



Evolve
Capital Partners

Finance & Technology Market Update

Q2:2020 Executive Research Note

Financial Technology



FinTech Lenders on PPP Loans | Takeaway of Our Coverage Sectors |
Cloud is the Cushion

SPECIALIZED INVESTMENT BANKERS AT
THE INTERSECTION OF FINANCE & TECHNOLOGY

With the **current market turmoil** enveloping everyone, everywhere, we dive into a some of the **resilient areas** and provide **our takeaways**

Table of Contents

1. Executive Summary	3
2. Overview of Evolve	5
3. Industry Landscape	9
Putting PPP Pennies to the Proper Pockets	10
FinTech Fronts – Fret not the Facer	14
Cloud is the Cushion in the COVID Crisis	25
4. Deal Activity in the Sectors Evaluated	29
5. Public Comparables	32





1. Executive Summary

Executive Summary

Summary of Evolve's Q2:2020 Newsletter

SUMMARY

- Our newsletter provides insight into the financial technology capital markets. We offer a snapshot of market activity and a detailed analysis of trends.
- This special edition provides [an overview on our nine FinTech sectors](#) with our take on the key positives, caution areas, and level of risk exposure of each; furthermore, we share our view on [how Fintechs and RegTechs can better serve SMEs with processing PPP loan applications](#) to maximize efficiency and minimize compliance issues; last, we take a [deep dive into the enterprise software space](#), which we deem the highlight of the entire FinTech universe in terms of performance in the COVID-19 pandemic.

KEY OBSERVATIONS



Specialty Finance / Alternative Lending

- SMEs need capital more than ever, and traditional lending sources are generally incapable of providing loans in a fast and efficient manner, as evidence by the first PPP tranche.
- When all else fail, FinTechs shine. These firms are built for scale, speed and bring to the table a new level of accuracy not previously tested.** We also believe these types of firms can do the job at a lower cost than conventional players.
- FinTechs and RegTechs can help partner banks and SMB alleviate unnecessary issues now and down the road by:
 - Ensuring the applications for PPP loan are fully compliant, as part of the processing and approval process; machine learning could be utilized to detect traces of fraud.
 - Helping with the investigation process, should it occur, with their application and verification information stored in the database.



Overview of the Nine Sectors

- As we consider the performance of the nine sectors, we observe that technology investment is an extremely effective hedge against risk exposure.
- Transactions are still closing with investors competing for service providers with solid technology infrastructure.
- Most of our sector coverage has weathered the storm better than the broad indices.



Enterprise Software

- Verticals with practical adoption of cloud technology will weather the pandemic well.**
- Private equity and investment firms are going to start paying a lot more attention to these types of firms due to their resiliency. Although market activities have slowed down as investors are more cautious, competition for targets with strong foundation and solid products is high:
 - AvidXchange raised \$127 from 52 investors from its latest funding round in April 2020.
 - Podium, a startup that provides a messaging software for small businesses, successfully raised \$125M from its Series C in April 2020



2. Overview of Evolve

Evolve Capital Partners Overview

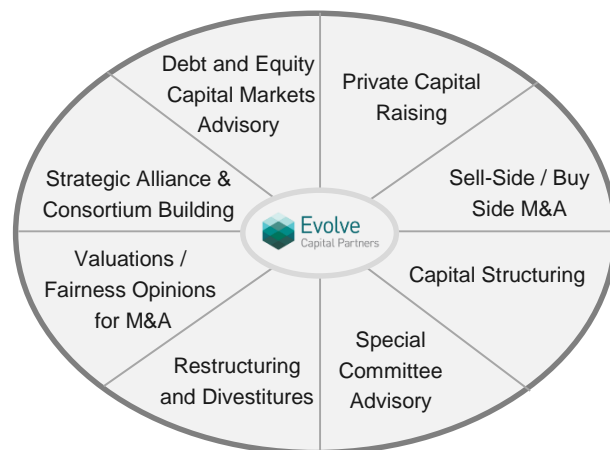
We Focus Exclusively On Finance and Technology-Related Firms

ABOUT ECP

- Evolve Capital Partners (ECP) is a specialized investment bank focused on businesses serving industries at the intersection of finance and technology.
- We were founded in 2012 and are based in New York, NY, the financial capital of the world. Our location provides unparalleled access to numerous strategic and financial partners who participate in and shape the sector.
- Since inception, we have completed dozens of transactions with aggregate values approaching \$1 billion. Professionals at our firm have advised on over \$3 billion of M&A and financing transactions globally.



Our Services



**In-Depth Industry
Research Reports**

**Quarterly FinTech
Market Analysis**

**FinTech M&A / Financing
Transaction Profiles**

FINANCIAL ADVISORY SERVICES

- We are a dedicated, creative, and fully independent investment bank that advises private and public companies on merger, divestiture and acquisition transactions, and capital raising through private placements.
- We produce industry-leading research on transaction trends across the Finance and Technology sector.
- Few investment banks have transaction experience across both corporate and asset finance.



Our Clients

- Corporations
- Management Teams
- Venture Capital & Private Equity Funds
- Independent Directors / Boards



Industry Focus

- We are exclusively focused on Finance and Technology firms

BPO
IoT
B2B

Specialty Finance
Enterprise Software
Analytics

Payments
Lending
Insurance Tech

Securities
Financial Services
Financial Management

Fintech Coverage Universe

We Focus Exclusively On Finance And Technology-Related Firms

Enterprise Software / Data & Analytics



Insurance



Financial Management Solutions



BPO



Specialty Finance / Alternative Lending



Healthcare Tech



M&A Advisory

- Sales / Recaps
- Acquisitions
- Divestiture
- Strategic Advisory

Financing

- Private Placements
- Debt Capital
- Restructuring

Securities



Payments



Bank Technology Solutions



Fintech Coverage Universe

Our Finance and Technology Sector Coverage Details

Enterprise Software / Data & Analytics

- Analytics Software Solutions
- Consumer IoT
- Enterprise Software
- Outsourced Analytics Solutions

Bank Technology Solutions

- Blockchain
- Core Processing
- Credit Scoring / Data
- Mortgage / Real Estate Tech
- Software Solutions / Services

Financial Management Solutions

- Accounting / Expenses
- Business Analytics
- Enterprise Management
- Human Capital Management

BPO

- Customer Experience
- Healthcare Industry
- HR / Payroll
- IT / Consulting
- Operations

Specialty Finance / Alternative Lending

- Consumer Lending
- Commercial Lending
- Online Lending
- Collections / Servicing
- Leasing
- Mortgage & Related

Healthcare Tech

- Core Solutions
- Health Insurance Solutions
- Healthcare IT / Analytics
- Medical Bill Servicing

Securities

- Asset Managers
- Alternative Trading Systems & Market Makers
- Diversified FIS
- Exchanges
- Financial Content Providers
- Online Brokers
- Outsourced Financial Solutions
- Software & Solutions
- Brokerage
- Investment Banks
- Investment Management

Insurance

- Title Insurance
- Traditional / Life Insurance
- Multi-Line Insurance
- P&C Specialty
- Data & Analytics Solutions
- Insurance Brokers
- Online Platforms
- P&C Insurance
- Benefits Administrators
- Software Solutions

Payments

- Payments Core Banking
- Payment Infrastructure
- POS Products
- Networks
- Prepaid / Money Transfer
- Payment Processing
- Closed Payment Network
- eCommerce / Internet Payments

3. Industry Landscape

FinTechs at SMB's Service around PPP

Putting PPP Pennies to the Proper Pockets; FinTech Fronts – Fret not the Facer; Cloud is the Cushion in the COVID Crisis

SMB'S TURN TO FINTECHS FOR PPP LOANS

- The COVID-19 pandemic hit by the U.S. a month later than the Eastern and European countries. While the other countries are showing sign of recovery and lockdown orders are slowly lifted, the U.S. is still fumbling to contain the spread of the disease, while struggling to keep the economy afloat.
- Desperate times call for desperate measure, in early April, the Small Business Association (SBA) launched the Payment Protection Program, a \$349B emergency relief fund, to help small businesses keep their workforce employed.
- Shortfalls of the program began to show after 12 days after the launch, the fund was depleted and 5% of small businesses were served. On April 23, Congress approved an additional \$310B to expand the program.
- SMEs need capital more than ever, and traditional lending sources are generally incapable of providing loans in a fast and efficient manner, as evidence by the first PPP tranche. **Big banks such as Bank of America, or Citi, are being extremely exclusive.** These lenders only provide loans to the most profitable and stable customers and shut out businesses that need funding the most. **On the other hand, smaller non-tech powered lenders are frankly incapable and incompetent providing loans in the PPP (i.e. can't handle volume).**
- One big issue plaguing the existing lenders is the incapability of their technology infrastructure to process such a large application volume in such a short period. **When all else fail, FinTechs shine. These firms are built for scale, speed and bring to the table a new level of accuracy not previously tested.** We also believe these types of firms can do the job at a lower cost than convention players.
- **FinTechs can either play their role as PPP lenders to SMB or providers of a tech-enabled marketplace that processes applications on behalf of their bank partners.**

