

VALUE FOCUS

FinTech Industry



Second Half 2016

2016 can be characterized as a cool down period for FinTech. Valuation multiples of publicly traded FinTech companies remain elevated relative to broader markets and financials. However, they did not benefit as much as the financial sector from the post-election stock market rally as certain potential policy and regulatory changes could be headwinds for the FinTech sector.

Exit activity (both IPO and M&A) and venture funding also slowed in 2016 after recent years of churning

higher. Consistent with the broader slowdown in technology IPOs in 2016, FinTech IPOs slowed considerably in 2016. FinTech M&A activity also struggled to keep up with the highs of 2014 and 2015.

While interest in the sector remains high, the outlook remains uncertain as competitive pressures, continuing technological change, and regulatory/policy uncertainty remain. Only time will tell if the FinTech cool down of 2016 persists or was a brief respite in the longer term growth trajectory for FinTech.



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Mercer Capital provides financial technology companies with valuation, financial advisory, and consulting services.

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Community Banks and FinTech Partnerships: Robo-Advisors

by Jay D. Wilson, Jr., CFA, ASA, CBA

In late January 2017, Mercer Capital spoke at Bank Director's *Acquire or Be Acquired* (AOBA) conference. Having sponsored and participated in the event since 2009, this annual gathering of community bankers is often focused heavily on traditional growth strategies for banks like traditional bank acquisitions. During the 2015 AOBA conference, I [tweeted](#),

"With ZIRP, NIM compression, and efficiency ratios buzzing at #AOBA15, I expect FinTech to be buzzing at future bank M&A events..."

While it took a couple of years, I think the 2017 AOBA conference had a distinct buzz to it related to FinTech companies. There were a number of FinTech companies presenting their latest innovations to bankers. In addition, several sessions highlighted the importance of FinTech to banks and discussed strategies for acquiring and/or partnering with FinTech companies. Bankers seemed especially eager to explore FinTech opportunities but struggled with developing a framework for approaching FinTech companies.

For FinTech companies, partnerships and acquisitions with traditional financial services companies can be beneficial. 2016 saw a slowdown in the private FinTech markets in the U.S. with slowdowns in both funding and exit activity (M&A and IPOs). Additionally, a number of FinTechs are increasingly realizing the challenges and costs in achieving sufficient scale and acquiring customers in a highly regulated and increasingly competitive financial services industry.

Consequently, both FinTech companies and banks (large and small) may find themselves increasingly exploring partnership and acquisition opportunities. One area within FinTech where we already see partnerships form and where we expect to see continued opportunities for both future acquisitions and partnerships is in the area of robo-advisory.

While there has been a race to partner and/or acquire robo-advisors by many of the larger asset managers and banks, there have also been interesting partnerships with community banks. One such [partnership struck is between Cambridge Savings Bank](#), a \$3.5 billion bank located near Boston, and SigFig, a robo-advisor founded in 2007. While SigFig has relationships with UBS and Wells Fargo, its partnership with Cambridge Savings is notable because the two built a service called "ConnectInvest." When announced in the spring of 2016, the partnership was described as the "first automated investment service integrated and bundled directly into a retail bank's product offerings in the U.S." ConnectInvest, which is available to Cambridge's customers digitally (mobile and website), "allows customers to easily open, fund, and manage an automated investment account tailored to their goals." Cambridge's customers are interested in the offering and have started using it. The goal is get up to 10% of its customer base using ConnectInvest.

The remainder of this article offers an overview of the robo-advisory space and presents an excerpt from our upcoming book, [Creating Strategic Value Through Financial Technology](#), that discusses these topics in greater detail. In a future newsletter, we will discuss how to evaluate the valuation benefits from partnering for FinTech companies.

An Overview of Robo-Advisors

Robo-advisors were noted by the CFA Institute as the FinTech innovation most likely to have the greatest impact on the financial services industry in the short-term (one year) and medium-term (five years). Robo-advisory has gained traction in the past several years as a niche within the FinTech industry by offering online wealth management tools powered by sophisticated algorithms that can help investors manage their portfolios at very low costs and with minimal need for human contact or advice. Technological advances that make the business model possible, coupled with a loss of consumer trust in the wealth management industry in the wake of the financial crisis, have created a favorable environment for robo-advisory startups to disrupt financial advisories, RIAs, and wealth managers. This growth is forcing traditional incumbents to confront the new entrants by adding the service via acquisition or partnership rather than dismiss it as a passing fad.

Robo-advisors have been successful for a number of reasons, though like many digital products low-cost, convenience, and transparency are common attributes.

- » **Low Cost.** Automated, algorithm-driven decision-making greatly lowers the cost of financial advice and portfolio management.
- » **Accessible.** As a result of the lowered cost of financial advice, advanced investment strategies are more accessible to a wider customer base.
- » **Personalized Strategies.** Sophisticated algorithms and computer systems create personalized investment strategies that are highly tailored to the specific needs of individual investors.
- » **Transparent.** Through online platforms and mobile apps, clients are able to view information about their portfolios and enjoy visibility in regard to the way their money is being managed.
- » **Convenient.** Portfolio information and management becomes available on-demand through online platforms and mobile apps.

NEW BOOK COMING IN SPRING 2017

Creating Strategic Value Through Financial Technology



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While many bankers view FinTech as a potential threat, FinTech offers the potential to improve the health of community banks for those banks that can selectively leverage FinTech to enhance performance, customer satisfaction, and improve profitability and returns. FinTech can also help level the playing field for community banks to compete more effectively with larger banks and non-bank lenders.

Creating Strategic Value Through Financial Technology illustrates the potential 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.

The book contains 13 chapters broken into three sections. Section I introduces FinTech. Section II explores FinTech niches such as bank technology, alternative lending, payments, wealth management, and insurance niches. Section III illustrates how both community banks and FinTech companies can create strategic value.

Consistent with the rise in consumer demand for robo-advisory, investor interest has grown steadily. While robo-advisory has not drawn the levels of investment seen in other niches (such as online lending platforms), venture capital funding of robo-advisories has skyrocketed from almost non-existent levels ten years ago to hundreds of millions of dollars invested annually the last few years. 2016 saw several notable rounds of investment into not only some of the industry's largest and most mature players (including rounds of \$100 million for Betterment and \$75 million for Personal Capital), but also for innovative startups just getting off the ground (such as SigFig and Vestmark).

The table to the right provides an overview of the fee schedules, assets under management and account opening minimums for several of the larger robo-advisors. The robo-advisors are separated into three tiers. Tier I consists of early robo-advisory firms who have positioned themselves at the top of the industry. Tier II consists of more recent robo-advisory startups that are experiencing rapid growth and are ripe for partnership. Tier III consists of robo-advisory services of traditional players who have decided to build and run their own technology in-house.

