

VALUE FOCUS

FinTech Industry



First Quarter 2015

FinTech Industry Overview

Public Market Indicators	1
Mercer Capital FinTech Indices vs. S&P 500	1
Median Total Return	1
Valuation Multiples	2
FinTech Margins	2
FinTech Revenue Multiples	2
FinTech EBITDA Multiples	2

Is a Bubble Forming in FinTech?

3

2014 & 1Q15 FinTech IPOs

4

FinTech M&A

6

Venture Capital

Activity Overview	7
Case Study: Coinbase	10

Quarterly Articles

Focus: Equity Compensation

12

Why Quality Matters in FinTech Valuation for Equity Compensation Grants	12
Consequences of Calcified Cap Charts: A Few Thoughts on Startup Equity-Based Compensation	13

Publicly Traded FinTech Companies

18

Payments	18
Solutions	20
Technology	22

About Mercer Capital

24

Public Market Indicators

FinTech outperformed broader markets in the first quarter of 2015 as:

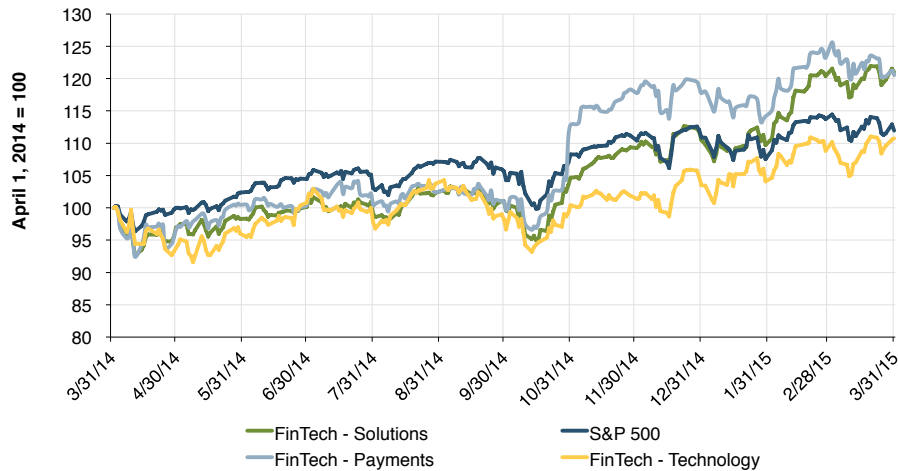
- Broader markets were relatively flat while investor interest in FinTech remained relatively high and FinTech was generally viewed as a potentially higher growth segment
- 18 FinTech IPOs occurred in 2014 and 1Q15 and the median return for this group was 12.0% since IPO
 - Inovalon Holdings (INOV), a provider of cloud-based data analytics to the healthcare sector was the lone FinTech IPO in 1Q15

Market performance of FinTech companies continues to gyrate as investors weigh:

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

Mercer Capital FinTech Indices vs. S&P 500

for LTM Period



Source: SNL Financial

Median Total Return

as of March 31, 2015

Segment	March 2015	1Q15	LTM
FinTech - Payments	-1.6%	3.0%	21.3%
FinTech - Solutions	1.0%	10.0%	21.6%
FinTech - Technology	1.6%	6.8%	10.6%
S&P 500	-0.7%	1.8%	12.9%

Source: SNL Financial

Valuation Multiples

as of March 31, 2015

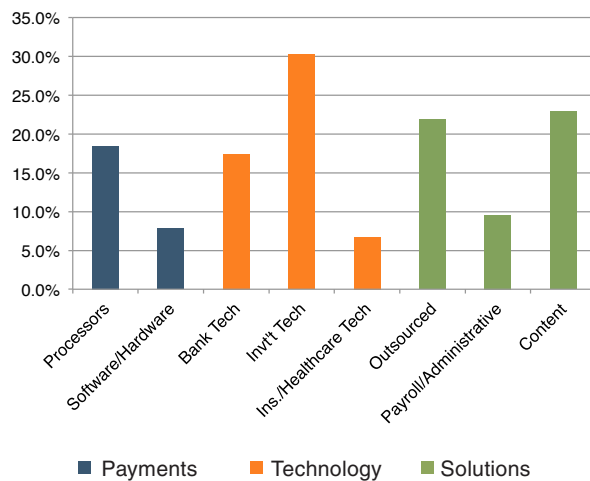
Segment	Price / LTM EPS	Price / 2015 (E) EPS	Price / 2016 (E) EPS	Ent'p Value / LTM EBITDA	Ent'p Value / FY15 (E) EBITDA	Ent'p Value / FY16 (E) EBITDA	Ent'p Value / LTM EBIT	Ent'p Value / LTM Revenue	Dividend Yield
FinTech - Payments	29.1	26.1	21.5	14.2	13.1	11.5	20.9	2.4	0.0%
FinTech - Solutions	29.1	30.6	24.7	14.8	11.7	10.7	22.3	3.0	0.0%
FinTech - Technology	36.5	41.5	32.0	17.4	12.4	12.0	35.0	4.5	0.0%

Source: SNL Financial

Consistent with recent historical growth patterns and outlook near-term, FinTech companies are generally priced at a premium to the broader markets with the S&P 500 priced at 17x forward earnings 3/31/15 (per FactSet).

FinTech Margins

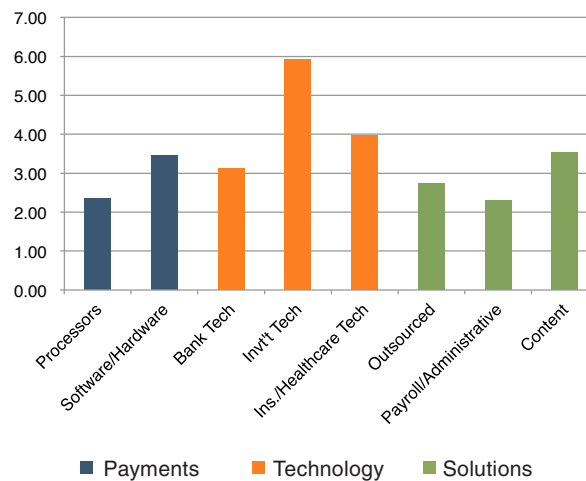
EBITDA Margin (LTM)



Source: SNL Financial and Capital IQ
Contact: wilsonj@mercercapital.com

FinTech Revenue Multiples

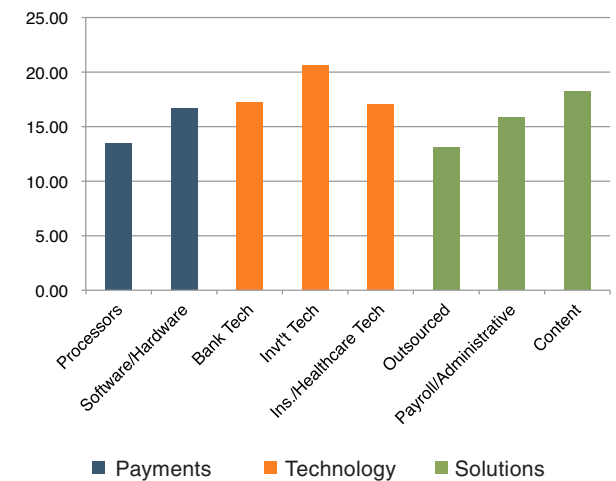
EV / Revenue (LTM)



Source: SNL Financial and Capital IQ
Contact: wilsonj@mercercapital.com

FinTech EBITDA Multiples

EV / EBITDA (LTM)



Source: SNL Financial and Capital IQ
Contact: wilsonj@mercercapital.com

Is a Bubble Forming in FinTech?

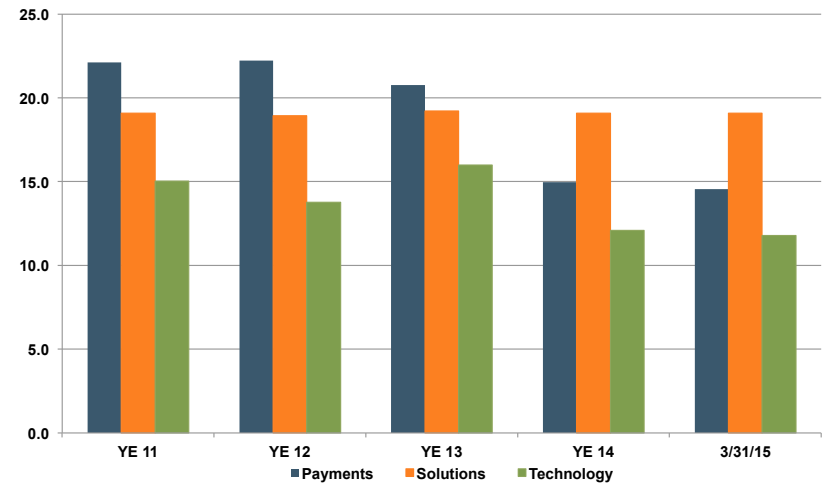
Perhaps

As margins contract...

