



Backing Future Champions in Financial
Software (incl. AI and IoT)

State of European FinTech 2020

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This is the 5th edition on the State European FinTech and predictions for the year ahead. The year 2020 one is a special one given the CV-19 situation. The report covers in 4 chapters: (i) Where we stand 6 months since the start of lockdowns in Europe with granular insights based on analyses of company data, (ii) An update of the FinTech funding landscape with movers and shakers, (iii) European FinTech M&A momentum and implications and (iv) Key trends we expect to shape the fintech landscape in 2021

Finch Capital invests in post revenue companies across Europe and SE Asia, and we are particularly interested in Financial Software (incl. Artificial Intelligence and IoT). We've invested in ±40 companies including BUX, BrickBlock, Fixico, Fourthline, Goodlord, Grab, Hiber, Twisto, TaxScouts and Trussle

Finch Capital is a team of 12 investment professionals with wide entrepreneurial (e.g. Adyen, Deepmind and Arista), investing (e.g. Accel, Atomico, Egeria, Khazanah) and Industry backgrounds (e.g. Facebook, Google, and McKinsey) with offices in Amsterdam, London and Jakarta. For more information see www.finchcapital.com

Summary - FinTech a resilient European Growth engine



Chapter 1 - Impact of Covid 6 months post lock down - A resilient European tech growth engine: Overall impact was in line with expectations, except for payments and mortgages. For payments, on average the lock down had a positive effect, as e-commerce boost made up for travel falls. This report has analysed the top 50 European FinTech employee developments, which revealed most took this chance to reevaluate cost inefficiencies and coupled with government support programs, lived to fight another day, with reduced sales and increased customer support. Expect the next 6 to 12 months to be more challenging when funding by new investors is required, as most of the existing investors run out of steam.

Chapter 2 - European FinTech landscape buoyancy enabled by massive government support: 2020 has been surprisingly resilient particularly post April. Overall, funding - including government programs - is up, but excluding this is down.

- *Banking & Payments* - Volatility gave rise to new generation of retail brokerage as an over-crowded payment service provider landscape searches for simplicity, while lenders and challenger banks facing headwinds
- *InsurTech* - Most verticals are moving in the right direction as insurers have never had it better with disruptors falling prey of high customer acquisition costs (CAC). The wealth of data at their disposal makes insurers the ones to look out for in 2021
- *PropTech* - Commercial real estate has been hit hard and may never be the same again. Now more than ever they will need to digitise their entire value chain (not just documents) to survive
- *Enabling FinTech* - Open banking's time has cometh, and this will be the year when tailwinds in AI and Open banking drive mass adoption across the ecosystem

Chapter 3- European FinTech M&A momentum hindered by lack of big bold buyers and market fragmentation: As illustrated in our 2019 edition, there have been no venture backed exits of FinTechs > \$0.5B in Europe in the last year, and despite the M&A boom in the US, Europe lacks big ticket M&A buyers. Given the fragmented market, we expect massive consolidation/ shake out of the number of FinTechs with revenues below EUR 5 million plus significant PE/corporate M&A at lower levels than the US market (€50-250m)

Chapter 4 - Big trends that will shape 2021: From cracking the exit path of the challenger banks to the rise of global privacy and consolidation of fragmented players. Robotic Process Automation (RPA) faces a conundrum while PropTech will undergo technology infrastructure disruption.

The background of the slide is a composite image. On the right side, there is a close-up of a person's face, specifically their eyes and the top of their nose, wearing a white surgical mask. The person has dark hair and eyes. On the left side, there is a large, green, wireframe model of a virus, likely representing the COVID-19 virus. The virus has a spherical core with many protruding, finger-like spikes. The overall background has a teal or greenish tint.

Chapter 1 - Impact of COVID-19 on FinTech: Where do we stand 6 months in...











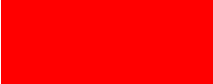





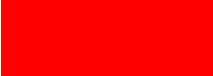
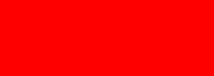




Sector performed in line with our predictions, except for payments and mortgages which did better

Impact on sales/profit:

> +15%

-30% to +15%

<-30%

	Prediction 4-2020		Status 9-2020	
Challenger Banks		✓		Unit economics, high burn and decline travel FX revenue
Payment		✗		Lock Down E-commerce growth offset lack of travel, travel like AirBNB bounced back faster
Lenders		?		Loan books still holding up but need 12 months more, challenges on credit facilities
Mortgages		✗		Record house sales, lenders still hesitant
FX		✓		Volatile markets, good for traders, OK for customers
Insurance (P&C brokerage)		?		Motor sector remains challenged, but rise in Insurance for e.g. contents, gig-economy workers,
Insurance (B2B software)		?		Insurers continue to be slow to adapt to changing sales cycle behavior but clear momentum in claims
Insurance (health)		✓		Wild growth never seen before
Crypto/Blockchain		✓		Down in the dumps as crypto market suffers
Regtech		✓		Full digital on-boarding capabilities now driving significant new businesses
Fraud/Security		✓		Work from home devices reignite security needs

LinkedIn employee data shows cost measures taken by Europe's most promising scale-ups - sales cuts surprise



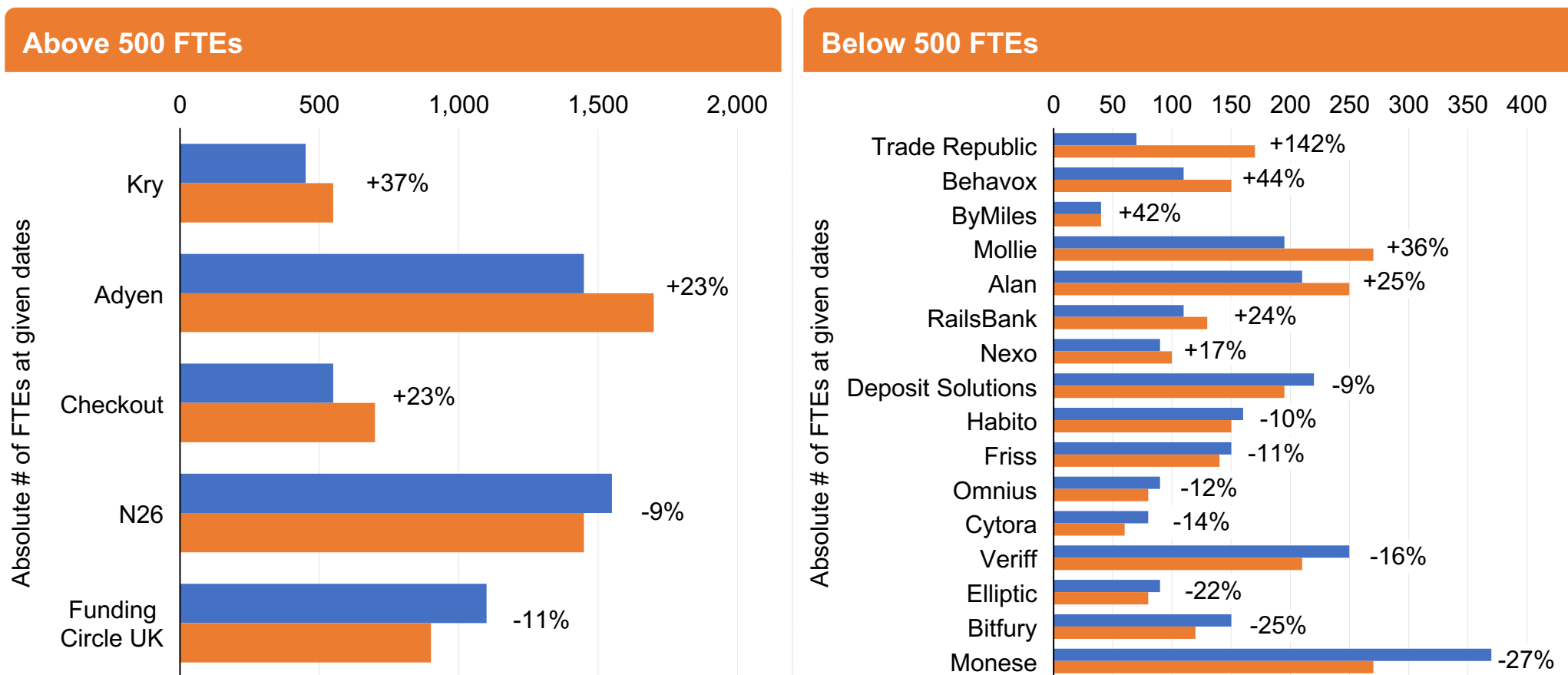
● <-5% ● >-5% to <5% ● >5%

	Average	Lowest		Highest		By function last 6 months		
						Sales	Engineering	Support
Banking & Payments								
• Challenger Banks	-9%	-27%		7%		-2%	-5%	-17%
• Lenders	-3%	-11%		6%		0%	1%	5%
• Payments	21%	12%		36%		27%	15%	38%
• FX	4%	3%		5%		5%	9%	0%
• Wealth Management	-4%	-9%		1%		-12%	-12%	21%
• Brokerage	53%	8%		142%		11%	41%	146%
InsurTech								
• Insurance Brokerage	10%	-8%		42%		15%	-1%	37%
• Health Insurance	14%	-3%		37%		9%	20%	32%
PropTech								
• Mortgage Lenders	3%	-10%		10%		5%	9%	5%
Enabling FinTech								
• Blockchain/Crypto	-4%	-25%		17%		3%	5%	10%
• RegTech	6%	-17%		45%		10%	2%	-2%
• Fraud & Risk	-2%	-11%		4%		4%	-9%	-6%
• InsurTech B2B	-11%	-14%		-7%		-6%	-11%	-9%
• Banking B2B	11%	1%		24%		7%	15%	28%

Source: LinkedIn

FTE development of high profile start and scale ups

March 2020 September 2020



Sectors which are thriving are: **Payment, Brokerage, Health Insurance and Banking B2B**

✗ **Challenger banks:** highest layoffs despite large investment rounds

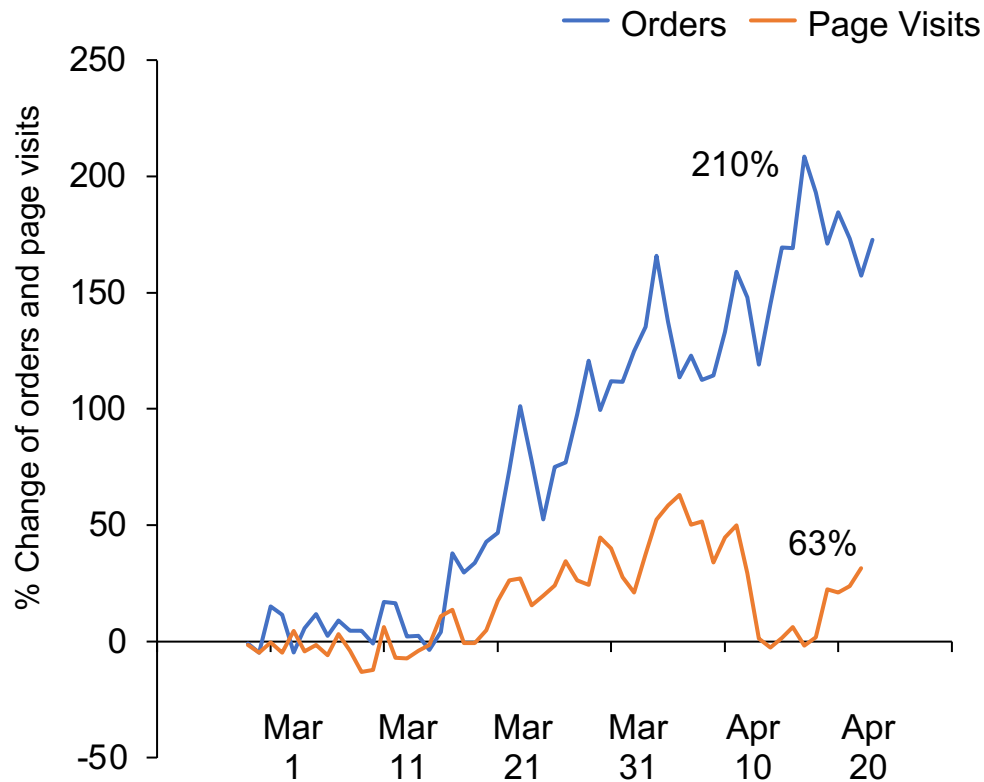
✓ **Brokerage:** is striving due to the uncertainty and volatility in the market

✓ **Health (insurance):** Covid19 accelerated the adoption of technology in the telemedicine sector

? **Lending:** a lagging indicator unaffected at present but expected to take a blow if recession persists

Payments outperformed driven by boost in e-commerce + faster rebound travel... unclear if this is sustainable

eCommerce spiked faster in Q2 than expected...

