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by Erik Howell and Alessandro Mighetto, 21 April 2023

Highlights from Railsr's Bankruptcy Document and Lessons Learned

The struggles of Railsr, a former fintech unicorn that raised $187 million and was one of Europe's most visible Banking as a Service ("BaaS") providers, have been well documented. Once valued at $1 billion in 2021, Railsr was sold in a prepackaged bankruptcy to a consortium of investors and management for $500,000 plus up to another cca. $500,000 in trailing collected receivables. In this article we summarize key highlights from the bankruptcy filing documents and identify lessons learned.

Background

Railsr (formerly branded as Railsbank) is a partial BaaS provider that holds EMI licenses in the UK and Lithuania and provides a relatively broad offering of banking, card issuing, account-to-account ("A2A") payments, and credit products to fintechs and corporates via APIs to enable clients to embed payments and banking products into their end-user facing apps and use cases (see Figure 1 below). Although primarily focused in the UK and Europe, Railsr also has a presence in APAC and the US, and reports that its clients service over 5 million end users.

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Figure 1: Railsr Profile
(April 2023)

Brief Description	▪ Railsr (previously Railsbank) **EMI licensed Banking-as-a-Service provider**, **enabling fintechs and businesses to embed financial products** such as accounts, cards, credit and other solutions through a single API
Founded	▪ 2016
Headquarters	▪ London, the United Kingdom
Geo Coverage	
# FTEs	▪ 141
Licenses	▪ EMI licenses in
Customer & Vertical Focus	▪ **Early-stage fintechs** ▪ **Neobanks** ▪ **Crypto providers** ▪ Corporates and other
Product Offering	▪ Banking solutions (ledger, current accounts) ▪ Cards (debit, credit, virtual) ▪ Payments (UK and EU payments, FX services) ▪ Credit (BNPL)
M&A Activity & Funding	▪ 2019: Raised $10M from VISA MONETA ▪ 2020: Raised $37M from VCAPITAL and acquired wirecard ▪ 2021: Raised $70M from ANTHOS ▪ 2022: Raised $46M from MARS
Key Client Wins	WAGESTREAM plum crypto.com QNTM PAY Singlife with AVIVA

Sources: Railsr website, Crunchbase, Flagship Advisory Partners analysis
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Railsr promotes its BaaS platform as providing a turnkey, vertically-integrated stack that offers a broad range of embedded financial products (see Figure 2 below):

- **Banking**: current accounts, open banking, ledger transfer and safeguarding of assets
- **Cards**: BIN sponsorship, issuance of virtual and physical cards (debit, pre-paid, credit)
- **Payments**: A2A, X-border and FX transactions, mobile wallet
- **Lending**: credit facility solutions such as BNPL and Debt Funding
- **Others**: Embedded rewards, capabilities to promote customer loyalty, data-driven dashboards and insights

