

▶ M&A market report 1H 2020

Fintech



FINTECH PLAYERS AIM FOR RELEVANCE & SCALE



A competitive market

The fintech industry continues to grow and break records. Changes are being accelerated by the shift away from cash, the boom in electronic payment transactions, and the application of innovations in artificial intelligence and machine learning.

The acquirer landscape is changing, too. Tech giants such as Apple, Facebook and Tencent continue their move into the financial services arena, armed with vast quantities of data, strong brands, capital resources and formidable ecosystems. Meanwhile, smaller newcomers are attacking the edges of incumbent profit strongholds and, potentially, pose an existential threat to traditional financial services providers. These, in turn, must battle their peers and new entrants for relevance and scale. Battle lines have thus been drawn, and the result is an active and highly competitive fintech M&A market.

Mammoth M&A transactions

In 2019, four enormous M&A deals set the record for the largest transactions ever recorded in fintech history: Fidelity's acquisition of Worldpay (\$44 billion); Fiserv's acquisition of First Data (\$22 billion); the merger of Global Payments with Total System Services (\$21 billion); and London Stock Exchange Group's acquisition of Refinitiv (\$14 billion). Combined, they accounted for a transaction value of almost \$101 billion. These transactions are testament to the readiness of large players to stay relevant while sustaining strong revenue growth.

Setting high standards

Overall, fintech funding reached extremely high levels in 2019, but early-stage deals dropped, with a decline in the number of Series A rounds. Fintech funding rounds are continuing to grow in size rather than in number as the market matures because, with better knowledge of the vertical winners and of the fintech ecosystem, investors are becoming more selective, focusing on proven, mid- to later-stage companies that have shown promise in attaining meaningful scale and profits.

Winning on the battleground

The global fintech market remains buoyant as we venture into the thick of 2020, with Visa's recent acquisition of Plaid for \$5.3 billion and Worldline's \$8.6 billion acquisition of rival Ingenico Group already setting the tone for the year. In fact, the payments subsector is expected to attract the most investment, while insurtech, regtech, cybersecurity and wealthtech are all well positioned for growth.

Consolidation in more mature areas of fintech will likely speed up, as winners solidify their existing market share. To survive in the face of the onslaught from smaller newcomers and tech giants, financial services incumbents will need to proactively engage with fintech disruption – be it by building in-house capabilities, seeking partnerships or making acquisitions – to stay relevant and scale.



M&A SUMMARY

The year 2019 proved to be the second richest of the decade in terms of fintech M&A activity, with a whopping 439 transactions and a disclosed transaction value of over \$130 billion – almost twice the largest disclosed value recorded to-date (\$71 billion in 2018). Valuation multiples continued their rapid climb in the second half of 2019: the trailing 30-month median revenue multiple peaked at a record 3.8x, while the EBITDA multiple jumped to 17.3x, just shy of the record set in 1H2015.

Notwithstanding the three mega deals in the payments vertical, M&A activity in the Enterprise Financial

Software subsector – which covers financial risk management, compliance, insurance, and blockchain development SaaS – accounted for an impressive 42 per cent of all fintech deals in 2019 (cf. page 6). This surge in activity was driven by a diverse group of incumbents and new entrants vying to achieve greater scale and ecosystem opportunity.

Overall, 2019 saw a shift towards blockbuster M&A transactions, historically high deal count levels and impressive valuations.

Total number of Fintech M&A transactions by year and by quarter, 2015-2019



Total number of Fintech M&A transactions and valuation multiples by half-year, 2015-2019



Our Fintech report covers the two-and-a-half-year period between July 2017 and January 2020. All totals and median values refer to the entire period unless otherwise stated. Median multiples plotted in the graphs refer to the 30-month period prior to and including the half year.



FINTECH: VC MEGA-ROUND MAGNET

The year 2018 saw annual fintech financing value set a record of \$53.9 billion flowing into fundraises around the world. If the three largest fundraises of each year are excluded, 2018 saw the most value raised and takes first place, while 2019 takes second place with \$44.7 billion raised (*figure annualised on the basis of the \$33.6 billion raised between Q1 and Q3 2019*).

