

What 2017 Has in Store for Fintech

 ANALYST NOTE BY EVAN B. MORRIS

Contents

Online Lending	1-3
Bitcoin/Blockchain	4-6
Asset Management	7-8

CONTACT

PitchBook Data, Inc.

pitchbook.com

RESEARCH

reports@pitchbook.com

Note: This analyst note covers the fintech subsectors upon which PitchBook initiated coverage in 2016.

Introduction

Fintech saw a much more interesting 2016 after a 2015 when the subsector looked ripe for ascendency. Tumult in the high-yield credit market rocked the calculus of alternative finance, and digital currencies faced both scandal and huge rallies. Huge name brands both entered, exited and doubled down on the fintech arena including Amazon, Goldman Sachs and SoftBank. As we look ahead to 2017, this analyst note highlights some of the largest recent transactions as well as the most exciting business models and market opportunities in the New Year and beyond.

Online Lending

Challenge: Managing loan books once lending activity plateaus

2016 saw a number of high profile snafus as well as milestones for the maturing marketplace lending industry. Lending Club, one of the few publically traded online lenders, faced a controversial scandal which saw it mismark loans sold in bulk to Jefferies. Even after recovering and sacking their CEO, LendingClub (NYSE: LC) as shares fell 52% over the course of 2016. B2B lender OnDeck (NYSE: ONDK) fell even further as shares were down 55% at year end. Lenders such as SoFi, Kabbage and Avant have been wise to delay IPOs given the current climate.

One promising development in regards to the industry's maturation has been the continued push toward securitization as a source of capital for marketplace lenders. Marketplace lending securitization reached \$5.4 billion through 3Q 2016, up 86% YoY according to PeerIQ. This comes even as high-yield tumult and the Dodd-Frank 5% risk retention rule which went into effect on December 24 depressed overall ABS issuance 50% in 1H 2016. The new law requires certain issuers to hold 5% of assets on their own balance sheets in order to have "skin in the game." The rule does not impact balance sheet lenders as their business model is predicated on exposure to the loans they originate.

4Q 2016 Online Lending Deals

Company	Deal Type	Deal Size (\$M)
QuantGroup	Early Stage VC	73.0
BlueVine	Early Stage VC	49.0
FundThrough	Accelerator/Incubator	24.6
MoneyLion	Seed Round	22.5
Lendio	Early Stage VC	20.0
Financeit	Capitalization	17.0
PeerStreet	Seed Round	15.0

Source: PitchBook

Furthermore, the hiking cycle in the US continued by Janet Yellen in the recent December meeting underscored the utility of short-term high-interest loans as asset managers look to hedge duration risk while generating strong returns in their fixed income allocations as the yield curve steepens.

The biggest upside in the online lending ecosystem may in fact come from the data and analytics platforms that serve as both loan data agents and data providers to buy-side firms. These firms include Orchard, DV01, MonJa and PeerIQ. These firms ultimately have potential to service the multi-trillion lending market which was plagued by transparency issues across the board. Furthermore, they are far less capital intensive than online lenders and given the nature of their business will be anti- or even countercyclical since data and analytics are valuable in all parts of the cycle, and perhaps most appreciated in a downturn.

We've seen a shift towards SME and more niche target markets as a number of well-funded, established online lenders have already targeted consumer loans.

Notable 4Q Deals: Online Lending

4Q saw four of the six largest financings go to SME lenders rather than the consumer lenders which have been popular in past periods. This is a reflection of both the maturation and scale of current consumer lenders and the untapped market for alternative SME finance. Online lenders to businesses have a higher relative comparative advantage than consumer lenders given the slow speed and low approval rates of small business lending among retail banks. The average small business loan application takes 25 hours of paperwork and meetings as well as weeks to wait upon approval. Online lenders have begun creating value by expediting this process through the use of alternative data and more advanced analytics.

