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# Payment providers | The race to scale and expansion into new markets

**Deloitte Financial Advisory Netherlands, March 2022**

# Contents



**Structure of the report**

For decades, companies such as Visa and Mastercard have facilitated electronic funds transfers around the world. But the digital disruptions that started emerging in recent years have been accelerated by the COVID-19 pandemic and could permanently change the digital payments landscape.

This document describes the payment industry, its value drivers and the most important players, with a specific focus on payment service providers and networks (collectively referred to as "payment providers"). We examine past and present trends in the industry and the opportunities and possible developments in the foreseeable future

We conclude with an overview of specific M&A and valuation-related challenges.

# Why does this report matter

## Board

It is important to establish a clear strategy for companies active in the payment industry. This report discusses the key factors and considerations for industry players.

## Fintechs

Fintechs have changed how consumers make payments and have driven innovation within the industry. This report investigates fintechs' role and the challenges ahead on their growth path.

## Incumbents

The payment industry has long been dominated by existent networks and banks. We investigate the challenges and opportunities for them.

## Strategy and M&A

Deal activity within payment providers is constantly evolving. By tracing investment activity, this report analyses the main historical trends and offers a perspective for the future.

# **01** Introduction

# Payment providers should get ahead of emerging trends that can impact their business

## Drivers of change

### Ease in use
- Quick and easy onboarding process
- Integration with mobile apps and products

### Expedient transactions
- Fast and safe transactions
- Eliminating in-person money transfers
- Reliable and easy

### Functionality
- Able to link to bank accounts and new funding sources
- Digital wallet functionality for digital identity and logging into government/ other services

### Affordability
- Consumers expect low- or no-cost options
- Financial savings and access to investments

## Accelerators of change

### Globalization
- Increase in "global citizens" driving multi-currency needs
- Expanding ecosystems connecting markets

### Society and Culture
- Tech savvy generations
- Older generations learning new options
- Comfortable with embedded Fintech

### Cost savings
- Companies moving away from payroll checks
- Efficiency in monthly invoicing and billing

### Virtual environment
- Rise of online purchases
- Demand for contactless payment options

## Trends in digital payments

### Enhanced customer experience
Customers are migrating away from traditional card-based instruments. They are demanding payment methods and channels - such as wearables, mobile wallets and digital banking - offering a seamless payment journey.

### Alternative payments
Artificial intelligence, machine learning, automation and the migration to cloud services are spurring competition among alternative cashless and real-time transaction options. This will inevitably cannibalize traditional payment methods.

### Emerging technology
While consumers and the competitive market will ultimately determine how technologies such as distributed ledgers and cryptocurrencies are used, central banks and financial institutions are preparing for their adoption and their ability to reduce costs and optimize settlement times.

### Evolving regulations
Regulatory bodies are looking how to adapt to the changing payment landscape through investments in new infrastructure, modifying central banks' role and updating payment regulations. This is likely to impact both on new and existing market players.

### Managing risk
The increasing risk of cybercrime and emerging fraud schemes mean transaction data typically used to derive insights for deepening customer relationships is being leveraged to develop innovative credit models, alongside other fraud-mitigation technologies.

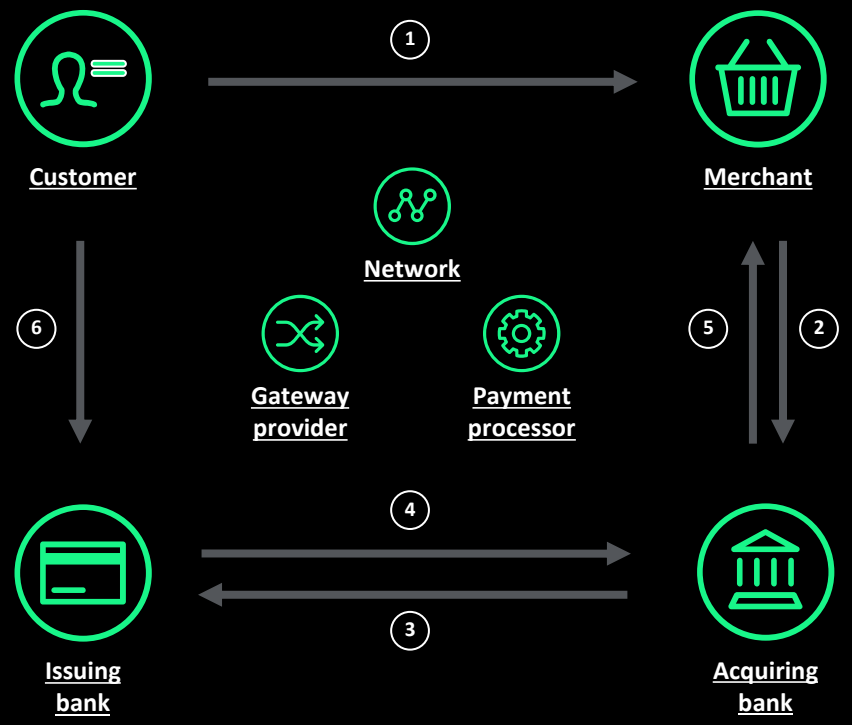
Sources: The Global Significance of Payments, Deloitte, 2021; Digitization of Payments, Deloitte, 2021

# 02 The payment industry explained

# The payment industry consists of various stakeholders

The various stakeholders in the payment industry are involved in **one or multiple roles** in the transaction model:

- **Customers and merchants**
  Businesses and/or individuals who engage in a digital transaction, including a payment.
- **Networks**
  Connect all the players, oversee the payment processing activity, monitor the settlement of transactions, and regulate and manage the corresponding compliance policies.
- **Acquiring bank**
  Enters into a contract with merchants to provide payment acceptance and processing.
- **Payment processor**
  Executes the transaction by transmitting data and/or transferring funds between the other parties.
- **Gateway provider**
  Provides the technology that captures and transfers payment data from the customer to the acquirer and back.
- **Issuing bank**
  Offers credit and issues credit cards to customers on behalf of the networks.



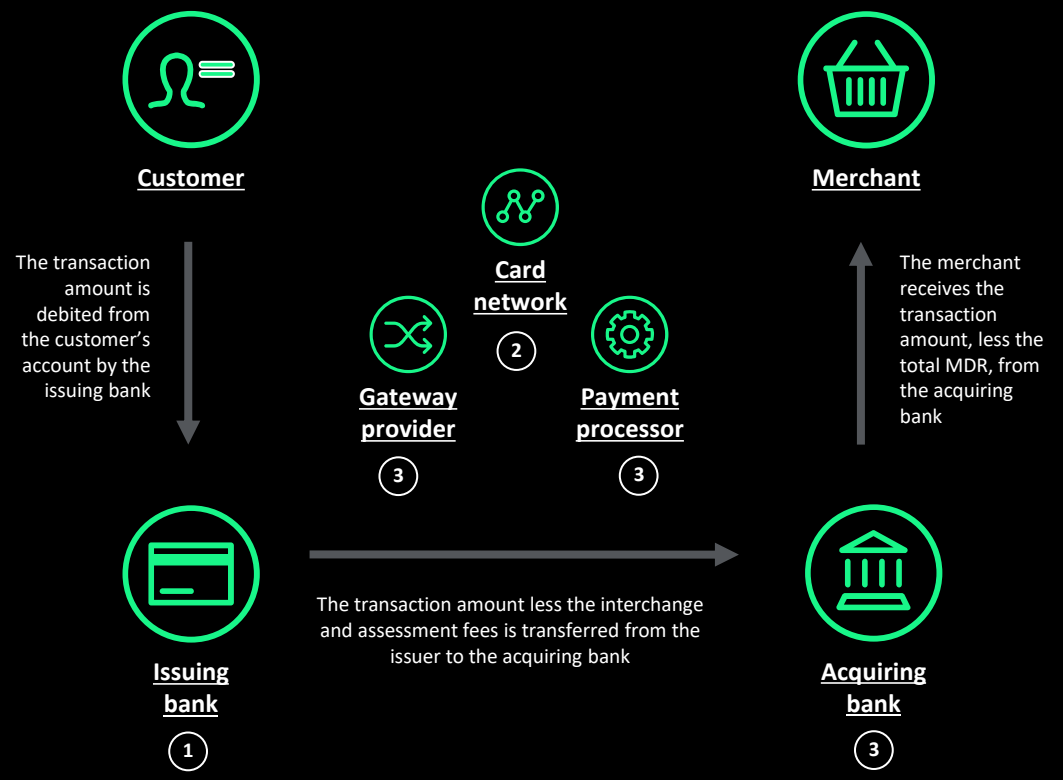

1. The customer selects goods to buy and opts to pay by card.
2. The merchant submits the transaction to the acquiring bank.
3. The acquiring bank submits the transaction to the issuing bank.
4. The issuing bank approves the transaction and remits the goods' price to the acquiring bank (less an agreed charge).
5. The acquiring bank pays the merchant the goods' price (less an agreed charge).
6. The consumer's account is debited for the price of the goods.