Valuation multiples continue to expand and rise relative to historical levels...

FinTech Public Company Overview

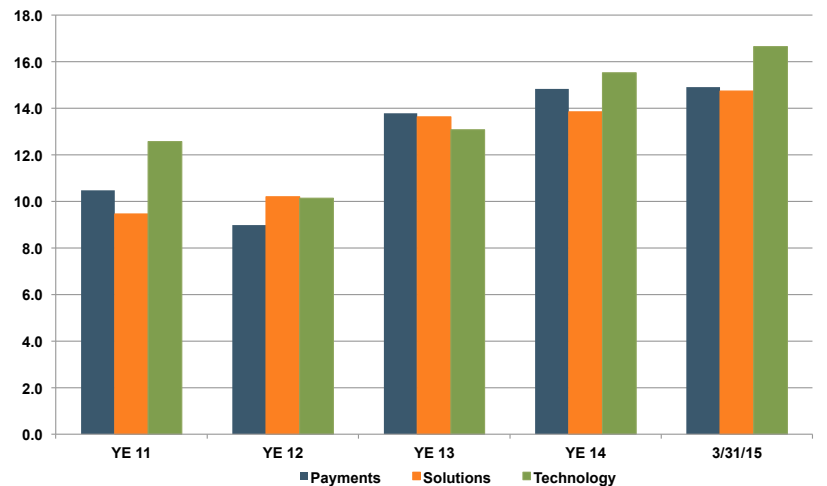
Median EBITDA Margins (%)



Source: Capital IQ, Mercer Capital Research
Contact: wilsonj@mercercapital.com

FinTech Public Company Overview

Median Enterprise Value / EBITDA Multiple (x)



Source: Capital IQ, Mercer Capital Research
Contact: wilsonj@mercercapital.com

2014 & 1Q15 FinTech IPOs

- While the Lending Club and OnDeck IPOs in 4Q14 brought significant attention to FinTech and P2P lending, there were seven IPOs among Insurance/Healthcare Financial Technology companies
- While none of the IPO companies reported positive net income in the trailing twelve month period, the stock price performance since IPO was positive for the majority of recent FinTech IPOs with a median return on 12%
- Eight FinTech IPOs had a market cap greater than \$1 billion at March 31, 2015
- Total gross proceeds from recent IPOs totaled \$4.9 BN
- The greatest proceeds raised at IPO were for IMS Health Holdings (IMS) and Lending Club (LC), with both raising over \$1 billion

Industry Articles of Note

Outlook for US Wealth Management Industry: "The Most Exciting Time"

CFA Institute Blog
Lauren Foster
<http://mer.cr/1D6mL9t>

7 Myths of Startup Financing

Partner at Greylock Partners
Reid Hoffman
<http://mer.cr/1GjeQGr>

The Runaway Train of Late Stage Fundraising

Venture Capitalist at Redpoint
Tomasz Tunguz
<http://mer.cr/1EddNIC>

Eastern Bank Invests \$4M Annually in Tech Lab

Bank Technology News at American Banker
John Reosti
<http://mer.cr/1OHsCoi>

More Financial Advisors Going "Robo"

CNBC
Sarah O'Brien
<http://mer.cr/1zNeC5u>

Valuation of Contingent Consideration in M&A Transactions

Mercer Capital
Lucas Parris
<http://mer.cr/1F1PtIC>

Biometrics Boost Productivity at Forward-Thinking Iowa Bank

Bank Technology News at American Banker
Colin Wilhelm
<http://mer.cr/1Jd7O9H>

Big Valuations Come with Dangerous Small Print

TechCrunch
Ben Narasin
<http://mer.cr/1P6zVpN>

2014 & 1Q15 FinTech IPOs

Ticker	Name	IPO Price	IPO Date	Gross Proceeds (\$M)	% Return Since IPO	3/31/15 Price	3/31/15 Mkt Cap (\$M)	3/31/15 Ent Val (\$M)	Rev. (\$M)	LTM EBITDA (\$M)	LTM Net Income (\$M)	FinTech Niche	Description
BRDR	Borderfree, Inc.	\$16.00	3/20/14	\$92,000	-62.4%	\$6.01	192	65	125	(0)	(3)	Payment Processors	Provides technology and services platform to support int'l ecommerce
CAFN	Cachet Financial Solutions, Inc.	\$1.50	7/9/14	\$6,750	-46.7%	\$0.80	18	22	3	(9)	nm	Banking Technology	Cloud-based, SaaS technology provider serving the financial services industry
CSLT	Castlight Health, Inc.	\$16.00	3/13/14	\$204,240	-51.5%	\$7.76	713	521	46	(85)	(86)	Insurance/Healthcare Solutions	Cloud-based service that enables employers and employees to enhance healthcare offerings
CNXR	Connecture, Inc.	\$8.00	12/11/14	\$53,080	29.4%	\$10.35	225	249	85	(1)	(10)	Insurance/Healthcare Solutions	Web-based consumer shopping, enrollment and retention platform for health insurance distribution
HQY	HealthEquity, Inc.	\$14.00	7/30/14	\$146,510	78.5%	\$24.99	1,376	1,265	88	23	10	Insurance/Healthcare Solutions	A health savings custodian that offers an innovative technology platform
IMPR	Imprivata, Inc.	\$15.00	6/24/14	\$86,250	-6.7%	\$14.00	334	257	97	(13)	(17)	Insurance/Healthcare Solutions	Provider of authentication and access management solutions for the healthcare industry
INOV	Inovalon Holdings, Inc.	\$27.00	2/11/15	\$684,850	11.9%	\$30.21	4,460	4,597	362	130	65	Insurance/Healthcare Solutions	Provides cloud-based data analytics systems to the healthcare industry
IMS	IMS Health Holdings, Inc.	\$20.00	4/3/14	\$1,495,000	35.4%	\$27.07	9,090	12,493	2,641	600	(189)	Insurance/Healthcare Solutions	IT services provider for healthcare industry
LC	LendingClub Corporation	\$15.00	12/10/14	\$1,000,500	31.0%	\$19.65	7,310	9,253	211	NA	(33)	Alternative Lender	Peer to peer lending technology platform
MTBC	Medical Transcription Billing, Corp.	\$5.00	7/22/14	\$20,400	-57.2%	\$2.14	24	25	18	(3)	(5)	Insurance/Healthcare Solutions	IT provider of web-based solutions and related business services to healthcare providers
ONDK	On Deck Capital, Inc.	\$20.00	12/16/14	\$230,000	6.5%	\$21.29	1,478	1,658	90	NA	(19)	Alternative Lender	Online platform for small business lending
PAYC	Paycom Software, Inc.	\$15.00	4/14/14	\$114,626	113.7%	\$32.06	1,871	1,873	151	22	6	Payroll & Admin. Solutions	Human capital management provider that offers a cloud-based software solution
PCTY	Paylocity Holding Corporation	\$17.00	3/18/14	\$137,729	68.5%	\$28.64	1,446	1,356	128	(9)	(17)	Payroll & Admin. Solutions	Provider of cloud-based payroll and human capital management software solutions
QTWO	Q2 Holdings, Inc.	\$13.00	3/19/14	\$116,025	62.6%	\$21.14	770	682	79	(15)	(20)	Banking Technology	Provider of secure, cloud-based virtual banking solutions
TNET	TriNet Group, Inc.	\$16.00	3/26/14	\$276,000	120.2%	\$35.23	2,490	2,901	2,194	167	15	Payroll & Admin. Solutions	Provider of a human resources solution for small to medium-sized businesses, or SMBs
UPLD	Upland Software, Inc.	\$12.00	11/5/14	\$46,154	-41.6%	\$7.01	107	99	65	(9)	(20)	Payroll & Admin. Solutions	Provider of cloud-based Enterprise Work Management software
WK	Workiva Inc.	\$14.00	12/11/14	\$100,800	2.9%	\$14.40	579	502	113	(35)	(41)	Processing Software & Hardware	Provides a cloud-based platform for enterprises to collect, manage, and analyze business data
YDLE	Yodlee, Inc.	\$12.00	10/2/14	\$84,129	12.2%	\$13.46	396	325	89	(2)	(7)	Processing Software & Hardware	Technology and applications platform provider for digital financial services
Median				\$115,326	12.0%		742	601	94	(2)	(17)		

Source: SNL Financial and Capital IQ

FinTech M&A

1Q15 vs. 1Q14

M&A activity was flat but deal values were up significantly in 1Q15 vs. 1Q14 as several larger deals were announced.

