

## Navigating the Fintech Frontier Financial Technology startups valuation issues

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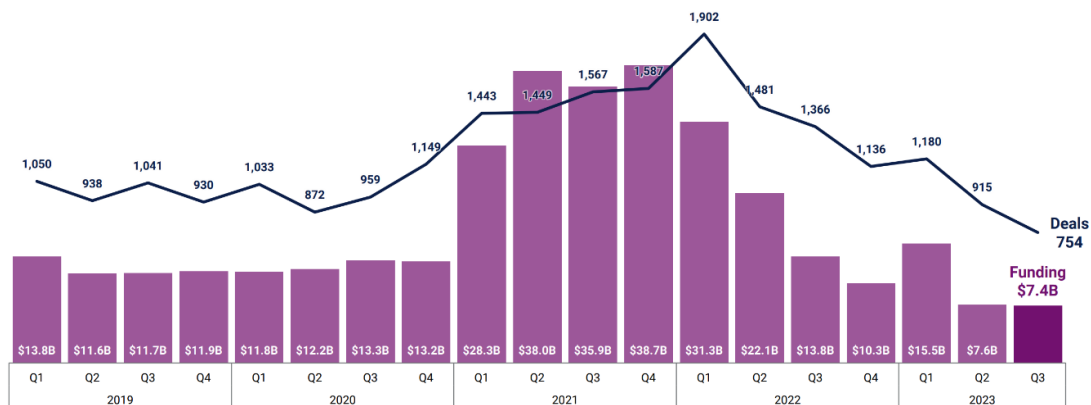
The global fintech industry has witnessed a significant decline in funding in recent twelve months, raising concerns about the sector's future growth and stability. This slowdown can be attributed to a confluence of factors, including rising interest rates, market volatility, and a more cautious approach from investors.

The rapid growth of the fintech industry in recent years led to valuations that were often considered inflated. However, as the market has matured, investors are now taking a more critical look at valuations, demanding that fintech companies demonstrate clear paths to profitability and sustainable growth before committing significant capital.

Assessing the feasibility and potential impact of technologies and business models is critical to determining their ability to disrupt existing markets and provide tangible value to consumers.

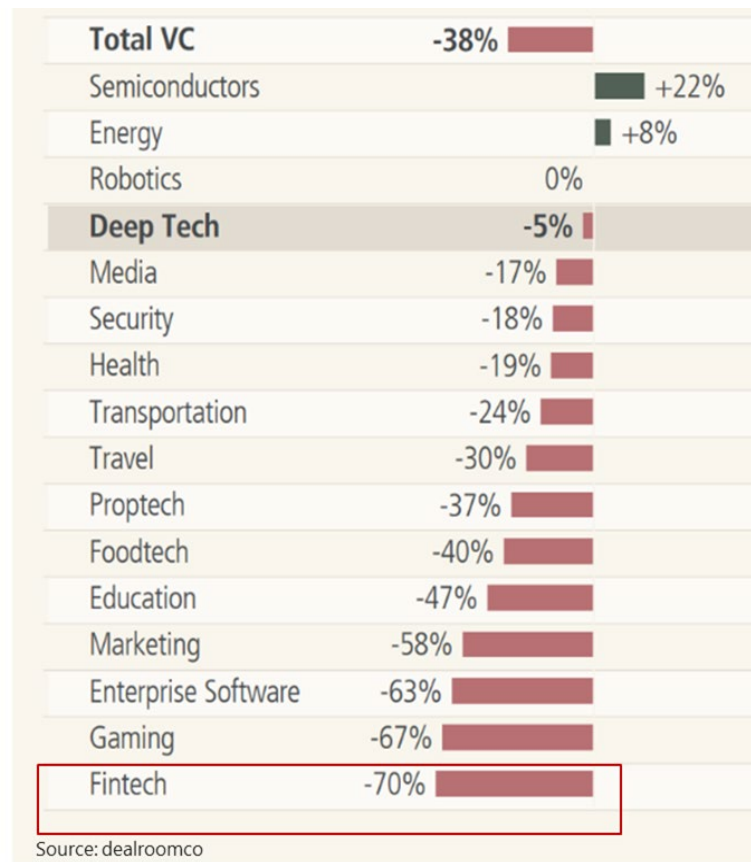
The drop in fintech startup funding reflects a broader trend of market correction and investor caution across the technology sector.

### Fintech funding falls



Source: CBInsights

European VC funding % growth last 12 months as Nov. 2023



Several factors have contributed to this downturn, including:

**Economic Concerns:** The global economic slowdown has raised concerns about the sustainability of consumer spending and the overall growth trajectory of the economy. This has dampened investor enthusiasm for high-growth, high-valuation startups, particularly in sectors like fintech that are more sensitive to economic fluctuations.

