

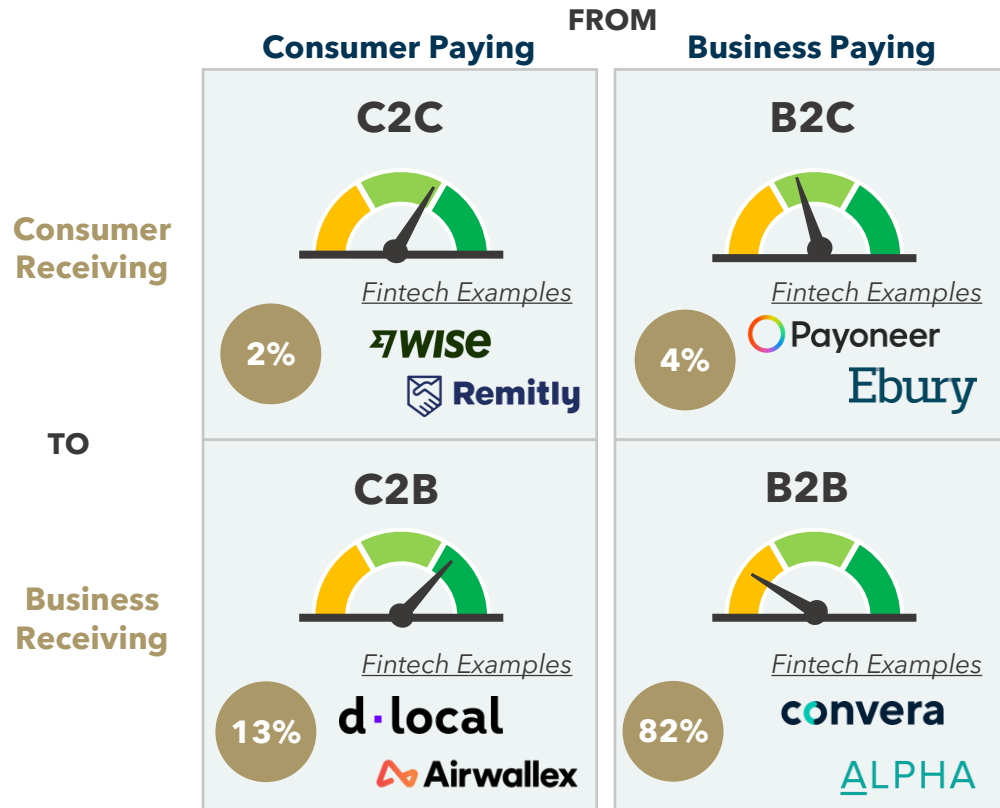
11 OCTOBER 2024

X-Border Payments: State of the Market, 2024

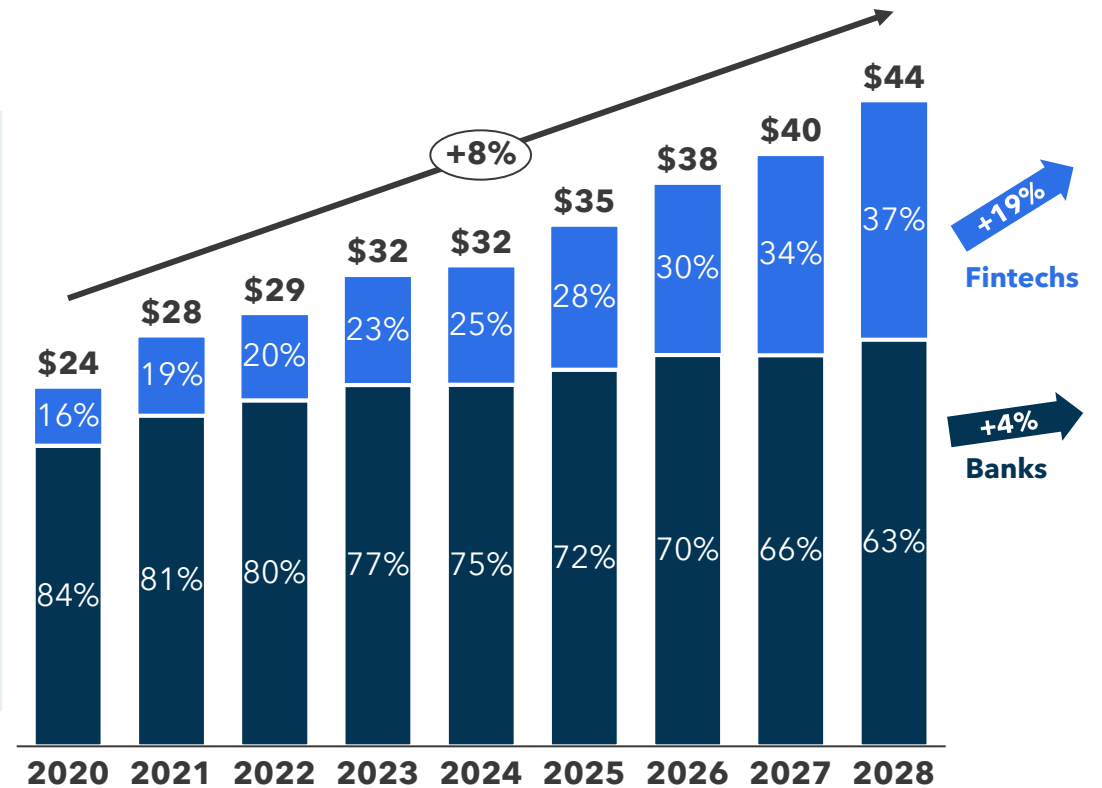
The x-border payments fintech market is massive. Currently, banks control around 75% of the total transaction volume, but they are steadily losing market share to fintech companies. In this slide presentation, we analyze the growth of x-border fintech, examine recent M&A activity, and explore the various business models within this space.

Global x-border payments is a sizeable market. Banks process c.75% of the volumes but continue to lose share to fintechs at pace; fintechs have built strong 'front-end' propositions and 'back-end' rails to better serve consumers and businesses.

Global X-Border Payments by Use Cases



Global X-Border Payments: C2C, C2B, B2C & B2B (\$ trillion, est. forecasts)



