



MERCER CAPITAL

Valuation and Corporate Finance Services for the FinTech Industry



BUSINESS VALUATION &
FINANCIAL ADVISORY SERVICES

WWW.MERCERCAPITAL.COM

Valuation and Corporate Finance Services

Mercer Capital provides FinTech companies with business valuation and financial advisory services across the corporate lifecycle with clients ranging from early-stage start-ups to high-growth FinTech “unicorns” to more mature, late-stage companies.

Services Provided

- Early Stage to Mature Company Valuations
- Fairness Opinions
- M&A Representation, Transaction Advisory, & Consulting
- Buy-Sell Agreement Valuation
- Financial Reporting Valuation (including Purchase Price Valuations)
- Strategic Planning & Consulting
- Litigation & Dispute Resolution Consulting/Testimony

FinTech Niches Served

- Payments
- Digital/Specialty Lending
- WealthTech
- Digital/Online Brokerage
- InsurTech
- BankTech – including
RegTech
- Software As A Service

FinTech Publications



Creating Strategic Value Through Financial Technology

This book illustrates the benefits of FinTech to banks, both large and small, so that they can gain a better understanding of FinTech and how it can create value for their shareholders and enhance the health and profitability of their institutions.

Visit <http://mer.cr/BookFinTech> for more information.



FinTech Snapshot

A monthly update that focuses on U.S. FinTech activity. Each edition highlights various metrics, including public market indicators, M&A market indicators, deal and financing activity, and industry updates.

Visit <https://mer.cr/FinTechSnap> for more information.



