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M&A ACADEMY

M&A IN THE EVER-CHANGING FINTECH LANDSCAPE

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Agenda

- Overview of the Fintech Landscape
- What to Watch: Trending Areas in Fintech
 - Rise in interest rates
 - Recent tech layoffs
 - Crypto bankruptcies
- Deal Activity
- Unique Issues to Consider in Fintech M&A
 - I. Enforcement and regulatory
 - II. Due diligence
- Questions

Overview of the Fintech Landscape

- Fintech is broadly defined
- For our purposes, we are focused on early- and mid-stage companies engaged in a financial services business that uses technology to deploy new financial products or services, or to deliver products and services in a new way
 - Limited staffing and budget for compliance infrastructure (compared to regulated banking organizations)
 - Innovative and able to move quickly

What Are We Watching - Trending Areas in Fintech

- Rise in interest rates
- Recent tech layoff stats
- Crypto bankruptcies

Overview: “Banks” and “Fintechs”

Relationships between the traditional banking sector and the fintech sector have evolved significantly over last several years.

Adversarial

- Fintechs seeking to displace traditional banks
- Banks view fintechs primarily as threat for market share

Shift

- Traditional banks recognize benefits of incorporating fintech into traditional business; inability to match innovation
- Fintechs recognize the benefits of bank partnership (branding, customers, delivery channels, funding, infrastructure)

Cooperative

- Increasingly seeing traditional banks seeking to harness new technologies; banks and fintech startups finding ways to work with one another
- Partnerships and joint ventures
- Minority investments
- Other cooperative relationships

Fintech Market Overview

SECURITIES / INVESTMENT MANAGEMENT (IM)

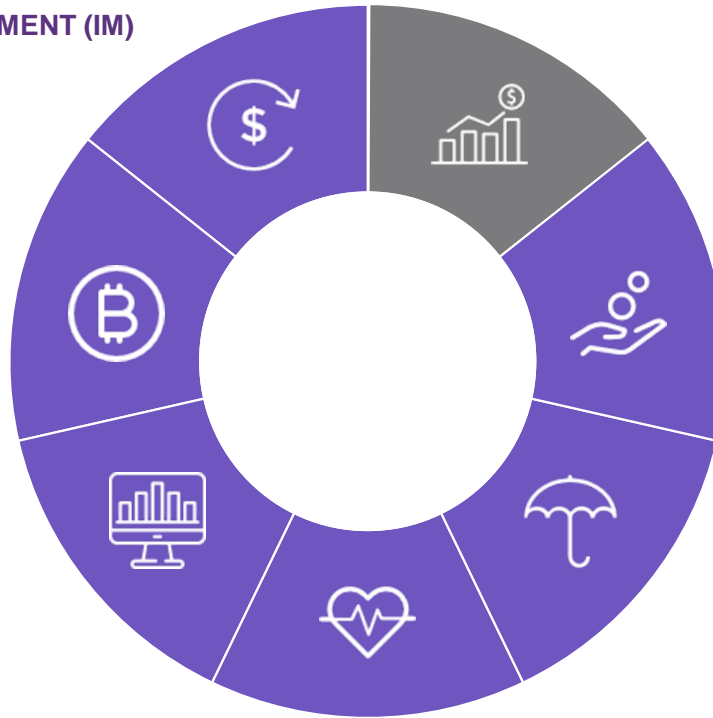
- Back-Middle Office Technology
- Infrastructure & Trading Technology
- Asset Management Technology
- Wealth Management
- Liquidity Pools
- Data / Analytics / Research
- Robo Advisors
- Online Brokers / Trading / Custodians

BANKING & ALTERNATIVE LENDING

- Enterprise Banking Tech
- Peer-to-Peer Lending
- Consumer-Oriented Financial Services
- Real Estate Tech
- Bank Payment Solutions
- Consumer, SME, Real Estate
- Buy Now Pay Later

BLOCKCHAIN / CRYPTOCURRENCY

- Wallets
- ITOs (Initial Token Offerings)
- Sidechains
- Securities ledgers
- ETFs
- Miners
- Exchanges



