State of European FinTech 2023

The Return of Funding discipline resulted in a Flight to Quality and Profitability to Survive
Welcome to Finch Capitals 8th edition of the “State of European FinTech” report in which we take a closer look at Europe’s FinTech sector. Given the market backdrop, we focus on 3 core areas that provide an analysis of the sector and a forecast for opportunities that will likely emerge including: (1) State of European Fintech, (2) State of Fintech in Key European Countries and (3) Opportunities Likely to Emerge In Current Situation

These topics are good proxies for the overall health of European FinTech which, as we predicted last year, has now entered a period of contraction. Unsurprisingly, there will be losers, but like in every market cycle, there will be winners as well. Laser focus on building profitable businesses at sustainable valuations will drive economic value to all stakeholders in the future.

Finch Capital is a Growth Investor in Europe’s Biggest Technology Transitions. We currently focus on 6 themes: FinTech (incl. Health and Insurance), Payments, Business Applications (Incl Accounting, Tax), Regulatory and ESG Software and Real Estate Technology. We back companies generating €2m+ in ARR by investing €5 to €15m initially and help them scale to €30m-€50m revenues by building sustainable and capital efficient business models. We’ve invested in ±45 companies including Fourthline, Goodlord, Grab, ZOPA, Twisto, AccountsIQ, NomuPay and Symmetrical.

Finch Capital consists of a team of 12 investment professionals with wide entrepreneurial experience located across offices in Amsterdam, London and Dublin. For more information see www.finchcapital.com and subscribe to our newsletter.
The year of reckoning has arrived in European FinTech. The Return of Funding discipline resulted in a Flight to Quality and Profitability to Survive for the entire ecosystem.

- Funding dropped by 70% to pre 2020 levels driven by the end of mega round and flight to quality;
- A retreat in Payments and Challenger Banks as the traditional resilient sector loses its crown to Crypto and Lending given valuation benchmarks achieved in 2022;
- US, Asian and Strategic investors are retrenching and are in 50-100% less deals than they were last year;
- M&A has remained stable with volumes on track to match 2022 levels, but deal sizes have fallen dramatically with 19% of deals above €500m vs 30% last year;
- Valuations are stabilizing in the public markets which will help private companies to get funding/exports, but at different terms than before, which will take time before all companies reset "last round" to "current" valuations.

European local ecosystems have been impacted differently based on their maturity

- US investors were ranking in the top lists in major countries in 2021/H1 2022, but have disappeared this year
- UK, Germany and France saw a 70% drop in funding value BUT exits were getting done consistently
- Ireland and Netherlands are more elastic to single deals (Fourthline & NomuPay respectively) in both regions
- Poland recorded biggest drop, but the crypto infrastructure sector is gaining momentum

The trend of a shift to software and B2B FinTech continues in 2023. More than 50% of all fintech deals are B2B software versus 17% in 2016.

- Business models: Some balance sheet business are in tough spot with loan losses rising as well as those without own deposit funding. Focus on recurring software businesses with strong margins and NRR vs. product led hyper growth.
- Key areas we foresee strong momentum the next 6 to 12 months are:
  - Revisit of the payment investment landscape, with accelerated consolidation expected to boost profitability and growth
  - RegTech continues to show attractive growth in KYC and AML
  - Consolidation of Open Banking and Banking as a Service continues
  - Generative Artificial Intelligence will get at scale in Insurance and Banking
  - Automation and Digitalization of the CFO and HR function continues to increase control and efficiency
1. State of European FinTech
### The Year 2023 Can Be Seen As A Year The European Fintech Market Adapts To The New Normal

#### Macro

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Change from Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital invested in European FinTechs in H1 2023</td>
<td>€4.6Bn</td>
<td>Down 70% from €15.3Bn in H1 2022</td>
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<tr>
<td>Number of deals in H1 2023</td>
<td>463</td>
<td>Down 48% from 884 in H1 2022</td>
</tr>
<tr>
<td>Decrease in M&amp;A transaction value versus H1 2022</td>
<td>-84%</td>
<td></td>
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<tr>
<td>Announced total laid-off employees in European FinTechs in the past year</td>
<td>-3100</td>
<td></td>
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</table>

