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The European FinTech Ecosystem Navigating Covid-19

September 2020

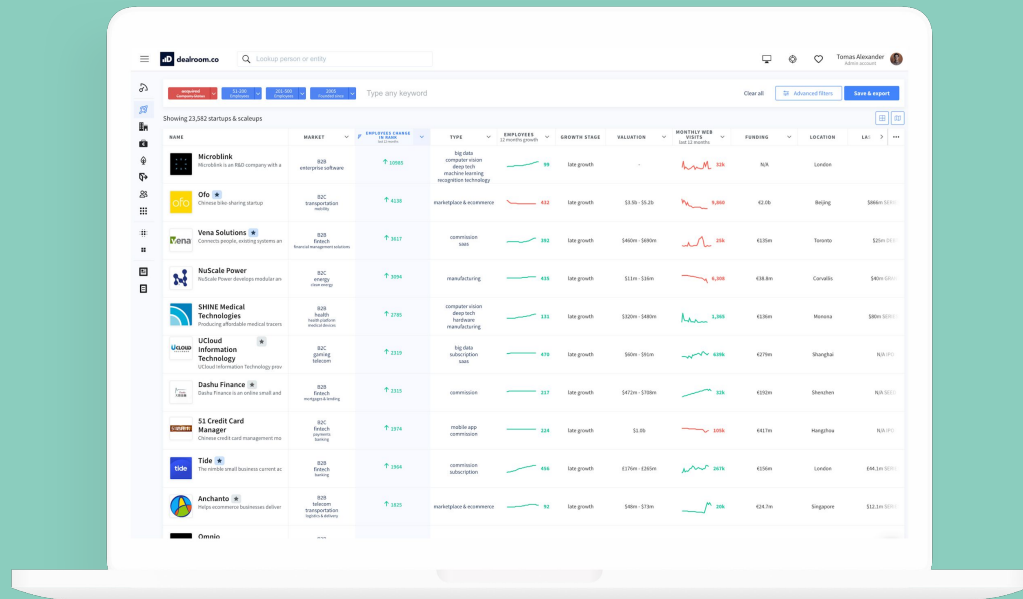


Global intelligence about promising companies, from startups to unicorns.

Dealroom.co is the foremost data provider on startup, early-stage and growth company ecosystems in Europe and around the globe.

Founded in Amsterdam in 2013, we now work with many of the world's most prominent investors, entrepreneurs and government organizations to provide transparency, analysis and insights on venture capital activity.

Our offerings include data sets via SaaS and API as well as custom reports and bespoke ecosystem platforms.

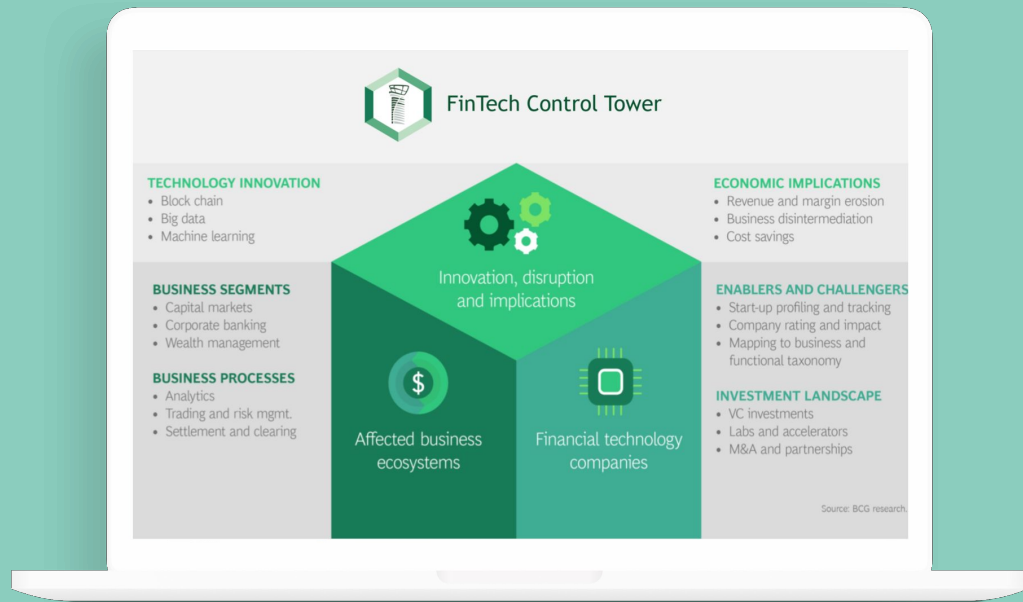


A leading advisor in the FinTech and InsurTech space.