As shown, account opening sizes and fee schedules are lower than many traditional wealth management firms. The strategic challenge for a number of the FinTech startups in Tiers I and II is generating enough AUM and scale to produce revenue sufficient to maintain the significantly lower fee schedules. This can be challenging since the cost to acquire a new customer can be significant and each of these startups has required significant venture capital funding to develop. For example, each of these companies has raised over \$100 million of venture capital funding since inception.

Key Potential Effects of Robo-Advisory

We see five potential effects of robo-advisors entering the financial services landscape.

1. **Fee pressure.** Robo-advisors may be a niche area for the time being, but the emergence and success of a technology-driven solution that challenges an age-

Comparison of Key Metrics of Selected Robo-Advisory Services

	AUM (B)	Fee Structure	Account Minimum
Tier I			
Betterment	\$4	0.35% annual fee on <\$10k, 0.25% on \$10k to \$100k, 0.15% on \$100k+	\$0
WealthFront	\$3	0.25% on all accounts	\$500
Personal Capital	\$2	0.89% annually on <\$1MM, 0.79% on \$3MM, 0.69% on \$5MM, 0.59% on <\$10MM, 0.49% on >\$10MM	\$25,000
Tier II			
FutureAdvisor	\$1	0.5% Annual Fee of assets managed	\$0
SigFig	\$0	No fee on first \$10k, 0.25% annual fee on accounts over \$10k	\$2,000
Tier III			
Vanguard Personal Advisor	\$31	0.30% annually	\$50,000
Schwab Intelligent Portfolio	\$5	No fees for account management and service	\$5,000

Source: Mercer Capital Research, Company Websites, as of June 2016

old business (wealth management) epitomizes what has long been associated with internet (and digital) delivery of services: faster, better, and cheaper.

2. **The Democratization of Wealth Management.** As a result of the low costs of robo-advisory services, new investors have been able to gain access to sophisticated investment strategies that, in the past, have only been available to high net worth, accredited investors.

- 3. Holistic Financial Life Management.** As more people have access to financial advice through robo-advisors, traditional financial advisors are being forced to move away from return-driven goals for clients and pivot towards offering a more complete picture of a client's financial well-being as clients save for milestones such as retirement, a child's education, and a new house. This phenomenon has increased the differentiation pressure on traditional financial advisors and RIAs, as robo-advisors can offer a holistic snapshot in a manner that is comprehensive and easy to understand
- 4. Drivers of the Changing Role of the Traditional Financial Advisor.** The potential shift away from return-driven goals could leave the role of the traditional financial advisor in limbo. This raises the question of what traditional wealth managers will look like going forward. One potential answer is traditional financial advisors will tackle more complex issues, such as tax and estate planning, and leave the more programmed decision-making to robo-advisors.
- 5. Build, Buy, Partner, or Wait and See.** As the role of the financial advisor changes, traditional incumbents like community banks are faced with determining what they want their relationship with robo-advisory to look like. In short, incumbents are left with four options: build their own robo-advisory in-house, buy a startup and adopt its technology, create a strategic partnership with a startup, or stay in a holding pattern in regard to robo-advisory and continue business as usual.

Robo-advisory is an exciting development for wealth managers and offers opportunities potentially for bankers to expand or develop their offerings in this area. Similar to any other growth strategy, the goal will ultimately be for the bank to enhance profitability and shareholder value by adding desired customer services.

Additionally, we have a new book coming in the spring of 2017 – **Creating Strategic Value Through Financial Technology** (see page 3). In this book, we illustrate the potential 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.

Mercer Capital provides corporate valuation, financial reporting, transaction advisory, and related services to both the FinTech and banking industries. As always, please do not hesitate to contact us if we can help in any way.



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Public Market Indicators

Since September 30, 2015, only the Solutions FinTech niche outperformed the broader markets as both the Payments and Technology FinTech niches underperformed the broader markets. This slowdown in public market performance has trickled into the private markets as exits for private FinTech (both in the form of IPOs and M&A) were down in 2016 when compared to prior years.

- In the second half of 2016, the broader market sustained a strong upward trend particularly after the election of Donald Trump.
- The Payments (~10%) niche was the only FinTech niche to outperform the broader market (~8%) during the second half of the year while the Solutions (~3%) and Technology (~-4%) niches lagged behind.
- For the full year 2016, the Solutions (~16%) niche outperformed the broader market (~12%) and the Payments (~6%) niche and the Technology (~-4%) niche failed to best the benchmark.

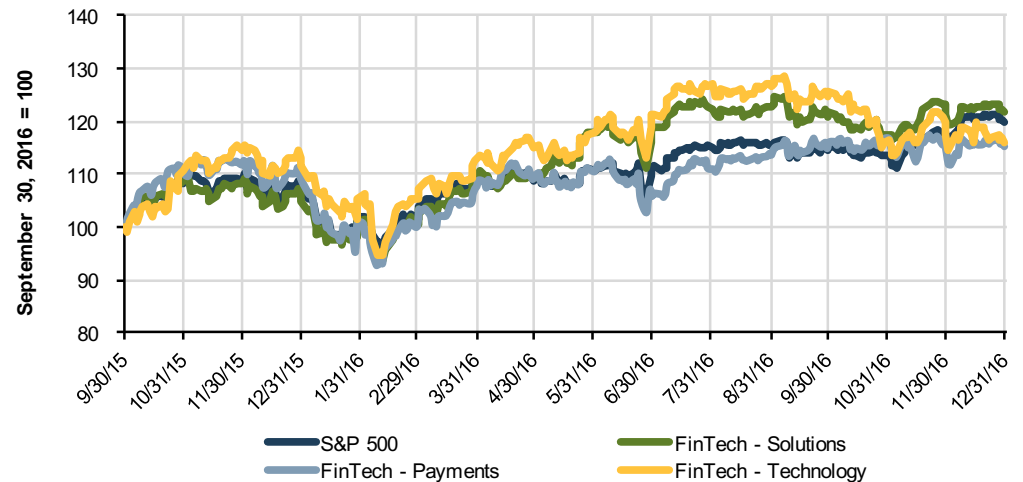
FINTECH NEWSLETTER: PUBLIC MARKET INDICATORS

Each quarter, the FinTech newsletter reviews the public FinTech market.

To receive quarterly updates, follow the link below.