PAYMENTS

- Merchant Services
- Carrier Billing and NFC Infrastructure (Telcos)
- Transactions Security
- Card-Based Payment Products
- Online / Mobile Payments
- E-Rewards / Loyalty
- International Money Transfer
- Financial Institutions
- Networks / Associations

INSURTECH

- Core Software (e.g., Claims Management)
- Data and Analytics
- Sales and Distribution

FINANCIAL MANAGEMENT SOLUTIONS

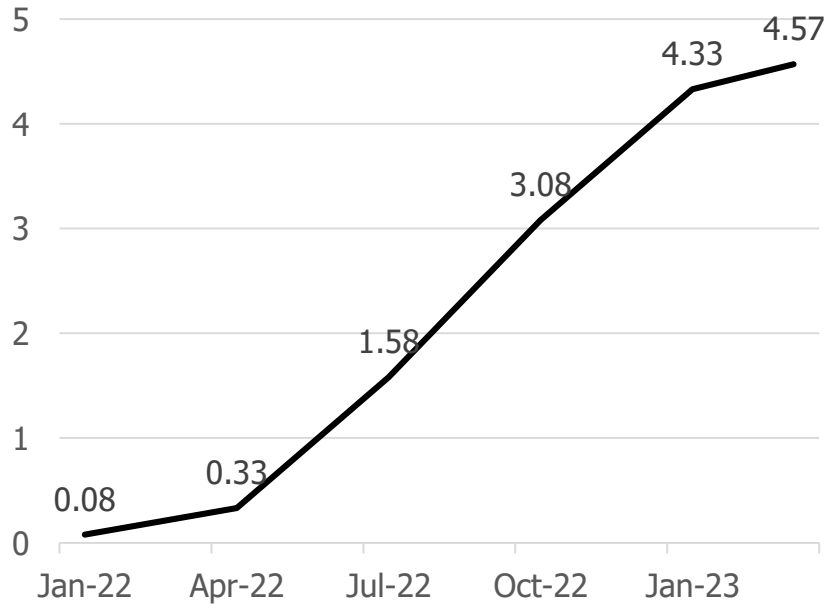
- Enterprise Resource Planning
- Financial Planning
- Accounting Support

HEALTHCARE

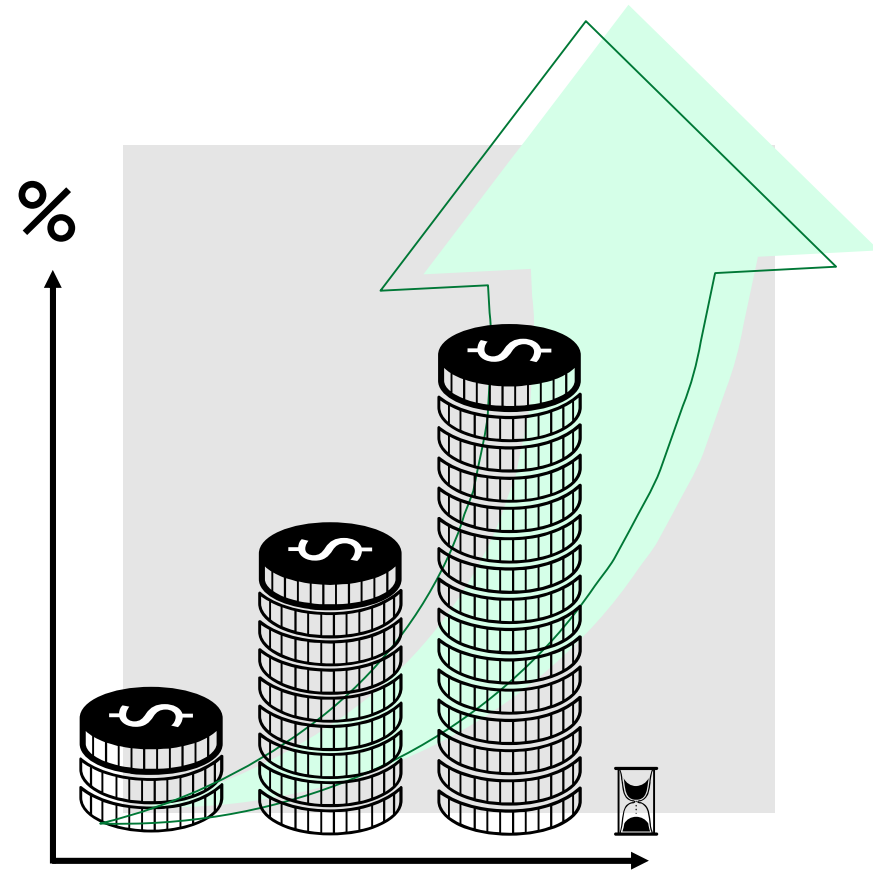
- Patient Care Administration (e.g., RCM)
- Benefits Procurement and Management
- Health Insurance Sales & Distribution