**Rising Interest Rates:** Central banks have been raising interest rates in an effort to combat inflation. This has made it more expensive for startups to borrow money, which can limit their growth potential and ability to achieve profitability.

**Valuation Reset:** After years of rapid growth and inflated valuations, fintech startups are facing a valuation reset. Investors are becoming more discerning and are demanding more evidence of profitability and sustainable growth before committing significant capital.

**Oversaturation:** The fintech sector has become increasingly crowded, with a proliferation of startups offering similar or overlapping services. This competition is putting downward pressure on valuations as investors seek to identify the most promising and differentiated players.

**Increased Regulatory Scrutiny:** The fintech industry is under increasing regulatory scrutiny as regulators seek to address concerns about data privacy, consumer protection, and financial stability. This increased scrutiny can add costs and complexity for startups, which can negatively impact their valuations.

**Macroeconomic Headwinds:** The ongoing wars in Ukraine and Israel, supply chain disruptions, and other global economic uncertainties have created a more challenging environment for startups across all industries. This has made investors more cautious and willing to pay lower valuations for riskier investments.

Despite these challenges, the fintech sector remains a dynamic and promising area for innovation. As the industry matures and consolidates, valuations are likely to stabilize and eventually rebound. *However, investors are now taking a more measured approach and demanding stronger evidence of business viability before committing significant capital.*

Valuation of the true potential of these fintech companies requires robust approaches that address the complexities of this emerging field.

## Harnessing the Power of Disruptive Technologies

Fintech startups are at the forefront of technological advancements, leveraging blockchain, artificial intelligence, and machine learning to transform financial services. Evaluating the viability and potential impact of these technologies is crucial. *How does the technology address a specific pain point or unmet need? Does it offer a significant improvement over existing solutions?*

## Regulatory Compliance and Navigating the Financial Ecosystem

The fintech industry operates within a complex regulatory framework, and evaluating a startup's understanding of compliance requirements is essential. *How does the startup ensure adherence to data privacy, anti-money laundering, and consumer protection regulations? Does it have the expertise to navigate the evolving regulatory landscape?*

## Assessing the Team's Financial Expertise and Industry Acumen:

Fintech startups require a team with a deep understanding of financial markets, regulatory nuances, and technological capabilities. Evaluating the team's experience in financial services, risk

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management, and technology is crucial. *Do they have a proven track record of success in the fintech domain?*

### Understanding the Business Model and Unit Economics:

Fintech startups often employ innovative business models, and evaluating their revenue streams, cost structures, and customer acquisition strategies is essential. *How does the startup generate revenue? What are the key cost drivers? How does it plan to achieve profitability and scale its operations?*

### Addressing Security and Data Privacy Concerns:

Fintech startups handle sensitive financial data, making security and data privacy paramount. Evaluating the startup's cybersecurity measures, data encryption protocols, and privacy policies is crucial. *How does the startup protect customer data from breaches and unauthorized access?*

### Evaluating Partnerships and Integrations:

Fintech startups often rely on partnerships with established financial institutions and technology providers. Assessing the strength of these partnerships and the level of integration is important. *How do these partnerships enhance the startup's product offering and market reach?*

### Understanding the Competitive Landscape:

The fintech space is highly competitive, with established players and emerging startups vying for market share. Evaluating the startup's competitive differentiation and value proposition is crucial. *What unique features or services does it offer? How does it stand out in a crowded market?*

### Assessing Scalability and Growth Potential:

Fintech startups need to demonstrate the ability to scale their operations and user base to achieve long-term success. *Can the technology infrastructure and business model support rapid growth? Does the team have the expertise to manage expansion and maintain quality of service?*

### Valuation Considerations and Investment Risks:

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Determining a fair valuation for a fintech startup can be challenging due to the dynamic nature of the industry and the potential for rapid growth or failure. Investors need to carefully assess the startup's potential return on investment and weigh the associated risks.

### Exit Strategies and Potential Returns:

Assessing potential exit strategies, such as an IPO or acquisition, is important for investors to evaluate potential returns on their investment. Understanding the startup's long-term vision and exit strategy provides insights into potential liquidity events.

Evaluating fintech startups requires a comprehensive approach that considers the unique aspects of the financial technology landscape. By carefully assessing the technology, team, business model, regulatory environment, and potential risks, investors and advisors can make informed decisions that align with their investment goals and risk appetite.

## ABOUT THE AUTHOR



Pier Biga, Managing Director and Head of the Fintech Practice at ICM Advisors, is an experienced professional with extensive international management and advisory career in high-tech, digital services, finance, and strategic consulting. He specializes in business strategy, digital business model, marketing, intangible asset valuation, technology transfers, and corporate finance. Biga has held positions as Corporate e-Services Director for BNL Group member of the Executive Committee, Vice President

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