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Mercer Capital FinTech Indices vs. S&P 500



Source: S&P Global Market Intelligence

Median Total Return

as of December 30, 2016

Segment	Month-to-Date	2H16	2016
FinTech - Payments	1.1%	9.0%	5.9%
FinTech - Solutions	0.5%	2.7%	15.9%
FinTech - Technology	-1.3%	-4.3%	4.2%
S&P 500	2.0%	7.8%	12.0%

Source: S&P Global Market Intelligence

Valuation Multiples

as of December 30, 2016

Segment	Price / LTM EPS	Price / 2017 (E) EPS	Ent'p Value / LTM EBITDA	Ent'p Value / FY16 (E) EBITDA	Ent'p Value / FY17 (E) EBITDA	Ent'p Value / LTM Revenue
FinTech - Payments	30.4	17.3	15.0	13.0	11.1	2.9
FinTech - Solutions	32.5	21.4	15.2	12.9	11.4	3.4
FinTech - Technology	33.9	24.5	15.5	13.4	13.6	4.1

Source: S&P Global Market Intelligence

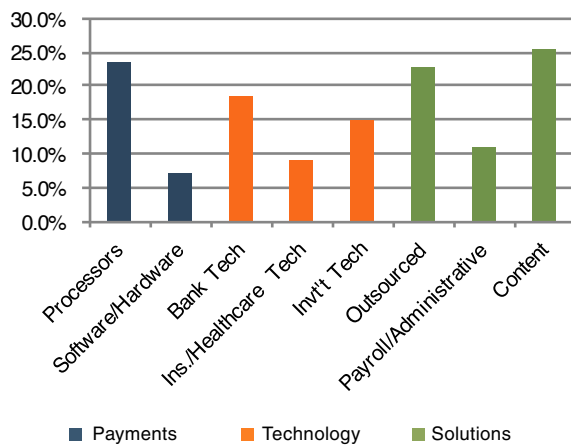
Consistent with recent historical growth patterns and outlook near-term, FinTech companies remain priced at a premium to the broader markets with the S&P 500 priced at 16.9x estimated forward earnings at 12/30/16. (per [FactSet](#))

Investor interest in FinTech has remained relatively high.

FinTech has generally been viewed as a potentially higher growth segment; however, investors continue to weigh competitive threats from incumbents as well as other startups, continuing technological change, and regulatory/business model risk.

FinTech Margins

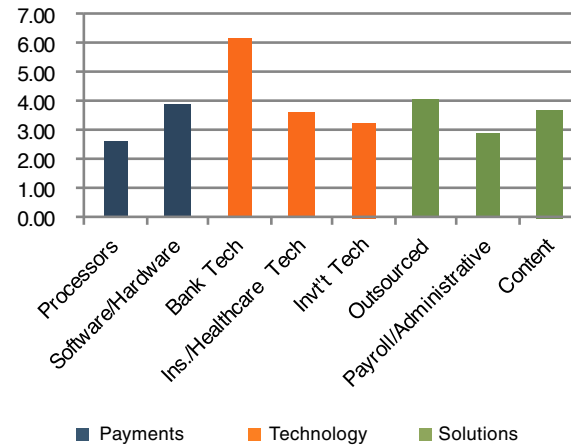
EBITDA Margin (LTM)



Source: S&P Global Market Intelligence

FinTech Revenue Multiples

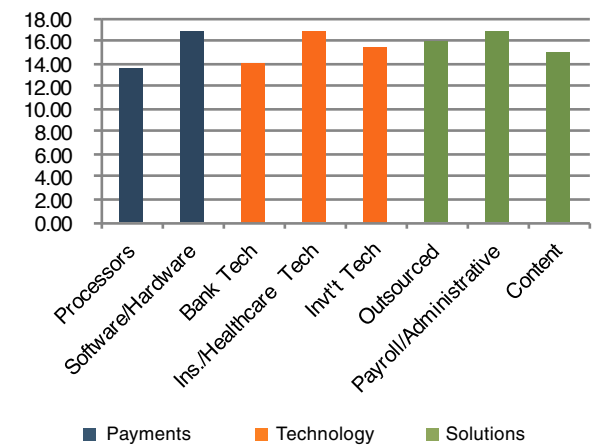
EV / Revenue (LTM)



Source: S&P Global Market Intelligence

FinTech EBITDA Multiples

EV / EBITDA (LTM)



Source: S&P Global Market Intelligence

FinTech IPO Watch

- IPO activity slowed in late 2015 and 2016 as market volatility, speculation about the future path of interest rates, and risks and uncertainty abroad and in the U.S. weighed on markets.
- The FinTech IPO drought continued in the second half of 2016 with no IPOs. There has been only one FinTech IPO in 2016, compared to nine FinTech IPOs in 2015 and 16 in 2014.
- Another factor weighing on recent activity is the performance of recent IPOs with three of the nine IPOs in 2015 reporting a decline in pricing of greater than -30% since the IPO.
- Overall, though there have been notable and successful IPOs, within the median increase in the return since IPO for FinTech IPOs in 2015 and 2016 was ~7%.

What We're Reading

Ensuring Cybersecurity in FinTech: Key Trends and Solutions

Cybersecurity in Fintech is vital to the industry's success and understanding potential security threats is essential in developing adequate solutions.

FinTech Startups Face Dilemma on Banks: Are They Friend or Foe?

Startups are finding it difficult to decide whether or not to partner with traditional banks in their space.
(subscription required)

FinTech's Answer for Chilly IPO Market? Debt

While Fintech firms are waiting for the IPO market to warm up, they are turning to debt capital to fuel business.
(subscription required)

Banks Playing Growing Role in Funding FinTech

American Banker examines the changing landscape of funding for Fintech startups.

Private Funding for FinTech Firms Has Taken a Tumble

Currently, FinTech firms are failing to attract strong private funding, unlike years past.

Every Regulator Gets a Piece of FinTech Under Lawmaker's Plan

This *Bloomberg* article provides insight on potential regulation that Fintech might face in the future.

