?

Our acquisition philosophy has never changed. When SunGard began, in 1983, there was no large software company specializing in back-office securities processing applications. There weren't a lot of people in the world who understood back-office investment accounting and computing applications very well. During my tenure as chief operating officer of Bradford National Corporation, I had gotten a pretty good sense of the market. I knew there were

dozens and dozens of small companies like Wismer Associates and Devon that had carved out small but profitable niches. That made me think there were a lot of acquisitions that could be done. Our strategy wasn't particularly elegant. It was simply to buy these businesses and run them in a professional, profitable manner, with the thought that at some point we would generate a cumulative advantage in size, marketing, pricing or in synergy. About six years ago, the tangible advantages of size and a broad product line began to appear. In the last several years we've enhanced our strategy and our story to emphasize the advantages of scale. We've done it through marketing and through initiatives that would not have been possible without our acquisition program. Some of our critics dislike acquisitions, but even they appreciate what we've been able to accomplish.

What factors are key to SunGard's success?

We are not a typical large company that dictates from the top down. Our success is driven by highly skilled, highly motivated, entrepreneurial managers and employees and their dedication to our core values of trusting our people, taking pride in doing the right thing and doing it well, making wise choices and striving to achieve superior investor value.

These values have driven SunGard's success since the very beginning; I'm sure they'll continue to play an important role in the years ahead.