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BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

VALUE FOCUS

FinTech Industry

Third Quarter 2021

U.S. markets have continued to show strength amid volatility in both the domestic economy and abroad. Total Q3 2021 S&P returns were up 30% over Q3 2020. Returns in FinTech have followed this trend, with all three of the FinTech niches we follow increasing around 20-30% from the same time last year.

Though returns in the industry have been impressive, record-breaking financing and M&A activity have been stealing the spotlight. Investment has been eye-popping: according to FT Partners, 2021 YTD financing volume has been the largest ever, with a total surpassing $100 billion to reach **$103.3 billion**. For reference, volume in 2020, less than a year ago, totaled **$45.7 billion**. Behind this increase in financing for the year is the larger number of $100+ million financing rounds. There have been **296** of these rounds so far in 2021, compared to just over 100 in both 2020 and 2019.

M&A activity has been robust as well, with Q3 2021 touted as the largest quarter ever for FinTech M&A at **$154 billion** in announced volume. Total YTD levels have also broken records, with **$293 billion** in total M&A volume and 1,113 deals globally. Of these deals, 60% of them were acquisitions of North America-based companies. Interest in the space is not slowing in this hopefully post-COVID-19 era with the acceleration in the adoption of technology driven by COVID restrictions.

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

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FEATURED ARTICLE

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Understand the Value of Your Payment Company

When it comes to emerging sectors of the economy, FinTech companies remain in the spotlight. FinTech companies seek to improve inefficiencies in the financial services industry. COVID-19 accelerated these efforts as legacy problems became impossible to circumvent in the environment that the pandemic created. Valuing FinTech companies can be a complex exercise as their market opportunities can be evolving, and their cap tables are often complex. This complexity can be a result of venture capital, corporate, and private equity investors being cobbled together across a number of funding rounds. In this article, we address how FinTech companies in the Payments niche are typically valued.

Valuation Approaches

When valuing a company, there are typically three approaches utilized in determining value: asset, income, and market. While each valuation method is typically considered when valuing a company, certain characteristics of the company and industry could make the weighting and importance of the approaches differ. Choosing the right considerations of these valuation approaches is crucial in determining an accurate valuation for the company and, ultimately, the positions of the stakeholders within the company.

The Asset Approach

The asset approach determines the value of a business by examining the cost that would be incurred by a relevant party to reassemble the company's assets and liabilities. This approach is generally inappropriate for FinTech companies in the Payments niche as the historical cost to develop the technology may not be indicative of the revenues and cash flows that can be generated in the future from it. However, the asset approach 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 Income Approach

The income approach can typically provide a more 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 discounted cash flow (DCF) method, which determines value based upon the present value of the expected future 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.

The length of this discrete period over which the expected profitability is considered may vary depending on the characteristics and development stage of the payment company. For example, for a relatively new payment company startup, that is still burning cash and has yet to break even, the discrete period may be longer than a more established company that has already achieved positive cash flow. Additionally, if a payment company has certain products on the horizon and it will take longer for those products to reach their total profit potential, the discrete period would need to be adjusted to capture this. A good rule of thumb is for the discrete period to be long enough for the company to reach an assumptive "stable growth level." Discount rates, funding/capital needs, and growth rates vary from company to company as well and can be affected by many different company characteristics such as management team, capital structure, region of operation, specific products, and customer base. A thorough examination of the subject payment company is important in making a reasonable assumption on these.

Unit economics (or unit metrics) are also an important consideration when valuing a payment company and forecasting cash flows. In the chart on the next page, we have labeled and defined some of the most important ones.

Unit Metrics Defined	
Rule of 40	A principle that a high-growth FinTech company's combined annual revenue growth rate and profit margin should exceed 40%
Magic Number	A measure of incremental gross profit (adjusted, if necessary) that equals annual revenue less prior year revenue divided by sales & marketing expense (lagged one period)
Customer Acquisition Cost (CAC)	Measures the direct cost to acquire a new customer
Customer Lifetime Value (LTV)	The estimated lifetime value of a customer
LTV: CAC Ratio	A measure of the lifetime value of a customer divided by the cost to acquire the customer
Churn	A measure of the attrition rate in customer accounts/revenue
Annual Recurring Revenue (ARR)	An estimate of the revenue under contract and expected to recur on an annual basis
Annual Revenue Profit	Estimated by multiplying ARR by the estimated EBITDA margin for the company

Though these metrics do not provide an indication of value in their own right, they can provide more color to the actual state of the company and serve as a way to benchmark performance versus history and peer. These metrics can also serve as a foundation for future earnings forecasts, and also a test of reasonableness of the forecast.

