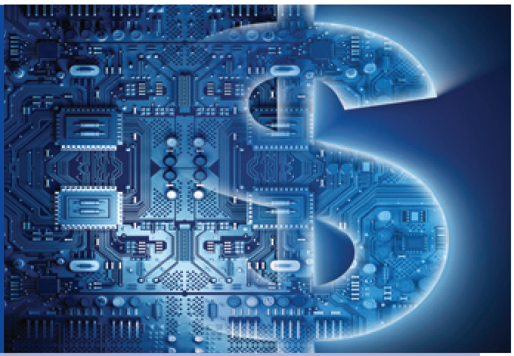
Mergers Alliance

FinTech
M&A update



April 2015

Innovation and changing consumer behaviours driving FinTech investment and M&A

The financial technology (FinTech) sector is currently seeing a boom in investment and strong mergers and acquisition (M&A) activity as new technology and changing customer behaviours transform financial services. Much of this activity involves new FinTech companies that are developing innovative and disruptive products.

Start-ups focused on new payment solutions and peer-to-peer (P2P) lending in particular are challenging financial institutions' existing business models. With estimates suggesting investment into FinTech tripled between 2013 and 2014, the sector offers exciting opportunities for both strategic buyers and financial investors.

Key conclusions from this report include:

- **Technological advancements are reshaping financial services**
  The unrelenting development of mobile devices, modern methods of data analysis (big data), social media and the migration of data into the Cloud have created opportunities for new FinTech companies looking to complement and challenge existing financial services providers.
- **Changing customer behaviours are also a key driver**
  New regulation and strict bank lending requirements have come at a time of general consumer disillusionment with traditional banking products, meaning they are willing to turn to new banking products and technologies.
- **Accelerated investment activity**
  Global FinTech investment has increased considerably in the last 18 months. A number of start-up companies in the payments and P2P lending subsectors are using these funds to accelerate growth, develop new products, move into new markets or expand their global presence.
- **Active M&A landscape**
  Innovative companies in the payments and P2P lending spaces have triggered significant M&A activity in the last couple of years. Established market participants have targeted new generation payment companies to integrate new technology and products to their offerings. New market entrants have also been active buyers in the payments and P2P lending spaces as they look to move into new markets and expand internationally.
- **M&A outlook is favourable**
  Further consolidation is likely between market participants. The growing fragmentation of the FinTech sector and the highly innovative nature of payments and lending in particular will see trade buyers continue to actively pursue niche players that are developing new solutions in these areas. Investor exits through trade sales and initial public offerings (IPOs) are also likely to increase.

