



VALUE CREATION IN FINTECH SECTOR

DOI: 10.17261/Pressacademia.2023.1688

PAP- V.16-2023(34)-p.198-199

Anna Paola Micheli¹, Anna Maria Calce², Loris Di Nallo³

¹ University of Cassino and Southern Lazio, Department of Economy and Law, Cassino, Italy.
a.micheli@unicas.it, ORCID: 0000-0003-1150-1874

² University of Cassino and Southern Lazio, Department of Economy and Law, Cassino, Italy.
annamariacalce@unicas.it, ORCID: 0000-0003-1877-9932

³ University of Cassino and Southern Lazio, Department of Economy and Law, Cassino, Italy.
l.dinallo@unicas.it, ORCID: 0000-0001-7095-2072

To cite this document

Micheli, A.P., Calce, A.M., Di Nallo L., (2023). Value creation in fintech sector. PressAcademia Procedia (PAP), 16, 198-199.

Permament link to this document: <http://doi.org/10.17261/Pressacademia.2023.1688>

Copyright: Published by PressAcademia and limited licensed re-use rights only.

ABSTRACT

Purpose– FinTech arises from the changes that digital revolution has brought in the provision of financial services. This paper aims to investigate value in FinTech sector, considering the growth that it has experienced in recent times. The study has an innovative profile and contributes to the existing literature by analyzing the adequacy of the valuation models adopted for unicorn companies, on the one hand, and investigating the ability of FinTech companies to create value on the other.

Methodology– FinTech is a young phenomenon with high volatility. Assuming that companies of this sector generate less profitability and less value than non-FinTech ones, we conducted two levels of analysis. The first is based on the use of multiples method to determine the expected market value of FinTech unicorns, to be compared with the valuation attributed by venture capitalists. The second phase refers to the assessment of differential value of European FinTech listed companies with respect to European non FinTech listed companies over a period of three years (2018-2020). Adopting the shareholder approach, we used the measure (ROE-ke) as a proxy of value created for shareholders.

Findings– Results suggest that valuation made by venture capitalists for FinTech unicorns is higher than the expected market value. Regarding value creation, findings highlight that both FinTech and non-FinTech samples destroy value, reporting negative ROE-ke for the years investigated. Given the higher volatility of this industry, the potential benefits of FinTech operations on profitability and value creation are appreciable in the long term.

Conclusion– The study shows that the multiples method underestimates the value of unicorns because it does not consider qualitative variables typically included in valuations made by venture capitalists so, it is not capable to enhance the potential of disruptive technology. Furthermore, results obtained in terms of value destruction confirm our assumptions that FinTech companies are less profitable than traditional financial services ones and support higher cost of capital because the sector is considered riskier.

Keywords: FinTech, unicorns, value creation, disruptive technologies, stakeholders

JEL Codes: G20, G30, G32

REFERENCES

Abidin S., Ye Y., Zhao Z. (2015). Modelling the Performance of Positive P/E firms and Negative P/E firms, 21st International Congress on Modelling and Simulation.

Achleitner, A.K., Engel, N., Reiner, U. (2013). The performance of venture capital investments: Do investors overreact? Review of Financial Economics, 22 (1), 20–35.

Alvarez-Garrido, E., Dushnitsky, G. (2016). Are entrepreneurial venture's innovation rates sensitive to investor complementary assets? Comparing biotech ventures backed by corporate and independent VCs. Strategic Management Journal, 37 (5), 819–834.

Arner, D. W., Barberis, J., Buckley, R. P. (2016). The evolution of FinTech: A new post-crisis paradigm? Georgetown Journal of International Law, 47(4), 1271–1319.

Arner, D. W., Barberis, J., Buckley, R. P., (2017). FinTech, RegTech and the reconceptualisation of financial regulation. Northwestern Journal of International Law and Business, 37(3), 371–413.