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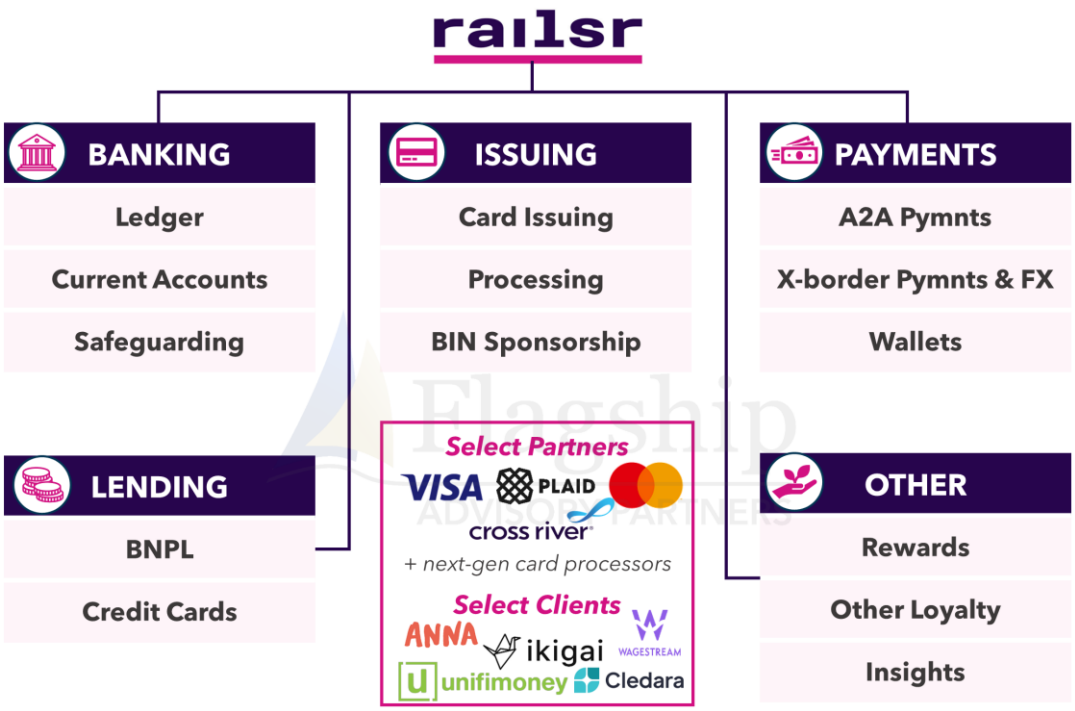
Figure 2: Railsr Product Offering
(April 2023)



Notes: As advertised on Railsr website
Sources: Railsr website, Flagship Advisory Partners analysis
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Like many BaaS providers, Railsr has signed multiple vendor and partnership agreements with processors, product vendors, payment networks, and sponsor banks to enable its offering, and to enter new markets (see Figure 3 below). Not all of these have been successful; e.g., Australian launch partner Volt ceased operations, and Railsr's Lithuanian subsidiary, from which Railsr sources its European Union E-Money license, has compliance challenges.

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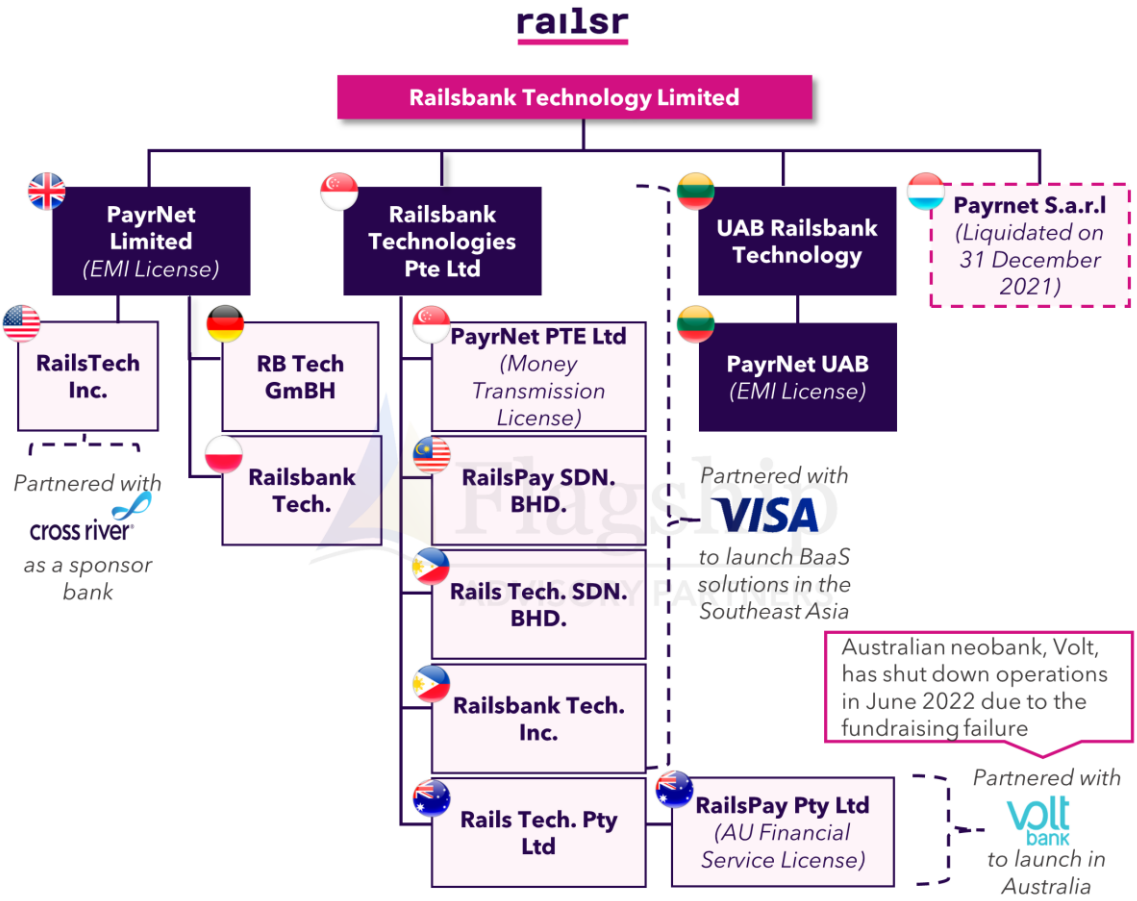
Figure 3: Railsr Corporate Structure
(non-exhaustive)



