Payments Mini Case: WePay
MGT 8803 FinTech Ventures

Baldwin, Chris

Brewer, Bo

Zhou, Quan

October 3, 2016

The global payments industry is massive and growing. McKinsey & Co. forecasts that by 2018, the industry will account for some $2.3 trillion in aggregate revenue, boasting growth of some 8% when viewed over a 5-year period. Not only is the industry expanding but it also is evolving. Shifts that have marked and will continue to mark the global payments industry include:

- the continued digital transformation of merchant payments,
- the infusion of financial data with social data for broader customer insight,
- the emergence of non-card, real-time payments,
- the increase of cross-border digital transactions, and
- the centrality of payments to the next era of digital banking.[1]

At one time, the payments sector operated in a quiet corner of the financial world. This dynamic changed due to a combination of shifts in demographics, developments in technology, the personalization of consumer marketing, and the publicizing of corporate data breaches. Regarding the latter, high profile point-of-sale attacks at major domestic retailers such as Target and Home Depot alerted corporations to the significant liability their payment systems could represent -- lawsuits, restitutions, penalties, etc. The industry scrambled to respond, pouring untold dollars into new security solutions and protocols. Just as payments represent a liability to corporations, they also represent a competitive advantage. Starbucks seized mobile payments as a means by which to personalize its customer experience, collecting valuable customer data at the point of sale while extending rewards to garner brand loyalty. Meanwhile the ubiquity of the mobile phone and the rise of the middle class in emerging markets has made the volume-driven payments space an intensely profitable one for financial institutions.

WePay is one of the technology companies pioneering new frontiers in the payments space. The Company launched in 2008 as the 'anti-PayPal' and provided a platform for users to collect money -- principally from other friends -- for shared services such as renting a house or giving a collective gift to a teacher. The Company raised initial capital from Paul Graham of

[1] Bruno, Philip, Florent Istace, and Marc Nierdekorn, "The future of global payments," McKinsey & Co., accessed September 18, 2016, http://www.mckinsey.com/industries/financial-services/our-insights/the-future-of-global-payments.

Y-Combinator and proceeded to exploit a weakness in PayPal's product offering to the tune of $25 million in revenue by 2012. In 2013, WePay's founders elected to pivot the business model, closing-down the Company's group-payment product line, despite it accounting for 40% of all revenues.[2] WePay began focusing exclusively on back-end payment processing, formerly an adjunct product offering, and made a large bet on continued growth in crowdfunding, tailoring its processing for sites such as GoFundMe. Today, WePay offers two services -- Connect, a quick set-up product, and Clear, a white-label payment approach. Clear allows merchants to set their own pricing, with WePay funding merchants in approximately 24 hours.

According to WePay's founder and CEO, Bill Clerico, the core of the Company's business exists in its payments API, which delivers infrastructure for full payments processing & management for platform businesses[3]. However, WePay is not the only industry player with a robust API. Its competitors start with PayPal, the longest-standing industry incumbent. The main difference between PayPal and WePay is that WePay allows merchants to keep credit card credentials in-house and avoid third-party transaction risk. WePay's offers proprietary risk mitigation algorithm absolves merchants of transaction risk. WePay also integrates with a merchant's existing website, unlike PayPal, which does not provide white-label integration. A second competitor is Stripe. Although not as large as PayPal, Stripe is a notable competitor in that it enables internet merchants to accept credit cards payments and provides an API as robust as that provided by WePay. A third major WePay competitor, Square, boasts a mobile point of sale device for accepting credit card payments. WePay recently rolled out a mobile offering and hopes to compete directly with Square's offerings in years to come. WePay differentiates itself from Square by offering custom branding on its mobile point of sale devices. However, Square is more cost-effective than WePay, charging its customers a flat 2.75% transaction fee. WePay charges 2.75% + $0.30 per transaction, a price point that may make entry into the mobile point of sale market, and direct competition with Square, difficult.

---

[2] Alsever, Jennifer, "WePay is the anti-PayPal," CNN Money: Innovation Nation, accessed September 18, 2016, http://money.cnn.com/2010/10/12/technology/wepay/

[3] Rao, Leena, "After A Pivot, WePay Raises $15M To Focus On Payments API For Marketplaces, Crowdfunding Sites And Others," TechCrunch, accessed September 25, 2016, https://techcrunch.com/2014/01/16/after-a-pivot-wepay-raises-15m-to-focus-on-payments-api-for-marketplaces-crowdfunding-sites-and-others/

WePay has raised $75 million in funding through six capital rounds, as seen in the chart below[4]:

Funding Rounds (6)

UPDATE

Date	Amount / Round	Valuation	Lead Investor	Investors
May, 2015	$40M / Series D	–	–	2
Jan, 2014	$15M / Series C	–	Philip Purcell	6
May, 2012	$10M / Series B	–	Ignition Partners	4
Aug, 2010	$7.5M / Series B	–	Highland Capital Partners	2
Dec, 2009	$1.65M / Series A	–	August Capital	5
Jan, 2009	undisclosed amount / Seed	–	–	2

The Company's latest funding round occurred in May of 2015 and netted $40 million in Series D financing. The Company will use proceeds from the capital raise to extend its global services. The round was led by FTV Capital, which offers the Company domain expertise in payments and enterprise technology. The firm also boasts a Global Partner Network[5] comprised of some of the largest financial institutions, such as BAML, BlackRock, HSBC, JPMC, etc. All existing institutional investors, including Highland Capital Partners, August Capital, Continental Investors and Ignition Partners, participated in the Series D round[6].

