MRM

FUNDING FINANCIAL SERVICES

Sponsored by

THINCATS

INTRODUCTION

When it comes to seeking investment, there's so much that impacts the success and value of a business, sometimes within its control – but not always.

In an inflationary and high interest world, capital investors and advisers are looking for more certainty, where once they would consider potential. With that shift taking shape, we've invited a panel of experts to look at what's influencing the market right now and what the future looks like for businesses and capital investors alike.

Whether it's the worrying economic outlook, government support or intervention, the development of technology, or simply the ability to offer a good and modern service to customers, businesses have plenty to deal with that can impact their futures.

It's clear that there is still some way to go across the financial services sector, especially in terms of the acceptance, understanding and adoption of new technology that can change the game for relationships with customers – and, ultimately, encourage and attract investors.

As you will read, the key is in businesses having a progressive mindset towards their future, and to be ready for when investment opportunities return.

A big thank you to our panellists for their contributions to a really informative discussion, and to our sponsor, ThinCats, for making this report possible.

Anthony Morrow
Chair

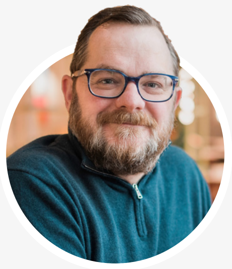
Funding Financial Services participants

Andy Claymore

Managing Director, Financial Services, DC Advisory

Andrew is part of the DC Advisory UK team and brings more than 15 years' experience in investment banking to the firm.

Prior to joining DC, he led PwC's M&A services to clients in the Asset & Wealth Management and Insurance sectors. Before this, he spent 10 years at Standard Life leading the group's Corporate Finance team.



Anthony Morrow

Investor and Founder, OpenMoney

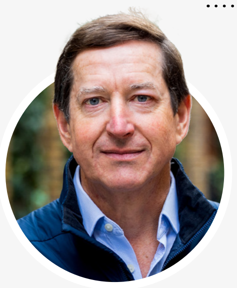
Anthony is founder of OpenMoney, a digital personal finance adviser launched in 2017. He is also an investor and non-executive director of a number of other fintech businesses in the consumer space.

Anthony is committed to ensuring more people have access to advice to help them avoid making poor decisions especially those who have little to lose. Prior to OpenMoney, Anthony was a co-founder of Tatton Asset Management plc and previously worked at consultancies including KPMG and Andersen.

David Ferguson

CEO, Seccl

David joined the Octopus Group-owned investment technology firm, Seccl, as CEO in April 2022. He was previously founder and CEO of Nucleus, where he created a distinctive and customer-led culture that helped the investment platform to grow from start-up to £20bn in AUA and IPO to subsequent £145m trade sale.



Martin Davis

CEO, Molten Ventures

With more than 20 years' experience in financial services, Martin joined Molten Ventures from Aegon Asset Management where he was the Head of Europe. Prior to Aegon, Martin served as CEO at Kames Capital, CEO of Cofunds, worked at Zurich Insurance Group, and was also CEO of Zurich's joint venture, Openwork.

Martin also served for 11 years in the British Army. Martin has an MBA from London City Business School (CASS) and Diplomas from the Institute of Marketing and the Market Research Society.

Sam Seaton

CEO, Moneyhub

Sam is an internationally-recognised fintech pioneer, a thought leader on diversity and inclusion, and a champion of financial wellness.

She is the CEO of Moneyhub, the award-winning Open Banking, Open Finance, and Open Data platform that transforms data into personalised digital experiences.

Sam is passionate about the power of technology to improve financial wellbeing for all. She is on the Money & Pensions Service's Pensions Dashboards Programme (PDP) steering group, and is a Non-Executive Director at the Charities Aid Foundation Bank and at FDATA, the Financial Data and Technology Association.

Stuart Thompson

Director, Head of Transitional Capital, ThinCats

Stuart has 14 years' experience in leverage finance and corporate banking at Barclays and RBS where he funded numerous transactions across the leisure, TMT manufacturing, professional services and healthcare sectors. Stuart joined ThinCats in 2019 and today focuses on Transitional Capital.

CURRENT LANDSCAPE

What challenges are companies facing – either businesses looking to raise or investors looking for businesses to invest in? Are current conditions changing the landscape?

Andy Claymore

"You need a handful of simple ingredients for successful M&A - a willing buyer, a willing seller and an agreed price. However, in this current environment of high interest rates and inflation plus macro uncertainty, buyers are reviewing opportunities with a higher degree of scepticism, especially around future financial performance which has a knock-on impact on price.