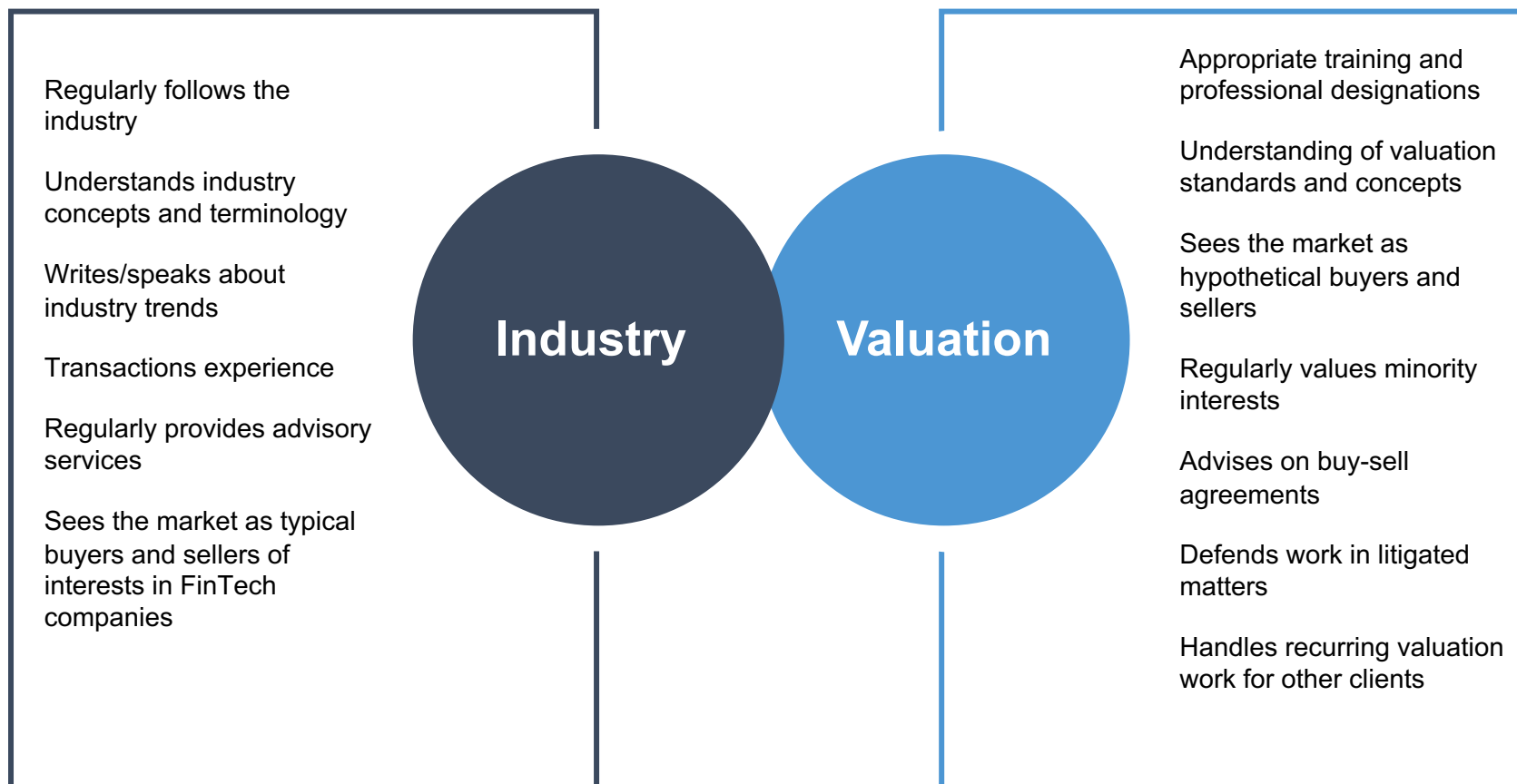
FinTech Industry Newsletter

This newsletter focuses on the payments, technology, and solutions industry segments.

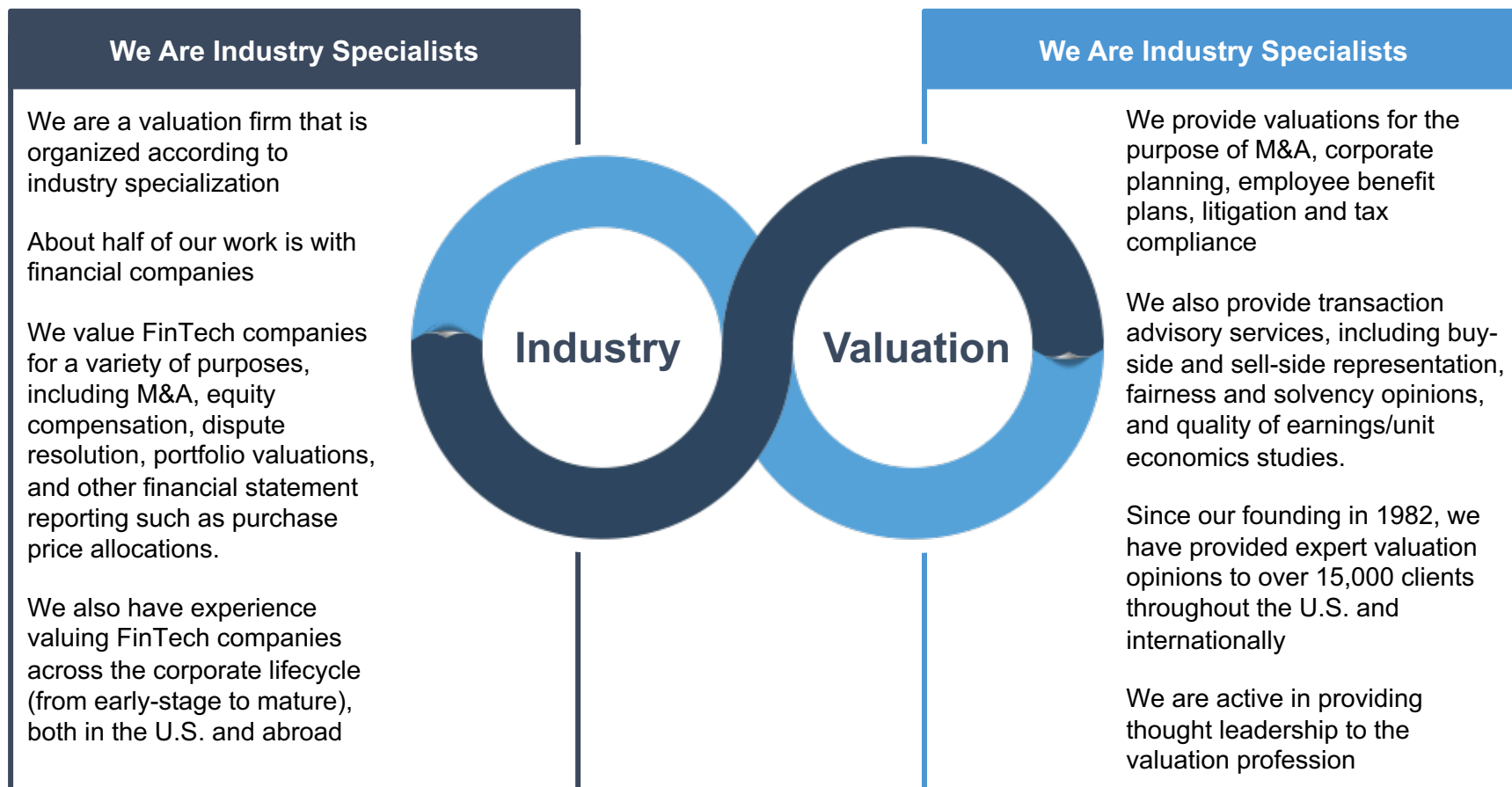
We follow the industry and provide key metrics including public market indicators, an update on IPOs, M&A, and venture capital deals in the space, and recent performance of public guideline companies.

