

VALUE FOCUS

FinTech Industry

First Quarter 2022

While U.S. markets showed strength following the recovery from the COVID-19 pandemic, inflationary pressures and indications of aggressive interest hikes from the Fed sowed uncertainty into markets in Q1 2022, producing returns to the S&P 500 in Q1 of -4.59%. The high growth Technology and FinTech niches have been hit especially hard. Increases in the borrowing rate can negatively impact cash flows of high growth stocks, as these companies generally borrow to fund future growth. In an increasing interest rate environment, that process will be much more expensive. Affirm is a notable example. This 2021 high-flyer is amongst FinTechs in the “buy now, pay later” (BNPL) space that, as of March 31st, was trading at a 73% discount to highs experienced in November of last year.

Other FinTech sectors have not fared much better. All three niches posted losses for Q1 2022 with Payments down 5.58%, Technology down 9.13%, and Solutions down 13.09%. While the Payments niche had the smallest decline in Q1 of 2022, year-over-year it

posted the only loss at 12.26%. Both the Solutions and Technology niches posted growth in the last twelve months through Q1 of 9.45% and 14.41%, respectively.

Though returns in the industry so far in 2022 have failed to reach those of 2021, financing activity has continued to show strength. According to [FT Partners](#), Q1 2022 financing volume was the most active quarter to date. The industry reported 1,091 financing transactions and raised \$37 billion.

M&A activity has slowed in Q1, with SNL reporting 40 deals in the U.S. in the first quarter of 2022, compared to 63 in 2021. However, median reported deal value has increased in the first quarter compared to 2021 at \$331 million versus \$213 million. While interest in this space was high in 2021, economic uncertainty and increased interest rates have dampened some of the interest.



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
- Unit economics analysis, studies, and consulting

FinTech Niche Experience

- Payments
- Digital / specialty lending
- Wealth Tech
- Digital / online banking
- InsurTech
- BankTech including RegTech

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our FinTech Services at

<http://mer.cr/FinTech>

The Impact of Interest Rate Expansion on FinTechs

Though 2021 proved to be a banner year for FinTech, 2022 is testing even the most successful companies as higher inflation and money tightening from the Federal Reserve had a profound impact on high growth companies.

The S&P 500 posted a 5% loss in the first quarter of 2022, adding up to U.S. equity markets' worst quarter performance since the first quarter of 2020. A combination of factors led to this poor performance. Inflation rates broadly increased towards record highs across the U.S. economy which fueled volatility across markets. The Fed also began removing the wave of stimulus it had injected into the economy in response to the COVID-19 pandemic. While it became evident over the past several months that the Fed would raise rates to combat rising inflation, the unknown timing and magnitude led to widespread market volatility in the first quarter.

Against this backdrop, investors attempted to determine which companies could effectively pass higher costs to customers and preserve margins, and which would experience bottom-line erosion as a result of the inflationary environment. The valuation of some growth companies in the technology industry whose cash flows, higher profitability, and margins are further out into the future were also negatively impacted as those future cash flows were more uncertain given inflationary pressures and also discounted at higher interest rates.

While the impact of the aggressive policy signaling from the Fed has been evident in the larger markets, the FinTech industry has been inordinately affected by the current economic environment. As covered later in the newsletter, multiples and funding have contracted significantly in the first part of 2022. In Q1 2022, all three industry niches saw overall contractions in returns. According to data provided by S&P Global Market Intelligence, the Solutions niche (including digital leaders which experienced declines across the board) saw the largest contraction at 13.1%. The Payments and Technology niches did not fare much better, with contractions of 5.6% and 9.1%, respectively.

While 2021 was robust with a total of **56** FinTech IPOs globally (39 on U.S. exchanges), 2022 has had a much more lackluster start. There have been no FinTech IPOs thus far in

2022, largely attributable to the multiple and valuation compression that the industry has experienced due to the economic environment. However, funding has remained strong so far in 2022 with \$37 billion representing 1,091 transactions (the third highest quarterly dollar raised).