FinTech Control Tower (FCT), a research framework developed jointly by Expand Research and the Boston Consulting Group (BCG), identifies initiatives, technologies and companies that matter most in today's FinTech ecosystem and assesses their impact.

FCT brings FinTech insights to clients, with 250+ financial institutions and ecosystem players benefiting from its expertise annually.

With an exhaustive database of 25k+ FinTechs, FCT aggregates a number of global & regional databases. It has developed a proprietary taxonomy refined for identifying emergent developments in the FinTech ecosystem with a detailed segmentation methodology.



Executive Summary

- 1 FinTech attracts the largest share of equity investments in Europe, receiving more than €30B of venture capital investment since 2014.
- 2 Investment in the first half of 2020 is below 2019 levels, but still higher than 2018 in almost all the hubs. London dominates investments into European FinTechs, claiming 57% of capital invested in 2020 H1.
- 3 The pandemic will have a variable impact across FinTech sectors in the short term. The current crisis has accelerated investment into startups developing **Technology** and **Support** solutions for financial institutions, corporates and SMEs.
- 4 Series A/B rounds rose in Q2 as investors focused on their existing portfolios, whilst seed investments dropped and later stage VC remains steady.
- 5 A generation of world-leading EU FinTech scaleups were born during the last financial crisis. The agile business models many FinTechs adopt allow them to innovate, adapt & pivot to changing demands, enabling them to take advantage of new opportunities that will arise from the Covid-19 crisis.

Methodology and definitions

FinTech & InsurTech are global ecosystems of firms that innovatively apply technology to transform & enhance financial services. Through game changing business models these firms look to disrupt the status quo, capturing customers, or enable existing processes across the financial sector. For this report, Dealroom data has been mapped onto the FinTech Control Tower taxonomy to investigate 12 European FinTech hubs.

FinTech Control Tower Taxonomy

Corporate Banking	FinTech firms apply technology to offer innovative lending, payments & liquidity management solutions to the corporate banking sector
Insurance	InsurTech firms are innovating across the insurance value-chain developing technology solutions in P&C, Health, Multi-line and life insurance
Retail Banking	FinTechs offer technology driven digital accounts, lending and payments solutions for retail customers
SME Banking	Firms look to re-imagine accounting, payments and lending for SMEs across the globe
Support	Firms work to enabling FIs, Corporates & SMEs by improving compliance, HR, process automation, CRM and risk management processes
Technology	FinTechs are enabling FIs by developing data analytics, data mgmt., digital identity, infrastructure and security solutions
Wealth Management	Firms provide digital investment management, focusing on robo & traditional advisors, along with trading & brokerage platforms for retail customers
Capital Markets	Enabling the capital markets value-chain, through pre-trade, trade execution and post-trade. Market analytics, e-exchanges & clearing/settlement are a focus

Dealroom Data

Initial data set

11K European FinTech startups

12 European selected hubs

London, Paris, Berlin, Stockholm, Barcelona,
Amsterdam, Madrid, Zurich, Munich,
Hamburg, Vilnius, Dublin