Sources: Railsr Annual Report FY 2020, Railsr Notice of Administrators' Proposals dated 15 March 2023, Flagship Advisory Partners analysis
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Since its founding in 2016, Railsr embarked on an ambitious product and geo expansion roadmap (see Figure 4 below). In August 2020, Railsbank acquired the UK arm of troubled Wirecard Card Solutions, which as a much bigger business that Railsr at the time, caused many commentators to speculate if the acquisition was simply too big and/or too troubled to successfully integrate.

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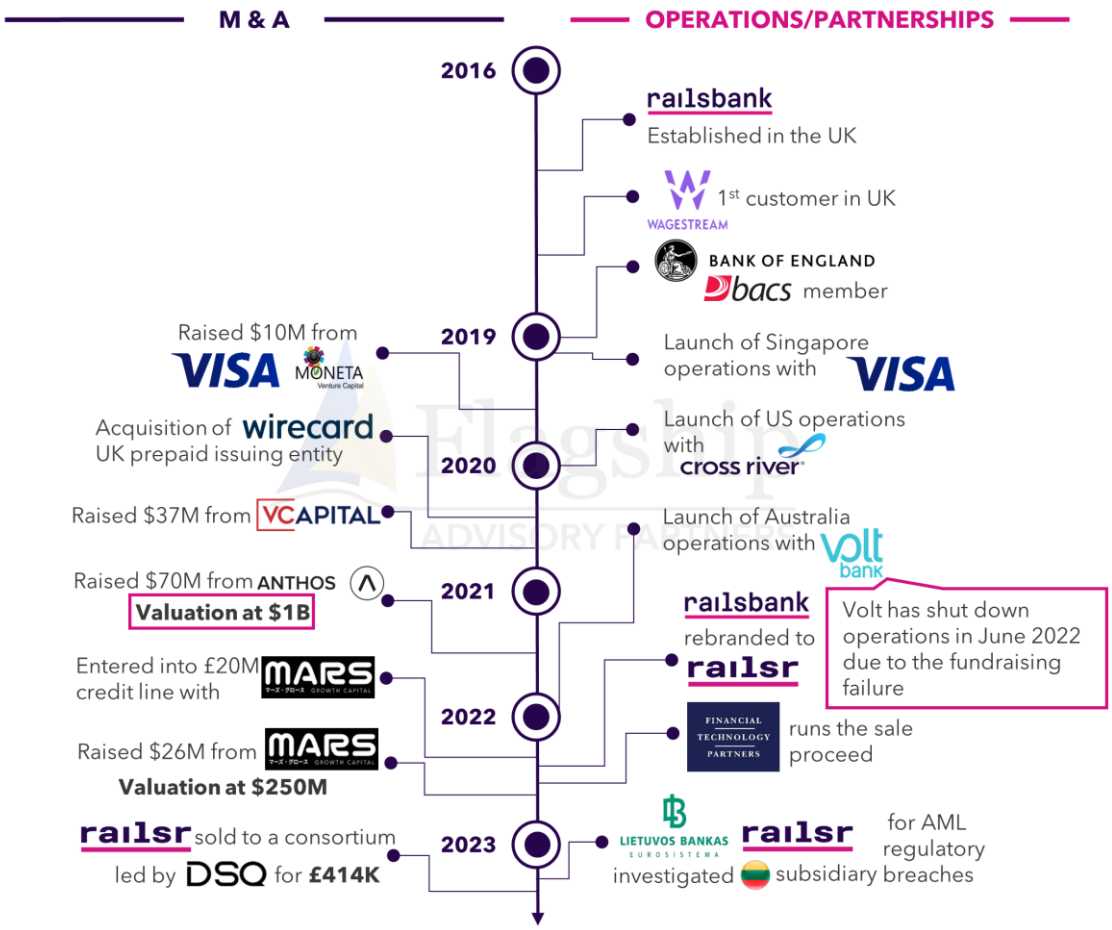
Figure 4: Railsr Timeline of Key Events
(as of March 2023)