Rise in Interest Rates

THE LAST YEAR OF FEDERAL RESERVE RATE HIKES

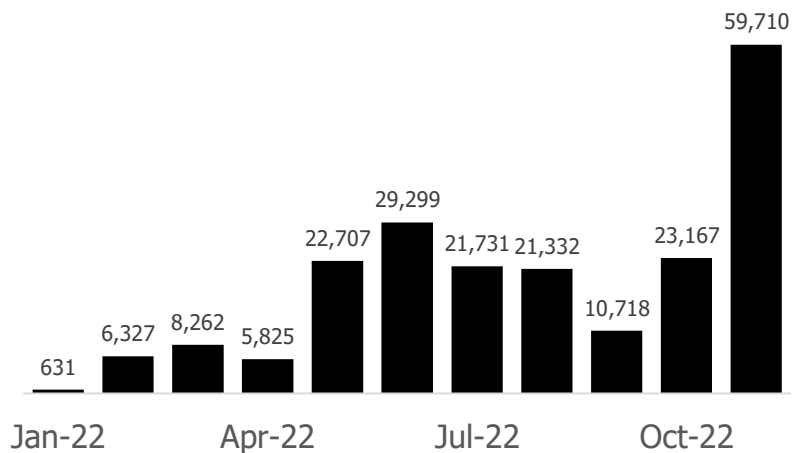


Source: The Federal Reserve Bank of New York Effective Federal Funds Rate



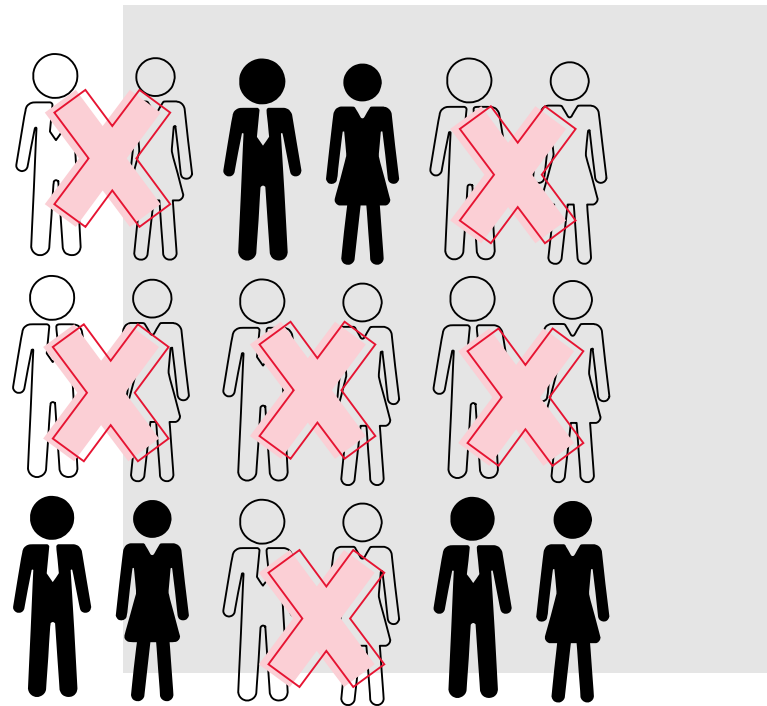
