

20 January 2023

The Massive B2B X-Border Fintech Opportunity, 2023

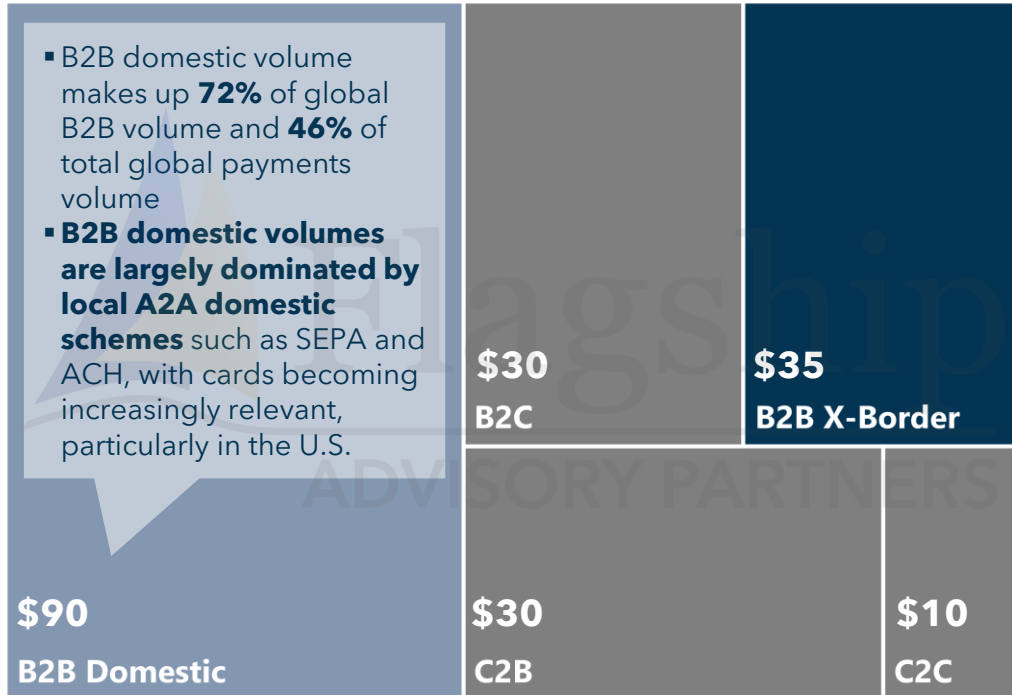
Image credits: **Vecteezy**



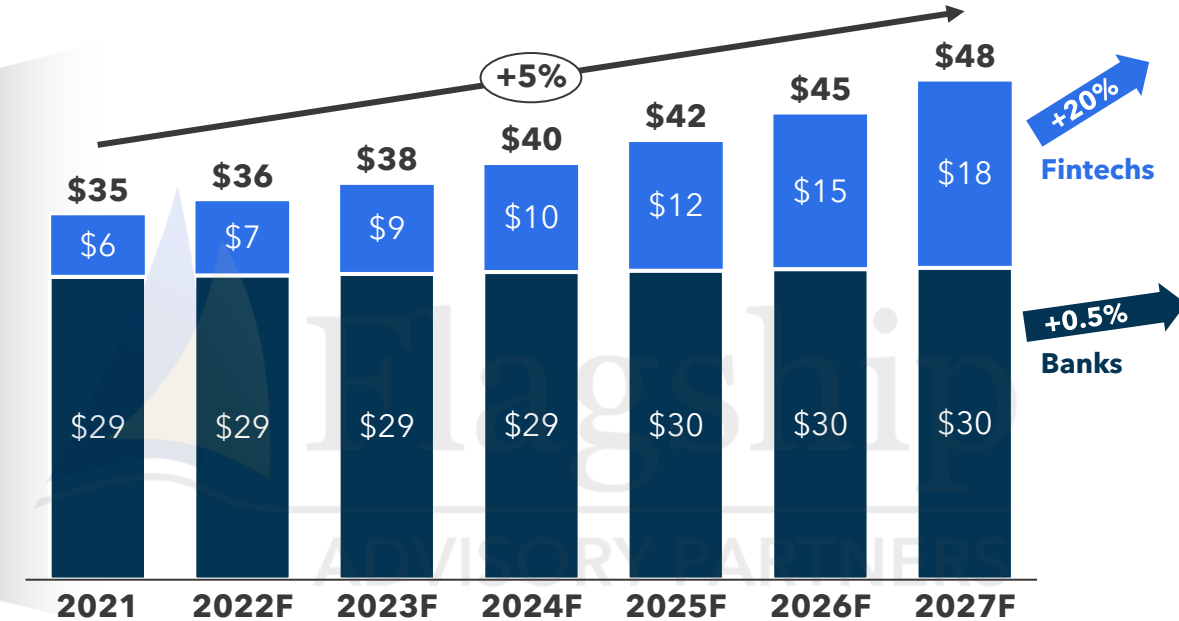
B2B X-Border payments represent a large market opportunity. Banks still own majority of the market but fintech disruption is brisk.

