First Half 2021

As the U.S. economy emerged from the COVID-19 pandemic, the broader economy experienced a boom in activity as economies reopened and business activity increased, driving the broader markets 40.6% higher in the last twelve months (June 2021). The FinTech sector has also grown, with all three of the fintech niches we follow increasing by over 30% from the same time last year.

Public FinTech entrants have also been strong in the first half of 2021, with 2021 deals on track to out pace that of the past five years. Median deal values have also trended upwards for the year as there have been a number of larger deals so far in 2021.

Q2 followed on an already record Q1 to become the largest and most active ever for FinTech financing. In 2021 so far, there have been **185 financing rounds** of $100 million or more – an unprecedented number. For reference, in all of 2020 there were 107 deals of this size.

For consumers, the COVID-19 pandemic bolstered interest in FinTech. During the pandemic consumers had to contend with limiting person-to-person contact which accelerated the need for technology.
FinTech Industry Services
Mercer Capital provides financial technology companies with valuation, financial advisory, and consulting services.

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

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

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Learn More about Mercer Capital & our FinTech Services at
http://mer.cr/FinTech
FinTech Private Equity Valuations During Turbulent Times

The coronavirus pandemic added significant uncertainty during 2020 and market volatility represented the norm for most of the year. COVID-19 was an accelerant for many industries/markets and FinTech was no exception with the push to digital within financial services accelerating. For example, many payments companies flourished as digital and e-commerce transactions accelerated. Not all portions of the sector were accelerated though as some payments companies, whose merchant portfolio included harder hit sectors or businesses deemed non-essential or shut down, had to adapt quickly in order to survive.

The market volatility throughout 2020 was supported by our own experience, as we observed a wider than typical range of outcomes for companies in the FinTech sector:

- Some FinTech companies were able to access capital/funding pre-pandemic and leverage that capital along with the accelerating push to digital driven by the pandemic to enhance valuations in the last 12 months.

- Some were looking to secure a significant partnership with a larger, more traditional financial institution. Those plans got put on hold as the larger incumbents shifted their focus to their own business model and the unique issues that COVID-19 ushered into their business.

- Others were in the process of accessing growth funding from venture capital/PE firms but those plans were put on hold as some took the wait-and-see approach given the wide variety of potential economic and market outcomes ushered in by COVID-19.

- Some early stage, high-growth companies with developed technologies suddenly found their digital solutions in high demand. They were able to leap frog to year 3, 4, or 5 of their forecast and enhance their valuation such that their path to a liquidity event is a few years closer than they anticipated a few years ago.

This wide range of potential outcomes illustrated that the average return observed for the overall market or sector doesn't illustrate the actual return for each company in the space. Some companies accelerated while others decelerated or remained flat and winners and losers developed as the year went on. Thus, our valuation approach of understanding the subject company's performance/outlook, unit economics, total addressable market, financial metrics, and multiples, continued to be validated while the underlying work to be performed was often more challenging.

For the Private Equity industry, 2020 and the onset of the COVID-19 pandemic put GPs in the awkward position of primarily focusing on stabilizing their portfolio. Many companies exhibited a divergent trend of outcomes. Some accelerated at a fast pace and perhaps needed more growth capital while others decelerated and lowered guidance. Other companies were unable to provide much in the way of future guidance at all given all the uncertainty. Therefore, GPs were considering the potential valuation impacts on their positions and needed heightened disclosures from LPs.
One of the more prominent voices for the PE industry, International Private Equity and Venture Capital Valuation (IPEV), gave special guidance in March of 2020 to provide a framework for delivering LPs the fair value information they need, in light of the current pandemic and ensuing significant uncertainty.

While certain aspects of the pandemic are more certain today, market volatility is still present (look no further than the Gamestop trading activity that garnered so much market and media attention). Many of the IPEV’s guidelines can facilitate best practices for having strong valuation processes at your PE/VC fund.

A few items that, in our view, will be important for GPs during these volatile market times are discussed below.

Enhanced Disclosures

In these more volatile times, there can be a variety of reasonable opinions as to valuation and a wider than typical range. Much has been written by pundits about how the differential between price and value in the current environment and market dynamics can drive prices away from their intrinsic value for days or weeks at a time. LPs, auditors, and other reviewers of your financial reports may also have their own varying opinions on your portfolio company, the market potential, and key valuation inputs such as future revenue and multiples. By providing adequate disclosures about how your valuations are derived and the logic behind the inputs, outside parties can then make their own determinations.

