

svb



Silicon Valley Bank

Investment Trends

in Fintech

January 2015



The Fintech revolution is now becoming reality.

The global fintech sector continues to accelerate in investment and exit activity, with the UK positioning itself as a key hub for fintech.

We have seen global fintech investment increasing, and the fourth quarter of 2014 was the busiest time in fintech history, with 214 deals taking place globally. Large incumbent fintech and payments businesses are the biggest acquirers of new fintech startups and the entire fintech market saw 211 exits in 2014 alone, making it the most prolific period of the last 5 years.

Venture capital funding in UK fintech dramatically increased in 2014, rising to \$539 million, with the UK taking half the total investment in fintech businesses in Europe. Some of the most prominent names in UK fintech all took part in large growth rounds to help speed up their development both domestically and internationally, including: Borro, Powa, Funding Circle, Transferwise, Block Chain, Zopa and Nutmeg. In 2015, we predict this trend to continue as the sector continues to evolve.

There are still challenges to overcome. Banks remain the “enablers” of many fintech verticals and there is work to be done to remove barriers to entry by evolving regulation, compliance and technology. However, banks represent the biggest group of potential customers and distribution networks to many fintech verticals and the relationship remains a complex one as banks work with all parties to understand their new operational realities.

George Osborne’s 2014 statement of intent to make the UK the “fintech capital of the world” has driven action across government, regulators, banks and fintech businesses, fostering an eco-system of partnership which will strengthen the sector. Individual segments within fintech are collaborating, from the success of the crowd-funding industry by getting its activities regulated by the FCA. The breadth and depth of the fintech sector is evolving rapidly and the establishment of the [Innovate Finance](#) organisation in 2014 is a key development.

At [Silicon Valley Bank](#), we recognise the importance of fintech in the UK and are proud to provide banking and lending to innovative fintech businesses, as well as adopting some of their solutions to help better serve our clients.

Source: <http://www.londonandpartners.com/media-centre/press-releases/2014/141127-mayor-of-london-boris-johnson-celebrates-london-as-the-world-leader-in-financial-technology>

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The Fintech space is now competitive across all categories

Fintech 1,027 companies

Lending



Personal Finance



Payments



Retail Investments



Institutional Investments



Equity Financing



Remittances



Consumer Banking



Financial Research



Banking Infrastructure



Contact info@venturescanner.com to see all

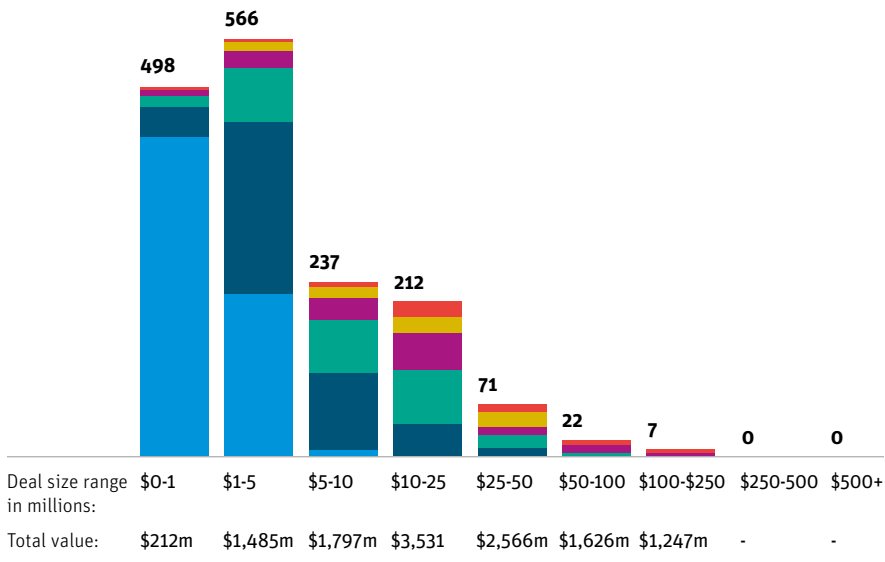
Source: <http://insights.venturescanner.com/2014/10/03/fintech-landscape-update-1000-companies/>

Global Fintech Investment Trends



Global Fintech Investment

Deals over the last 5 years (2010 Q1 to 2014 Q4)