Recent Tech **Layoff** Stats

TECH COMPANY LAYOFFS IN 2022



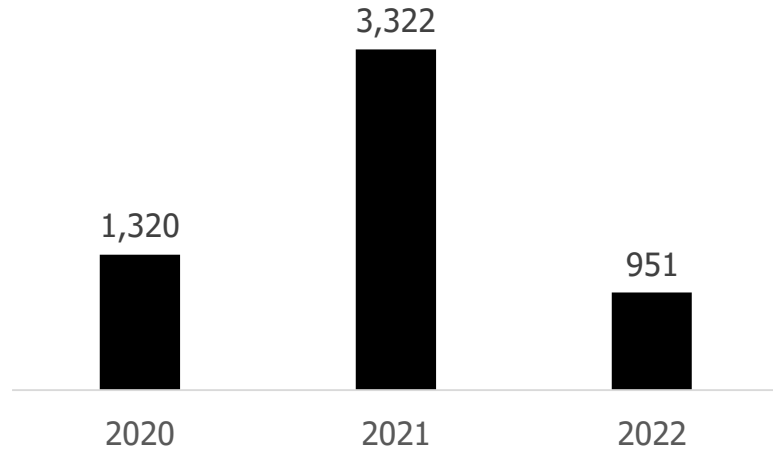
Source: trueup.io/layoffs

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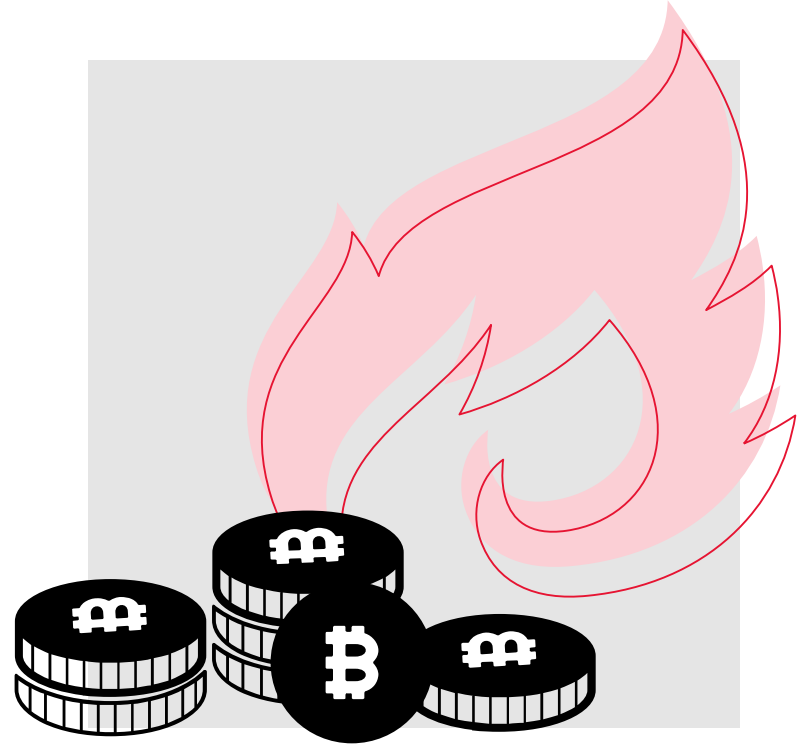
Crypto Bankruptcies

