

FinTech Webinar Series: Investing In and Acquiring FinTech Companies

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FinTech Market Sectors

Customer Service

- Mobile payments, electronic wallets
- Electronic billing and payment technology

Financial Services

- Electronic trading and banking
- Electronic exchanges
- Portfolio management

Business Processes and Functions

- Payment processing networks
- Tech-enabled BPO services such as accounting, payroll, HR, etc.

Compliance

- Data security
- KYC
- Risk management



Overview of FinTech M&A Market

- FinTech M&A marketplace is active
- 2012 highlights
 - 200 FinTech M&A deals
 - Announced deal value of over \$42 billion
- Activity primarily driven by strategic acquirers
- Financial sponsors showing increased interest
- Underlying factors favor growth in the FinTech sector
 - Financial institutions under continued pressure to cut costs
 - Regulatory compliance concerns very high
 - Big data, cloud and mobile technologies are important to financial services industry



Critical Areas for FinTech Deals

- Regulatory
- Intellectual Property
- Customers
- People
- Price



Regulatory

- Conversations with regulators (when, where, how)
- Requisite approvals
 - Banking
 - Broker/dealer
 - Investment management
 - Insurance
- Potential regulatory/industry knowledge deal breakers
 - Ownership limits
 - Voting limits
 - Governance/control/management limits
 - Application of acquirer's regulations to target
- People Issues
 - Use of performance records, use of licenses and disqualifications



Intellectual Property

- Importance of IP varies greatly among FinTech companies
- Service and processing companies
 - Functions may be people driven, and IP may not critical
- Tech enabled services, mobile payments, payment technology, software as a service
 - IP and other technology may be the critical target assets
 - How well has target protected its IP
 - Does target have all the IP and tech infrastructure it needs
 - Buyers will insist on contractual protection



Customers

Key Contract Terms

- Pricing/Services
- Liability/Indemnity
- Term & Termination
- Consent for assignment/change of control
 - Structural work around?
 - Implications of Meso Scale case
- Unusual terms – MFN, exclusivity, restrictive covenants, binding on all affiliates



Customers

- Conversations with customers (when, where, how)
- If consent is required:
 - Closing condition
 - Appropriate metric (e.g., % of revenues, AUM, AUA)
 - No burdensome conditions
 - Consent process
 - Timing
 - Mechanics (e.g., affirmative consent, negative consent)
 - Level of involvement of buyer



People

- Retention of key employees
 - Separate agreements with buyer
 - Closing condition
 - Appropriate % (ties to post-closing covenants of buyer)
 - Employee related post-closing covenants imposed on buyer (e.g., same/substantially similar or comparable for time period)
 - Existing retention, severance, change of control, similar agreements
- Conversations with employees (when, where, how)
- Non-compete and non-solicit
 - Restrictive period
 - Scope



Price

Valuation

- Purchase price
- Adjustments
- Type of consideration

Earn-out

- Bridge gap
- Appropriate metric (e.g., top, bottom or middle line)
- Protective covenants



Questions?

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