

## VALUE FOCUS

# FinTech Industry

## Fourth Quarter 2018

Broader markets declined ~14% in 4Q18. Broadly speaking, 2018 corporate earnings came in relatively strong with the inclusion of lower tax rates. However, volatility increased and returns declined in Q4 as the market weighed the potential for slower growth in 2019, political uncertainty, and a variety of other economic factors (nearly inverted Treasury curve, decline in oil prices, weaker home sales, and widening credit spreads).

In 4Q18, each FinTech niche we track (payments, solutions, and technology) underperformed the S&P 500 with declines of 15-20%. However, each niche outperformed the broader market for the year as higher returns in the first three quarters outpaced the S&P 500. Q3 was notable with three niches up 9-15% compared to an 8% return for the S&P 500. Additionally, the FinTech IPO drought that started in 2016 finally ended with three new IPOs (EVO Payments, GreenSky, and i3 Verticals) in 2Q18. M&A activity declined slightly in 2018 (as measured by number of deals), but there was

a notable increase in larger deals with 17 transactions having deal values greater than \$500 million (compared to nine in 2017 and four in 2016).

While interest in the FinTech sector remains high, the outlook remains uncertain as competitive pressures, continuing technological change, and regulatory/policy uncertainty remain. A strong 2017 and first three quarters of 2018 in the publicly traded FinTechs drove a pick-up in larger exit/IPO FinTech activity. The increase in larger exit activity in 2018 (both IPOs and deals) reflects continued maturation of the sector. This could bode well for venture and growth funding trends in 2019 as gains harvested by investors can be redeployed in early-stage and high growth private FinTech companies. A question is whether the decline in the public FinTechs in 4Q18 foretells a slowdown in M&A/exit activity in 2019 or will the upward trend persist as many FinTechs continue to mature and consider exit opportunities.



# FinTech Industry Services

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

## Services Provided

- Valuation of financial technology companies
- Financial advisory/valuations for acquisitions and divestitures
- Valuations for purchase accounting and impairment testing
- Fairness and solvency opinions
- Litigation support for economic damages and valuation and shareholder disputes
- Consulting and board presentations for corporate and strategic planning

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### BONUS ARTICLE

#### How to Value an InsurTech Company

InsurTech, a FinTech niche, continues to threaten the traditional state of the insurance industry. In this article, we provide an overview of the niche and the market conditions in which these companies operate, as well as company-specific considerations to understand when valuing these companies.

Learn More about Mercer Capital &  
our FinTech Services at

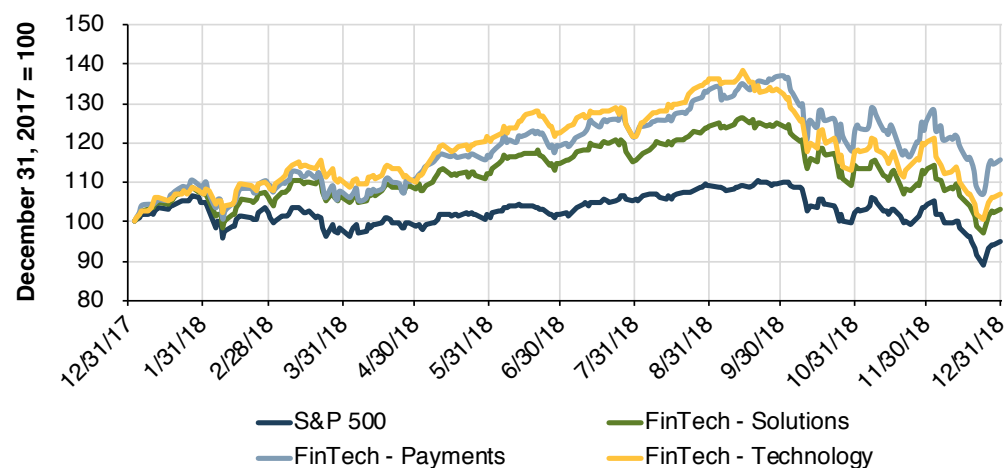
<http://mer.cr/FinTech>

## Public Market Indicators

In the last 12 months, all three FinTech niches (payments, technology and solutions) outperformed the market despite dropping more than the market in 4Q18.

The payments, solutions, and technology niches returned 3-16% and outperformed the S&P 500 which was down 5% in 2018.