Visit <https://mer.cr/FinTechNews> for more information.

Traditionally, There Are Two Types of Experts



You Need Both



Valuation Approaches

Asset Approach

Not typically applicable because FinTechs are not not typically capital intensive businesses but may be important to consider development costs/funding to date

Income Approach

Discounted cash flow analysis to develop a range of value based upon a subject company's projections and key performance indicators/unit economics

Also considers the probability of different exit scenarios (IPO, sale to strategic or financial buyer)

Market Approach

Pricing metrics based upon public companies, M&A transactions (public and private), and capital raises by comparable companies

Income Approach: DCF



Project likely revenue mix

- Mix across platform
- Mix across geographic base (U.S., Latin America, Europe/Asia)
- Consider activity metrics and potential monetization of users
- Consider capacity/ceiling on revenue from product mix, capacity, market potential
- Consider unit economics of customer base (lifetime value, cost to acquire, etc.)

Project expense base

- Non-labor cost trends
- Staffing/software development/CapEx to achieve business plan
- Evaluated in light of industry norms and trends
- Potential for operating leverage as business matures
- Credit costs and underwriting strength

Cost of equity

- Equity discount rate (considered in light of comparable public/early-stage companies)
- Non-systemic (company specific) risk considered
- Often higher for early-stage, higher growth companies

Cost of debt/funding

- Debt level and cost of debt (considered in light of comparable public/early-stage companies); Financing model utilizes funds from external funders

Capital structure

- Assume a mix of debt and equity (considered in light of comparable public/early-stage companies)

Indicated Value

Indicated value

- Expressed on a total capital basis
- Before consideration of capital structure implications
- Evaluated against available market pricing metrics for reasonableness
- Also consider certain exit scenarios for the company such as IPO, sale to strategic or financial acquirer, and downside scenarios

Income Approach: DCF



Project likely revenue mix

- Mix across platform
- Mix across geographic base (U.S., Latin America, Europe/Asia)
- Consider activity metrics and potential monetization of users
- Consider capacity/ceiling on revenue from product mix, capacity, market potential
- Consider unit economics of customer base (lifetime value, cost to acquire, etc.)

