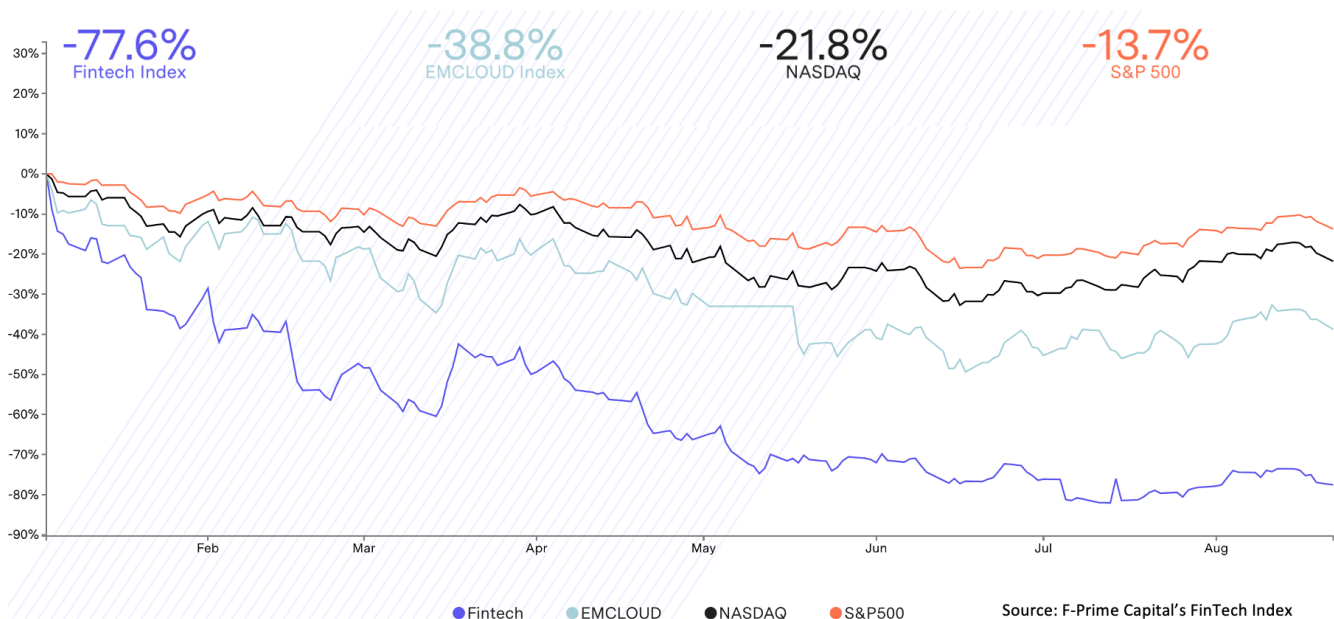


## Severe Contraction in Public FinTechs Casts a Shadow Over Entire Sector But Key Growth Drivers Remain Intact and Financial Results Are Holding Up

### YTD Relative Performance of FinTech Index of 54 US Public Stocks



Public FinTech companies have taken the stock market downturn on the chin over the last few months. As of August 22<sup>nd</sup>, the S&P was down 14% Year to Date, Nasdaq is down 22%, but the F-Prime FinTech index<sup>1</sup> comprising 54 US public companies is down almost 78%. This severe underperformance of public FinTechs has shaken investor confidence in this entire sector, and this sentiment is percolating down into the private markets as well. The wide disparity that we saw between private and public FinTech valuations during 2019-2021 has begun to narrow with investors not only slowing down the total amount of private funding but also pricing rounds at lower multiples than was happening during 2019-2021. Hard evidence of this is Klarna's June capital raise at an 85% lower valuation than its last round, as well as Stripe voluntarily lowering its valuation by 28% in July from a year ago, which is down by as much as 55% based on a secondary trade done earlier this year.

With the market punishing even bellwether FinTech names like Paypal and Block (down 63% and 69% respectively over the last 12 months though handsomely up from their 52-week lows), there are concerns

<sup>1</sup> F-Prime's FinTech Index is an equally-weighted index of 54 US public FinTech companies across Payments, Lending, Capital Markets, Retail Brokerage, etc

about whether the great FinTech run has ended. Will the investor pendulum swing away from the VC-funded modern SaaS FinTech model to more traditional financial institutions and legacy/incumbents for the long term?