With Fed hikes in 2022 being the largest since 2000, looking back on the outcome of historical hikes may give us a clue into what we may expect for the future. While it may not be fair to call what is occurring in the tech and FinTech world currently a "dot.com bubble 2.0," observing similar trends may be helpful as we look at the industry as a whole. The late 90s successful dot.com companies had a few common similarities: extremely high valuations and high growth/earnings potential, while at the same time experiencing near-term cost pressure and losses in some cases to support future growth. When the Fed increased interest rates in 2000, the bubble popped leaving many retail investors with severe losses.

While the current market environment is not the same as the dot.com bust and it would be short-sighted to make a direct comparison, the trends can help to paint a picture of how the industry may recover on the backside of this challenging economic environment. While the dot.com bust led to the demise of many high flying companies, it also led to the emergence of some of the powerhouse technology firms that still exist today, such as Apple, Google, and Amazon. Similarly, this current period of economic instability and market softness may pressure many FinTechs in the short-term but allow for the best companies to emerge when conditions improve.

Mercer Capital's deep understanding of both the FinTech industry and valuation trends positions us to provide accurate and reliable valuations even during periods of market uncertainty. Feel free to reach out to us to discuss your needs in confidence.



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Public Market Indicators

Each FinTech sector was impacted by the overall economic turmoil that has taken place during Q1 2022, mirroring the contraction of the S&P 500.

- The Technology niche outperformed the others with returns of 14.4% in the last twelve months to March 2022. The Solutions niche followed, with returns of 9.5% over the same period. However, both failed to outperform the S&P 500 which saw returns of 15.7%.
- The Payments niche was the only group to fail to produce a positive return in the last twelve months, resulting in a decline of 12.3%.

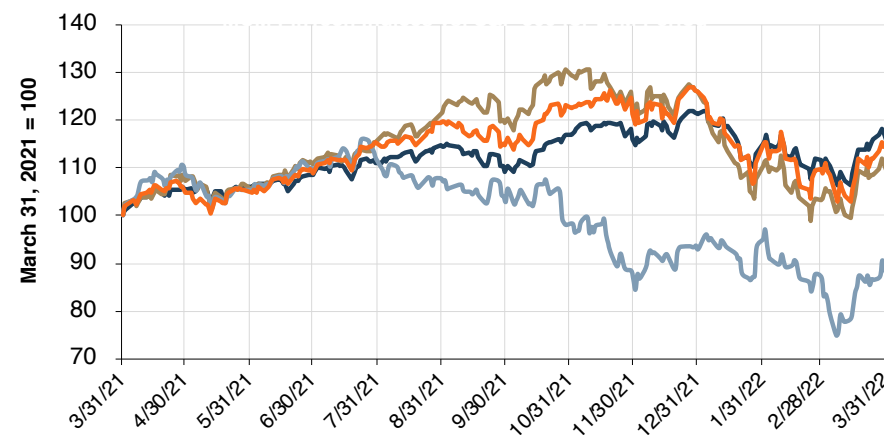
While 2021 was a record year for FinTech IPOs with 56 FinTech IPOs globally, 39 of which were on U.S. exchanges, multiple contraction and economic uncertainty impacted the IPO pipeline as no FinTechs IPO'd in the first quarter of 2022.

Median Total Returns

Segment	Mar 22	LTM	1Q22
FinTech - Payments	0.9%	-12.3%	-5.6%
FinTech - Solutions	6.1%	9.5%	-13.1%
FinTech - Technology	4.4%	14.4%	-9.1%
S&P 500	3.7%	15.7%	-4.6%