How FinTechs Addressed Totally Underserved SMBs

Annual Sales Ranges	Number of U.S. Businesses	% of Total Businesses	Note
Under \$0.5M	13,264,574	77.1%	Difficulty accessing the capital due to lack of support
\$0.5M – \$1M	836,856	4.9%	Difficulty accessing the capital due to lack of support
\$1M – \$2.5M	592,343	3.4%	Difficulty accessing the capital due to lack of support
\$2.5M – \$5M	239,034	1.4%	
\$5M – \$10M	156,021	0.9%	
\$10M – \$100M	188,596	1.1%	Usually has relationships with big banks, who have easier access to fund and who will only provide capital to existing customers
\$100M – \$500M	25,272	0.1%	Large and can access capital easily

Approved PPP FinTech Lenders



FinTechs Partnering with Banks for PPP Loans



FinTech Banks Processing Applications



Source(s): "All of the Fintechs Involved in PPP Loans" by Lend Academy; "SMB Loan Experts Share What You Need to Know About the Latest Government Funds" by Suha Saha; "OakNorth's CIO Sean Hunter on how banks can use technology and manpower to excel in disbursing government assistance" by Tearsheet

A Surge of Fraud is Peeking Around the Window

Putting PPP Pennies to the Proper Pockets; FinTech Fronts – Fret not the Facer; Cloud is the Cushion in the COVID Crisis

CHANCE OF FRAUD FROM PPP LOANS: 100%

- The long-term impact of the PPP and all the capital floating around will last a decade, or longer. If new standards are not implemented, the impact of monitoring the loans and efficacy would have a lasting impact.
- **The urgent nature of PPP loan processing and disbursement makes the program vulnerable to fraud and misappropriation of funds.** High loan volume and expedited processing timeframes (originating \$670B of loans in 90 days) will increasingly burden the existing controls, which are not of priority at the moment. Eligibility is solely determined by the certifications submitted by the borrowers with insufficient verification.
- Companies that took in PPP loans could run into legal problem later on if it turns out that they did not qualify for the loan after all. Per the U.S. Secretary of the Treasury, Steven Mnuchin, some of the larger companies passed the paperwork for PPP loan eligibility check but in fact did not need the money.
- What will most likely occur is congress will begin to investigate banks and firms who took out the capital and deployed it into fraudulent purposes or lied on the applications. **Hearings and investigations are likely to start in 18 months when everyone looks around and begins to inquire about the capital deployed.**
- FinTechs and RegTechs can help partner banks and SMB alleviate unnecessary now and down the road by:
 - Ensuring the applications for PPP loan are fully compliant, as part of the processing and approval process; machine learning could be utilized to detect traces of fraud
 - Helping with the investigation process, should it occur, with their application and verification information stored in the database

PPP Processed **>14 Years** Worth of Loans in **<14 Days**

How FinTechs can Help Combat Fraud

Deliberate Fraud

Fake applications duped as SMB by professional fraudsters

Opportunity Fraud

Inflation of average monthly payroll or headcount

False certifications of eligibility (bad faith)

Anti-Fraud Actions that FinTechs & RegTechs can Provide

Know-Your-Customer & Know-Your-Business Verifications

Platform for Onboarding Community Banks

Automated Payroll Analysis for Eligibility

Document Management and Verification

Anti-Money-Laundering & Fraud Support

Case Study: 2008 Troubled Asset Relief Program

A program created by the U.S. government in October 2008 to purchase non-performing assets and equity from financial institutions to strengthen the financial sector

\$700B

Total Funding

430

Criminal Prosecutions

370

Fraud Convictions

290

Imprisoned

25%

of Imprisoned Defendants were Bank Employees

Source(s): "COVID-19 Update: Federal Investigators Prepare to Investigate and Prosecute Fraud in Emergency Loan Programs" by National Law Review; "The CARES Act and the Paycheck Protection Program – We Know A Surge of Fraud is Coming, Let's Prevent it Now" by RegTech Consulting

Statistics on the First Tranche of PPP Loans

Putting PPP Pennies to the Proper Pockets; FinTech Fronts – Fret not the Facer; Cloud is the Cushion in the COVID Crisis

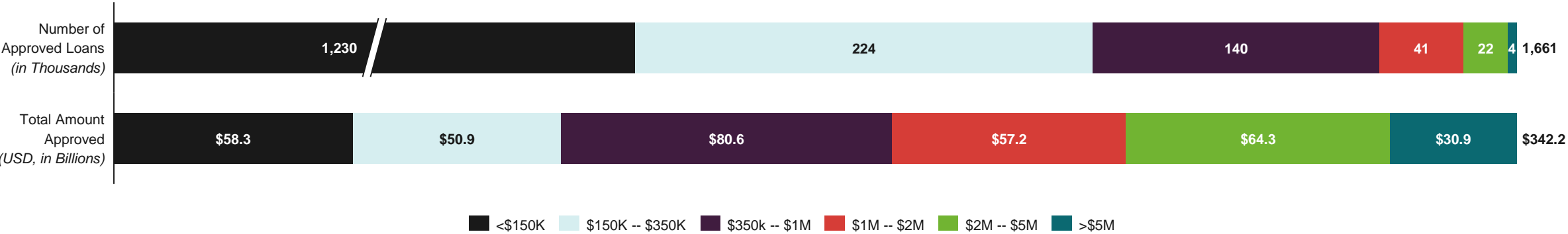
All values are as of 4/16/2020

1,661,367	\$342,277,999,103	4,975
Loan Count	Net Approved Dollars	Lender Count

Top 3 Lenders by Approved Amount by the SMB

#1  CHASE	27,307 Approved Applications \$14B Approved Amount	#2  SUNTRUST	32,097 Approved Applications \$10B Approved Amount	#3  PNC BANK	21,062 Approved Applications \$10B Approved Amount
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By Loan Size



Source(s): "Paycheck Protection Program (PPP) Report" by the SBA

Lendio & Accuity – Leading Firms to Watch as PPP Unfolds

Specialty Finance & RegTech Company Profiles

Company Overview



- Lendio develops and markets an online lending marketplace that connects lenders and small business owners.
- Business owners can leverage the platform to compare and find the best suited lenders for their financing needs.
- Loans offered on the platform range from long-term, low-interest traditional loans to startup loans, equipment financing, merchant cash advances, commercial mortgages, etc.
- The company has 367 employees located in key cities across the U.S.
- The company was founded in 2005 and is headquartered in Lehi, Utah.

Solution Offerings

Lendio's state-of-the-art platform automates and simplifies the lending process:

#1 Application

Application for SMB loans with Lendio only takes **15 minutes** by filling in a simple online form, compared to **29-hour bank process**

#2 Lender Matching

Upon completion of the application, the platform matches the borrower with **over 300 lenders**, more loan options than any other services

#3 Get Funded

Borrower can expect to receive funding in their account in as quick as **24 hours** after approval

Source(s): Capital IQ, Pitchbook, Press Release(s), company website

Company Overview



- Accuity provides a suite of compliance solutions to banks and businesses globally, with a focus on risk and compliance, payments, and know-your-customer.
- Solution offerings include payment processing, financial crime compliance screening, trade screening, and financial counterparty know-your-customer
- The company has 652 employees working from 22 offices across the world.
- The company was founded in 1990 and is headquartered in Evanston, IL.

