



svb



Silicon Valley Bank

State of Fintech

A review of the record-breaking year
experienced by the fintech industry

2021

NOTHING
IS
HARDER



CITY LIGHTS

State of Fintech 2021

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Introduction

This year in many ways has been an extension of 2020 — forced digitization brought on by the pandemic continued to provide a tailwind for many fintech startups, boosting revenue and bolstering balance sheets from added customers and accelerating transaction volumes. Late-stage deals dominated the venture landscape, minting a record number of “dragons”. The best of breed companies came back to market quicker, tapping into investors with ample amounts of capital, and valuations continued to climb as investors poured money into perceived winners.

New trends emerged as the year progressed. Digital assets from cryptocurrency to non-fungible tokens (NFTs) exploded — setting records in transaction prices and volumes along the way. Fintech darlings such as Robinhood, Affirm, Coinbase and more hit the public markets, bringing long awaited liquidity to investors — which should get recycled back into the ecosystem. And we’d be remiss to not mention the strength within the payment facilitation space — an area we highlight in this report — which saw the number of players increase, as companies sought to capitalize on the expanding revenue and market opportunity.

Combine all these factors together and it paints a picture of a healthy fintech ecosystem. Looking ahead into 2022, we expect trends to continue as investors’ appetite for fintech assets remains strong, capital is abundant and public markets have been receptive. We at SVB are excited for fintech’s future and look forward to helping founders, our partners and colleagues build some of the best companies in the world.

Dan Allred

Senior Market Manager
Silicon Valley Bank

Investment Trends

Fintech Flourishing

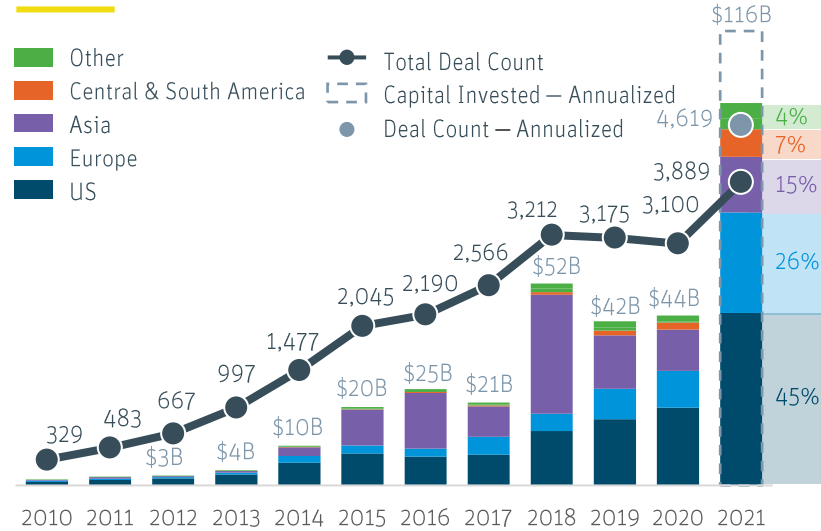
Fintech Activity on the Rise

The COVID-19 pandemic accelerated the shift for consumers and businesses to digital, whether it's ordering groceries online or conducting remote meetings. Few sectors have benefitted from that transition more than fintech. In 2021, global investment set new records for deals, dollars and valuations. As a result it is taking a larger share of the venture capital (VC) pie. In 2021, fintech companies were 14% of all VC deals but accounted for 18% of investment. European and American fintech companies raised a combined \$70.0 billion in 2021, up from \$29.3 billion in 2020. The largest recipient of funding in 2021 was the payments sector, which accounted for 19% of late-stage deal share — a trend reflecting the popularity of online ordering and adoption of contactless point-of-sale (POS) software during the pandemic.

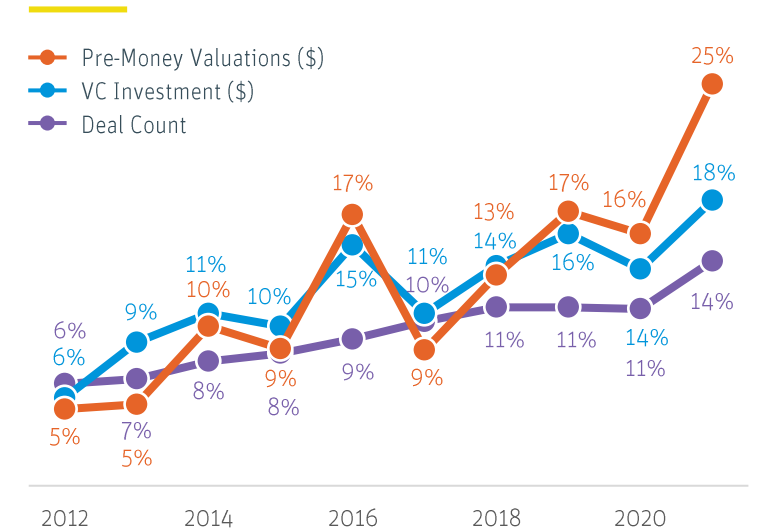
Leading the flood of investment is a new breed of fintech-focused investor. Six of the top 10 most active investors have more than 60% of their total deals in fintech. While Fintech 1.0 focused on digitizing financial services, Fintech 2.0 is about embedding financial products into other tech platforms. Among embedded finance verticals, such as POS lending and digital wallets, payment facilitation has emerged as a way for commerce platforms to monetize transactions for the small businesses they host.

Based on early-stage funding data, payment facilitation infrastructure is the largest recipient of investment, representing 25% of total deals. Cryptocurrency/blockchain is the fastest growing fintech sector at both the early and late stage. Investors are betting that technologies, such as nonfungible tokens (NFTs) and smart contracts, will usher in a decentralized financial system. It may not be far off. At the current funding pace, crypto and blockchain could overtake payments as the top recipient of late-stage deals within two years.

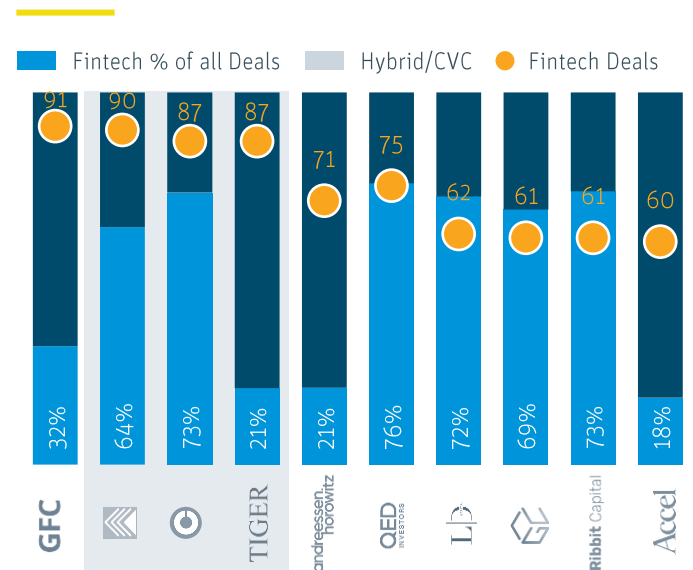
Global Fintech VC Activity by Region¹



Fintech's Share of Global VC Activity¹



Top Global Fintech Investors²



Global Fintech VC Activity by Sector

Sector	Early-Stage Share of Deals (2021)	Growth (2019-2021)	Late-Stage Share of Deals (2021)	Growth (2019-2021)
Real Estate	9%	-11%	8%	13%
Personal Finance	9%	36%	9%	126%
Alternative Lending	9%	2%	9%	27%
Fintech Infrastructure	25%	43%	13%	325%
Cryptocurrency/Blockchain	16%	101%	16%	41%
Business Process Software	10%	-1%	16%	93%
Insurtech	10%	-2%	19%	39%
Payments	11%	10%	19%	39%



Notes: 1) Data as of 11/15/2021. 2) Data from Q3 2019 to Q3 2021. Firms include: Global Founders Capital, AU21 Capital, Coinbase Ventures, Tiger Global Management, Andreessen Horowitz, QED Investors, LD Capital, Genblock Capital, Ribbit Capital, Accel. Source: PitchBook and SVB Analysis.

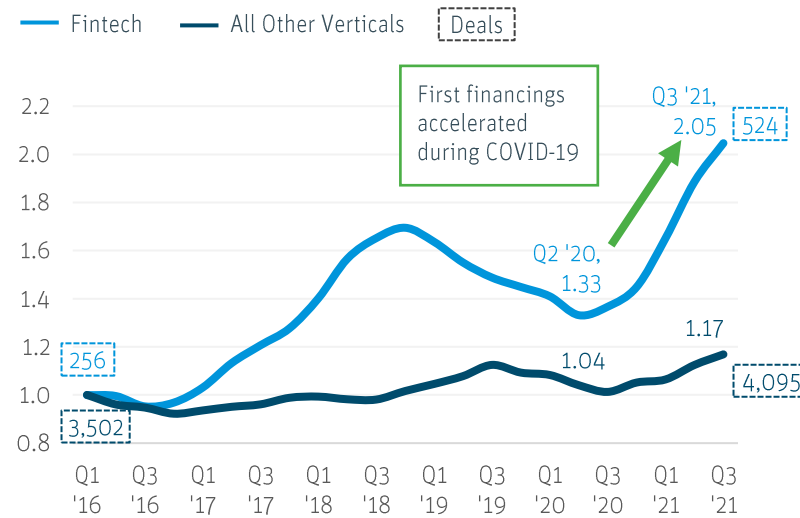
Fintech Formation Thriving

With the COVID-19 pandemic changing behaviors, a plethora of opportunities has emerged in the realm of fintech. For instance, 49% of millennials adopted new digital buying methods (e.g., curbside pickup or delivery apps) during the pandemic, while 88% adopted new shopping habits (e.g., changed stores/brands), and 65% of Americans use mobile banking. In addition, global smartphone ownership increased from 49% in 2016 to 80% in 2021, bringing a massive new audience online.