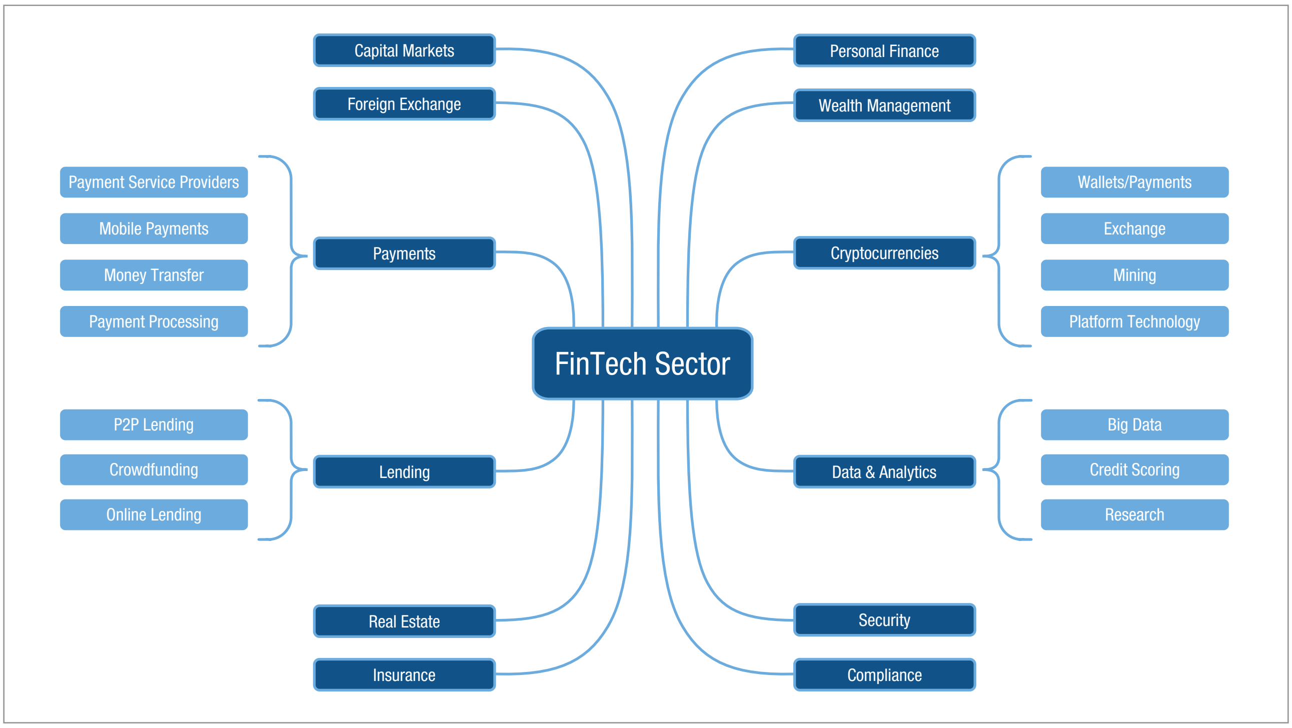
"Tremendous opportunities exist for new FinTech companies as end users are increasingly turning to alternative forms of finance following the global economic downturn. Demands from businesses and consumers for new and more efficient payment and lending methods have created an ideal environment for investment and consolidation. As a result, we are seeing an increased amount of deal activity as market participants look to acquire new solutions and access new markets in order to keep up with the wave of innovation that is transforming the sector."

David Francione, Managing Director
Headwaters MB

Financial services enter digital age

FinTech is a term that has been adapted to herald the digitalisation of the financial services sector, and the emergence of innovative and disruptive banking technologies in particular (which is the focus of this Mergers Alliance report). An illustration of a selection of FinTech (sub)sectors is shown in Figure 1.

Figure 1: **Selection of FinTech (Sub)sectors**



***Source:** Mergers Alliance*

Key market players in the FinTech sector include financial institutions, traditional FinTech vendors and new start-up companies that typically target specific subsectors (see Table 1).

Table 1: **Characteristics of Key FinTech Players**

Financial Institutions	Traditional FinTech Players	Innovative FinTech Start-Ups
■ Include banks, insurance companies and capital markets. ■ Many of these organisations use old fashioned mainframe systems that are a significant barrier in today's fast moving digital world. ■ Despite making significant investments in their IT systems and infrastructure in recent years, most financial institutions have merely patched-up their existing systems to compete with other banks. ■ Many financial institutions have recently started innovation labs and venture capital funds to make strategic investments in FinTech businesses.	■ FinTech vendors provide a variety of incumbent technology and services to financial institutions, including banking and payments services, consulting solutions, outsourcing and risk management solutions. ■ They are investing in and acquiring innovative FinTech start-ups. ■ Providers include Fidelity National Information Services (FIS), Fiserv, SunGard, Infosys and FirstData.	■ New market entrants are leveraging technology advancements to offer innovative and disruptive solutions for specific subsectors. ■ In doing so, they are providing new products to service existing needs and disintermediate incumbent firms. ■ This is especially true in the payments and P2P lending segments.

The flood of new FinTech companies entering the market is changing financial services. Financial institutions' direct competitors no longer represent the biggest challenge as technological advancements, the emergence of disruptive products, changing consumer behaviours and the growing fragmentation of the sector are applying significant pressure. As a result, new FinTech companies are attracting significant investment. A number of notable M&A deals have also been completed.

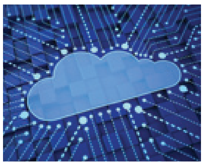
Technological advancements

Innovations such as new payment solutions, smartphones, the Cloud, big data analytics and social media have created opportunities for new companies to leverage this technology and deliver new and existing services for consumers and businesses in more relevant and convenient ways (see Figure 2 for more details).