Note: This figure presents a four-corner payment model of e.g., Visa and Mastercard transactions. The actual dynamics of specific payments depend on the context (online or Point of Sale) and the payment method

# Industry revenues mainly comprise a Merchant Discount Rate distributed among all transaction participants

The acquiring bank charges a Merchant Discount Rate (MDR) to merchants. This usually ranges from 1% to 3% of the transaction value. The MDR is then distributed across the value chain. The MDR consists of:

1) Interchange fees: This is the largest share of the MDR. It is set by the network (e.g., Visa, Mastercard), but paid entirely to the issuing bank.
2) Assessment fees: This portion is paid to the network for use of the network on which the transaction is taking place.
3) Processor mark-up: The remainder of the MDR is for the acquiring bank and its affiliates. This basically covers the acquiring, processing and gateway fees.




Note: This figure presents a four-corner payment model of e.g., Visa and Mastercard transactions. The actual dynamics of specific payments depend on the context (online or Point of Sale) and the payment method.

# Companies in the payment industry can be roughly divided into gateway providers, payment processors and networks

The companies in the payment industry can be roughly divided info i) **gateway providers**, ii) **acquirers/processors and** iii) **networks**. However, they are often involved in more than one role in the payment transaction model.

- Gateway providers and acquirers/processers are collectively referred to as payment service providers ("**PSPs**"). Networks, gateway providers and acquirers/processers are collectively referred to as payment providers. This subdivision, as also illustrated in the figure on the right, is used for the analyses in sections 2 and 3 of this document.
- PSPs can be solely distributing, in which case they operate solely as **gateway providers,** but never come into possession of the funds. However, PSPs can also perform collecting services, in which case they also collect and transfer funds and thus also act as **acquirers/processors**.
- Mobile wallets, such as PayPal and Alipay, can also act as the **network** for consumer transactions, replacing card **networks**. In that case, merchants can also connect directly to the wallet provider rather than going through a processor. Then, the gateway and acquirer/processor roles will also be performed by the digital wallet.


Notes:

- Although acquiring banks and issuing banks are also part of the payment transaction model, their activities in the payment service industry are a minor part of their consolidated operations. Therefore, banks are not in the scope of this research
- Card Networks VISA and Mastercard have also invested in other payment solutions (see page 13 for more details). Given, however, the relatively small size of these activities, they are regarded only as networks in the other analyses in this report.

Source: Capital IQ

# Payment industry: strong stock market performance in recent years

The payment industry has shown strong stock market performance in recent years, outperforming the global MSCI Index for most of the past three years. In 2020, the COVID-19 crisis initially impacted the industry heavily. Although it managed to recover, payment industry stocks dropped sharply In the last four months of 2021 due to increased uncertainty on future consumer spending and deflation of high growth stocks triggered by such things as forecast high/higher future inflation and central bank interest rates.

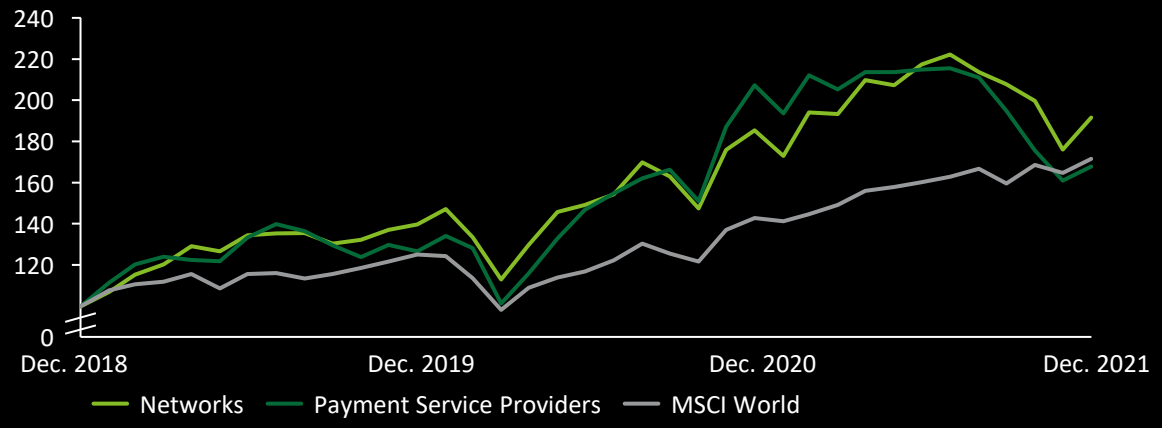
Zooming in, we see that companies such as Adyen, Block (formerly known as Square) and PayPal are among the best-performing payment providers.

Nevertheless, not all payment providers have performed equally well. The share price of the Brazilian payment company Cielo, for example, has fallen by around 75% in the past three years. As Brazil is one of the countries that has been most severely hit by the pandemic, many retailers were forced to shut down, leading to lower transaction volumes for Cielo. Competition has also increased because of competitors entering the market.

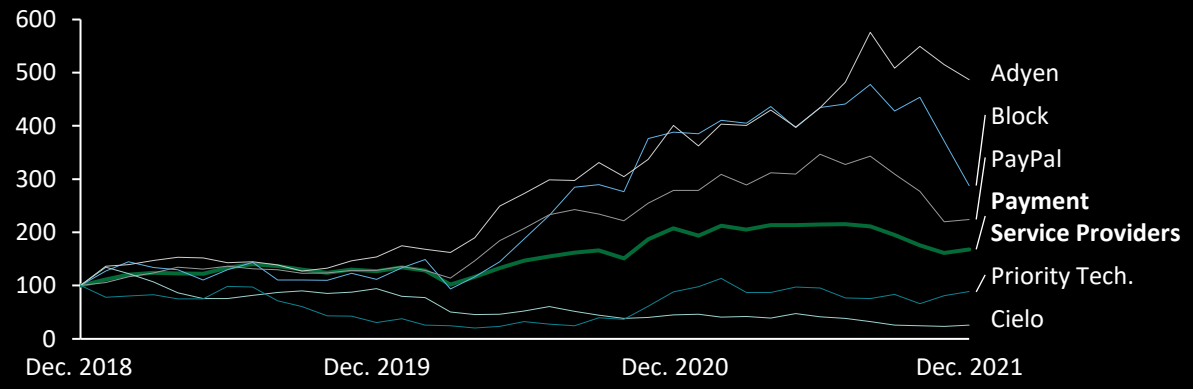
The US-based Priority Technology Holdings' shares have also performed relatively poorly. The company's ineffective internal controls resulted in disclosures of material weakness in the 2018 and 2019 annual accounts. This caused a drop of around 80% in the share price between December 2018 and April 2020, and this had not yet recovered by December 2021.

**Indexed share price developments December 2018 – December 2021**

**Payment Service Providers and Networks vs MSCI World**




**Selection of Payment Service Providers**




Note: The share price developments of networks and payment service providers are based on indices, of which five payment service providers are presented separately in the graph below. Since PayPal can be considered both a network and a payment service provider, it is considered in both categories. See the appendix for an overview of the companies in the analysis.

