# Merchant Cash Advance / Small Business Financing Industry Report

January 2016

BRYANT PARK CAPITAL

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# Market Overview

# Market Overview

*Industry Description*

- The Merchant Cash Advance ("MCA") Industry evolved out of the challenges small businesses faced accessing capital to grow.

- An MCA is typically a short-term cash advance given to small and medium-sized businesses ("SMB") as a purchase of a fixed amount of receivables due sometime in the future. There are several variations to the concept of an MCA, but many MCAs share several core characteristics:
  - Payments are either collected from a portion of an SMB's bank account via Automated Clearing House ("ACH") or via a split payment directed by credit card sales directly from its merchant processor on a daily, weekly, or monthly basis.
    - Payments can either be a fixed percentage of a SMB's sales or a fixed nominal amount, usually paid on a daily basis.
  - From a regulatory perspective, typical MCAs are not considered to be loans, therefore they are not subject to the same laws that apply to loans. However, this lack of regulation may change over time, and as the industry grows many of the larger market participants are adding lending products to their portfolio of product offerings.
  - Additionally, many market participants are adding loan products to the traditional MCA marketplace to expand their market opportunity.

- These MCA providers developed a unique set of credit/underwriting criteria and collections and innovative term and payment collection technology. They do not rely on traditional financial statements in the underwriting process and often social media, bank statements and NSF management as by underwriting criteria.

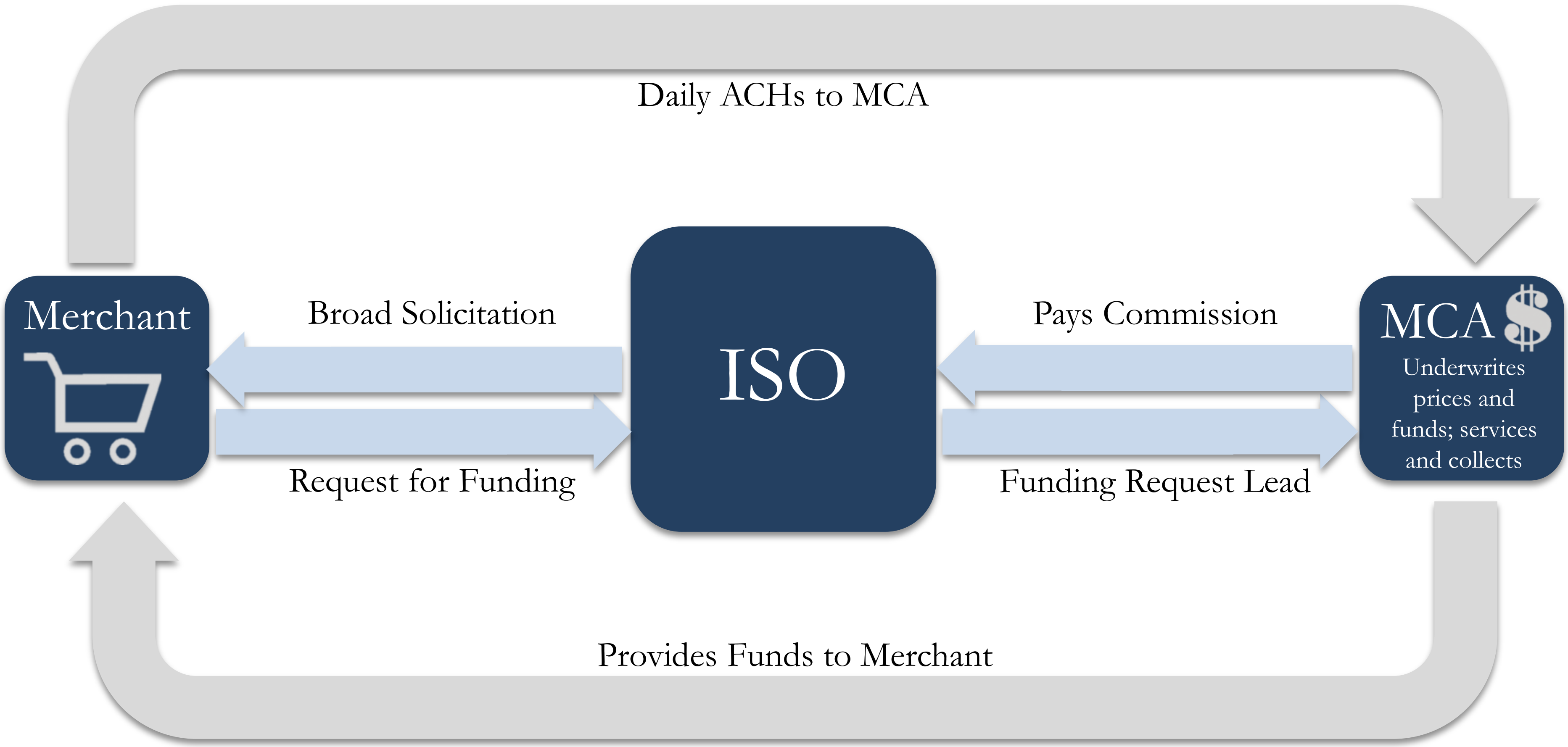
- Approval turnaround times for getting an MCA range from a day to under a week from submitting an application to receiving the advance. MCAs are faster, require less paperwork, are more readily accessible, and are approved more easily and frequently than traditional bank loans. Industry average approval rates are approximately 46%.

- The typical SMB customer uses the cash advance for quick working capital purposes—from purchasing new equipment to covering operational costs and more.

- Independent Sales Organizations ("ISOs") typically play a significant role in providing MCA providers with merchants looking for a short-term advance. These ISOs often service the merchants for their credit card processing and are now able to offer an MCA as an add-on product. However, the origination business for advances has become so lucrative that many ISOs focus almost exclusively on MCA opportunities. Typically about 50% of MCA financings come from ISOs.

