

FEBRUARY 2021

IMAP INSIGHTS

OUR M&A PERSPECTIVE ON THE GLOBAL FINTECH SECTOR

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IMAP

International M&A Partners

OUR M&A PERSPECTIVE ON THE GLOBAL FINTECH SECTOR

INTRODUCTION

IMAP Fintech Sector Leaders: Andrew Kemper, David Francione, and Edmund Higenbottam share insights into the global Fintech sector. They look at the short- and long-term effects of the COVID pandemic and which subsectors stand to lose and who ultimately stands to benefit. Sharing their thoughts on key themes disrupting the sector, including payments, digitalization, lending and mobile, they examine how these have been impacting M&A activity and valuations. They provide an overview of the most active players, as well as expectations for this key sector moving forward.



ANDREW KEMPER

» Fintech is a large growing vertical in the TMT Software market. In the first half of 2020 we saw a decline in activity compared to the same time period in 2019, but in Q3 there was a pick-up and Q4 deal volumes returned to pre-COVID levels. While cross-border transactions have been limited due to the pandemic, we expect this to increase moving forward as companies look to access new markets, internationally as well as domestically. Companies acquiring complementary solutions to increase platform capabilities will also drive activity. Likewise, global companies are accelerating the strategic shift to automating the movement of money.



DAVID FRANCIONE

In terms of buyer mix, we are seeing active buyers across the board, from early and later stage VCs, growth, public companies, and growth equity, to later stage buyout and public companies, as well as SPACs who play a significant role in the Fintech sector. During the last 5-7 years, more PE dollars have been invested and we are also seeing more Corporate VCs. Traditionally in the Fintech sector, these are companies and organizations without inhouse capacity to develop the more advanced technology required quickly enough, and need to acquire it, who have created their own investment departments to accelerate time to market. Insurance companies and banks who are also unable to develop technologies quickly enough, have been forced to step up their M&A activity and investment plans.



EDMUND HIGENBOTTAM



FINTECH M&A

THEMES DRIVING FINTECH DISRUPTION

Typically, Fintech, including payments, is divided into B2B and B2C, as well as secondary convergence between the two; B2B2C.

If we look at the peer B2B payments annual global revenue, it stands

at a staggering USD 120 trillion. Interestingly, in the US, there are a large number of legacy banks, antiquated technology, different processes and regulations than the rest of the world, resulting in countless payments in B2B still made in paper/manual checks.

B2C Payments are somewhat harder to gauge, due to the B2B2C convergence, but these are estimated to have an annual global revenue of USD 30 trillion, less than 10% of which are digital payments.



NORTH AMERICAN FINTECH M&A

M&A LANDSCAPE

Fintech is a large growing vertical in the TMT, Software market. Compared to 2019, we saw a decline in Fintech M&A activity in the first half of 2020. In Q3, we saw this pick-up due to pent up demand and Q4 returned to pre-COVID levels.

The Payments segment levelled off, yet remained robust throughout the COVID pandemic seeing an uptick, as less and less people are inclined to use cash, and less companies accept cash payments. This trend has benefited electronic payment companies. Another global trend in B2C is the use of mobile applications, as people increasingly use their mobile devices for everyday activities, especially payments for goods and services. Should the pandemic continue to worsen, brick and mortar type customers of payment processing businesses will likely experience a significant decline in payment volume, whereas e-commerce payment businesses will thrive.

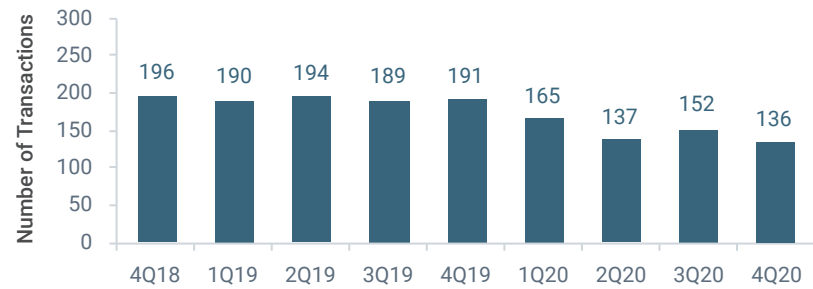
Leading the way in terms of number of transactions, are card-related payments, bank-related services and gateway/POS.