Source: Analyst Reports, Capital IQ, Deloitte analysis

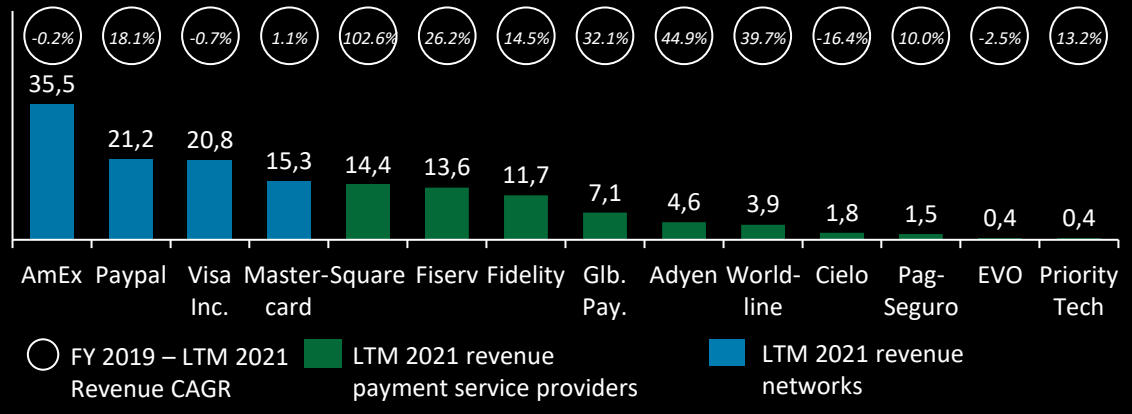
# Large card schemes lead revenue; merchant acquirers have far fewer transactions

Long-standing card networks, such as VISA and Mastercard, are among the largest payment companies in terms of revenue. Their revenue is mainly from fees charged to card issuers and acquirers for data processing and other services. These fees are generally based on total gross dollar volumes.

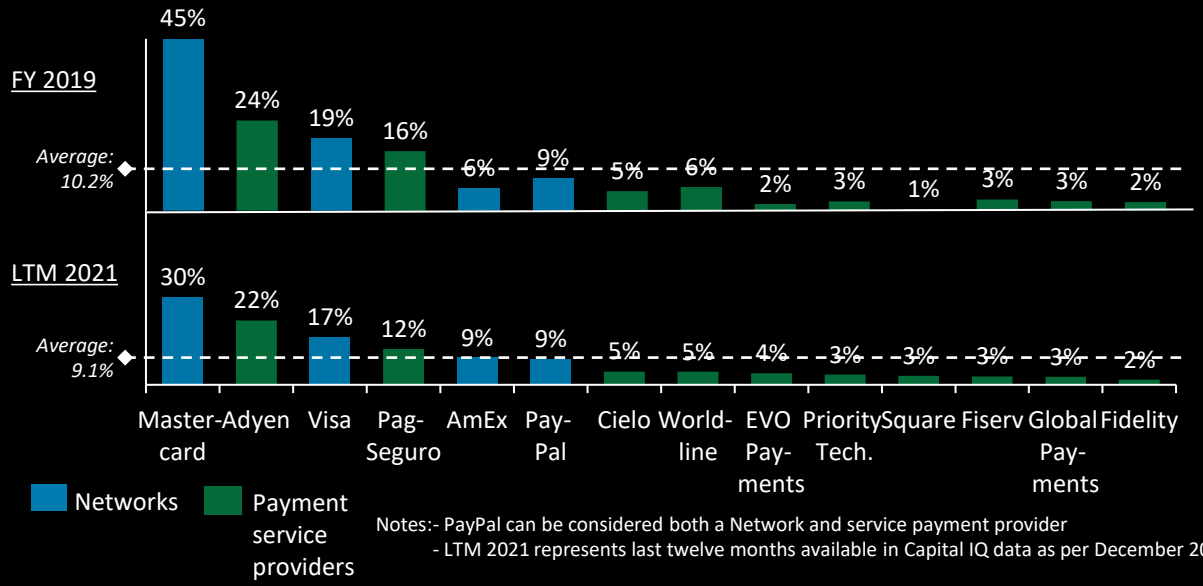
Payment service providers (presented in the figures in green bars on the right) - such as Adyen - generate lower volumes due to their lower transaction volumes compared to those of large schemes such as Mastercard and Visa.

In terms of average profitability (return on capital employed ("ROCE")), network companies such as Mastercard, Visa, PayPal and American Express (AmEx) have higher returns on ROCE than payment processors and gateway providers. The average ROCE of all payment providers fell from approx. 10.2% in 2019 to approx. 9.1% in LTM 2021, due to the increasing competition and resultant pressure on fees.

**Revenue developments in EUR billion**




**Return on capital employed**




Notes:- PayPal can be considered both a Network and service payment provider
- LTM 2021 represents last twelve months available in Capital IQ data as per December 2021

Source: CapitalIQ, Deloitte analysis

# 03 Market Insights

The social distancing norms and lockdowns boosted e-commerce and triggered rapid adoption of cashless and contactless transactions. The move to digital payments is a trend likely to continue after the pandemic.

# European payments ecosystem: 2,410 companies

## Ecosystem explained

To have a better understanding of the current state of the European payments market, we have visualized the payments ecosystem, using Deepview. This part of the report zooms in on the European ecosystem and provides an overview of its evolution and key insights.

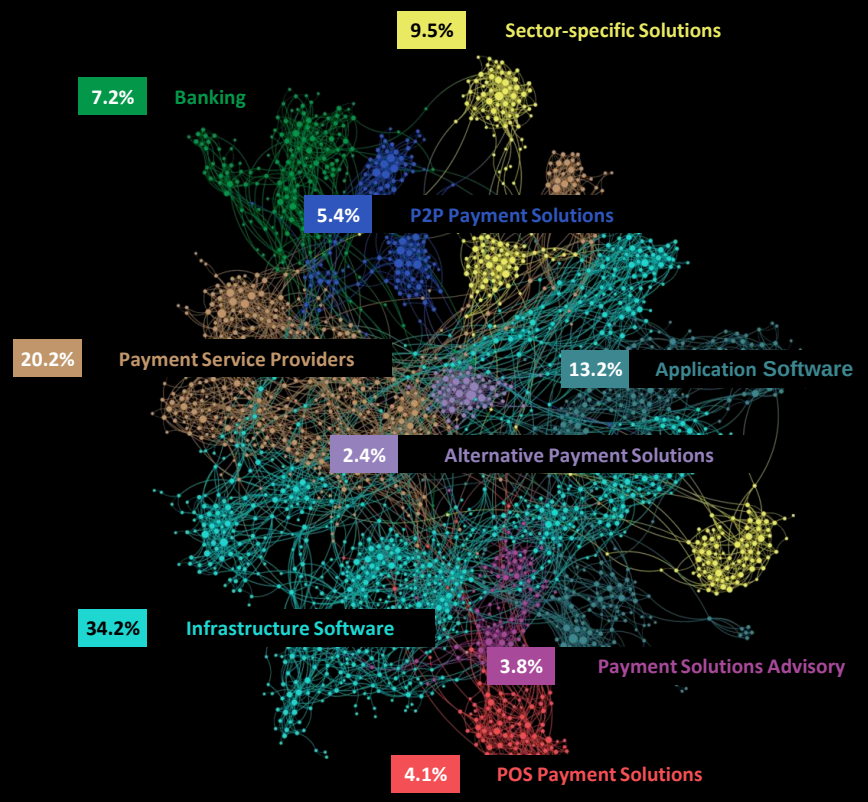
**This ecosystem is created using text processing algorithms** that employ Natural Language Processing ("NLP") and artificial intelligence to provide an overview of payment firms in Europe, based on company descriptions of the incumbent players in the market.

**Visualized on the right is the present European payments ecosystem. Each node represents a company**.

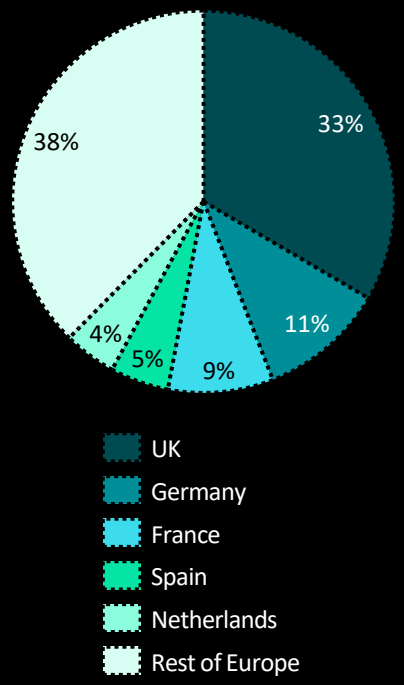
**Companies whose operations are sufficiently similar are shown in the same colour and so form a 'cluster'**. The closer the clusters are to each other, the more intertwined their business operations are. Sometimes companies have similarities with companies in a different cluster. These similarities are represented by a line connecting the two. The size of each cluster is expressed as a % of the companies in that cluster relative to the whole ecosystem.

This section also explores additional qualities of the European payments ecosystem, such as the development of the ecosystem, maturity of the clusters, etc.