Figure 2: **Technologies Driving Change and Opportunity in Financial Services**

- **New payment technologies**
  The benefits associated with new payment technologies, including multi-channel payment solutions, lower processing costs, reduced check-out times and better understanding customer behaviours, have seen a number of investors and non-banks invest heavily in this segment.

- **Big data analytics**
  The arrival of FinTech coincides with plummeting computing costs, ubiquitous data and the application of big data analytics that assists with risk management, fraud detection and improved decision-making.



- **Cloud computing**
  Cloud technologies have lowered barriers to entry for new FinTech companies by bringing significant cost savings potential and enabling new ways of intermediation for lending, credit, money transfer and crowdfunding.

- **Social media**
  Social media influence and the power of peer pressure are likely to encourage younger generations to explore alternative financial products and technologies.

These developments come at a time of general disillusionment with traditional banking products, particularly amongst young people. The Millennial Disruption Index compiled in the United States in 2014 seemingly confirms this:

- 33 percent of respondents believe banks will not be needed in five years' time.
- 70 percent say the way items are paid for will be totally different in five years' time.
- 73 percent would be more excited about a new offering in financial services from Google, Amazon, Apple, PayPal or Square than from their own bank.
- Nearly half are counting on tech start-ups to overhaul the way banks work.

"The FinTech sector has grown exponentially in recent years as technology innovation and changing consumer behaviours have challenged incumbent financial services providers' business models. For disintermediation to happen on a mass scale, much will depend on whether new financial technology can gain the trust of users and provide the same level of guarantee for financial settlement as the current financial system."

Mr. Susumu Okamoto, Senior Advisor
TIS Inc

New landscape

Current market dynamics therefore offer new market entrants the opportunity to disintermediate financial institutions and win significant market share. Indeed, estimates suggest between 25 percent and 35 percent of banking revenues are vulnerable to digital disruption within the next five years, with income from payments and lending most at risk. It therefore comes as little surprise that both these spaces have attracted significant investments and M&A activity.

Payments – FinTech companies operating in the payments segment range from those offering mobile payment solutions to new multi-channel payment service providers and payment processing modernisers.

FinTech payment companies include:

- Adyen
- Mozido
- Powa Technologies
- Square
- Stripe

P2P Lending – A number of new participants in the lending subsector are focusing primarily on P2P lending platforms and using innovations such as big data analytics to assess customer creditworthiness.

P2P lending companies include:

- Funding Circle
- LendingClub
- Prosper Marketplace
- Renrendai
- Zopa

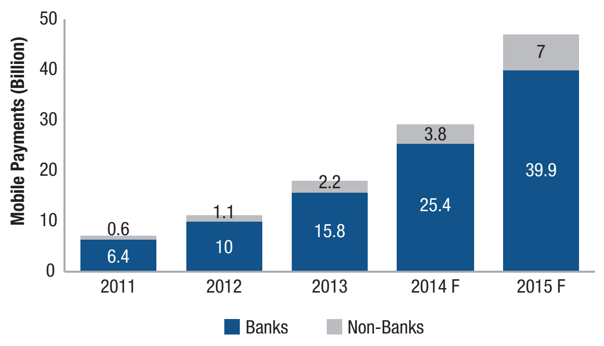
New generation payments

The payments segment has seen significant investment and M&A activity as specialist new entrants (such as Square in the mobile payments space) look to exploit demands for convenience, speed and cost. These companies are providing innovation to payments whilst legacy players look to play catch up.

Alibaba, Amazon, Apple and Google are also seeking to increase their mobile payments market share by developing near field communication (NFC) solutions. Indeed, the recent introduction of Apple Pay in the United States has boosted the NFC area.

There is already evidence that non-banks are making significant gains in the mobile payments arena as the number of global mobile payment transactions carried out by non-traditional financial companies is projected to reach seven billion in 2015, up from 600 million in 2011 (a CAGR of more than 80 percent).