Understand the Market and the Sub-Sector Narrative

Many PE funds specialize in a particular niche but even a focused fund in a niche can have a wide variety of sub sectors with each impacted differently. For example, FinTech has a wide array of sub sectors (payments, InsurTech, digital lending (ranging from consumer to small business to mortgage), trading/wealth management, cryptocurrency, data/content, and others). Even within a niche like payments or lending, it is important to consider a portfolio company’s exposure to certain sectors that have been harder hit or are more susceptible in the current environment (such as energy, retail, hospitality, restaurant, tourism, or CRE). Ultimately, GPs develop their funds with diversity in mind and this diversity can serve as a benefit to fund performance and also should be considered when determining the value of portfolio investments as the funds overall return may not be uniformly distributed across all investments.

Don’t Forget to Consider the Structure and Cap Table

Sometimes structural issues related to an investment come to light and gain more focus during turbulent times. For example, many PE funds have specific terms related to their investments that need to be understood. If you multiply those terms across a cap table and a number of other investors, it can be very challenging to allocate the value to a particular position. In this situation, it is important to consider the structural component of the investment and attempt to make reasonable assumptions.

Beware the Double Dip

For those companies who are experiencing stress or who underachieved their performance goals for 2020, be careful not to overestimate the valuation decline. Valuation ranges are often derived, at their core, based upon some sustainable financial metric (such as EBITDA or revenue) as well as a multiple. For example, earnings and revenue below forecast for 2020 may not ultimately impact earnings forecast 5 years or so out if the decline is transitory or temporary and may not support as steep of a valuation decline for underperformance.
Test the Reasonableness & Consider Ranges of Outcomes/Valuations

All of the factors noted above can vary considerably for portfolio companies and from period to period. GPs are often more intimately familiar with their portfolio companies and their underlying management teams, solutions, and industries. Thus, the valuation process is often improved by successful interaction between the GPs and their external valuation providers as they can provide insights that can facilitate the development of key valuation inputs such as scenario analyses and forecasts for the underlying company.

The IPEV guidance notes that “market participant views matter” and ultimately the GPs fit into the market participant category. It is important to provide your perspective as the valuations are developed and ultimately to test the reasonableness of the valuation.

Conclusion

A strong valuation process and disclosures can help GPs and reviewers, such as auditors, to understand the rationale behind the positions and valuations. It can also build greater confidence in your team and fund during a challenging and volatile period, which should pay dividends for your fund down the road.

How Mercer Capital Can Help

Independent estimates of value enhance the confidence of all parties in the reasonableness of the overall portfolio valuation of illiquid assets. They also help assure compliance with a fund’s applicable accounting standards, including ASC 820 Fair Value Measurements and Disclosures (formerly SFAS 157). Private investment funds, including private equity funds and hedge funds, can provide comfort to their investors, auditors, and fund managers by seeking independent fair value estimates for Level 3 assets.

Mercer Capital provides a comprehensive suite of valuation services to assist boards of directors, portfolio managers, financial managers, and others with financial reporting requirements.

With over 35 years experience in working with financial institutions of all types, Mercer Capital has the ability to combine technical expertise, industry knowledge, and innovative approaches to help clients resolve fair value reporting issues successfully.

Our services for fund managers include periodic independent reviews of management determinations of value. These services are cost-effective and include a series of established procedures designed to provide both internal and investor confidence in fair value determinations.

Procedures include the verification of analytics, financial analysis, independent analysis of public guideline or comparable companies and private transactions, evaluating income methods (capitalization or discounted cash flow), tests of internal consistency in valuation, and other techniques based on our years of experience in valuing illiquid, alternative investments.

For more information or to discuss your needs in confidence, please feel free reach out to one of our professionals.

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Public Market Indicators

In the past 12 months (from June 30, 2020), all three FinTech niches of Payments, Technology, and Solutions followed the overall market’s resurgence and growth following the COVID-19 pandemic.

- The Technology niche performed the best of the three niches, being the only one to outperform the S&P 500 in the last twelve months, up 41.0% from June 30, 2020.

- The Payments and Solutions niches returned ~30% in the last twelve months even though this return did not reach S&P growth levels, it is still an impressive return for the past year.

According to FT Partners, there were 23 FinTech IPOs in the first half of 2021, with other high profile names going public soon, including Robinhood and Paytm. Below we have listed a few of the most notable public offerings so far in 2021.

- Coinbase: Following on the flurry of interest in the cryptocurrency space earlier this year, Coinbase, a popular cryptocurrency exchange, went public via direct listing on the NASDAQ on April 14th. The stock closed its first day at $328.28, valuing the company at $85.8 billion. As of June 30, the stock was trading at $253.30.

- Affirm: Affirm went public in January of this year at an offering price of $49, valuing the company above $15 billion, accounting for all outstanding shares and stock options. Once it hit the market, it popped nearly 100%. The company was founded in 2013 by PayPal cofounder Max Levchin and has become prominent in the “buy now pay later” space by offering point-of-sale loans. As of June 30th, the stock was trading at $67.35.