BUYER MIX

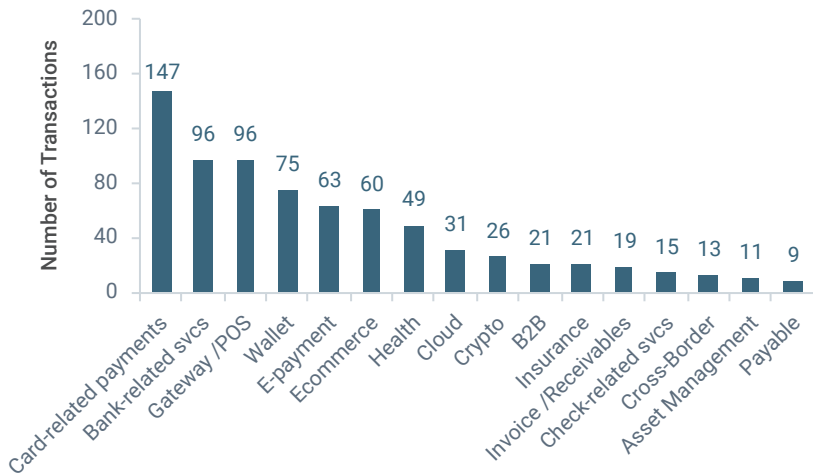
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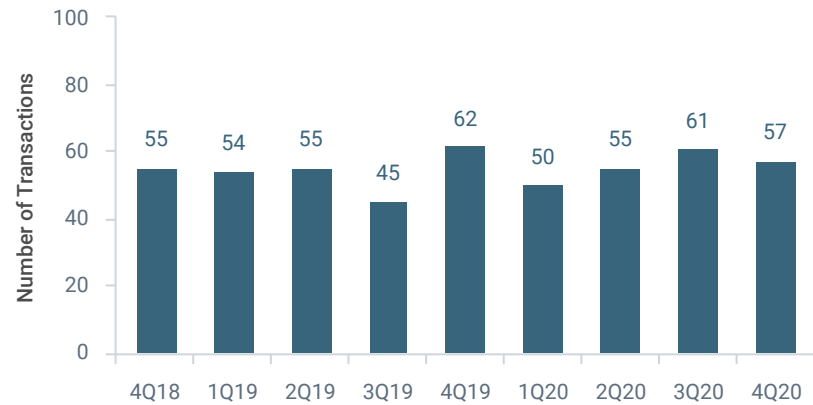
M&A Activity: Fintech



M&A Activity: Payments Segment Breakdown



M&A Activity: Payments Segment



Source: Capital IQ, PitchBook, and Capstone Research

NORTH AMERICAN FINTECH VALUATIONS

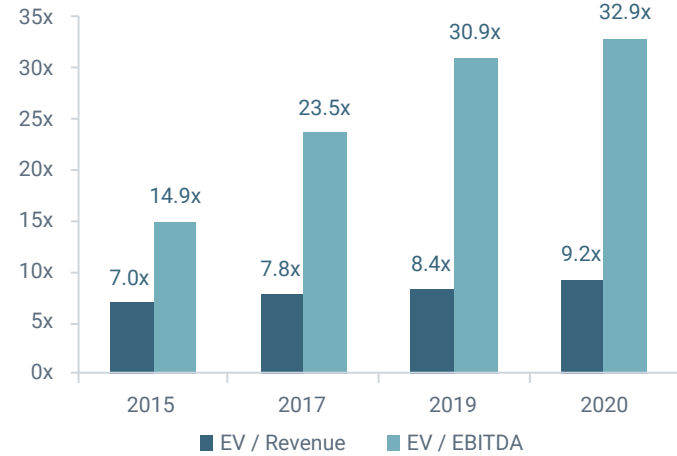
VALUATIONS ARE BACK TO PRE-COVID LEVELS

Leading activity in terms of volume and value are bank technology and payment technology providers, with predominately recurring values – be it subscription-based format or payment processing volume.