Increase in deal activity was spread across all industry niches:

- Activity remained highest in the payments and healthcare/insurance and investment solutions niches

1Q15 Overview

Larger FinTech deals in 1Q15 include the following:

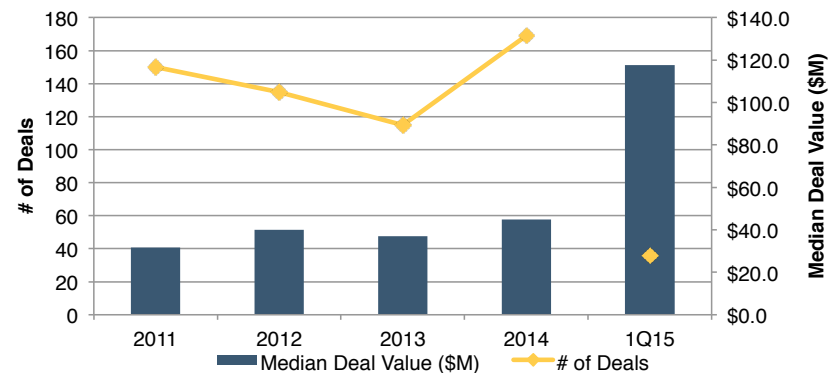
- **DH Corp.** acquisition of **FundTech**, a provider of transaction banking software and services to financial institutions and corporations
 - \$1.25 billion deal value (all cash); 4.8x DV to revenue multiple
- **Catamaran Corp.'s** acquisition of **Healthcare Solutions, Inc.**, a provider of outcome-focused, customer-driven technology solutions to workers' compensation and auto insurance carriers, third party administrators (TPAs), managed care organizations (MCOs), government agencies and self-insured employers
 - \$405 million deal value (all cash); 0.9x DV to revenue multiple
- **SS&C Technologies** acquisition of **Advent Software**, a provider of software and services for the global investment management industry
 - \$2.5 billion deal value (majority cash); 6.9x DV to revenue multiple
- **Lexmark International's** acquisition of **Kofax Limited**, which provides capture and business process management software and related maintenance and professional services.
 - \$1.0 billion deal value (all cash); 3.4x DV to revenue multiple

Deal Activity	1Q15	1Q14	% Change
# of Deals	36	37	-3%
Total Reported Deal Value (\$M)	\$5,467.4	\$3,393.6	61%
Median Reported Deal Value (\$M)	\$117.7	\$49.8	136%

Target in Following FinTech Industry Niche	# of Deals		% Change
	1Q15	1Q14	
Payment Processors	2	6	
Processing Software & Hardware	4	2	
Payments Total	6	8	-25%
Bank	1	2	
Investments	9	4	
Insurance/Healthcare Solutions	14	14	
Technology Total	24	20	20%
Outsourcing	4	7	
Payroll & Administrative Solutions	0	1	
Financial Media & Content	2	1	
Solutions Total	6	9	-33%

FinTech M&A Overview

2011-1Q15



FinTech Venture Capital Activity Overview

Company	Amount (\$M)	Company Description
Sofi	200	Marketplace for student loan refinancing and other loans
CommonBond	150	Student loan marketplace lender
Dataminr	130	Settlement analysis for stock market
21 Inc.	116	Stealth bitcoin startup
Zuora	115	Cloud-based subscription billing services
Oportun	90	Online lender
LendingHome	78	Rental real estate investing platform
Coinbase	75	Cryptocurrency wallet and exchange
Betterment	60	Simplified investing platform for consumers
Raise Marketplace	56	Marketplace for buying and selling giftcards
Ayadsi	55	Big data analytics
DriverUp	50	Marketplace lender for automobile financing
Bill.com	50	SMB invoicing & payments platform
Motif Investing	40	Automated investment advice for consumers
FundBox	40	Invoicing and factoring platform
Collective Health	38	Self-funded health insurance

A summary of selected FinTech venture capital financing activity in the payments niche in the first quarter of 2015. Covers selected financing rounds larger than \$10 million.

Source: Finovate Emails (which cite themselves, Crunchbase, FT Partners, and *Wall Street Journal*) & Company Websites

FinTech Venture Capital Activity Overview (cont.)

Company	Amount (\$M)	Company Description
Pindrop	35	Call center anti-fraud technology
Q2 Holdings	35	Digital banking solution provider
Ripple Labs	30	Open source payment network
nCino	29	Cloud-based banking solution
PeerTransfer	22	Remittance processing for international student tuition
Lendio	21	Online small business lender
YellowPepper	19	Mobile banking and payments platform for Latin America
Earnest	17	Digital lender
Coverhound	14	Online car insurance shopping site
Remitly	13	Online remittances
Archer (fka Market Street Advisors)	13	Investment management technology
Araxid	13	Builds trust between business and trading partners
Fundera	12	Loan marketplace for small business loans
Linkable Networks	12	Card-linked rewards platform
Namely	11	Cloud payroll benefits, HR platform
MineralTree	11	SMB invoicing & payments platform

A summary of selected FinTech venture capital financing activity in the payments niche in the first quarter of 2015. Covers selected financing rounds larger than \$10 million.

Source: Finovate Emails (which cite themselves, Crunchbase, FT Partners, and *Wall Street Journal*) & Company Websites

Venture Capital Case Study

coinbase

“Coinbase, headquartered in San Francisco, has become one of the most prominent businesses, allowing people to buy and store bitcoins and developing deals with merchants to help them carry out bitcoin transactions.”

– *Time Magazine*

“Finally, bitcoin is being recognized as a great vehicle for banking. It is clear that not only can bitcoin be used for remittances and stored value, but also for banking efficiency and credit-card transactions.”

– **Tim Draper of Draper Fisher Jurveston**

“A lot of these companies they want to invest in category leaders, and we made a convincing case that that was us.”

– Brian Armstrong, CEO of Coinbase

Venture Capital Case Study

What is Bitcoin?

Bitcoin is a decentralized form of digital currency, created and held electronically.

Bitcoins are produced by people or businesses, commonly known as miners, using a specialized computer software that solves mathematical problems.

- The number of bitcoins in circulation is not to exceed 21 million, to prevent hyperinflation of the currency
- Like other currencies, bitcoins can be broken down into smaller parts. The smallest unit is one hundred millionth of a bitcoin

The currency is managed by a public ledger, known as the Blockchain, which records all transactions.

Bitcoins can be bought or sold, similar to securities on certain regulated exchanges.

- Coinbase is currently the first exchange operating in the United States

Coinbase

Coinbase is a mobile Bitcoin wallet that allows customers to buy, store, and accept Bitcoin currency from the web or their mobile device.

Mobile application allows users to:

- Store Bitcoins in customer's wallets or vaults, for zero fees
- Purchase/Sell Bitcoins
- Check and manage accounts

Timeline	Significant Corporate Events
2012	<ul style="list-style-type: none"> • June: Company founded by Brian Armstrong and Fred Eshram • September: Received \$600,000 in Seed Funding from Y Combinator, Funders Club, and other individual investors
2013	<ul style="list-style-type: none"> • May: Raised Series A funding of \$6.1 million from Ribbit Capital, Union Square Ventures, Red Swan Ventures, among other investors • December: Raised Series B funding of \$25 million from Andreessen Horowitz, Union Square Ventures, QueensBridge Venture Partners, Ribbit Capital, and other individual investors
2014	<ul style="list-style-type: none"> • May: Acquired Kippt, a collaborative bookmarking system for professional networks that allows users to collect and share content • August: Acquired Blockr.io, a popular explorer for the Blockchain, or the distributed public ledger that keeps track of all Bitcoin transactions • September: Coinbase expands into Europe
2015	<ul style="list-style-type: none"> • January: Raised Series C funding of \$75 million from New York Stock Exchange, Valor Capital Group, Draper Fisher, Jurvetson, BBVA Ventures, and other investors • January: Coinbase becomes the first regulated Bitcoin exchange in the United States

Sources: Techcrunch.com; Coinbase; Numerous articles including:

- "Up Close with Coinbase Exchange"
- "Coinbase Raises \$75 Million Funding Round" <http://www.wsj.com/articles/coinbase-raises-75-million-in-funding-round-1421762403>
- "Coinbase Confirms \$75M Raise From DFJ, NYSE, Strategic Banking Partners" <http://techcrunch.com/2015/01/20/coinbase-confirms-75m-raise-from-dfj-nyse-strategic-banking-partners/>

Venture Capital Case Study

Coinbase

Key Takeaways

1. Bitcoin and blockchain technology has implications beyond payment processing

- Bitcoin and the underlying blockchain technology is more than just a new way to make purchases. It is a protocol for exchanging value over the internet without an intermediary.
- Anywhere a transaction between two parties has traditionally required third party validation, Bitcoin and the underlying blockchain technology may be applicable including the execution of contracts, the transfer of property, and identity management.

