EUROPEAN FINTECH TRENDS

August 29, 2017
CB Insights software lets you predict, discuss, and communicate emerging technology trends using data in ways that are beyond human cognition.
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“Think of the fundamental value chain of venture capital ... If we play the clock forward, the finding and assessing of investments will be almost entirely done by technology, not human beings. And the company that is today positioned to be the market leader in that evolution is CB Insights.”

Pat Grady
Sequoia Capital, Partner
ABOUT THE PRESENTER

Arieh Levi

Arieh Levi is a research analyst at CB Insights, where he produces data-driven analysis and research reports on private company financing, exit and performance trends across emerging industries, geographies and investors.

Prior to joining CB Insights, Arieh held roles in healthcare and financial services.

His work has been cited in Reuters, Fortune, CNBC, and Bloomberg, among others.

Arieh is a summa cum laude graduate of Yeshiva University.
IN THE NEXT 20 MINUTES, WE’LL DISCUSS:

9 Broad trends in European fintech – what to watch?

15 Investment trends in European fintech – who’s getting funded?

25 Investor trends in European fintech – who’s investing?

35 The road ahead – what’s coming down the pipe?
This presentation analyzes investment and investor trends to fintech companies located in:

1. Austria 16. Italy
2. Belgium 17. Latvia
5. Cyprus 20. Norway
6. Czech Republic 21. Poland
7. Denmark 22. Portugal
8. Estonia 23. Romania
9. Finland 24. Spain
10. France 25. Sweden
11. Germany 26. Switzerland
12. Gibraltar 27. Turkey
14. Iceland 29. United Kingdom
15. Ireland
Investing in European Fintech: BROAD TRENDS
WHAT TO LOOK OUT FOR

**INSURANCE TECH EXPANDING**
While the US has accounted for the majority of insurtech attention and deal activity, Europe is seeing a notable rise in early-stage insurance startup activity.

**BLOCKCHAIN HUB**
Switzerland has proved itself a regulatory haven for blockchain startups, while the technology’s decentralized funding mechanism lends itself to borderless innovation.

**BREXIT & REGULATORY SHOCKWAVES**
PSD2, MiFID II, and Brexit – among others – will shake up existing financial services infrastructure and allow fintech insurgents to compete in new verticals and geographies.

**OPEN BANKING PLATFORMS**
Given open banking directives, a new generation of well-funded middlemen are looking to develop and capitalize on data and payments services APIs.
INSURANCE TECH ON THE RISE

Mature insurance tech companies see financing, while recent entrants propel interest to novel insurance strategies.
Blockchain startups capitalize on decentralization via initial coin offerings, as European governments experiment with the technology.

Estonia is looking into starting its own national cryptocurrency.

Global blockchain innovation: U.S. lags, Europe and China lead.

April 16, 2017

Estonia is looking into starting its own national cryptocurrency.

August 23, 2017
BREXIT, SHIFTING REGULATORY LANDSCAPE

Consumer- and tech-friendly EU regulations include MiFID II and PSD2, and allow fintech insurgents to attack new verticals.

MiFID II

- MiFID II Compliance for Financial Institutions
- Impact Analysis & Organisational Adaptation
- Business Requirements
- Process & Governance Change
- Manage Data
- Reporting & Visualization
- Audit & Overall Compliance
- Continuous Compliance

Source: Finextra.com

PSD2

FIGURE 3: Illustrations of how PISPs and AISPs will change existing interaction models between customers and banks

AN UPDATED PAYMENT MODEL INCLUDING A PAYMENT INITIATION SERVICE PROVIDER (PISP)

- Customer
- Merchant
- Issuer Bank
- Acquirer Bank/Processor
- Card Network
- API

AN UPDATED INTERACTION MODEL INCLUDING AN ACCOUNT INFORMATION SERVICE PROVIDER (AISP)

- Customer
- AISP
- Customer's Bank A
- Customer's Bank B
- Customer's Bank C
- API

Source: Paymentcardsandmobile.com
FROM NEOBANKS TO BANKING PLATFORMS

Regulatory reform opens the gates for API-centric banking-as-a-service companies.

