Key investments overview in payments and fintech 2020-2021

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2020 saw significant investments in the payments and fintech industries, a dynamic that has continued in the first quarter of 2021.

However, the investment flow slowed to USD 105.3bn from USD 168bn of 2019 partly due to the lack of mega deals such as the FIS USD 42.5 bn acquisition of WorldPay and because of the pandemic.

The industry eyed the strong acceleration on the ongoing transition toward digital platforms and e-commerce brought by the pandemic, as several lockdowns were mandated by governments around the worlds in an effort to curb the spread of the Covid-19 disease. Several players and investors took this as an opportunity to benefit from a widening market and consolidate their presence in the value chain.

The areas where most investments have fueled-in – both as direct investments and M&A deals – are Checkout lending, Corporate lending, Acquiring services and Digital finance services, each driven by specific rationales. In addition, the ongoing consolidation in the payment industry triggered a few large deals.

Checkout lending – also known as Buy Now Pay Later (BNPL) – has attracted investors as the pandemic spiked e-commerce sales. Though BNPL merchants don't have to rely on banks and credit card companies to help grow their sales. BNPL is a valid alternative and offers more advantages to the end customers as they can receive the products they ordered and pay only a part of the full price upfront and the rest in installments, often with no interest fees. In addition, in several occasions customers don't even have to pay anything upfront. These features stimulate customer purchases which result in higher revenues for merchants and make BNPL a sought-after and high-margin business. This is what drove investments flow into several BNPL-focused fintech companies in 2020. The largest deal in this space has been the USD 650m raise from Klarna followed by Affirm's funding worth USD 500m which also acquired PayBright, a Canadian BNPL player.

As the size of ecommerce is growing at an accelerated pace worldwide, a number of other fintech firms have attracted investment rounds including Afterpay, Laybuy, Sezzle, Splititand Tabby. Even countries were ecommerce reached level well below the European average are home of BNPL fintech. Scalapay, an Italian startup, went live in 2019, and now serves over 1000 merchants across France, Italy, and Germany, including Decathlon and Calzedonia. In January 2021, Scalapay raised USD48m and recently announced a partnership with Raisin Bank.

Checkout lending is one of the hottest areas in fintech because it is highly profitable early on, which differs significantly for other area such as digital banking where significant capital is needed to build a customer base that later on would be inclined to use value added services offered at a premium.

Corporate lending is another area that attracted a number of deals during 2020. As lending through banks is proving increasingly difficult and costly for a number of businesses, mostly SMEs, several alternative sources have become available over the last several years. The US has been particularly active in this space where according to Cerebro – a lending market matching platform – in October 2020 non-bank lending in the USA is one-third of the size of bank lending to middle-market companies and growing strongly. To capitalize on this trend in mid-august American Express announced the acquisition of the SME lending platform for an estimated USD 850m in cash, which excludes Kabbage's loan portfolio. Although providing flexible lines of credit has been the key driver of the deal other features – including online bill payment, cash flow visualization tools, e-gift certificates and ability to centralize funds – catched Amex attention. In fact, small businesses are increasingly looking to more streamlined finance management solutions to help them better understand, forecast and manage their cash flow. The deal came at a time when both parties were trying to expand outside their core business: Kabbage was growing beyond lending and Amex was trying to extend beyond cards. This undoubtedly helped a mutual agreement.

The value paid for Kabbage was that of Kabbage went for a much higher price than OnDeck Capital a corporate lending fintech acquired in October 2020 by Enova International for USD 122m. The main rationale behind this difference is that Kabbage was the only fintech able to quickly adapt its platform to offer lending via the US government's Paycheck Protection Programme resulting in being the second-largest PPP loan processor after Bank of America and in a boost in acquisition as 97% of PPP customers were new additions.

Acquiring services: A number of acquirers have attracted investor attention. Stripe recently raised USD 600m which will be used to expand operations throughout Europe in particular to support increasing demand from corporates and to fill the needs of many smaller merchants. That is particularly the case in southern Europe where despite many small merchants activated some sort of ecommerce solution to be able to sell during the pandemic, less than 15% sell online. Checkout.com, a UK acquiring platform that integrates analytics and fraud monitoring services, raised USD 450m in a series C funding round aimed at expanding their USA and European presence with opening of new offices and hiring 700 people in 2021, a 70% increase from current staffing.

Investors were also attracted by F2F acquiring services. UK-based SumUp secured USD 750m. SumUp provides POS terminals, F2F and online acquiring services and invoicing to businesses will use the funds to expand beyond the 29 European and 4 non-European markets where operates – in particular into Chile, Colombia and Romania – add staff to its 20 offices and leverage potential M&A opportunities.

Investments have heavily flown-in because acquiring services are a lucrative business due to unmet market demand and uncapped merchant service fees as opposed to interchange fees regulated across the EU and in a few other countries.

Consolidation in payment services 2020 saw two large mergers in the European payment industry: the leading payment services provider in Europe Worldline acquired Ingenico the world leading payments terminal manufacturer, while Nexi Payments Italy's leading payment services provider acquired SIA, a leading European payment processor and interbank network provider, and Nets a leading payment services provider in northern and central Europe. The rationale behind the Worldline merge is value creation from leveraging synergies while behind Nexi's in addition to synergies there are complementarities in market reach and opportunities to offer a full range of payment solutions to a few attractive but still underpenetrated European markets. The new Worldline will have revenue of € 5.5bn, while the new Nexi € 2.9bn. We expect this consolidation to bring higher efficiency to benefit customers from more cost-effective services and solutions but also it may limit opportunities for fintech to market innovative financial services as may become necessary to deliver them through one of the two conglomerates with few alternatives.

Digital finance services' adoption is growing strongly and more people around the world expect to be able to access a wider variety of innovative services to achieve financial inclusion. Once they have familiarized with basic digital financial services people are likely to welcome investment services. As such investment platforms are increasingly popular and a high-margin business, a combination that triggered interest of investors. Grab Financial Group – a platform that offers financial, insurance and merchant services but also allows to invest small amounts through the Grab app – raised over USD 1bn in 2020 and USD 300m in January. Grab potential growth is due to the high share of Southeast Asians unbanked/ underserved (50%+) willing to achieve financial inclusion and enjoy investment returns in a simple and inexpensive way, not available at a traditional bank.