

Monthly Market Musings

SCURA PALEY
AND COMPANY

September 14, 2015

Scura Paley and Company

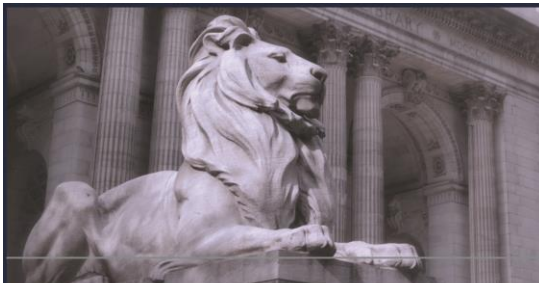
Scura Paley and Company is a private investment banking firm, based in Manhattan, providing financial advisory and capital raising services, with a particular focus on emerging growth and specialty finance companies. Scura Paley and Company provides strategic M&A and capital raising advice to middle market companies. Scura Paley's partners have an average of twenty-five years of experience in a broad array of industries, providing nearly every investment banking product and service to their clients.

Investment Banking Observations — *Will the market madness mangle the M&A market? We don't think so.*

- Although fear and uncertainty will likely remain an undercurrent in the markets for some time and support an elevated Vix Index, the recent market shock is different than prior periods of disruption given the strength of the U.S. economy and health of our financial system. The 2008 market correction went hand-in-hand with the financial crisis on fears of a collapse in the U.S. banking system. This time around the banks are stronger and the U.S. economy is expanding, as evidenced by the improvement in jobless claims, strengthening housing market and continued GDP growth — not to mention the low inflation rate.
- While the initial market earthquake may have passed, we expect aftershocks to occur for the next few months. These aftershocks will be evident in the performance of the Vix, which we anticipate will pull back from 40+ level witnessed on August 24 but remain elevated in the 25-30 range versus the 10-20 range realized during most of the year. The IPO market may be affected by the heightened market volatility and the loss in investor confidence could prompt an increase in withdrawn filings until confidence is restored.
- We think the market correction and concerns related to slowing global growth fueled by a weakening China economy may result in a postponement by the Fed to raise interest rates until December. We believe the availability of “cheap” money, even amid an uptick in rates, and still-strong market conditions will support continued M&A activity, particularly among domestic companies given their ongoing push to capture economies of scale, improve productivity and realize greater operating leverage while their larger global brethren struggle.
- Ongoing strength in real estate, both residential and commercial, also implies continued strong M&A and capital raising activities. Within the residential market, rising home values and an increase in first time homebuyers supports heightened market activity, and a shift from refinancing to purchase activity, which may prompt a renewed round of M&A activity among market participants as the market consolidates amid a changing macroeconomic landscape. Within the commercial real estate market, the publicly-traded REITS recently reported strong second quarter results along with positive guidance, suggesting ongoing demand for capital raising services, particularly sale leasebacks.

Investment banking trends in the consumer finance and diversified financial services sectors—

- Aggregating the Diversified Finance and Consumer Finance sectors, and targeting M&A transactions less than \$1 billion in the U.S. and Canada, only three deals (totaling \$80 million) were completed in August as the dog days of summer hit with full force; five deals were announced or completed in July aggregating \$1.16 billion fueled by the announced \$928 million acquisition of a 9.68% stake in Santander Consumer USA Holdings Inc. from Thomas G. Dundon, president and CEO of Santander USA by Banco Santander S.A. Year to date, 23 M&A transactions have been announced or closed totaling more than \$2 billion versus 32 deals in the year-ago period aggregating to roughly \$2.4 billion.
- The summer slowdown was also felt in private placement activity as only three transactions were announced/closed in August for the combined Diversified Finance and Consumer Finance sector (for transactions less than \$1 billion) in the U.S. and Canada compared with nine deals in July. The largest transaction was a \$1 billion private placement by Social Finance, Inc. (SoFi), which



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provides student loan refinancing services; SoftBank Group was the investor. Year to date, 80 private placements have been announced/closed about flat with the 79 transactions in the year-ago period.