Despite Questions, Trump Victory Could Benefit FinTech

Trump's distaste for regulation could prove to be advantageous for FinTech firms.
(subscription required)

2015 & 2016 FinTech IPOs

Ticker	Name	IPO Price	IPO Date	Gross Proceeds (\$M)	% Return Since IPO	12/30/16 Price	12/30/16 Mkt Cap (\$M)	6/30/16 Ent Val (\$M)	LTM		FinTech Niche	Description
									Rev (\$M)	EBITDA (\$M)		
INOV	Inovalon Holdings, Inc.	\$27.00	2/11/15	\$685	-61.9%	\$10.30	1,514	1,071	452	94	Insurance/Healthcare Solutions	Provides cloud-based data analytics systems to the healthcare industry
CCN	CardConnect Corp.	\$10.00	2/12/15	\$100	27.0%	\$12.70	365	525	560	26	Payment Processors	Provider of payment processing and technology to businesses
BKFS	Black Knight Financial Services, Inc.	\$24.50	5/19/15	\$507	54.3%	\$37.80	2,612	5,185	1,002	346	Outsourcing	Provider of integrated technology, data and analytics solutions
EVH	Evolent Health, Inc.	\$17.00	6/4/15	\$225	-12.9%	\$14.80	1,005	1,043	212	(39)	Insurance/Healthcare Solutions	Partners with health systems to provide value-based care transformation
TRU	TransUnion	\$22.50	6/24/15	\$764	37.5%	\$30.93	5,659	8,041	1,655	540	Financial Media & Content	Risk and information solutions provider to businesses and consumers
XTLY	Xactly Corporation	\$8.00	6/25/15	\$65	37.5%	\$11.00	345	317	92	(14)	Payroll & Administrative Solutions	Provider of cloud-based, incentive compensation solutions
PMTS	CPI Card Group Inc.	\$10.00	10/8/15	\$173	-58.5%	\$4.15	229	510	335	58	Payment Processors	Provider of payment card production and related services, offering a single source for financial and prepaid debit cards
FDC	First Data Corporation	\$16.00	10/14/15	\$2,817	-11.3%	\$14.19	12,927	34,351	7,860	2,398	Payment Processors	Global payment processor and commerce-enabling technology and solutions provider
SQ	Square, Inc.	\$9.00	11/18/15	\$279	51.4%	\$13.63	4,800	4,285	1,631	(71)	Payment Processors	Point-of-sale payment service and solutions provider
COTV	Cotiviti Holdings, Inc.	\$19.00	5/25/16	\$246	81.1%	\$34.40	3,102	3,846	609	206	Insurance/Healthcare Solutions	Provides payment accuracy solutions to health-care payers and retailers
Median				\$263	32.2%		2,063	2,459	584	76		

Source: S&P Global Market Intelligence

FinTech M&A

2H16 vs. 2H15

Consistent with the decline in IPO activity in 2016, M&A activity also decreased in 2016. The slowdown was more pronounced in the second half of 2016 when deal volume declined 38%, compared to the same period in 2015.

- Total cumulative reported deal value also decreased significantly in the second half of 2016. The second half of 2015 featured eight deals with reported deal values greater than \$1 billion compared to none in the second half of 2016.
- In addition, median deal value fell 55% in the second half of 2016.
- In all of 2016, there were only two deals valued at greater than \$1 billion compared to 13 in 2015.
- Payment processors, processing software & hardware, and insurance/healthcare solutions were the most active.
- All three FinTech niches experienced decline in deal volume with the Technology niche experiencing the steepest decline in the number of deals.

FINTECH NEWSLETTER: M&A

Each quarter, the FinTech newsletter reviews FinTech M&A activity. Mercer Capital provides valuation and transaction advisory services (M&A, fairness opinions, and consulting) to FinTech companies.

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Deal Activity

	2H16	2H15	% Change 1H16/1H15	FY 16	FY 15	% Change 16 / 15
# of Deals	66	106	-37.7%	168	195	-13.8%
Total Reported Deal Value (\$M)	\$3,029.7	\$29,200.1	-89.6%	\$32,229.8	\$49,057.9	-34.3%
Median Reported Deal Value (\$M)	\$46.8	\$111.0	-57.8%	\$67.1	\$73.5	-8.7%

Deal Activity by FinTech Industry Niche

	# of Deals			FY 16	FY 15	% Chg
	2H16	2H15	% Chg	FY 16	FY 15	% Chg
Payment Processors	11	20		32	30	
Processing Software & Hardware	10	6		18	14	
Payments Total	21	26	-19.2%	50	44	13.6%
Bank	2	6		6	9	
Investments	4	24		25	42	
Insurance/Healthcare Solutions	18	22		47	51	
Technology Total	24	52	-53.8%	78	102	-23.5%
Outsourcing	9	13		21	23	
Payroll & Administrative Solutions	5	3		7	4	
Financial Media & Content	7	12		12	22	
Solutions Total	21	28	-25.0%	40	49	-18.4%

Median Pricing Metrics

	2H16	2H15	% Chg	FY 16	FY 15	% Chg
Deal Value / Revenue	3.43	3.64	-5.8%	2.77	3.56	-22.3%
Deal Value Greater than \$1BN	0	8		2	13	
Deal Value Greater than \$500M	2	10		4	15	
Deal Value Greater than \$50M	9	26		14	45	

Median Deal Value

	2H16	2H15	FY 16	FY 15
Payments	68.8	58.5	148.9	67.5
Technology	88.5	100.0	79.9	35.0
Solutions	21.0	165.0	31.5	162.5

FinTech M&A

2016 Largest FinTech M&A Overview

Buyer Name/ Target Name	Announce Date	Deal Value (Reported) \$M	Deal Value, Including Debt Assumption (Reported) \$M	Valuation Multiples Total Enterprise Value (i.e., including net debt)		Target Niche	Target Description
				/ Revenue	/ EBITDA		
Quintiles Transnational Hold., Inc./ IMS Health Holdings, Inc.	5/3/16	9,002	13,539	4.42	4.83	Insurance/ Healthcare Solutions	In a merger of equals, Danbury, Conn.-based IMS Health Holdings Inc. will merge with into Durham, N.C.-based Quintiles Transnational Holdings Inc., with Quintiles continuing as the surviving corporation following the merger. Quintiles is a provider of support services for pharmaceutical, biotech, and medical companies and individuals while IMS Health Holdings is a leading provider of information and technology services to clients in the healthcare industry.
Total System Services, Inc./ TransFirst Holdings Corp.	1/26/16	2,350	3,483	2.26	2.26	Payment Processors	Provides merchant solutions to more than 235,000 small and medium-sized businesses in the U.S. through its proprietary technology, end-to-end customized and multi-channel products and superior customer service
Investor group/ Epiq Systems, Inc.	7/27/16	630	1,030	1.80	1.79	Banking Technology	Provides professional services and integrated technology solutions for the legal profession in the United States and internationally.
Thoma Bravo, LLC/ Imprivata, Inc.	7/13/16	544	544	4.35	4.15	Insurance/ Healthcare Solutions	A healthcare IT security company that enables healthcare organizations globally to access, communicate, and transact patient information securely and conveniently.
Wipro Limited/ HealthPlan Services	2/11/16	460	460	NA	2.06	Insurance/ Healthcare Solutions	Provides sales, benefits administration, retention, and technology solutions to the insurance and managed care industries.
Intercontinental Exchange, Inc./ Standard & Poor's Securities Evaluations, Inc./Credit Market Analysis Limited	3/1/16	431	431	NA	NA	Investments Technology	Provider of independent data for over-the-counter markets.