For early-stage payment 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.

The Market Approach

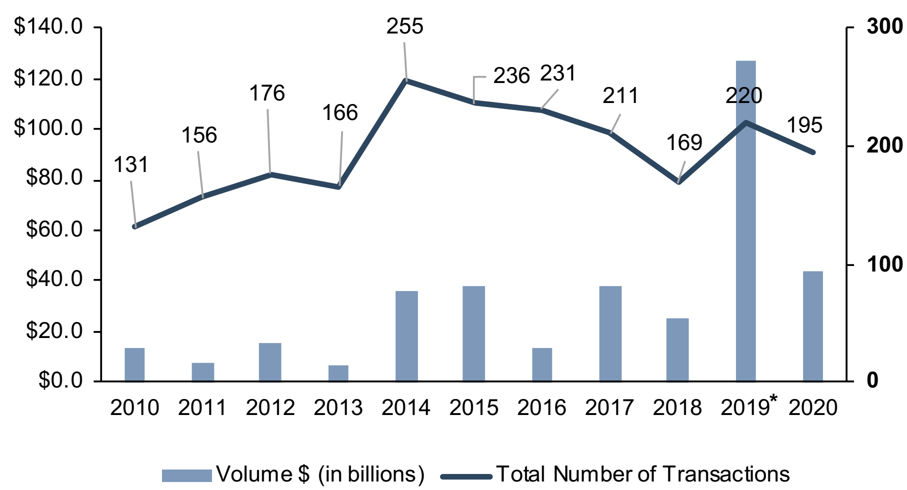
The market approach determines the value of a company by utilizing valuation metrics from transactions in comparable companies or historical transactions in the company like prior funding rounds. Consideration of valuation metrics can provide meaningful indications for startups that have completed multiple 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 comparable publicly traded companies and acquisitions can be helpful in determining key valuation inputs for payment companies. For early-stage companies, market metrics can provide valuable insight into potential valuations and financial performance once the payment company matures and considers exit opportunities. For already mature enterprises, recent financial performance can be compiled to serve as a valuable benchmarking tool. See the payment valuation mulitple trends charts on **page 6** of this newsletter.

As mentioned previously, the payment company industry is marked by a large number of transactions which provide a lens on payment company values. Investors can discern how the market might value a payment company based on pricing information from comparable payment companies or recent acquisitions of comparable payment companies.

According to **FT Partners Q2 2021 Insights**, there were 122 global M&A transactions of payment companies with financing volume of $15.5 billion in the first half of 2021. This compares to **2020** when there were just 84 global payment company transactions with a similar volume of $15.9 billion. The chart below highlights historical payment company global financial volume and deal counts.

Global Payment M&A Volume and Deal Count



**2019 M&A volume includes the acquisitions of Worldpay for $43 billion, FirstData for $41 billion, and TSYS for $25 billion*

Per FT Partners

Even when market data is available, discretion must be used when considering any guideline multiples and the market approach due to the unique nature and niche of many payment companies.

The Importance of Valuations

Given their complexity, multiple valuation approaches and methods are usually considered to provide lenses through which to assess the value of a payment company. It is important to note that these different approaches and methods are not expected to align perfectly. Value indicators from the market approach can be rather volatile and investors normally think longer-term. More enduring indicators of value can often come from income approaches, such as DCF models.

As discussed, there are many moving parts in valuing a payment company. Due to their complex nature, having an accurate valuation is critical to determine both an investor's specific value as it relates to their holding return on investment and position in their overall portfolio, as well as for management of the company to have an accurate idea of their current worth. In an industry rife with M&A opportunities, having an idea of an accurate and fair price for the company also gives shareholders a leg up as they consider strategic options and perhaps the sale of the company. For those companies still in the growth phase, valuations serve to provide a baseline measure of where the company is today and also serves as a measuring stick for benchmarking future performance/valuation. Given the complexities of valuing payment companies and private FinTechs in general, it is important to have a valuation expert who understands trends in both the market and the company.

