

## Mosaic exits NuSource after ESOP transition, branch tech push

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- NuSource sale marked the first exit from Mosaic's second fund
- Sponsors, strategics showed interest during narrow process

Mosaic Capital Partners used its Employee Stock Ownership Plan (ESOP) model to invest in and grow ATM services provider NuSource Financial as COVID-19-fueled digitization reshaped retail banking.

Eden Prairie, Minnesota-based NuSource facilitates community bank and credit union branch technology transformations, with about 50% of its workforce being service technicians, said Ian Mohler, partner at Mosaic.

“The ability for that blue collar workforce to become essentially employee-owners creates a lot of goodwill and connectivity within the organization,” he said, noting that NuSource saw less employee turnover during its investment period.

The Charlotte-based private equity firm backed NuSource’s ESOP buyout in 2021 by providing junior capital that allowed NuSource to transition from traditional private equity ownership to an employee-owned structure. Under the ESOP mode, Mosaic typically takes a seat on the board without exercising control, nor does it hold any equity, he explained. As a provider of junior capital, the firm typically exits investments when its debt security matures.

Mohler believes that the ESOP model is a “very commercial way” to address wealth inequality.

“We have a pretty large wealth inequality gap within our economy,” he said. “We had it pre-Covid, and Covid highlighted the wealth gap.”

NuSource was sold to Convergint last month, marking Mosaic's first exit from its second fund—which closed last month on USD 205m—and closing a chapter on a four-year investment built around that employee ownership and largely organic growth within the company’s existing geographic footprint.

Sale discussions began more significantly last summer when NuSource’s hired Stifel to consider strategic options, Mohler said. Stifel ran a relatively narrow process though it included strategies and sponsors, he added, declining to comment on deal financials.

While sponsors were around the process, Mohler said strategics more easily understood and believed that cash wasn’t going away, a fundamental piece of NuSource’s growth.

The ATM services provider helps to convert existing bank branches, including adding interactive teller machines (ITMs) and integrating the latest technology with a community bank or credit union’s existing software, but it also helps with new branch development.

“JPMorgan and some of these other big banks are putting in small 1,000- or 1,500-square-foot branches with

five or six ITM machines and maybe one employee,” Mohler said. A legacy retail bank, in comparison, could have a 10,000-to-20,000-square-foot branch on the busy corner of Main Street, with high rent, high cost, and high overhead for five to eight branch employees, he said.

NuSource’s reputation as a top channel partner for ATM manufacturer Hyosung and its strong service capabilities made it an attractive target for strategic buyers like Convergint, Mohler said.

The ATM services sector represents around a USD 3bn market opportunity, including ATM and ITM security, Mohler said. Although there is still significant white space in the sector—Mohler said branch transformation is only in the third or fourth inning—Mosaic is not currently evaluating additional investments in the space. There is potential for a sponsor to make a platform investment and take on a big buy-and-build play, he said.

For its investment in NuSource, Mosaic saw so much opportunity to deepen NuSource’s presence in the existing 14 states that it did not undertake a large acquisition growth strategy, Mohler said.

During its investment period, NuSource completed one tuck-in acquisition in Iowa to deepen its regional presence, he said.

NuSource delivered double-digit annual revenue growth throughout Mosaic’s investment, Mohler said, declining to speak about financials. He described the sale to Convergint as “a good outcome for all stakeholders.”

Although NuSource was Mosaic’s first exit from Fund II, the investment was made from a parent fund while the firm got its Small Business Investment Company license from the US Small Business Administration, which it secured in September 2024.

Mosaic is broadening its strategy for Fund II beyond ESOPs to also consider Employee Ownership Trusts and potential majority control investments, Mohler said. Still, it expects at least 50%-60% of investments from the fund to use the ESOP model.

The vast majority of ESOP transactions are seller-financed, typically in the form of a seller note, Mohler explained. An existing sponsor backer wouldn’t take a seller note as payment for a company that wants to transition to an ESOP.

“Without a junior capital partner like Mosaic, businesses like NuSource would not have the opportunity to become an ESOP,” Mohler said.