



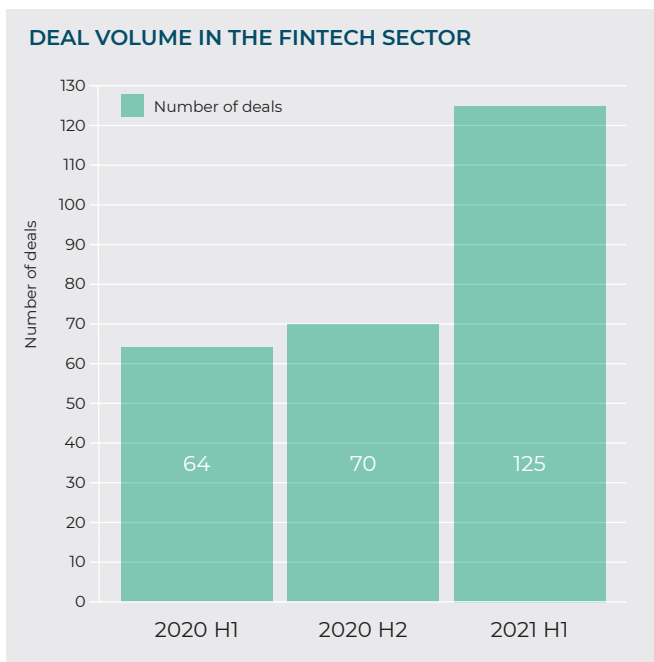
FINTECH INVESTMENT BUILDS ON MOMENTUM AND IS SET FOR RECORD YEAR

A review of H1 2021 growth capital investment in the fintech sector

Fintech is continuing to enjoy popularity with investors who see it as a sector with excellent prospects for sustainable growth. The sector's rise last year against a backdrop of great uncertainty has continued in 2021, with strong investment volumes gaining momentum. The following findings come from Moore Kingston Smith research on UK private companies raising between £1 million and £20 million each of growth equity capital.

possibly as the Brexit transition period was coming to an end and financial services were an unresolved bargaining chip for London and Brussels. Investment activity duly picked up pace in the new year, with Q4's 28 deals worth £147 million soaring to 52 deals worth £287 million in Q1 2021, before rising again to £335 million invested across 73 deals in Q2.

"The heightened pace is a reflection of both enhanced investor interest as well as entrepreneurs more willing to take on financial backers to scale up their start-ups," explains Tom Moore, Head of Fintech at Moore Kingston Smith. "That average deal sizes in fintech are down – like the wider growth capital market – suggests investors are writing back a larger number of businesses with smaller cheque sizes."

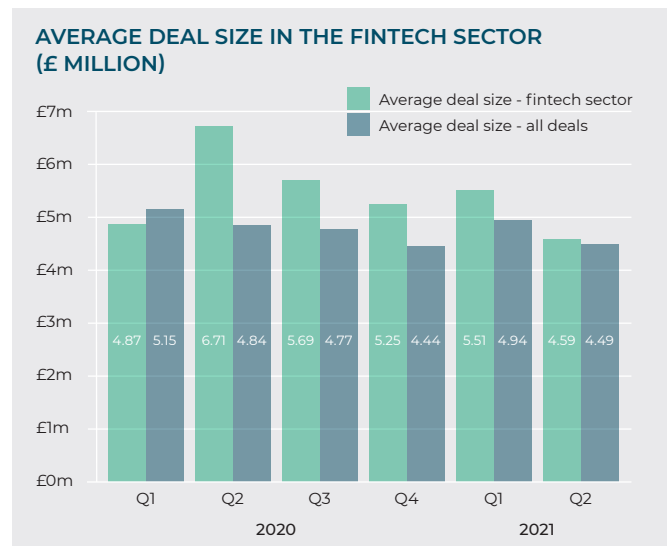


Fintech investment activity has picked up pace in 2021, with 125 deals worth £622 million transacted in H1. This volume is up a staggering 79% on H2 2020's 70 deals worth £386 million, and up from 64 deals worth £374 million over the corresponding period a year ago.

In the wider growth capital market, we also see phenomenal semesterly rises of over 70% for investment activity: £1.96 billion was transacted against 426 deals in H2 2020, against £3.4 billion across 727 deals in H1 2021.

The quarterly data shows impressive acceleration in 2021 against a lacklustre Q4 2020 for fintech deals. A few strong months in 2020 gave way to a quieter Q4,

AVERAGE DEAL SIZE



The first half of this year saw substantially more deal activity in the fintech space but with average sizes in the £1-20 million bracket coming down gently from £5.5 million in H2 2020 to £5 million in H1 2021. With angel, seed and early-stage investments all roughly doubling semester on semester and these investors typically investing smaller amounts, it may be that the volume of investments is behind this small reduction.