NUMBER OF DEACTIVATED CRYPTOCURRENCIES
ON COINGECKO



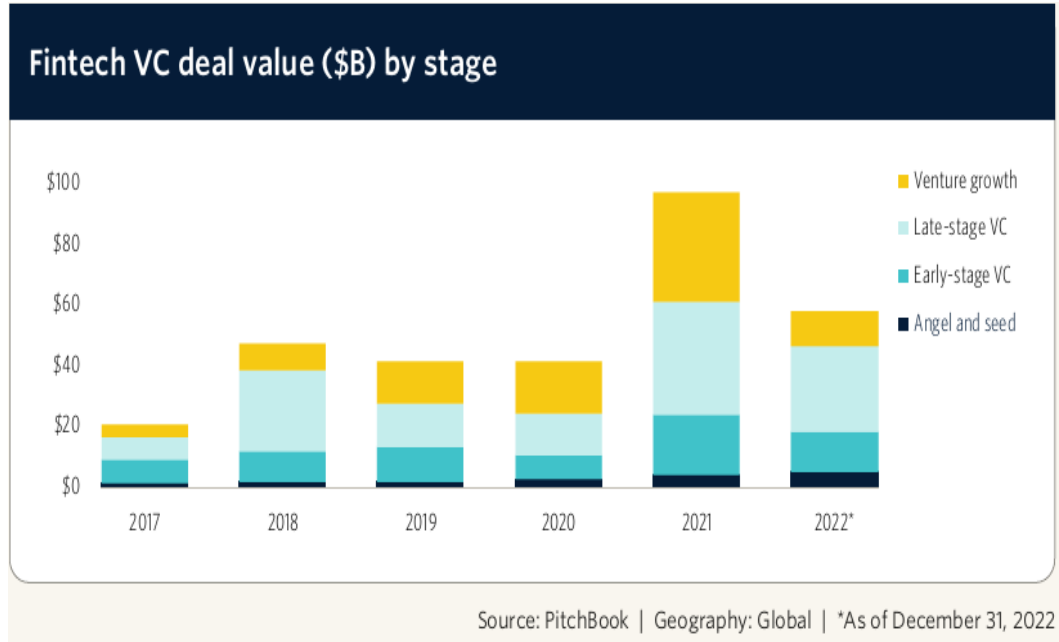
Source: CoinGecko

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Fintech Deal Activity

- VC capitalists invested \$57.6 billion globally into enterprise and consumer fintechs in 2022.
- Capital was raised across a total of 2,747 deals in 2022
- Deal count in Q4 - 554
- Both VC deal value and deal count in 2022 remained above pre-pandemic levels, suggesting investors continue to see long-term opportunities within the sector.



Source: PitchBook, Global, as of December 31, 2022

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Consortium Deals – An Alternate Financing Method

- **What:**

- Company funded by a group of banks or other financial service firms
- Possibly germinated by one or more firms, based on identification of particular need

- **Where:**

- Solutions which solve pain point for the investing firms. Investing firms and peers/competitors are likely to be early and primary customers for the solution
- Automation of functions currently performed manually, compliance with new regulatory requirements, marketplace solutions

- **How:**

- Corporation or LLC
- Corporations may/may not follow NVCA model
- LLC often preferred because of greater economic and governance flexibility

Consortium Deals – Alternate Financing Method (cont.)

- **Why:**
 - Funding based on strategic as well as financial rationale
 - Less valuation or market sensitivity
 - Ready access to customer, early customer revenue, referrals
- **Considerations:**
 - Alignment of commercial/growth interests of core customers (e.g., banks) and non-customer stockholders in investor syndicate
 - Exit strategy (stockholder alignment)
 - Incentives for Management recruiting/retention
 - Subsequent investment rounds – syndicate, valuation, governance
 - Antitrust compliance
 - Regulatory compliance (egg, BHCA, systemically important FMI)

Focus on Enforcement

- Combination of increased attention by federal and state enforcement
- Federal
 - Department of Justice (DOJ)
 - Consumer Financial Protection Bureau (CFPB)
 - Federal Trade Commission (FTC)
 - Securities Exchange Commission (SEC)
- State
 - Attorneys General
 - Banking regulator

DOJ Self-Reporting Policy

- Premium on early and full disclosure
- Risk in not reporting to acquirer
- Enforcement risk cannot be effectively indemnified

Due Diligence

- Can't be perfunctory
- Ask questions now
- Stress importance of disclosure

Due Diligence, Continued

- Is the target entity registered with any US regulatory agency? If not, should it be registered?
 - Are regulatory permissions needed to make the acquisition?
 - Has the target entity been subject to regulatory examinations and, if so, what were the results? What issues could lie around the corner?
- What business activities is the target entity considering for the future? Has the entity considered the regulatory implications?
- Who is responsible for regulatory compliance and what expertise will exist after the acquisition?

