MOORE Kingston Smith

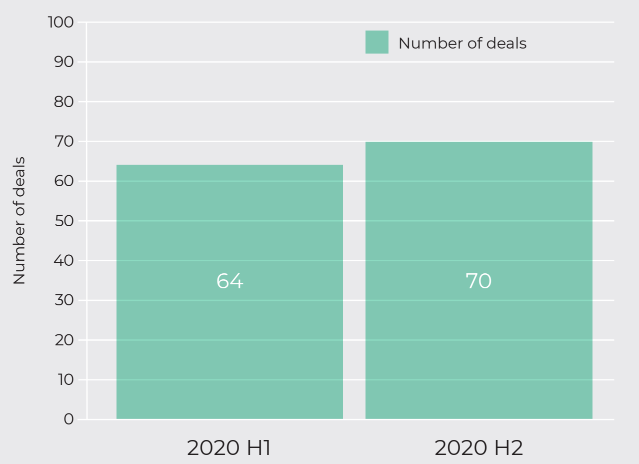
FINTECH INVESTMENT REMAINS STRONG IN 2020

A review of H2 2020 growth capital investment in the fintech sector

At a time when the only certainty was uncertainty itself, fintech investments stood out as beacons of resilience in 2020. The sector maintained investment volume during the extraordinary year, even as overall growth capital investments fell 11% over the same period between 2019 and 2020. The findings come from Moore Kingston Smith's research on UK private companies raising between £1 million and £20 million each of growth equity capital.

"The figures are encouraging, though not surprising," says Tom Moore, Head of Financial Services and Fintech at Moore Kingston Smith. "As the world stood still in Q2 2020 owing to the escalating pandemic, a global shift in work, school and general life patterns led to unprecedented change, with the pace of technological adoption greatly accelerated as a result. Fintech was a big part of this, as it enabled an element of business continuity for firms that could still service customers remotely. This is unlikely to recede once normality returns, so investor appetite is strong."

DEAL VOLUME IN THE FINTECH SECTOR

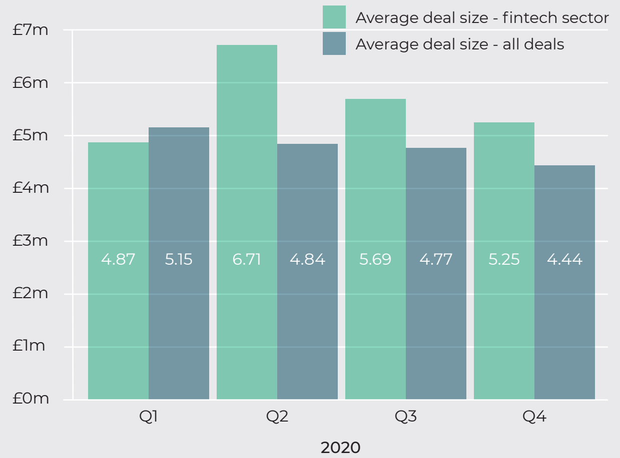


Full-year data reveals a strong fintech investment market which gained momentum in the second half of the year. Overall, 70 deals worth £386 million completed in H2 2020 against 64 worth £374 million in H1.

Drilling down to review the quarterly data reveals a sector that defied pandemic headwinds: 34 investments in Q2 worth £228 million were recorded, up 56% from the £146 million in Q1. This sizeable increase stands in stark contrast to the wider growth capital market, which retracted 16% from £927 million to £779 million over the same period. The second half started very strong, with 42 transactions worth £239 million recorded in Q3, likely as investors were drawn to fintech's surge in popularity. Activity tapered at the end of the year, with £147 million invested across 28 deals in Q4.

AVERAGE DEAL SIZE

AVERAGE DEAL SIZE IN THE FINTECH SECTOR (£ MILLION)