The FinTech IPO drought that started in 2016 finally ended with three new FinTech IPOs in 2Q18 (EVO Payments, GreenSky, and i3 Verticals).



Source: S&P Global Market Intelligence

### Median Total Return

as of December 31, 2018

Segment	4Q18	3Q18	Full Year 2018
FinTech - Payments	-15.5%	14.8%	15.7%
FinTech - Solutions	-17.3%	9.2%	3.3%
FinTech - Technology	-19.9%	9.2%	7.2%
<b>S&amp;P 500</b>	<b>-13.5%</b>	<b>7.7%</b>	<b>-5.2%</b>

Source: S&P Global Market Intelligence

#### 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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- 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 ~14x estimated forward earnings at the end of 2018 (per FactSet).
- Despite the heightened returns during the last year, the Payments niche reported lower forward P/E and EV/EBITDA valuation multiples than the Solutions and Technology niches.
- Investors continue to weigh market potential and growth for the sector against recent FinTech performance and profitability while traditional financial incumbents are weighing whether to enter FinTech partnerships, develop their own in-house solutions or acquire FinTech companies.
- The Technology niche reported the highest P/E and EV/EBITDA multiples compared to the other two niches, primary reflecting their lower margins as price-to-revenue multiples were lower than other niches.

### Valuation Multiples

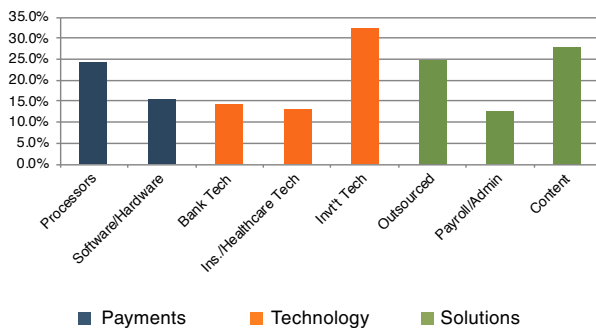
as of December 31, 2018

Segment	Price / LTM EPS	Price / 2019 (E) EPS	Price / 2020 (E) EPS	Ent'p Value / LTM EBITDA	Ent'p Value / FY18 (E) EBITDA	Ent'p Value / FY19 (E) EBITDA	Ent'p Value / LTM Revenue
FinTech - Payments	29.5	19.9	17.0	15.6	13.1	11.2	4.2
FinTech - Solutions	28.0	22.0	20.1	17.6	13.7	12.5	4.0
FinTech - Technology	37.1	27.8	27.1	20.0	16.2	14.9	4.0

Source: S&P Global Market Intelligence

### FinTech Margins

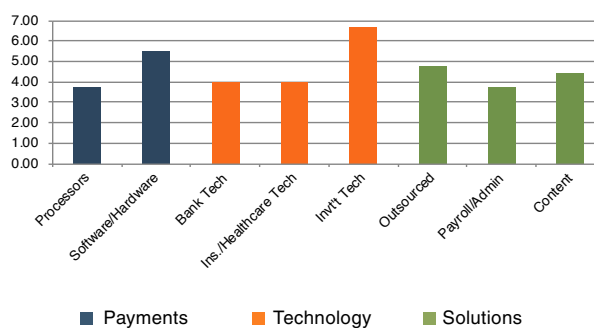
EBITDA Margin (LTM)



Source: S&P Global Market Intelligence

### FinTech Revenue Multiples

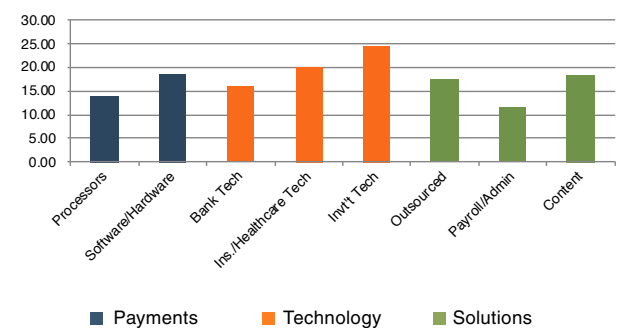
EV / Revenue (LTM)



Source: S&P Global Market Intelligence

### FinTech EBITDA Multiples

EV / EBITDA (LTM)



Source: S&P Global Market Intelligence

# FinTech M&A

## Fourth Quarter 2018

### Number of Deals

Deal activity as measured by number of transactions declined 3.2% in 2018 (compared to 2017). The solutions niche had a significant increase in activity (approximately 27%) but the technology and payments niche declined.