In terms of mega-rounds (fundraises totaling \$100 million+), the first nine months of 2019 saw a total of 59 rounds totaling a value of \$11.5 billion, as nearly every geographical market beat its 2018 tally (see figure bottom right). Deal sizes are expected to see further growth in 2020 as investors focus on later-stage fintechs with a proven track record.

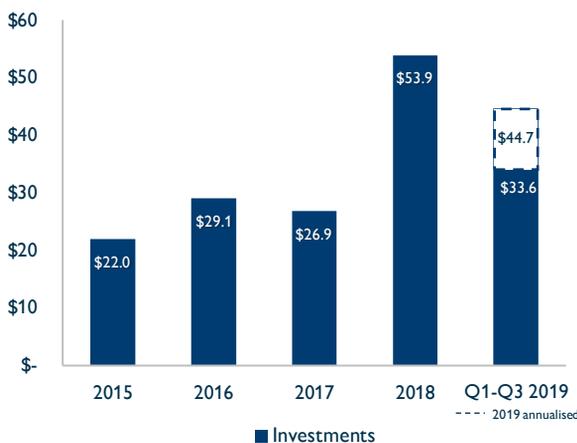


Between January and October 2019:

- Funding reached historically high levels, peaking at **\$33.6 billion globally**
- **Early-stage VC deals dipped** with a decline in the number of Series A rounds
- **59 VC mega-rounds** closed, totalling **\$11.5 billion**
- **Challenger banks** raised over \$3 billion
- **Capital markets & wealth tech** raised over \$4.3 billion in funding
- **Regtech funding** topped a five-quarter high of \$511 million, with money flowing into AML/KYC and fraud prevention firms

Source: CB Insights

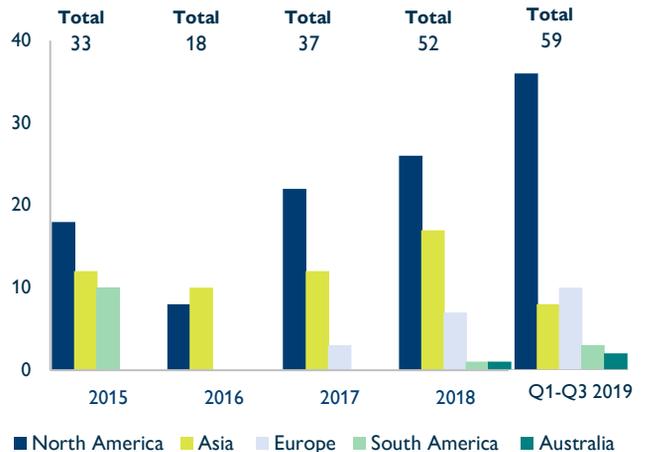
Global fintech financing value raised by year (bn), 2015-19



Source: Financial Technology Partners

Note: The figure for 2019 is based on an annualised figure published by Financial Technology Partners in November 2019.

Number of global VC fintech mega-rounds (\$100m+) by year, 2015-Q3 2019



Source: CB Insights



TOP ACQUIRERS – PAST 30 MONTHS



Number of active acquirers during the past 30 months



Number of acquirers who made >1 acquisition

| Acquirers | Acquisitions in 30 months | Three most recent acquisitions |
|--|---------------------------|--|
|  Broadridge | 11 | ClearStructure Financial Technology portfolio management SaaS Fi360 Inc. internet content & commerce Shadow Financial Systems post-transaction processing SaaS |
|  accenture | 9 | Parker Fitzgerald IT outsourced & consulting services Orbium Holding AG financial services IT consulting Zafin Labs Americas Inc. (assets) financial management SaaS |
|  EBIX | 7 | Weizmann Forex Limited India-based Forex exchange Miles Software Solutions Limited asset & wealth management SaaS Transcorp online exchange & payment processing services |
|  SS&C | 7 | IBM Corporation (assets) risk analytics software & services Globacom Technologies customer engagement software & services Intralinks Holdings Inc. fintech & team collaboration SaaS |
|  investoo group | 6 | eFXto Forex Spanish-speaking foreign exchange news VantagePointTrading.com stock trading information website Bitcoinmag.de German online cryptocurrency community & news |
|  equisoft | 5 | Big Brain Works Inc. wealth management & CRM SaaS Les Solutions AGeman Inc. develops software for financial advisors Kronos Technologies Inc. investment & insurance SaaS |
|  ION | 5 | Acuris Group online financial reference content Allegro Development Corp. analytics-based energy trading software Fidessa group Plc. application Software for Capital Markets |
|  THOMABRAVO | 5 | International Decision Systems asset & equipment finance SaaS Ellie Mae Inc. loan origination SaaS CRIF Corporation financial management software assets |