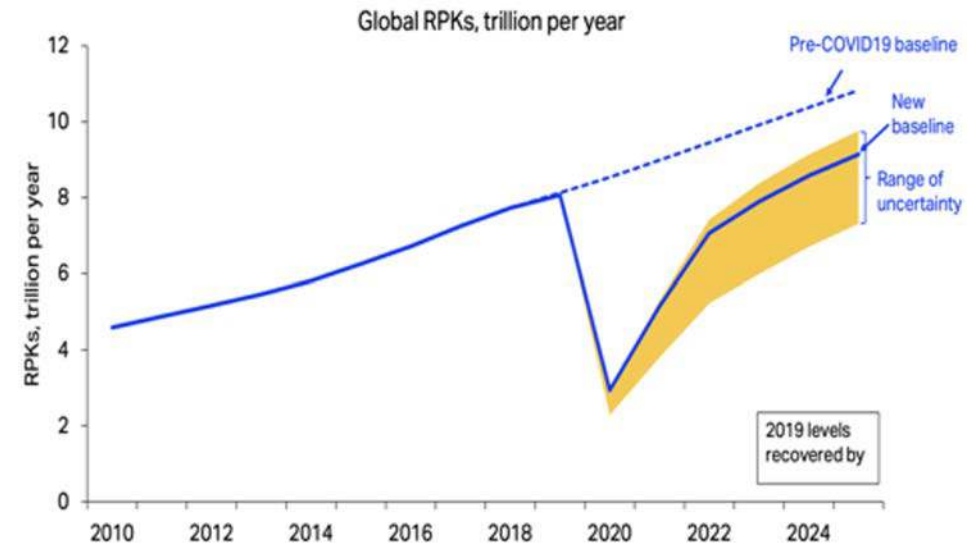


Some of the boost will be not sustainable in combination with recession might result in a drop...

Source: IATA

...besides airlines, travel rebounded in Q2

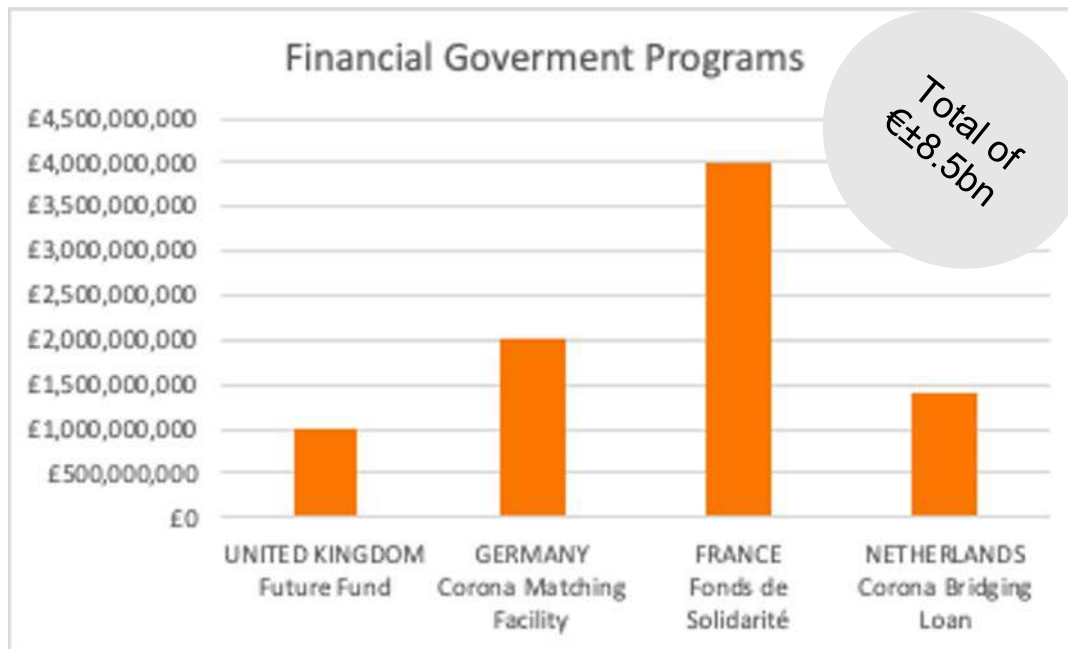
....rebound to old levels might take long....e.g. Airline Travel is expected not to be back to old levels before 2024, diversification of merchants is key to survive...



"According to Airbnb, hosts in rural areas of the U.S. earned **over \$200 million** in June 2020, an increase of more than 25% from the same period a year ago."

Government support has extended the runway.... Expect real health of the sector to be visible in H1 2021

Top 4 government programs have been launched



- Government interference provided short term economic stability but actual effects of the crisis have been pushed towards H1 2021
- Majority of the rounds were internal and not announced
- As a result, Europe H1 funding volume is at its highest

UK gov announces 'Future Fund', pledging £250M match funding for startups impacted by coronavirus

France refines its plan to support startups

May 11, 2020

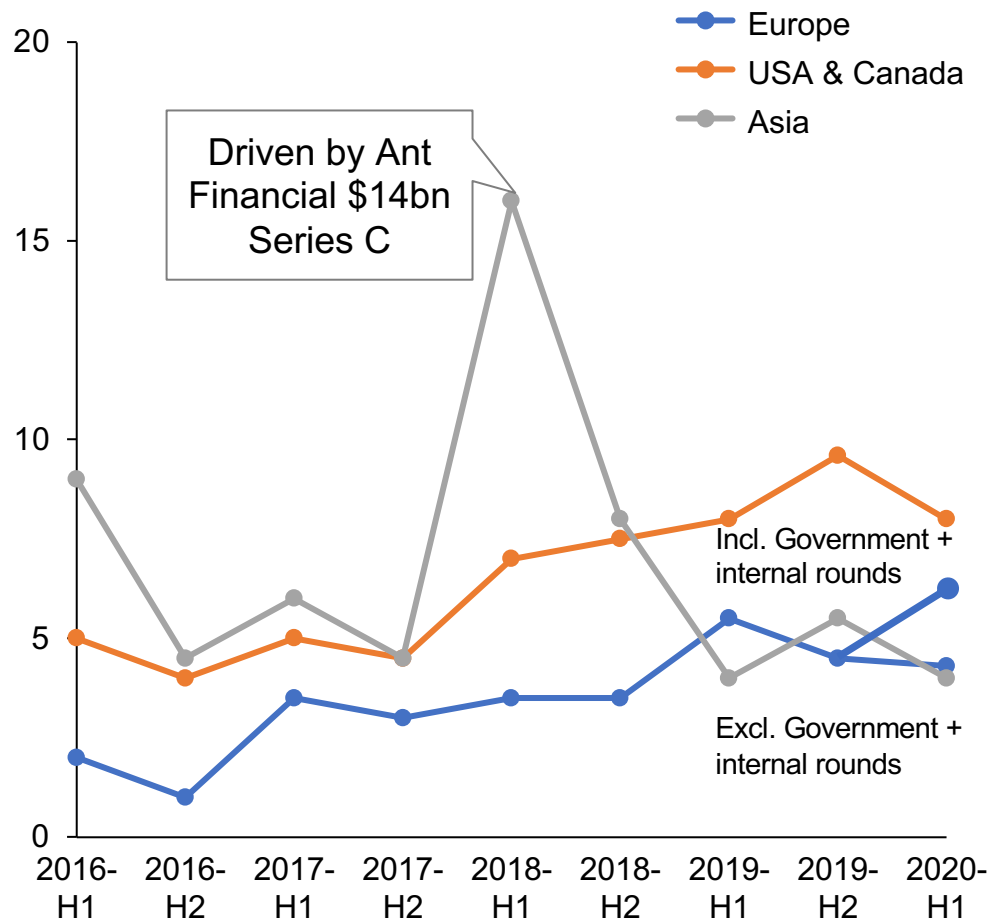
German Government Enacts Economic Measures for Start-Ups

A satellite night-time image of Europe and surrounding regions, showing city lights and geographical features. An orange rectangular box is overlaid on the center of the image, containing the chapter title in white text.

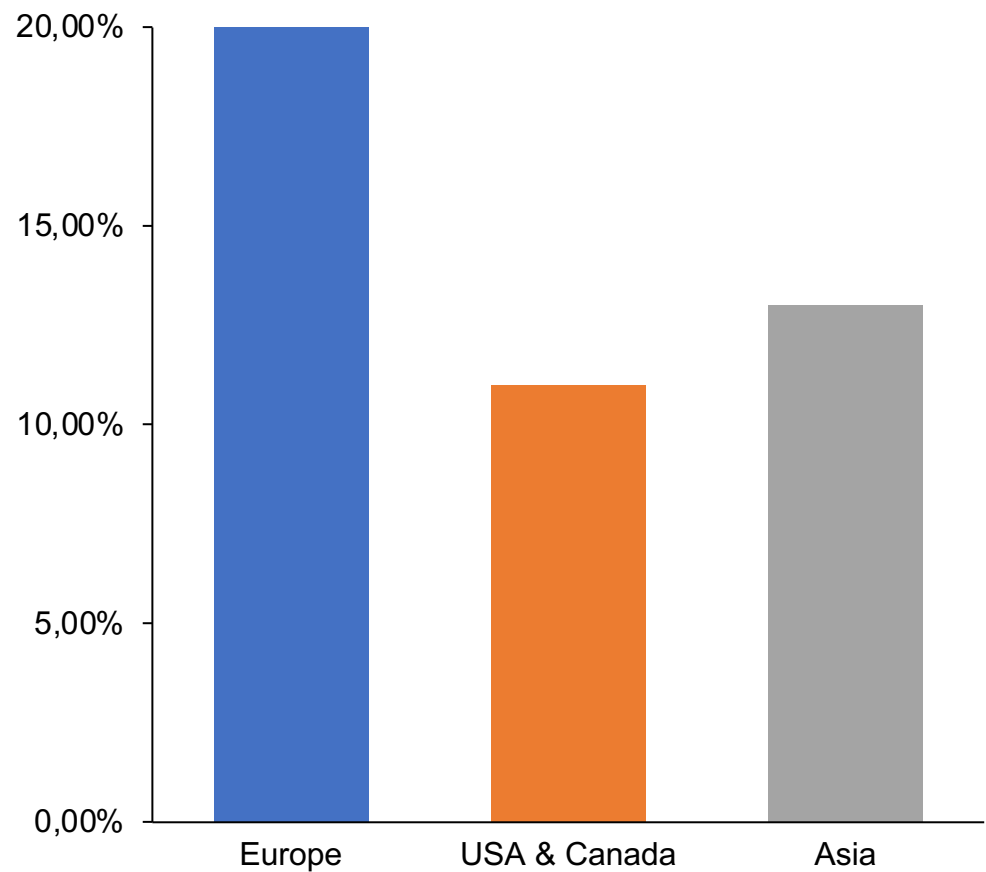
Chapter 2 - State of European FinTech Landscape

Resilient European FinTech funding volumes, down 10%, and up 20% including government initiatives

FinTech funding volume in € billions




















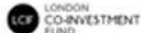















Fintech as percentage of total dealflow in Europe, USA & Asia



Top FinTech seed investors - league table

Few changes and top European seed investors continue to top the charts..

Banking & Payments 			Insurtech 			Proptech 		
Investor	# Companies	Recent investments	Investor	# Companies	Recent investments	Investor	# Companies	Recent investments
	42	Synthesized, Taxscouts		7	Koala insurance, Collective Benefits		18	Propoly, OfficeApp
	30	Bnext, Finnu		3	Quantemplate, Hokodo		12	Homie Rent, Propoly
	29	Selina Finance, Symmetrical		5	Laka, Cuvva		8	Proprio
	26	Sheeldmarket, Finnu		4	Digital Risks, Vantik		8	Rhino, Proprio
	18	Radix DLT, Payout		4	None		6	None
	15	Wollit, Goin		4	None		6	Trussle
	13	Donut.app, Credit Kudos		3	SingularCover, Insurami		4	Opendoor, Rhino
	13	Better Wealth, Credit Kudos		3	Propsure, Insurami		3	None
	13	Pento, Metalshub		2	Omocom, Insurello		3	None
	12	Fronted, ChAI		2	Omocom, Insurello		3	None

Source: Dealroom.co. Includes seed investments in European startups since 2013. Excludes double counts and follow on rounds. "Recent investments" is defined as selection of investment 2018 onwards.

Top FinTech series A/B investors - league table

Increasing role of the US in late stage not visible at the earlier stages. Plus decline in corporate activity due to economic uncertainty and balance sheet issues

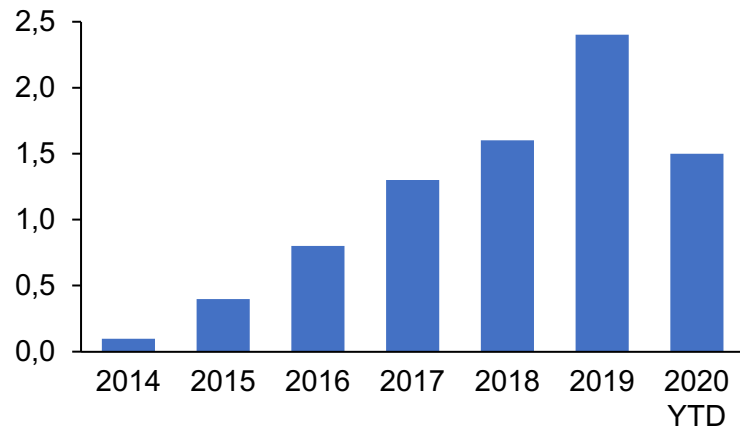
Banking & Payments 			Insurtech 			Proptech 		
Investor	# Companies	Recent investments	Investor	# Companies	Recent investments	Investor	# Companies	Recent investments
	19	Purely Capital, Taxscouts		4	Demex Group, Yulife		5	Plentific, Klarx
	14	Codat, Argent		4	GetSafe, BoughtByMany		4	Habito, Spacemaker AI
	12	TAINA Technology, Cledara		4	Digital Insurance Group		4	Goodlord, Brickblock
	11	Zeitgold, Yapily		3	Zego, Omni:us		4	Colonies, WeMaintain
	10	Primer, Wagestream		3	Deadhappy		3	Housfy
	10	Symmetrical		3	ByMiles, BoughtByMany		3	Matera, Flatfair
	10	Anyfin, Trade Republic		3	Quantemplate, Simpleurance		3	Home, Service Partner One
	9	VitessePSP, Taxscouts		2	Luko		2	None
	9	Alma, Acinq		2	BoughtByMany		2	Alasco, Selina Finance
	8	MostlyAI, FinTechOS		2	None		2	Nested

Source: Dealroom.co. Includes series A/B investments in European startups since 2013 where the investor didn't invest in seed rounds. Excludes double counts and follow on rounds. "Recent investments" is defined as selection of investment 2018 onwards.