Source: S&P Global Market Intelligence

FinTech M&A

2016 Largest FinTech M&A Overview (continued)

Buyer Name/ Target Name	Announce Date	Deal Value (Reported) \$M	Deal Value, Including Debt Assumption (Reported) \$M	Valuation Multiples Total Enterprise Value (i.e., including net debt)		Target Niche	Target Description
				/ Revenue	/ EBITDA		
FinTech Acquisition Corp./ FTS Holding Corporation	3/7/16	362	424	0.92	0.83	Payment Processors	Provides payment processing and technology solutions
Blackboard Inc./ Higher One Holdings, Inc.	6/30/16	258	287	1.79	1.79	Payment Processors	Provider of financial services and data analytics services to colleges and universities.
Fiserv, Inc./ Community Financial Services Business	1/20/16	200	NA	2.11	2.11	Processing Software & Hardware	Community financial services business from ACI Worldwide Inc. which provides financial institutions with a suite of digital banking and electronic payments solutions including Architect Banking, which supports online, mobile, and tablet banking for retail banks and small business customers on a single platform
Asset International, Inc./ Market Metrics, LLC	5/23/16	175	175	NA	NA	Financial Media & Content	Target was market research business focusing exclusively on advisor-sold investments and insurance world-wide that originated from from Norwalk, Conn.-based FactSet Research Systems Inc., a market research firm.
Median		446	460	2.11	2.09		

Source: S&P Global Market Intelligence

FinTech Venture Capital Activity Overview

Larger Fundings During 2H16

Venture funding for FinTech has seen a decline in 2016 compared to robust years in the past.

- 2016 has seen fewer mega deals compared to 2015.
- The IPO and M&A slowdown may be straining funds as exits slow, discouraging investors from making big moves until the exit market picks up.

FINTECH NEWSLETTER: VC

Each quarter, the FinTech newsletter reviews FinTech venture capital funding.

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Company	Amount \$M	Company Description	FinTech Niche	Country
Infor	\$2,000	Builds cloud-based business applications for specialized industries	Tech Solutions Provider	U.S. New York, NY
Elevate	\$545	Online alternative lender	Alternative Lending	U.S. Fort Worth, TX
Sedgwick	\$500	Risk management technology solutions	Insurance Tech	U.S. Memphis, TN
Qufenqi	\$449	Installment payment and investor platform	Payments	China
CommonBond	\$330	Student loan marketplace lender	Alternative Lending	U.S. New York, NY
51Credit	\$310	Credit card and online financial services	Alternative Lending	China
China UnionPay Merchant Services	\$296	Offers bank card payment services	Payments	China
Mosaic	\$220	Marketplace lender for residential solar projects	Alternative Lending	U.S. Oakland, CA
Opendoor	\$210	Consumer marketplace for homes	Alternative Lending	U.S. San Francisco, CA
Payoneer	\$180	Cross border payments platform	Payments	U.S. New York, NY
Hero FinCorp	\$150	Online lending for consumer finance and commercial lending	Alternative Lending	India

A summary of selected FinTech venture capital financing activity in the second half of 2016. Covers selected financing rounds larger than \$35 million.

Source: Finovate Emails which cite a number of sources including: themselves, Crunchbase, FT Partners, and *The Wall Street Journal* & Company Websites

FinTech Venture Capital Activity Overview

Larger Fundings During 2H16 (cont.)

Company	Amount \$M	Company Description	FinTech Niche	Country
Stripe	\$150	Provides software that allows businesses to accept online payments	Payments	U.S. San Francisco, CA
PaySimple	\$115	Cloud-based service commerce platform for small businesses	Payments	U.S. Denver, CO
Blockchain Intelligence Group	\$100	Blockchain search and analytics	Payments	Canada
Avalara	\$96	Cloud based software provider that help businesses with sales tax compliance	Tech Solutions Provider	U.S. Bainbridge Island, WA
Apttus	\$88	Quote-to-cash software solution provider	Tech Solutions Provider	U.S. San Mateo, CA
51Credit	\$84	Provides online credit-based financial services	Alternative Lending	China
Nubank	\$80	Digital credit card for smartphones	Alternative Lending	Brazil
Compass	\$75	Real-estate platform for home buying, selling, and renting	Alternative Lending	U.S. New York, NY
InCred Finance	\$75	Financial services company focusing on small business and consumer or personal loans	Alternative Lending	India
QuantGroup	\$73	Web-based credit scoring and risk management system	Alternative Lending	China
OurCrowd	\$72	Equity based crowdfunding platform	Asset Management	Israel
FirstP2P	\$70	Online peer-to-peer lending	Alternative Lending	China

A summary of selected FinTech venture capital financing activity in the second half of 2016. Covers selected financing rounds larger than \$35 million.

Source: Finovate Emails which cite a number of sources including: themselves, Crunchbase, FT Partners, and *The Wall Street Journal* & Company Websites

FinTech Venture Capital Activity Overview

Larger Fundings During 2H16 (cont.)

Company	Amount \$M	Company Description	FinTech Niche	Country
Fantex	\$60	Builds tracking stocks for professional athletes	Alternative Investments	U.S. San Francisco, CA
Interactions	\$56	Virtual customer service	Tech Solutions Provider	U.S. Franklin, MA
Ripple	\$55	Blockchain based cross-border payment solutions	Alternative Lending	U.S. San Francisco, CA
Finova Finacial	\$53	Online alternative title lender	Alternative Lending	U.S. Palm Beach Gardens, FL
Vlocity	\$50	Cloud software for specific industries	Insurance Tech	U.S. San Francisco, CA
GreenSky Credit	\$50	Online loan platform allowing merchants to offer credit programs to businesses and consumers	Alternative Lending	U.S. Atlanta, GA
Bluevine Capital	\$49	Cloud based financing to small businesses	Alternative Lending	U.S. Palo Alto, CA
LendUp	\$48	Offers transparent loan products to those with low credit scores	Alternative Lending	U.S. San Francisco, CA
Yunnex	\$45	Point-of-sale solutions provider	Payments	China
Finicity Corporation	\$42	Real-time financial data aggregation platform	Tech Solutions Provider	U.S. Draper, UT
BitSight Technologies	\$40	Security ratings provider to help companies manage information security risk	Insurance Tech	U.S. Cambridge, MA

A summary of selected FinTech venture capital financing activity in the second half of 2016. Covers selected financing rounds larger than \$35 million.

Source: Finovate Emails which cite a number of sources including: themselves, Crunchbase, FT Partners, and *The Wall Street Journal* & Company Websites

FinTech Venture Capital Activity Overview

Larger Fundings During 2H16 (cont.)