# Market Overview

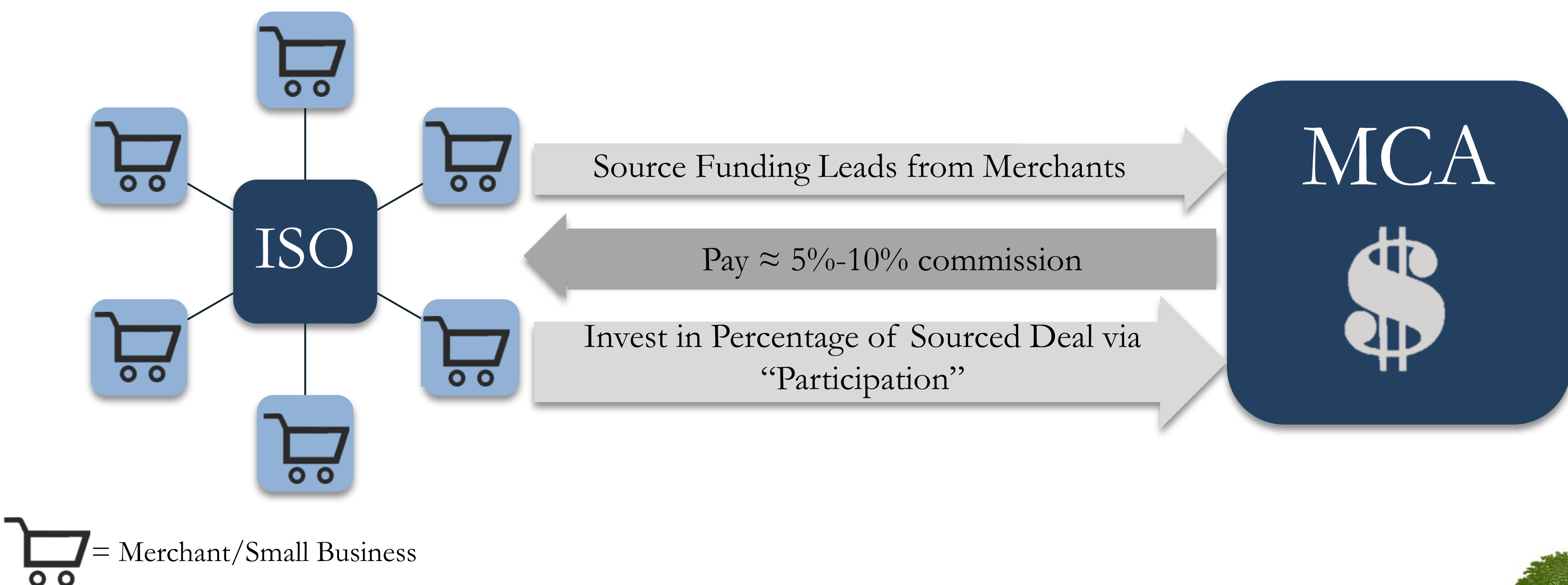
*Overview of a Merchant Cash Advance*



# Market Overview

*ISOs*

- Most MCA funders generate leads internally and through third party ISOs.
- It is estimated that 50% of total MCA originations were generated by ISOs and provided to MCA funders for one-time commissions.
  - MCA providers are also building or buying in-house origination capabilities.
- In excess of 1,000 ISOs compete for leads to "sell" to the MCAs.
- In an effort to promote strong potential transaction flow from ISOs, MCA funders are increasingly providing opportunities for ISOs to "participate" (i.e. invest) in a percentage of the merchant funding transaction (loan or advance) originated (typically up to 50% of the advance amount). The larger more successful ISOs also often provide the ability to "White Label" the MCA under their name to appear as the funding entity to the borrower.
- Over the past 6-12 months ISOs are seeing a growing opportunity to invest in these lucrative participation opportunities; however, most ISOs face capital constraints that limit their capacity to invest.