● % Share of Global X-Border Payment Volumes

Fintech Penetration



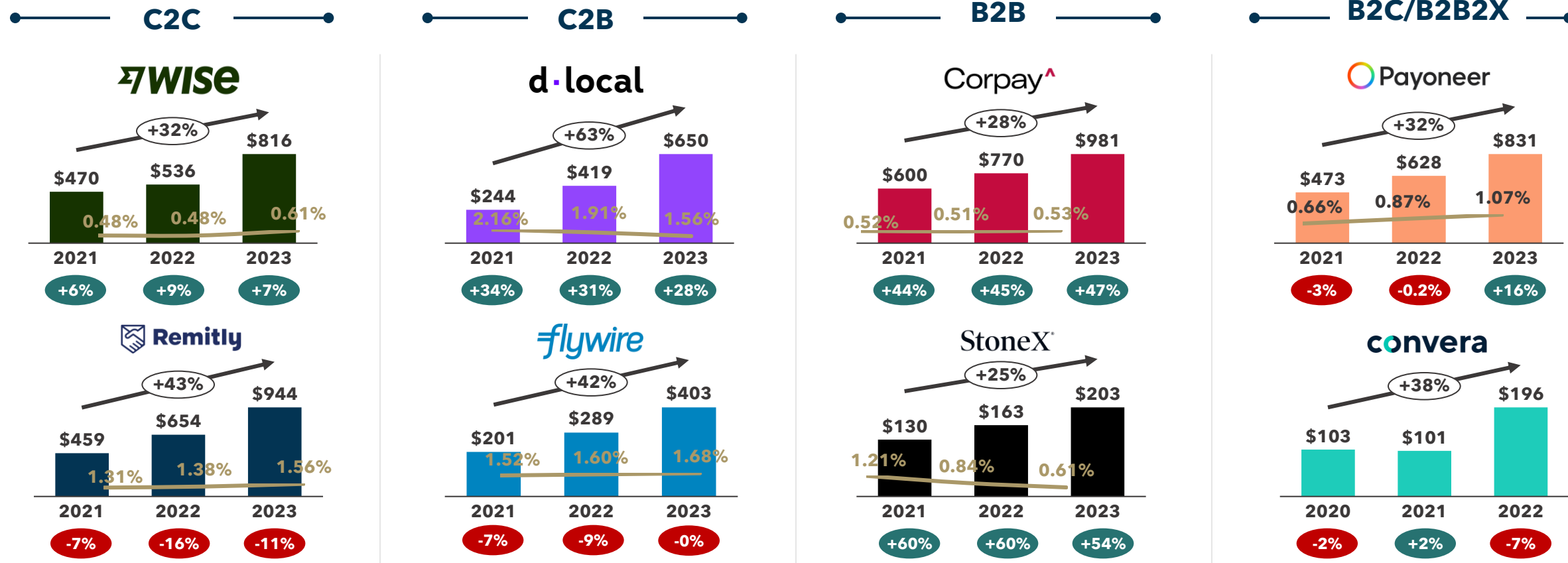
Source: Flagship Advisory Partners market observations, July 2024

X-border payment fintechs continue to demonstrate strong growth momentum globally, and we observe fintechs winning across all segments (C2C, C2B, B2B and B2C/B2B2X).

Gross Revenue Growth and Net Take Rate of Select X-Border Fintechs

(by segment; revenue in \$ million; 2021-2023)

All these companies can generate revenue from both pay-ins and payouts.



Note: StoneX's revenues are only from the global payments business; Wise FY ends 31st Mar; GBP to USD on yearly average rate and only includes C2C revenues.
Sources: Public annual reports & investor presentations, Flagship market research; exchangerates.org.uk

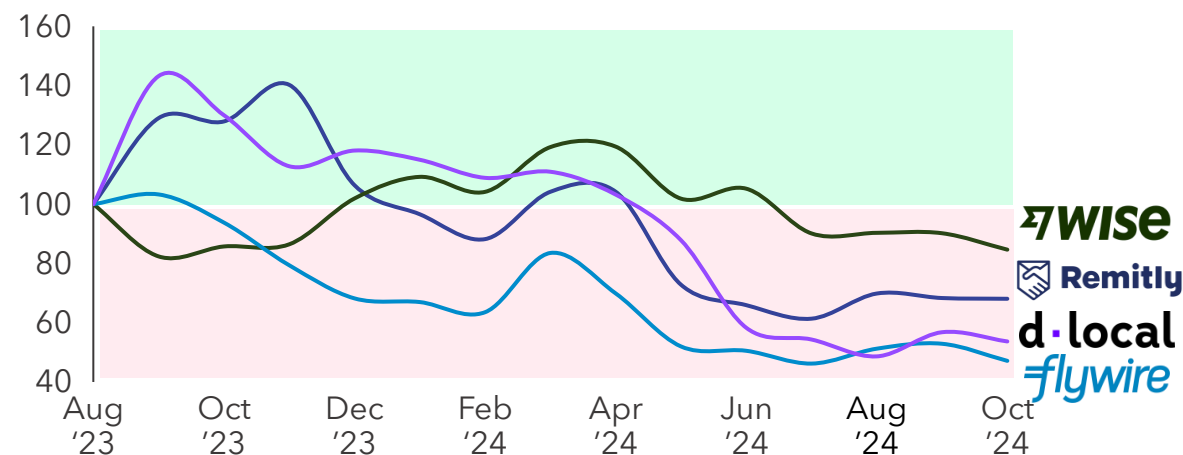
— = Net Take Rate
 (X%) = EBITDA Margin

Recent macroeconomic headwinds have led to some investor anxiety and underperformance of fintech stocks in public markets, although the sector fundamentals remain strong.

