INNOVATE FINANCE

FinTech Investment Landscape 2022

FinTech Investment Landscape

In 2022 the global investment in FinTech drops by 30% from 2021. UK FinTech maintains global leadership attracting $12.5 billion of investments in 2022.

Following a record-breaking year in 2021 in FinTech investment, 2022 witnessed a global slowdown in investment. On a global level, FinTech attracted $92 billion in venture capital in 2022. While this remains a sizable figure, it represents a drop from the $130 billion invested into the sector in 2021.

The slowdown in activity has been apparent in both early and late stage VC investment. Venture funds deployed $23.3 billion into earlier stage global FinTech, compared to $31.5 billion in 2021 and $50.5 billion into later stage, compared to $82.4 billion in 2021.

On the other hand, seed investment rounds performed better than expected, netting $7.5 billion in 2022, a large increase compared to the $5.8 billion raised in 2021. Growth and expansion private equity deals in 2022 attracted $10.7 billion, the same as 2021.

In a challenging global market, the UK confirmed its robustness as a top destination for FinTech investment, receiving $12.5 billion of FinTech VC investment of which $8.9 billion was invested just in the first six months of 2022. This full year figure represents an 8% drop in investment from 2021 when investments in UK FinTech soared to $13.5 billion. The UK holds its firm second position in the global ranking, the closest contender to the USA and outpacing India in third place.

"UK FinTechs are holding the fort in securing great levels of investment in challenging economic times, a testament to the resilience and strength of our sector.

Our latest report shows that the UK is still receiving more investment in FinTech than all of the next 10 European countries combined, and remains second in the world only to the US. We must continue to work together with industry, government and regulators to build on this momentum and maintain the leadership of the UK as a global centre to start, scale and grow a FinTech business. This is perhaps more important now than ever before as FinTech continues to redefine financial services and provide greater financial support and access to consumers during the cost of living crisis."

– Janine Hirt, CEO, Innovate Finance

In July 2022, the Innovate Finance Summer Investment Report highlighted how a global economic slowdown would challenge the pace of VC investment across tech industries.

Despite a strong first semester, the second half of 2022 has seen a significant drop in investment, a signal of challenging market conditions.

" *Despite global headwinds, British FinTech firms showed great resilience last year and helped boost the UK's status as a world leader in tech – delivering jobs and huge benefits for our economy.*

In 2023 we are focusing on maintaining that lead by supporting start-ups, boosting digital skills and making this country an even more attractive destination to found, grow and invest in tech businesses."

– Paul Scully, Digital Economy Minister

" *UK FinTech investment performed strongly during 2022 despite a difficult global marketplace; maintaining second place position in the global rankings is impressive. While the global FinTech market as a whole shrank by 30% in 2022 from the previous year, the UK showed resilience and fortitude, dropping only 8% year on year.*

While the macroeconomic environment continues to present challenges for the sector, we expect the strength and resilience demonstrated over the past year to continue, with M&A likely to play an important role in shaping the market in the short-term."

