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M&A market report 1H 2019

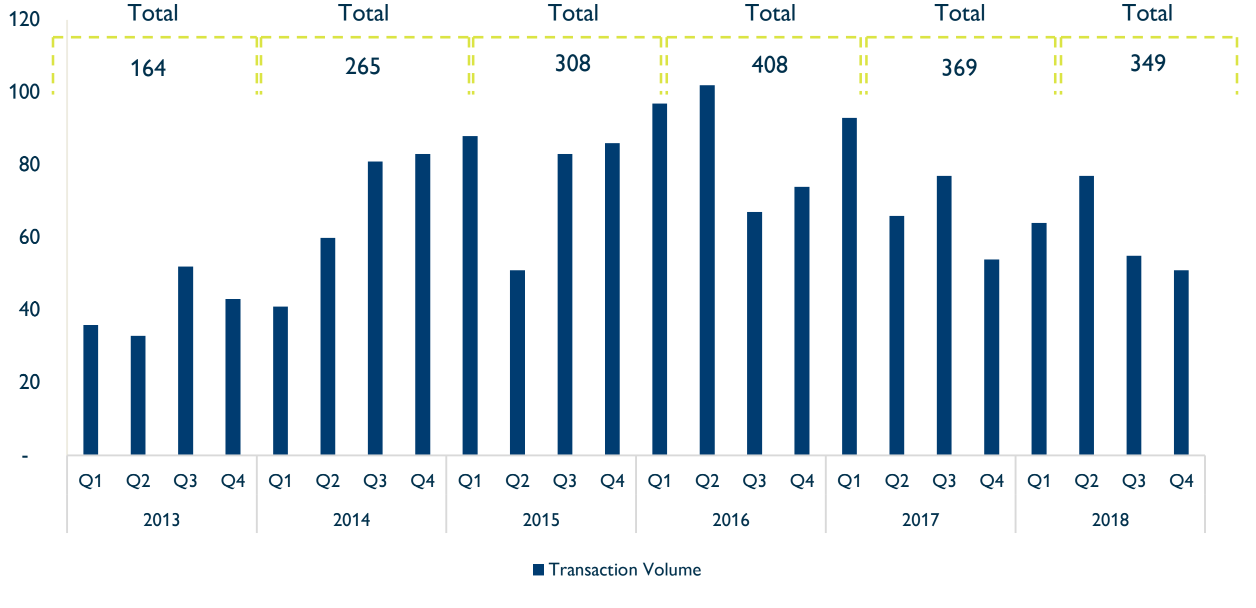
Fintech

2019 SET TO RIVAL 2018 AS FINTECH SHOWS FURTHER PROMISE

The fintech industry continued to evolve in 2018 and will most likely flourish further in 2019, with funding pouring into start-ups, established fintech companies rethinking their strategy, and incumbent financial institutions stepping up technological development. While fintech has appeared to ripple across the financial services industry and revolutionised processes and business models, significant regional disparities do persist. In Europe the UK leads the way, breeding a new generation of innovators with record levels of investment in 2018. Yet despite these start-ups capturing a growing share of the market, even the biggest British fintech firms and new banks are dwarfed by the Americans Stripe, Robinhood or SoFi. These, in turn, are outclassed by China's Ant Financial, recently valued at $150 billion.

Retail banking has led the charge in upgrading digital experiences to incorporate fintech into their core banking products. On the other hand, investment banks have been more focused on robo-advisory services in their digital efforts. Interestingly, big tech venture arms have been exploring the robo-advisory route too: Alphabet's venture capital arm, GV, has attempted to replace humans with artificial intelligence for investment decisions. The machine learning algorithm permits or prohibits new and follow-on investments based on data fed into it by staff members using a traffic light system of indicators to communicate its decision. Overall, although artificial intelligence continues to show a lot of promise as firms adopt these algorithms and advanced modelling techniques, in reality change is more likely to resemble a gradual process than a quantum leap into new data sources and methods.