### Deals by Size

There was a marked increase in activity in 2018 involving larger transactions. Several of the larger transactions were within the payments and solutions niches.

### Pricing Metrics

Deal value/revenue multiples in 2018 were also up relative to 2017 and 2016 levels, reflecting continued market strength, acquirer interest, and a greater proportion of larger transactions.

Three 2Q18 IPOs: EVO Payments, GreenSky, and i3 Verticals.

#### 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

	2018	2017	2016	% Change 2018 / 2017
# of Deals	182	188	194	-3.2%
Total Reported Deal Value (\$M)	\$87,437.0	\$17,403.7	\$20,716.3	402.4%
Median Reported Deal Value (\$M)	\$123.0	\$89.5	\$39.6	37.4%

### Deal Activity by FinTech Industry Niche

	# of Deals			% Change 2018 / 2017
	2018	2017	2016	
Payments Total	39	44	35	-11.4%
Technology Total	92	104	106	-11.5%
Solutions Total	51	40	53	27.5%

### Median Pricing Metrics

	2018	2017	2016	% Change
Deal Value / Revenue	4.06	3.13	2.32	29.7%
Deal Value Greater than \$1BN	15	4	1	
Deal Value Greater than \$500M	17	9	4	
Deal Value Greater than \$50M	42	38	24	

### Median Deal Value (\$M)

	2018	2017	2016
Payments	\$148.5	\$213.5	\$258.0
Technology	\$84.9	\$59.6	\$25.0
Solutions	\$120.0	\$119.0	\$37.0

## Publicly Traded Payments Companies

		12/31/18 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings			Ent'p Value / EBITDA			EV / LTM	LTM Total		LTM Margins		
					LTM	FY18E	FY19E	LTM	FY18E	FY19E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.	
Payment Processors																
ADS	Alliance Data Systems Corporation	150.08	8,175	29,202	8.8	6.6	6.0	16.4	14.1	13.1	3.7	7,842	1,786	23%	12%	
CATM	Cardtronics plc	26.00	1,199	1,988	46.9	12.7	12.6	6.7	6.9	6.9	1.4	1,380	297	22%	2%	
PMTS	CPI Card Group Inc.	2.29	26	319	NM	NM	NM	12.8	11.3	9.9	1.2	276	25	9%	-16%	
DLX	Deluxe Corporation	38.44	1,780	2,613	10.4	6.8	6.9	5.5	5.2	5.1	1.3	1,968	472	24%	9%	
EEFT	Euronet Worldwide, Inc.	102.38	5,279	5,038	37.0	18.7	15.0	10.9	10.2	8.3	2.0	2,492	464	19%	6%	
EVRI	Everi Holdings Inc.	5.15	361	1,388	NM	46.8	41.8	6.4	6.0	5.6	2.3	598	219	37%	-3%	
EVTC	EVERTEC, Inc.	28.70	2,026	2,504	29.2	15.7	14.6	15.6	11.9	11.2	5.8	435	159	37%	17%	
FDC	First Data Corporation	16.91	15,836	35,876	9.0	12.1	10.6	11.1	11.0	10.5	4.2	8,617	3,017	35%	21%	
FLT	FleetCor Technologies, Inc.	185.72	16,464	20,012	21.7	17.7	15.6	15.5	14.7	13.5	8.3	2,400	1,292	54%	33%	
GPN	Global Payments Inc.	103.13	16,316	21,011	26.6	19.9	17.0	16.5	14.7	13.0	5.9	3,540	1,270	36%	17%	
GDOT	Green Dot Corporation	79.52	4,191	3,204	37.2	24.7	21.9	19.1	12.8	11.2	3.2	1,017	167	16%	11%	
MA	Mastercard Incorporated	188.65	194,837	192,794	38.3	29.2	25.1	22.5	21.6	19.0	13.3	14,455	8,577	59%	36%	
MGI	MoneyGram International, Inc.	2.00	111	805	NM	2.8	3.4	3.8	3.4	3.4	0.5	1,510	215	14%	-4%	
SQ	Square, Inc.	56.09	23,193	23,046	NM	120.7	78.3	NM	90.4	54.6	7.7	2,982	(0)	0%	-1%	
TSS	Total System Services, Inc.	81.29	14,831	18,242	21.9	18.2	16.8	16.4	13.4	12.7	4.3	4,283	1,067	25%	16%	
V	Visa Inc.	131.94	290,823	301,214	29.8	27.6	23.8	21.7	20.5	18.1	14.6	20,609	13,862	67%	50%	
WU	The Western Union Company	17.06	7,554	10,080	NM	8.9	8.8	7.4	7.2	7.0	1.8	5,627	1,366	24%	-9%	
WEX	WEX Inc.	140.06	6,037	7,893	27.1	17.1	15.0	14.7	12.4	11.1	5.5	1,440	535	37%	16%	
Median			6,796	8,987	27.1	17.7	15.0	14.7	12.1	11.1	3.9	2,446	503	25%	12%	