Global Payments Volumes by Commerce Type (2021 est., USD tril.)

~\$195T Global Payments Volume



Global B2B X-Border Payments (total turnover, USD tril.)

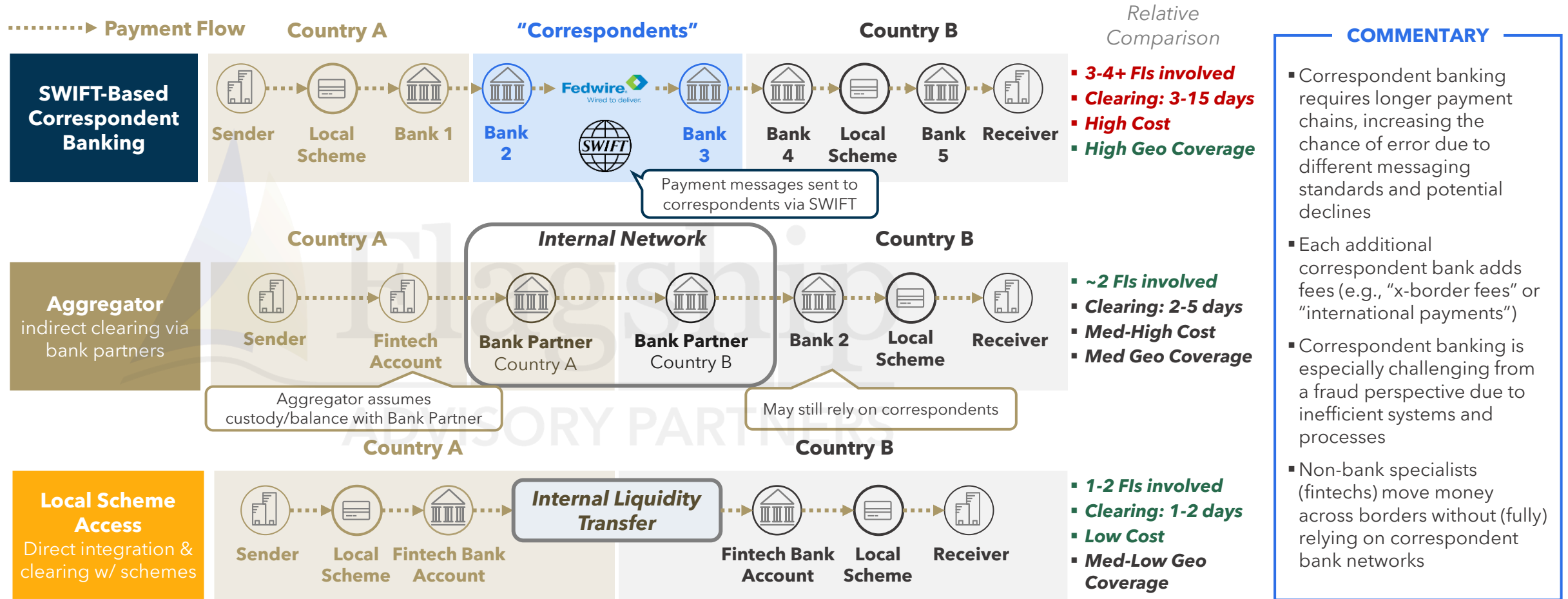


COMMENTARY

- Global B2B X-Border payments grow modestly
- We expect fintech share of total turnover to grow at c.20% (in contrast to banks growing at c.1%), with fintech leaders like Wise and Flywire demonstrating even more rapid growth