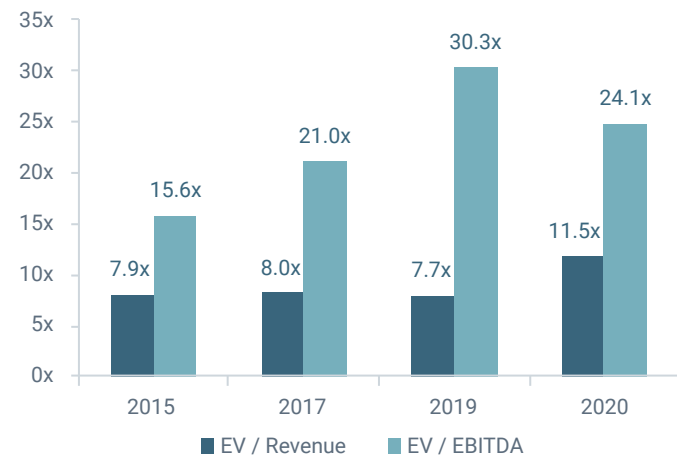
Revenue multiples are trading relatively high and whilst bank technology has been consistent, there has been a slight uptick in payment technology providers. This growth has been accelerated by the events of the COVID pandemic and subsequent increase in the number of electronic payments driving higher YOY growth rate and gross profit margins, which has driven up multiples.

Fintech IPOs are also trading at extremely high multiples, consistent with the Software sector.

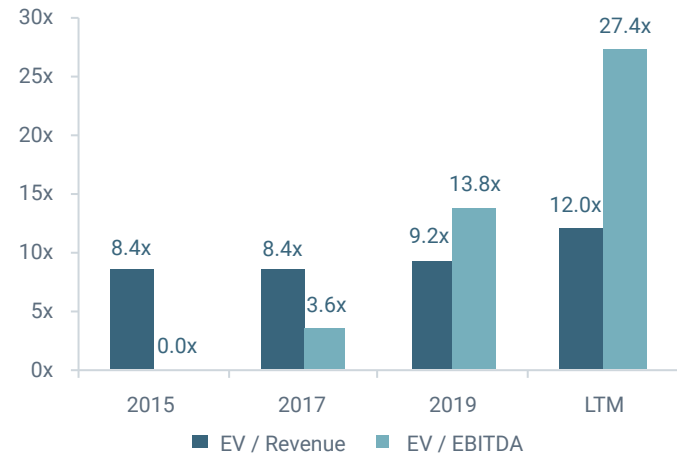
Bank Technology – Valuation Multiples



Payment Technology Providers – Valuation Multiples



Recent FinTech IPOs



Source: Capital IQ, PitchBook, and Capstone Research



FINTECH IN AFRICA & EMERGING MARKET



M&A LANDSCAPE

In Africa and the emerging market, Fintech is more broadly defined, to include technology driven businesses that are disrupting traditional Financial Services, i.e., the disruptors, as well as the technology providers to banks, or enablers. Furthermore, the bulk of M&A activity and capital raising is undertaken by the disruptors, as opposed to the enablers.

There has been a relatively strong bounce back in terms of deal volumes, with some shift towards M&A, though there has been less activity on the financing side due to a more select market over the last 12 months.

Excitement in Fintech in Africa having begun some 4/5 years ago, we are now seeing the best companies ready to exit, whereas the weaker companies are no longer able to continue capital raising.

