

Navant Signals

NAVANT
GROWTH & EXIT

FinTech Briefing

Q1 2024



Introduction

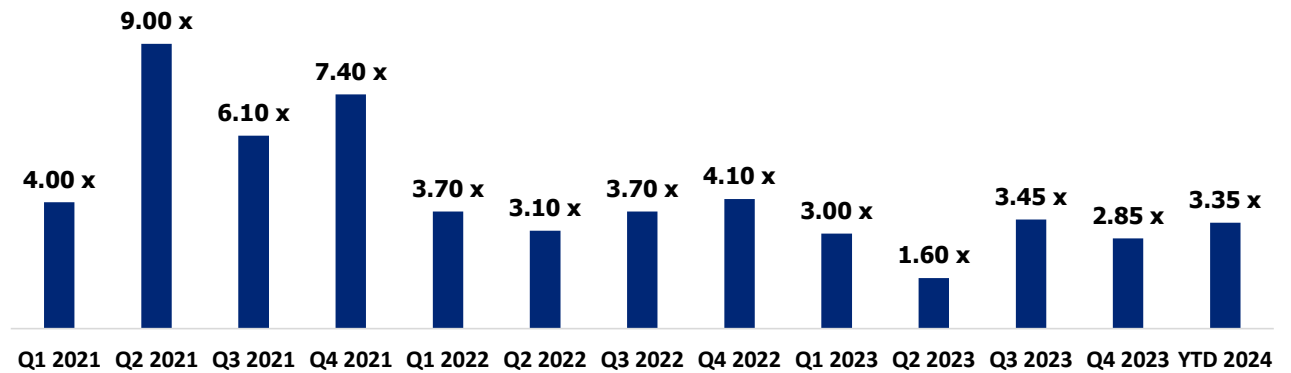
Welcome to *Signals*, our briefing on technology company growth and M&A. Our purpose is to provide insights into the M&A landscape that are useful to entrepreneurs operating in the <\$100M enterprise value segment, often called the lower middle-market. We want to inform and connect with business leaders through guidance that aids their growth, corporate development and shareholder value decisions.

Signals covers various aspects of the tech M&A landscape. In this briefing, we report on valuation trends for private B2B software companies across multiple industries, insights into M&A activity in the Fintech sector, and news and insights drawn from experience, including perspectives from our deals and anecdotes of operating executives from their transaction experience.

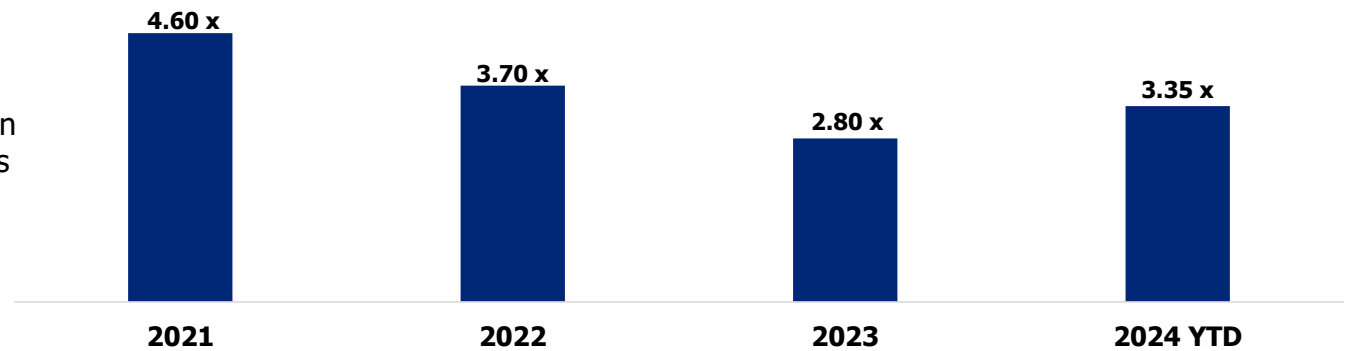
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Valuation Multiples for Lower and Middle Market Private B2B Software Companies (<\$500M EV)

- Revenue multiples for privately-held B2B software companies across multiple industries showed an uptick in 2024 back to the historical average, following the swings in value observed in 2021 and 2023.



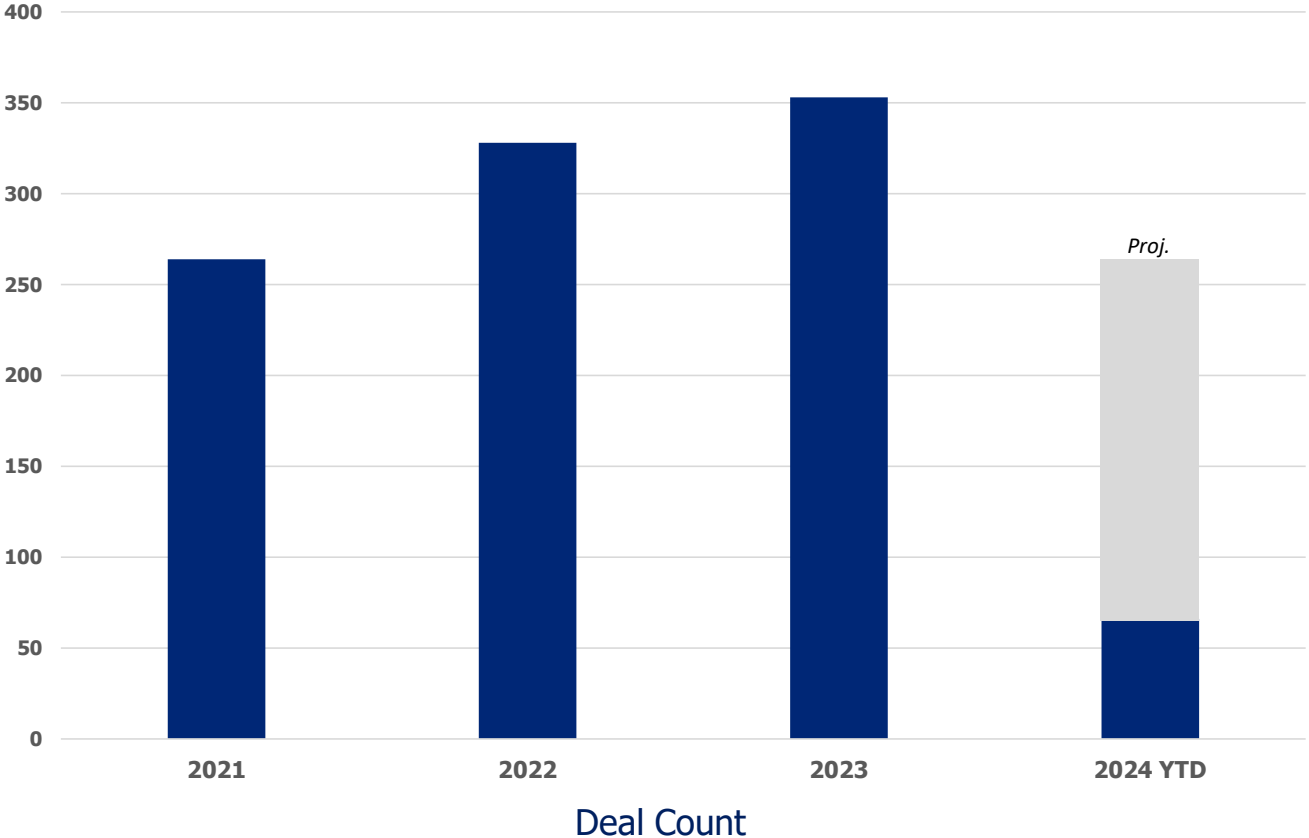
- This pattern follows broader market conditions, where COVID-era inflation was followed by the interest rate hikes in 2022 and 2023, which caused valuations to contract in both public and private markets.