#### Insights

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Change from Previous Year</th>
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</thead>
<tbody>
<tr>
<td>UK share of total capital raised</td>
<td>50%</td>
<td>Up from 45% in H1 2022</td>
</tr>
<tr>
<td>Share of announced flat and down rounds in H1 2023</td>
<td>19.7%</td>
<td>Up from 14.1% in H1 2022</td>
</tr>
<tr>
<td>Rank of Payments &amp; Banking in amount raised for all FinTech sub sectors</td>
<td>3rd</td>
<td>Down from 1st in 2022</td>
</tr>
<tr>
<td>Number of hires from Top 10 fastest growing European FinTechs</td>
<td>1054</td>
<td>Last 12 months</td>
</tr>
</tbody>
</table>

Source: Pitchbook, H1 2023; Sifted, Layoff.fyi
After Many Years Dominating, Payments & Banking is No Longer The Leading Sub Sector

Is every fintech company becoming a crypto company? 1 in 3 Fintech company is labeled as Crypto/Blockchain

The top subsectors in # deals
1. Crypto/Blockchain
2. Payment/Banking
3. Lending
4. Wealth/Investing
5. Insurance

Top subsectors in deal volume
1. Lending*
2. Crypto/Blockchain
3. Payment/Banking
4. Wealth/Investing
5. Insurance

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*€564m round by lending tech Abound was the largest of H1 2023, mix of debt and equity
** 2023 numbers are from H1 2023
Source: Finch Capital Team analyses, Pitchbook
Funding Back To Pre 2020 Level Due To End of Mega Rounds And Flight To Quality

- Funding dropped the most for the non top 20 rounds.
- Top 20 rounds are back to pre 2020 levels.

- Majority of the round was debt.

Source: Finch Capital Team analyses, Pitchbook
In 2023, US Investors Have Retreated From Europe

In a change from what has been seen in recent years, top US VC investors have pulled back from Europe. This opens the door for European investors to lead the way in their home continent.

** 2023 numbers are from H1 2023
Strategic Investors’ Participation In VC Deals Is Coming Down

Less deals with participation from top 10 historical strategic investors* partly because the total number of deals is coming down

A declining % participation of top 10 historical strategic investors in total deals shows that they are collapsing faster than the market


** 2023 numbers are from H1 2023

Source: Finch Capital Team analyses, Pitchbook
A Reset In Valuations Will Be Needed To Restart Unicorn Level Exits

The Exit market remains fairly active in terms of number of exits, but mainly for smaller deal sizes, as share of deals valued over USD 500m have come down from 30% to 19%.

FinTechs are becoming more attractive to PE funds for buyouts. In H1 2023, with 33% of deals being Buyout/LBO, versus 19% in 2022.

Source: Finch Capital Team analyses, Pitchbook, FT Partners

### European FinTech Exits

<table>
<thead>
<tr>
<th>Year</th>
<th>Buyout/LBO</th>
<th>Merger/Acquisition</th>
<th>IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023 H1</td>
<td>20</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>2022</td>
<td>21</td>
<td>85</td>
<td>3</td>
</tr>
<tr>
<td>2021</td>
<td>36</td>
<td>88</td>
<td>10</td>
</tr>
<tr>
<td>2020</td>
<td>23</td>
<td>57</td>
<td>2</td>
</tr>
<tr>
<td>2019</td>
<td>9</td>
<td>45</td>
<td>2</td>
</tr>
<tr>
<td>2018</td>
<td>6</td>
<td>33</td>
<td>4</td>
</tr>
</tbody>
</table>

### Global FinTech M&A Statistics (cont.)

In the first half of 2023, 82% of M&A deals with announced amounts were valued under $500 million.