## European Payments Ecosystem (total: 2,410)




## Country of Origin




Sources: Deepview, Capital IQ, Crunchbase, Deloitte analysis. Data per 02-12-2021

# Payments ecosystem grew moderately in the past decade, with slower growth in the later years

**2009**

**1,121 companies**

The **Infrastructure Software** and **Payment Solutions Advisory** clusters were already well developed over a decade ago, and over 50% of the companies founded in or before 2013 are in this cluster

**2014**

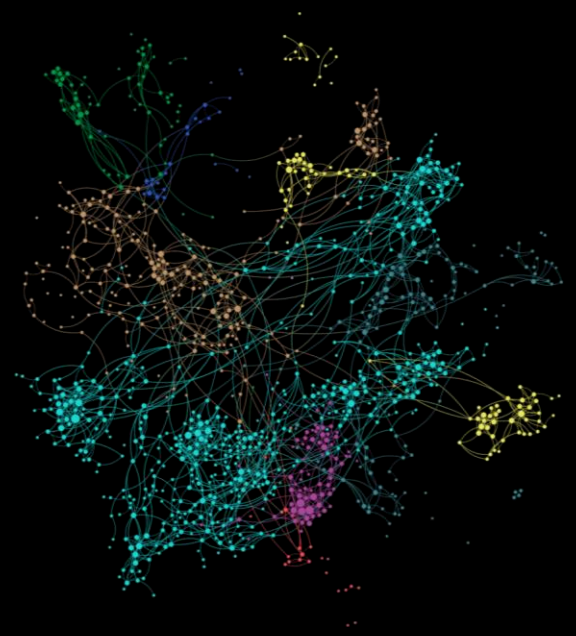
**1,620 companies**
*2009-2014 CAGR 7.6%*

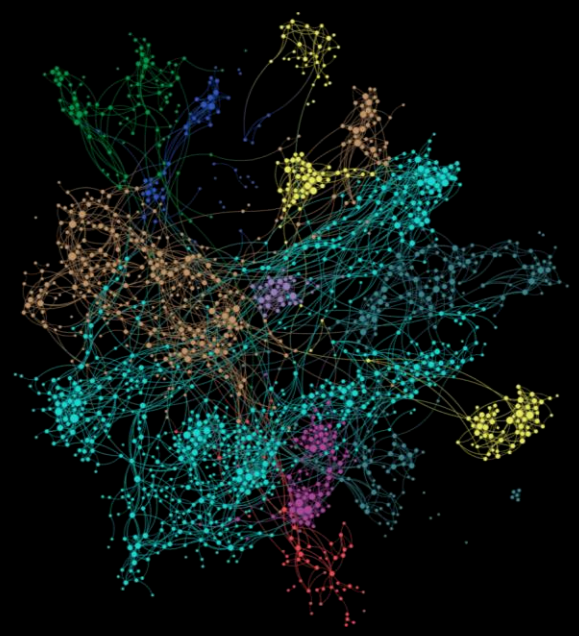
The payments ecosystem experienced significant growth across existing and new clusters, especially in the smallest ones: **Alternative Payment Solutions**, **Payment Solutions Advisory** and **Point of Sale Payment Solutions**

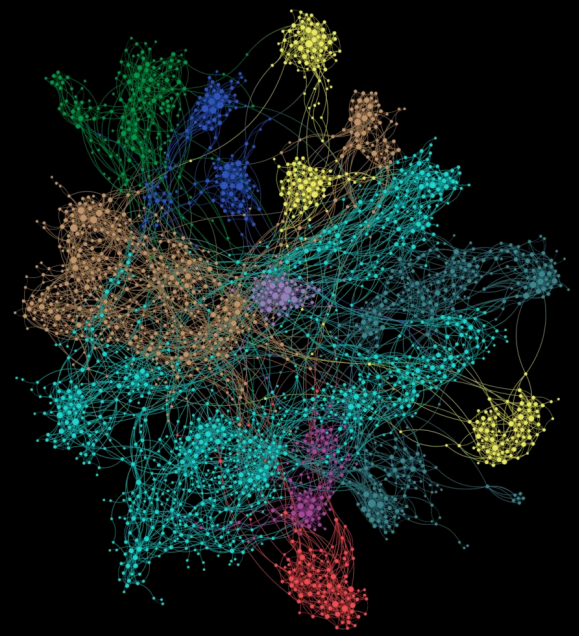
**2021 YTD**

**2,410 companies**
*2014 – 2021 YTD CAGR 5.8%*

The **Infrastructure Software** cluster remains the largest, despite relatively slow growth throughout the decade.
All clusters experienced lower, single-digit growth between 2014 and 2021







Note: In the mapped ecosystem, 1,121 companies were founded before year-end 2009, 1,620 companies before year-end 2014, and 2,410 companies before 2021 YTD
Source: Deepview, Pitchbook, Deloitte analysis. Data per 02-12-2021

# Infrastructure software is the largest payments cluster overall, and in all major European countries

## Ecosystem Heatmap

| | Clusters | # of Companies 2021 YTD | Founding Year Median |
|---|---|---|---|
| 1 | Infrastructure Software | 825 | 2005 |
| | Payment Service Providers | 487 | 2009 |
| | Application Software | 317 | 2011 |
| | Sector-specific Payment Solutions | 228 | 2011 |
| | Banking | 173 | 2012 |
| 2 | P2P Payment Solutions | 129 | 2015 |
| | POS Payment Solutions | 100 | 2013 |
| 3 | Payment Solutions Advisory | 92 | 2000 |
| 2 | Alternative Payment Solutions | 59 | 2014 |

## Key Insights

1. **Infrastructure Software** is the largest cluster, as well as the second oldest in terms of the founding year (median).
2. **P2P Payment Solutions** and **Alternative Payment Solutions** are the two youngest clusters, with a founding year (median) of 2015 and 2014, respectively, and currently jointly have a 7.8% market share.
3. **Payment Solutions Advisory** is the oldest cluster, although comprises only 3.8% of the overall market.
4. The most dominant clusters in the major European countries, as well as in the rest of Europe, are largely similar. **Infrastructure Software** is the largest cluster in all regions except the Netherlands, where it lags behind **Payment Service Providers.**

4

| Country | Top 4 clusters per country |
|---|---|
| | ***Infrastructure Software***, *Payment Service Providers, Application Software, Sector-specific Payment Solutions* |
| | ***Infrastructure Software***, *Application Software, Payment Service Providers, Banking* |
| | ***Infrastructure Software***, *Payment Service Providers, Application Software, Sector-specific Payment Solutions* |
| | ***Infrastructure Software***, *Payment Service Providers, Sector-specific Payment Solutions, Application Software* |
| | ***Payment Service Providers***, *Infrastructure Software, Application Software, Sector-specific Payment Solutions* |
| Rest of Europe (ROE) | ***Infrastructure Software***, *Payment Service Providers, Application Software, Banking* |

Sources: Deepview, Deloitte analysis. Data per 02-12-2021

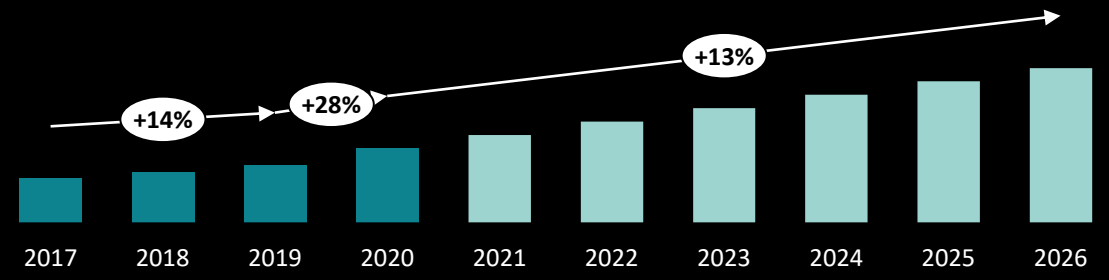
# Global digital payment transactions expected to reach USD 11.3 trillion in 2026, growing by approx. 13% annually from 2021

The worldwide total transaction value (the main driver of digital payment revenues) increased by a compounded average growth rate ("CAGR") of 14% between 2017 and 2019. Growth doubled to 28% in 2020 and is expected to continue increasing by a CAGR of 13% between 2020 and 2026, to reach a total transaction value of USD 11.3 trillion in 2026. One of the reasons for the relatively high growth rate in 2020 was the COVID-19 pandemic, which caused widespread disruption to consumer payment preferences and accelerated the payment industry's transition to digital payments.

