

# Nubank's swing to profit may signal demise of growth-at-all-costs strategies for neobanks

Article

**The news:** Nubank posted another quarter of record-breaking revenues in Q3, helping the Brazilian neobank reverse widening losses to turn a profit.

### Data dive:

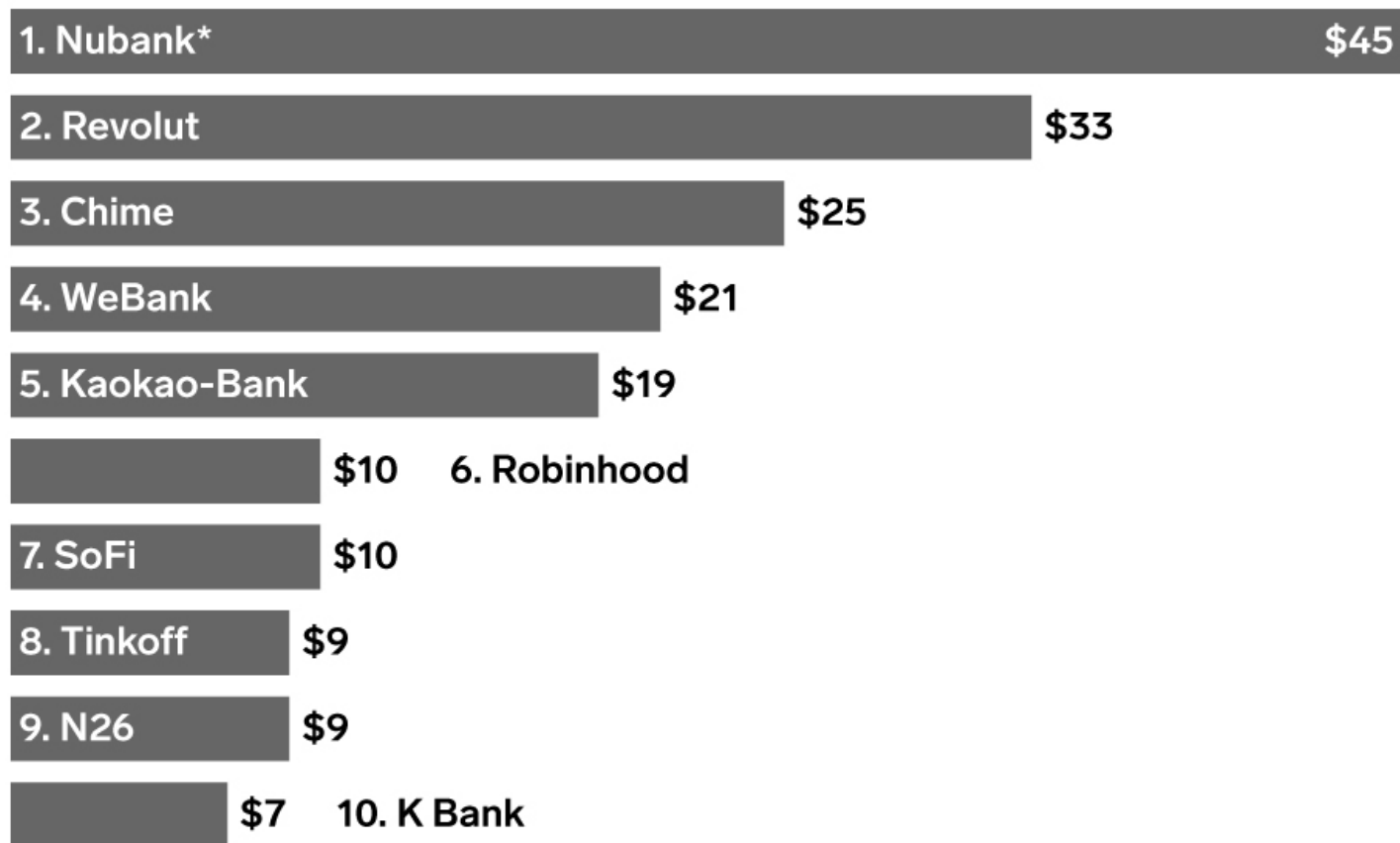
- In its third quarter, Nubank generated revenues of \$1.31 billion, more than double \$480.9 million a year before and up around 13% from Q2.
- The neobank posted net profits of \$7.8 million, swinging from a \$34.4 million loss a year earlier and a \$29.9 loss in Q2. The bank attributed the bottom-line improvement to an increase in active customers and higher consumer engagement, which bolstered revenue growth.
- The Warren Buffett-backed firm added 5.1 million customers in Q3, up 46% year over year (YoY) to reach 70.4 million customers across Brazil, Mexico, and Colombia. It claims this makes it the sixth-largest financial institution in Latin America by active customers.

**What this means:** Surging profit and revenue growth show that Nubank has, so far, successfully bucked the global economic downturn and political turmoil that has rocked Latin America.

- Its net profits are a particularly bright spot after previously making heavy losses and targeting a more sustainable approach to its bottom line via cutting costs and improving efficiency. And it's doubly impressive considering that less than 5% of all neobanks globally make a profit, per Simon-Kucher & Partners.
- Nubank's results for the quarter may indicate that it has replaced its growth-centered strategy with a more risk-averse approach in response to a darkening economic picture.
- The sustained growth in new customers and active users highlights the strength of Nubank's technology offering and high levels of customer satisfaction.

# Top 10 Neobanks Worldwide, by Market Capitalization, 2022

billions



Note: \*valuation at time of initial public offering (December 9, 2021)

Source: Simon-Kucher & Partners, "The Future of Neobanking: How can Neobanks unlock profitable growth?" May 7, 2022

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**The big takeaway:** Nubank promotes itself as one of the world's biggest challenger banks and among the most exciting fintechs in South America. It's well-positioned to continue growing and its focus on turning a profit will likely quell previous concerns over widening losses.

Acquisitions could also power Nubank's growth, although in the current climate, it may take the safer route of growing organically in new Latin American markets and by offering

additional services. Diversification could help it minimize the increased risk arising from loan defaults amid growing economic uncertainty.

Nubank's shift in focus suggests that neobanks are turning away from a growth-at-all-costs mindset to try for profit generation. Incumbents should take note that Nubank has achieved sustainable financial growth by attaining high levels of customer satisfaction.