2. Wall Street is beginning to take Bitcoin seriously

- NYSE's entrance into the Bitcoin space, through its investment in Coinbase is a signal that more moderate consumers and investors may be warming to the idea of a decentralized currency.
- With further adoption, businesses and individuals are seeing the opportunities for increased ease and greater accessibility within international financial markets.
- The cost of transacting, through avoiding typical banking channels and other payment processing middlemen, is significantly lower.

3. Focus on mobile and digital appear successful in this segment of payments industry

- Coinbase intends to use its new capital to grow its employee base, while focusing on improving its mobile product as it eyes entry into developing markets.
 - Currently operating in 19 countries, Coinbase plans to expand to 30 by the end of 2015
 - Mobile use may be even more critical in emerging markets, especially where computer access is limited

Why Quality Matters in FinTech Valuation for Equity Compensation Grants

For privately held FinTech companies (particularly those sponsored by private equity and venture capital funds), getting the valuation process right the first time for equity compensation grant compliance is always the least expensive route in terms of both direct and indirect cost.

- **Auditor Review.** The potential for surprises in the audit review process related to equity compensation is most significant with new auditors and for new equity compensation plans. It is not necessarily safe to assume that valuation procedures used in the past will be sufficient to pass the audit review process. Communication with auditors on the front end in this situation is paramount to make sure that valuation procedures (or the independent valuation provider) will be satisfactory. Valuation analysis is always more expensive when it has to be done twice.
- **SEC Scrutiny.** Preparing for an IPO is probably the worst time for a company to deal with fallout related to insufficient valuation procedures related to equity compensation. This situation quickly becomes very expensive. And the direct financial cost of compliance in this situation is often less burdensome than the distraction created at a time so close to the finish line when management most needs to be focused on execution of strategic objectives. For companies with even a distant prospect of IPO, robust valuation procedures for equity compensation compliance are necessary on the front-end.
- **IRS Review.** Even for companies not contemplating a potential IPO, the possible tax penalties from IRC 409A make defensible valuation analysis a priority. Further, there is limited case history to develop clear expectations of IRS scrutiny related to 409A

compliance. We do know that IRS audits related to 409A have begun picking up, and it's likely that valuation reviews will follow suit. Drawing on our experience in other tax-related valuation matters, we know that thorough documentation and sound economic reasoning ultimately win the day. Given this uncertainty and magnitude of the consequences of 409A, it's best to play it safe.

In general, it is safe to expect the level of scrutiny over equity compensation-related valuation to increase with the size of the equity compensation grant – both the absolute magnitude (in terms of dollars) and relative magnitude (as a percentage of total revenue or enterprise value). While complexity of the equity compensation grant or capital structure does not inherently increase scrutiny, it does make it more challenging to demonstrate clear compliance with tax and financial reporting regulations. With appropriate awareness, management can minimize total compliance cost by selecting valuation procedures appropriate to the situation and getting it right the first time.



Sujan Rajbhandary
sujanr@mercercapital.com

Consequences of Calcified Cap Charts

A Few Thoughts on Startup Equity-Based Compensation

"You only find out who is swimming naked when the tide goes out."

– Warren Buffett

The prices (and implied valuations) that a business venture can obtain in future funding rounds, and in the public markets, are important considerations from the perspective of VCs and other investors. Unlike most mature public companies, however, startups have a predilection for complex capital structures, which introduces a degree of opacity that makes simple inference from headline numbers (however correct, however precise) difficult. A future funding round or exit event can result in varying outcomes for the multiple classes of securities with dissimilar rights and protections. This article will focus on the impact of (relatively steep) pre-public pricing on equity granted as employee compensation, usually the junior-most security in a startup capital stack.

Lay of the Land

Startup unicorns (pre-public companies with implied valuations exceeding \$1 billion) are currently receiving plenty of press. While a broad swath of investors (even mutual funds traditionally focused on public companies) appear to be in a race to grab a piece of the unicorn pie, some founders are equally willing to reciprocate with a penchant for status rounds that "gives [them] credibility and the ability to hire some very important people." Not all market participants, however, are sanguine about the dizzying escalation in the implied valuations for some of the pre-public companies. In addition to noting that investors rarely,

if ever, subject a startup funding round to the same level of scrutiny faced by companies preparing to go public, venture capitalist Bill Gurley was quoted a few weeks ago opining on the potentially pernicious effect of a downturn in the pricing of pre-public companies:

"[At very high valuations] the cap chart begins to calcify a bit, which eventually can be problematic. Hiring new employees, particularly senior management, becomes tough because they worry about getting stuck beneath a huge liquidation preference stack. Some of these deals have so many [anti-dilution terms] that the cap table becomes almost concrete. If the valuation goes down significantly, it will sink them."

"I think you're going to see a lot of failure in 2015. If you're a public company worth \$3 billion and your stock trades down to \$1 billion, you can survive it because you can still issue options to hire new employees, etc. If it happens when you're private, though, it becomes immediately harder to hire or to get incremental investment."

Stick Figure Cap Table

Mr. Gurley's concern can perhaps be illustrated using a relatively threadbare fictitious capital structure. A couple of (independently wealthy) entrepreneurs found Company A at Date 0, and proceed to introduce a disruptive technology and begin to achieve some market traction. At a subsequent Date 1, Company A raises \$19 million in equity by issuing 950,000 Series X Preferred at \$20 per share. Venture capital investors and the founders participate in the Series X round. Concurrently, Company A also reserves 50,000 Common shares for the

Figure 1

Event	Date 0 Founding	Date 1 Funding	Date 2 - Alt 1 Exit - IPO	Date 2 - Alt 2 Exit - Strategic
Transaction Price	na	\$20/share Ser X Preferred	\$15/share Common	\$22 million (Company sale)
Securities Issued	* (nominal) Common Shares	* 950,000 Series X Preferred * 50,000 Common (equiv.)	* 150,000 Common	None
Funds Raised	na	\$19 million	\$2.25 million	\$22 million
Cumulative Share Count	* (nominal) Common Shares	* 950,000 Series X Preferred * 50,000 Common (comp)	* 1,266,667 Common (Ser X) * 50,000 Common (comp) * 150,000 Common (new)	* 950,000 Series X Preferred * 50,000 Common
Total Share Count (Fully Diluted)	(nominal)	1,000,000	1,466,667	nm
Post-Money Valuation	na	\$20 million	\$22 million	\$22 million

of the total capital at Date 1 (nominal value of \$20 per share – see discussion in a subsequent section). Under the IPO scenario, the employees' stake in the Company is reduced to 3.4% (50,000 of 1,466,667 shares) at Date 2. If instead a sale of the Company were to occur, employees could only lay claim to a mere 0.7% of the total proceeds (\$150,000 of \$22 million) as in Figure 2.

Note that even as this example assumes a modest increase in the implied (post money) enterprise value between Dates 1 and 2, the value of the securities granted as employee compensation declines significantly. An exit that has to be consummated at a lower implied valuation would further erode any value (theoretically) realizable by the employees.

purpose of granting equity compensation to its employees (restricted shares and/or stock options). The Series X Preferred shares have the following rights and downside protections:

- **Liquidation preferences** equal to 1.15x invested capital (\$21.85 million). The liquidation preference would not be available in the case of an IPO exit.
- **Conversion rights** to exchange the Series X Preferred for Common shares at \$20 per share.
- **Full ratchet protection** to convert Series X Preferred to Common at a lower price per share immediately prior to a future funding event if there is a down round (or, an IPO at a price lower than \$20 per share).