– Chris Woolard, UK Head of FinTech, EY

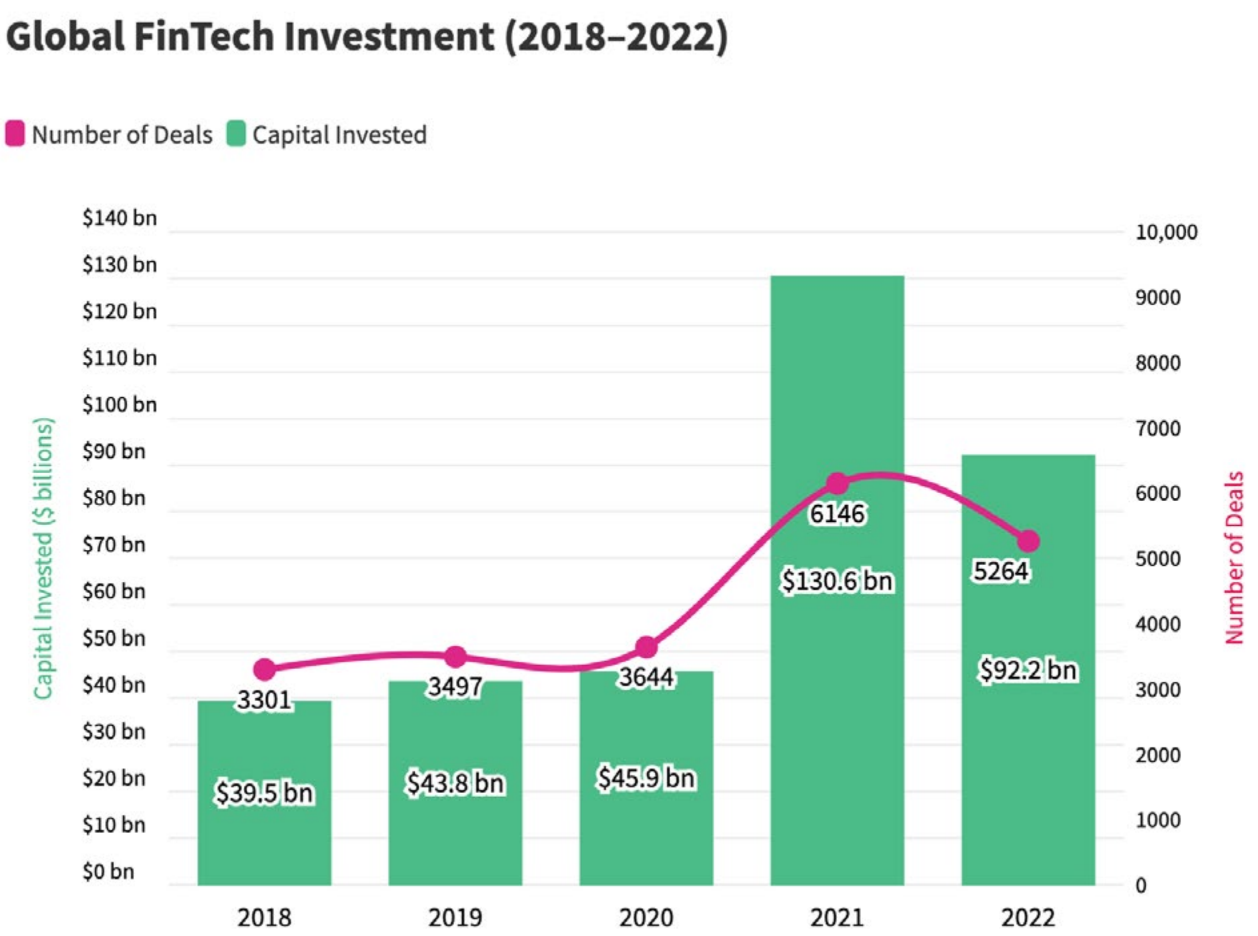
Global Investment Overview

In the first half of 2022, Innovate Finance reported that global FinTech investment was up 8% on H1 2021, with VC funding reaching $63.8 billion by 1st of July. US fintech investment shrank by 10% in H1 2022 and UK FinTech investment grew by 24% from the previous year.

Nevertheless, in the most recent assessments of available data, the landscape for venture capital showed signs of an economic slowdown in the second half of 2022. In Q3 of 2022 Fintech secured $16.4 billion in investment, and the slowdown became apparent in Q4 as Fintech only netted $11.8 billion in capital invested into the industry – a total of $28.2 billion for the second half, down 61% on H2 2021.

Such declining figures are not exclusive to the FinTech industry, as the drop in investment levels is rooted in macroeconomic and geopolitical circumstances.

Macroeconomic evidence suggests that three concurrent recessions across major international markets (China, Europe, the US) are to blame for the total global slowdown.



Such declining figures are not exclusive to the FinTech industry, as the drop in investment levels is rooted in macroeconomic and geopolitical circumstances. Innovate Finance assessed VC funding across 10 technology verticals, including SaaS, Artificial Intelligence and Life Sciences and found that VC activity in these sectors dropped by 56% from 2021 to 2022.

Investment Series

Across investment series, activity has slowed down in all rounds with a larger decline in later stage funding:

- Series A dropped from $14.8 billion in 2021 to $12.4 billion (-16%)
- Series B dropped from $16.3 billion to $14.2 billion (-13%)
- Series C dropped from $17.3 billion to $13.1 billion (-24%)
- Series D dropped from $14.4 billion to $9.1 billion (-37%)
- Series E dropped from $7.5 billion to $2.8 billion (- 63%)

On the other hand, Seed rounds boasted healthy levels of growth with $7.5 billion invested compared to $5.8 billion in 2021 (+30%).

