Fintech M&A Forecast

May 2023

Confidential

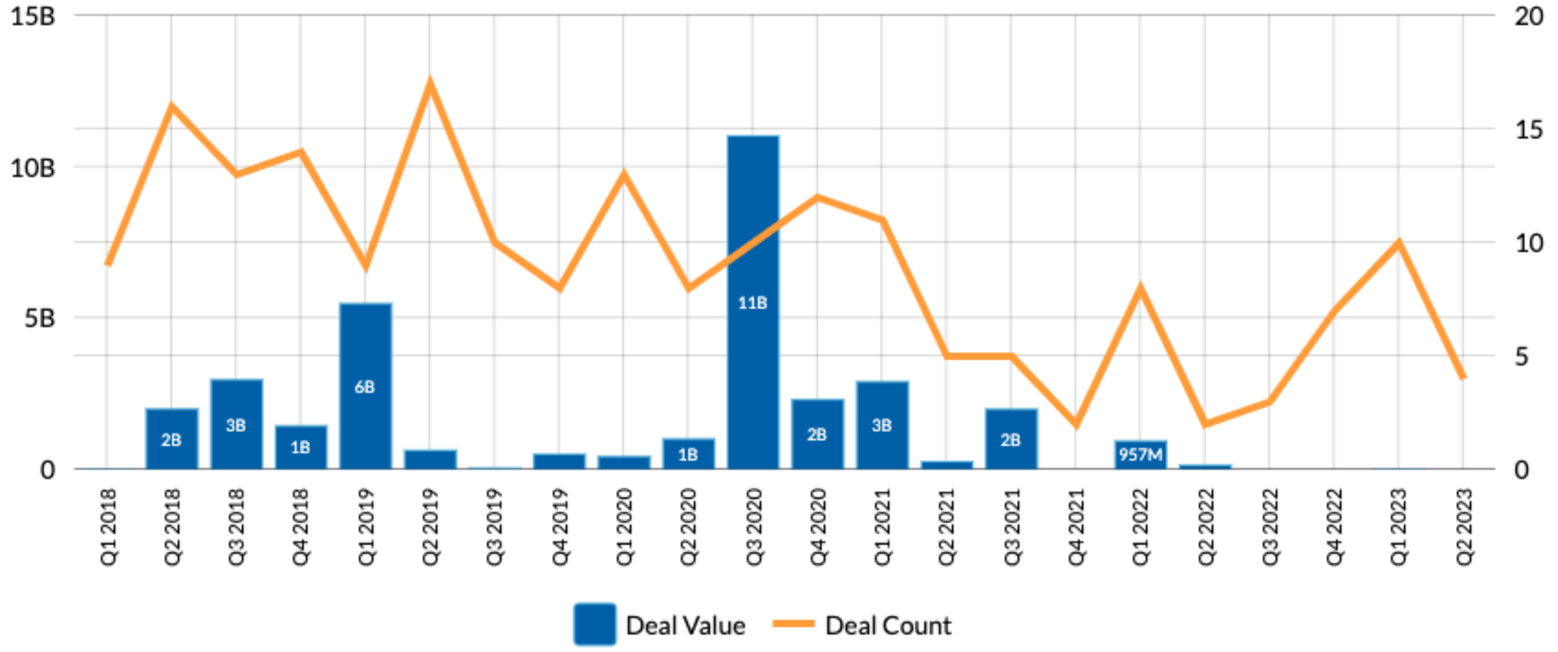
After dips in Q4 2021, and the last 3 quarters of 2022, M&A deal volume in the FinTech sector bounced back in Q1 2023, printing 10 transactions, deal volume not seen here since Q1 2021.

[1] M&A Knowledgebase, 451 Research

FinTech Software M&A Outlook 2023

- After dips in Q4 2021 and the last 3 quarters of 2022, M&A deal volume in the FinTech sector bounced back in Q1 2023, printing 10 transactions, deal volume not seen here since Q1 2021. While the overall total dollar value has decreased since the peaks of 2021, what is more noticeable is the easement of the pace of decline overall in Q1 2023.
- S&P 451 Research reported 20 deals overall in 2022, which represents just a slight drop from the 23 deals reported in 2021.
- Fintech financing volume has also increased in Q1, after a decline in both Q3 and Q4 of 2022.