Solution Offerings

Select technology-enabled services offered by Accuity:

Payments

- Global Payments Web Services
- Global Payments File ERP
- Global Payments Data Cleanse
- Validating IBAN

Risk & Compliance

- Due Diligence
- Ultimate Beneficial Ownership
- KYC API
- Regulatory Views

Trade Compliance

- Account Screening
- Transaction Screening
- Trade Compliance Screening
- Sanctions, PEP, and Screening Data

Financial Compliance

- Ad Review
- Audit Technology
- Broker-Dealer Registration
- Policies & Procedures Management

Summary of the Nine Sectors in the FinTech Universe

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

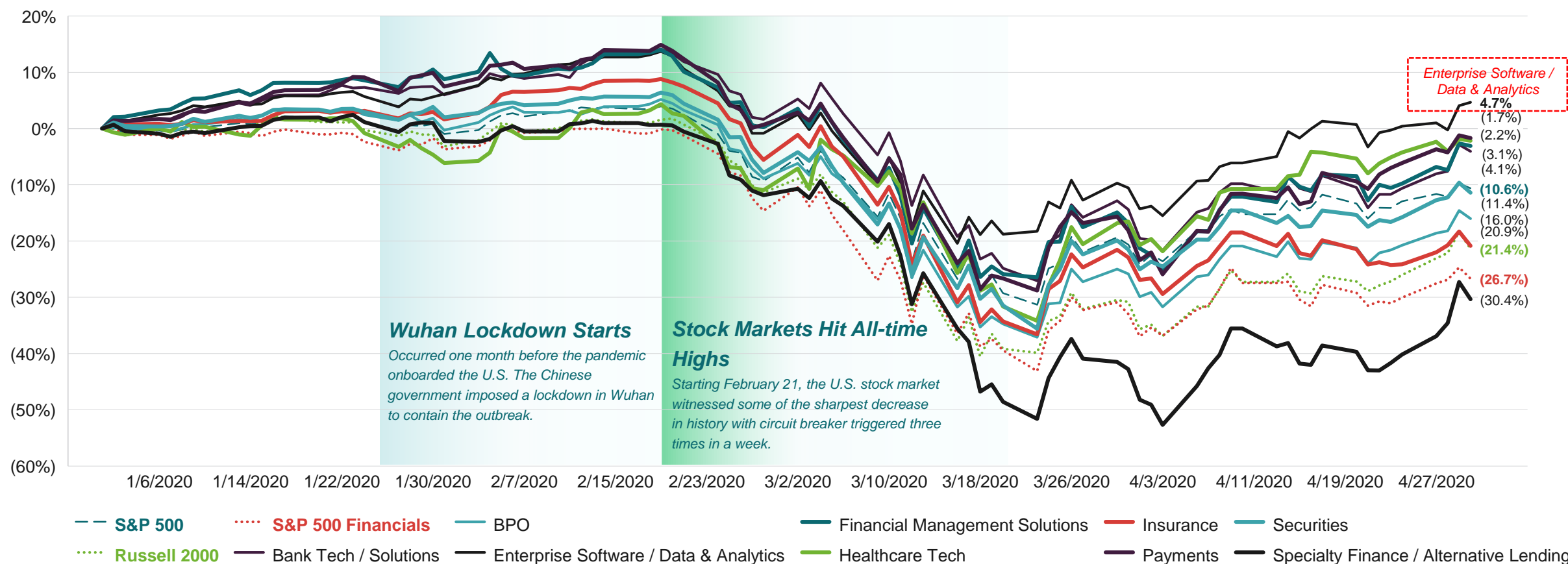
As we consider the performance of the nine sectors, we observe that technology investment is an extremely effective hedge against risk exposure (detailed discussion in the next chapter of this report). Transactions are still completing with investors competing for service providers with solid technology infrastructure.

	Enterprise Software / Data & Analytics	Insurance	Specialty Finance / Alternative Lending	Healthcare Tech	Financial Management Solutions	Payments	Bank Tech / Solutions	Business Process Outsourcing	Securities
As of May 1, 2020 Stock Return	4.7%	(20.1%)	(30.4%)	(2.2%)	(3.1%)	(1.7%)	(4.1%)	(16.0%)	(11.4%)
Positive	ERP firms have long-term contracts and sticky customers	Generally immune in the short term	Lenders can benefit from the panic cash need by raising interest rate	SaaS / Cloud firms are shielded from the impact of COVID-19	Virtual / Automated accounting is attractive in the WFH period	Government stimulus check will boost spending in the near term	Providers of bank solutions and RegTechs are seeing increased demand	Embedded services with long term contracts are attractive	Rising engagement of retail investors with WealthTech applications
Cautious Areas	Solutions serving high-risk industries are vulnerable	Insurer with narrow risk portfolio are the most susceptible	Lower mid-term loan demand from reduced operations and spending	Volatile market for hospital and physician IT	Human capital services will likely to take the heaviest hit in the sector	Reduced spending mid-term; service providers levered to retail and travel have massive exposure	Slowed down bank activities from reduced spending and saving interest rate	Clients stop spending until more clarity in sight	Highly volatile and unpredictable equity market
Key Development	Mission-critical services / solutions are extremely resilient	InsurTechs will help drive down costs as margins at larger carriers come under pressure	FinTechs are more suited to process PPP loans than traditional lenders with superior technology base	Contact tracing will be coupled with widespread testing to monitor and contain the outbreak	Cloud adoption will drive growth in the long term	Payments impacted by the significantly lowered transaction volume from reduced spending	Online banking is indispensable amid stay-at-home orders	BPOs take a direct hit from reduced outsourcing activities by companies	Financial institutions are incentivized to implement technology, to maintain relationships with investors

Stock Movement of Each Sector Since Jan. 1, 2020

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

The following chart demonstrates the stock movement of the nine sectors since January 1, 2020, juxtaposed against the three popular indices (S&P 500, S&P 500 Financials, and Russell 2000). Most of our sector coverage has weathered the storm better than the broad indices.



Source(s): PitchBook

Enterprise Software / Data & Analytics

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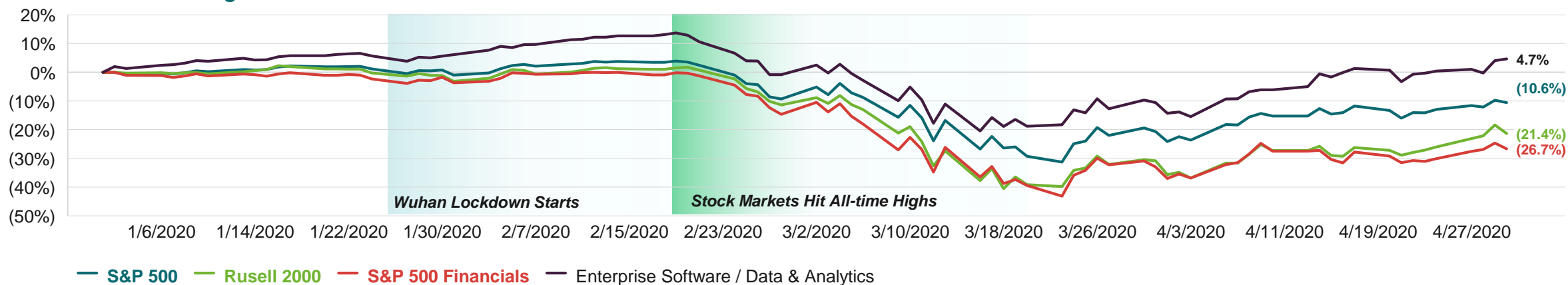
Key Takeaways

- Enterprise Software / Data Analytics is the highlight of all sectors in our FinTech universe, being the only sector that grew in 2020 YTD.
- This space is extremely resilient amid the pandemic-induced crisis as the services are mission-critical to companies, even more so in the WFH period.
- Within the sector, cloud computing shines, as companies are looking to digitize for the new remote work environment. Microsoft reported **“two years worth of digital transformation in two months due to COVID-19”**.
- Positive:** long-term contracts with sticky customers, especially in the ERP space.
- Caution Areas:**
 - Securities risks from working off-site
 - Systems' and servers' being the bottle-neck, fully loaded from a surge in traffic
 - Companies serving specialized solutions for high-risk industries are more prone to be heavily impacted due to the lack of diversification

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$mm)	Comments
4/22/2020	Templafy	INSIGHT PARTNERS	Financing	\$25	Funding will be used to boost M&A activity and develop new products
4/21/2020	SUSTAINALYTICS	MORNINGSTAR	M&A	NA	Morningstar seeks to strengthen its analytics capabilities through the transaction
4/7/2020	PODIUM	Y Combinator	Financing	\$125	Funding is used to support the introduction of a free tier
3/30/2020	BroadVision	Aurea	M&A	NA	The acquisition will add BroadVision's technology to Aurea's extensive enterprise software offerings
3/19/2020	PONDERA	THOMSON REUTERS	M&A	NA	Pondera can leverage Thomson Reuters' industry expertise to accelerate its growth

