

VALUE FOCUS

FinTech Industry



FOCUS

2014 IPOs and M&A Overview

2014

FinTech Industry Overview

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M&A Overview

Public Market Indicators

FinTech outperformed broader markets in the fourth quarter of 2014 but has underperformed broader markets for the full year 2014. FinTech returns lagged broader markets through the first three quarters of 2014.

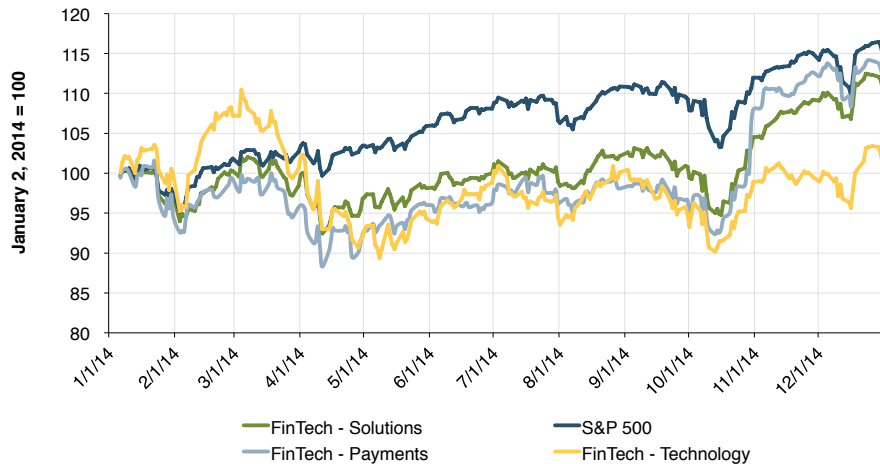
- Small-cap stocks, of which a number of FinTech companies would be classified, have generally underperformed both broader markets as well as large- and mid-caps in 2014
- 17 FinTech IPOs occurred in 2014 and the median return for this group was 12.2% since IPO

Market performance of FinTech companies has gyrated as investors weigh:

- Threats of new entrants, including other technology companies and traditional financial institutions
- Continued technological change
- Emerging risks including regulatory and business model

Mercer Capital FinTech Indices vs. S&P 500

for LTM Period



Source: SNL Financial

Median Total Return

as of December 31, 2014

Segment	December	4Q14	2014(Y)
FinTech - Payments	-0.5%	15.9%	12.0%
FinTech - Solutions	1.1%	9.5%	10.4%
FinTech - Technology	1.5%	6.5%	1.0%
S&P 500	-0.3%	4.9%	14.7%

Source: SNL Financial

Valuation Multiples

as of December 31, 2014

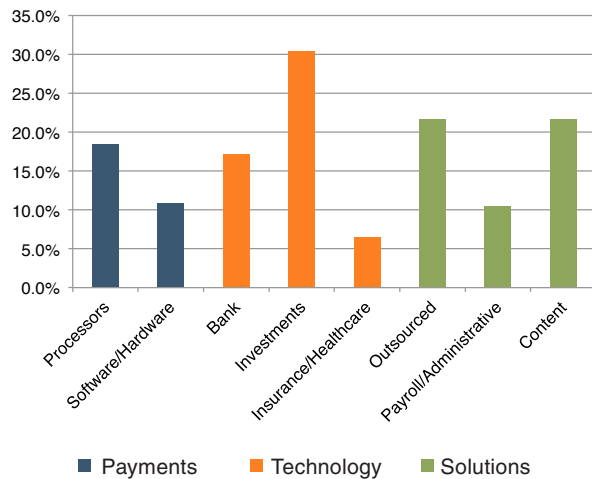
Segment	Price / LTM EPS	Price / 2015 (E) EPS	Price / 2016 (E) EPS	Ent'p Value / LTM EBITDA	Ent'p Value / FY15 (E) EBITDA	Ent'p Value / FY16 (E) EBITDA	Ent'p Value / LTM EBIT	Ent'p Value / LTM Revenue	Dividend Yield
FinTech - Payments	27.7	23.8	18.5	13.0	11.2	10.0	19.3	2.3	0.0
FinTech - Solutions	29.9	25.0	21.2	16.7	11.6	10.2	21.5	3.0	0.0
FinTech - Technology	24.4	28.2	24.6	15.6	11.2	10.2	28.3	4.0	0.0

Source: SNL Financial

Consistent with recent historical growth patterns and outlook near-term, FinTech companies are generally priced at a premium to the broader markets with the median S&P 500 company priced at 19.6x forward earnings at year-end 2014.

FinTech Performance

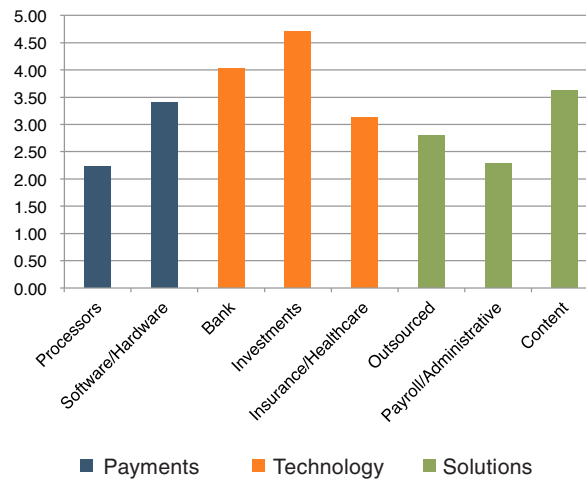
EBITDA Margin (LTM)



