State of FinTech H1 2024

FinTech Control Tower

NOVEMBER 2024

Navigating Through FinTechs Challenges and Opportunities in H1 2024

The FinTech landscape has changed, but signs of stability have emerged

The first half of 2024 has shown some promising signs of recovery for the global FinTech ecosystem. The FinTech sector saw a 38% increase in equity financing from Q1'24 to Q2'24, signaling renewed investor confidence, potentially leading the FinTech ecosystem out of the investment downturn that began in Q1'22. This has been heavily influenced by the stabilizing macroeconomic environment as inflation eases and interest rates plateau across the globe. We are moving into a more predictable, albeit higher interest-rate, macroeconomic environment. Additionally, the uncertainty around underwhelming FinTech public market performance, concerns around valuations and a challenging exit environment have considerably eased. Public markets are stabilizing, revenue multiples are leveling at 4x to 5x compared to the 20x peak and M&A activity has remained strong. However, the long-term outlook is far from certain. Interest rates and inflation in many leading FinTech markets remain high and geopolitical tensions remain. Alongside this, 2024 sees elections and changes in governments across many major FinTech regions

Opportunities for M&A and exits still exist, despite the tighter funding environment

Despite the challenging environment, opportunities still exist and 2024 has seen promising developments. M&A remained high as founders to look for synergies with larger organizations. Incumbent Financial Institutions strategically acquired FinTechs to enhance their market share and realize efficiencies, while established FinTechs acquired smaller companies to broaden their product offerings. However, we saw a small drop in H1'24 M&A compared to '21-'23 levels. Additionally, the rebound in public market performance means IPOs are becoming increasingly attractive exit opportunities

The heavy focus on unit economics is driving profitable growth

FinTech revenue growth has been robust as the tighter funding environment prompts FinTechs to focus closely on unit economics to remove reliance on VC capital. FinTech revenues grew at a 14% CAGR over the past three years. Payments and Accounts sectors show significant growth. FinTechs have also responded quickly to the GenAI boom by launching new companies and products whilst incumbents have responded by forming various strategic partnerships. AI-powered FinTechs are consistently gaining investor backing, with their share increasing by 3% from H1'23 to 31% of the overall landscape. In 2024 and most likely the next years the focus remains on creating sustainable, profitable business models, thereby building a stronger foundation for long-term success in the FinTech ecosystem

Source: BCG FinTech Control Tower

Executive summary of the state of FinTech in H1 2024

Attracting investment over the past couple of years has been challenging. However, Q2 2024 shows a significant rebound, with equity financing up 38% compared to Q1 2024, signaling the start of renewed investor confidence

1. Q2'24 sees a significant uptick in equity financing since the investment downturn began in Q1'22, with amount invested (+38%) & rounds (+9%) increasing QoQ. This rebound signals renewed investor confidence as macroeconomic conditions stabilize across the globe
2. However, overall H1'24 investment has fallen from the H1'22 peak. Later-stages (Series C+) have been hit hardest, with H1'24 vs H1'22 (64-86%) vs early stages (64-71%). H1'24 sees EMEA return to the longer-term average, whilst APAC & Americas fell further
3. AI-powered FinTechs consistently find investor backing, with their share increasing by 3% from H1'23 to ~31% of the overall landscape. Incumbents have responded to the GenAI boom by forming various strategic partnerships

Public markets are stabilizing, with revenue multiples leveling at 4x to 5x compared to the 20x peak. M&A activity has remained strong, whilst public listings still show mixed results

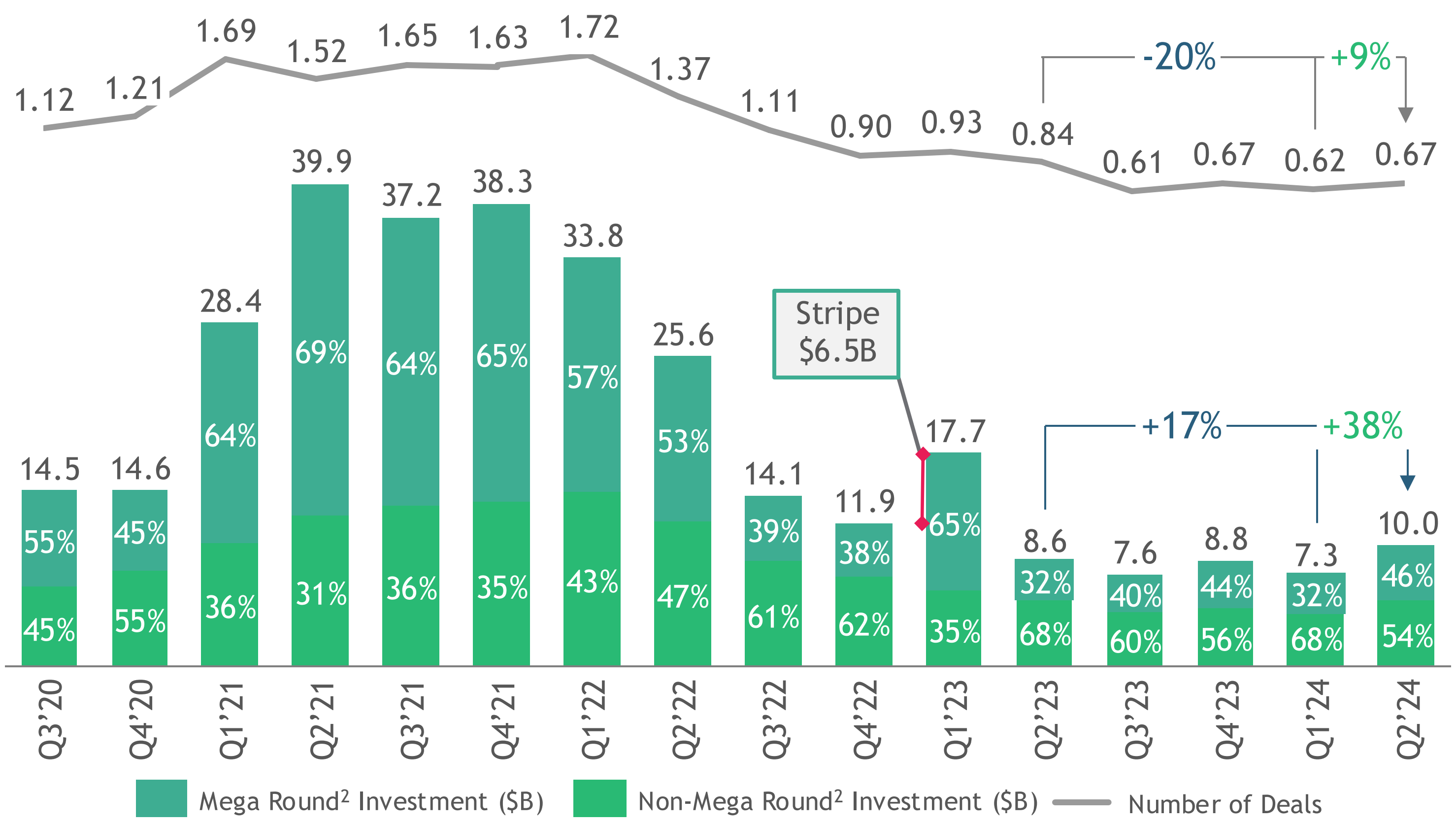
4. FinTech revenue multiples for public FinTechs stabilized over H1'24 to 4x-5x. Despite the fall from the peak of 20x seen in 2021 this stability sparks investor & acquirer confidence as valuation expectations converge and revenues continue to grow for the leading public FinTechs
5. M&A activity remains strong, with volumes 60% higher than the '17-'20 avg. Incumbent FIs are acquiring FinTechs primarily to increase their market share and improve efficiencies. Whilst more established FinTechs acquiring smaller FinTechs to expand their product suites