On the other hand, some sellers regard the current environment as temporary and still believe they should be valued as they were a year ago. Clearly, both sides need to meet in the middle on value for a deal to work; however, this gap in pricing expectations is impacting the volume of deals going through at the moment. Where we see deals happen, it is down to a compelling business case. In this context, we continue to see strong participation from strategics who understand business models, live and breathe the risks and don't need leverage. In private equity, the rocket fuel of leverage is now much less available and much more expensive, hence we see more creative deals such as minority stakes or on a more structured basis. However, as interest rates and inflation fall, the private equity market will recover quickly."

Stuart Thompson

"At the moment we are seeing the tightening of high-street credit. This presents an opportunity for us and we are writing great quality deals for solid businesses that are being underserved by high-street lenders. The market has really evolved in the past five or 10 years with the creation of the alternative lenders, so although the market is contracting now, there will always be competition in this space and it will certainly come back at some point."

Martin Davis

"Last year everything pretty much stopped. In creating value in deals it's all about in price and out price, and no-one knew what the exit value out price was going to be while there was uncertainty around interest rates and inflation.
The result was that everyone stopped trying to finalise a deal unless they were desperate. The top tier assets can still raise money of course, but that's only around 10% of deals. The next 30% that would've been funded two years ago won't now in the current environment, and the remaining deals no-one will go near at present. The other change in the current landscape is that investors are not willing to bet on growth over three years forward at the moment – they want to see earnings and income stability. Realistically the market will only pick up when the M&A and IPO markets pick up, but, although it will recover, I can't see pricing returning to 2021 levels."

Sam Seaton

"I completely agree with what Martin has described, it's exactly how the market ended last year. This certainly wasn't helped by the Government's mini-budget in September, which really saw the investment market in the UK limited further. As such, it's always important to be in a powerful negotiating position in order to get the best outcome for your business. This is especially important when the landscape is so difficult."

David Ferguson

"Our mindset is often to still do the same again, say where we feel we may have underinvested in the past and we still believe in the sector and like the business. The market has really evolved in the past five or 10 years with the creation of the alternative lenders, so although the market is contracting now, there will always be competition in this space and it will certainly come back at some point."

GOVERNMENT SUPPORT

The Government has big ambitions around the future of the economy and a digital and tech-focused economy that requires access to funding. There is capacity there for real quality assets, so what can the Government do to provide support for more businesses in the space without being seen to subsidise the private sector?

Martin Davis

“When you think about the dotcom bubble, the financial crisis and Brexit, up and down cycles happen and governments have to step in every time when the market steps back. The Irish and German Governments created sovereign wealth funds specifically for their domestic businesses, and the UK Government has a responsibility to get in there and keep the UK system alive too. You won’t get private investors continually throwing in money to keep businesses going, but the Government hasn’t got the memo yet and it’s a real problem for the UK - particularly in fintech where the UK is 50% of the European market.

In terms of what needs to be done, the vast majority of companies will have gone through seed funding, and that’s where the Government should be pumping money, because that’s where it all starts. If a company has got the right product and the right people they will break out, and that’s where seed funders should come in and therefore where the Government should too.”

David Ferguson

“In Scotland there were lots of small-scale Government schemes set up to raise money for businesses in these ways, but nobody could navigate the path to get to the funds. There were too many confusing messages around what different sorts of companies can and can’t do with different funding – and business owners often gave up, because they were still trying to run their business at the same time.”

Sam Seaton

“There are so many things that seem to trip you up, like the Government not being able to invest in regulated businesses – something which can impact some genuine start-ups. There is also seemingly some doubt about the future of the EIS at the moment, and, even if the Government doesn’t intend to close it, the uncertainty doesn’t help. Having the media saying EIS’s future is in doubt is not helpful either, because it may obstruct people’s plans.”

Martin Davis

"You can now raise more in the EIS for knowledge-intensive companies, which does open doors, and the Government is trying to loosen things to get more capital flowing through, particularly in deep tech and health tech that have long research lead ins. There are encouraging signs, but the Government has to keep the flow through to those businesses not yet making profits."

Stuart Thompson

"The sub-£10m deal market is underserved, with a reduced pool of lenders lending on a cashflow basis without assets. The high street has abandoned this market, but what the Government has done with the ENABLE guarantee is give additonal comfort to lenders to support SMEs and cashflow lending by enhancing the security available. That gives confidence to our funders and increases the availability of credit in the market, which has been very useful to support business growth."

Andy Claymore

"It's not just government, we need to consider the role of the FCA too as it has a critical role in approving regulated transactions and in ensuring the smooth flow of deals. We have seen significant delays in these approvals over the last couple of years which creates unhelpful uncertainty as well as completion complications. It would be great if we could find a system which is transparent, consistent, fully risk-based and with regular, open communication as this would maintain dealflow in a pragmatic manner. On the flip side, I should like to point out though that the FCA has been absolutely instrumental in creating structure, fairness and trust within the system, initially through RDR, latterly through pensions freedom and with Consumer Duty on the horizon. These changes have been enacted with the client at the forefront which is the right thing to do for the industry."

