



## THE CAPITAL MARKETS M&A MOMENT

The current wave of capital markets M&A has been years in the making. The pressure didn't show up overnight. It built gradually, and now it's hitting all at once.

Since 2018, major financial institutions have poured billions into digital labs, AI teams, and internal innovation centers. The intent was real, but the outcomes weren't. A 2024 RAND Corporation study found that 80% of AI projects failed, compared with 40% of traditional IT projects. McKinsey's State of AI 2025 report shows that 95% of implementations remain stuck in pilot mode. The money was there. The ambition was there. The results never showed up on time or at scale.

Meanwhile, the Fintech disruptors that were supposed to reinvent the industry have their own challenges. Many moved too fast early on and are now struggling to scale. They burned up their runways, the funding environment flipped, and the market stopped rewarding growth at all costs. Financial sponsors that hold these assets now face significant pressure to demonstrate returns and raise new capital. Add the emergence of AI as a genuinely transformational capability, and suddenly, you have an M&A environment where strategic necessity is meeting financial urgency at full speed.

That's why valuations for the best assets keep edging up while the rest of the market softens. Scarcity doesn't negotiate; it commands a premium. Smart buyers know this, and they're expanding their toolkits. Minority positions — essentially call options on future control — are becoming more common. Corporate development teams that historically focused solely on full ownership are now building portfolios of strategic positions. The logic is straightforward: access to capability matters, even when buying the entire company isn't the right move at that moment.

You can see this dynamic play out in the year's headline deals. In March 2025, BlackRock acquired Preqin for \$3.2 billion, an alternative assets intelligence platform with \$240 million in ARR and a dataset that took decades to assemble. In April, KKR moved on OSTTRA, one of the most critical post-trade infrastructure providers in the world, for \$3.1 billion. By October, S&P Global acquired With Intelligence for \$1.8 billion. These aren't generic software plays. These are capabilities internal teams have chased for years, only to find they couldn't match the depth or maturity of what was built externally.

To understand why, you have to revisit the 2018–2021 Fintech boom. Many large institutions chose to unbundle core functions and outsource them to third-party Fintechs. The idea was to reduce headcount, improve stock prices, and access better technology without building in-house. The reality was uneven. These Fintechs raised large rounds and still delivered products that fell short of expectations. What began as a partnership model eventually turned into a frenemy

dynamic. Strategics increasingly sought to reacquire the capability rather than rely on external teams whose roadmaps they couldn't control. At the same time, incumbents struggled to staff internal builds; talent was flocking to startups, and internal tool development often produced clunky, hard-to-scale systems. Others were left watching as competitors with deeper pockets steadily took market share.

Now the pendulum is swinging back, with capabilities that were once unbundled getting pulled back into integrated platforms. The Fintech companies that survived the last few years are more mature. They run stronger technology, have revenue at scale, and carry less execution risk. The market has also shifted away from "growth at all costs" and reset around profitability and efficiency. Real fundamentals — revenue scale, ACVs, gross margins, a path to profitability — have become the markers of product-market fit. Integration risk remains real, and both financial and strategic buyers are far more disciplined in their evaluation of it. But buying right is only half the battle. Post-merger integration is what ultimately distinguishes high-ROI transactions from costly disappointments.

## TWO BUYER FRAMEWORKS, ONE UNDERLYING REALITY

If the challenge is buying well and integrating effectively, the natural question becomes: *how are buyers approaching these deals today?* Financial sponsors and strategic buyers start from different vantage points, but both see the same thing: quality capital markets infrastructure is scarce.

Financial sponsors underwrite to what they know works: operational improvement, reliable subscription revenue, and a clear path to 20–30% EBITDA margins. They spend most of their time on revenue mix, net retention, and unit economics. Deal structures increasingly include earn-outs tied to margin expansion and buy-and-build optionality, especially where adjacent products can be layered in. Ultimately, the question is simple: can this asset scale efficiently, compound ARR, and support a multi-asset platform strategy?