- We expect bank share of B2B X-Border Payments turnover to decline from c.80% to c.63% over the next 5 years

Traditional SWIFT based correspondent banking networks currently drive most X-Border payments volumes. Fintechs address these challenges with newer operating models.

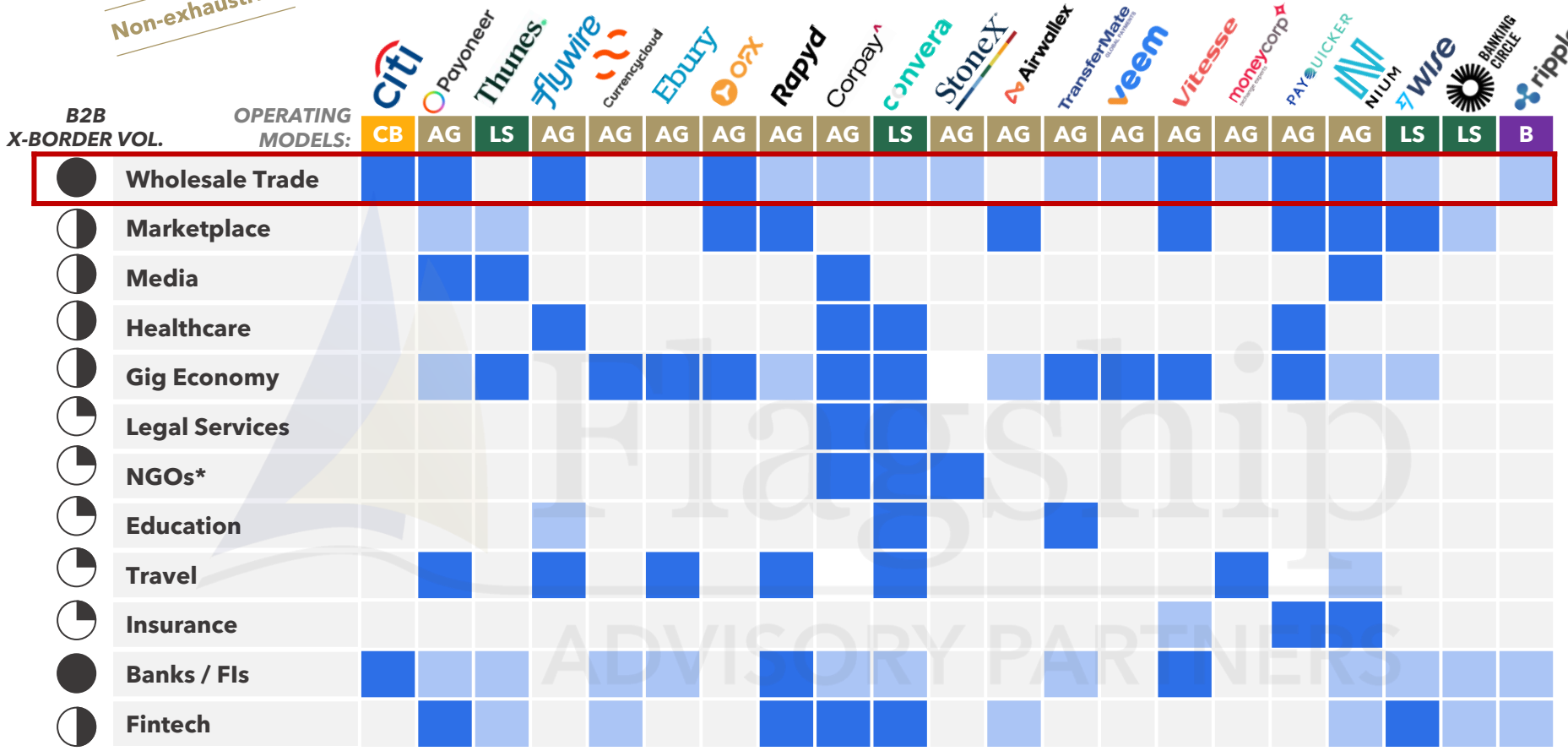
X-Border Payment Flows: SWIFT-based Correspondent Banking vs. Prominent Fintech Operating Models