Source: BCG FinTech Control Tower

H1'24 Global FinTech Investment Landscape

Q2'24 sees a significant uptick in equity financing since the investment downturn began in Q1'22[1], with amount invested (+38%) & rounds (+9%) increasing QoQ

Global FinTech equity funding ($B), count of deals (K)



Rising inflation and interest rates have altered the near-zero cost of capital experienced post the GFC. However, as inflation eases and interest rates stabilize, we are moving towards a more predictable macroeconomic environment, albeit with higher interest rates

The foundations driving FinTechs to innovate remain, despite the more challenging funding environment. Along with finding new revenue sources and alternative growth models, FinTechs are moving away from reliance on venture capital, providing stability amidst investment fluctuations

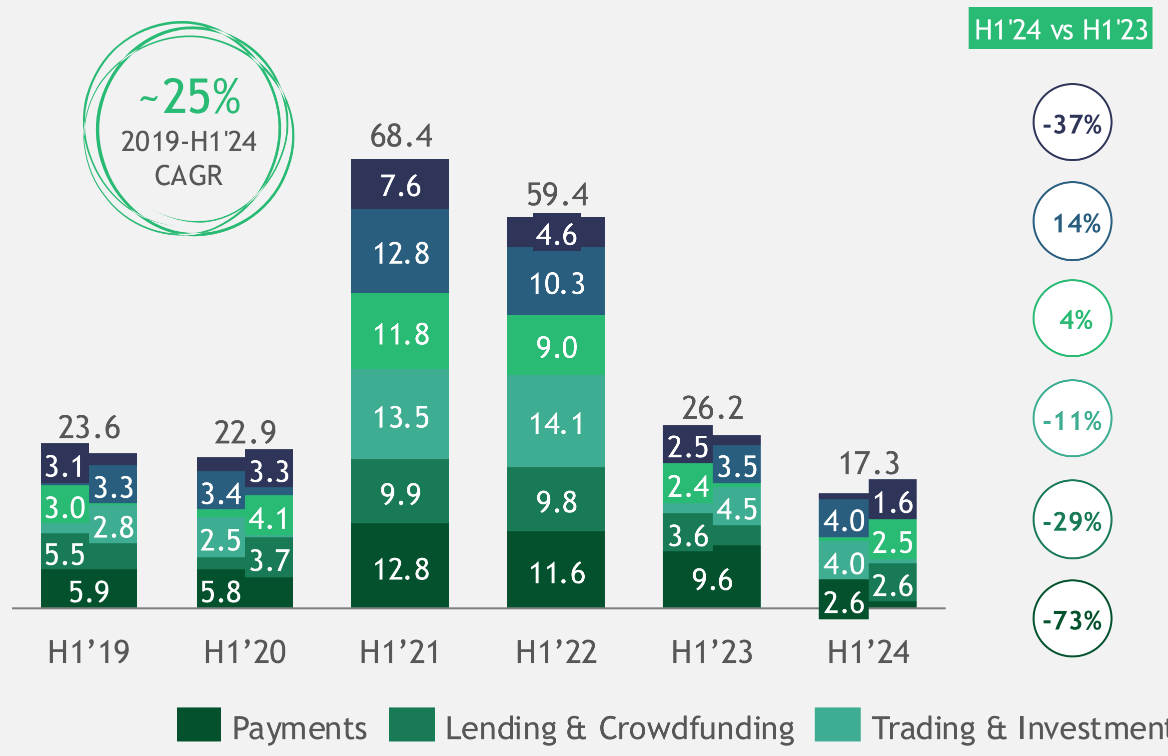
1. Excluding stripes $6.5B round
2. Mega rounds - investment rounds great than or equal to US$100M

Note: Analysis includes equity funding for firms active at time of raise, excluding debt, M&A or IPO funding. Investment amounts in LTM may fluctuate by ~3-5% number of rounds by ~10-20%

