



## Should You Buy a Fintech?

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**Summary:** Should your CFI consider acquiring a struggling fintech? As many promising fintechs run up against financial woes and find their stocks underperforming, a number of institutions are looking at the M&A opportunities this situation presents. Here's what you should know about the risks and benefits of acquiring fintechs and how to determine the prospects of individual fintechs.

Gardeners know that you can't just pop a plant into any old spot in your yard. Many plants are finicky about how much sun, shade, and water they get, and a plant that droops in one place might thrive in another. The same logic could apply to fintechs, some of which are struggling to find their footing in a market where costs are high, IT talent is both pricey and hard to find, and partnerships have the potential to make or break their success.

You've probably heard the advice before: if you want to increase the technical offerings at your community financial institution (CFI), partner with a fintech. Given the hard times the fintech industry is facing, some companies may be up for sale. That gives CFIs yet another option: buying a neobank or fintech. That could help a CFI innovate more quickly and enhance its ability to compete.

### A Burst Fintech Bubble

During the past 10Ys, a wave of new fintech companies created hundreds of nonbank lenders. They've written a large percentage of today's total mortgage debt as well as much of the unsecured consumer debt in the US, and they're major players in small-business lending, credit cards, and automobile loans.

For a time, a fintech's customer growth could support a stock's valuation even if the underlying company had no clear path to profitability. That time may have come to an end for many fintechs.

According to Pitchbook, shares of publicly traded fintech companies were [60% to 80% below their peaks at the end of 2022](#). Many fintechs are still in this predicament, with their [Q1 2023 stocks flat or declining](#). The estimated 2024 revenue for neobanks, fintechs, and other online financial services companies is also decreasing.

About 44% of fintech startups that earn under \$10MM annually need to raise money sometime this year. If they're to stay independent, they also need to reach scale or prove that they have viable business models.

The research and consulting firm [Forrester forecasts](#) that by the end of this year, 10% of fintechs will either be purchased by a bank or sell at least 50% of their equity to a bank. Forrester also predicts that fintech layoffs will make it possible for banks to hire fintech engineers and data scientists who need new jobs.

### A Fintech Purchase Could Be a Win-Win

Or they could sell to a traditional bank and benefit from its built-in distribution network and ability to cross-sell products to existing and future customers. At the same time, a CFI purchaser could benefit from a fintech's technology, potentially at a cheaper price than it might pay to build a customer-facing technology solution internally.

Where To Look and What To Look For

If you’ve determined that you might benefit from acquiring a fintech, begin your search for potential targets by asking yourself what technology solutions would most benefit your business. If you could build your own solution, what might that solution accomplish, and how much would building it cost? That’s what you’re looking for in a purchase, ideally at a lower price than your estimate of how much building it would cost. The bonus would be that you wouldn’t have to spend time building that solution and testing it to make sure it works. The fintech would have that work long since completed, and it would just be a matter of connecting it to your systems, saving you a lot of ramp-up time before you can offer the new services.

Of course, you’ll still have to spend some time and money integrating an acquired fintech or neobank into your overall operation, so count that among your potential costs. It isn’t always easy to both culturally and procedurally combine two companies into a single whole that’s greater than the sum of its parts.

If acquiring a fintech is cheaper and less arduous than developing your own solution, then it may be worth investigating which fintech companies are good candidates. Here are some **key considerations to help you narrow down options**:

- **Seek similar customer bases to your institution.** Search for nonbank and neobank lenders with customer bases that would dovetail well with your own client list, as well as specialized software solutions.
- **Consider what sectors your CFI already serves.** You might be particularly interested in acquiring a software solution provider that serves that same sector. That solution might involve vertically-focused software or payments and accounting solutions. If your institution has clients that run yoga studios, for instance, maybe it makes sense to acquire a company such as MindBody, which makes software and provides business services for firms in that business niche.

If you do decide to investigate acquiring a fintech or other digital-only financial services company, bear in mind that a fintech or neobank purchase isn’t without risk. Just as you would when considering a merger or acquisition with a brick-and-mortar banking partner, [you’ll need to conduct due diligence](#). Fintech lenders often have fragile funding structures and may have customer bases that don’t like traditional banks. Convincing them to stay with a new owner that is a more traditional institution could prove tricky.

Many CFIs are enjoying healthy valuations, strong returns, and good capitalization and reserves. Acquiring a fintech could help you innovate more quickly and become a stronger competitor. If the fintech meets your due diligence standards and can address the needs of your customers and your institution, the purchase may prove to be quite valuable.

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ECONOMY & RATES

Rates As Of: 07/06/2023 05:45AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.44	0.01	1.02

6M	5.52	0.05	0.76
1Y	5.43	0.04	0.72
2Y	5.08	0.18	0.65
5Y	4.40	0.24	0.40
10Y	4.03	0.19	0.15
30Y	3.98	0.11	0.01
<b>FF Market</b>		<b>FF Disc</b>	<b>IORR</b>
5.08		5.25	5.15
<b>SOFR</b>		<b>Prime</b>	<b>QBER</b>
5.06		8.25	5.07

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