

Revolut and Varo face tumbling valuations as investor confidence in neobanks weakens

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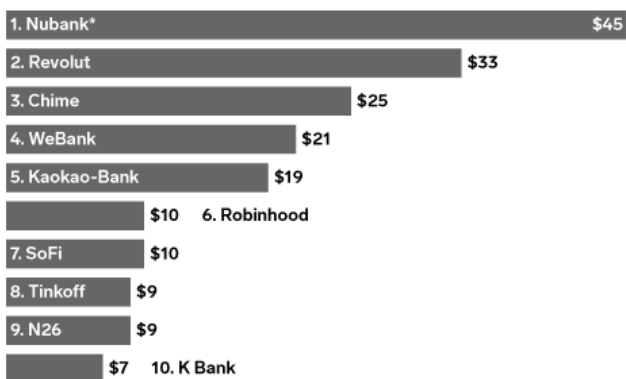
The news: The valuations of both **Revolut** and **Varo Bank** have been slashed in a possible sign of dented investor confidence in the neobanks.

Revolut's auditor casts doubt: Last week, the UK-based firm filed its long-overdue accounts showing 2021 was its first profitable year after revenues jumped threefold.

- But auditor **BDO** warned that some information may be materially misstated and couldn't independently verify about 75% of the bank's reported revenues.
- Now, investor **Triplepoint Venture Growth** has reportedly cut the value of its Revolut stake by 15%, implying a total valuation drop of \$5 billion, according to the Telegraph.

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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Pressure builds on Varo: The US challenger is reportedly seeking to raise \$50 million at a 28% discount to its last valuation, according to Fintech Business Weekly, citing a term sheet it had seen.

- Varo reported a \$236.5 million net loss for last year despite layoffs.
- And its path to profitability remains unclear.

Three key takeaways:

1. **Fintech valuations are still sliding.** Tumbling valuations are a sign of the harsher economic conditions and leaner funding climate. This could force some fintechs, like Varo, into downrounds. But it's not necessarily cause for alarm: Cuts to valuations are also a symptom of weaker markets and may rebound as investor sentiment improves.

2. **Trust issues aren't going away.** Neobanks' relative youth means they generally don't enjoy the same trust levels that major banks have built up over decades serving customers. That leaves challengers more vulnerable to downturns and valuation cuts. In the case of Revolut, neobanks' rapid growth also leaves them more susceptible to accounting issues than high street lenders.
3. **Profit problem persists.** Neobanks have long struggled with generating profits: Fewer than 5% break even, per Simon-Kucher & Partners. Varo's cost-cutting efforts are an example of challengers trying to remedy this. And Revolut may be making progress on improving its bottom line, but BDO's warning has dulled investor confidence. Neobanks that generate profits can insulate themselves from the need to make downrounds and minimize the risk of plummeting valuations.

The bigger picture: Traditional banks and financial institutions can capitalize on their generally superior financial security and higher levels of customer trust to gain an edge over neobanks. Challengers can generate profits by cutting costs and focusing on more lucrative revenue streams like credit cards, lending products, and subscription fees. If they can successfully do this, they can emerge stronger this year and build trust with customers and investors.