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research











Insurance

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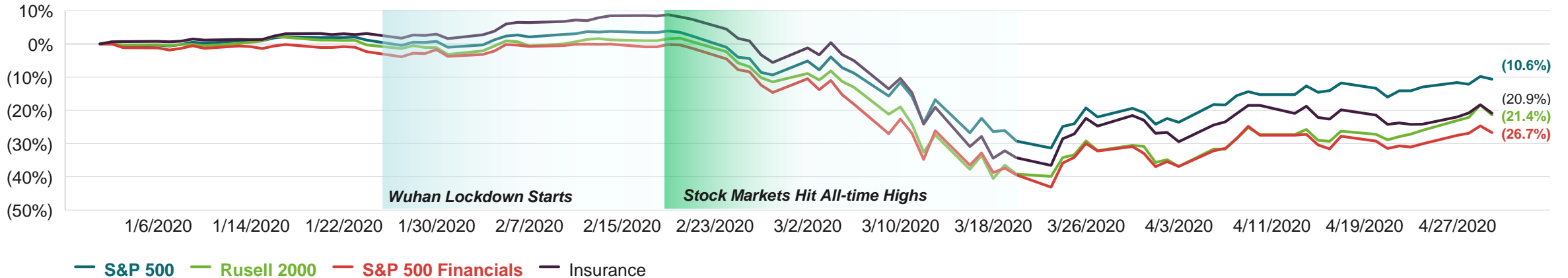
Key Takeaways

- **Positive:**
 - Insurers and reinsurers with diversified risk portfolios are relatively more insulated from losses
 - Service providers in the space are generally immune in the short term
 - InsurTechs will help drive down costs as margins at larger carriers come under pressure
- **Caution Areas:**
 - Insurers and reinsurers highly concentrated on narrow classes of businesses are most exposed to the risks from the pandemic
 - Reduced workforce and more SME bankruptcies drive lower premiums in the long run
 - Falling interest rates and equity market return will negatively affect companies' balance sheet.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/30/2020	 iHexar	 CORNER VENTURES	Series C	\$52	Support growth and development
4/28/2020	 SAGE	 NfX	Seed	\$6	Sage will use the proceeds to build a tech powered insurance brokerage
4/24/2020	 bestow	 VALAR	Series B	\$50	Funding will be used to sustain rapid growth
4/24/2020	 leaplife	 EVEN FINANCIAL	M&A	NA	The transaction enables Even to jumpstart its insurance capabilities
3/9/2020	 Willis Towers Watson	 Aon	M&A	\$30,000	The acquisition will make Aon the world's largest insurance broker

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research










Specialty Finance / Alternative Lending

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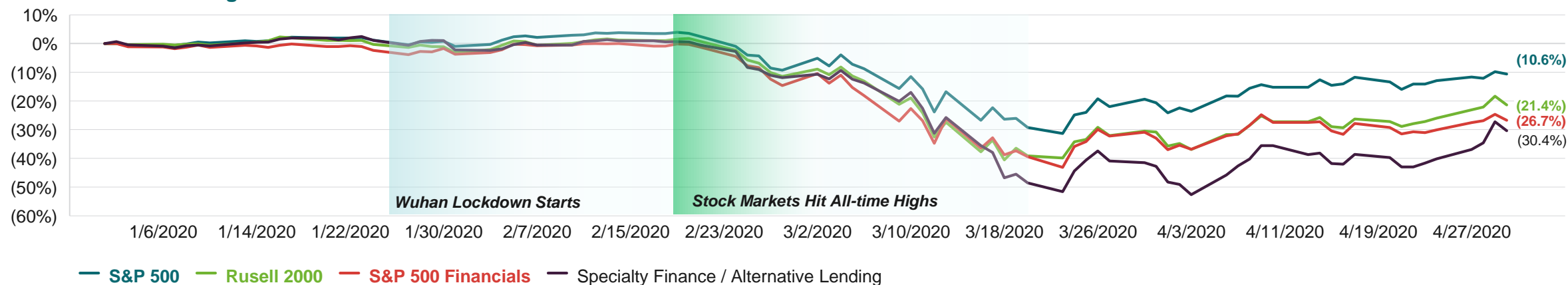
Key Takeaways

- LendingClub reduced 30% of workforce and cut 25% of executives' salaries to cope with the situation – a sign that the sector is struggling.
- **Positive:**
 - The pandemic immediately triggered a surge in cash need from consumers and SMEs; lenders can benefit from this crunch by raising interest rate.
 - FinTechs are the go-to processors of PPP loan applications when traditional lending sources fail to fully serve SMEs. "Tech" is the name of the game.
- **Caution Areas:**
 - In the short term, the crisis will trigger lower net interest margins, falling loan growth, increasing defaults and delinquencies (deteriorating loan quality).
 - After the cash crunch, there will be lower demand for loan from reduced operations and start-up activities.
 - Difficulty accessing the capital market to fund the loans.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/24/2020	 modalku	Private	Series C	\$40	Proceeds will be used to improve user experience, both lenders and borrowers
4/24/2020	 DMFINANCE	 NXE	Corporate Round	\$123	Fund balance sheet growth and expansion of the SME lending business
4/3/2020	 KILTER	 KKR	Equity Round	\$500	Kilter will use the funding for investments in the life, annuity and health insurance sectors
3/18/2020	 boro	 LEXIN 乐信	Series A	\$12	Boro will use the funding to expand its offering to more colleges and universities
3/11/2020	 neyber	 SALARY FINANCE	M&A	NA	The acquisition enables Salary Finance to expand its service offerings across the UK

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research









Healthcare Tech

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

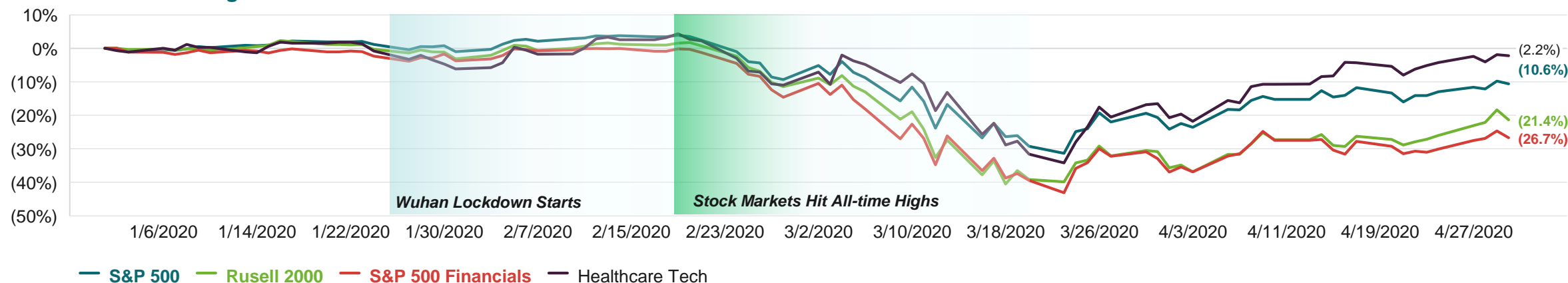
Key Takeaways

- Contact tracing will be used in conjunction with widespread testing to monitor and contain the spread of the disease once the economy reopens.
- Positive:**
 - Companies heavy on the subscription-based / SaaS model of Software & Analytics are shielded from the impact of COVID-19.
 - On-cloud enterprise imaging solution providers are seeing increasing demand.
 - As in-person visits hindered by social distancing, telehealth providers could leverage this situation as an opportunity to attract more volume.
 - Healthcare Tech, being heavily regulated, will benefit from incentive and expansion measures by the government in the long run.
- Caution Areas:**
 - Volatile market for hospital and physician IT.
 - Certain elective health care services will take a long time to recover.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/20/2020	 alan	TEMASEK	Series C	\$54	Funding will be used to help the company expand to other countries
4/16/2020	 gaido	 biofourmis	M&A	NA	Gaido Health's system will be combined with the Biovitals platform post-transaction
3/17/2020	 Pinnacle	 emis health	M&A	NA	EMIS seeks to expand its capabilities to better serve its pharmacy customers
3/9/2020	 HEALTHEDGE	Blackstone	M&A	NA	HealthEdge to utilize BlackStone's resources and expertise to fuel growth
3/9/2020	 HORIZON	 carepayment	M&A	NA	Accelerates CarePayments' growth strategy and drives more volume

