PitchBook

EMERGING TECH RESEARCH

Fintech

1Q 2019

Report preview

Contact your customer success manager, or visit our research center to purchase full access.

REPORT PREVIEW

Contents

Market Map	3
Overview	5
Segmentation	6
Segment deep dives	**7**
Alternative Lending	7
Capital Markets	12
Digital Assets	17
Financial Services IT	22
Insurtech	27
Money Transfer	32
Payments and Processing	37
Personal Finance	42
Regtech	47
Wealthtech	52
Supplemental Materials	**57**

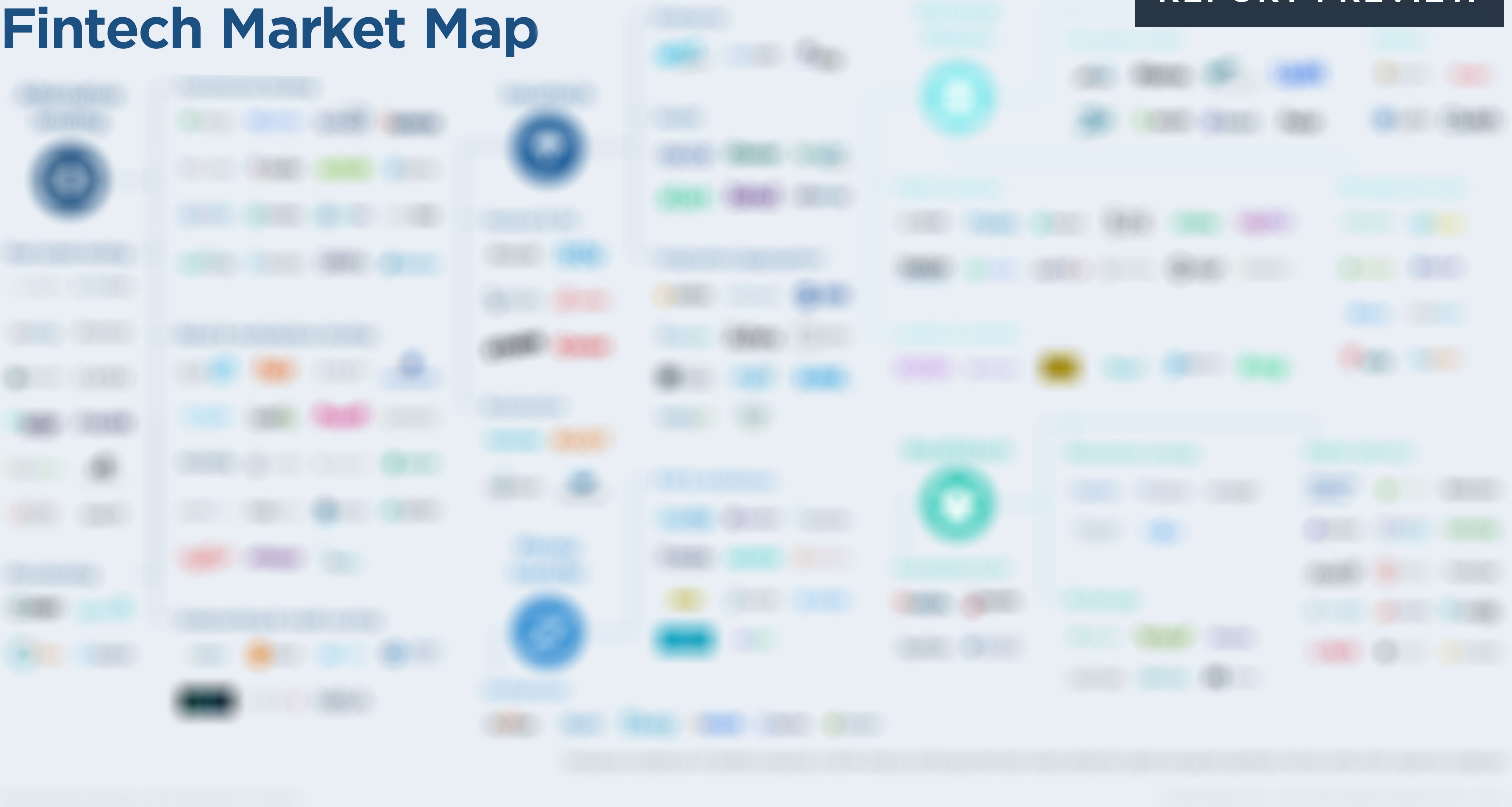
Contact

Robert Le
Senior Analyst, Emerging Technology
robert.le@pitchbook.com
206.480.1376