Distribution of Global M&A Deals by Size

- 30% of M&A deals were valued over $500 million
- 76% of M&A deals were valued under $500 million
- 82% of M&A deals were valued under $500 million

Source: Finch Capital Team analyses, Pitchbook, FT Partners
Several of Europe’s Most Valued FinTech’s Continued To Hire, But Increasingly Feel Pressure

From H1 2022 to H1 2023

Source: LinkedIn, Financial Times, TechCrunch

<table>
<thead>
<tr>
<th>Company</th>
<th>Payment &amp; Banking</th>
<th>Lending</th>
<th>Crypto &amp; Blockchain</th>
<th>Wealth &amp; Investing</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monzo</td>
<td>+23% ↑</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adyen</td>
<td>+26% ↑</td>
<td></td>
<td></td>
<td></td>
<td>+22% ↑</td>
</tr>
<tr>
<td>Klarna</td>
<td>-17% ↓</td>
<td></td>
<td></td>
<td></td>
<td>-18% ↓</td>
</tr>
<tr>
<td>Funding Circle</td>
<td>+10% ↑</td>
<td></td>
<td></td>
<td></td>
<td>+13% ↑</td>
</tr>
<tr>
<td>Ledger</td>
<td>+1% ↑</td>
<td></td>
<td></td>
<td></td>
<td>+10% ↑</td>
</tr>
<tr>
<td>Blockchain.com</td>
<td>-29% ↓</td>
<td></td>
<td></td>
<td></td>
<td>-10% ↓</td>
</tr>
<tr>
<td>eToro</td>
<td>-9% ↓</td>
<td></td>
<td></td>
<td></td>
<td>-11% ↓</td>
</tr>
<tr>
<td>Freetrade</td>
<td>-52% ↓</td>
<td></td>
<td></td>
<td></td>
<td>-25% ↓</td>
</tr>
<tr>
<td>Wefox</td>
<td>+18% ↑</td>
<td></td>
<td></td>
<td></td>
<td>+18% ↑</td>
</tr>
<tr>
<td>Alan</td>
<td>+13% ↑</td>
<td></td>
<td></td>
<td></td>
<td>+10% ↑</td>
</tr>
</tbody>
</table>

Adyen have laid off expensive senior hires and increased junior headcount.

* From H1 2022 to H1 2023

Source: LinkedIn, Financial Times, TechCrunch

Payments group Adyen’s shares plunge almost 40% after profits disappoint.

With new cuts, Klarna joins the ranks of companies having to conduct more than one layoff.

Freetrade to cut up to 15% of staff.
Multiples Came Down For All Sub Sectors With Early Signs Of Stabilisation

Public company valuations are stabilising

Private valuation adjustments have taken place

Valuations falling significantly

Median fintech VC pre-money valuation ($M) by stage

Source: PitchBook • Geography: US
* As of June 30, 2023
2. State of FinTech in key European Countries
UK FinTech: Maturity Shines Amidst Decline; Consistent Exits Fostering An Improved Outlook

<table>
<thead>
<tr>
<th>Year</th>
<th>Exit transaction volume</th>
<th>Exit transaction volume H1'22 to H1'23</th>
<th>Blockchain &amp; Crypto most active subsector</th>
<th>Largest H1'23 deal - £500m</th>
<th>Non-exit transaction volume H1'22 to H1'23</th>
<th>Median post-money valuation 2022 to 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1'22</td>
<td>€6.49B</td>
<td>-5%</td>
<td>Blockchain &amp; Crypto</td>
<td>GSR Ventures</td>
<td>-45%</td>
<td>2023 (H3) largest</td>
</tr>
<tr>
<td>H1'23</td>
<td>€2.20B</td>
<td></td>
<td>Crypto</td>
<td>worldpay</td>
<td></td>
<td>announced exit €10.76B</td>
</tr>
</tbody>
</table>

- **Blockchain & Crypto**: most active subsector in H1'23 with 28% share of total no. deals.
- **Largest H1'23 deal**: £500m
- **Non-exit transaction volume H1'22 to H1'23**: -45%
- **Median post-money valuation 2022 to 2023**: 2023 (H3) largest announced exit €10.76B

### Interesting startups

- **Financial markets regulatory software**: FNA
- **Network analytics platform**: Delio
- **Private markets infrastructure platform**: TRIVER
- **API-first credit platform**: Solomonic
- **Financial product lifecycle platform**: RENEV RISK
- **Litigation analytics platform**: Open payroll software
- **Blockchain & Crypto**: most active subsector in H1'23 with 28% share of total no. deals.