Thematic approach: Banking & Payments

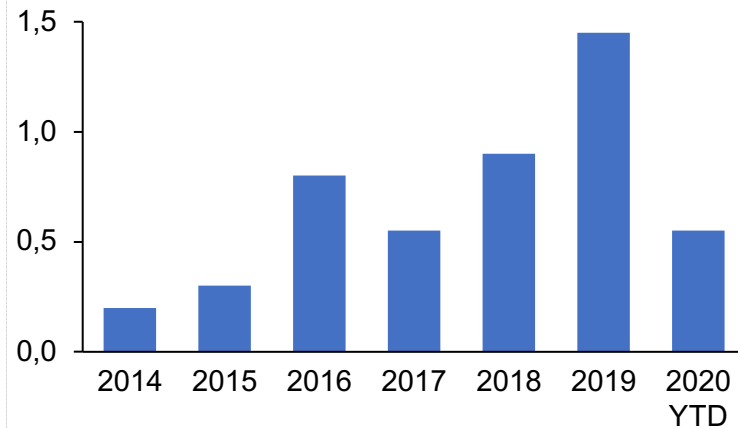
Investment volume in billions of euros in each vertical per year

Challenger Banks, € billions



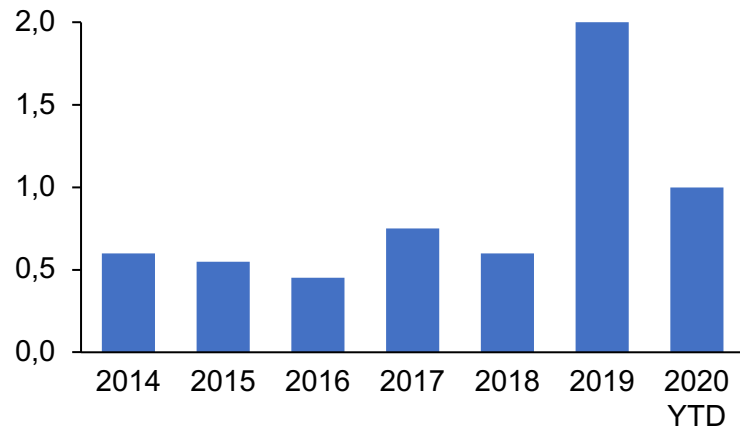
2020 estimates look to surpass 2019, over half of annual funding volume is generated by top 5 rounds in 2020 and 2019

Wealth Management, € billions



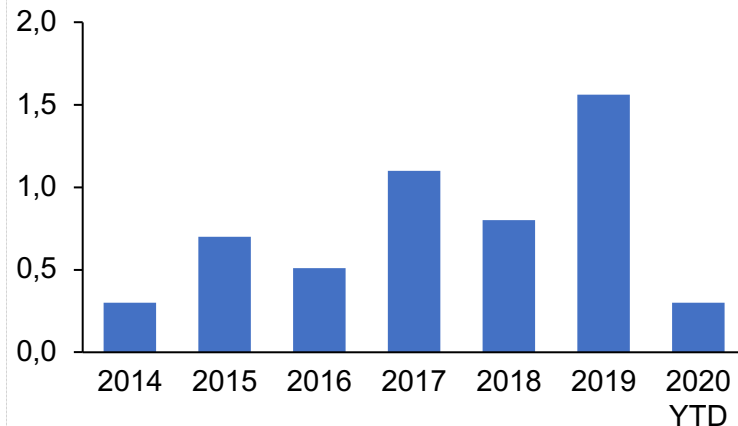
Strongly diversified landscape of companies with no clear winners to date

Payments, € billions



Klarna and Checkout.com dictate the top of the list in funding volume with significant rounds both in 2019 as in 2020 (approx 30% of total payments funding)

Lending & Mortgage, € billions



Volume and number of rounds significantly down in 2020 and expected not to pick up this year driven by risks of lending in current environment

Banking & Payments

Ups and downs but looking for new technology/product revolutions

Caution

Challenger banks
“Can’t stop the pressure”

- Funding pressure on challenger banks now focus has shifted to unit economics
- Don’t expect many “new” funding deals in Europe, established businesses will continue to get funding albeit terms might be different (eg: Monzo)
- Interchange fees and FX pressures during COVID have put strain on business model
- Rush to become lenders but models will be tested during recession

Getting credit

Important Notice: Due to the impact of coronavirus (COVID-19), LendingClub has temporarily stop accepting new credit applications. Because of this, we have Credit section from the app for our UK customers.

Revolut having to scale back credit

Explore

Wealth management
“The old guard makes moves”

- The rise of the mobile broker in Europe as BUX, TradeRepublic continues as more retail investors switch platforms
- Savings rate have increased 10x during lockdown and will continue to improve post
- The pressure is now to digitize technology stack: NAV reporting, portfolio management systems and CRMs as margins come under pressure



Despite the crisis, global wealth will continue to grow as more pressure will be put on profitability for managers

Caution

Lending
“Year of reckoning”

- Before the crisis, lending saw record capital deployed either via P2P platforms or through debt vehicles as interest rates remained low
- March 2020 onwards saw a dramatic pull back
- Most lenders (business and consumer) are starting to see results of first cycle. The small medium business industry has been hit

Funding Circle

Funding Circle was already tightening lending criteria before COVID-19



Explore

Payments
“Wirecard fuelled innovation”

- While the payment service provider landscape might be over-crowded, heavily funded and winners established, the Wirecard fallout has given rise to a number of payment sub verticals that need attention
- “Banking-as-a-Service” continues to raise eyebrows, although payment infrastructure is really where solutions can be immediately impactful

- Pre-paid card and account services
- Credit cards and associated account services
- Clearing and Settlement (including agency banking)
- Core banking
- Card processing
- Lending
- Product management

The Wirecard stack

Banking and Payments

It is grounding day for the sector, with lots of capital on the line

Movers - The ones that made an impact

Klarna.

Buy now, pay later is back with a bang and with e-commerce penetration up 100%, Klarna is starting to stake its claim as the the most important alternative payment method

raisin.

Edge over Deposit Solutions. **Saving rates are at all time highs**, and with €25B in deposits placed and 300k customers, a stronger business model than more common AUM fee-based wealth managers

checkout.com

Who thought we were ready for another \$B dollar payments company? Checkout is **picking up all of Wirecards customers** in Europe and they all rave about them (eg: Curve, Revolut)

TransferWise

With 8m customers, 2000+ employees, one of the few fintechs that has figured out how to make money. **Getting into investment products is not easy**, but a necessary step to become a £10B business

Shakers - The ones we expected more of

monzo

The US launch has not gone according to plan and a high profile management shake up and down round commenced. **Launch of premium to refocus on unit economics**

Greensill

Softbank backed financier **was supposed to revolutionise supply finance**, but after a host of client defaults and Softbank recently exiting a Credit Suisse facility for fund management pressure is mounting

Funding Circle

Was already in the midst of **scaling back non-core geo's** as it looks to focus on UK. Questions remain on US penetration and COVID would not have helped

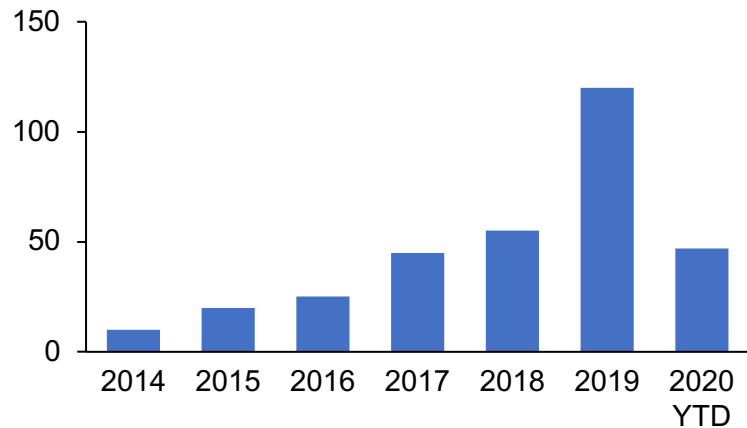
SALARY FINANCE

Despite picking up its rival Neyber, the company has seen competition increase in this space with a **more technology efficient approach** (streaming account)

Thematic approach: Insurtech

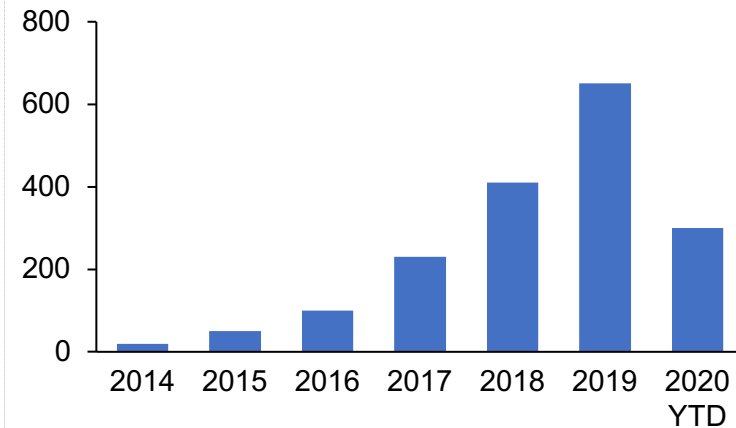
Investment volume in millions of euros in each vertical per year

Analytics, € millions



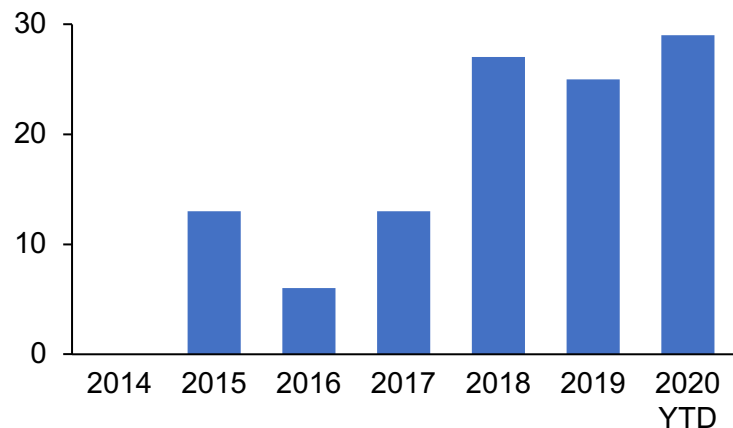
The premises for 2020 was to see another strong YoY increase in insurance analytics investments, to date only 5 deals this year...

Brokerages, € millions



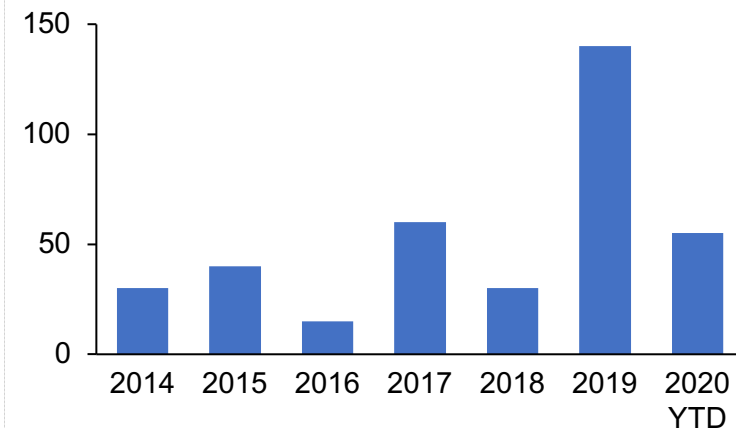
2017-2019 we saw 60-80 funding rounds per year in this space, 2020 had a slow start with 22 to date...

IoT, € millions



As we move to a contactless world, expect greater harnessing of devices for insurers

Health, € millions



The tele health revolution will lead to new models of providing accessible health to all

Insurance

The right tailwinds exist for insurers to capitalize on something they haven't: true innovation

Explore

Analytics

"The transformation is here"

- Never before has there been such widely available dataset for the insurance industry to adopt, and with COVID putting a real pressure on cost ratios and gross written premiums
- Claims, Risk, Process and Customer management: the 4 areas with the toolkit available
- Machine learning in the personalized space and a sustained rise of analytics in commercial lines

GoodData's underwriting insight uses AI to provide instant exposure modelling

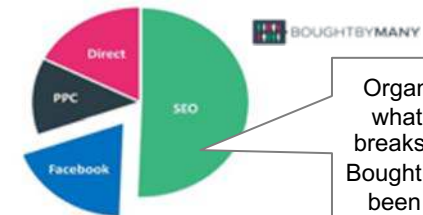


Caution

Brokerage

"The survival of the fittest"

- We saw record number of MGAs focused on disrupting "consumer experiences" in opaque verticals and while some might have legs (pay as you go auto for eg. with less travel), most are doomed for failure because of high CAC
- While capacity providers remain open for experimentation very few have been able to prove that there is a significant GWP opportunity in a niche



Organic traffic is what makes or breaks MGAs and BoughtByMany has been extremely successful in the pet insurance niche

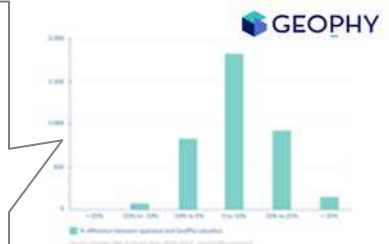
Explore

IoT

"Space & sensors duality"

- Car, home and health seem the most obvious private lines related IoT opportunities that will continue to make progress
- But real money is starting to flow into commercial lines, where not only a customer experience rebuild is required (SME for instance), but certain lines like property insurance, CAT risk etc. are being looked at from a completely different lens

Completely automated valuation of commercial properties are in line with physical appraisals



Explore

Health

"The Lemonade effect?"