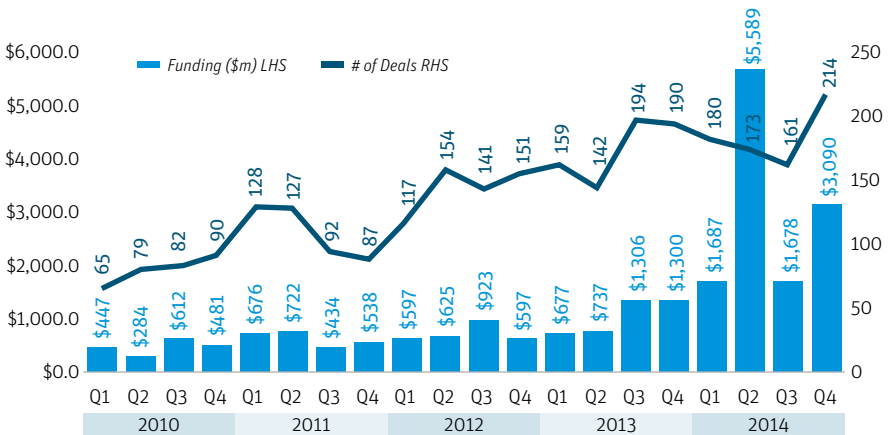
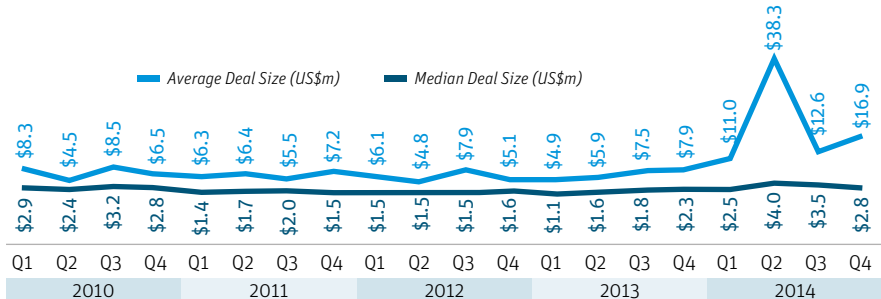
	Seed / Angel	Series A	Series B	Series C	Series D	Series E+
Percentage of deals	41.4%	26.7%	15.9%	8.3%	4.1%	3.7%
Average Deal size	\$1.18m	\$6.17m	\$12.78m	\$19.91m	\$25.12m	\$24.54m
Median Deal Size	\$0.66m	\$4.00m	\$8.00m	15.00m	\$15.02m	\$20.00m
Deal Growth (year-over-year)	22.3%	12.9%	22.4%	16.5%	2.7%	19.4%

Source: CB Insights

- Global fintech investments are averaging \$50 million and over 68% of deal activity is at Seed or Series A.
- The average deal size at the Angel / Seed stage is \$1.18 million and \$6.17 million at Series A.
- However, we are witnessing an increase in larger, later stage rounds for growth-stage fintech businesses, with an average of \$25 million raised at Series D.

Global Fintech Market

Overview of the last 5 years (2010 Q1 to 2014 Q4)

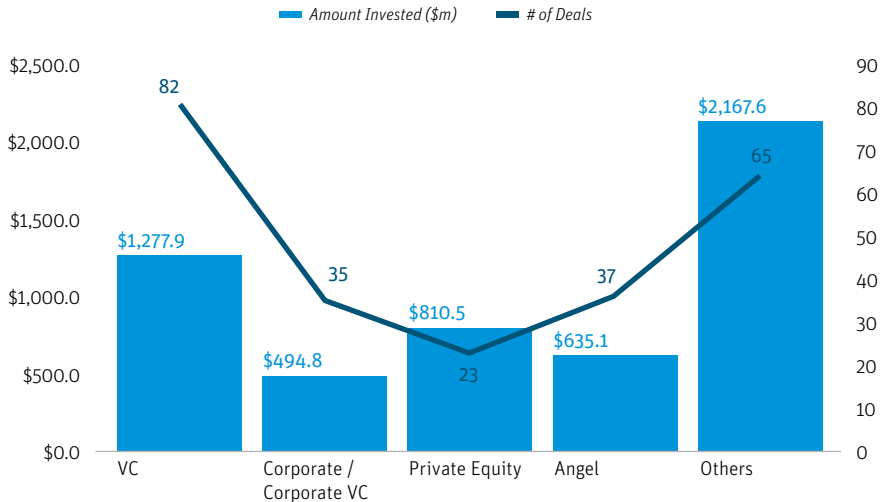


Source: CB Insights

- Fintech investment is on the rise with spikes in deals in Q2 and Q4 of 2014.
- Q4 of 2014 was the busiest quarter of the last 5 years in fintech, with 214 deals taking place globally.
- \$3.1 billion was invested into the fintech sector in Q4 of 2014 across the 214 deals.
- There was an increase in investment sizes with the average deal size rising to nearly \$17 million in Q4 of 2014.
- The median deal size has remained fairly constant, at nearly \$4 million, as seen in Q2 of 2014.

Venture Capitalist Funds

Venture capitalist funds were the largest investors in fintech in Q4 of 2014 with \$1.27 billion invested in 82 deals, while private equity funds invested \$0.81 billion in 23 deals.