Source: 451 Research, Application Software, Information Management

FinTech Deal Activity

- M&A activity in the FinTech sector grew 8% in 2023. Deal activity in 2024 is lower than the same time last year, but on track to meet levels seen in 2021 on an annualized basis.
- In the months ahead, heightened enforcement of anti-trust laws may depress megadeal activity and overall transaction value, but opportunities remain for well-positioned software companies in the lower middle-market to achieve strong valuations in the near term.
- In the longer term, macroeconomic factors and the increasing adoption of disruptive AI technologies will continue to shape the Tech M&A landscape in the coming years.



Source: 451 Research,

2024 Focus Areas for FinTech M&A



AI Automation in Banking & Finance

- Banks and other financial institutions will continue incorporating automation to enhance operating efficiencies.
- Focus areas for AI in banking include customer service management, fraud detection, and investment optimization.



Smart F&A Services

- Growing demand for tech-enabled services companies serving or replacing the office of the CFO.
- F&A Services firms using proprietary tech or workflows for service delivery receive a premium in the M&A market.

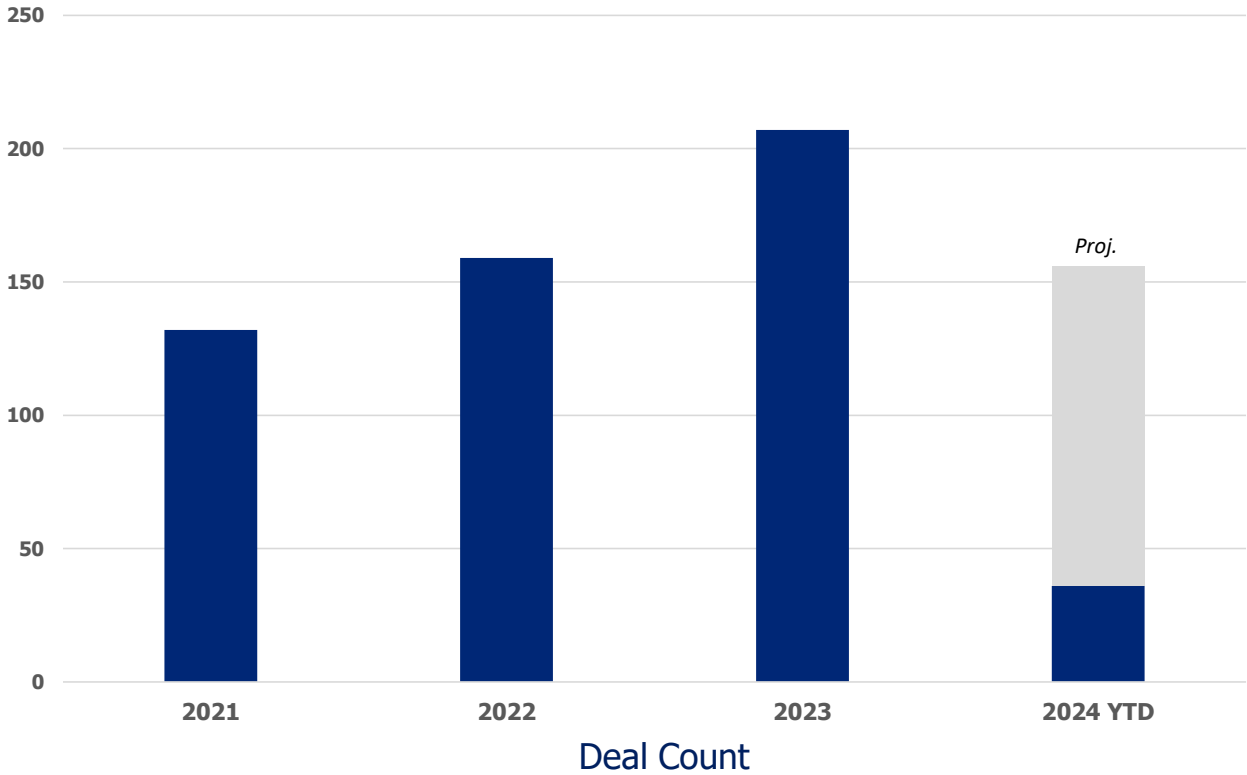


Verticalized Payments

- As the payment industry consolidates and becomes commoditized, vertical focus becomes an important differentiator.
- Vertical SaaS platforms increasingly seeking to integrate payments into their service offerings.

Financial Back Office Software Deal Activity

- Financial Back Office Software is defined here as software used by back-office professionals in the banking and wealth management sector.
- M&A activity in the Financial Back Office Software sector grew 30% in 2023, reaching multi-year highs. Deal activity in 2024 is lower than the same time last year, but on track to meet levels seen in 2021 and 2022 on an annualized basis.