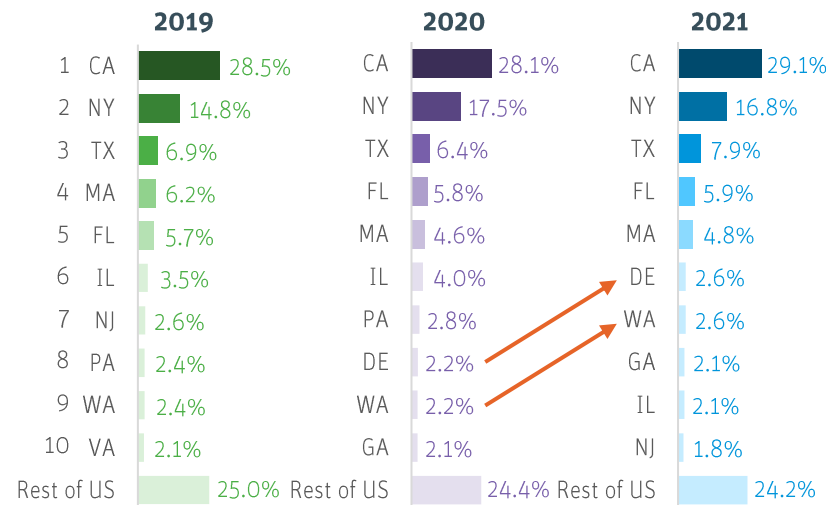
This shift in behavior and increase in digital users have broadened the market, leading to a surge in fintech company formation. When indexed to 2016, fintech startups are securing their first round of funding at nearly double the pace of all other verticals. That wasn't the case before the pandemic, which caused a reversal of a downward trend for fintech financings. Since Q2 2020, first financings for fintech startups have jumped by 53.6%, compared to a 12.4% increase for all other verticals.

California (29%) ranked first for fintech company formations, followed by New York (17%). These states are home to the major VC and financial centers, so dominating fintech company formation comes as no surprise. Two notable moves have been the decline in Illinois and bolstering of Texas. In contrast to the migration of talent and investors during the pandemic, California and New York have galvanized their positions as major fintech hubs. It helps to have the best colleges nearby. Seven of the top eight universities for graduating fintech founders are in either California, New York or a bordering state. Stanford alone accounts for 10% of VC-backed fintech founders.

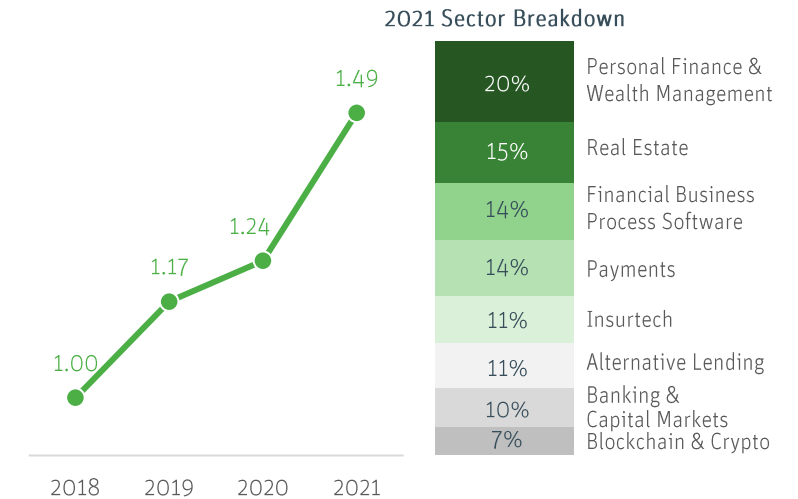
US First Financings Index¹



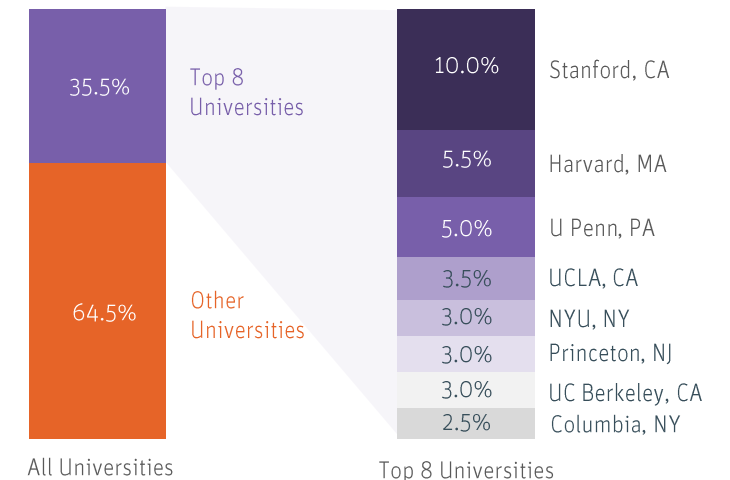
Fintech Company Formations By State³



Fintech Startup Activity Index²



Top Universities for US Fintech Founders⁴



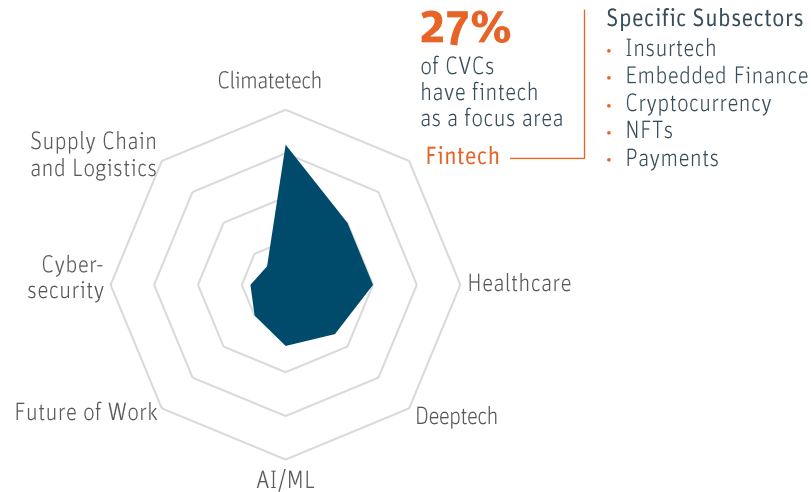
Corporate VCs Jump on the Fintech Train

Corporate venture capital (CVC) activity in fintech surged in 2021. Second to climatetech, CVCs report fintech as the most exciting area for investment, with 27% of firms having fintech as an investment focus.¹ The number of CVC fintech deals is on track to increase 64% over 2020, yet the aggregate size of those deals is projected to increase 158%, meaning CVCs are more active and willing to pay the premiums to remain so.² This is reflected in the larger checks CVC firms focused on fintech typically write. The median check size for CVCs focused on fintech is 18% larger than CVCs not focused on fintech.¹

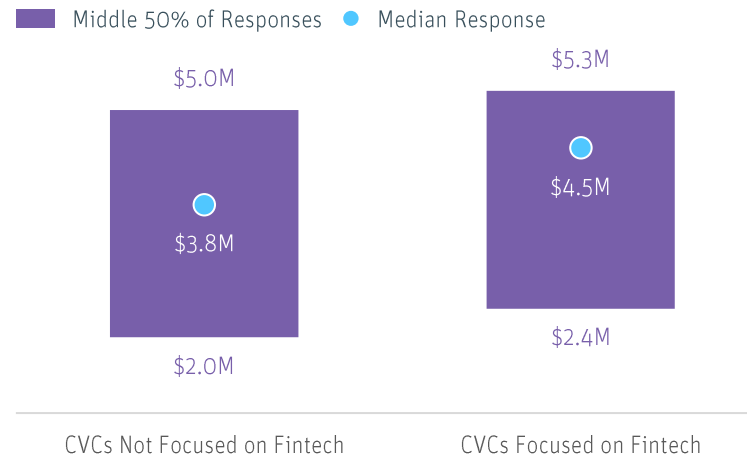
Corporates increasing their focus on fintech is the result of a rapid drive to embedded fintech solutions that have characterized Fintech 2.0. For example, on the consumer side, alternative lending, digital wallets and payment facilitation are becoming increasingly popular, as commerce platforms move to monetize transactions from the small businesses they enable. As Fintech 3.0 emerges, with an emphasis on blockchain technology and decentralized solutions, we are seeing more CVCs call out cryptocurrency and NFTs as areas of interest moving forward.

Finally, the last generation of VC-backed fintech companies is coming of age and building out venture arms to support the next wave of fintechs. For instance, Coinbase Ventures has been very active — investing in 87 fintech deals over the prior two years — despite only becoming a public company this year. Other companies, such as Carta, have set up venture arms while still being private.