- COVID inspired focus as wellness platforms become focused on providing tele advice and monetising by selling healthcare (or insurance)
- Perfect time for insurers to unlock premiums in a vertical that never really took off
- Social healthcare systems can be supplemented, and selling via the employer has become the norm (Alan, Yu Life)

Lemonade's Automation Index
Policies Per Employee



Will there be a Lemonade for Europe?

Europe has plenty of room to improve and grow more unicorns

Movers - The ones that made an impact



Europe's only insurance unicorn, having raised \$200m+ in the last 6 months. ONE continues to **surprise with lower loss ratios** than the industry and is an example of one of the few companies that has got brokerage and product ownership right



One of the **few MGAs in the pay as you go space getting it right** particularly driven by an opening of a premium pool that previously did not exist. Making headways in Ireland and France now



Pets insurance is big, so big that Lemonade has decided to enter the vertical. BBM though has been the pioneer, with sales increasing about 150% and a big £80m round to push outside of UK and Sweden



In France, Alan is one of the **fastest growing companies growing** 3x its 80 person team last year. 76k people covered, \$60m in revenue and more funding. Lots more also expected with the **tele medicine revolution**

Shakers - The ones we expected more of



Building the library of **damage data required to scale takes time** for a B2B company. Of late, the company is launching verticals in appraisal as well. Still expect big things from them



Traditional auto was the first to get disrupted by Pay As You Go. But **fighting for the same premium pool**, high claims % and CAC has been a challenge this sector has experienced. That said, COVID might shift insurance pools in this category



Insurance product at the core for the zero deposit real estate vertical, the broader vertical has had its **own share of legal issues to deal with mis-selling**. Reboot of the product on its way

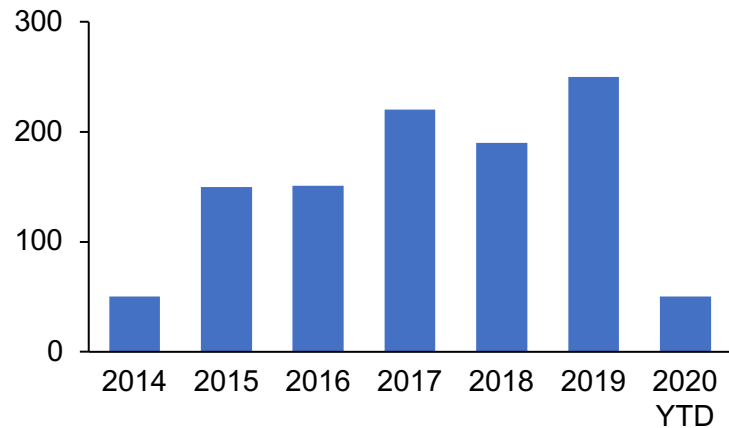


The little known German "Alan" has raised more than €60m recently but **little is known about its member adoption and penetration**. A trust score of 4.1 from 96 reviews means its is yet to achieve scale

Thematic approach: PropTech

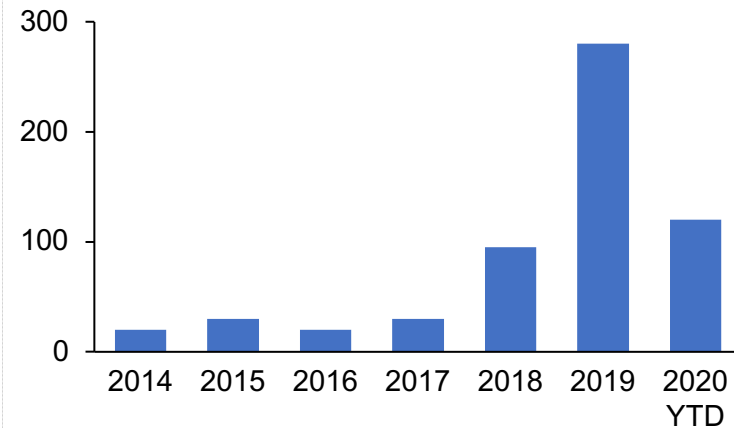
Investment volume in millions of euros in each vertical per year

Search, rent, buy, € millions



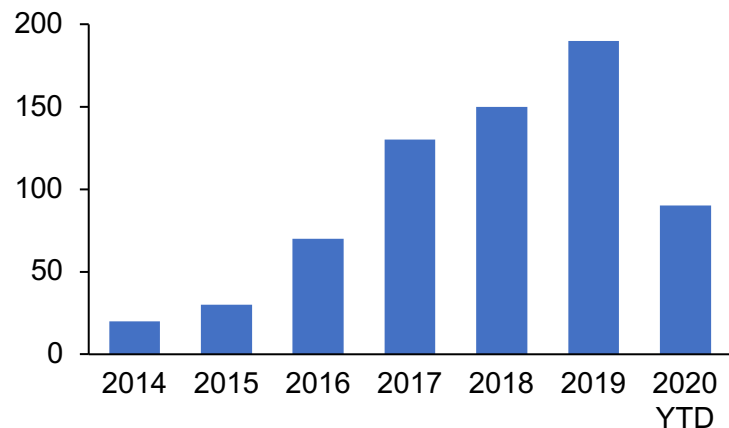
The “online” real estate agent model is over, and focus is now on end to end valuation

Construction, € millions



2019 was a record year, but we expect construction to have severely felt the brunt of COVID

Management & Analytics, € millions



Harnessing as much yield from property remains valuable but 2020 has been a subdued start

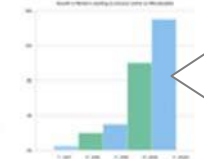
Proptech

Commercial proptech will need to fight, but no other vertical can take advantage of non-traditional data as they can

Caution

Search, rent, buy
“Everything going online”

- The move to digital only transactions has started with the entire process from viewing to financing starting to move online
- Video enabling one end to end transaction one the phone. Traditional listing businesses will need to evolve to adopt these technologies particularly in financing and viewing
- Pressure on banks to continue lending, but high LTV products have been shelved



Movebubble has seen a massive increase in demand for instant and online only transactions

Caution

Construction
“Re-planning construction”

- Continued investment in resource planning and digitizing workplace (eg: PlanGrid) but starting to move into alternative data leverage computer vision
- Big theme emerging: AI to help make better planning decisions
- Despite present weakness in commercial real estate, some investment in IoT projects may be prioritized for immediate ROI uptick

The re-planning of cities. Spacemaker.ai technology helps build these cities



Explore

Management
“Empowering agents”

- The move towards branchless is also extending to agents who are now truly embracing online with viewings and management of property
- Agent still remains eyes and ears on the ground but the typical agency will need to get more efficient and provide better experiences for landlords and tenants
- Low interest rate environments mean Buy to Let will also still flourish giving rise to many landlords



“Traditional” estate agents get sellers more money in their pocket than the internet-only alternative

Explore

Analytics
“Power of prediction”

- Most of the tools that exist (yield management, occupancy KPIs) will continue but managers will be looking for more “beta”
- These tools (eg: Yardi) were created 20 years ago and lack big data computation capabilities
- More predictive tools are needed to mine the vast amount of historical data available

60% of a property's incremental value can come from non-traditional data sources



The push to digitization has been given impetus like never before

Movers - The ones that made an impact



Building the PlanGrid for Europe, raised a big round from Insight. The crisis if anything has been a **catalyst for the construction industry**. 8000 customers have saved €0.5B and 7hrs a week



Recently bought Vouch to become the **largest referencing software company in UK**. Together they will have 2000 clients, and both are growing at over 100% annually.



Despite COVID the company continues to grow its SaaS platform to **manage residential buildings** arguably more in demand. More than **doubled team** to 75 in last 6 months, managing more than 1000 buildings .



The **best known real estate agent** in Germany. Pure focus has enabled McMakler to succeed where others have failed, and of course **market share is a big deal** in this vertical. It grew volumes by over 500% last year

Shakers - The ones we expected more of



Since its acquisition by Silverlake, Zoopla seems to have lost its edge. **Departures of senior teams, and a relatively unchanged product have** resulted in not moving the need in UK



Once the poster child of UK proptech, the company has had to **scale back from US/Australia to re-focus on UK**. **Millions burnt**, and it's still unclear whether their proposition is the winning one



Dubbed the data driven agency, the company is going through a **bit of a "pivot" to become a truly digital agent**. Down to 50 people from 100, looks like they are not buying homes anymore as well

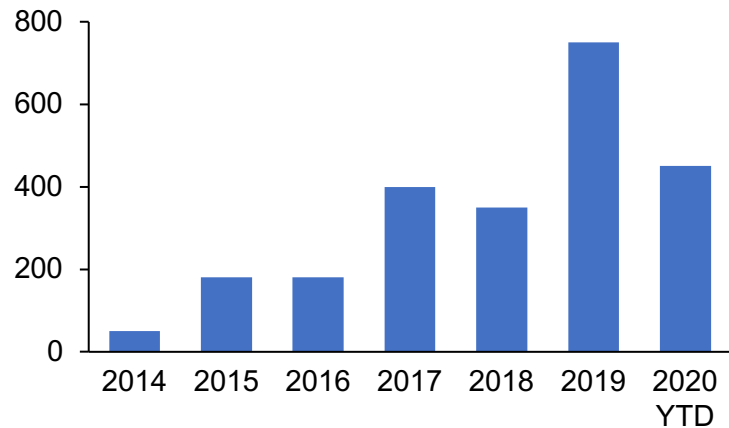


Even before COVIDs **impact on commercial real estate, the company lost 50% of its workforce**. While tools like these will be very important, the short term pressure will be hard to digest

Thematic approach: PropTech

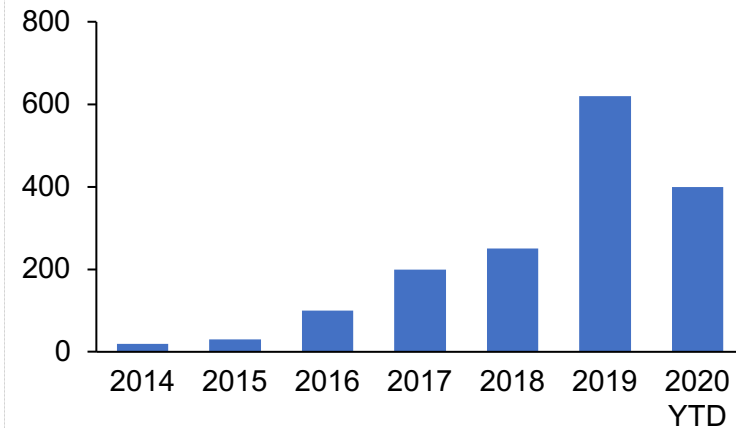
Investment volume in millions of euros in each vertical per year

Artificial Intelligence, € millions



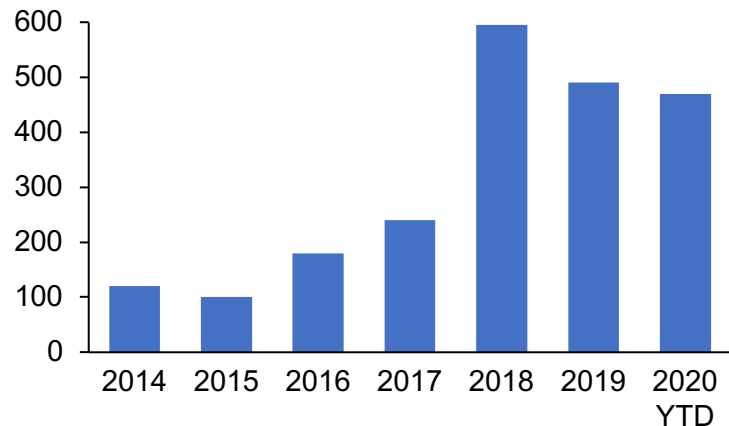
2019 was a record year for AI applications, and while we expect 2020 to surpass those level, more focus on ROI immediate opportunities

Open Banking, € millions



Time is now for open banking applications. Expecting 2020 to build on the record 2019 year

BlockChain, € millions



Its now or never for blockchain. Some use cases have become even more essential but commercialisation remains key

Enabling FinTech

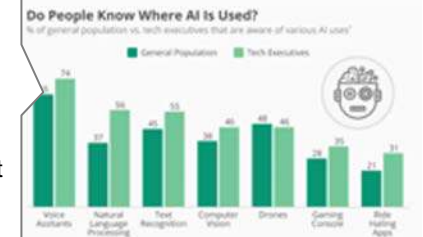
Multiple tailwinds to make the next 5 years fruitful across these sub-verticals

Explore

Artificial Intelligence
“ROI is required now”

- Financial services is and will remain the vertical that spends the most on AI tech
- But the tide is turning slightly. Companies are being asked to provide immediate ROI which is something that is hard to do in a world where data needs to be trained
- Security remains top of mind for CIO/CTOs as workforce becomes distributed
- NLP is starting to go mainstream and no one is noticing

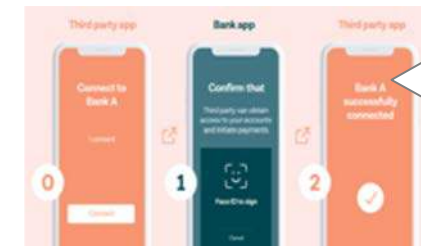
NLP is one area where consumers don't see usage of AI at scale but it is happening



Explore

Open Banking
“The time has cometh”

- API and infrastructure layers are now in place for the application layer to be built on top
- Early problems particularly around poor user experiences are being addressed and more vendors are open to implementing OB in some form or the other
- Thin-file credit is the obvious first vertical, but lots to be seen in the payments world where decades old payment rails can be disrupted (hence Visa and Mastercard M&A)



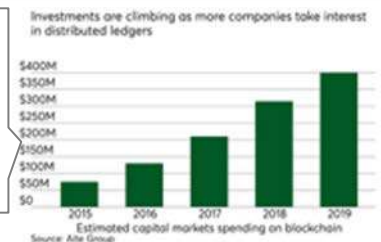
The simplified user journey that has changed open banking adoption

Caution

Blockchain
“Migraine or magic pill?”