Giving businesses access to global banking with 5 lines of code.

— Welcome to the world’s first banking platform
Investing in European Fintech: INVESTMENT TRENDS
Since 2013, European fintech startups have raised $9B across 1,288 deals.
EUROPEAN FINTECH ANNUAL FINANCING HISTORY

2013 – 2017 YTD (08/16/2017)

300 deals have closed for about $2.6B in 2017 YTD.

At a full-year run rate, total funding of $4.2B would represent a 117% increase year-over-year, while deals would increase steadily, at 25% year-over-year.
Q1 AND Q2 OF 2017 SEE HIGHEST NUMBER OF DEALS

Q1’17 saw the most deals and dollars ever to European fintech companies.

In the quarter, Avaloq Group closed a $300M private equity round, Atom Bank a $102M Series C, and Funding Circle a $100M Series F.
SEED DEALS FALL, AS CORPORATE MINORITY DEALS RISE

“Other” deals include corporate minorities. Deals in this stage have risen by 9 percentage points, to 22%, year-over-year (YTD).

Notable corporate minority deals include PayU India’s $120M corporate minority round to Kreditech, and Debeka’s $11M round to Ottonova.
UK TAKES TOP SPOT BY NUMBER OF DEALS, GERMANY FOLLOWS

Brexit aside, over a third of European fintech deals since 2013 have gone to UK-based companies.

Notable recent UK deals include Neyber’s $28M Series C, Receipt Bank’s $50M Series B, and Revolut’s $66M Series B.
HOWEVER, UK DEALS HAVE FALLEN FROM 2014 HIGH – BREXIT?

Sweden and France have shown signs of growth in 2017, while Germany’s 16% in 2016 and 13% this year could bode well for a strong second-half of the year.

The Netherlands saw 7% of all European fintech deals in 2015, but has seen only 2% this year and 3% in 2016.
Ireland’s ION Investment Group received a $400M private equity investment from the Carlyle Group in Q2’16, while Switzerland’s Avaloq Group received $300M in private equity financing from Warburg Pincus.
## MOST WELL-FUNDED EUROPEAN FINTECH COMPANIES

As of 2017 YTD (08/16/2017)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Disclosed Funding ($M)</th>
<th>Select Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Klarna</td>
<td>598</td>
<td>Visa, Sequoia Capital</td>
</tr>
<tr>
<td>2</td>
<td>ION Investment Group</td>
<td>444</td>
<td>Kairos Partners, The Carlyle Group</td>
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<tr>
<td>3</td>
<td>Funding Circle</td>
<td>373</td>
<td>Accel Partners, BlackRock</td>
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<tr>
<td>4</td>
<td>Avaloq Group</td>
<td>300</td>
<td>Warburg Pincus</td>
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<tr>
<td>5</td>
<td>Atom Bank</td>
<td>269</td>
<td>Marathon Asset Management, BBVA</td>
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<tr>
<td>6</td>
<td>Kreditech</td>
<td>281</td>
<td>Blumberg Capital, Kreos Capital</td>
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<tr>
<td>7</td>
<td>Adyen</td>
<td>266</td>
<td>Felicis Ventures, Index Ventures</td>
</tr>
<tr>
<td>8</td>
<td>Gryphon Insurance</td>
<td>230</td>
<td>Leadenhall Capital, Punter Southall Group</td>
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<tr>
<td>9</td>
<td>iZettle</td>
<td>193</td>
<td>American Express, Northzone Ventures</td>
</tr>
<tr>
<td>10</td>
<td>Wonga</td>
<td>146</td>
<td>LocalGlobe, Accel Partners</td>
</tr>
</tbody>
</table>

Note: Disclosed funding only includes equity financing rounds.

