



STATE OF EUROPEAN FINTECH: CURRENT TRENDS & PREDICTION



SEPTEMBER 2017

INNOVATE / FINANCE



MAGISTER
ADVISORS

KEY OBSERVATIONS ON STATE OF EUROPEAN FINTECH

1

FinTech round sizes have increased, at valuations which are often significantly above larger more established players

- 1) Increase in \$20m+ European FinTech funding rounds
- 2) Round sizes across the board have increased, reflecting broad interest in the sector
- 3) Larger FinTech valuations (as a multiple of revenue) are often significantly above publicly traded established players

2

Sharp increase in corporate interest and investment in FinTech

- 1) Strategics' appetite for investments has been increasing, especially in larger rounds (\$20m+) where they participated in nearly half of the fundraises in 2017
- 2) Some of the most active corporate investors in European FinTech (Tengelmann, ProSieben (Seven Ventures), Intel Capital and Salesforce.com) have core businesses outside of financial services

3

There have been no VC backed FinTech IPOs yet in Europe, with multiple factors pointing to future increase in M&A activity

- 1) Capital invested so far will require a path to liquidity
- 2) Private investors will continue focusing on M&A exits until public investors show appetite for FinTech IPOs
- 3) Strategics are becoming more active in M&A as they look at buy vs build

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European B2B FinTech investment has increased

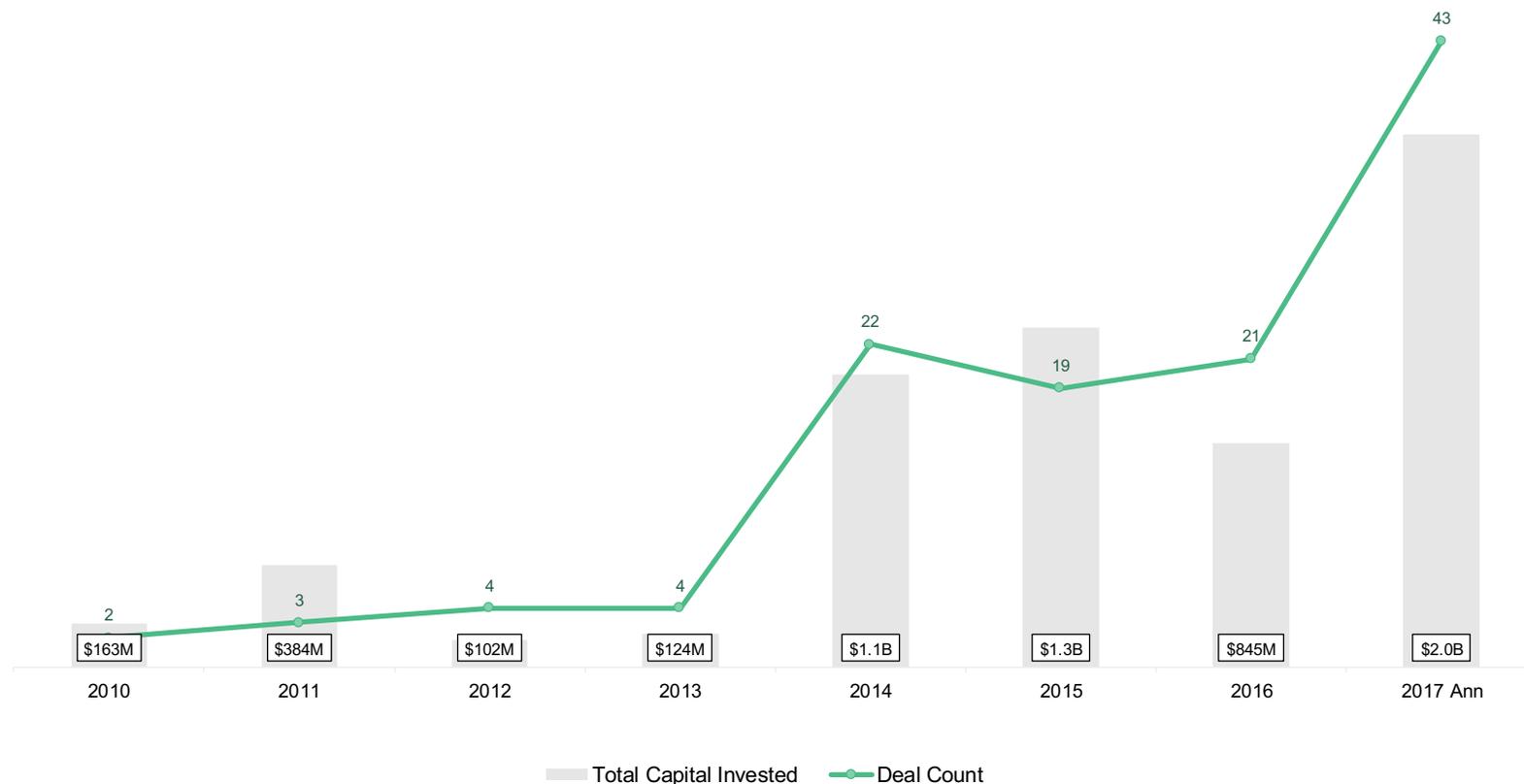
- 1) In 2017, nearly half of the capital invested in FinTech has gone to B2B FinTechs
- 2) This is due to many factors, including regulation, increased collaboration and emerging technologies
- 3) White labelling of FinTech products and solutions enables incumbents to act more nimbly whilst allowing B2B FinTechs the ability to scale rapidly

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FINTECH FINANCINGS UP, VALUATIONS OF LARGER FINTECHS WELL AHEAD OF LARGER PEERS

GROWING NUMBER OF \$20M+ EUROPEAN FINTECH ROUNDS...

