

VALUE FOCUS

FinTech Industry

Market Overview 4Q21

U.S. markets have continued to show strength amid volatility in both the domestic economy and abroad, driving total returns to the S&P 500 of 30% in 2021. Returns in the FinTech sectors have followed this trend, with the Technology and Solutions industries increasing around 25-26% over the same period. The Payments niche failed to match these levels and experienced a decline of nearly 10% over the same period, largely attributable to some recent IPO companies failing to meet performance expectations.

Though returns in the industry have been impressive, record-breaking financing and M&A activity has been stealing the spotlight, and the industry had a banner year. According to FT Partners, 2021 financing volume has been the largest ever, with a total surpassing \$100 billion to reach **\$141.6 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 that have occurred. There have been **399** of these rounds in 2021, compared to just over 100 in both 2020 and 2019.

M&A activity has been robust as well, with 2021 touted as the largest year ever for FinTech M&A at \$348.5 billion in announced volume. There was a total of 1,485 deals globally, with 71 deals valued at \$1 billion or more. Of these deals, 75% of them were acquisitions of North America-based companies. Interest in the space is not slowing in this post-COVID-19 era with the acceleration in the adoption of technology as consumers had to contend with limited person to person interaction.



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

Contact Us



Jay D. Wilson, CFA, ASA, CBA
469.778.5860
wilsonj@mercercapital.com



Mary Jane McCaghren
214.206.3796
mccaghren@mercercapital.com



Vincent R. Baumer
901.685.2120
baumerv@mercercapital.com



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



Daniel P. McLeod
901.322.9716
mcleodd@mercercapital.com

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Learn More about Mercer Capital &
our FinTech Services at

<http://mer.cr/FinTech>

Recent Insights

For this quarter we have linked 3 pieces of content that may be of interest to our readers

ARTICLE



Acquire or Be Acquired (AOBA) 2022: Review & Recap

In this article, our colleague Andy Gibbs provides a recap of *Bank Director's* Acquire or Be Acquired Conference, where FinTech was a hot topic of discussion. As noted in the article, several discordant themes related to FinTech emerged and were attempted to be unified. These themes included: FinTechs are increasingly challenging and competing with the traditional banking industry, FinTechs are in some cases reliant upon the banking industry for things such as compliance expertise, funding, and access to payment rails and even acquiring traditional banks, and FinTechs offer opportunities for banks through access to products and partnerships that can expand products, provide access to new markets, and enhance efficiency.

[>> Read Article](#)

PRESENTATION

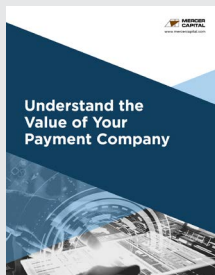


A Primer on a Growing Breed of Bank Acquirers

Mercer Capital's Jay Wilson recently co-presented a session with Michael Bell of Honigman, LLP entitled "A Primer on a Growing Breed of Bank Acquirers: Credit Unions and FinTech Companies", which focused on the perspective credit unions and FinTechs take when evaluating potential acquisition targets. As noted previously, some FinTech companies have entered the scene as acquirers. In February 2022, SoFi completed its acquisition of Golden Pacific Bancorp, and several other precedent transactions exist.

[>> Download Presentation](#)

WHITEPAPER



Understand the Value of Your Payment Company

Throughout this whitepaper, we look into the payment industry's place in the larger FinTech ecosystem, macroeconomic factors driving the industry, microeconomic factors pertaining to specific companies, and what valuation methods are most prudent when determining the fair market value of a payments company.

[>> Download Whitepaper](#)

Public Market Indicators

All of the Fintech sectors followed the overall growth and resurgence of the economy through Q3 2021, though Q4 proved to be difficult for the Payments sectors.

- The Solutions and Technology niches performed similarly to one another through the end of the year, with returns of 25.6% and 26.3%, respectively. However, both failed to outperform the S&P 500 which saw returns of 28.7%.
- The Payments niche was the only group to fail to produce a positive return year over year, resulting in a decline in return of 6%. This decline is largely attributable to newer public payment companies failing to perform as well as expected, with Flywire (FLYW) and Marqeta (MQ) for example experiencing YTD 21 contractions of 33% and 46%, respectively.