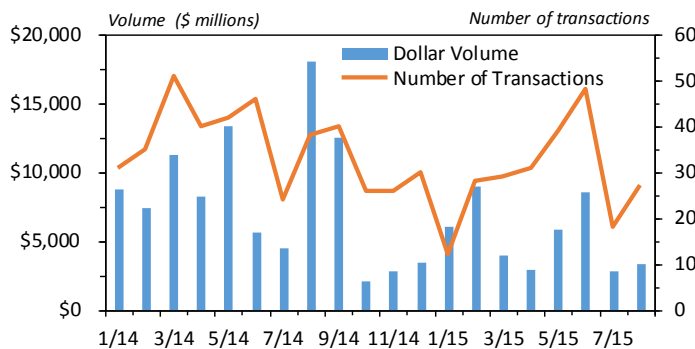
- IPO activity trailed off again in August with only 11 transactions after hitting a near-term peak of 43 IPOs in June; four of the 11 deals were less than \$50 million. The largest IPO in August was Gores Holding Inc., a blank check company, which raised \$350 million, followed by SunRun Inc. (develops, manages and sells solar energy systems), Houlihan Lokey and Planet Fitness. Despite the rocky market, SunRun, Houlihan Lokey and Planet Fitness are trading at or above their respective IPO prices. Announced IPO activity picked up in August compared with July to 22 transactions (\$10 million or greater) from 18 deals last month. We view the pick-up in announced IPO activity favorably given the implication for renewed strength in the fall and confirmation that the slowdown in July and August represented typical seasonal trends.

Announced Date	Issuer	Transaction Value* (\$ millions)
8/28/15	CytomX Therapeutics, Inc.	100.0
8/26/15	Acelity L.P. Inc.	100.0
8/24/15	Allegiance Bancshares, Inc.	60.0
8/24/15	Mirna Therapeutics, Inc.	80.5
8/21/15	ADS Waste Holdings Inc.	100.0
8/20/15	MedEquities Realty Trust, Inc.	150.0
8/18/15	SiteOne Landscape Supply, Inc.	100.0
8/17/15	Regenxbio Inc.	100.0
8/17/15	SynCardia Systems, Inc.	40.0
8/17/15	Aclaris Therapeutics, Inc.	86.3
8/17/15	Petco Holdings, Inc.	100.0
8/17/15	Surgery Partners LLC	431.3
8/14/15	Penumbra, Inc.	115.0
8/14/15	Edge Therapeutics, Inc.	115.0
8/13/15	Ecolomondo Corporation Inc.	15.0
8/13/15	Pace Holdings Corp.	400.0
8/13/15	Double Eagle Acquisition Corp.	400.0
8/12/15	Pure Storage, Inc.	300.0
8/12/15	New Bancorp, Inc.	9.0
8/7/15	CPI Card Group, Inc.	100.0
8/4/15	Boulevard Acquisition Corp. II	350.0
8/4/15	Neiman Marcus Group, Inc.	100.0

* Transactions under \$10 million excluded
Source: S&P CapitalIQ

Announced IPO Activity — Total Market

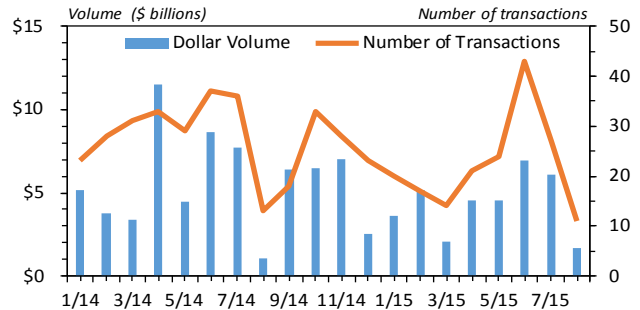
U.S. and Canada



Source: S&P CapitalIQ

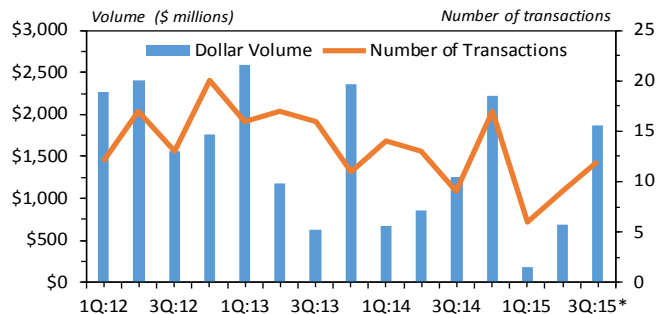
IPO Activity, Closed Transactions — Total Market