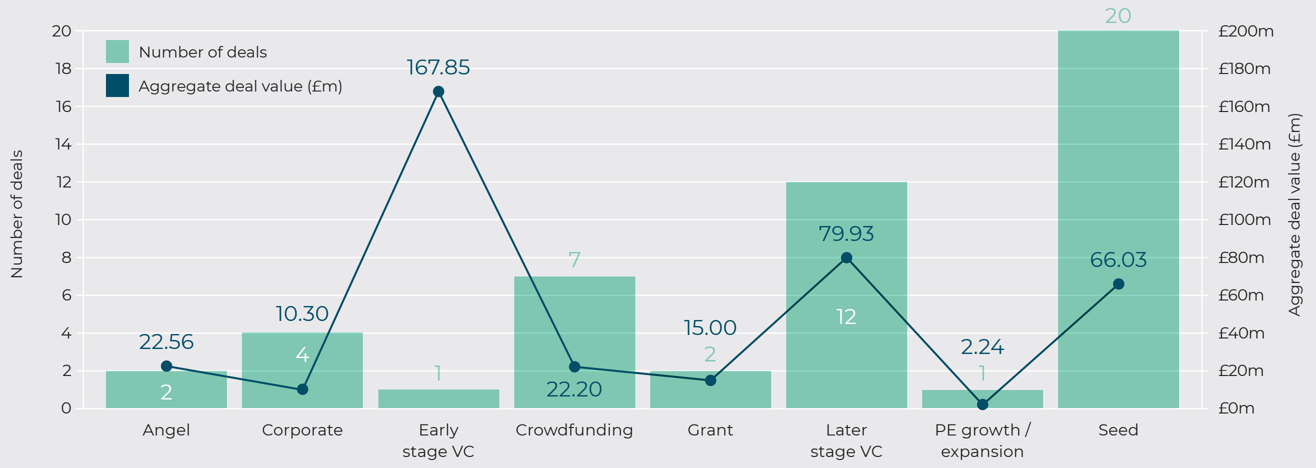


The second quarter was the worst of the year for global investment, given the fresh shock of the virus's ongoing impact, yet saw fintech investments record their highest average size at £6.7 million. This was despite the fact that average deal sizes of all growth capital transactions have been steadily declining in the 18 months to the end of 2020. The steepest drops occurred between Q1 and Q2 in 2020 and between Q3 and Q4.

While such stats can usually be skewed by larger deals, our dataset is limited to £20 million as an upper limit. The ongoing decline suggests that investors are indeed putting smaller sums of capital to work across the entire market. This may be a sign that uncertainty took a toll on confidence, or it could also be suggesting that earlier-stage deals – typically smaller by nature – may be increasing in popularity. Indeed the data reveals that transactions below £3 million market-wide have been increasing over the last five quarters, from 45% of the total deals in Q4 2019 to 55% in Q4 2020.

Fintech attracted more early-stage VC than the overall growth capital market in H2 2020. The top backer of fintech deals, early-stage VC accounted for nearly half (43.5%) of the capital invested in the sector in the second half of the year. This is a much higher proportion than for the entire growth capital market, which saw roughly a third (32%) of the money invested by this group of backers. Later-stage VC is the second most prevalent backer type of fintech, accounting for a fifth of the investment total – though these funders made up a much higher proportion (37%) of the growth capital investment sums. Seed investors comprised 17% of the capital invested in fintech, a bit higher than the 13% in the wider growth capital market.

H2 2020 FINTECH DEALS BY INVESTOR TYPE



UNIQUE OPPORTUNITY OF FINTECH

Tom Bohills is an experienced IP/IT lawyer who is Founder and Principal of Chronos Law. Tom works with firms across several sectors, from manufacturing to fashion, from mining to data but with a particular emphasis on fintech. "Nearly all the companies on our books went into short sharp shock territory overnight in March 2020. Initially fintech was in the same boat and several projects got put on hold. But from late May and early June, as other sectors remained flat, there was a big pick up in the fintech space. Clearly the sector, like others, needed to pivot to remote working last spring, but companies in that space have bounced back and in some cases I'm seeing increased activity on the previous year."

He therefore envisages fintech's recovery to be V-shaped while the recovery of other sectors is likely to be a slower tick shape. He points to a Swiss client running a SaaS money markets platform which had a good year in 2019 before really taking off in 2020. "A lot of companies had to borrow and lend at short notice last year, and June, July and August were this company's best-ever months in its four years of business. It was about being in the right place at the right time."

Fintech's rise is nothing new; it had a record-breaking 2019 and this momentum carried into 2020. "I was flat out on everything from seed through to series B rounds at this time. The virus postponed some of these as investors wanted to sit on capital for a few months and monitor the fallout; one round was delayed and another one cancelled altogether when investors got cold feet. But most rounds came back after August." An example of Tom's clients is Snoop, a Norwich-based money management start-up founded in 2019 which helps users monitor and manage their spending. The company raised an impressive £3.2 million series A funding in January before going on to crowd-fund a total of £13 million in 2021. Tom is also confident that strong prospects await this growing sector in 2021 and beyond. "The UK government treats fintech as a big priority, so the sector has an opportunity which many others don't in terms of shaping policy. Industry bodies such as Innovate Finance are helping a lot in this space. We are really on the cusp of something special - where government is looking to the industry and asking what it needs, especially in a post-Brexit world."