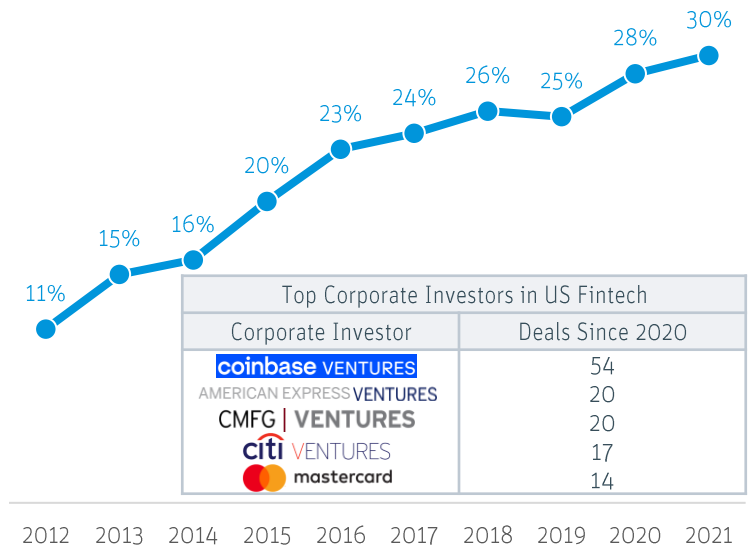
CVC Survey: Which Areas Excite You¹



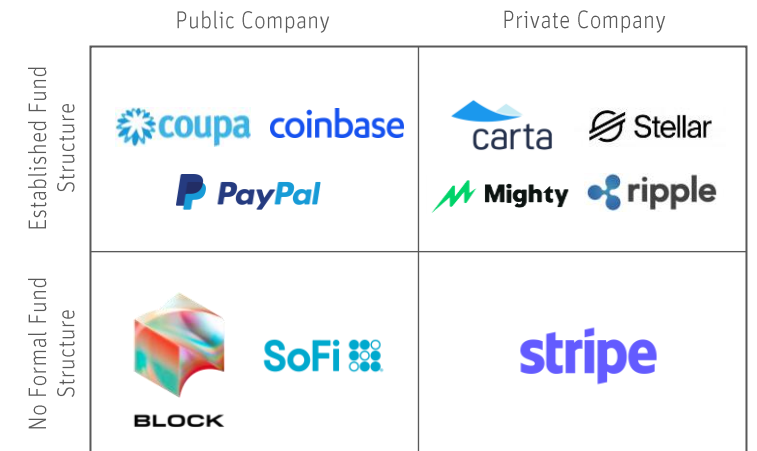
CVC Survey: Average Check Size Per Investment¹



CVC Participation in Fintech Venture Deals³



Notable VC-Backed⁴ Fintechs Investing in Venture



Notes: 1) From a survey of 106 global CVCs accounting for 10% of all active global CVCs and 40% of deals per annum. Survey conducted in Q3 2021. 2) As of 11/15/21 based on PitchBook data analyzing US deals and companies tagged within the fintech vertical as defined by PitchBook. 3) Data analyzing only US deals as of 11/15/21. 4) Including companies that are formerly VC-backed. Source: PitchBook, SVB Proprietary Data and SVB Analysis.

Fintechs Flying Out the Gate

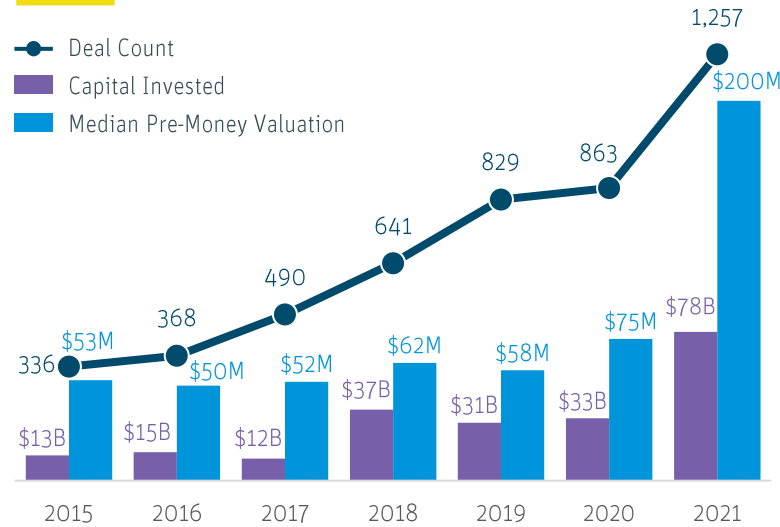
Led by Tiger Global, a band of investors is taking a new approach to VC. Instead of the traditional high due diligence and slower methodical process to investing, they are flipping the script by proactively offering substantial capital at high valuations, moving quickly to issue term sheets — by leveraging outsourced due diligence — with little interest in being involved in the company’s affairs after the deal closes.

This group of “hybrids” deploys capital faster than even the most nimble of traditional VCs and is becoming a larger proportion of US venture investment — especially at the late stage. The influx of folks like Tiger Global has pushed global late-stage fintech activity to new heights. This is evidenced by the size of deals needed to be the 25th, 50th and 100th largest fintech deals, increasing dramatically in 2021.

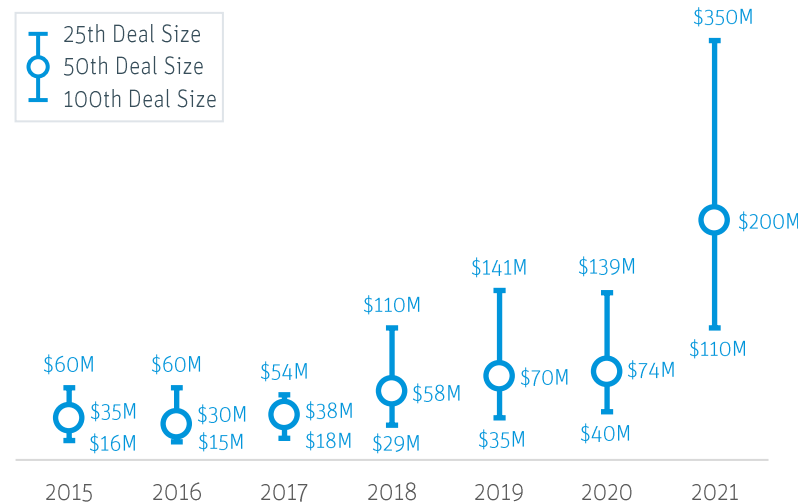
However, it’s not just the size of deals that’s increasing, but also the velocity of deals. This is highlighted by the time between financing rounds falling across most series. The time to raise a Series A has remained flat because of the more qualitative nature of determining to invest. Meanwhile, for companies raising a Series D+, the time between rounds has fallen significantly as the market leaders have been established, which attracts quick capital.

The abundance of capital chasing down the best deals has created a valuation mania. On a round-by-round basis, valuation step-ups from previous years seem almost arbitrary compared to 2021, where they’ve grown at an unprecedented rate. While troubling for some investors, the bigger picture is whether the public markets or an acquirer are willing to transact at these lofty valuation levels.

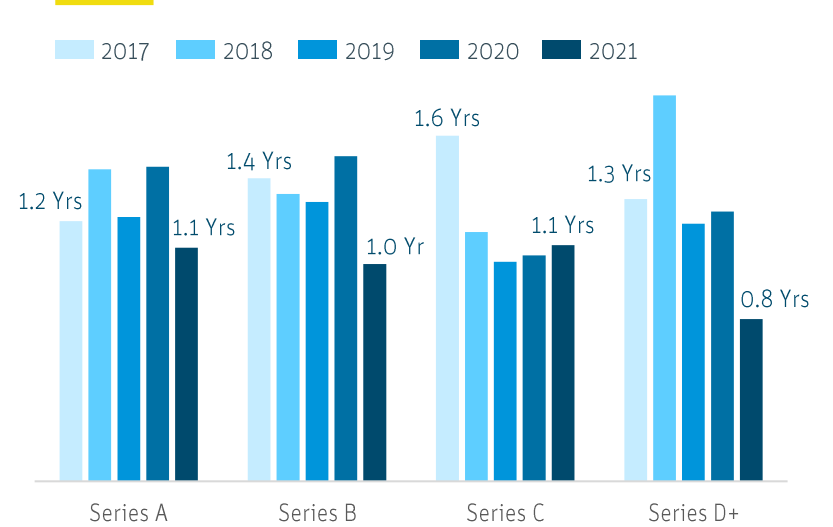
Global Late-Stage Fintech VC Activity¹



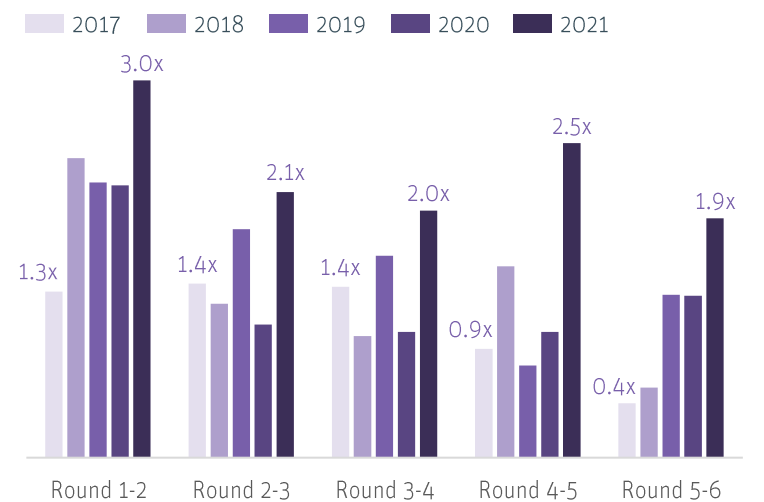
Deal Sizes by 25th, 50th, 100th Fintech Deal



US Fintech Median Time To Raise Series



US Fintech Median Valuation Step-Up



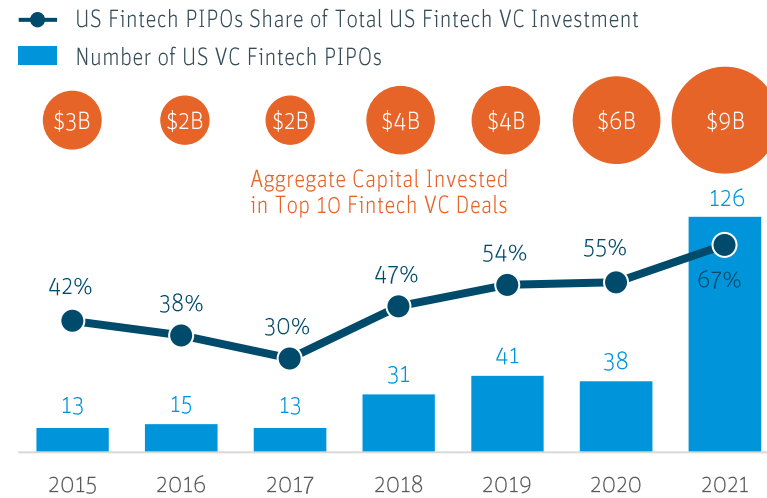
A Land of (Fintech) Giants

In 2021 when hybrid activity substantially grew, the number of deals larger than \$100M (also known as PIPOs¹) jumped from 333 in 2020 to 601 as of Q3 2021. This figure grew even more within the fintech space, with \$100M+ deals increasing more than 3x and representing ~67% of total capital invested. At the top of the spectrum, the top 10 largest fintech deals for 2021 surpassed \$9B for the first time, which is twice the level of venture investment as in Canada in 2020. Notably, though, this only accounted for ~20% of total US VC fintech investment this year — its lowest share in the last five years — signaling continued strength in earlier-stage deals.