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**KLARNA TAKES TOP SPOT, FOLLOWED BY ION, FUNDING CIRCLE**

Klarna provides payment services (primarily EMIs) for e-commerce sites, and has raised about $600M in disclosed funding in two corporate minority rounds (Skandia, Visa), one private equity round (Permira), and one growth equity round (Institutional Venture Partners, General Atlantic, Atomico, Sequoia Capital).
Europe sees four FinTech unicorns in payments and loans:

Klarna, Adyen, and TransferWise all work with different aspects of payments processing, while Avaloq Group and Funding Circle build solutions around banking infrastructure and lending.

<table>
<thead>
<tr>
<th>Company</th>
<th>Valuation ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Klarna</td>
<td>$2.5</td>
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<tr>
<td>Adyen</td>
<td>$2.3</td>
</tr>
<tr>
<td>TransferWise</td>
<td>$1.1</td>
</tr>
<tr>
<td>Funding Circle</td>
<td>$1.0</td>
</tr>
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</table>
Investing in European Fintech:

INVESTOR TRENDS
On an annual basis, the number of active investors in European fintech could rise drastically this year; after a year of 24% growth, FY 2017 is on pace for more than 50% year-over-year growth.
In 2017 YTD, the ratio of investors to deals is nearly 2 (1.89) investors per every 1 early-stage deal. This could indicate increased demand for European fintech deals amid broader interest.
CORPORATES ARE INCREASINGLY ACTIVE PLAYERS IN SECTOR

While VC interest in European fintech continues to increase, the number of active corporates is growing at a faster clip.

At a full-year run rate, the number of active VCs could expand by 28%, while the number of corporate investors could is on pace to skyrocket 76%.
Deal participation illustrates a similar pattern, with a shrinking gap between VCs and corporate investors. At a full-year run rate and on a percentage basis, VCs could see a 24% increase in deal participation, while corporate investors could see a stronger 48% increase.
Index Ventures has participated in 28 rounds to 14 European fintech companies totaling close to $1B, which include Adyen’s $250M Series B, Funding Circle’s $100M Series F, and iZettle’s $67M Series D.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor</th>
<th>Select Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Index Ventures</td>
<td>Revolut, TransferWise</td>
</tr>
<tr>
<td>1</td>
<td>SpeedInvest</td>
<td>Curve, Payworks</td>
</tr>
<tr>
<td>3</td>
<td>NFT Ventures</td>
<td>Mondido, Enkla.com</td>
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<td>3</td>
<td>German Startups Group</td>
<td>Realbest, Savedo</td>
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<tr>
<td>3</td>
<td>Seedcamp</td>
<td>Wefox, Pleo</td>
</tr>
<tr>
<td>3</td>
<td>High-Tech Grunderfonds</td>
<td>Bitwalla, Rebelle</td>
</tr>
<tr>
<td>7</td>
<td>Holtzbrinck Ventures</td>
<td>Scalable Capital, Ottonova</td>
</tr>
<tr>
<td>7</td>
<td>Octopus Ventures</td>
<td>Segura Systems, Elliptic</td>
</tr>
<tr>
<td>9</td>
<td>Northzone Ventures</td>
<td>iZettle, MarketInvoice</td>
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<tr>
<td>9</td>
<td>Earlybird Venture Capital</td>
<td>UiPath, Smava</td>
</tr>
<tr>
<td>9</td>
<td>Global Founders Capital</td>
<td>Loot, Kreditech</td>
</tr>
<tr>
<td>9</td>
<td>Accel Partners</td>
<td>Funding Circle, Shift Technology</td>
</tr>
<tr>
<td>9</td>
<td>Balderton Capital</td>
<td>Nutmeg, Crowdcube</td>
</tr>
</tbody>
</table>
Thus far in 2017, Index has participated in 7 deals totaling upwards of $250M to companies like Revolut, Raisin, and Funding Circle. This activity comes after two years of slow investing into the sector from Index.
### Most Active Corporate Investors in European FinTech