- Oscar Health: Oscar Health, a digital insurance company, IPO’d on the New York Stock Exchange earlier in March. The initial offering price came in around $39 a share, giving the company a market cap of over $9 billion. As of June 30, the stock was trading at nearly half of the initial offering at $21.50 a share.

<table>
<thead>
<tr>
<th>Segment</th>
<th>MTD June 21</th>
<th>LTM 6/21</th>
<th>2Q21</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinTech - Payments</td>
<td>3.7%</td>
<td>33.7%</td>
<td>9.4%</td>
</tr>
<tr>
<td>FinTech - Technology</td>
<td>4.7%</td>
<td>41.0%</td>
<td>8.1%</td>
</tr>
<tr>
<td>FinTech - Solutions</td>
<td>4.2%</td>
<td>31.9%</td>
<td>8.4%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>2.2%</td>
<td>40.6%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>
Valuation Multiples - Overall

- Consistent with recent historical growth patterns and near-term outlook, FinTech companies remain priced at a premium to the broader markets with the S&P 500 priced at ~21.3x estimated forward earnings at the end of Q2 2021 (per FactSet). The S&P 500 forward multiple is notably elevated from the 5 year average of 18.1x.

- The Technology niche reported the highest LTM P/E and EV/EBITDA multiples compared to the other two niches.

Valuation Multiples
as of June 30, 2021

<table>
<thead>
<tr>
<th>Segment</th>
<th>Price/ LTM EPS</th>
<th>Price / 2021 (E) EPS</th>
<th>Price / 2022 (E) EPS</th>
<th>Ent’p Value / LTM EBITDA</th>
<th>Ent’p Value / FY21 (E) EBITDA</th>
<th>Ent’p Value / FY22 (E) EBITDA</th>
<th>Ent’p Value / LTM Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FinTech - Payments</td>
<td>31.3</td>
<td>24.6</td>
<td>19.0</td>
<td>19.3</td>
<td>15.9</td>
<td>13.1</td>
<td>5.9</td>
</tr>
<tr>
<td>FinTech - Technology</td>
<td>43.6</td>
<td>26.5</td>
<td>27.1</td>
<td>23.9</td>
<td>17.5</td>
<td>15.7</td>
<td>4.6</td>
</tr>
<tr>
<td>FinTech - Solutions</td>
<td>40.4</td>
<td>28.3</td>
<td>27.6</td>
<td>23.2</td>
<td>20.4</td>
<td>17.7</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence

FinTech Valuation Multiples
EV / Revenue (LTM)

FinTech Valuation Multiples
EV / EBITDA (LTM)

FinTech Performance
EBITDA Margin LTM

Source: S&P Global Market Intelligence

- 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 - Payments

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

According to CB Insights, payments companies raised over $14 billion in the first half of 2021 ($6 billion in Q1 and $8 billion in Q2).

Current payment company multiples for both P/E and EV/EBITDA are at 31x and 19x, 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, insinuating that investors may be anticipating significant financial growth in this industry as the economy recovers from the COVID-19 pandemic.

Payment Valuation Multiples

<table>
<thead>
<tr>
<th>EV / EBITDA</th>
<th>LTM</th>
<th>FY-1</th>
<th>FY-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTM</td>
<td>20.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY-1</td>
<td>18.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY-2</td>
<td>16.0x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence

Payment Valuation Multiples

<table>
<thead>
<tr>
<th>P/E Multiples</th>
<th>LTM</th>
<th>FY-1</th>
<th>FY-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTM</td>
<td>33.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY-1</td>
<td>30.0x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY-2</td>
<td>24.0x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence
Valuation Multiples - Technology

The technology subsector of the FinTech industry encompasses the industries of banking technology, insurance/healthcare technology, HR/payroll technology, investment technology, and security technology.

The technology subsector also benefitted from the COVID-19 pandemic as banks had to rely more heavily on banking technology through 2020 and 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. Banking technology had the highest P/E multiple of all the technology subsectors. CB Insights notes that banking companies had a record-breaking quarter.

Payroll and HR FinTech has also been hot in 2021 as FinTech companies are seeking to combat payday lenders through better time tracking and instant pay access. With 63% of Americans living paycheck to paycheck, and up to 12 million Americans taking out payday loans each year, there are inefficiencies in this space that FinTech companies are trying to solve. Payroll and HR companies are claiming some of the top EV/Revenue and EV/EBITDA multiples for the Technology subsector.

Source: S&P Global Market Intelligence
Valuation Multiples - Solutions

The solutions subsector of the FinTech industry encompasses the industries of business process outsourcing, digital lenders, and financial technology and data solutions.