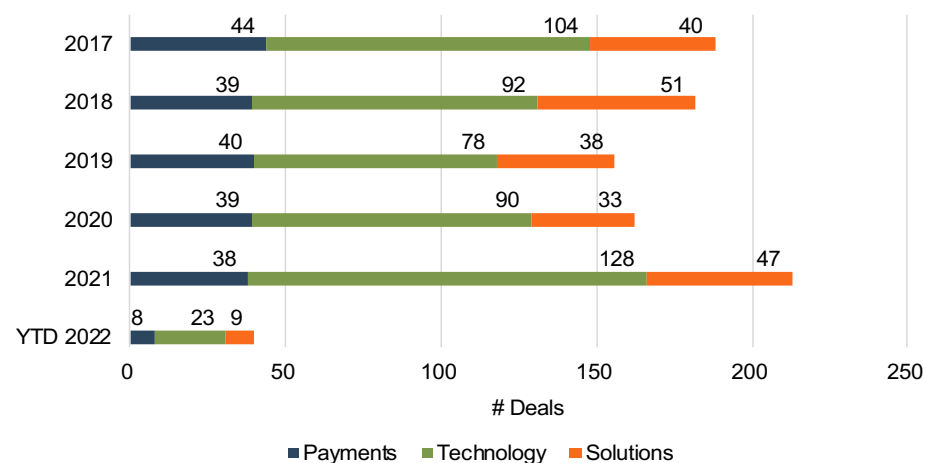
Source: S&P Global Market Intelligence

Public Market Indicators



Source: S&P Global Market Intelligence

U.S. Deal Activity by Niche



Source: S&P Global Market Intelligence

Valuation Multiples - Overall

Consistent with recent historical growth patterns and the near-term outlook, Technology and Solution niches remain priced at a premium to the broader markets with the S&P 500 priced at ~17.6x estimated forward earnings at the end of Q1 2022 (per FactSet). The S&P 500 forward multiple dropped below the 5-year average of 18.6x, but remains above the 10-year average of 16.9x. Despite remaining above S&P 500 levels, both Technology and Solution niches experienced multiple contraction, consistent with the overall economy. The Payments niche forward multiples contracted further as well, remaining below the S&P 500 with their forward multiple as of the end of Q1 2022 of 16.3x.

Though investors continue to weigh market potential and growth for the sector against recent FinTech performance and profitability, the overall contraction of FinTech multiples

could be pointing to investor risk management decisions in the wake of the Federal Reserve rate increases that are expected to occur throughout 2022 in response to inflationary concerns.

Traditional financial incumbents are continuing to weigh whether to enter FinTech partnerships, develop their own in-house solutions, or acquire FinTech companies.

The Technology niche reported the highest LTM P/E, while the Solutions niche reported the highest EV/EBITDA multiples compared to the other two niches.

Valuation Multiples

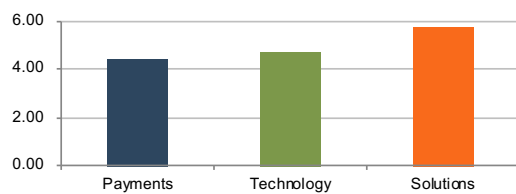
as of March 31, 2022

Segment	Price/ LTM EPS	Price / 2022 (E) EPS	Price / 2023 (E) EPS	Ent'p Value / LTM EBITDA	Ent'p Value / FY21 (E) EBITDA	Ent'p Value / FY22 (E) EBITDA	Ent'p Value / LTM Revenue
FinTech - Payments	20.8	16.3	14.8	15.6	11.8	10.8	4.5
FinTech - Technology	40.4	23.4	24.2	19.6	13.5	14.1	4.7
FinTech - Solutions	33.5	25.2	20.9	20.8	16.4	15.0	5.7

Source: S&P Global Market Intelligence

FinTech Valuation Multiples

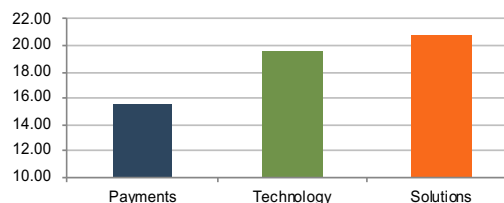
EV / Revenue (LTM)



Source: S&P Global Market Intelligence

FinTech Valuation Multiples

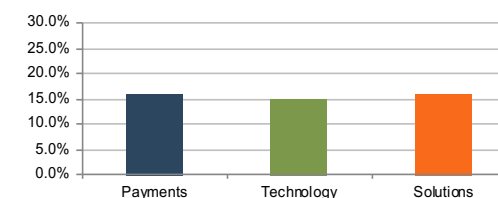
EV / EBITDA (LTM)



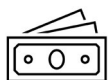
Source: S&P Global Market Intelligence

FinTech Performance

EBITDA Margin LTM



Source: S&P Global Market Intelligence



Valuation Multiples - Payments

The Payments niche has been hit harder than the Technology and Solution niches. Though the lockdown caused by the pandemic increased the need for payment technology, a combination of rising interest rates, negative economic forecasts, and difficulties achieving profitability are impacting the niche negatively.