Source: SNL Financial and Capital IQ

FinTech Valuation Multiples

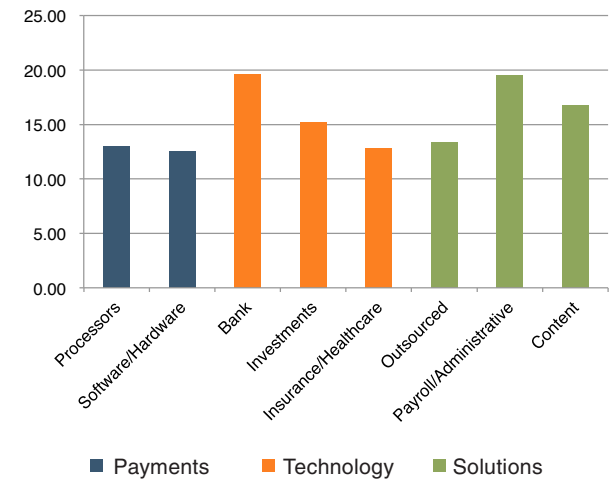
EV / Revenue (LTM)



Source: SNL Financial and Capital IQ

FinTech Valuation Multiples

EV / EBITDA (LTM)



Source: SNL Financial and Capital IQ

2014 FinTech IPOs

- While the Lending Club and OnDeck IPOs in 4Q14 brought significant attention to FinTech and specialty/alternative lending, other FinTech sectors saw IPOs as well
- Insurance/Healthcare Financial Technology led the way with 6 IPOs
- While none of the companies reported positive net income in 2014, the stock price performance since IPO was positive for the majority with a median return on 12.2%
- 8 FinTech companies achieved “unicorn states” with a market cap greater than \$1 BN at year-end 2014
- The highest proceeds raised at IPO were for IMS Health Holdings (IMS) and Lending Club (LC) with both raising over \$1 BN

Industry Articles of Note

Three ways bank technology will fuel growth in 2015

Community Bank Insight

Ross Furze

<http://mer.cr/1v653MN>

What 2015 holds in store for fintech, retail and smart cities

TechWorld

Eric Van der Kleij

<http://mer.cr/1ukRbTJ>

Noncompete Agreements for Section 280G Compliance

Mercer Capital's Financial Reporting Blog

Lucas Parris

<http://mer.cr/1CByrgR>

7 Tips for FinTech entrepreneurs when interacting with VC investors

StartupBootcamp Blog

Pascal Bouvier

<http://mer.cr/1ljG1VN>

Fintech Key Trends 2014: Top 50 Investments

Medium.com

United Ventures

<http://mer.cr/1vwvSPX>

Small Bank in Kansas is a Financial Testing Ground

DealBook

Nathaniel Popper

<http://mer.cr/16r3vqg>

2014 FinTech IPOs

Market Pricing as of December 31, 2014

Ticker	Name	12/31/14 Price	IPO Price	IPO Date	Gross Proceeds	% Return Since IPO	Mkt Cap (\$M)	Ent Val (\$M)	Revenue	LTM EBITDA	Net Inc.	FinTech Niche	Description
BRDR	Borderfree, Inc.	\$8.96	\$16.00	3/20/14	\$92,000	-44.0%	285	163	124,660	2,027	(1,794)	Payments	Provides technology and services platform to support int'l ecommerce
CAFN	Cachet Financial Solutions, Inc.	\$1.35	\$1.50	7/9/14	\$6,750	-10.0%	23	26	2,347	(9,016)	(15,018)	Banking Technology	Cloud-based, SaaS technology provider serving the financial services industry
CSLT	Castlight Health, Inc.	\$11.70	\$16.00	3/13/14	\$204,240	-26.9%	1,056	874	36,250	(85,053)	(86,229)	Insurance/HC Tech.	Cloud-based service that enables employers and employees to enhance healthcare offerings
CNXR	Connecture, Inc.	\$9.01	\$8.00	12/11/14	\$53,080	12.6%	195	216	81,711	NA	NA	Insurance/HC Tech.	Web-based consumer shopping, enrollment and retention platform for health insurance distribution
HQY	HealthEquity, Inc.	\$25.45	\$14.00	7/30/14	\$146,510	81.8%	1,393	1,286	80,146	14,851	(415)	Insurance/HC Tech.	A health savings custodians that offers an innovative technology platform
IMPR	Imprivata, Inc.	\$13.00	\$15.00	6/24/14	\$86,250	-13.3%	309	232	89,585	(14,742)	(22,012)	Insurance/HC Tech.	Provider of authentication and access management solutions for the healthcare industry
IMS	IMS Health Holdings, Inc.	\$25.64	\$20.00	4/3/14	\$1,495,000	28.2%	8,544	11,947	2,641,000	373,000	(189,000)	Insurance/HC Tech.	IT services provider for healthcare industry
LC	Lending Club	\$25.30	\$15.00	12/10/14	\$1,000,500	68.7%	9,144	11,662	NA	NA	(23,666)	Specialty Fin/Alt Lender	Peer to peer lending technology platform
MTBC	Medical Transcription Billing, Corp.	\$2.34	\$5.00	7/22/14	\$20,400	-53.2%	26	26	14,182	(1,328)	(3,848)	Insurance Technology	IT provider of web-based solutions and related business services to healthcare providers
ONDK	OnDeck	\$22.43	\$20.00	12/16/14	\$230,000	12.2%	1,484	1,812	NA	NA	NA	Specialty Fin/Alt Lender	Online platform for small business lending
PAYC	Paycom Software, Inc.	\$26.33	\$15.00	4/14/14	\$114,626	75.5%	1,417	1,426	137,169	14,872	NA	Payroll/Admin. Solutions	Human capital management provider that offers a cloud-based software solution
PCTY	Paylocity Holding Corporation	\$26.11	\$17.00	3/18/14	\$137,729	53.6%	1,314	1,241	115,835	(5,967)	(13,442)	Payroll/Admin. Solutions	Provider of cloud-based payroll and human capital management software solutions
QTWO	Q2 Holdings, Inc.	\$18.84	\$13.00	3/19/14	\$116,025	44.9%	645	555	72,650	(16,708)	(21,373)	Banking Technology	Provider of secure, cloud-based virtual banking solutions
TNET	TriNet Group, Inc.	\$31.28	\$16.00	3/26/14	\$276,000	95.5%	2,177	2,629	2,071,525	176,071	8,986	Payroll/Admin. Solutions	Provider of a human resources solution for small to medium-sized businesses, or SMBs
UPLD	Upland Software, Inc.	\$9.56	\$12.00	11/5/14	\$46,154	-20.3%	145	222	60,233	(11,102)	(24,006)	Payroll/Admin. Solutions	Provider of cloud-based Enterprise Work Management software
WK	Workiva Inc.	\$13.40	\$14.00	12/11/14	\$100,800	-4.3%	530	519	106,134	NA	(33,857)	Payments	Provides a cloud-based platform for enterprises to collect, manage, and analyze business data
YDLE	Yodlee, Inc.	\$12.20	\$12.00	10/2/14	\$84,129	1.7%	357	464	84,257	4,730	(1,321)	Payments	Technology and applications platform provider for digital financial services
Median					\$114,626	12.2%	645	555	84,257	(1,328)	(18,196)		