From a macroeconomic perspective, 2023 will be a challenging year though this downturn may be shallower as it does not have the structural problems of the 2008 financial crisis and supply chains should start to normalise. That said, the big lesson from 2022 is to take nothing for granted so start-ups must hope for the best and prepare for the worst."

– Kevin Chong, Co-Founder, Outward VC

The macro environment in 2023 is rather negative – potential further interest hikes due to untamed inflation remains relatively high, China's covid policy opening is worrying economists of potential inflation impact in western economies and lack of growth prospects in most European countries. My hope is that while 2023 remains a complicated year building on 2022 momentum, that we start seeing market corrections and economic adjustments in 2024."

– Erik Mostenicky, VP of Venture Capital, Fidelity International Strategic Ventures

It remains to be seen whether the UK will enter a technical recession in 2023, having narrowly avoided it in 2022. Fiscal measures and an improving geopolitical sentiment (fingers crossed it stays that way) seem to be having an impact on inflation and [there is] a sense from [many sources] that we might not face a worst-case scenario and instead have a slightly smoother landing. However, the venture market is likely to see continued contraction in 2023, not necessarily driven by the macro-economic climate, but more from the hubris exhibited over the last three years. Tech stock valuations have been in a bubble and it looks like that sensibly priced and well-structured investments are here to stay for the foreseeable future."

– James Codling, Managing Partner VOLUTION VC

The 10 Largest Deals of 2022

The Top 10 Largest VC deals across Global Fintech include:

Company		Country	Deal Size
FNZ	FNZ	UK	$1.4 billion
TRADE REPUBLIC	Trade Republic	Germany	$1.16 billion
checkout.com	Checkout.com	UK	$1 billion
Klarna.	Klarna	Sweden	$800 million
ramp	Ramp	USA	$748.2 million
scalapay	ScalaPay	Italy	$692 million
sumup	SumUp	UK	$602 million
	MoonPay	USA	$555 million
Fireblocks	Fireblocks	USA	$550 million
	Qonto	France	$549.8 million

The Top 5 deals added up to $5.1 billion or 5.5% of the total capital invested into Global FinTech. The UK leads the rankings with two of the top three deals, FNZ and Checkout.

Top International Markets

2022 also saw a reshuffle of the Top 10 Markets for FinTech investment, representing a wide geographic spread stretching beyond the US and Europe.

Country		Capital Invested	Number of Deals
	United States	$39.2 bn	1,983
	United Kingdom	$12.5 bn	547
	India	$5.5 bn	311
	Singapore	$4.0 bn	229
	Germany	$2.9 bn	113
	France	$2.8 bn	125
	Brazil	$1.9 bn	108
	Indonesia	$1.7 bn	105
	Australia	$1.7 bn	60
	Sweden	$1.5 bn	45
	South Korea	$1.3 bn	98
	Canada	$1.2 bn	139

Top European Markets

Country		Capital Invested	Number of Deals
	UK	$12.5 bn	469
	Germany	$2.9 bn	113
	France	$2.8 bn	125
	Sweden	$1.5 bn	45
	Switzerland	$1.0 bn	93
	Italy	$0.7 bn	28
	Luxembourg	$0.6 bn	10
	Denmark	$0.5 bn	26
	Estonia	$0.5 bn	39
	Iceland	$0.5 bn	5

Luxembourg's strong performance was largely thanks to 2 deals for Satispay and Bloom at 320 million and 318 million respectively.

