

by Joel Van Arsdale, 18 March 2022

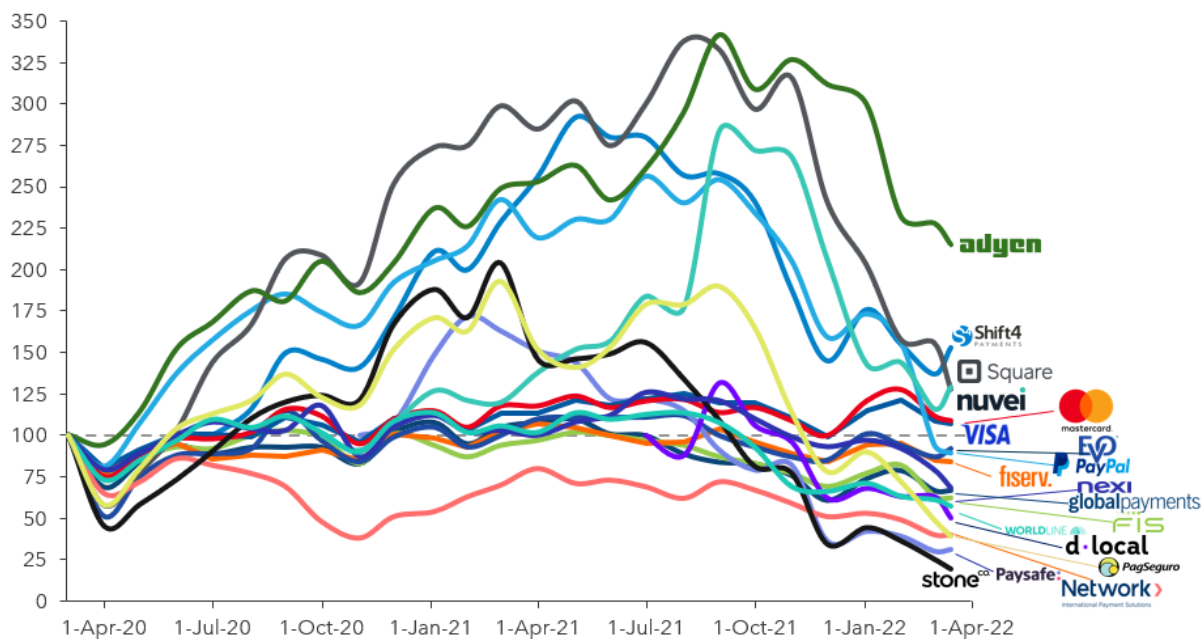
Stock Valuation Crunch Will Impact Broader Fintech Market

The fintech equity markets, public and private, have been sellers' markets for years. Particularly during the pandemic, the premium placed on high growth fintechs reached stratospheric levels. Those days could be ending.

The sunset of the pandemic, rise of inflation, and war in Ukraine have public investors shifting towards alternative asset classes and away from tech and high-growth equities. Hedge funds that piled into fintech and software growing during the pandemic were recently shorting these same equities (though these shorts appear to be unwinding quickly this week).

Absent a dramatic turnaround in the coming weeks, we anticipate a wave of public to private equity transactions in the remainder of 2022. Several high-profile fintech IPOs, most notably Stripe, were on the horizon for 2022, but now may be postponed.

FIGURE 1: Share Performance of Select Fintech Public Equities (indexed to 100 from 2 March 2020; based on closing 17 March 2022)

