THE CHANGING LANDSCAPE OF CANADA'S FINTECH SECTOR

Sectoral Trends and Characteristics of the Top 150 FinTech Companies of 2023

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Research Bite
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Key Highlights

- Information from Crunchbase, Pitchbook and public sources was extracted to assemble a dataset of 1500 Canadian FinTech companies, from which the top 150 firms were identified.
- Our data suggests that funding in FinTech reached its peak in 2021 and then dropped, but year-to-date funds raised for 2023 remain higher than pre-Covid levels, with an increased prevalence of mergers and acquisitions, but a lower amount of seed funding.
- Compared to a similar list in 2018, the Top 150 companies in 2023 have a significantly higher proportion of larger-sized firms, and greater representation from firms in the Digital Payments and Wealth Management services, followed by Insurance Tech, but less representation from historically dominant areas of Lending & Credit and Crowdfunding.
- All in all, the changing FinTech landscape can be attributed to greater maturity of the sector and to the rise in risk-free rates. In contrast to the gloom and doom funding scenario often portrayed in the media, late-stage and larger FinTech firms continue to attract financial capital.

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Data Construction

We used data from Crunchbase and Pitchbook, newspaper articles, industry reports and company websites, to identify about 1500 FinTech companies headquartered in Canada. Our definition of FinTech includes (1) technology companies which provide services to the financial services industry, and/or (2) technology companies which primarily create, distribute, and administer financial products themselves.

We then ranked those 1500 companies based on several objective criteria such as their current valuation, funding raised (equity and debt), estimated revenue (where available), and performance scores.[1] Using this ranking, we created the list of Top 150 Canadian FinTech companies for 2023. Based on their primary line of business, those 150 were further grouped into nine distinct categories: (1) Accounting and Expense Management, (2) Banking and Personal Finance, (3) Blockchain and Crypto, (4) Capital Markets and Trading, (5) Insurance Tech, (6) Lending and Credit, (7) Payments and Money Transfer, (8) Security and Identity, and (9) Wealth Management.[2]

Funding Trends in the FinTech Sector

Most of the firms in our entire FinTech dataset are private companies, but we have information about the amount of capital these companies have raised, either through debt or equity. Funding trends provide a key indicator of the prospect of this sector, especially in the eyes of investors.

Our data suggest that over the last 10 years, FinTech firms in Canada have raised over $18B through about 1100 deals involving angel investors, early-stage and late-stage VC funding, Private Equity rounds, and proceeds from public offerings (initial and subsequent). Almost a third of the total funding in the industry was raised in 2021 alone, when there was a funding boom across the tech sector.[3]

Since then, there has been a decline in funding in the sector, but year-to-date figures for 2023 remain higher than pre-Covid levels, indicating investors overall remain cautiously optimistic about the sectors' long-term prospects (See figure 1).

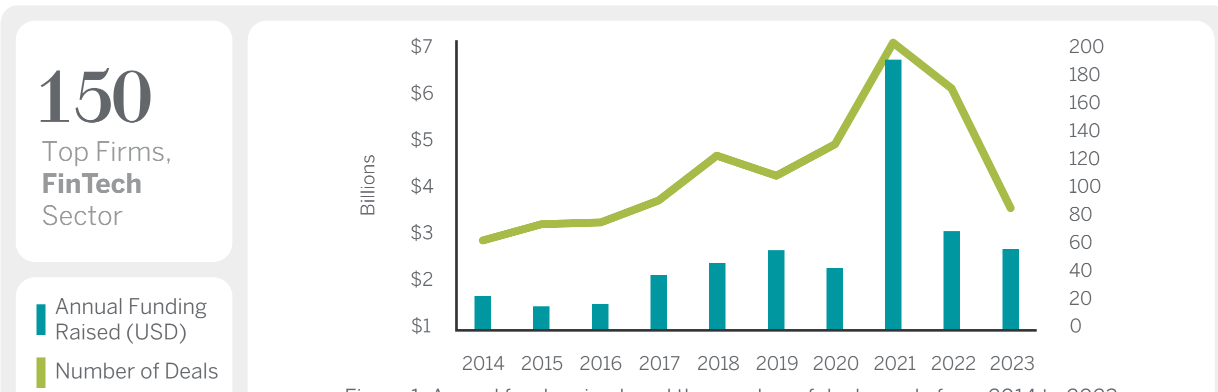

Figure 1: Annual funds raised, and the number of deals made from 2014 to 2023

Almost 60% of this funding went towards companies headquartered in Ontario, with Quebec and British Columbia at joint second with 15% each. (Figure 2) Ontario was dominated by the Greater Toronto Area, where 85% of total FinTech firms in the province were located. These firms raised 90% of the funding raised in the province. This geographical agglomeration is not surprising, considering Toronto has been a significant source of talent and entrepreneurship for this sector, as well as a major hub for traditional financial institutions.

