

Atom Bank sees its valuation slashed in new funding round

Article

The UK-based, app-only neobank is finalizing a £40 million (\$51.3 million) fundraiser, [per](#) Sky News. The capital injection was expected, but the news that Atom will reportedly be valued at just under half its [2019](#) valuation came as a surprise. One of the larger reasons for the potential down round is that a fund managed by one of Atom's largest shareholders,

Schroders, cannot participate due to its connections to [controversial](#) fund manager Neil Woodford.

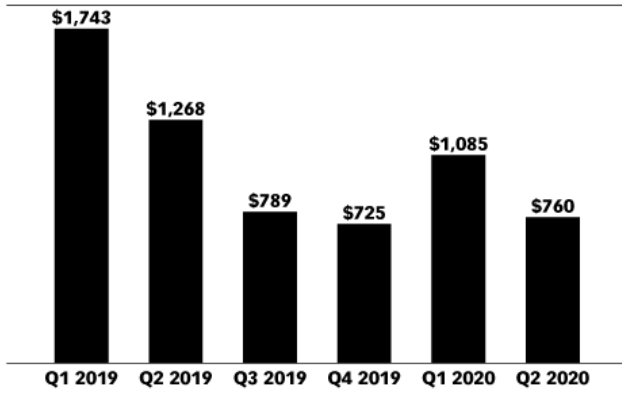
The unexpected decline in valuation shouldn't create a crisis of confidence for the neobank. Here are two reasons why:

- **Atom's straightforward approach to banking is showing promising results.** The neobank recently [indicated](#) that it is approaching profitability, powered by strong [growth](#) across its three key products: Small business lending is expected to have more than tripled to £700 million (\$897.7 million) in the last 12 months, its Instant Saver account has already accumulated £600 million (\$769.4 million) in deposits since [launching](#) last fall, and £362 million (\$464.2 million) worth of mortgages have been added to its portfolio in the second half of this fiscal year (ended March 31, 2021) alone.
- **It is streamlining its loan application process.** The neobank [plans](#) to support an additional £1.00 billion (\$1.28 billion) in lending to 10,000 small and medium-sized businesses (SMBs) over the next two years. To do so, Atom has [partnered](#) with three separate financial API providers in the past several months: Codat, Plaid, and Credit Kudos. Each company aggregates data across various categories, including ecommerce, banking transactions, and accounting. That increased access to customer information not only helps speed up the application process for customers and SMBs, but also generates unique insights into a potential borrower's financial health that could improve Atom's underwriting ability.

Falling challenger bank valuations could make them an attractive takeover target for incumbents. UK incumbents in particular are [struggling](#) to offer enticing services that forestall customer [attrition](#) to more technologically advanced neobanks. European challengers have faced their own [issues](#) over the past year, with UK-based Monzo [experiencing](#) its own down round last month. Executives at Revolut and Bunq have even [acknowledged](#) that the industry could be ripe for consolidation. Historically, incumbents have kept their distance due to sky-high valuations, but lower price tags on smaller neobanks that have lost ground to leading competitors like [Starling](#) could make them prime acquisition candidates. Given its simple business model and potential for profitability, Atom Bank could be an especially attractive target, as it would complement an incumbent's existing product offering and increase the latter's likelihood of remaining a customer's primary bank.

**UK Quarterly Venture Capital Investment in Fintech,
Q1 2019-Q2 2020**

millions



Note: fintech investment includes accelerator, incubator, angel, seed, early and later stages venture capital, and private equity growth/expansion funding

Source: Innovate Finance, "2020 H1 UK FinTech Investment Landscape," July 27, 2020

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