Sources: Railsr website, Crunchbase, Railsr Notice of Administrators' Proposals dated 15 March 2023, Flagship Advisory Partners analysis
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Financial Position

Railsr raised more than $185 million from multiple investors, and reported a valuation of $1 billion in July 2021. As market conditions became increasingly challenging, Railsr's financial situation deteriorated. Although Railsr exhibited impressive revenue growth, expenses ballooned following the Wirecard acquisition, resulting in net losses increasing from £1.2 million in 2018 and 2019 to £13 million in 2020 (see Figure 5 below).

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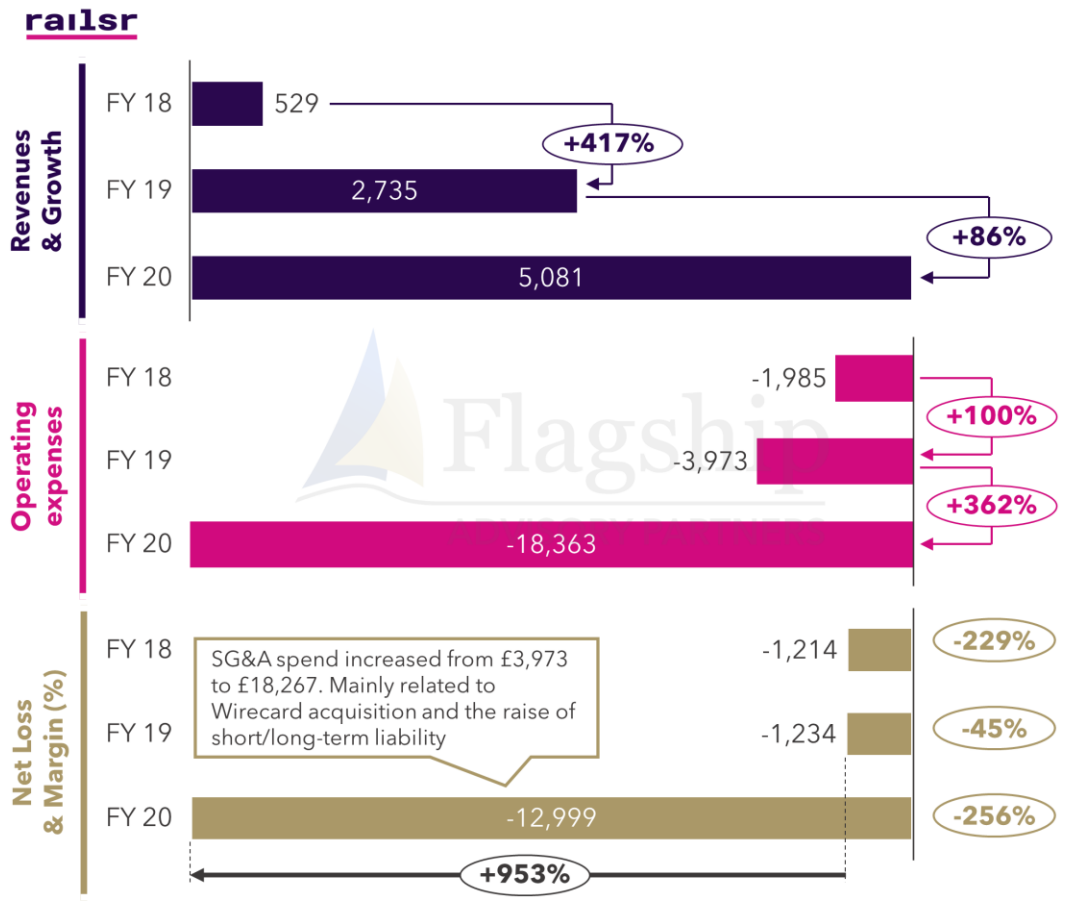
Figure 5: Railsr Income Statement
(based on annual reports; in £000s)