The Thoma Bravo investment in Trading Technologies is a good example of how this plays out. In July 2025, the firm acquired a stake valued at more than \$1 billion. Trading Technologies increased revenue from \$98 million in 2021 to approximately \$170 million in 2024, achieving five-year KPIs in just three years. The CEO's ambition to become "the operating system for the capital markets" aligns closely with the kind of platform story sponsors are seeking to back. TA Associates' acquisition of smartTrade Technologies follows a similar logic, centered on multi-asset connectivity, strong revenue growth, and a clear runway for AI-driven expansion.

Strategic buyers are solving a different set of problems. They focus on distribution leverage, footprint expansion, and rapid synergy capture, while taking advantage of the challenging environment that many small- and mid-sized Fintechs are navigating. That dynamic makes them more willing to pursue full takeouts with clean control structures and limited contingent consideration since synergies tend to materialize quickly. Their advantage lies in prioritizing strategic acceleration over financial returns. With existing go-to-market engines, compliance infrastructure, and processing rails already in place, they can turn a sub-scale Fintech into an accretive product line far faster. What might take a startup three years to commercialize can often be scaled in six months inside an established platform.

Despite these contrasting approaches, both buyer groups understand the same thing: in capital markets, the real value doesn't sit in the revenue multiple. It sits in the capability set. Clearing and settlement infrastructure, risk and margining engines, FIX connectivity, regulatory reporting frameworks, post-trade reconciliation modules, exchange links, and trusted Tier 1 relationships — these are assets that take years to build, certify, and harden. They are slow to recreate and fast to commercialize once owned. In markets where competitive windows open and close quickly, time-to-market becomes the story. M&A becomes the answer.

The year's biggest deals make this dynamic easy to see. Preqin spent more than twenty years building a proprietary dataset covering roughly 190,000 funds, 60,000 fund managers, and 30,000 private markets investors, an infrastructure that BlackRock could not realistically replicate. With Intelligence built its databases covering 34,000 private equity firms, 19,000 real estate investors, and 17,000 hedge funds, one relationship at a time. OSTTRA's post-trade footprint spans four major asset classes and predates most current competitors. Trading Technologies has spent decades refining multi-asset connectivity across banks, brokers, asset managers, and hedge funds, expanding through acquisitions that added foreign exchange, fixed income, and crypto.

These are not businesses you spin up internally. They are capabilities you earn slowly or acquire quickly.

## CAPABILITY ARBITRAGE AND THE SCARCITY PREMIUM

The real value of these capabilities lies not only in their existence but also in their scalability.

When you acquire a market data normalization engine, a real-time risk model, or a reconciliation module, you're buying years of engineering, integrations, certifications, and institutional trust. The first deployment solves one workflow. The second deployment, in a new venue or asset class, costs a fraction of the original build because the core logic is already done. Deploy across ten clients, and you've generated meaningful incremental value on minimal incremental spend. That's capability arbitrage. And it's a return profile that traditional bolt-on M&A strategies don't deliver.

This scaling mechanism creates a flywheel. Each capability can serve multiple clients. Each new client creates demand for more capabilities. As the platform expands, the cost of switching rises. At scale, these assets behave more like infrastructure than software, which is precisely why they command premiums.

Because these assets are scarce, buyer behavior shifts. Sponsors treat them as must-win platforms. They begin relationship-building early, engage with founders well before the process, and bring pre-underwritten theses and flexible structures to secure exclusivity. They also invest heavily in technical due diligence because the cost of error is high.

Strategics often try to avoid competitive processes altogether. They pre-empt. They make early overtures. They position themselves as the natural home by offering advantages in distribution, client base, and regulatory infrastructure. And when they can't buy the whole asset, they'll take a minority stake or form a structured partnership to keep their options open.

## THE CONVERGENCE OF SELLER URGENCY AND BUYER PRESSURE

Of course, demand is only one side of the equation. The sell side has its own urgency.