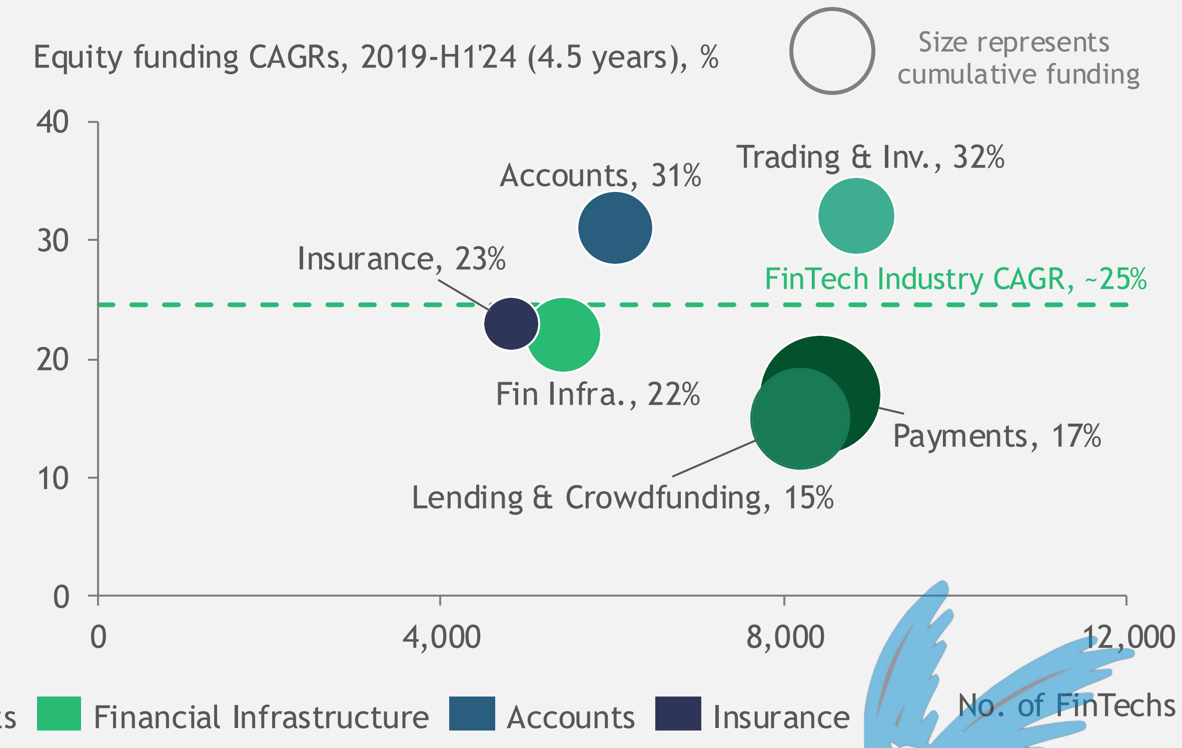
Source: BCG FinTech Control Tower

Accounts has grown the fastest YOY at 15% & it was also the second fastest growing sector with a 4.5Y CAGR of 31%. Strongly driven by leading Digital Banks

Equity funding amounts by FinTech product line, $B[1]



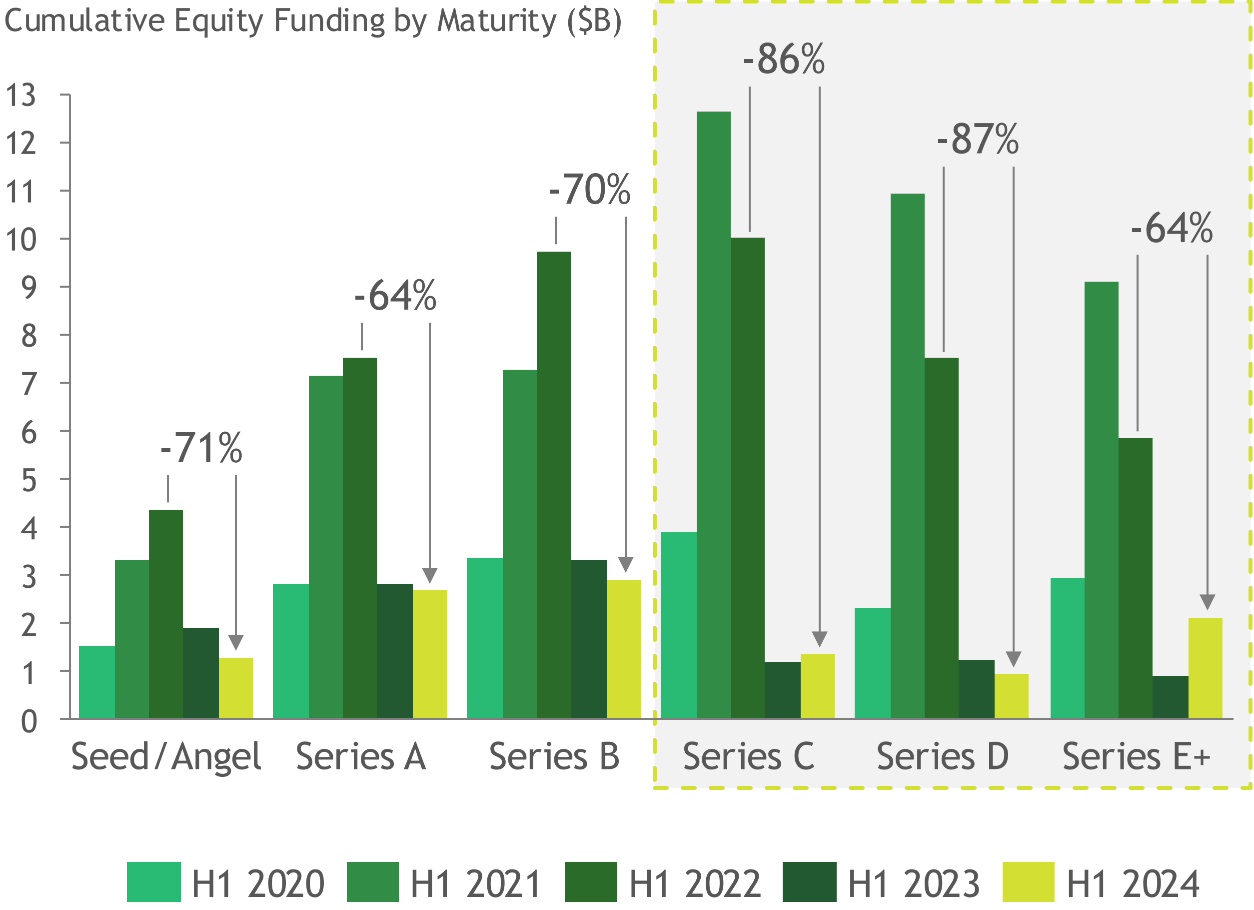
FinTech product lines by size and 4.5-year CAGR[2]