Going forward, it is anticipated that the largest fintech firms will soon realise value through an IPO in 2019. Meanwhile, the majority of start-ups that have grown large enough to gain traction, attract a strong customer base and produce a profitable balance sheet, will remain small enough to be acquired by incumbents.



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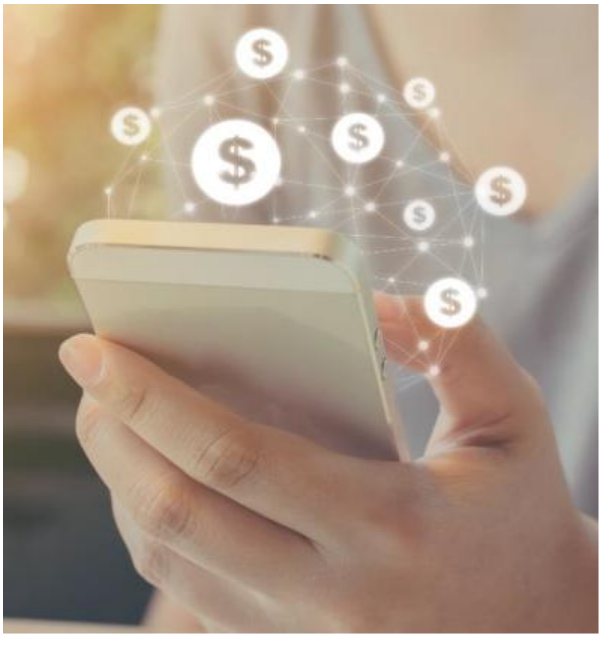
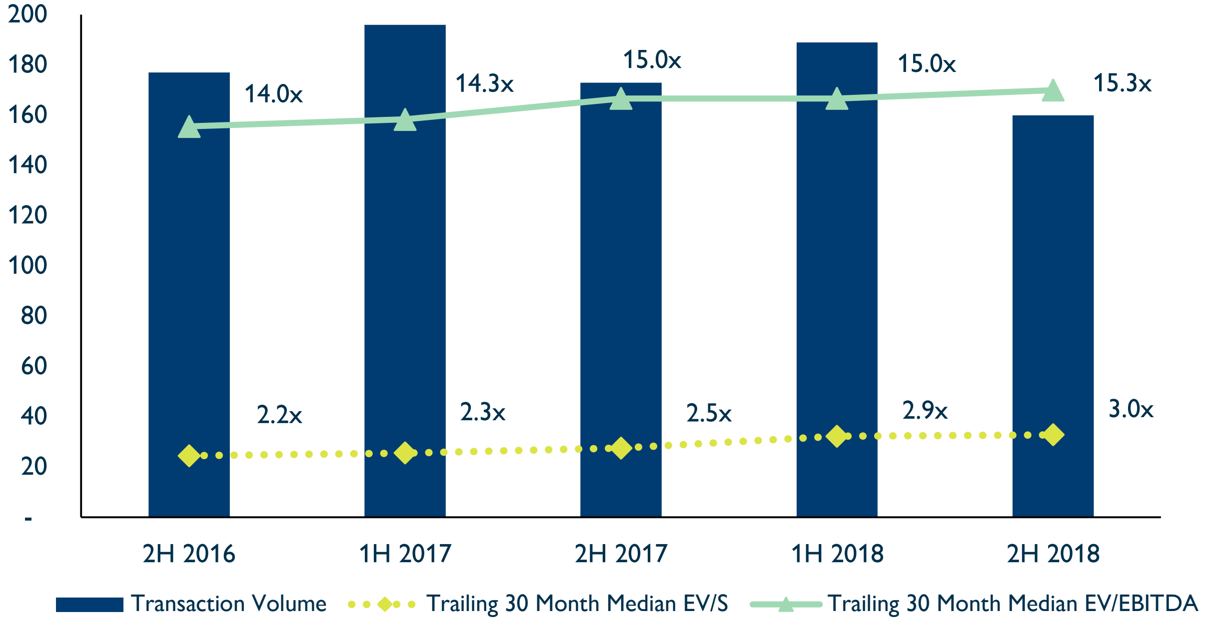
M&A SUMMARY

M&A activity in the fintech sector experienced a deceleration in the second half of 2018, inching down slightly from its 1H2018 high of 189 transactions and record disclosed transaction value of almost $50 billion. Transaction count came to 160, and total disclosed transaction value was just shy of $13 billion – largely owing to the absence of any blockbuster deals akin to Blackrock's $17 billion acquisition of Thomson Reuters in 1H2018. As such, this range of deals provides helpful insight into mainstream deal activity without the distraction of mega deals skewing or veiling underlying trends.