Company	Amount \$M	Company Description	FinTech Niche	Country
Cyence	\$40	Provides software to insurers to understand the impact of cyber risk	Tech Solutions Provider	U.S. San Mateo, CA
Mavenlink	\$39	Provides enterprise-class software as a service to unify all essential functions of services organizations	Tech Solutions Provider	U.S. Irvine, CA
Remitly	\$38	Person-to-person mobile payments service	Payments	U.S. Seattle, WA
Nutmeg	\$38	Online investment management services	Asset Management	London, U.K.
FINO PayTech	\$38	Online marketplace lender	Alternative Lending	India
Neogrowth	\$35	Alternative lender to small businesses	Alternative Lending	India

A summary of selected FinTech venture capital financing activity in the second half of 2016. Covers selected financing rounds larger than \$35 million.

Source: Finovate Emails which cite a number of sources including: themselves, Crunchbase, FT Partners, and *The Wall Street Journal* & Company Websites

Venture Capital Case Study

Lemonade™

“From signing up to submitting a claim, the entire experience is mobile, simple, and remarkably fast. What used to take weeks or months now happens in minutes or seconds. It’s what you get when you replace brokers and paperwork with bots and machine learning.”

– Shai Wininge
Lemonade, Co-Founder & President

“We’re betting Lemonade will transform the insurance landscape beyond recognition. It is one to watch.”

– Haim Sadger
Sequoia Capital, Partner

“Most Americans view insurance as a necessary evil rather than a social good, and that’s something we’d like to change. As a fintech-insurance company, Lemonade is designing around the bureaucracy and conflict that haunt the industry, replacing them with technology and transparency. What makes this exciting is that it requires reinventing the very structure and business model of insurance in ways not available to the legacy insurance carriers.”

– Daniel Schreiber
Lemonade, Co-Founder & CEO

Venture Capital Case Study

Lemonade

Lemonade, Inc. is a peer-to-peer (P2P) insurance company that offers renters, homeowners, condo, and co-op insurance. The company currently only offers insurance coverage to those living in New York State.

Lemonade introduces a unique business model for an insurance company. Instead of using brokers, Lemonade uses artificial intelligence (AI) to sign up customers through its app or website which is powered by bots that automate the process. Users with pre-existing plans through other insurance companies can have them terminated using the app. Additionally, claims are filed through the app.

Lemonade takes a 20% flat fee of the customer's premium. If there is money left over after paying out claims and Lemonade's 20% flat fee, the rest of the money is given to causes that customers care about through what the company calls the Giveback. In this way the company believes that it overcomes the conflict of interest faced by traditional insurance companies where every dollar denied in claims is revenue for the traditional insurance company.

Lemonade is a Public Benefit Corporation and certified B-Corp; therefore, social impact is part of its legal mission and its business model. The P2P piece of the business model is represented by people supporting the same causes.

Timeline

Year	Significant Corporate Events
2015	June: Lemonade, Inc. founded by Daniel Schreiber and Shai Winger December 8: \$13 million seed funding from Sequoia Capital, Aleph, Expansion Venture Capital, Tusk Ventures, and one unknown
2016	February 24: Reinsured by Lloyd's of London and Berkshire Hathaway's National Indemnity August 23: Raised unknown amount from XL Innovate and one unknown May 17: Became world's first Public Benefit Insurance Company & gained B-Corporation Certification September 21: Officially launched in New York State December 5: \$34 million funding round from General Catalyst, GV, Thrive Capital, Tusk Ventures, Aleph, Sequoia, and XL Innovate; and also filed for an insurance carrier license in California

Sources for Case Study:

["P2P Insurance Firm Lemonade Launches Out of Stealth, Powered by Chatbots, Morals, and Bib Bucks," Venture Beat.](#)
[Business Wire Press Releases](#)
[Lemonade Website](#)
[Crunchbase](#)

Venture Capital Case Study

Lemonade

FINTECH NEWSLETTER: CASE STUDY

Each quarter, the FinTech newsletter features a case study, typically covering companies with notable VC funding rounds. Past VC case studies include TradeKing and Stripe.

[Learn More](#)

Key Takeaways

1. Focus on people's dissatisfaction and inherent conflicts with traditional insurance companies

Consumers generally view traditional insurance companies as a necessary evil. They are bothered by the conflict of interest faced by insurance companies in which they must decide to pay claims or keep money for their bottom lines. Lemonade's Giveback program provides a potential solution to this problem.

2. Automation disrupting the traditional insurance space

Artificial intelligence, bots, and algorithms, which are three elements emerging in other areas of FinTech, are also expanding into traditional insurance. The cost savings and efficiency of the technology help to allow the world's first P2P insurer to forgo employing brokers which traditional insurers rely on to sell their products. Additionally, AI is able to deliver ease of use and rapid payment of claims to consumers who renounce hassling with traditional insurers and brokers.

3. Acknowledgement from large players in reinsurance

Lloyd's and National Indemnity's recognition of Lemonade and willingness to back the company confirm the company's arrival as a real competitor to traditional insurance. Traditional insurers must acknowledge the disruption of their industry and decide the appropriate course of action to meet the challenge.