1.The bars in the graph and the circles indicating the year-over-year changes for H1'24 versus H1'23 are sorted as shown in the legend
2.Size of bubble represents total cumulative equity funding (2000 - H1'24), not including M&A or IPO funding; number of companies includes operating, subsidiaries, IPO-ed and acquired firms; Compounded Annual Growth Rates (CAGRs) are calculated using cumulative values from 2000 to H1'24 by applying this formula: $(V_f / V_i)^{(1/n)} - 1$, where V_f is the final value, V_i is the initial value, and n is the number of years; Source: BCG FinTech Control Tower

Later stage investments are hit hardest, falling (64-86%) vs early stages (64-71%)

Cumulative Equity Funding by Maturity ($B)



Source: BCG FinTech Control Tower

Later Stages - Series C to E+

Later-stage FinTechs have fallen the furthest from H1'22 but are showing some signs of recovery, with slight upticks in Series C and E funding compared to H1'23. Investors are cautiously optimistic, injecting capital where clear paths to profitability and sustainable growth are visible, reflecting an improving outlook

Early Stages - Series A & B

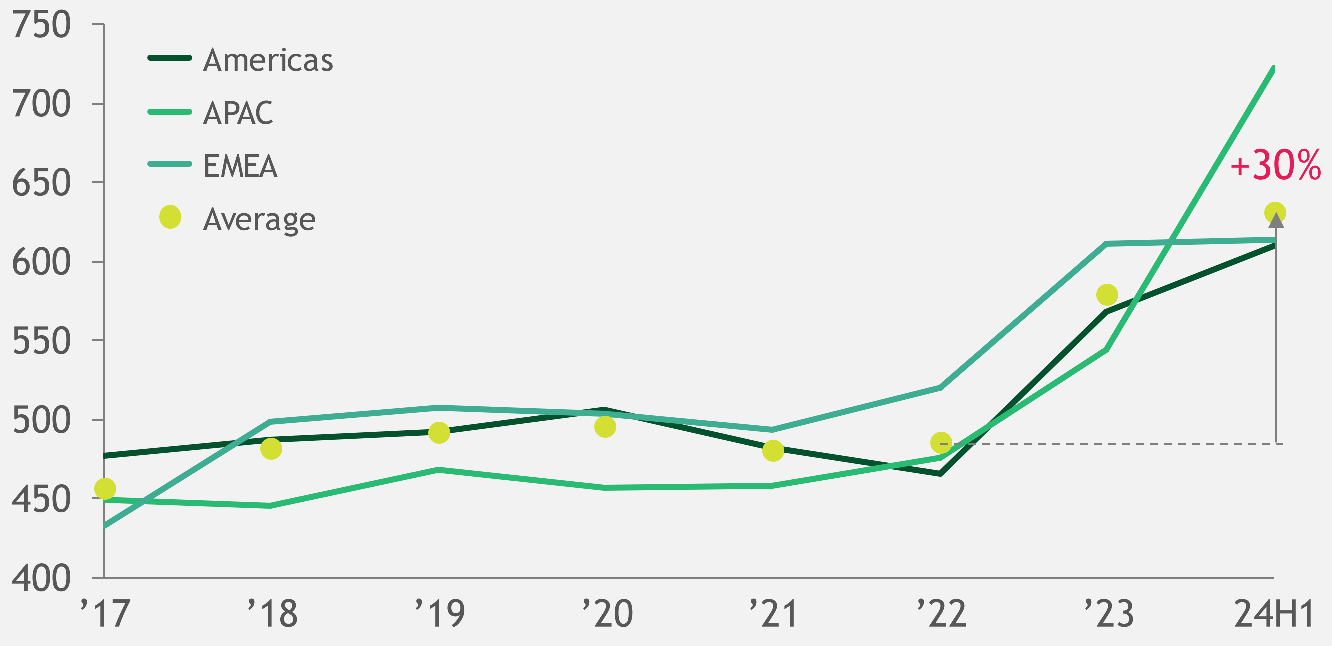
H1'24 remained tough for early-stage investments, but the decline was less pronounced than in later stages. Investors continue to see promise in younger FinTechs, focusing on those with innovative solutions and strong early traction, indicating sustained interest in new market entrants

Seed/Angel

Seed and angel investments saw a slight dip compared to H1'23, reflecting a more selective investment approach. New founders are still able to raise funds as investors continue backing innovative business models, perpetuating the long-term health of the FinTech ecosystem

Cash runways from VC funding are shrinking fast. There has been a 30% increase in the time between rounds since '22. Whilst average rounds sizes fell by 21%

Average time between equity financing rounds (days)



Average round size fell 21% from $18.9M 2022 to $14.8M 2024 H1

In '24H1 an investment round needs to last ~250 days* longer than in '22, prompting a focus on:

1. Unit economics:
Cutting cash burn rate through technology & layoffs, whilst growing revenue through customer acquisition

2. Diversifying capital sources:
Raising debt/convertibles to sidestep a competitive VC market and avoid unfavorable deal terms