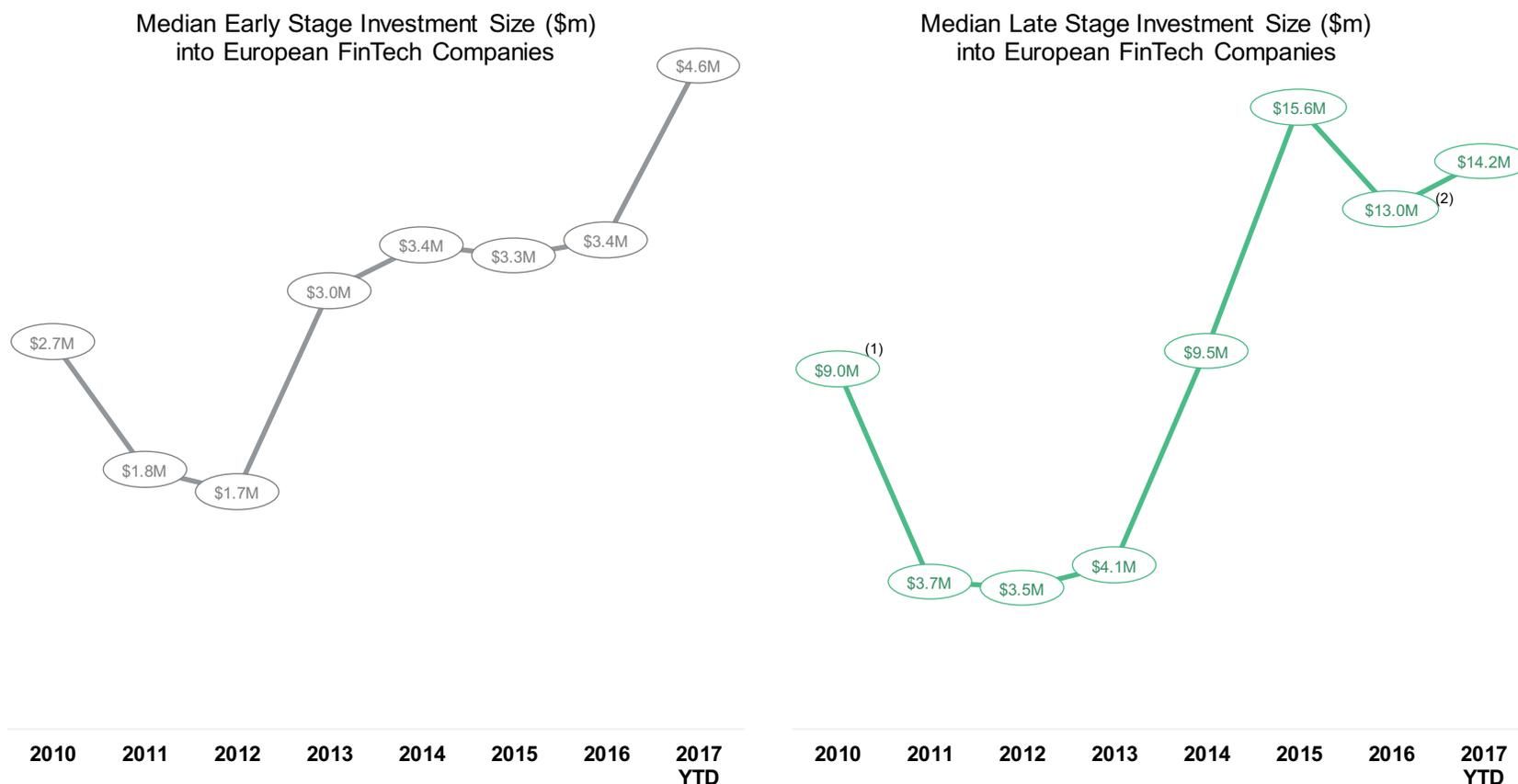
- Rising competition for \$20M rounds has driven valuations higher



- Capital invested into \$20M+ European FinTech rounds has risen at a CAGR of 75% since 2013
- In annualised 2017, the capital invested totals \$2BN over 43 deals
- This is an indicator that the FinTech sector is maturing, attracting larger funds
- With increasing competition to take part in these larger rounds, financing valuations inevitably have risen

...SUPPORTED BY GROWTH IN ROUND SIZES ACROSS THE BOARD

- Median deal size has expanded rapidly in both early & late stage VC



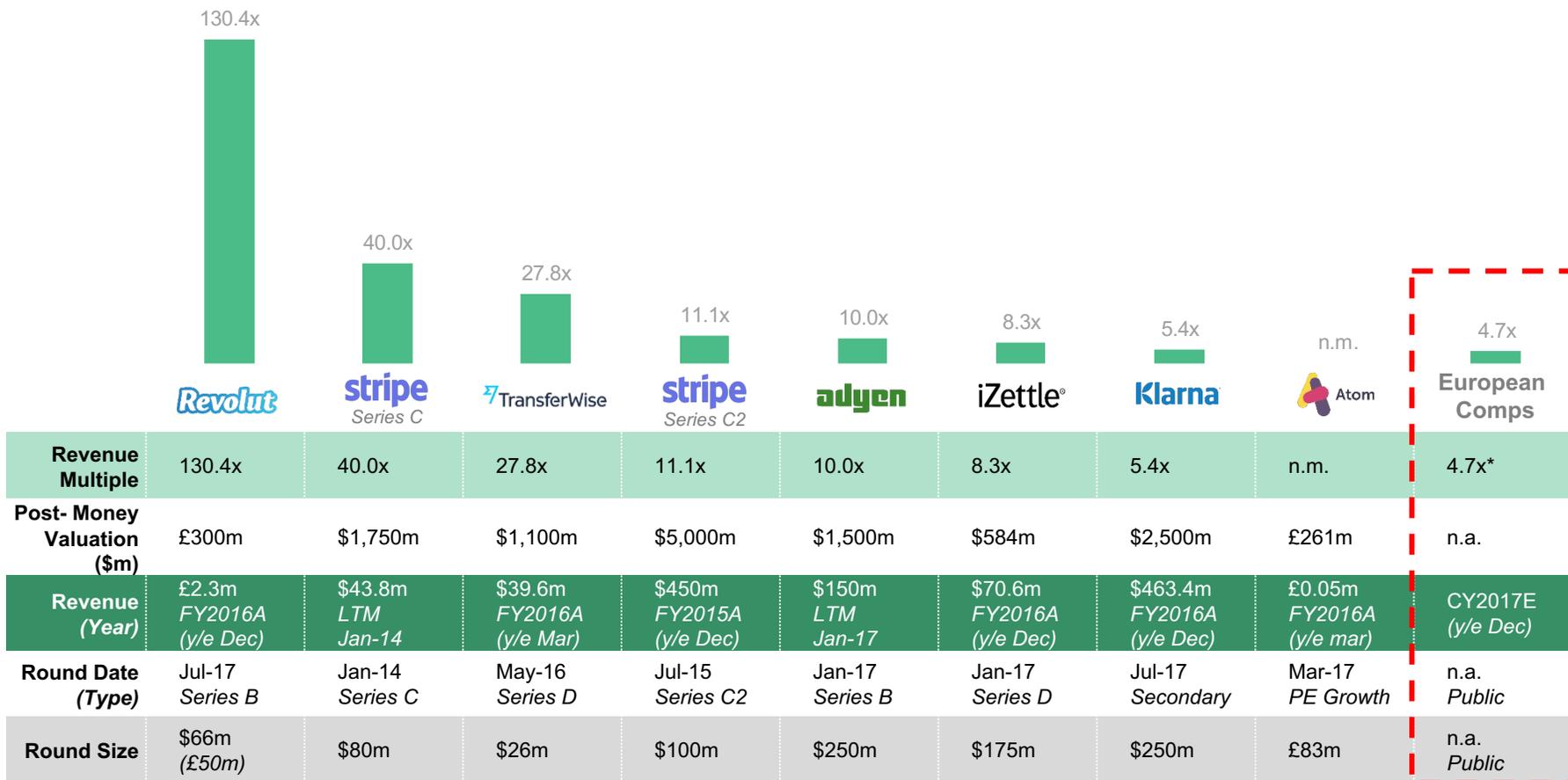
- Deal size has been trending upwards generally since 2012, (except for in 2016, which could be attributed to the affects of the EU referendum vote)
- Both early and late stage round sizes have increased 3x+ since 2012, indicating that financing valuations have risen across the board
- Interest in emerging FinTech has never been higher, underpinning competition from potential investors for the best deals from seed to late stage
- Increasingly varied investors have entered the space (Asian investors, corporates etc.)