Publicly Traded Payments Companies

Ticker	Name	12/30/16 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings		Ent'p Value / EBITDA		EV / LTM	LTM Total		LTM Margins	
					LTM	FY17E	LTM	FY17E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Payment Processors													
ADS	Alliance Data Systems Corporation	228.50	13,198	31,037	24.2	12.2	18.6	14.1	4.4	7,059	1,671	24%	10%
HAWK	Blackhawk Network Holdings, Inc.	37.68	2,086	2,367	98.8	19.8	16.4	9.3	1.3	1,876	145	8%	1%
CATM	Cardtronics plc	54.57	2,472	2,898	32.0	-	9.9	8.7	2.3	1,259	294	23%	6%
PMTS	CPI Card Group Inc.	4.15	229	510	30.1	8.7	8.8	7.1	1.5	335	58	17%	2%
DLX	Deluxe Corporation	71.61	3,480	4,018	15.1	13.8	9.4	8.2	2.2	1,832	429	23%	13%
EEFT	Euronet Worldwide, Inc.	72.43	3,781	3,659	22.1	15.9	11.3	9.1	1.9	1,909	324	17%	9%
EVRI	Everi Holdings Inc.	2.17	143	1,167	NM	2.7	6.4	5.7	1.4	846	182	22%	-14%
EVTC	EVERTEC, Inc.	17.75	1,316	1,921	16.4	10.6	12.9	10.4	5.0	383	149	39%	21%
FDC	First Data Corporation	14.19	12,927	34,351	NM	9.5	12.9	11.4	4.4	7,860	2,398	31%	-13%
FLT	FleetCor Technologies, Inc.	141.52	13,132	16,663	32.8	17.4	20.4	14.3	9.5	1,747	858	49%	23%
GPN	Global Payments Inc.	69.41	10,668	14,665	35.7	18.0	19.8	13.0	4.7	3,089	742	24%	9%
GDOT	Green Dot Corporation	23.55	1,182	653	33.1	13.6	7.2	3.7	0.9	707	91	13%	5%
MA	Mastercard Incorporated	103.25	112,503	108,880	28.5	24.1	18.2	15.8	10.3	10,537	5,986	57%	38%
MGI	MoneyGram International, Inc.	11.81	628	1,392	65.5	11.1	6.4	4.9	0.9	1,502	216	14%	1%
PLPM	Planet Payment, Inc.	4.08	215	217	20.2	20.4	24.1	12.6	3.9	56	9	16%	21%
SQ	Square, Inc.	13.63	4,800	4,285	NM	NM	NM	43.1	2.6	1,631	(71)	-4%	-13%
TSS	Total System Services, Inc.	49.03	9,013	12,059	27.6	15.6	14.4	10.6	3.2	3,755	811	22%	9%
JTPY	JetPay Corporation	2.25	40	100	NM	NM	35.5	32.7	2.0	51	3	6%	-16%
VNTV	Vantiv, Inc.	59.62	9,604	12,750	44.2	19.4	15.6	13.0	3.7	3,476	818	24%	6%
PAY	VeriFone Systems, Inc.	17.73	1,974	2,791	NM	11.9	11.0	8.9	1.4	1,992	254	13%	0%
V	Visa Inc.	78.02	181,545	194,206	30.8	22.8	18.9	15.4	12.9	15,082	10,267	68%	40%
WU	The Western Union Company	21.72	10,531	12,457	13.2	12.6	9.2	9.1	2.3	5,431	1,357	25%	15%
WEX	WEX Inc.	111.60	4,769	6,533	58.2	20.8	23.2	13.2	6.9	940	281	30%	8%
Median			3,781	4,018	30.4	13.8	13.7	10.6	2.6	1,832	294	23%	8%

Publicly Traded Payments Companies

Ticker	Name	12/30/16 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings		Ent'p Value / EBITDA		EV / LTM	LTM Total		LTM Margins	
					LTM	FY17E	LTM	FY17E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Payment Software/Hardware													
ADP	Automatic Data Processing, Inc.	102.78	46,372	45,562	30.8	27.1	17.2	16.3	3.8	11,871	2,649	22%	13%
CVG	Convergys Corporation	24.56	2,342	2,501	16.3	12.6	6.4	6.5	0.9	2,907	392	13%	6%
NSP	Insperty, Inc.	70.95	1,510	1,389	25.0	17.2	12.0	8.4	0.5	2,862	115	4%	2%
PAYX	Paychex, Inc.	60.88	21,846	21,656	28.3	24.6	16.5	14.0	7.1	3,063	1,311	43%	25%
WDAY	Workday, Inc.	66.09	13,284	11,898	NM	237.5	NM	54.1	8.2	1,456	(244)	-17%	-26%
PAYC	Paycom Software, Inc.	45.49	2,734	2,690	67.1	43.7	43.4	23.3	8.8	306	62	20%	13%
PCTY	Paylocity Holding Corporation	30.01	1,541	1,463	NM	69.0	221.8	34.2	5.8	251	7	3%	-1%
TNET	TriNet Group, Inc.	25.62	1,763	2,071	35.1	18.3	14.4	10.4	0.7	2,975	144	5%	2%
UPLD	Upland Software, Inc.	8.95	160	180	NM	20.8	35.6	10.9	2.5	73	5	7%	-22%
Median			2,342	2,501	29.5	24.6	16.9	14.0	3.8	2,862	115	7%	2%
Overall Payments Median			3,107	3,279	30.4	17.3	15.0	11.1	2.9	1,854	268	21%	6%

Publicly Traded Solutions Companies

Ticker	Name	12/30/16 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings		Ent'p Value / EBITDA		EV / LTM	LTM Total		LTM Margins	
					LTM	FY17E	LTM	FY17E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Outsourced													
ACXM	Acxiom Corporation	26.80	2,080	2,079	238.4	37.6	24.0	11.8	2.4	878	87	10%	1%
CSC	Computer Sciences Corporation	59.42	8,367	10,900	NM	18.8	11.8	7.7	1.5	7,358	922	13%	-1%
CSGS	CSG Systems International, Inc.	48.40	1,562	1,702	21.8	17.7	10.1	9.1	2.2	763	168	22%	10%
EFX	Equifax Inc.	118.23	14,159	16,932	29.9	19.7	16.3	13.6	5.6	3,010	1,036	34%	16%
EXLS	Exlservice Holdings, Inc.	50.44	1,690	1,522	28.5	19.6	15.0	10.8	2.3	675	102	15%	9%
FICO	Fair Isaac Corporation	119.22	3,689	4,184	35.2	23.3	20.8	19.7	4.7	881	201	23%	12%
FIS	Fidelity National Information Services, Inc.	75.64	24,827	35,010	52.5	17.5	15.9	11.1	4.0	8,669	2,199	25%	5%
FISV	Fiserv, Inc.	106.28	23,069	27,396	26.7	21.4	14.9	13.3	5.0	5,442	1,695	31%	17%
IL	IntraLinks Holdings, Inc.	13.52	783	816	NM	35.0	40.8	11.7	2.8	290	20	7%	-7%
INTU	Intuit Inc.	114.61	29,417	29,912	37.3	25.4	20.9	14.8	6.3	4,759	1,429	30%	21%
PRGX	PRGX Global, Inc.	5.90	129	115	19.6	25.1	10.0	5.7	0.8	137	12	8%	2%
BKFS	Black Knight Financial Services, Inc.	37.80	2,612	5,185	59.2	28.6	15.0	10.0	5.2	1,002	346	35%	4%
SSNC	SS&C Technologies Holdings, Inc.	28.60	5,801	8,189	67.4	15.0	17.2	11.4	5.9	1,381	477	35%	6%
Median			3,689	5,185	35.2	21.4	15.9	11.4	4.0	1,002	346	23%	6%