U.S. and Canada



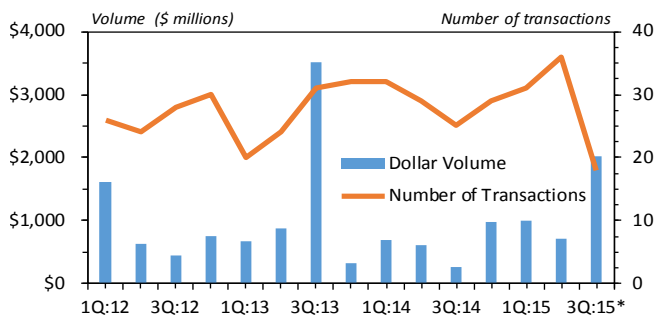
M&A Activity Diversified/Consumer Financial Services Sector

U.S. and Canada; transaction size less than \$1 billion

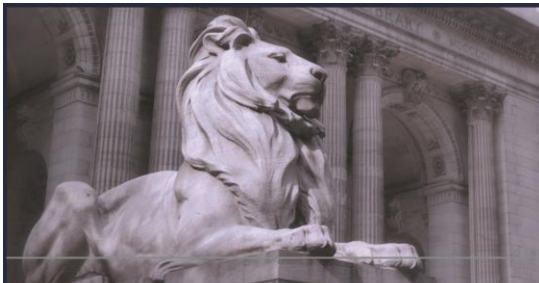


Private Placement Activity Diversified/Consumer Financial Services Sector

U.S. and Canada; transaction size less than \$1 billion



* 3Q:15 activity forecasted based on 7/15-8/15 performance



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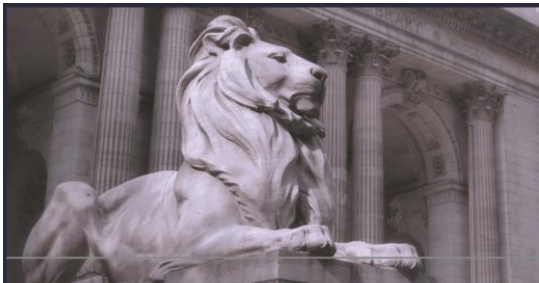
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Consumer Finance Protection Board (CFPB) “Corner”

- The CFPB continued to widen its net in August suing two pension advance companies for deceiving consumers about loan costs. The CFPB and the New York Department of Financial Services (NYDFS) filed a lawsuit in federal court against Pension Funding, LLC and Pension Income, LLC and accused the companies of duping consumers into borrowing against their pensions and failing to disclose high interest rates (greater than 28%) and fees.
- Furthering its focus on the payday lending niche, the CFPB sued NDG Enterprise, an offshore payday lender, for collecting money consumers did not owe. The CFPB alleges that NDG collected loan amounts and fees that were void or that consumers had no obligation to repay, and made false threats to consumers. NDG originates and collects payday loans over the Internet in all 50 states. The CFPB alleges NDG violated the Dodd-Frank Act and wants NDG to refund the money collected. The CFPB also is seeking additional damages and costs.
- The CFPB ordered Citizens Bank to pay \$18.5 million for failing to credit full deposit amounts. The CFPB charged the bank kept money from deposit discrepancies when receipts did not match actual money transferred. Citizens told consumers that deposits were subject to verification, but the bank’s practice was not to verify and correct the inaccuracies unless they were generally above \$25. The CFPB ordered Citizens to pay \$11 million to redress victims and \$7.5 million in civil penalties. Separately, the FDIC ordered Citizens Bank of Pennsylvania to pay restitution and a \$10 million penalty, while the OCC ordered Citizens Bank N.A. to pay roughly \$11 million in refunds and \$20.5 million in federal penalties.
- The CFPB took action against Encore Capital Group and Portfolio Recovery Associates, the two largest debt buyers in the U.S., for using deceptive tactics to collect bad debt. The CFPB claims that without verifying the debt, the companies collected payments by pressuring consumers with false statements and filed lawsuits using robo-signed contract documents. The CFPB ordered the companies to overhaul their debt collection and litigation practices and stop reselling debt to third parties. Encore must pay up to \$42 million in refunds and a \$10 million penalty, and stop collection on more than \$125 million worth of debts. Portfolio Recovery Associates must pay \$19 million in refunds and an \$8 million penalty, and stop collecting on \$3 million worth of debts.