Trailing multiples on a 30-month median basis continued to creep upwards: revenue multiples reached 3.0x EV/S, while EBITDA multiples rose to 15.3x, up from 15.0x in 1H2018.

The primary focus remained application software, as challenger banks continued to act aggressively to fuel growth, and incumbents step up with deals aimed at updating legacy infrastructure by targeting software companies across a range of segments, from capital markets and trading to sales and accounting.





Our fintech report covers the two-and-a-half-year period between June 2016 and December 2018. 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.

TOP ACQUIRERS

Acquirers	Acquisitions in 30 months	Three most recent fintech acquisitions
accenture	10	Zafin Labs Americas (talent assets) financial management SaaS SEC Servizi financial systems integration services TargetST8 Consulting financial services tech consulting
investoo group	7	eFXto Forex Spanish FX news and analysis VantagePointTrading.com stock trading information website Bitcoinmag.de German cryptocurrency analysis content
SS&C	6	Eze Software financial trade execution SaaS CACEIS outsourced banking services assets DST Systems BPO services
EBIX	6	Miles Software asset & wealth management SaaS Transcorp online exchange & payment processing services Paul Merchants money transfer asset
Broadridge	6	MackayWilliams online fund market analysis & research FundAssist financial document management service Summit Financial Disclosure financial document management SaaS
fiserv.	5	Elan Financial Services consumer & business financial services Dovetail Systems financial transaction processing software PCLender mortgage loan automation SaaS
ice	5	CHX Holdings stock & securities trading exchange Virtu Financial financial trading software asset KCG BondPoint trade execution for fixed income markets
ingenico GROUP	4	BS PAYONE payment processing SaaS Paymark transaction processing services Bambora Swedish payment processing services

Accenture races ahead

Professional services company Accenture remained the top acquirer on a 30-month basis, with three deals announced in Q4 alone. Accenture's buying spree adds to its existing portfolio theme as its new assets are a financial management SaaS, a systems integrator and fintech consulting services.

Investoo followed closely with a total of seven deals in the last 30 months, five of these having occurred in 2017 and two over the summer of 2018. Close behind were SS&C Technologies, Ebix and Broadridge Financial Solutions, each with six disclosed transactions in the last 30 months.

TOP TRENDS IN FINTECH

Big finance and big tech

Four out of the five largest acquisitions (in the $billion+ mark) were for software and services that serve the largest financial institutions. For instance, Eze Software Group, a financial trade execution SaaS, was acquired by SS&C Technologies for $1.45 billion. Meanwhile, ITG, a stock trading software and services company, was acquired by Virtu Financial, a commodities trading and electronic exchange, for $1 billion at 1.5x revenue. These significant transactions suggest a greater maturity in B2B SaaS providers to financial institutions, whereas retail-focused robo-advisory has captured a lot of attention in the start-up fundraising scene.

SS&C

ACQUIRED

EZE SOFTWARE GROUP

VIRTU FINANCIAL

ACQUIRED

ITG

Investments and acquisitions in the payment and transaction processing vertical was a continuous theme throughout 2018. This will most likely continue in 2019 as it is expected that large banks will want to reclaim the payments vertical from Apple Pay, Google Pay, Amazon Pay and others. Meanwhile, for the time being big tech firms will be focusing on providing key products to their customer or user base – eventually making a gradual in-road into financial services to catch up on their Asian counterparts. However, this will be slow-moving as the industry is highly regulated.