Figure 3: **Number of Mobile Payment Transactions – 2011 to 2015**



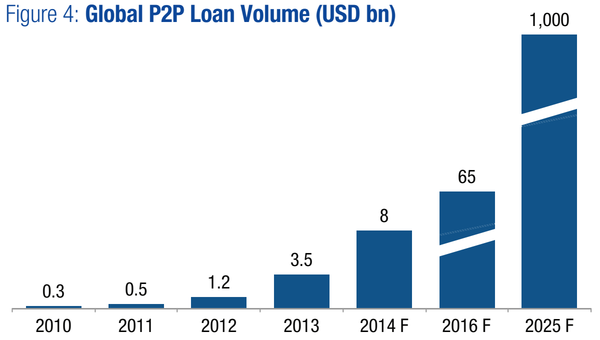
Source: *Capgemini*

Peer-to-peer lending

P2P lending, meanwhile, is disrupting business models by directly connecting lenders with consumers and small businesses and bypassing incumbent financial institutions. Some estimates indicate P2P loan lending will increase from USD8 billion in 2014 to around USD1 trillion in ten years' time (see Figure 4). The P2P subsector is currently highly fragmented and typically operates on a country-specific basis, with China, the United States and the United Kingdom making up the largest markets.

The infancy of the P2P subsector has mostly attracted venture capital investors so far. However, some P2P companies have already moved away from their start-up roots. LendingClub, one of the leading P2P lending platforms, tapped big investors when it went public in December 2014, raising USD870 million and making it the largest technology IPO in the United States of that year. LendingClub plans to use the money raised in the IPO to acquire other FinTech start-ups and expand internationally.

Figure 4: **Global P2P Loan Volume (USD bn)**

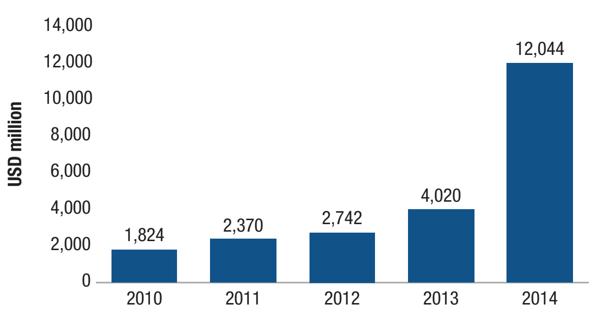


Source: *Fitch, Liberum, Foundation Capital*

FinTech investment and M&A

The global FinTech sector has seen investments rise significantly since 2010. According to CB Insights, FinTech investments nearly tripled between 2013 and 2014 to reach USD12 billion (see Figure 5).

Figure 5: **Global FinTech Investment – 2010 to 2014**



Source: *CB Insights*

"The global FinTech ecosystem has reached a tipping point. New generation payment systems are attracting strong levels of investment and consumers and businesses are opening their minds to alternative sources of funding (through P2P lending and crowdfunding). New technologies looking to further disrupt this space continue to emerge (think Bitcoins and Blockchain). Funding from these new sources is likely to drive the largest shift in the world of corporate finance that I will see in my career."

Richard Goold, Partner and Head of Tech
Wragge Lawrence Graham & Co

FinTech payments M&A

Investments in the payments segment make up a significant proportion of total funding in the FinTech sector. For the purposes of this report, Mergers Alliance analysed more than 110 investment and M&A new generation payment deals in 2013 and 2014. During this time, a mix of investors were attracted to the space, ranging from venture capital players, private equity groups and sovereign wealth funds to numerous trade acquirers. Table 2 lists some of these investment deals by date order.