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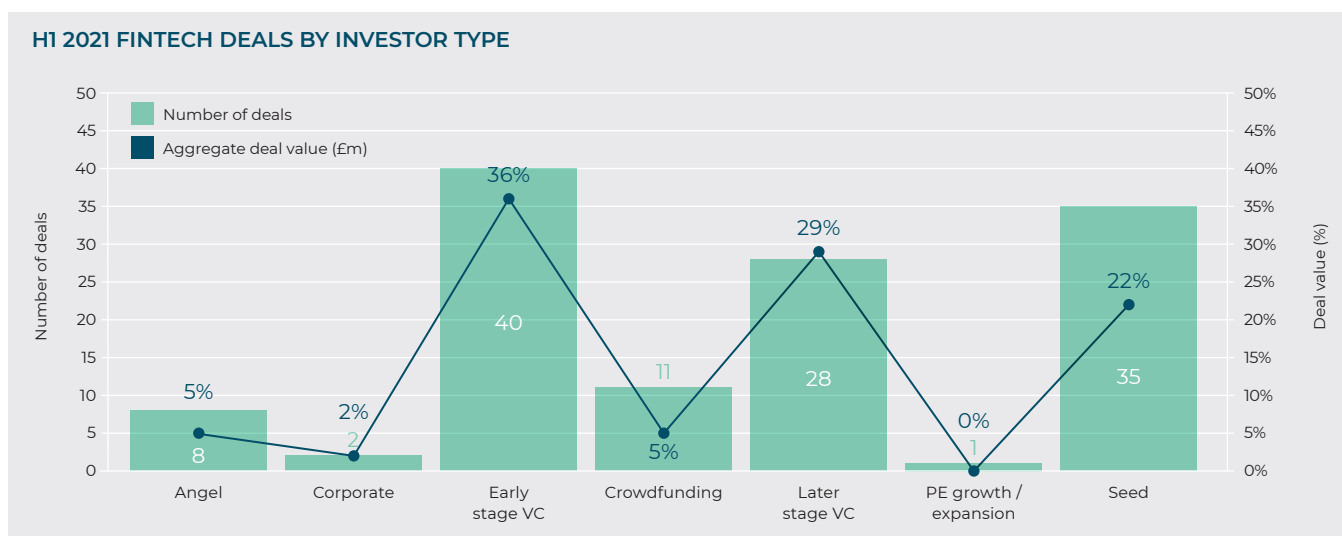
Fintech deal averages were larger than investments in the wider growth capital market, which had been steadily declining for five quarters before increasing again in Q1 2021 to £4.94 million and then dropping to £4.49 million in Q2.

It is important to note that our dataset is limited to £20 million as an upper limit, meaning larger deals won't skew the smaller sub-set we focus on. An increasing number of very large (£100 million+) deals are being recorded as investors are increasingly drawn to the fintech space. Many of these businesses have been seeded earlier in their growth journeys by the investors we focus on in these reports.

Fintech attracted more seed and early-stage VC than the overall growth capital market in H1 2021. The semester saw seed investors increase their backing of fintech, with £129 million invested across 35 deals, up from £66 million across 20 deals in the second half of 2020. It meant they accounted for over a third (35%) of fintech investments in H1 2021, against around a fifth (21%) of overall growth capital investments in the same period.

Early-stage investors invested £207 million across 40 deals in the first six months of this year, up from £168 million into 22 deals in the second half of 2020. The figures mean early-stage investors accounted for a third (32%) of fintech investment volume, against just over a quarter (27%) in the wider growth capital market.

Later-stage investors accounted for a roughly even share of the fintech and wider growth capital markets (28% and 29%, respectively). However, they saw their investment activity more than double in the six months, from 12 deals worth £80 million in H2 2020 to 28 deals worth £168 million in H1 2021.



HARNESSING THE POWER OF FINTECHS TO DRIVE EFFICIENCY



The last 12 months have seen unprecedented demand for innovative fintech companies. This has had an impact on valuations, but when the price is right, these companies can grow faster to create efficiencies for incumbents.

“We’ve seen enormous interest in inbound enquiries and enthusiasm for financing fintech in the last 12 months,” says Henry Alty, Investment Director at Gresham House Ventures (GHV).

“The upshot can be astronomical valuations without a sustainable business model. Founders

and entrepreneurs see news stories and can have unrealistic expectations as a result, and so good advisers are important here to point out to owners it’s not ideal to hold out for something they’ll never get – or which they may get, but on unattractive terms,” Henry cautions.

