FUNDING THE GROWTH

Alternative Funding Options for Emergent SMEs in the European Fintech Marketplace

The City's streets may have been metaphorically paved with gold, but the plethora of financiers have since been joined by an exciting new source of liquidity – so called Alternative Finance providers. With snappy titles like 'Super-Angels' and 'Crowd Banks' and offering sophisticated products like 'mini-bonds' and 'crowdfunding convertibles', the likes of which have never been seen before, navigating the complex matrix of providers is a daunting task.

Ian Salmon of IgniteG2M explores the UK Alternative Funding Market and how the new world order will yield innovative and soon-to-be-regulated financing opportunities to the growing number of Emergent Fintech SMEs.

BIG BANG...

Playing host to such a vibrant and fast growing Fintech community, and with its ready access to innovative new methods of capital-provision, you'd expect London to be the epicentre of alternative financing for Emergent SMEs in the Fintech sector looking to move to their next stage of growth.

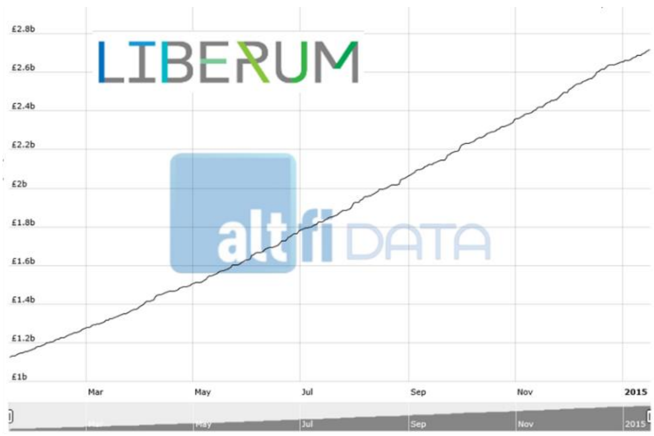
In a mature financial technology marketplace outstripping c £20bn in revenues annually, nearly 20% is populated by exciting and often disruptive, fledgling technologies. Indeed, the UK was recently heralded as '*fast becoming a destination of choice for companies wanting to establish a global presence in the Fintech sector*' by the Government's Trade and Industry CEO Sue Langley[1].

So, as one of those emergent technologists you'd be correct in perceiving London as a true Fintech capital, with a wealth of funding options on those gilded pavements beneath your feet.

But if this is the case, why do fewer companies in Europe avail themselves of alternative funding than their cousins over the pond? In recent years the value raised in the UK market for startups (£0-2million) by private/angel investors was a mere 5% of that achieved in the US, a ratio also seen in the next category up of development capital – VC funding (£2-20 million).

Well, signs are the tide is turning.

The Liberum AltFi Volume Index, the leading barometer (across all industries) of Peer-to-peer / Crowd lending, shows take-up on a steep trajectory through 2014, indicating the new dawn of awareness has begun.



Source - Liberum and Altfi Data

[1] 'Landscaping UK Fintech' - Commissioned by UK Trade & Investment

A ROAD TO RICHES...