- Winners in fintech primarily emerging at a **regional rather than global level**, in similar fashion to traditional retail banking
- Despite the promise of AI, **change towards machine learning** and advanced modelling techniques is more likely to resemble a **gradual process** than a quantum leap into new data sources and methods
- **Scrutiny of business fundamentals** is on the rise as funding grows more selective
- Widespread adoption of **biometric technologies** by consumers such as smartphone fingerprint authentication and facial recognition for payments
- Consolidation in the sector will pick up as start-ups have gained market traction, but most remain **small enough for an acquisition** by large incumbents to be feasible

LARGEST TRANSACTIONS

State Street, the second largest custodian bank in the world, acquired Charles River Systems, a provider of investment data and analytics SaaS, for $2.6 billion at roughly 5x revenue – topping the table as fintech's largest disclosed transaction in 2H2018. The acquisition allows State Street to compete with rivals such as Blackrock and its software, Aladdin. When it comes to technology, State Street has some catching-up to do – something the custodian is well aware of. Despite claiming that the purchase of Charles River is a pure growth play which can pivot them into new revenue space with their clients, State Street's acquisition was not well received by the market, which characterised the price tag as too steep for a deal that neither adds to nor erodes significant shareholder value, according to some.

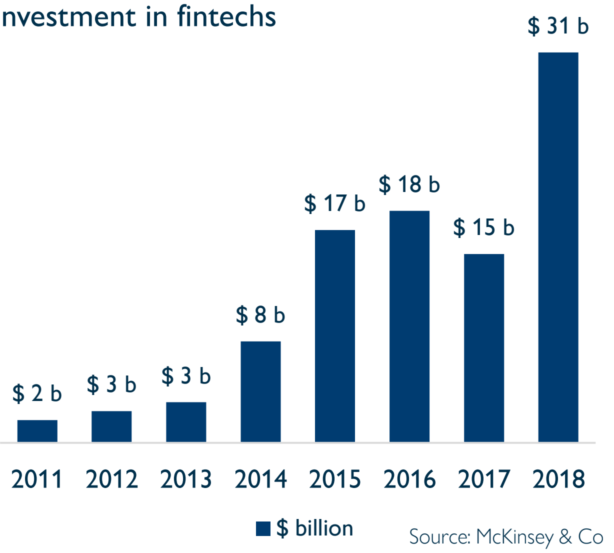
LARGEST DISCLOSED DEALS OF 2H2018

$2.6 billion 20 Jul	State Street acquires Charles River Systems
$1.45 billion 31 Jul	SS&C Technologies acquires Eze Software Group
$1.45 billion 09 Oct	ICDPQ/Generation Investment Management acquires FNZ UK
$1.44 billion 08 Oct	KKR acquires MYOB Group at 5.58x EV/S
$1 billion 07 Nov	Virtu Financial acquires Investment Technology Group at 1.5x EV/S
$763 million 24 Dec	Euronext NV acquires Oslo Børs VPS Holding at 5.69x EV/S
$690 million 25 Sep	Fiserv acquires Elan Financial Services at 4.1x EV/S
$481 million 17 Dec	Saxo Bank acquires BinckBank NV

Fundraising reaches record levels

Financial institutions are engaging with fintech start-ups either as investors or through strategic partnerships. Interestingly, despite almost 80 per cent of financial institutions choosing to enter into a strategic partnership, 2018 witnessed the highest level of investment in fintech start-ups on record. The total disclosed transaction value of $30.8 billion represents double the early-stage investment received by fintech start-ups in 2017 – a monumental increase that can be explained by the fact that start-ups are maturing and, as a result, the average deal size is increasing. This value comprises much investment received by Asian start-ups, where the average round size is almost twice as large as the global average.