As we wrote in a [Viewpoint in February](#), the performance of public FinTechs raises the alarm about whether the FinTech story is still intact. Still, despite the short-term hiccups, the longer-term value proposition of the modern FinTech model remains unchanged. We have been analyzing the underlying business performance of prominent public FinTechs to see how they are faring through the downturn in 2022. How their operating metrics and financial performance is changing, and what cues it gives whether the stock performance of public FinTechs will recover as the market eventually comes out of its doldrum. Analyzing this data reveals five key insights:

- During 2019-2021, investors funded private FinTechs at significantly higher revenue multiples than their public market FinTech peers were trading. In some sectors like Crypto and Payments, private market funding rounds were being priced at 50-100x sales multiples. But 2022 seems to mark a turning point when this valuation gap may begin to narrow. This means that either public market valuations will have to rise to support private market valuations or private FinTech company valuations will contract to reflect public market stock performance.
- Key revenue drivers, operating metrics (new account openings, processing/transaction volumes), and financial performance for Q1 & Q2 2022 for many public FinTechs (that are part of F-Prime's FinTech index) remain robust despite rising inflation and a worsening economy
- The average revenue growth rate for representative FinTechs in different verticals (Neobanks, Payments, Lending, BNPL, InsurTech, etc.) over 2020-2021 was 87%. This rate has declined during 2021-2022 to 41%, which is still very robust compared to legacy finance providers, financial institutions, tech stocks, or the average S&P 500 company. (The S&P500 revenue growth rate in Q2 2022 was 12%, tech stocks were 16-18%, financial institutions were 2%, and legacy finance providers like Broadridge, FIS, and Fiserv are in the 4-14% range). The slowdown in revenue growth halfway through 2022 may not fully justify the 75-80% contraction in many of these FinTech stocks
- With the recent drop, the Price/Sales multiple for public FinTechs across verticals has quickly come in line or fallen even slightly below multiples for growth stocks across the market. For a representative sample of 18 public FinTechs across all major verticals, the median P/S multiple is 5.2x. In comparison, the Nasdaq index P/S ratio is 5.3x. Investors seem to have simply lost faith in some of the former darlings like Block, Paypal, and SoFi. P/S multiple for these demonstrate that investors are fundamentally questioning the viability of some of these models, with Block trading at 2.9x P/S, while Paypal at 4.3x, and Sofi at 5x.
- The 75% decline in the FinTech index of 54 US public stocks YTD *may* be undone as their crucial growth drivers remain intact. These include modern technology that delivers superior UI/UX, rapid and effective client acquisition through social media channels, especially Millennials and Gen Y/Z, business models that are better aligned with customer needs, and digital-first product delivery and service. As public market investors regain their faith in growth stocks in the market and Nasdaq eventually recovers, public FinTechs could recover nicely and regain some of their lost lusters

The public markets have severely punished FinTech stocks this year while their top-line revenue and key operating metrics remain pretty solid. Indeed, price multiples for major FinTech stocks over the last few years were very rich and - one can even argue - highly inflated over 2019-2021, and we are beginning to see a rapid deflation in these multiples now. But as the overall market improves and investors warm up to growth stocks again, multiples for these FinTechs may recover. While valuations for FinTech stocks may not reach their heady 2021 peak, there could still be a meaningful upside for these stocks in the medium-to-long term assuming FinTechs continue to deliver growth and growth-investing regains momentum. Of course, the prerequisite for this is that FinTechs continue to drive innovation in customer growth, continue to acquire customers profitably

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by cross-selling high-margin products/services, keep costs low to increase margins, and manage recessionary risks well.

This Viewpoint analyzes the stock performance of representative public companies in each of seven major FinTech verticals, how their revenue and some of their operating metrics are performing in H1 2022, and what key risks are for each sector. The objective is to understand the changes happening in public FinTech stocks, whether their 70-80% decline could reverse, and what implications this has for private FinTech funding and valuations.

### NeoBanks and BankTech

This sector has suffered significant declines in the public market, with recent IPOs/SPACs of firms like MoneyLion and Dave suffering 80%+ declines. This contraction in public market valuations has begun getting reflected in the funding for private market firms in this sector like Klarna, raising capital at an 85% lower valuation than its last round, highflyers like Chime and N26 delaying plans to go public, and funding pressure on others like Revolut and Varo.

