

DIGITAL PAYMENTS AND FINTECH IN EMERGING MARKETS

A Primer for Institutional Investors



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ToC

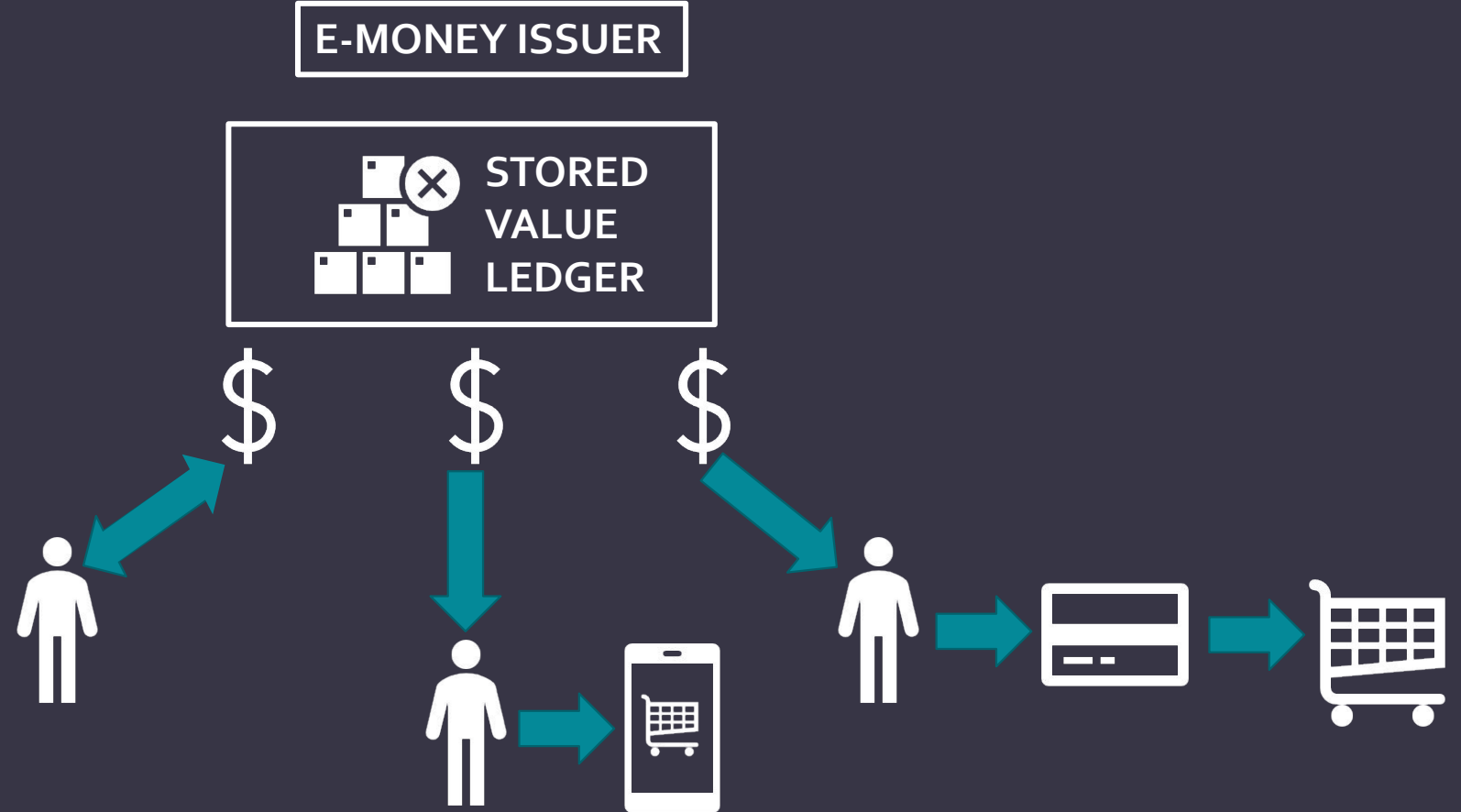
1. Fintech Core
2. Emerging Market Trends
3. Investment Picking
4. Valuation methodology
5. Working example