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research










Financial Management Solutions

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

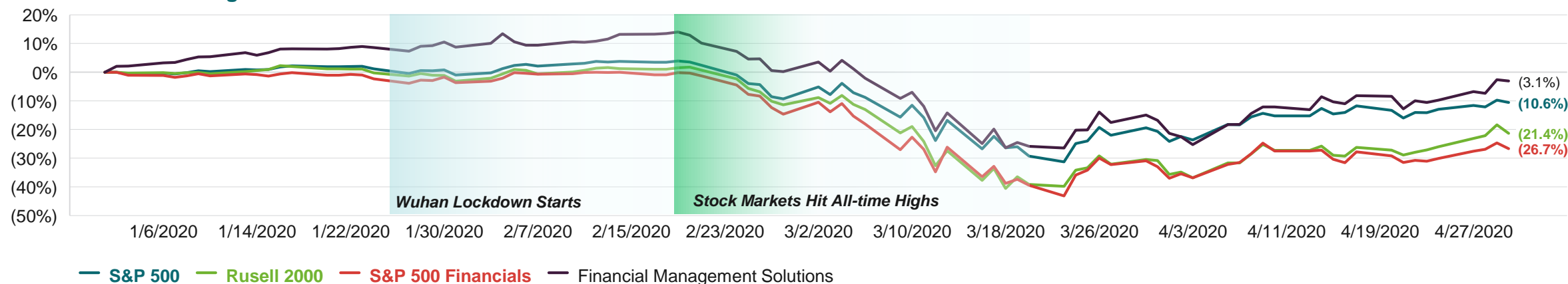
Key Takeaways

- As back offices trying to adapt to functioning when no one is in the office, FMS fall into the essential category.
- Near-term risks from lower booking and reduced operations, but long-term opportunities from cloud migration.
- Positive:**
 - The accounting solutions peer group is a bright spot, with a positive stock return since the Wuhan lockdown occurred in mid-January.
 - Large TAM is shifting toward the cloud. Cloud adoption will drive growth in the long term (estimated 15%+ cloud CAGR through 2023, though pandemic-induced crisis can dampen growth).
- Caution Areas:**
 - With hiring freeze and mass furloughs, human capital software and service providers will likely to take the heaviest hit in the sector.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/17/2020	 Worktech	 Prometheus	M&A	NA	Utilizes Work Technology' capabilities in controlling costs, helping customers optimize their asset management efforts
4/16/2020	 taxfix	 Index Ventures	Series C	\$65	Funding will be used to add 100 employees to the current team of 200 employees
4/3/2020	 Lessonly	AXA Venture Partners	Series C	\$15	Proceeds will be used to scale the company globally
3/31/2020	 IdentityMind	 acuant	M&A	NA	Acuant will add IdentityMind's Digital Identity Platform to its Trusted Identity Platform
3/5/2020	 corehr	 access	M&A	NA	The acquisition further establishes Access as the market leader in the U.K.

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research










Payments

Putting PPP Pennies to the Proper Pockets; FinTech Fronts – Fret not the Facer; Cloud is the Cushion in the COVID Crisis

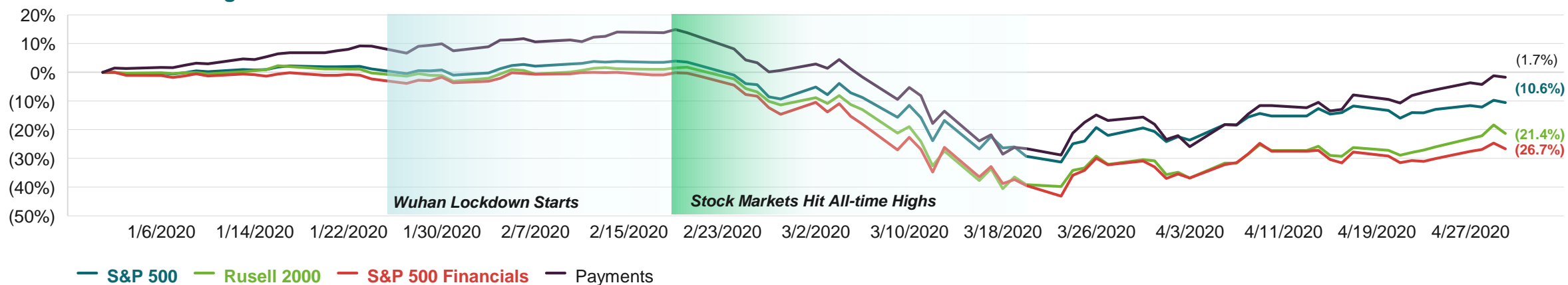
Key Takeaways

- **General theme:** Payments is impacted by the significantly lowered transaction volume from reduced spending
- **Positive:**
 - Government stimulus check will boost spending in the near term. Data shows a bounce in volume in the second half of April.
 - Stay-at-home orders force consumers out of cash payments (38% consumers see contactless payments as essential, up from 2019's 30%).
 - Weekly global e-commerce transactions were up 23% in mid-March.
- **Caution Areas:**
 - U.S. payment volume reduced by 19% in April (credit down by 31% and debit down by 6%).
 - Volume of transaction processed by Visa went down by 25%.
 - Service providers levered to retail and travel have massive exposure

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/24/2020	 DavidXchange	 SIXTH STREET PARTNERS™	Series F	\$128	Funding will be used for strategic growth initiatives and continued innovation.
4/21/2020	 KORTA	 Rapyd	M&A	NA	The acquisition adds credit / debit card payments capabilities to Rapyd
4/17/2020	 stripe	ANDREESSEN HOROWITZ	Series G Extension	\$600	The funding effort boosts Stripe's valuation to \$36B
3/4/2020	 Klarna.	 ANT FINANCIAL	Growth	NA	Deepens the partnership between the two companies to better serve consumers
3/3/2020	 MPX MERCHANTPRO EXPRESS	 fiserv.	M&A	NA	expand its merchant services business and grow partner-based distribution

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research

Bank Tech / Solutions

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

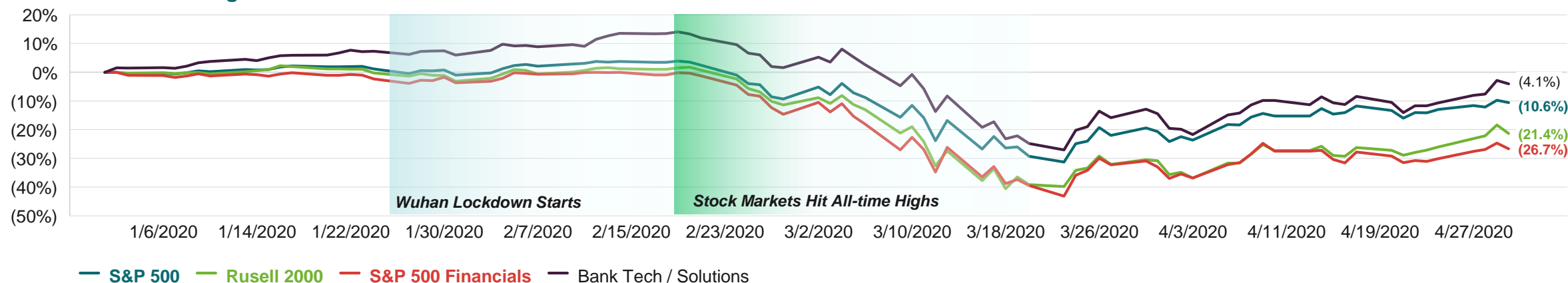
Key Takeaways

- **Key theme:** Online banking is a must in the pandemic era when customers cannot step inside a branch.
- **Positive:**
 - Challenger banks can lever the situation to market their online services
 - RegTech firms will be attractive since they can help make sure firms are compliant with PPP loan.
 - Technology vendors to traditional banks will be able to sustain earnings by performing services that allow banks to be more accessible online.
 - Service providers to banks are protected by long-term contracts and extremely sticky customers.
- **Caution Areas:**
 - Reduced spending and saving interest rate could slow down bank activities overall.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
5/6/2020	TREASURY PRIME	nyca QED SaaStr INVESTORS	Series A	\$9	Proceeds from the transaction will help bring Treasury Prime's API solutions to the market
3/24/2020	Neji	BREX	M&A	NA	The acquisition strengthens the security, privacy and risk posture of the buyer's customer data and assets
3/13/2020	mercury	Santander	M&A	\$32	The acquisition enables the buyer to digitalize trade finance for customers as well as its own internal process
3/10/2020	NorthOne	Battery Redpoint	Series A	\$21	This financing round helps NorthOne with customer talent acquisition
3/1/2020	Thought Machine	Droper Esprit IQ CAPITAL	Series B	\$83	Drives growth and strengthens mission to transform banking