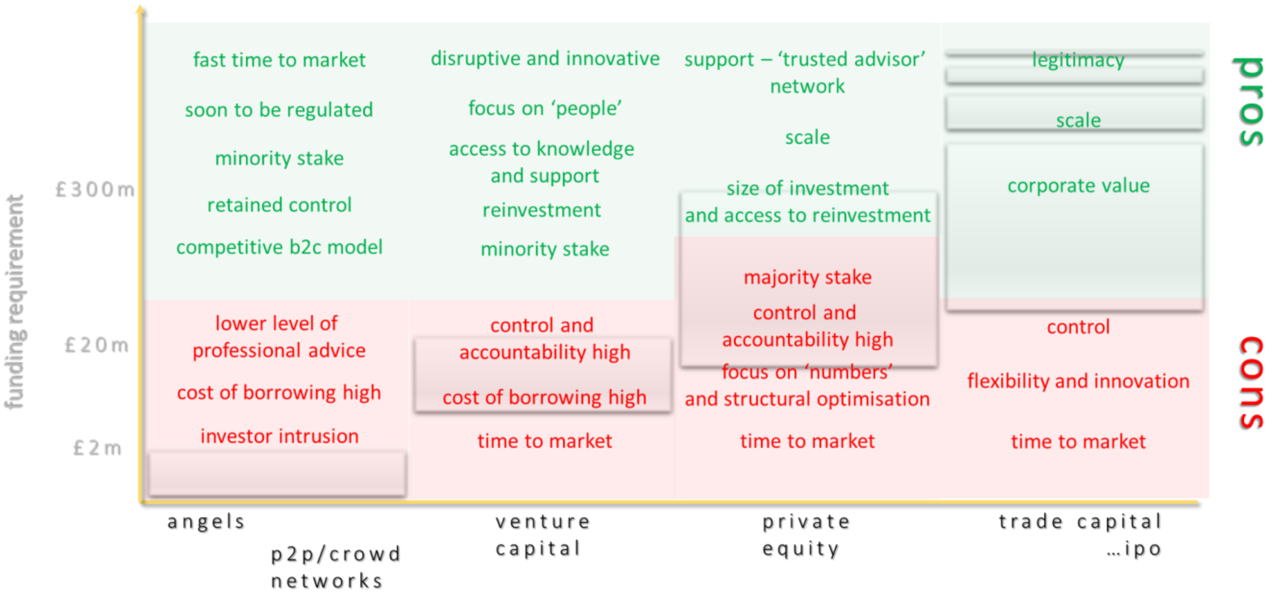
Let's place ourselves in the shoes of the Fintech entrepreneur for a moment. The efforts of years of labour has delivered one's product or service, proven and market-ready, but in need of capital investment to allow transition to the next phase of growth.

Who, then, is the optimal investment partner to approach in this, arguably the most critical time in the development of my fledgling business?

Not just about the money, the answer rather depends on a few key criteria.

My IP and the effort invested in the franchise to-date should be protected, but inevitably any investor in a venture would want accountability and visibility of progress. This impacts the time-to-market of the funding in due-diligence phase as well as the ongoing level of support or independence offered to the start-up entity.

And then there's the actual amount of funding required too. All these factors influence the choice of backer to approach.



REGULATED ALCHEMY...

Once the 'minnows' in the capital-provision pool, the equity available from Private and Peer-to-peer backers is set to explode. New angel networks and crowd funding platforms are emerging by the week. Typically in smaller tranches but nimble in setup, decisions are automated and fast.

With continued talk of UK Government tax concessions in the form of P2P ISAs set to make investment in such networks even more attractive, liquidity is set to increase as the crowdfunding 'craze' gains momentum.

So what's the catch? Well, some might say less due diligence on the part of the investors robs the entrepreneur of the valuable challenge / validation of having to present ideas to the 'den'. Inevitably, investment rates of return are expected to be high. And, unlike their bigger cousins in Venture and Private Equity, support from the investors will be less as a 'trusted advisor' and more likely to be intrusive with less value.

Recognising the groundswell of interest, as we speak, the European Securities and Markets Authority (ESMA), are consulting each National Competent Authority (the likes of the UK's Financial Conduct Authority (FCA) to you and me) about how crowdfunding business models fit within the existing EU regulatory framework. In response, on 3rd February 2015, the FCA have announced their own review.

This future legitimisation and oversight will arguably be the icing on the Crowdfunding cake, giving long-awaited credibility and oversight to flexible and accessible methods of financing.

The result – London is perfectly placed – as a Fintech hub, buzzing with opportunity and untapped funding and services, to support the launch of our budding Fintech talent.

About Ignite G2M

Ignite G2M is a specialist business development outsource service focussed at bringing FinTech products and services to market.

Our full life-cycle Strategy, Marketing and Sales delivery methodology delivers professional and targeted campaigns at a fraction of the time and cost of setting up and running the function in-house.

We have an enviable track record of delivery, founded on a collective 50 years' experience in the investment bank and brokerage, buy-side, data vendor and trading venue space.

For more information, visit www.igniteg2m.com