Source: 451 Research,

Notable Back Office Software Deals 2024 YTD

Acquirer

Target

Seller Description

APEX Fintech Solutions

 **ADVISORARCH**

Portfolio management software for advisory

WCAS

 **EQUILEND**

Online equity trading services

 **LEAGUE DATA**

 **technicost**

Credit union management software

Edgewater
CAPITAL PARTNERS

 **ASCENT**

Financial compliance automation software

MSCI 

 **foxberry**
index management

Investment management and analytics SaaS

 **ncino**

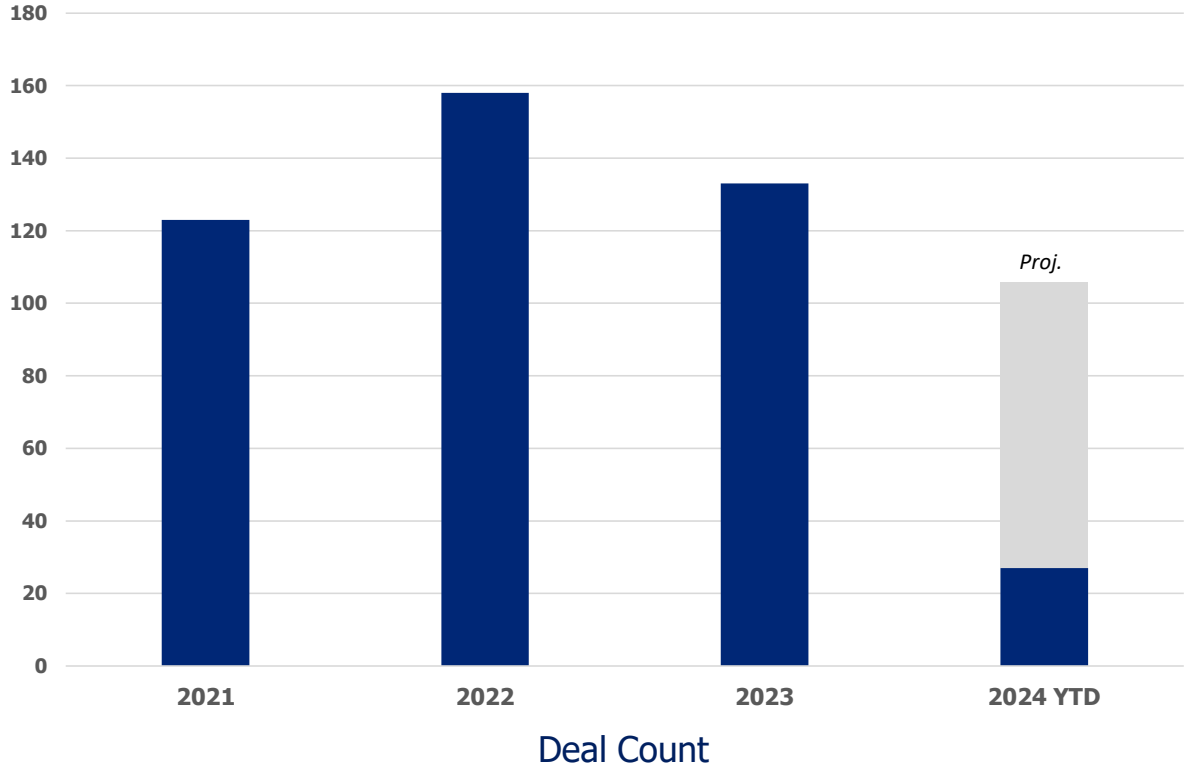
 **docfox**

AI-based bank onboarding automation software

Source: 451 Research

Payments Tech Deal Activity

- Payments is defined here as software and services which include but are not limited to digital wallets, EDI systems, payment gateways, payment cards and reader systems and transaction processing services.
- M&A activity in the Payments sector was down 15% in 2023 from the multi-year high seen in 2022. Deal count in 2024 is lower than the same time last year and expected to be lower than previous years on an annualized basis, reflecting consolidation in the industry.