- Athanassakos G. (2014). Are negative P/E ratio firms different than positive P/E firms? The case of interlisted vs. non-interlisted firms in Canada. *The Journal of Financial Perspectives*, 5(1), 23-33.
- Bose, R., Davis, J. K., McLeod, D. P., Wilson, J. D. (2018). *Value Focus: FinTech Industry*.
- Bock C., Hackober C. (2020). Unicorns—what drives multibillion-dollar valuations? *Business Research*, 13, 949-984.
- Brown, K.C., Wiles, K.W. (2015). In search of unicorns: private IPOs and the changing markets for private equity investments and corporate control. *Journal of Applied Corporate Finance*, 27 (3), 34–48.
- Chemmanur, T.J., Loutskina, E., Tian, X. (2014). Corporate Venture Capital, Value Creation, and Innovation. *Review of Financial Studies*, 27(8), 2434–2473.
- Christensen, C. M. (1997). *The innovator's dilemma: When new technologies cause great firms to fail*. Harvard Business School Press.
- Christensen, C. M., McDonald, R., Altman, E. J., Palmer, J. E. (2018). Disruptive innovation: An intellectual history and directions for future research. *Journal of Management Studies*, 55, 1043–1078.
- Downes, L., Nunes, P. (2013). Big-bang disruption. *Harvard Business Review*, 81, 44–56.
- Gomber, P., Kauffman, R. J., Parker, C., Weber, B. W. (2018). On the fintech revolution: Interpreting the forces of innovation, disruption, and transformation in financial services. *Journal of Management Information Systems*, 35(1), 220–265
- Gomber, P., Koch, J.A., Siering, M. (2017). Digital finance and FinTech: Current research and future research directions. *Journal of Business Economics*, 87(5), 537–580.
- Gulamhuseinwala, I., Bull, T., Lewis, S. (2015). FinTech is gaining traction and young, high-income users are the early adopters. *The Journal of Financial Perspectives*, 3(3), 1–17.
- Hall, J., Hofer C. (1993). Venture capitalists' decision criteria in new venture evaluation. *Journal of Business Venturing*, 8, 25–42.
- Intrigano, C., Micheli, A.P., Calce, A.M. (2020). Financial Structure: A Comparative Study between European Listed and Unlisted Companies. *International Journal of Business and Management*, 15(11), 111-125.
- Kensinger, J.W., Martin, J.D., Petty, J.W. (2000). Harvesting value from entrepreneurial success. *Journal of Applied Corporate Finance*, 12(4), 81–93.
- Kohtamäki, M., Rabetino, R. Möller, K. (2018). Alliance capabilities: a systematic review and future research directions. *Industrial Marketing Management*, 68, 188-201.
- Kohtamäki, M. Parida V., Oghazi P., Gebauer H., Bainesi T., (2019). Digital servitization business models in ecosystems: A theory of the firm. *Journal of Business Research*, 104, 380-392
- Krishnan, C.N.V., Ivanov, V.I., Masulis, R.W., Singh, A.K., (2011). Venture capital reputation, PostIPO performance, and corporate governance. *The Journal of Financial and Quantitative Analysis*, 46 (5), 1295–1333.
- Lee, I., Shin, Y. J. (2018). Fintech: Ecosystem, business models, investment decisions, and challenges. *Business Horizons*, 61(1), 35-46.
- Mackenzie, A. (2015). The fintech revolution. *London Business School Review*, 3, 50–53.
- Massari M., Difonzo C., Gianfrate G., Zanetti L. (2018). Bank valuation using multiples in US and Europe: an historical perspective. *Business Valuation OIV Journal*, 5, 112-123.
- Molodovsky N. (1967). Recent studies of P/E ratios. *Financial Analysts Journal*, 23 (6), 111–114.
- Philippon, T. (2016). *The Fintech Opportunity*, NBER Working Papers 22476, National Bureau of Economic Research, Inc.
- Puschmann, T. (2017). Fintech. *Business & Information Systems Engineering*, 59(1), 69-76.
- Schueffel, P. (2016). Taming the Beast: A Scientific Definition of FinTech. *Journal of Innovation Management*, 4, 31-54.
- Waldron, D., Hubbard, C. (1991). Valuation methods and estimates in relationship to investing versus consulting. *Entrepreneurship: Theory & Practice*, 16, 43–52.
- Wilson, J. D. (2018). *How to value InsurTech Company*, Wiley.