GHV has made several investments in the fintech sector, most recently participating in a £9.1 million Series A for Countingup in March 2021. GHV works with businesses to help them accelerate growth, with its investment in Funding Xchange recently illustrating this. GHV co-led a \$10 million Series A funding round in September 2020 for the business

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finance aggregator alongside Downing Ventures, with Hambledon Capital also participating.

“Since our investment, Funding Xchange has launched a tech product which it can sell back into the banks, with this being recognised by the awarding of a £5 million grant from the BCR to help further develop the offering. We were involved at the board level to help with complex strategic decisions and to examine the sales process. We also supported them in bringing on board a chief sales officer to specialise in SaaS sales.” The tech side is branded separately as FXE Technologies, and it launched in the summer.

“Banks and incumbent providers are increasingly outsourcing to third parties, as it’s more efficient to harness the power of smaller fintechs than to try and build in-house. For example, Funding Xchange

was addressing SME lending, an inefficient area for traditional banks because the cost of servicing was uneconomical, and Rainbird.ai provides software to assist with decision-making,” Henry says.

The Funding Xchange example illustrates how fintechs can create efficiencies for banks. Henry is confident large banks and incumbent players will still own most customer relationships because they already have trust at the front end. They are also the natural owners of the capital aggregation at the back end given that is a scale play, so it is the workflow solutions in the middle which provide the best prospects. “It helps consumers to have a faster and more bespoke experience, and incumbents to provide that in a cost-efficient way. This is the long-term opportunity we see in fintech.”

NOTABLE DEALS



The standout deal of the year so far involved a US giant buying a Swedish scale-up, reminding us of the global nature of fintech, as well as the hunger of larger institutions to up their tech-based customer-centric offerings through acquisitions. After an anti-trust ruling prevented Visa from buying US-based Plaid, Visa announced its acquisition of open banking tech specialist Tink, whose single API allows customers to connect to bank accounts from their own apps and services. Tink had been backed by VCs including Dawn Capital, which had also backed iZettle, itself acquired by PayPal for \$2.2 billion in 2018.

In May, Accelex, a data acquisition, analytics and reporting solution for private markets investors and

asset servicers, raised \$5 million of seed funding in a round co-led by Illuminate Financial and Albion. Expon Capital and SixThirty Ventures also participated in the round.

Start-up Payhawk raised a \$20 million Series A round in April led by QED Investors, which are backers of Klarna, and Earlybird Digital East, which was already invested in the company since its seed round a year prior. Payhawk offers a platform that unifies company payments and expenses and is based in London and Sofia.

HSBC’s No Fixed Address programme has been gaining traction. The initiative was a collaboration between Shelter, HSBC UK and other homelessness organisations to support people with no fixed address and thus no access to a basic bank account.

GREEN MONEY



Clever ideas and ambitious people have always been key to raising capital. Now start-ups need to demonstrate effective governance and a positive impact on stakeholders too.

With roughly £96 billion of rent flowing through the UK each year, it’s clear that lettings are big business. However, for many, the process of getting the keys is time-consuming and inefficient. Goodlord is helping make it a bit easier for everyone involved with its platform which handles contracts, referencing, insurance, tenant services and more in one fully integrated system. The efficiencies it brings has seen it capture around 10% of agents in this big market since it launched in 2014, and it’s hungry for more.

“Our growth has skyrocketed in the last two years because remote working has meant everyone needs a digital-first approach to things,” says Tom Mundy, co-founder and COO of Goodlord. It’s just one example of how automation has become a must-have for firms in a variety of industries.

Investors have taken note, and the increasing sums of growth equity being invested into promising fintech businesses is testament to this. Goodlord raised £10m last year in its latest round of funding which was led by Latitude Ventures. OR Goodlord has raised \$33 million since launch, with £10 \$13 million raised last year.

“ESG didn’t feature in the due diligence of our first round in 2015, but we were asked about it last year.

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This is good because if investors are requesting it, firms will pay attention to it themselves,” Tom explains.

Goodlord had little to worry about in this area: as a digital company, the firm is already fully paperless. Additionally, by removing the need to meet people in person, the firm – and the companies it works with – clock up very few air or land miles. Their own focus on sustainability extends to their partners, with Tom explaining they use AWS for their servers as they were drawn to its ambition of being fully green by 2025.

The company is ploughing full steam ahead into growth, developing product, customer base and brand. “In the space of a couple of years, we went from plucky start-up to a trusted voice within the industry. We want people to think of us when they

think of renting. We have a good reputation within the b2b space and would like to see Goodlord become a household name as well.” The firm also expects to achieve carbon-neutral status within one or two years.