FINTECH CORE

- What are the key technologies that enable digital payments?
- Can the same technology be used to transform the remittances business?
 - B2B payments infrastructure, where B is “Bank” or “Business”
 - Digital Wallets for P2P
 - Remittances is cross-border P2P transactions
 - Require cross-border digital wallets
 - B2B payment infrastructure

FINTECH CORE

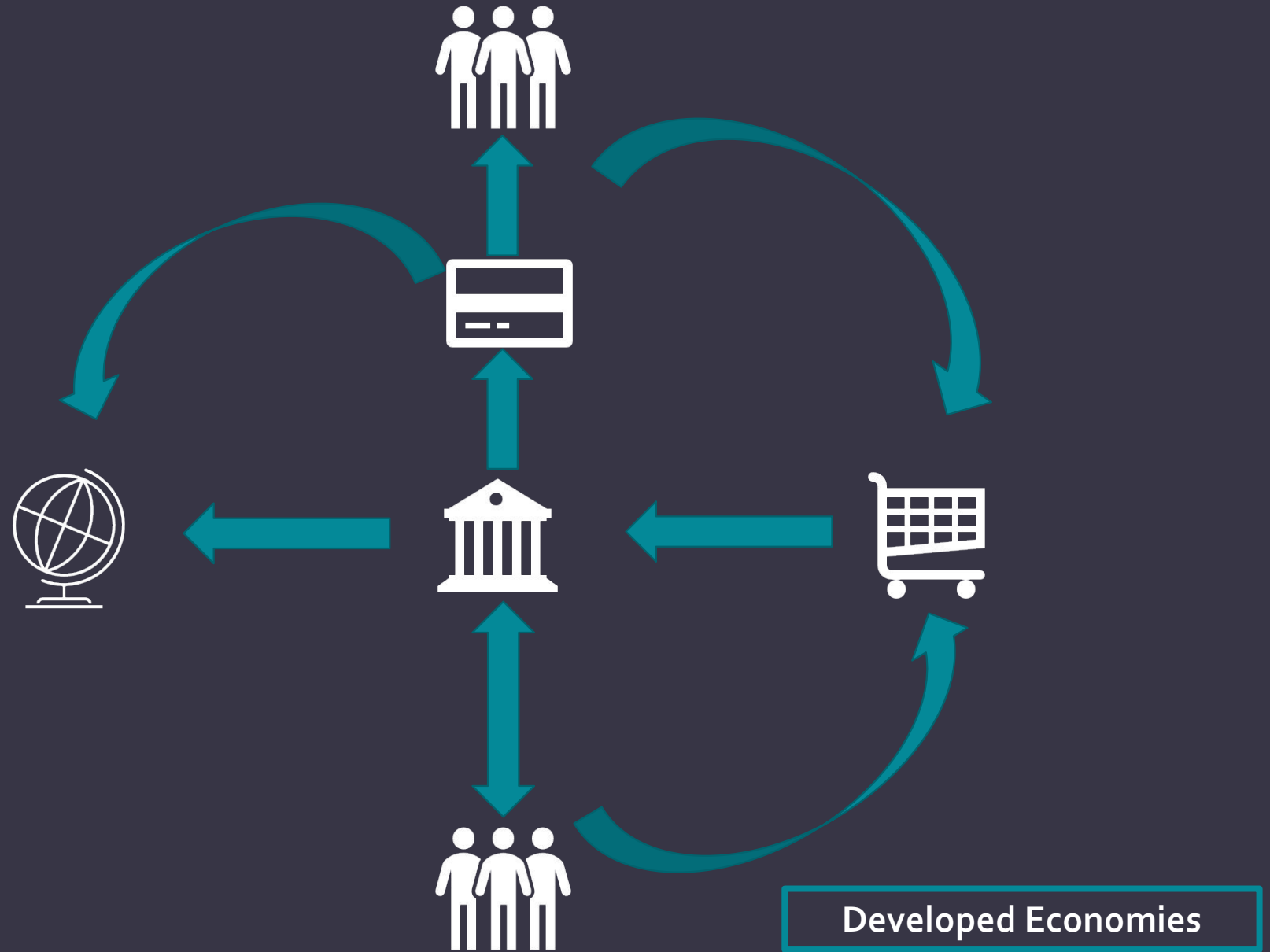
- Digital wallet basics



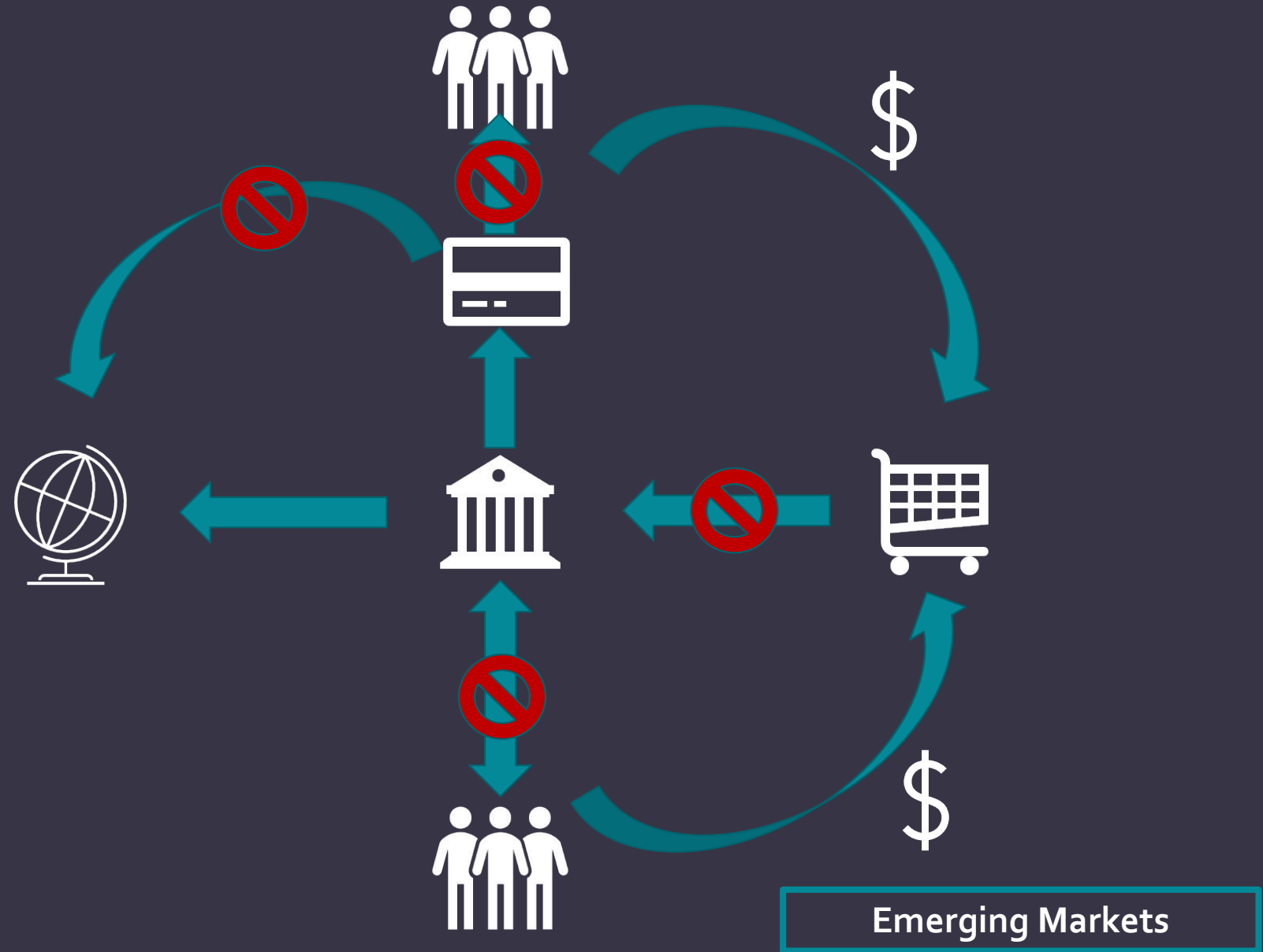
EMERGING MARKET TRENDS

- Is it possible that digital payments in EM would take a completely different route than the developed world and evolve at a different pace?
 - Payments in the developed world pass via banks – **bank-centric**
 - Card Schemes operate as consortiums of international banks that issue cards to vetted individuals
 - EM usually is cash economy often dollarized. EM Banks have peripheral role.
 - Fintech solutions by-pass EM banks and (to an extent) international banks .