Source: Pitchbook as of 04 August 2017

Note: 1) Only 3 deals with deal size disclosed in 2010 (one of which was Wonga's c.\$110m Series C round)
2) Manually excluded deals involving companies (e.g. Undo, Post Quantum and Icpay) as these companies do not fit under the FinTech and Late Stage categorisation

FINTECH VALUATIONS (AS A MULTIPLE OF REVENUE) AHEAD OF LARGER PUBLIC PEERS

Benchmarking the FinTech leaders



- FinTechs have recently raised rounds at valuations ahead of actual performance, and above reference publicly traded 'comparables'
- This implies that investors are buying into potential growth / growth story more than results, historic or current
- Higher current FinTech valuations increase pressure to deliver higher future exits, as yet unproven in European FinTech

Source: Pitchbook as of 04 August 2017

Note: European Comps include Nets A/S, Worldpay, Wirecard, PaySafe, Ingenico, Metro Bank and Alfa Financial on 3rd July 2017 (i.e. prior to takeover announcements for both Worldpay and Paysafe)

* Revenue multiple stated for public comparables is EV / REV

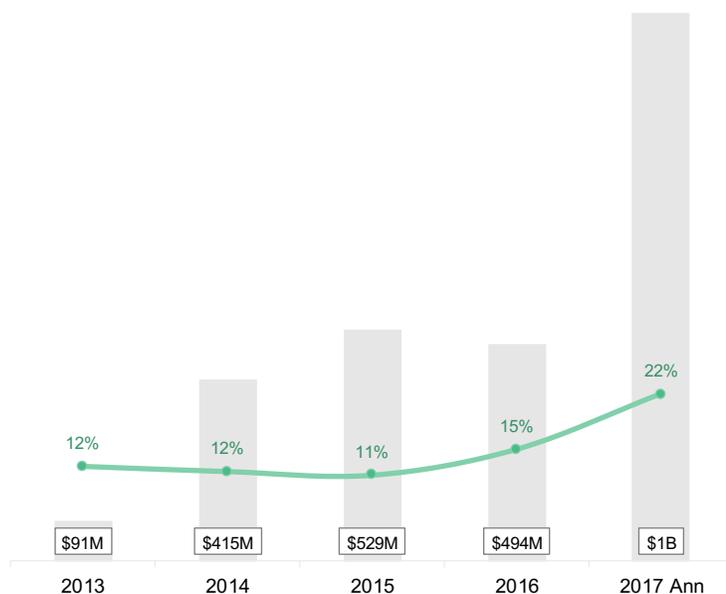
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SHARP INCREASE IN CORPORATE INTEREST, INVESTMENT IN FINTECH

CORPORATES DOUBLING PARTICIPATION IN EUROPEAN FINTECH INVESTMENTS

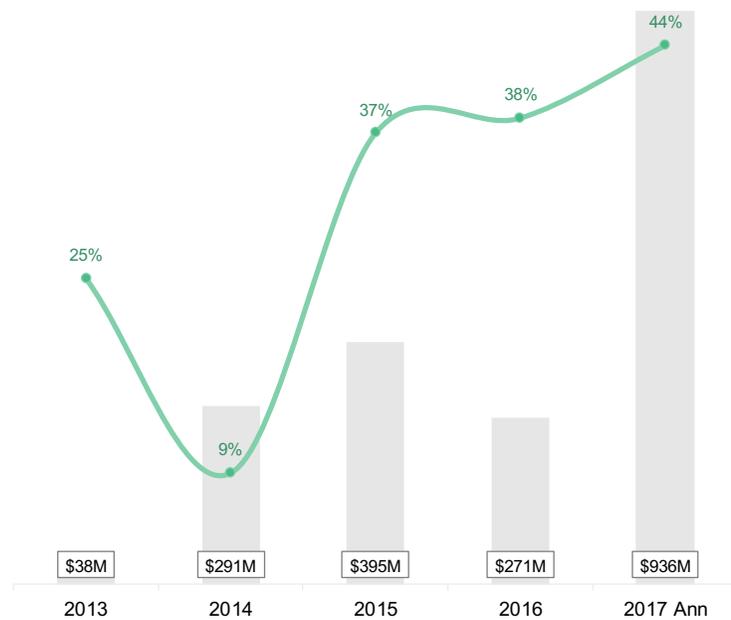
- Strategics' appetite for investments has been increasing, especially in larger rounds

CVC & Corporate Participation in European FinTech Investment



Capital Invested (\$m) % of total Investment

CVC & Corporate Participation in \$20m+ European FinTech Investment



Capital Invested (\$m) % of total Investment

- Corporates have been increasingly active in European FinTech investment over the past 4 years
- Nearly a quarter of all FinTech rounds in annualised 2017 have Corporate or CVC involvement
- Corporate involvement in larger rounds is even greater, with 44% of the \$20m+ FinTech investment rounds in Annualised 2017 involving at least one Corporate or CVC