David Ferguson

"The regulator is not terribly well informed on all the owners of regulated companies and lacks the skillset to understand. Then sometimes they have issues with ownership and strategies later that could've easily been seen at an earlier stage. But also, they're often not slowing deals down because of the suitability of the owners, they're slowing it down because of their own admin limitations."

TRENDS

What are the current trends in the financial services industry, and what are the areas that are really exciting?

David Ferguson

“Consumers becoming jaded is a trigger for a trend that will lead to companies behaving better, where regulators have previously lacked teeth to manage this. Hopefully this will drive a proper increase in standards.”

Sam Seaton

“The good thing is that the reality is sinking in about financial harm, off the back of the PPI issue, so companies are very aware that if they’re not careful it’s not the FCA they should be worried about, but a class action law suit. As a tech business that can help them do it right, not get fined and communicate better with their customers, this is a good opportunity.”

Martin Davis

“Decentralised finance, where the individual has control and self-custody, is a huge area and has the chance to change how our financial services operate. This and cyber are two areas where there’s work going on that will change the whole ability for people to protect their payments. This will have a far greater impact than interest and inflation rates, or other products, because this is where the battleground is going to be. If people can trust their own ability to hold their own assets, then they will. Once a more blockchain approach can be applied to more financial services that will be a game changer.”

Andy Claymore

“From a deal perspective, the theme of technology is incredibly exciting and is creating some very obvious M&A dynamics. For example, one dynamic relates to strategic players who are concerned about the risk of disruption, and therefore have need to futureproof their business models with technology – buy or build? Another example is that there will be increasing levels of globalisation, driven by the take-up of border-agnostic technology, especially in areas such as open banking and payments. We will therefore see an evolution in the adoption of technology and with a much sharper focus at board level. Board composition will change over time as a result of the impact of, and need for, technology, as businesses create and implement their vision of digital transformation.”

David Ferguson

“Management in corporates still don’t have a clue what technology should be doing for them, but are instead still spending on stupid things all over the place. When will these companies grow up? A cultural shift has to occur.”

Martin Davis

“It’s hard when the cloud consumes the world, rather than previously when IT people had control. Big firms now understand they can’t build these things themselves and need to trust experts in data and cyber.”

Sam Seaton

“There’s a shift to the consumer to do with responsibility – with data, GDPR and the sensitivity of it – and here many boards are asleep at the wheel. It’s at a stage now where consumers are wanting ownership of their data as well, along with a move from implicit consent to explicit consent, which I’m a big fan of. That’s pretty fundamental.”

David Ferguson

“You see a lot of entrepreneurs in fintech who don’t necessarily understand the regulatory environment they’re operating in, and they need to realise that certain standards are required in order to be a regulated company. Plus, even though something might be a great idea, they need to think how much of a practical investment is it once you start operating?”

IMPACT OF TECHNOLOGY

How do you expect AI to impact businesses?

Martin Davis

“We invest a lot in AI, but we always ask the question ‘what is the problem it’s trying to solve?’ as opposed to isn’t this clever’. We see lots of companies with things that are clever but if you can’t convince yourself that they are solving a problem then it’s not as appealing. It’s all about getting the technology to do something that the customer wants.”

Stuart Thompson

“We mainly use data from a benchmarking and market performance perspective. There’s a lot that the UK should be adopting, but it’s quite slow at this, so we need to speed things up and tackle what is still such a manual process. I’ve not really seen significant change in 15 years, it’s still very ‘people heavy’ on communication and decision making.”

David Ferguson

“These things come in on a wave of hype but they do often have a very useful role to play. There’s lots of talk of AI replacing human or judgement-based and trust-based tasks, although adoption is slow. It’s more of an incremental thing than a big bang. Things need to be properly disruptive in order to make an impact.”

Sam Seaton

“It all comes back to problem solving and what it’s applicable for. AI for AI’s sake isn’t the answer, you still benefit from having conversations and the opinions of others. If you’re in it for a quick buck, quick bucks will be made, but if you look at it more holistically then it’s about the purpose. The big trend here though will be that we won’t search for things anymore, as things will come to us based on our data. With the sharing of data, big companies will soon be able to service their customers with things that will interest them at a price they are interested in paying, and that they never thought to search for or knew existed. I don’t think that progress has really been registered by some yet.”

Andy Claymore

“The terms ‘AI’ and ‘disruptor’ are becoming hard to define, you need to drill deeply into the specifics of what is meant. We see these terms bandied about liberally in transaction collateral, but I think both precision and care are required to define what is meant. With regards to the nature of the AI or the means with which a business disrupts, we need to understand ‘how does it add value and to whom?’ and ‘what problem does it solve?’. Without precision, there is a danger that these words lose their value.”