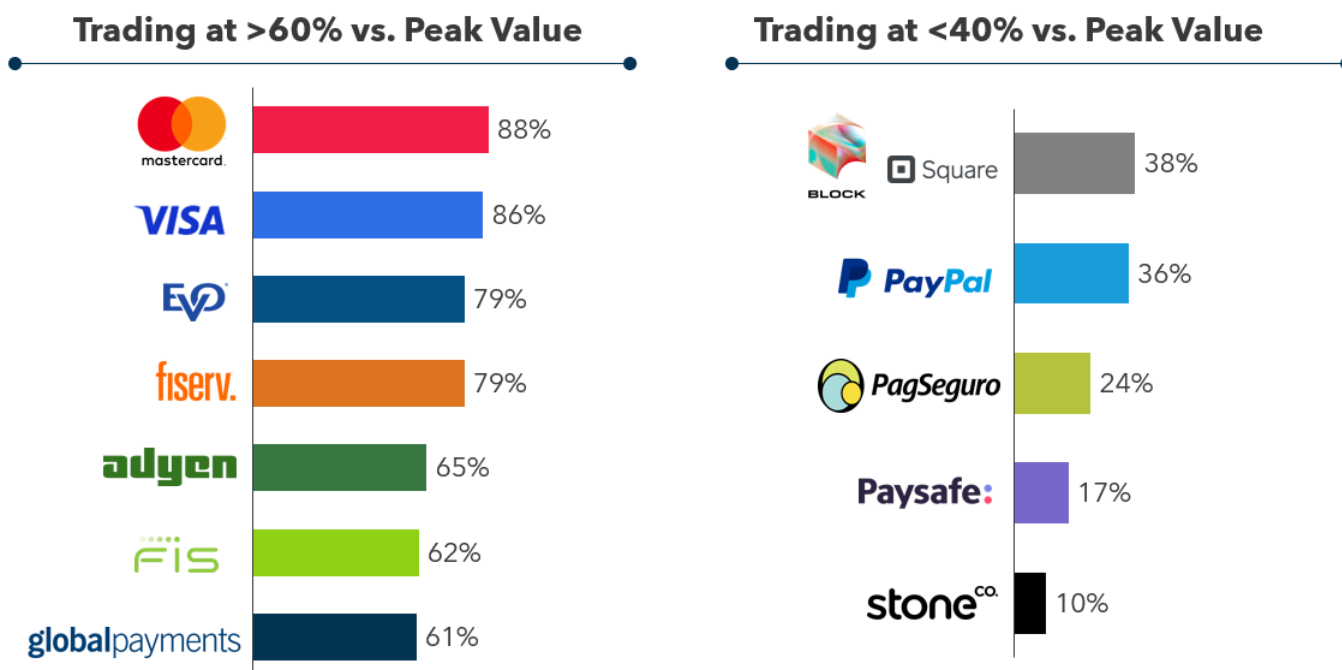


Note: Indexed to 2 Mar 2022, Shift4 started trading 5 Jun 2020, Paysafe started trading 09 Oct 2020, Nuvei started trading 16 Mar 2021, d-Local started trading 3 Jun 2021
Source: Flagship Advisory Partners, Yahoo Finance

While there has clearly been a valuation crunch, many fintech public equities are far from cheap (Adyen still trades at 73x trailing EBITDA). What has emerged is a separation of the pack, to some extent, between companies that have retained value (<40% reduction in

share price from peak to today) and companies being punished under current market conditions (>60% reduction in share price from peak to today). As shown in Figure 2, Fintechs that have retained value are generally those that are highly cash generative and less likely to be valued based on lofty growth expectations.

FIGURE 2: Current Trading vs Peak Value of Select Fintech Public Equities (select examples; based on closing 17 March 2022)









Source: Flagship Advisory Partners, Yahoo Finance

We are starting to see the impacts of public valuation pressure also in the private equity and M&A markets, and we expect an acceleration of this pressure if public valuations remain as is. As shown in Figure 3, growth private equity funding activity has been exceptional in the last two years, often at valuations of 30-60x revenue. Klarna was last funded at 28x 2021 operating income, Brex at an estimated 38x 2021 revenue, and Revolut at an estimated 50-60x est. 2021 revenue. By comparison, in the public equity markets, Block (Square) trades* at 3.2x 2021 gross revenue and 12.8x 2021 gross profit and Adyen trades at 7.6x gross revenue and 46x gross profit.

*market close on 17 March

FIGURE 3: Select, Recent, Fintech Private Growth Equity Funding Rounds

Company	Announcement Date	Core Business	Key Investors (Latest Funding Round)	Company Valuation (in \$ billion)
Klarna.	Jun. 2021	BNPL	▪ Sequoia Capital, Chrysalis Investments, SoftBank, Dragoneer, Bestseller Group	45.6
 checkout.com	Jan. 2022	Merchant e-Payments	▪ Altimeter, Dragoneer, Franklin Templeton, GIC, Insight Partners	40.0
Revolut	Jul. 2021	Neobank	▪ SoftBank, Tiger Global	33.0
 Brex	Jan. 2022	SMB Banking & Payments, SaaS	▪ Greenoaks Capital, TCV	12.3
 N26	Oct. 2021	Neobank	▪ Third Point Ventures, Coatue Management, Dragoneer Investment Group	9.0
 tipalti	Dec. 2021	B2B Payments & SaaS	▪ Marshall Wace, Counterpoint Global, eev Ventures, Durable Capital Partners, 01 Advisors	8.3
mollie	Jun. 2021	Merchant e-Payments	▪ Blackstone Growth, EQT Growth, General Atlantic, HMI Capital, Alkeon Capital, TCV	6.5
 MAMBU	Dec. 2021	BaaS	▪ EQT Growth, Bessemer Venture Partners, Runa Capital, Acton Capital Partners	5.5
 qonto	Jan. 2022	SMB Banking & Payments, SaaS	▪ Valar, Alven, DST Global, Tencent, Alkeon, Eurazeo	5.0

Source: Flagship Advisory Partners, press releases

These types of valuations are supported, in part, by expectations for future IPO values. As public market valuations recalibrate (which certainly seems to be the case at present), valuations on private equity will similarly decline. There remain massive amounts of private capital in search of returns, so we do not foresee a major drop-off in deal activity. However, we do expect both venture and growth equity investors to focus more on cashflow generation fundamentals and seeing a clearer path to EBITDA positive, not just topline growth ad infinitum.

Please do not hesitate to contact Joel Van Arsdale Joel@FlagshipAP.com with comments or questions.