Will Paige

Continued decline in fintech funding signals harsher climate for startups

Article

The news: Global fintech funding dropped by one-third in Q2 to continue a trend of declining investing this year, according to CB Insights data.

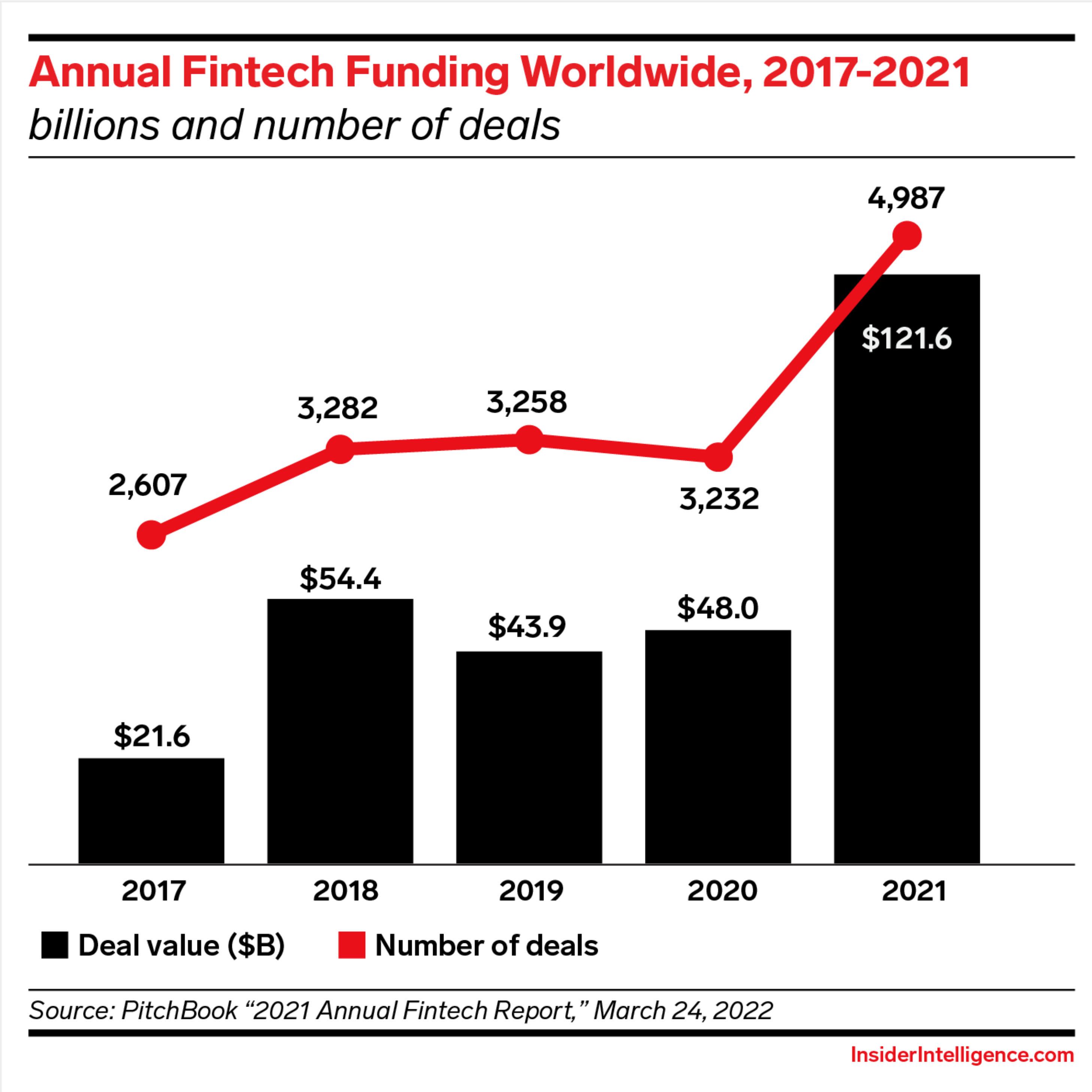
Data dash: CB Insights research found that for fintechs in Q2:

- **Funding dropped 33% quarter-over-quarter (QoQ) to $20.4 billion**, falling for the second consecutive month after shrinking 21% in Q1.
- **Fintech funding dropped for all major global regions**.
- **Unicorn births fell to 20**, a six-quarter low.
- Fintech **M&A exits declined 30%**, the lowest count since Q3 2020.
- Average **deal size decreased 28% to $23 million** in H122 from $32 million in 2021.

The larger trend: New data paints a picture of dwindling financing for fintech firms. But this fits in with a wider trend of lower **total global funding, which fell 23% QoQ for Q2 to hit $108.5 billion**, the largest quarterly percentage drop in nearly a decade.

Record-high inflation, the war in Ukraine, and fears of a looming recession are all slowing deal activity. Technology firms have been hit particularly hard after attaining record levels in 2021.

Fintech funding was arguably at an unsustainably high level last year. Growth was always going to tail off, if not diminish. But greater economic uncertainty has halted the frenzy of investing, and fintechs will have to tighten their belts for a harsher H2 2022 funding climate.



What's coming next? Fintech funding is likely to continue falling or possibly level off in the remainder of 2022, with no end in sight for economic uncertainty and record inflation.

- **More crypto chaos:** Fintechs operating in the battered crypto market will contribute to the falling funding trend and will struggle to attract finance due to investors viewing them as high risk. **Crypto firms drew in $6.76 billion from venture capitalists during Q2, the lowest level in a year and a 31% QoQ drop**, per Bloomberg.

- **Valuations slashed:** Fintechs seeking to raise fresh cash could face big cuts to their valuations as investors reassess what they are worth. **Klarna** and **SumUp** have both completed funding rounds recently at valuations significantly below earlier levels.

Our take: The fintech funding decline mirrors patterns within other industries, but this doesn't mean it isn't a cause for alarm for the sector. Investors' hesitancy to close deals means fintechs may have to cut costs, scale back expansion plans, and proceed cautiously in a tougher H2 2022. Some will be proactive in doing this to avoid being forced into a down round if they do attract funding. Those that don't will struggle to draw funding from increasingly wary investors. Firms that fail to adapt could face the prospect of folding before the end of the year.

Analyst comment: "The Q2 fintech funding drop was sharp—although levels remained higher than any other quarter before 2021—and volumes will most likely fall further: Public markets are a good indicator of how the VC funding landscape will evolve, and public fintechs' valuations were slashed further in Q2," says Insider Intelligence principal analyst Eleni Digalaki.

"Not only will VCs be doing a lot more due diligence before investing in fintechs, but many fintechs will try their best to extend cash runways as far as possible to avoid seeking expensive external funding (and investors zeroing in on their valuations)."

Find out more: For deeper analysis of fintech funding trends, watch for Eleni Digalaki's upcoming analyst take in early August.