TOP TRENDS & LARGEST TRANSACTIONS

- 2020 will see increasing levels of **consolidation in mature areas** such as payments and lending, as well as **emerging areas** like blockchain – as startups look to scale and fuel international growth
- Demand for **real-time payment capabilities** and shorter payment value chains has led to record-setting acquisition rates in a maturing payment and transaction processing vertical
- AI and machine learning acquisitions have been rife, with PE acquirers using **operational expertise to drive synergy benefits** across large integrated platforms
- **Challenger banks** will continue to grow their service offerings and expand across international borders
- **Regulations around open banking** – in Europe and elsewhere – will prove to be a boon for technology giants and startups alike as they increasingly play a role in financial services
- **Asia will see substantial growth in insurtech investment**, from traditional US- and Europe-based insurers looking to use Asia to test alternative insurance offerings

LARGEST DISCLOSED DEALS OF 2H2019

| | |
|---------------------------------|---|
| \$14.1 billion 01 Aug | London Stock Exchange Group acquires Refinitiv at 5x EV/S |
| \$3.2 billion 06 Aug | Mastercard International acquires Nets Holding |
| \$2.2 billion 12 Aug | BC Partners acquires Advanced Computer Software Group |
| \$1.2 billion 24 Jul | Worldline acquires Equens SE |
| \$1.1 billion 02 Aug | Guidehouse LLP acquires Navigant at 1.4x EV/S and 17.3x EV/EBITDA |
| \$603 million 26 Dec | KB Kookmin Bank acquires PRASAC Microfinance Institution |
| \$510 billion 01 Oct | Q2 Software acquires Precision Lender |

Spotlight: payment processing still leading in 2020

In January 2020, payments technology services giant Visa acquired Plaid for \$5.3 billion. The combination of Visa and Plaid provides Visa with the opportunity to deliver enhanced payment capabilities and related value-added services to fintech developers.

In addition, in early February ATOS subsidiary and provider of transaction processing services Worldline acquired Ingenico Group, a French payment processor, for \$8.6 billion. The deal could help

Worldline boost its competitive position in a consolidating payment processing market.

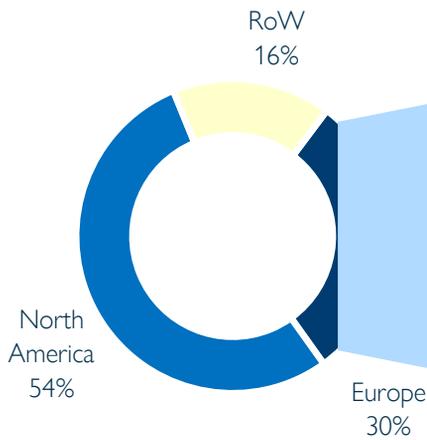
VISA
13 Jan 2020
ACQUIRED
\$5.3 billion
PLAID

Worldline
03 Feb 2020
ACQUIRED
\$8.6 billion
ingenico
GROUP

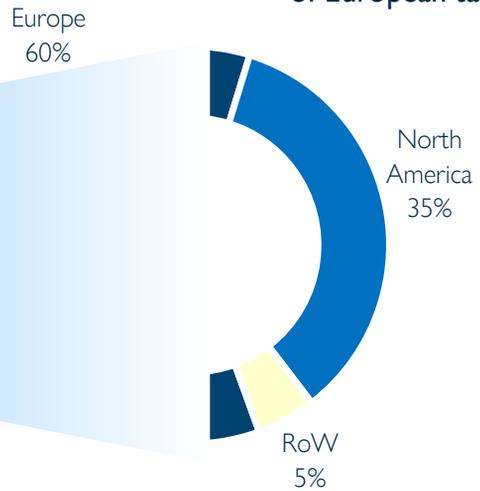


SUB-SECTOR & GEOGRAPHICAL BREAKDOWN

Headquarters of Fintech targets



Headquarters of acquirers of European targets



54%



Despite maintaining a majority share of M&A activity in fintech, in 2H 2019 North American target companies accounted for 54 per cent of transactions, down from 60 per cent in 2H 2018. Firms located in Europe and the rest of the world rounded out the remaining 46 per cent, with targets in the rest of the world receiving more attention than in previous periods.