BUYER MIX

As in the North American market, there is a broad mix of players. We are

seeing a large number of traditional PE competing with VC. In some of these transactions, we are seeing a variety of quasi-VC within banks.

In terms of regional parties participating in transactions, this stands at around 2/3 global players, compared to 1/3 regional and is fairly consistent across the subsectors. We are seeing that the larger transactions are disproportionately global investors – a small deal may have only a regional investor, but large transactions are likely to have an international component.

VALUATIONS

There isn't the same conveyor belt of funding available in Africa so companies find themselves forced to be profitable and mature sooner. Luckily, with lower operating costs, it's easier for companies to break even earlier.

GEOGRAPHY

We see some level of competition from East to West in terms of strategic assets. Africa, not just in Fintech, but

Africa is the Fintech fulcrum between East and West

also in terms of geopolitics, business and natural resources is a fulcrum geography between China and the US, and similarly to LATAM and other parts of the world. Therefore, we expect to see an increase in activity in Africa from China over the next 2-3 years.

KEY GROWTH AREAS

In Africa, some synergy can be found between Fintech activity focused on fraud avoidance and customer payment method convenience, with new technologies being developed that encompass both. There is however, one space in Africa where the interest in transactions is as much around enabling incumbents, as opposed to disruption, which is prevention in KYC technologies.

AFRICA & EMERGING MARKET KEY FINTECH TRANSACTIONS & THEMES

Key Themes

Financial Inclusion

- ✓ 66% of adults in sub-Saharan Africa are unbanked or underbanked
- ✓ 25% of adults in the US are unbanked or underbanked

Technology Adoption vs Disruption

- ✓ Incumbents benefiting from regulatory status, brand, and reputation in the funding market
- ✓ Disruptors benefiting from tech savvy DNA and lack of legacy systems

Digital Termination of Remittances

- ✓ Global remittance volumes expected to reach USD 1 trillion in 2026
- ✓ Disruption by digital models, reducing transaction costs (average 7% of value) and enhancing convenience

West vs East

- ✓ Mastercard invests in Network International
- ✓ Stripe acquires Paystack (YC-alumni) for USD 200 million
- ✓ Pine Labs sold to Mastercard
- ✓ Ant targets IPO (USD 35 billion) larger than Aramco!

Transaction Dynamics

- ✓ Growth of companies using technology to expand access to financial services, payments (e.g., mobile money, app solutions, agency) or credit (scoring algorithms)
- ✓ Growth of "Impact Investing" into a "mainstream" asset class

- ✓ Acquisition of tech savviest by incumbents (e.g., Network International buying DPO)
- ✓ Capital hungry disruptors

- ✓ Leverage DTR to build broader mobile financial services businesses
- ✓ Payment channel for cross-border commerce with regions
- ✓ Additional axe for global interest in EM assets

- ✓ Competition - East vs West for "strategic assets"
- ✓ Exit optionality holds up valuations of VC rounds



FINTECH – THE ROAD AHEAD

» There has certainly been a global increase in Fintech activity, with some key trends driving growth.

- Companies look to start building their businesses and go to market strategies overseas, in the hopes that the regulatory environment may be more flexible.
- Borders are becoming increasingly less important in the Fintech market, so we expect an increase in the level of cross-border activity – both for M&A and capital raising – though the COVID pandemic means face-

to-face meetings which are still very important due to cultural differences are challenging. As such, many companies are currently unable to travel overseas, essentially having to push the pause button.

- Countries such as South America and Western Europe are increasingly interested in the US market.
- Due to a high level of Venture Funds around the world and strategics looking to buy, buyout or buy into Fintech, there are many opportunities for global deals.

▪ Online insurance, especially in the US, has seen an increase in activity and this market is expected to continue to grow – both personal and business insurance.