# Market Overview

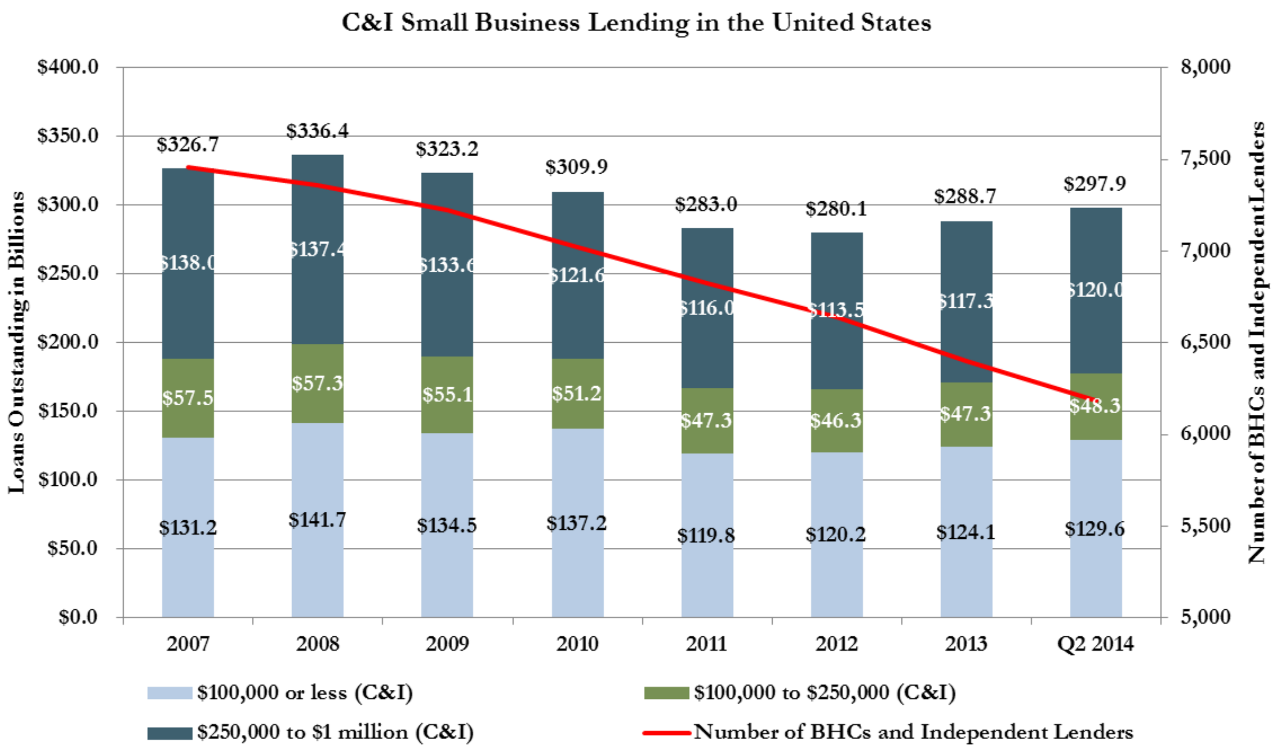
*History of the MCA Industry*

- The inception of the industry is disputed, but the general consensus is that the MCA industry started a little after the widespread popularity of credit cards in the late 1990s.
  - AdvanceMe (currently operates under the name of CAN Capital), which is widely considered to be the first MCA provider, was founded in 1998 in Georgia.[1]
- Early MCAs resembled loans and included clauses requiring personal guarantees. As the industry evolved, industry players shifted away from loan-like documentation and made MCAs predominately non-recourse and removed personal guarantee requirements.[2]
- The North American Merchant Advance Association ("NAMAA") was founded on April 15, 2008 with the goal of setting standards for the MCA industry.[3]
  - NAMAA rebranded itself as the Small Business Finance Association ("SBFA") on April 14, 2015 and currently has 17 members. These members include many of the larger market participants.
- After the credit crisis of the late 2000s, SMBs experienced even more challenging borrowing requirements at banks due to increased regulatory restrictions for lending to small businesses, including Dodd Frank and Basel III. This led to increased demand for MCAs which has remained consistent through today and is expected to remain at high levels for the foreseeable future.[4]
- In recent years, many of the larger MCA providers have increasingly focused on differentiating themselves from traditional MCAs—lump sum payments for a portion of future sales taken as a fixed percentage of daily sales—and the associated stigma and negative reputation. They have added products like lines of credit, more traditional loan-like products, lengthened payback periods, and reduced rates to expand the market opportunity. Many of the larger MCAs have taken advantage of the large amount of data they have collected over the years to further segment their customer base and offer different products, reflecting lower rates and/or longer payback periods to qualified customers.

# Market Overview

*Size and Growth of Small Business Lending*

- Excluding real estate, the total value of U.S.-small business loans under $1 million was $297.9 billion, as of June 2014, a decline of $28.8 billion from $326.7 billion in 2007.[5]



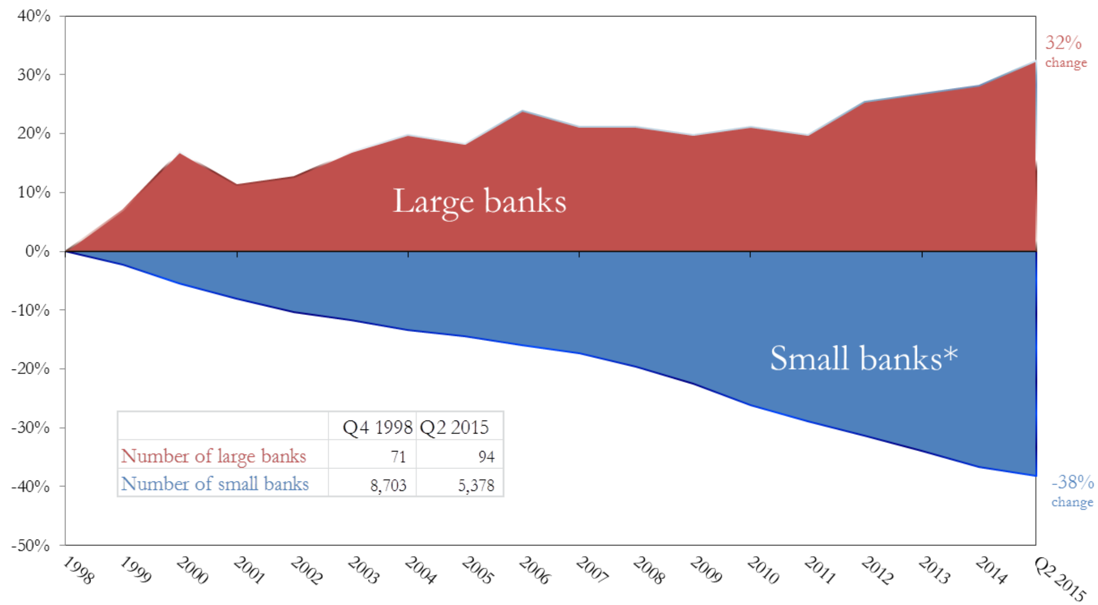

- Demand for small business loans from the U.S. Small Business Administration ("SBA") has spiked in 2015.[6,7]
  - The SBA's 7(a) small business lending program was suspended in July 2015 after the U.S. hit its loan volume cap of $18.75 billion.
    - Approximately $1.7 billion of the loans issued by the 7(a) program were loans under $150 thousand.
  - President Obama signed a measure in late July 2015 to raise the SBA's 7(a) small business lending program loan volume cap to $23.5 billion, in order for the program would remain operational throughout the fiscal year.

# Market Overview

*Size and Growth of Small Business Lending (cont.)*

- The modern-day, post-credit crisis banking environment has lead to continued growth in the MCA industry.[8,9]
  - As of August 2015, traditional big banks offered a 22 percent approval rate of small business loans as compared with a 49 percent approval rating by small banks. However, the number of small banks has decreased by approximately 28 percent between 2000 and 2014.
  - Regulatory restrictions and costs of compliance with such restrictions for large financial institutions remain deterrents for traditional banks to provide small dollar lending.

Percentage Change in the Number of U.S. Banks:
Small Banks vs. Large Banks since 1998




| | Q4 1998 | Q2 2015 |
|---|---|---|
| Number of large banks | 71 | 94 |
| Number of small banks | 8,703 | 5,378 |

Source: FDIC, *Statistics on Depository Institutions, Insured Commercial Banks*
*Data note: small banks defined as US banks with $10 billion or less in assets.