- Despite obvious benefits, DLT technology has not been able to go mainstream
- There has been too much focus on “technology” and not enough on the immediate pain compared with broader AI technology
- Stablecoin has provided some hope for a killer application in e-commerce maybe?
- Trade finance being left behind, but smart contracts still have hope

Capital markets are taking DLT seriously



Enabling FinTech

Security (KYC, AML, Transaction monitoring) theme is on everyone's lips

Movers - The ones that made an impact

Comply Advantage

The pioneer in sanctions list screening that evolved to AML/transaction monitoring. Its \$50m recent raise will help it bring its solutions to the ever **growing APAC market**.

onfido

Despite some initial problems due to lockdown, breakout growth of 240% in US and 40% globally. \$100m round recently will help it become one of the **leading low touch document checkers**.

fourthline

One of the **fastest growing companies in NL** going from 0 to 250 in 1.5 years and has quickly become the standard KYC/AML provider in regulated environments with clients like N26, ING, Solaris, Degiro

BEHAVOX

Record results last year, a Softbank investment and signing up some of the **biggest financial institutions**. The future of compliance OS is looking like its Behavox to lose

Shakers - The ones we expected more of

veriff

Still early days for the young startup from Estonia, but last 8 months have been challenging as it **shed c.30% of its people**. Its recent round should help it regain the tide in an interesting macro environment

TRADEX

While still probably the best platform for blockchain trade finance, we **expected them to take it mainstream** this year but it's been a slow start.

10x

Despite having probably the most credible team 10x has been unable to gain market share and **losing ground to more focused competitors** like Rapyd and ThoughtMachine.

spendesk  

Everyone is looking for Europe's Brex and these 3 have the best shot at it. There are obstacles: **European interchange low, business travel non-existent, and lack of credit offering**

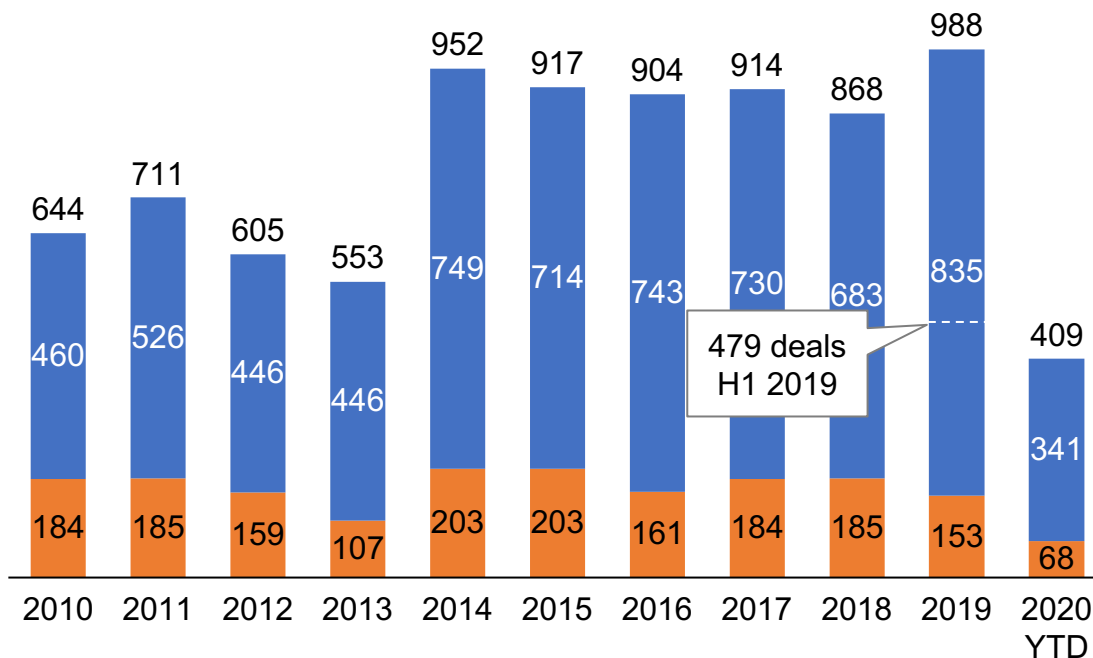
A photograph of two business people shaking hands over a wooden desk. In the foreground, there are several documents with financial charts, including a line graph and a bar chart, along with a black pen. An open notebook is also visible on the desk. The background is slightly blurred, showing other people in a professional setting. An orange semi-transparent banner is overlaid across the middle of the image, containing the chapter title.

Chapter 3 - European M&A

US mega FinTech M&A is unlikely to be seen in Europe...

Global FinTech M&A deal count trending slightly downwards in H1 2020

Deals with Announced \$ Amounts Deals with Undisclosed \$ Amounts



Median transaction size smaller, capitalization and earnings of buyers will only allow for 'smaller' cap M&A in the next year...

H1 2019

H1 2020

Mean/Median Transaction size \$2,210 mm/\$227 mm

\$1,396 mm/\$149 mm

United States

Morgan Stanley **EXTRADE**

\$13B

ICE **EllieMae**

\$11B

intuit credit karma

\$7B

VISA **PLAID**

\$5B

FIDELITY F&G
NATIONAL TRUSTWORTHY F&G HOLDINGS

\$3B

AON Willis Towers Watson

\$35B

Worldline ingenico GROUP

\$8B

SIX BME X

\$3B

clearstream fondcenter

\$0.8B

nets: P&P Polskie ePłatności

\$0.5B

Europe

... combined with European super-fragmentation, requires first consolidation, leading to robust M&A

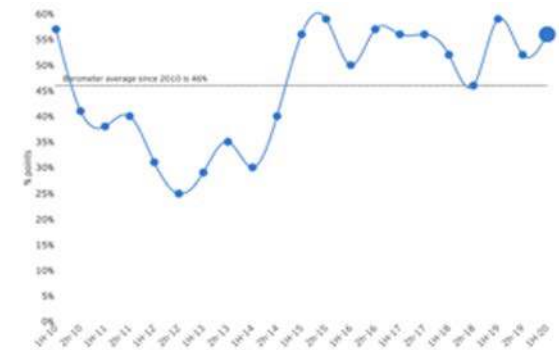
Massive fragmentation in Europe...



...many face challenges to raise the next round or sell at current valuations, especially during a crisis

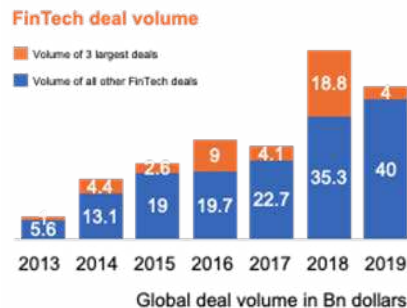
Funding Sequence	Failure to Raise the Following Round	Failure to Exit
Seed (to Series A)	79.4%	97.0%
Series A (to Series B)	50.0%	88.7%
Series B (to Series C)	55.8%	84.1%
Series C (to Series D)	62.1%	80.7%
Series D (to Series E)	66.4%	78.1%
Series E (to Series F)	69.2%	74.3%
Series F (to Series G)	75.0%	74.5%
Series G (to Series H)	82.6%	72.4%
Overall Average	67.6%	81.2%

Do C-level execs expect your company to actively pursue M&A in the next 12 months? Crises ignite bold acquisition strategies



Source: EY, Capital Confidence Barometer Survey, 2020

Europe's biggest investment vertical...



Number of deals in Q1 2020 20% down from last year...

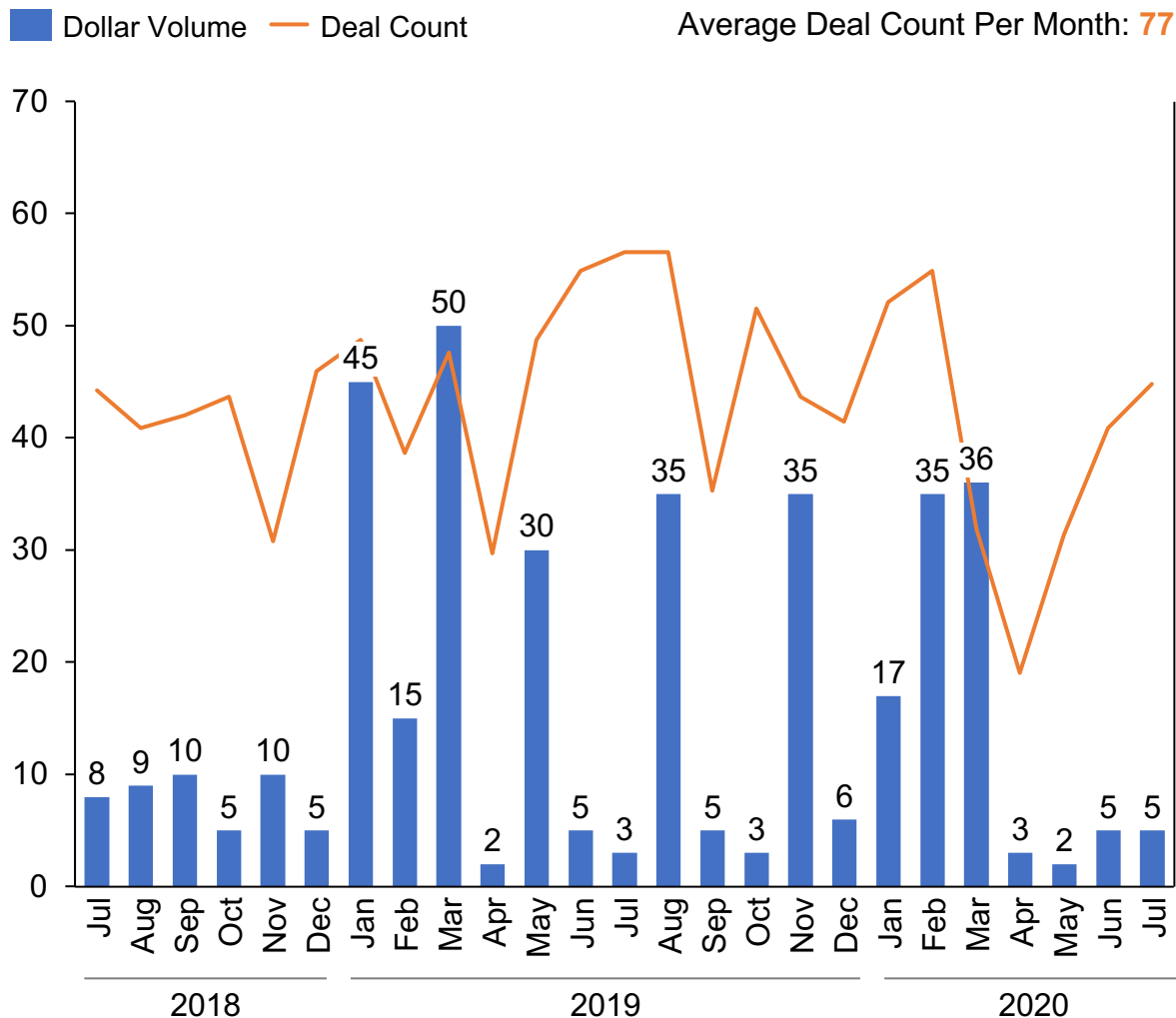


Fragmentation and lack of funding will lead to significant small to mid-cap consolidation as valuable IP lies with loss-making companies that struggle to raise or exit

Capital markets for FinTechs peaked last year and expect to avg M&A deal size fall further

Lack of IPOs for FinTech's

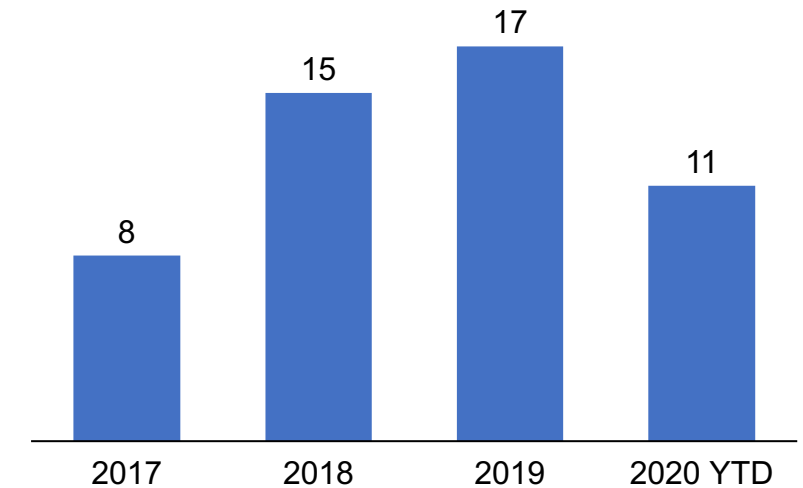
Monthly FinTech M&A Volume and Deal Count, \$ in billions