Table 2: **Selection of Investments in FinTech Payments – Q1 2013 to Q4 2014**

Date	Target	Business Description	Transaction Value (USDm, historical rate)	Investors
Dec-14	Adyen	Global payment service provider	250	General Atlantic; Index Ventures; Temasek Holdings; Felicis Ventures
Dec-14	Stripe	Software and services provider for online credit and debit card payments	70	Sequoia Capital; General Catalyst Partners; The Founders Fund; Khosla Ventures; Thrive Capital
Nov-14	One97 Communications	One97 operates Paytm, India's leading mobile payment platform	625	SAIF Partners; Ant Financial Services Group (Alibaba affiliate)
Nov-14	Powa Technologies	Mobile payments and ecommerce specialist	80	Wellington Management
Oct-14	Mozido	Cloud-based mobile payments platform that provides mobile financial services	400	Wellington Management; MasterCard
Sep-14	Square	Provider of mobile payment solutions	150	GIC Pte; Rizvi Traverse Management; Goldman Sachs Group, Investment Arm
May-14	iZettle	Mobile payment service provider operating mostly in Europe	61.4	Greylock Israel Partners; Index Ventures; American Express; Zouk Capital; Intel Capital; Northzone Ventures; MasterCard; Creandum; Hasso Plattner Ventures Management; SEB Asset Management; Dawn Capital; Banco Santander, Investment Arm
Jan-14	Stripe	Software and services provider for online credit and debit card payments	80	Sequoia Capital; Allen & Company, Investment Arm; The Founders Fund; Khosla Ventures
Jan-14	Mswipe Technologies	Mobile point of sale payment services provider	4.3	Matrix Partners India; Axis Private Equity Ltd.; DSG Consumer Partners
Nov-13	Mozido	Cloud-based mobile payments platform that provides mobile financial services	103.5	Atlanticus Holdings; TomorrowVentures; Brentwood Investments
Aug-13	Check	Mobile bill-payment service provider	24	Menlo Ventures; Morgenthaler; Pitango Venture Capital
Jun-13	Clinkle	Developer of mobile payment applications	25	Accel Partners; Intuit; Intel Capital; Andreessen Horowitz

***Source:** Capital IQ, Mergers Alliance, VCCedge*

Most companies listed in Table 2 are using their investments to accelerate growth plans, develop new products or expand their global presence. Mozido has specifically highlighted acquisition opportunities in Africa, Europe, China, India, Latin America and the Middle East as a means to grow internationally.

Acquisition deals in the new generation payment space are almost exclusively being driven by trade buyers. Indeed, all but one examined by Mergers Alliance (since the start of 2013) involved strategic buyers. A selection of these deals is shown in Table 3.

Table 3: **Selection of Payment M&A Transactions – Q1 2013 to Q4 2014**

Date	Acquirer(s)	HQ Country	Target	HQ Country	Transaction Value (USDm, historical rate)	Enterprise Value / Revenue
Dec-14	Mozido	United States	SK C&C US (Corefire)	United States	nd	-
Nov-14	Mozido	United States	PayEase	China	750	-
Sep-14	FIS	United States	Clear2Pay	Belgium	492.7	-
Jun-14	Powa Technologies	United Kingdom	MPayMe	China	75	2.5x
May-14	Intuit	United States	Check	United States	342	20.6x
Feb-14	Monitise	United Kingdom	Pozitron Yazilim	Turkey	97.8	-
Dec-13	Square	United States	Evenly	United States	nd	-
Oct-13	BNP Paribas; FEXCO	France/Ireland	FLASHiZ International	Luxembourg	nd	-
Sep-13	PayPal	United States	Braintree	United States	800	-
Mar-13	First Data	United States	Clover Network	United States	56.1	-
Jan-13	FIS	United States	mFoundry	United States	115	-

***Source:** Capital IQ, Mergers Alliance, Headwaters MB*

When analysing these M&A transactions, it is clear buyers' motivations come from adding innovative offerings/ technology to existing capabilities (mobile payment solutions in particular) and accessing new markets in order to grow beyond firms' own domicile.

Deals involving traditional FinTech vendors and other established companies active in the sector generally fall into the former category as they look to acquire new technologies:

- FIS acquired mFoundry in January 2013 when it paid USD115 million for 78 percent interest in the mobile payments and banking provider (it held a 22 percent interest in the company prior to the transaction). The acquisition demonstrated it was easier for FIS to acquire industry-leading mobile solutions than it was to develop these capabilities in-house.
- FIS also enhanced its global payment processing offerings in 2014 by buying Clear2Pay for USD493 million in 2014. This was an important acquisition as it provided FIS with new payments-managed services and payments-processing utilities, enabling it to compete directly with technology companies whose core business is payments.
- Another notable acquisition includes PayPal's purchase of Braintree in an all-cash deal worth USD800 million. This transaction strengthened PayPal's presence on mobile devices (whilst also conveniently taking out a rapidly growing rival and integrating the innovative expertise within Braintree).
- eBay's decision to split PayPal off into a separate company in 2014 and the latter's subsequent announcement in March 2015 that it had agreed to acquire mobile payments company Paydiant were instigated to strengthen PayPal's position in the mobile payments space and help it compete with the likes of Apple, Amazon, Google, Samsung and Alibaba.
- Monitise has also been a prominent acquirer of cutting edge payment companies in the last few years, purchasing Pozitron Yazilim and ClairMail to integrate new technologies and penetrate new markets in the Middle East and United States.
- Intuit's purchase of mobile payments company, Check, for USD342 million also stands out as it moved the company deeper into personal finance whilst also recognising the gravitation towards smartphones and tablets.

Acquirers in the payments space have not only been confined to large, established market participants. Companies formed within the last decade or so such as Powa Technologies and Mozido have also been active on the M&A front as they look to expand beyond their home markets:

- Powa Technologies' move to acquire MPayMe, a Hong Kong-based company engaged in developing secure mobile payment solutions, enabled it to offer a number of new features whilst also expanding its business activities into new Asian markets.
- The motivation behind Mozido's purchase of PayEase for USD750 million also came in large part from its desire to penetrate new Asian markets. Indeed, the company announced in February 2015 its intention to introduce its products and solutions to China through PayEase.

Peer-to-peer lending M&A

The P2P lending market has also attracted significant investment and M&A activity in the last two years (see Tables 4 and 5)[1]. Financial buyers, venture capital providers in particular, have played a prominent role in funding P2P lenders' growth strategies that have focused primarily on product development and marketing, new hires, acquisitions and international expansion.

Table 4: **Selection of Investments in P2P Lending – Q1 2013 to Q4 2014**

Date	Target	HQ Country	Transaction Value (USDm, historical rate)	Investors
Dec-14	SocietyOne	Australia	20	News Limited; Consolidated Press Holdings; Australian Capital Equity; Reinventure Group
Sep-14	Jimubox.com	China	37.2	Vertex Venture Holdings; Ventech China; Matrix Partners China; Beijing Xiaomi Technology; Magic Stone Alternative Investments; Shunwei Fund
Jul-14	Funding Circle	United Kingdom	65	Accel Partners; Index Ventures; Union Square Ventures; Ribbit Capital
Jul-14	Touna.cn	China	16.3	GF Xinde Investment Management
Jun-14	We Lend	China	20	Sequoia Capital; Tom Group; Beijing Ule E-Commerce Company; ICONIQ Capital
Jun-14	365p2p.cn	China	15	UBS Huaxin Equity Investment
May-14	Prosper Marketplace	United States	70.1	Institutional Venture Partners; Francisco Partners Management; Phenomen Ventures
May-14	auxmoney	Germany	16	Foundation Capital; Partech International; Index Ventures; Union Square Ventures
Apr-14	LendingClub	United States	65	Wellington Management Company; Sands Capital Management; BlackRock Advisors; T. Rowe Price Associates
Jan-14	Renrendai	China	130	TrustBridge Partners
Jan-14	Zopa	United Kingdom	24.7	Wellington Ventures; Balderton Capital; Arrowgrass Capital Partners; Augmentum Capital
Oct-13	Funding Circle	United Kingdom	37	Accel Partners; Index Ventures; Union Square Ventures; Ribbit Capital
Sep-13	Prosper Marketplace	United States	25	Sequoia Capital; BlackRock; Omidyar Network

***Source:** Capital IQ, Mergers Alliance*

[1] For the purposes of this report, we have focused on P2P companies whose core business is facilitating loans outside the traditional banking system by connecting consumers and small businesses directly with lenders.