FinTech M&A Deal Trend (Quarterly) [1]



[1] M&A Knowledgebase, 451 Research LLC

Trend: Opportunities for FinTech SaaS Vendors in the SMB Sector

- Looking ahead this year, we see increased opportunity for SaaS FinTech providers in the SMB market as this segment looks for continued ways to minimize, or eliminate, manual processes to achieve efficiencies in their organizations.
- As applications are more frequently adopted and become more embedded in SMB company operations, financial services are fast becoming an unrealized opportunity for SaaS companies. Recent research shows that the biggest financial challenges facing SMBs are streamlining their financial processes and optimizing their cash flow. Payment processing (as the largest sector) has proven to be an entry point for SaaS vendors to move into adjacent areas such as business banking and expense management to further deepen their integration to their customers' mission critical operations.
- Even though many SMBs indicated a slow-down or hold on overall IT product and service spending, the majority want their software providers to offer integrated financial services and believe their organization would run more efficiently if the financial services they use were better integrated with their business software applications.[2]

[2] S&P Global Market Intelligence: Global FinTech Funding Primed for Reset in 2023

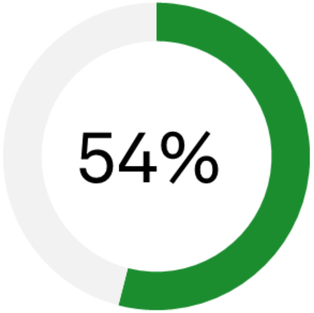
SMBs Looking for Increased Embedded Finance

Almost half of SMBs agree that their processes are not automated enough for managing financial tasks like payments, bill processing, and so on. Services that streamline these processes provide constrained resources with time to address more critical tasks like customer inquiries.

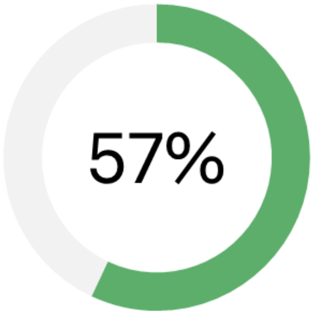
Additionally, there is demand for services that provide better visibility into the real-time financial picture of the company. Streamlined reporting and reconciliation can help to enhance time to access capital or sales earnings.

Some of the most important things that SMBs are looking for in embedded financial services included:

- Lower fees
- Ease of onboarding / ease of use
- Trust in the provider
- Fraud protection capabilities
- Better integration with essential operations software
- Better customer service



Agree that they would like to see their software partners offer integrated financial products.