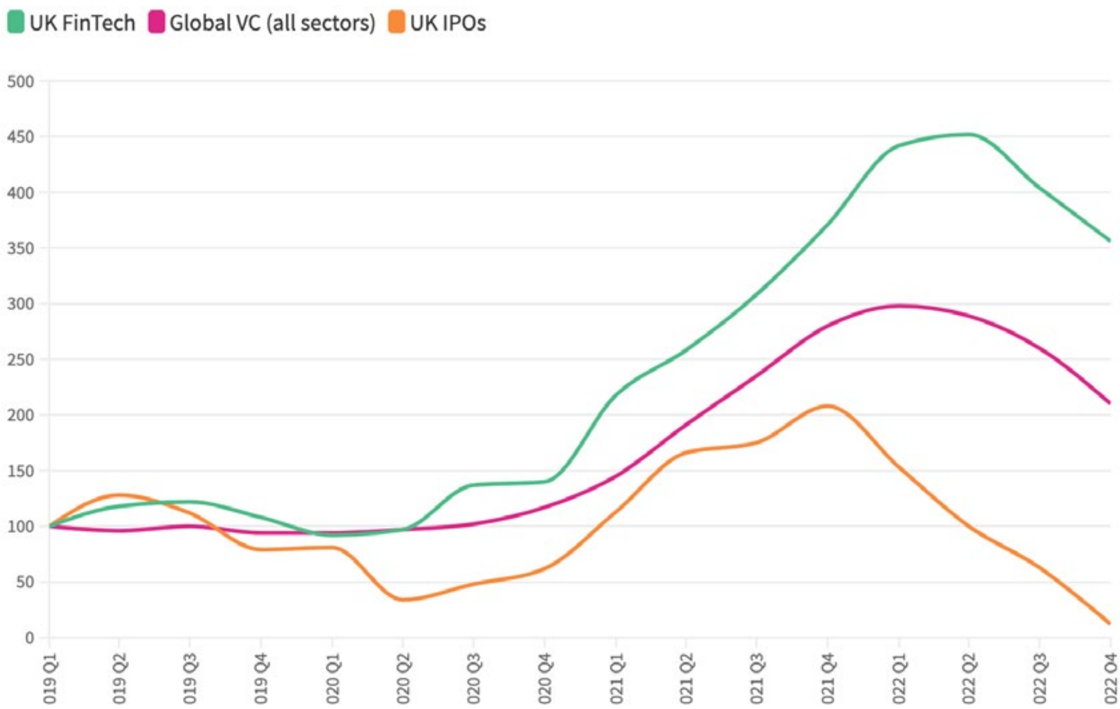
Cross Industry Data Confirms FinTech Sector Maturity

As funding markets tend to be cyclical they see a fall in activity from time to time, often coincident with an economic downturn, and FinTech investment is no different.

The chart below shows annual UK FinTech investment since 2019 on a rolling quarterly basis (rebased to Q1 2019 = 100) compared to Global VC investment (all sectors) and compared to London Stock Exchange IPOs (both also rebased to Q1 2019 = 100). The chart shows that while UK FinTech has enjoyed stronger growth than other sectors in recent years, it is also subject to the same cyclicality of wider VC investment and IPO issuance. In challenging global market conditions, the data indicates that UK FinTech investment is not more volatile than other funding markets and implies that the sector will recover in line with other funding markets.

> *"[Across industries] PE shops have already taken an aggressive approach to taking private good publicly listed software companies in 2022 and we will see whether there will be more opportunities after the growth expectations of the investors across some of these assets is not met."*
>
> **– Kevin Chong, Co-Founder, Outward VC**

UK FinTech Investment vs. Global VC (all sectors) and UK IPOs rebased 12 month rolling quarterly



The UK in Numbers

The United Kingdom has shown its resilience as a top destination for FinTech. While the global FinTech market shrank by 30% in 2022 from the previous year, the UK still holds the fort with only an 8% drop from 2021 figures.

The UK attracted $12.5 billion in investment in 2022 across 545 deals – firmly cementing its place as the world's second biggest FinTech market after the United States. The UK is also the leader in European FinTech rankings, netting more VC investment than the next 13 European markets combined.

The UK also boasted an impressive 32 Megadeals (deals greater than $100m raised) – on par with the 31 Megadeals reported in 2021. Across those deals, the average deal size was $259 million, and 13 deals exceeded $200 million.

Investment activity by stage saw a polarisation towards the smallest deals and the largest deals. Seed funding increased by 18% to $532m compared to 2021, with a slight increase in average deal size to $3.2m (2021: $2.6m). Growth capital, the latest stage of funding, saw a 73% increase to $3.1bn and a jump in average deal size to $101m but with slightly fewer deals. However, in between these stages, Early Stage funding fell 38% to $1.7bn and Later Stage deals fell 16% to $7.1bn.