According to FT Partners, there were a record-breaking 56 FinTech IPOs globally in 2021, 39 of which are on US exchanges. Nu Holdings, a Brazilian challenger bank, was the most notable of these occurring in Q4. The challenger bank raised \$2.6 billion in its IPO, making it the largest FinTech IPO in 2021 and the fifth largest ever. NuBank's market cap at IPO was **\$41 billion**, making it the most valuable financial institution in Latin America. Latin America has been a hot market for FinTechs as it is a country with a high disparity between the unbanked population and mobile internet usage. As of December 31, 2021, Nu Holdings (NU) was trading at \$9.38, a 9% discount to its IPO debut price. We will discuss NU holdings, along with other IPOs in the niche-specific sections, later in the newsletter.

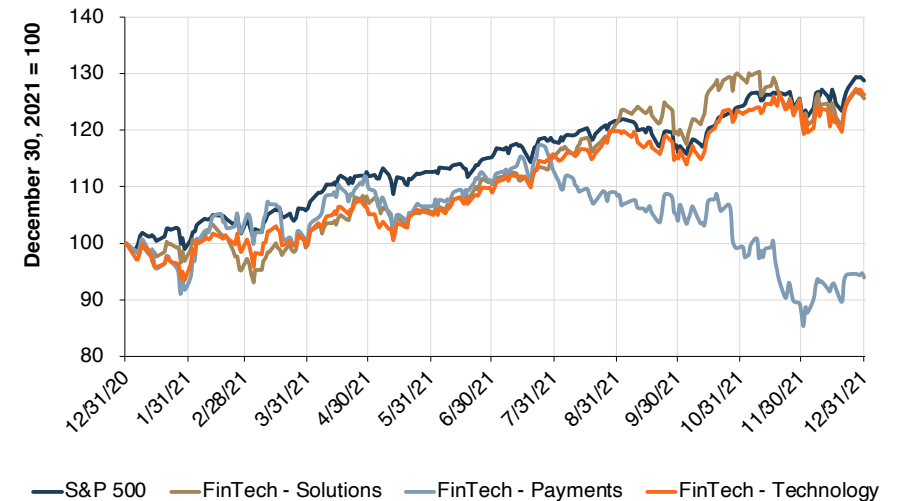
Median Total Returns

as of December 31, 2021

Segment	Dec 21	FY 2021	4Q21
FinTech - Payments	7.2%	-6.0%	-9.7%
FinTech - Technology	2.3%	25.6%	5.4%
FinTech - Solutions	4.0%	26.3%	9.8%
S&P 500	4.5%	28.7%	11.0%

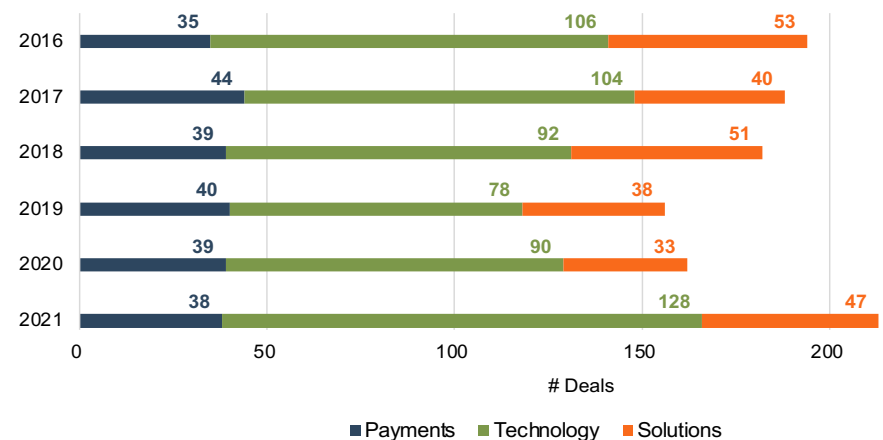
Source: S&P Global Market Intelligence

Public Market Indicators



Source: S&P Global Market Intelligence

U.S. Deal Activity by Niche



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 ~20.0x estimated forward earnings at the end of Q4 2021 (per FactSet). The S&P 500 forward multiple is notably elevated from the 5-year and 10-year averages. While the Payment niche forward multiples have historically outpaced the S&P 500, their forward multiple as of year end is at a discount at 19.4x.
- Though investors continue to weigh market potential and growth for the sector against recent FinTech performance and profitability, the contraction of the payment multiples could be pointing to investor risk management decisions in the wake of the Federal Reserve indicating rate increases 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