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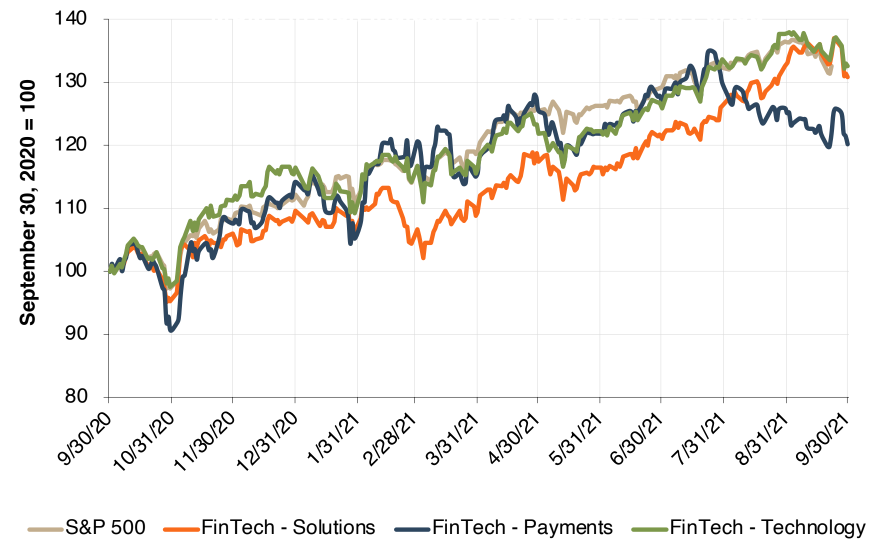
Public Market Indicators

In the past 12 months to September 30, 2021, all three FinTech niches of Payments, Technology, and Solutions followed the overall market's resurgence and growth.

- The Technology niche continues to outperform the other niches, as well as outperforming the S&P 500 by nearly 3% from the twelve months until September for a total return of 32.6%. The Solutions niche also outperformed the S&P over the same period by nearly 1% for a total return of 30.8%.
- The Payments niche was the only one to not surpass the broader market, with a smaller, but still impressive, return of 20.2% over the period.

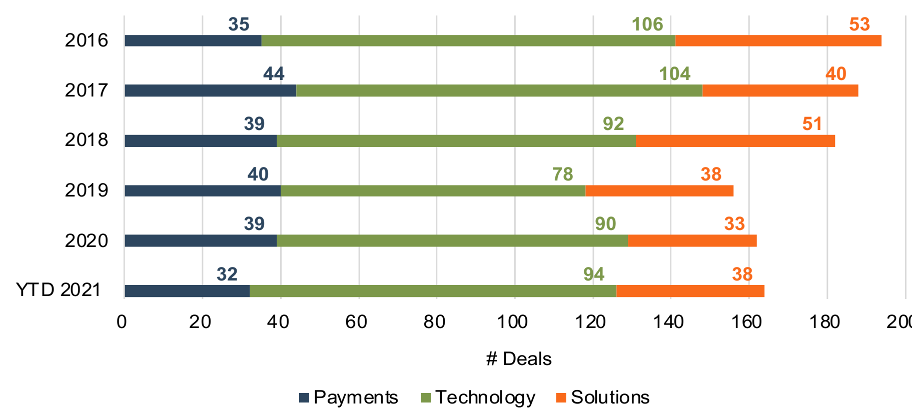
According to FT Partners, there were 37 FinTech IPOs globally in YTD 2021, 30 of which are on U.S. exchanges. Robinhood was the most notable of these occurring in Q3, achieving a **$32 billion IPO**. The commission-free stock trading and investing app has allowed a larger swath of the general public to have access to public markets, and though it garnered intense negative press in the **GameStop Reddit short squeeze** that occurred in March of this year, the IPO was overall a success. Robinhood **(HOOD)** was trading at $42.08 as of September 30, 2021, a 21% increase from its price as of July 29, 2021 when it went public. We discuss other IPOs in the niche-specific sections later in the newsletter.

Public Market Indicators



Source: S&P Global Market Intelligence

U.S. Deal Activity by Niche



Median Total Returns

as of September 30, 2021

Segment	MTD Sep 21	LTM 9/21	2Q21
FinTech - Payments	-3.9%	20.2%	3.9%
FinTech - Technology	-1.8%	30.8%	19.6%
FinTech - Solutions	-3.8%	32.6%	14.1%
S&P 500	**-4.7%**	**30.0%**	**9.2%**

Source: S&P Global Market Intelligence

Valuation Multiples - Overall

- Consistent with recent historical growth patterns and the near-term outlook, FinTech companies remain priced at a premium to the broader markets with the S&P 500 priced at ~21.0x estimated forward earnings at the end of Q3 2021 (**per FactSet**). The S&P 500 forward multiple is notably elevated from the 5-year and 10-year averages.
- The Solutions niche reported the highest LTM P/E, while the Technology niche reported the highest EV/EBITDA multiples compared to the other two 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.