Source: 451 Research

Notable Payments Deals 2024 YTD

Acquirer



Target



Seller Description

Payment processing services



Payment infrastructure software and APIs



Digital payments and authentication software



International remittance services



Construction payments management software

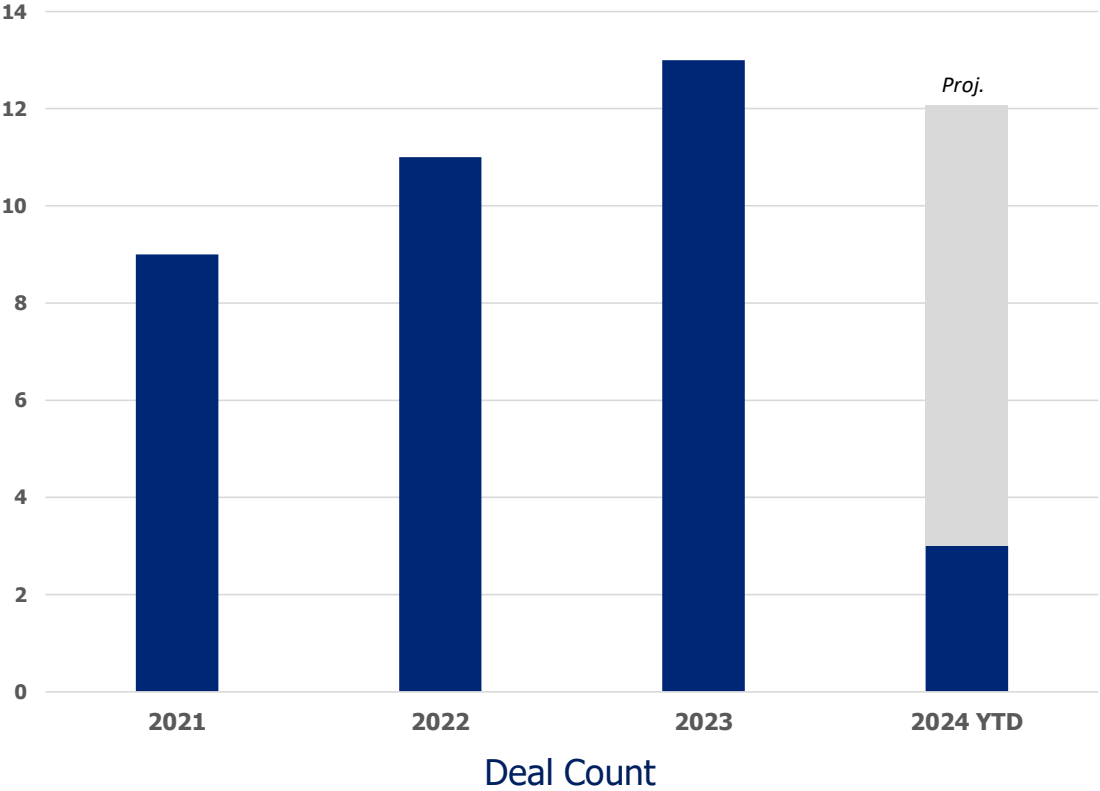


Credit card payment processing services

Source: 451 Research

F&A Services Deal Activity

- F&A Services is defined here as financial and accounting technology and managed services supplied by a third-party service provider.
- M&A activity in the F&A Services sector has been growing steadily over the past few years, reaching a new high in 2023. Deal activity in 2024 is expected to continue this trajectory as the sector is poised for significant growth, as AI and offshoring create new opportunities for providers to produce offerings across the value chain, including strategy consulting, financial modeling, and forecasting.



Source: 451 Research

Notable F&A Services Deals 2023-YTD

Acquirer

hline

Target

CALCULATE

Seller Description

Outsourced accounting and consulting services

 **Conexus**

 **LOGIS**

Finance and accounting consulting services

 **Cherry Bekaert**

 **CORDIA**

Client accounting services and advisory

 **BeachFleischman**
collaborate forward

 **Kuadra**

Outsourced bookkeeping services

 **KORN FERRY**

Salo

Finance and accounting outsourced services

 **VentureCount**

 **TARSUS**
- CFO SERVICES -

CFO and controller services

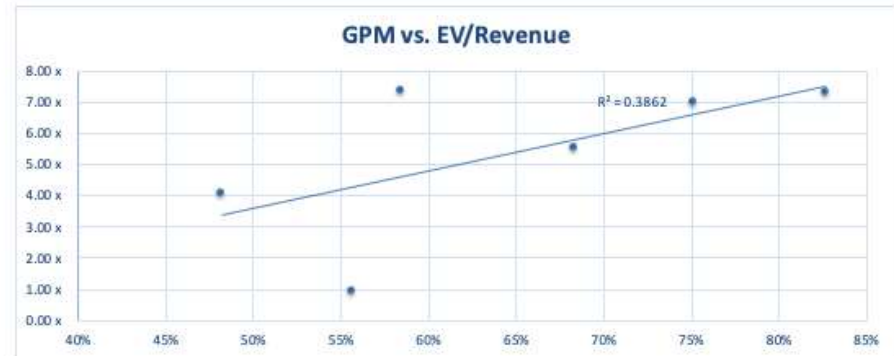
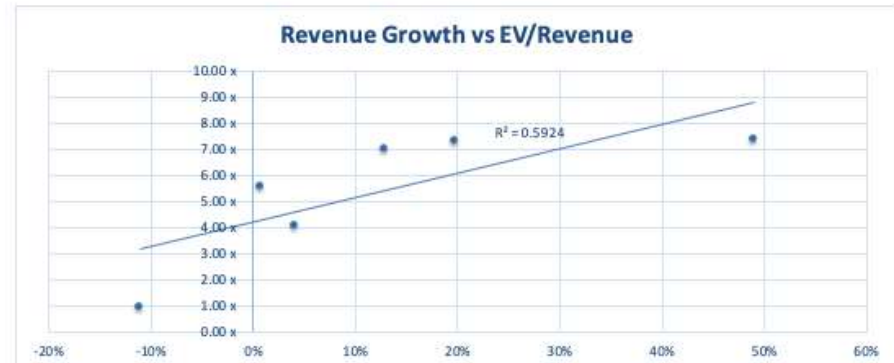
Source: 451 Research

Public Index: Financial Back Office Software

Ticker	Company	Revenue Growth	Gross Profit Margin	EV/Revenue
NasdaqGS:SSNC	SS&C Technologies, Inc.	4%	48%	4.07 x
NasdaqGS:BL	BlackLine, Inc.	13%	75%	6.96 x
NasdaqGS:EXFY	Expensify, Inc.	-11%	56%	0.93 x
Nasdaq:FRSH	Freshworks, Inc.	20%	83%	7.30 x
NasdaqGS:NCNO	nCino, Inc.	49%	58%	7.36 x
TEMN.SW	Temenos AG	1%	68%	5.53 x
	Industry Average	13%	65%	5.36 x
	Industry Median	8%	63%	6.25 x
	Industry Median with Liquidity Discount (25%)			4.68 x