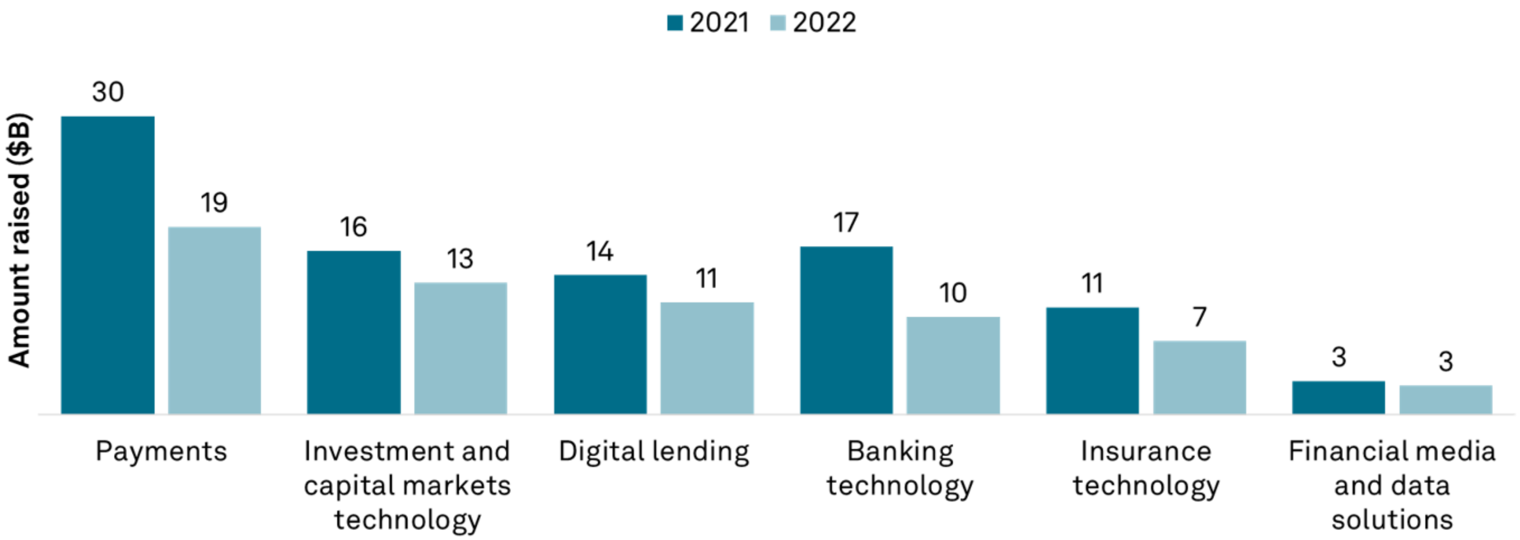


Agree that their organization would run more efficiently if the financial services they used were better integrated with their business software / applications.

Fintech Funding

- The Payments segment saw the greatest decline in funding in 2022. As the largest and most mature segment, this segment skews to a greater number of mature firms whose investor timelines would normally be approaching a liquidity event, but going public isn’t a viable option right now. We expect fewer blockbuster deals in this segment while investors wait to see what the second half of 2023 looks like from a macroeconomic perspective.
- Even though funding was down for firms in the mature and growth stages of their funding journeys, seed rounds became more popular in 2022. The round size in the seed space grew by 40% as VCs hedged their risk on firms at the earliest stage. Smaller individual rounds are more attractive right now to investors.
- Due to banking turmoil of early 2023, the macro environment saw a negative result for fintech funding. We expect to see a corresponding "new" playbook – with a higher prioritization on stability, predictability and recurring revenue models (as we have been seeing across the entire tech landscape essentially).

Global Fintech Funding by Segment 2021-2022



Source: S&P Global Market Intelligence.
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What Should Shareholders be Considering?

- Given the increased interest in FinTech and adjacent software markets in 2023, shareholders can expect to receive unsolicited interest from potential acquirers.
- Before getting too far along in a conversation, it's important to talk to an advisor to determine whether the timing is optimal to explore conversations like this, your current range of market valuation (i.e., the range of offers you would expect to receive from potential buyers), and if the timing is right, whether you want to explore conversations with additional companies.
- The experienced advisors at Tequity can help you understand the metrics that are key for buyers in this market and whether any early expressions of interest would stand up to scrutiny in the broader market.
- The best way to maximize the outcome in an M&A transaction is through the leverage created when there are multiple potential buyers submitting competitive offers.
- Achieving sufficient market coverage helps shareholders to be satisfied that not only did they do their market due diligence but can also be confident ultimately in the firm they chose to move forward with as the "best" buyer.
- If the decision is made to wait in order remain focused on growth, Tequity's advisors can outline the steps you can take now to be more prepared for a future M&A event.

Summary

- Despite a funding crunch, FinTech companies continue to enjoy a push as digital transformation in financial services remains a focus. As we're seeing across the entire tech landscape, the growth-at-all-cost strategy of 2021 is now shifting to focus on unit economics, and as a result, Fintechs will likely reduce marketing spending to help drive improved cost structures.
    - Financial discipline will be the new norm, with investors and buyers increasingly focused on profitability timelines and deeper operational metrics.
- Additionally, we're seeing a swing away from B2C towards B2B Fintech solutions in 2023. With an increase in early-stage companies who are running out of cash and struggling to secure additional capital entering the M&A market, fintech companies that offer buyers and investors strong metrics on a stand-alone basis will rise to the top and be highly sought-after. [3]
- The collapse of Silicon Valley bank may have led to the sale of other banking institutions but so far in 2023, it has not disrupted the M&A market. In general, these banks are struggling to carry the value of existing loans, thereby tying up capital and reducing these banks as a source for lending to future M&A deals.

[3] 451 Research S&P Global: Macroeconomic Outlook, SME Tech Trends, Fintech 2022 Survey

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THANK YOU

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