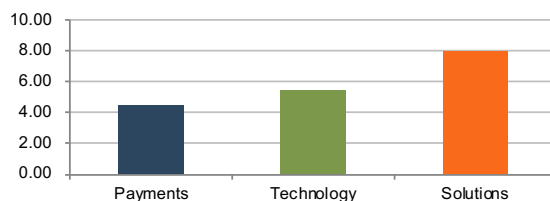
as of December 31, 2021

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	31.9	19.4	16.6	15.1	13.4	11.7	4.5
FinTech - Technology	41.2	31.7	29.3	23.9	20.1	18.8	7.9
FinTech - Solutions	42.0	27.0	26.4	22.4	16.2	15.2	5.4

Source: S&P Global Market Intelligence

FinTech Valuation Multiples

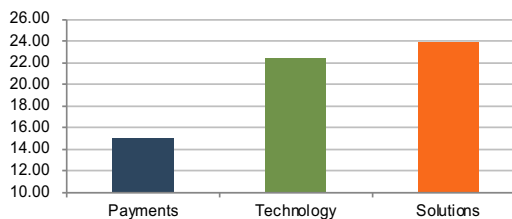
EV / Revenue (LTM)



Source: S&P Global Market Intelligence

FinTech Valuation Multiples

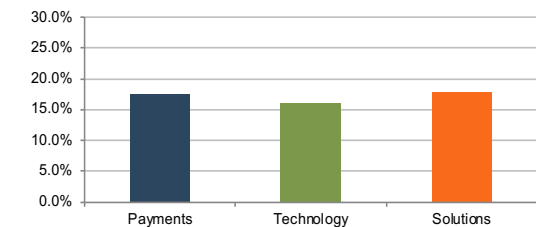
EV / EBITDA (LTM)



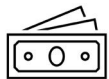
Source: S&P Global Market Intelligence

FinTech Performance

EBITDA Margin LTM



Source: S&P Global Market Intelligence



Valuation Multiples - Payments

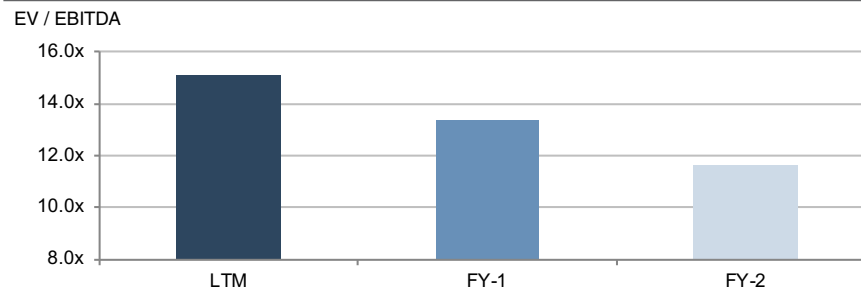
As millions of people across the country found themselves at home during the COVID-19 pandemic, the need for payment financial technology accelerated in 2021.

According to FT Partners, payments companies raised over \$22.2 billion in 2021, with an average financing amount of \$49 million.

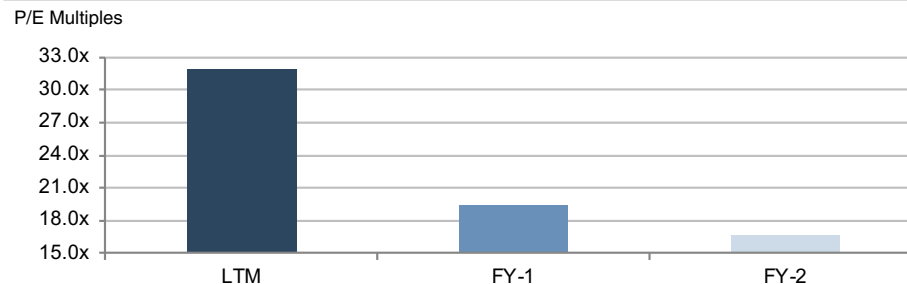
Payment company LTM P/E and EV/EBITDA multiples are currently at 32x and 15x, respectively, both outpacing where they have been historically as investors continue to see opportunity in this space.