Fintech Margin Pressure: Macroeconomic Factors

Interest Rate Fluctuations	Rising interest rates led to increase in borrowing costs for fintechs and eroded consumer spending sentiments
FX Volatility	Global FX volatility have questioned the profitability of x-border payments fintechs. Fintechs involved in x-border transactions have had to manage the risk of currency fluctuations
Inflation	Rising inflation led to increase in operational costs (e.g., wages, OPEX). Fintechs had to balance considerations on spend, some implications on profitability and growth
Increased Competition	New entrants and increased competition in x-border payments (e.g., in remittances) put pressure on fintech profitability
High Regulatory Compliance	Fintech companies continue to incur substantial costs to deal with regulatory compliance, especially those concerning increased AML, KYC considerations
Investments in Technology and Innovation	Fintech companies have continued to invest in new technologies. While these investments are crucial for long-term growth, they increase operational costs, affecting profitability

Select Fintech Stocks' Price Variation (15-months indexed chart)



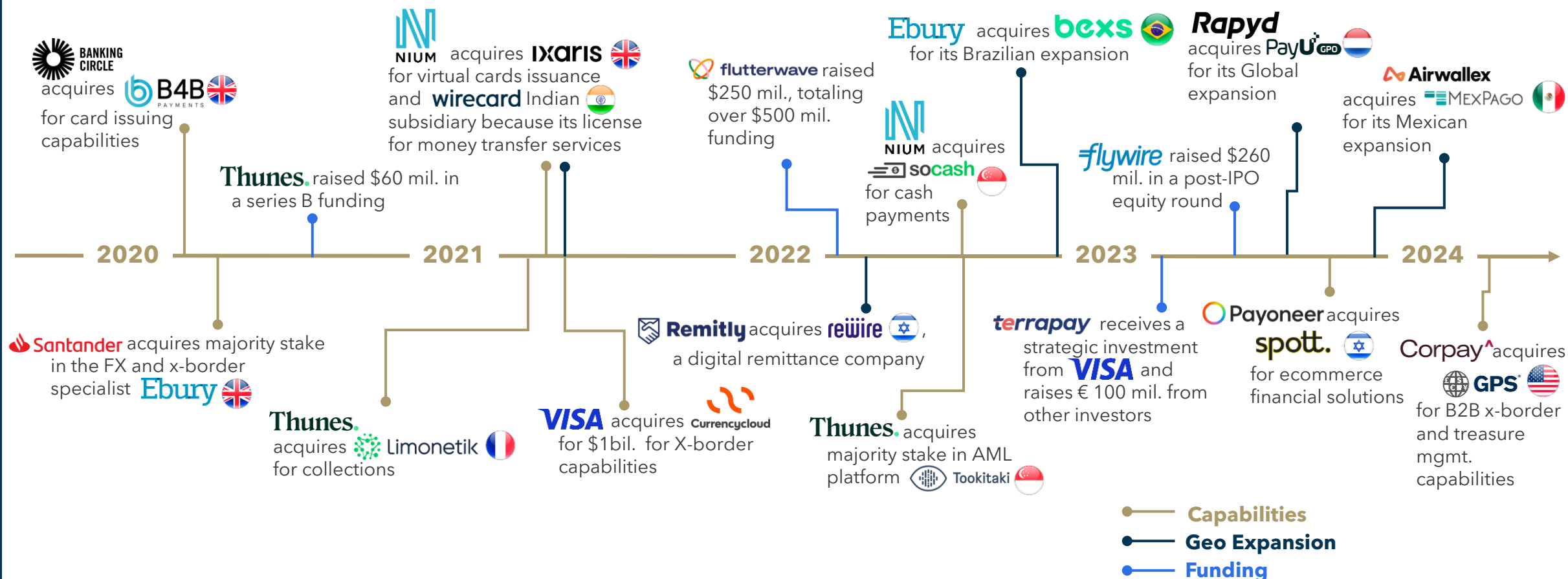
7Wise ↓
 The shares fell recently after announcing increased spending to enhance its payment infrastructure and setting a lower-than-expected profit margin target. This created investor uncertainty despite significant profit growth.

