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DC Discusses

Global FinTech

M&A Outlook 2025

# DC Discusses: Global FinTech M&A Outlook 2025

By October 2024, global deal volumes in FinTech M&A had surpassed 2023 full year volumes<sup>1</sup>. In keeping with previous years, the landscape of FinTech has been characterized by the innovation, evolving regulation, and influence of AI. As the FinTech sector is increasingly driven by AI, we are not surprised that investors are adopting a 'wait and see' approach to exits, fundraisings, and deployments. Looking back on 2024, we reflect on:

- Which FinTech subsectors have attracted investor interest
- FinTech valuations adjusting in line with broader sector trends
- How investors' 'wait and see' approach will change in 2025

## Rise of new startups aiming at capturing B2B opportunity

B2B FinTech continues to dominate the sector, offering stability through recurring revenue models and enterprise-driven solutions like RegTech, payment platforms, and embedded finance<sup>2</sup>. The growing need for scalable infrastructure and rapid digitization, especially in emerging markets such as Southeast Asia and Latin America, ensures B2B remains a cornerstone for M&A activity in 2025<sup>3</sup>.

We saw Revolut – the British multinational neobank - 'double down' on expanding its B2B offering last year, onboarding 20,000 new businesses each month across its 40 live markets<sup>4</sup>. With the release of its bill management system 'BillPay', the bank aims to simplify and integrate business accounting software in one system. The application software product sector – the manufacturers and distributors of application software for B2B and B2C markets – has attracted M&A activity over the past five years. With an exceptional peak of M&A activity in 2021, along with wider Technology sector, the market was depressed over the past two years compared to historic levels, but we are starting to see early signs of normalized activity<sup>5</sup>.

At the end of 2023, we advised ProHance, a leading B2B SaaS platform, on its majority recap from ChrysCapital, one of India's leading investment firms<sup>6</sup>. ProHance serves over 170 enterprises across 24

countries in the IT/ BPO, GCC, and Financial Services sectors<sup>7</sup>. The investment marked ChrysCapital's foray into the growing Indian SaaS ecosystem and allowed ProHance to strengthen its US presence and continue its expansion into markets including South America<sup>8</sup>.

We believe the potential upcoming IPOs for large-scale assets in the B2C space, such as Klarna<sup>9</sup>, the BNPL payment solution based in Sweden, and Chime<sup>10</sup>, a financial technology company, should not only kick-start the reopening of the IPO markets for FinTech, but act as a catalyst for M&A by boosting confidence in future exits and valuation benchmarks. While these IPOs can bring B2C back in focus for investors, we believe B2B still remains critical for this sector.

## Revival of consumer FinTech, driven by wallets, apps and OB

E-Commerce has continued to be an interesting and resilient sector, despite consumer spending and confidence<sup>11</sup> suffering knocks from macro-economic pressures.

We have observed a growing trend for 'FinTech on FinTech' M&A, especially within Consumer, in which mature firms acquire early-stage assets to consolidate expertise. We saw this recently with Solaris, a Germany based finance provider, selling its Engage business – a BaaS platform, embedding payment infrastructure into credit union and community bank offerings – to Suits Me, a UK based banking provider<sup>12</sup>. In this way, we see

add-ons – both distressed and non-distressed – are front of mind in the FinTech space to expand regionally and improve customer acquisition.

Last November, we advised YOUGotaGift, a digital gifting platform, on its sale to giftee Inc, an eGifting platform with a strong presence in Japan, Malaysia, Indonesia and Vietnam<sup>13</sup>. The YOUGotaGift platform facilitates purchasing and sending of e-gift cards (B2C), issuance and processing of gift cards for the retailers (B2B), issuance of employee rewards and loyalty rewards (B2B), as well as the end-to-end management of gift card programs for FinTech companies and e-commerce marketplaces<sup>14</sup>. The acquisition aims to leverage giftee Inc's international expertise with YOUGotaGift's innovative digital gift card technology<sup>15</sup>.

We believe the e-Commerce and cross border payments space, particularly those businesses implementing vertically integrated SaaS-led models, will continue to be active this year.