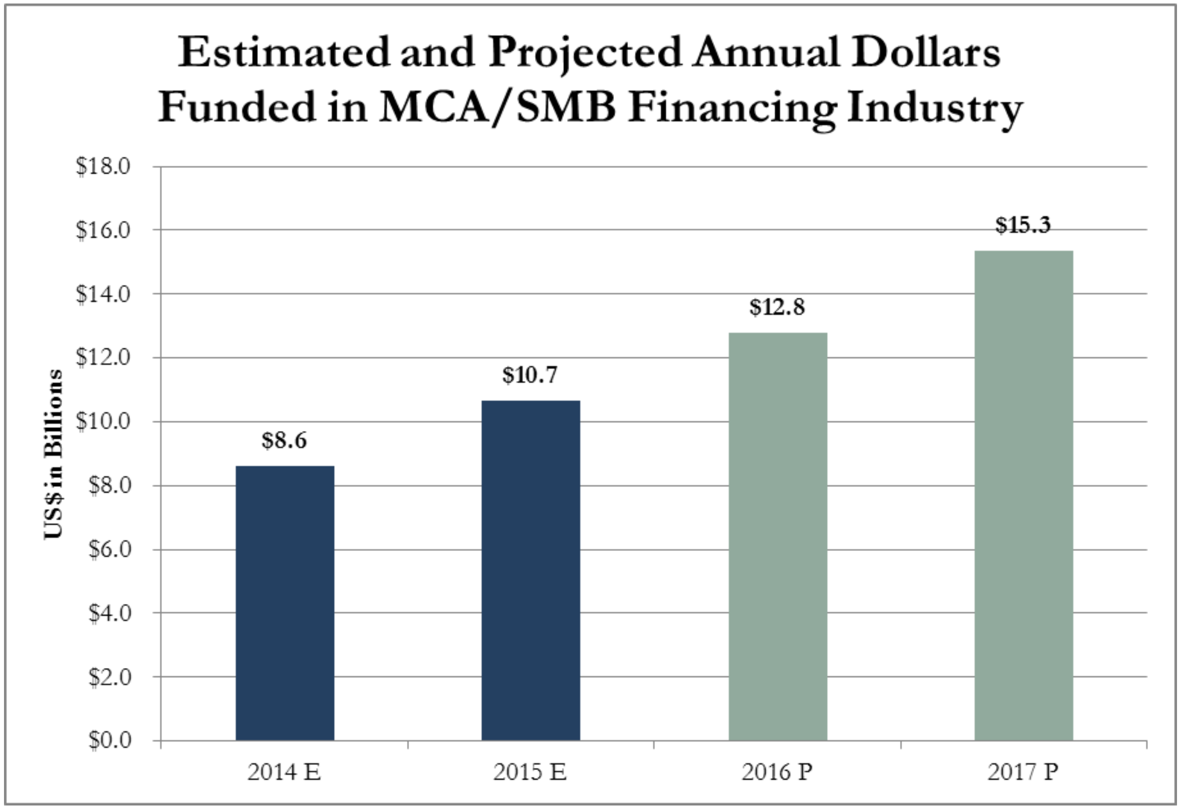
# Market Overview

*Size and Growth of the MCA Industry*

- The size of the MCA industry varies based on different sources and the definition of an MCA. While some sources strictly define MCAs as the purchase of future receivables with payments taken as a fixed percentage of credit card sales at the point of sale, other sources define MCAs more broadly to include unsecured small business loan-type instruments that require daily, weekly, or monthly funding.[10,11,12]
  - Converge Enterprise (a leading Cloud CRM company that has customized its CRM application to offer the world's first CRM developed exclusively for the business cash advance, business loan, and merchant processing industry) estimates that there are more than 1,500 MCA funders, each with relationships with approximately three to 20 ISOs, and a combined annual lending volume of over $10 billion as of September 2014.
  - Sean Murray of deBanked estimates that the daily funding industry, which he defines as a combination of MCA providers and lenders that require daily payments, is approximately $3-5 billion per year as of August 2014.
- Payment processors, such as PayPal, Square, and Intuit have also begun to expand into providing MCAs and working capital loans for the SMBs with which they already do business.[13,14,15]
  - PayPal provided over $500 million in SMB loans and advances to 40,000 SMBs between January 2014 and August 2015.
  - Square has provided, on average, $1 million per day in advances to SMBs in 2015.
  - In September 2015, OnDeck partnered with Intuit to launch QuickBooks Financing, a new $100 million small business lending fund that offers a daily funding product.
- OnDeck (NYSE:ONDK) became the first standalone MCA funder to go public. OnDeck originated $1.7B of advances/loans in its last 12 months as of the end of Q3 2015 and has a market cap of $621.81M at of 1/5/2016.[16,17]
- Additionally, at least five MCA funders have sold/received investments from private equity firms in the past 24 months.

# Market Overview

*Bryant Park Capital Annual Funding Estimate for MCA/SMB Financing Industry*




- Estimates for 2014 and 2015 take into account total dollars funded by respondents to the Bryant Park Capital/deBanked Small Business Financing CEO Survey (the "Survey"); additional public data on fundings by companies not included in the survey; and an assumption for the percentage of industry fundings that is not included in those figures.

- Projections for 2016 and 2017 represent a 20% annual growth rate, which is based on the lower end of projections by CEOs in the Survey.



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## Section II

# Company Characteristics

# Company Characteristics

*Typical Borrower Profile*

- Typical borrower is a small merchant; common industries include:

| Retail | Services |
|---|---|
| Clothing | Amusement and recreation |
| Food and grocery | Auto repair and maintenance |
| Florists | Cleaners |
| Furniture and appliances | Dentists |
| Hardware and home improvement | Restaurants and bars |
| Liquor stores | Salons |

- Has a diversified customer base
- Has some operating history, typically at least one year
- Has significant and consistent activity through a bank account
- Has meaningful amount of business processed with credit cards
- Owner has a personal credit history with a FICO score (although FICO score is not necessary a determining factor)
- Has a social media presence on Facebook, Yelp, and other sites showing a following

# Company Characteristics

*Range of Types of Product Structures*

- While there are a variety of different products offered in the MCA market, all products have common core characteristics, including:
  - Short-term funding to SMBs
    - Typically less than 12 months, although the duration of new products is expanding to 18-24 months for credit worthy borrowers
  - Daily, weekly, or monthly remittances to the MCA providers
  - Unsecured and non-recourse
    - Typically an advance as a factoring arrangement, i.e. buying the right to the proceeds of future receivables
  - Less frequently a loan, but loans with daily repayments are becoming more common
  - Underwriting process does not heavily weigh credit scores of applicants

- Differences in product structures mainly depend on payment structure:
  - Payments are either collected from a fixed nominal portion or fixed percentage of a SMB's credit card sales directly from its processing terminal or directly from the SMB's business bank account on a daily, weekly, or monthly basis until the fixed amount is paid off.

# Company Characteristics

*General Deal Process*

- **Origination**
  - MCA funders either originate advances from their ISO relationships or from internal or direct marketing methods.
    - Approximately 50% of originations come from each method.
  - MCA internal sales teams usually solicit existing customers for renewal advances.

- **Underwriting**
  - Due diligence requirements include:
    - Bank statements (3-6 months)
    - Minimum monthly credit/debit card sales volume
    - Minimum age of company
    - Maximum rent-to-sales ratio
    - Submission of a number of monthly processing and business bank data including overdraft statements
    - May require use of certain POS terminals
    - Social Media: Yelp, Facebook
    - Site visits – usually outsourced to an third-party provider

# Company Characteristics

*General Deal Process*

- **Financing**
  - MCA funders were initially funded by high yield hedge funds, then by lower yielding credit opportunities funds, and eventually by banks (particularly for the larger, more established funders). Banks, having chosen largely to exit SMB lending due to regulatory and cost issues, have found lending to MCA providers to be more efficient and more profitable. These banks have selectively entered the space, providing warehouse facilities and more recently partnering with MCA funders (OnDeck & JP Morgan).
  - Today, mature MCA providers typically obtain senior debt financing from institutional lenders at interest rates ranging from 3.5-7.0% and advance rates ranging from 80-90% of the advanced amount. In addition, a number of these more mature organizations have obtained mezzanine capital, bringing the total advance rate to approximately 90-95% of the advanced amount.
    - Key determinants for advance rate and interest rate include:
      - Operating history, particularly:
        - Static pool data
        - Default rates by industry, size, geography, years in business, FICO score, and other meaningful attributes
        - Overall business results
        - Operating, underwriting, servicing, and financial systems
      - Seasonality of merchants
      - Sponsor-backed
  - The remaining portion of the advance is funded by junior debt or equity.