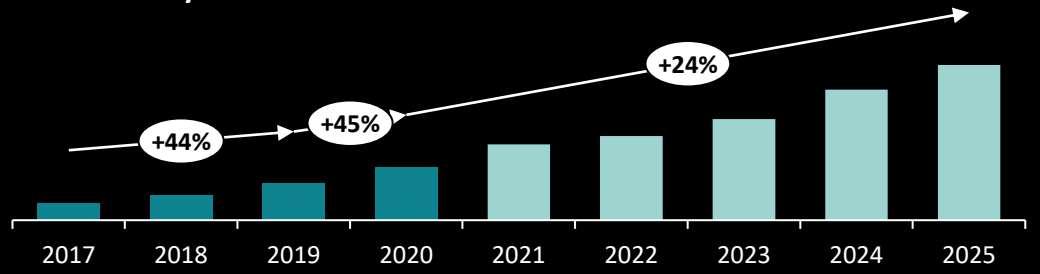
From analyst forecasts of our peer group companies, we observe that payment service providers' revenue is expected to increase by a CAGR of approx. 24% between 2020 and 2025. For the network companies Visa and Mastercard, we observe that revenues are expected to increase by a CAGR of approx. 16% over this period.

VISA and Mastercard revenues fell in 2020, largely due to pressure on fees. This pressure was driven by an increase in digital payment methods and the associated lower transaction costs. The pandemic caused a wave of interest in contactless payment methods, and this spurred the already growing interest in mobile wallets.

**Global digital payments - transaction value in USD trillion**

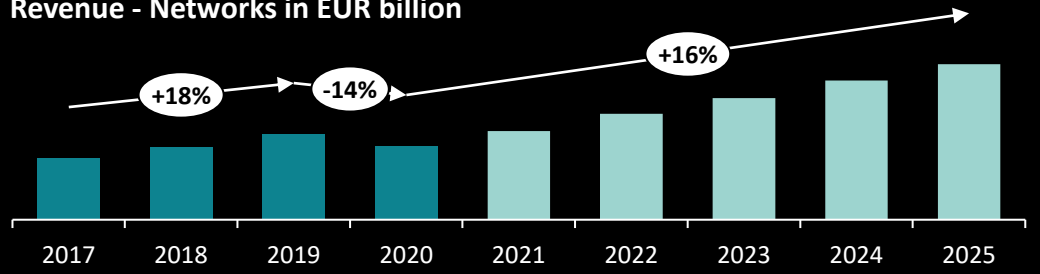



**Revenue - Payment Service Providers in EUR billion**




Note: Based on revenue (projections) of Worldline, Adyen, PagSeguro and Block

**Revenue - Networks in EUR billion**




Note: Based on revenue (projections) of Visa and Mastercard

Sources: Digital Payments Market - Growth, Trends, COVID-19 Impact, and Forecasts, Mordor Intelligence, 2021, Global payment report, Worldpay, 2021, Capital IQ and Deloitte analysis

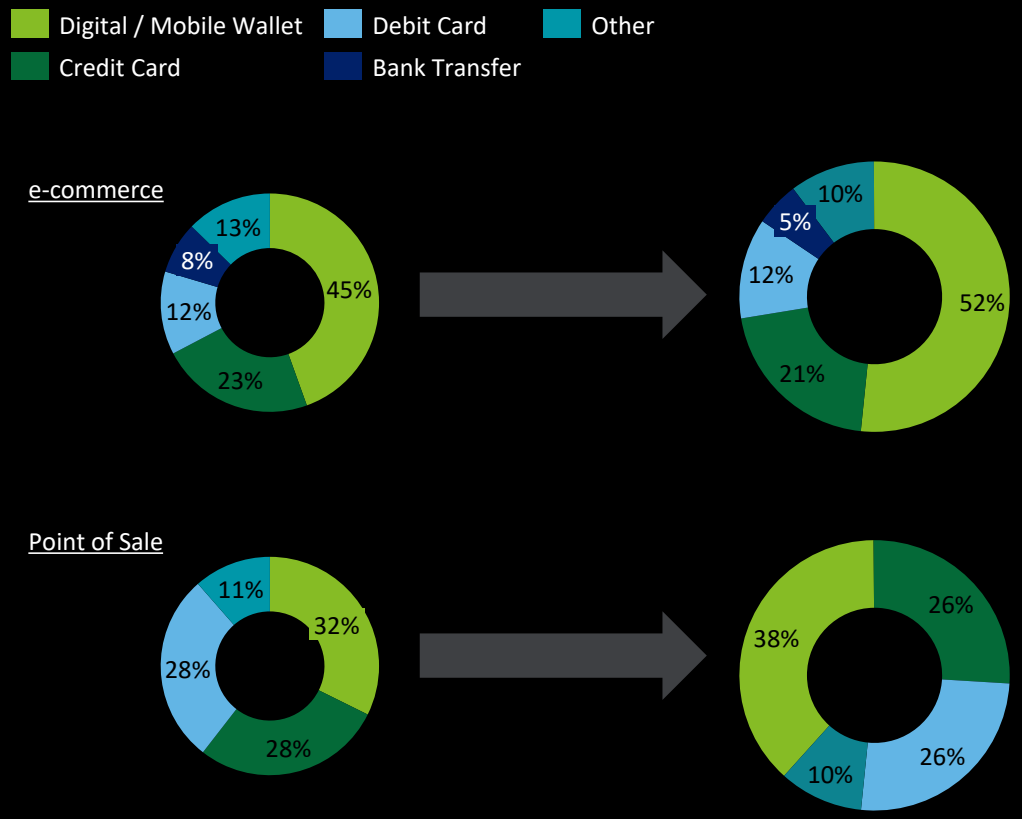
# Strong rise in digital commerce transforming the payments industry, leading to shift to real-time payments

The digital payment industry can be segmented into transactions at a Point of Sale (PoS) and online transactions (e-commerce). In both segments, digital and mobile wallets are expected to continue increasing their share of transactions. This is expected to be at the expense of other digital payment methods such as credit cards and debit cards.

Options for real-time payments ("RTPs") have also emerged. RTPs are payments initiated and settled nearly instantaneously on online systems able to process payments at any time, including weekends and holidays. Current examples of RTP networks include the RTP network from The Clearing House in the U.S., UPI in India, Faster Payments in the UK, and PIX in Brazil. These RTP networks are initiatives of monetary authorities or banking associations.

The main question for payment providers and networks is whether solutions attaching themselves to these payment methods are likely to replace cards in Point of Sale and e-commerce transactions. To get ahead of this trend, VISA and Mastercard have been investing in solutions for digital payments. This could potentially fade the boundaries between payment service providers and networks and increase the competition between them.

**Digital payment methods**




Source: Prime Time For Real-Time, ACI worldwide, 2021; Global payment report, Worldpay, 2021.

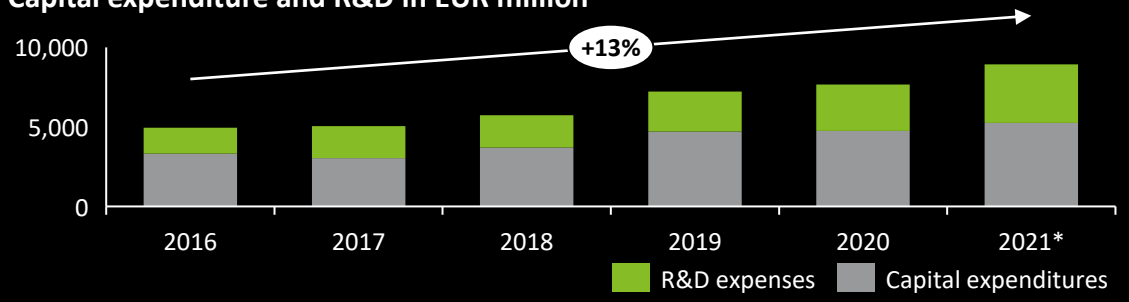
# Gateway providers and payment processors have higher levels of capital expenditure and R&D than networks

The digital payments industry recorded high growth in capital expenditure and R&D between 2016 and 2021 (CAGR: 13%), in line with the global increase in the value of digital transactions. Companies have to invest heavily in infrastructure such as data centers and server farms to secure the processing of large numbers of transactions and to maintain existing infrastructures at a state-of-the-art level.

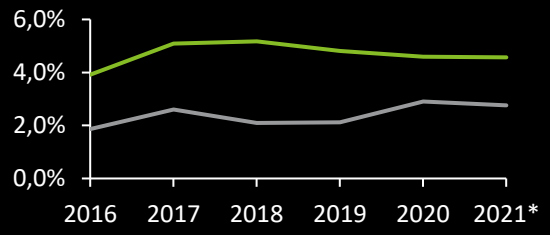
Payment service providers have higher R&D expenditure as a percentage of revenue than networks. Gateway providers and payment processors are continuing to seek innovations to streamline the payment transaction model. However, networks are also investing in R&D, mostly to pre-empt disruption from e-commerce and e-money.