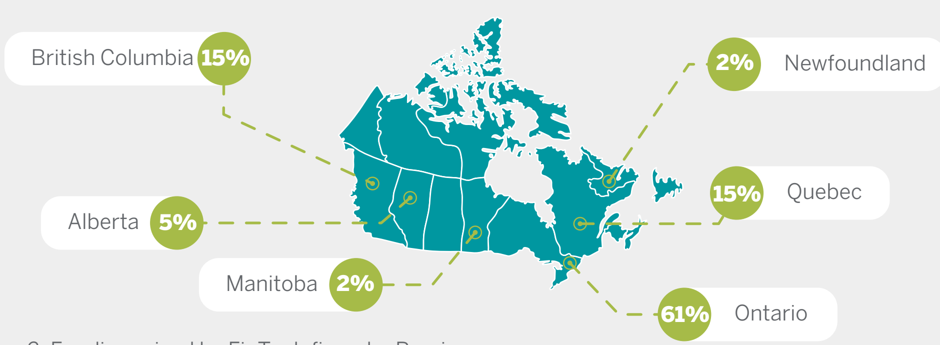

Figure 2: Funding raised by FinTech firms by Province

Stages of Funding Sources

We next explore firms by their funding stage: (1) Seed Funding, (2) Early-stage Ventures, (3) Late-stage Ventures, (4) Mergers & Acquisitions, (5) Private Equity, and (6) IPO. The distribution of firms participating across these different types of funding rounds can indicate how mature the sector is.

In Figure 3, the inner doughnut represents the percentage of companies participating in the six funding stage categories, while the outer doughnut represents the dollar value of the capital raised by firms in each of those categories. In 2018, while 44% of the FinTech companies raised funding at a seed level, contributing to 13% of the total funding value, in 2023, the proportion of seed rounds remained the same at 45%, but their cumulative dollar value as a percentage of total funding in 2023 halved to 6%.

In absolute terms, the value of mergers and acquisitions (M&A) deals has doubled from about $215M in 2018 to almost $500M in 2023, YTD. On the contrary, total seed funding has decreased from around $190M in 2018 to about $110M in 2023, while the number of firms raising seed capital has also dropped from 80 to 60. The bulk of the funding transactions in 2023 are driven by a handful of companies, either through IPO, or via M&A.

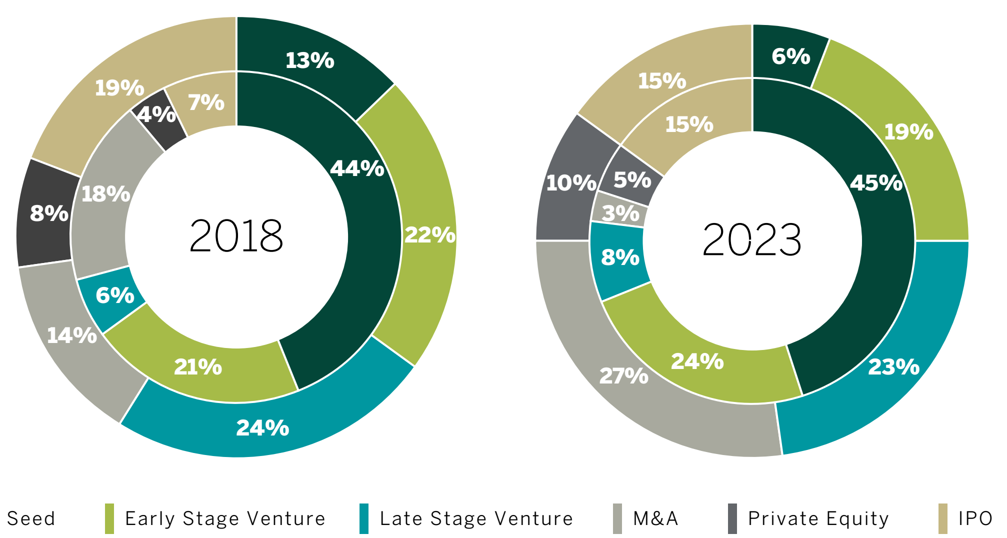

Figure 3: Comparison of funding sources between 2018 and 2023

All this points to a lower appetite for high-risk early-stage ventures, and a gradual tendency towards market consolidation through selective winner picking. This trend can be attributed in part to greater maturity of the sector and in part to the rise in risk-free rates, which has led to an increase in the expected rate of return from equity investments.