Notes: the last financial statement audited and available in Companies House (Gov.uk) was for FY 2020, which was published on the 14th of April 2022.
Sources: Rails Annual Report 2018, 2019 and 2020, Flagship Advisory Partners analysis
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Although financial statements for 2021 are not available, analysis of bankruptcy filing documents shows a resulting massive decline in net assets between 2020 and 2022. By the end of 2022, Railsr was insolvent, and that gap increased by a further ~£10 million over the next 3 months (see Figure 6 below).

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Figure 6: Railsr Balance Sheet
(based on annual reports; in £000s)

Balance Sheet	railsr Not Audited [1]	9 Mar 2023	31 Dec 2022	FY 2020	FY 2019
	Intangible & tangible assets	6,857	6,878	4,469	2,206
	Investments	-	-	1,389	815
	Deferred tax asset	2,549	2,549	2,547	345
	Non-current assets	**9,406**	**9,427**	**8,405**	**3,186**
	Short-term debtors	1,789	1,052	9,561	4,442
	Cash at bank [2]	-	2,647	5,922	1,045
	Other	723	1,175	-	-
	Current assets	**2,512**	**4,874**	**15,483**	**5,488**
	Total Creditors	**(35,995)**	**(29,173)**	**(4,765)**	**(1,517)**
	Net current assets	**(33,483)**	**(24,299)**	**10,718**	**3,970**
	NET ASSETS	**(24,077)**	**(14,872)**	**19,124**	**7,156**

Creditors' ledger		Amount	Comments
	Intercompany creditors	£22,100	From Railsr creditors' ledger as of 27 Feb 2023
	Trade creditors and professional fees [3]	£4,860	
	Employees liabilities	£4,300	From Railsr's Balance sheet as of 31st Jan 2023
	Foris Group (Customer)	£3,300	
	Railsr unsecured creditor amounts	**£34,591**	
	railsr unpaid tax	£1,404	HM Revenue & Customs
	RAILSR TOTAL CREDITORS	**£35,995**	

Notes: (1) Railsr provided to sale practitioners management accounts for year ending on the 31 Dec 2022, 31 Jan 2023, and financial provision as of 9 Mar 2023 All the accounts have not been audited and may contain provisional figures.
(2) Rails' bank accounts have been frozen on the 9 March 2023 since the cash available was 44 pence.
(3) top 10 trade creditors and professional fees accounts for 71% of the total balance
Sources: Railsr Notice of Administrators' Proposals dated 15 March 2023, Rails Annual Report 2019 and 2020, Flagship Advisory Partners analysis
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As of the reporting date of Railsr's bankruptcy documents (9 March 2023), the company owed £36 million to creditors, including:

- £22.1 million to subsidiaries within the Railsr Group
- £4.9 million to trade creditors (the top 10 creditors account for 71% of the total balance)
- £4.3M in employee liabilities
- £3.3M to Foris, a customer
- £1.4M in tax payable to the UK Authorities

Sale

In the summer of 2022, Railsr engaged FT Partners to run a sale process. According to the bankruptcy filing, FT Partners approached 248 strategic and financial investors, but was unable to find an attractive buyer. D Squared Capital, a London-based financial investor, emerged as the preferred buyer in February 2023, after finalist Flutterwave, a Nigerian fintech unicorn, pulled out (according to market commentators).