Meanwhile, European investors and acquirers recorded another dominant half-year of deal-making within their region, as 60 per cent of European targets were bought by European acquirers, while only 35 per cent of European targets were bought by North American acquirers.

- **IT Outsourcing & Transaction Processing**
 Outsourced financial data aggregation, transaction processing services, financial IT systems integration, outsourced financial software development services.
- **Enterprise Financial Software**
 Financial analytics, financial risk management software, tax compliance software, insurance software, online accounting, financial portfolio monitoring, blockchain development SaaS.
- **Consumer Financial Solutions**
 Online trading exchange software, currency conversion, mobile payments, lending.



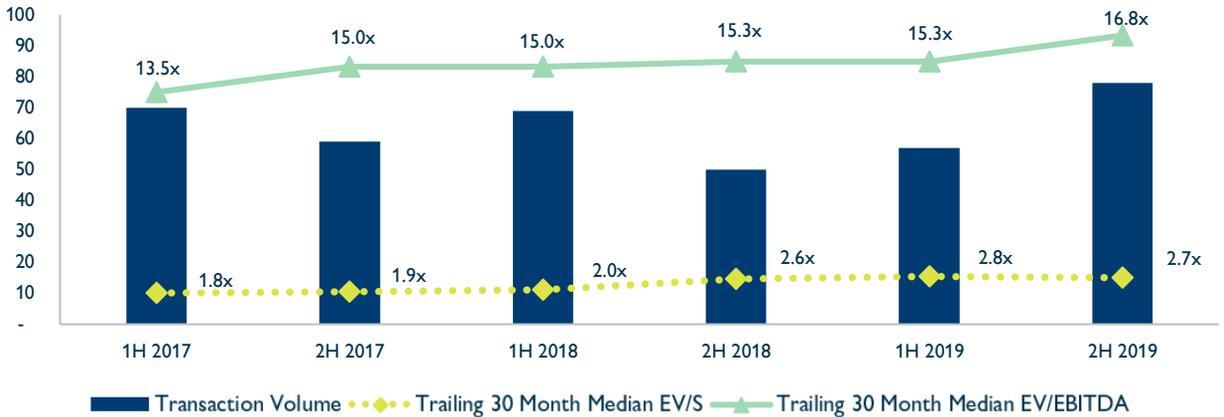


IT OUTSOURCING & TRANSACTION PROCESSING

Sub-sector overview

The subsector saw a significant rebound in deal volume following sluggish performance in the 12 months prior. Overall, 135 transactions were inked in 2019, with a record 78 deals closed in 2H2019.

In 2019, the sector saw the three largest disclosed fintech transactions of all time made by Worldpay, Fiserv and TSYS – all deals surpassing the \$20 billion mark – for a combined transaction value \$87 billion.



Global opportunity for real-time payments

In its largest ever purchase, Mastercard nabbed the account-to-account payments business of Nets, a leading Nordic PayTech company, for \$3.2 billion. The acquisition, which targeted Nets’ clearing, instant payment services and e-billing software, adds to similar existing Mastercard assets such as Vocalink, Transfast and Transactis and propels Mastercard to the forefront of the move to real-time payments. It will also help Mastercard deliver cross-border payments to bank accounts, mobile wallets and cards.

Other noteworthy transactions include Payten’s acquisition of Basilichi CEE, a Serbian provider of POS and ATM related services to financial institutions, for an undisclosed amount. Payten, a member of Asseco South Eastern Europe (ASEE) Group, provides end-to-end payment industry solutions for financial and non-financial institutions. The company is expanding into a handful of Iberian and Latin American countries.