Networks are entrenched incumbents with substantial advantages from network economies. As it is very difficult to generate traction from customers and merchants, networks can set fees and restrictions for others in the payment process. This results in higher margins for networks than for payment service providers.

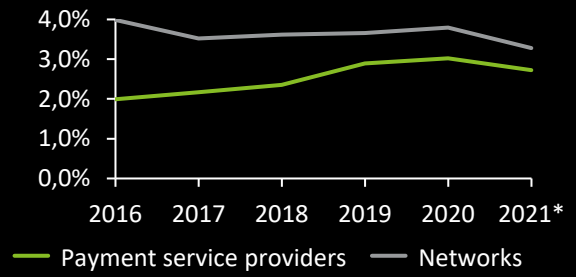
**Capital expenditure and R&D in EUR million**



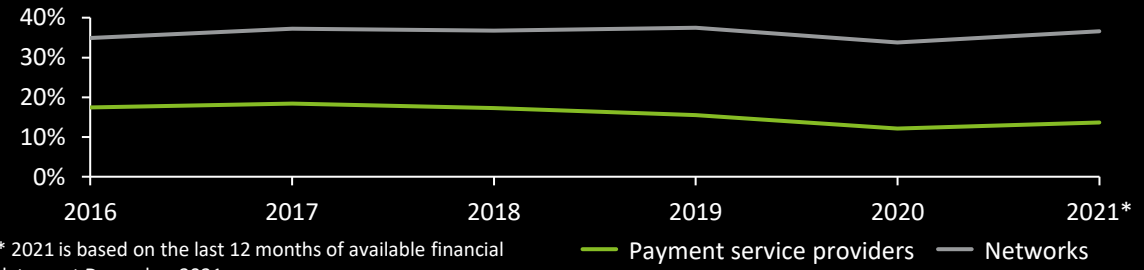

**R&D as % of revenue**




**Capital expenditure as % of revenue**




**EBIT margin**




* 2021 is based on the last 12 months of available financial data as at December 2021

Notes: - The graphs on this page are based on the companies and subdivision shown on page 8.
- As mentioned on page 8, PayPal can be considered both a network and a PSP. For the purpose of these graphs, PayPal is considered a network.

Source: Global fintech market and Digital payments market, Mordor Intelligence, 2019, Deloitte analysis

# Most prominent payment providers are located in North America. Especially in Asia/Pacific region, relatively new payment providers are expanding their business across the world


Source: Deloitte analysis

# Dutch payment providers include major players such as Adyen, Mollie and Buckaroo, but the landscape also includes 100+ smaller firms. Major networks in the Netherlands are iDeal and maestro

## Dutch payment providers

pay. SISOW CM. adyen BUCKAROO ICEPAY Transaction Performance mollie CCV

## Market drivers

**14%** Transactions by e-commerce

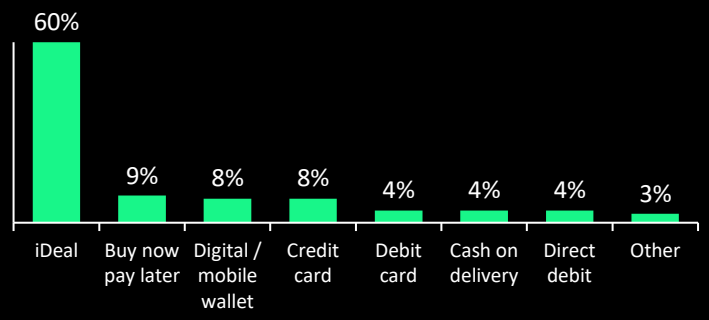
69% by desktop

31% by mobile

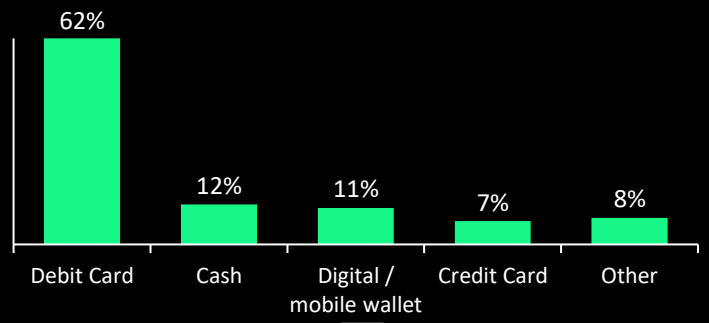
**86%** Transactions by Point of Sale

## Payment methods

### NL payment methods - E-commerce 2021




### NL payment methods - POS 2021




**Popular payment methods/Networks:** iDEAL maestro PayPal

## Recent notable deals in Dutch market

TCV mollie

| | |
|---|---|
| Deal size | €665m |
| Year | 2021 |

Payment processor Mollie raised €665m in a funding round led by Blackstone Growth. The funding is expected to fuel Mollie's international expansion, team scaling and continued investment in products and engineering.

worldline EQUENS

| | |
|---|---|
| Deal size | €1,070m |
| Year | 2019 |

Worldline SA acquired a 63.6% stake in Equens SE, a Netherlands-based provider of payment and card processing solutions, in 2016 and the remaining 36.4% in 2019 for €1,070m.

ING payvision

| | |
|---|---|
| Deal size | €156m |
| Year | 2018 |

ING acquired a 75% stake in Payvision B.V. However, the payment provider proved unable to cope with the increased competition and had too many troubled clients associated with money laundering. Payvision will be liquidated in 2022.

BLACKFIN BUCKAROO

| | |
|---|---|
| Deal size | n.a. |
| Year | 2017 |

Blackfin Capital Partners SAS acquired Buckaroo B.V. from Intrum Justitia AB. The transaction enabled Buckaroo to capitalize on the fast-growing e-commerce segment and the rapidly evolving payment space.

# 04 M&A, IPO and funding

The payments industry is consolidating in response to rising competition and the race to scale. The industry has also shown a strong IPO performance due to finance expansion

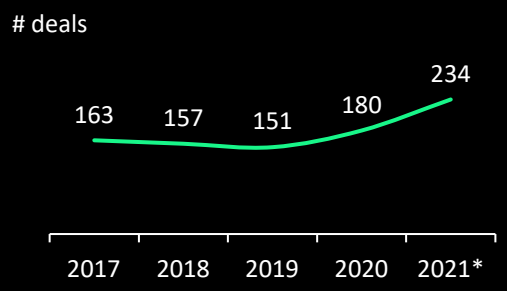
# M&A activity has increased in recent years and accelerated in 2021

The payments industry is seeing more consolidation, due to rising competition and the race to scale, as shown by the 2019 and 2021 hike in payment investments. Payment incumbents are pursuing M&A to gain complementary capabilities and expand into new markets.

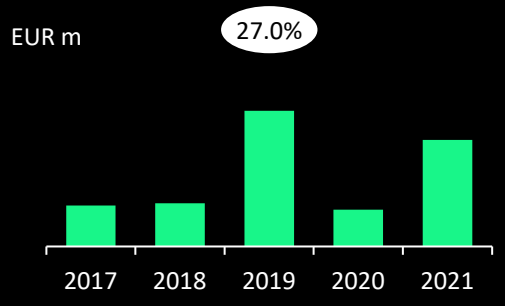
Recently, we saw several notable M&A deals, such as Square-AfterPay and FIS-Worldpay. These transactions are characteristic of the race to scale, the expansion into new markets and the need for complementary capabilities that have all been driving M&A activity in the digital payments sector in recent years.

The high levels of M&A activity in recent years, as reflected in the peak in deal values in 2019 and the high number of deals in 2020, continued in 2021. More deals were done in 2021 than in previous years, and the total 2021 disclosed deal value is close to the 2019 peak.

**Deal volume**




**Deal value**




Source: Mergermarket

Note: The deals included in the above graphs are searchable using the word "payment" in the target description in the Computer software, Internet/e-commerce and Services (other) sectors.

Source: Merger market as at 5/1/2022, 2021 banking and capital markets - M&A outlook, 2021, Deloitte Analysis

## Recent notable global M&A deals

**Square – afterpay**

| | |
|---|---|
| **Deal size** | **€22,458m** |
| **Year** | **2021** |

**Rationale**: The transaction will strengthen Square's networks of consumers around the world, while supporting consumers with flexible, responsible payment options.