Most-funded companies

Company	Total Capital Raised (\$M)
SoFi	1,420.0
Avant	1,357.0
JD Finance	1,013.1
OnDeck (ONDK)	464.2
Prosper	360.9
LendingHome	359.3
Funding Circle	300.0

Source: PitchBook

Select companies raising private capital in 4Q 2016

QUANTGROUP

量化派 QuantGroup Location: Beijing, China | Year Founded: 2014 | Capital Raised to Date: CNY500M

First Funding Date: January 2014 | First Funding Amount: N/A

Latest Funding Date: November 2016 | Latest Funding Amount: CNY500M |

Description: QuantGroup provides online financial services including credit based upon advanced analytics via QuantGroup.cn. Founded in 2014, the company originally operated within the Microsoft Ventures Accelerator. In November, it closed a RMB500 million (\$73 million) Series C financing led by Sunshine Insurance Group Corporation, Fosun Capital, Guosen Hongsheng Investment Co., Ltd., and other investors.

BLUEVINE



Location: **Redwood City, CA** | Year Founded: **2013** |

Capital Raised to Date: **\$111.55M**

First Funding Date: **October 2013** | First Funding Amount: **\$2.5M**

Latest Funding Date: **December 2016** | Latest Funding Amount: **\$49M** |

Latest Funding Post- Valuation: **\$150M** |

Description: BlueVine provides working capital and invoice financing for SMEs using alternative data such as exported financials QuickBooks accounting software. In December it raised \$49 million in Series D funding at a \$150 million post-valuation from investors including Lightspeed Venture Partners, Menlo Ventures, 83North, Citi Ventures, Rakuten FinTech Fund and Silicon Valley Bank. The company has made over \$200 million in loans through the end of 2016, and the recent funding puts it on pace to make more than \$500m in new loans in 2017.

MONEYLION



Location: **New York, NY** | Year Founded: **2013** |

Capital Raised to Date: **\$22.5M**

First Funding Date: **September 2013** | First Funding Amount: **N/A**

Latest Funding Date: **December 2016** | Latest Funding Amount: **\$22.5M** |

Description: MoneyLion developed a personal finance app for users to track their spending and investments by importing financial data. The company then uses this data to offer customers access to credit. In December the company raised \$22.5 million of Series A venture funding in a deal led by Edison Partners with participation from FinTech Collective, Citizen.VC, Clocktower Ventures, Broadhaven Capital Partners, Montage Ventures among others. It also recently announced a \$650 million debt facility from Macquarie Group.