Global venture capital investment in fintechs



Source: McKinsey & Co

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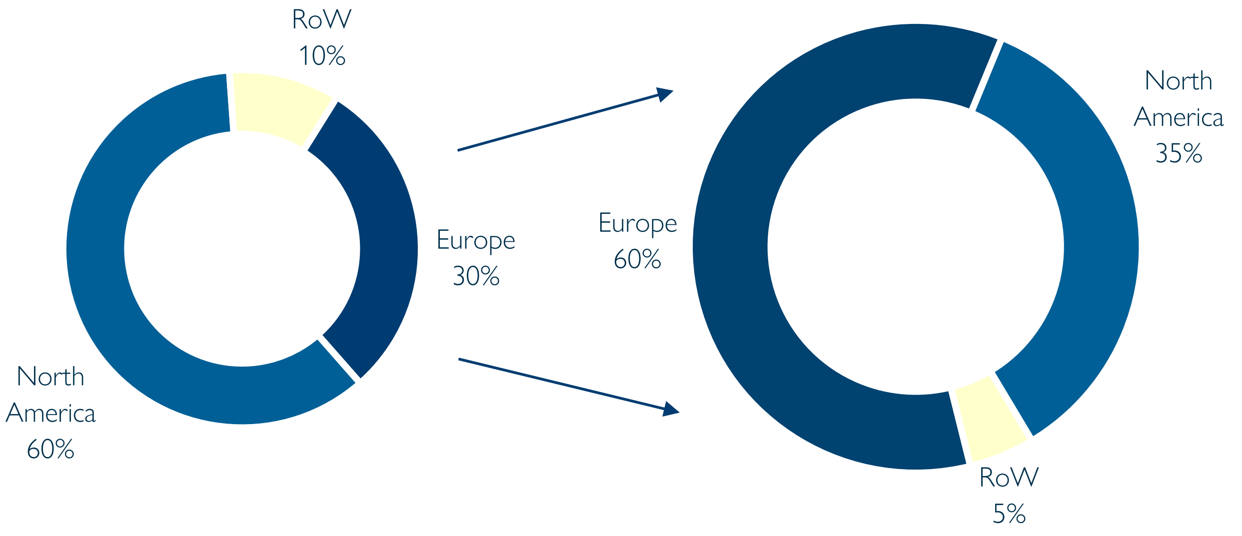
SUB-SECTOR BREAKDOWN

Headquarters of fintech targets

Headquarters of acquirers of European targets



60%

In 2H2018 60 per cent of transactions involved a North American target company, while firms located in Europe or the rest of the world rounded out the remaining 40 per cent. However, almost two thirds of European target companies were bought by European acquirers. This indicates that, while crossover between North America and Europe does appear in fintech M&A, regional specificities give rise to different technological needs and regulatory requirements for fintech businesses and providers.

IT Outsourcing & Transaction Processes
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.

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ENTERPRISE FINANCIAL SOFTWARE

Sub-sector overview

The Enterprise Financial Software segment experienced a record year with a total of 154 deals throughout 2018 and 84 deals in 2H2018. It was also the hotbed of all billion-dollar deals in the latter half of 2018. This was supported by a rise in the trailing median 30-month revenue multiple to 2.5x EV/S after an 18-month stagnation, with EBITDA multiples also climbing back up to 16.2x. In short, this segment shows no sign of dwindling in the near future.

