European fintech six months on: stable today but prepare for 2021 fall out

Today Finch Capital issued its annual State of European fintech report for 2020. The report covers a range of topics impacting the fintech industry: where we are today; the impact of CV-19; the M&A conundrum; and trends the Finch Capital team anticipates will shape FinTech in 2021. This follows an analytical report published in April of this year titled ‘FinTech: The Future Post CV-19’.

Temps de lecture : minute

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"Although the 2020 situation looks good at first glance, European Governments have provided a huge amount of support for fintech startups. This support offset the decline in institutional funding but this was a one-off initiative. In the next six to 12 months, startups and scale-ups will face a harsher market test for raising additional funding due as the government funding slows and VCs funds get maxed out, focusing remaining fund capacity on their winners" - Radboud Vlaar, Managing Partner at Finch Capital.

For now, fintech is a resilient European Tech growth engine

European fintech funding by VCs and PE firms in H1 2020 is reported to be down by around 10%, but when corrected for Government funding it is up 20%. This is because the funding databases only record publicly announced equity rounds, while most government funding went in as a convertible debt note and so was not disclosed.

Impact of the lockdown on the fintech sectors was in line with our predictions, except for Payments and Mortgages that both went up, contrary to what we predicted. For payments, travel rebounded faster than expected and eCommerce skyrocketed 210% as brick and mortar shops closed and people were stuck at home. Challenger banks (less travel and FX) and Commercial Real Estate (drop-in use of offices, shops etc).

Trading firms benefited from the volatility, and InsurTech and Enabling fintech (such as AI) performed as expected with continued strong demand for digital solutions.

A chance to re-evaluate cost inefficiencies

Analysis of the top 50 European fintech hiring and firing, showed startups took this chance to re-evaluate cost inefficiencies. Coupled with government support programs, they reduced headcount on sales teams given limited in-person sales meetings and increased customer support and lived to fight another day.

We expect the next 12 months to be dynamic as fundraising becomes more selective and drops in Q4 and 2021 which will be a harsh reality for the many shake out and down round candidates whose runway got extended into 2021.

European fintech M&A Momentum hindered by lack of big bold buyers and fragmentation

Despite the M&A boom in the US, Europe lacks big-ticket M&A buyers for fintechs and challenger banks in particular. As illustrated in our 2019 edition, we have seen no venture-backed exits for fintechs greater than EUR 0.5B in Europe in the last year.

For scale-ups below EUR 0.5B, we expect to see massive consolidation by fintechs (e.g. Like the recent acquisition of Vouch by Goodlord) and corporates with a strong focus on profitability to meet the needs of Private Equity firms as potential buyers.

Big trends that will shape 2021

From cracking the exit path of the challenger banks to the rise of global privacy and consolidation of fragmented players there will be a lot of opportunity in the sector with a new focus on profitability.

Vlaar continues: “A shakeout of the European fintech is not necessarily bad. In the last five years, Europe has seen 100,000s of new companies raise massive amounts of capital, build and start selling new products to meet a market need. Sometimes hundreds of companies are trying to solve a similar problem in different countries.

This creates an opportunity for investors to invest in consolidation winners at attractive prices and make profitable companies so that these companies can become acquisition targets for Private Equity firms”.

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