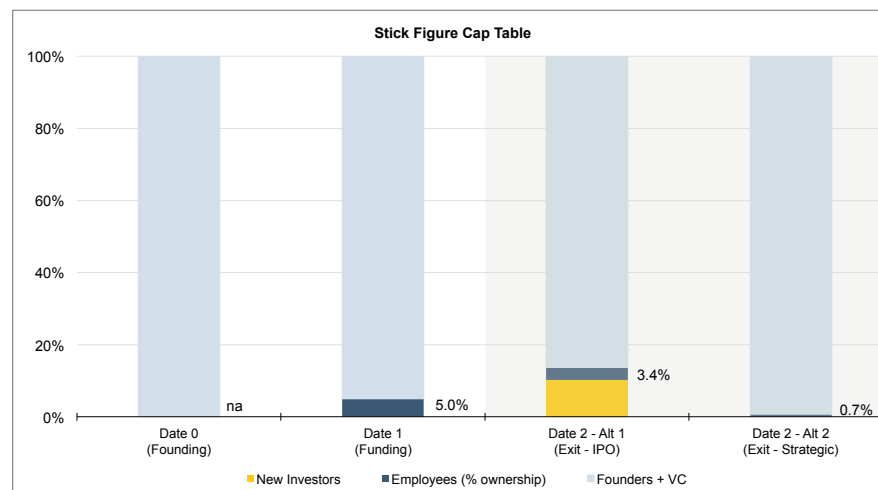
Based on the fully diluted count (1,000,000 shares), the implied post money enterprise value of Company A is \$20 million at Date 1.

Consider two exit scenarios for Company A at a subsequent Date 2 (Figure 1).

- An IPO to sell (new) 150,000 Common shares at \$15 per share. Pursuant to the ratchet, Series X Preferred shares would convert to 1,266,667 Common shares immediately preceding the IPO. Based on the fully diluted count (1,466,667 Common shares), the implied enterprise value is \$22 million.
- A sale of Company A for \$22 million. Pursuant to the liquidation preference, Series X Preferred holders receive \$21.85 million, and Common shareholders (employees) receive the balance of the proceeds from the sale (\$150,000).

On a fully diluted basis, Common shares granted as equity compensation represent 5.0%

Figure 2



	Date 0	Date 1	Date 2 - Alt 1	Date 2 - Alt 2
Employee Ownership	0.0%	5.0%	3.4%	0.7%
Employee Comp Value	na	\$1,000,000	\$750,000	\$150,000
	na	\$20/share	\$15/share	\$3/share

Real Consequences

In practice, the value of equity securities granted as employee compensation (common shares) should be different from the fully diluted economics presented in the preceding fictitious example. For example, factors that BOX reportedly considered in valuing common shares prior to its IPO included (partial list):

- Contemporaneous valuations performed by unrelated third-party specialists.
- The prices, rights, preferences, and privileges of [BOX] redeemable convertible preferred stock relative to those of [BOX] common stock.
- Lack of marketability of [BOX] common stock.
- Likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of [BOX] given prevailing market conditions.
- Illiquidity of stock-based awards involving securities in a private company.
- Recent private stock sales transactions.

Valuation specialists can employ the probability-weighted expected return method (PWERM) to evaluate potential proceeds from, and the likelihood of, several exit scenarios for a company including dissolution/liquidation, average performance, or spectacular results. Total proceeds available in each scenario would then be allocated to the various classes of equity based on their rights and protections. Alternately, if visibility around the future exit prospects for the company is low, practitioners can use the option pricing method (OPM) to explicitly model the rights of each equity class, and make generalized assumptions about the future trajectory of the company to deduce values for the various securities. Under the OPM rubric, in some situations a backsolve procedure to infer values of certain securities based on recent transaction prices of other equity classes may be feasible. On occasion, valuation specialists also use a Hybrid of PWERM and OPM as relevant/necessary.

Differential rights and protections, and the lack of marketability typically associated with common shares, usually result in valuation conclusions that are lower than the fully diluted indications implied by preferred funding rounds. In theory, the lower value conclusion at the date of grant should dampen the subsequent reduction in value of the common shares if a down round were to occur in the future. Nevertheless, two tax issues around equity com-

Figure 3

Valuation Dates	Feb 6, 2013	Jun 14, 2013	Oct 11, 2013	Jan 13, 2014	Mar 28, 2014	Jul 7, 2014	Sep 15, 2014	Dec 3, 2014
Concurrent Funding Round	None	None	Series E-1 * \$18.00/share	None	None	Series F * \$20.00/share	None	None
Valuation Approaches and Method(s) to Allocate Equity Value	* Market * Comparable cos * Comparable M&A * Income * OPM	* Market * Comparable cos * Comparable M&A * Income * OPM	* OPM * Backsolve * Subsequent revision based on IPO prospects	Hybrid * IPO (55% weight) * Market comps * Prior sale (Series E-1) * Non-IPO (45%) * OPM	Hybrid * IPO (90%) * Market comps * Non-IPO (10%) * OPM	Hybrid * IPO (75%) * Market comps * Non-IPO (25%) * OPM	Hybrid * IPO (75%) * Market comps * Non-IPO (25%) * OPM	Hybrid * IPO (90%) * Market comps * Non-IPO (10%) * OPM
Other Valuation Considerations	Secondary sale * 496,340 shares in * \$12.00 per share * No Weight	None	None	Secondary sale * 32,626 shares * \$24.25 per share * 10% Weight	Secondary sale * 32,626 shares * \$24.25 per share * 10% Weight	Secondary sale * 71,126 shares * \$29.67 per share * 10% Weight	Secondary sale * 71,126 shares * \$29.67 per share * 10% Weight	None
Discount Rate	45%	43%	na	35%	25%	25%	25%	25%
OPM Volatility	na	na	50%	45%	45%	45%	40%	40%
Nonmarketability Disc.	23%	27%	15%	10% - 20%	5% - 20%	5% - 20%	8% - 20%	5% - 20%
Value Conclusion Common per Share	\$4.63	\$6.13	\$10.10	\$14.06	\$17.85	\$12.79	\$13.05	\$14.05

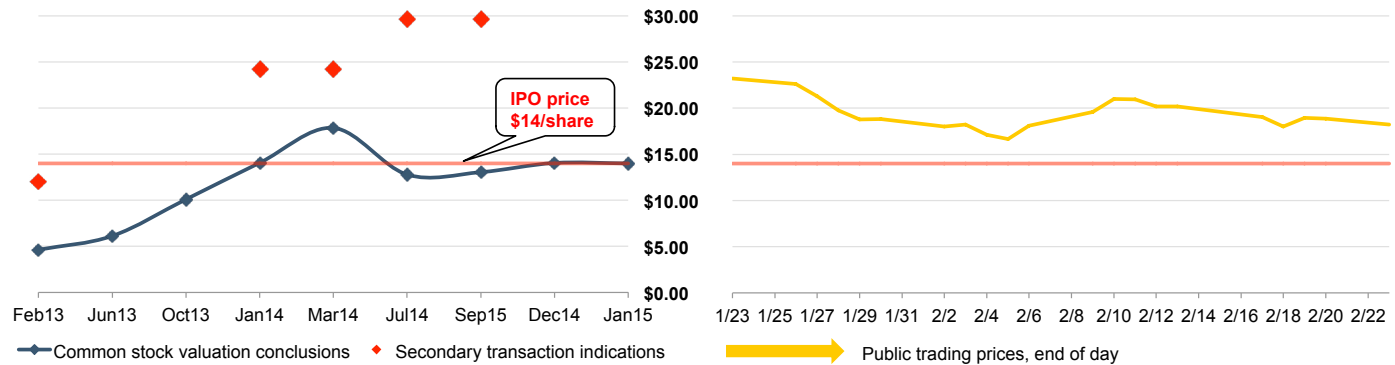
Source: Company filings, Mercer Capital analysis

pensation can have meaningful, negative impact on employee compensation in the event of a down round. (1)

- Section 409A of the Internal Revenue Code (IRC) mandates that for stock options (or other derivative instruments) granted as equity compensation, the strike price should not be less than the grant date fair market value of the underlying stock. IRS Revenue Ruling 59-60 defines fair market value as “the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.” Specifically as it relates to startups, Section 409A states that a valuation will be presumed reasonable if “made reasonably and in good faith and evidenced by a written report that takes into account the relevant factors prescribed for valuations generally under these regulations.” Pursuant to these guidelines and general practice, prices from recent transactions usually carry significant weight in a valuation specialist’s determination of fair market value of the underlying stock. Accordingly, down rounds effectively raise the hurdle for options granted at prior periods before they can be valuable to the employees.
- An IRC Section 83(b) election allows an employee receiving equity compensation in the form of restricted stock to pay income taxes based on the fair market value of the award at the grant date. Increases in stock prices subsequent to the grant date are taxed at capital gains rates. If such an election is not made, employees are liable for income taxes based on the fair market value of the award as the restricted shares vest. It is easy to see how employees receiving restricted shares and making a Section 83(b) election can benefit if the price of the stock rises between the grant and vesting dates (provided other conditions for vesting are satisfied). In the case of a down round, or if an IPO (and subsequent trading) occurs at prices lower than at prior grant dates, however, the employees will have already paid (certain) taxes based on a higher value for a security that is worth less (and vesting may yet be uncertain).