The Top 5 Deals in the UK in 2022 were:

Company		Deal Size
FNZ	**FNZ**	$1.4 billion
checkout.com	**Checkout.com**	$1 billion
sumup	**SumUp**	$602 million
BLOCKCHAIN	**Blockchain.com**	$490 million
MFS	**Market Financial Solutions**	£399 million

Gender Investment Gap Grows

In 2021, female-founded and female-led FinTechs represented 9% of all VC activity in UK FinTech.

In 2022 investment into female-driven FinTechs dropped to $616 million across 39 deals, representing just 4.9% of total investments in UK FinTech.

In contrast to the full UK figures, there was a large drop by number of deals in female-driven FinTechs that took place at the Seed stage from $49 million invested in 19 deals in 2021 to just $8.8 million across 4 deals in 2022.

The heftiest investment into a female-founded FinTech in 2022 went to Starling Bank, which netted $170 million in its post Series D Late Stage Round.

"For Investors in B2B FinTech, the nature of those companies rely on founders with domain expertise to navigate regulatory environments in FinTech and other regulated industries. Finance overall lacks female representation [in these categories]. Notwithstanding, we work with fantastic female CEOs across our portfolio and it's a signal to diversify more"

– Jay Wilson, Investment Director, Albion VC

Mergers and Aquisitions

2022 brought in good news for corporate M&A. Strategic mergers and acquisitions in global FinTech have maintained steady levels of activity, generating over $72 billion in 2022 across 614 deals with an average deal size of $117 million.

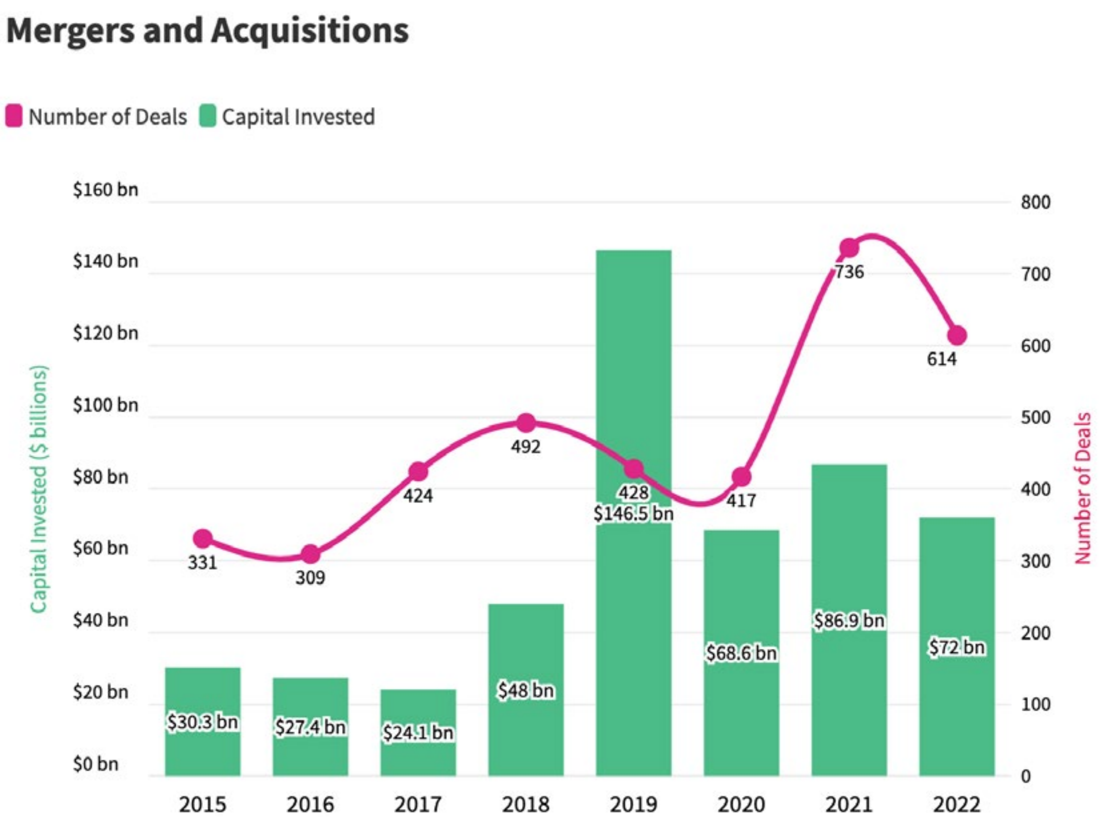
In 2021 mergers and acquisitions accounted for $86.9 million across 736 deals with an average deal size of $118 million.