This can be most notably seen in Fast, a one-click payments service that had raised more than **\$120 million** in investments which shut down in early April.

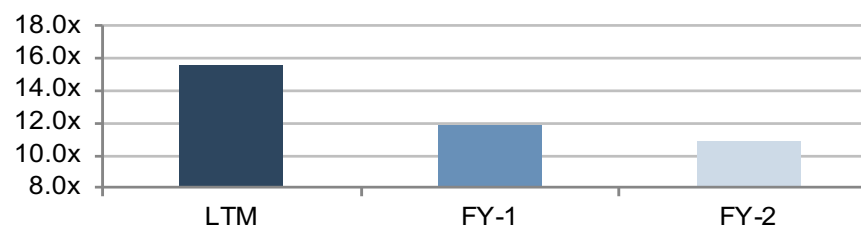
According to **FT Partners**, Payments companies raised \$4.3 billion in the first quarter of 2022, with a total of 134 financing transactions.

Payment company EV/EBITDA and LTM P/E multiples are currently at 16x and 21x, respectively. These multiples have contracted over the past few quarters as investors face a more uncertain economy.

In the U.S., there have been eight transactions in the Payments space, with reported deal values for five of them. The largest of these transactions was by the purchase of MoneyGram, a global leader in the evolution of digital P2P payments, for approximately **\$1.8 billion** by Madison Dearborn Partners, a private equity firm based in Chicago.

Payment Valuation Multiples

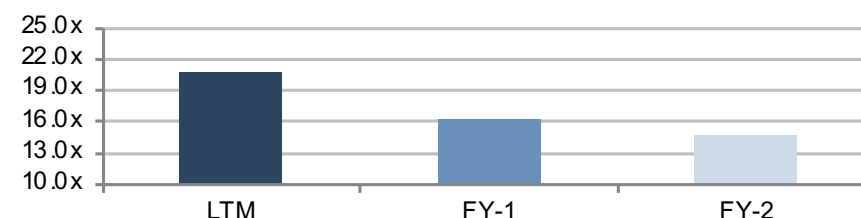
EV / EBITDA



Source: S&P Capital IQ - As of 3/31/22; U.S. based; NASDAQ and NYSE

Payment Valuation Multiples

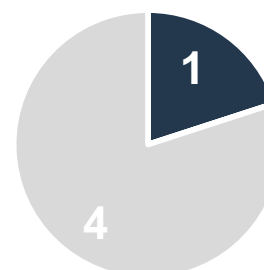
P/E Multiples



Source: S&P Global Market Intelligence - As of 3/31/22; U.S. based; NASDAQ and NYSE

YTD Deal Values in Payments Sector*

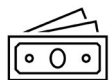
* U.S. Market only



Median Deal Value
\$472M

- Greater than \$1B
- \$500M - \$1B
- Less than \$500M

Source: S&P Global Market Intelligence



The Payments Niche

Notable SPAC for the Quarter

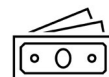


MADISON DEARBORN
PARTNERS



MoneyGram, an American cross-border P2P payments and money transfer company was acquired by private equity firm Madison Dearborn Partners in February 2022 with a strategy to take the company private and grow its digital business. The deal values the company at around a **\$1.8 billion** enterprise value. The deal is expected to be the **biggest acquisition ever** in the remittance industry.

Notable Financing Round for the Quarter



Bolt, a checkout experience platform, was established in 2014 and is headquartered in San Francisco, California. In late January of 2022, the FinTech startup took in \$355 million in Series E funding, bringing the company's total funding to nearly **\$1 billion**. The latest funding round gives Bolt an \$11 billion valuation.