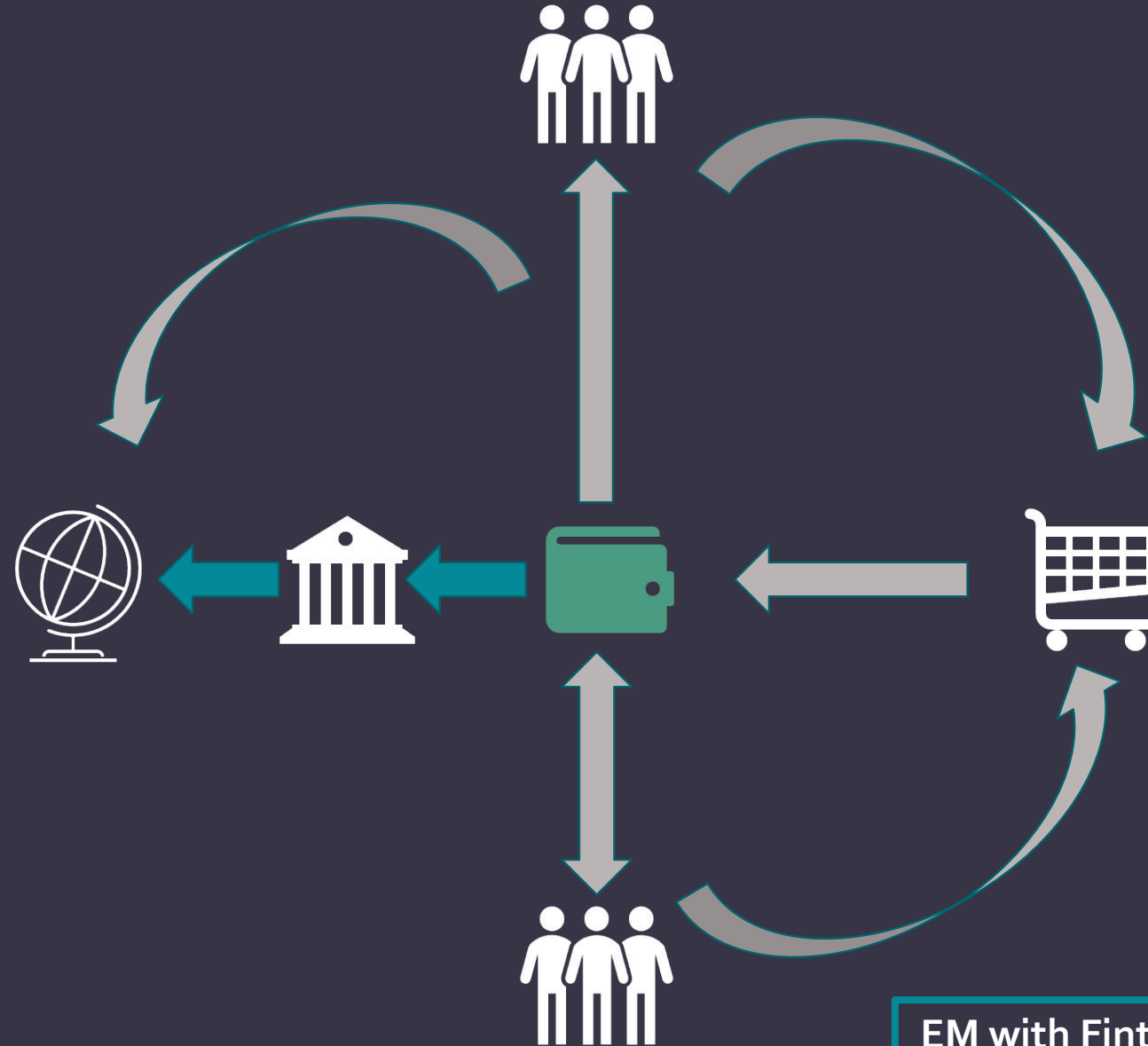
EMERGING MARKET TRENDS



EMERGING MARKET TRENDS



EMERGING MARKET TRENDS



EM with Fintech alternatives

EMERGING MARKET TRENDS

- Which fintech segment(s) (payments, remittances, acceptance etc.) present the largest opportunity for emerging markets?
 - Largest is B2C and B2B payments
 - Most profitable (ROI) is remittance, lending and insurance
- Where is the demand?
 1. Unbanked and “cardless”
 2. Underbanked and undercarded
- Where is the offer?
 - Non-bank financial services providers
 - EMI / Digital wallets
 - Corporate payments providers

EMERGING MARKET TRENDS

- **How do you see traditional banks reacting to the emergence of fintech players in emerging markets?**
 - Collaboration vs competition – banks retain infrastructure with global capital markets
 - Banks leverage on providers of B2C financial services, using them as aggregator (see micro-lending model)
 - Traditional banks can license IP from fintechs

INVESTMENT PICKING

- Over the next 5-10 years, what are the trends we should be looking out for?
- What should fintech/payment platforms be investing in right now?
 1. Marketplaces for financial services (credit, savings, insurance, transfers)
 2. Modular Open Platforms – e.g. multi-services PSPs/gateways, APIs

AND

- AI and ML applications – compliance, risk-management etc.
- Applications of blockchain technology
- Digital identity

INVESTMENT PICKING

- **How do you differentiate between different players (how do we identify winners and losers) within the space?**

1. Start from context analysis
 - Macroeconomics