Characteristics of the Top 150 Canadian FinTech Companies

Our Top 150 FinTech companies for 2023 represent a diverse set of FinTech businesses. Figure 4 shows the number of companies in each of the nine categories we identified, along with the amount of capital raised. Firms involved in 'Payments and Money Transfer' activities lead in both the count of companies and total funding raised, followed by firms offering 'Wealth Management' services. 'Insurance Tech' is an interesting segment, as it has the fourth highest number of companies, but the lowest total funding. This is primarily because several investments in these companies have been through operational partnerships with traditional insurance firms, rather than a direct capital raise.[4]

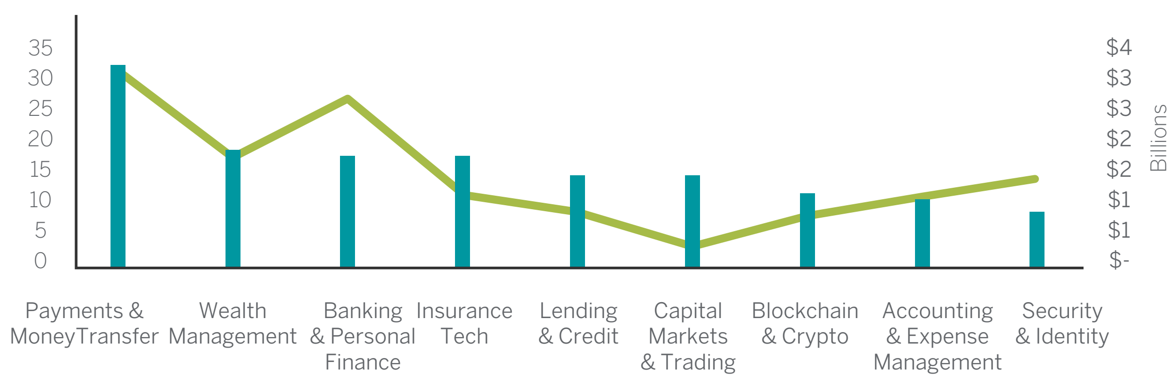

Figure 4: Distribution of Canada's Top 150 FinTech companies by their primary category in 2023

About 75% of our Canadian Top 150 FinTech companies were founded between 2011 to 2020 (Figure 5)—the decade of the FinTech "revolution." Again, there is a high geographical concentration, with 67% of those firms headquartered in Ontario, followed by 20% in British Columbia. About one third of these firms have revenues estimated between $1M and $10M and another one third between $10M and $100M (Figure 6).

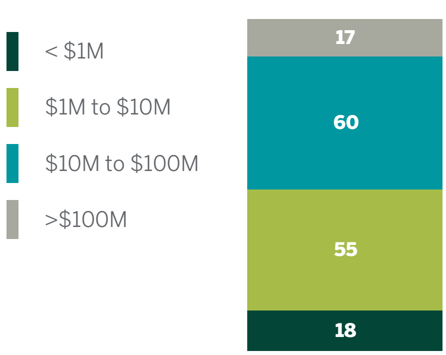

Figure 5: Distribution of 2023 Top FinTech Firms based on their founding years

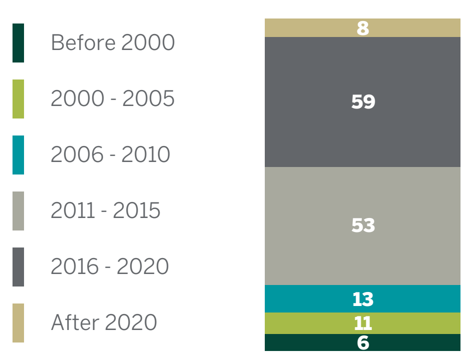

Figure 6: Distribution of 2023 Top FinTech Firms based on their revenues

Top Canadian 150 FinTech Companies: 2023 vs 2018

Of the 150 companies profiled five years ago, 60 have remained in the 2023 list, 27 have been acquired by bigger rivals, many of them based out of the USA; 17 have either closed or pivoted to a non-FinTech business model, while four have shifted their HQ to the USA and thus were not considered for this year's list. The remaining 46 have dropped out from the top 150, having been replaced by better performing competitors. Figure 7 shows how the 60 companies common across both lists have grown in the last five years.