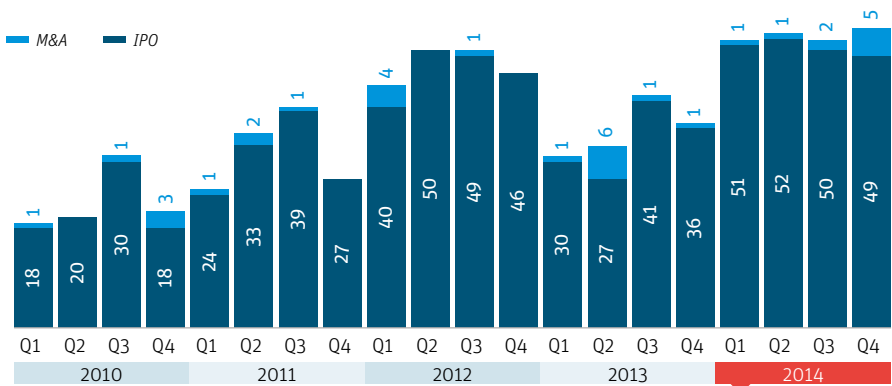


Source: CB Insights

- Corporate and angel investors also featured prominently, with 35 and 37 deals respectively and a combined \$1.13 billion invested.

Fintech Exits

Number of fintech exits are rising, mostly through mergers and acquisitions.



Source: CB Insights

211 exits in the last 12 months

- The fintech market saw 211 exits in 2014, making it the most prolific period of the last 5 years for exits.
- Mergers and Acquisitions are the primary mode of exit, rather than IPOs, although we have started to see some IPO activity with Borderfree, Coupons.com, Lending Club, OnDeck Capital, Q2 Software, and Yodlee coming to market in 2014.
- Over the last 5 years, exits have averaged 37 per quarter – with 23% year-on-year growth.

Fintech Exits

There is increasing acquisition activity, mostly by established fintech businesses rather than non-traditional players.

Recent activity (last three years)



Source: CB Insights

Fintech Exits

Examples of M&A and IPOs (2013 – 2014, \$MMs)

Date	Target	Buyer	Valuation
Dec-14	Wallaby Financial	Bankrate	NA
Dec-14	OnDeck	IPO	\$1,000
Nov-14	Hopster	Inmar	NA
Nov-14	Ukash	Skrill	NA
Nov-14	Swarm	Groupon	NA
Nov-14	Fuze Network	Ingo Money	NA
Nov-14	L2C	TransUnion	NA
Oct-14	Yodlee	IPO	\$340
Oct-14	mopay	BOKU	NA
Sep-14	Parago	Blackhawk Network	\$290
Sep-14	Ebates	Rakuten	\$1,000
Aug-14	Leaf	Heartland Payments	\$50*
Aug-14	Caviar	Square	\$90
Jul-14	CardSpring	Twitter	NA
Jul-14	Gyft	First Data	\$50-\$100*
Jun-14	Mercury Payments	Vantiv	\$1,650
May-14	Check	Intuit	\$360
Mar-14	Borderfree	IPO	\$488
Mar-14	Coupons.com	IPO	\$1,200
Feb-14	Simple	BBVA	\$117
Dec-13	Lemon	LifeLock	\$43
Oct-13	41st Parameter	Experian	\$324
Oct-13	Perka	First Data	\$34
Oct-13	OzForex	IPO	\$490
Sep-13	Braintree	PayPal	\$800
Aug-13	Locu	GoDaddy	\$70
Jul-13	RetailMeNot	IPO	\$1,000
Jun-13	Chalo	OpenTable	\$11
Feb-13	Xoom	IPO	\$500
Feb-13	mFoundry	FIS	\$165

Source: SVB Payments Strategy Analysis. Note: *estimated valuation.

UK Fintech Investment Trends



UK & Fintech in 2015

Fintech is currently worth £20 billion in revenue of the UK economy, with 18% coming from emerging businesses, and thanks to the historic dominance of the City of London, the UK has four fintech incubators. Fintech is 1 of the 3 sectors that CBI predicts will be worth a combined £300 billion to the UK economy by 2020.

Fintech might be an up and coming 'buzzword', but the sector isn't new. The UK has mature fintech businesses, despite its historically laggard status, with only 4 of the 100 most established financial technology businesses being based in the UK. However, at the earlier stage, 60% of all fintech startups in Europe are based in the UK and with an increasingly developed ecosystem of support developing, against a backdrop of unparalleled opportunity, we envisage this trending upwards.

We are only scratching the surface. Payments, crowd-funding and other forms of shorter-term credit products have received the vast majority of investment and attention and continue to grow strongly. However, in the world of finance, this represents just 10% of the market.