 - Demographics
 - Legal system (common law vs civil law)
2. Work out the core of the business model and the addressable market
 1. B2C
 2. B2B vs B2b
 3. P2P
4. Question scalability of the business model or value of the IP
 1. Investment stage: Seed, Series A, B, C etc.
 2. What have they achieved so far

VALUATION METHODOLOGY

- **What are the key quantitative KPIs we should evaluate these businesses on and to cross compare?**
 - Existing Digital Wallet example
 - Number of individual users in absolute and in % of the population
 - Total transaction volume and avg transaction size
 - Average margin per user
 - Cost per Acquisition
 - Growth rate
- **Overview of valuation methodologies that are best suited for these businesses**
 - There are no standard methodologies – it is transaction-related
 - Investment round vs Acquisition
 - What stake? Controlling, minority
 - Strategic vs Investor
 - Outlook / Exit Options
 - Why not to use only DCF
 - Why not to use only multiples
 - Triangulation

WORKING EXAMPLE

- In 2018 Ant Group made \$184.5m investment in Telenor Microfinance Bank (EasyPaisa) at pre-money valuation \$225.5m

Business context		Transaction context	
Macroeconomics	[...]	Investor type	Strategic
Demographics	<ul style="list-style-type: none"> • 17% banked • > 1% credit cards • hard cash 35% of circulating money • [...] 	Funding stage	Late stage
Legal system	Common law	Stake	45%
Business Model	Financial Services Platform (B2C)	Outlook / Exit Options	<ul style="list-style-type: none"> • Takeover • IPO • Sale

WORKING EXAMPLE

● How is the valuation derived?