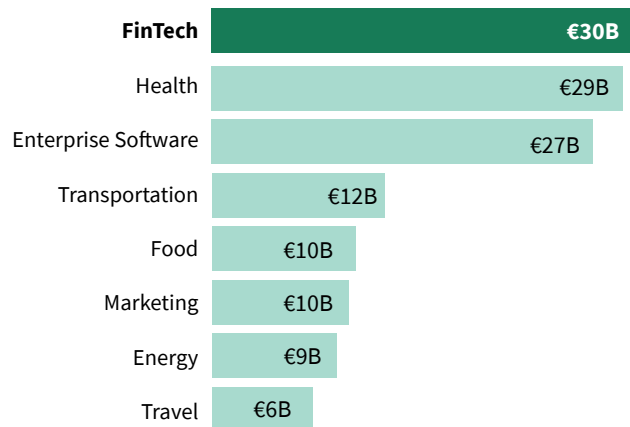
4605 fintech startups

1535

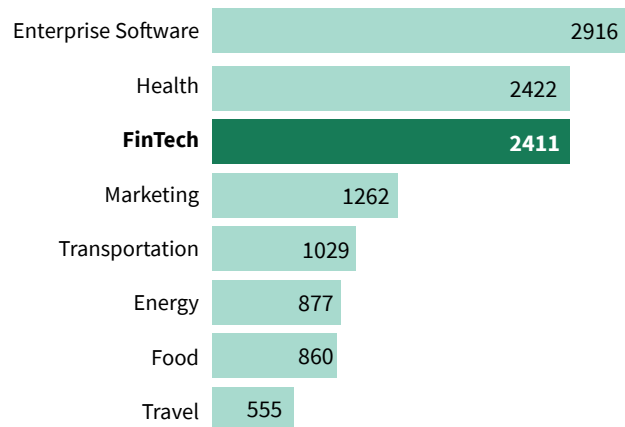
**FinTech startup with
total funding >€1M**

FinTech is Europe's largest investment category. It received more than €30B of venture capital investment since 2014.

Investment in Europe per sector
(2014-2020 YTD)



Funding rounds above \$2M in Europe per sector
(2014-2020 YTD)

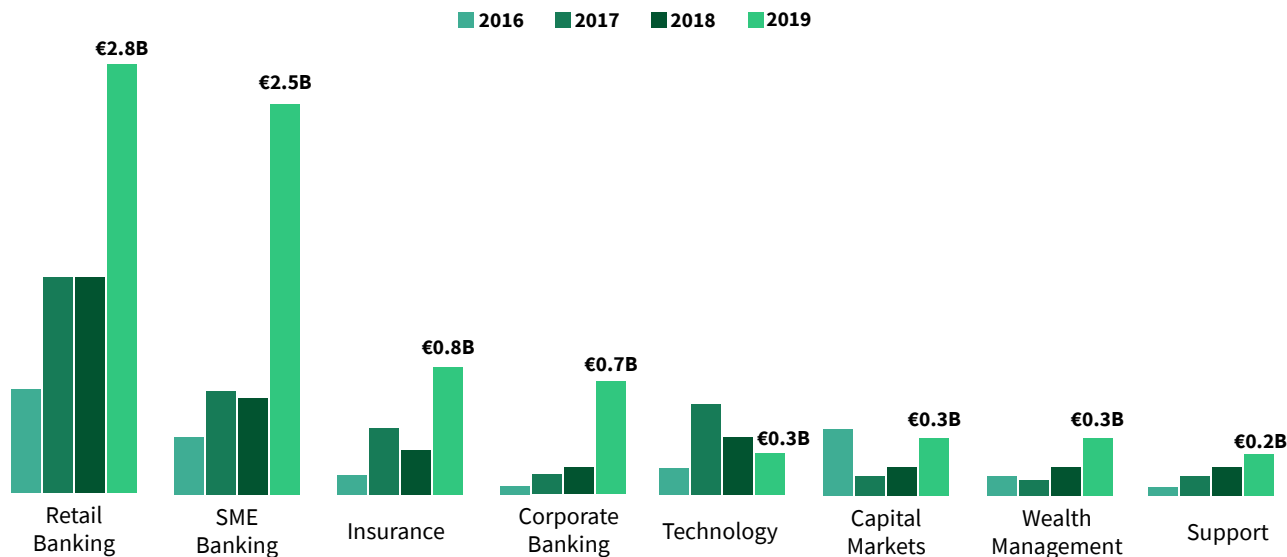


Source: Dealroom.co, BCG/Expand FinTech Control Tower

Until 2019, FinTech investment was up across almost all its sectors. Retail and SME banking grew by 5x compared to 2016 figures.