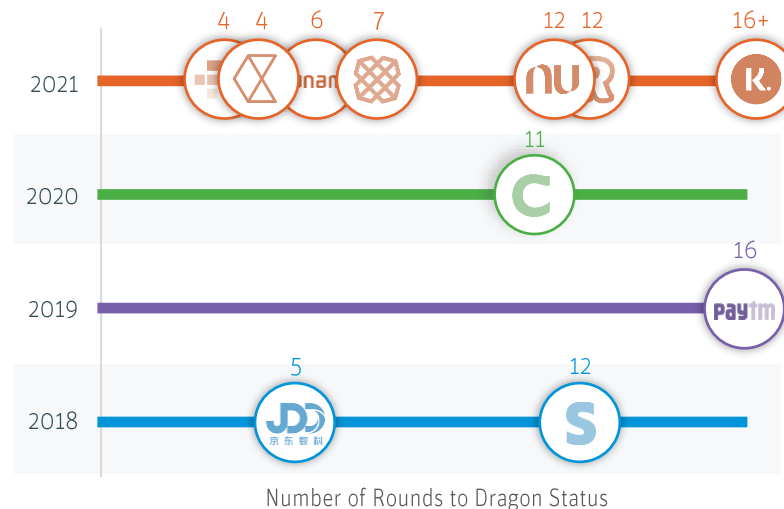
This growth in PIPOs has led to unicorns being minted at a blistering pace. When it comes to venture-backed companies, the unicorn label is now a misnomer, especially for fintech companies, which have seen an increasing share of “unicorn value.” With no sign of investment or valuations cooling, “dragon” is fast becoming the new metric on which to judge the top echelons of venture-backed startups. A dragon, which is a company with at least a \$12B valuation net of total venture investment, helps to isolate businesses creating value beyond investment. This year, seven new fintech dragons were minted, with most taking fewer rounds to reach this status than their predecessors.

The rapid growth in valuations — relative to the capital invested — suggests a good return on investment for early investors and should bode well for later-stage investors, provided valuations keep rising. So far, public markets are willing to accept the current level of fintech valuations, as many recognize the still relatively untapped market opportunity for many in the new normal we find ourselves.

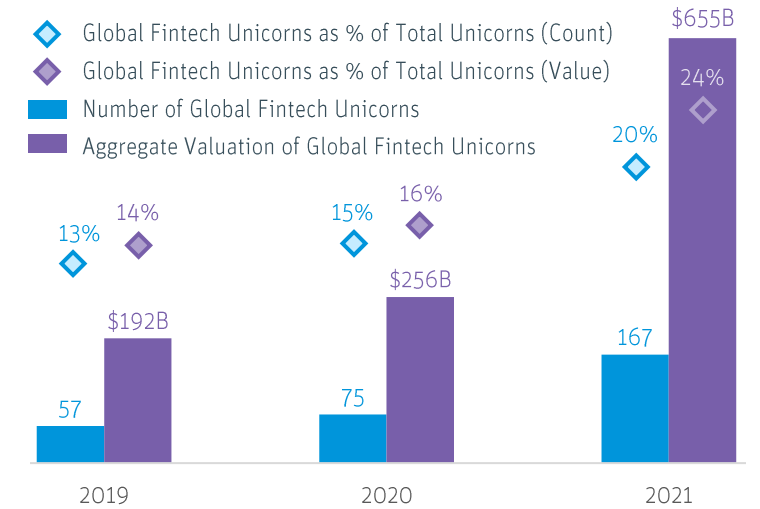
US VC Fintech PIPOs²



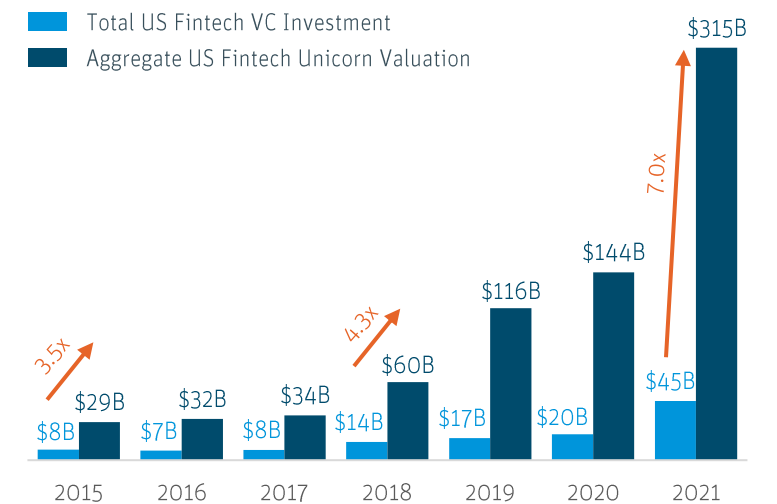
Global Fintech Dragons³



Global Fintech Unicorns²



US Fintech Return on Investment





Benchmarking

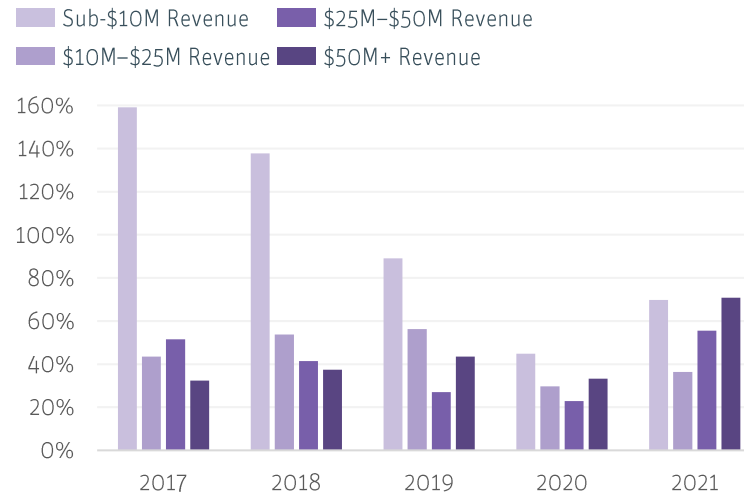
Revenue and Spend Metrics

Fintech Startups Well-Positioned for Growth

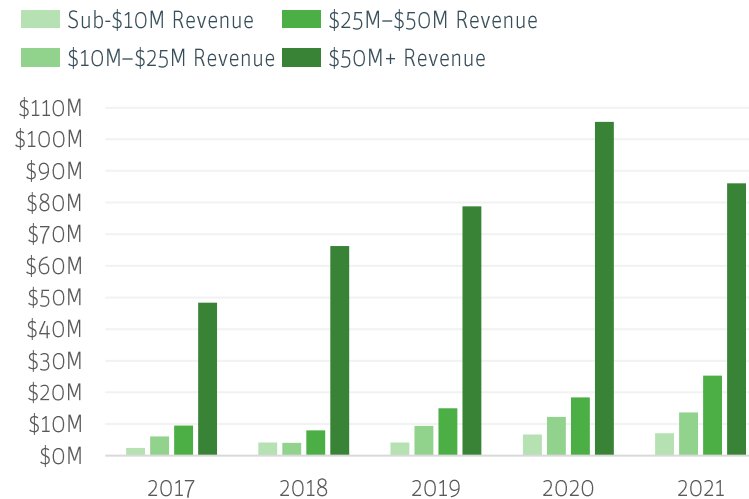
The pandemic fueled consumer trends in e-commerce, personal finance, retail investing, online banking and digital assets. Digital adoption has been enabled by broader smartphone proliferation. In 2021, smartphone users make up 85% of the US population, up from 35% in 2011¹ – with similar strong growth internationally as well. This has played nicely into changing demographic preferences and unlocked access to financial services for the under- and un-banked. On the business side, there is continued adoption of digital and contactless payments, APIs for a range of financial features, new insurance models, and the software required to enable all these things.

Fintech has seen some of the fastest revenue growth of all tech sectors since the start of the pandemic. Buoyed by favorable shifts in trends, fintechs are achieving revenue growth rates at or above pre-pandemic levels. Most notable, companies with more than \$50M in revenue have seen the highest rate of growth in five years. These trends have enticed investors to deploy record capital without being fazed by the lofty valuations fintech startups have attracted. Revenue multiples have continued to rise across revenue bands but are comparable to public fintech bellwethers that trade in the 7x to 25x range. With investors pouring capital into the sector and revenue growth accelerating, fintech companies have the highest cash balances of any sector. This has led to an uptick in cash runway, despite operating margins (defined here as EBITDA) continuing to fall after a brief plateau during 2020. While some may worry about a path to profitability, investors should be comfortable with the increased spend, as demonstrated revenue growth signals money is being put in the right places.