## Valuation normalisation and return to long-term averages

The valuation gap between founders and investors remains as we enter 2025, despite the emergence of some resilient growth companies beginning to grow into their valuation expectations. In response to fluctuating trends and markets, the desire to 'wait and see' when conditions improve has led to a level of risk aversion among the investor class. We believe this is caused by sellers remaining tied to 2021 valuation expectations, which are gradually fading but still present, and buyers lacking sufficient deal activity for comparison.

As valuations in the broader Technology sector have taken a hit over the last few years since the post-Covid boom, we believe that companies demonstrating its AI use case with immediate benefit will separate the wheat from the chaff. Over the next 12 months, we believe exceptional valuations will remain for these exceptional assets as a clearer distinction should emerge between those that are genuinely innovating in AI that adds value to the end customer, and those who are not.

AI is increasingly differentiating hype from substance with practical applications and the ability to demonstrate impact on financial results. We have seen this with Legion Technologies (Legion), a workforce management

platform focused on 'maximising employee efficiency and engagement', securing \$100 million in funding in 2024 from two funding rounds to further innovate AI-powered workforce solutions<sup>16</sup>. Legion launched 70 new product features in 2024, including the development of its Generative AI assistants, ML functionality, and Earned Wage Access service (EWA)<sup>17</sup>. The new administration in the US seems to signal a shift in regulatory dynamics, which is potentially poised to influence 'Big Tech' and M&A activity in the coming year. For instance, an Executive Order was announced in January, aimed at enhancing AI innovation and removing prior regulatory hurdles<sup>18</sup>. This early signal suggests a commitment to promote growth in the Technology sector and prioritise AI development.

The new administration has also shown support and investment into corporate tech initiatives, such as the establishment of the AI-focused partnership between OpenAI, Oracle and SoftBank, with the initial investment into AI infrastructure expected to be \$100 billion<sup>19</sup>. This suggests that a shift in regulation will continue, fostering a more positive environment for 'Big Tech' deal making and reinvigorate the M&A landscape<sup>20</sup>.

Additionally, for KYC, KYB (know your customer, know your business) identification in the RegTech space, we see business models that are working to leverage AI to combat fraud are transforming onboarding and compliance operations. We're observing that demonstrating AI with practical applications is an important theme, more so than building a big engine, as founders can show economic benefit and potential for development.

We believe there has been a continued appetite for investment for FinTech assets among investors, but the 'wait and see' caution has impacted levels and valuations in 2024. In our view, however, the substantial levels of dry powder, the pressure on investors to exit or deploy, and the disruptive nature of AI dictating the scalability of FinTech assets – touted as the 'fourth industrial revolution'<sup>21</sup> – have created a landscape ripe for Tech M&A activity for 2025 and beyond.

## What's next for FinTech?

For founders wanting to sell, preparation is key - make sure the house is in order as the bar has risen for quality of fundraising information and materials. Importantly, early preparation allows a company to mitigate potential investor concerns and focus on improving the most critical KPIs ahead of going to market.

For private equity, prepare to spend but remain selective. As a backlog of private equity portfolio companies to be sold should inevitably come to market soon, it is important for investors to do their homework - building relationships, identifying the winners, and mapping the landscape in order to be quick with early-stage responses.

We believe that 2025 will bring an increase in activity, fundraising, and innovation for the FinTech sector. This next stage of FinTech disruption, in keeping with AI practical application, should come from back-end innovation, aiming to solve the more complex aspects of finance.

To discuss any of the themes and trends explored in this article in more detail, please contact the authors below here >

This edition's authors:



Eric Edmondson  
Vice Chairman

US

eric.edmondson@dcadvisory.com



Tommaso Zanobini  
Managing Director

US

tommaso.zanobini@dcadvisory.com



Jeffrey Musante  
Vice President

US

jeffrey.musante@dcadvisory.com



Klaas Oskam  
CEO, India

India

klaas.oskam@dcadvisory.com



Nitin Bhatia  
Managing Director

India

nitin.bhatia@dcadvisory.com



Nishant Malhotra  
Managing Director

India

nishant.malhotra@dcadvisory.com



Sairam Kandaswami  
Director

India

sairam.kandaswami@dcadvisory.com

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