Investment into European FinTech startups

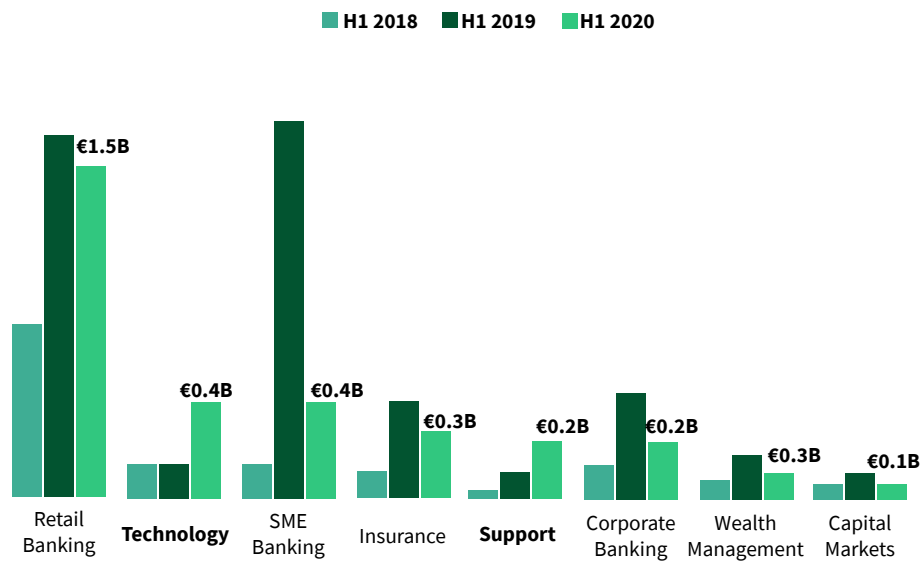
(Pre-covid 19)



Source: BCG/Expand FinTech Control Tower, Dealroom.co. Based on startups & scaleups from the European hubs mentioned in page 5

The current crisis has accelerated investment in startups developing technology and support solutions for financial institutions.

Investment into European FinTech startups (Post-Covid 19)



Source: BCG/Expand FinTech Control Tower, Dealroom.co. Based on startups & scaleups from the European hubs mentioned in page 5



Barbod Namini
Partner HV Ventures

“Financial institutions are under enormous pressure to cut costs and closing branches would serve towards that goal. In the absence of a physical customer touch point financial institutions have to step up their game when it comes to digital customer acquisition, digital product offerings and engagement. These are just some of the reasons driving the interest in FinTech infrastructure plays. Beyond that we are seeing a large number of non-financial institutions entering the financial space on top of said FinTech infrastructure players and that in itself should serve as a catalyst to a lot more innovation in the coming years.”

How can you describe the European VC market in Q2 2020? What has changed in your investment thesis since then?



Rob Moffat
Partner Balderton
Capital

“April was quiet as VCs focussed on their portfolios. Since mid-May it has been picking up and July-August were the busiest I have seen in Europe since I first started at Balderton in 2009. Great companies are raising competitive rounds at high valuations. On the flip-side medium-good companies with mixed metrics may be finding it harder as they might have raised from sources which are less active (corporate VC or family offices) and/or they aren’t given the chance to fully make their case as they could in person”



Aman Ghei
Partner Finch Capital

“The current environment has undeniably impacted early stage investments. Most of the deals we have seen being announced in Q2 2020 have been based on existing relationships and we expect that valuations particularly at the later stage companies have been impacted either due underperformance on budgets, inability to raise an external round or macro-risks. Particularly at the beginning of the quarter, we saw venture funds shift focus from ‘new’ deals towards deploying capital in the existing portfolio. Substantial early stage deals that have been announced lately were positioned as an answer to the current crisis, whether that be remote working solutions, online event hosting or solutions helping financial institutions bringing their customers online.”



Matus Maar
Partner Talis Capital

“In Q2 this year, I think it’s safe to say that almost all VCs were zoning in on how they could support their existing portfolio companies, meaning there was far less bandwidth to do as much proactive outreach for new deals. We’ve been focusing more than ever before on internal rounds and naturally we’ve been supporting our portfolio operationally as closely as possible. Any new investments we considered in this time were companies that could demonstrate how they had quickly adapted – and could take advantage of - the new market conditions.”

The pandemic has impacted each FinTech sector differently in the short term.

Net positive 29%	Technology	Support	Insurance
Defensible 42%	Retail Banking	Wealth Management	Corporate Banking
Under pressure 29%	SME Banking	Capital Markets	

Source: BCG/Expand FinTech Control Tower, dealroom.co.

Percentages are based on the number of VC-backed FinTech startups & scaleups from the European hubs mentioned in page 5.

Last year, all FinTech sectors demonstrated increased levels of maturity, characterised by lower frequency but higher value and larger round activity. Although Covid-19 has changed the outlook, its implications have differed across FinTech sectors.

Retail Banking has experienced a relatively muted impact with consumer activity being at an unprecedented low level (reducing payment activity) albeit with high growth in online payments. This places the segment in a strong position for the medium to long term.

SME Banking has been shown to be particularly vulnerable to the impacts of Covid-19 due to difficulties being faced by SMEs whom are having to counter the business impacts from the crisis. Capital Markets have also been notably affected by Covid-19, with a large drop in funding in the trading & investments spheres.