## Publicly Traded Payments Companies

		12/31/18 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings			Ent'p Value / EBITDA			EV / LTM	LTM Total		LTM Margins	
					LTM	FY18E	FY19E	LTM	FY18E	FY19E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Payment Software/Hardware															
ADP	Automatic Data Processing, Inc.	131.12	57,395	58,233	33.8	27.2	23.6	19.1	19.0	16.2	4.3	13,572	3,052	22%	13%
EVOP	EVO Payments, Inc.	24.67	626	1,240	NM	47.4	33.2	10.4	8.6	7.5	2.2	553	118	21%	-3%
IIIV	i3 Verticals, Inc.	24.10	220	329	292.5	37.7	27.7	11.9	10.4	9.0	1.0	324	28	9%	-2%
NSP	Insperty, Inc.	93.36	3,903	3,642	31.1	25.2	21.7	18.5	15.4	13.3	1.0	3,688	196	5%	3%
PAYC	Paycom Software, Inc.	122.45	7,177	7,127	73.5	46.9	38.2	52.8	30.5	24.6	13.4	530	135	25%	18%
PAYX	Paychex, Inc.	65.15	23,395	22,693	23.4	22.0	20.7	15.8	14.2	13.3	6.5	3,507	1,440	41%	29%
PCTY	Paylocity Holding Corporation	60.21	3,179	3,094	69.3	42.5	41.3	85.9	31.3	21.5	7.8	397	36	9%	12%
PYPL	PayPal Holdings, Inc.	84.09	99,088	91,501	48.6	35.1	29.1	33.9	22.9	19.2	6.1	14,969	2,699	18%	14%
TNET	TriNet Group, Inc.	41.95	2,955	3,098	13.3	14.2	13.5	10.9	9.4	8.8	0.9	3,434	285	8%	7%
UPLD	Upland Software, Inc.	27.18	587	729	NM	17.0	13.7	25.4	13.9	10.5	5.5	133	29	22%	-12%
WDAY	Workday, Inc.	159.68	35,130	34,738	NM	126.0	99.4	NM	73.9	52.6	13.3	2,616	(224)	-9%	-15%
Median			3,903	3,642	41.2	35.1	27.7	18.8	15.4	13.3	5.5	2,616	135	18%	7%
Overall Payments Median			6,037	7,127	29.8	20.9	18.9	15.6	13.4	11.2	4.3	2,492	297	22%	11%

## Publicly Traded Solutions Companies

Ticker	Name	12/31/18 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings			Ent'p Value / EBITDA			EV / LTM	LTM Total		LTM Margins	
					LTM	FY18E	FY19E	LTM	FY18E	FY19E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Outsourced															
CSGS	CSG Systems International, Inc.	31.77	1,059	1,220	17.4	11.1	10.2	7.9	6.2	6.0	1.5	833	155	19%	7%
EFX	Equifax Inc.	93.13	11,229	13,665	25.3	16.3	15.8	16.1	11.9	11.3	4.0	3,415	851	25%	13%
EXLS	ExlService Holdings, Inc.	52.62	1,803	1,861	42.7	19.1	17.4	15.9	12.5	10.6	2.2	846	117	14%	5%
FICO	Fair Isaac Corporation	187.00	5,415	6,089	40.9	29.4	26.0	26.0	25.3	23.5	5.9	1,032	234	23%	14%
FIS	Fidelity National Information Services, Inc.	102.55	33,584	42,075	22.3	19.6	17.8	16.2	13.3	12.6	4.7	8,877	2,616	29%	17%
FISV	Fiserv, Inc.	73.49	29,284	33,886	21.5	23.5	20.9	18.1	15.7	14.6	5.9	5,788	1,862	32%	25%
INTU	Intuit Inc.	196.85	51,090	50,183	41.5	31.2	29.6	28.7	20.6	20.3	8.3	6,070	1,749	29%	21%
PRGX	PRGX Global, Inc.	9.47	224	231	69.8	118.4	37.1	17.6	9.2	8.0	1.4	169	13	8%	1%
SSNC	SS&C Technologies Holdings, Inc.	45.11	11,237	17,191	49.8	16.0	12.6	19.4	13.7	9.6	6.3	2,748	883	32%	8%
Median			11,229	13,665	40.9	19.6	17.8	17.6	13.3	11.3	4.7	2,748	851	25%	13%