MOST ACTIVE CORPORATE INVESTORS IN EUROPEAN FINTECH

- Several of the Corporates' core businesses are outside of Financial Services



HQ	Germany	Germany	Japan	US	US	UK	Sweden	US	Germany	US
# of European FinTech Investments	5	5	5	5	5	4	4	3	3	3
# of European FinTech Investments (\$20m+ round)	3	n.a.	1	2	3	1	n.a.	3	1	1
Total # of Active Portfolio Companies	39	31	20	434	38	16	377	25	7	164
List of Select European FinTech Investments:	<ul style="list-style-type: none"> Klarna Scalable Capital SumUp 	<ul style="list-style-type: none"> ayondo Clark Auxmoney Cashboard Centralway Numbrs 	<ul style="list-style-type: none"> CurrencyCloud Bitnet Azimo Kreditech 	<ul style="list-style-type: none"> iZettle Fortumo Fadata CGTrader 	<ul style="list-style-type: none"> iZettle SumUp 	<ul style="list-style-type: none"> iZettle Curve Elliptic 	<ul style="list-style-type: none"> Billhop Wrebit Kulipa 	<ul style="list-style-type: none"> iZettle (3 Rounds) 	<ul style="list-style-type: none"> eToro Mambu Bankin' 	<ul style="list-style-type: none"> Wefox Squirro

FINANCIAL INSTITUTIONS ARE COMMITTING BOTH CASH & OTHER RESOURCES INTO FINTECH SECTOR

Both Money...



...and Other Resources

JPMorgan Chase pumped \$600m into fintech in 2016

JPMorgan Chase spent around \$600 million on emerging fintech solutions last year, says the bank's CEO Jamie Dimon in a letter to shareholders which also mentions an API store and some "interesting developments" in the bill payments department.

J.P.Morgan

Barclays opens Europe's largest fintech site

Barclays has opened an innovation centre in London's hipster capital Shoreditch housing internal banking and technology teams alongside more than 40 fintech startups.

BARCLAYS

UBS spending \$1 billion on IT overhaul

ZURICH (Reuters) - UBS (UBSG.S), the world's biggest private bank, is spending around 1 billion Swiss francs (\$1 billion) to standardize the IT platform across its flagship wealth management business, an investment it hopes will ultimately help lower costs.

UBS

J.P. Morgan Is Bringing Some FinTech Startups In-House

The program will allow FinTech creators to work at the bank for a six months to turn an idea into a product. That gives the FinTechs access to J.P. Morgan's facilities, systems, and people. Those ideas can range from machine learning, to security, to blockchain technology. The FinTech will remain an independent company.

J.P.Morgan

Santander InnoVentures steps up fintech spending

Santander InnoVentures, the venture capital fund of Santander Group, is moving ever deeper into the fintech ecosystem with strategic investments in the UK startups Pixoney and Curve and US based Gridspace.

Santander

JStation F, Plug and Play and BNP Paribas: [Partnering on] FinTech

BNP Paribas has teamed up with Plug and Play, an innovation platform present in 22 countries, to create an accelerator dedicated to FinTechs and InsurTechs. Located within Station F, this new Parisian incubator is set to open its doors in early July and promises to be the biggest in the world

BNP PARIBAS

BANKS / FINANCIAL INSTITUTIONS ACTIVELY PARTNERING / JV WITH FINTECHS



52% of the top 100 global banks have formed 130+ partnerships and 37% have completed 60+ acquisitions