### Capital Invested (€)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Invested (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>40%</td>
</tr>
<tr>
<td>2019</td>
<td>30%</td>
</tr>
<tr>
<td>2020</td>
<td>20%</td>
</tr>
<tr>
<td>2021</td>
<td>15%</td>
</tr>
<tr>
<td>2022</td>
<td>10%</td>
</tr>
<tr>
<td>2023</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Key Exits & Takeaways

- **Reward gateway**: was acquired by Edenred for £1.15bn on 16 May 2023.
- **Cushion**: was acquired by NatWest Group for €144mn on 1 June 2023.
- **Kantox**: was acquired by BNP Paribas via an estimated €120mn LBO on 13 July 2023.
- **British Business Bank**: acts as the largest local LP having invested in more than 50 venture funds with UK mandates.

### Top Investors

<table>
<thead>
<tr>
<th>Investor</th>
<th>Capital Invested (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Octopus Ventures</td>
<td>6</td>
</tr>
<tr>
<td>Ascension Ventures</td>
<td>6</td>
</tr>
<tr>
<td>Fuel Ventures</td>
<td>5</td>
</tr>
<tr>
<td>Augmentum</td>
<td>4</td>
</tr>
<tr>
<td>Hambro Perks</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Finch Capital Team analyses, Pitchbook
Netherlands FinTech: Paradox With Declining Deals, Rising Capital; RegTech Takes the Lead with Fourthline's Boost

- Exit transaction volume H1'22 to H1'23: 9.7% decrease from €133.1M to €146.1M.
- Largest H1'23 deal: £50m.
- -39% Non-exit transaction volume H1'22 to H1'23.
- +76% 2023 largest exit: €551m.
- Blockchain & Crypto most active subsector in H1'23 with 35% share of total no. deals.
- Largest H1'23 deal: €50m.
- Median deal size 2022 to 2023.

Interesting start-ups:
- Finom: Digital business account benefits
- Imb: Pay in 3 instalments
- Sygnis: Financial crime analysis software
- Fourthline: Payroll charity software
- Blanco: KYC & AML software
- Fund suing: Connecting founders and investors
- Fledgerr: Equity management platform

Key Exits & Takeaways:
- Removing Fourthline from the equation would result in a 28% decrease in capital invested H1'22 vs H1'23.
- PayU was acquired by Rapyd for $610mn on 1 August 2023.
- Growth stage companies receive a larger slice of the pie as the early-stage market struggles for leftovers and investors in mature companies hold off on exits.

Capital Invested (€):
- 2018: 20%
- 2019: 20%
- 2020: 25%
- 2021: 20%
- 2022: 25%
- 2023: 20%

Top Investors:
- Antler: 3
- Pitch Capital: 1
- Accel: 1
- FJ Labs: 1

Source: Finch Capital Team analyses, Pitchbook
Ireland FinTech: Seed Deal Activity Dominates, Opening Gap For Growth Stage; NomuPay's Mega Raise Skews Funding Landscape

- **H1’22** €75.7M
- **H1’23** €54.4M
- 2023 largest exit €550m
- **immedis**

**Lending** most active subsector in H1’23
33% share of total no. deals

**NomuPay**

Largest H1’23 deal - £50m
-54% Non-exit transaction volume H1’22 vs H1’23

**immedis**

Immedis was acquired by Ultimate Kronos Group with help from its investor backers for an estimated €550m on 1 July 2023.

**Interesting startups**

- **dimply**: AI financial insights software
- **circuit**: Automated audit platform
- **NomuPay**: Unified payments platform
- **AccountsIQ**: Smart cloud accounting
- **Creditio**: Credit and payments conversational AI
- **Pinaza**: Real-time insurtech platform
- **Corlytics**: Risk based approach to Regulatory Compliance
- **Fonoc**: Tax and compliance automation

**Capital Invested (€)**

- 2019: 25%
- 2020: 20%
- 2021: 20%
- 2022: 15%
- 2023: 10%

**Key Exits & Takeaways**

- Absent NomuPay, Ireland experienced a 94% funding drop H1’22 vs H1’23.
- Immedis was acquired by Ultimate Kronos Group with help from its investor backers for an estimated €550m on 1 July 2023.