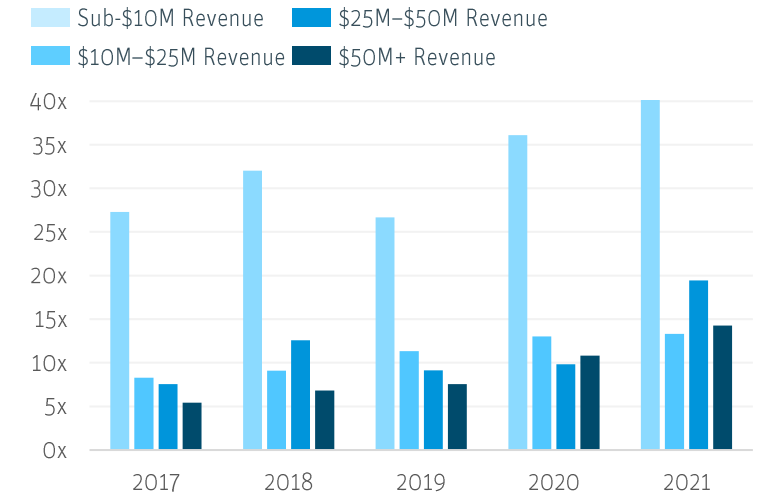
Median Revenue Growth by Revenue Band^{2,3}



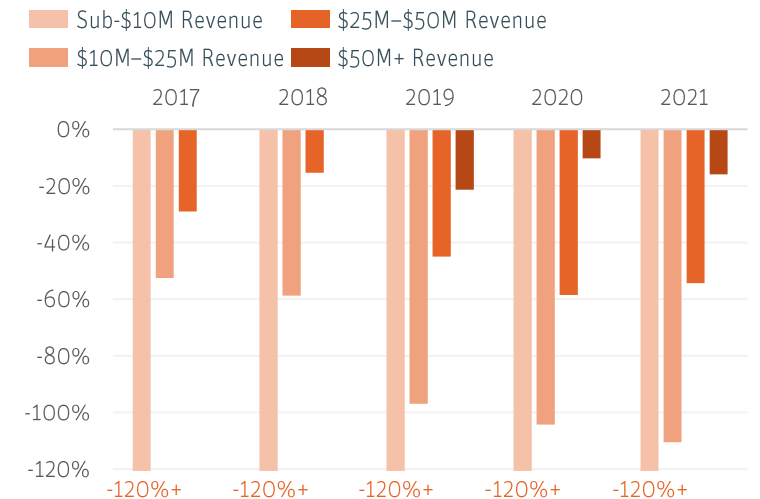
Median Cash Balances by Revenue Band^{2,3}



Median Revenue Multiple by Revenue Band^{2,3}



Median EBITDA Margin by Revenue Band^{2,3}



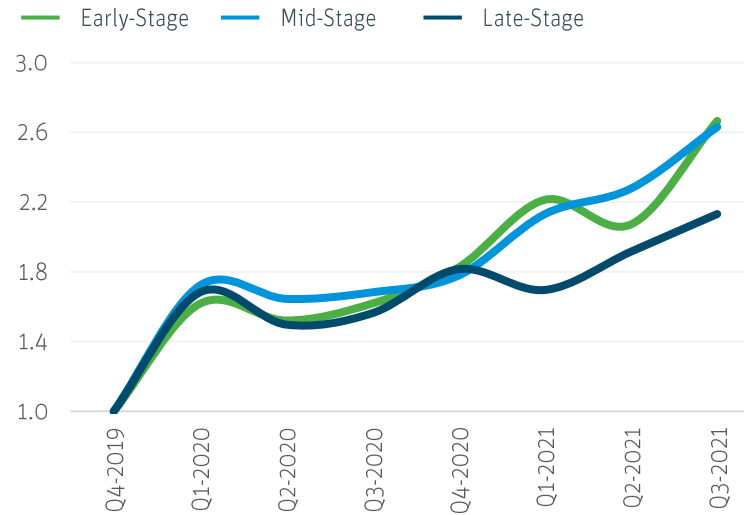
Don't Spend It All at Once

Spend across categories cooled in Q2 2020 due to fears of a prolonged broader economic slowdown, as companies paused to assess the damage. Once a new normal was established in the second half of 2020, spending revved back up. Payrolls have been rising ever since, as fintech startups ramp up hiring top engineering talent, a positive sign that startups and investors have confidence in the new environment brought on by the pandemic.

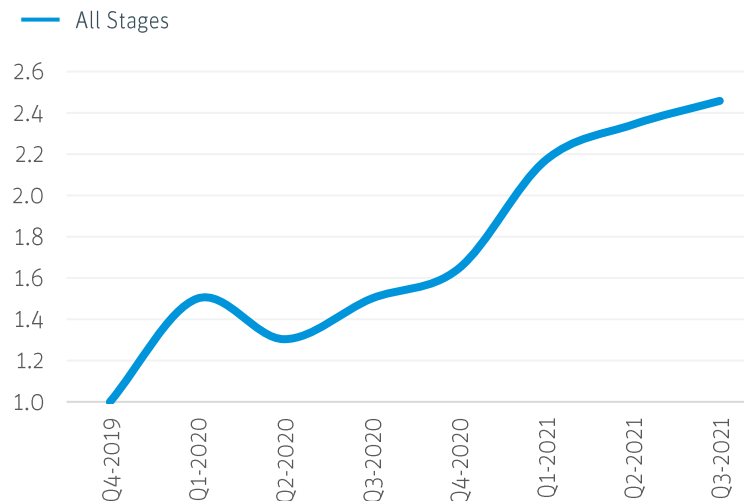
Computing and operations spend has seen the most significant growth, which can be attributed to fintech's reliance on increased processing power, storage of large data sets, and additional layers of security, as forced digitization has brought a new wave of cyber threats. Critical innovations, including technologies surrounding virtual private cloud or biometric data, have become ever more immersed within fintech. The former, for example, runs computationally intensive business processes at scale without compromising security; whereas the latter strengthens security while improving customer experience via tools such as fingerprints and voice recognition. Even more generic technologies like AI/ML can help unlock valuable insights from the data sets fintechs store, highlighting unique trends based on a customer's digital footprint, search history or social media presence.

These technologies should only become more important as fintechs continue to blur the line between a tech startup and a traditional financial services company. Having the proper security and infrastructure should help to mitigate additional pressures regulators are likely to put on fintechs, as data protection, privacy and safety remain top of mind.

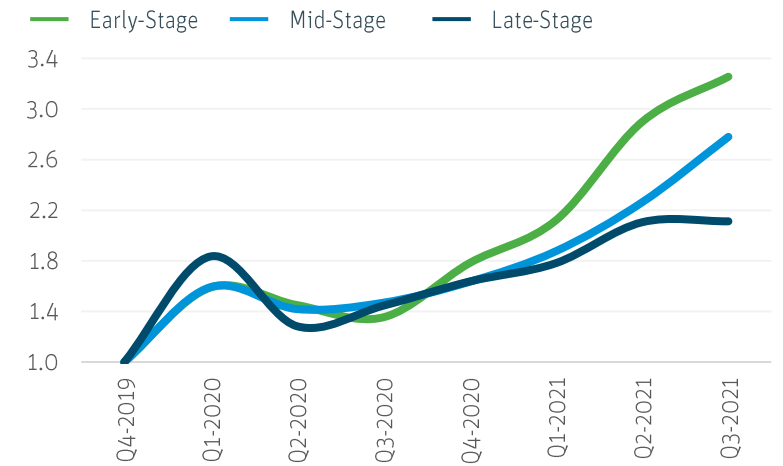
Payroll Spend Index by Company Stage¹



Advertising Spend Index



Computing and Operations Spend Index by Company Stage¹



Most Popular Vendors by Payment Category

	Payroll	Computing	Operations	Marketing
1	GUSTO	aws	bill.com	LinkedIn
2	upwork	GitHub	Uber	Meta
3	ADP	Google Cloud	FedEx	Google Ads
4	TriNet	Microsoft	G Suite	mailchimp
5	fiverr.	DATADOG	zoom	twitter

Notes: 1) Early-stage companies have less than \$5M in annualized revenue run rate or less than \$4M raised. Mid-stage companies have between \$5M-\$75M annualized revenue run rate or have raised between \$4M-\$55M and late-stage companies have more than \$75M annualized revenue run rate or have raised more than \$55M. Spend categories indexed to 1 in Q4 2019. Source: SVB Proprietary Data and SVB Analysis.

Spotlight

The Emergence of Payment Facilitation

The Evolution of Fintech

Fintech 1.0: Digitizing Finance

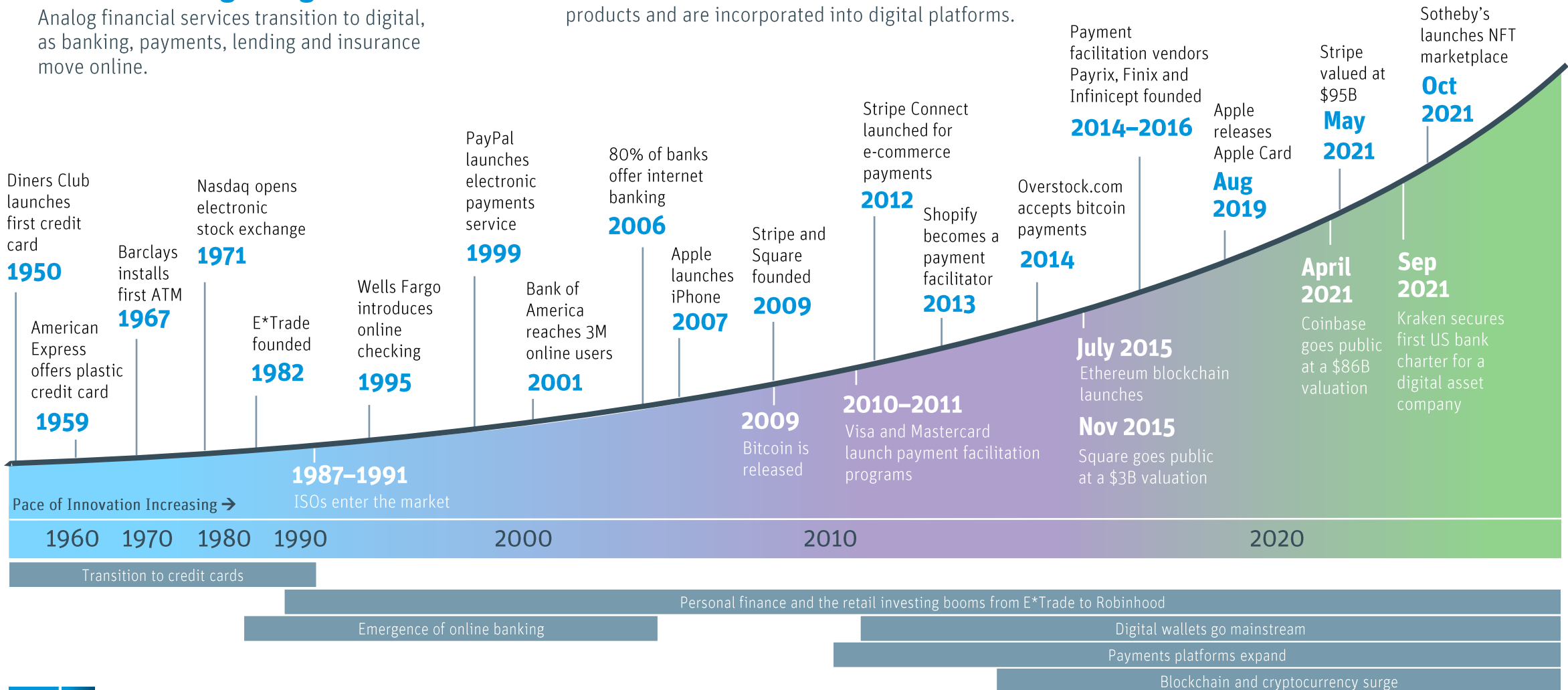
Analog financial services transition to digital, as banking, payments, lending and insurance move online.