Valuation Multiples

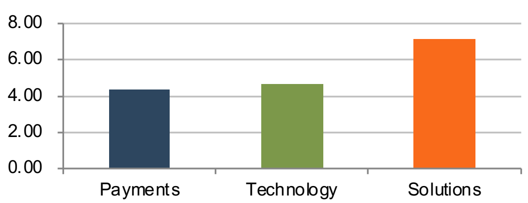
as of September 30, 2021

Segment	Price/ LTM EPS	Price / 2021 (E) EPS	Price / 2022 (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	30.5	22.3	17.9	16.4	15.3	12.0	4.4
FinTech - Technology	33.9	30.1	27.2	22.6	19.8	17.6	7.1
FinTech - Solutions	45.5	26.9	28.7	21.8	18.4	16.2	4.7

Source: S&P Global Market Intelligence

FinTech Valuation Multiples

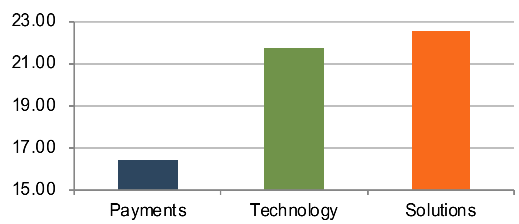
EV / Revenue (LTM)



Source: S&P Global Market Intelligence

FinTech Valuation Multiples

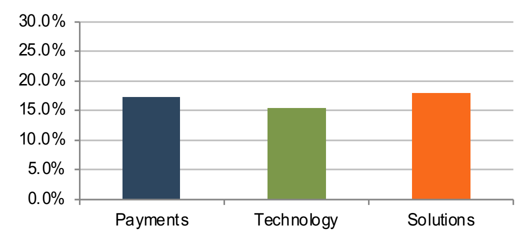
EV / EBITDA (LTM)



Source: S&P Global Market Intelligence

FinTech Performance

EBITDA Margin LTM



Source: S&P Global Market Intelligence

Valuation Multiples - Payments

As millions of people across the country found themselves at home during the COVID-19 pandemic, the need for payment financial technology accelerated.

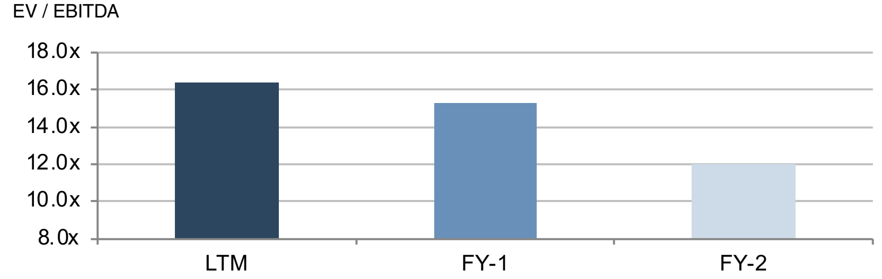
According to **CB Insights**, payment companies raised over $23.4 billion through Q3 2021 ($7 billion in Q1, $11 billion in Q2, and $6 billion in Q3).

Payment company P/E and EV/EBITDA multiples are currently at 31x and 16x, respectively, both outpacing where they have been historically as investors continue to see opportunity in this space.

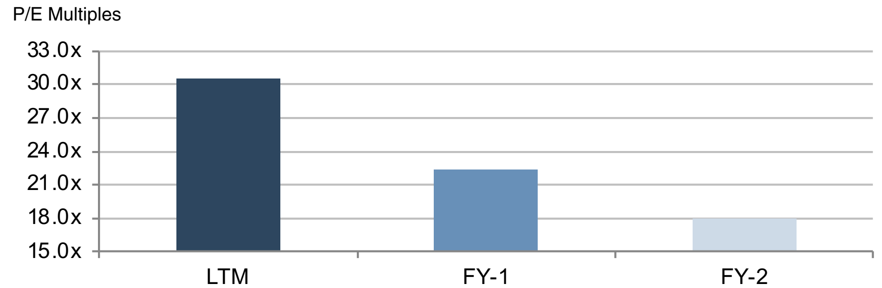
Multiples on LTM figures are outpacing those for forward projected, indicating that investors may be anticipating significant financial growth in this industry as the economy recovers from the COVID-19 pandemic.

In the U.S., payment deals over $1 billion have made up over a third of total deals. Furthermore, Q3 had one of the largest ever M&A deals for FinTechs occurring in the Payments space with Square's **$29 billion** acquisition of Afterpay.