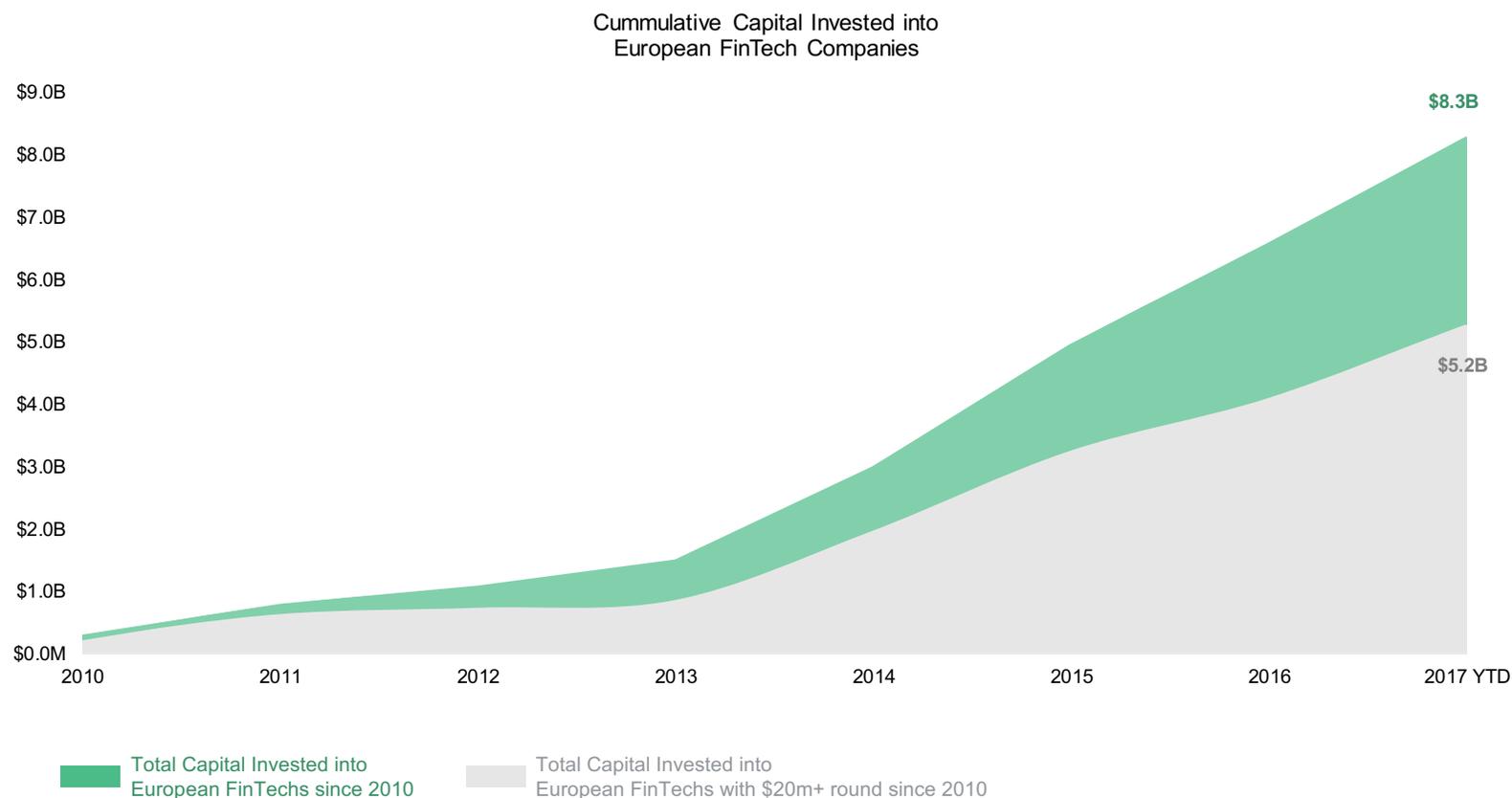
Source: McKinsey Panaroma

3

**NO VC BACKED FINTECH IPOs YET IN EUROPE;
MULTIPLE FACTORS POINT TO FUTURE INCREASE IN
M&A ACTIVITY**

CAPITAL INVESTED IS ACCUMULATING FAST; IMPLYING EXITS WILL START TO FOLLOW...

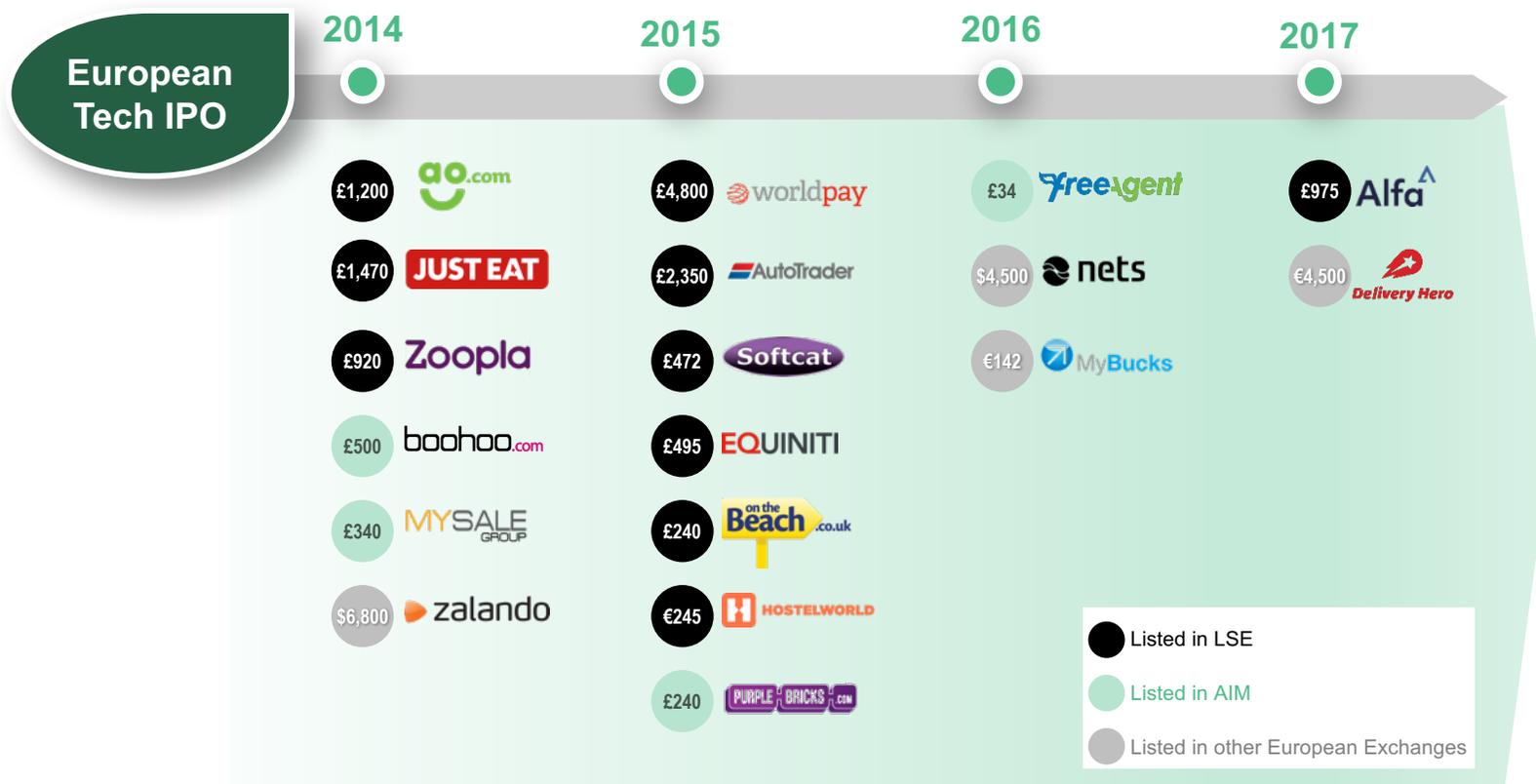
- Over \$8BN of Capital invested into European FinTech companies since 2010



- There has been \$8BN+ of cumulative capital invested into the European FinTech sector to 2017YTD
- Over half of this has been invested into FinTech companies raising \$20m+ rounds
- Investment saw a sharp increase in 2012/13, and has continued to rise each year
- Given the 5-7 year time horizon for the typical VC fund, the pressure to look for exits will inevitably intensify in the next 5 years
- High historic funding valuations will inevitably have ramifications for the eventual exits