A significant number of Fintechs that raised large rounds in 2021 are approaching the end of their cash runway. They've cut burn, but without revenue growth, cost-cutting only buys time. The choice becomes clear: sell with leverage now or risk holding out for a valuation that may never return. Median exit multiples have fallen from 9x capital raised in 2022 to roughly 4x in 2025. Seller expectations are shifting toward reality.

Meanwhile, buyers are sitting on capital that needs to be deployed. Global private equity dry powder peaked at \$2.62 trillion in mid-2024 and remains above \$2.5 trillion. Nearly a quarter of buyout dry powder was raised more than four years ago. Fund timelines are pushing GPs to move. Holding periods have stretched from 5.7 years historically to 6.7 years today. Deployment pressure is real.

These forces show up in pricing. Average EV/Revenue multiples in Fintech M&A have compressed to 4.2–4.4x, down from 5.0x a year ago and below the five-year average of 5.2x. However, the averages obscure the split: weaker businesses trade at distressed levels, while high-quality capabilities are fiercely contested. In North America, multiples for premium assets average 6.4x or more.

This middle ground — where quality assets still exist, and buyers still have capital — won't last. Eventually, the best assets will be taken, and the weaker ones won't attract bids. The shift toward private capital formation means fewer IPOs and more private exits. If the macro backdrop worsens, strategics may pause their capability builds. The window is open, but not permanently.

For now, 2025 is on pace to be the most active Fintech M&A year in history. FT Partners counts 1,350 deals through Q3, nearly matching the 2021 record. H1 deal value hit \$37.6 billion, up 15% year-over-year. Buyers clearly believe these capabilities are worth securing while they can.

## THE INTEGRATION PROBLEM THAT DETERMINES OUTCOMES

Record M&A volume tells us what buyers want. It doesn't tell us whether the deals will ultimately work.

More than 90% of M&A transactions fail to create long-term value, and integration is almost always the culprit. The story repeats itself. A promising capability is acquired; integration proves more difficult than expected; key personnel leave; clients drift away; and the asset is quietly downgraded and sidelined, despite the original ambition.

Capital markets make integration even harder. These systems operate in real time with minimal tolerance for errors. Downtime is not an inconvenience; it creates losses, regulatory issues, and potential client attrition. Modern cloud platforms still need to connect to decades-old mainframes that require custom connectors and months of testing. If one bank acquires software used by rival banks, those rivals must decide whether they can tolerate that dependency.

Some buyers are adapting. Earn-outs tied to integration milestones keep teams aligned. Operating acquisitions as separate subsidiaries preserves organizational agility and culture while giving the parent time to integrate the most critical elements. More buyers are acknowledging that the typical integration playbook often destroys exactly what made the Fintech attractive, and they're adjusting their approach accordingly.

Whether these approaches work is still an open question; the deals being signed today will become case studies in a few years.

## WHAT THIS CYCLE REVEALS

All of this brings us back to the original tension: why do large institutions continue to purchase capabilities that they spent years and billions of dollars trying to build internally?

Innovation in financial markets rarely occurs within large organizations. Internal programs run into cultural inertia, technical debt, risk aversion, and competing priorities. Incremental improvement is possible. Reinvention is not.

AI and agentic systems only deepen this reality. They dramatically raise the bar for what "best in class" means, and most incumbents cannot evolve fast enough. Buying modern capabilities is often faster, cheaper, and more realistic than building them internally.

The current M&A wave signals that institutions finally accept this. The checkbook is doing the work the innovation labs couldn't. The success of this cycle will depend on whether they can integrate these external capabilities without crushing the very innovation they paid for.

For sellers, the question is whether the current environment — compressed valuations, limited funding, active buyers — represents the best exit they will see for a while. Waiting assumes the market improves, and that assumption carries real risk.

For buyers, the economics are straightforward: acquiring these capabilities is cheaper and faster than developing them internally. But execution is everything. Integration of readiness, organizational flexibility, and a willingness to preserve what makes the capability distinctive ultimately determines whether the investment will pay off.

That tension — between what large institutions need to compete and what they can build themselves — will define this cycle and the next. Whether acquisition proves to be the better answer will become clear in the years ahead.

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