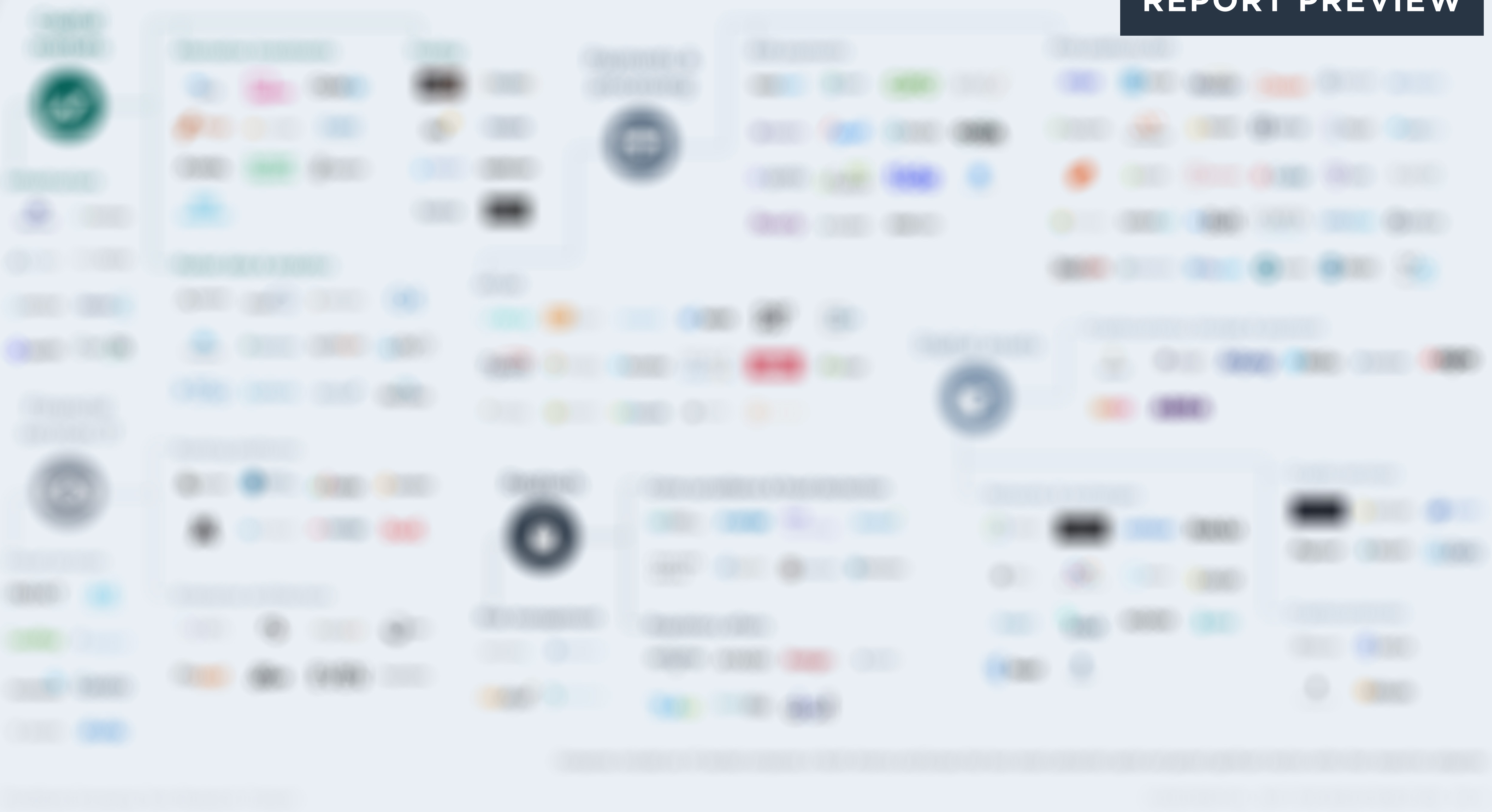
Research
analystresearch@pitchbook.com

Fintech Market Map

REPORT PREVIEW



REPORT PREVIEW



REPORT PREVIEW

Overview

As the fintech sector evolves and matures, technological innovations will continue to change how financial services are discovered, delivered, connected and implemented. During the first fintech wave of the early 2010s, early technological iterations within lending, payments and money transfer came into prominence. This second wave of fintech has been marked by accelerated developments within capital markets, financial regulations and digital assets. Due to this bifurcation, dominant first-wave fintech companies have attracted significant late-stage VC investments and are starting to gain meaningful market share. The majority of fintech IPOs over the past decade have come from companies within the aforementioned first-wave of fintech development. Meanwhile, second-wave fintech companies are seeing a greater volume of early-stage VC investments as founding/management teams with deep expertise in their respective industries continue to launch new ventures.