Seed funding comprised the majority of fintech deals seen in H1’23 suggesting a gap in the growth stage market in the coming period that is waiting to be filled.

**Top Investors**

- **Enterprise Ireland**: 4
- **Pitch Capital**: 2
- **Delta Ventures**: 1
- **Fuel Ventures**: 1
- **Middlegame Ventures**: 1

(Source: Finch Capital Team analyses, Pitchbook)
Germany: Crypto Activity Peaks Amid Deal Dive; Mature Firms Command Capital Spotlight

Overall funding plummeted 76% when comparing H1’22 to H1’23. Wealth & Investing technology holds the line with €200M raised in H1’23.

Median valuations and deal size increase as overall funding declines suggesting more mature companies are receiving funding as the early-stage bears the brunt of the downturn.

Interesting startups

- finway: SMB financial management
- tilta: B2B embedded lending infrastructure
- DEGURA: Digital pension management
- PROCUROS: B2B transaction automation
- Moonfare: Private market investing platform
- senken: Climate finance gateway platform
- NEILY: Digitised signature and billing
- AFILO: Retirement planning platform

Key Exits & Takeaways

Overall funding plummeted 76% when comparing H1’22 to H2’23. Wealth & Investing technology holds the line with €200M raised in H1’23.

Median valuations and deal size increase as overall funding declines suggesting more mature companies are receiving funding as the early-stage bears the brunt of the downturn.

Capital Invested (€)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td>0-25%</td>
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<tr>
<td>25-50%</td>
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<tr>
<td>50-75%</td>
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<tr>
<td>75-100%</td>
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Top Investors

- b2venture: 3
- Balderton Capital: 2
- FINTECH COLLECTIVE: 2
- MOTIVE PARTNERS: 2

Source: Finch Capital Team analyses, Pitchbook
Poland FinTech: Steep Decline Cushioned by Crypto & Blockchain; A Nascent Sector Grappling with Sparse Exits

- H1'22 Exit transaction volume H1'22 to H1'23 (89.9%)
- H1'23 Exit transaction volume H1'22 to H1'23 (-78%)
- Crypto & Blockchain and Insurtech most active subsectors in H1'23 respective 50% share of total no. deals
- Largest H1'23 deal - €540K
- -44% Non-exit transaction volume H1'22 to H1'23
- €540K (87%) invested in Crypto & Blockchain
- -75% Median deal size 2022 to 2023

Interesting startups
- cryptony: Cryptocurrency tax software
- Climatica: Digital weather insurance tool
- symmetrical: Smart payroll software
- solvbot: Economic legal processes software
- FIZEN: CEE open banking
- AUTENTi: E-signature and identity services
- Quante: Insurance pricing platform
- Alphamoon: Financial document processing

Capital Invested (€)

Key Exits & Takeaways
- Poland’s fintech sector remains nascent. A 75% decline in deal size and a non-existent exit landscape points to the emerging nature of Poland in the Fintech landscape.
- The Polish Development Fund Group (PFR) aims to direct capital towards Polish early-stage companies by functioning as a funds of funds manager.
- With over 70 funds in its portfolio, PFR acts as an LP across various venture capital & private equity funds mandated to invest in Polish businesses.

Source: Finch Capital Team analyses, Pitchbook
France FinTech: Amidst Funding Slowdown, Ledger & Crypto Lead; Shifting Deal Landscape Mirrors Evolving Investor Preferences

H1’22 €1.92B
67.7%
H1’23 €0.62B

+13% Exit transaction volume H1’22 to H1’23

Crypto & Blockchain most active subsector in H1’23
29% share of total no. deals

Largest H1’23 deal - €460m

-53% Non-exit transaction volume H1’22 to H1’23

-3% Median post-money valuation 2022 to 2023

-17% Median deal size 2022 to 2023

Ledger comprised €460M of the €480M invested into crypto and 74% of the total French FinTech funding.