The X-Border fintech landscape is crowded with a variety of product, go-to-market, and operating models.

Select B2B X-Border Fintech Landscape Players

Non-exhaustive



COMMENTARY

- The X-Border payments landscape is fragmented, with players competing across multiple dimensions, including regional, vertical, and segment specialties
- Wholesale Trade the largest vertical. Other x-border verticals represent meaningful scale opportunities with significantly lower competitive focus
- Operating models, including bank licensing and local scheme connectivity, are observed differentiators across fintechs; competitors with local scheme access offer more comprehensive x-border transaction capabilities (e.g., control over compliance and KYC/AML) than those utilizing bank partners (referred to as Aggregators)
- Other operating models including Blockchain are still relatively nascent

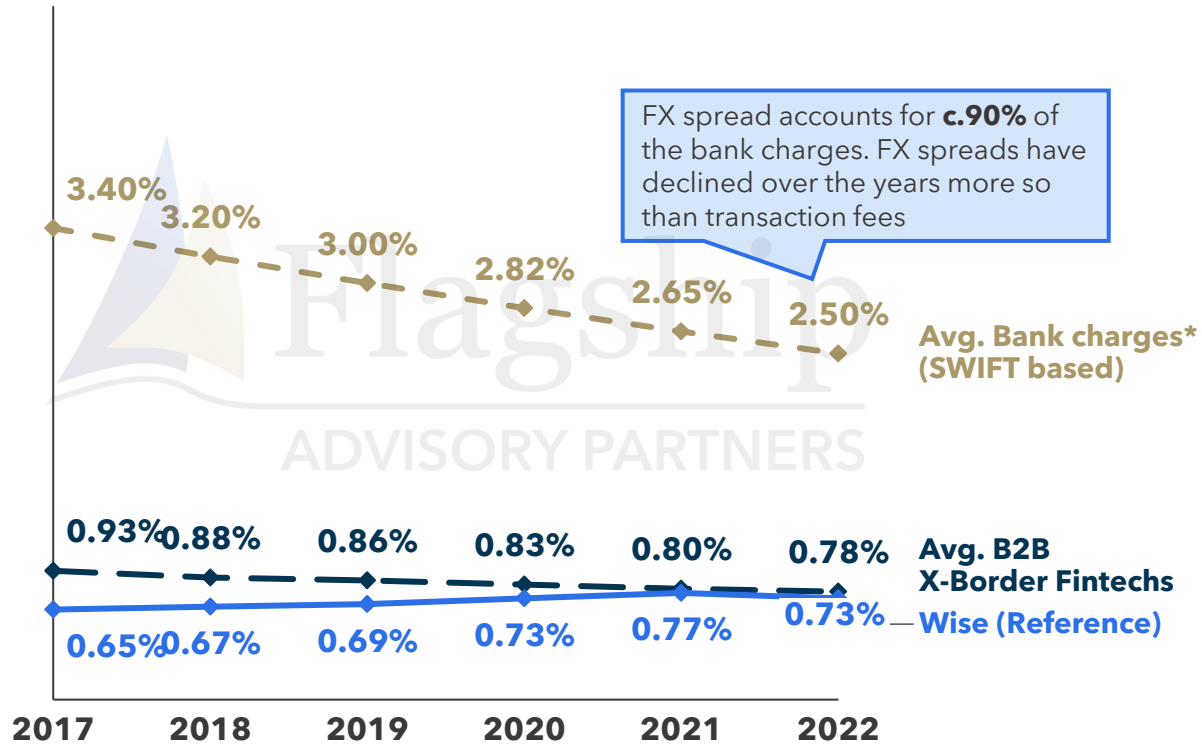
VERTICAL FOCUS: Primary Focus (Blue), Secondary Focus (Light Blue)
VOLUME SCALE: Large (Large Circle), Medium (Medium Circle), Small (Small Circle)
OPERATING MODELS: CB (Yellow) SWIFT-based correspondent bank, AG (Green) Aggregator (indirect clearing via bank partners), LS (Light Green) Local scheme access (direct integration & clearing), B (Purple) Blockchain