Project expense base / margins

- Non-labor cost trends
- Staffing/software development/CapEx to achieve business plan
- Evaluated in light of industry norms and trends
- Potential for operating leverage as business matures

Publicly traded FinTech companies / specialty lenders

- Evaluated for comparability and available pricing multiples
- Revenue, EBITDA, and net income most meaningful
- Multiples potentially adjusted for size and non-systemic risk factors

Transactions / Venture financing data

- Data is thin and idiosyncratic
- Deals occur for specific reasons which may be irrelevant
- Trends in deal pricing offer bands of reasonableness

Indicated value

- Expressed on a total capital basis
- Before consideration of capital structure implications
- Evaluated against discounted cash flow analysis for reasonableness (consideration of business plan and cost of capital relative to market)

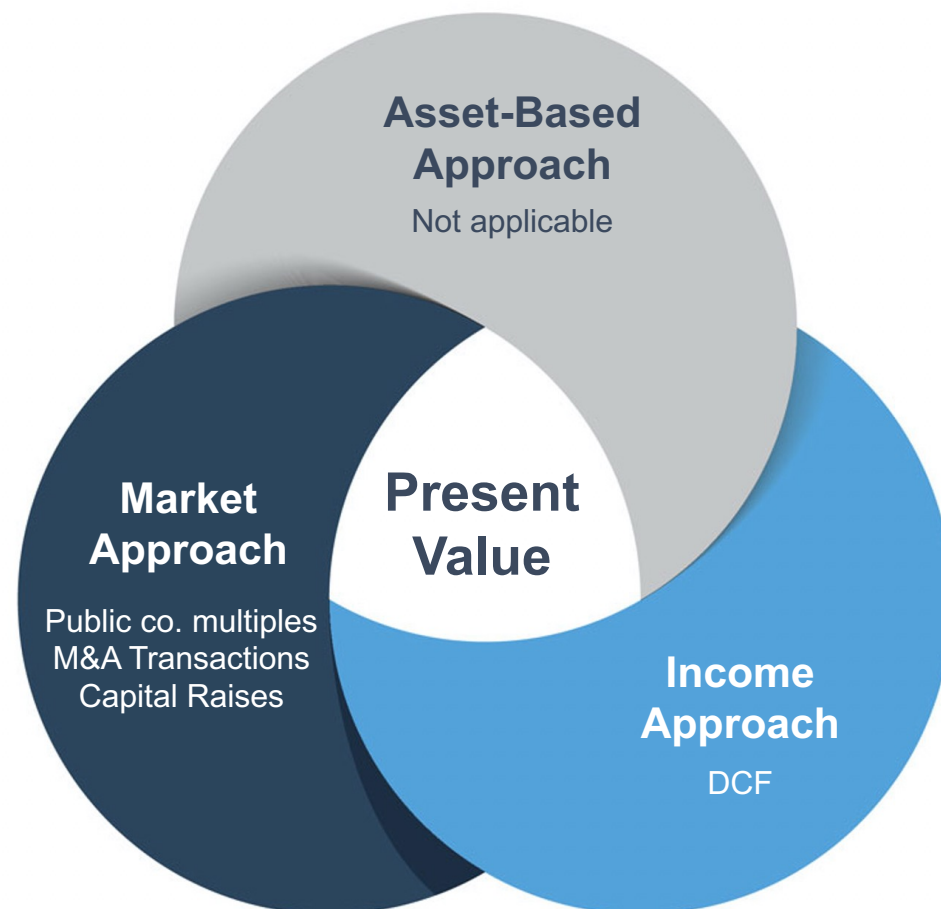
Reconciling Indicated Values

It would be unusual for the indicated values from the various income and market methods to align perfectly.

Value indications from the market approach can be reasonably volatile, since the market for FinTech companies is leveraged to the performance of the market in general. Because valuation for fair market value purposes is more of a descriptive exercise than a prescriptive one, this is a perspective we consider.