Fintech 2.0: Embedding Finance

Financial services leave the realm of standalone products and are incorporated into digital platforms.

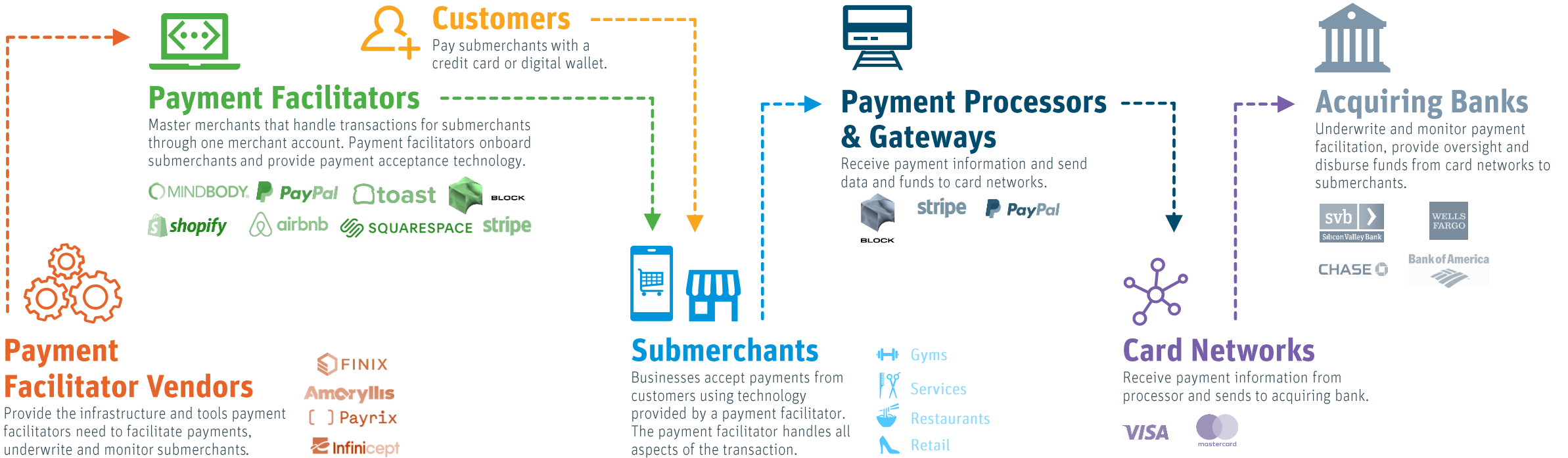
Fintech 3.0: Decentralizing Finance

Financial services migrate away from centralized institutions and rely on self-executing blockchain contracts.



The Payment Facilitation Ecosystem

How tech platforms are monetizing payments and enabling small businesses



Payment Facilitators vs. Independent Sales Organizations (ISOs)

Control

- **Payment Facilitator:** Monitors transactions for many submerchants through a single merchant account.
- **ISO:** Connects each merchant with a payment processor. No monitoring.

Onboarding

- **Payment Facilitator:** Handles onboarding of each submerchant and conducts due diligence.
- **ISO:** Passes onboarding on to payment processor.

Funding

- **Payment Facilitator:** Controls flow of funds and payouts to submerchants.
- **ISO:** Does not control flow of funds and relies on acquiring banks for payouts to submerchants.

Revenue Limits

- **Payment Facilitator:** Submerchants must have less than \$1M revenue to stay under payment facilitators merchant account.
- **ISO:** No revenue limit as each merchant has its own account.

Risk

- **Payment Facilitator:** Handles all of underwriting and compliance of each submerchant.
- **ISO:** Acquiring bank is responsible for compliance and underwriting of submerchant.

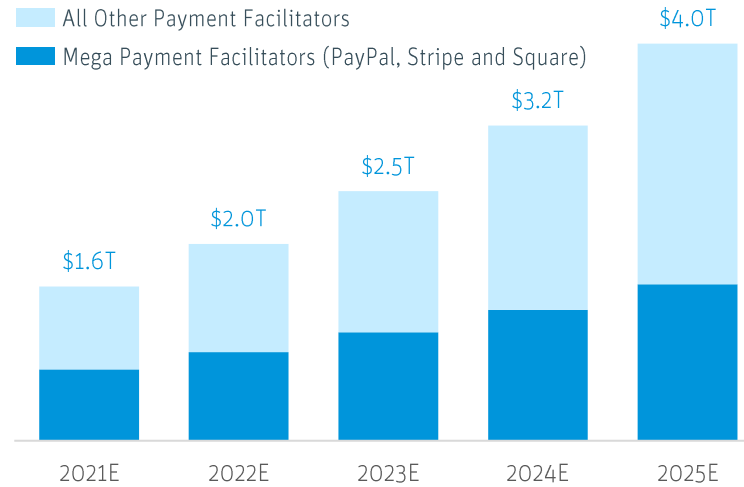
Payment Facilitators Piling Up

Incorporating payment facilitation into their business has given startups increased control over processes, fee structures and funding schedules, while simultaneously allowing them to tailor their product to uniquely fit their customers' needs. With an expanding customer base accelerated by the forced digitization brought on by the pandemic and more companies integrating a payment facilitation model, the opportunity for payment facilitator solutions is growing exponentially. A good example of the latter point is Mindbody, which has seen payments make up 40% of its revenue¹, up from 30% just five years prior, benefitting from the launch of its dynamic pricing functionality that helps its customers price classes based on desired goals while providing rich customer data to the merchant.

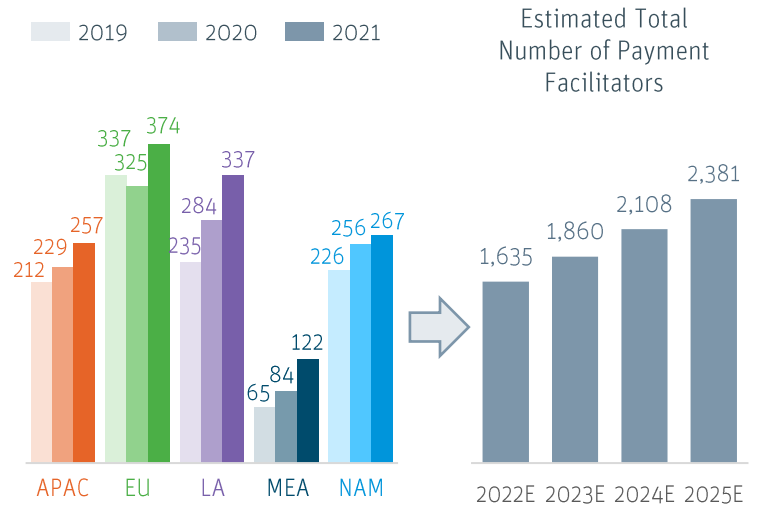
The first wave of payment facilitators (PayPal, Stripe, etc.) pioneered a system that contains fewer hurdles for merchants looking to process digital payments, setting the stage for software companies across all verticals to follow suit. Outside of Mindbody within the wellness space, vertically focused software providers — such as Toast in the restaurant industry, Instamed and Phreesia in the healthcare space, or RunSignup in the event management vertical — have been some of the most successful startups at integrating payment facilitation.

This excitement around payment facilitators can also be seen in the valuation step-ups for recent raises for notable payment facilitators. Analyzing SVB proprietary data on revenue trends for a representational cohort of payment facilitators shows revenue has accelerated since the start of the pandemic with no signs of slowing down.

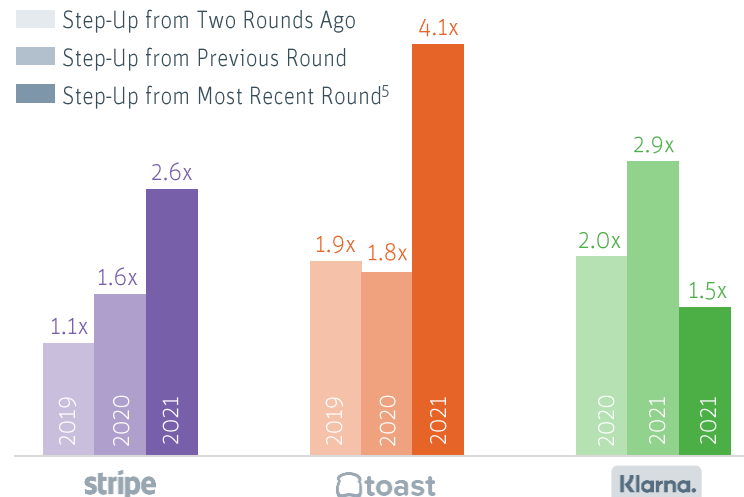
Global Payment Facilitator GPV²



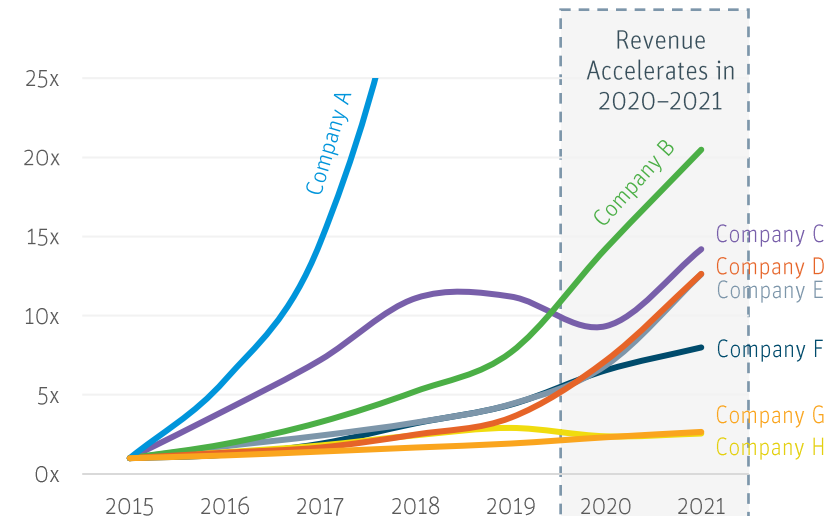
Number of Global Payment Facilitators^{3,4}