CLOSING REMARKS

What trait can a business have to be successful in UK financial services? Is the UK financial services sector in good health?

David Ferguson

“I think it has a long way to go before you can say it’s in really good health from an efficiency and customer focus point of view. I think we need another 10 years on that before we get to anywhere we can be proud of.”

Martin Davis

“I think we’re right on the verge of a huge revolution and it’s really exciting. Technology is the big driver to make things easier, cheaper, and give people more control and consumers more power. The question is how can investors grow and benefit from this and get some of the financial return into financial services, long-term savings and pensions.”

Stuart Thompson

“The market has evolved a lot and there are lots of options out there for customers. Lenders will come back, but it’s slow and the market as a whole needs to shift to using technology. This will help lenders make decisions quicker.”

Andy Claymore

“I think we will see continued reduced levels of M&A through 2023 due to the macro environment. However, with the easing of inflation and interest rates and with greater confidence flowing into the global equity markets, I’m optimistic that we will see a strong recovery in 2024. We should see a greater flow of willing buyers and willing sellers but, crucially, we may see the pricing gap much more substantially bridged.”

Sam Seaton

“We’re experiencing a big shift, coming from the way that data and AI - and how the world interacts with it - is happening. People need to realise that the train has already left the station on this and they need to keep up.”

IFA MARKET

Why is so much private equity money going into the IFA consolidation route? What is the obsession?

Andy Claymore

"Private equity firms see this sector as a value creation opportunity, driven by an investment hypothesis centred around a number of attractive themes - the IFA market has strong organic growth, it is a fragmented market with an abundance of M&A opportunity, technology is being used to drive scale and margin and there are strong regulatory tailwinds. The market is also going through some fundamental demographic change through an ageing population, the transition from DB to DC and the complexity of our tax system. This means that there is a compelling need for quality financial planning, especially in and around retirement, which is driving sustained levels of flows into the sector. Put all that together and it's a great opportunity for private equity."

David Ferguson

"It's been quite loosely run, so if professional capital is put in in a way that doesn't disrupt the way it works and how people behave, then it works."

Andy Claymore

"There's still a very long runway for consolidators, because it's such a vast market with generational wealth flowing into it. Also, advisers won't just be face to face in 10 years' time - once technology can find a scaled solution for hybrid and digital advice, we will see an even greater growth opportunity as the sector becomes industrialised across all client demographics."

Martin Davis

"I think the top end of advisers and high-net-worth clients will stay face-to-face, because the relationship is trust based."

Stuart Thompson

"I think the cost element of being a one or two-man band and being regulated is important, as they need to do a lot to bring these costs down. Bringing this in-house through private equity does bring clear synergies, and suddenly businesses can be worth strong multiples. It's quite an easy science from a private equity angle to say 'do this and we'll get this return' – but it needs to be a proper group all working together, not a load of standalone entities."

David Ferguson

"This is where the conflict between customer interest and investment is. As long as you've got people offering 8% of assets to exit an IFA, and the Regulator is letting that happen, and you create a highly-valued business that creates issues for clients, that's not how financial services should be run."

Martin Davis

"The IFA market is a people business. Having been through this consolidation cycle twice, the Regulator will identify issues if the group of companies are a nightmare to regulate because of these differences in operations."

About MRM

MRM is an integrated communications and reputation management consultancy specialising in the financial services and professional services sectors. Combining expertise from across the core disciplines of Corporate & Consumer PR, Social & Digital Media, News & Content and Public & Regulatory Affairs, the team specialises in helping organisations tell their stories more effectively to more of the people that matter. For more information visit www.mrm-london.com

About ThinCats

ThinCats specialises in providing alternative lending solutions to mid-sized SMEs. It has emerged as a prominent player in the finance industry, offering an innovative approach to closing the funding gap faced by many businesses.

ThinCats has established a strong track record, having provided over £1.4bn funding to SMEs to date. Since 2016 ThinCats has grown its loan book to more than £750 million with current equity capital sufficient to support a loan book of £2 billion.

From 2020 ThinCats' primary source of capital has been bank senior lending lines, alongside its own junior equity capital.

One of the key strengths of the business is its ability to assess the creditworthiness of SMEs based on comprehensive evaluations, including financial performance, industry trends, and growth potential. This enables the company to offer competitive loan terms and flexible repayment options to its clients. ThinCats' commitment to responsible lending practices has garnered trust and confidence among both borrowers and investors.

By combining the latest in data analytics with traditional lending skills and a regional network of business finance specialists, ThinCats provides funding from £1m up to £15m for businesses looking to grow organically and/or through acquisition.

mrm-london.com
@MRMComms
/company/mrm-london