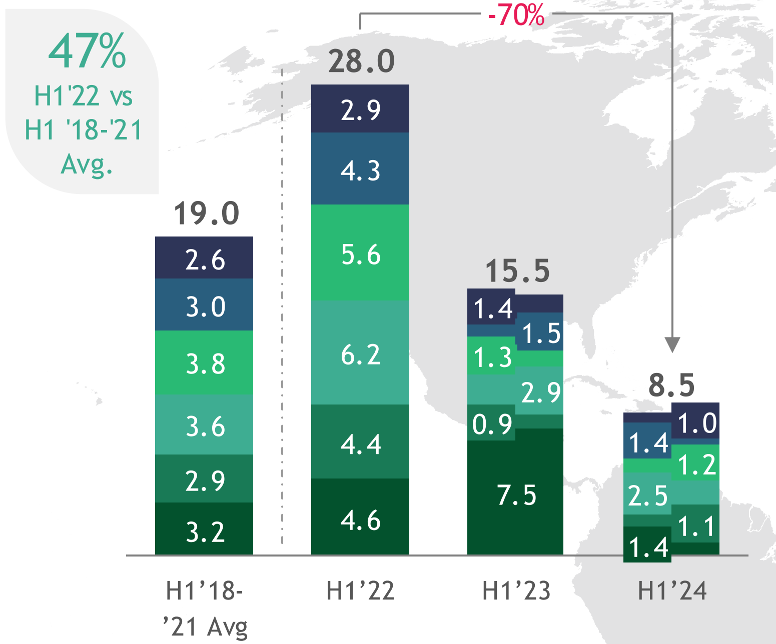
3. Looking for exit:
M&A has remained strong over '21-'24H1 as pricing expectations converge and founders seek security

Regions:
The trend is similar across all regions, APAC saw a sharper rise in '24H1 as of round volume fell harder

*145 day increase between rounds from '22-'24H1. 21% shrink in size, a '22 round would typically last 485 days, being 21% smaller it will last ~380 days at the same cash burn rate
Source: BCG FinTech Control Tower

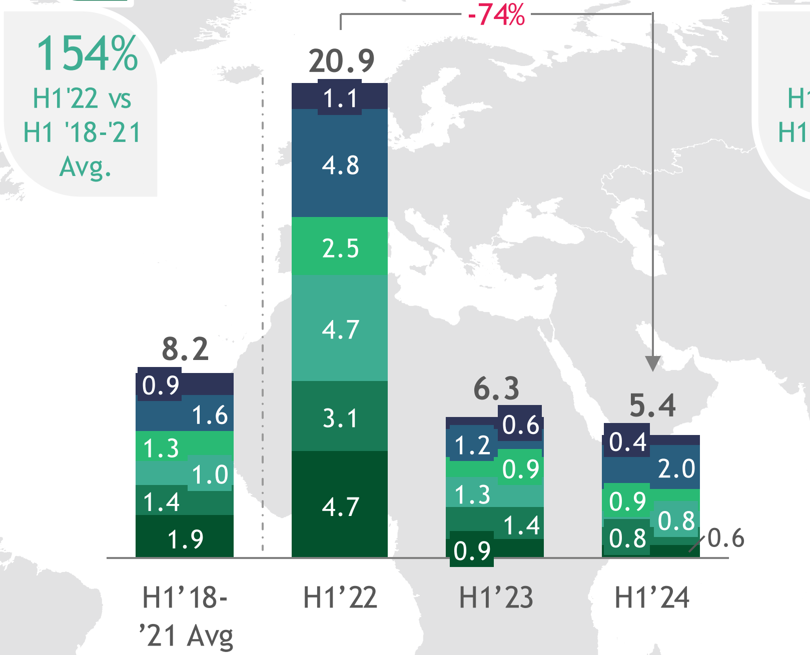
The rise & fall in investment over H1 '22-'24 differs between regions. H1'24 sees EMEA return close to the longer-term avg. whilst APAC & Americas fell further

Americas Equity Funding ($B)



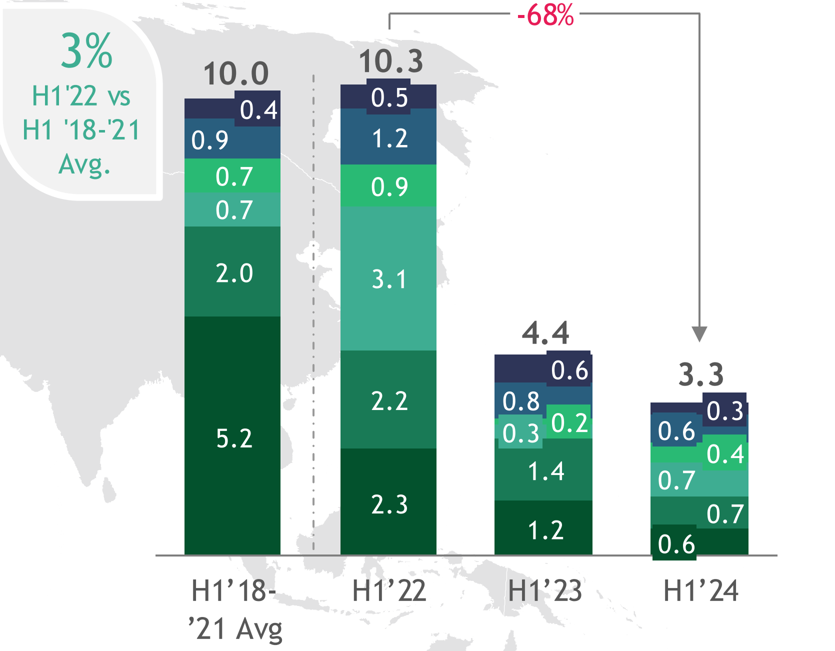
- Americas saw the 2nd highest rise in investment in H1'22 vs H1 '18-'21 avg. but has seen a sharp fall over H1 '23-'24
- Payments & Trading & Investments firms are receiving a rising share of investment H1 '23-'24

EMEA Equity Funding ($B)