Source: FT Partners, 2020

Lack of IPOs for FinTech's

of IPOs



Source: FT Partners, 2020

The average tech M&A is small in Europe

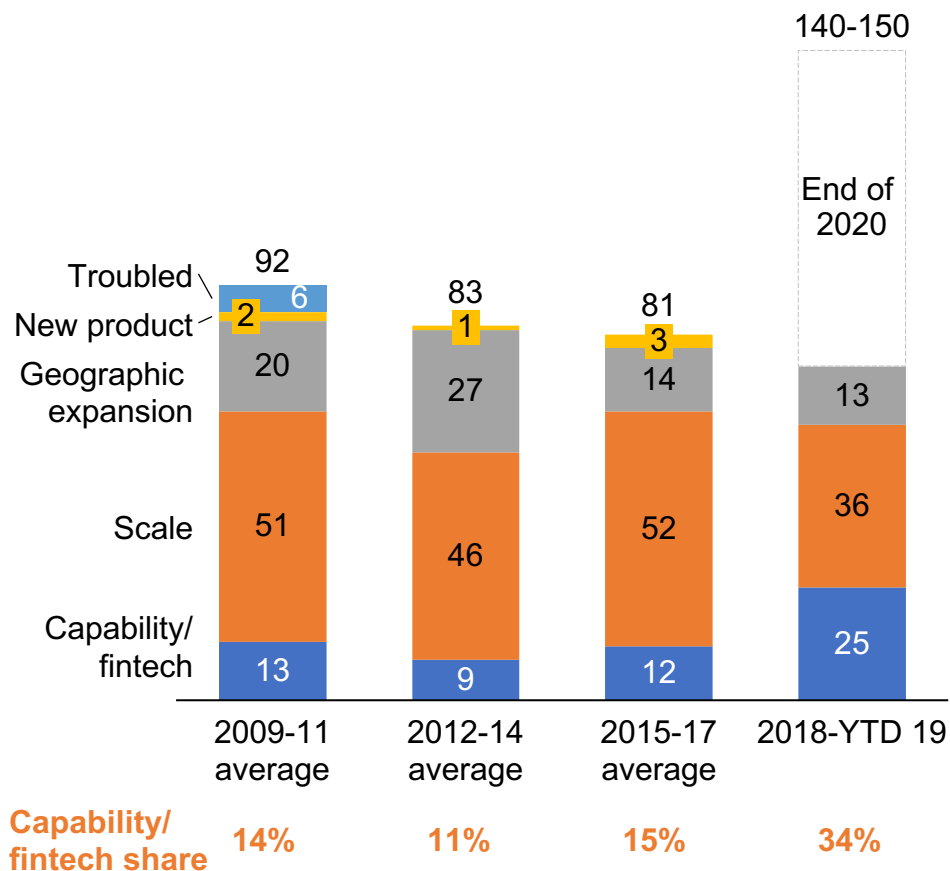
Facts

- 80% < 50m EV
- Avg EV = 17m
- Avg valuation = 1.9x sales
- Growth > profitability
- 80% of VC's capital bound in long tail
- 8 yrs to exit for early stage VC













Source: SpeedInvest, Pitchbook

Financial institutions better understand how to use M&A to improve their product capabilities

Number of transactions based on strategic intent, US

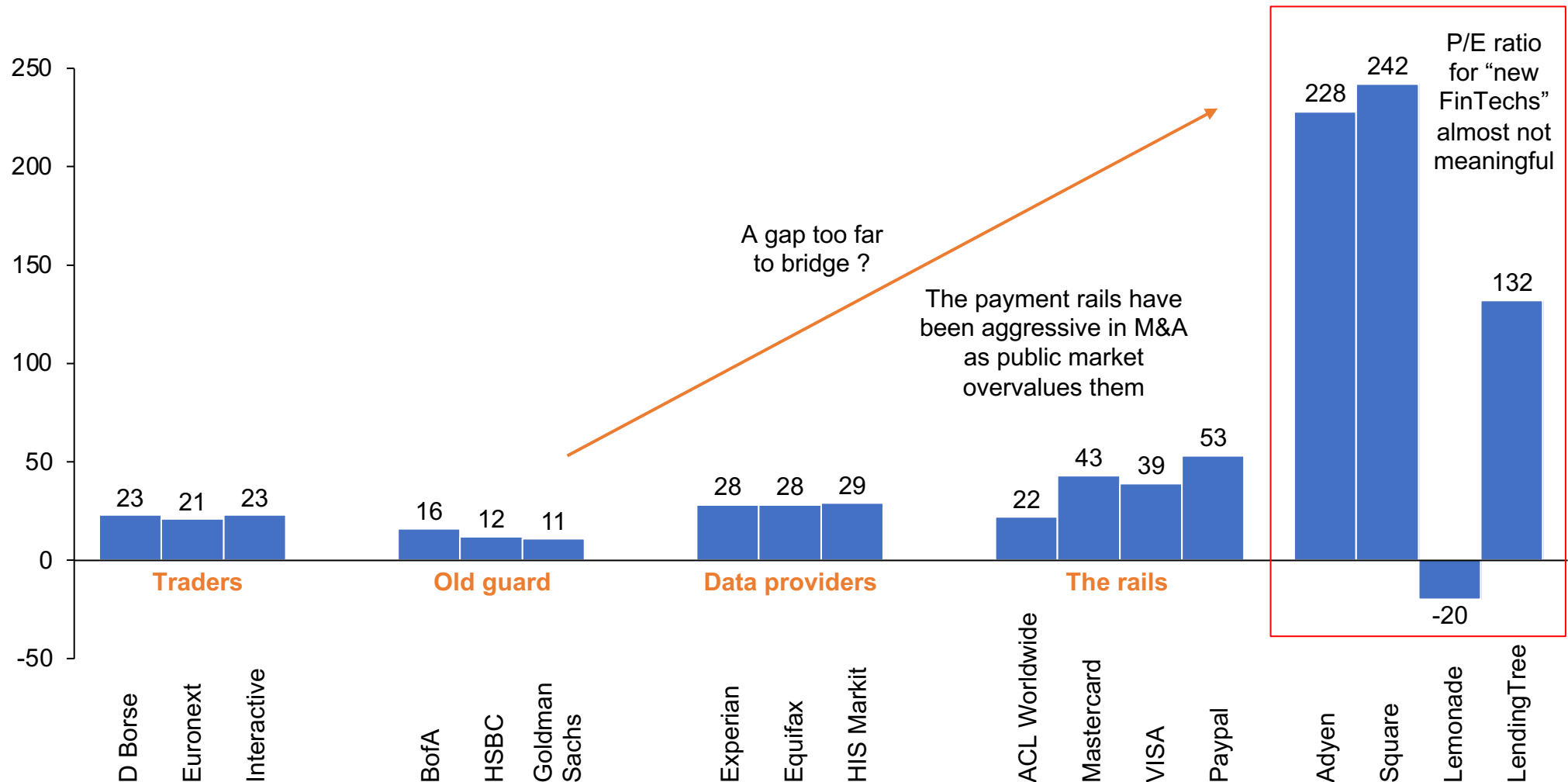


Goldman Sachs uses M&A to scale Marcus

						
Company description	Consumer bank	Small business lending	Consumer credit card	Personal financial management tool	Investment advisor	Brokerage and custodian
Acquisition date	April 18, 2016	Sep 13, 2017	Jan 30, 2018	April 15, 2018	May 16, 2019	May 14, 2020
Acquisition purpose	\$16B deposit book & acquire	Acquire	Acquire	Mobile application & Acquire	\$25B in AUM & Tech to help IFAs grow their own businesses	\$11B in Custodial assets
						

Since they have more scale than FinTech's, incumbents won't spend multiple \$Bs to buy them

Price/Earnings of FinTech ecosystem





Chapter 4 - Big themes we expect to shape 2021

Biggest impact trends we see for 2021



Banking & Payments

The sector received over 80% of total FinTech funding in the last decade but its resilience in certain verticals is being tested. Unit economics has never been more important and 2021 will be the year that these models either stand the test of time or have to rapidly evolve into sustainable businesses

- Challenger Banks – Exit paths remain unclear likely resulting in a shake up and consolidation
- Lending - Moment of truth for lenders and their “models” as they face first recession
- Payments - With the PSP battle over, simplicity of services will drive the next wave of innovation

InsurTech

Moving from disruption to collaboration, with real dollars being spent on collaborative technologies, this is the year insurance incumbents step up and truly digitise

- Health - Telehealth will decrease cost of health premiums but more important fundamentally change how healthcare is delivered in Europe leading to increased insurance penetration
- Insurance data - Commoditization of data from space and other geospatial sources will enable insurance companies to build truly valuable applications

PropTech

Facing probably the most serious headwinds in this crisis, now is the time for the property industry to digitise their entire value chain, not just document management

- PropTech - Transactions will start becoming fully digital/instant as lenders start accepting AVMs
- Mortgages - Re-writing the technology stack will allow winners to emerge

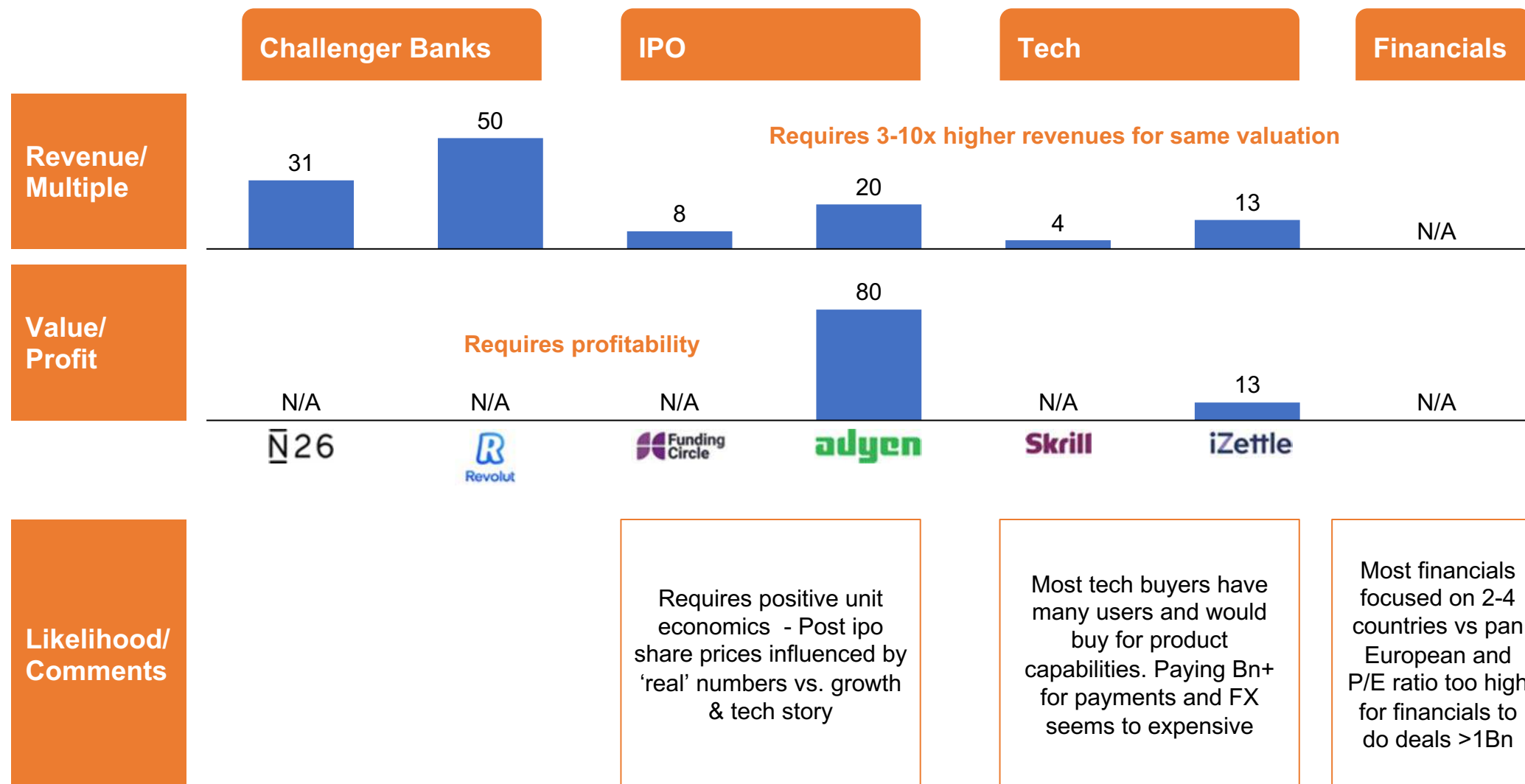
Enabling FinTech

As the drive towards software becomes a necessity, some verticals are better placed to dominate

- RegTech - Privacy startups with the API first approach start dominating but still no real winner
- RPA - Crunch time for RPA as competition looks for real technological differentiation
- Blockchain - Stablecoin is offer a glimmer of hope for relevance

Challenger banks - At current valuations exit paths are limited to an IPO for those that can boost revenues

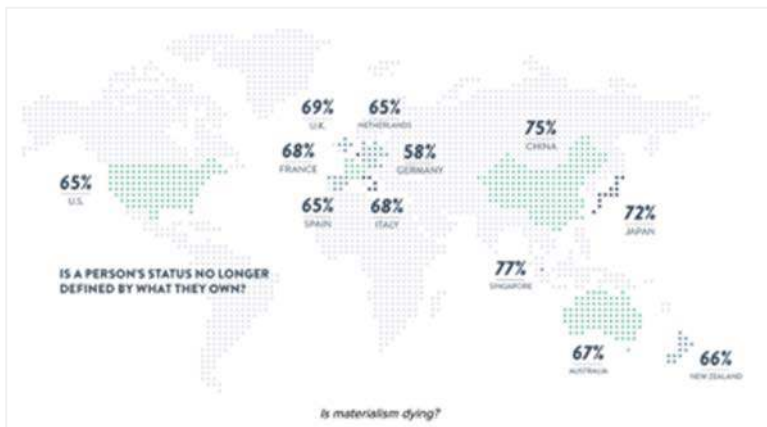
Examples of European tech exit path multiples¹ >1Bn