Notes: *NGOs includes other Professional Services
 Source: Flagship Advisory Partners Research Jan 2023

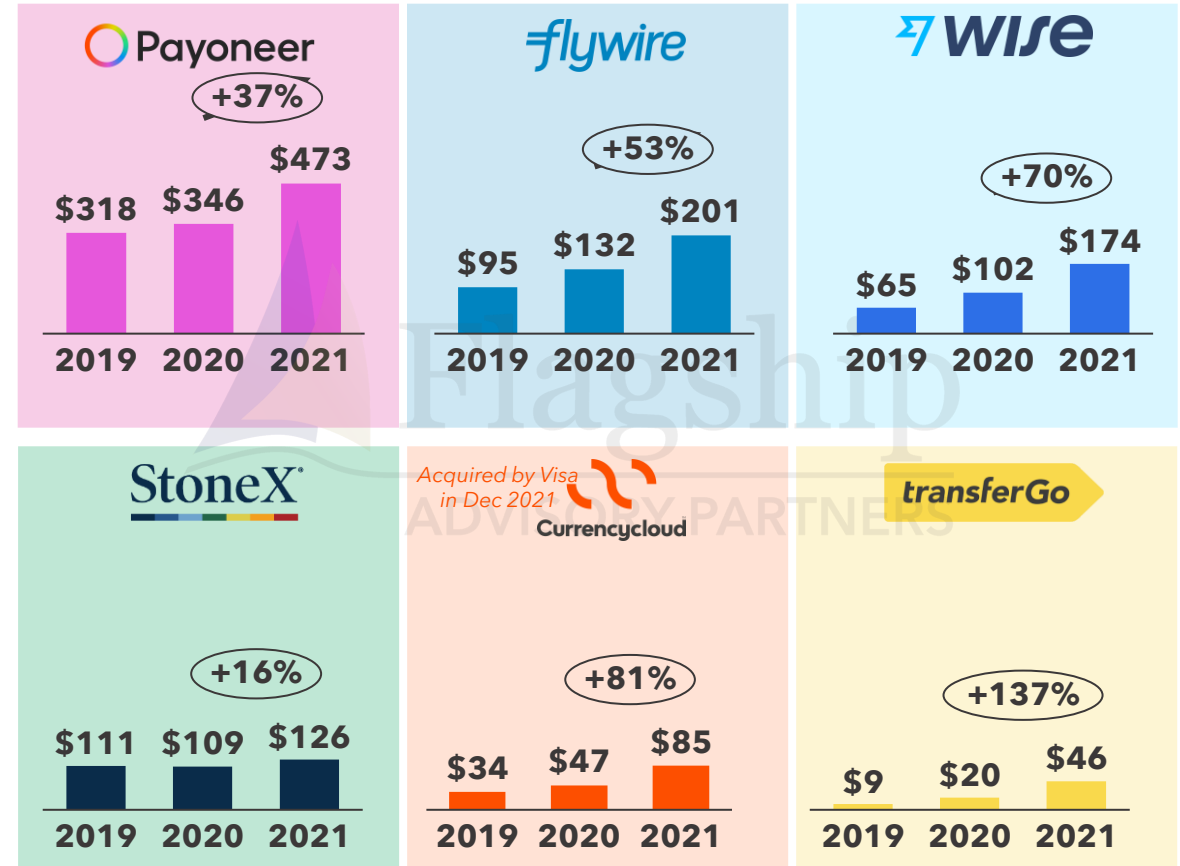


Fintechs are driving disruption of bank X-Border margins and winning share.

