Klarna wipes off 85% of value in latest funding round

T
he value of Swedish Buy Now, Pay Later business Klarna has plummeted 85% from its 2021 peak after a fresh funding round, in the latest sign of dwindling fortunes for short-term lenders amid rising inflation and fears of a looming recession.

The $800 million (£672 million) funding round valued the fintech business at $6.7 billion, a fraction of its June 2021 valuation of $45.6 billion.

Klarna said the investment took place "during possibly the worst set of circumstances to afflict stock markets since World War II: high inflation, rising interest rates, mounting fears of a recession, the after effects of the first global pandemic since 1918, strains on commerce caused by supply chain disruptions, rising gas prices, and, especially in Europe, the dislocations caused by the war in Ukraine."

"The company's peers are down 80-90% vs peak valuations and consequently the adjustment in Klarna's valuation is on par with its public peers from its $45.6bn valuation in June 2021."

The funding round was led by several existing investors including Sequoia Capital and Commonwealth Bank of Australia and featured a number of new investors including the Canada Pension Plan Investment Board.

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Billionaire investor and Sequoia partner Michael Moritz said: "The shift in Klarna's valuation is entirely due to investors suddenly voting in the opposite manner to the way they voted for the past few years.

"Eventually, after investors emerge from their bunkers, the stocks of Klarna and other first-rate companies will receive the attention they deserve".

It comes as Fintech Week London announced an industry-wide review into the rapid decline in funding and valuations in the fintech industry.

The review will consider the impact of declining valuations on the fintech sector and how it can be protected against the consequences of "hyper-valuations" with a final report to be published in January 2023.

Rhys Merrett, Account director at consultancy The PHA Group said: "A reduction in valuations and investment…ensures the sector can collectively take a step back and properly evaluate its long-term direction.

"The review must determine how momentum can be maintained, so fintech is on a constant trajectory for growth, rather than volatile peaks and troughs which are not conducive to investment flows."