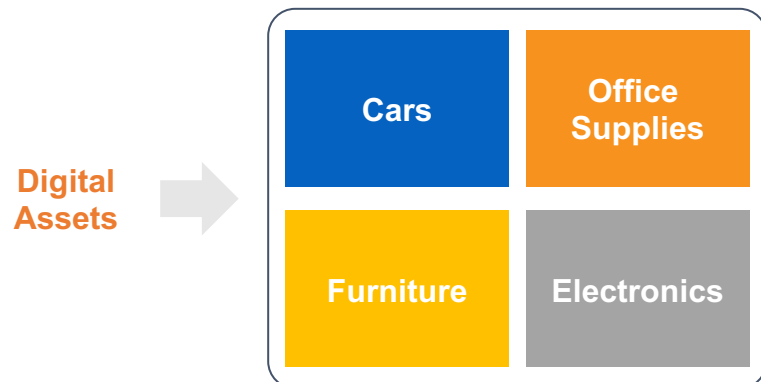
¹ Private Equity as exit path unlikely given lack of leverage

Lending - The rise of asset-light models enables a new way of consumption powered by fintech

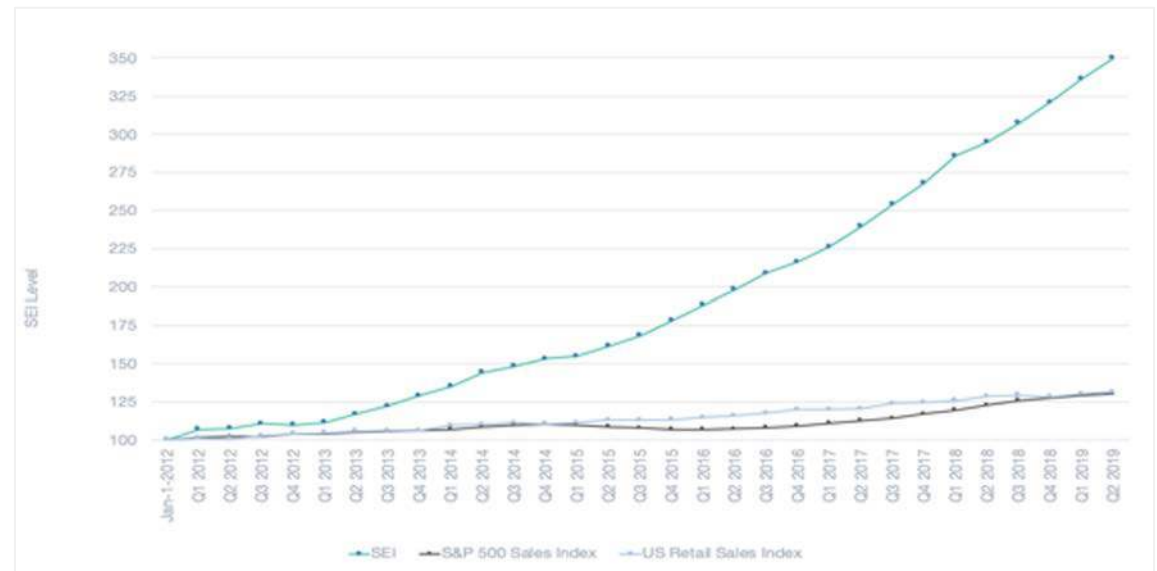
The days of status related to ownership are over...



Asset-light models moving from digital assets to winning ground in higher value products...



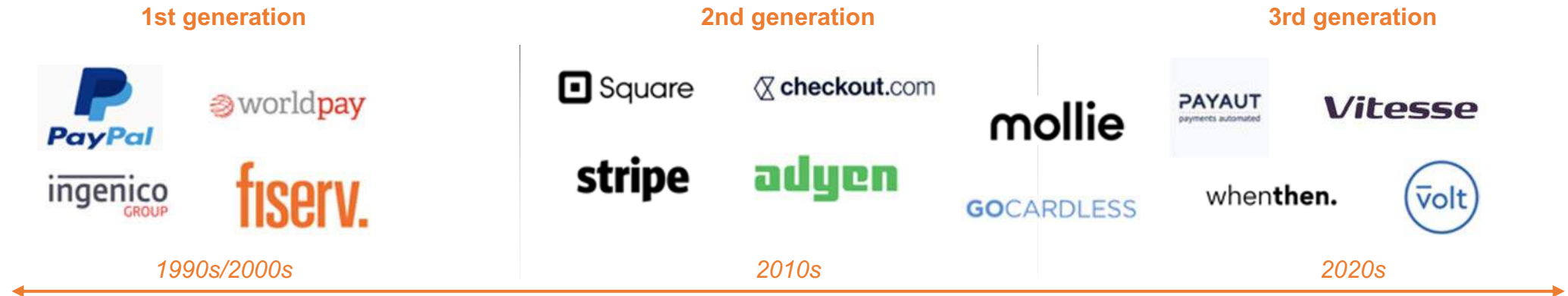
Economic ownership vs. Subscription & Lease, 5x higher growth rates of subscription models vs S&P 500 and US retail



In essence these companies are lending businesses going out to raise debt and underwriting are key elements...



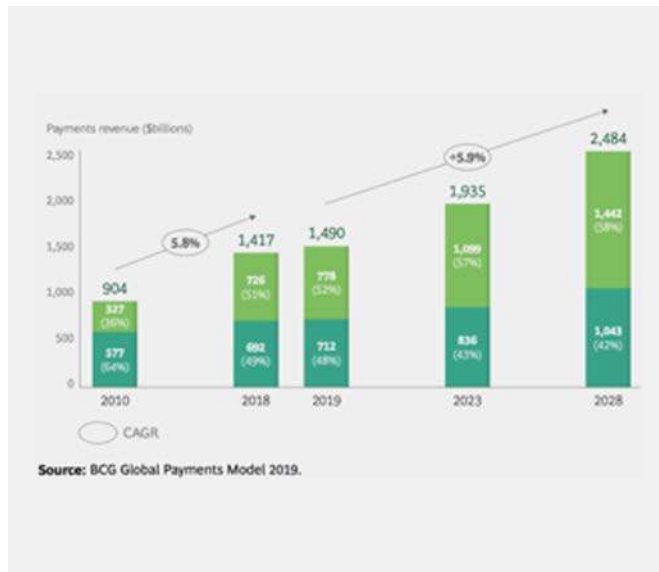
Payments – Decoupling of payment services creates opportunity for next wave of Payment start-ups



First wave of e-commerce payment **enablement** and p2p transactions online

Strong improvements in **integration**, speed, flexibility of architecture and reporting capabilities

Decoupling of different payment products and experts attacking various niches



>2tn opportunity:

Big enough market to focus on niche products and end customers and deliver products that help navigate the complexity of a multi-ppp setup where small margins can make a huge difference for large e-commerce businesses

Payment analytics and reporting

- Enabling more efficient payment flows decreasing drop-off rates and select lowest cost option

Payment fraud & KYC

- Allowing higher % of transactions to be accepted whilst still preventing fraud

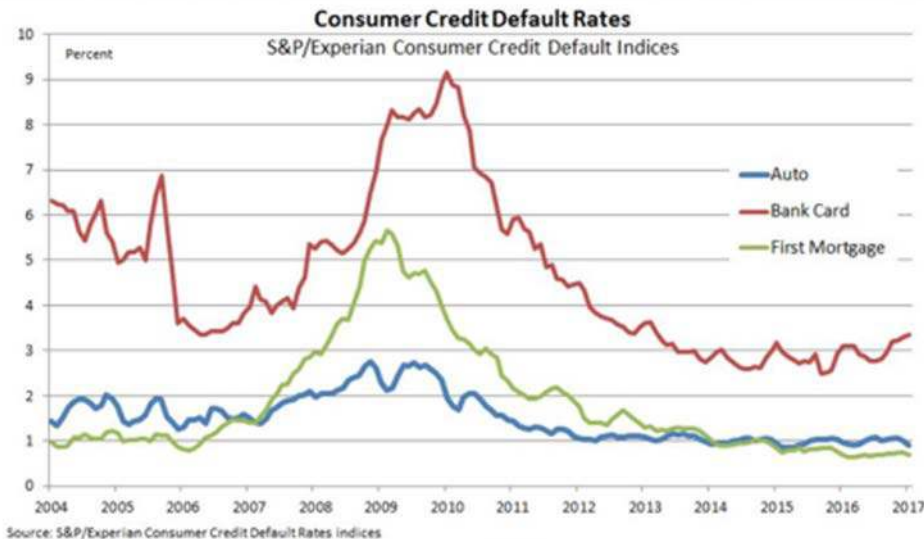
Split payments, direct debits

- Focus on core product and prevent lock-in end customer with single psp

Niche markets: Marketplaces, insurers, subscription

Alternative lenders - The moment of truth to prove relevance next to banks as well as resilience on credit

How are loan books holding up in recession?
(historic)



...early to tell how COVID-19 will impact performance of loan books because of lead time, typically consumers postpone large credit based expenses in uncertain times...

Lenders or technology players? Post IPO
shareholders crush dream of growth and tech
multiples

Share price at IPO Today's share price % change



£4.4

£0.74

-83%



\$15

\$5

-66%



\$20

\$1.64

-92%

The premises of FinTech lenders; never
reached scale and little impact on
solving funding gap for SMEs and
access to consumer

Closing the SME &
consumer financing
gap by...



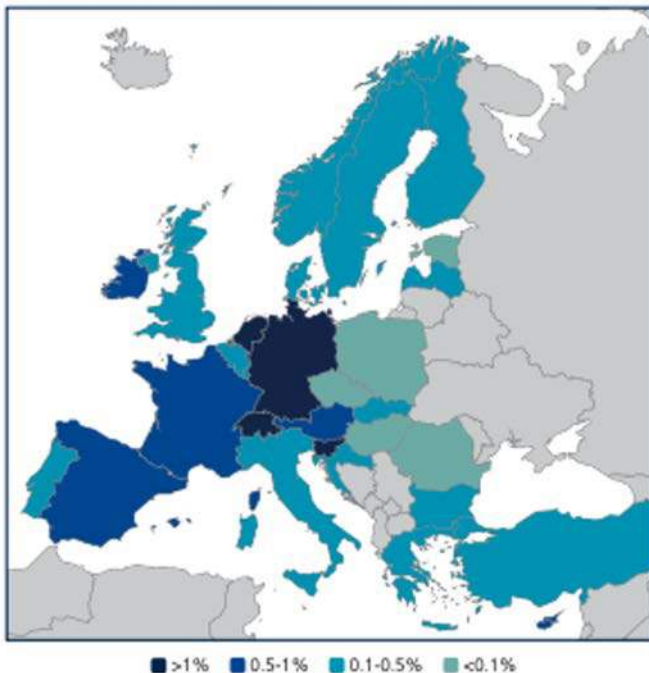
- Using tech and alternative variables for underwriting
- Improving customer journey and experience
- Underwrite a broader audience (thin file credit etc.)

Insurance - Telehealth will fundamentally change health insurance products driving penetration to 5% in Europe

Europe has historically had the lowest levels of health insurance penetration primarily due to social health care and one of the smallest insurance premium pools...

COVID has changed telehealth which in turn will drive down prices for health insurance to become accessible but the product will also change

Health penetration by country — 2018



Fastest growing P&C category with 5% annual growth in premium and €140B spent a year on health insurance in EU

Shift from:



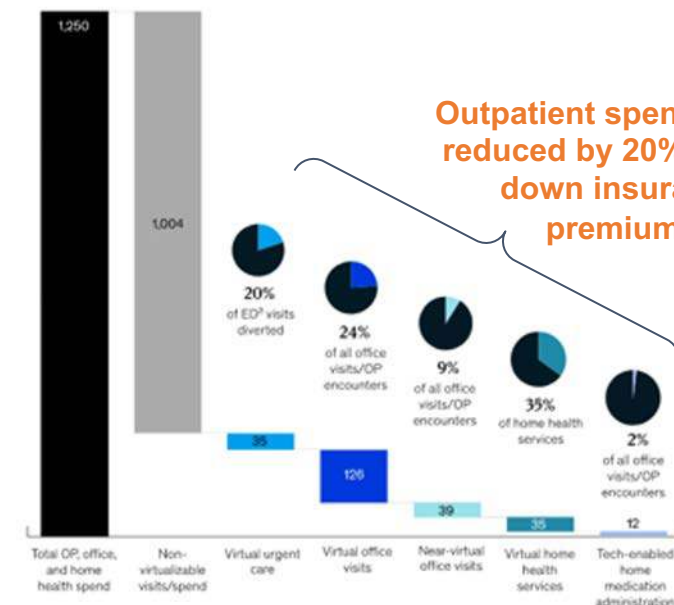
11%
use of telehealth in 2019

To:



76%
now interested in using telehealth going forward

Current OP^a and office visits that can be virtually enabled
Commercial, Medicare, and Medicaid 2020 estimated^b billions of dollars