## Publicly Traded Solutions Companies

Ticker	Name	12/31/18 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings			Ent'p Value / EBITDA			EV / LTM	LTM Total		LTM Margins	
					LTM	FY18E	FY19E	LTM	FY18E	FY19E	Revenue	Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Payroll/Administration															
ACIW	ACI Worldwide, Inc.	27.67	3,209	3,821	227.7	33.1	29.3	23.4	13.8	12.5	3.8	1,016	163	16%	1%
EPAY	Bottomline Technologies (de), Inc.	48.00	2,068	2,091	149.8	35.9	29.9	51.0	21.1	19.6	5.2	405	41	10%	3%
BR	Broadridge Financial Solutions, Inc.	96.25	11,237	12,176	25.5	22.0	20.2	14.6	14.4	12.9	2.8	4,378	837	19%	10%
CDK	CDK Global, Inc.	47.88	6,166	8,559	16.5	13.6	12.2	11.4	10.1	9.4	3.8	2,262	751	33%	17%
DBD	Diebold Nixdorf, Incorporated	2.49	190	2,454	NM	NM	NM	11.4	8.0	7.2	0.5	4,539	207	5%	-12%
NCR	NCR Corporation	23.08	2,728	6,385	NM	8.8	7.9	8.1	6.5	6.1	1.0	6,386	791	12%	-1%
NTWK	NetSol Technologies, Inc.	6.15	73	72	12.6	-	-	6.8	-	-	1.1	65	11	17%	9%
PEGA	Pegasystems Inc.	47.83	3,764	3,558	NM	78.4	75.0	NM	51.4	62.3	4.2	842	(24)	-3%	-4%
WK	Workiva Inc.	35.89	1,574	1,495	NM	NM	NM	NM	NM	NM	6.4	234	(41)	-18%	-24%
Median			2,728	3,558	25.5	22.0	20.2	11.4	11.9	10.9	3.8	1,016	163	12%	1%
Content															
CLGX	CoreLogic, Inc.	33.42	2,692	4,359	15.9	12.2	11.8	10.4	9.0	8.9	2.4	1,839	416	23%	9%
CSGP	CoStar Group, Inc.	337.34	12,286	11,214	61.6	42.2	34.3	36.8	27.9	22.7	9.9	1,130	305	27%	18%
DNB	The Dun & Bradstreet Corporation	142.74	5,300	6,418	22.8	17.6	16.5	12.7	12.6	11.8	3.6	1,792	505	28%	13%
FDS	FactSet Research Systems Inc.	200.13	7,612	7,989	29.5	20.5	18.5	17.9	15.3	14.1	5.9	1,373	457	33%	20%
TRU	TransUnion	56.80	10,525	14,492	25.7	23.0	20.1	18.2	15.8	13.8	6.6	2,210	783	35%	19%
FORR	Forrester Research, Inc.	44.70	816	672	67.7	33.0	27.9	21.4	17.4	12.8	1.9	349	31	9%	3%
IT	Gartner, Inc.	127.84	11,620	13,580	81.4	34.1	30.4	23.8	19.1	17.1	3.5	3,901	570	15%	4%
MORN	Morningstar, Inc.	109.84	4,686	4,409	26.3	-	-	15.8	-	-	4.4	1,000	280	28%	18%
VRSK	Verisk Analytics, Inc.	109.04	17,950	20,386	28.0	26.3	24.3	19.3	18.0	16.7	8.7	2,352	1,057	45%	28%
Median			7,612	7,989	28.0	23.0	20.1	18.2	15.8	13.8	4.4	1,792	457	28%	18%
Overall Solutions Median			5,300	6,385	28.0	22.0	20.1	17.6	13.7	12.5	4.0	1,792	416	23%	9%