Remitly ↓
 Remitly's shares recently dropped after the company missed first-quarter revenue estimates and reported a decline in active customers. Additionally, the company's full-year revenue guidance slightly missed market forecasts.

Sources: Flagship Advisory Partners market analysis, Yahoo finance

Strong signs of consolidation evident in the sector. M&A activity in the space has been intense, with several transactions unfolding in recent times.

Select Recent M&A Events in X-border Payments (non-exhaustive)



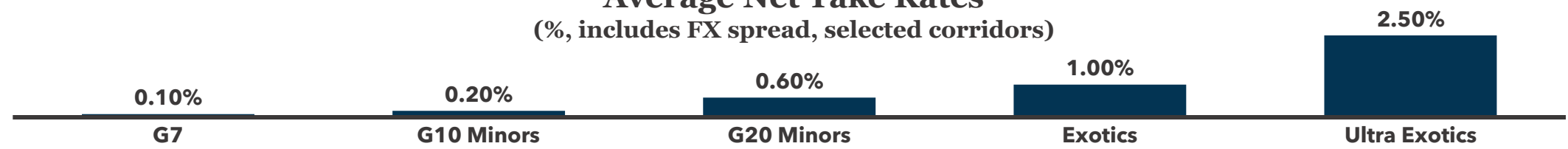
Source: Flagship market observations and analysis, company websites, press releases

Fintechs serving emerging markets provide green field opportunities for value creation.

X-border Payments Landscape – Competitive Positioning across Corridors (illustrative)



Average Net Take Rates (% includes FX spread, selected corridors)



Sources: Flagship Advisory Partners market analysis, primary research

The x-border fintech space is not homogeneous – we observe several fintech business models serving consumers & businesses in a B2X and B2B2X capacity.

Segmentation of X-border Payments Fintechs

	Segment	Target Flow	Description	Players
1	Digital Remittances	C2C	Digital-native remittance companies who are winning market share from the legacy providers by offering lower costs and better service	 
	Legacy Remittances		Legacy remittance companies , despite developing their digital products, have been losing ground to fintechs that provide better UX and pricing	 
2	X-Border Collections	C2B	X-border C2B payments (collections) companies that compete against local and global acquirers by offering unique and niche solutions. For example, dLocal focuses on emerging markets, and Flywire targets specific verticals and use cases. They offer x-border pay-ins, serving specific verticals such as marketplaces	  
3	B2B X-Border	B2B	X-border payment specialists that developed a long list of local payment partners with an extensive network and coverage	 
	B2B FX Specialist		FX specialists offer a comprehensive suite of products , including multi-currency accounts and advanced FX risk management products	
4	X-Border Payouts	B2C	Companies that facilitate global payouts for marketplaces, gig workers, and freelancers offering secure local payout solutions. Some, like Payoneer, also provide a full suite of services including pay-in collections, multi-currency accounts, cards, and value-added features like accounting platform integration and ERP reconciliation.	  
5	X-Border Infrastructure	B2B2X	X-border payments aggregators serving different type of flows (C2C, C2B, B2B, B2C) are winning due to a full-stack proposition (risk appetite, low cost, good tech) vs banks who still have most of the global x-border volumes.	  

Sources: Flagship market observations and analysis

Flagship Advisory Partners: Leading Strategy and M&A Boutique in Payments & Fintech

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