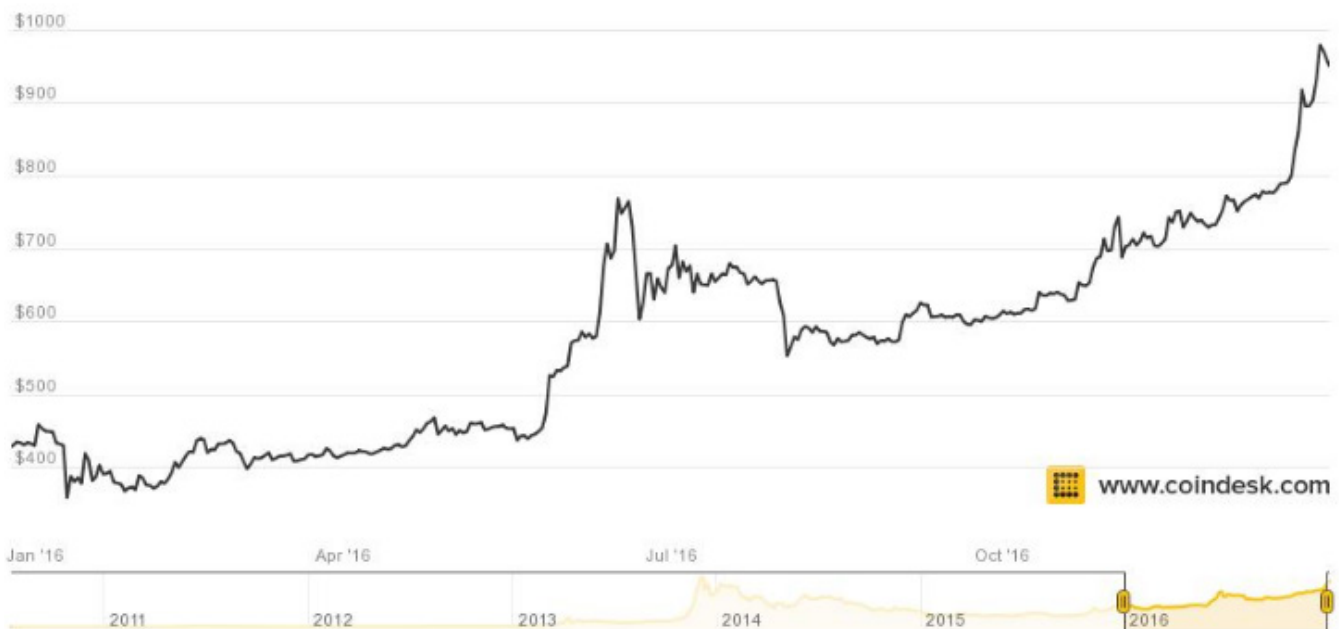
Bitcoin/Blockchain

Challenge: Building out mainstream use cases

Bitcoin and other cryptocurrencies had a great year in valuation terms, though mainstream use cases for the technology have yet to fully emerge.

Like online lending, the blockchain space recorded a roller coaster 2016. Cryptocurrencies generally had a stellar year, with Bitcoin gaining 125% during 2016, and began the year by crossing back over the \$1,000 mark for the first time since January 2014. This marks a record high total Bitcoin market cap of \$15.5 billion, as the current supply is over 30% greater than it was the last time the cryptocurrency traded over \$1,000. By other metrics, the market structure of Bitcoin is becoming more and more robust. The standard deviation of 30-day BTC-USD daily volatility has dropped below 2%, a 75% decrease from 2010. Furthermore, daily transactions are up 50% YoY denoting a deeper and more liquid market.

Bitcoin-USD Price Chart



2016 also saw a number of other promising blockchain protocols emerge such as Monero and Steem. The Monero (XMR) cryptocurrency increased in value over 25x in dollar terms over the course of the year, largely due to the darkweb marketplace AlphaBay implementing Monero transactions. The Monero distributed ledger protocol includes CryptoNote technology which makes transactions far more opaque than the bitcoin blockchain. Likewise, the Steem blockchain provides a distributed ledger for content creators and curators to monetize their work on the Steemit platform, a blogging and social networking site similar to Reddit. We expect innovative uses for new blockchains like Steem to pop up beyond purely transactional use cases.

4Q 2016 Bitcoin/Blockchain Deals

Company	Deal Type	Deal Size (\$M)
TradeBlock	Accelerator/Incubator	18.0
Polychain Capital	Angel (individual)	10.0
Wyre	Seed Round	5.8
snapCard	Seed Round	5.6
Coins.ph	Early Stage VC	5.0
Synereo	Product Crowdfunding	4.7
Factom	Seed Round	4.2

Source: PitchBook

We saw a shift in funding from consumer and hobbyist focused businesses to startups targeting enterprise use cases for blockchain.

Perhaps the greatest breakthrough in blockchain technology since Bitcoin itself was the Ethereum protocol. The technology opens the door to previously elusive mainstream applications of blockchain including smart contracts and IoT. Instead of merely a distributed ledger of simple transactions, Ethereum represents a Turing-complete distributed computing platform or blockchain-as-a-service where resources are distributed across the entire network and monetized via the Ether cryptocurrency. However, on June 17, 2016, less than a year old, the Ethereum platform faced a major crisis as its most high-profile application The DAO (Distributed Autonomous Organization), a smart contract allocating resources and returns to Ethereum startups, was hacked triggering losses of \$64 million (post-hack price) or \$101 million (pre-hack price). The Ethereum community responded with a hard fork less than a month later, creating Ethereum and Ethereum Classic as separate blockchains.

We anticipate that Ethereum will remain a major platform for blockchain innovation in 2017 and beyond. The inability to code more robust applications was a necessary limitation for Bitcoin and other early blockchains as the public gained acceptance of the basics of the technology. However, mainstream applications of the technology have been slow to take off. Bitcoin's flaws such as slow transaction times due to the block size controversy are a primary causal factor. Distributed computing systems like Ethereum are the future of Blockchain. Therein lies a bright future for Bitcoin as well. The rise of authoritarianism and potential for capital controls around the globe creates an opening for Bitcoin to serve as a means of conducting international transactions and as a store of value due to its limited supply. This will play out most rapidly in China, India and developing regions like Africa.