FinTech Talk

- Fidelity National Information Services Inc. (FIS), which provides payment processing and banking solutions, agreed to buy SunGard, a provider of financial software and solutions, for \$5.1 billion in cash and stock, ending the company’s private-equity owners’ bid to take it public. In 2005, KKR & Co., Blackstone Group LP, Bain Capital LLC, Silver Lake, TPG, Providence Equity Partners LLC and the buyout arm of Goldman Sachs Group paid about \$11.4 billion to acquire SunGard. The deal led to a string of “megabuyouts” in which firms teamed up to buy companies they couldn’t afford on their own. In recent years, the group made several moves to pay down debt and pave the way for a profitable exit. FIS will pay \$2.3 billion in cash and \$2.8 billion in its stock for SunGard and plans to take on and refinance SunGard’s debt as part of the deal. The combined company is expected to have more than \$9.2 billion in revenue and over 55,000 employees. The deal is expected to close in the fourth quarter.
- Social Finance Inc. (SoFi), an online lender focused on refinancing student loans, raised capital in August that values the start-up at roughly \$4 billion. According to the Wall Street Journal, the latest round of fundraising made SoFi among the most highly valued financial technology companies in the sector. Unlike traditional lenders, SoFi’s underwriting approach takes into consideration the reputation of the borrower’s university. The company has recently expanded to include personal loans up to \$100,000 to high-earning professionals and providing mortgages to those individuals requiring down payments as little as 10%. Since SoFi is not a bank, it is not required to adhere to capital requirements but is overseen by the Consumer Finance Protection Bureau (CFPB) and state regulators. According to the company, loan volume is set to exceed \$5 billion by the end of 2015.
- Klarna AB, a start-up Swedish payment processing company, plans to expand in the U.S. using its digital checkout process. The company’s expansion plans follow the completion of a capital raise that valued Klarna at \$2.25 billion. The company’s recent round of financing comes on the heels of Stripe, Inc.’s capital raise that valued the company at roughly \$5 billion and Square Inc.’s IPO announcement. Klarna, which claims to have superior fraud detection than other payment companies, intends to launch in the U.S. with at least 10 merchants; the company currently counts about 55,000 merchants in 18 European countries. In 2014, Klarna generated about \$300 million in revenue for roughly \$7.8 billion in transactions.



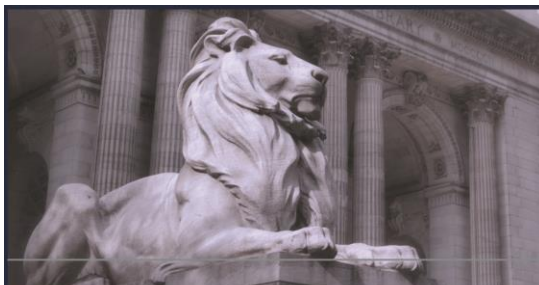
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Specialty Finance Public Company Performance