Neoxam was acquired by Eurazeo, Mr Serge Delpla and its management via an approximate $100m LBO on 25 January 2023.

Payments & Banking suffered from the steepest decline in new funding having raised €1.09B in 2022 to only having raised €10M.

Interesting startups
- obat: Construction invoicing & planning software
- betterway: Employee mobility payment software
- dotfile: No-code compliance platform
- algoan: Credit scoring API
- Koala: Flight insurance platform
- Ledger: Cryptocurrency security technology
- pono: Collateral management platform
- FUTURZ: ESOP-alternative platform

Key Exits & Takeaways
- Ledger comprised €460M of the €480M invested into crypto and 74% of the total French FinTech funding.
- Neoxam was acquired by Eurazeo, Mr Serge Delpla and its management via an approximate $100m LBO on 25 January 2023.
- Payments & Banking suffered from the steepest decline in new funding having raised €1.09B in 2022 to only having raised €10M.

Capital Invested (€)

Top Investors
- Keyllo, Ledger
  8
- Super Capital
  6
- BPI Montparnasse
  4
- BLACKFIN
  3
- BBVA (France)
  3

Source: Finch Capital Team analyses, Pitchbook
Spain FinTech: Funding Dips, Deal Size Rises; Early-Stage Landscape with Promising Resilience in European Context

**Key Exits & Takeaways**

Gestión Tributaria Territorial was acquired by AnaCap Financial Partners and Stirling Square Capital Partners via an estimated $300m LBO on 3 July 2023.

Median deal size remains relatively low in Europe sitting at €1.94M after its 62% rise signaling the early-stage that the Spanish fintech sector sits in.

The Spanish fintech funding decline was less extreme than its European counterparts. Increased cheque sizes and a more resilient funding landscape suggests Spanish fintech is poised for strong developments.

**Source:** Finch Capital Team analyses, Pitchbook
The Nordics FinTech: Funding Turbulence Meets Crypto Resilience; Lending Bears The Brunt

Capital Invested (€)

Key Exits & Takeaways

**Kron.**

Kron was acquired by The Storebrand Group for approximately €40m on 3 January 2023.

**Nomentina.**

Nomentia was acquired by Inflexion Private Equity Partners via a €349m LBO on 25 July 2023.

Blockchain & Crypto was the most active and well-funded sector, accounting for 34% of deal volume and 49% of new capital invested. Lending tech suffers the worst decline, sowing a drop from €1.09B to €50M.

Top Investors

- **ANTLER**: 4
- **Alliance**: 3
- **Fin**: 2
- **NFT**: 2
- **Seed**: 2

Source: Finch Capital Team analyses, Pitchbook
3. Opportunities **Likely to Emerge In Current Situation**
Themes shaping FinTech

**RegTech**
1. RegTech continue to show attractive growth in KYC and AML

**Banking**
2. Consolidation of Banking as a Service (BaaS) continues driven by regulatory and investor pressure with a likely split of business models between Banking Software vs Regulatory Banking as a Service
3. Open Banking will consolidate and expected to reach real momentum with use cases after a decade of hope

**Payments**
4. As premium multiples for Payment companies like Stripe and darling Adyen faded. Investors and Payment Companies revisit the Payment investment landscape, with accelerated consolidation expected to boost profitability and growth

**Insurance**
5. Generative AI will reach the insurance industry first as complexity is tackled

**CFO**
6. Increasing oversight outside of accounting gives CFOs a headache to solve resulting in accelerated demand for Automation and Digitalization
7. New breed of ERP for S & MEs with a finance focus as controlling the procurement has never been so apparent for CFOs

**HR & Payroll**
8. As spend per employee increases by 50%, HR team get serious about impactful technology decisions to increase efficiency and productivity
Passport checking is not enough. There are layers of complexity, holding and shell companies that need to be analysed in a business setting.