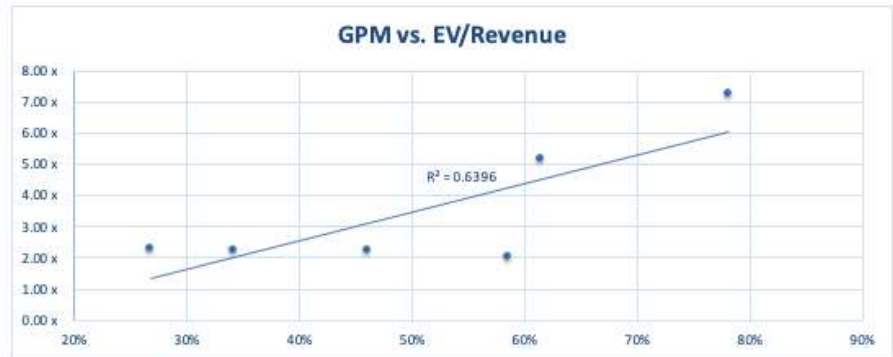
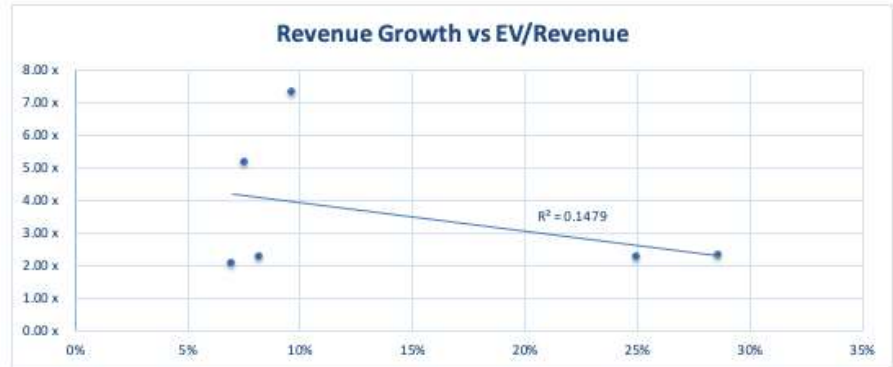
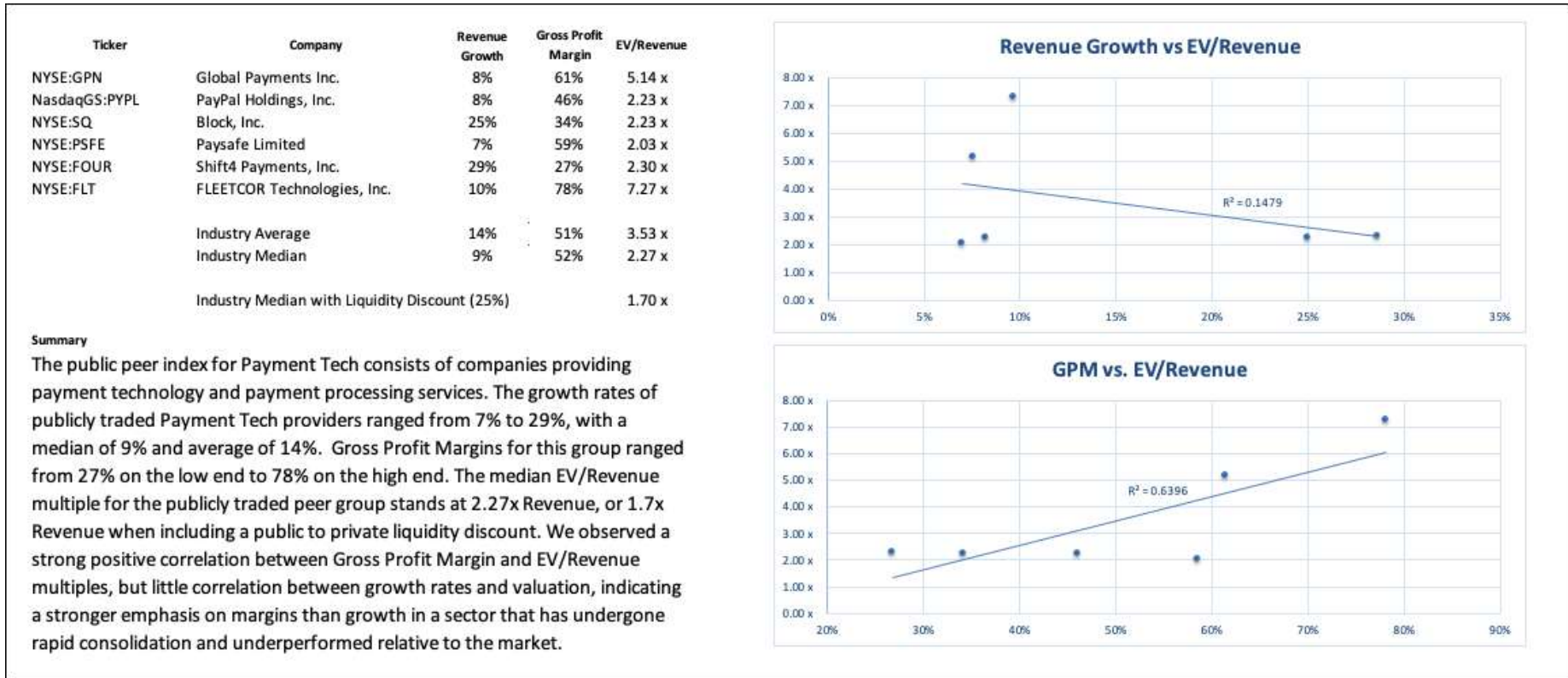
Summary

The public peer index for Financial Back Office Software consists of companies providing software platforms for financial institutions as well as accounting automation software. The growth rates of publicly traded Financial Back Office Software providers ranged from -11% to 49%, with a median of 8% and average of 13%. Gross Profit Margins for this group ranged from 48% on the low end to 83% on the high end. The median EV/Revenue multiple for the publicly traded peer group stands at 6.25x Revenue, or 4.68x Revenue when including a public to private liquidity discount. We observed a strong positive correlation between Growth and EV/Revenue multiples, and a weaker positive correlation between margins and valuation, indicating a stronger emphasis on growth than margins in this sector.



Source: Yahoo Finance

Public Index: Payments Tech



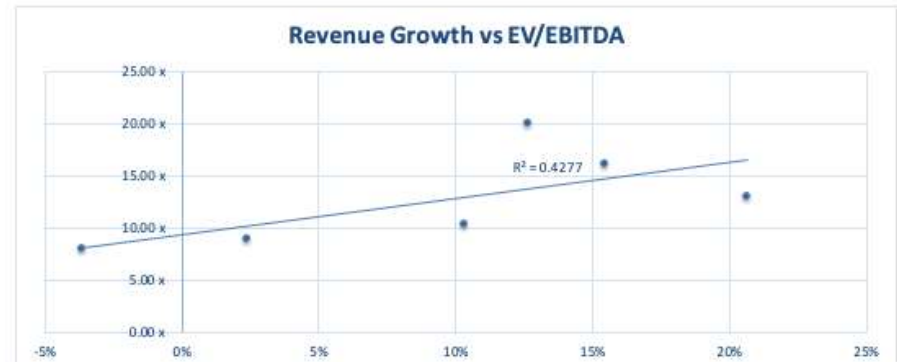
Source: Yahoo Finance

Public Index: F&A Services

Ticker	Company	Revenue Growth	EBITDA Margin	EV/EBITDA
NasdaqGS:RGP	Resources Connection, Inc.	-4%	12%	7.86 x
NYSE:G	Genpact Limited	2%	17%	8.82 x
NasdaqGS:EXLS	ExlService Holdings, Inc.	15%	20%	16.05 x
NYSE:CBZ	CBIZ, Inc.	13%	14%	19.98 x
NYSE:WNS	WNS Holdings Limited	10%	19%	10.32 x
NasdaqGS:HURN	Huron Consulting Group Inc.	21%	12%	12.95 x
	Industry Average	10%	16%	12.66 x
	Industry Median	12%	16%	11.64 x
	Industry Median with Liquidity Discount (25%)			8.73 x