Most-funded Companies

Company	Total Capital Raised (\$M)
Coinbase	142.5
Circle Internet Financial	136.0
21	116.1
Ripple	93.5
Blockstream	77.3
BitFury Group	60.0
Chain	43.9


Source: PitchBook

Notable 4Q Deals: Bitcoin/Blockchain

The biggest deals of 4Q 2016 illustrated both the diverse potential use cases of Blockchain, and offered a glimpse at how these applications might replace specific financial services. The list of largest deals is also thin on consumer-focused startups. The first several years of blockchain funding went to companies serving the needs of Bitcoin enthusiasts, small-time developers, and consumer payments. The top companies raising VC dollars in the last few months have generally targeted the more scalable enterprise market.

Select companies raising private capital in 4Q 2016

TRADEBLOCK

 TradeBlock Location: **New York, NY** | Year Founded: **2013** |
Capital Raised to Date: **\$21.12M** |
First Funding Date: **February 2014** | First Funding Amount: **\$347k**
Latest Funding Date: **December 2016** | Latest Funding Amount: **\$18M** |


Description: TradeBlock provides institutional tools for trading blockchain assets including integrated APIs, indices, data services and analytics. In December, the company raised an \$18 million Series A round led by Wells Fargo and Euclid Opportunities with participation from FinTech Collective, Digital Currency Group, Andreessen Horowitz, F-Prime Capital Partners, Goldman Sacs, Thomson Reuters and J.P. Morgan

POLYCHAIN CAPITAL

Location: **San Francisco, CA** | Year Founded: **2016** |
Capital Raised to Date: **\$15M**
First Funding Date: **September 2016** | First Funding Amount: **\$5M**
Latest Funding Date: **December 2016** | Latest Funding Amount: **\$10M** |

Description: Polychain Capital is a cryptocurrency hedge fund founded by early coinbase employee Olaf Carlson-Wee. The fund invests in digital assets such as Bitcoin and will actively manage its holdings. The founder theorizes that digital assets offer the opportunity to invest in the protocols which will eventually power the internet. The firm's \$10 million round in December included a16z and Union Square Ventures among its many investors.

SYNEREO

 synereo Location: **Tel Aviv, Israel** | Year Founded: **2014** |
Capital Raised to Date: **\$4.82M**
First Funding Date: **May 2015** | First Funding Amount: **\$500k**
Latest Funding Date: **November 2016** | Latest Funding Amount: **\$4.7M** |

Description: Synereo is developing the world's first decentralized social network with data stored in a blockchain for the purpose of avoiding the security and privacy pitfalls of platforms like Facebook and Google. The company hopes to use the \$4.7 million raised in November to launch its decentralized computing stack in 2017.

SNAPCARD

 SNAPCARD Location: **San Francisco, CA** | Year Founded: **2013** |
Capital Raised to Date: **\$8.8M**
First Funding Date: **December 2013** | First Funding Amount: **\$100k**
Latest Funding Date: **November 2016** | Latest Funding Amount: **\$5.5M** |
Latest Funding Post- Valuation: **\$21M** |

Description: Snapcard offers a way to buy and use digital currencies via debit, credit or checking accounts. The company raised \$5.55 million of Series A venture funding from Digital Currency Group and other investors in November, putting the post-money valuation at \$21 million.

Asset Management

Challenge: Building scale as legacy players adapt

The asset management space in 2016 mirrored financial markets' trend in the post-crisis era, with a steady creep upwards in asset prices and clout. Surprisingly though, a volatile 1Q in capital markets was the most active for dealmakers in the asset management space with \$1.9 billion in deal value completed across 62 transactions. Asset management startups have leveraged technology to benefit from the changing tastes of millennial investors and have exacerbated the low volatility of the post-crisis era by pushing ever more assets into passive strategies.

A number of promising businesses have emerged using technology to offer services previously limited to high-net-worth investors for a low annual fee.