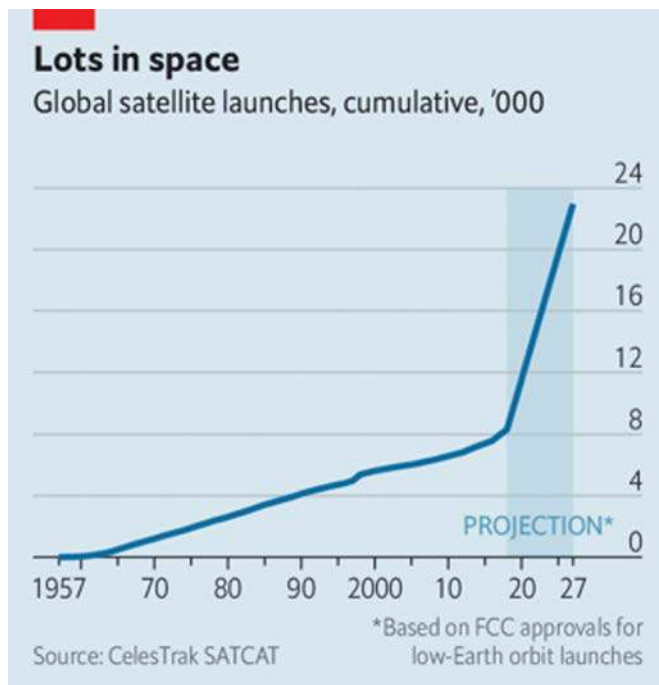


Insurance – Commonization of space data & tracking is creating new opportunities for insurance to transform

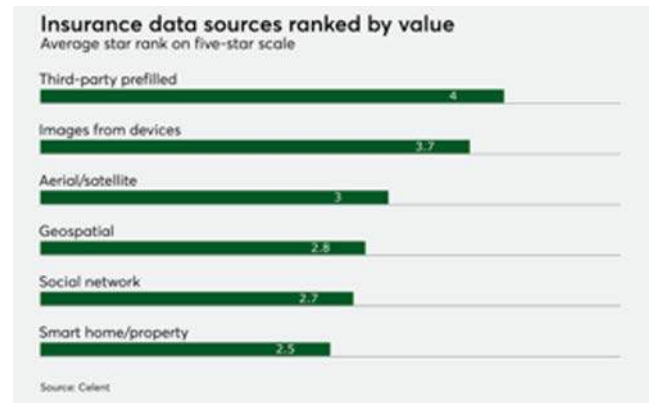
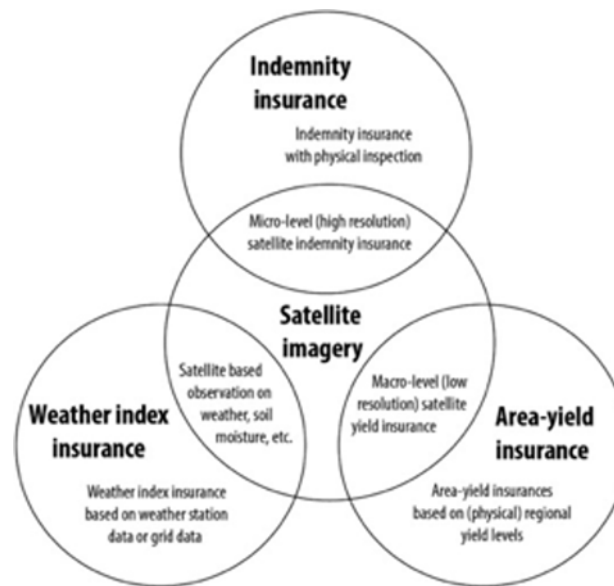
Getting satellites in space has become easy, getting real insight remains a mystery

3 types of insurance products leverage satellite data

Lower price points for data resulting in increased usage



The Economist



- Risk based pricing
- Reliable ratings
- Automated claims qualification

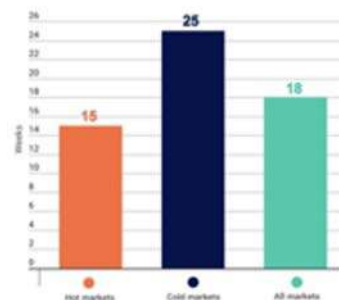
PropTech - We are at the inflection point of the digital property transaction

The pain of closing real estate transactions...

Average Time From Offer Acceptance To Exchange			
MARKET TYPE	DAYS	WEEKS	MONTHS
ALL	65	9	2.1
COLD	62	9	2
HOT	65	9	2.2

Average Time It Takes To Sell A House In The UK

Analysis: Hot Market vs. Cold Markets vs. All Markets



Landscape of companies creating efficiency gains in the flow of housing transaction...

Legal



AVMs



Mortgages



Platforms



AVMs will become the 'standard' in portfolio and private property valuations...

Additional push for the space as EU regulation becomes tighter in 2021...

Origination

- Institutions have to ensure that all the immovable property collateral for loans is assessed by internal or external valuer
- Residential real estate in mature property markets may be assessed by means of desktop valuation supported by advanced statistical models

Monitoring and Revaluation

- Institutions should set out specific triggers, indicating when monitoring leads to revaluation or collateral needs revaluation
- Revaluation needs to be carried out by valuer who is potentially supported by appropriate advanced statistical models

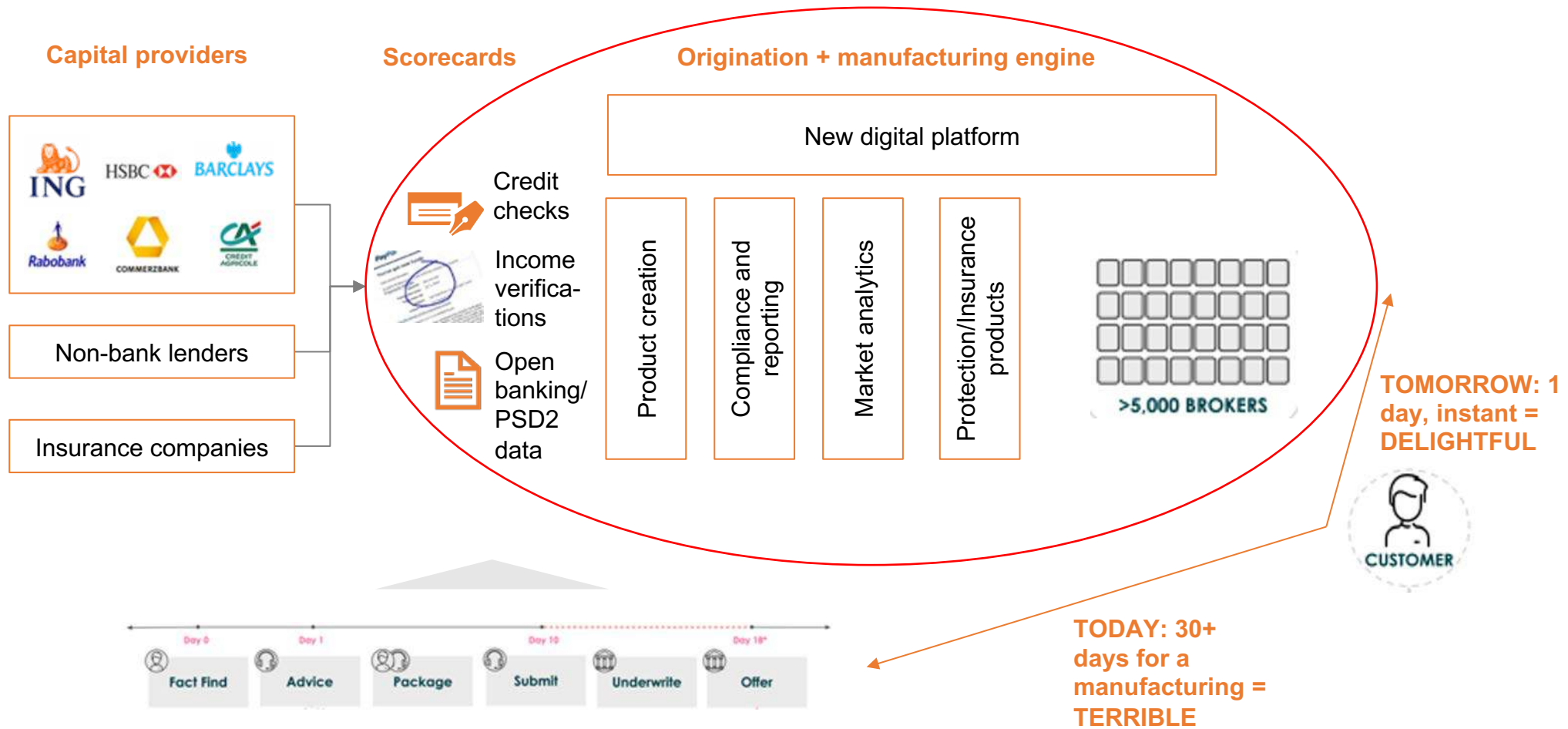
Significant time-improvements of real estate transactions can be created...

- **Legal:** contract and transaction management software to with all stakeholders plugged-in
- **AVMs:** desktop valuation combined with data-analytics for quicker valuations
- **Mortgages:** one-click mortgage and direct connections with the banks will enable shorter cycles
- **Platforms:** bring all stakeholders to a single platform, from search to mortgage approval

Mortgages – Transformation of distribution stack needed to deliver fairly priced and one click experience

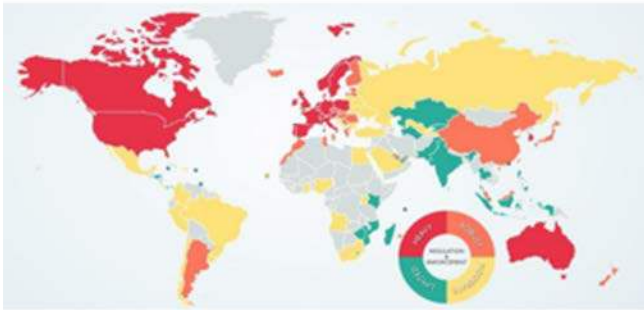
New lenders entering the market with better product match.
Eg: **Life Insurance & Mortgages** asset class matching

The creation of **1 truly digital mortgage manufacturing and distribution platform**



RegTech - Privacy startups with the API first approach will start dominating

Globalisation of privacy...



Europe leading the charge...

Over a €100m raised by European privacy startups in H1 2020



Jumbo

...but which approach will win?

Total privacy startups per category



Privacy in a few lines of code

API first approach to ensure sensitive data is properly managed and governed - "Stripe for Privacy"!

```
cURL Node Ruby JavaScript Python  
  
curl --request POST \  
  --url https://app.querylayer.com:5000/org...  
  --header 'accept: application/json' \  
  --header 'content-type: application/json'
```

Third-party risk management will continue to be a major focus

Proliferation of cloud SaaS, infrastructure and data analytics, sensitive data sprays across third-party services at an alarming rate



Privacy and cybersecurity functions will become more integrated

Privacy will become more and more baked into the tech stack



Blockchain - Moment of truth and stablecoins can provide hope in capital markets

Data validation is the clear use case industry wants from blockchain...

FIGURE 8
Key financial services metrics based on variance with overall respondents

	Overall respondents	Financial services respondents	Difference
Most-cited blockchain regulatory concern	Privacy (50%)	Privacy (60%)	+10%
Most-cited benefit from consortia participation	Cost savings (53%)	Cost savings (62%)	+9%
Most-cited metric to measure blockchain use case performance	Process efficiency (55%)	Process efficiency (64%)	+9%
Most-cited program for blockchain skill development	In-house courses (54%)	Recruiting (62%)	+8%
Currently participate in at least one consortium or plan to within 12 months	67%	73%	+6%
Blockchain is a top-five priority	53%	59%	+6%
Most-cited preferred blockchain model	Private blockchain, internal to company (50%)	Private blockchain, internal to company (55%)	+5%
Most-cited blockchain use case	Data validation (43%)	Data validation (48%)	+5%
Currently lead at least one consortium or plan to within 12 months	25%	19%	-6%

N=1,386 (2019 global enterprise); N=211 (financial services)
Note: Selected metrics based on minimum of 5 percentage points variance from overall response.
Source: Deloitte 2019 Global Blockchain Survey; Deloitte analysis.

Deloitte Insights | deloitte.com/insights

Financial services firms are excited about the payment efficiencies stablecoin could bring



Examples of applications in which volatility must be reduced:

- Remittance, to cover price deltas while payments are being processed
- Commerce & Payments, for any business to accept day-to-day payments, fiat or cryptos avoiding volatility
- Salaries & Rents or any other recurring payment
- Lending & Prediction markets (long-term issuances)
- Trading & Wealth management enable denomination of trading pairs in US dollars instead of bitcoin or ether

Robotic Process Automation - Crunch time for RPA as competition looks for real technological differentiation

Gartner Hype Cycle for Artificial Intelligence, 2019



The Promise

- **Market:** tens of bns potential
- **Unit economics:** significant cost-savings
- **Promise:** cognitive revolution
- **Scale:** a bot for every employee

The Reality

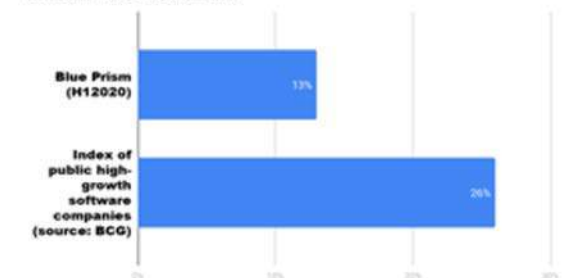
- **Market:** mostly limited to Fortune100, decelerating fast
- **Unit economics:** largely unproven - creative maintenance costs accounting
- **Promise:** laggards in R&D investment, undifferentiated solutions
- **Scale:** low complexity tasks only, diminishing returns with every new bot

What to look out for?

At least one of the top 3 players to halve current valuation in the next 12 months. Beyond that, increased consolidation via small M&A.



R&D as % of Revenues



ML-driven cognitive automation is the right investment for Enterprise
New class of players driving much deeper innovation to emerge

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