In the U.S., payment deals over \$1 billion have made up nearly 20% of total deals. Furthermore, Q3 of 2021 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



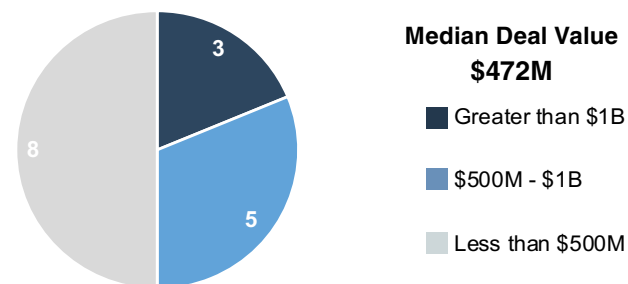
Payment Valuation Multiples



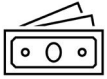
Source: S&P Global Market Intelligence - As of 12/31/21; U.S. based; NASDAQ and NYSE

YTD Deal Values in Payments Niche*

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



Source: S&P Global Market Intelligence



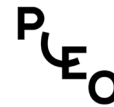
The Payments Niche

Notable IPO for the Quarter



Nuvei is an electronic payment processing company based in Montreal that began trading on the NASDAQ on October 6, 2021. The company's initial public offering was **\$424.8 million** with shares valued at \$123.14. Nuvei operates in 204 global markets with a total customer base of 50,000 people. The company offers 500 payment methods that are compatible with 150 currencies. As of December 31, 2021, Nuvei Corp (**NASDAQ: NVEI**) was trading at \$64.98.

Notable Financing Round for the Quarter



Pleo is a spending management app that tracks company-related spending and automatically creates an expense report for employees. In December, the company received a Series C round funding worth \$200 million. At the end of 2021, the company has total funding of \$429 million.



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 subsector 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 and Q3, banking technology continued to have the highest P/E multiple of all the technology subsectors in Q4.



Insurtech has seen record levels in 2021, as technology speeds up the process for customers in buying insurance and making claims. Global investment in insurance technology start-ups totaled \$10.5 billion in 2021. According to Ft Partners, the two largest rounds of the year were raised by WeFox and Bought by Many, two European InsurTech companies. WeFox raised \$650 million and Bought by Many raised \$350 million.



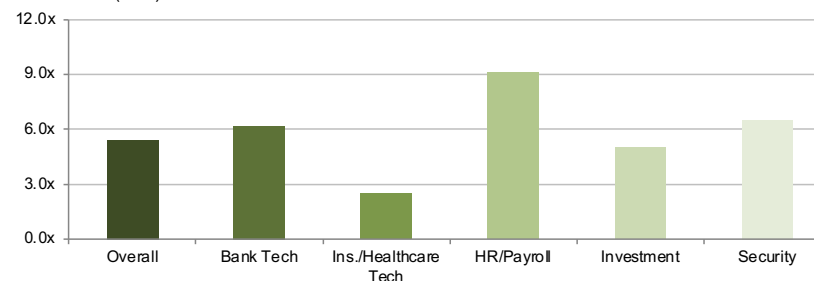
Investment technology had a banner year in 2021 with the continued impact of the COVID-19 pandemic, low interest rates, and a record market drawing new investors to the stock market. IPO debuts of companies such as Robinhood (HOOD) and SoFi (SOFI) that offer accessible market access to retail traders further emphasized the trend that was emerging in the industry.



The technology sector has had the most deals valued over \$1 billion so far in 2021. This large number of high-value deals has contributed to a significant increase in median deal value to \$422 million in 2021 compared to \$105 million for 2020. This 2020 value had already rapidly outpaced prior median values within the payments sector.