Payment Valuation Multiples



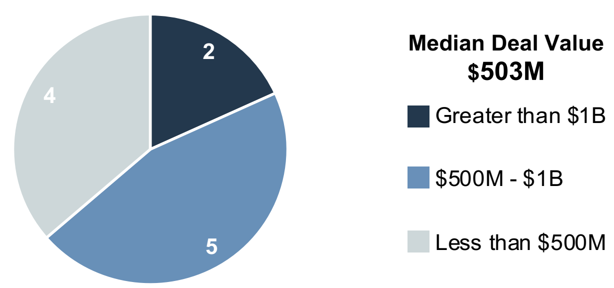
Payment Valuation Multiples



Source: S&P Global Market Intelligence - As of 9/30/21; U.S based; NASDAQ and NYSE

YTD Deal Values in Payments Niche*

** U.S. Market only and not including deals under $50M*



Source: S&P Global Market Intelligence

The Payments Niche

Notable IPO for the Quarter

Remitly

Remitly started trading on September 23, 2021. Founded in 2011, the global remittance company's mobile technology allows people to send and receive money across borders, and eliminates the forms, codes, and agents typically associated with the process. The global digital remittance market is huge and continuing to grow, with market size expected to reach **$42.5 billion** by 2028 and expand at a CAGR of 13.3%. The company started trading on the NASDAQ at **$43 share price** and a valuation of $7 billion. Remitly **(NASDAQ: RELY)** was trading at $36.70 as of September 30, 2021.

Notable Financing Round for the Quarter

chime

Chime, one of the largest private challenger banks, raised $750 million in Series G financing during the third quarter. This funding round brings Chime's total funding to $2.2 billion. As a result of the latest round, Chime has a $25 billion post-money 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

The technology niche in the FinTech industry also benefitted from the COVID-19 pandemic as banks had to rely more heavily on banking technology through 2020 into 2021 to provide for customers remotely. According to **Forbes**, nearly half (44%) of banks and a quarter of credit unions expect to add a new or replacement digital account opening system in 2021. As in Q2, banking technology had the highest P/E multiple of all the technology subsectors in Q3, at a whopping 68x.

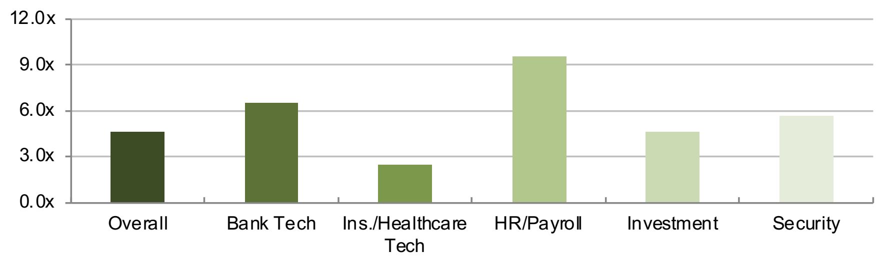
Insurtech has seen record levels in 2021, as technology speeds up the process of buying insurance and make claims. Global investment in insurance technology start-ups totaled **$10.5 billion** in the first nine months of 2021. In the third quarter alone, investment was up 23% from Q3 2020 reaching **$3.1 billion**. According to **CB Insights,** Coalition led the way in equity deals in Q3 with a Series E raise of $205 million and a latest valuation of $3.5 billion. With its ability to innovate and disrupt, high interest in this subsector is likely to continue. [1]

The technology niche has had the most deals valued over $1 billion so far in 2021 with 7 of the 11 total deals above $1 billion this year. This large number of high-value deals has contributed to a significant increase in median deal value with median value of $500 million so far in 2021 compared to $105 million for 2020. This 2020 value had already rapidly outpaced prior median values within the payments niche.

[1] 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/

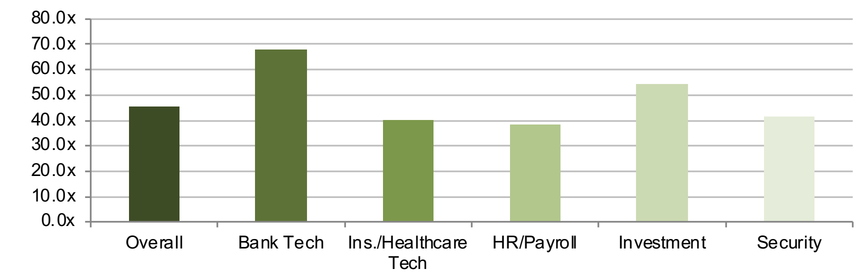
Technology Valuation Multiples

EV / Revenue (LTM)



