

## FEATURED CONTRIBUTOR



**David Francione**  
 Managing Director  
 Financial Technology  
 617-419-2040  
[dfrancione@capstoneheadwaters.com](mailto:dfrancione@capstoneheadwaters.com)

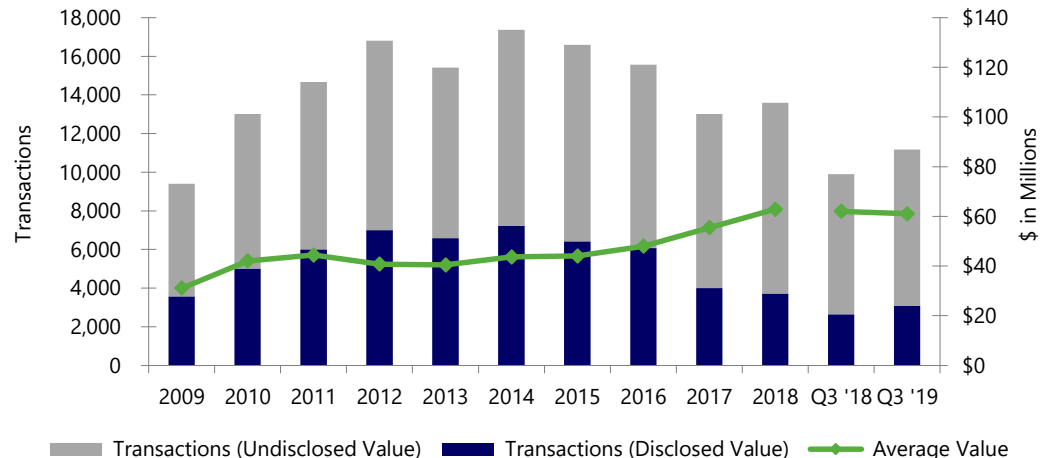
## LESSONS FROM A MARKET-LEADING SECTOR

Middle market M&A activity remains strong through Q3 2019, with the FinTech vertical contributing a significant percentage of total M&A volume.

Looking at FinTech holistically, financing markets are on pace to have the most active year to-date in terms of total volume of financings. On the M&A front, the dollar value for aggregate M&A activity has already hit a record high. Going beyond the middle market, mega-deals for M&A and mega-rounds (\$100mm+) for financings are also at record levels. Four of the five largest FinTech M&A transactions in the history of the vertical took place in 2019. Moreover, financing options through IPOs have been pursued less than private financing alternatives, causing valuations to trend upwards.

The record-level of activity in FinTech is not surprising. Mobile applications and advanced interfaces are increasingly becoming more common. The global economy is simply more digitalized. However, despite heightened levels of digitization, the back-end for these platforms has by and large stayed the same. Global acquirers are willing to pay a premium to access better technology on the back-end, with M&A becoming more feasible than building the technology in-house. Furthermore, there has been a push to disintermediate banks. On a global basis, there is demand to remove or circumnavigate the traditional bank model. Increasing efficiency under strict scrutiny from regulators, speeding up the flow of payments processing (onboarding to settlement), and outdated technology has given CEOs confidence to grow inorganically through M&A strategies. Given all of the aforementioned factors in the industry, strategics have dominated the FinTech M&A market. Strategic buyers accounted for 87% of FinTech acquisitions (13% by private equity buyouts) and 88% of the total M&A dollar volume was represented by strategic acquisitions (12% by private equity buyouts) through 2019 year-to-date.