## Publicly Traded Technology Companies

Ticker	Name	12/31/18 Price	Market Cap (\$M)	Ent'p Val (\$M)	Price / Earnings			Ent'p Value / EBITDA			EV / LTM	LTM Total		LTM Margins	
					LTM	FY18E	FY19E	LTM	FY18E	FY19E		Revenue (\$M)	EBITDA (\$M)	EBITDA	Net Inc.
Banking Technology															
ELLI	Ellie Mae, Inc.	62.83	2,189	1,917	69.0	33.1	31.8	28.2	15.0	13.3	4.0	477	68	14%	7%
JKHY	GreenSky, Inc.	9.57	550	601	25.0	16.8	13.1	3.4	3.5	2.9	1.5	395	176	45%	15%
GSKY	Jack Henry & Associates, Inc.	126.52	9,780	9,665	25.0	31.9	33.1	20.0	17.6	17.7	6.2	1,568	484	31%	25%
PFMT	Performant Financial Corporation	2.25	119	154	NM	NM	NM	11.9	NM	205.4	1.0	149	13	9%	-1%
QTWO	Q2 Holdings, Inc.	49.55	2,149	2,031	NM	NM	259.9	NM	105.9	83.8	9.0	226	(12)	-5%	-13%
Median			2,149	1,917	25.0	31.9	32.4	15.9	16.3	17.7	4.0	395	68	14%	7%
Insurance/Healthcare Technology															
ATHN	athenahealth, Inc.	131.93	5,433	5,387	43.2	30.6	27.1	20.3	14.4	12.6	4.1	1,311	265	20%	10%
CSLT	Castlight Health, Inc.	2.17	303	240	NM	NM	227.0	NM	NM	29.2	1.6	151	(34)	-23%	-31%
CRVL	CorVel Corporation	61.72	1,157	1,067	27.3	-	-	14.0	-	-	1.8	583	76	13%	7%
CRD.B	Crawford & Company	9.00	496	666	42.0	12.6	10.5	7.4	5.9	5.2	0.6	1,106	90	8%	1%
EBIX	Ebix, Inc.	42.56	1,331	1,873	12.1	11.7	9.7	12.1	11.4	9.6	4.0	466	155	33%	24%
EVH	Evolent Health, Inc.	19.95	1,563	1,473	NM	NM	71.6	NM	61.7	23.9	2.7	548	(10)	-2%	-9%
GWRE	Guidewire Software, Inc.	80.23	6,501	5,718	NM	56.9	63.1	82.1	33.6	41.1	7.8	733	70	10%	-1%
HQY	HealthEquity, Inc.	59.65	3,721	3,391	56.0	52.8	43.8	38.6	30.0	24.3	12.5	272	88	32%	25%
HMSY	HMS Holdings Corp.	28.13	2,360	2,476	51.0	27.5	25.3	20.2	16.1	14.8	4.2	591	123	21%	8%
INOV	Inovalon Holdings, Inc.	14.18	2,161	3,015	NM	47.0	34.0	29.6	18.9	14.9	6.0	506	102	20%	-2%
MGLN	Magellan Health, Inc.	56.89	1,380	1,946	13.5	18.3	21.0	8.4	6.5	7.0	0.3	7,164	233	3%	1%
Median			1,563	1,946	42.0	27.5	27.1	20.2	15.3	14.8	4.0	583	90	13%	1%
Investment Technology															
ENV	Envestnet, Inc.	49.19	2,249	2,551	99.0	25.7	22.6	30.4	16.3	14.1	3.2	785	86	11%	3%
MSCI	MSCI Inc.	147.43	12,979	14,155	32.3	28.1	24.7	18.8	18.1	16.6	10.1	1,407	751	53%	30%
Median			7,614	8,353	65.6	26.9	23.7	24.6	17.2	15.4	6.7	1,096	418	32%	16%
Overall Technology Median			2,155	1,989	37.1	27.8	27.1	20.0	16.2	14.9	4.0	565	89	14%	5%



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## Bonus Article

# How to Value an InsurTech Company

FinTech companies are the emerging and hyped sector of the financial services industry. Looking at FinTech's recent activity, people can see that many of these companies begin as start-ups and a few exciting years later, are able to raise millions of dollars in hopes of becoming the next "unicorn" – an industry term describing a tech company valued at a billion dollars or more. While this business trajectory may seem simple and attractive, FinTech companies usually have a highly complex structure made up of many investors of different origins, including venture, corporate, and/or private equity, all with different preferences and capital structures.