Valuation Multiples - Technology

The technology niche of the FinTech industry encompasses the following subsectors:



Banking Technology



Insurance/Healthcare Technology



HR/Payroll Technology



Investment Technology



Security Technology

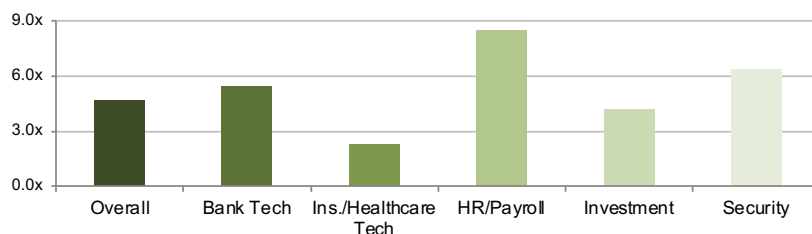


HR/Payroll Technology had the highest EV/Revenue of the Technology niche at 8.5x. HR/Payroll Technology has become increasingly important as the labor market has shifted substantially in the post COVID-19 era. With hybrid work becoming more common, having technology that supports this work environment has grown in importance. Per Future Market Insights, the global payroll, HR solutions, and service market is expected to produce a CAGR of 7.7% during the forecast period.

The Technology niche has had the most deals of all of the niches in 2022 at 26 out of 40. However, like the other niches, total deals have trailed those in 2021, as SNL reported a total of 126 Technology deals in 2021. As for financings, **FT Partners** listed investment market technology had the largest funding round in the first quarter with Citadel Securities raising \$1.2 billion.

Technology Valuation Multiples

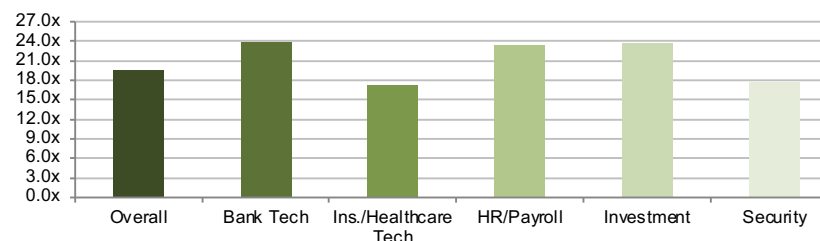
EV / Revenue (LTM)



* For more information on InsurTech's and their valuation methodologies, please follow the link below: <https://mercercapital.com/article/how-to-value-an-insurtech-company/>

Technology Valuation Multiples

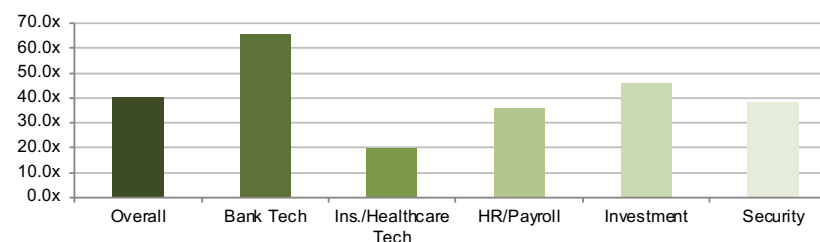
EV/ EBITDA (LTM)



Source: S&P Capital IQ - As of 3/31/22; U.S. based; NASDAQ and NYSE

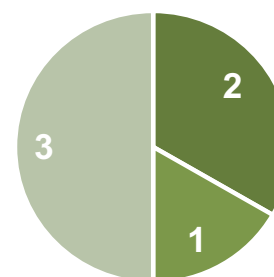
Technology Valuation Multiples

P/E (LTM)



YTD Deal Values in Technology Niche*

* U.S. Market only



Median Deal Value
\$422M

■ Greater than \$1B
■ \$500M - \$1B
■ Less than \$500M

Source: S&P Global Market Intelligence



The Technology Niche

Notable SPAC for the Quarter



In early February of 2022, Fiserv acquired Finxact, a cloud-based payment and financial technology services platform, for \$650 million USD. Fiserv was an early investor in Finxact and acquired the remaining ownership interest of the Florida-based company. Fiserv serves its customers as a leading global provider of payments and financial services technology and will be able to further modernize and personalize its services following the acquisition.