Workflow and case management tools are the answer for streamlined operations.

- Ownership structure deep dives → UBO (ultimate beneficial owner) → KYC'ing the UBO
- $35 million for a bank onboarding 10,000 new clients per annum
- KYB checks can cost an additional $18-25 per check

Source: Fenergo, Finch estimates
Regulatory Pressure On BaaS Providers Has Left Industry With Big Question Marks

Safeguarding has become one of the most important factors

Q. What are the top three factors when evaluating a provider? (Base 17; Multiple options allowed)

Complexity of this ecosystem means that it’s incredibly hard for end users to know who is responsible for their money, and companies looking to use BaaS providers are ever-more confused about who they need to do what.
Open Banking Has Potential To Scale But Geographic Diversity In Europe Is The Biggest Challenge, Consolidation Is Required

- The European open banking landscape is fragmented, with sub-top 5 players struggling to reach scale and healthy profit margins. With Open Banking adoption being much slower than anticipated, exit opportunities for sub-scale companies are extremely limited.

- The majority of players have 1-2 functioning use-cases, but lack the necessary customer relationships, scaling is very difficult
Increasing Questions About Where Payment Companies Should Focus To Create Value Will Trigger Further Consolidation, Especially Now That Darling Adyen’s Organic Plans Are Challenged

- Value add tools
  - Onboarding / KYC tools
  - Risk analytics
  - Routing
  - Reporting

- Gateway & acquiring
  - One provider for both or siloed for gateway and acquiring
  - Can also outsource based on geo/pricing

- Channel
  - Terminal / POS
  - Online
  - Webshops

- Payment methods
  - ACH
  - Credit cards
  - Wallets
  - Recurring

- Treasury
  - Currency management
  - Funds management

- Payout
  - Settlement
  - Dashboard
  - Dynamic funding

- High margin
- Low margin
While underwriting is unlikely to change, gen AI can boost complex product assessment

- Underwriting is so core and beloved to insurers that they have not wanted to let go off it despite progress in some products (auto, home, pet)

- Life, in particular, is such a complex product and relies on variety of data sets that are unique to individuals

- The broker channel will likely see biggest impact, with data gathering, synthesis and initial assessment to be combined, parts of the value chain will come closer to the underwriter

- Underwriting is unlikely to see a revolution but more a transformation as alternative LLM model sits by its side
Increasing Oversight Outside Finance Gives CFOs A Headache They Need To Solve

Transactional activities are the most automatable, but opportunities exist across most subfunctions.

### Activities that can be automated using demonstrated technologies, %*

<table>
<thead>
<tr>
<th>Activity</th>
<th>Difficult to automate</th>
<th>Somewhat automatable</th>
<th>Highly automatable</th>
<th>Fully automatable</th>
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<tbody>
<tr>
<td>General accounting operations</td>
<td>12</td>
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<td>77</td>
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<tr>
<td>Cash disbursement</td>
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<td>4</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Revenue management</td>
<td>4</td>
<td>17</td>
<td>4</td>
<td>76</td>
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<tr>
<td>Financial controlling and external reporting</td>
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<td>30</td>
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<tr>
<td>Tax</td>
<td>19</td>
<td>24</td>
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<td>38</td>
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<tr>
<td>Financial planning and analysis</td>
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<td>45</td>
<td>11</td>
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<tr>
<td>Treasury</td>
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<td>21</td>
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<tr>
<td>Risk management</td>
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<td>60</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>40</td>
<td>40</td>
<td>10</td>
<td>10</td>
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<tr>
<td>External relations</td>
<td>87</td>
<td>67</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business development</td>
<td>10</td>
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<td></td>
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</tbody>
</table>

* Proportion of tasks. Figures may not sum to 100%, because of rounding.