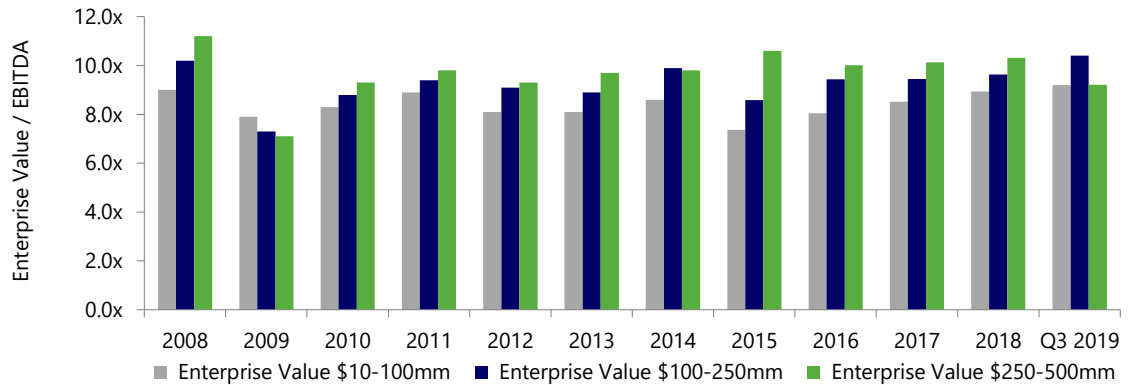
**Middle Market M&A Volume**



Source: Capital IQ  
 Note: Enterprise Value < \$500mm

## AVERAGE MULTIPLES BY TRANSACTION SIZE

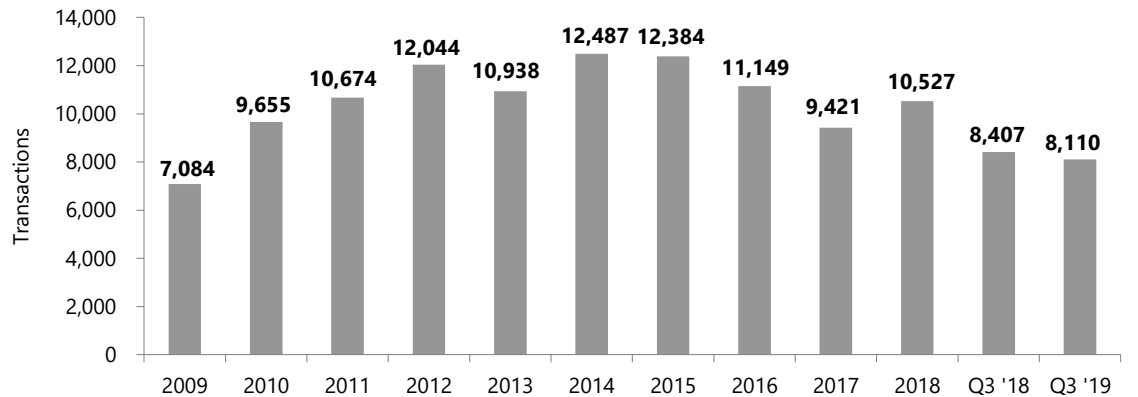
**Multiples in the \$100-\$250mm transaction range reached elevated levels through Q3 2019 at 10.4x EBITDA**



Source: Capital IQ  
Note: includes multiples 3x-16x

## CORPORATE BUYER ACTIVITY

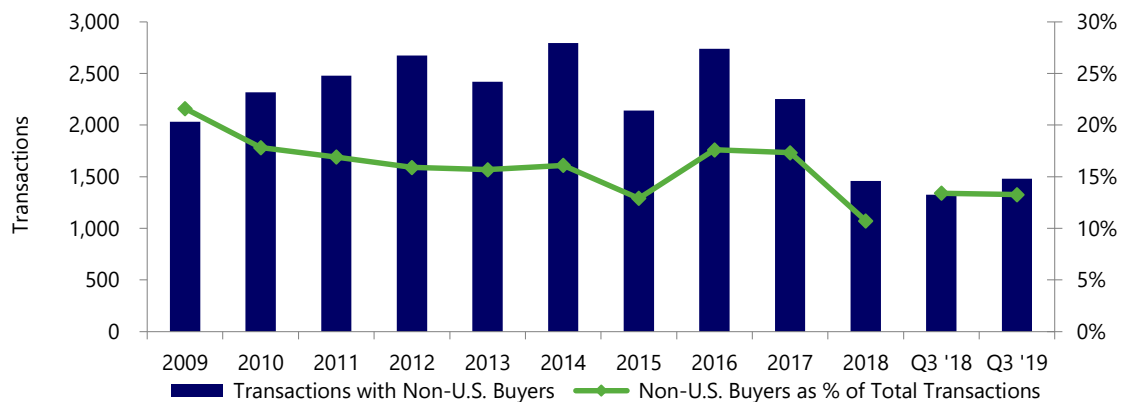
**While corporate deal volume declined, average deal value increased to \$67.8 million for public buyers**



Source: Capital IQ  
Note: Enterprise Value < \$500mm

## FOREIGN BUYER ACTIVITY

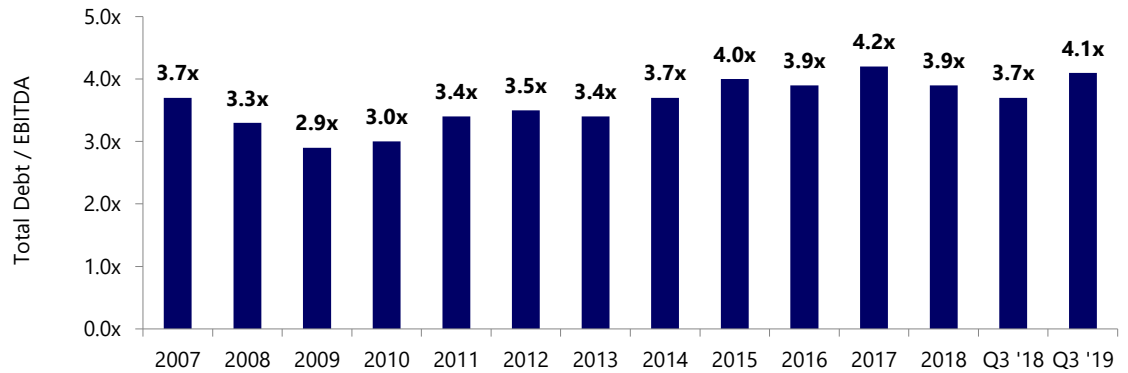
**Foreign buyer activity has remained consistent with historic levels, accounting for 13.3% of total transactions**