Notable Financing Round for the Quarter



Savings and investing app Acorns raised \$300 million in a Series F funding round. The latest funding round values the company at nearly \$2 billion. The raise follows the scrapping of the company's planned \$2.2 billion SPAC with Pioneer Merger Corp in favor of a traditional IPO.

Valuation Multiples - Solutions

The Solutions niche of the FinTech industry encompasses the following subsectors:



Business process outsourcing



Digital lenders



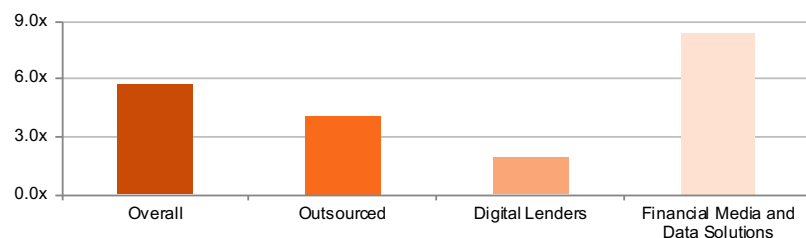
Financial technology and data solutions

While 2021 was a record year for all of FinTech, digital lenders and “buy now, pay later” (BNPL) companies such as Klarna, Clearpay, and Affirm were often in the spotlight. Moving into 2022, there are questions surrounding the sustainability in 0% interest rates in an increasing interest rate environment. As margins for BNPL companies are already **razor thin**, further compression from increased interest rates and an inflationary environment may bring into question the sustainability of the current business model. Affirm's CFO **noted** that after 2023, every time borrowing rates rise more than one percentage point above expectations, one measure of its profit could fall 0.4%. This will be an interesting segment to watch as 2022 continues.

In the M&A environment for the Solutions sectors, there have been four deals in the U.S. with reported deal values. In line with the other niches for the Q1 period, total Solutions M&A activity is trailing that of the same period in 2021, but the median deal value has increased. Solutions median deal value for the first quarter of 2022 was \$493 million, compared to \$422 million in 2021.

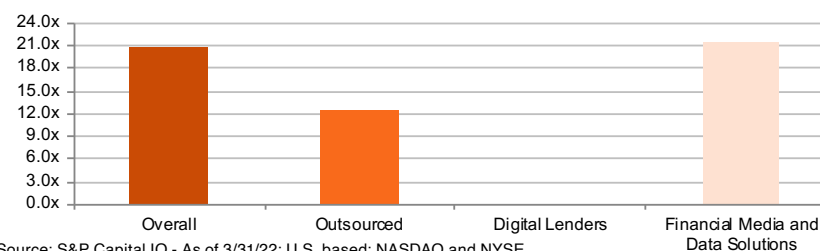
Solutions Valuation Multiples

EV / Revenue (LTM)



Solutions Valuation Multiples

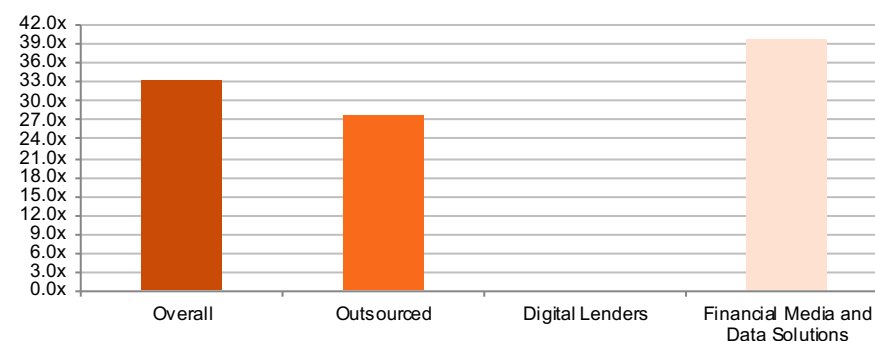
EV / EBITDA (LTM)