LIMITED IPO MARKET IN EU FOR TECH GENERALLY; NO VC BACKED EUROPEAN FINTECH IPOs YET

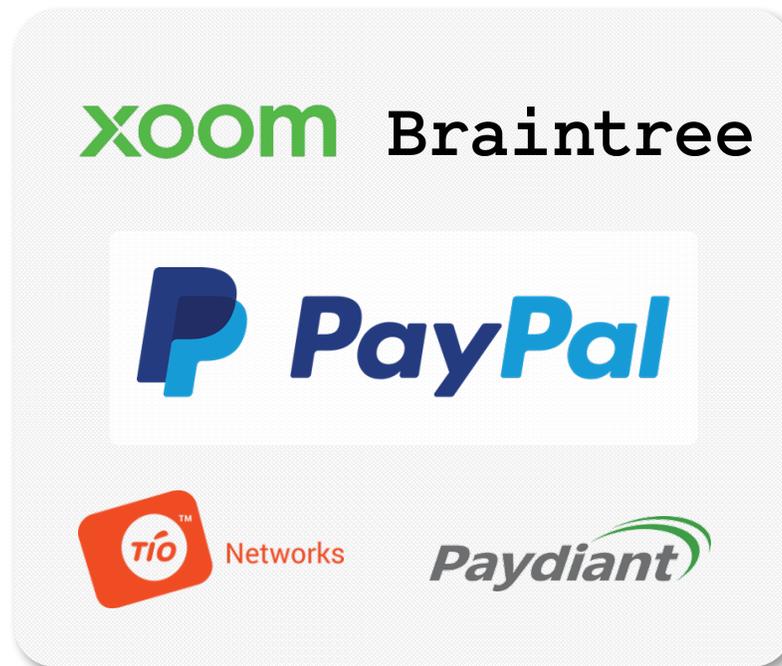
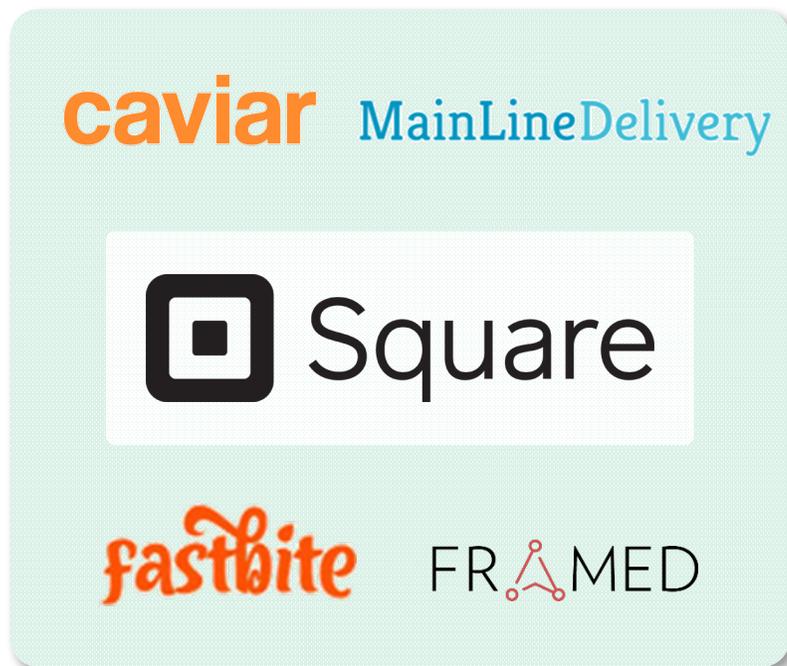
- There have been limited European Tech IPOs over the last 4 years



- Volume of Tech IPOs on European exchanges has significantly lagged behind US markets (NYSE and Nasdaq) in recent years
- More dramatically, there has not yet been a VC backed FinTech IPO in Europe
- Private investors will continue focusing on M&A exits until public investors show appetite for FinTech IPOs
- Note:** this does not include IPO's of established companies such as Worldpay, Nets etc., it is focused only on FinTechs started over the past few years

BUY RATHER THAN BUILD PRODUCT DIVERSIFICATION ALREADY ADOPTED BY U.S. FINTECH LEADERS

- Square and PayPal started buy-and-build in addition to in-house product development to move beyond their traditional businesses



- Square and PayPal have acquired aggressively to move beyond payments into other offerings
- Square acquired Caviar, Main Line Delivery and fastbite as a part of its initiative to enter the meal delivery market
- Square also launched Square Capital, which offers business financing to merchants using Square
- PayPal acquired both Xoom (remittances) and Braintree (merchant payments), as examples of rapid, strategic diversification

FINANCIAL INSTITUTIONS ARE STARTING TO ACQUIRE WITH M&A ACTIVITY SET TO ACCELERATE

Recent Acquisitions by US Players...

BLACKROCK® —  FutureAdvisor

citi® —  payQwick™
It's Safe and Easy to PayQwick.™

bundle —  Capital One® —  Level money™

Goldman Sachs —  Honest Dollar

vantiv® —  worldpay

...With Europeans Playing Catch Up

Big Banks Poised to Scoop Up Fintech Startups, Report Finds

By Edward Robinson

6 April 2017, 00:01 BST Updated on 6 April 2017, 10:12 BST

- PwC survey finds half of global finance firms in buying mood
- Record French deal this week shows shift toward dealmaking

BNP Paribas announced that it is acquiring Compte Nickel for €200m

Big banks may have scoffed when a gaggle of financial technology upstarts promised to reinvent their business. Now they want to buy them.

Almost 50 percent of financial services firms around the world plan to acquire fintech startups in the three to five years, according to a report Thursday by PricewaterhouseCoopers LLP. And eight out of 10 institutions foresee making strategic partnerships with peer-to-peer lenders, digital money transfer platforms, and myriad other firms that are reshaping the business of money.

FINTECHS ARE BROADENING THEIR OFFERINGS WITH HIGH VALUED PLAYERS LEADING THE WAY

- Trend has developed and accelerated over past 12 months

Revolut is the latest fintech startup trying to convince you it is better than a bank

Oscar Williams-Grut
Feb. 11, 2017, 11:18 AM 8,457

FACEBOOK LINKEDIN TWITTER EMAIL PRINT

- Brilliant Way To Check If You Had PPI (Money Tips Online)
- Brilliant way to check for PPI once and for all... (The Claims Guy's LTD)
- The Secret To Finally Killing Off Hearing Loss I... (HearClear)
- Advice for working with compliance or... (UK FinTech)

Sponsored Links

- Hot FX app Revolut launches current account features and says it's "a genuine alternative to a bank."
- Crowded market, with at least a dozen so-called "neobanks" competing in the UK.
- Uncertainty over just how big they can grow and whether they can make money.

LONDON — Fast-growing fintech firm Revolut has become the latest company to get into the crowded "neobanking" market — apps that are either banks or offer services so close to banking that they may as well be.

The startup announced a suite of new product features that lets people from 42 countries open what amounts to a UK current account from their smartphone in under 5 minutes.