▪ Online brokerage is a growing market. Due to the COVID pandemic, many 18–30-year-olds are now trading stocks from home and digital brokers have captured a good segment of the market. The market is large and has become less touchy-feely and more tech driven.

Fintech M&A Landscape Recap

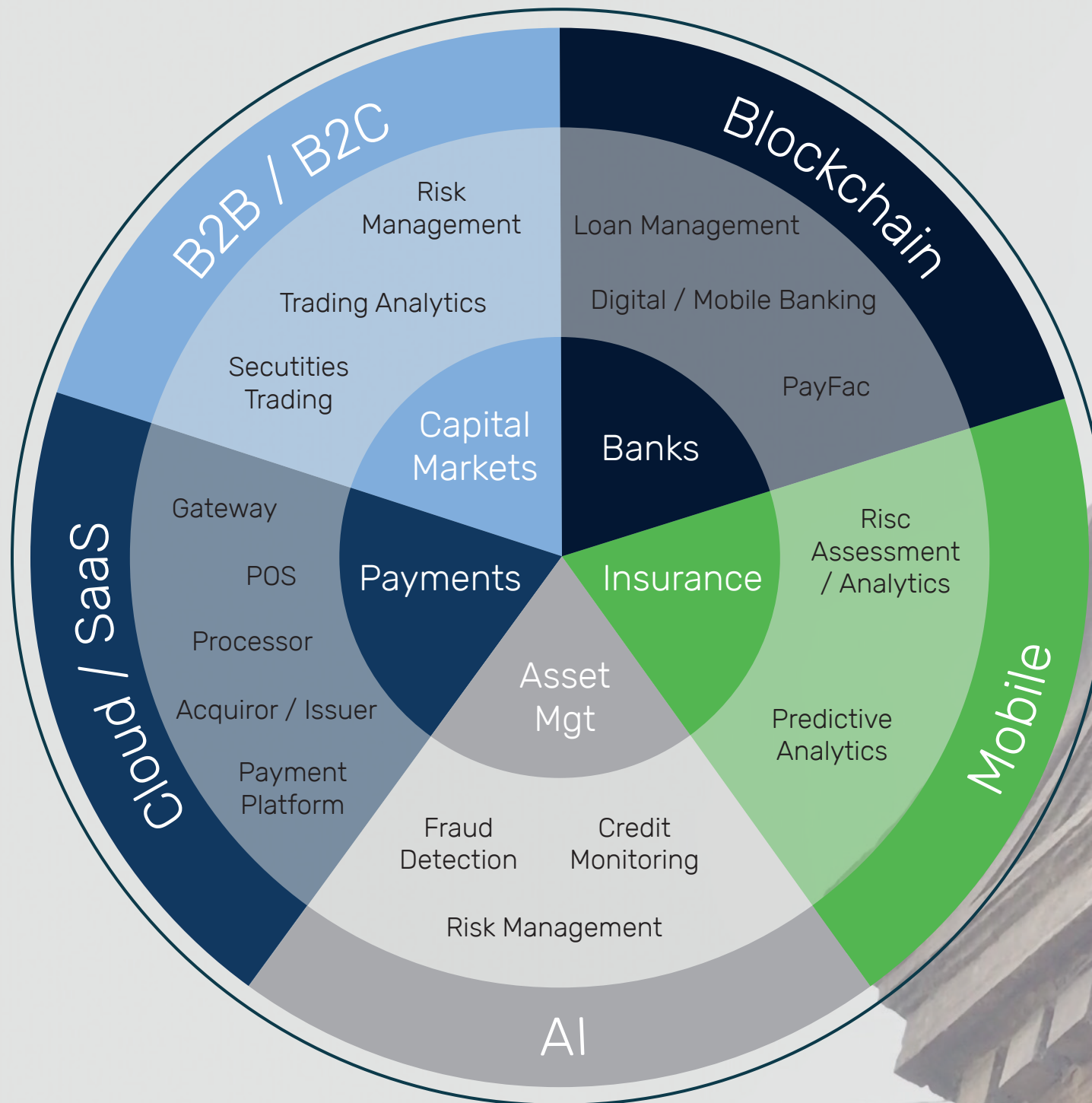
M&A Expectations	Drivers for Buyers and Sellers
<ul style="list-style-type: none"> ✓ Global companies accelerating strategic shift to automating the movement of money; strong YOY revenue growth and ahead of projections ✓ Weak spots: end users negatively affected by COVID – airlines, hospitality, restaurants, brick & mortar retail 	<ul style="list-style-type: none"> ✓ Access to new markets, domestically and internationally ✓ S. America (LATAM), W. Europe, India in focus ✓ Complementary solutions that increase platform capabilities
Transactions, Valuations & Trends	Due Diligence, Transaction Structure & Risk Sharing
<ul style="list-style-type: none"> ✓ Number of deals declined ✓ Size of deals impacted - less USD billion transactions, more tuck ins and smaller deal sizes ✓ Cross-border transactions soft – due to cultural differences related to deal dynamics; stay at home 	<ul style="list-style-type: none"> ✓ Expected/on going use of earn-outs based on the achievement of forecast results in order to match the bid/ask gap & manage downside risk due to unknown COVID impact going forward ✓ Still able to sell off next years earnings projections & often based on multiple of recurring revenue