- **Servicing**
  - MCA funders maintain contact with borrower and manage customer service & collections.
    - Often offers renewal deals for good performing clients (most profitable & sought after business)
    - For delinquent/defaulted transactions, the funder (or sometimes an outside third party servicer) is responsible for collections

# Company Characteristics

*Single Unit Analysis*

- The following table shows the economics of a sample MCA transaction with an advance of $10,000 and a factor rate of 1.35x.
  - Right to receive ("RTR") or payback is the amount owed/purchased by the MCA provider and is calculated as advance multiplied by factor rate.
  - Credit loss is calculated as a percent of principal, and this analysis assumes a loss rate of 6.5%.
  - Sales commissions are paid upfront as a percent of principal advanced, and this analysis assumes a rate of 10.0%.
  - Blended cost of capital is based on a combination of senior debt and more expensive junior debt. Since the advance and therefore the lines of debt are paid down on a daily, weekly, or monthly basis, and advances are typically paid back over a period of nine months or fewer, the weighted cost of capital per transaction ends up equating to far less than the annual rate. This analysis assumes a weighted cost of capital of 10.0% annually.
  - This analysis assumes a daily payback over a nine month period, which yields a net IRR of 47.9% after the aforementioned costs but before G&A.

| **MCA Single Advance Analysis** | | |
|---|---|---|
| Advance | $10,000 | |
| Factor Rate | 1.35x | |
| Payback/RTR | $13,500 | |
| | | |
| Credit Loss (on Principal) | ($650) | 6.5% |
| Gross Amount Received (Post Loss) | $12,850 | |
| | | |
| Sales Commissions | ($1,000) | 10.0% |
| Cost of Capital (Weighted) | ($269) | 10.0% |
| Net Amount Received | $11,581 | |
| | | |
| Term (Months) | 9.0 | |
| Term (Weekdays) | 180.0 | |
| | | |
| Net IRR | 47.9% | |

Section III

# Industry Players

## Industry Players

*Top Players in MCA Industry*

| Top Companies |
|---|
| OnDeck |
| CAN Capital |
| Kabbage |
| Business Financial Services |
| Merchant Cash and Capital / BizFi |
| Merchants Capital Access |
| Rapid Advance |
| National Funding |

| Top Equity Investors |
|---|
| Angelo Gordon |
| Rockbridge Growth Equity |
| Palladium Equity Partners |
| Pine Brook Partners |
| Capital Z Partners Management, LLC |
| Accel Partners |
| Flexpoint Ford |
| Thomvest Ventures |

| Top Debt Providers |
|---|
| CapitalSource |
| Fortress Credit |
| Victory Park Capital |
| Wells Fargo Capital Finance |
| Ares Management |
| Atalaya Capital Management |
| Comvest Partners |
| H.I.G. Whitehorse |

# Industry Players

*Key Industry Players*

| Company Name | Inception Year | HQ | Products Offered | Loan Size | Time to Fund | Repayment Period | $ Funded Since Inception | 2014 Revenue |
|---|---|---|---|---|---|---|---|---|
| Advance Funds Network | 2007 | Brooklyn, NY | MCA, invoice & PO factoring, term loans | $5,000 - $10M | | | $252M | |
| American Express Merchant Financing | 2011 | New York, NY | MCA, term loans | $10,000 - $2M | Immediately upon approval | 6-24 months | | |
| American Finance Solutions (Acquired by Rapid Capital Funding) | 2006 | Anaheim, CA | MCA | | 12 hours | | $250M | $5.9M |
| AmeriMerchant* (Capify) | 2002 | New York, NY | MCA, term loans | $5,000 - $1M | 2 days | | $500M+ | $41.1M |
| BFS (Business Financial Services)* | 2002 | Coral Springs, FL | MCA, term loans, franchise financing | $4,000 - $2M | 5 - 10 days | 9-18 months | $1B+ | |
| CAN Capital | 1998 | New York, NY | MCA, term loans | $5,000 - $150,000 | | | $5B+ | $269.9M |
| Capital for Merchants* | 2005 | Troy, MI | MCA | $2,000 - $500,000 | 3 days | | $220M | |
| Credibly (formerly RetailCapital)* | 2010 | Troy, MI | MCA, term loan | $5,000 - $250,000 | 1 day | 3-12 months | $140M+ | $14.6M |
| Elevate Funding* | 2015 | Gainseville, FL | MCA | <$200,000 | 2-5 days | | | |

** = member of the SBFA, formerly known as the NAMAA*



**All information gathered from publically available information**

# Industry Players

*Key Industry Players (cont.)*

| Company Name | Inception Year | HQ | Products Offered | Loan Size | Time to Fund | Repayment Period | $ Funded Since Inception | 2014 Revenue |
|---|---|---|---|---|---|---|---|---|
| Everest Business Funding | 2013 | Miami, FL | MCA | $5,000 - $500,000 | 1 day | | | |
| Fora Financial* | 2008 | New York, NY | MCA, term loans | $5,000 - $250,000 | 1-3 days | | $350M | $26.9M |
| ForwardLine | 2003 | Woodland Hills, CA | MCA, term loans | $5,000 - $150,000 | 1 day | 6-12 months | $250M | |
| GRP Funding* | 2007 | Springfield, MA | MCA, term loans | $5,000 - $1M | 1 day | 4-24 months | | |
| Happy Rock Merchant Solutions* | 2008 | New York, NY | MCA | $2,500 - $300,000 | 5-10 days | | | |
| Kabbage | 2008 | Atlanta, GA | MCA, term loans | $2,000 - $100,000 | 1 day | 6 months | $1B+ | $40.1M |
| Merchant Advance Funding LP* | 2009 | New York, NY | MCA | $10,000 - $125,000 | | | | |
| Merchant Capital Source* | 2005 | Huntington Beach, CA | MCA, term loans | $5,000-$500,000 | 3-4 days | 5-14 months | | |
| Merchant Cash & Capital* (now Bizfi) | 2005 | New York, NY | MCA | $5,000 - $500,000 | 1 day | 3 months- 10 years | $1.3B | $27M |