2013 – 2017 YTD (08/16/2017)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor</th>
<th>Select Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dieter von Holtzbrinck Ventures</td>
<td>Cashpresso, Tradico</td>
</tr>
<tr>
<td>2</td>
<td>SevenVentures</td>
<td>CashBoard, Auxmoney</td>
</tr>
<tr>
<td>3</td>
<td>CommerzVentures</td>
<td>eToro, Mambu</td>
</tr>
<tr>
<td>3</td>
<td>FinLab</td>
<td>Deposit Solutions, FastBill</td>
</tr>
<tr>
<td>5</td>
<td>Schibsted</td>
<td>Bynk, Hypoteket</td>
</tr>
<tr>
<td>5</td>
<td>Santander InnoVentures</td>
<td>Curve, Elliptic</td>
</tr>
<tr>
<td>5</td>
<td>Rakuten</td>
<td>Azimo, CurrencyCloud</td>
</tr>
<tr>
<td>5</td>
<td>Allianz Ventures</td>
<td>MoneyFarm, QuanTemplate</td>
</tr>
<tr>
<td>5</td>
<td>SBI Investment</td>
<td>CompareEurope, solarisBank</td>
</tr>
<tr>
<td>5</td>
<td>Swisscom Ventures</td>
<td>Advanon, Bexio</td>
</tr>
<tr>
<td>5</td>
<td>Bertelsmann Digital Media Investments</td>
<td>Satago, Skimlinks</td>
</tr>
<tr>
<td>5</td>
<td>Transamerica Ventures</td>
<td>Auxmoney, QuanTemplate</td>
</tr>
<tr>
<td>5</td>
<td>Tengelmann Ventures</td>
<td>Scalable Capital, SumUm Payments</td>
</tr>
<tr>
<td>5</td>
<td>MAIF Avenir</td>
<td>Ledger, Morning</td>
</tr>
<tr>
<td>5</td>
<td>NEX Group</td>
<td>Abide Financial, Duco</td>
</tr>
</tbody>
</table>

**TOP CORPORATE INVESTORS CALL GERMANY HOME**

SevenVentures, the second most active corporate investor, serves as the venture arm of ProSiebenSat.1, one of the largest European mass media conglomerates.

The firm most recently participated in a Q3’16 $15M Series A to fintech company Clark Germany.
Since 2013, smart money VCs have participated in 58 deals totaling $1.5B to European fintech companies, with 2017 on pace to see the highest number of deals.

Thus far in 2017, members of the cohort have participated in rounds to Prodigy Finance, Raisin, hibob, and Silverfin, among others.
M&A ACTIVITY ON-PACE FOR NEW HIGH

With 80 M&A deals already this year, 2017 is on pace to set a new record for mergers and acquisitions of European fintech companies.

Notable recent exits include Deposit Solution’s acquisition of Savedo, and Nasdaq’s purchase of Sybenetix.
Investing in European Fintech: LOOKING AHEAD
PSD2: OPEN DATA, OPEN PAYMENTS, OPEN SESAME

ACCOUNT INFORMATION SERVICE PROVIDER

Current Process
Process with PSD2 Implementation

PAYMENT INITIATING SERVICE PROVIDER

Current Process
Process with PSD2 Implementation

PSD2 REQUIRES BANKS TO OPEN UP TO THIRD PARTIES

Encompassing the entire European Economic Area, the directive will give third party providers secure access to bank customer accounts and payment services.

Coupled with the UK’s Open Banking Standard, PSD2 represents a major regulatory shift.
PSD2: FORCING INCUMBENTS TO INNOVATE

FOR FINTECH COMPANIES
PSD2 REPRESENTS TEST AS WELL AS OPPORTUNITY

Challenger banks Monzo and Starling Bank will have to comply with regulations that promote consumer choice and competition, but also platform development.