**nexi – nets**

| | |
|---|---|
| **Deal size** | **€8,050m** |
| **Year** | **2021** |

**Rationale**: The merger is expected to create one of the largest players in Europe, with enhanced scale, client reach, distribution network and breadth of offering.

**worldline – ingenico GROUP**

| | |
|---|---|
| **Deal size** | **€9,150m** |
| **Year** | **2021** |

**Rationale**: Worldline will consolidate its existing position in Europe, with a 20% share in financial services.

**globalpayments – TSYS**

| | |
|---|---|
| | **€23,007m** |
| | **2019** |

**Rationale**: Global payments will increase the group's scale efficiency and global reach.

**FIS – worldpay**

| | |
|---|---|
| **Deal size** | **€37,559m** |
| **Year** | **2019** |

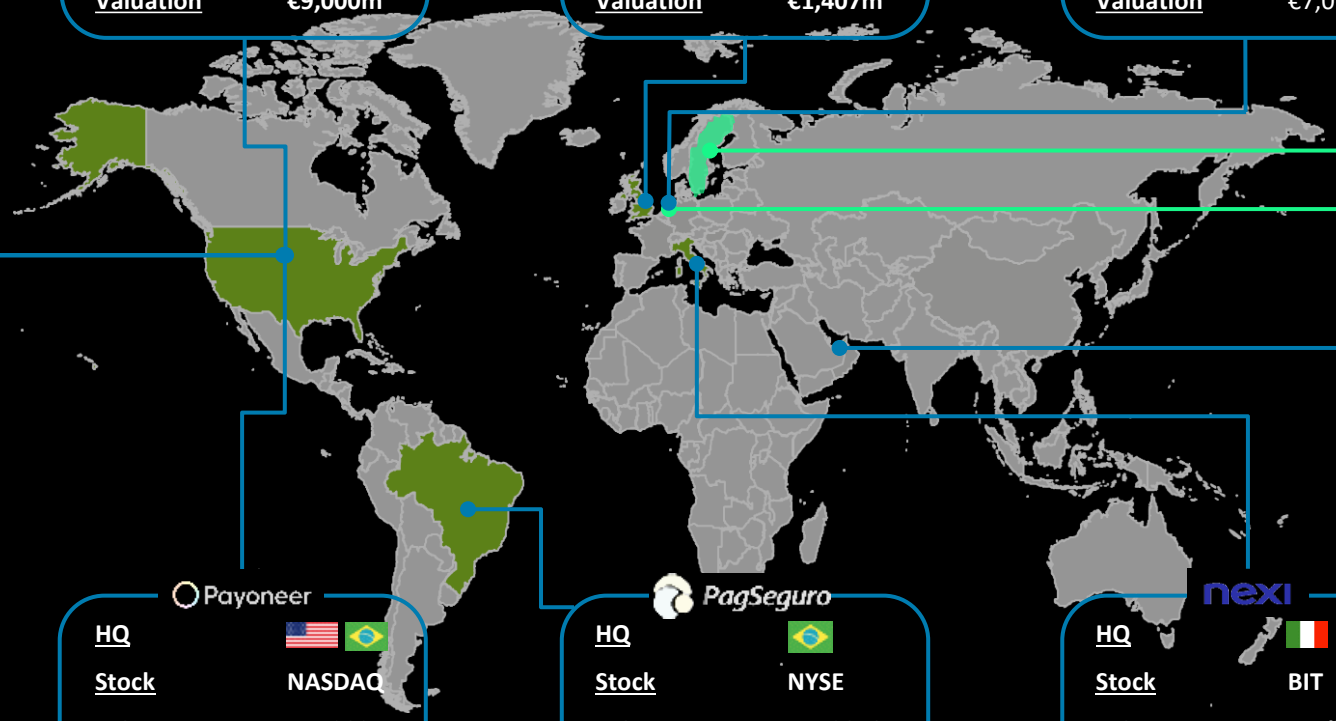
**Rationale**: The acquisition increases the merged entity's global footprint.

**fiserv. – First Data.**

| | |
|---|---|
| **Deal size** | **€33,723m** |
| **Year** | **2019** |

**Rationale**: First Data's excellence in merchant acquiring and global issuing services will expand Fiserv's capabilities.

# Multiple notable IPOs and funding rounds in the payment industry since 2018. IPOs have raised €8,583m, with a median IPO valuation of c. €2,240m



**EVO**

| | |
|---|---|
| HQ | |
| Stock | Nasdaq |
| IPO | May 2018 |
| Raised | €190m |
| Valuation | €210m |

**Paysafe:**

| | |
|---|---|
| HQ | |
| Stock | NYSE |
| IPO | Mar 2021 |
| Raised | €1,000m |
| Valuation | €9,000m |

**Finablr**

| | |
|---|---|
| HQ | |
| Stock | LSE |
| IPO | May 2019 |
| Raised | €352m |
| Valuation | €1,407m |

**adyen**

| | |
|---|---|
| HQ | |
| Stock | Euronext |
| IPO | June 2018 |
| Raised | €849m |
| Valuation | €7,067m |

**Klarna.**

| | |
|---|---|
| HQ | |
| Stock | n.a. |
| Funding round | Jun 2021 |
| Raised | €525m |
| Valuation | €37,466m |

**Shift4 Payments**

| | |
|---|---|
| HQ | |
| Stock | NYSE |
| IPO | June 2021 |
| Raised | €305m |
| Valuation | €428m |

**mollie**

| | |
|---|---|
| HQ | |
| Stock | n.a. |
| Funding round | June 2021 |
| Raised | €5,465m |
| Valuation | €848m |

**flywire**

| | |
|---|---|
| HQ | |
| Stock | NASDAQ |
| IPO | May 2021 |
| Raised | €204m |
| Valuation | €1,874m |

**Payoneer**

| | |
|---|---|
| HQ | |
| Stock | NASDAQ |
| IPO | Jun 2021 |
| Raised | €563m |
| Valuation | €3,300m |

**PagSeguro**

| | |
|---|---|
| HQ | |
| Stock | NYSE |
| IPO | Jan 2018 |
| Raised | €1,845m |
| Valuation | €891m |

**nexi**

| | |
|---|---|
| HQ | |
| Stock | BIT |
| IPO | April 2019 |
| Raised | €2,011m |
| Valuation | €5,650m |

**Network International Payment Solutions**

| | |
|---|---|
| HQ | |
| Stock | LSE |
| IPO | April 2019 |
| Raised | €1,264m |
| Valuation | €2,605m |

IPO | Funding round

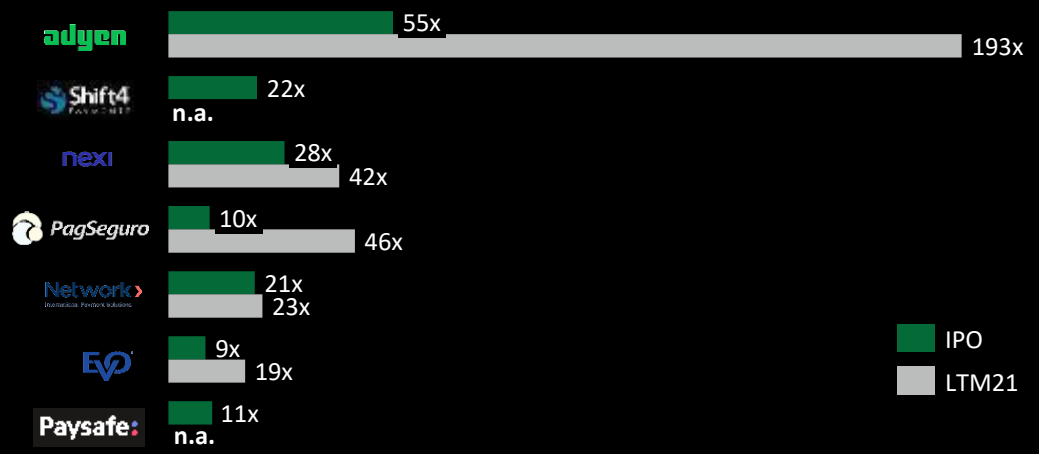
Source: CapitalIQ, Deloitte analysis

# Payment industry has shown strong IPO performance, with most companies trading above their initial price

Looking at post-IPO performance and trading multiples, we observe that several payment providers, notably Adyen, have performed well and are currently trading at higher multiples relative to their IPO date.