FINTECH & FINANCIAL SERVICES INTERSECTION

» Fintech is becoming a part of consumers daily lives. As such, during the last few years, we have seen convergence between the traditional

financial services companies, such as banks, investment firms and brokerage companies, who through a paradigm shift are becoming more

of a digital entity, adopting more and more technology driven systems and applications in order to stay relevant in the marketplace.



IMAP TRANSACTIONS – FINTECH

Selected IMAP Transactions



has been acquired by



IMAP
ADVISOR TO LANTERN



has been acquired by



IMAP
ADVISOR TO MHC



has been acquired by



IMAP
ADVISOR TO CR SOFTWARE



has divested its subsidiary



IMAP
ADVISOR TO WEX



has been acquired by



IMAP
ADVISOR TO BANKTEL



Buy side advisory

IMAP
ADVISOR TO RDM



has been acquired by



IMAP
ADVISOR TO SIB



has been acquired by



IMAP
ADVISOR TO APS

USD 16 M



Series A and Debt

IMAP
ADVISOR TO TUGENDE

USD 13 M



Pre-Series A and Debt

IMAP
ADVISOR TO PLANET42

USD 6 M



Debt

IMAP
ADVISOR TO RETAIL CAPITAL

USD 4 M



Series A

IMAP
ADVISOR TO ZEEPAY

ABOUT IMAP

INTERNATIONAL MERGERS & ACQUISITION PARTNERS

Consistently ranked among the *Top 10 middle market M&A advisors worldwide*

450+

TEAM OF IMAP
PROFESSIONALS
WORLDWIDE



ENTREPRENEURIAL SPIRIT

- IMAP is a partner-driven, client-focused and independent M&A advisory.
- Senior experience and hands on involvement in deals – 230 Senior Transaction/Transaction Advisors.
- Worldwide IMAP team comprising 450+ professionals.

47

YEARS OF M&A
EXPERIENCE IN THE
MIDDLE MARKET



MIDDLE MARKET FOCUS

- Sell-side advisory for primarily privately held companies and spin-offs from large groups.
- Strategic acquisitions for international corporates.
- "Sweet –spot" Transaction Values \$20 – 250 million.
- Strong PE and Family Office Coverage.

60+

OFFICES IN 43
COUNTRIES



GLOBAL REACH

- Proven cross-border advisory practice.
- Global sector & project teams across 15 sector groups.
- Leveraging local knowledge and corporate access in all relevant international markets.

\$12.5bn

CLOSED DEAL
VALUE 2020



EXECUTION EXPERIENCE

- IMAP has closed over 2,100 transactions valued at \$90 billion in the last 10 years.

