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Fintech Financing - The London Stock Markets

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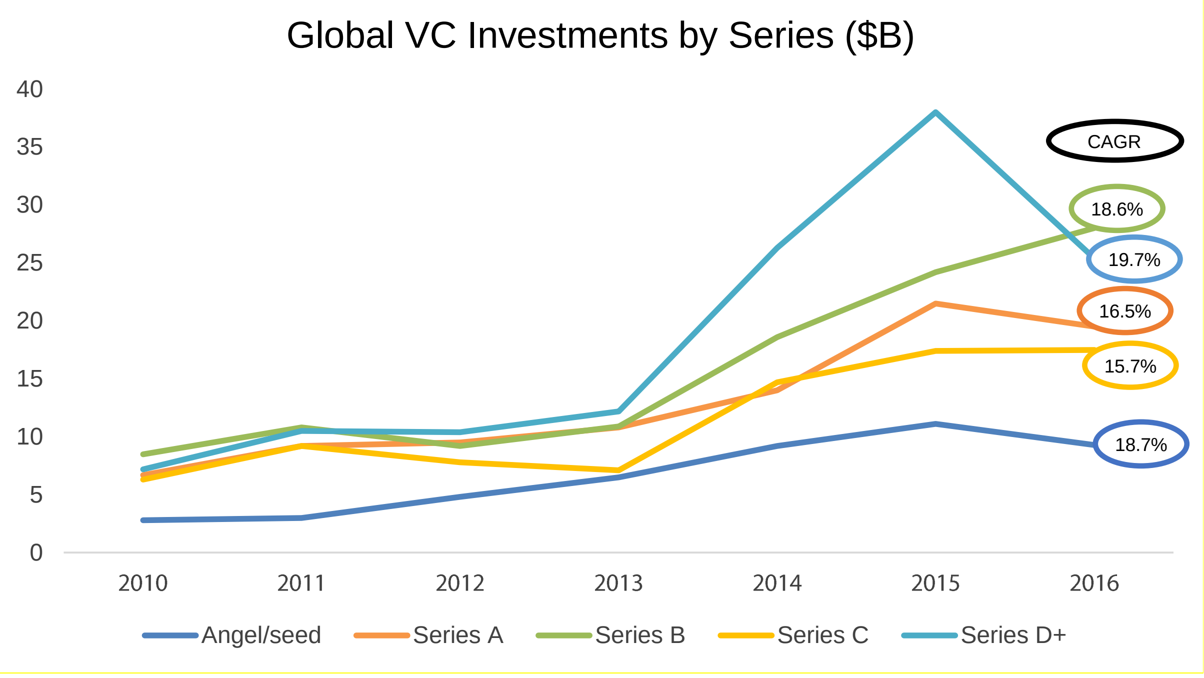
The Funding Position

In 2017, approximately $31 billion was invested into FinTech businesses globally, of which the US accounted for almost half, at $15.2 billion. This is more than double the $7.4 billion invested in European FinTechs, and over six times the $1.2 billion invested in German FinTechs.

The large gap between the US and Europe is partly driven by the size of the respective markets, and the deeper funding ecosystem that exists in Silicon Valley and New York. At the early stages, when venture capitalists start investing in FinTechs, US FinTechs are already about five times larger than in Europe ($86 billion and $14.5 billion respectively). By the time the VCs exit, the gap hasn't closed by that much. By then US FinTechs are still three times bigger than their European peers ($200 million vs $70 million respectively).

A similar discrepancy exists within Europe, partly on account of London's status as the leading FinTech hub in Europe. According to KPMG, in Q4 2017, European investments in FinTech exceeded $2 billion, over 80% of which was accounted for by UK businesses. German FinTech investment, by contrast, only accounted for 7%.

In addition to the various funding discrepancies in the different jurisdictions, there is also significant difference between available funding at different stages of the funding lifecycle. Historically, there has been a shortage of funding at the Series C level, which has the lowest cumulative average growth rate compared to the other series, as seen below:



The graph shows a marked decrease in later stage VC financing, demonstrated by a drop in Series D+ investment from $35 billion in 2015, to $25 billion in 2016. This significant drop is a sign of cautious investors who in the past felt that late stage investment rounds were heavily over-funded, especially for companies who should have already gone public.

FinTechs and AIM

Alongside the VCs, PEs have become increasingly interested in the FinTech space, with 2017 being by far the busiest in history for private equity investments in European FinTech businesses. 55 deals took place during this year, with a total disclosed value of $4.7 billion. However, PE investments are sporadic and the recent hike in fundraising may only prove temporary, disappearing once central banks tighten their monetary policy. Generally, the investment criteria for PE funds are often incompatible with early stage growth companies.

As the sector matures, an increasing number of FinTech businesses are taking the decision to seek permanent funding from London's public markets, instead of the more temporary funding typically provided by PEs and VCs. This includes recent new entrants such as Trufin, Augmentum FinTech and Integrafin.

London's AIM market, in particular, is an obvious choice for fast growing FinTech companies, being the most successful growth market in the world. It was established by the London Stock Exchange (LSE) to satisfy the needs of smaller, growing companies that may not meet the criteria for a Main Market listing, or that might benefit from a more flexible regulatory market.

Of particular appeal to fast growing FinTech businesses is the fact that, unlike companies seeking admission to the premium segment of the LSE, on AIM there is no minimum entry criteria. No specific company size or lengthy track record of revenue generation is necessary, enabling companies to IPO at an earlier stage of their lifecycle.

Other attractions of AIM to FinTech businesses include the 'light touch' approach to regulation, which makes it more appropriate for mid-cap and small-cap companies looking to access additional capital more cheaply, quickly and easily than is possible on the Main Market. AIM also benefits companies looking to undertake regular transactions without the need for shareholder approval. For international companies considering where to list, this approach can be contrasted with the regulatory burden on SEC reporting companies, including those listed on NASDAQ, which is often disproportionate to their size and can be very costly.

Companies from all over the world are traded on AIM, where they benefit from a large, internationally focused community of advisers and a broad and deep institutional investor base. Today, almost 1,000 companies are quoted on AIM, of which around 150 are international, with an average market capitalisation in excess of £80m.

By contrast, NASDAQ First North (OMX), NASDAQ's European growth market focused on the Nordic and Baltic regions, currently only has around 300 companies. Scale, Deutsche Börse's equivalent segment for SMEs, only has 48. These markets are growing and may provide a more viable alternative for German FinTech's. For the time being, however, London remains the market of choice for those companies with an international business model.

Compared to the US' NASDAQ, which holds considerable appeal for tech sector businesses, AIM's advantages are most pronounced for those smaller tech businesses that may otherwise struggle to attract investor interest and research coverage on the US markets. UK institutional investors active on

AIM tend to be comfortable with companies that have smaller annual revenue and market capitalisations - most AIM IPOs have market caps in the £30 - £200m range.

In summary, it is fair to say that while the US funding market for FinTechs is by far the largest and most developed globally, for smaller European FinTechs who are seeking funding opportunities, a listing in the US may not be a suitable option. Similarly, whilst the European markets, such as Scale and OMX, may seem like viable listing options for European Fintechs due to their small size, they might not garner the same attention from investors, in particular, international investors who are used to focusing on the larger exchanges. By contrast, AIM is located in the FinTech hub of Europe and has an international reputation that continuously attracts international and domestic investors. AIM also has an excellent track record of providing early stage funding for growth companies, all of which are appealing attributes for European FinTech businesses.

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