Source: SNL Financial and Capital IQ

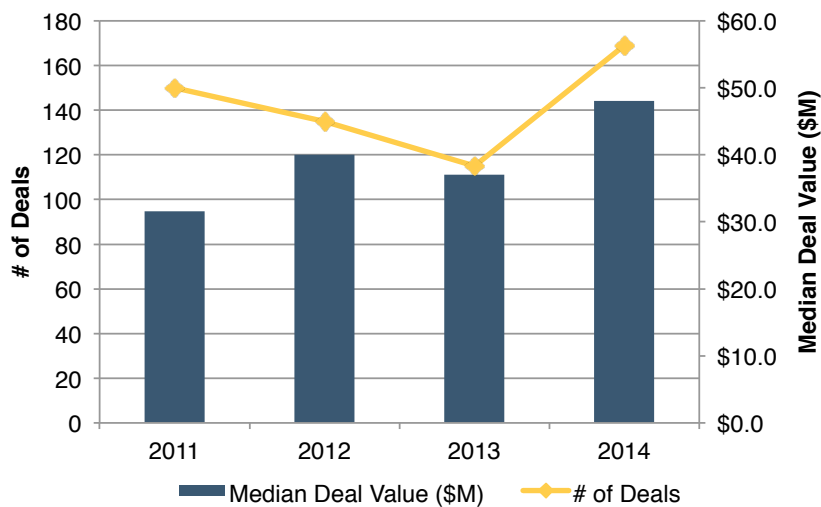
FinTech M&A Overview

2014 vs. 2013

- FinTech M&A activity was up in 2014 vs. 2013
- Increase in deal activity was spread across all industry niches
 - 2014 activity was highest in the payments and healthcare/insurance solutions niches
- FinTech transaction pricing multiples were also up in 2014
- Cash continued to be the primary form of consideration
- Consideration consisting of stock and earnouts (i.e., additional payments upon reaching certain future performance targets) increased in 2014

FinTech M&A Overview

2011–2014



Deal Activity

	2014	2013	% Change
# of Deals	169	115	47%
Median Deal Value (\$M)	\$48.1	\$37.0	30%

Target in Following FinTech Industry Niche

	2014	2013	% Change
Payment Processors	38	28	
Payroll & Administrative Solutions	4	1	
Payments Total	53	37	43%
Bank	6	10	
Investments	18	17	
Insurance/Healthcare Solutions	44	23	
Technology Total	68	50	36%
Outsourcing	28	16	
Processing Software & Hardware	15	9	
Financial Media & Content	16	11	
Solutions Total	59	36	64%

Median Pricing Metrics

	2014	2013	% Change
Deal Value / Sales	2.62	1.50	75%
Enterprise Value / EBITDA	12.00	10.63	13%

Deal Structure

	% of Total	
	2014	2013
All Cash	47%	70%
Majority Cash	71%	80%
Stock Consideration	11%	6%
Earnout Consideration	22%	6%

FinTech Venture Capital Activity Overview

Company	Amount (\$M)	Company Description
AvantCredit	225	Online lending company that provides access to competitive, personal loans
Mozido	185	A cloud platform mobile payments and retail engagement solutions provider
Square	150	Provider of mobile POS tools
Strategic Funding Source	110	Offers financing solutions to a wide range of small businesses with technology and insight
Square	100	Provider of mobile POS tools
Revel Systems	75	Software company that provides iPad POS systems for businesses
Credit Karma	75	Online provider individual credit score data
IEX	75	Online trading venue
Stripe	70	Payment processor that allows businesses to accept payments over the internet
Cardlytics	70	Provides card-linked marketing services in the U.S. and abroad
Wealthfront	64	Provides automated investment services
Radius	55	Provides cloud-based integrated marketing tools for businesses to analyze markets
Blue Snap	50	Provides online payment solutions for e-commerce

A summary of selected FinTech venture capital financing activity in the fourth quarter of 2014. Covers selected financing rounds larger than \$10MM.

Source: Finovate Emails (which cite themselves, Crunchbase, FT Partners, and WSJ) & Company Websites

FinTech Venture Capital Activity Overview (cont.)

Company	Amount (\$M)	Company Description
Personal Capital	50	Online software company that provides tools to manage personal finances
Credorax	40	Digital merchant acquirer that specifically focuses on e-commerce and m-commerce arenas in the U.S. and abroad
Ping Identity	35	Provides identity and access management solutions that give customers and employees one-click access to any application from any device
Transverse	25	Provides activity or usage based billing models to businesses
BoomTown	20	Online lead generation and management system for real estate brokers and teams
iMatchative	20	A cloud-based network that blends behavioral and traditional financial statistics and analysis in order to help investors and funds
Raise Marketplace	18	Online market place to sell gift cards for cash and buy discounted gift cards
One Inc.	17	Database technology company that delivers enterprise level applications that serve the entire insurance lifecycle
Kensho	15	Financial analytics company that allows institutions to mine big data
FastPay	15	Provides liquidity and workflow solutions to media businesses
BitNet Technologies	15	Bitcoin payments processor
Quantopian	15	Provides a platform for individuals to build, test, and execute trading algorithms
Zafin	15	Provider of relationship banking software solutions to the financial services industry

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Source: Finovate Emails (which cite themselves, Crunchbase, FT Partners, and WSJ) & Company Websites

FinTech Venture Capital Activity Overview (cont.)