	Market Data			Valuation				
	Price (9/10/15)	Market Cap	Enterprise Value	EV/LTM Revenue	EV/LTM EBITDA	Mkt Cap/ LTM Rev.	Price/ LTM EPS	Price/ TBV
Auto Finance								
Canadream Corp. (TSXV:CDN)	\$0.42	\$8.1	\$26.3	1.0x	9.1x	0.3x	5.3x	0.8x
Credit Acceptance Corp. (NasdaqGS:CACC)	199.75	4,114.4	6,031.1	8.8x	NM	6.0x	14.5x	4.9x
America's Car-Mart Inc. (NasdaqGS:CRMT)	35.33	299.4	406.5	0.7x	8.2x	0.5x	11.9x	1.3x
Consumer Portfolio Services, Inc. (NasdaqGM:CPSS)	5.39	140.6	1,985.8	12.9x	NM	0.9x	5.3x	1.0x
Mean				5.9x	8.6x	1.9x	9.2x	2.0x
Median				4.9x	8.6x	0.7x	8.6x	1.1x
Commercial Finance								
California First National Bancorp (NasdaqGM:CFNB)	\$13.06	\$136.6	\$128.6	4.8x	NM	5.1x	15.0x	0.7x
LendingClub Corporation (NYSE:LC)	12.47	4,678.7	7,849.3	26.0x	NM	15.5x	NM	5.2x
Marlin Business Services Corp. (NasdaqGS:MRLN)	14.03	179.9	81.8	1.1x	NM	2.5x	10.1x	1.0x
NewStar Financial, Inc. (NasdaqGS:NEWS)	10.22	467.3	3,158.3	47.1x	NM	7.0x	36.5x	0.7x
On Deck Capital, Inc. (NYSE:ONDK)	10.01	696.6	885.3	6.5x	NM	5.1x	NM	2.2x
Mean				17.1x	NM	7.0x	20.5x	2.0x
Median				6.5x	NM	5.1x	15.0x	1.0x
Consumer Finance								
Atlanticus Holdings Corporation (NasdaqGS:ATLC)	\$3.79	\$52.7	\$204.1	1.7x	NM	0.4x	1.6x	4.3x
Cash America International, Inc. (NYSE:CSH)	26.83	713.4	744.7	0.7x	6.5x	0.7x	NM	1.3x
First Cash Financial Services Inc. (NasdaqGS:FCFS)	39.11	1,095.0	1,273.5	1.8x	8.9x	1.5x	14.6x	7.2x
Green Dot Corporation (NYSE:GDOT)	17.99	936.8	236.2	0.3x	1.9x	1.3x	15.6x	4.4x
Springleaf Holdings, Inc. (NYSE:LEAF)	46.18	6,210.4	10,608.4	6.9x	NM	4.1x	14.8x	2.1x
QC Holdings, Inc. (NasdaqGM:QCCO)	1.72	29.8	22.9	0.2x	2.4x	0.2x	17.2x	0.4x
Regional Management Corp. (NYSE:RM)	15.59	201.0	555.7	2.7x	11.8x	1.0x	14.2x	1.1x
Santander Consumer USA Holdings Inc. (NYSE:SC)	21.88	7,828.5	38,452.7	11.0x	NM	2.2x	7.7x	1.9x
World Acceptance Corp. (NasdaqGS:WRLD)	32.43	291.0	762.8	1.3x	3.7x	0.5x	2.6x	0.9x
Mean				3.0x	5.9x	1.3x	11.1x	2.6x
Median				1.7x	5.1x	1.0x	14.4x	1.9x
Debt Recovery Solutions								
Asta Funding Inc. (NasdaqGS:ASFI)	\$8.67	\$113.2	\$131.0	3.2x	NM	2.8x	108.4x	0.6x
Encore Capital Group, Inc. (NasdaqGS:ECPG)	40.45	1,020.8	4,048.4	3.6x	8.9x	0.9x	9.5x	NM
PRA Group, Inc. (NasdaqGS:PRAA)	53.28	2,575.4	4,009.4	4.1x	9.6x	2.6x	12.7x	6.7x
Mean				3.6x	9.2x	2.1x	43.5x	3.7x
Median				3.6x	9.2x	2.6x	12.7x	3.7x
Financial Technology								
DST Systems Inc. (NYSE:DST)	\$104.54	\$3,747.1	\$4,142.3	1.5x	9.6x	1.3x	7.0x	5.8x
Euronet Worldwide, Inc. (NasdaqGS:EEFT)	68.64	3,618.5	3,518.1	2.0x	14.2x	2.1x	37.3x	NM
Fidelity National Information Services, Inc. (NYSE:FIS)	68.72	19,350.3	24,038.0	3.7x	14.9x	3.0x	27.7x	NM
Fiserv, Inc. (NasdaqGS:FISV)	85.92	20,154.9	23,860.9	4.6x	15.2x	3.9x	29.0x	NM
Global Payments Inc. (NYSE:GPN)	112.93	7,353.9	9,143.9	3.3x	15.4x	2.7x	27.4x	NM
Heartland Payment Systems, Inc. (NYSE:HPY)	60.43	2,220.9	2,722.8	1.1x	14.2x	0.9x	57.6x	NM
Total System Services, Inc. (NYSE:TSS)	46.25	8,507.7	9,617.9	3.7x	15.1x	3.3x	26.3x	NM
Vantiv, Inc. (NYSE:VNTV)	45.16	6,601.4	9,826.6	3.4x	15.0x	2.3x	51.3x	NM
Mean				2.9x	14.2x	2.4x	33.0x	5.8x
Median				3.3x	15.0x	2.5x	28.4x	5.8x