Gross Take Rates: B2B X-Border Fintechs vs. Industry Benchmarks (%, includes FX spread, based on a selected sample)















Revenue Growth of Select B2B X-Border Fintechs (revenue in USD mil.; growth rate 2020-2021)



* Average EU Bank charges for outbound international transfer using internet banking for SMBs and includes FX markup; average ticket size: €4000
 Wise's take rate is blended for consumers as well as for SME businesses (includes FX mark-up) and the revenue numbers are B2B only. StoneX's revenues are only from the global payments business
 Sources: Public annual reports & investor presentations, Flagship Advisory Partners Research Jan 2023



Product needs for B2B X-Border payments vary per business size segment. We observe several fintech winners that offer product differentiation to meet such needs.

B2B X-Border Fintechs: SME & Enterprise Product Needs and Toolkits

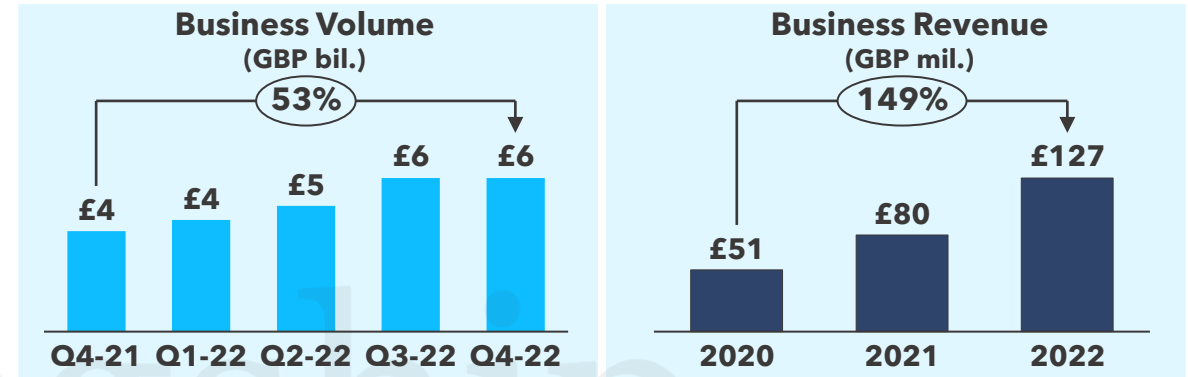
Select Fintechs Serving SMEs	SME	ENTERPRISE	Select Fintechs Serving Enterprises
  	<p>KEY NEEDS IN X-BORDER PAYMENTS</p> <ul style="list-style-type: none"> Relatively simpler needs Often single legal entity with one or two bank accounts Have simplified requirements on FX (hedging), risk mgmt. Seek greater speed and efficiency through automation and digitalization <p>10's of Payments/Mth</p>	<ul style="list-style-type: none"> Complex needs, typically support multiple legal entities and several foreign accounts Require seamless integration with ERP, A/P, A/R SaaS Complex FX requirements, need for real time liquidity <p>1,000,000's Payments/Mth</p>	  
SUCCESSFUL X-BORDER PAYMENTS PRODUCT TOOL-KIT			
  	<ul style="list-style-type: none"> Easy API based integration and fast on-boarding toolkit Business bank accounts (multi-currency) Automated workflows for payout initiation (e.g., AP) X-border payouts using multicurrency cards or wallets Relationships with marketplace platforms (e.g., Amazon, Walmart, etc.) Competitive FX rates, access to wide variety of currencies Simple FX risk management products Integrations and/or reconciliations with accounting/book-keeping platforms <p>Differentiating products</p>	<ul style="list-style-type: none"> Customizable integration and onboarding toolkit Integration of x-border solution with ERP, TMS Mass payment solutions (supports batch payments) FX risk management solutions (e.g., forward contracts) Detailed reporting and overview of payments processed, incl. cash flow forecasting and simulations Automated A/P and A/R processes and reconciliation Payment Batches in multiple settlement currencies Ability to pay in a wide range of payout currencies Access to FX liquidity rates and purchase options Payment workflow (approvals) and secure authentication Payments tracking (real time), access to support <p>Differentiating products</p>	  

Wise is a clear market leader on product and technology with major growth potential from ongoing penetration into the B2B segment.