Many of the most prominent firms have feasted on the decline of active management even as the steady creep up in asset prices has made the industry far from a zero-sum game. Robo-advisors tout automated tools such as tax-loss harvesting and dollar-cost averaging once available only to high-net-worth clients at high-touch traditional brokerages. Furthermore, online brokerages have emerged around user experience and automated savings tools, implementing behavioral finance by incentivizing investors to make savings and investing a habit. This represents a departure from legacy brokerages whose fee structures are based around previous regulations and logistics around active trading.

We are bullish on the upstart asset management space as we expect legacy players in asset management to pursue strategic M&A around many of these young, innovative platforms which simply offer better products and fee structures. Furthermore, the playing field has begun to level, with tools for individuals and smaller institutions to write and test trading algorithms, invest in certain asset classes and source deals. We expect this playing field to further level in 2017 with the incoming administration likely to revisit regulations around access to certain strategies to accredited investors.

4Q 2016 Asset Management Deals

Company	Deal Type	Deal Size (\$M)
Meitav Dash Investments (MTDS)	Buyout	385.20
Quantopian	Early Stage VC	25.63
StashInvest	Seed Round	25.00
36Kr	Angel (individual)	14.62
T-Rex (Risk Analysis Tools)	Early Stage VC	10.00
Zafin	PE Growth/Expansion	10.00
Anytime	Early Stage VC	5.40

Source: PitchBook


Most-funded Companies

Company	Total Capital Raised (\$M)
Lu.com	1,695.0
Betterment	205.0
Personal Capital	185.5
Gain Capital Holdings (GCAP)	174.9
Wealthfront	129.9
Motif Investing	126.0
Oanda	117.0

Source: PitchBook

Select companies raising private capital in 4Q 2016

QUANTOPIAN

 **Quantopian** | Location: **Boston, MA** | Year Founded: **2011** | Capital Raised to Date: **\$49.48M**
 First Funding Date: **January 2013** | First Funding Amount: **\$2.15M**
 Latest Funding Date: **November 2016** | Latest Funding Amount: **\$25.63M** |

Description: Quantopian provides an online platform for users to create, test and generate profits from trading algorithms. The company raised \$25.6 million of Series C venture funding in a deal led by Andreessen Horowitz on November 14, 2016. Bessemer Venture Partners, Point72 Ventures, Khosla Ventures and Spark Capital. Point 72 also has an agreement to invest seed capital into the most promising user-created algorithms.

STASHINVEST

 | Location: **New York, NY** | Year Founded: **2014** | Capital Raised to Date: **37.25M** | First Funding Date: **February 2016** | First Funding Amount: **\$3M**
 Latest Funding Date: **December 2016** | Latest Funding Amount: **\$25M** | Latest Funding Post- Valuation: **\$99.28M** |

Description: Developers of an automated investment app for smartphones where users can choose from a pre-selected list of 30 ETFs. Individuals can open an account with a deposit as small as \$5, and receive automated allocation and investment advice for \$1 per month for balances less than \$5000 and 0.25% per year for larger accounts. In December, the company raised \$25 million of Series B funding led by Valar Ventures, with participation from Breyer Capital, Goodwater Capital, and Entrée Capital.

T-REX

 | Location: **New York, NY** | Year Founded: **2012** | Capital Raised to Date: **\$15.24M** | First Funding Date: **January 2014** | First Funding Amount: **\$4.2M** | Latest Funding Date: **November 2016** | Latest Funding Amount: **\$10M** | Latest Funding Post- Valuation: **\$34.48M** |

Description: T-Rex provides investors, asset managers, and developers with an enterprise SaaS-based analytics, risk, and portfolio management platform to efficiently finance, securitize, and manage their renewable energy assets. In November, the company raised \$10 million of Series B venture funding led by Safeguard Scientifics (NYSE:SFE) Ecosystem; Integrity Fund (EIF) also participated in the round.

DON'T LET INCOMPLETE DATA LEAVE YOU IN THE DARK

PitchBook offers more visibility into the private equity & venture capital landscape than any other source



Contact us for a demo of the financial information technology trusted by leading investors, companies and advisors

pitchbook.com | US +1 206.623.1986 | UK +44 (0) 207.190.9809
demo@pitchbook.com

