Will Paige

Fintech funding falls further in Q3 as market enters consolidation phase

Article

The news: Venture-capital-backed fintechs raised less cash in Q3 as the economic downturn led to a leaner funding climate.

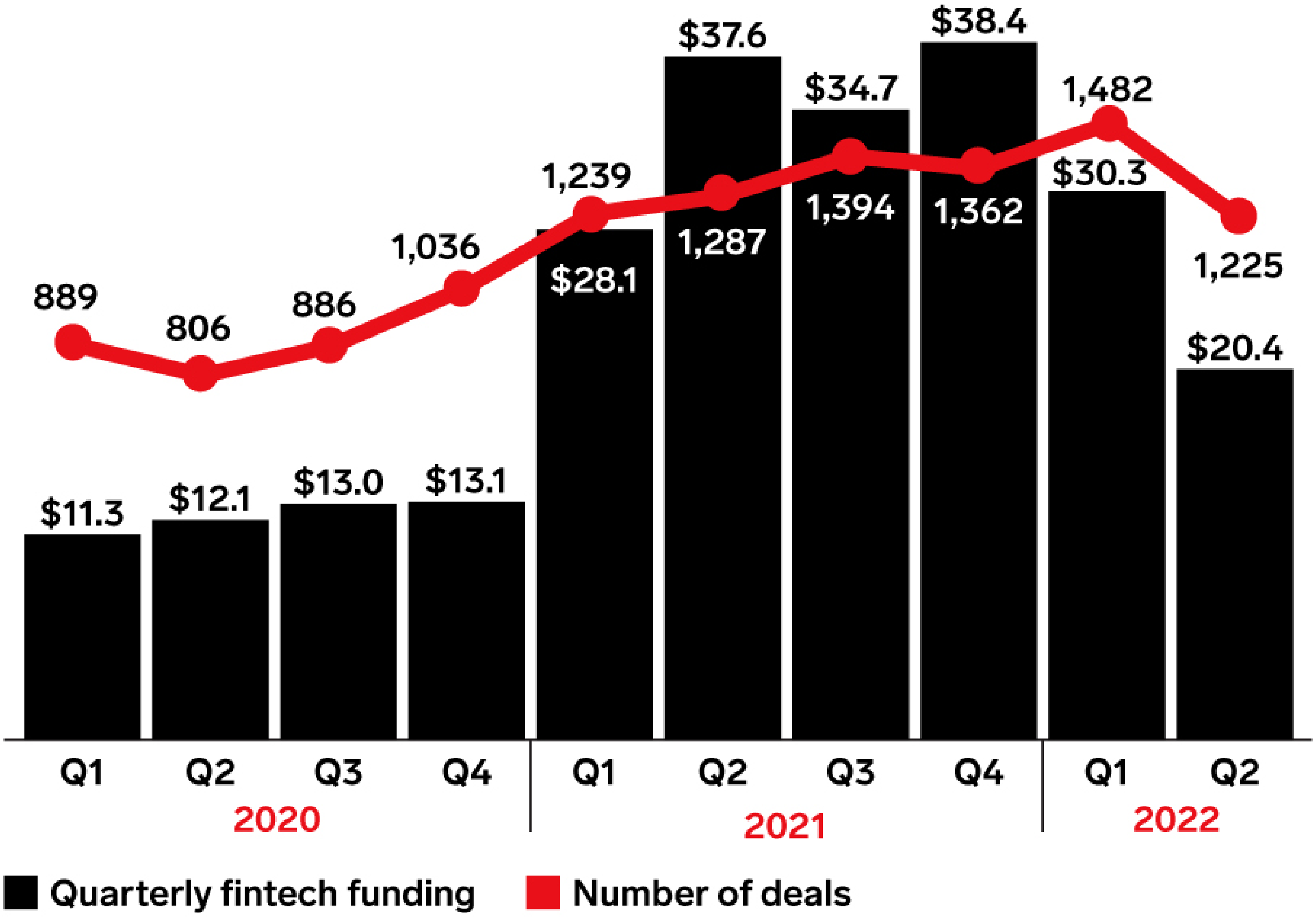
Fintech funding slips further. CB Insights' State of Venture report found:

- **Global fintech funding plummeted 38% QoQ to $12.9 billion**, marking a nine-quarter low.
- The **average deal size for fintechs is $20 million so far this year, down 38%** from $32 million in 2021.
- **Fintech M&A deals fell to 155 in Q3, dropping 14% QoQ** and 33% lower YoY.
- **Only six six fintech unicorns were created in Q3**, falling from 21 in Q2 and 48 in Q3 the previous year.
- **Venture capital funding in crypto startups also dropped sharply, down 37% YoY** to $4.44 billion, according to PitchBook.