Wise vs. Banks: B2B X-Border Payments

	 Wise	 BANKS
Geo Focus & Market Coverage	<ul style="list-style-type: none"> ✓ Globally oriented ✓ Holds 50+ currencies ✓ 80+ payout countries 	<ul style="list-style-type: none"> ▪ Offer a limited set of currency and country coverage
GTM Strategy	<ul style="list-style-type: none"> ✓ Strong partner network with Accounting SaaS, ERPs ✓ SEO / marketing 	<ul style="list-style-type: none"> ▪ Rely on direct sales, very little partner channel development ▪ Rely on bank relationship managers
Tech Stack & Product Offering	<ul style="list-style-type: none"> ✓ Flexible scheme access model (including direct clearing in four markets) ✓ Market-leading customer UX ✓ Comprehensive product offering ✓ API driven integrations 	<ul style="list-style-type: none"> ▪ Notable product gaps (e.g., wallets and card issuing) ▪ Strength in FX, risk management products, but often underserve in payments ▪ Poor in tech stack and enablement (e.g., APIs) ▪ Generally, lack comparable UX and value-added-services ▪ Generally, do not offer a comprehensive coverage of payout options, rely on correspondent banking

Select Wise KPIs



Wise connects currency accounts to different SaaS platforms

Wise business debt and expense cards

Comprehensive dashboard with products and services available

Welcome to The Yoga Room, Loz

- Pay invoices and get paid
- Transfer currencies
- Add your accountant and team
- Connect to QuickBooks
- Get a business card