Acquisition versus Strategic Investment

- Diligence can be key to obtaining certain representations.
 - E.g., expansion of client base will only be done with approval of investor or in compliance with US laws and regulations.
- The financial services industry is increasingly reliant on third-party vendors.
 - Who are the other investors in the vendor or its technology?
 - What risks do these vendors pose to the industry and to their investors?
 - Are these vendors on the radar of any regulator?

Coronavirus COVID-19 Resources

We have formed a multidisciplinary **Coronavirus/COVID-19 Task Force** to help guide clients through the broad scope of legal issues brought on by this public health challenge.

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To help keep you on top of developments as they unfold, we also have launched a resource page on our website at

[www.morganlewis.com/
topics/coronavirus-
covid-19](http://www.morganlewis.com/topics/coronavirus-covid-19)

If you would like to receive a daily digest of all new updates to the page, please visit the resource page to [subscribe](#) using the purple “Stay Up to Date” button.

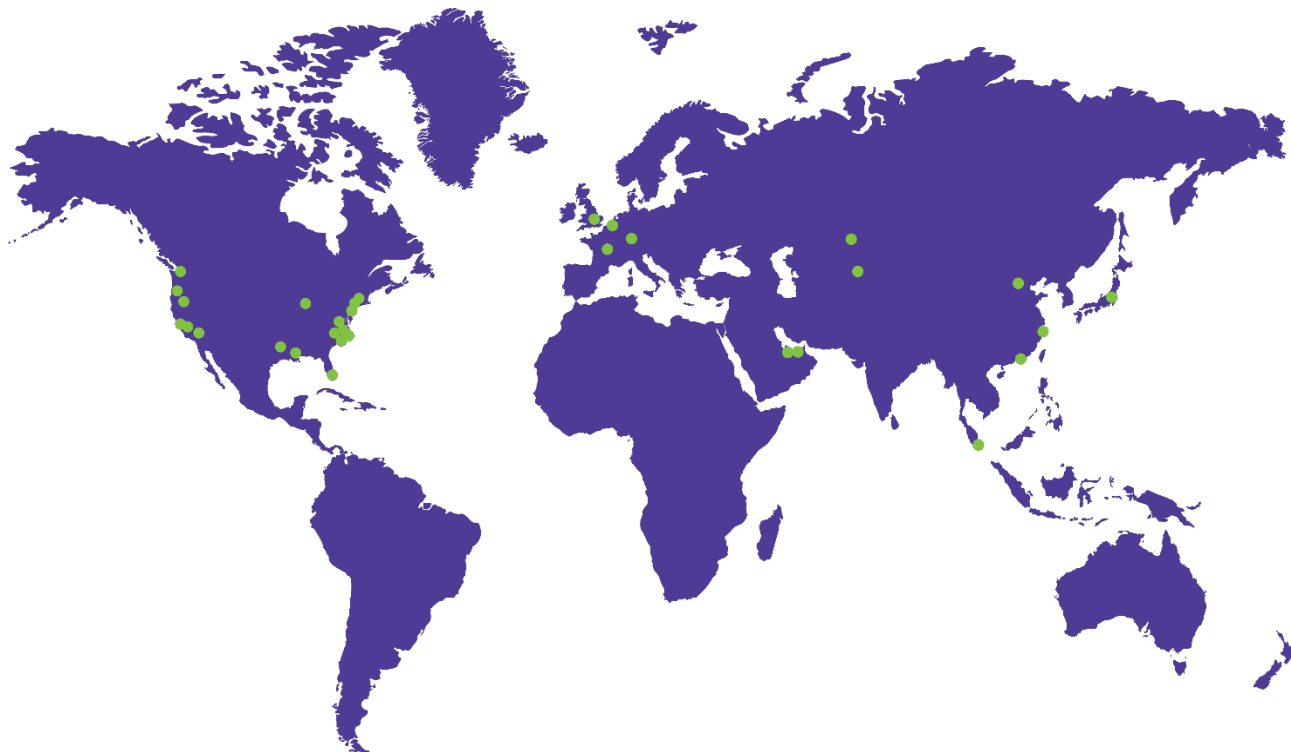


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