Select Payment Facilitators Valuation Step-Ups



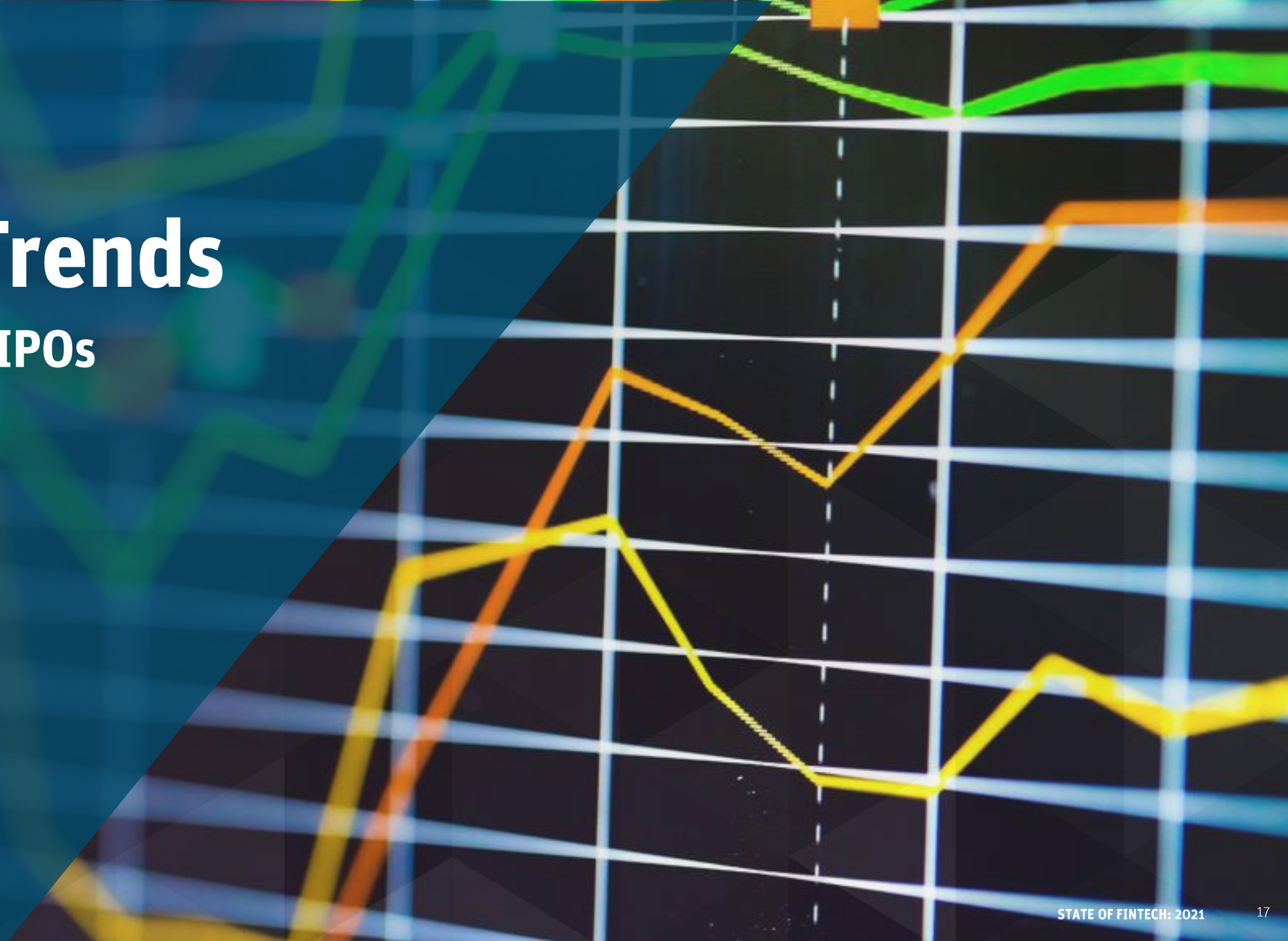
Payment Facilitator Cohort Indexed Revenue⁶



Notes: 1) As of December 31, 2017, based on latest 10K public filing available on SEC EDGAR. 2) GPV = Gross Payment Volume. 3) According to data provided by Mastercard and Infincept. 4) APAC = Asia Pacific, EU = Europe, LA = Latin America, MEA = Middle East & Africa and NAM = North America. 5) Toast's 2021 round based on IPO. 6) Each line represents the revenue trajectory for the representative payment facilitator based on SVB proprietary data. Company A's revenue exceeds chart limits post-2017. Source: Credit Suisse, PitchBook, Infincept, AZ Payments Group, SEC filings, SVB Proprietary Data and SVB Analysis.

Exit Trends

M&A and IPOs

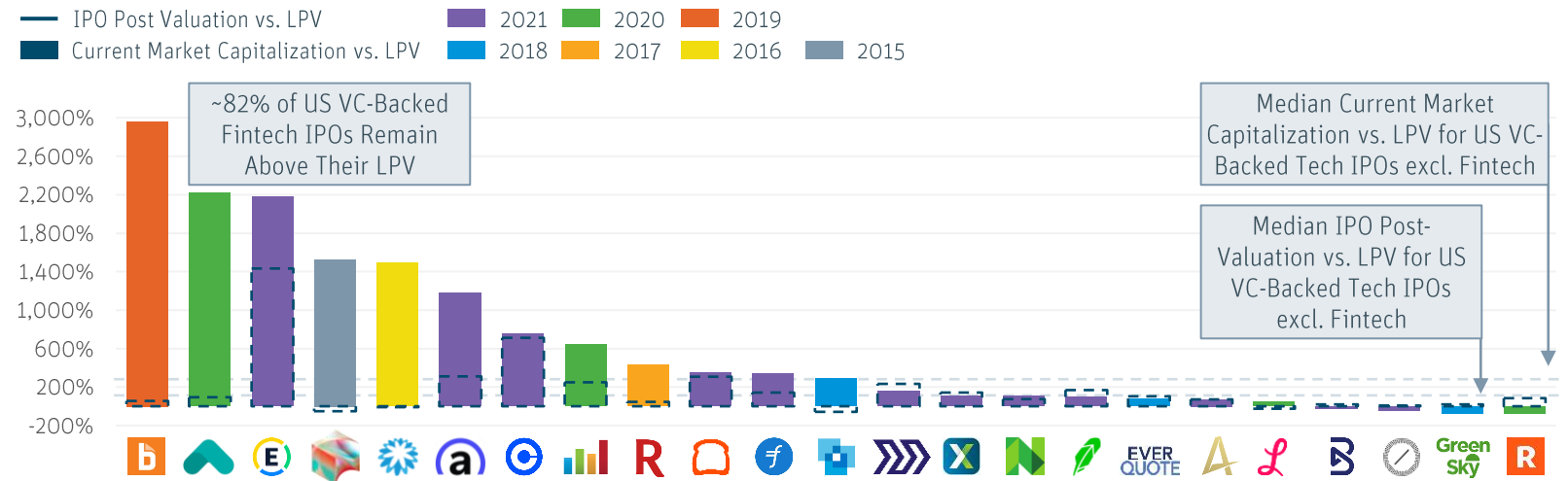


Fintech IPO Floodgates Open

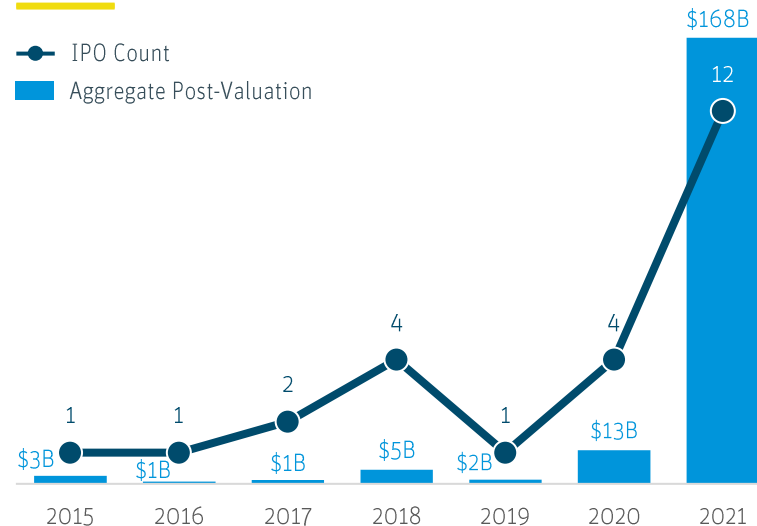
Even with a month left, 2021 became a record year for US VC-backed tech IPOs, with 66 companies going public. Fintech companies dominated the IPO markets, accounting for ~20% of the IPOs this year. This was highlighted by Affirm kicking off the year with nearly a +100% pop on its first day of trading, Coinbase (via a direct listing) holding the title for the largest US VC-backed tech IPO, and fintechs, in general, accounting for five of the 10 largest US VC-backed tech IPOs in 2021. In fact, there have been as many US VC-backed fintech IPOs this year as 2016 to 2020 combined, with the aggregate IPO market cap of this year's cohort greater than the entire last decade of fintech IPO market caps.