Company	Amount (\$M)	Company Description
InstaMed	15	Simplifies all healthcare clearinghouse and payment transaction for providers and payors, all in one place
Tipalti	13	Provides automated complex global payments services
Credit Suppliers	13	Offers a lending, tracking, payment control program for the construction industry
Technisys	13	Offers omnichannel digital banking solutions to banks
Taulia	13	Provides cloud-based invoice, payment and dynamic discounting management solutions
Robin Hood	13	Stock brokerage company that allows customers to buy and sell U.S. listed stocks and ETFs with zero commission
Orchard Platform	12	Provides marketplace and peer to peer lending services
Recurly	12	A leading pay-as-you-go subscription billing platform
Payoff	12	Financial services company that designs products to help people pay off their credit card debt
Narrative Science	10	Software company that turns numerical data into a written narrative
Cognical	10	Provides integrated alternative financing for online shoppers
Dwolla	10	Online personal payment network and provider
Centage	10	Provider of automated budgeting and planning software solutions for small to medium-sized organizations

A summary of selected FinTech venture capital financing activity in the fourth quarter of 2014. Covers selected financing rounds larger than \$10MM.

Source: Finovate Emails (which cite themselves, Crunchbase, FT Partners, and WSJ) & Company Websites

Venture Capital Case Study



"We have not done a lot of acquisitions in recent years since 2010. We had not done an acquisition until March of this year (2014). We did have an opportunity to acquire a small company in Cedar Falls, Iowa called Banno."

"Banno, brought us several products, a website design and hosting business, some innovative mobile banking solutions and a responsive online advertising solution to help our banks market their products to their – to their financial institution customers."

"So I'm very pleased to add this young energetic and innovative group in Iowa to the Jack Henry team."

*Quotes from Jack Prim, CEO of Jack Henry & Associates, Inc.
Transcript from Jack Henry & Associates Inc.
Annual Shareholders Meeting
November 13, 2014*

Venture Capital Case Study

Banno, LLC

Banno develops technology solutions for financial institutions, including websites and mobile applications.

Banno products include:

- Grip, a mobile banking tool with account aggregations, merchant details, ATM search, photo receipt upload, billpay, and remote deposit capture
- Kernel, a system that segments online visitors and delivers tailored advertisements that are product specific based on their interest

Timeline	Significant Corporate Events
2006-2009	<ul style="list-style-type: none"> • Company founded in Iowa in 2006 • Originally, company provided technology and advertising services for larger non-financial companies • Raised capital of \$500,000 from local Iowa real estate developers at the beginning of 2008 • Renamed company Banno • In 2009, company pivoted when revenues from services to banks outpaced other professional services
2009-2013	<ul style="list-style-type: none"> • Began selling a product that let banks offer customers a way to customize debit cards with photos, evolved later to be named Cre8 My Card • Debuted Grip, which offers mobile personal financial management, at FinovateFall in 2011 • The Iowa Economic Development Authority matched a \$1 million private loan from one of Banno's lenders for an additional \$2 million total funding in 2012 • Reported in 2013 to have approximately 60 programmers, sales, and IT staff; \$4 million in revenue; and 400 bank customers • Debuted Kernel, which delivers tailored advertisements that are product specific based on customer interest across several electronic channels at FinovateSpring in 2013
March 2014	<ul style="list-style-type: none"> • Jack Henry, a global leader in payment technology and solutions, acquired Banno for \$28 million in cash • Pricing multiples weren't disclosed but Banno was reported to have a revenues of \$848 thousand and a net loss of \$1.1 million for the four month period from acquisition date to June 30, 2014 (based upon JKHY's Form 10-K for FY ended 6/14) • This implies a price/ annualized revenue multiple of 11x

Sources: Various articles mentioning Banno, SNL Financial, and JKHY public filings, including:

- www.finovate.com
- "Wade Arnold: Coder in the Cornfield" AmericanBanker, January 1, 2013, Sean Sposito

Venture Capital Case Study

Banno, LLC

Key Takeaways

1. Banno's ability to operate and exit successfully from a non-traditional market is encouraging for other FinTech startups

- Banno was able to successfully attract talent, capital, and financial services customers while operating from Iowa
- Given the significant amount of capital and resources required to grow FinTech companies, Banno's template of establishing operations in a lower-cost market and utilizing local funding incentives (such as the use of the Iowa Economic Development Authority) could be a nice path to follow for others
- Strength of partnerships are typically huge for FinTech startups but may have been more important for Banno given its location as one article noted certain bank executives' trepidation at using a small company in Iowa for technology services. Banno's partners included Jack Henry (JKHY) and Deluxe (DLX), two larger FinTech players

2. As FinTech continues to evolve, Banno provides a solid example of the benefits from combining technology, marketing, and financial services expertise

- Kernel, which sends customers tailored advertisements based on customer interests, offers a way for banks to maintain and enhance their customer relationship in a digital environment. Historically, these types of banking activities have largely occurred offline. Products like Kernel that allow banks to enhance their customer relationships in a digital environment should continue to attract interest from bankers.