Source: S&P CapitalIQ



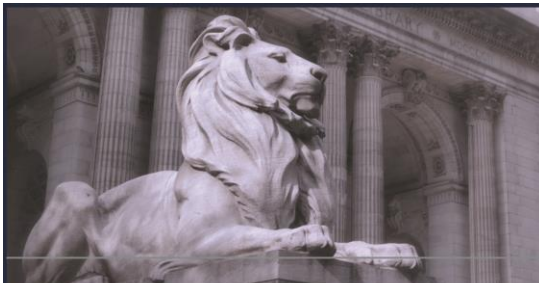
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Specialty Finance Public Company Performance

	Operating Statistics							Balance Sheet Statistics	
	LTM Revenue	LTM EBITDA	Gross Margin	EBITDA Margin	Net Margin	LTM Dil. EPS	Tangible BV/Shr	Total Debt/Capital	Total Debt/EBITDA
Auto Finance									
Canadream Corp. (TSXV:CDN)	\$25.7	\$2.9	34.1%	11.3%	9.9%	\$0.08	\$0.52	69.0%	8.0x
Credit Acceptance Corp. (NasdaqGS:CACC)	684.1	NM	NM	NM	42.8%	13.78	40.77	69.2%	NM
America's Car-Mart Inc. (NasdaqGS:CRMT)	545.6	49.7	24.9%	9.1%	4.9%	2.98	27.3	31.2%	2.1x
Consumer Portfolio Services, Inc. (NasdaqGM:CPSS)	154.3	NM	NM	NM	21.2%	1.02	5.58	92.7%	NM
Mean			29.5%	10.2%	19.7%			65.5%	5.1x
Median			29.5%	10.2%	15.5%			69.1%	5.1x
Commercial Finance									
California First National Bancorp (NasdaqGM:CFNB)	\$26.6	NM	NM	NM	34.1%	\$0.87	\$17.99	NM	NM
LendingClub Corporation (NYSE:LC)	302.3	NM	83.4%	NM	NM	(0.12)	2.38	78.6%	NM
Marlin Business Services Corp. (NasdaqGS:MRLN)	73.1	NM	NM	NM	24.6%	1.39	14.20	NM	NM
NewStar Financial, Inc. (NasdaqGS:NEWS)	67.0	NM	NM	NM	20.6%	0.28	14.36	80.5%	NM
On Deck Capital, Inc. (NYSE:ONDK)	137.0	NM	79.0%	NM	NM	(0.13)	4.52	53.5%	NM
Mean			81.2%	NM	26.4%			70.9%	NM
Median			81.2%	NM	24.6%			78.6%	NM
Consumer Finance									
Atlantius Holdings Corporation (NasdaqGS:ATLC)	\$121.9	NM	65.8%	NM	27.0%	\$2.35	\$0.88	94.2%	NM
Cash America International, Inc. (NYSE:CSH)	1,064.7	114.3	54.2%	10.7%	3.9%	0.28	20.21	14.7%	1.6x
First Cash Financial Services Inc. (NasdaqGS:FCFS)	721.4	142.7	55.9%	19.8%	10.6%	2.68	5.40	36.1%	1.8x
Green Dot Corporation (NYSE:GDOT)	699.7	122.8	86.1%	17.6%	8.2%	1.15	4.12	16.8%	1.1x