Figure 4: Box Common Stock Prices

February 6, 2013 to February 23, 2015



Source: Company filings, Mercer Capital analysis

Some Observations

Whatever the prospects of the current crop of highly valued late-stage pre-IPO companies as a group, it is not inconceivable that some of the individual companies will experience difficulty in growing into their valuations. Fab.com is an oft-cited reminder of how things can go wrong. The company raised \$150 million at an implied enterprise value of \$1 billion in June 2013. Cumulative funding obtained by the company totaled approximately \$330 million. Within four months of the last funding round, however, the company changed tack and let go of hundreds of its employees. While the founder has reportedly pivoted into a newer venture, the company could be sold for a total consideration (including cash and stock) of \$15 million.

BOX’s story around and since the IPO, admittedly a lot less dramatic than Fab, also provides a couple of interesting data points from a valuation perspective. Prior to the IPO, BOX prepared several valuations of its common stock over a period of approximately two years (Figure 3).

A few observations:

- On two of the valuation dates (October 11, 2013 and July 7, 2014), BOX raised external funding rounds near-concurrently. The conclusion of value for the common shares represents a clear discount from the price commanded by the more senior shares at each of these valuation dates.

- The conclusion of value for common shares at the March 28, 2014 valuation date was \$17.85, higher than the eventual IPO price of \$14.00 per share on January 22, 2015.
- On four valuation dates, pricing indications from secondary sales of common shares were accorded modest weights. Close to the January 13, 2014 and March 28, 2014 valuations dates, 32,626 common shares transacted at an average price of \$24.25 per share. Near the July 7, 2014 and September 15, 2014 valuations dates, 71,126 common shares transacted at an average price of \$29.67 per share.
- Trading closed at \$23.23 on January 23, 2014, the first day after the IPO, but the price has since generally trended lower and closed at \$18.21 on February 23, 2015. Notably, during the first calendar month of public trading, BOX's daily closing price has remained below the secondary pricing indications of \$24.25 and \$29.67 reported by the company between January and September 2014 (Figure 4).

An Eye to the Future

While a couple of cherry-picked observations do not a trend make, if something that has gone up does indeed come down for some of the individual pre-public companies, inves-

tors, founders and other stakeholders will surely feel the pain. As we discussed, the impact of a pricing downturn will likely be asymmetrical across the capital structure owing to the differential rights and protections accorded to the various securities. In particular, in the case of equity-based compensation granted to employees, unwarranted optimism regarding the prospects of the employer company coupled with certain tax rules and choices may result in real, negative economic impact. Unfortunately, only hindsight may be a good enough judge of whether decisions being made today, by employees and investors alike, will turn out to be prudent.



Sujan Rajbhandary
sujanr@mercercapital.com

(1) We are not tax experts. Those interested in specific guidance for tax or legal matters should seek competent professional advice.

Publicly Traded Payments Companies

Ticker	Name	3/31/15 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Payment Processors																	
ADS	Alliance Data Systems Corp.	296.25	1,905	1,402	42.0	37.7	28.4	10.7	7.7	6.5	17.8	1.0	0.0%	1,444,963	131,481	9.1%	45,321
HAWK	Blackhawk Network Holdings, Inc.	35.77	1,685	2,262	45.5	27.4	16.0	10.8	7.6	6.9	23.3	2.1	0.0%	1,054,821	208,570	19.8%	37,014
CATM	Cardtronics, Inc.	37.60	3,458	3,951	17.4	15.9	14.9	9.9	9.0	8.5	11.8	2.4	1.7%	1,674,082	399,552	23.9%	198,719
DLX	Deluxe Corporation	69.28	3,037	2,997	29.9	27.5	23.2	13.5	10.9	9.6	19.8	1.8	0.0%	1,664,150	222,739	13.4%	101,648
EEFT	Euronet Worldwide, Inc.	58.75	1,703	2,365	25.2	19.9	17.9	14.2	12.5	11.9	23.4	6.5	1.8%	361,129	166,851	46.2%	67,532
EVTC	EVERTEC, Inc.	21.86	13,836	16,953	37.5	31.6	25.4	26.1	18.0	15.6	31.3	14.1	0.0%	1,199,390	649,045	54.1%	368,707
FLT	FleetCor Technologies, Inc.	150.92	500	1,600	41.2	nm	nm	29.6	7.1	6.5	51.5	2.7	0.0%	593,053	54,001	9.1%	12,140
GCA	Global Cash Access Holdings, Inc.	7.62	6,148	7,763	23.9	22.3	19.9	13.7	12.8	11.9	17.9	2.9	0.1%	2,692,615	568,439	21.1%	256,893
GPN	Global Payments Inc.	91.68	823	249	21.9	15.3	13.3	2.4	1.5	1.4	3.8	0.4	0.0%	601,508	103,102	17.1%	37,502
GDOT	Green Dot Corporation	15.92	1,713	2,053	50.6	21.7	18.4	11.3	10.4	9.4	25.1	0.9	0.7%	2,311,381	181,572	7.9%	33,879
HPY	Heartland Payment Systems, Inc.	46.85	115	169	7.7	10.3	12.4	3.6	3.7	4.2	6.1	0.8	0.0%	220,111	46,888	21.3%	14,967
ONE	Higher One Holdings, Inc.	2.42	99,215	95,658	27.4	24.7	20.6	17.6	16.3	14.2	18.8	10.1	0.6%	9,473,000	5,422,000	57.2%	3,617,000
MA	MasterCard Incorporated	86.39	460	1,172	6.4	23.4	12.5	6.8	4.8	4.4	10.0	0.8	0.0%	1,454,900	172,300	11.8%	72,100
MGI	MoneyGram International, Inc.	8.64	105	105	37.4	nm	nm	14.9	8.8	7.2	26.1	2.2	0.0%	47,369	7,041	14.9%	2,803
PLPM	Planet Payment, Inc.	1.90	7,060	8,256	22.1	22.1	19.6	11.6	10.9	10.0	17.7	3.4	1.0%	2,446,877	714,547	29.2%	319,564
TSS	Total System Services, Inc.	38.15	38	79	nm	nm	nm	nm	nm	nm	nm	2.4	0.0%	33,447	(610)	-1.8%	(9,216)
JTPY	Univeral Business Payment Solutions	2.75	7,135	10,538	56.9	38.5	26.2	19.0	13.5	12.2	33.5	4.1	0.0%	2,577,203	555,670	21.6%	125,292
VNTV	Vantiv, Inc.	37.70	3,968	4,628	nm	81.1	41.5	19.1	13.6	11.1	122.9	2.4	0.0%	1,919,034	242,580	12.6%	(8,049)
PAY	VeriFone Systems, Inc.	34.89	136,497	134,412	30.7	25.3	21.8	nm	14.0	12.5	nm	10.4	0.6%	12,929,000	NA	NM	4,444,000
V	Visa Inc.	65.41	10,851	12,788	12.7	12.8	12.3	9.1	9.1	9.1	11.3	2.3	2.4%	5,607,200	1,405,200	25.1%	852,400
WU	Western Union Company	20.81	4,165	5,548	20.6	26.6	21.6	13.3	15.4	13.4	16.1	6.8	0.0%	817,647	417,140	51.0%	202,211
WEX	WEX Inc.	107.36	193	93	nm	nm	nm	70.2	19.6	10.5	nm	0.7	0.0%	125,492	1,330	1.1%	(3,108)
BRDR	Borderfree, Inc.	6.01	2,470.85	2,680.57	28.7	25.0	20.2	13.5	10.9	10.0	19.3	2.4	0.0%	1,444,963	208,570	18.5%	69,816
Median			2,470.85	2,680.57	28.7	25.0	20.2	13.5	10.9	10.0	19.3	2.4	0.0%	1,444,963	208,570	18.5%	69,816