In 2018, North American and European investment activity sustained past trends of increased growth across VC, PE, and M&A. Some notable deals included Oscar Health's $375 million venture round, Blackstone Group's $17 billion leveraged buyout of Thomson Reuters' (NYSE: TRI) Financial & Risk business and the $13 billion acquisition of WorldPay by Vantiv (NYSE: VNTV) - now to be acquired by Fidelity National Information Services (NYSE: FIS) for $35 billion. Cumulative investment activity for fintech companies reached a record high of $120 billion last year. We expect the fintech market to remain strong and continue to experience further gains in overall investment capital this year.

This report provides an overview of the venture-backed fintech landscape in North America and Europe. The fintech market is segmented based on use-case similarity, with each corresponding segment further broken down into granular categories. While we acknowledge that some startups could belong in multiple segments or sub-segments, we have placed them within the categories that match our understanding of the primary use case. The accompanying markets maps consist of venture-backed fintech companies in North America and Europe that have raised substantial capital and gained significant traction within its respective category.

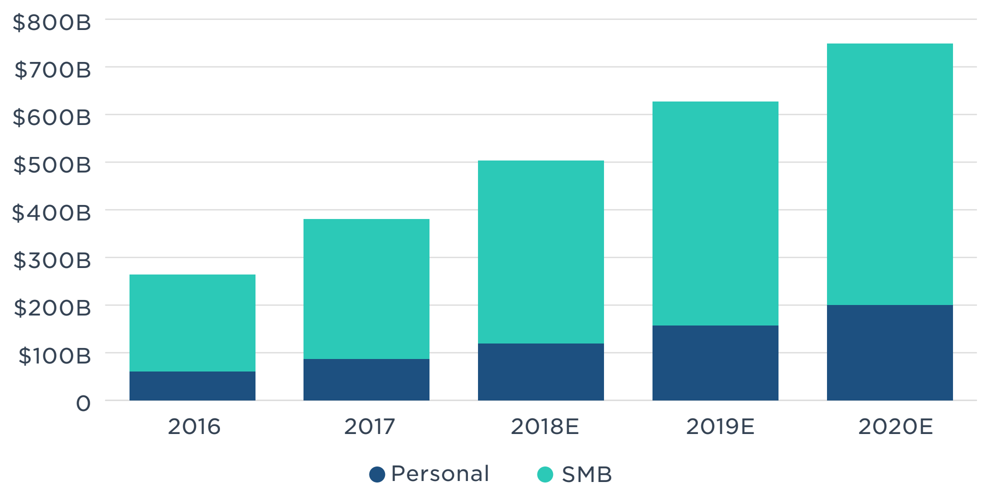
REPORT PREVIEW

SEGMENT DEEP DIVE

Alternative Lending

REPORT PREVIEW

MARKET SIZE



Source: Statista. Represents total estimated outstanding personal and small-mid size business loan debt in the US.

BUSINESS MODEL

Attractive characteristics of the space include: above average risk-adjusted returns (higher Sharpe ratios[1]), differentiated underwriting technologies and slow moving incumbent competitors.

Companies in the space monetize principally by originating loans and charging fees for that service.

- Charging interest and/or fees on direct lending
- Take-rate in marketplace lending
- SaaS-based models for underwriting and credit-related services

1 An Introduction to Alternative Lending, Morgan Stanley, July 2018

KPIS

- New Originations
- Origination Margin
- Cost of Capital
- Pricing (APR)
- Credit Risk (delinquency rate, average credit score of new applications)
- Unpaid Principal Balance
- CAC (Sales and marketing as a % of originations)

KEY PROVIDERS

AVANT, Kabbage, kreditech, LendingHome, Prodigy Finance, ZIBBY

KEY INVESTORS

Blumberg Capital, Ribbit Capital, khosla ventures, Thomvest Ventures, Lightspeed, TVP Tribeca Venture Partners

NOTABLE DEALS

SWIFT CAPITAL

September 2017
$183M M&A

Acquired by:

PayPal

iwoca

February 2019
£150M Series D

Investors:

Augmentum, Prime Ventures

INDUSTRY DRIVERS

- Lack for regulations (such as capital requirements) for non-bank lenders
- Banks unwilling to lend to various consumers and SMEs; Large, untapped base of no-file and thin-file borrowers
- Better methods to gather and analyze unconventional data to improve credit risk models
- Investor demand for alternative credit asset class in search of yield and diversification

REPORT PREVIEW

SEGMENT DEEP DIVE

Capital Markets

Opportunities

Technologies are delivering change: Since the financial crisis, legacy financial institutions such as investment banks, hedge funds, brokers, clearing houses, exchanges and other capital market participants have endured numerous challenges including stagnant revenues, high structural costs and diminishing returns on equity (ROE). To combat these trends, providers are increasingly looking for ways to adopt emerging technologies to help evolve their business models and reduce cost structures. As these technologies (i.e., cloud-based data analytics platforms, trading software, alternative stock exchanges) have become more deployment-ready, we've seen more segment-wide collaboration, facilitation and implementation of new technologies.

Incumbents willing to form partnerships: Capital Markets incumbents are increasingly viewing fintechs as strategic partners and seeking ways to develop products via collaboration, investment or both. Increasingly, incumbents have recognized that partnerships are a cheaper and less risky way to improve time-to-market. It has also allowed fintechs to quickly deploy and validate their business models while integrating into the capital markets value chain.

Potential for industry-wide adoption: We believe digital solutions within this segment are still largely fragmented as capital market firms test various emerging technologies. However, solutions and technologies widely adopted by major capital markets participants (e.g. bulge bracket banks) can become standardized across the industry, as participants seek to coordinate processes, controls, and protocols to not only protect their respective businesses, but to mitigate potential systemic risks (a unique pain-point of the financial industry). As solutions mature and the segment becomes less fragmented, market leaders will likely emerge with standardized, scalable applications that could result in a "winner takes most" environment.

REPORT PREVIEW

SEGMENT DEEP DIVE

Digital Assets

REPORT PREVIEW

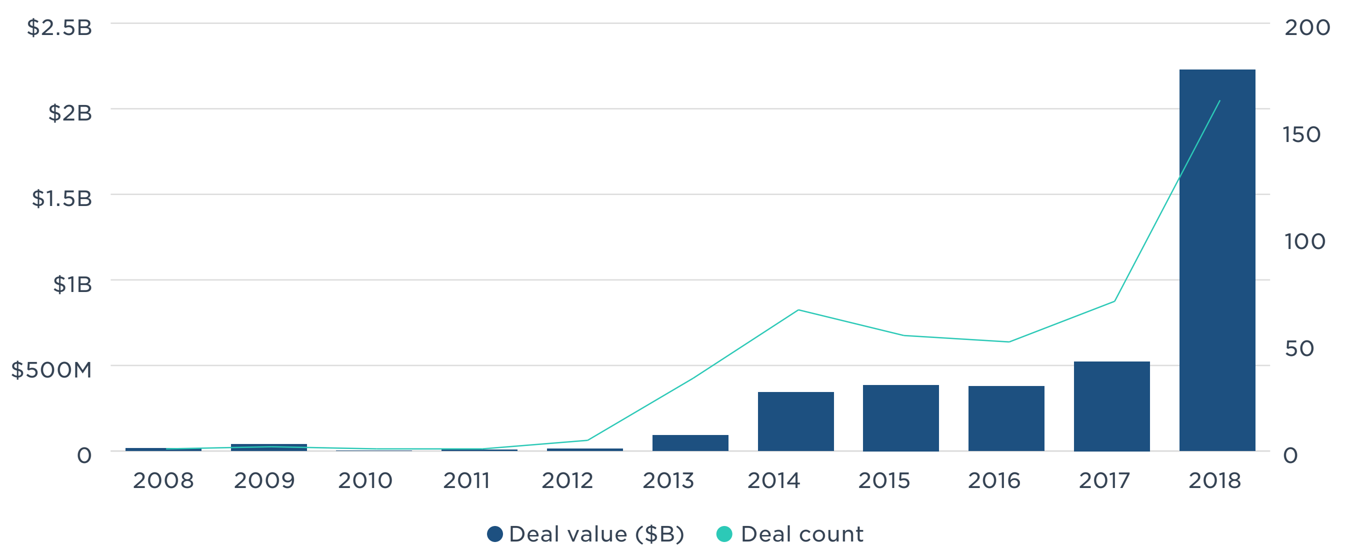
Outlook

Governments will become stakeholders: We expect that governments will become more involved with technologies related to this segment, in terms of either evaluating the advantages of potentially switching to a digital central bank currency, or in terms of increaed regulation of existing cryptocurrencies. Countries like Sweden and Japan have already started delivering and deploying some form of digital currency that will trade one-for-one with their traditional fiat currencies. These centralized digital currencies could have better protections against issues like theft and fraud that are currently experienced with cryptocurrency.