** = member of the SBFA, formerly known as the NAMAA*



***All information gathered from publically available information***

# Industry Players

*Key Industry Players (cont.)*

| Company Name | Inception Year | HQ | Products Offered | Loan Size | Time to Fund | Repayment Period | $ Funded Since Inception | 2014 Revenue |
|---|---|---|---|---|---|---|---|---|
| Merchants Capital Access* | 2009 | Melville, NY | MCA, term loans | < $250,000 | 3 - 5 days | 3-24 months | $1B | |
| National Funding | 1999 | San Diego, CA | MCA, term loans, equipment leasing | < $500,000 | 1 day | | | $39M |
| NextWave Funding* | 2010 | Miami, FL | MCA, term loans | $5,000 - $500,000 | 1-3 days | | $100M+ | |
| On Deck Capital (NSE:ONDK) | 2006 | New York, NY | Term Loans | $5,000 - $250,000 | 1 day | 3-24 months | $3B | $158.1M |
| PayPal Working Capital | 2013 | San Jose, CA | MCA | $1,000 - $85,000 | Immediately upon approval | | $1B | |
| Pearl Capital | 2006 | New York, NY | MCA, ISO partnerships | | | | | |
| Principis Capital* | 2009 | New York, NY | MCA | $4,000 - $150,000 | 2-7 Days | | $145M+ | |
| Quick Bridge Funding | 2011 | Irvine, CA | MCA | | | | | $44.6M |
| Rapid Capital Funding | 2007 | Miami, FL | MCA, term loans | $5,000 - $500,000 | 5-7 days | | $400M+ | $1M-$2.5M |

** = member of the SBFA, formerly known as the NAMAA*



**All information gathered from publically available information**

# Industry Players

*Key Industry Players (cont.)*

| Company Name | Inception Year | HQ | Products Offered | Loan Size | Time to Fund | Repayment Period | $ Funded Since Inception | 2014 Revenue |
|---|---|---|---|---|---|---|---|---|
| RapidAdvance* | 2005 | Bethesda, MD | MCA, term loan | $5,000 - $500,000 | 3 - 10 days | | $750M+ | |
| Square Capital | 2014 | San Francisco, CA | MCA, term loan | $1,000 - $100,000 | | | $225M | |
| Sterling Funding | 2005 | Tampa, FL | MCA, term loan | $5,000 - $250,000 | 2-7 days | 3-12 months | | |
| Strategic Funding Source* | 2006 | New York, NY | MCA, term loans | $5,000 - $1M | | 6-10 months | $700M | |
| Swift Capital* | 2007 | Wilmington, DE | MCA | $5,000 - $300,000 | 1 hour - 3 days | 3-12 months | $450M | $27.5M |
| Yalber* | 2007 | Teaneck, NJ | MCA | < $500,000 | 2-3 days | | $500M | |
| Yellowstone Capital (Fundry) | 2009 | New York, NY | MCA | | >1 day | | $1.1B | |

** = member of the SBFA, formerly known as the NAMAA*



**All information gathered from publically available information**

## Section IV

# Industry Considerations

# Industry Considerations

*U.S. Regulatory Landscape*

- **Dodd Frank**[18,19]
  - Increased bank regulation leads to increased compliance costs, forcing many community banks to scale back lending activities, with a disproportionate reduction in small business lending.
    - Community banks shed 12 percent of their share of the U.S. banking assets since the passage of Dodd Frank in 2Q 2010.
    - The smallest community banks, with under $1 billion in assets, shed 19 percent of their share of U.S. banking assets in the same time.
- **Basel III (to be implemented by 2019)**[20]
  - The introduction of a leverage limit of three percent and a 30-day liquidity coverage ratio could potentially lead to reduced traditional lending particularly affecting small business.
  - Increased capital requirements, especially for Tier 1 capital (for which loans to many small businesses do not meet), may adversely impact the cost of traditional lending.
- **Operation Choke Point** [21]
  - Regulators increased the responsibility/accountability for potentially fraudulent activities funded by banks and would hold the Board of Directors and management directly liable for these activities.
    - Moreover, Operation Choke Point identifies many legal, but potentially reputationally risky industries, including alternative credit programs such as MCAs, "recommending" that the larger banks not lend to these industries.

# Industry Considerations

*MCA Legal Historical Snapshot*

- 2007 AdvanceMe Patent Lawsuit [22]
  - AdvanceMe sued several MCAs, including but not limited to AmeriMerchant and RapidPay, over its patent on the concept of a MCA.
  - The court ruled against AdvanceMe, citing that the idea of an MCA had been done before by companies such as Dining Ala Card. As such, AdvanceMe's patent was invalidated and prevented a potential legal monopoly.

- 2011 Richard B. Clark v. AdvanceMe (California)[23,24]
  - Merchant plaintiffs (Richard B. Clark et al.) sued AdvanceMe, arguing that the receivables required to pay down their cash advances was exorbitant. Plaintiffs further argued that the receivables required were effectively interest payments, and in fact far exceeded an implied effective annual interest rate of 100 percent. AdvanceMe had also required collateral in the form of personal guarantees and personal property.
  - The court ruled in favor of Richard B. Clark, citing that AdvanceMe's MCAs were "disguised loans," and thus violated California's usury laws. AdvanceMe settled for $23.4 million and forfeited its right to pursue further repayments from plaintiffs. The case was not alone; it was merely the hallmark case for a string of cases against the MCA business model.
  - These lawsuits spurred many MCA providers to become licensed lenders in states where the court cases ruled against the MCA providers. Moreover, many MCA providers enacted policy changes—such as the removal of collateral requirements—to further distinguish MCAs from loans.

# Industry Considerations

*Challenges*

Credit Market Challenges:

- MCA providers may be adversely affected by disruptions in the credit market.[25]
  - MCA providers rely on debt facilities and other forms of borrowings to finance advances to customers. As the volume of advances increases, MCA providers must find ways to expand current borrowing capacities. There is no guarantee of additional funding sources.
    - Interest rate spreads may also decline in the future as the market becomes more competitive, which will have a major impact on profitability.

Underwriting Challenges:

- Historical default rates are not indicative of future performance. Any increase in future default rates will reduce profitability and attractiveness to institutional lenders. Current default rates run between approximately 6-10% based on the quality of the merchants. However, default rates got close to 20% during the great recession. At that time, it is estimated that close to 33% of MCA providers went out of business. At those default rates, similar risks exist.

- Underwriting relies heavily on self-reported documents from customers—algorithms may not calculate all associated risks with providing a MCA.

Competitive Market Challenges:

- Traditional banks, payment processors (PayPal, Square, etc.), and other related companies (Amazon) are starting to enter the MCA industry with their own specialty finance lending groups, increasing competition and squeezing margins.[26]

- Regulatory uncertainty may shape the relatively new MCA market and brings about additional legal risks.