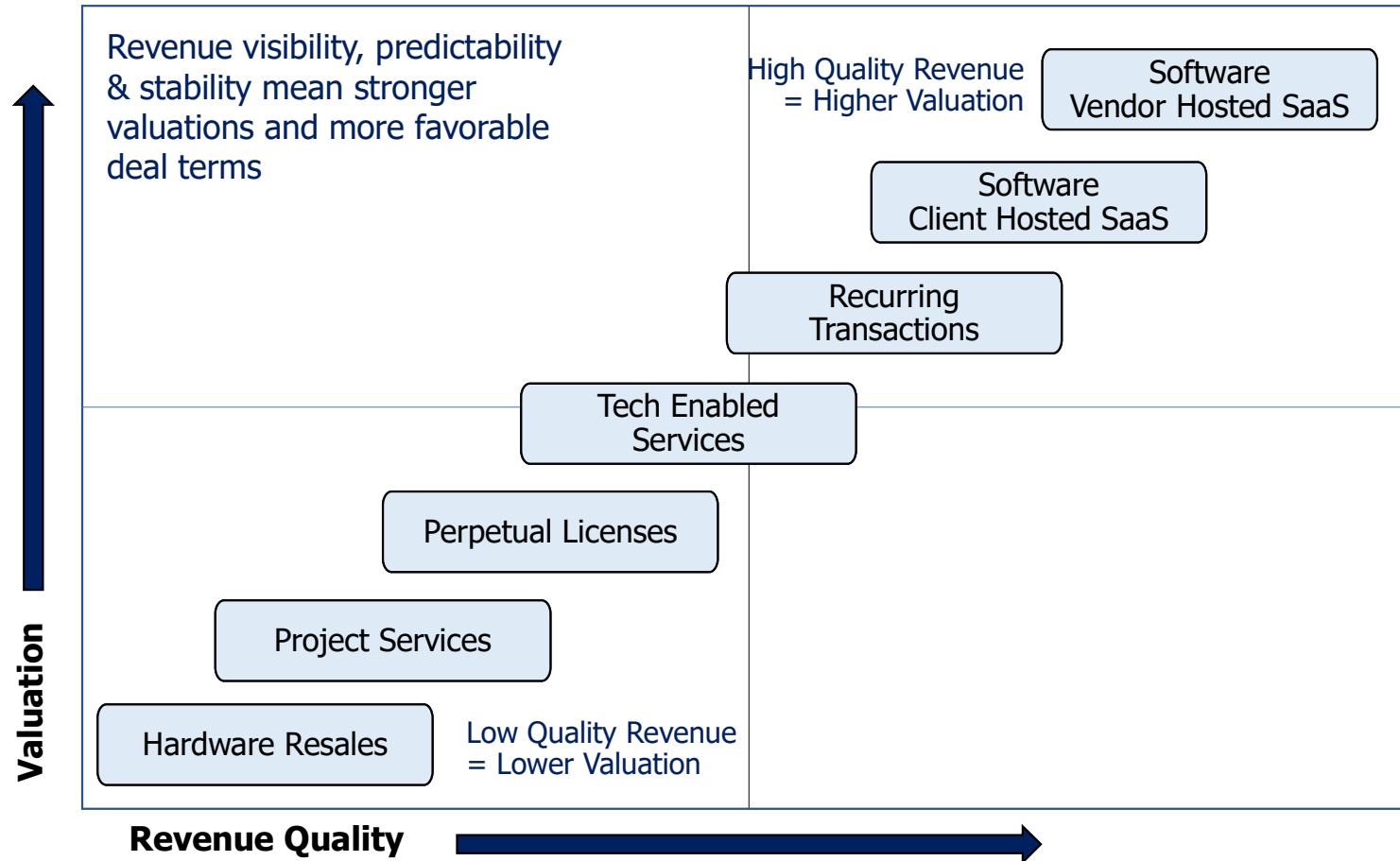
Summary

The public peer index for F&A Services consists of companies providing outsourced accounting, bookkeeping, payroll, and other financial services. The growth rates of publicly traded F&A Services providers ranged from -4% to 21%, with a median of 12% and average of 10%. EBITDA Margins for this group ranged from 12% on the low end to 20% on the high end. The median EV/EBITDA multiple for the publicly traded peer group stands at 11.64x EBITDA, or 8.73x EBITDA when including a public to private liquidity discount. We observed a slight positive correlation between Growth and EV/EBITDA multiples, but no correlation between margins and valuation multiples, which indicates a greater focus on growth over profitability in a sector that is set to expand with the increasing use of offshoring and AI automation.