Private equity adds to growing portfolio

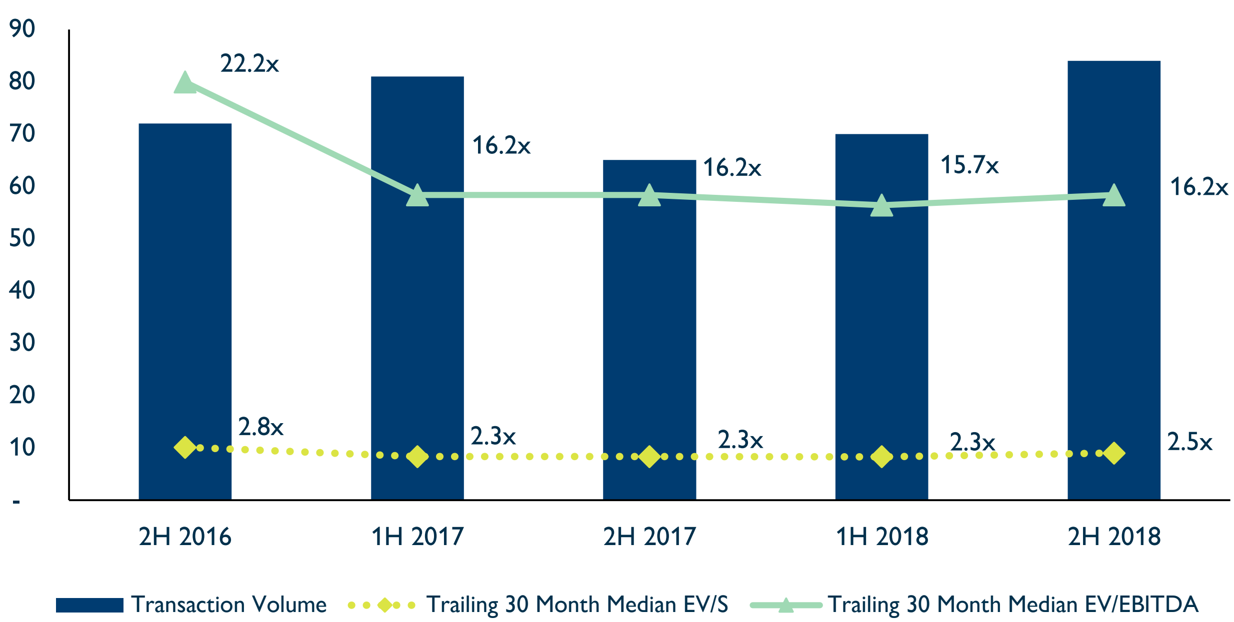
KKR's acquisition of MYOB Group occurred as MYOB's share price was underperforming due to increasing competition. The initial unsolicited offer came in at $1.75 billion in October, and was followed weeks later by a raised bid to $2.2 billion at a 24 per cent premium which prompted MYOB to agree to open its books to the pursuer. However, the offer was subject to due diligence and the resolution of MYOB's financing arrangements; as a result, KKR lowered their offer to $1.45 billion at 4.5x EV/S in December.

Despite KKR agreeing a deadline of February 2019 to attract a higher offer, MYOB Group did not receive a better bid, leaving the board no other choice but to capitulate and advise that shareholders accept KKR's offer.

Once a dominant provider of accounting software to SME businesses in Australia, MYOB has been outpaced in recent years by ASX-listed cloud and administrative software Xero.

NOTABLE TRANSACTIONS IN 2H2018

	ACQUIRED	
State Street	20 Jul $2.6 billion	Charles River
SS&C	31 Jul $1.45 billion	EZE Software Group
KKR	08 Oct $1.44 billion	myob



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IT OUTSOURCING & TRANSACTION PROCESSES