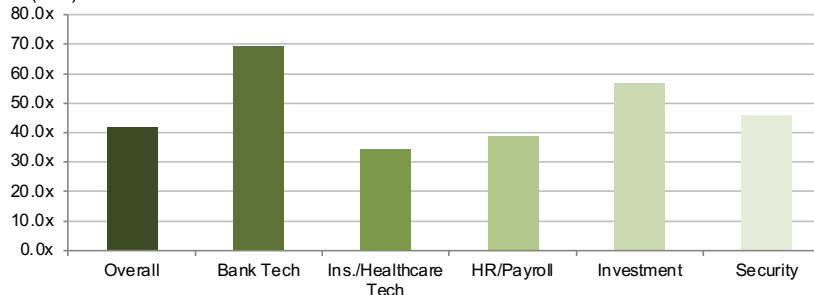
Technology Valuation Multiples

EV / Revenue (LTM)



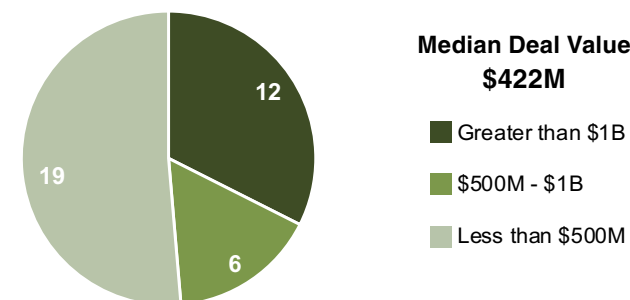
Technology Valuation Multiples

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 IPO for the Quarter



Nubank began trading on the New York Stock Exchange on December 9, 2021. The Brazilian digital lender was founded in 2013 and aims to create simple, secure, and digital solutions to enhance people's financial lives. The Company stated trading at \$9 a share with an initial valuation of almost **\$41.5 million**. Headquartered in Sao Paulo, Nubank is one of the most valuable financial technology companies in South America, serving a customer base of approximately 48.1 million people. As of December 31, 2021, Nu Holdings (**NYSE: NU**) was trading at \$9.38.



Notable Financing Round for the Quarter



iCapital is a financial technology company focused on making high-quality alternative investments available to wealth advisors and high net-worth investors. In late December, the company received a venture round of funding worth \$50 million, bringing total funding raised to more than \$729 million.



Valuation Multiples - Solutions

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



Business process outsourcing



Digital lenders



Financial technology and data solutions.



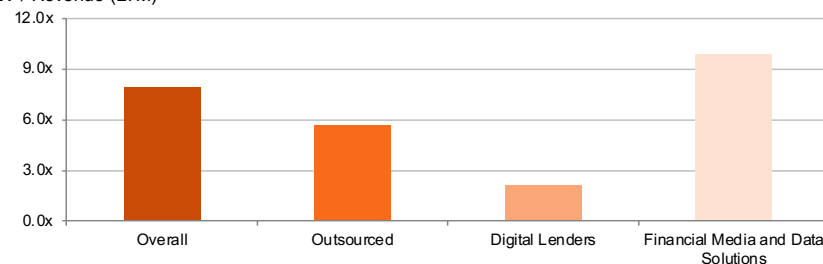
While 2021 was a record year for all of FinTech, digital lenders and “buy now, pay later” (BNPL) companies have been in the spotlight for most of the year. BNPL payment volume in the United States is expected to grow by 66.5% on an annual basis to reach \$82.1 million in 2022. Affirm’s IPO in January thrust the industry into the spotlight, as well as Square’s acquisition of AfterPay. The \$29 billion acquisition was one of the largest acquisitions in the FinTech industry to date. Klarna is set to IPO some time in 2022. All eyes are on the industry moving into 2022, as the Fed has indicated rate hikes in order to combat inflation, as rising rates could pressure the BNPL model that relies on deferred payments and external funding.



In the M&A environment for the solutions sectors, there have been a higher level of deals under \$500 million than the other sectors, contributing to the lowest median deal value of the niches at \$166 million. Deal value for the solutions sector trails the 2020 median deal highs of \$400 million but is higher than the rest of the historical period.