Publicly Traded Payments Companies

Ticker	Name	3/31/15 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Payment Software/Hardware																	
ADP	Automatic Data Processing, Inc.	85.64	40,692	38,852	28.3	29.2	26.0	18.90	16.96	15.34	22.3	3.5	2.3%	11,252,400	2,055,400	18.3%	1,437,000
CVG	Convergys Corporation	22.87	2,272	2,514	18.9	15.3	13.9	7.95	6.56	6.19	16.9	0.9	1.2%	2,855,500	316,200	11.1%	120,000
NSP	Insperty, Inc.	52.29	1,325	1,048	51.0	32.5	27.8	15.22	10.28	9.18	22.1	0.4	5.2%	2,357,788	68,908	2.9%	26,002
PAYX	Paychex, Inc.	49.62	18,022	17,756	27.3	26.8	24.5	16.21	15.28	14.16	18.0	6.7	3.0%	2,644,900	1,095,500	41.4%	659,600
WDAY	Workday, Inc.	84.41	15,869	16,065	nm	nm	nm	nm	nm	nm	nm	20.4	0.0%	787,860	(158,667)	-20.1%	(247,982)
PAYC	Paycom Software, Inc.	32.06	1,839	1,841	324.7	118.7	81.3	90.94	54.13	39.88	140.7	12.2	0.0%	150,929	20,239	13.4%	5,663
PCTY	Paylocity Holding Corporation	28.64	1,457	1,367	nm	nm	nm	nm	340.32	141.83	nm	10.8	0.0%	126,231	(9,303)	-7.4%	(17,569)
TNET	TriNet Group, Inc.	35.23	2,531	2,942	190.7	39.6	31.5	17.13	14.94	12.91	33.7	1.3	0.0%	2,193,531	171,672	7.8%	13,273
UPLD	Upland Software, Inc.	7.01	100	95	nm	nm	nm	nm	27.78	21.91	nm	1.5	0.0%	64,574	(10,787)	-16.7%	(21,641)
Median			2,272	2,514	39.6	30.9	26.9	16.7	17.0	15.3	22.2	3.5	0.0%	2,193,531	68,908	7.8%	13,273

Publicly Traded Solutions Companies

Ticker	Name	3/31/15 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Outsourced																	
ACXM	Axiom Corporation	18.49	1,561	1,756	nm	nm	29.3	nm	8.6	8.2	nm	1.7	0.0%	1,031,254	NA	nm	(34,215)
CSC	Computer Sciences Corporation	65.28	8,858	9,750	56.4	57.5	13.7	6.7	4.6	4.5	22.6	0.8	1.4%	12,593,000	1,458,000	11.6%	157,000
CSGS	CSG Systems International, Inc.	30.39	861	915	23.3	21.2	17.2	7.3	5.8	5.1	11.9	1.2	2.0%	751,286	124,595	16.6%	36,959
EFX	Equifax Inc.	93.00	9,752	11,227	26.5	27.4	24.1	13.3	12.3	11.4	17.5	4.6	1.1%	2,436,400	847,000	34.8%	367,400
EXLS	ExlService Holdings, Inc.	37.20	943	777	29.1	24.8	21.0	12.5	7.8	6.8	22.8	1.6	0.0%	499,278	62,063	12.4%	32,445
FICO	Fair Isaac Corporation	88.72	2,321	2,834	25.1	30.6	23.2	15.3	12.7	11.1	18.5	3.6	0.1%	794,192	185,473	23.4%	92,309
FIS	Fidelity Nat'l Info. Services, Inc.	68.06	17,649	22,149	26.0	23.6	21.1	12.1	10.8	10.0	18.3	3.5	1.4%	6,413,800	1,837,200	28.6%	679,100
FISV	Fiserv, Inc.	79.40	17,314	20,823	23.0	25.1	21.6	12.9	11.8	10.9	17.2	4.1	0.0%	5,066,000	1,614,000	31.9%	754,000
IL	IntraLinks Holdings, Inc.	10.34	668	701	nm	nm	nm	27.7	18.4	30.8	nm	2.7	0.0%	255,821	25,359	9.9%	(26,496)
INTU	Intuit Inc.	96.96	26,323	25,233	32.7	55.3	32.3	17.4	19.8	14.2	20.3	5.5	0.9%	4,582,000	1,453,000	31.7%	805,000
PRGX	PRGX Global, Inc.	4.02	156	130	nm	402.0	50.3	24.1	6.6	5.7	nm	0.8	0.0%	164,192	5,385	3.3%	(7,526)
SSNC	SS&C Technologies Holdings, Inc.	62.30	4,894	5,420	37.3	35.2	31.3	17.9	14.9	13.6	26.7	7.1	0.2%	767,861	302,957	39.5%	131,127
TW	Towers Watson & Co.	132.19	7,936	7,630	21.1	24.8	22.5	10.3	10.3	9.6	13.6	2.1	0.4%	3,619,847	739,465	20.4%	376,632
Median			4,894	5,420	26.3	27.4	22.9	13.1	10.8	10.0	18.4	2.7	0.2%	1,031,254	521,211	21.9%	131,127

Publicly Traded Solutions Companies

Ticker	Name	3/31/15 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Payroll/Administration																	
ACIW	ACI Worldwide, Inc.	21.66	2,318	3,211	34.3	33.3	27.2	14.3	11.4	10.7	23.3	3.2	0.0%	1,016,149	224,615	22.1%	67,560
EPAY	Bottomline Technologies (de), Inc.	27.37	1,009	976	nm	nm	nm	24.9	14.1	12.5	301.1	3.0	0.0%	323,499	39,117	12.1%	(11,021)
BR	Broadridge Financial Solutions, Inc.	55.01	5,542	5,752	21.5	22.8	20.2	12.0	9.9	8.9	14.1	2.2	1.7%	2,622,600	479,700	18.3%	258,200
CDK	CDK Global, Inc.	46.76	6,547	7,142	32.3	39.5	30.6	17.3	16.3	14.0	21.9	3.5	nm	2,042,000	412,100	20.2%	202,800
DBD	Diebold, Incorporated	35.46	2,239	2,523	19.6	20.5	16.3	10.4	9.9	9.0	15.0	0.8	3.2%	3,051,053	242,118	7.9%	114,417
KFX	Kofax Limited	10.95	615	556	65.9	84.2	45.6	19.5	11.7	9.2	38.8	1.9	0.0%	298,602	28,497	9.5%	9,339
NCR	NCR Corporation	29.51	4,907	8,261	25.7	16.2	11.9	13.9	8.6	7.9	26.5	1.3	0.0%	6,591,000	596,000	9.0%	191,000
NTWK	NetSol Technologies, Inc.	5.77	40	49	nm	nm	nm	nm	nm	nm	nm	1.2	0.0%	41,490	(5,312)	-12.8%	(11,721)
PEGA	Pegasystems Inc.	21.75	1,586	1,357	47.7	44.4	33.0	19.2	13.2	10.9	28.7	2.3	0.5%	590,004	70,663	12.0%	33,255
WK	Workiva Inc.	14.40	530	519	nm	nm	nm	nm	nm	nm	nm	4.6	0.0%	112,694	(35,274)	-31.3%	(41,154)
YDLE	Yodlee, Inc.	13.46	357	464	nm	nm	122.4	nm	47.1	31.3	nm	5.2	0.0%	89,081	(889)	-1.0%	(6,975)
Median			1,586	1,357	32.3	33.3	28.9	15.8	11.7	10.7	24.9	2.3	0.0%	590,004	70,663	9.5%	33,255
Content																	
RATE	Bankrate, Inc.	11.34	1,298	1,419	nm	30.6	22.9	20.3	8.8	7.6	152.0	2.8	0.0%	510,575	69,763	13.7%	(8,707)
CLGX	CoreLogic, Inc.	35.27	2,835	4,108	38.7	31.5	23.1	12.3	10.3	9.3	20.9	2.9	0.0%	1,405,040	335,022	23.8%	73,200
CSGP	CoStar Group, Inc.	197.83	5,940	5,844	132.4	513.8	76.1	38.6	43.6	23.1	72.3	10.1	0.0%	575,936	151,250	26.3%	44,869
DNB	Dun & Bradstreet Corporation	128.36	4,344	5,676	14.8	17.4	16.5	12.5	11.1	10.5	14.5	3.4	1.4%	1,681,800	453,300	27.0%	294,400
FDS	FactSet Research Systems Inc.	159.20	5,876	5,736	26.2	28.1	25.7	nm	15.5	14.3	nm	6.0	1.0%	960,893	NA	nm	224,397
FORR	Forrester Research, Inc.	36.78	717	604	66.0	59.3	35.0	20.6	19.8	14.0	34.0	1.9	1.7%	312,062	29,280	9.4%	10,865
IT	Gartner, Inc.	83.85	7,413	7,445	40.3	37.7	30.2	22.9	17.8	15.3	26.1	3.7	0.0%	2,021,441	324,982	16.1%	183,766
MORN	Morningstar, Inc.	74.91	2,885	2,690	36.9	nm	nm	16.1	10.6	9.8	24.0	3.5	0.9%	760,071	166,773	21.9%	78,285
VRSK	Verisk Analytics, Inc.	71.40	10,563	11,404	26.4	28.0	25.2	14.2	13.0	12.0	17.3	6.5	0.0%	1,746,726	804,087	46.0%	400,042
Median			4,344	5,676	37.8	31.1	25.4	18.2	13.0	12.0	25.1	3.5	0.0%	960,893	245,878	22.9%	78,285