Valuing a FinTech company can be very complicated and difficult, but carries important significance for employees, investors, and stakeholders for the company. While all FinTech companies have large differences, including what niche (payments, solutions, technologies, etc.) they operate in or what stage of development the company is in, understanding the value of a FinTech company is critically important. More specifically, within the FinTech industry, an exciting niche termed InsurTech is emerging and threatening to change the traditional state of the insurance industry.

## InsurTech Niche

InsurTech is a fast growing niche that operates in a massive global insurance industry with premium revenues of about \$5 trillion annually. InsurTech is the term applied to many companies that are using technology to disrupt the traditional insurance industry landscape. InsurTech has high growth prospects and the potential for InsurTech to innovate and disrupt remains large. Funding for InsurTech companies in the recent years has

spiked, especially for early-stage companies. Incumbents in the insurance industry have been slow to adopt disruptive, high-growth InsurTech, partly because insurance is so massive and has been around for such a long time. Additionally, many traditional insurance companies can benefit from InsurTech solutions that serve to enhance customer satisfaction and improve efficiency of operations by leveraging technology and enhancing the delivery of certain insurance offerings and solutions through digital channels.

Technology and innovation have disrupted many other long-established industries, such as the impact of medical technology in the healthcare industry. Insurance players, who maintain legacy systems believe that established customer connections will reduce the threat of InsurTech. However, this may not be the best strategy because insurance is often purchased begrudgingly. The historically strained relationship between customers and carriers is a rather vulnerable point along the insurance value chain. InsurTech companies can offer innovative technology that creates more touchpoints for customers and reduces many customer pain points.

## Market Considerations

Understanding how well a given InsurTech company is doing within this FinTech niche is one of the most important factors in determining its value. Market dynamics such as market size, potential market available, and growth prospects are important to understand. A valuation will consider absolute market value, existing competitors, and existing incumbents.

The regulatory environment is another important consideration when valuing an InsurTech company. Financial services, such as banks and insurance companies, are heavily regulated, so understanding the rules and regulations is necessary for developing an accurate valuation.

Like other FinTech niches, certain solutions within InsurTech are relatively new and have the potential to disrupt the entire insurance industry. Since many industry incumbents have been slow to adopt this new technology, the range of this innovation has yet to be fully felt and rules/regulations have yet to change. While regulatory stability may seem favorable now, concrete rules and regulations are complex and can be hard to predict as regulators react to rising InsurTech involvement. Understanding these complexities is important to valuing InsurTech companies, as these regulations could help or hinder an InsurTech's growth potential.

## Company Considerations

When valuing a startup, quantitative information (financial and operating history) is limited; therefore, qualitative information can be extremely important in determining a company's value. The quality and experience of the management team can be important. Knowledge of the insurance industry including understanding customer preferences, technology integration, the competitive and regulatory environments can enhance an InsurTech's company value.

An InsurTech company's ownership of intellectual property and other intangible assets, like strategic partnerships, all else equal, should be considered and could increase a company's value, assuming they are in place and well documented. When in place and demonstrated, intangibles are an important qualitative consideration.

The stage of development of a FinTech company can also impact its value. Companies typically set milestones and track their own progress, and meeting these milestones might affect their valuation. Milestones usually include initial round financing, proof of concept, regulatory approval, obtaining a significant partner, and more.

Milestones are important to set and track as the more milestones a startup meets, the less uncertainty exists and the more value is created. For example, an InsurTech company with established technology, increased customer touchpoints, and the potential to increase revenues will be more valuable to a potential acquirer than a newer startup. In addition, meeting later stage milestones often provide greater value than meeting early stage milestones. When the valuation considers future funding rounds and the potential dilution from additional capital raises, a staged financing model is often prepared and the valuation will vary at different stages as shown below.