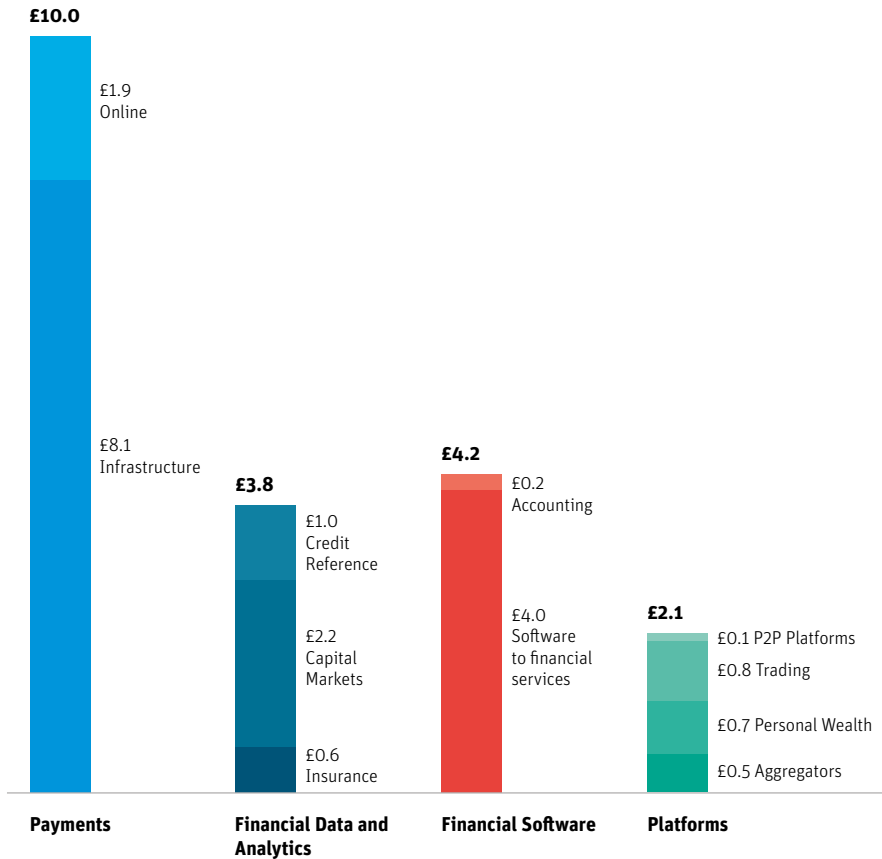
The UK is well positioned for new entrants into largely untapped areas like insurance, mortgages, investments, pensions and wider capital markets opportunities. In addition, the UK is a fertile ground for challenger banks, given the high concentration of consumer and small and medium-size enterprises.

The UK government and regulators are highly engaged and supportive of UK fintech. 2015 may be the year that the UK begins to democratise access to some of the core 'rails' to which banks have traditionally operated with 'gatekeeper' status. If this takes place, its impact could be akin to the breakup of BT's telephone network monopoly at the turn of the century -introducing a much more innovative, level playing field for new entrants in many fintech sectors.

Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/341336/Landscaping_UK_Fintech.pdf

UK Fintech Revenues

UK fintech sector generates more than £20 billion revenues per year.



Source: EY & eFinancialnews.com

Largest UK Fintech Investments

Top Deals 2013-2014

Date	Company	Key Sector	Sub-sector	Last Series	Last Funding (US\$m)	Total Funding (US\$m)	Investors
Sep 2013	 Calastone	Processing	Fund network	Growth Equity	18.0m	18.0m	Accel, Octopus Investments
Jan 2014	 Zopa	Lending	Consumer Lending	Series E	25.0m	42.9m	Arrowgrass Capital
Jan 2014	 Woca	Lending	SME Lending	Series B	8.2m	11.5m	Beyond Digital
Mar 2014	 WorldRemit	Payments	Money Transfer	Series A	40.0m	40.0m	Accel
Apr 2014	 nutmeg	Personal finance	Investment management	Series B	32m	37.3m	Balderton Capital, Tim Draper, Schoeders
Jun 2014	 the currency cloud	B2B platforms	Cross-border payments as a service	Series B	10m	17m	Notion Capital, Xange Private Equity, Atlas Ventures
Jun 2014	 TransferWise	Payments	Money Transfer	Series B	25.0m	32.3m	Index, IA Ventures, Kima Ventures, Richard Branson, The Accelerator Group, Valar Ventures
Jul 2014	 Funding Circle	Lending	SME Lending	Series D	65.0m	123.2m	Union Square Ventures, Accel Partners, Index Ventures, Ribbit Capital
Nov 2014	 POWA	Mobile	eCommerce	Series B	80.0m	176.7m	Wellington Management

Source: CB Insights

Silicon Valley Bank provides unique and flexible financial solutions to the most innovative and entrepreneurial businesses worldwide.

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