3. Take advantage of industry events for new product launches

- Two of Banno's key products (Grip and Kernel) were both debuted at Finovate events, which helped those products garner additional press/attention/credibility
- This gave Banno a large stage to debut things and again helped to offset their smaller location and also the cost of a separate event for those product launches

Publicly Traded Payments Companies

Ticker	Name	12/31/14 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Payment Processors																	
ADS	Alliance Data Systems Corp.	286.05	18,313	29,133	32.88	23.83	20.00	20.58	14.76	13.12	25.65	nm	0.0%	NA	1,415,632	NM	556,954
HAWK	Blackhawk Network Holdings, Inc.	38.80	2,056	2,026	39.91	30.55	24.02	16.35	10.23	8.53	25.25	1.55	0.0%	1,307,266	123,889	9.5%	51,523
CATM	Cardtronics, Inc.	38.58	1,718	2,172	44.34	27.76	17.34	10.89	7.57	6.98	23.88	2.14	0.0%	1,012,893	199,400	19.7%	38,737
DLX	Deluxe Corporation	62.25	3,092	3,585	15.48	14.29	13.42	8.97	8.17	7.70	10.74	2.14	1.8%	1,674,100	399,500	23.9%	199,800
EEFT	Euronet Worldwide, Inc.	54.90	2,888	2,817	35.41	24.73	20.22	14.92	9.93	9.64	23.53	1.79	0.0%	1,577,601	188,753	12.0%	81,556
EVTC	EVERTEC, Inc.	22.13	1,726	2,375	22.97	18.14	15.05	13.61	12.18	11.41	22.03	6.59	1.8%	360,285	174,569	48.5%	75,109
FLT	FleetCor Technologies, Inc.	148.71	12,467	13,517	38.09	29.02	24.50	23.03	13.65	12.00	27.37	12.54	0.0%	1,078,194	586,864	54.4%	327,287
GCA	Global Cash Access Holdings, Inc.	7.15	469	458	19.87	18.33	11.44	7.23	3.28	1.87	10.27	0.79	0.0%	581,454	63,323	10.9%	23,593
GPN	Global Payments Inc.	80.73	5,460	7,079	21.26	19.64	17.51	12.45	11.67	10.82	16.29	2.63	0.1%	2,692,615	568,439	21.1%	256,893
GDOT	Green Dot Corporation	20.49	1,066	446	nm	17.22	17.36	4.32	2.74	2.50	6.74	0.74	0.0%	601,508	103,102	17.1%	NA
HPY	Heartland Payment Systems, Inc.	53.95	1,954	2,428	27.50	22.16	18.74	11.34	11.63	10.25	19.98	1.09	0.6%	2,237,148	214,126	9.6%	71,055
ONE	Higher One Holdings, Inc.	4.21	201	271	11.72	11.23	15.59	5.49	4.45	5.71	8.68	1.23	0.0%	219,666	49,355	22.5%	17,116
MA	MasterCard Incorporated	86.16	99,330	94,553	27.46	24.62	20.49	17.45	16.02	13.92	18.54	9.98	0.6%	9,473,000	5,420,000	57.2%	3,617,000
MGI	MoneyGram International, Inc.	9.09	491	1,640	5.77	19.98	12.54	8.45	6.31	6.35	11.73	1.10	0.0%	1,491,100	194,200	13.0%	85,000
PLPM	Planet Payment, Inc.	2.08	116	108	95.54	nm	nm	22.66	8.81	6.57	62.78	2.33	0.0%	46,614	4,784	10.3%	1,215
TSS	Total System Services, Inc.	33.96	6,313	7,509	19.76	19.46	17.24	nm	9.87	9.10	nm	3.07	1.2%	2,446,877	NA	NM	319,564
JTPY	Univeral Business Payment Solutions	2.14	30	57	nm	nm	nm	nm	17.51	15.14	nm	1.78	0.0%	31,741	(507)	-1.6%	(8,473)
VNTV	Vantiv, Inc.	33.92	4,957	8,436	49.79	27.14	22.46	16.09	10.73	9.79	31.10	3.51	0.0%	2,401,773	524,414	21.8%	99,547
PAY	VeriFone Systems, Inc.	37.20	4,216	4,886	nm	86.51	56.36	22.60	13.52	11.38	1,888.06	2.61	0.0%	1,868,874	216,229	11.6%	(38,130)
V	Visa Inc.	262.20	162,106	157,526	36.48	25.26	21.86	nm	16.42	14.64	nm	12.18	0.6%	12,929,000	NA	NM	4,444,000
WU	Western Union Company	17.91	9,360	11,410	11.64	11.19	10.60	8.37	8.09	7.97	10.41	2.03	2.8%	5,619,200	1,363,400	24.3%	804,300
WEX	WEX Inc.	98.92	3,835	4,434	20.31	21.60	18.30	11.57	11.86	10.19	14.04	5.63	0.0%	788,066	383,075	48.6%	188,786
XOOM	Xoom Corporation	17.51	673	514	203.95	152.26	53.88	60.78	20.28	15.77	116.16	3.49	0.0%	147,317	8,459	5.7%	3,301
Median			2,887.69	2,817.11	27.48	22.16	18.30	13.03	10.73	9.79	21.01	2.24	0.0%	1,399,183	199,400	18.4%	83,278

Publicly Traded Payments Companies

Ticker	Name	12/31/14 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Payment Software/Hardware																	
CVG	Convergys Corporation	20.37	2,044	2,208	40.72	13.67	10.95	7.77	5.72	5.31	15.86	0.84	1.3%	2,618,900	284,100	10.8%	50,200
NSP	Insperty, Inc.	33.89	859	633	35.18	25.58	nm	10.12	7.98	7.08	15.30	0.27	2.1%	2,319,056	62,546	2.7%	24,403
PAYX	Paychex, Inc.	46.17	16,766	16,237	25.78	24.96	22.82	15.00	13.94	12.96	16.65	6.27	3.2%	2,591,200	1,082,200	41.8%	650,300
WDAY	Workday, Inc.	81.61	15,261	13,916	nm	nm	nm	nm	2,420.16	306.94	nm	19.78	0.0%	703,453	(160,632)	-22.8%	(244,498)
Median			15,261	13,916	31.57	25.27	22.82	12.56	13.94	12.96	16.26	3.40	2.1%	2,591,200	284,100	10.8%	50,200