However, not all payment providers have performed equally strongly. Paysafe's earnings development has been disappointing, while Finablr suffered liquidity and solvency issues following the Travelex cyberattack on New Year's Eve 2019 and that directly affected its services across the globe for around six weeks. Its business listing on the London Stock Exchange was consequently suspended in March 2020.

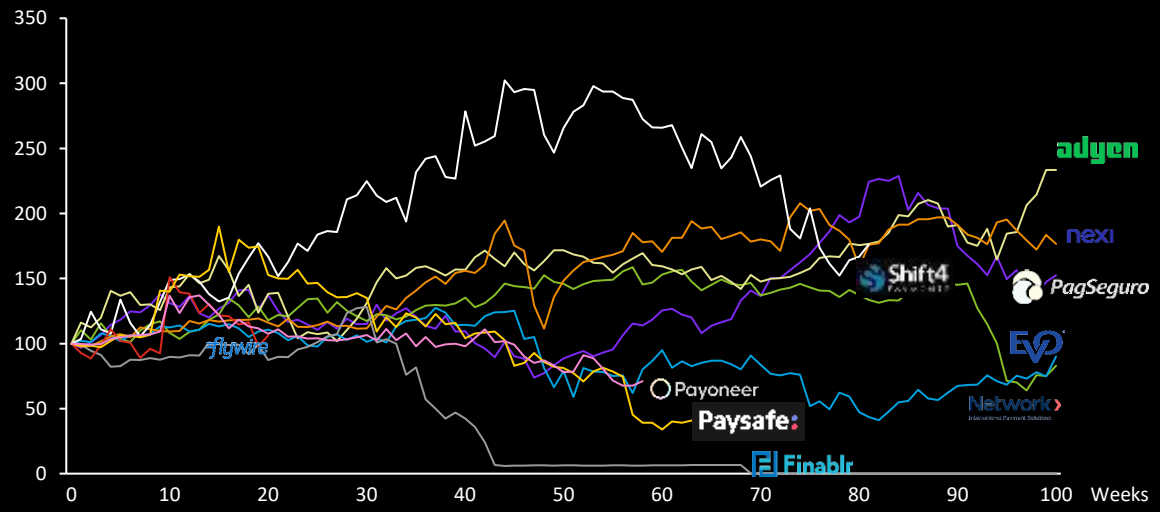
**EV/EBITDA multiple**




*LTM21 represents last twelve months available in Capital IQ data as per December 2021

Note: The multiples of Flywire, Payoneer, Finabr are not shown because of their negative or very low levels of LTM EBITDA and EBITDA at the date of the IPO.

**IPO performance weeks after IPO (indexed at 100)**




Note: The graph represents approximately the first 100 weeks after the companies' IPO. The lines in the graph stopping before the end of the period are of companies that had IPOs less than 150 weeks ago.

Source: CapitalIQ, Deloitte analysis

# Lessons learned from underperformance and misadventures in the payment industry

Not every company or deal in the recent history of the payment industry has been a success. There has also been underperformance and misadventure. Some of these stories are described on the right.

One of the most striking examples is Wirecard, which had many years of high business growth, but also a track record of accounting malpractice. The latter eventually led to the company's bankruptcy and to the arrest of executives.

While focusing on increasing scale, companies such as Finablr and Priority Technology Holdings also suffered problems relating to cybersecurity, internal controls or a broader profit base. In the Netherlands, ING's acquisition of Payvision did not prove successful.

These stories show that the race to scale has led some companies – but also analysts, investors and regulators – to accept or overlook major risks. Looking back, a strong basis of internal controls and solid technologies would seem vital for payment providers wanting to be successful in the long run.

Source: Press coverage: e.g., *het financieel dagblad,* the financial times, Forbes

## wirecard

Wirecard became listed through a reverse IPO in 2005 and expanded aggressively from 2006 to 2018. It acquired several smaller Asian payment processors, an Indian payments company, and various Citibank-owned processing and prepaid-card portfolios. At its peak in 2018, Wirecard had a public valuation of €24 billion.

At the same time, however, signs of accounting malpractice begun to appear. The Financial Times questioned its accounting and business practices, and KPMG Investigations were unable to substantiate the company's revenues from 2016 to 2018. Nevertheless, these red flags were mostly ignored by investors, analysts and regulators, who accepted company statements that all was fine and continued to trust the broader fintech story.

This was until the company eventually had to disclose that around €2 billion was missing. The share price fell by over 70% and, in the months that followed, board members and executives became fugitives or were arrested and a trustee was appointed to split up the company, sell the business and pay off creditors.

## Finablr

Finablr was established by an Indian billionaire in 2018 to hold companies such as the UAE Exchange and Travelex. In 2018 Finablr invested heavily in digital payment solutions. In 2019 it went public.

In 2020, its share price fell by more than 90% following the cyberattack on Travelex, its major investment. This affected the company's services across the globe for around six weeks. Covid-19 also caused Travelex's revenues to fall, given its broad exposure to airports and travel flows.

As a result, Finablr had to assess its liquidity and cashflow position in March 2020. The company subsequently announced it had no certainty over its financial position and its listing on the London Stock Exchange was suspended.

## ING payvision

Payvision was bought by ING in 2018 as a response to the rise of payment providers such as Adyen and to regain its position in the Dutch payments market. Shortly after the acquisition, the company's technological lead proved disappointing and the integration of Payvision into the bank was ineffective, resulting in high levels of investments being needed.

Payvision also had too many troubled clients associated with money laundering. These clients – paying the highest margins – were shed in the year after the acquisition, with profits plummeting by 66% in 2019.

The downward spiral continued in 2020, when the payment provider proved unable to cope with the increased competition. Turnover declined further, while most payment service providers recorded strong figures after the Covid-19 outbreak.

ING eventually decided to dissolve Payvision in 2022.

## cielo

The share price of the Brazilian payment company Cielo has fallen by around 80% in the past three years. As Brazil is one of the countries that has been most severely hit by the pandemic, many retailers were forced to shut down, leading to lower transaction volumes for Cielo. Competition also increased due to competitors entering the market.

## PRIORITY

The US-based Priority Technology Holdings' shares have performed poorly. The company's ineffective internal controls resulted in disclosures of material weakness in the 2018 and 2019 annual accounts. This caused the share price to fall by around 85% between October 2018 and May 2020, and this had not yet recovered as at October 2021.

# Appendices

# Glossary


- The Global Significance of Payments, Deloitte, 2021
- Digitization of Payments, Deloitte, 2021
- Global payment report, Worldpay, 2021
- Prime Time For Real-Time, ACI Worldwide, 2021
- Navigating the Digital Commerce Payment Market, Gartner, 2019
- Fintech - Industry Report - Q3 2021, Aquisdata, 2021
- Digital Payments Market - Growth, Trends, COVID-19 Impact, and Forecasts, Mordor Intelligence, 2021
- Global fintech market and Digital payments market, Mordor Intelligence, 2019
- Banking and capital markets - M&A outlook, 2021

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## Mergers and Acquisitions

From conceiving strategy to selecting the right partner…from conducting thorough due diligence to closing the deal…from beginning to end, Deloitte addresses your transaction, integration and separation needs, all with the goal of generating value for your organization.

Bringing organizations together through mergers and acquisitions, or carving them out through separations and divestitures, are among the most complex business activities an organization will undertake. The transformational results from a successful transaction can be game-changing, while the risks associated with underperformance or failure are sure to keep executives up at night.

When the stakes are this high, there's no reason to leave anything to chance. With more than 6,000 M&A professionals in over 150 countries, Deloitte is uniquely placed to advise strategic corporate buyers and private equity investors throughout the entire M&A deal lifecycle. Our range of services and solutions address your integration, consolidation and separation needs throughout the lifecycle of the transaction.

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# Companies included in analysis

**Included in market analysis**

- American Express Company
- Mastercard Incorporated
- Block, Inc.
- Visa Inc.
- Fidelity National Information Services, Inc.
- Fiserv, Inc.
- Global Payments Inc.
- PayPal Holdings, Inc.
- Cielo S.A.
- Pagseguro Digital Ltd
- EVO Payments, Inc.
- Worldline S.A.
- Priority technology holdings
- Adyen N.V.

**Included in IPO/funding round analysis**

- Adyen N.V.
- Finablr PLC
- EVO Payments, Inc.
- Flywire Corporation
- Shift4 Payments, Inc.
- PagSeguro Digital Ltd
- Network International Holdings plc
- Nexi S.p.A.
- Paysafe Limited
- Payoneer Global Inc.

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