- EMEA saw the largest rise in investment in H1'22 vs H1 '18-'21 avg. and sharpest fall over H1 '22-'24
- Although H1'24 remained steady *vis-a-vis* H1'23
- Lending & Trading & Investments firms are receiving a rising share of investment H1 '23-'24

APAC Equity Funding ($B)



- APAC saw a slight increase in H1'22 vs the H1 '18-'21 avg.
- H1' 24 fell to ~68% from the peak of H1'22
- Lending & Trading & Accounts are receiving a rising share of investment H1 '23-'24

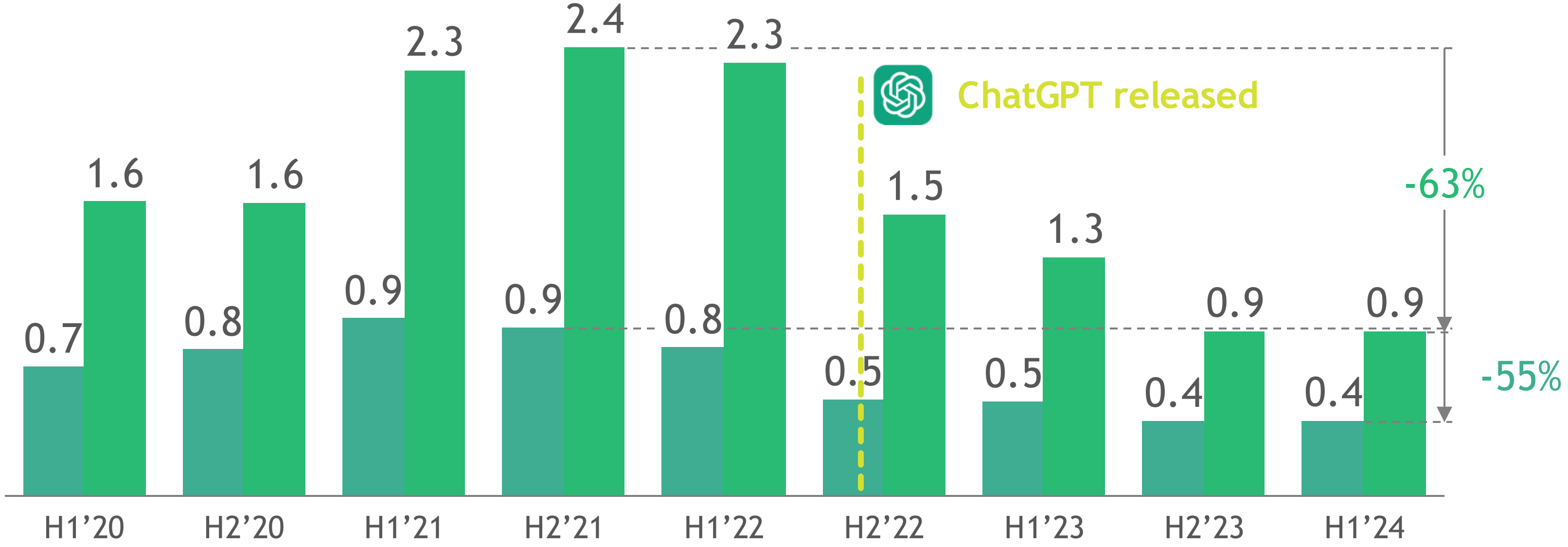
Payments | Lending & Crowdfunding | Trading & Investments | Financial Infrastructure | Accounts | Insurance

Note: the scale of the vertical axes differs across the above three graphs to offer the reader a better overview of the examined trends

Source: BCG FinTech Control Tower

AI powered FinTechs* are more consistently backed by investors, showing smaller fluctuations in number of investments compared to their non-AI powered peers

Number of Equity rounds (thousands) and share of deals (%)



Share of rounds to AI powered FinTechs

H1'20	H2'20	H1'21	H2'21	H1'22	H2'22	H1'23	H2'23	H1'24
30%	33%	29%	27%	25%	25%	28%	31%	31%

H1'24 saw a 6pp uptick in the share of deals going to AI-powered FinTechs vs H2'22. This reflects a broader industry recognition of GenAI as a transformative force, ushering in a new phase of AI

Investors are more inclined to back FinTechs with AI at their core as the technology has proven ability to transform financial service

*AI powered FinTechs are tagged by the FCT where the use of AI is mentioned explicitly as a core component of their business model on the companies website or news articles
Source: BCG FinTech Control Tower

The opportunity for AI applications differs across FinTech clusters, with Financial Infrastructure & Insurance seeing the heaviest utilization

Select FinTech AI Use Cases

Financial Infrastructure

RegTech
- Transaction monitoring for real-time risk assessment *(Fenergo, Verafin)*
- Onboarding & verification *(Jumio)*
- Real-time regulatory risk *(FiscalNote)*

Core Platforms
- Predict product engagement*(Alkami)*
- Saas AI layer for CRM, AML, Lending, cash mgmt. *(C3 AI)*

Operations
- Automation *(nCino)*

Insurance

Risk assessment & underwriting
- Aggregate & analyse imagery / satellite data *(Hippo, Root)*
- Assist underwriting e.g. *structured data extraction from client documents (Bold Penguin)*

Claims mgmt.
- Claims settlement automation e.g. *Lemonade settled a claim in 2 seconds via their chatbot*

Trading & Investments

Pre-Trade
- Market analytics *e.g. alerts, valuation, trade recomm. (Heckyl, Alpaca, Kensho)*
- Alt. data source *(Thinknum, Dataminr)*
- Portfolio Risk mgmt. *(AlgoDynamix)*
- Client analytics *(Algomi)*

Retail Trading
- Trend analysis & recommendations *(Robinhood)*

Accounts

SME Accounting
- Automate business processes e.g. *CRM, personalization, client acquisition, social media marketing, reporting (Intuit Quickbooks)*
- Tax categorization *(TaxJar)*

Digital Banking
- Financial advice and personal financial management *(NuBank)*
- Real time fraud detection for the customer *(Revolut)*