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research










Business Process Outsourcing

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

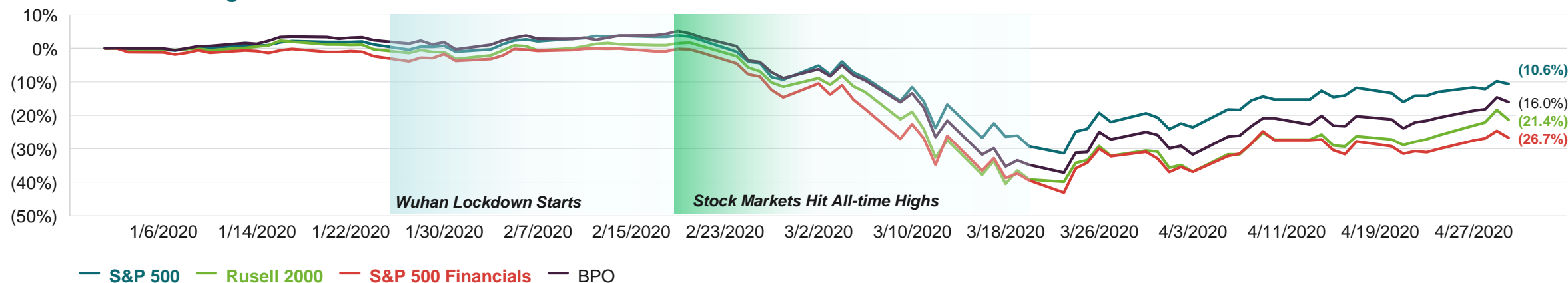
Key Takeaways

- BPOs take a direct hit from reduced outsourcing activities by companies. This comes from reduced business operations and activities
- **Positive:**
 - Providers of services that are embedded into business processes with long term contracts are relatively more resistant to the negative impacts.
 - BPOs can carry out auxiliary tasks that are normally done by full-time staff, helping companies saving on staffing costs in the crisis.
 - Outsourcing workforce is generally adequately trained and equipped to work remotely.
- **Caution Areas:**
 - It may take a long time to ramp up sales again as clients stop spending until more clarity in sight.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/17/2020	 everree	 origin ventures SIGNAL PEAK VENTURES	Series A	\$10	Funding will be used for market expansion and sustaining the company through the crisis
3/19/2020	 Pondera	 THOMSON REUTERS	M&A	NA	The acquisition enhances the buyer's capabilities in the risk, fraud and compliance space for government agencies
3/12/2020	 Human Interest	Oberndorf Enterprises	Series B	\$40	Funding will be used to fuel the goal to achieve \$40mm ARR
3/9/2020	 Clutch FIRMS THAT DELIVER	 SGE SUSQUEHANNA GROWTH EQUITY, LLC	Financing	NA	The partnership will help Clutch with technology and process development, and client base expansion
3/3/2020	 STRATEGIC CYBER PARTNERS	 helpsystems	M&A	NA	The acquisition expands the buyer's cybersecurity offerings and brings additional expertise

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research













Securities

Putting PPP Pennies to the Proper Pockets; **FinTech Fronts – Fret not the Facer**; Cloud is the Cushion in the COVID Crisis

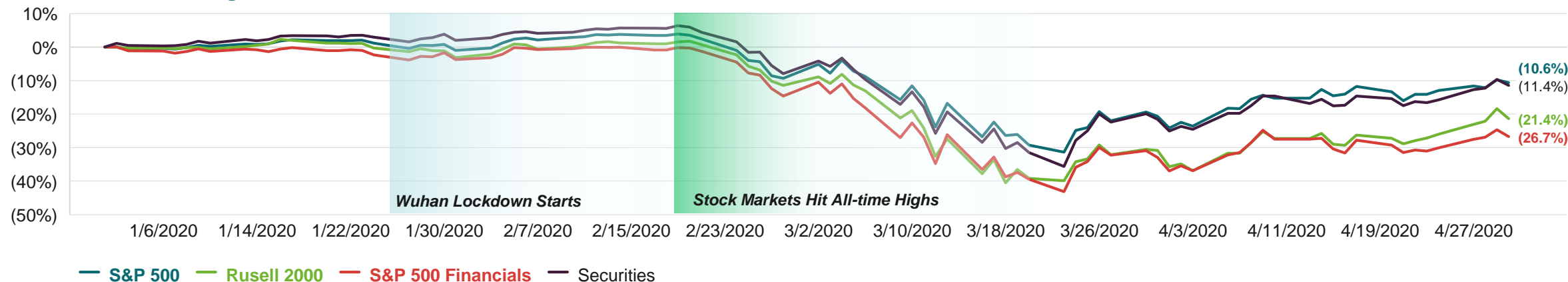
Key Takeaways

- A “break” from the decade-long stable market forces wealth managers and financial institution to implement technology, as investors demand clear reporting and analysis without in-person meetings.
- Positive:**
 - Rising engagement of retail investors with WealthTech applications
 - Supporting technology providers for wealth managers will “thrive” from the migration to digital interaction with clients – secure communications, data analysis portals and dashboards
- Caution Areas:**
 - Highly volatile and unpredictable market slows down market activities and investments. Traditional financial institution will be likely to suffer heavily.

Select M&A and Financing Transactions

Date	Target	Investor	Type	Value (\$ mm)	Comments
4/2/2020	 CoinMarketCap		M&A	\$400	Binance and CoinMarketCap will continue to be run as separate entities with a strict policy of independence
3/23/2020		 	Venture Round	\$146	Funding will be used to expand the platform in technology and functionality
3/17/2020			M&A	NA	O&M's tools will be integrated into the Iress' advice software, creating a combined advice and research solution
3/16/2020		 	Series B	\$300	Funding will be used for expansion of offering
3/2/2020			M&A	NA	The acquisition expands the buyer's offering of wealth management portals and strengthens its relationship with brokers

Stock Performance against Select Indices



Source(s): PitchBook; Press Release; Wall Street Research

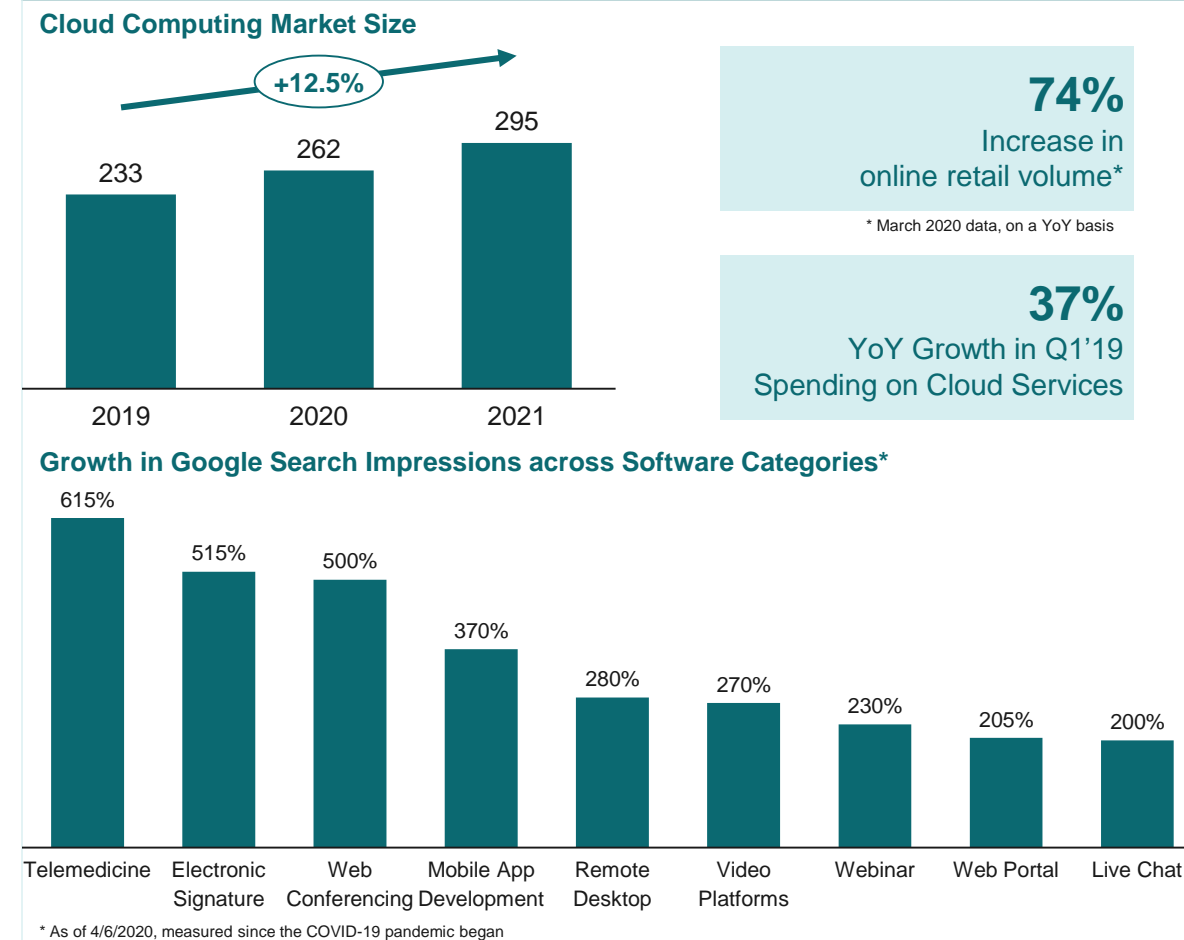
Everything under the Cloud is Growing

Putting PPP Pennies to the Proper Pockets; FinTech Fronts – Fret not the Facer; Cloud is the Cushion in the COVID Crisis