Source: S&P Capital IQ - As of 3/31/22; U.S. based; NASDAQ and NYSE

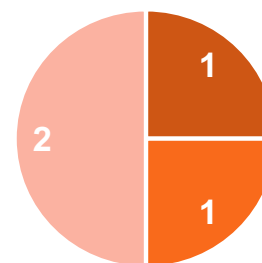
Solutions Valuation Multiples

P/E (LTM)



YTD Deal Values in Solutions Niche*

* U.S. Market only



Median Deal Value
\$166M

- Greater than \$1B
- \$500M - \$1B
- Less than \$500M

Source: S&P Global Market Intelligence



The Solutions Niche

Notable IPO for the Quarter

Alkami

segmint



Alkami Technology, a leading cloud-based digital banking solutions provider for U.S. financial institutions, acquired Segmint Inc. for \$135.5 million USD. Segmint focuses on cleaning and organizing account and transaction data for financial institutions. Following the acquisition, financial institutions will receive more complete details surrounding the account holder, allowing them to expand their customer relationships. The acquisition is forecast to grow Alkami's total addressable market by approximately \$1 billion USD.

Notable Financing for the Quarter



Digits is a FinTech company based in San Francisco that creates financial technology tools for businesses by leveraging its proprietary Living Model technology. In March of 2022, the company received Series C funding of \$65 million. Total funding for the company is now at \$97.5 million.

FinTech M&A and Fundraising Overview

2022 has shown a marked decline in FinTech industry M&A activity. Despite this trend, there was an increase in median deal values as the trend toward larger deals continues. Total reported deal value so far has surpassed the level achieved in 2021.

- In 2022, median deal values in the Solutions and Technology niches surpassed the levels reached in 2021 while median deal values in the Payments niche are lower than 2021.
- According to **FT Partners**, the three largest deals in the quarter included Thoma Bravo's take-private acquisition of Anaplan for \$10.7 billion, Circle's updated SPAC merger with Concord Acquisition Corp., and R1 RCM's acquisition of Cloudmed for \$4.1 billion.

Deal value/revenue multiples are down so far in 2022 though, reflecting softer market trends amid economic uncertainty surrounding the Federal Reserve tightening to combat higher levels of inflation.

Globally, FinTech fundraising in the first quarter of 2022 was the most active ever in terms of number of financing transactions, with **~\$37 billion** in total financing. This financing volume was the third highest quarterly dollar volume raised. Large financing rounds have also increased. In 2022 the number of \$50+ million rounds increased to an average of **15** deals per week, up from an average of 13 per week in 2021 and 4 per week in 2020.

Deal Activity

	YTD 2022	2021	2020	2019	2018	2017	% Chg. 21/20
# of Deals	40	213	162	156	182	188	31.5%
Total Reported Deal Value (\$M)	\$9,390	\$84,524	\$63,212	\$128,601	\$88,053	\$17,404	33.7%
Median Reported Deal Value (\$M)	\$331	\$213	\$196	\$120	\$101	\$90	8.7%

Deal Activity By FinTech Industry Niche

	YTD 2022	2021	2020	2019	2018	2017	% Chg. 21/20
Payments Total	8	38	39	40	39	44	-2.6%
Technology Total	23	128	90	78	92	104	42.2%
Solutions Total	9	47	33	38	51	40	42.4%

FinTech M&A and Fundraising Overview (cont.)

Median Pricing Metrics

	YTD 2022	2021	2020	2019	2018	2017	% Chg. 21/20
Deal Value / Revenue	1.96x	5.41x	4.07x	5.31x	3.75x	3.13x	32.9%
Deals Greater than \$1BN	4	16	14	11	15	4	14.3%
Deals Greater than \$500M	6	28	21	16	17	9	33.3%
Deals Greater than \$50M	13	57	44	39	43	38	29.5%

Median Deal Value (\$M)

