Venture funding for payment service providers exceeds $5.5 billion in H1 2021

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Introduction

Payment service providers (PSPs), which 451 Research defines as entities that enable merchants to accept and process customer payments, play a critical role in supporting the growth of the digital economy. With more commerce shifting online, PSPs are experiencing strong tailwinds, and investors are taking notice. In the first half of 2021, PSPs raked in more than $5.5bn in venture funding globally, according to S&P Global Market Intelligence. This represents a more than fivefold increase over the first half of 2020.

The 451 Take

The fastest way to make a small fortune in payments is to start with a large fortune. That's the current mantra in the PSP segment, where nine-figure rounds have become commonplace for driving growth and product diversification. The level of funding seen in the first half of the year dwarfs that of H1 2020, in part thanks to the acceleration of e-commerce and the digital payments market driven by COVID-19. Our research suggests an optimistic growth outlook for the PSP segment, buoyed by merchants that have a heightened need for modern payments infrastructure coming out of the pandemic. Looking ahead, we expect more PSPs to redeploy some their fresh capital in the form of M&A, becoming increasingly active buyers of payments and commerce targets.

PSP market dynamics during COVID-19

PSPs have largely benefited from the pandemic. Global e-commerce volumes grew 23% YoY in 2020, surpassing $4 trillion, according to 451 Research's Global Unified Commerce Forecast. Simply put, more commerce shifting online has meant accelerated transaction volume and customer growth for market participants. The shift to digital has also helped to bolster demand for PSPs' ancillary services, such as fraud prevention.

The future outlook is equally promising. Eighty-seven percent (87%) of merchants expect e-commerce growth for their businesses to continue at a rate above pre-COVID-19 levels over the next three years, and nearly one-third say that their need for payments infrastructure modernization has increased as a result of the pandemic, according to 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021. Newer PSPs built on modern technology stacks are likely to be in consideration as merchants begin to re-evaluate their digital payments strategies.

Investors gravitate toward PSPs as e-commerce accelerates

Make no mistake, the PSP segment was vibrant and growing rapidly prior to COVID-19. The attractive market dynamics introduced over the past year have only served to amplify investor interest. In the first half of 2021, PSPs raised an average of more than one funding round per week – 14 of those rounds were in the nine-figure range and above. All told, PSP venture funding in the first half reached $5.56bn globally. By comparison, PSP funding in the first half of 2020 barely crested $1bn.

PSP Funding Rounds of $20m or More in H1 2021

Company	Funding Amount ($m)	Announced Date	Post-Money Valuation ($bn)	Headquarters
Klarna	$1,000.00	3/1/2021	$31.0	Stockholm, Sweden
Mollie	$791.00	6/22/2021	$6.4	Amsterdam, Netherlands
Klarna	$639.00	6/10/2021	$45.6	Stockholm, Sweden
Stripe	$600.00	3/14/2021	$95.0	San Francisco, USA
Checkout.com	$450.00	1/12/2021	$15.0	London, UK
Salt Pay	$390.43	4/9/2021	-	London, UK
Rapyd	$300.00	1/13/2021	$2.5	London, UK
CloudWalk	$190.00	5/11/2021	-	Sao Paulo, Brazil
Dlocal	$150.00	4/2/2021	$5.0	Montevideo, Uruguay
PPRO	$180.00	1/19/2021	$1.0	London, UK
Flutterwave	$170.00	3/10/2021	$1.0	San Francisco, USA
Razorpay	$160.00	4/19/2021	$3.0	Bengaluru, India
Salt Pay	$127.54	3/30/2021	-	London, UK
Classy	$120.00	4/20/2021	-	San Diego, USA
PPRO	$90.00	3/25/2021	$1.0	London, UK
Kushki	$86.00	6/1/2021	$0.6	Quito, Ecuador
Xfers	$30.00	3/3/2021	-	Singapore, Singapore
Volt.io	$23.50	6/16/2021	-	London, UK
PromisePay	$20.00	2/18/2021	-	Oakland, USA

Source: S&P Global Capital IQ Pro, 2021

Two of the three largest PSP rounds in H1 2021 went to Stockholm's Klarna, which raised a $1bn round in March at a $31bn valuation and followed with a $639m round in June at a $45.6bn valuation. Mollie, a Dutch PSP with an exclusive focus on the European market, raised the second-largest PSP round of the first half. Mollie has been referred to by some as the 'Stripe of Europe,' but there's another player perhaps more deserving of that title – Stripe itself. Its $600m round in March came at a $95bn valuation, and the company says the funding will be used in large part to deepen its position in Europe. London's Checkout.com is another key PSP with a strong focus on Europe – the market from where most of its revenue is derived. Checkout.com positions itself as more of an Adyen challenger; its $450m series C round came at a $15bn valuation.

If you're not sensing the trend, Europe has emerged as a hotbed for PSP activity and funding. More than 70% of the $5.56bn raised by PSPs in the first half went to those headquartered in Europe. There are several factors that make Europe a particularly intriguing market for PSPs. The regulatory landscape (e.g., PSD2), prevalence of local payments methods and overall fragmentation of the market provide multiple avenues for competitive differentiation.

Both within and outside of Europe, local payment method specialization has been a consistent theme attracting investor interest. As merchants pursue cross-border commerce – one of the fastest-growing areas in payments – they need partners that can connect them with various types of noncard payment methods that are prevalent throughout EMEA, LATAM and APAC. Startups such as Rapyd, DLocal, PPRO and Kushki, which collectively raised $806m in H1, specialize in this area.

We also note continued investor interest in two of the largest, high-growth digital payments markets in the world: Brazil and India. Sao Paulo's CloudWalk and Bengaluru's Razorpay each collected nine-figure funding rounds to further investment in their payment platforms, which are specialized for respective markets. Interest in vertical-specific PSPs was also apparent, with Classy (nonprofit) and PromisePay (government) raising series D and A rounds, respectively.

PSP startups are becoming increasingly active in M&A

While legacy processors have historically led much of M&A in the payments industry, deep-pocketed PSP startups are becoming increasingly active. Stripe, for instance, made two acquisitions in the first half of the year, nabbing TaxJar (tax software) in April and Bouncer Technologies (fraud prevention) in May. Checkout.com acquired Estonian software development vendor Icefire in June, while Rapyd paid $100m on July 1 for Valitor, to deepen its merchant acquiring capabilities. Klarna has looked to deepen its commerce proposition through M&A this year, with acquisitions of Toplooks (content) in March and Hero (social shopping app) in July. SaltPay, on the other hand, has come together almost entirely through an M&A rollup strategy, with acquisitions of Paymentology (issuer processor), Tutuka (issuer processor) and Storyous (point-of-sale software) this year, and Borgun (PSP) in 2020. Looking ahead, we anticipate that many of the PSPs that have amassed significant capital in H1 2021 will begin deploying more of it in the form of M&A.