NOTABLE DEALS

Fintech deals were split between those that serve businesses and those catering for retail customers, with lending and payments businesses popular for both camps. Last year saw several UK fintechs spread their wings into new geographies, many through M&A, which may hint at a new direction of travel for the sector:

- The beginning of 2020 saw online lender **LendingClub** become the first fintech to buy itself a national charter by acquiring US-regulated **Radius Bank**. It spent a reported $185 million[2] in what should make it a fully digitised bank, and may prove an efficient way to access international markets.
- In October, UK-based **Stripe** spent a reported $200 million+ on the acquisition of Nigeria's **Paystack** using funds it had secured in a $600 million funding round earlier in the year. The deal should expand Stripe's API-based payment service into Africa[3].
- Another deal to expand services globally took place in December when **Pomelo Pay**, a start-up that allows businesses to take payments from anyone anywhere without the need for costly hardware, announced a £2.1 million seed round led by Force Over Mass. The funds are earmarked for supporting the company's international expansion across Europe and Asia through its existing offices in London and Singapore.
- Among the highest-profile UK deals of 2020 was Metro Bank's acquisition of peer-to-peer lender RateSetter in August in a £12 million deal that saw one of the industry's oldest providers snapped up by the challenger bank as it reinforced its stated ambition to grow its unsecured lending.
- The second half of 2020 also saw London-based data science start-up Tradefeedr secure $3 million in a round led by IPGL, another fintech, with the capital expected to boost Tradefeedr's trading analytics software.

OPPORTUNITIES FOR FINTECH

Within fintech, digital assets are coming to the world's attention once again. Tesla wasn't the first company to use Bitcoin as a treasury diversification tool and won't be the last. Peter Seebohm, Finance Director at CryptoCompare says: "CryptoCompare's data powers digital asset pricing, and is used widely to value portfolios, indices and within accounting tools. We have been buoyed by the increasing institutional interest in this emerging asset class and have seen strong customer growth."

He found launching a raise during the first Coronavirus lockdown was challenging, with many potential investors responding to uncertainties within their existing portfolio. However, Moore Kingston Smith data shows that investor appetite bounced back in late 2020, particularly from early-stage VCs, but now more than ever it's about staying connected to get deals over the line. Peter continues: "We have seen the importance of nurturing relationships with investors and corporate clients, and focussed less on getting new people on board. Operating within existing networks has become of utmost importance given the restrictions around fresh networking."

As for the wider fintech sector, he thinks there is a great opportunity for growth. Despite the remote-working challenges, the Coronavirus pandemic has given many companies the impetus to make the changes and usher in new more efficient systems.

Peter stresses the value of continual review and improvement of internal processes. Following the UK government's support of the fintech sector, there are a plethora of new companies, each offering something slightly different to reduce costs (for example FX fees, treasury management or transaction costs) and/or to receive a better service.

CryptoCompare's data suggests that the digital asset sector will continue to experience significant growth and presents an opportunity for the UK's continued fintech leadership.

1 https://www.finextra.com/blogposting/19765/what-has-happened-to-seed-investment-in-fintech-during-the-pandemic
2 https://www.forbes.com/sites/donnafuscaldo/2020/02/19/lendingclub-buys-radius-bank-marking-first-fintech-purchase/?sh=45f03a6748e7
3 https://techcrunch.com/2020/10/15/stripe-acquires-nigerias-paystack-for-200m-to-expand-into-the-african-continent/
4 https://tech.eu/brief/pomelo-pay-seed-funding/
5 https://www.metrobankonline.co.uk/about-us/press-releases/news/acquisition-of-ratesetter/

OUTLOOK

The future is bright for fintech. With many young companies in the space reliant on the domestic market and set up to serve UK consumers, SMEs and lenders, any possible vaccine bounce should really help these businesses. Where firms are looking to expand, a cadre of well-funded financial backers as well as hungry corporates are looking to invest in the UK's growing wizardry of fintech opportunities.

Expectations are that a variety of funders will continue to seek out opportunities to grow their capital, from seed for the fledgling fintechs through to later-stage VC for the most established looking to expand product lines or geographic reach. Last year's foray into international expansion through M&A is set to continue as fintechs see it as an efficient method of accessing new markets and are increasingly able to attract the financial firepower to support this."

Ryan Day, Partner at Moore Kingston Smith, says: "Government support for the sector shows no signs of slowing down, and while many other sectors are impacted negatively by lingering uncertainty around the pandemic and, to a lesser extent as time goes on, Brexit, fintech may in fact be witnessing a boon from these as they create greater demand from businesses and individuals alike to transact anywhere, anytime."

CONTACT US

If you're an ambitious fintech business with revenues of at least £1 million and are looking to scale, get in touch for an initial discussion. We can work together to assess the best action and then assist with finding the right partner. Contact us to find out more about our raising finance and growth capital services.

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THE FINTECH50 2020

Moore Kingston Smith is proud sponsor of The FinTech50, an annual list of the hottest fintech companies in Europe. The ranking is now in its ninth year and was the first curated list worldwide to feature fintech companies and their innovation. 2021 will see the introduction of The Global Fintech50, showcasing businesses that are helping to promote financial inclusion, impact and sustainable finance. The shortlists are selected by an international panel of experts including our Head of Financial Services and Fintech, Tom Moore. Further details of how to apply and previous winners can be found here: www.thefintech50.com.

METHODOLOGY

The data is from analysis conducted by Moore Kingston Smith on data extracted from Pitchbook on UK private companies raising £1 million to £20 million each of growth equity capital.