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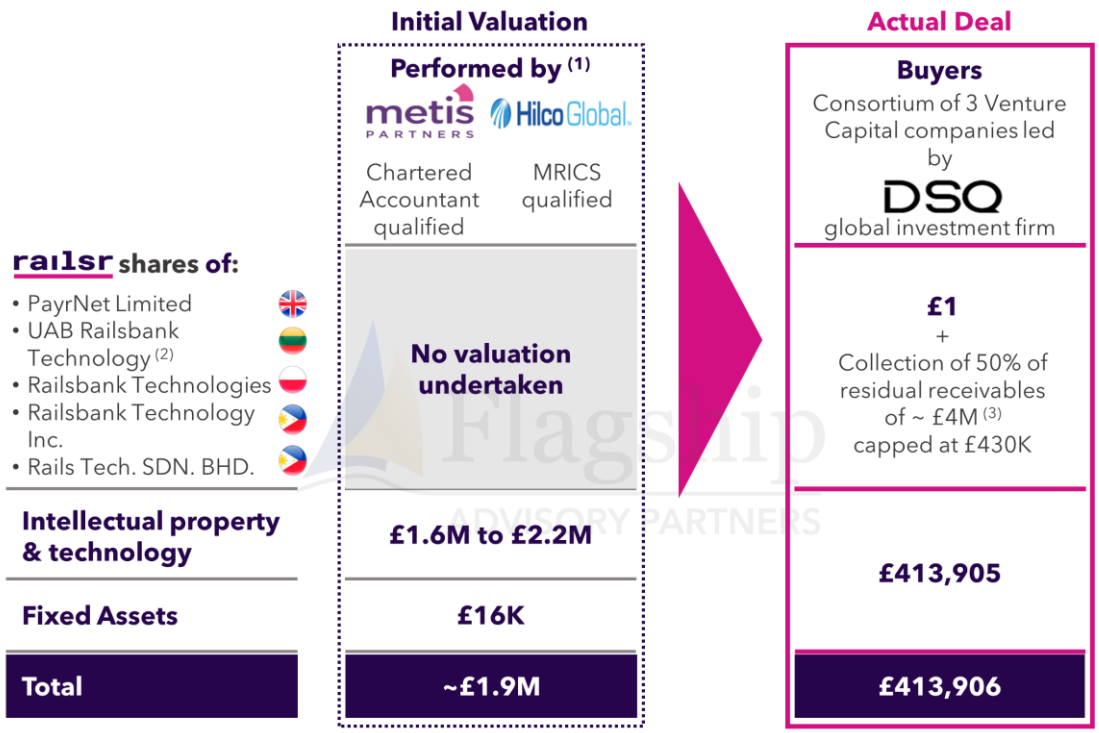
On 8 February 2023, the sale to D Squared was blocked due to Railsr's Lithuanian subsidiary, UAB PayrNet, being investigated for alleged AML regulatory breaches and terrorist-financing laws by the Bank of Lithuania, which prevented the subsidiary's customers from onboarding new end users. On 20 February 2023, Railsr management decided to run an accelerated sales process by re-engaging with D Squared and four prior bidders, and requested new offers within 1 week. The other bidders declined to submit offers, leaving D Squared as the only bidder.

On 9 March 2023, Embedded Finance Limited (a consortium of D Squared, Moneta Venture Capital, VCapital, and other investors) acquired Railsr as part of a pre-packaged bankruptcy (see Figure 7 below). Railsr was acquired for $500,000 (approx. £413,906) compared to a third party valuation of the IP, tech, and fixed assets of ~£1.9 million.

Additionally, the buyer will return to creditors 50% of collected receivables (total estimated at £4 million) up to a cap of £430,000. According to Railsr's management, between £1.9 million and £4 million of these outstanding receivables are likely uncollectible.