Lending & Crowdfunding

Personal Loans
- Real-time credit assessment *(Affirm, Upstart, Tala)*
- Customer service via chatbot *(Klarna)*
- Match customer profile with lending partner *(Lexin)*

Lending Infra.
- Credit decisioning models for FIs *(Open Lending)*
- Debt collection *(PAIR Finance)*

Payments

Acquiring Solutions
- Customer profiling based on transaction data *(First Data)*
- Fraud detection *(Adyen)*
- Increase acceptance rates *(checkout.com)*
- International payments *e.g. compliance, currencies, payment methods (Rapyd)*

Corp. & SME Payments
- Automate Order-to-Cash *(HighRadius)*

AI use case

Share of FinTechs with AI use case

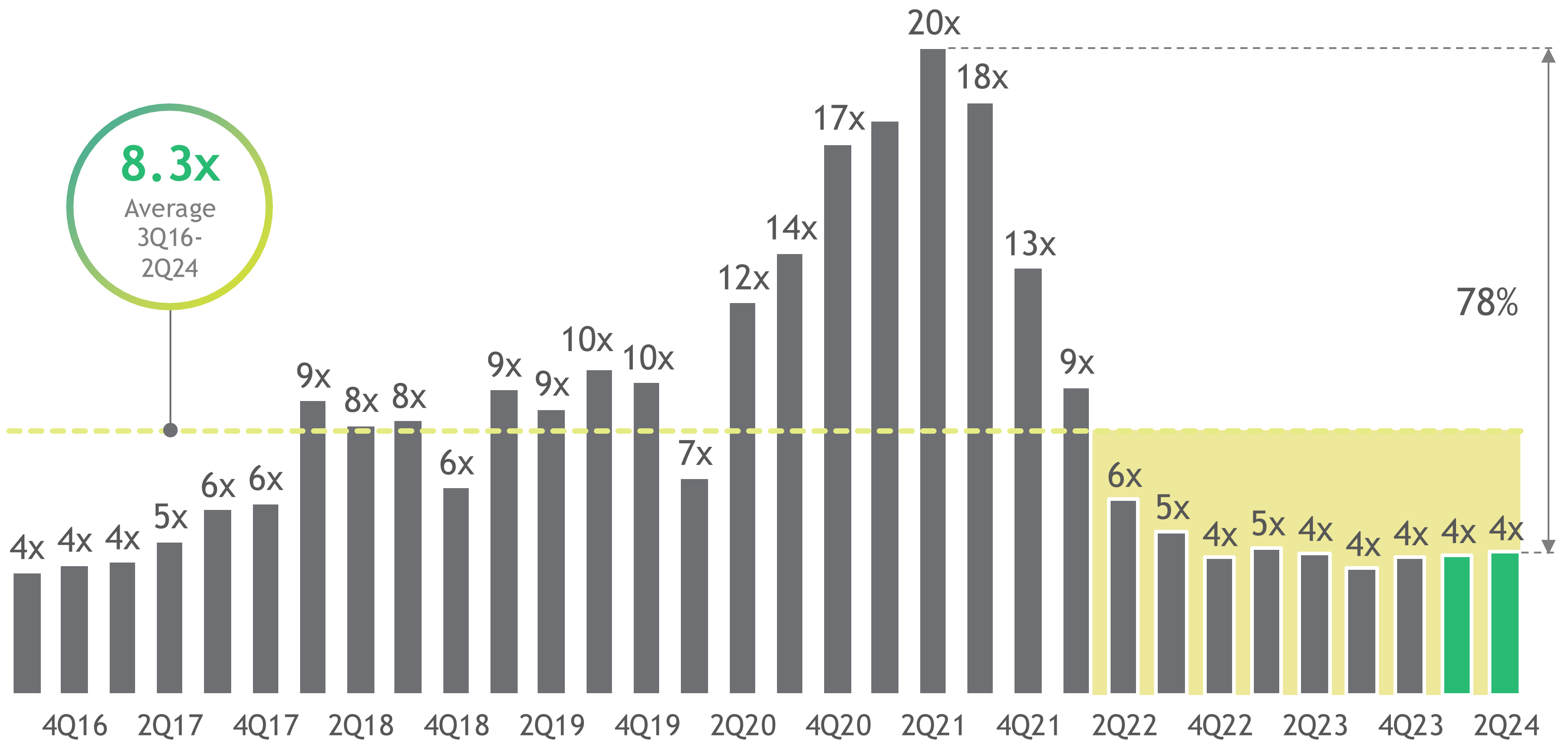
Financial Infrastructure	Insurance	Trading & Investments	Accounts	Lending & Crowdfunding	Payments
~40%	~35%	~20%	~15%	~15%	~10%

Note: Share of FinTechs with AI use case is determined by the number of comps marketing AI as a core differentiator. Numbers may vary as new AI products are launched
Source: Press research; Companies' web sites; BCG FinTech Control Tower

H1'24 FinTech Exit Landscape

Revenue multiples have been stable for the past 2 years as public markets normalized & revenues saw stable growth

Q3 2016 – Q2 2024, Average Revenue multiples for public FinTechs (Market Cap/LTM revenues)



The Public Fintech list considers market capitalization and revenues for each quarter from 85 public FinTechs from different geos and segments
Figures are prone to variations due to availability of data
Source: BCG Fintech Control Tower, Capital IQ, BCG analysis, Pitchbook

Revenue multiples have stabilized over the past 9 quarters. Levelling out at 4.5x, below the historical average of 8.3x