BROAD MARKET OVERVIEW

- Across all FinTech sectors, we observe a growing trend of cloud technology. Such technology is becoming increasingly essential in an unprecedented period when no one gets out of their house.
- Verticals with practical adoption of cloud technology will weather the pandemic well. On the other hand, those with less use of cloud software such as transportation, logistics, and manufacturing, are severely disrupted by the pandemic.** We touched on this observation in the previous section of this research report.
- Cloud service providers are proving to be extremely resilient.** Despite the impact of COVID-19, the cloud market size is forecasted to grow at 12.5% CAGR from 2019 to 2021, driven by cloud-based business continuity tools and services.
- Within the sector, cloud-based supporting technology for consumer goods & retail segment is forecasted to experience the fastest growth, driven by the shift of shopping to online channels. The majority of the retailers are focusing on developing commerce websites.
- With regards to healthcare, COVID-19 incentivizes healthcare systems to invest in scalable and secured cloud-based technology infrastructure to efficiently record and store patient information. The data would then be analyzed by cloud computing solutions.
- Similar to retail and enterprise software, EHR and telehealth are necessary when social distancing is in reinforcement. Physicians must be able to consult patients without in-person appointments. Health authority around the world, such as WHO, and CDC, are encouraging telehealth usage by publishing guidelines.
- Increased spending on cloud-based software and ERP solutions is driving revenue for cloud service providers.

Statistics on the Aggressive Growth of Cloud Services amid COVID-19



Source(s): "COVID-19 Impact on Cloud Computing Market" by MarketsandMarkets; "COVID-19 Software Industry Statistics" by TrustRadius

Enterprise Software is Skyrocketing

Putting PPP Pennies to the Proper Pockets; FinTech Fronts – Fret not the Facer; Cloud is the Cushion in the COVID Crisis

OVERVIEW OF THE SECTOR

- As companies swiftly migrate almost the entirety of their operations to the cloud, with the bulk of staff working from home, Enterprise Software / Cloud firms provide just the solutions needed.
- SaaS, being the largest segment within the cloud market, will continue to grow and gain market share. **For companies, it costs to run on-premise software when their employees are not in the office.** Slow, vulnerable, inefficient technology infrastructure will inevitably result in loss of productivity.
- CFOs are adapting to virtual accounting – closing the book without anyone in the office. This poses a universal challenge to companies, especially SMB, but also presents an opportunity for providers of accounting automation (Coupa, Blackline, Sage, etc.) and virtual bookkeeping services (bookkeeper.com, etc.) to rise and thrive from the turmoil.
- Document management and digital signature are increasingly important when physical documents are not optimal for collaboration and storage. **HyperScience reports 30% MoM increase in Document Processing Automation platform usage in March.**
- Private equity and investment firms are going to start paying a lot more attention to these types of firms due to their resiliency. Although market activities have slowed down as investors are more cautious, competition for targets with strong foundation and solid products is high:
 - AvidXchange raised \$127 from 52 investors from its latest funding round in April 2020
 - Podium, a startup that provides a messaging software for small businesses, successfully raised \$125M from its Series C in April 2020

Two Years Worth of Digital Transformation in **Two Months** Due to COVID-19

Source(s): "Key Covid-19 stats so far: Cloud, data centre, cyber security, AI & big data" by Techerati.com

Impressive Growth from the Service Providers



- 9,000 paid customers** added between Feb 1 and Mar 25, upping from 5,000 new users per quarter
- Active users reached 12,000** in March, up from 10,000



- Reached **200 million users** by in of March, **upping 2000%** from December count



- Day-over-day growth surpassed 60%**
- Daily usage in March was **25 times** what it had been in January



- 44 million daily active users** by end of March, **upping 110%** from the November 2019 figure



- AWS' **Q1'2020 revenue broke \$10 billion** for the first time – **32.6% YoY growth**

AvidXchange

Financing Case Study – April 2020

Target Company Overview



- AvidXchange provides accounts payable and payment automation software for midsize companies.
- The company's flagship AP automation suite includes purchase order software, invoice management software, payment software, check printing software, and utility bill management software.
- The company has 1,200 employees located in North Carolina, Alabama, Mississippi, New Jersey, Texas, Massachusetts, and Utah.
- The company was founded in 2000 and is headquartered in Charlotte, North Carolina.

Solution Offerings

AvidXchange offers services in the following categories:

Automated Invoice Management

- Invoice Scanning and Storage
- Invoice Rule and Alert Setting
- Permission Control
- Real-time Reporting

Purchase Order Software

- Cost Controlling – Recurring Purchases, Requisitions, Managing Who, What & When of Orders
- Money Management

Bill Payment Software

- Support & Security
- Control & Compliance
- Integration with Accounting Systems

Supplier Management

- Automating supplier management and payment
- Digitizing supplier invoice

Transaction Details

- The company raised \$128 million from its second Series F funding on April 23, 2020. Before the funding round, the company's valuation was estimated at \$2 billion, according to Reuters.
- The financing effort was oversubscribed, with participation from 52 investors. In total, AvidXchange has raised over \$388 million from its series F. Transaction stake was not disclosed.
- A number of new investors participated in this round, including Lone Pine Capital, Neuberger Berman and Schonfeld Strategic Advisors.
- With this round of funding brought the aggregate amount raised to over \$900 million.

Transaction Rationale

- The new capital enables AvidXchange to sustain its strategic growth initiatives and continued innovation, bringing the AP automation and payments processing solutions to both buyers and suppliers.
- Funding will also be used for market penetration efforts and expansion into new verticals, as 60% of U.S. businesses have yet to implement any form of automation to their AP processes.
- AvidXchange's solutions are becoming even more relevant as businesses are executing continuity / contingency plans and shifting to remote operations. In this light, the company's offerings are mission critical.

Source(s): Capital IQ, Pitchbook, Press Release(s), company website

HyperScience

Company Profile

Company Overview

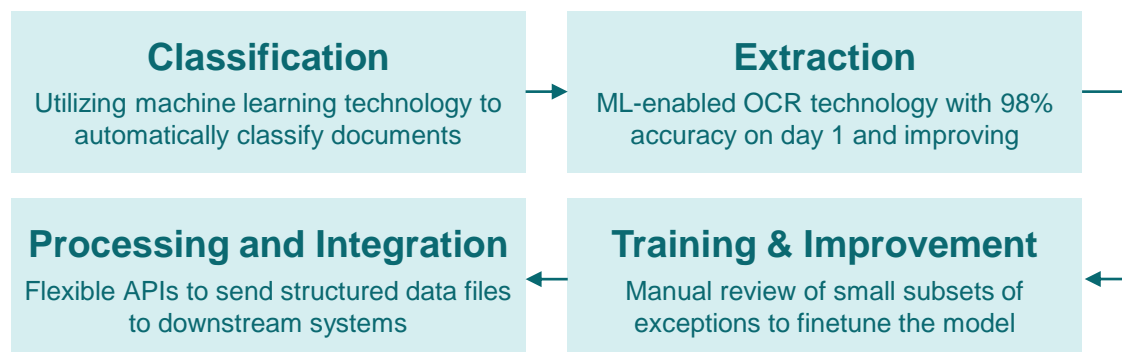


HYPERSCIENCE

- Hyper Labs, doing business as HyperScience, is a provider of an AI-enabled suite of automation solutions to streamline complex internal workflows.
- The document management platform's key capabilities include classification, extraction, sorting and processing.
- The Company provides services across a broad range of verticals – financial services, government, healthcare, insurance, etc.
- The company has 140 employees (and actively hiring) located in New York, London and Sofia
- The company was founded in 2014 and is headquartered in New York, NY.