- Marketing efforts need to vigorously dispel general market stigma against MCAs thought to be usurious.

# Industry Considerations

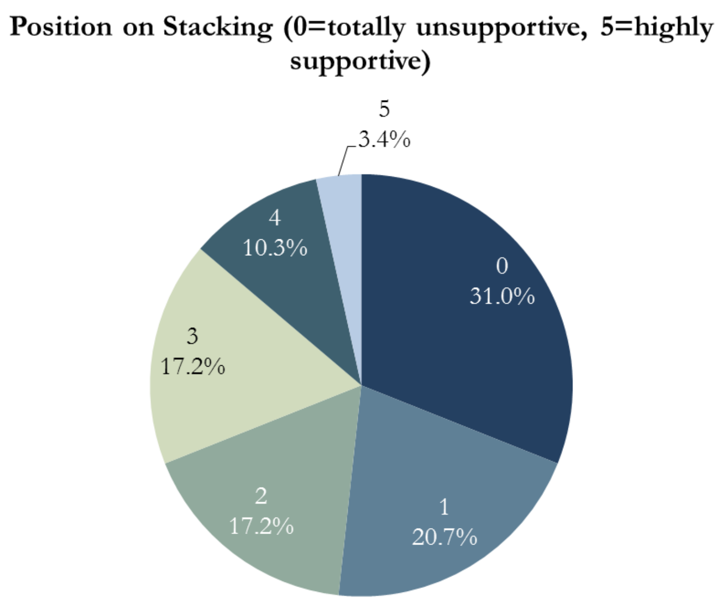
*Stacking*

- Stacking is the practice of providing a MCA to a SMB, knowing that the SMB is currently financed by one or more MCAs.

- The SBFA is anti-stacking, viewing it as a threat to the recovery of money advanced to SMBs and as a threat to the overall health of the SMBs taking out advances.[27]

- Other MCA providers argue that SMBs with sufficient cash flow should have the right to take on as many MCAs as they feel comfortable taking.

- Below are the results from the Bryant Park Capital/deBanked Small Business Financing CEO Survey regarding the sentiment on stacking:



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## Section V

# M&A and Capital Raising

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 10/14/2015 | Fora Financial | Palladium Equity Partners | N/A | Equity |
| 10/1/2015 | Yellowstone Capital (Fundry) | Finsight | N/A | Equity |
| 9/25/2015 | BFS Capital | None | N/A | IPO announcment |
| 8/16/2015 | Entrust Merchant Solutions | Business Financial Services | N/A | M&A |
| 7/24/2015 | Kabbage | BlueRun; Thomvest Ventures; UPS; Santander | $120.0 | Equity |
| 7/23/2015 | Dealstruck | Community Investment Management LLC | $10.0 | Equity |
| 7/15/2015 | Strategic Funding Source | CapitalSource | $90.0 | Debt |
| 7/9/2015 | Pearl Capital, LLC | Capital Z Partners Management, LLC | $60.0 | M&A |
| 6/30/2015 | The Business Backer, LLC | Enova International, Inc. (NYSE:ENVA) | $26.8 | M&A |
| 6/26/2015 | Snap Advances | Undisclosed | $28.0 | Equity |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 6/16/2015 | Credibly (formerly Retail Capital) | AloStar Bank of Commerce, WebBank, Capital Source | N/A | Debt |
| 6/5/2015 | Reliant Services Group, LLC | Merchants Capital Access, LLC | N/A | M&A |
| 5/12/2015 | Square Capital | Victory Park Capital | N/A | Debt |
| 4/17/2015 | Plan B Growth | World Business Lenders, LLC | N/A | Equity |
| 4/14/2015 | Business Bounce | Lendio | N/A | M&A |
| 4/9/2015 | ApplePie Capital | QED Investors, Signia Ventures Partners, Freestyle Capital | $6.0 | Equity |
| 4/9/2015 | Funding Circle | DST Global, Baillie Gifford, Sands Capital and Temasek | $150.0 | Equity |
| 4/8/2015 | Dealstruck | Undisclosed | $8.0 | Equity |
| 4/2/2015 | CAN Capital, Inc. | Wells Fargo; AloStar; Amalgamated; Barclays; CapitalSource; Fifth Third; 1st Tennessee; J.P. Morgan; Morgan Stanley; Regions Bank; SunTrust; UBS | $650.0 | Debt |
| 3/24/2015 | Lendio | North Hill Ventures, Blumberg Capital, Napier Park, Runa Capital | $20.0 | Equity |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 1/21/2015 | BlueVine | Lightspeed Venture Partners, 83North, Silicon Valley Bank, Correlation Ventures | $19.0 | Equity |
| 12/17/2014 | OnDeck | N/A | $200.0 | IPO |
| 12/3/2014 | MarketInvoice | Northzone Ventures | $8.0 | Equity |
| 11/20/2014 | FastPay | Oak HC/FT | $15.0 | Equity |
| 11/14/2014 | Finexkap | GLI Finance | $8.0 | Equity |
| 10/28/2014 | Spotcap | Access Industries, Holtzbrinck Ventures | $17.0 | Equity |
| 10/20/2014 | CreditSuppliers | G8 Capital | $13.0 | Equity |
| 10/8/2014 | American Finance Solutions LLC | Rapid Capital Funding | N/A | M&A |
| 9/26/2014 | The Credit Junction | GLI Finance | $2.0 | Equity |
| 9/12/2014 | Geldvoorelkaar | TrustBuddy | $14.0 | M&A |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 9/12/2014 | MarketInvoice | Paul Foster, co-founder Indeed.com | $8.0 | Equity |
| 9/3/2014 | Strategic Funding Source | Pine Brook Partners | $110.0 | Equity |
| 8/26/2014 | Business Financial Services | Wells Fargo Capital Finance | $125.0 | Debt |
| 8/26/2014 | LeapPay | Funding Circle | N/A | M&A |
| 8/23/2014 | Swift Capital | Fortress Credit | $50.0 | Debt |
| 8/21/2014 | BlueVine | N/A | $2.0 | Equity |
| 8/20/2014 | Credibly (formerly Retail Capital) | Flexpoint Ford | N/A | Equity |
| 8/1/2014 | Principis Capital | BMO Harris | N/A | Debt |
| 7/31/2014 | National Funding | CapitalSource | $50.0 | Debt |
| 7/16/2014 | ApplePie Capital | Freestyle Capital, Signia Venture Partners, QED Investors | $4.0 | Equity |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 7/16/2014 | Funding Circle | Accel Partners, Index Ventures, Ribbit Capital, Union Square Ventures | $65.0 | Equity |
| 6/16/2014 | Quick Bridge | Southern California Bank | $35.0 | Debt |
| 5/20/2014 | American Finance Solutions | CapFin Partners | N/A | Equity |
| 5/7/2014 | 1st Merchant Funding | BankUnited; GF-Merchant | N/A | Debt |
| 5/5/2014 | Kabbage | UPS, TCW, SoftBank Capital, Thomvest Ventures, Mohr Davidow, Lumia Capital | $50.0 | Equity |
| 5/5/2014 | QuarterSpot, Inc | Aequitas Capital Management | N/A | Equity |
| 4/24/2014 | Business Financial Services | Wells Fargo Capital Finance | $82.0 | Debt |
| 4/9/2014 | Kabbage | Guggenheim Securities; SV Angel | $270.0 | Debt |
| 3/26/2014 | BlueVine | Lightspeed Venture Partners, Greylock Partners, Correlation Ventures, Kreos Capital, Kima Ventures | $4.0 | Equity |
| 3/17/2014 | Merchant Cash and Capital | Comvest Group | $75.0 | Debt |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 3/6/2014 | OnDeck | Institutional Venture Partners; RRE Ventures; Sapphire Ventures; Industry Ventures; First Round Capital; Tiger Global Management; Google Ventures | $77.0 | Equity |
| 2/24/2014 | ApplePie Capital | Camp One Ventures, Fifth Era | $2.0 | Equity |
| 2/5/2014 | Fundera | Industry Ventures, Khosla Ventures, First Round Capital, Lerer Ventures, SV Angel | $3.0 | Equity |
| 1/20/2014 | Dealstruck | Undisclosed | $1.0 | Equity |
| 1/8/2014 | CAN Capital, Inc. | Accel Partners, QED Investors, Ribbit Capital, Meritech Capital Partners | $33.0 | Equity |
| 10/23/2013 | Funding Circle | Accel Partners, Index Ventures, Union Square Ventures | $37.0 | Equity |
| 9/20/2013 | Snap Advances | Undisclosed | N/A | Debt |
| 9/16/2013 | OnDeck | Deutsche Bank; KeyBank; Square 1 | $130.0 | Debt |
| 9/16/2013 | RapidAdvance | Rockbridge Growth Equity | N/A | M&A |
| 9/3/2013 | Behalf Inc. (formerly Zazma Inc.) | Sequoia Capital, Spark Capital | $10.0 | Equity |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 8/28/2013 | Lendio | Tribeca Venture Partners, Runa Capital, Highway 12 Ventures | $5.0 | Equity |
| 8/27/2013 | RapidAdvance | Falcon Investment Advisors | N/A | Equity |
| 7/23/2013 | C2FO | Mithril, Union Square Advisors, Summerhill Venture Partners, OpenAir Equity Partners | $18.0 | Equity |
| 7/11/2013 | Fora Financial | Undisclosed | $5.0 | Debt |
| 6/24/2013 | The Receivables Exchange | Prism VentureWorks, Bain Capital Partners, Redpoint Ventures, StarVest Partners | $10.0 | Equity |
| 5/1/2013 | OnDeck | Industry Ventures; Google Ventures; Peter Thiel | $17.0 | Equity |
| 4/3/2013 | Kabbage | Thomvest Ventures, Victory Park | $75.0 | Debt |
| 3/28/2013 | Fundation | Angel Street; Garrison; LeoGroup; Solel Investment | $2.7 | Equity |
| 2/13/2013 | OnDeck | Institutional Venture Partners; RRE; First Run; Sapphire Ventures | $42.0 | Equity |
| 1/27/2013 | The Receivables Exchange | Bain Capital Ventures, Redpoint Ventures, Prism Ventureworks | $17.0 | Equity |