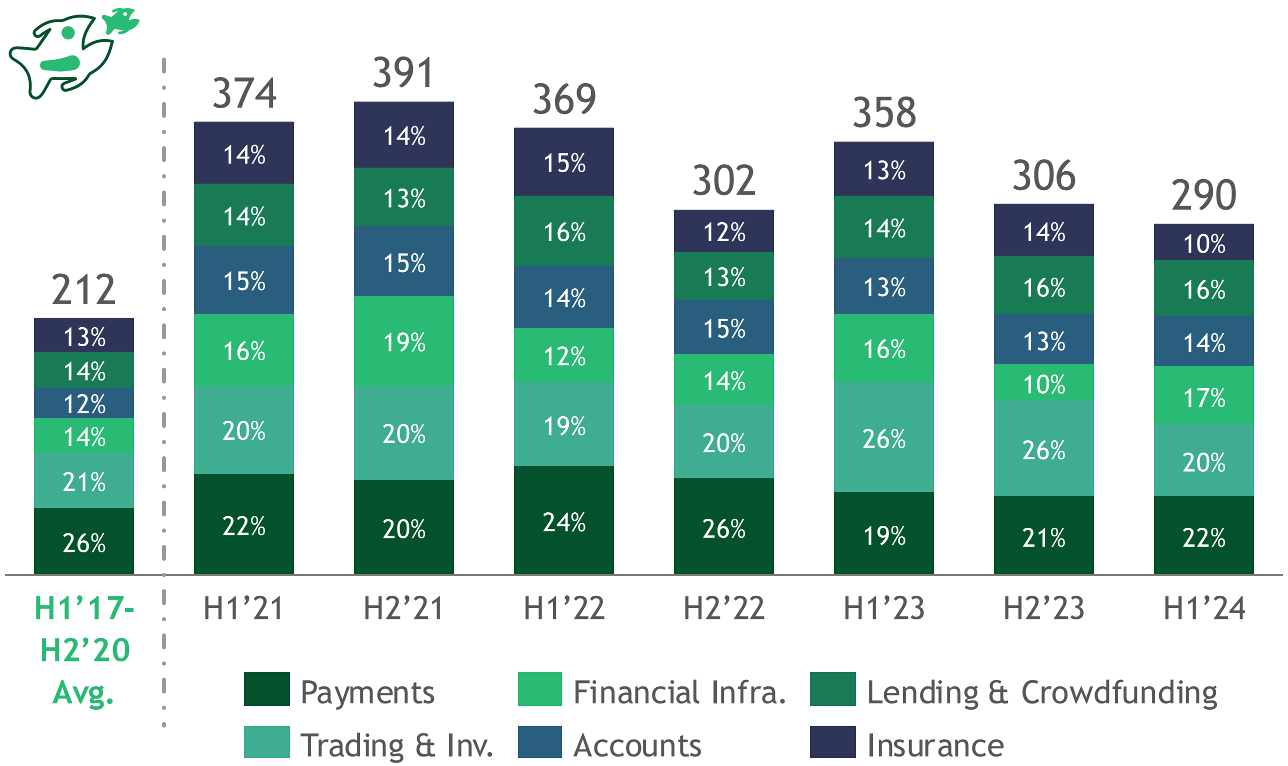
This has been heavily driven by market forces have re-normalized public market valuations, revenues have seen steady growth in contrast

This prompts a more stable environment for the pricing and structuring of deals which will impact both public and private markets, particularly for later stage FinTechs

However, these lower revenue multiples will likely lead founders to hold out public listings until the public market moves in their favor

M&A activity has remained strong since '21, with volumes 60% higher than the '17-'20 avg.

Global FinTech Mergers & Acquisitions by cluster (count)



Source: BCG FinTech Control Tower

H1'24 fell below the '21-'23 average

Stabilizing interest rates and inflation across the globe is leading to a more predictable investment environment making VCs more likely to invest. FinTechs that were looking for M&A in the stressed environment over '22-'23 are now inclined to hold out for favorable deal terms as the market improves. Additionally, the rebound in public market performance means IPOs are becoming increasingly attractive exit opportunities

Factors driving increased M&A:

Converging Price Expectations

Volatile valuations over '20-'22 led to buyer<>seller pricing disparities. '24 will likely see further stabilization, as experienced over '23

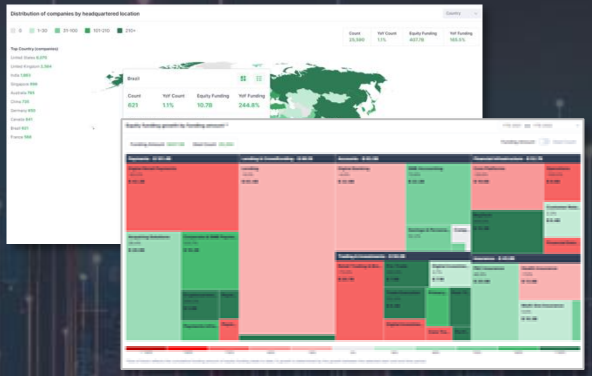
Abundant Dry Powder

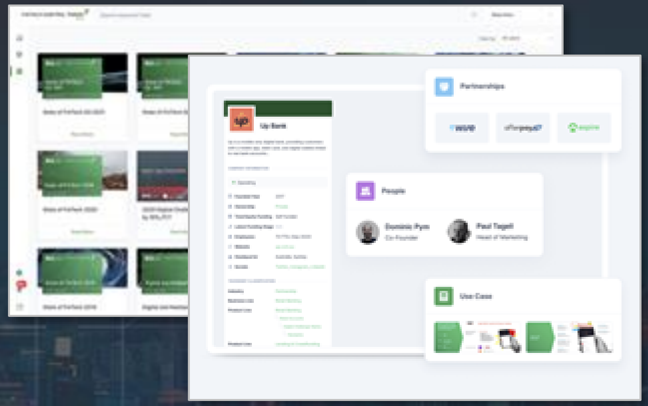
Volatile macroeconomic conditions over '21-'23 meant many firms were less inclined to deploy their capital. The macroeconomic condition globally is stabilizing, decreasing acquirer/investor hesitancy

The Pursuit of Resilience

Pressures on costs & profitability presents a major opportunity for FinTechs and FIs to use M&A to gain efficiencies, scale & consolidate

The FCT offers an online database subscription for you and your clients to stay on top of FinTech market





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