Solution Offerings

HyperScience offers end-to-end control to minimize wasted manual efforts and boost productivity:



Source(s): Capital IQ, Pitchbook, Press Release(s), company website

Financing History

Date	Key Investors	Type	Value (\$mm)
1/16/2019	stripes Felicis Ventures QBE	Series B	\$30
5/2/2018	QBE	Venture Round	NA
12/15/2016	stripes Felicis Ventures QBE	Series A	\$18
7/13/2015	FIRSTMARK	Venture Round	\$11

Key Management



Peter Brodsky

CEO, Co-Founder

Peter drives the strategy and direction of HyperScience, having previously worked at SoundCloud, Instinctiv, SaySoSoft



Krasimir Marinov

Co-Founder

Krasi previously worked at different high-growth companies, where he was actively involved in the engineering process



Vladimir Tzankov

Co-Founder

Prior to founding HyperScience, Vladimir led Research & Development at Instinctiv



Charlie Newark-French

COO





Charlie oversees go-to-market, finance and operations. He was previously Partner at Fusion Global Capital

4. Deal Activity in Sectors Evaluated

Deal Activity

Specialty Finance / Alternative Lending | Enterprise Software / Data & Analytics

Highlighted Specialty / Alternative Lending Transactions











Date	Company	Acquirer / Investor	Type	Value (\$ mm)	Comments
4/24/2020	 modalku	Private	Series C	\$40	<ul style="list-style-type: none"> Modalku is an Indonesia-based provider of a crowdfunding platform for SME funding Proceeds will be used to improve user experience, both lenders and borrowers
4/24/2020	 DMI FINANCE	 NXC	Corporate Round	\$123	<ul style="list-style-type: none"> DMI Finance is a non-bank financial fintech company based in India The Company provides consumer loans, home loans, and corporate loans Funding from the financing round will be used to stimulate balance sheet growth and expansion of the SME lending business
4/3/2020	 KILTER	KKR	Equity Round	\$500	<ul style="list-style-type: none"> Kilter Finance provides flexible financing solutions to companies in the insurance industry Kilter will use the funding for investments in the life, annuity and health insurance sectors
3/18/2020	boro	LEXI 乐信	Series A	\$12	<ul style="list-style-type: none"> Boro is a provider of auto and personal financing solutions to college students Boro will use the funding to expand its offering to more colleges and universities
3/11/2020	neyber	SALARY FINANCE	M&A	NA	<ul style="list-style-type: none"> Neyber offers employee financing solutions that drives employee engagement and increases productivity The acquisition enables Salary Finance to expand its service offerings across the UK

Source(s): Capital IQ, Press Releases

Deal Activity

Specialty Finance / Alternative Lending | Enterprise Software / Data & Analytics

Highlighted Enterprise Software / Data & Analytics Transactions

Date	Company	Acquirer / Investor	Type	Value (\$ mm)	Comments
4/22/2020	 Templafy	 INSIGHT PARTNERS	Financing	\$25	<ul style="list-style-type: none"> Templafy develops and markets a document management platform serving companies in a broad range of industry verticals Funding will be used to boost M&A activity and develop new products
4/21/2020	 SUSTAINALYTICS	 MORNINGSTAR	M&A	NA	<ul style="list-style-type: none"> Sustainalytics conducts research and corporate governance ratings Morningstar seeks to strengthen its analytics capabilities through the transaction
4/7/2020	 PODIUM	 Combinator	Financing	\$125	<ul style="list-style-type: none"> Podium provides interaction management solutions for small businesses, most notably a suite of messaging tools Funding is used to support the introduction of a free tier
3/30/2020	 BroadVision	 Aurea	M&A	NA	<ul style="list-style-type: none"> BroadVision develops enterprise applications for workforce, partner, and customer engagement The acquisition will add BroadVision's technology to Aurea's extensive enterprise software offerings
3/19/2020	 PONDERA	 THOMSON REUTERS	M&A	NA	<ul style="list-style-type: none"> Pondera develops solutions to combat fraud, waste, and abuse in healthcare and government programs, utilizing advanced analytics, prediction algorithms, and machine learning Pondera can leverage Thomson Reuters' industry expertise to accelerate its growth

Source(s): Capital IQ, Press Releases

5. Public Comparables

Public Trading Comparables

Specialty Finance / Alternative Lending | Enterprise Software / Data & Analytics

(All figures in US Dollars. Figures in millions, except per share data, as of May 1, 2020)

SME Lending

	Stock Price	% of 52-Wk. High	Market Value	LTM		Growth Rates:				Market Value / Rev.		Price / Earnings		Price Book	ROE %
						Revenue	Earnings	LTM Net	Price / Earnings						
				Revenue	Net Income	CY 2020	CY 2021	LT	Income %	CY 2020	CY 2021	CY 2020	CY 2021		
GreenSky	\$4.29	28.0%	\$771	\$530	\$32	31%	4%	NA	6%	1.4x	1.4x	6.9x	7.4x	29.9x	NMF
LendingClub	\$7.26	38.5%	\$507	\$655	(\$31)	29%	NMF	NA	(5%)	0.7x	1.2x	NMF	NMF	0.7x	0%
Enova International	\$13.63	46.5%	\$429	\$1,175	\$37	13%	(0%)	2%	3%	0.3x	0.3x	6.3x	11.6x	1.0x	36%
Funding Circle	\$1.07	30.3%	\$373	\$214	(\$108)	25%	3%	NA	(51%)	1.7x	1.7x	NMF	NMF	0.9x	(14%)
OnDeck	\$1.10	22.0%	\$64	\$400	\$28	13%	NMF	NA	7%	0.1x	0.2x	3.7x	NMF	0.3x	9%
Chesswood Group	\$3.73	44.1%	\$61	\$70	\$9	16%	(7%)	2%	13%	0.6x	0.7x	6.0x	NMF	0.6x	9%
Accord Financial	\$4.23	54.1%	\$36	\$29	\$5	NA	NA	(2%)	16%	NA	NA	NA	NA	0.5x	4%
IOU Financial	\$0.05	25.5%	\$4	\$14	\$1	26%	30%	NA	8%	0.2x	0.2x	1.3x	0.8x	0.4x	14%
MEAN						22%	6%	1%	(0%)	0.7x	0.8x	4.8x	6.6x	4.3x	8%
MEDIAN						25%	3%	2%	7%	0.6x	0.7x	6.0x	7.4x	0.6x	9%

LTM = Latest Twelve Months

Enterprise Value = (Market Value) + (Debt + Preferred Stock + Minority Interest) - (Cash & Equivalents)

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

NMF = Not meaningful

Source: Pitchbook, SEC filings

Public Trading Comparables

Specialty Finance / Alternative Lending | Enterprise Software / Data & Analytics

(All figures in US Dollars. Figures in millions, except per share data, as of May 1, 2020)

Enterprise Software

	Stock Price	% of 52-Wk. High	Market Value	Enterprise Value	LTM		Growth Rates:			LTM Margins:		EV / Revenue			EV / EBITDA		
					Revenue	EBITDA	Revenue:		Earnings LT	Gross	EBITDA	LTM	CY 2020 CY 2021		LTM	CY 2020 CY 2021	
							CY 2020	CY 2021									
Microsoft	\$174.57	91.5%	\$1,323,841	\$1,260,073	\$138,699	\$67,000	10%	14%	25%	68%	48%	9.1x	9.7x	8.5x	18.8x	22.4x	18.2x
Adobe Systems	\$343.84	88.9%	\$165,662	\$166,202	\$11,661	\$4,238	23%	17%	36%	85%	36%	14.3x	14.9x	12.8x	39.2x	32.7x	27.3x
Oracle	\$51.79	85.6%	\$163,324	\$189,787	\$39,766	\$16,515	(0%)	1%	14%	80%	42%	4.8x	4.8x	4.8x	11.5x	10.4x	9.7x
Salesforce	\$156.37	79.9%	\$140,559	\$138,480	\$17,098	\$2,841	28%	23%	(31%)	75%	17%	8.1x	8.1x	6.6x	48.7x	27.6x	23.4x
SAP	\$118.49	84.0%	\$142,321	\$151,434	\$30,844	\$7,019	4%	2%	(3%)	70%	23%	4.9x	5.0x	4.9x	21.6x	14.8x	14.5x
International Business Machines	\$121.87	76.8%	\$108,207	\$165,925	\$76,535	\$15,612	(3%)	(4%)	(6%)	48%	20%	2.2x	2.2x	2.3x	10.6x	9.1x	9.4x
VMware	\$125.34	60.6%	\$52,393	\$55,972	\$10,811	\$2,460	5%	17%	NA	83%	23%	5.2x	5.5x	4.8x	22.8x	14.2x	15.0x
Pegasystems	\$79.55	77.1%	\$6,371	\$6,386	\$964	(\$127)	4%	15%	NA	67%	(13%)	6.6x	6.9x	6.0x	NMF	NMF	NMF
Zuora	\$10.23	44.4%	\$1,176	\$1,083	\$276	(\$65)	18%	9%	NA	51%	(24%)	3.9x	3.9x	3.6x	NMF	NMF	NMF
MEAN							10%	10%	6%	70%	19%	6.6x	6.8x	6.0x	24.7x	18.7x	16.8x
MEDIAN							5%	14%	6%	70%	23%	5.2x	5.5x	4.9x	21.6x	14.8x	15.0x

LTM = Latest Twelve Months

Enterprise Value = (Market Value) + (Debt + Preferred Stock + Minority Interest) - (Cash & Equivalents)

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

NMF = Not meaningful

Source: Pitchbook, SEC filings

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