Publicly Traded Technology Companies

Ticker	Name	3/31/15 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Banking Technology																	
TRAK	Dealertrack Technologies, Inc.	38.52	2,094	2,672	nm	nm	202.7	18.9	12.0	10.1	549.4	3.1	0.0%	854,415	141,394	16.5%	(17,269)
ELLI	Ellie Mae, Inc.	55.31	1,613	1,587	108.8	614.6	153.6	53.8	40.5	25.7	75.1	9.8	0.0%	161,537	29,506	18.3%	14,823
EPIQ	Epiq Systems, Inc.	17.93	664	923	nm	41.7	32.0	15.5	8.9	8.0	85.5	1.9	2.0%	474,470	59,498	12.5%	(1,337)
JKHY	Jack Henry & Associates, Inc.	69.89	5,658	5,687	27.1	26.2	23.9	nm	12.5	11.7	17.7	4.5	1.3%	1,254,901	NA	nm	209,124
PFMT	Performant Financial Corp.	3.40	168	199	17.9	nm	25.1	5.0	9.2	5.2	7.3	1.0	0.0%	195,378	39,719	20.3%	9,400
Median			1,613	1,587	27.1	41.7	32.0	17.2	12.0	10.1	75.1	3.1	0.00	474,470	49,609	0.17	9,400
Insurance/Healthcare Technology																	
ATHN	athenahealth, Inc.	119.39	4,560	4,695	NM	nm	1,467.54	49.61	29.18	22.97	5,650.00	6.24	\$0.00	752,599	94,637	12.6%	(3,119)
CRVL	CorVel Corporation	34.41	702	656	22.38	nm	nm	9.81	nm	nm	13.29	1.34	0.0%	490,676	66,812	13.6%	31,347
CRD.B	Crawford & Company	8.64	444	555	14.50	14.40	9.09	5.36	5.14	4.25	8.42	0.46	\$0.02	1,216,963	103,563	8.5%	30,624
EBIX	Ebix, Inc.	30.38	1,071	1,141	16.86	18.87	nm	12.71	12.61	11.89	14.24	5.32	1.0%	214,321	89,788	41.9%	63,558
GWRE	Guidewire Software, Inc.	52.61	3,691	3,566	190.48	969.97	419.69	124.11	53.68	44.84	165.34	9.65	\$0.00	369,422	28,732	7.8%	19,378
HMSY	HMS Holdings Corp.	15.45	1,365	1,431	97.88	50.66	28.61	16.30	11.43	8.83	41.84	3.23	0.0%	443,225	87,802	19.8%	13,947
MGLN	Magellan Health Services, Inc.	70.82	1,888	1,911	23.78	29.51	23.61	8.88	6.95	6.55	15.41	0.51	\$0.00	3,760,118	215,076	5.7%	79,404
SLH	Solera Holdings, Inc.	51.66	3,471	5,780	77.05	103.32	43.05	17.04	12.34	11.51	29.74	5.29	1.4%	1,093,096	339,303	31.0%	45,055
SR	Standard Register Co.	0.10	1	301	NM	nm	nm	7.20	nm	nm	53.47	0.33	\$0.00	915,177	41,792	4.6%	(9,452)
CSLT	Castlight Health, Inc.	7.76	706	688	NM	nm	nm	nm	(10.90)	nm	nm	15.09	0.0%	45,605	(84,586)	-185.5%	(85,940)
CNXR	Connecture, Inc.	10.35	220	246	NM	nm	31.36	269.84	20.57	12.94	nm	2.91	\$0.00	84,579	911	1.1%	(13,990)
HQY	HealthEquity, Inc.	24.99	1,345	1,234	111.56	122.24	99.96	57.10	51.18	33.12	78.48	14.05	0.0%	87,855	21,616	24.6%	12,058
IMPR	Imprivata, Inc.	14.00	329	252	NM	nm	nm	nm	(34.46)	167.72	nm	2.59	\$0.00	96,979	(13,346)	-13.8%	(19,178)
IMS	IMS Health Holdings, Inc.	27.07	9,030	12,433	NM	40.98	28.93	33.33	13.42	12.11	nm	4.71	0.0%	2,641,000	373,000	14.1%	(189,000)
MTBC	Medical Transcription Billing, Corp.	2.14	23	24	NM	nm	nm	nm	8.75	3.22	nm	1.34	\$0.00	18,303	(1,385)	-7.6%	(4,509)
INOV	Inovalon Holdings, Inc.	30.21	4,275	4,413	65.42	57.00	45.77	33.96	27.94	22.56	40.09	12.21	nm	361,540	129,941	35.9%	65,352
Median			1,208	1,188	65.42	50.66	37.21	17.04	12.48	12.11	40.09	3.97	0.0%	406,324	77,307	6.7%	13,003

Publicly Traded Technology Companies

Ticker	Name	3/31/15 Price	Market Cap (\$MM)	Ent'p Val (\$MM)	Price / Earnings			Ent'p Value / EBITDA			Ent'p Value/LTM		Yield	LTM			
					LTM	FY15E	FY16E	LTM	FY15E	FY16E	EBIT	Rev.		Revenue	EBITDA	Margin	Net Inc.
Investment Technology																	
ADVS	Advent Software, Inc.	44.11	2,309	2,500	46.0	41.2	36.6	23.8	16.9	15.6	29.9	6.3	0.9%	396,820	104,943	26.4%	50,212
DST	DST Systems, Inc.	110.71	4,113	4,158	6.9	18.6	16.4	4.4	9.1	8.7	5.2	1.5	1.1%	2,749,300	936,100	34.0%	593,300
ENV	Envestnet, Inc.	56.08	1,999	1,937	141.0	104.8	60.3	46.5	25.4	18.8	84.2	5.6	0.0%	348,748	41,645	11.9%	14,174
LIQD	Liquid Holdings Group, Inc.	0.26	16	(14)	nm	nm	nm	nm	0.9	nm	nm	nm	0.0%	5,218	NA	NM	(30,101)
MSCI	MSCI Inc.	61.31	6,891	7,183	24.3	32.3	26.4	17.4	16.1	14.4	21.2	7.2	0.3%	996,680	413,854	41.5%	283,745
Median			2,309	2,500	35.1	36.7	31.5	20.6	16.1	15.0	25.5	5.9	0.3%	396,820	259,399	30.2%	50,212

Mercer Capital

Financial Technology
Industry Services

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

Mercer Capital provides valuations for a variety of purposes including, corporate/strategic planning, transactions (fairness opinion and M&A), equity compensation (409A compliance, ESOPs, and stock option programs), and financial statement reporting (purchase price allocations, impairment testing, equity compensation). Additionally, Mercer Capital provides related financial advisory and consulting services for companies across the corporate lifecycle — from start-ups to more mature companies.

Industry Segments

- **Payments.** Those FinTech companies that facilitate and/or support the transfer of money, particularly non-cash transactions, including processors, merchant acquirers, and hardware/software companies.
- **Technology.** Those FinTech companies providing software and technology services to other financial services companies, such as banks/thrifts/credit unions, investment companies, and healthcare/insurance companies.
- **Solutions.** Those FinTech companies that assist businesses (including non-financial companies) with financial services solutions, including general outsourced solutions, payroll/administrative, and financial media/content.

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

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

Contact Us

Jay D. Wilson, CFA, ASA, CBA
901.322.9725
wilsonj@mercercapital.com

Matthew R. Crow, CFA, ASA
901.685.2120
crowm@mercercapital.com

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

Mercer Capital
5100 Poplar Avenue, Suite 2600
Memphis, Tennessee 38137
901.685.2120 (P)

www.mercercapital.com