Publicly Traded Solutions Companies

Ticker	Name	12/31/14 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Outsourced																	
ACXM	Axiom Corporation	20.27	1,561	1,756	nm	675.67	31.43	nm	8.77	7.80	215.43	1.69	0.0%	1,039,575	NA	nm	(23,304)
CSC	Computer Sciences Corporation	63.05	8,858	9,750	14.47	14.01	12.49	4.62	4.51	4.39	9.10	0.76	1.4%	12,874,000	2,111,000	16.4%	612,000
CSGS	CSG Systems International, Inc.	25.07	861	915	23.29	18.43	23.00	7.34	5.81	5.44	11.89	1.22	2.5%	751,286	124,595	16.6%	36,959
EFX	Equifax Inc.	80.87	9,752	11,227	28.18	23.72	18.84	13.83	12.25	11.47	18.29	4.70	1.2%	2,390,300	811,700	34.0%	346,100
EXLS	ExlService Holdings, Inc.	28.71	943	777	23.09	19.51	16.60	10.52	7.85	6.46	16.27	1.59	0.0%	488,115	73,881	15.1%	40,843
FICO	Fair Isaac Corporation	72.30	2,321	2,834	25.15	24.97	18.93	15.28	13.74	12.67	18.53	3.57	0.1%	794,192	185,473	23.4%	92,309
FIS	Fidelity Nat'l Info. Services, Inc.	62.20	17,649	22,149	31.76	21.01	19.47	12.97	10.68	9.97	20.43	3.51	1.5%	6,303,200	1,707,200	27.1%	555,700
FISV	Fiserv, Inc.	70.97	17,314	20,823	22.96	22.28	19.34	12.90	11.86	11.07	17.21	4.11	0.0%	5,066,000	1,614,000	31.9%	754,000
IL	IntraLinks Holdings, Inc.	11.90	668	701	nm	nm	nm	28.01	17.12	nm	nm	2.79	0.0%	251,020	25,048	10.0%	(19,252)
INTU	Intuit Inc.	92.19	26,323	25,233	31.56	52.98	30.13	16.86	19.68	14.15	19.47	5.54	0.9%	4,556,000	1,497,000	32.9%	834,000
PRGX	PRGX Global, Inc.	5.72	156	130	nm	34.67	16.34	147.09	5.47	4.28	nm	0.77	0.0%	169,377	881	0.5%	(11,778)
SSNC	SS&C Technologies Holdings, Inc.	58.49	4,894	5,420	40.31	33.14	29.54	18.29	15.17	13.85	27.59	7.23	0.0%	749,652	296,304	39.5%	121,401
TW	Towers Watson & Co.	113.17	7,936	7,630	22.51	21.56	19.60	10.81	10.42	9.63	14.42	2.15	0.5%	3,550,080	705,689	19.9%	352,644
Median			4,894	5,420	24.22	23.00	19.41	13.40	10.68	9.80	18.29	2.79	0.1%	1,039,575	500,997	21.6%	121,401

Publicly Traded Solutions Companies

Ticker	Name	12/31/14 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Payroll/Administration																	
ACIW	ACI Worldwide, Inc.	20.17	2,318	3,211	32.38	23.73	19.03	14.26	10.66	10.02	22.66	3.18	0.0%	1,009,087	225,174	22.3%	71,585
EPAY	Bottomline Technologies (de), Inc.	25.28	1,009	976	nm	nm	nm	24.92	14.28	12.61	297.31	3.02	0.0%	323,499	39,159	12.1%	(11,021)
BR	Broadridge Financial Solutions, Inc.	46.18	5,542	5,752	21.47	19.40	17.39	nm	9.95	9.24	14.08	2.19	2.1%	2,622,600	NA	nm	258,200
CDK	CDK Global, Inc.	40.76	6,547	7,142	nm	33.55	27.54	nm	16.66	14.42	nm	nm	nm	NA	NA	nm	NA
DBD	Diebold, Incorporated	34.64	2,239	2,523	52.03	17.32	13.97	17.34	9.57	8.38	35.25	0.84	3.3%	3,001,224	145,487	4.8%	43,027
KFX	Kofax Limited	7.03	615	556	65.89	54.08	24.24	19.51	11.62	9.11	38.78	1.86	0.0%	298,602	28,497	9.5%	9,339
NCR	NCR Corporation	29.14	4,907	8,261	13.78	13.55	11.12	9.65	8.04	7.32	14.10	1.27	0.0%	6,493,000	856,000	13.2%	356,000
NTWK	NetSol Technologies, Inc.	4.17	40	49	nm	nm	nm	nm	nm	nm	nm	1.29	0.0%	37,845	(6,309)	-16.7%	(11,981)
PEGA	Pegasystems Inc.	20.77	1,586	1,357	55.23	30.54	27.88	20.56	11.73	10.34	31.58	2.36	0.4%	574,462	66,001	11.5%	28,712
WK	Workiva Inc.	13.40	530	519	nm	nm	nm	nm	nm	nm	nm	4.89	nm	106,134	NA	nm	(33,857)
YDLE	Yodlee, Inc.	12.20	357	464	nm	nm	95.88	98.14	47.89	32.15	345.91	5.51	nm	84,257	4,730	5.6%	(1,321)
Median			1,586	1,357	42.21	23.73	21.64	19.51	11.62	10.02	33.42	2.28	0.0%	448,981	52,580	10.5%	19,026
Content																	
RATE	Bankrate, Inc.	12.43	1,298	1,419	nm	34.53	25.37	20.34	8.69	7.59	152.02	2.78	0.0%	510,575	69,763	13.7%	(8,707)
CLGX	CoreLogic, Inc.	31.59	2,835	4,108	62.33	24.58	17.50	14.13	9.98	9.02	25.59	3.03	0.0%	1,354,215	290,703	21.5%	45,483
CSGP	CoStar Group, Inc.	183.63	5,940	5,844	135.79	110.29	69.56	41.81	27.98	21.37	73.76	10.91	0.0%	535,450	139,783	26.1%	43,745
DNB	Dun & Bradstreet Corporation	120.96	4,344	5,676	15.62	15.61	14.54	13.10	10.78	10.23	15.43	3.40	1.4%	1,668,700	433,400	26.0%	278,000
FDS	FactSet Research Systems Inc.	140.75	5,876	5,736	27.30	25.31	22.81	16.72	15.65	14.41	18.56	6.10	1.1%	940,035	342,960	36.5%	215,225
FORR	Forrester Research, Inc.	39.36	717	604	76.01	45.24	34.83	23.73	16.24	13.58	43.96	1.96	1.6%	308,902	25,459	8.2%	9,427
IT	Gartner, Inc.	84.21	7,413	7,445	39.85	31.78	26.73	23.53	16.62	14.06	26.73	3.80	0.0%	1,958,169	316,452	16.2%	186,040
MORN	Morningstar, Inc.	64.71	2,885	2,690	36.94	nm	nm	16.70	10.96	nm	24.69	3.61	1.2%	744,156	161,097	21.6%	78,093
VRSK	Verisk Analytics, Inc.	64.05	10,563	11,404	27.09	25.37	22.79	14.63	13.00	11.99	17.87	6.71	0.0%	1,698,585	779,517	45.9%	389,895
Median			4,344	5,676	38.39	28.57	24.09	16.72	13.00	12.78	25.59	3.61	0.0%	940,035	290,703	21.6%	78,093