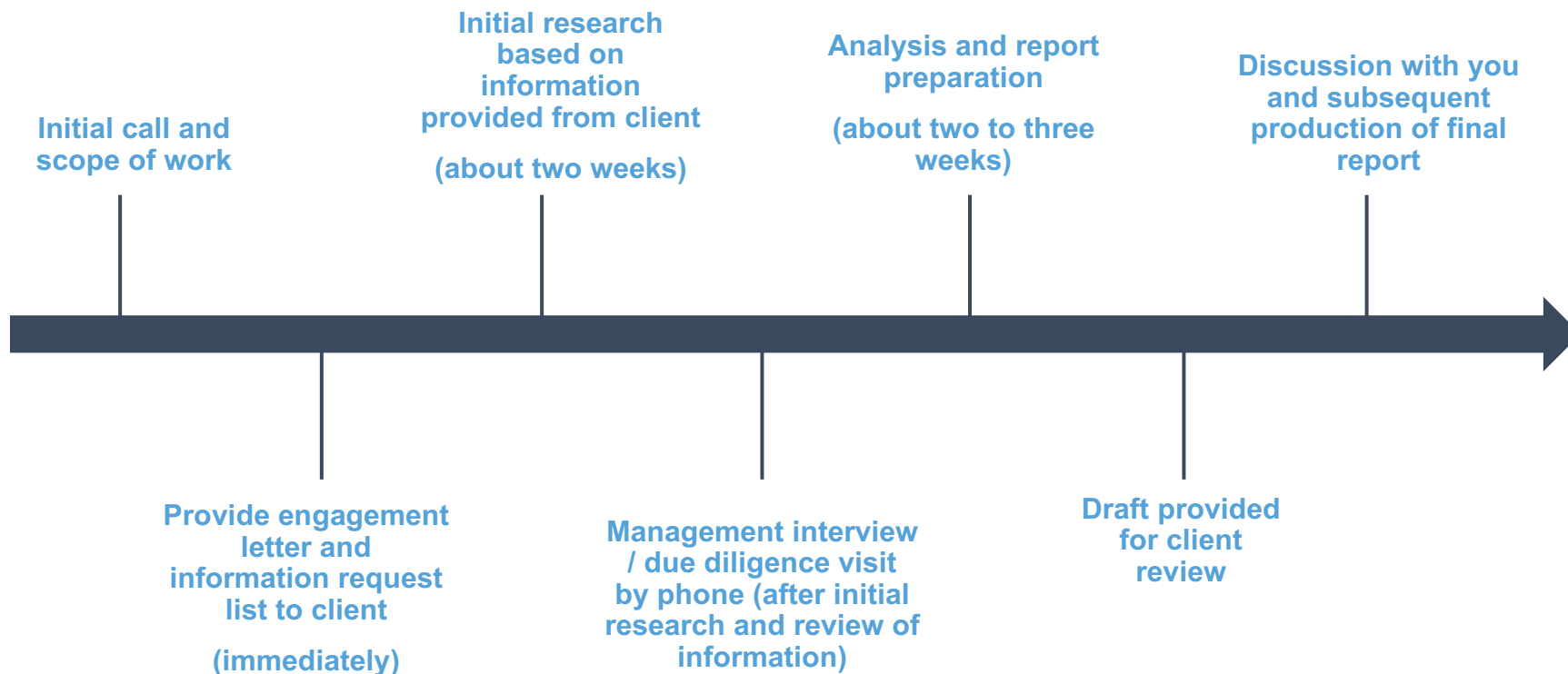
In our experience, though, investors in private companies think longer term. The more enduring indications of value from income approaches, such as DCF models, are often more representative of the actual behavior of buyers and sellers of interests in FinTech companies, particularly early-stage companies.

Nonetheless, using multiple valuation approaches serves to generate tests of reasonableness against which the different indications can be evaluated.