Meanwhile, global investment firm KKR acquired German payments group Heidelpay. Founded in 2003, Heidelpay enables its clients to accept online and mobile payments and is used by more than 30,000 merchants, including companies such as L’Oréal.

Record-setting acquisition rates to continue

2020 will see increasing levels of consolidation in payments as incumbents look to add services and challengers expand their market share, scale and fuel international growth.

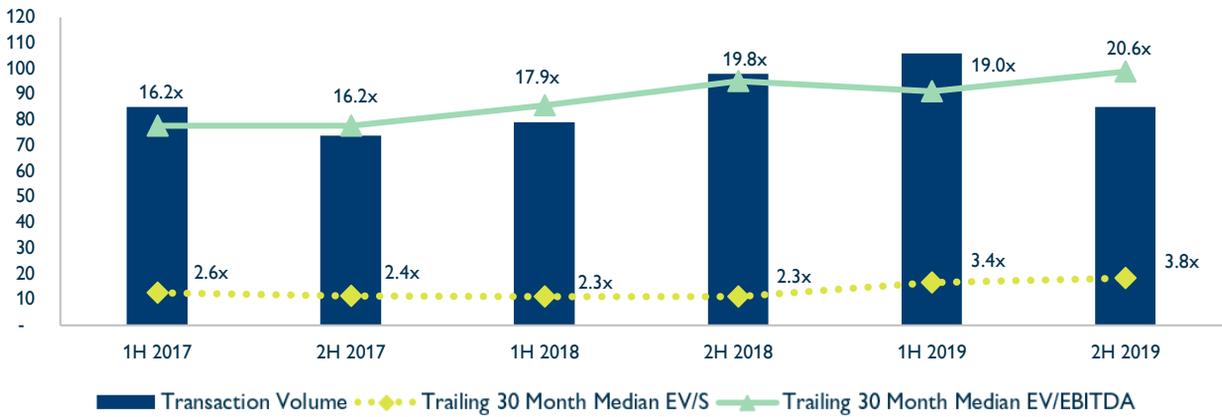


ENTERPRISE FINANCIAL SOFTWARE

Sub-sector overview

The Enterprise Financial Software sector experienced a stellar 2019, witnessing a remarkable 191 transactions. Total disclosed transaction value broke the \$15 billion mark, supported by a continuous rise in the trailing median 30-month revenue multiple to

3.8x; and EBITDA multiples also climbed to an astoundingly high 20.6x. The subsector was dominated by financial risk management, compliance, insurance, accounting, portfolio monitoring and blockchain development SaaS acquisitions.



Broadridge remains the frontrunner

Financial solutions company Broadridge made a whopping seven fintech acquisitions in 2019 alone, more than tripling its count in the sector since last year. This buying spree has focused solely on software acquisitions for the investment and lending sectors. Broadridge's most recent target, ClearStructure, enhances its existing multi-asset class, front-to-back office solution, allowing their clients to access the public and private markets. The transaction aligns to Broadridge's strategy of providing a cross-asset platform to enable asset management clients to have a single view into their entire book of business.

Other noteworthy transactions include banking solution provider Q2's acquisition of pricing management solutions provider, PrecisionLender, for \$510 million, and BC Partners' 50 per cent acquisition of Advanced Computer Software Group, a finance and accounting software provider, for an impressive \$2.2 billion.

Adopting digital transformation

2019's flurry of large-scale acquisitions in the investment, lending and corporate banking sectors illustrates that enhanced capabilities in an increasingly complex and evolving financial services market are vital. For investment managers, utilising dynamic portfolio management solutions and software will be imperative to investment success and for corporate banks, adopting digital transformation solutions such as cloud lending will ensure relevance in a shifting paradigm.