Meanwhile, the financial performance of companies in this sector remains robust, as illustrated in the table below. Nu Holdings' H1 2022 revenues have grown exponentially at 217% YoY. It added 5.7 million customers in Q2, with 65 million customers in Brazil, Mexico, and Colombia. This was a 57% YoY growth, reinforcing Nu's global positioning as one of the largest digital banking platforms. The stock has recovered 56% from its 52-week low of \$3.3 but remains down 49% YTD and 56% YoY. Money Lion's H1 2022 revenues have demonstrated a solid 120% YoY growth. It added 950,000 new customers, a 124% YoY growth. The stock has recovered 85% from its 52-week low of \$1.2 but remains down 45% YTD and 84% YoY.

	Last 12-Mnth Decline in Stock Price	Contraction in Price/Sales Multiple 12/31/2021 >> Now	FYE 2020 – FYE 2021 % Revenue Growth	H1 2021 – H1 2022 % Revenue Growth	FYE 06/30/22 YoY Customer Growth
	95% ↓	n/a >> 1.4	26%	23%	9%
	84% ↓	4 >> 2.1	115%	120%	124%
	56% ↓	31 >> 17.7	15%	217%	57%

The takeaway from this sector's data is that these stocks have been severely punished even though their top-line revenue and key operating metrics remain pretty solid. Multiples for these stocks have severely contracted from the heady days of 2019-2021, but as the market improves and investors warm up once more to these growth stocks, multiples for this sector may recover. The prerequisite is if these companies drive customer growth, organically keeping CAC/LTV low and quickening their pace to profitability.






Key risks to this sector are increasing competition from incumbent banks as the latter narrow the historical UI/UX gap with Neobanks, challenges to differentiating offerings among providers, slow adoption of new products by retail consumers, and a weak economy lowering consumer spending power.

### Payments

Payments tend to do better than most other FinTech sectors in an economic downturn. Nevertheless, private funding in this sector dropped 44% in Q2 2022. The number of deals has fallen 18% YoY from 313 in H1 2021 to 251 in H1 2022. While activity in the US and Europe has been soft, Asia and Africa have seen an increase in Payments funding. Notable deals in this sector have been Coda Payments raising \$690Mill at a \$2.5Bill valuation and SumUp's \$312Mill at an \$8.9Bill valuation. One bright spot in this sector remains Embedded

Payments infrastructure, with investors still eager to continue investing in firms such as Modulr, which raised a \$108Million Series C round in May.

The financial performance of leading public companies in Payments is shown in the table below. Except Block and Paypal, a lot of the other Payment FinTechs including Adyen, Marqeta and Wise notched up solid revenue growth through H1 2022. (Both Block and Paypal - along with Coinbase and Robinhood in other FinTech verticals – chalked up solid revenues in H2 2021 from Crypto transactions and holdings which drove up their FYE 2021 revenue numbers. But as Crypto prices declined in Q1/Q2 2022, their crypto-based revenues took a hit as well). Growth drivers for this sector have remained intact as well evidenced by payment volume growth, albeit this has declined a bit over 2021. But like in other FinTech subsectors, the stocks for prominent companies in this sector remain under intense pressure, and down 50-75% YoY.

PaymentTech	Last 12-Mnth Decline in Stock Price	Contraction in Price/Sales Multiple 12/31/2021 >> Now	FYE 2020 – FYE 2021 % Revenue Growth	H1 2021 – H1 2022 % Revenue Growth
	51% ↓	11.4 >> 8.9	30%	37%
	74% ↓	4.6 >> 2.8	86%	-14%
	70% ↓	15.3 >> 6.8	78%	53%
	66% ↓	8.8 >> 4.3	18%	8%
	51% ↓	15.8 >> 9.9	39%	33%

\*The financial year for Wise runs from April 1<sup>st</sup> to March 31<sup>st</sup>

Risks to this sector are somewhat lower than for other FinTech sectors as Payment FinTechs tend to do better through a slowdown. But the challenges for these firms are: a protracted economic downturn that slows down payment transaction volumes both on the consumer and B2B side, continued pressure in the Crypto market which has been a tailwind for many Payment FinTechs, and growing competition from incumbents like Mastercard/Visa and other payment providers.

## Lending and BNPL

Digital lending tends to suffer the consequences of a weakening economy much more than other FinTech segments. But instead of a sudden hit, conditions weaken over time as consumer delinquencies and defaults rise throughout an economic downturn. We are at the end of the first innings of this process. In the private market, funding for this sector is down 53% QoQ, hitting \$2.4B in Q2 2022. Funding has been soft in the US and Europe but more robust in Canada and Africa. Notable deals have been India-based firm Stashfin raising \$750Mill, Italian LendTech Bloom raising \$306Mill, Point Digital Finance and Caribou raising \$115Mill each, and Solfacil and Codat each raising \$100Mill.