Springleaf Holdings, Inc. (NYSE:LEAF)	1,531.6	NM	95.1%	NM	24.1%	3.11	22.28	77.4%	NM
QC Holdings, Inc. (NasdaqGM:QCCO)	145.1	9.5	24.6%	6.6%	1.3%	0.10	3.94	5.8%	0.4x
Regional Management Corp. (NYSE:RM)	203.4	47.0	71.4%	23.1%	7.0%	1.10	14.69	65.3%	7.6x
Santander Consumer USA Holdings Inc. (NYSE:SC)	3,494.1	NM	65.2%	NM	NM	2.84	11.51	87.8%	NM
World Acceptance Corp. (NasdaqGS:WRLD)	601.5	208.7	81.0%	34.7%	18.6%	12.35	37.89	59.3%	2.3x
Mean			66.6%	18.8%	12.6%			50.8%	2.5x
Median			65.8%	18.7%	9.4%			59.3%	1.7x
Debt Recovery Solutions									
Asta Funding Inc. (NasdaqGS:ASFI)	\$40.6	\$5.5	NM	13.6%	2.6%	\$0.08	\$13.86	20.4%	NM
Encore Capital Group, Inc. (NasdaqGS:ECPG)	1,125.9	454.9	NM	40.4%	10.1%	4.27	(13.95)	82.3%	6.9x
PRA Group, Inc. (NasdaqGS:PRAA)	972.1	418.7	NM	43.1%	21.4%	4.19	7.97	62.6%	3.6x
Mean			NM	32.4%	11.4%			55.1%	5.3x
Median			NM	40.4%	10.1%			62.6%	5.3x
Financial Technology									
DST Systems Inc. (NYSE:DST)	\$2,782.8	\$430.3	16.4%	15.5%	20.5%	\$14.93	\$18.10	29.4%	1.2x
Euronet Worldwide, Inc. (NasdaqGS:EEFT)	1,735.7	247.1	41.4%	14.2%	5.7%	1.84	(0.80)	37.0%	1.8x
Fidelity National Information Services, Inc. (NYSE:FIS)	6,436.0	1,610.5	32.6%	25.0%	10.8%	2.48	(15.41)	43.6%	3.1x
Fiserv, Inc. (NasdaqGS:FISV)	5,152.0	1,572.0	43.9%	30.5%	14.1%	2.96	(17.01)	57.4%	2.7x
Global Payments Inc. (NYSE:GPN)	2,773.7	594.1	63.2%	21.4%	10.0%	4.12	(19.82)	73.0%	3.9x
Heartland Payment Systems, Inc. (NYSE:HPY)	2,483.4	191.6	15.7%	7.7%	1.6%	1.05	(10.47)	65.4%	2.9x
Total System Services, Inc. (NYSE:TSS)	2,606.8	637.5	33.3%	24.5%	12.4%	1.76	(2.71)	44.3%	2.2x
Vantiv, Inc. (NYSE:VNTV)	2,922.5	656.1	54.1%	22.4%	5.3%	0.88	(23.01)	69.7%	4.9x
Mean			37.6%	20.2%	10.1%			52.5%	2.8x
Median			37.4%	21.9%	10.4%			50.8%	2.8x