Publicly Traded Solutions Companies

Ticker	Name	12/30/16 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings		Ent'p Value / EBITDA		EV / LTM	LTM Total		LTM Margins	
					LTM	FY17E	LTM	FY17E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Payroll/Administration													
ACIW	ACI Worldwide, Inc.	18.15	2,129	2,830	20.2	35.6	38.6	11.2	2.9	972	73	8%	11%
EPAY	Bottomline Technologies (de), Inc.	25.02	914	960	NM	26.5	28.3	12.5	2.8	343	34	10%	-8%
BR	Broadridge Financial Solutions, Inc.	66.30	7,895	8,793	26.2	20.0	14.1	11.0	2.7	3,198	629	20%	10%
CDK	CDK Global, Inc.	59.69	8,924	9,905	36.2	23.1	19.5	12.8	4.6	2,151	508	24%	12%
DBD	Diebold Nixdorf, Incorporated	25.15	1,890	3,571	NM	15.1	13.0	7.9	1.3	2,683	275	10%	3%
NCR	NCR Corporation	40.56	5,033	8,852	24.7	12.4	9.6	8.1	1.4	6,421	918	14%	4%
NTWK	NetSol Technologies, Inc.	5.20	57	64	28.1	10.4	5.3	4.6	1.0	66	12	18%	3%
PEGA	Pegasystems, Inc.	36.00	2,748	2,618	78.3	32.4	29.4	17.8	3.5	755	89	12%	5%
XTLY	Xactly Corporation	11.00	345	317	NM	NM	NM	NM	3.5	92	(14)	-16%	-20%
WK	Workiva Inc.	13.65	563	530	NM	NM	NM	NM	3.1	172	(44)	-26%	-27%
Median			2,009	2,724	27.1	21.5	16.8	11.1	2.9	863	81	11%	3%
Content													
RATE	Bankrate, Inc.	11.05	996	1,155	NM	16.0	12.4	9.3	2.8	413	93	23%	-6%
CLGX	CoreLogic, Inc.	36.83	3,181	4,703	23.3	14.6	12.0	9.2	2.5	1,869	390	21%	8%
CSGP	CoStar Group, Inc.	188.49	6,144	5,958	77.7	38.7	28.9	20.4	7.3	812	207	25%	10%
DNB	The Dun & Bradstreet Corporation	121.32	4,463	5,755	46.3	15.8	13.5	11.2	3.4	1,686	425	25%	6%
FDS	FactSet Research Systems Inc.	163.43	6,488	6,659	19.4	20.2	16.6	14.2	5.8	1,145	402	35%	30%
TRU	TransUnion	30.93	5,659	8,041	62.8	19.6	14.7	11.6	4.9	1,655	540	33%	5%
FORR	Forrester Research Inc.	42.95	782	649	56.5	31.7	18.2	14.3	2.0	324	36	11%	4%
IT	Gartner, Inc.	101.07	8,349	8,635	44.0	30.4	21.9	16.5	3.6	2,385	395	17%	8%
MORN	Morningstar, Inc.	73.56	3,167	2,963	25.0	23.6	11.8	10.9	3.8	788	250	32%	16%
VRSK	Verisk Analytics, Inc.	81.17	13,592	15,710	29.5	24.2	15.2	14.7	6.9	2,274	1,033	45%	26%
Median			5,061	5,856	44.0	21.9	14.9	12.9	3.7	1,400	392	25%	8%
Overall Solutions Median			3,181	4,703	32.5	21.4	15.2	11.4	3.4	1,002	275	21%	6%

Publicly Traded Technology Companies

Ticker	Name	12/30/16 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings		Ent'p Value / EBITDA		EV / LTM	LTM Total		LTM Margins	
					LTM	FY17E	LTM	FY17E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Banking Technology													
ELLI	Ellie Mae, Inc.	83.68	2,809	2,422	84.2	35.2	35.5	16.9	7.4	329	68	21%	10%
QTWO	Q2 Holdings, Inc.	28.85	1,158	1,066	NM	NM	NM	141.3	7.7	138	(22)	-16%	-27%
JKHY	Jack Henry & Associates, Inc.	88.78	6,934	6,849	27.1	27.3	14.1	13.2	5.0	1,378	486	35%	19%
PFMT	Performant Financial Corporation	2.35	118	133	39.5	NM	5.6	22.2	0.9	149	24	16%	2%
Median			1,983	1,744	39.5	31.2	14.1	19.6	6.2	239	46	18%	6%
Insurance/Healthcare Technology													
ATHN	athenahealth, Inc.	105.17	4,150	4,311	224.5	43.2	48.5	13.9	4.1	1,052	89	8%	2%
CRVL	CorVel Corporation	36.60	713	673	26.0	-	10.3	-	1.3	509	65	13%	5%
CRD.B	Crawford & Company	12.56	699	847	NM	14.8	7.1	5.4	0.7	1,122	106	9%	-2%
EBIX	Ebix, Inc.	57.05	1,849	2,013	20.7	20.2	18.7	16.5	7.0	288	108	37%	32%
GWRE	Guidewire Software, Inc.	49.33	3,626	3,096	NM	59.9	172.8	29.1	7.1	436	18	4%	2%
HMSY	HMS Holdings Corp.	18.16	1,537	1,564	44.3	22.6	16.9	11.6	3.1	496	93	19%	7%
MGLN	Magellan Health, Inc.	75.25	1,749	2,057	26.3	17.5	8.6	6.2	0.4	4,842	238	5%	1%
CSLT	Castlight Health, Inc.	4.95	513	397	NM	NM	NM	NM	4.3	93	(63)	-68%	-74%
CNXR	Connecture, Inc.	1.68	38	107	NM	NM	NM	14.0	1.2	90	(2)	-2%	-18%
HQY	HealthEquity, Inc.	40.52	2,406	2,240	96.4	63.9	43.2	28.2	13.4	167	52	31%	15%
INOV	Inovalon Holdings, Inc.	10.30	1,514	1,071	36.8	31.3	11.3	10.0	2.4	452	94	21%	9%
EVH	Evolent Health, Inc.	14.80	1,005	1,043	NM	NM	NM	NM	4.9	212	(39)	-19%	-69%
Median			1,526	1,318	36.8	22.6	16.9	12.8	3.6	444	77	9%	2%

Publicly Traded Technology Companies

Ticker	Name	12/30/16 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings		Ent'p Value / EBITDA		EV / LTM	LTM Total		LTM Margins	
					LTM	FY17E	LTM	FY17E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Investment Technology													
DST	DST Systems, Inc.	107.15	3,428	3,697	16.0	17.2	8.1	9.8	1.3	2,892	426	15%	16%
ENV	Investnet, Inc.	35.25	1,518	1,758	NM	26.4	37.5	13.2	3.2	541	47	9%	-5%
MSCI	MSCI Inc.	78.78	7,415	8,515	30.9	22.7	15.5	13.6	7.5	1,131	549	49%	22%
Median			3,428	3,697	23.4	22.7	15.5	13.2	3.2	1,131	426	15%	16%
Overall Technology Median			1,537	1,758	33.9	24.5	15.5	13.6	4.1	452	68	13%	2%