With the exception of Blend and Compass, the 2021 cohort of fintech IPOs has shown strong performance. The strong performance demonstrates public market investors' affinity for high-growth fintech assets and a willingness to pay a premium. This notion has some credence, given that the 2020/2021 cohort's revenue multiples are significantly higher than for the prior cohorts, despite operating margins trending downward. The latter metric has been overshadowed by the rapidly expanding revenue opportunity, further cemented by the accelerated revenue growth of the current cohort. Sentiment on the space remains optimistic with 11 out of the 12 IPOs in 2021 currently having an average rating of buy or outperform, emphasizing analysts' beliefs in the long-term growth story of the space. At the moment, investors are on board as bellwethers like PayPal and Square trade at ~9x and ~6x their sales, respectively (Shopify trades at 46x), further reinforcing an expectation that more (significant) growth is yet to come.

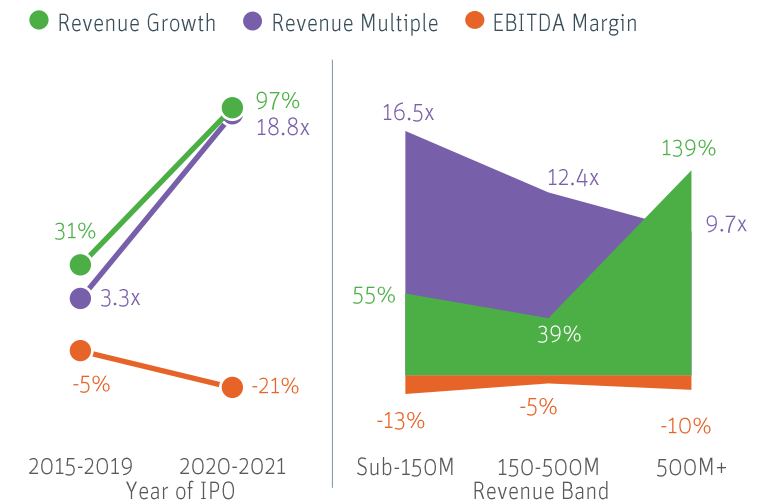
Fintech IPO Performance vs. Last Private Valuation (LPV)^{1,2}



US VC-Backed Fintech IPOs¹



Fintech IPO Metrics by Year & Revenue Band¹



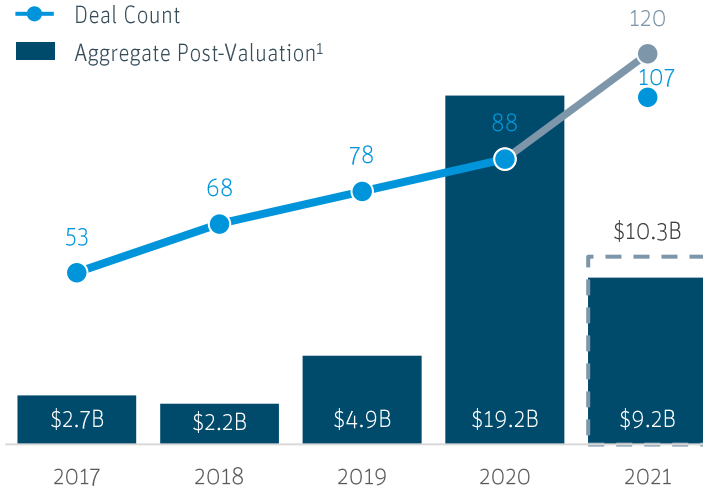
Notes: 1) Data as of 11/30/21. Data for US VC-backed fintech IPOs from 2015–2021. 2) Companies without a disclosed private valuation are excluded from this analysis. Companies include Bill.com, Upstart, Expensify, Square, Coupa, Affirm, Coinbase, nCino, Redfin, Toast, Flywire, Cardlytics, Marqeta, AvidXchange, NerdWallet, Robinhood, EverQuote, Alkami, Lemonade, Blend, Compass, GreenSky and Root Insurance. Source: PitchBook, S&P Capital IQ and SVB Analysis.

Fintech On the Menu

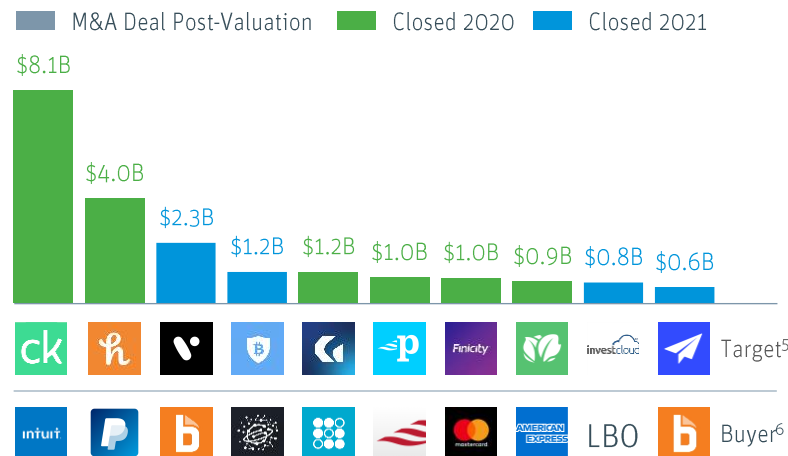
In 2020, while other sectors experienced a slump in M&A activity, fintech M&A activity continued to increase. A mix of established and newly minted public financial companies have looked to make fintech acquisitions as a way to catch up on prevailing trends. In 2021, M&A of US VC-backed companies in all sectors rose, as the world reopened and dealmakers got more comfortable with remote due diligence. Yet fintech M&A increased at a higher rate than other sectors thanks, in part, to pandemic tailwinds. Contactless payments, Buy-Now-Pay-Later (BNPL) platforms and payment facilitation all become popular, as commerce platforms and retailers sought to streamline and monetize sales in the new normal. On a dollars basis, however, fintech slumped in 2021 (but still above 2019 levels). This is due, in part, to 2020 having more large deals, including Intuit's \$8.1B acquisition of Credit Karma and PayPal's \$4.0B deal for Honey. These deals mark a trend of established fintech companies purchasing fintech startups to expand their product offerings or consolidate space.

While fintech M&A activity across all sectors has been robust, financial business process software accounted for 21% of fintech deals in 2021. With businesses scrambling to automate and expand their offerings in remote first-world countries, in many cases it is easier to buy vs. build, as evidenced by Bill.com's acquisition of Invoice2go to improve its accounts receivable invoicing and Divvy to offer customers spend management.

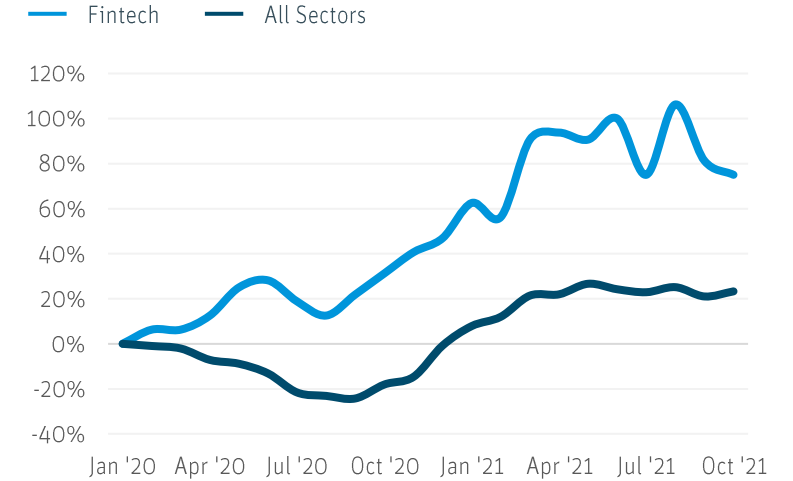
M&A of US VC-Backed Fintech Companies



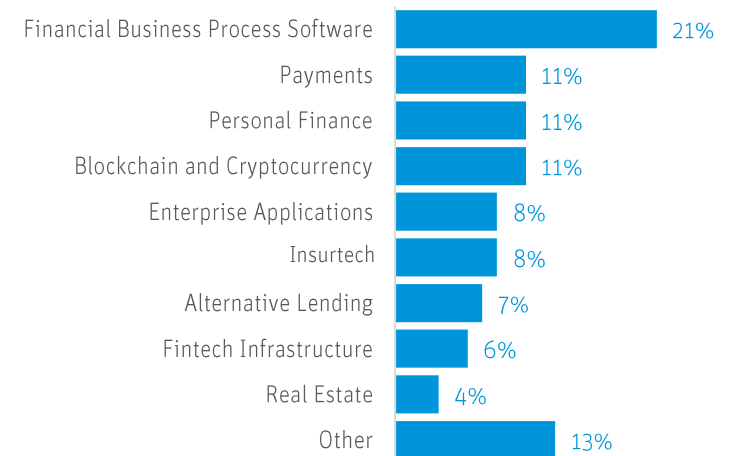
Largest Fintech M&A Deals^{3,4} (2020–Q3 2021)



Change in Number of M&A Deals^{2,3}



Fintech M&A Deals³ by Niche (2021)



Notes: 1) Data subject to valuations being reported and data backfill; the aggregate post-valuation only accounts for about 30% of all deals. 2) Trailing six months M&A deals starting 1/1/20. 3) Targets are VC-backed, US-based. 4) For deals with a reported size in PitchBook 5) Top row left to right: Credit Karma, Honey Science, Divvy, BitGo, Galileo, Personal Capital, Finity, Kabbage, InvestCloud and Invoice2go. 6) Bottom row left to right: Intuit, PayPal, Bill.com, Galaxy Digital Partners, SoFi, Empower Retirement, Mastercard, American Express, Leveraged Buy Out and Bill.com.
Source: PitchBook, SVB Proprietary Taxonomy and SVB Analysis.

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