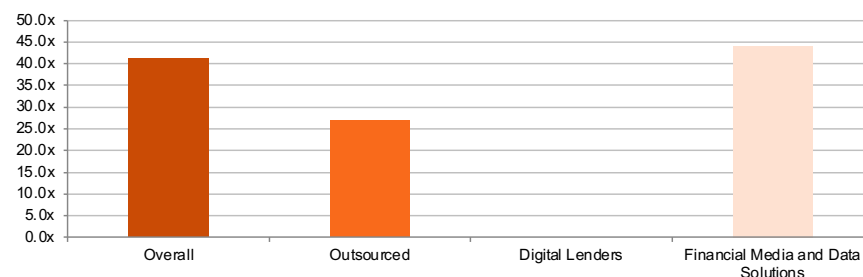
Solutions Valuation Multiples

EV / Revenue (LTM)



Solutions Valuation Multiples

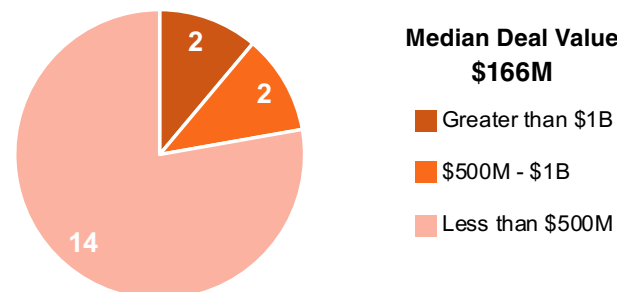
P/E (LTM)



* 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 Financing for the Quarter

Klarna.



Klarna is an eCommerce payment solutions company that provides merchants and customers with the freedom to choose their preferred method and timing of payments. The “buy now, pay later” business model implemented by the company allows customers to finance their purchase over longer periods of time. Klarna received funding from a secondary market worth \$6.6 million in December of 2021. Klarna now, after 33 funding rounds, has total funding of \$3.7 billion.

FinTech M&A and Fundraising Overview

As mentioned previously, 2021 has been an incredibly robust year for FinTech industry M&A, both domestically and abroad. Deal activity (as measured by number of transactions) for 2021 surpassed the level reached in 2020 and was the highest of the last five years.

- The increase in deal activity is present across the Technology and Solutions niches, with both of them surpassing 2020 levels. Payments niche transactions were in line with 2020. Technology niche transactions were the highest that they have been in five years.

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

- In 2021, median deal values in the Payments and Technology niches far surpassed the levels reached in 2020 while median deal values in the Solutions niche

are lower than 2020. This year 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 hit records in 2021 with **~\$142 billion** in total financing during the first 2021. This financing volume more than tripled that in full year 2020, while financing deals outpaced 2020 at **2,008** (2021) versus 1,500 (2020). Large financing rounds have also increased in 2021 with **399** rounds of \$100 million or more compared to 107 for 2020, and average and median round sizes have increased in 2021 as well.

Deal Activity

	2021	2020	2019	2018	2017	2016	% Chg. 21/20
# of Deals	213	162	156	182	188	194	31.5%
Total Reported Deal Value (\$M)	\$84,524	\$63,212	\$128,601	\$88,053	\$17,404	\$20,716	33.7%
Median Reported Deal Value (\$M)	\$213	\$196	\$120	\$101	\$90	\$40	8.7%

Deal Activity By FinTech Industry Niche

	2021	2020	2019	2018	2017	2016	% Chg. 21/20
Payments Total	38	39	40	39	44	35	-2.6%
Technology Total	128	90	78	92	104	106	42.2%
Solutions Total	47	33	38	51	40	53	42.4%

FinTech M&A and Fundraising Overview (cont.)

Median Pricing Metrics

	2021	2020	2019	2018	2017	2016	% Chg. 21/20
Deal Value / Revenue	5.41x	4.07x	5.31x	3.75x	3.13x	2.32x	32.9%
Deals Greater than \$1BN	16	14	11	15	4	1	14.3%
Deals Greater than \$500M	28	21	16	17	9	4	33.3%
Deals Greater than \$50M	57	44	39	43	38	24	29.5%

Median Deal Value (\$M)