While BNPL has been the brightest part of the Lending sector over the last few years, it has experienced a severe reversal of fortune. This is most evident in Affirm's public market performance. After going public at 40x Price/Sales in Jan 2021, its stock declined 91% by June 2022. But as for other sectors, its top line sales have remained robust, rising 63% over 2020-2021 and 35% during H1 2021 – H1 2022. Australian BNPL Zip's stock has declined 90%, while Sezzle has become a penny stock. Investors seem to have quickly switched from considering BNPL as a new-age POS-lending model to just plain old subprime unsecured lending that suffers

badly during an economic downturn. One of the exceptions in the global BNPL market has been southern Europe's Scalapay which raised a \$497Mill Series B round in February 2022.

Meanwhile, SoFi's stock has declined 57% YTD after having fallen 90% earlier this Summer. But its top line revenue rose significantly by 50% YoY in H1 2022 so it continues to post solid financial results.

BNPL, Lending	Last 12-Mnth Decline in Stock Price	Contraction in Price/Sales Multiple 12/31/2021 >> Now	FYE 2020 – FYE 2021 % Revenue Growth	H1 2021 – H1 2022 % Revenue Growth
	56% ↓	23.6 >> 8.2	63%	35%
	85% ↓	3.6 >> 0.94	95%	11%
	57% ↓	8.5 >> 5.04	73%	50%

Key risks to the BNPL sector are if regulators come after providers claiming that they didn't adequately determine customer suitability and overloaded customers with loans they can't afford, underestimating consumer credit risk as BNPL providers still don't report into credit bureaus, and increased competition from incumbent banks, lenders, and other competitors offering similar products.

### WealthTech and Retail Brokerage

The robo-advisory space went through significant change during 2020-2021, with companies like Motif shutting down, FinTechs selling out to incumbents (VanGuard buying JustInvest, Personal Capital acquired by Empower). Wealthfront sold to UBS earlier this year, leaving Betterment as the last remaining robo-advisor from the first wave of growth in this sector. Private funding in this sector has stayed flat at \$3.5Bill this year, but the deal count has risen from 138 to 188 in H1 2022. Top deals in this sector have been Trade Republic's \$268Mill at a \$5.4Bill valuation, Taxfix's \$220Mill at \$1Bill, and Clear Street's \$165Mill round.

On the public markets side, the stock price of the most notable name in consumer finance and retail brokerage - Robinhood - is down 80% over last year, signifying the harsh economics of business models built around retail investors. While its revenue rose 89% in the heady days of 2021, it declined 32% in H1 2022 over the previous year as retail investors dramatically reduced stock transactions and crypto trades. This FinTech vertical may remain under pressure for the next 6-12 months compared to other segments of the industry that could recover nicely.

The risk to this sector is if retail investors, especially Millennials and young adults who tend to be a higher proportion of customers of these firms, feel so badly burnt by the market downturn that they don't recover their pace of stock or crypto investing at the same pace that they were in the last few years. Secondly, the incumbent brokers like Fidelity Investments, Charles Schwab, and Morgan Stanley/ETrade continue to substantially improve their UI/UX and automated investment offerings to narrow the innovation gap between them and Robo-advisors/WealthTechs.





### InsurTech

The stock prices of public InsurTechs (Hippo, Lemonade, Oscar, and Root) are down 45-85% from their 52-week highs as investors have soured on these models which once promised to disrupt incumbents but have struggled to adequately differentiate themselves or drive towards profitability. As in other sectors, the revenue numbers for a lot of the companies in this sector continue to be good. Lemonade's top line revenue rose 82% in H1 2022 YoY, the premium per customer increased 18% YoY, while it grew its entire customer base by 31% to 1.58

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million. The stock has made a recovery of 84% from its 52-week low but remains down 70% YoY. Meanwhile, Oscar's revenue grew 113% in H1 2022, and Hippo's grew 40% during this time. Root Insurance was one of the only major publicly held InsurTechs that saw sales rise by a modest 5% in H1 2022 over the previous year. Weakness in public InsurTech stock prices is beginning to pressure private companies in this sector, which may create acquisition opportunities for incumbent insurance carriers.

Private funding has remained flat on a QoQ basis at \$2.4Bill, but the number of deals dropped 17% from 157 to 131. There was a rise in funding in the US and Asia, with lower funding levels in Europe. Top deals have been Newfront Insurance's \$200Mill at \$2.2Bill and Alan's \$193Mill at a \$2.8Bill valuation.