***All information gathered from publically available information***

# M&A and Capital Raising

*Key Transactions in the Small Business Lending Space (cont.)*

| Date | Target | Investor(s) | Amount ($mm) | Type |
|---|---|---|---|---|
| 1/27/2013 | The Receivables Exchange | Bain Capital Ventures, Redpoint Ventures, Prism Ventureworks | $17.0 | Equity |
| 12/20/2012 | iwoca | Beyond Digital | $3.0 | Equity |
| 10/23/2012 | Behalf Inc. (formerly Zazma Inc.) | Sequoia Capital | N/A | Equity |
| 9/18/2012 | Kabbage | Thomvest Ventures, Bluerun Ventures, UPS, SV Angel | $30.0 | Equity |
| 9/5/2012 | C2FO | Union Square Ventures | $9.0 | Equity |
| 8/25/2012 | P2Binvestor | Undisclosed | $0.2 | Equity |
| 6/25/2012 | FastPay | Wells Fargo Capital Finance, SF Capital Group | $25.0 | Equity |
| 3/27/2012 | Funding Circle | Index Ventures, Union Square Ventures | $16.0 | Equity |
| 2/7/2012 | CAN Capital, Inc. | Accel Partners | $30.0 | Equity |



***All information gathered from publically available information***

## Section VI

# What's Next in 2016

# What's Next in 2016

- The majority of industry players anticipate a significant annual growth rate of over 25% and expect the landscape to continue to evolve at a rapid pace.

- As more institutional capital comes into the market, the competition among industry participants will increase.

- Key expectations for 2016:
  - Increase in companies trying to access institutional equity and debt
    - Many players will look for a change of control investment
      - Funders
      - Qualified ISOs
  - Increased interest in more institutional capital
    - Senior lenders – borrowers expect lower costs and higher advance rates
    - Junior lenders – borrowers expect higher total debt coverage
    - Forward flows and securitizations for players of the right size and creditworthiness
  - Expansion of product offering
    - Longer durations, lower rates, and larger advance amounts for more creditworthy borrowers
    - New products: revolving instruments, lines of credit, more loan products, etc.
  - Regulators consider scrutiny of asset class

# What's Next in 2016

- Expect to see the beginning of consolidations. Key justifications will be:
  - Margin expansion, origination competition, and access to capital
  - Leveraging technology platforms and systems
- **2016 should be an exciting year for the MCA/SMB financing industry**

# Appendix

# Appendix A – Financing Considerations in ISO Participations

Example: $50,000 Advance

**Traditional Example**

Advance/Loan Originated By ISO → MCA Underwrites Prices and Funds Borrower → Bank Lends 70-85% of Funded Amount at 3%-7% Interest Rate | 5-15% Junior Debt or HNWs | MCA Equity 5%-15% of Funded Amount → MCA Services and Collects

**ISO Participation**

Advance/Loan Originated By ISO → MCA Underwrites Prices and Funds Borrower → MCA Funds 50% | ISO Participation Funds 50% → MCA Services, Collects and Pays ISO

$25,000

$25,000

# Appendix B – Sources


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