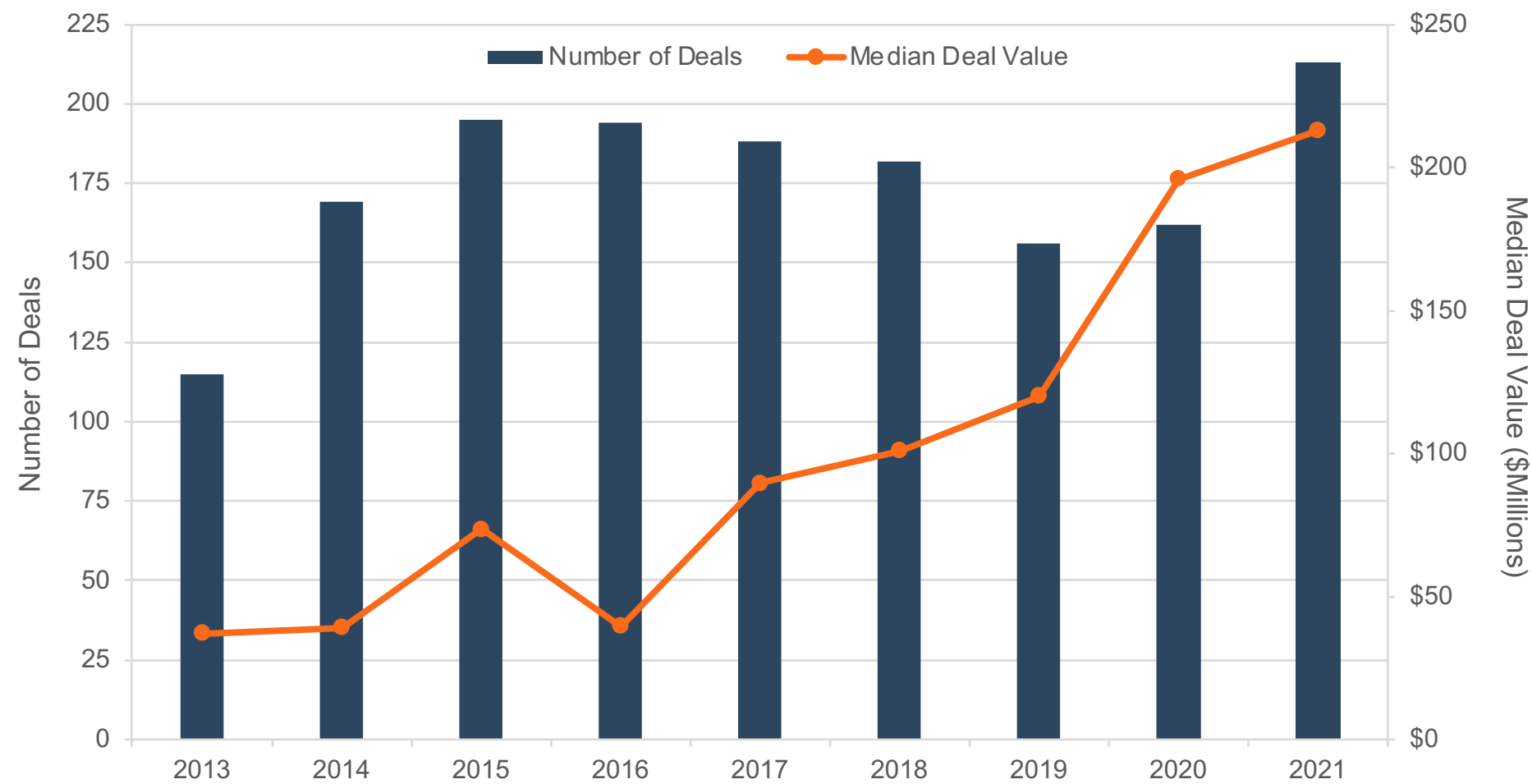
	2021	2020	2019	2018	2017	2016
Payments	\$472	\$343	\$222	\$126	\$214	\$258
Technology	\$422	\$105	\$50	\$68	\$60	\$25
Solutions	\$166	\$400	\$155	\$142	\$119	\$37

Source: S&P Global Market Intelligence

FinTech M&A and Fundraising Overview (cont.)

U.S. FinTech M&A Overview

2013 - 2021



Source: S&P Global Market Intelligence



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