Non-banking players such as P2P payments platform Plynk could use open banking APIs to build enhanced customer experiences with more data.
REGULATIONS: CHALLENGING CHALLENGERS

CHALLENGER BANKS UNDER PRESSURE TO MEET 'RINGFENCING RULES'
May 14, 2017
FINANCIAL TIMES

NEOBANKS CHASING UK'S BIGGEST LENDERS FACE BATTLE FOR SURVIVAL
September 28, 2016
Bloomberg

HERE'S WHY NEOBANKS MIGHT HAVE TO RECONSIDER THEIR BUSINESS MODELS
July 11, 2017
BUSINESS INSIDER

THE TROUBLE WITH 'FREE' BANKING FOR CHALLENGER LENDERS
February 19, 2017
FINANCIAL TIMES
Although 2017 “banking” deals may close at a comparable number with 2016’s high of 28, early-stage funding is on pace to hit nearly $140M, which would represent a 114% increase from 2016.
PSD2: UNLOCKING VALUE FOR BANKING-AS-A-SERVICE

Third party providers – like TrueLayer and Railsbank – provide middleman services between traditional banking incumbents and fintech upstarts looking to take advantage of open banking data and payments rails.

UK Open Banking Standards, PSD2 and Beyond

TrueLayer is in private beta in the UK and will rapidly roll out in all the major European countries during 2017.

The UK Open Banking Standard and EU PSD2 will both introduce regulations for open banking. Other data management requirements will be introduced in EU by the General Data Protection Regulation. These will pave the way for a bright future of customer-empowered, accessible and interoperable financial services. We are working closely with banks, regulators, fintech, and industry leaders to provide you with the most robust, compliant tools possible, for use today and tomorrow.

Banking & Compliance as a Platform

Railsbank is a banking and compliance platform that connects together a global network of partner banks with companies who want API access to global banking.

Railsbank simplifies on-boarding companies to our banking partners, then gives access via the Railsbank API to banking services such as creating digital ledgers, connecting digital ledgers to real bank accounts, issuing IBANs for ledgers, receiving money, sending money, converting money (FX), collecting money (direct debit), issuing cards, and managing credit.

Source: KPMG, TrueLayer.
EUROPE: HUB FOR BLOCKCHAIN DEVELOPMENT

LOW TAX ZUG AIMS TO BECOME SWITZERLAND'S 'CRYPTO VALLEY'
September 7, 2016

GLOBAL BLOCKCHAIN INNOVATION: U.S. LAGS, EUROPE AND CHINA LEAD
April 16, 2017

US CRYPTOCURRENCY CRACKDOWN COULD BOOST CAPITAL RAISING IN EUROPE
July 26, 2017

7 EUROPEAN BANKS FORM BLOCKCHAIN CONSORTIUM FOR SMES
June 28, 2017

THE FUTURE OF MONEY: BITCOIN AND OTHER CRYPTOCURRENCY TECHNOLOGIES ARE A WAY OF LIFE IN THIS SMALL SWISS TOWN
July 11, 2017
“What we’re trying to do is decentralize the financial system. **Switzerland has the most decentralized political system in the world**, so they understand what we’re doing and don’t see it as a threat but an opportunity.”

– Newsweek, July 11, 2017
Excluding ICO (initial coin offering) financing rounds, European blockchain deals are on pace to fall this year. However, the huge spike in funding should give a hint that there’s more here than meets the eye.
Shaky from a regulatory perspective, ICOs have raised $1.5B+ globally since the start of 2017, with an estimated 50+ of those companies operating out of Europe.

Notably, Bitfury took three years to amass its $90M war chest; in only 12 days Tezos raised $230M in its ICO.
TEAMS ARE RAISING ICOs FOR A WIDE ARRAY OF USE CASES

From healthcare, to banking, to gambling, to internet of things and identity management – European blockchain startups should continue to maintain their early edge in developing the fledgling technology.
A number of European governments are experimenting with blockchain for land registry and for tokenizing national currencies.

Notable among them are Sweden, Ukraine, the UK, and Estonia.
At a full-year run rate, deals would rise by nearly 30% year-over-year, to 39, while total funding could go higher than $130M.
EARLY-STAGE INSURTECH FIRMS OFFER NICHE PRODUCTS

Companies like Zego or Bought By Many are offering niche insurance products that are seeing interest from early-stage investors. Zego most recently raised a $1.6M seed round, and Bought By Many raised a $9.5M Series A.