The Typical Valuation Process

~five to seven weeks



Mercer Capital's Advantage

Experience

We regularly handle similar engagements and have relevant FinTech, and financial services (bank, insurance, asset management) experience.

- Of the ~500 valuation projects Mercer Capital performs annually, approximately 25% are recurring and approximately half (50%) are with financial services companies
- Mercer Capital follows professional appraisal standards of preparation and documentation
- Purposes include employee ownership, M&A, fairness opinions, capital raising, profit sharing plans, estate and gift tax planning, litigation, compliance matters, and corporate/strategic planning

The Unexpected

We are available (and capable) for special projects as needed.

- Advisory and consultation regarding capital / M&A transactions
- Consulting on special situations
- Litigation and expert testimony
- Independent transaction related opinions

Recent FinTech Project Experience

Have experience working on multiple projects involving FinTech companies headquartered both domestically and internationally (outside the U.S.) across the corporate lifecycle ranging from early-stage companies to high-growth “Unicorns” with complex capital structures to later stage mature FinTech companies

Project experience includes:

- Provided valuation services to financial institutions considering acquiring a minority or majority stake in a FinTech company
- Provided valuation services of a FinTech company subsidiary of a larger traditional financial institution (such as a bank and insurance company) for equity compensation and corporate/strategic planning purposes
- Have provided multiple valuations of high growth “Unicorn” FinTech companies with complex capital structures
- Providing valuation and advisory services to a digital FinTech lender for corporate/strategic/exit planning purposes
- Providing a valuation of a high-growth payments company for equity compensation and tax compliance purposes
- Assisted a high-growth FinTech company in Asia with a unit economics study whereby key performance indicators such as customer lifetime value (LTV) and customer acquisition costs (CAC) were developed, tested, and analyzed to assist with corporate and strategic planning

Recent FinTech Project Experience (cont'd.)

- Provided valuation services to acquirers (banks, insurers, PE/VC) of FinTech companies for financial statement reporting purposes (valuations of intangible assets for purchase price allocations after closing) in various engagements
- Provided valuation, due diligence, and advisory services to a U.S.-based insurance company in an acquisition of a technology company
- Provide valuation services to a venture-backed FinTech company headquartered in Asia for corporate and strategic planning purposes
- Provided valuation, due diligence, and advisory services to a bank headquartered outside of the U.S. as it considered a minority investment in an early-stage FinTech company headquartered in the U.S.
- Provided valuation services to a Private Equity/Venture Capital firm related to their investment in an early-stage FinTech company
- Provided valuation services to a credit union considering exit options for a prior FinTech investment

Typical Scope and Projected Fees

We prepare a written report and detailed worksheets to substantiate our indication of value for the subject FinTech company. Our valuation analysis is based upon a variety of factors, including:

- The nature of the business and the history of the enterprise from its inception
- A due diligence interview with management via telephone or onsite if circumstances allow
- The economic outlook in general and the outlook for the Company's industry in particular
- An examination of the Company's geographic and competitive markets
- A detailed analysis of the financial condition of the business and its capital structure
- Current earning power and projected future earnings/cash flow
- Indications of value derived from actual transactions in the Company's shares, including prior funding rounds
- "Comp" multiples based upon relevant public companies, capital raises by comparable public and private companies, and M&A transactions for comparable private and public companies
- Other factors unique to this valuation that are considered essential in the derivation of value

Professional fees vary depending upon the scope and complexity of the engagement, turnaround time, and the like

A formal detailed proposal of services and information request list is sent separately

Financial Technology Group



Jay D. Wilson, Jr., CFA, ASA, CBA
wilsonj@mercercapital.com
901.412.3720



Jeff K. Davis, CFA
jeffdavis@mercercapital.com
615.345.0350



Daniel P. McLeod, CFA
mcleodd@mercercapital.com
901.322.9716



Vincent Baumer
baumerv@mercercapital.com
469.904.6714



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www.mercercapital.com