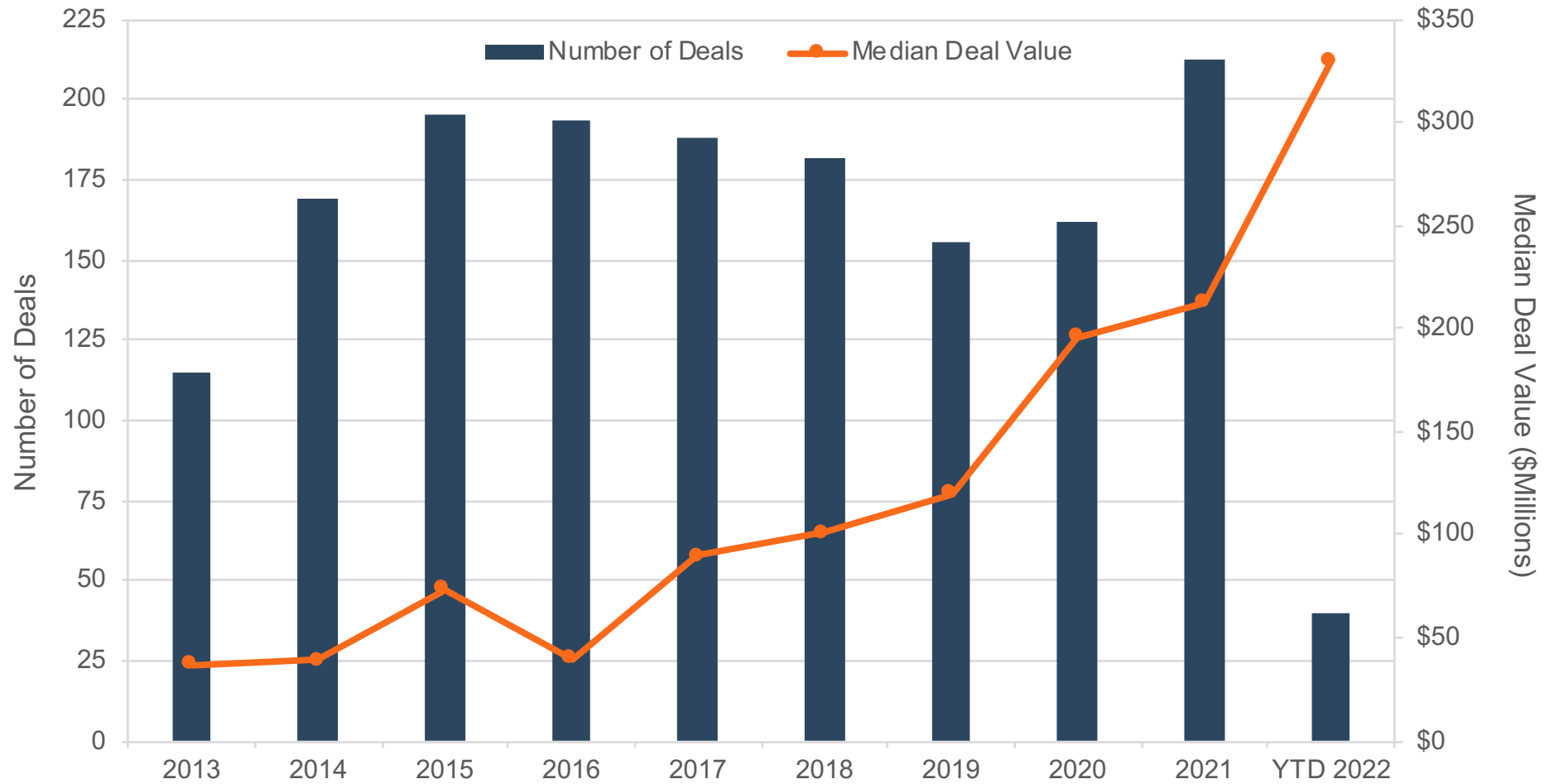
	YTD 2022	2021	2020	2019	2018	2017
Payments	\$290	\$472	\$343	\$222	\$126	\$214
Technology	\$493	\$422	\$105	\$50	\$68	\$60
Solutions	\$293	\$166	\$400	\$155	\$142	\$119

Source: S&P Global Market Intelligence

FinTech M&A and Fundraising Overview (cont.)

U.S. FinTech M&A Overview

2013 - Q1 2022



Source: S&P Global Market Intelligence



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