Figure 7: Summary of Railsr Sale
(as of March 2023)



Notes: (1) Valuation performed on the 20 February 2023, 1 week before DSQ final offer submission, (2) Transfer subject to regulatory consent, (3) According to Railsr's management, this amount is unlikely to be collected given refunds to customers and debtor balance very aged and fragmented across multiple debtors
Sources: Railsr Notice of Administrators' Proposals dated 15 March 2023, Flagship Advisory Partners analysis
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Notably, Railsr's buyer, Embedded Finance Limited, is a consortium of 10 investors – (see Figure 8 below) that includes several former backers (Moneta Venture Capital and VCapital) and former management (Clive Mitchell, Railsbank co-founder, and non-executive Director of Railsbank Tech, and Richard Haytharnthwaite, Director of Railsbank Tech).

Figure 8: High-level Profile of Buyers (as of March 2023)

railsr

Embedded Finance Limited is the Consortium backed by 3 VC firms [1]. Main stakeholders:

Name & Surname	Position
Dan Adler	Sole Director of D Squared Capital
Meirav Har Nav	Director of Moneta Capital
Adoram Gaash	Shareholder of Moneta Capital
Richard Haytharnthwaite	Director of Railsbank Tech
Clive Mitchell	non-executive Director of Railsbank Tech

DSQ	
Brief Description	Global investment firm, investing into Series A to Pre IPO business globally
Founded	2020
Headquarters	London, UK
Portfolio [2]	None
M&A activity & Funding to Railsr	▪ 2023: Acquisition as Lead Investor

MONETA Venture Capital	
Brief Description	Venture Capital fund that specializes in Fintech, Insurtech and Financial related investments
Founded	2015
Headquarters	Tel Aviv, Israel
Portfolio [2]	rewire Farther
M&A activity & Funding to Railsr	▪ 2020: Raised $37M in Consortium ▪ 2022: Raised $26M in Consortium

VCAPITAL	
Brief Description	Investment firm focused on late-stage high-growth companies in global technology sectors
Founded	2012
Headquarters	Dubai, UAE
Portfolio [2]	PLAID Klarna.
M&A activity & Funding to Railsr	▪ 2020: Raised $37M as Lead Investor ▪ 2021: Raised $26M in Consortium

Notes: (1) Other 7 companies are shareholders of Embedded Finance, (2) As advertised in companies' websites
Sources: DSQ, Moneta VC and VCapital website, Railsr Notice of Administrators' Proposals dated 15 March 2023
Crunchbase, Flagship Advisory Partners analysis
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Key Lessons

Railsr's bankruptcy reinforces a number of lessons learned for fintechs (noting that these are not necessarily specific to Railsr):

- Particularly in the "as a Service" segment, serving fintechs at large with a broad and/or generic offering is insufficient. Success requires sharp product and vertical focus.
- Aggregating multiple vendors to enable an end-user offering via APIs is undifferentiating. Value creation requires strong underlying tech assets coupled with unique and/or vertically-specific product features.
- Controlling costs and having a firm grasp on unit economics is critically important. As we illustrate in a recent article here, many fintechs are challenged by balancing growth and expense management.

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- M&A has the potential to be transformational, but for early or growth stage fintechs, risks being too large and/or distracting to properly digest.
- Geographic expansion requires a well though-out strategy. Following the customer can be effective if the customer's path accelerates the overall strategic vision, but if done incorrectly, far-flung geographic expansion dilutes valuable effort and resources.

Most importantly, Railsr is only the tip of the iceberg. The combination of adverse market conditions, over-supply in many segments, and challenging cash flows will lead to a wave of fintechs coming to market in 2023 in an effort to stave off bankruptcy. This creates a welcome environment for strategic buyers seeking to acquire strong product, tech, and geo expansion assets at reasonable valuations. For financial investors, 2023 will be an excellent time to acquire bolt-on assets for core portfolio companies, and to acquire new core assets to execute classic expense optimization and go-to-market improvement strategies.

Please do not hesitate to contact Erik Howell at Erik@FlagshipAP.com with comments or questions.

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