"We expect to see an increase in M&A and consolidation in particular amongst incumbents and scaled fintechs with strong balance sheets. There has already been some evidence of this in 2023, with [the merger of] Twig / Vybe and Duck Creek / Imburse Payments."

– Tim Levene, CEO, Augmentum FinTech

"In 2023, M&A will be the new IPO. We expect to see a dramatic acceleration in activity due to large strategics taking advantage of robust balance sheets, attractive valuations, and public market volatility. Meanwhile, PE dry powder continues to accumulate. We also expect to see well-performing later stage startups be opportunistic with acquisitions to consolidate market share and/or shortcut geographical or product roadmaps."

– Nick Daley, Investment Associate, Fin Capital



What's Ahead for 2023?

After two record-breaking years for FinTech investment in 2020 and 2021, 2022 has been a testing year for FinTech as the sector began to witness the impact of inflation and economic slowdown from the third quarter. With global FinTech investment down by 30%, it begs the question of what current conditions mean for the sector as a whole?

Cross industry data strongly suggests that FinTech will move in step with other capital markets around the world and will recover in unison.

Across FinTech verticals, B2C Fintech will face additional challenges in 2023 as inflation impacts everyday consumers.

B2C will be challenged with less capital available to fund the growth of less attractive business models. It will most likely come to some high profile acquisitions and folding of companies the public did not anticipate.

The transition from 'capital inefficient VC growth at any cost' to 'profitable growth' is not easy to execute even if companies announce large restructuring plans. Investors like Fidelity International Strategic Ventures have specifically named embedded finance, open banking and companies that focus on revenue enablement and derive true disruption to incumbent business models."

– Erik Mostenicky, VP of Venture Capital at Fidelity International Strategic Ventures

Private market valuation benchmarks should continue to normalise to pre-2020 levels, while the record level of dry powder held by VC firms will allow high quality companies to continue to attract funding."

– Tim Levene, CEO, Augmentum FinTech

For tech entrepreneurs, 2023 represents a unique opportunity to start new projects. Investor appetite at pre-seed and seed stage will be high, and hiring will be easier with less compensation pressure than in recent years. Remember many of today's household tech names rose out of the ashes of the 2008 financial crisis."

– Kevin Chong, Co-Founder, Outward VC

B2C will be challenged with less capital available to fund the growth of less attractive business models. It will most likely come to some high profile acquisitions and folding of companies the public did not anticipate. Conversely, B2B FinTech has many opportunities in 2023 to address some of the signature challenges of the economic environment. "B2B fintechs serving the finance function or offering cost efficiencies will become more attractive, as CFOs become more focused on these opportunities."

– Erik Mostenicky, VP of Venture Capital at Fidelity International Strategic Ventures

Notes

The data was compiled and summarised by Innovate Finance using PitchBook data as at 31st of December 2022. FinTech investment includes accelerator, incubator, angel, seed, early and later stages VC, and PE growth/expansion funding. The data includes both equity and debt capital raises. The data has not been reviewed or approved by PitchBook.

We would like to thank the following contributors:

- Paul Scully, Digital Economy Minister
- Chris Woolard, UK Head of FinTech, EY
- Kevin Chong, Co-Founder of Outward VC
- Tim Levene, CEO of Augmentum FinTech
- Erik Mostenicky, VP of Venture Capital at Fidelity International Strategic Ventures
- Jay Wilson, Investment Director, Albion VC
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- Fred Raybould, Graphic Designer, Innovate Finance

About Innovate Finance

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Its mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators.

Innovate Finance's membership ranges from seed stage startups and global financial institutions to investors, professional services firms, and global FinTech hubs. All benefit from Innovate Finance's unique position as the single point of access to promote enabling policy and regulation, talent and skills, business opportunity and growth, and investment capital. By bringing together and connecting the most forward-thinking participants in financial services, Innovate Finance is helping create a global financial services sector that is more transparent, more sustainable and more inclusive.

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