The 3 areas that have been difficult to automate is where CFOs will be looking for help:

- **Risk management**
  - AML, fraud monitoring, cash - think SVB, vendor selection

- **Audit**
  - Time sink for finance teams, tools for live auditing

- **External relations**
  - ESG, Ethics, Board and investor management

Source: Mckinsey
New Breed Of ERP for S & MEs With a Finance Focus As Controlling The Procurement Has Never Been So Apparent For CFOs

Share of roles in direct reporting relationships to CFO, %

<table>
<thead>
<tr>
<th>Role</th>
<th>2018</th>
<th>Change</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Procurement</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>Investor relations</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>M&amp;A/transactions/execution</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>Digital</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>Enterprise transformation</td>
<td></td>
<td>+14</td>
<td></td>
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<tr>
<td>Post merger integration</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>Cybersecurity</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>Board engagement</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>M&amp;A strategy</td>
<td></td>
<td>+14</td>
<td></td>
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<tr>
<td>Risk management</td>
<td></td>
<td>+14</td>
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<tr>
<td>Corporate strategy</td>
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<td>+14</td>
<td></td>
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<tr>
<td>Regulatory compliance</td>
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<td>+14</td>
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<tr>
<td>Pricing</td>
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<td>+14</td>
<td></td>
</tr>
<tr>
<td>Internal audit</td>
<td></td>
<td>+14</td>
<td></td>
</tr>
</tbody>
</table>

Source: Mckinsey

The interconnected CFO

- Vendor evaluation
- Supply chain flexibility
- Security
- Sustainability
- Process software
- Spend management
- Payables
- Contract management
- Reporting cycles
- Grow sales
- Cash planning
- Improve margins

Source: Mckinsey
As Spend Per Employee Increases By 50%, HR Teams Get Serious About Impactful Technology Decisions

The interconnected CFO

- Manage compliance with employment laws
- Process payroll for employees
- Maintain up to date employee information
- Track time and attendance

The interconnected CFO

- Learning management
- Wellness
- Data integration

HR Investment Areas
Percentage of HR Leaders Planning to Increase Budget

- HR Technology: 46%
- Staffing and Recruiting: 45%
- Total Rewards: 41%
- Learning and Development: 41%
- Diversity, Equity and Inclusion (DEI): 36%
- Talent Analytics: 33%
- Talent Management: 31%
- Organizational Development: 27%
- Payroll and Employee Administration: 23%

n = 118 HR Leaders
4. Summary
The year of reckoning has arrived in European FinTech. The Return of Funding discipline resulted in a Flight to Quality and Profitability to Survive for the entire ecosystem.

- Funding dropped by 70% to pre 2020 levels driven by the end of mega round and flight to quality;
- A retreat in Payments and Challenger Banks as the traditional resilient sector loses its crown to Crypto and Lending given valuation benchmarks achieved in 2022;
- US, Asian and Strategic investors are retrenching and are in 50-100% less deals than they were last year;
- M&A has remained stable with volumes on track to match 2022 levels, but deal sizes have fallen dramatically with 19% of deals above €500m vs 30% last year;
- Valuations are stabilizing in the public markets which will help private companies to get funding/exit, but at different terms than before, which will take time before all companies reset "last round" to "current" valuations

European local ecosystems have been impacted differently based on their maturity

- US investors were ranking in the top lists in major countries in 2021/H1 2022, but have disappeared this year
- UK, Germany and France saw a 70% drop in funding value BUT exits were getting done consistently
- Ireland and Netherlands are more elastic to single deals (Fourthline & NomuPay respectively) in both regions
- Poland recorded biggest drop, but the crypto infrastructure sector is gaining momentum

The trend of a shift to software and B2B FinTech continues in 2023. More than 50% of all fintech deals are B2B software versus 17% in 2016.

- Business models: Some balance sheet business are in tough spot with loan losses rising as well as those without own deposit funding. Focus on recurring software businesses with strong margins and NRR vs. product led hyper growth.
- Key areas we foresee strong momentum the next 6 to 12 months are:
  - Revisit of the payment investment landscape, with accelerated consolidation expected to boost profitability and growth
  - RegTech continues to show attractive growth in KYC and AML
  - Consolidation of Open Banking and Banking as a Service continues
  - Generative Artificial Intelligence will get at scale in Insurance and Banking
  - Automation and Digitalization of the CFO and HR function continues to increase control and efficiency