Sub-sector overview

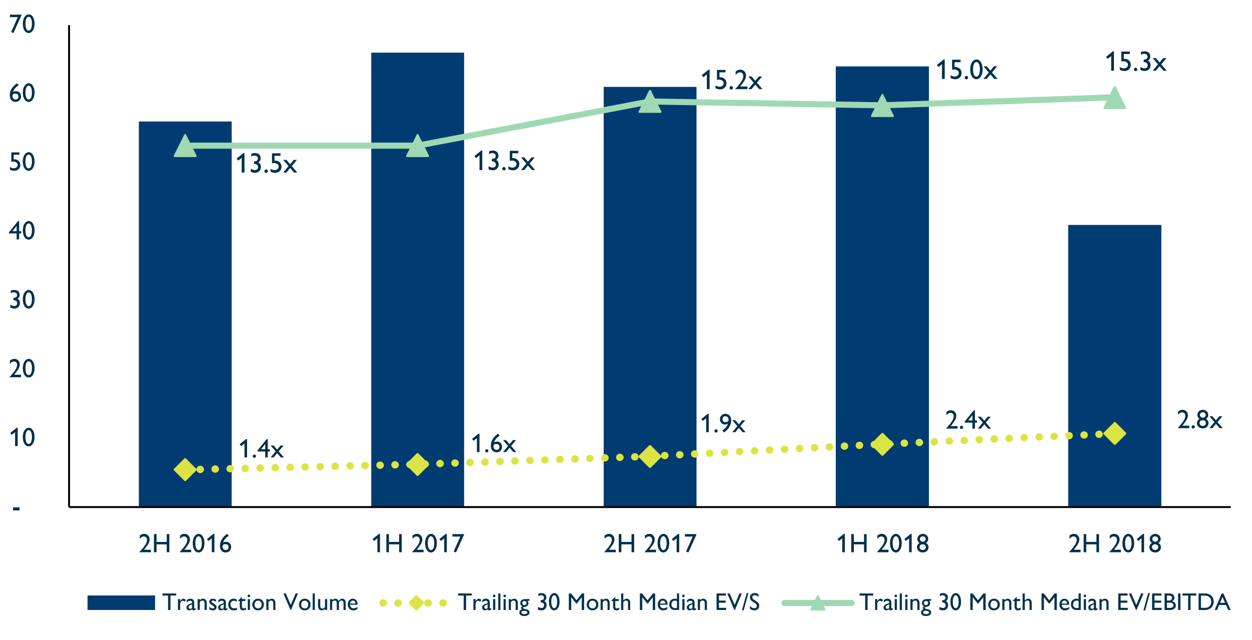
The dampened transaction volume in IT Outsourcing & Transaction Processes is a possible indication that fintech start-ups have not yet chosen the acquisition route, preferring instead to remain in the ownership of their founders, raising record levels of funds in 2018. This might also explain why the disclosed transaction value was at its lowest in four years in 2H2018, while 1H2018 saw the second-highest transaction value this decade. Interestingly, the trailing median EV/S multiple pursued its steady upward trend, reaching 2.8x sales – the highest since 2010. The EBITDA multiple also rose, reaching 15.3x.

Increasing value to customers through added services

With digital payments fast becoming the norm, almost two thirds of all announced deals in the sector involved a target specialising in online and electronic payment processing. Fiserv, the leading global financial services tech solutions provider, acquired the debit card processing, ATM Managed Services and MoneyPass surcharge-free network of Elan Financial Services, a unit of US Bancorp, for $690 million at 1.4x sales. The acquisition will allow Fiserv to build on the growth of its card services business by expanding its suite of solutions in key areas such as ATM Managed Services. Meanwhile, Moneypass, the second largest surcharge-free network in the US, will further enhance Fiserv's market position.

NOTABLE TRANSACTIONS OF 2018

	ACQUIRED	
fiserv.	25 Sep → $690 million (4.1x EV/S)	Elan
NCR	22 Oct → $184 million (2.4x EV/S)	JetPay
axos FINANCIAL	18 Oct → $85 million	COR CLEARING



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CONSUMER FINANCIAL SOLUTIONS

Sub-sector overview

M&A in the Consumer Financial Solutions space receded to a three-year low in 2H2018, with a transaction volume of 35 and total disclosed transaction value of $1.77 billion. This slump was reflected in the valuation multiples: the trailing 30-month median revenue multiple slipped to 4.6x, despite the EBITDA multiple remaining relatively stable at 14.2x.

Although 1H2018 witnessed a wave of M&A bids which resulted in the sub-sector's highest EBITDA multiples, 2018 was also the year for massive funding rounds. With a growing number of private equity mega-funds, companies are now able to expand quicker and test new products, while staying private and independent. This trend is expected to translate into larger acquisitions in the coming months and years.