The digital lending space specifically is expected to see a resurgence in 2021 as the economy recovers. S&P Global Market Intelligence is predicting that FinTech lending will rise to surpass 2019 pre-COVID levels by 2024. Additionally, personal loan FinTech lenders are expected to rise by 51% to $7.9 billion in originations annually, and medium-sized business FinTech lenders and student lenders are expected to rise by 16.1% and 152% respectively.

Out of the three industries within this solutions subgroup, financial technology and data solutions are trading at the highest P/E and EV/EBITDA multiples at 42x and 23x, respectively.

* EV/EBITDA multiple for digital lenders not meaningful

* P/E multiple for digital lenders not meaningful

Source: S&P Global Market Intelligence
Mercer Capital’s Value Focus: FinTech Industry

First Half 2021

FinTech M&A and Fundraising Overview

Deal activity (as measured by number of transactions) for 2021 is on track to surpass 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 each niche on track to surpass 2020 levels.

In the first half of 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 match the level achieved in 2020.

• So far in 2021, median deal values in the Payments and Technology niches have surpassed the levels reached in 2020 while median deal values in the Solutions niche are lower than 2020.

• Thoma Bravo’s $10.2 billion buyout of Proofpoint (Security Technology niche) was the largest FinTech deal in the first half of the year.

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 ~$67 billion in total financing during the first half of 2021. This financing volume already exceeds financing in 2020. Large financing rounds have increased in 2021 with 185 rounds of $100 million or more compared to 107 for 2020, and average and median round sizes have increased in the first half of the year as well.¹

Deal Activity

<table>
<thead>
<tr>
<th></th>
<th>YTD 2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>% Chg. 20/19</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Deals</td>
<td>116</td>
<td>162</td>
<td>156</td>
<td>182</td>
<td>188</td>
<td>194</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total Reported Deal Value ($M)</td>
<td>$32,310</td>
<td>$63,212</td>
<td>$128,601</td>
<td>$88,053</td>
<td>$17,404</td>
<td>$20,716</td>
<td>-50.8%</td>
</tr>
<tr>
<td>Median Reported Deal Value ($M)</td>
<td>$422</td>
<td>$196</td>
<td>$120</td>
<td>$101</td>
<td>$90</td>
<td>$40</td>
<td>63.2%</td>
</tr>
</tbody>
</table>

Deal Activity By FinTech Industry Niche

<table>
<thead>
<tr>
<th></th>
<th>YTD 2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>% Chg. 20/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments Total</td>
<td>24</td>
<td>39</td>
<td>40</td>
<td>39</td>
<td>44</td>
<td>35</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Technology Total</td>
<td>63</td>
<td>90</td>
<td>78</td>
<td>92</td>
<td>104</td>
<td>106</td>
<td>15.4%</td>
</tr>
<tr>
<td>Solutions Total</td>
<td>29</td>
<td>33</td>
<td>38</td>
<td>51</td>
<td>40</td>
<td>53</td>
<td>-13.2%</td>
</tr>
</tbody>
</table>

¹ Source: Preqin. © 2021 Mercer Capital // www.mercercapital.com
## FinTech M&A and Fundraising Overview (cont.)

### Median Pricing Metrics

<table>
<thead>
<tr>
<th></th>
<th>YTD 2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>% Chg. 20/19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deal Value / Revenue</strong></td>
<td>5.32x</td>
<td>4.07x</td>
<td>5.31x</td>
<td>3.75x</td>
<td>3.13x</td>
<td>2.32x</td>
<td>-23.4%</td>
</tr>
<tr>
<td><strong>Deals Greater than $1BN</strong></td>
<td>6</td>
<td>14</td>
<td>11</td>
<td>15</td>
<td>4</td>
<td>1</td>
<td>27.3%</td>
</tr>
<tr>
<td><strong>Deals Greater than $500M</strong></td>
<td>12</td>
<td>21</td>
<td>16</td>
<td>17</td>
<td>9</td>
<td>4</td>
<td>31.3%</td>
</tr>
<tr>
<td><strong>Deals Greater than $50M</strong></td>
<td>22</td>
<td>44</td>
<td>39</td>
<td>43</td>
<td>38</td>
<td>24</td>
<td>12.8%</td>
</tr>
</tbody>
</table>

### Median Deal Value ($M)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payments</strong></td>
<td>$503</td>
<td>$343</td>
<td>$222</td>
<td>$126</td>
<td>$214</td>
<td>$258</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>$500</td>
<td>$105</td>
<td>$50</td>
<td>$68</td>
<td>$60</td>
<td>$25</td>
</tr>
<tr>
<td><strong>Solutions</strong></td>
<td>$139</td>
<td>$400</td>
<td>$155</td>
<td>$142</td>
<td>$119</td>
<td>$37</td>
</tr>
</tbody>
</table>

*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