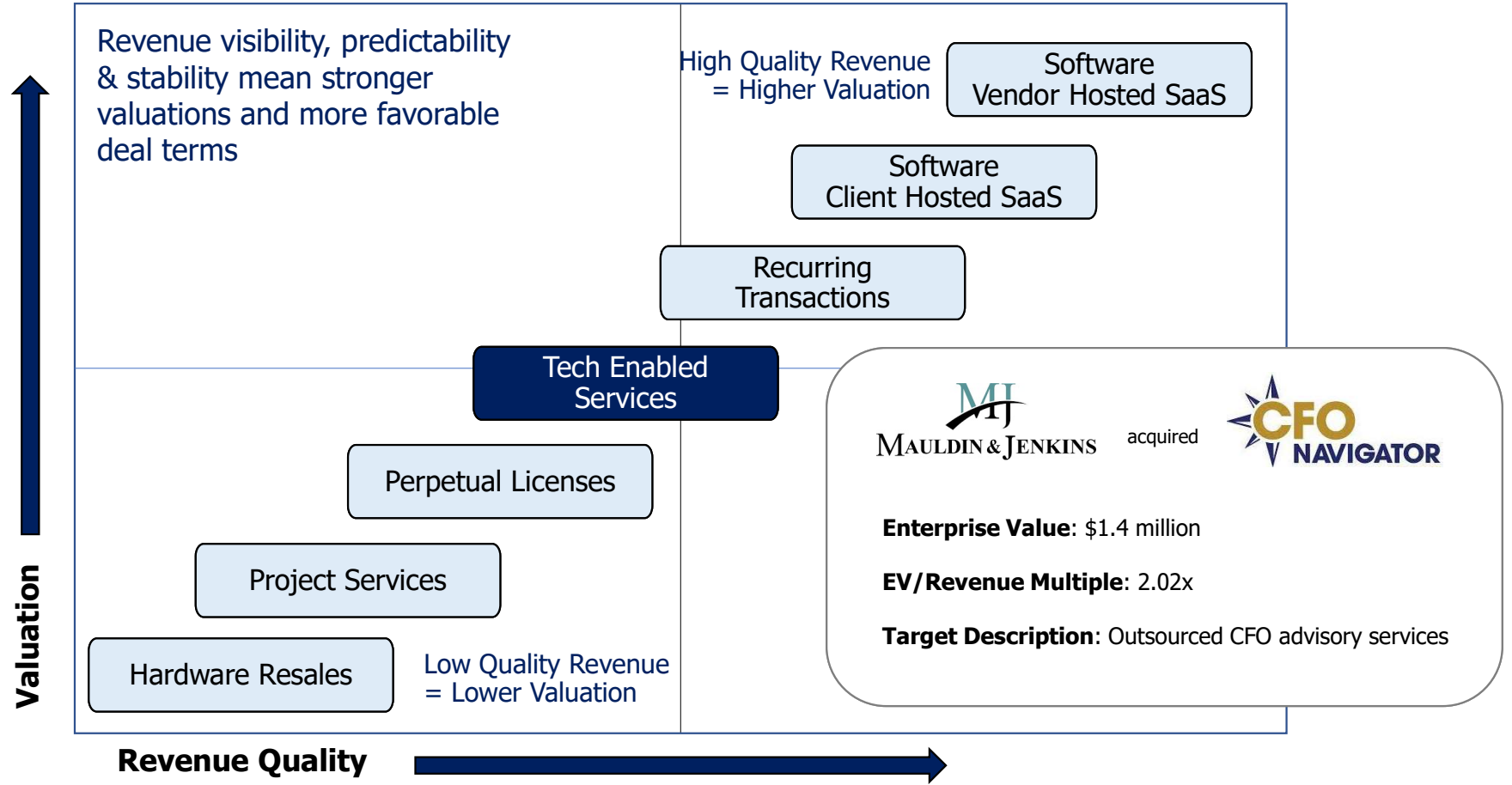


Source: Yahoo Finance

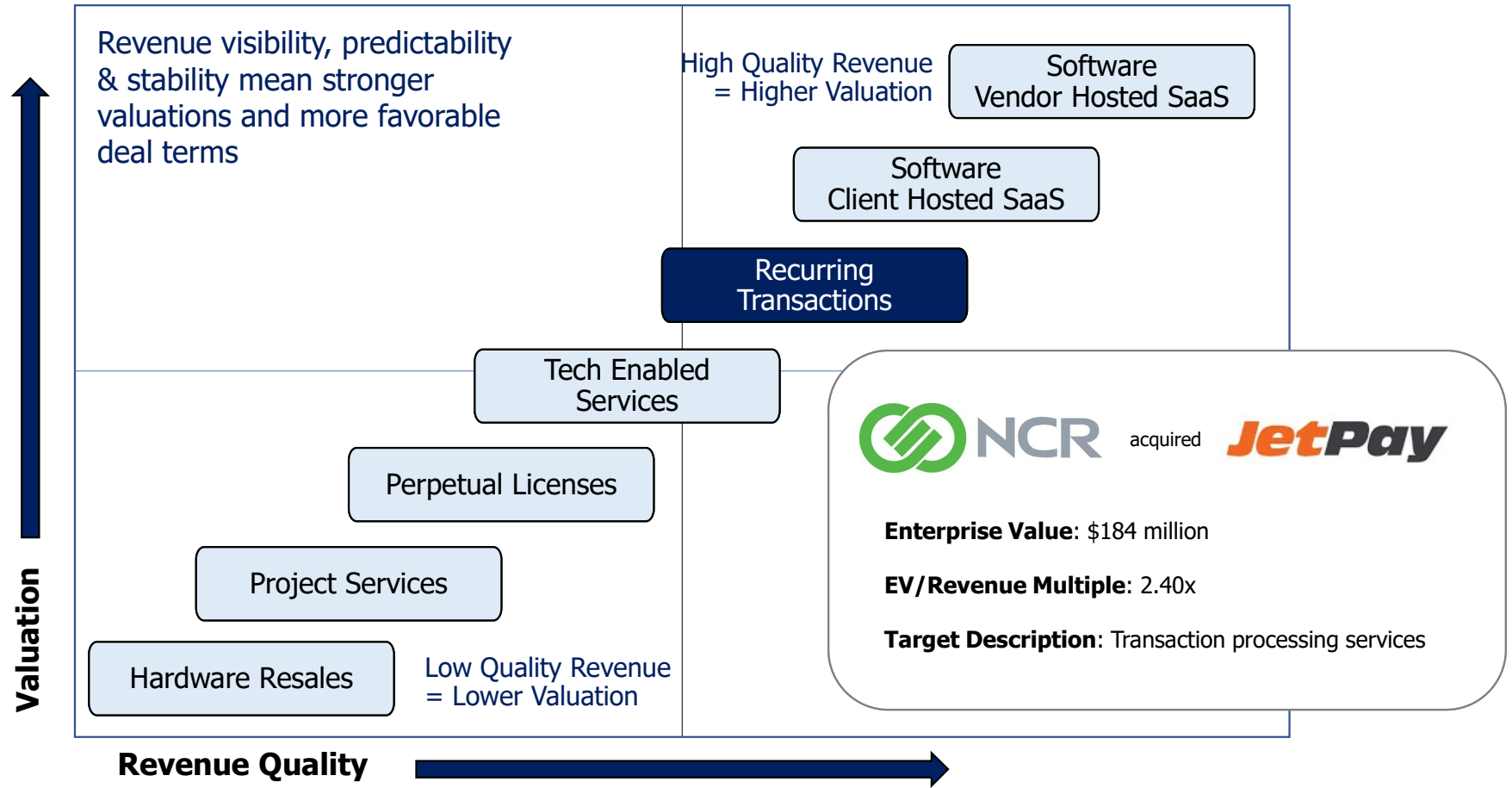
Revenue Quality Impacts Valuation



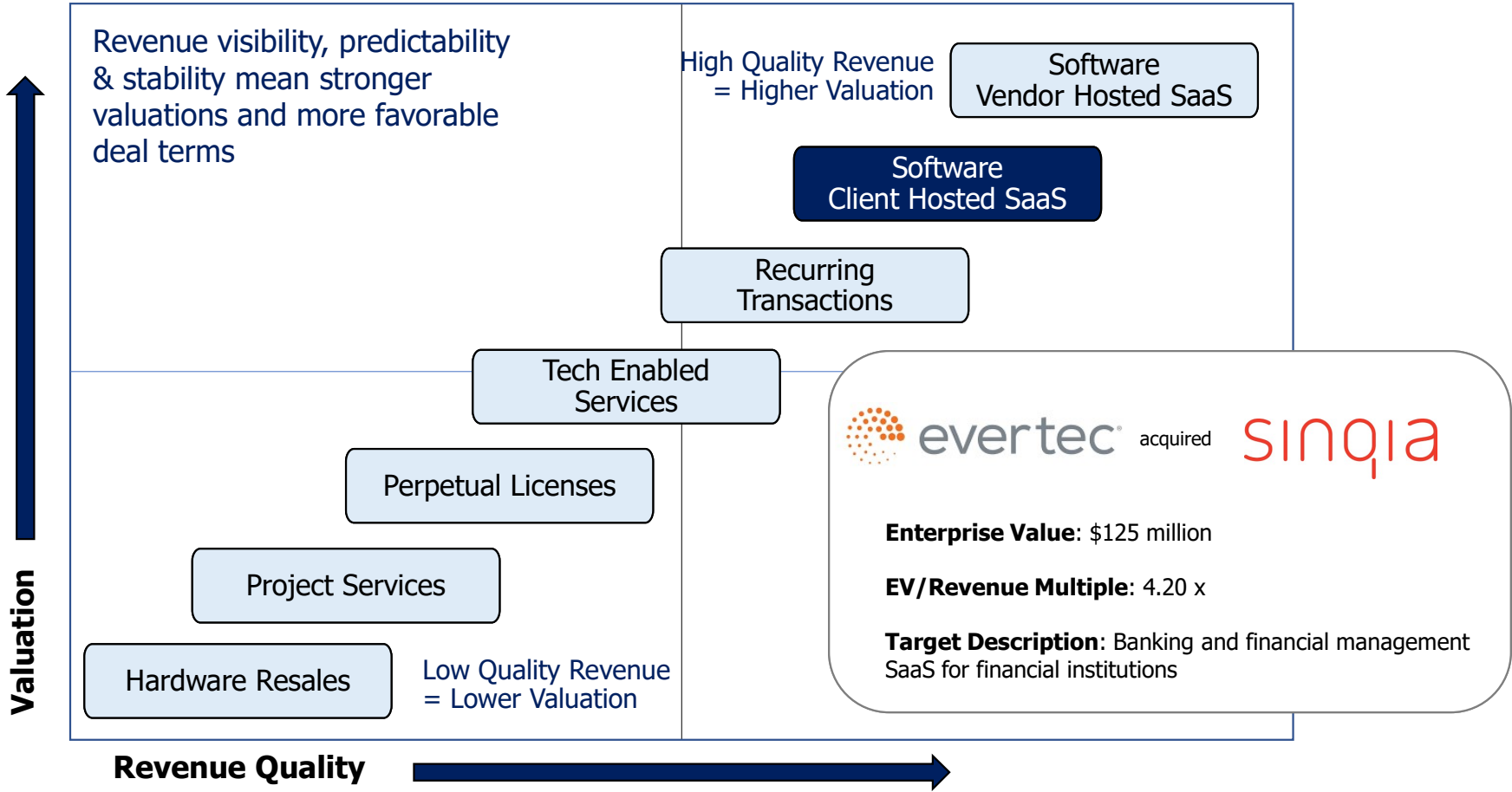
Revenue Quality Impacts Valuation



Revenue Quality Impacts Valuation



Revenue Quality Impacts Valuation



Sector Experience



Loyverse, a young point of sale software company based in the Mediterranean country of Cyprus, with a global customer base was acquired by **SaltPay**, a London based, venture backed payment platform company building a family of products to span the payments value chain for small business. Motivated by the \$7.2B of acquired GTV, the undisclosed valuation was top tier. The deal structure was simple and clean.

Loyverse developed a point of sale and inventory management software to turn a smartphone, tablet or traditional POS device into a powerful business management tool and portal into small business performance. On the surface, Loyverse might have been considered undistinguished from many other young POS software companies however it had several attributes that differentiated it. The software was available in 30+ languages. Leveraging a freemium SaaS monetization model to accelerate adoption, and a collaborative community of users (“Loyverse” means loyalty universe), the software was used by over 190,000 active merchants in 170 countries. The founder-led company was internally funded, had no debt and had reached financial break even.

Sector Experience



Hidden Value. Navant contacted over 250 potential acquirers in a global search uncovering significant interest. The interest varied by buyer type. The response (and perceived value) was greatest from payment processors, a metric that Loyverse hadn't tracked until Navant. It turns out that Loyverse was generating a class leading transaction volume run rate (GTV) of \$7.2B ranking with larger companies like of Zettle, ShopKeep, Poynt and Vend. This became the valuation pivot point with buyers.

Take Away. The attribute(s) that drive the value of your company for an acquirer may not be obvious or what you expect. The path you travel selling your company will rarely be what you expect. Don't take the journey alone. Work with an experienced navigator for the best outcome.



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