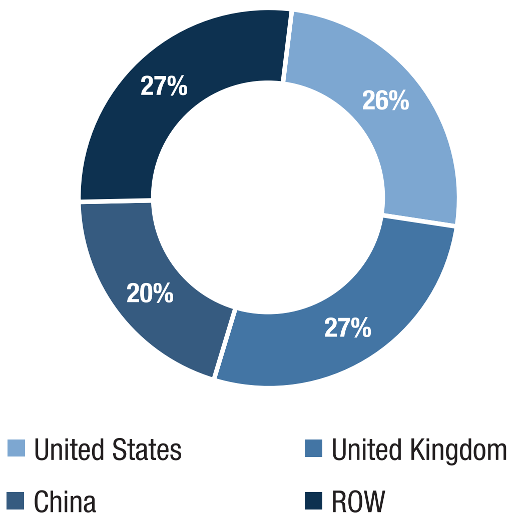
In more than 50 P2P lending investment deals analysed by Mergers Alliance, nearly three-quarters benefited companies domiciled in China, the United States and the United Kingdom (see Figure 6).

There have also been some notable M&A deals involving P2P lenders in the last couple of years as companies have looked to broaden and diversify their product offerings and expand into new geographies (see Table 5 for selected transactions during 2013 and 2014).

This activity is set to increase as the market grows and P2P lenders look to encroach further on traditional lenders' territory. Indeed, both LendingClub and Prosper Marketplace have expanded their product offerings and capabilities into new vertical markets within the last year by acquiring Springstone Financial and American HealthCare Lending, respectively (traditional lenders in the education and healthcare lending spaces).

In addition, the prospect of banks looking to partner with or acquire P2P lenders is likely to grow. There is already early evidence this is happening with Union Bank forming a strategic alliance with LendingClub and Santander and Royal Bank of Scotland announcing partnerships with Funding Circle.

Figure 6: **Domicile of P2P Lending Companies Receiving Investments**



Source: *Capital IQ, Mergers Alliance*

Table 5: **Selection of M&A Transactions Involving P2P Lenders – Q1 2013 to Q4 2014**

Date	Acquirer(s)	HQ Country	Target	HQ Country	Transaction Value (USDm, historical rate)
Dec-14	RateSetter	United Kingdom	GraduRates	United Kingdom	nd
Nov-14	GLI Finance	Channel Islands	Sancus	Channel Islands	59.1
Nov-14	TrustBuddy	Sweden	AGATA Spa	Italy	6.5
Nov-14	TrustBuddy	Sweden	Geldvoorelkaar.nl	Netherlands	13.1
Sep-14	Enterprise Finance	United Kingdom	West One Loan	United Kingdom	nd
Apr-14	LendingClub	United States	Springstone Financial	United States	139.1
Nov-13	Coatue Management; DST Global	United States, Russia	LendingClub	United States	57
Oct-13	Funding Circle	United Kingdom	Endurance Lending Network	United States	-
May-13	Foundation Capital; Google Capital	United States	LendingClub	United States	125

Source: *Capital IQ, Mergers Alliance*

FinTech M&A outlook

FinTech is a high growth sector that continues to see a number of new companies enter the market and challenge established market players with new and innovative solutions. This in turn is seeing significant investments and M&A transactions involving innovative FinTech companies.

This is especially true in the payments and lending subsectors. Accelerated transactions in these segments are likely in the coming months and years as mobile payments and P2P lending change the way consumers and businesses carry out financial transactions and access capital.

Looking a little further into the horizon, significant M&A opportunities could also develop in the cryptocurrencies space. The cryptocurrency landscape is multifaceted, covering several categories including payments, infrastructure, exchanges and mining to name a few. Hundreds of start-up companies have entered these different segments in recent years, attracting significant investor funding. Indeed, venture capital funding for Bitcoin start-ups alone tripled in 2014 (with USD315 million raised). With over 500 cryptocurrencies in existence, and their potential to transform the financial services sector, considerable acquisition activity could follow in the coming years.

Selected Mergers Alliance Deals

syntesys group	ACH Federal	Tinubu Square CREDIT RISK SOLUTIONS	CR Software Smart Receivables Management.	wex
Sold to	Sold to	Acquired minority stake from	Sold to	Sold its subsidiary
SUNGARD	PRIORITY PAYMENT SYSTEMS WASH	Gimv	FICO	PACIFIC PRIDE

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