GLOBAL PERFORMANCE 2020

218

M&A TRANSACTIONS

\$12.5bn

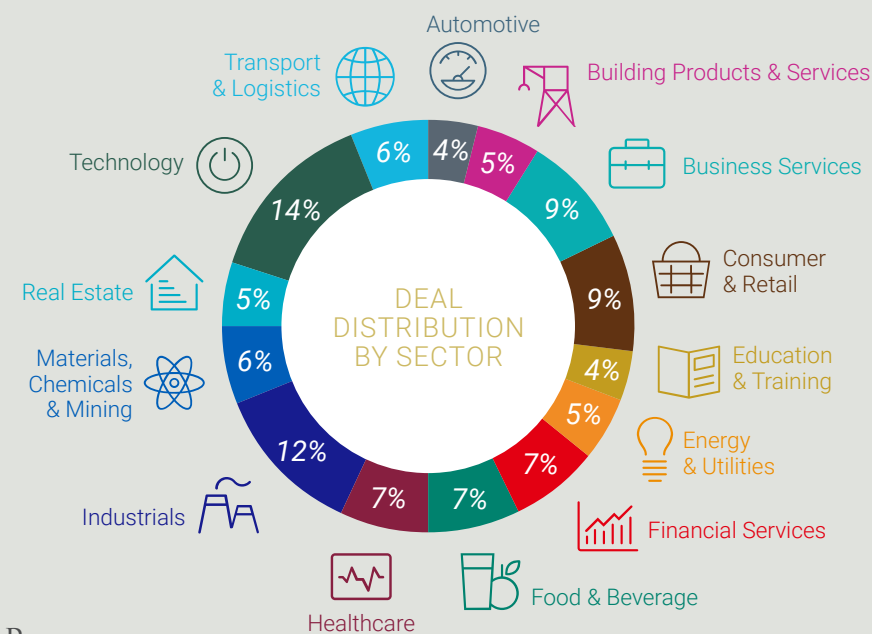
TRANSACTION VALUE

30%

CROSS-BORDER DEALS

6th

IN THE WORLD



GLOBAL PERFORMANCE

- 1 PwC
- 2 KPMG
- 3 Deloitte
- 4 Houlihan Lokey
- 5 Rothschild
- 6 **IMAP**
- 7 EY
- 8 Oaklins
- 9 Goldman Sachs
- 10 Lazard

Ranking based on number of transactions closed in 2020. Undisclosed values and values up to \$500 million.
Source: Refinitiv and IMAP internal data.