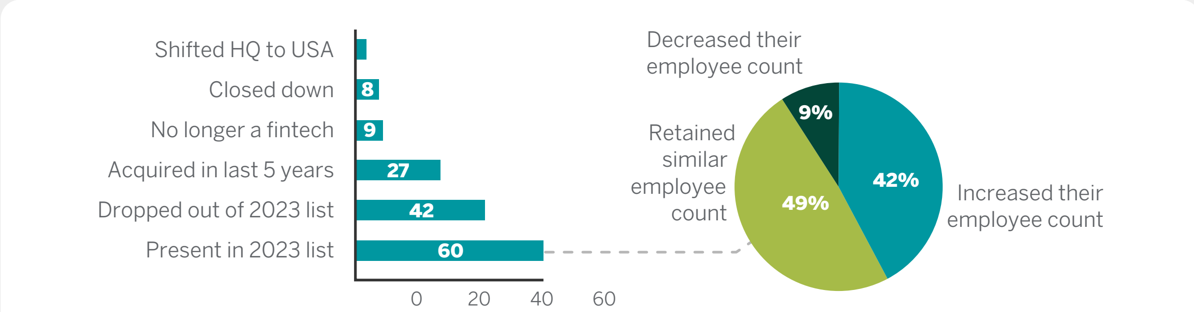

Figure 7: Current status of the 150 companies profiled in 2018

Comparing 2018 to 2023, we observe that there is a sharp increase in representation from two segments, 'Insurance Tech' and 'Wealth Management', and a steep drop in two others, 'Lending & Credit' and 'Crowdfunding' in the 2023 list. A variety of macroeconomic factors have contributed to this trend, including the prevalence of high borrowing rates which has increased expenses for companies engaged in lending credit,[5] and greater adoption of digital technologies by traditional financial services institutions.[6]

The 2023 list also represents firms that are, on average, larger in size than those in the 2018 list (Figure 8). While in 2018, 63% of the 150 companies had fewer than 50 employees, and only 7% had more than 250, in 2023, this proportion has changed substantially, with only 43% having fewer than 50 employees and 17% having more than 250. The increase in the proportion of larger-sized firms at the expense of smaller ones is consistent with our sector-level observations which pointed towards increased funding for late-stage ventures and a growing trend for market consolidation.

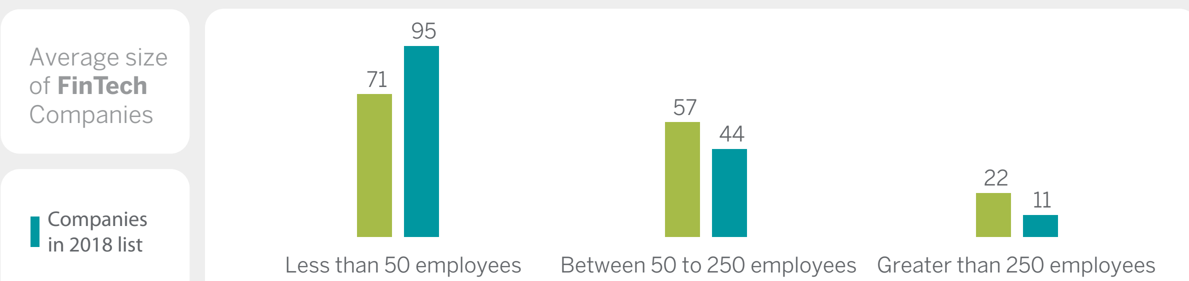

Figure 8: Trend towards larger firms in the 2023 Top Fintech list, compared to the 2018 list

In Conclusion

Examining sectoral trends and comparing the Top 150 FinTech Firms from 2018 and 2023 reflects a gradual maturity in the industry as well as the tightened financial conditions of the economy. A higher prevalence of larger-sized companies, increasing instances of mergers and acquisitions, reduced access to seed stage funding, and greater focus on specific segments like Digital Payments and Insurance Tech are a few of the key highlights observed from this compilation. On the other hand, certain trends from 2018 continue, such as the dominance of Toronto based companies, and the slow pace of IPOs.

With concerns about the global economy, including fears of a recession, sticky inflation, high interest rates and geopolitical tensions, investors have been reluctant to place big bets on this sector over the past few quarters, especially in the early-stage startups. Yet, unlike the gloom and doom funding scenario often portrayed in the media, the evidence we marshal here suggests that late-stage and larger firms continue to have access to financial capital. Thus, while investors remain cautious, they are willing to invest in companies with a proven track record of success- i.e., engaging in winner-picking.

Responsible policy advancements around the adoption of ISO 20022 standards for financial transaction reporting, open banking, and the real-time rail payment system can potentially stimulate more entry and reinvigorate seed level funding in the FinTech sector. This in turn can generate more innovations and competition, as well as potential collaboration with existing financial institutions, thereby increasing dynamism in the broader financial system.

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