Enterprise Value Indications (\$Million)						
Development Milestones		\$25.0	\$35.0	\$80.0	\$120.0	\$175.0
Incremental solutions		Market Testing / Prod. Development	Gain traction/ retain customers	Complete early ramp-up	Achieve market potential	
Pre-Money Value		\$25.0	\$35.0	\$80.0	\$120.0	\$175.0
Assumed Funds Raised			\$5.0	\$7.0	\$16.0	\$24.0
Post-Money Value			\$30.0	\$42.0	\$96.0	\$144.0
% Ownership After Funding			80.0%	64.0%	51.2%	41.0%
Implied Valuation Step-Up			1.17x	1.90x	1.25x	1.22x
(Upon Achievement of Development Milestones)						
						\$52.0

## Valuation Approaches

As InsurTech companies enhance business operations and reduce costs, valuations for these companies will become more important. There are three common approaches to determining business value: asset approach, income approach, and market approach. Each valuation approach is typically considered and then weighted accordingly to provide an indicated value or a range of value for the company, and ultimately, the specific interest or share class of the company.

### The Asset Approach

The asset approach determines the value of a business by examining the cost that would be incurred by the relevant party to reassemble the company's assets and liabilities. This approach is generally inappropriate for technology startups as they are generally not capital intensive businesses until the company has completed funding rounds. However, it can be instructive to consider the potential costs and time that the company has undertaken in order to develop proprietary technology and other intangibles.

### The Market Approach

The market approach determines the value of a company by utilizing valuation metrics from transactions in comparable companies or historical transactions in the company. Consideration of valuation metrics can provide meaningful indications for startups that have completed multiple funding rounds, but can be complicated by different preferences and rights with different share classes.

Regardless of complications, share prices can provide helpful valuation anchors to test the valuation range. Market data of publicly traded companies and acquisitions can be helpful in determining key valuation inputs for InsurTech companies.

For early-stage companies, market metrics can provide valuable insight into potential valuations and financial performance once the InsurTech company matures. For already mature enterprises, recent financial performance can be compiled to serve as a valuable benchmarking tool.

Investors can discern how the market might value an InsurTech company based on pricing information from comparable InsurTech companies or recent acquisitions of comparable InsurTech companies.

### The Income Approach

The income approach can also provide a meaningful indication of value for a FinTech company. This relies on considerations for the business' expected cash flows, risk, and growth prospects.

The most common income approach method is the discount cash flow (DCF) method, which determines value based upon the present value of the expected cash flows for the enterprise. The DCF method projects the expected profitability of a company over a discrete period and prices the profitability using an expected rate of return, or a discount rate. The combination of present values of forecasted cash flows provides the indication of value for a specific set of assumptions.

For startup InsurTech companies, cash flow forecasts are often characterized by a period of operating losses, capital needs, and expected payoffs as profitability improves or some exit event, like an acquisition, occurs. Additionally, investors and analysts often consider multiple scenarios for early-stage companies both in terms of cash flows and exit outcomes (IPO, sale to a strategic or financial buyer, etc.), which can lead to the use of a probability weighted expected return model (PWERM) for valuation.

## Putting it Together

Given their complexity, multiple valuation approaches and methods are often considered to provide lenses through which to assess value of InsurTech and FinTech companies and generate tests of reasonableness against which different indications of value can be evaluated. It is important to note that these different methods are not expected to align perfectly. Value indicators from the market approach can be rather volatile and investors often think longer-term. More enduring indicators from value can often come from income approaches, such as DCF models.

Valuation of an InsurTech company can be vital to measure realistic growth, to plan progression, and to secure employee and investor interest. Given the complexities in valuing private FinTech and InsurTech companies and the ability for the market/regulatory environment to shift quickly, it is important to have a valuation expert who can adequately assess the value of the company and understand the prevalent market trends.

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## What We're Reading

### **The US is Losing the AI, Blockchain & FINTECH Arms Race (But IS Crypto-Friendly)**

*Forbes*, by Steve Andriole

### **Why Atlanta Is the Next Great Place for Fintech Entrepreneurs**

*allBusiness*, by Charlie Whitfield

### **What to Expect in Fintech for 2019**

*Crowdfund Insider*, by JD Alois

### **Bank/Fintech Partnerships Will Be A Huge Disappointment In 2019**

*Forbes*, by Ron Shevlin