While Tom says there are no imminent plans for further funding, he advises those seeking capital to install good practice very early on. “Spending the time to do this early on makes it easier to manage down the line. Having a solid, functioning board and good governance makes the business function better.”

“A vital part of good corporate governance is the role that the auditor plays and we are pleased to have supported Goodlord on this journey,” says Ryan Day, Partner at Moore Kingston Smith and auditor of Goodlord.

FEMALES IN FINTECH



The popularity of fintech means these businesses are attracting more money in a compressed timeframe. This makes it important to build out a strong leadership team early on, according to John Watkins, Managing Partner at Altima.

As the levels of growth equity capital investments increase, so too does the need for an experienced CFO. John knows this well, having spent over 20 years at the boutique he set up to place CFOs into VC-backed tech-enabled businesses.

The role is nuanced in the fintech space, with the need for regulation in many sub-sectors necessitating a certain level of experience. “If a tech-enabled company is lending to individuals or providing a platform into financial services, it tends to be regulated, so it tends to drive more senior hiring at an earlier stage of a company’s development,” he explains.

Adding to the pressure for more experience at the top is the sheer amount of capital coming into early-stage companies. John explains that previously it would be a Series A CFO and then a later-stage CFO as the company develops. “How to effectively deploy a large funding round at Series A is a burning issue for many nowadays, and you need to plan in your hiring team. We’re seeing people who would traditionally be Series C CFOs coming into Series A companies as they have the skills to drive top-line growth.”

With a finite talent pool being spread across a larger number of companies, all seeking a top 1% CFO, pickings are slim. It makes achieving diversity within hiring very tricky.

Maybe for this reason, just 14% of CFOs in early-stage (raising up to \$25 million) tech-enabled businesses in Europe are female, according to Altima’s research. “In an industry where women are significantly outnumbered, if you hire exclusively on experience, you’ll usually end up with a white male. People deem it brave if you don’t hire based on direct experience, but the truth is that bringing cognitive diversity into a leadership team produces stronger commercial results,” John points out. He does as he says: nearly 40% of CFOs Altima have placed in the last two years are female. “There is more of a focus on diversity and it makes business sense to embrace that.”

VCs are increasingly asking for diverse shortlists. “We’re happy to do that but you have to remember that even with a balanced shortlist, if you focus on previous experience, you’ll still probably end up with a white male. We’ve run searches for a number of high-profile VCs where the candidates were entirely diverse in terms of gender, experience, background and potential. Having a diverse pool effectively redresses the existing imbalances inherent in this role.”

Altima has placed over 350 CFOs, including at fintechs Wise, Dext, Mambu, Cleo and GoCardless.

i <https://countingup.com/resources/press-release-countingup-closes-9-1-million-series-a-investment/>

ii <https://fundingxchange.co.uk/press/funding-xchange-secures-10m-in-latest-funding-round/>

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OUTLOOK

Fintech's spark is shining more brightly than ever, with investors increasingly flocking to the sector and entrepreneurs eager to connect with the right backers to scale their growth. This year's acceleration of what could have been a pandemic bounce has proven the sector has longevity when it comes to investor appeal.

Last year's heightened interest in the sector inspired a government-initiated review which was published as the **Kalifa Review in February 2021**. Within its recommendations are a 'Digital Economy Taskforce' to ensure alignment across government and making it an integral part of trade policy. There are also recommendations to attract and nurture talent in the space through a new visa stream as well as courses aimed at upskilling adults. Tax credits, EIS and VCTs should be expanded, while a £1 billion 'Fintech Growth Fund' should be unlocked to help develop a world-leading ecosystem.

"It is clear the government is keen to support the UK's fintech revolution," says Ryan Day. "This fast-growth sector has been instrumental in creating jobs and making consumers' lives easier, while at the same time providing mission-critical support to businesses. Taking the most promising of these innovative businesses from start-up to scale-up and beyond requires the funding and expertise of external backers, many of which have experience on similar growth

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Investors are increasingly focusing on sustainability and applying an ESG (environmental, social and governance) lens to all potential investments. "Businesses are now expected to have a positive impact on wider society. With consumers now seeking out these qualities when buying products, investors will want to see evidence that this is in place, and even start-ups will be expected to be compliant," says Tom Moore.

This latest report shows that investment sizes and stages vary as investors seek out a variety of opportunities. Fintechs looking to boost their sales or geographic reach through organic growth or transformational M&A may benefit from financial backers with experience in this exciting space.

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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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.