Publicly Traded Technology Companies

Ticker	Name	12/31/14 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Banking Technology																	
TRAK	Dealertrack Technologies, Inc.	44.31	2,404	2,986	NM	164.11	nm	24.89	12.82	11.63	770.98	4.02	0.0%	743,206	119,955	16.1%	(14,615)
ELLI	Ellie Mae, Inc.	40.32	1,159	1,074	107.21	322.56	91.64	40.75	29.86	17.60	55.73	7.39	0.0%	145,310	26,344	18.1%	10,811
EPIQ	Epiq Systems, Inc.	17.08	622	893	NM	33.49	23.89	14.28	8.47	7.82	70.37	1.83	2.1%	488,770	62,574	12.8%	(612)
JKHY	Jack Henry & Associates, Inc.	62.14	5,082	5,053	24.30	23.81	21.28	nm	11.21	10.38	15.70	4.03	1.4%	1,254,901	NA	nm	209,124
PFMT	Performant Financial Corp.	6.65	328	357	16.69	27.71	11.88	6.40	7.58	5.20	8.13	1.66	0.0%	215,659	55,815	25.9%	19,648
Median			1,159	1,074	24.30	33.49	22.58	19.59	11.21	10.38	55.73	4.02	0.00	488,770	59,195	0.17	10,811
Insurance/Healthcare Technology																	
ATHN	athenahealth, Inc.	145.70	5,550	5,658	4,279.33	nm	955.43	60.94	34.37	27.24	1,077.07	7.96	\$0.00	710,964	92,848	13.1%	1,297
CRVL	CorVel Corporation	37.22	769	738	24.52	nm	nm	nm	nm	nm	14.95	1.50	0.0%	490,676	NA	nm	31,347
CRD.B	Crawford & Company	10.28	566	717	14.85	11.42	9.79	6.65	5.73	5.19	10.14	0.59	\$0.02	1,218,041	107,719	8.8%	38,134
EBIX	Ebix, Inc.	16.99	623	640	10.01	10.82	nm	7.22	7.17	6.66	8.14	3.13	1.3%	204,535	88,634	43.3%	62,256
GWRE	Guidewire Software, Inc.	50.63	3,523	3,023	242.82	nm	399.29	127.46	48.99	38.59	180.12	8.32	\$0.00	363,451	23,717	6.5%	14,510
HMSY	HMS Holdings Corp.	21.14	1,856	1,933	67.65	42.28	25.47	17.68	13.22	9.62	35.44	4.27	0.0%	452,656	109,384	24.2%	27,434
MGLN	Magellan Health Services, Inc.	60.03	1,638	1,529	21.46	25.54	20.63	7.47	5.49	5.28	13.10	0.40	\$0.00	3,785,869	204,555	5.4%	76,330
SLH	Solera Holdings, Inc.	51.18	3,492	5,261	NM	60.93	37.91	18.60	10.99	10.06	35.61	5.01	1.4%	1,049,314	282,896	27.0%	(10,391)
SR	Standard Register Co.	3.26	30	330	NM	nm	nm	7.89	nm	nm	58.62	0.36	\$0.00	915,177	41,792	4.6%	(9,452)
Median			1,638	1,529	24.52	25.54	31.69	12.78	10.99	9.62	35.44	3.13	0.0%	710,964	100,284	6.5%	27,434
Investment Technology																	
ADVS	Advent Software, Inc.	30.64	1,584	1,768	31.55	28.64	25.32	16.85	11.97	11.06	21.11	4.46	1.3%	396,820	104,943	26.4%	50,212
DST	DST Systems, Inc.	94.15	3,583	3,984	6.04	15.82	13.95	4.20	8.70	8.31	4.87	1.45	1.3%	2,749,300	949,300	34.5%	593,300
ENV	Envestnet, Inc.	49.14	1,688	1,612	151.00	73.34	49.89	45.54	20.23	15.18	92.40	4.94	0.0%	326,343	35,402	10.8%	11,176
LIQD	Liquid Holdings Group, Inc.	0.32	19	(11)	NM	nm	nm	nm	0.63	nm	nm	nm	0.0%	5,218	NA	NM	(30,101)
MSCI	MSCI Inc.	47.44	5,315	5,659	18.54	26.65	22.32	13.46	13.32	12.18	16.44	5.59	0.4%	1,013,197	420,369	41.5%	286,728
Median			1,688	1,768	25.04	27.64	23.82	15.16	11.97	11.62	18.78	4.70	0.4%	396,820	262,656	30.5%	50,212

Mercer Capital

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Contact a Mercer Capital professional to discuss your needs in confidence.

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Fairness Opinions

Evaluating a Buyer's Shares from the Seller's Perspective

M&A activity in the U.S. (and globally) has accelerated in 2014 after years of gradual improvement following the financial crisis. According to Dealogic, M&A volume where the target was a U.S. company totaled \$1.4 trillion YTD through November 10, the highest YTD volume on record and up 43% from the same period last year. Excluding cross-border acquisitions, domestic-only M&A was \$1.1 trillion, which represented the second highest YTD volume since 1999 and up 27% from last year. Healthcare and telecommunications were the first and second most targeted sectors.