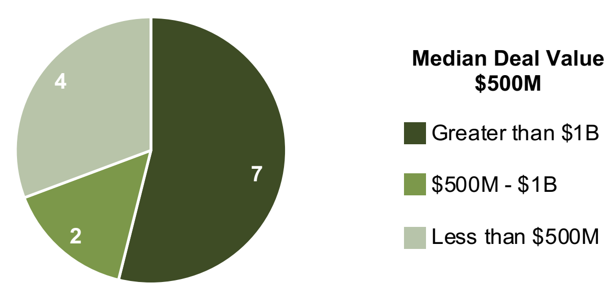
Technology Valuation Multiples

P/E (LTM)



YTD Deal Values in Technology Niche*

** U.S. Market only and not including deals under $50M*



Source: S&P Global Market Intelligence

The Technology Niche

Notable SPAC for the Quarter

SoFi went public on the NASDAQ on June 1, 2021 (technically Q2). Though it is being lumped into the investment technology group, SoFi has their hands in a little bit of everything, with a suite of products from student loan refinancing to investing and banking through their mobile app and desktop interfaces. Like an increasing number of tech companies, SoFi went public via SPAC, and was brought to market via its merger with **Social Capital Hedosophia Holdings V**. Public offerings via SPAC have boomed in the past couple of years and have continued through 2021, with **761** offerings as of September 27th 2021. This compares to a total number of IPOs via SPAC of 480 in 2020 and 232 in 2019. Uniquely, SoFi gave customers the opportunity to **invest in initial public offerings before trading begins** in those companies, a strategy traditionally only reserved for institutional investors or individuals with ultrahigh net worth. The Sofi IPO raised **$2.4 billion**, and was valued at $8.65 billion. As of September 30, 2021, SoFi Technologies Inc. **(NASDAQ: SOFI)** was trading at $15.88.

Notable Financing Round for the Quarter

FTX, a cryptocurrency exchange, raised $900 million in Series B financing during the third quarter. As a result of the latest round, FTX has a $18 billion post-money valuation.

Valuation Multiples - Solutions

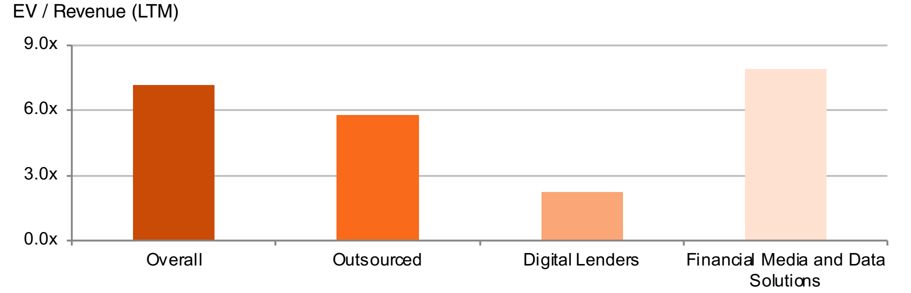
The Solutions niche of the FinTech industry encompasses the following subsectors:

- Business process outsourcing
- Digital lenders
- Financial technology and data solutions.

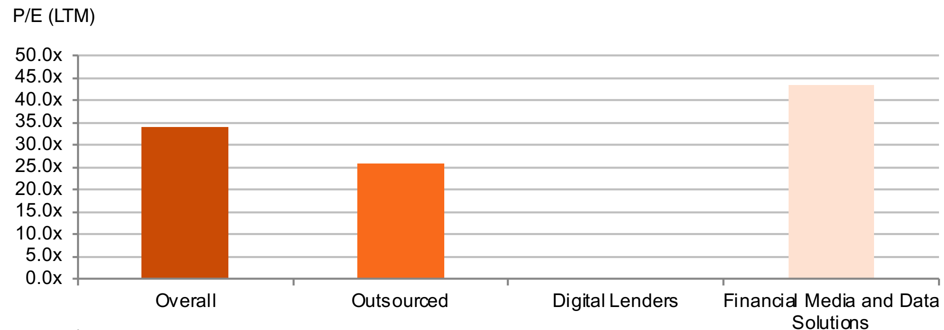
With the reliance on technology at higher levels than ever, there is a huge quantity of data and, more specifically, financial data, that is available. However, without data solutions to help organize and manage this information, it can be difficult, if not impossible, to interpret. Furthermore, with **63 million Americans either unbanked or underbanked**, financial services and products that offer new insights into individuals' financial history are important for reaching this group that tends to face higher borrowing costs and barriers to employment. Financial Media and Data Solutions had the highest multiples of the Solutions subsectors, with a median P/E multiple of 43.3x and an EV/Revenue ratio of 7.9x.