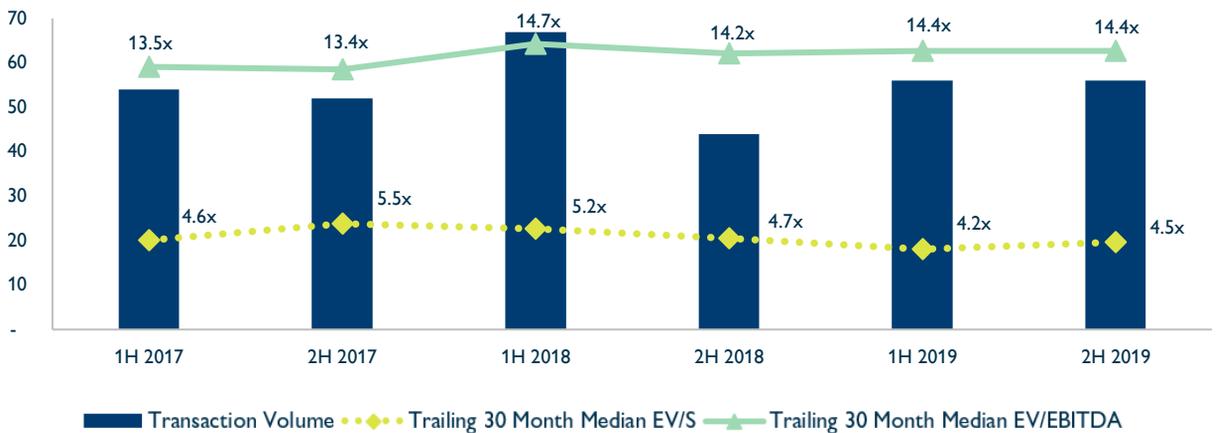


CONSUMER FINANCIAL SOLUTIONS

Sub-sector overview

The Consumer Financial Solutions sector experienced a respectable 2019, seeing a steady 113 transactions. Total disclosed transaction value also remained steady, but to a lesser extent than last year, reaching \$18

billion (down from \$25 billion in the previous period). However, EBTDA multiples and revenue multiples remained high at 14.4x and 4.5x respectively.



Demand for real-time personalisation

In December, China’s Ant Financial, the fintech affiliate of e-commerce giant Alibaba Group, acquired a sizable stake in eMonkey, a Vietnamese e-wallet company which is powered by M-Pay. This strategic investment – Ant Financial’s eighth international payments deal – will allow it to gain entry to nearby Vietnam’s booming market of nearly 100 million mobile payments customers.

The second half of 2019 also saw television content creation and broadcaster Fox Corporation acquire Credible Labs for \$398 million, confirming its entry into the consumer financial solutions market. Credible allows consumers to compare instant, accurate pre-qualified rates from multiple financial institutions across student loans, personal loans and mortgages.

Since selling two thirds of its assets to Disney for \$71.3 billion, Fox is now a more focused and smaller-scale company. Buying control of Credible will help Fox improve direct interactions with its consumers, providing them with the services they want and encouraging their engagement with various Fox platforms.

19 Dec 2019
ACQUIRED
Not disclosed

04 Aug 2019
ACQUIRED
\$398 million



CONCLUSION & CONTACTS

2019 was characterised by record levels of fintech M&A activity, abundant fundraising value, and the achievement of exceptional multiples. Transaction volume in the second half of 2019 saw a three-year high and set a new record of over \$130 billion for disclosed transaction value.

Fintech M&A globally is expected to remain a hot sector heading into 2020, particularly given the large M&A deals that have taken place so far this year. The payments vertical will no doubt receive an abundance of investment, while insurtech, regtech, wealthtech and B2B platform services are all well positioned for growth.

Meanwhile, for incumbents the heat is being applied on the new battleground for relevance and scale – relevance being the ability to offer solutions that are ubiquitously available and in demand; and scale referring to the number of customers incumbents can gain *and* retain in the face of non-traditional competition. The new battleground requires new capabilities and incumbents must adapt and acquire now, or they will decline later.

Fintech investors are, and will continue to be, very selective in deploying capital, favouring larger, more promising fundraises and moving away from the “spray and pray” approach of the early stages of the sector. Meanwhile, with large technology companies knocking at their doors, incumbent financial institutions must continue to engage aggressively with fintech disruption, whether by building their own capabilities; by partnering; or by acquiring, given the pace of innovation in the sector.



Jonathan Simnett

Director

jonathan.simnett@hamptonpartners.com



Lolita White

Research Analyst

lolita@hamptonpartners.com

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- ✦ Cybersecurity
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