The improvement has taken a long time even though corporate cash is high, financing costs are very low and organic revenue growth in most industries has been sluggish. Aside from improving confidence, another key foundation for increased M&A activity fell into place in 2013 when equity markets staged a strong rally as the S&P 500 rose 30% (32% with dividends) and the Russell 2000 increased 37% (39%). The absence of a meaningful pull-back in 2014 and a 12% advance in the S&P 500 and 2% in the Russell 2000 have further supported activity.

The rally in equities, like low borrowing rates, has reduced the cost to finance acquisitions because the majority of stocks experienced multiple expansion rather than material growth in EPS. It is easier for a buyer to issue shares to finance an acquisition if the shares trade at rich valuation than issuing "cheap" shares. As of November 24, the S&P 500's P/E based upon trailing earnings (as reported) was 20.0x compared to 18.2x at year-end 2013, 17.0x at year-end 2012 and 14.9x at year-end 2011. The long-term average P/E since 1871 is 15.5x (Source: <http://www.multpl.com>).

High multiple stocks can be viewed as strong acquisition currencies for acquisitive companies because fewer shares have to be issued to achieve a targeted dollar value. As

such, it is no surprise that the extended rally in equities has supported deal activity this year. However, high multiple stocks may represent an under-appreciated risk to sellers who receive the shares as consideration. Accepting the buyer's stock raises a number of questions, most which fall into the genre of: what are the investment merits of the buyer's shares? The answer may not be as obvious as it seems, even when the buyer's shares are actively traded.

Our experience is that some, if not most, members of a board weighing an acquisition proposal do not have the background to thoroughly evaluate the buyer's shares. Even when financial advisors are involved there still may not be a thorough vetting of the buyer's shares because there is too much focus on "price" instead of, or in addition to, "value."

A fairness opinion is more than a three or four page letter that opines as to the fairness from a financial point of a contemplated transaction; it should be backed by a robust analysis of all of the relevant factors considered in rendering the opinion, including an evaluation of the shares to be issued to the selling company's shareholders. The intent is not to express an opinion about where the shares may trade in the future, but rather to evaluate the investment merits of the shares before and after a transaction is consummated.

Key questions to ask about the buyer's shares include the following:

- **Liquidity of the Shares.** What is the capacity to sell the shares issued in the merger? SEC registration and even NASDAQ and NYSE listings do not guarantee that large blocks can be liquidated efficiently. Generally, the higher the institutional ownership, the better the liquidity. Also, liquidity may improve with an acquisition if the number of shares outstanding and shareholders increase sufficiently.

- **Profitability and Revenue Trends.** The analysis should consider the buyer's historical growth and projected growth in revenues, and operating earnings, (usually EBITDA or EBITDA less capital expenditures) in addition to EPS. Issues to be vetted include customer concentrations, the source of growth, the source of any margin pressure and the like. The quality of earnings and a comparison of core vs. reported earnings over a multi-year period should be evaluated.
- **Pro Forma Impact.** The analysis should consider the impact of a proposed transaction on revenues, EBITDA, margins, EPS and capital structure. The per share accretion and dilution analysis of such metrics as earnings, EBITDA and dividends should consider both the buyer's and seller's perspectives.
- **Dividends.** In a yield starved world, dividend paying stocks have greater attraction than in past years. Sellers should not be overly swayed by the pick-up in dividends from swapping into the buyer's shares; however, multiple studies have demonstrated that a sizable portion of an investor's return comes from dividends over long periods of time. If the dividend yield is notably above the peer average, the seller should ask why? Is it payout related, or are the shares depressed? Worse would be if the market expected a dividend cut. These same questions should also be asked in the context of the prospects for further increases.
- **Capital Structure.** Does the acquirer operate with an appropriate capital structure given industry norms, cyclical nature of the business and investment needs to sustain operations? Will the proposed acquisition result in an over-leveraged company, which in turn may lead to pressure on the buyer's shares and/or a rating downgrade if the buyer has rated debt?
- **Balance Sheet Flexibility.** Related to the capital structure should be a detailed review of the buyer's balance sheet that examines such areas as liquidity, access to bank credit, and the carrying value of assets such as deferred tax assets.
- **Ability to Raise Cash to Close.** What is the source of funds for the buyer to fund the cash portion of consideration? If the buyer has to go to market to issue equity and/or debt, what is the contingency plan if unfavorable market conditions preclude floating an issue?
- **Consensus Analyst Estimates.** If the buyer is publicly traded and has analyst coverage, consideration should be given to Street expectations vs. what the diligence process

determines. If Street expectations are too high, then the shares may be vulnerable once investors reassess their earnings and growth expectations.

- **Valuation.** Like profitability, valuation of the buyer's shares should be judged relative to its history and a peer group presently as well as relative to a peer group through time to examine how investors' views of the shares may have evolved through market and profit cycles.
- **Share Performance.** Sellers should understand the source of the buyer's shares performance over several multi-year holding periods. For example, if the shares have significantly outperformed an index over a given holding period, is it because earnings growth accelerated? Or, is it because the shares were depressed at the beginning of the measurement period? Likewise, underperformance may signal disappointing earnings, or it may reflect a starting point valuation that was unusually high.
- **Strategic Position.** Assuming an acquisition is material for the buyer, directors of the selling board should consider the strategic position of the buyer, asking such questions about the attractiveness of the pro forma company to other acquirers.
- **Contingent Liabilities.** Contingent liabilities are a standard item on the due diligence punch list for a buyer. Sellers should evaluate contingent liabilities too.

The list does not encompass every question that should be asked as part of the fairness analysis, but it does illustrate that a liquid market for a buyer's shares does not necessarily answer questions about value, growth potential and risk profile.

We at Mercer Capital have extensive experience in valuing and evaluating the shares (and debt) of financial and non-financial service companies garnered from over three decades of business. Feel free to contact us to discuss your situation in confidence.



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