Technology, Support and Insurance companies have proven somewhat resilient. As incumbents are pushed to digitize their operations, these three sectors are likely to experience a positive uplift.

Taking into account the current crisis, what do you think the next big thing in FinTech will be?



Rob Moffat
Partner Balderton

“I have been saying the same thing on the 'next big thing' for the last 5 years: InsurTech. Hopefully the successful Lemonade IPO will inspire more great founders to start InsurTech businesses. Beyond this I believe there is increasing investor interest in capital markets software and data.”



Aman Ghei
Partner Finch Capital

“While we believe there are many areas of FinTech that will be positively impacted such as AML/KYC, AI enabled solutions for front to back office efficiencies, payment Infrastructure simplification, we’ve had our eye on the push towards remote working that offers new challenges for managing distributed teams. Taxes, payroll, pensions and other benefits will become increasingly complex to handle in different jurisdictions. Technology startups can help solve this issue by building a one-stop-shop solution where companies can outsource all of the employee related matters.”



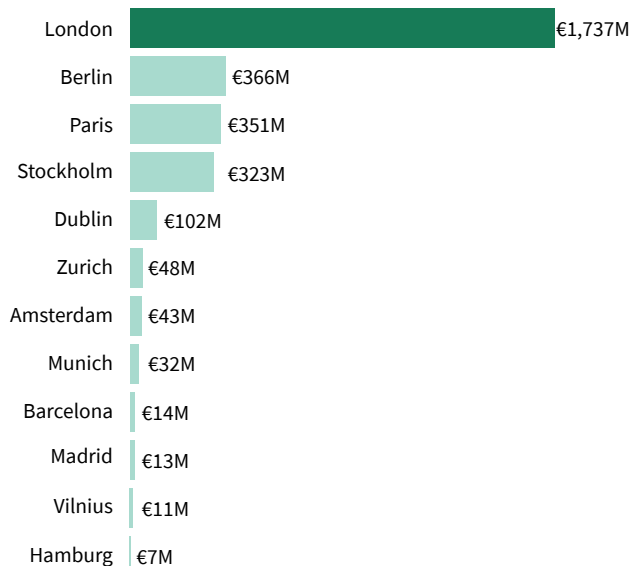
Matus Maar
Partner Talis Capital

“I think companies that provide infrastructure to the ecommerce and payments space are going to continue doing really well. These companies – like Klarna, for example, have already seen years of linear growth, and with increased uptake of mobile commerce in this time, they’ve become critical components in shaping how people shop online. Tech providers who ensure safer payments and provide fraud detection to retailers for online transactions are also increasingly critical. Equally, I think we’ll be seeing more FinTechs that provide infrastructure to retailers that cater to the Millennial and Gen Z mindset of renting and leasing goods over buying.”

Investment in the first half of 2020 is below last year level, but still higher than 2018 in almost all the hubs.

Investment into European FinTech startups

Per hub in H1 2020



Investment growth per hub in H1 2020

Compared to the same period in 2018 and 2019

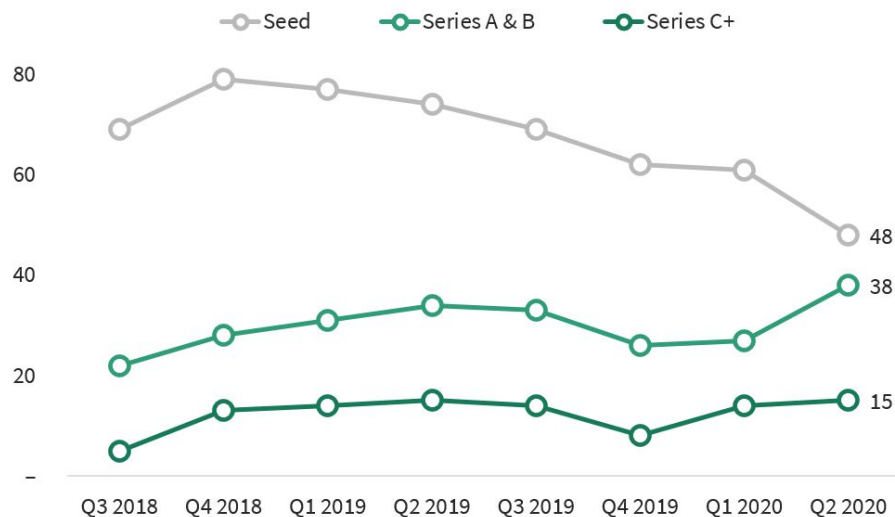
Hub	H1 2018	H1 2019	Hub	H1 2018	H1 2019
London	3.0x	0.6x	Amsterdam	1.0x	1.1x
Berlin	1.0x	0.5x	Munich	1.5x	4.3x
Paris	1.7x	0.9x	Barcelona	1.1x	0.8x
Stockholm	5.5x	0.9x	Madrid	0.5x	0.1x
Dublin	1.3x	7.3x	Vilnius	21x	39x
Zurich	1.2x	0.3x	Hamburg	6.5x	0.2x