Source: Capital IQ  
Note: Enterprise Value < \$500mm

## PRIVATE EQUITY DEBT MULTIPLES

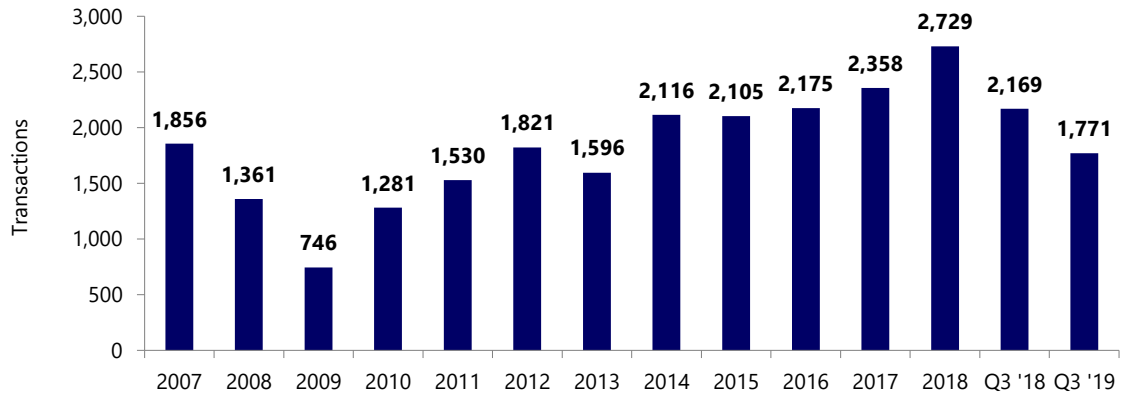
*Leverage ratios for private equity firms have increased year-over-year, reaching 4.1x EBITDA in Q3*



Source: GF Data®  
Note: includes multiples 3x-15x, Enterprise Value \$10-\$250mm

## PRIVATE EQUITY BUYER ACTIVITY

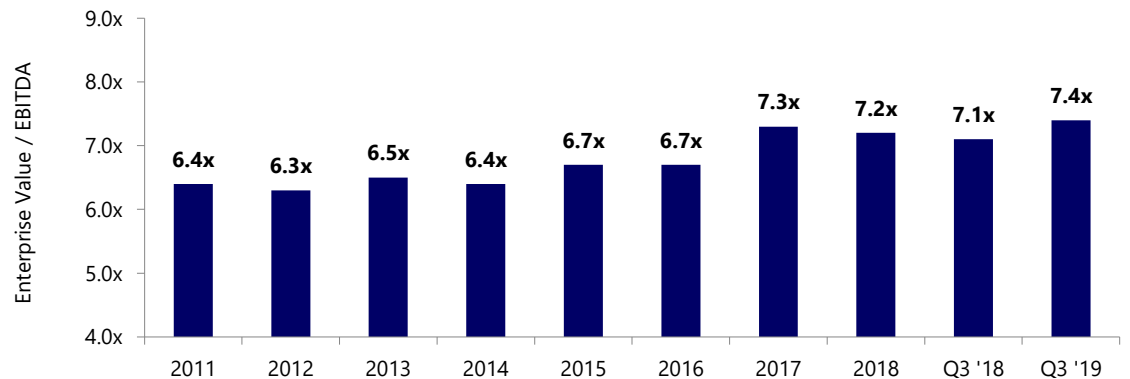
*While fundraising levels increased, the number of closed private equity transactions declined by 18.3% year-over-year*