There have been more deals under $500 million in the Solutions niche, contributing to the lowest median deal value of the niches at $166 million. Deal value trails the 2020 median deal highs of $400 million but is higher than the rest of the historical period.

Solutions Valuation Multiples



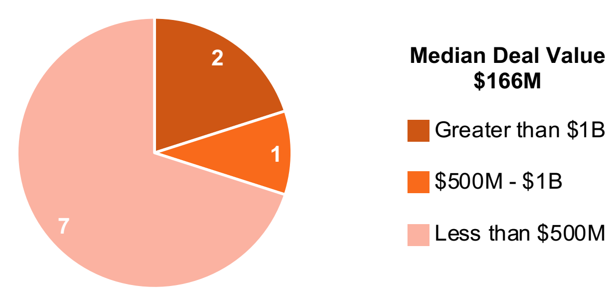
Solutions Valuation Multiples



** P/E multiple for digital lenders not meaningful*

YTD Deal Values in Solutions Niche*

** U.S. Market only and not including deals under $50M*



Source: S&P Global Market Intelligence

The Solutions Niche

Notable IPO for the Quarter

Blend, a digital lending platform that supports and simplifies applications for mortgages, consumer loans, and deposit accounts, went public on the NYSE on July 16th. The company's 2020 performance helped facilitate the public offering; on a standalone basis, the company reported **$96 million** in revenue in 2020 up 90% from 2019. The residential real estate sector's growth also helped boost Blend's profile. Around the IPO date Blend was processing over **$5 million** of mortgages and consumer loans per day, up from nearly $3 billion last July 2020. The company raised a total of **$360 million** in the IPO bringing its total valuation to almost $4 billion. As of September 30, 2021, Blend Labs Inc **(NYSE: BLND)** was trading at $13.48.

Notable Financing for the Quarter

InsightSoftware, a provider of financial reporting and enterprise performance management software, raised $1 billion in financing during the third quarter. As a result of the latest round, InsightSoftware has a $4 billion post-money valuation.

FinTech M&A and Fundraising Overview

As mentioned previously, global deal activity in the industry is robust, and the U.S. market is no exception. Deal activity (as measured by number of transactions) for 2021 has surpassed the level reached in 2020 and is on pace to be the highest of the last five years.

- The increase in deal activity is present across all three FinTech niches with Technology and Solutions already surpassing 2020 levels and Payments on track to do the same.

So far in 2021, there was a marked increase in median deal values as the trend toward larger deals continues. Total reported deal value is on pace to surpass the level achieved in 2020.

- So far in 2021, median deal values in the Payments and Technology niches have far surpassed the levels reached in 2020 while median deal values in the Solutions niche are lower than 2020.
- This quarter included the **fourth and fifth largest FinTech transactions** with MSP Recovery's $33 billion merger with Lionheart Acquisition Corp. II and Square's $29 billion acquisition of Afterpay.

Deal value/revenue multiples are up markedly so far in 2021 after having fallen in 2020, reflecting continued market recovery and strength, acquirer interest, and a greater proportion of larger transactions.

Globally, FinTech fundraising is off to a record start in 2021 with **~$103 billion** in total financing during the first three quarters of 2021. This financing volume already exceeds total financing in 2020 with total volume up 125% at the end of Q3 compared to full year 2020. Large financing rounds have increased in 2021 with **296 rounds** of $100 million or more compared to 107 for 2020, and average and median round sizes have increased in the first three quarters of 2021 as well.

Deal Activity

	YTD 2021	2020	2019	2018	2017	2016	% Chg. 20/19
# of Deals	164	162	156	182	188	194	3.8%
Total Reported Deal Value ($M)	$53,305	$63,212	$128,601	$88,053	$17,404	$20,716	-50.8%
Median Reported Deal Value ($M)	$411	$196	$120	$101	$90	$40	63.2%

Deal Activity By FinTech Industry Niche

	YTD 2021	2020	2019	2018	2017	2016	% Chg. 20/19
Payments Total	32	39	40	39	44	35	-2.5%
Technology Total	94	90	78	92	104	106	15.4%
Solutions Total	38	33	38	51	40	53	-13.2%

FinTech M&A and Fundraising Overview (cont.)

