JUL 05

Will Paige

Klarna's freefalling valuation betrays harrowing H2 ahead for payments firms

Article

The news: **Klarna's** valuation could collapse to as low as $6.5 billion if it pulls off negotiating a $650 million funding haul, per the Wall Street Journal.

How we got here: Klarna has reportedly been trying to raise funds since at least May to help weather a whirlwind of exogenous factors—record inflation, the war in Ukraine, rising interest rates—that have kept investors on the sidelines.

- An earlier deal would have injected $1 billion into Klarna's coffers and dropped its valuation from a June 2021 high of $46 billion to about $30 billion.
- Negotiations haven't been going well for Klarna. Just weeks ago, it was reportedly willing to accept a $15 billion valuation for a $500 million haul.

If it closes the latest deal, Klarna will get more money than the June proposal—at the cost of a **roughly 85% devaluation**.

Misery loves company: When it comes to anemic funding hauls and valuations thought unimaginable just a year ago, Klarna's not alone.

- **Stripe's** valuation has fallen 35% from the start of the year, according to Business Insider. Investor **Fidelity** has slashed Stripe's valuation every month in 2022 except for March.
- The valuation of private buy now, pay later (BNPL) firm **SumUp** fell from $22 billion to just $8 billion after its latest funding haul.
- Shares in publicly listed **Affirm** are down more than 80% this year. **Block's** and **PayPal's** have dropped more than 60% each.

Economic uncertainty is a pain that cuts across industries. The turbulent first half of the year has impacted the valuations of businesses in almost every sector, and the S&P 500 notched its worst first half of the year since 1970, per the New York Times, down nearly 21% since the year started.

What's next? Firms may have to adapt to a more challenging climate in H2.

1. **Cut costs:** The increasing cost of capital and subsequent drop in funding means payments firms will have to conserve cash and possibly scale back growth plans. Smaller, loss-making fintechs will be particularly vulnerable without the safety blanket of easy financing to protect against missteps. Job cuts are one way to reduce overheads—Klarna and BizPay have already trimmed headcounts.
2. **Diversification:** Branching out into other payment types and broader financial services can minimize risk and create additional revenue streams, with Stripe and Klarna both expanding beyond traditional payments.

3. **Acquisitions:** Payment companies with strong balance sheets could pick up struggling fintechs at a steep discount to widen their product offerings and bring in new tech and customers. Payments provider **GoCardless**, for example, will buy open banking data provider **Nordigen**.

The big takeaway: Klarna and its payment competitors know their lower valuations reflect a harsher funding climate characterized by reduced investor confidence. Market sentiment isn't likely to improve in the short term, so fintechs need to brace themselves for a leaner and meaner second half where new capital is harder to come by.