Get a debit card for 3 GBP

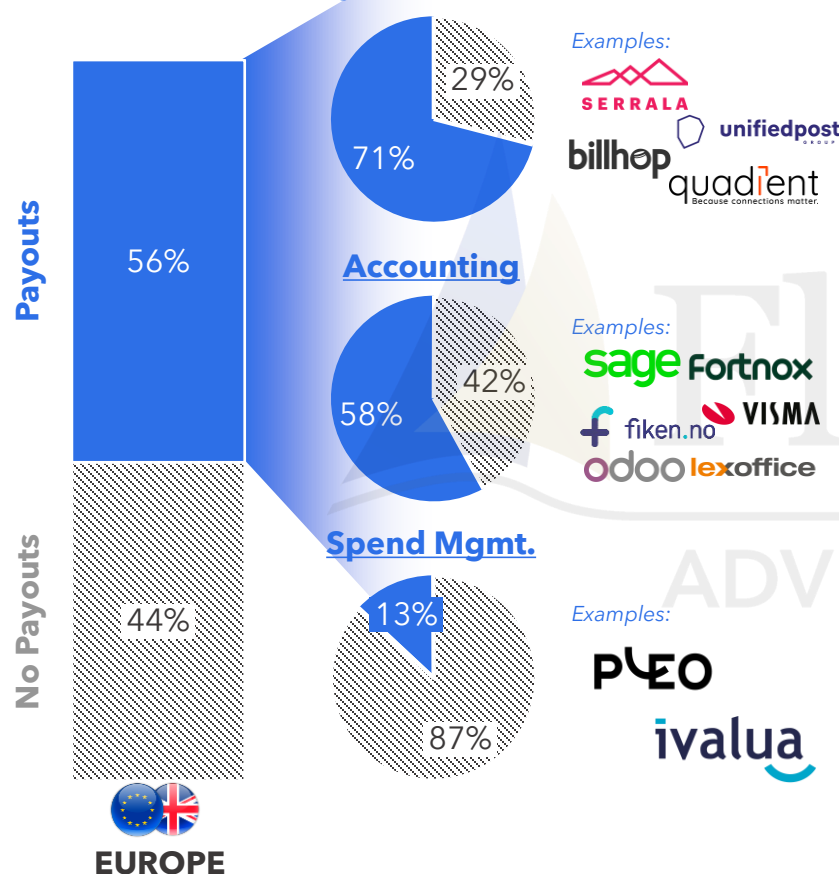
Order your card

SaaS integrations and go-to-market collaboration is a major differentiator for winning x-border payment fintechs.

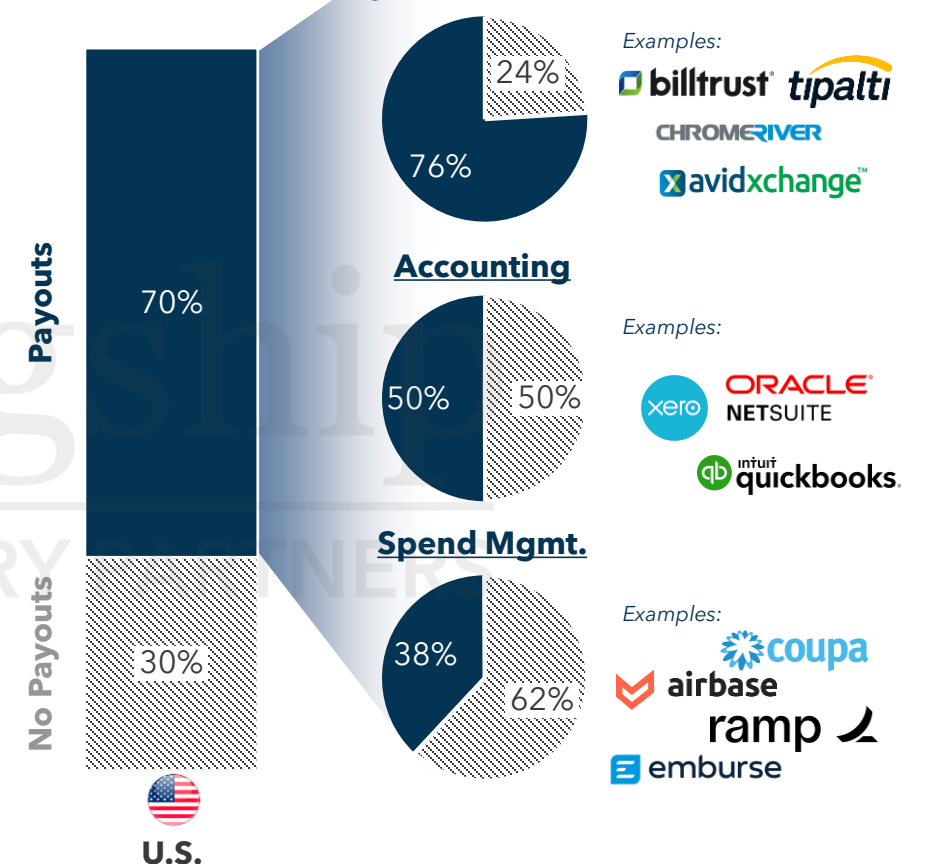
B2B SaaS Offering Integrated X-Border Payouts

(% of companies that offer integrated x-border payouts*; analysis of 80+ providers; Jan '23; as marketed on website)

Accounts Payable/ Accounts Receivable



Accounts Payable/ Accounts Receivable



METHODOLOGY

- Flagship has researched 80+ relevant B2B SaaS (across AP/AR, accounting, and spend management) in the European and U.S. markets to assess if they offer and monetize integrated X-Border payout capabilities
- The information used is gathered from public company websites

Notes: Split of US and EU sample is 3:2 (60% US and 40% European headquartered companies)
Source: Public company websites, Flagship Advisory Partners Research Jan 2023

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Thank You!

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