Zopa Ltd + Add to myFT

Peer-to-peer lending pioneer seeks banking licence

Zopa plans to launch a banking arm to offer wider range of products

TWITTER FACEBOOK LINKEDIN EMAIL

2 Save to myFT

NOVEMBER 16, 2016 by: Emma Dunkley

Zopa, the UK's oldest peer-to-peer lender, is planning to launch a bank to gather retail deposits and diversify its sources of funding — raising questions over the growth potential of alternative finance.

The online lending site — which launched in 2005 and connects investors directly with individual borrowers — has said it is applying to the UK financial regulator for a banking licence, so that it can offer a wider range of savings products and loans.

With a licence, it will be able to offer credit cards and overdrafts more easily, for example, and provide customer deposits that are protected by the Financial Services Compensation Scheme — a safeguard not extended to P2P depositors.

But Zopa's decision to launch a bank — in the first move of its kind in the UK market — raises questions over the sustainability of other P2P sites, and whether they will be forced into the mainstream, as well.

Christine Farnish, chair of the P2P Finance Association, said that the move should not mean other P2P sites will turn into banks. She said that "they will still offer alternatives, in terms of the level of service, pricing and responsiveness" and "will offer genuine competition to banks".

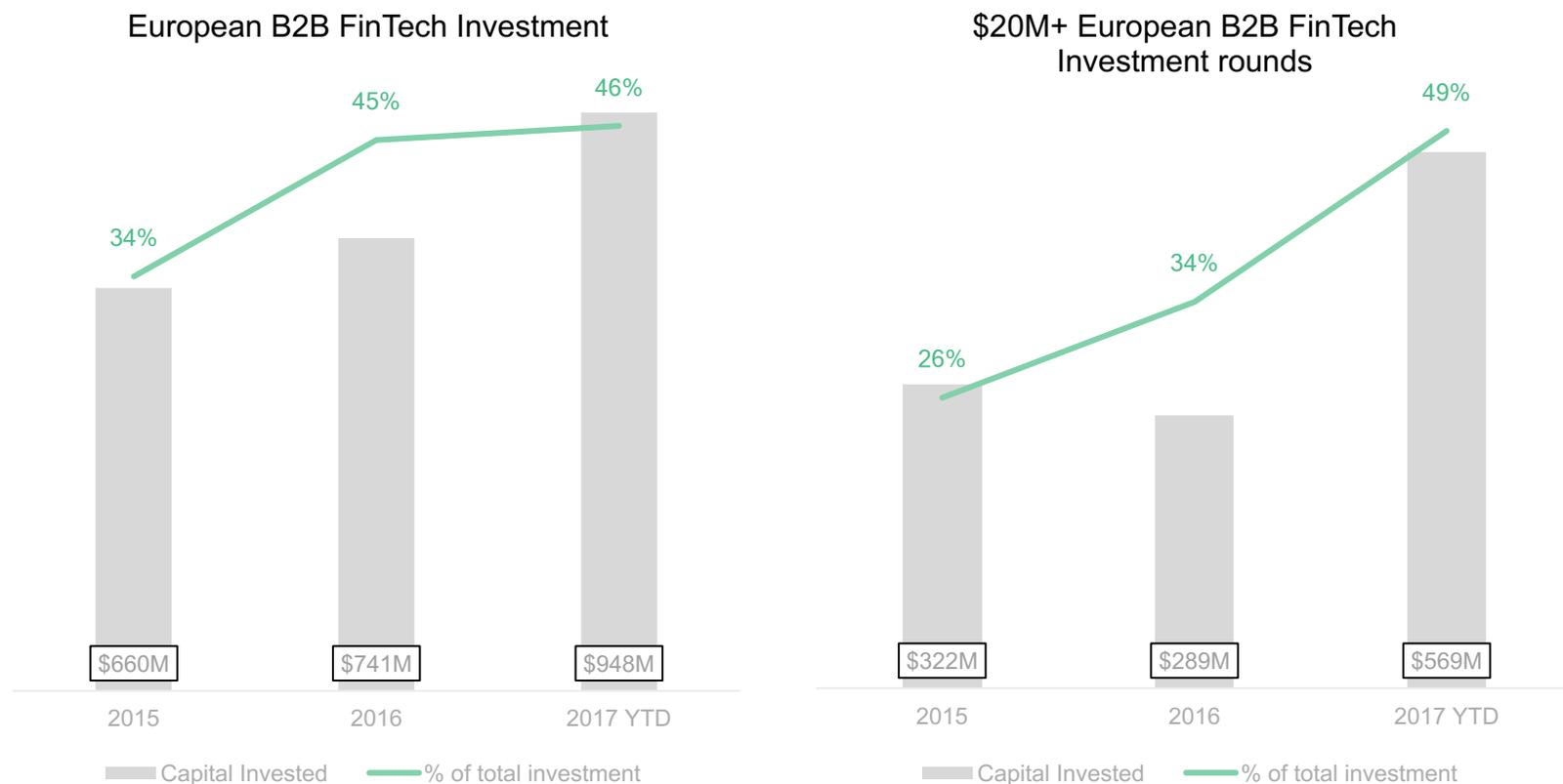
- Multiple products, especially in B2C, facilitate cross-selling to maintain profitability in the face of rising customer acquisition costs, as well enabling faster growth
- It seems logical that some FinTech players may seek to consolidate with each other, rather than each player needing to build new product offerings from scratch

4

B2B FINTECH OFFERS ALTERNATIVE PATH TO SCALE & PROFITABILITY

INVESTMENT INTO EUROPEAN B2B FINTECH IS INCREASING

Investment into B2B FinTech is increasing both in Capital Invested and in % of total investment



- Investment into European B2B FinTech companies, i.e. FinTech providing products and solutions to Banks, Corporates or SMEs, has increased since 2015, with YTD 2017 attracting \$948M
- The % of capital invested into B2B companies vs B2C companies has also increased, with almost half of investment going to B2B companies in YTD 2017
- In \$20M+ funding rounds, the % investment into B2B has almost doubled since 2015, from 26% to 49% in YTD 2017

THIS MOVEMENT IS DRIVEN BY A NUMBER OF FACTORS

Shift in Regulatory Landscape



- **MIFID II:** Directive has impact across the technology stack for Financial Services (client connectivity, risk and compliance, etc.)
- Firms also using the change required as a catalyst to evaluate other efficiencies / re-architecting
- **PSD2:** Driving startup activity on two fronts: i) API development and ii) the creation of niche offerings that leverage open banking data, especially tools that provide insight into personal spending habits