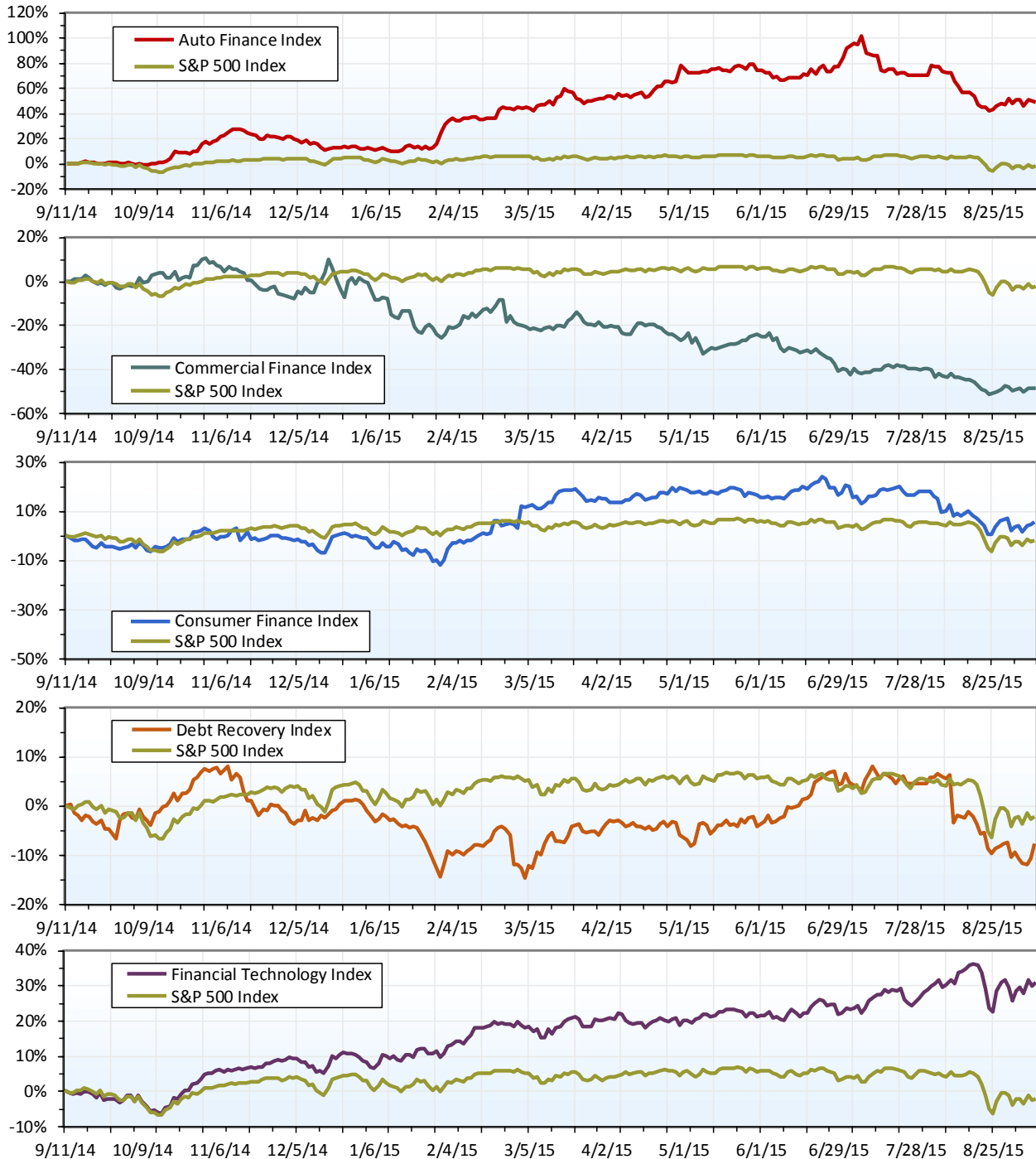
Source: S&P CapitalIQ



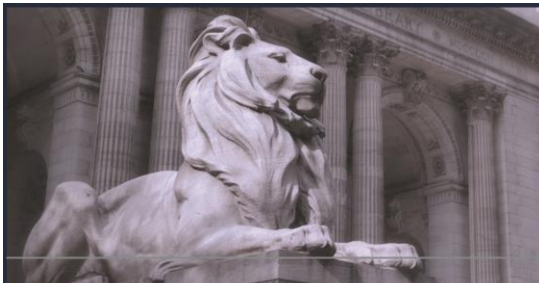
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Specialty Finance Public Company Stock Price Performance



Source: S&P CapitalIQ



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Prior to joining Scura Paley as an investment banker, Ms. Scutti was a sell-side equity research analyst and fully-licensed research director. In 2000, Ms. Scutti was ranked the #1 stock picker in Financial Services by the Wall Street Journal and among the top-25 stock pickers on Wall Street by Bloomberg.

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