



Surfing on the wave of the digitalization of the economy and taking full advantage of the mistrust of traditional banks following the 2008 financial crisis, Fintech companies are poised to take a prominent place in global finance.

In the space of 10 years, these innovative financial start-ups have profoundly transformed the banking industry with fully digitalized services offering extremely competitive costs and ease of use for customers.

Banks, which first looked at this development with disdain and indifference, now sometimes play the opportunistic card by cooperating with these start-ups. Both types of actors may indeed find it strategically interesting to join forces: not to miss the train of technology and innovation for some and to access large customer bases for others.

For Fintech choosing the path of independence, they face two main challenges: financing and the ability to attract sufficient customer bases to quickly achieve profitability. However, these two issues are generally being addressed, demonstrating the maturity of the sector.

In terms of financing, 2018 has already been marked by a frenzy of investments in the sector with nearly \$40 billion in fundraising or takeover bids worldwide, more than double the amount raised in 2017. The year 2019 should be marked by further strong growth with, in the unlisted sector, three major operations since the beginning of the year that confirms the booming of the industry:

- N26, the German Fintech has not only obtained its status as a Bank but also raised nearly \$300 million to finance its international development.
- Raisin, also a German Fintech company specializing in remunerated deposit accounts across Europe, announced a €100 million fundraising campaign to conquer new European markets
- OakNorth, the English Fintech specialized in SME credit, whose model is based on Big Data and Artificial Intelligence, revealed that it has raised a record amount of \$440 million in Europe from its historical sponsors Softbank Vision Fund and Clermont Capital to finance its international expansion

We are also witnessing a wave of M&A transactions where all the market leaders are seeking to strengthen their position, expand their range of services and acquire international market share.

In a context of globalization, GAFAs and other specialized players have already gained significant market shares through their payment and credit platforms and are aiming to become real digital banks.

In China, a pioneering Fintech country, the giants Tencent and Ant Financial (Alibaba's subsidiary) are seeking to break out of their borders and enter markets considered strategic, with a partnership with Line in Japan and the acquisition of British Fintech Worldfirst for \$700 million respectively.

Regarding profitability, many start-ups have reached and overcome the break-even, including by example two of the best known in Europe, Revolut and Oaknorth, which reached it in the space of 3 years and became unicorns (> 1 billion in value).

The idea for these start-ups is to join the profitability levels of leading Fintech companies such as Square and Paypal, whose double-digit margin levels despite significant investments to support growth suggest significant earnings upside.

Clearly, the strong growth in terms of transaction figures and volumes treated linked to the increasing adoption by users of digital banking and mobile payment platforms and the expansion of the range of services (personal/corporate loans, investment products, wealth management, etc.) should contribute to the increase of margins for many Fintech companies.

The market potential is therefore huge and naturally whets the appetite with more and more growth capital and M&A transactions and ever-increasing amounts, as we said earlier.

Finally, let us not forget that the sector is far from having finished its (r)evolution and that other developments are underway, such as artificial intelligence or blockchain, which will have a major impact on the IT infrastructures of these companies and on their ability to attract and retain their customers and to better monetize their services.