Source: Dealroom.co, BCG/Expand FinTech Control Tower

Despite challenging macro conditions, the number of Series A/B rounds is increasing.

Quarterly evolution of number of rounds

Per round type



Source: Dealroom.co, BCG/Expand FinTech Control Tower. Based on FinTech startups & scaleups from the European hubs mentioned in page 5. Seed rounds are susceptible to reporting lag.

Seed stage FinTech companies saw fewer rounds in Q2 2020 as investors opt to double down on larger, more mature winners through follow on Series A & B rounds, while late stage investment remain at the same level.

During the last few years, a decrease in the proportion of capital allocated to early-stage investment (seed) has been observed. It is expected that this shift will be accelerated in the coming months and that investors will bet on more established and mature companies.

There is often a delay between when a venture capital deal is closed and when it's publicly reported, as such this number may not yet reflect the complete funding landscape during the observed time period.

Do you believe there will be a lack of late-stage capital for European FinTech companies in the future?



Barbod Namini

Partner HV Ventures

*"It's fair to say that current geopolitical tensions might have a lasting impact on specific pockets of capital being deployed in Europe. Said that capital is global and mobile and tends to chase yield. **From today's perspective there is no reason to believe that there will be a lack of capital for strong late stage FinTechs in the future** (beyond the usual temporary disruptions in the capital markets that might be caused by economic cycles)."*



Aman Ghei

Partner Finch Capital

*"We have seen a number of large funds being raised over the last year so in general we do not believe there will be a lack of capital in the near future. That said, investing cross-continent could slow down due to the physical barriers in the current environment. Another, more generic dynamic, at the later stage is investors seeking strong unit economics and a clear path to profitability, which has had a less prominent role in the last couple of years. **So we expect later stage investors to get more selective, which might result in longer lead times to fund for instance.**"*



Matus Maar

Partner Talis Capital

***"I think we'll see an increase in later stage capital as a result of the mature FinTech ecosystem we have here in the UK.** This year alone we've seen two of our FinTech portfolio companies, Pricefx and Onfido, raise \$65m and \$100m respectively, both from leading later-stage US investors. The UK FinTech market has matured to now be widely-acknowledged as the global leader in the space, and with increasingly more US VCs opening offices on the ground in the UK, I think we'll see a significant increase in capital available for later-stage FinTech rounds."*

A generation of world-leading EU FinTech scaleups were born during the last financial crisis.

Select FinTech companies founded between 2008-2011

 2010 United Kingdom Valued at €4.2B (Jul 2020)	 2008 Sweden Valued at €1.6B (Jul 2020)	 2011 Germany Valued at €1.0B (Sep 2019)
 2009 United Kingdom Valued at ~€800M (Nov 2019)	 2011 United Kingdom Valued at ~€210M (Jun 2019)	 2011 Germany Valued at ~€150M (Feb 2019)

Source: BCG/Expand FinTech Control Tower, Dealroom.co, TransferWise, Trustly, Deposit Solutions, Ebury, Nutmeg, Mambu

The Covid-19 crisis will have a varied impact on EU FinTechs. Early stage companies are likely to find it more difficult to raise seed rounds in the short term, as investors focus on supporting their existing portfolios. More mature firms will see a direct impact on their business models, with cash flow and risk mitigation becoming a critical focus to navigate the rapidly changing climate.

FinTechs operating across business lines will also experience different impacts, with certain business models struggling in the short to mid term, such as (un)secured lenders, whilst others will see a positive impact, such as security and risk firms within the Technology & Support cluster.

As consumer and business demands change in the new economic environment, opportunities will arise for innovative FinTech firms. As we saw during the great financial crisis in 2008, the agile business models many FinTechs adopt may enable them to innovate, adapt & pivot to changing demands, taking advantage of new opportunities.



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