Median Pricing Metrics

	YTD 2021	2020	2019	2018	2017	2016	% Chg. 20/19
Deal Value / Revenue	5.32x	4.07x	5.31x	3.75x	3.13x	2.32x	-23.4%
Deals Greater than $1BN	11	14	11	15	4	1	27.3%
Deals Greater than $500M	18	21	16	17	9	4	31.3%
Deals Greater than $50M	34	44	39	43	38	24	12.8%

Median Deal Value ($M)

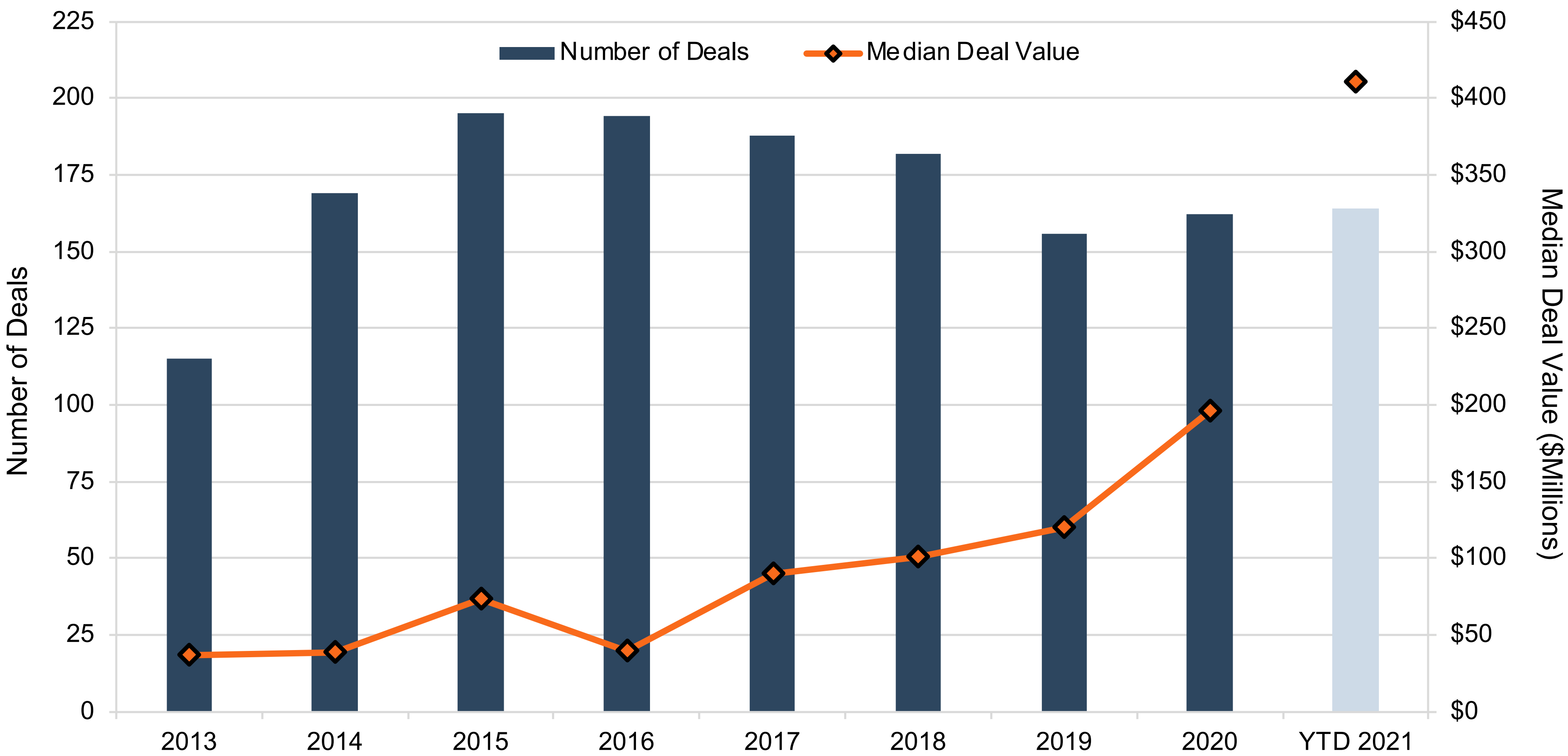
	YTD 2021	2020	2019	2018	2017	2016
Payments	$503	$343	$222	$126	$214	$258
Technology	$500	$105	$50	$68	$60	$25
Solutions	$166	$400	$155	$142	$119	$37

Source: S&P Global Market Intelligence

FinTech M&A and Fundraising Overview (cont.)

U.S. FinTech M&A Overview

2013 - YTD 2021



Source: S&P Global Market Intelligence

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