Regulation will promote innovation: We expect the current generation of cryptocurrencies, like Bitcoin and Ethereum, to remain highly volatile for the foreseeable future, with many “alt-coins” disappearing as further regulations, scale and “survival of the fittest” effects take hold. In addition, we expect the volume of ICOs to slow down as regulators clamp down and issue additional rules, even after a record year, in terms of ICO count and capital raised, in 2018. We see regulation as healthy since it could bring transparency and fairness to the market, while reducing fraud, and crime. We believe reasonable, coherent rules and guidelines will draw in more entrepreneurs and investors who are currently sitting on the sidelines due to regulatory uncertainty.

Invested capital will increase by orders of magnitude: We anticipate investment in this space will continue to experience rapid growth. Total VC flows totaled $2.2 billion in 2018, up from $523 million in 2017. We expect venture capital investors and other traditional investors (e.g. hedge funds, family offices) will continue to experiment with holding some cryptocurrency assets even prices have fallen from the historical peaks of 2018. Participation by institutional investors could provide some level of support for the asset class in the near term and could be the driving catalyst for growth during the next bullish cycle.

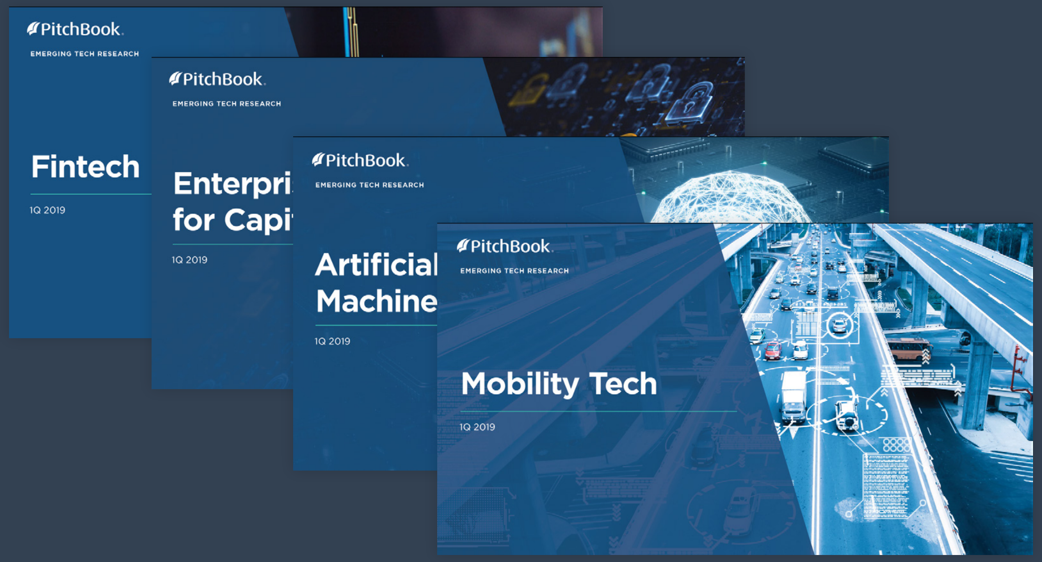
VC Deal Flow in North America and Europe



Includes companies that may fall into multiple fintech segments

REPORT PREVIEW

About PitchBook emerging tech research



Independent, objective and timely market intel

As the private markets continue to grow in complexity and competition, it's essential for investors to understand the industries, sectors and companies driving the asset class.

Our emerging tech research provides detailed analysis of nascent tech sectors so you can better navigate the changing markets you operate in—and pursue new opportunities with confidence.

See the full fintech report

Contact your customer success manager to purchase research access, or visit our research center to purchase a single report.

Additional reports

- Mobility tech
- Artificial intelligence and machine learning
- Enterprise blockchain
- Foodtech

Reports available from the PitchBook Research Center.