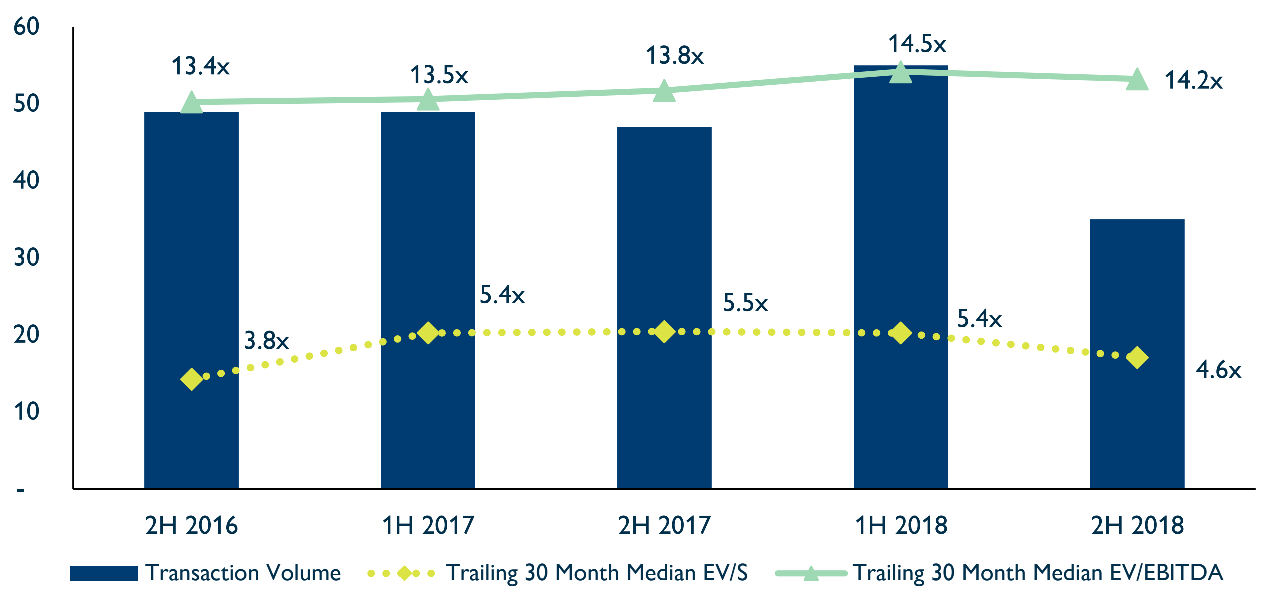
Digital wallets

Mobile apps have been able to introduce significant innovation into the payments process, with the evolving portability of payment data. The rising trend of P2P apps has caught on, and we expect to see more investments and partnerships in this space in the future. A most recent case in point is TNG Fintech Group's acquisition of WalletKu for an undisclosed amount – both are digital wallet software. The purchase will allow WalletKu to enhance their existing suite of digital solutions leveraged through TNG's technology and infrastructure. WalletKu, meanwhile, will become part of the Global E-Wallet Alliance – an initiative founded by TNG in 2016 which includes 12 e-wallet members in 11 Asian countries. The alliance facilitates instantaneous money transfers across multiple countries by helping users send instance messages and conduct P2P calls.

NOTABLE TRANSACTIONS OF 2018

ACQUIRED

EURONEXT	24 Dec $763 million (4.1x EV/S)	OSLO BØRS VPS
SAXO BANK	17 Dec $481 million	BINCK BANK
SCOUT 24	18 Jul $333 million	FINANZCHECK.DE



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2018 witnessed the highest level of venture capital investment in fintech companies on record, with a total disclosed transaction value of $30.8 billion – almost twice the investment received by fintech start-ups in 2017. This confirms that big players are still determined to capitalise on these forces in the market. Furthermore, the fintech M&A realm continued to perform, with consistent multiples continuing their climb despite a slightly lower transaction count and reduced transaction value in 2H2018.

Going forward, fintech transactions will continue to be spurred by further advances in machine learning and artificial intelligence, while geographical specificities and the resulting regulations and requirements will no doubt frame these transformations.

It is anticipated that the largest fintech firms will realise value through an IPO in 2019. For all other fintech companies, Hampleton expects there will be an ongoing process of consolidation and resulting strong levels of M&A as the market matures. Many emerging fintech players will have grown large enough in 2019 to boast a strong customer base and a profitable balance sheet and these will form attractive acquisition targets for established fintechs and traditional incumbents.

Jonathan Simnett, Director

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