Banks / Financial Institutions increasingly collaborative



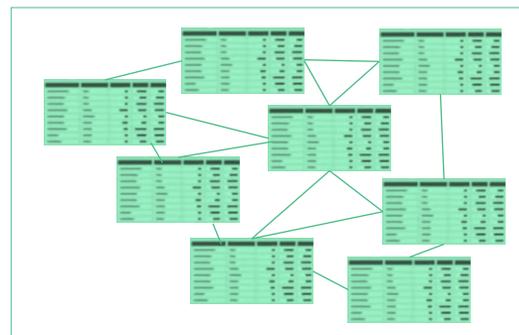
- **Partnership:** Financial Institutions are increasingly looking at startups to help develop API offerings and platforms for them to compete effectively in the new world of PSD2 and Open Banking
- **Increased efficiency and reduced cost:** Whilst front-office solutions remain popular, platforms connecting back office legacy systems to customer-facing systems and apps, external financial ecosystems, and regulatory services are gaining much interest from Banks/FIs

Business model expansion / pivot



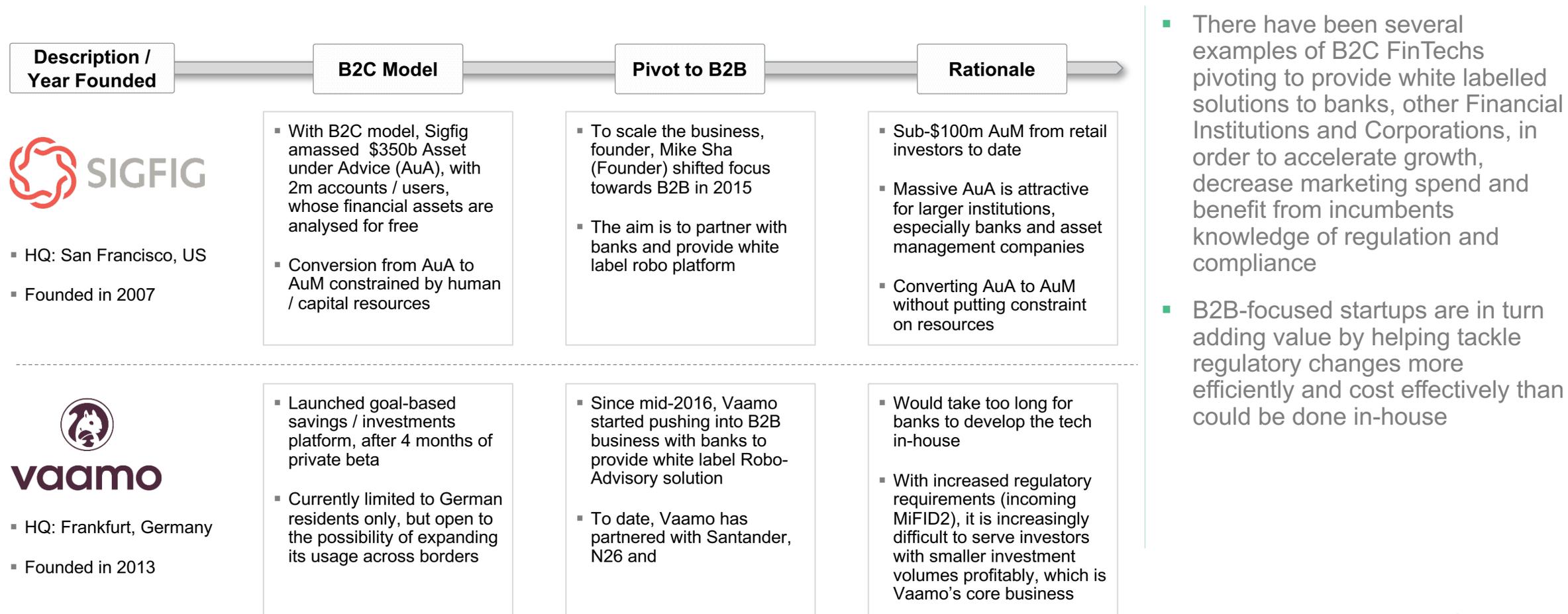
- **Expanding revenue sources:** Startups are adapting their B2C offerings in order to survive and to differentiate in crowded markets
- **Access to large customer base:** Pivoting to B2B or partnering / selling into incumbents / corporates allows startup access large established customer base without the high cost of customer acquisition

Emergence of enabling tech



- **Blockchain:** Holds the potential to facilitate fast, efficient, and secure transfer of ownership of assets – including bonds, shares, and other instruments, and to help maintain records securely and efficiently
- **AI / ML:** AI has enabled smaller startups to compete with more established institutions, making a wide variety of consumer-level applications (credit offerings, insurance options, personal finance services, and regulatory software) accessible to a larger audience

WHITE LABELLING WITH INCUMBENTS PROVIDES OPPORTUNITY TO SCALE MORE RAPIDLY



- There have been several examples of B2C FinTechs pivoting to provide white labelled solutions to banks, other Financial Institutions and Corporations, in order to accelerate growth, decrease marketing spend and benefit from incumbents knowledge of regulation and compliance
- B2B-focused startups are in turn adding value by helping tackle regulatory changes more efficiently and cost effectively than could be done in-house

CONCLUSION

KEY TAKEAWAYS

1 European FinTech valuation have rapidly increased since 2013

- Increase in \$20m+ funding rounds
- Increase in valuations for these rounds

2 FinTech winners are increasingly being funded by Corporates

- Corporates participate in nearly ½ of larger FinTech rounds
- Ability to leverage non-monetary resources within Strategics to help accelerate growth
- Nearly ½ of the most active Corporate investors in FinTech do not have their own core business in Financial Services

3 No VC backed FinTech IPOs yet in Europe – but multiple factors point to increase in M&A exits

- FinTech IPOs in Europe have been skewed to LBO exits e.g. WorldPay, Nets, Skrill (Optimal Payments), rather than VC backed type companies
- Strategics are becoming more active in M&A as they look at buy vs build

4 Increased B2B FinTech investment as start-ups and incumbents realise the potential of collaboration

- Increase in B2B FinTech driven by changes in regulation and increased collaboration
- White-labelling of initial B2C production and solutions seen as route to faster growth for FinTechs