InsurTech	Last 12-Mnth Decline in Stock Price	Contraction in Price/Sales Multiple 12/31/2021 >> Now	FYE 2020 – FYE 2021 % Revenue Growth	H1 2021 – H1 2022 % Revenue Growth
	70% ↓	20.1 >> 11.5	36%	82%
	78% ↓	8.8 >> 5.3	77%	40%
	46% ↓	0.7 >> 0.55	309%	113%
	86% ↓	2.2 >> 0.81	2%	5%

The risks to this sector are a slowdown in revenue growth due to an anemic economy and a shift towards established carriers as market risks increase. Another issue is that most of these InsurTech models remain untested in an economic downturn, so it remains to be seen how growth and other operating metrics perform over an entire economic cycle.

## Capital Markets

A weakening stock market and precipitous declines in IPOs and SPACs this year have overshadowed funding and all capital markets activity in this sector. Funding has trailed all other FinTech segments falling to a five-quarter low of \$800Mill. No new Unicorns were minted in Capital Markets this year. Just a few companies raised large rounds of capital like ClearStreet's \$165Mill and LTSE raising \$100Mill. There are few public market comparables for institutional Capital Markets, unlike other FinTech verticals where there are quite a few. Virtu is one firm in this sector whose YoY price decline of 6% has been more modest than for most other FinTechs despite its revenue contracting 10% YoY in H1 2022. On the private market side, Citadel Securities's H1 2022 net trading revenue climbed up 23% YoY to hit \$4.2 billion driven by market volatility and higher transaction volumes.

Capital markets firms are benefitting from the current elevated volatility in the market, though runaway volatility for an extended period could have the opposite effect of freezing up trading. Other risks to this sector are an anemic environment for capital raising, IPO/SPAC activity, and secondary trading.

## Crypto and DeFi

The Crypto sector has been hit the hardest this year experiencing the biggest reversal in fortune among all FinTech sectors though this fate is not evident in funding amounts for this sector. \$6.5Bill was raised in Q2 2022 in over 300 funding rounds though a slowdown is expected in Q3 and Q4 2022. With mounting regulatory pressure on public companies like Coinbase, trouble brewing in key areas like Stablecoins, and a slowdown in retail/institutional allocation to these assets, there could be a decline in funding and capital markets activity in this sector. A few notable deals have happened this year including Circle's \$400Mill round, Chainalysis's



\$170Mill at an \$8.6Bill valuation, and Crypto-infrastructure company FalconX's \$150Mill Series C round doubling its last valuation to \$8Bill.

The nascency of this sector means that there aren't too many public firms yet except Coinbase and Bakkt. Coinbase's stock is down 71% YTD and 72% YoY. It has had an astounding reversal of fortune with its revenue rising 513% in 2020-2021 but declining 50% in H1 2022 over the same period last year. Bakkt – which is significantly smaller - has grown revenue 32% in H1 2022 yet its stock has still declined 68% YTD and 73% YoY.

Some market observers have misinterpreted problems in this sector and declared them as a structural weakness in DeFi models, which is an ill-founded observation as we explained in a [Viewpoint](#) last month titled *"Claims That DeFi Is Unraveling Or Structurally Flawed Are Unfounded"*. DeFi models have performed as expected and don't bear any responsibility for the problems in this sector that have mostly been related to CeFi models.

Going forward, key risks to this sector include a lasting impact of the Crypto downturn on the rate of institutional adoption of all digital assets, lower consumer allocation to Crypto and lighter trade activity, as well as greater regulatory pressure on providers.

### Conclusion

The dismal performance of public FinTech stocks over the last 12 months is making people wonder if the modern FinTech story is still intact and what's in store for this sector in the long term. The severe underperformance of public FinTechs is also raising important questions for the private FinTech market: will the high valuation differential between private market FinTechs over their public market peers narrow substantially in 2022/2023 and remain at that contracted level? Will the severe contraction in public FinTech stock valuations get fully reflected in the private market? Or will public market valuations recover substantially as markets recover? How will the severe decline in new FinTech IPOs impact the plans of the 322 FinTech Unicorns on the IPO on-ramp?

Our analysis of the revenue and key operating metrics of major public companies in each FinTech sub-sector reveals that though the pace of top-line growth has slowed in H1 2022, financials and operating metrics remain robust and encouraging. If these companies can sustainably grow their customer base, keep costs in check, and cross-sell new products to keep their CAC/LTV low, their stocks could recover well when the market turns, and investor sentiment favors growth stocks again. But until then, there's a lot of hard work and potentially more pain ahead.



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