GLOBAL REACH

Our cross-border experience extends across Europe, the Americas, Asia and Africa

450+

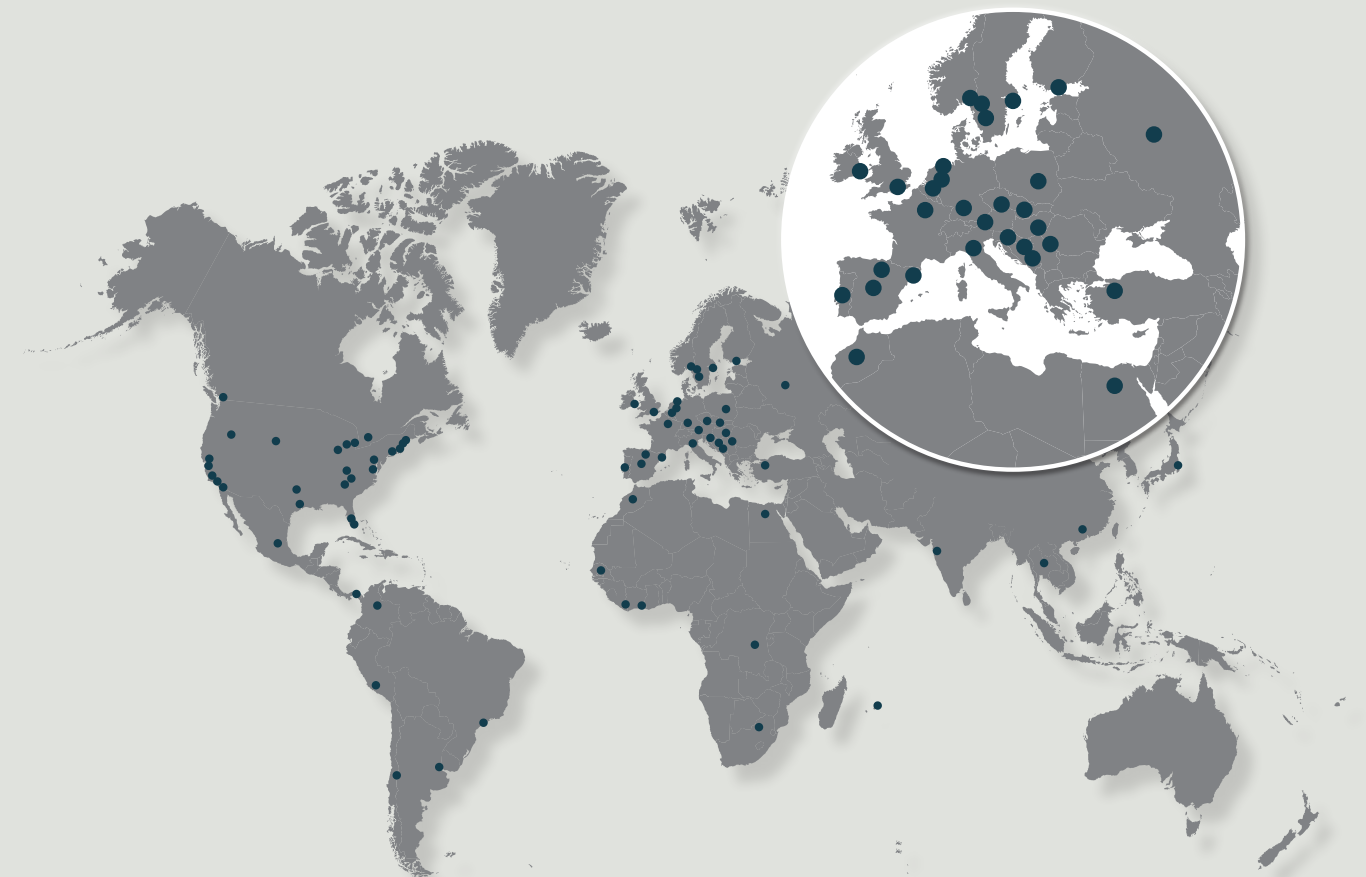
PROFESSIONALS
WORLDWIDE

43

COUNTRIES

60+

OFFICES



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Boston
Chicago
Dallas
Denver
Detroit
Greenville
Greenwich
Houston
Los Angeles
Naples

New York
Philadelphia
Richmond
San Diego
San Francisco
St Louis
Tampa
Washington DC
Canada
Toronto
Vancouver

Latin America

Argentina
Brazil
Chile
Colombia
Mexico
Peru
Panama

Ivory Coast
Mauritius
Morocco
Nigeria
Senegal
South Africa

Asia
China
India
Japan
Thailand

Africa
Congo
Egypt
Ghana

Europe

Belgium
Bosnia & Herzegovina
Croatia
Czech Republic
Finland
France
Germany
Hungary
Ireland
Italy
Netherlands
Poland

Portugal
Russia
Serbia
Slovakia
Slovenia
Spain
Sweden
Turkey
United Kingdom

IMAP GLOBAL SECTOR COVERAGE FINTECH & FINANCIAL SERVICES

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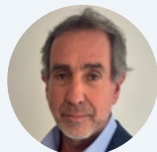
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