Source: PitchBook

## PRIVATE EQUITY MULTIPLES

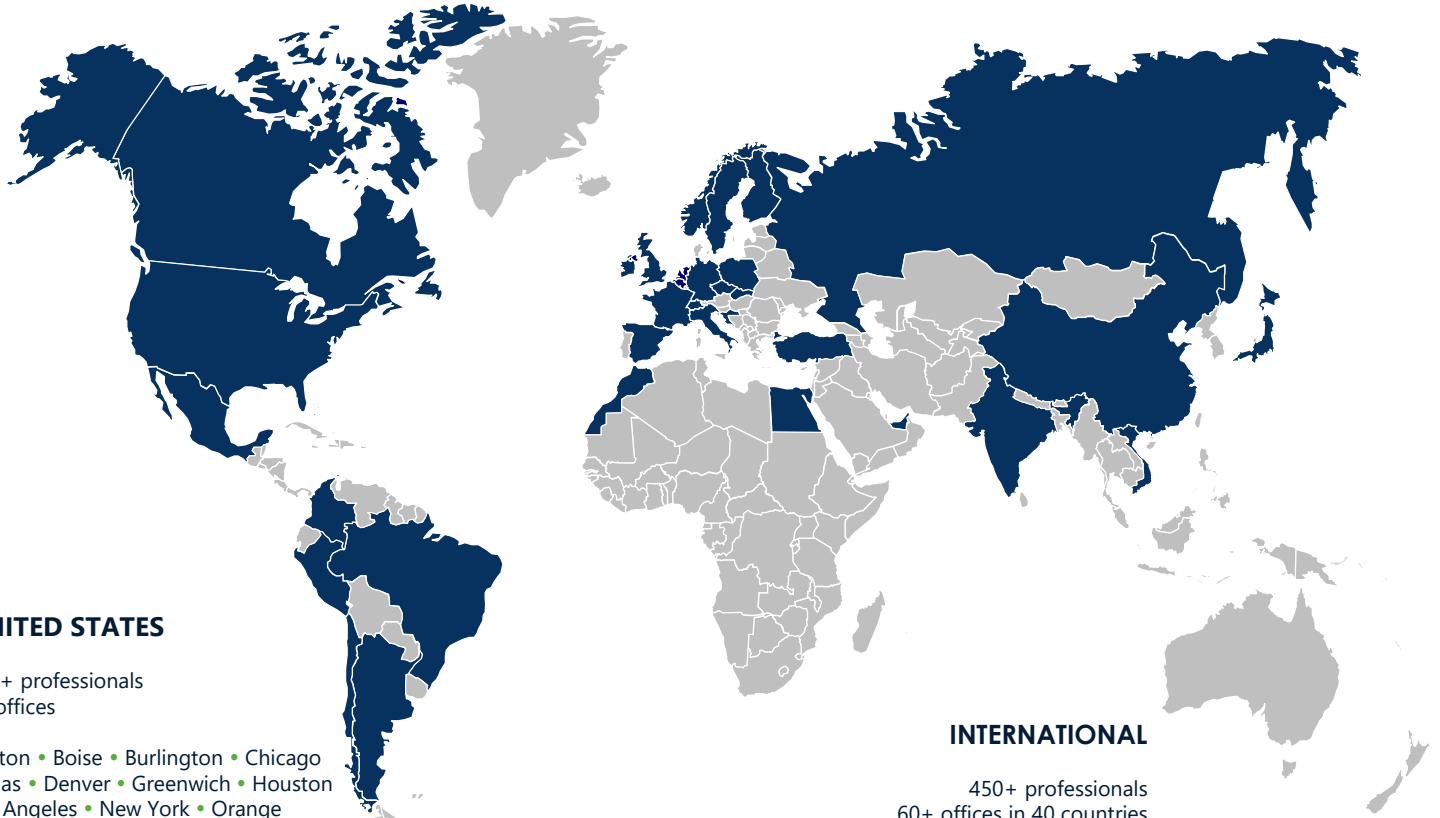
*Average EBITDA multiples paid by financial buyers remained strong in Q3 at 7.4x EBITDA*



Source: GF Data®  
Note: includes multiples 3x-15x, Enterprise Value \$10-\$250mm



## BUILT FOR THE MIDDLE MARKET



### UNITED STATES

170+ professionals  
17 offices

Boston • Boise • Burlington • Chicago  
Dallas • Denver • Greenwich • Houston  
Los Angeles • New York • Orange  
County • Philadelphia • San Diego  
San Francisco • St Louis • Tampa  
Washington DC

### INTERNATIONAL

450+ professionals  
60+ offices in 40 countries

**Asia:** China • India • Japan

**Latin America:** Argentina • Brazil • Chile • Colombia • Mexico • Peru

**Africa:** Congo • Egypt • Ghana • Ivory Coast • Mauritius • Morocco • Senegal • South Africa

**Europe:** Belgium • Bosnia • Croatia • Czech Republic • Finland • France • Germany • Herzegovina  
Hungary • Ireland • Italy • London • Netherlands • Norway • Poland • Russia • Serbia • Slovenia  
Spain • Sweden • Switzerland • Turkey • United Kingdom

Capstone Headwaters is an elite investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Capstone Headwaters provides merger & acquisition, private placement, corporate restructuring and financial advisory services across 16 industry verticals to meet the life cycle needs of emerging enterprises. Headquartered in Boston, MA and Denver, CO, Capstone Headwaters has 19 offices in the US, UK and Brazil with a global reach that includes over 450 professionals in 40 countries.