Despite the bleak market picture, fintech funding is still healthy and remains above 2020 levels. The declines reflect the wider economic picture, with retail tech and digital health firms experiencing similar funding drops.

Quarterly Fintech Funding Worldwide, Q1 2020-Q2 2022

billions and number of deals



Note: fintech covers subcategories of banking, lending, payments, wealth management, insurance, and capital markets; equity financings into private companies only; includes the investment made in the quarter for tranched investments
Source: CB Insights, "State of Fintech Q2 2022," July 19, 2022

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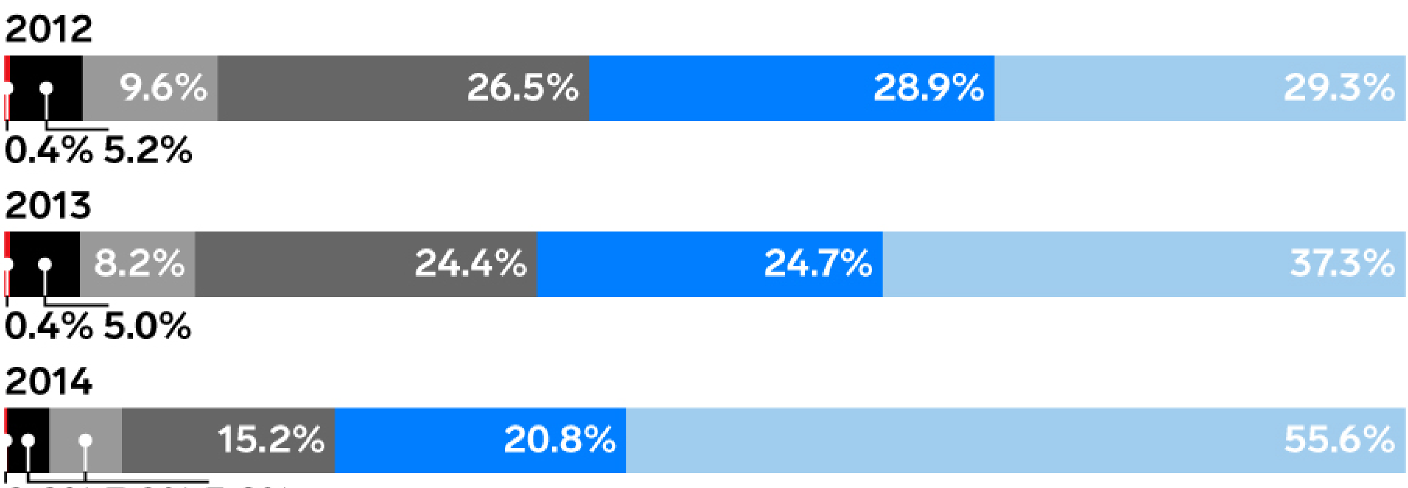
What fintechs can do: Overall funding for fintechs is slowing, continuing the Q2 trend and likely to drop lower before the year is out. The gloomy market outlook has led venture investors to practice stronger due diligence, aiming to be more prudent and keep costs lower. This quarter, fintechs can:

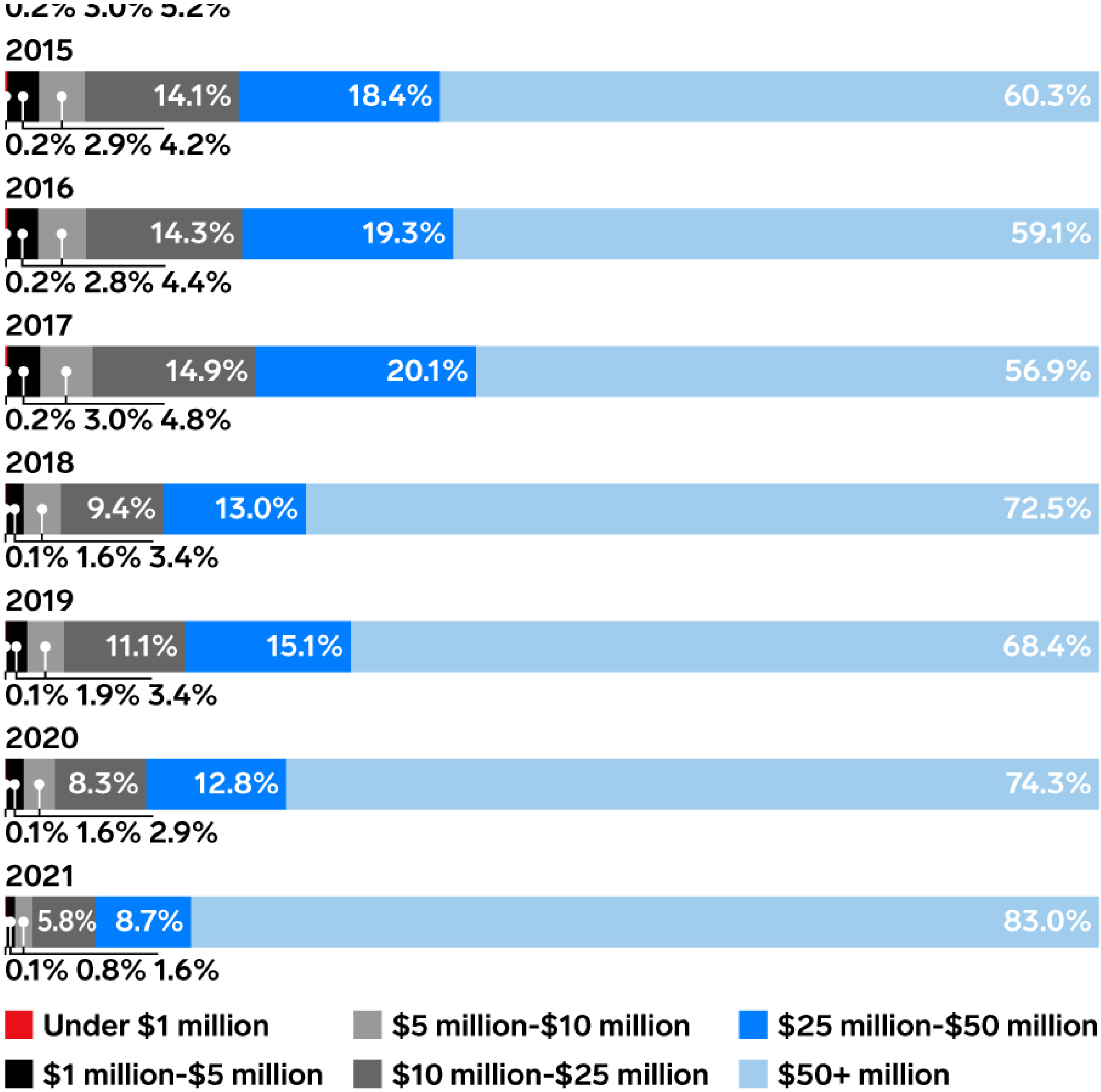
- **Focus on profits:** Investors will be more concerned with the bottom line and cash flow. For this reason, making sustainable profits will be important if fintechs want to raise funds. Startups hemorrhaging cash to grow rapidly will be perceived as higher risk and will find it harder to secure financial backing.
- **Cut costs:** To shore up profits, fintechs may want to reduce overheads by scaling down expansion plans, considering layoffs, and rethinking investments.
- **Build up cash reserves:** These can act as both a buffer against worsening downturns and a war chest for picking up struggling startups at a discount. Canny fintechs with cash can also look to buy cut-price products to bolt on to their existing offerings, thereby saving money on having to develop products in-house.

Fintech market consolidation: The unsustainably huge growth in fintech investment last year made a leveling-off in funding inevitable. We're now likely entering a period of market consolidation. Businesses that haven't built sufficient scale or don't have solid balance sheets won't be able to survive without raising more funds. That gives bigger players with healthy business models opportunities to acquire and consolidate their market share.

US Late-Stage Venture Capital Investment, by Deal Size, 2011-2021

% of total investment value





Note: numbers may not add up to 100% due to rounding
Source: PitchBook and National Venture Capital Association (NVCA), "Q4 2021 PitchBook-NVCA Venture Monitor" sponsored by Insperity, Jan 19, 2022

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