DCF	Multiples	Asset-value
Cashflows Growth rate	Comparables shortlist	User-base and CPA
D/E	Local listed comparables	Platform replacement cost
Cost of debt/ equity	Local transactions	Existing partnerships
Duration of the investment	Adjecent transactions	Regulatory setup

- Premiums and discounts need to be factored in
 - Risk
 - Liquidity
 - Scarcity

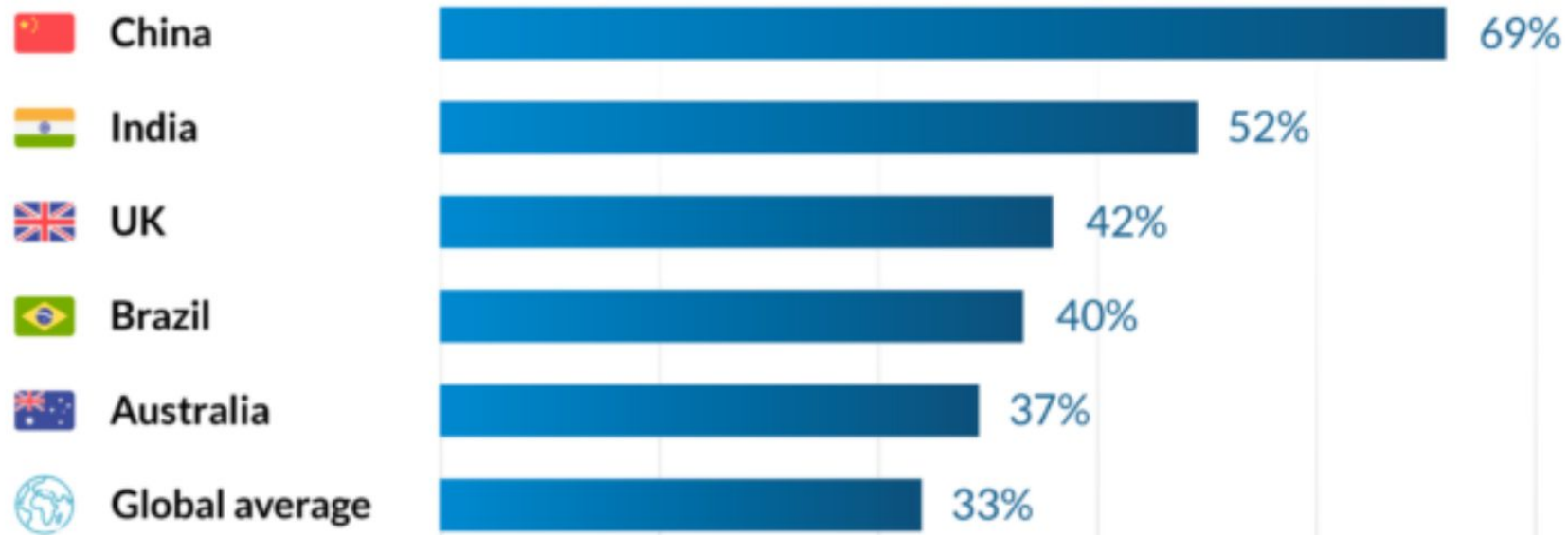
THANK YOU



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Percentage of digitally active consumers who use fintech

Source: Business Insider Intelligence



3 Consumer fintech adoption rates

Source: EY