WePay's investor base does not showcase the premiere Silicon Valley VC names such as Sequoia, Kleiner-Perkins, etc.; however, the Company's investors appear committed, varied, and strategic. FTV is highly-focused on FinTech investments. Ignition Partners targets investments in software firms. Highland Capital maintains a portfolio of consumer and enterprise technology investments. The fact that prior investors contributed in the recent investment round reflects a collective belief in WePay's long-term potential.

[4] CrunchBase, "WePay," accessed on September 25, 2016, https://www.crunchbase.com/funding-round/3dec2314f190b6b319da3b29859a1da7
[5] FTV Capital, accessed on September 25, 2016, http://www.ftvcapital.com/
[6] Dorbian, Iris, "WePay grabs $40 million in Series D," ProQuest, accessed September 25, 2016, http://search.proquest.com.prx.library.gatech.edu/abidateline/docview/1682059608/fulltext/44E51C1E41024CE7PQ/1?accountid=11107

WePay is attempting to challenge the long-held perception that payment processing need be a complex, rigid, and worrisome component of the business process. Specifically, the Company is targeting firms that are highly reliant on effective payment processing (notably online merchants) but also those that recognize payment processing is not their in-house specialty. By outsourcing the entire payment processing experience to WePay, a firm allows its employees to focus on scaling the core business absent a demand to scale payments architecture at the same time. WePay is advancing a competitive sales proposition that satisfies the following:

- an ability to 'own' all branding associated with one's end-to-end payments process;
- an ability to outsource the risk associated with fraud and/or data breaches;
- an ability to jettison compliance / regulatory considerations tied to payment processing;
- and an ability to scale rapidly with a payments solutions managed externally.

It is the collective menu of these benefits that, when taken in the aggregate, fundamentally set WePay apart from PayPal, Stripe, Square, etc. WePay's services operate on a single pricing scheme that is more expensive than PayPal's offering. However, WePay believes firms of the future will be willing to pay extra for convenience, control, simplicity, and service. Additionally WePay combats competitive claims of premium pricing by assuming all payments-related risk management responsibility for a client. Given that fraud claims approximately 1% of all payment transactions, WePay notes its assumption of all fraud risk delivers a tangible economic impact to its clients and must be factored into their overall value proposition[7]. WePay minimizes risk for its clients using the Veda Risk Engine, which utilizes social media and traditional market data to catch fraudulent merchants seeking to use WePay[8]. WePay's sole patent accords with its risk mitigation efforts, namely a 2011 patent filing #8918904 -- systems and methods for user identity verification and risk analysis using available social and personal data[9].

[7] Aspan, Maria, "The Latest Moves in the Battle to Become the Next PayPal," Inc., accessed September 25, 2016.
[8] Rao, Leena. "WePay Debuts Veda, An Intelligent Risk Engine That Leverages Social Media Data To Prevent Merchant Fraud," TechCrunch, accessed September 25, 2016, https://techcrunch.com/2013/05/09/wepay-debuts-veda-an-intelligent-risk-engine-that-leverages-social-media-data-to-prevent-merchant-fraud/
[9] JUSTIA Patents, accessed September 25, 2016, http://patents.justia.com/search?q=wepay+inc

Given WePay's continued success and growth of its two payments platforms, the company should see success with the continued rise of e-commerce and online payment systems over the next 6 - 18 months (along with crowdfunding platforms). With the Company's development of a mobile point-of-sale device, the coming year promises increased competition with Square. Unlike Square, WePay will attempt to convince clients that a white-label POS device device is optimal, allowing merchants to customize the device with their own logos in order to maintain a streamlined experience. A pivot in business plan is unlikely in the coming year, given the Company's pivot in 2013 and given WePay is just now rounding-out its product suite. Similarly an exit seems unlikely in the near-term; WePay's 2015 capital raise will allow it to expand the product line as well as its global reach. Once these aims are effected, a sale could be more likely. At what point an exit does occur, a strategic acquisition seems promising. The global banking partner connections of lead investor in the Company's Series D round -- FTV Capital -- could provide a worthy base of potential acquirers. The Company also may test the public equity waters assuming IPO activity increases in the next 18 months.

Our team would recommend working for WePay. WePay is an upstart firm with a committed group of investors and a growing employee and revenue base. It stands a chance to break-through in the payment processing space as much as any of the recent entrants to the market. The firm also has built a reputation as a leader in customer service, providing ample back-end support, training, and documentation on its software. It recently won four Gold awards in the 2016 Stevie Awards for Sales & Customer Service[10] and could be a good entry-point for an employee in the payments sector.

Our team likewise would recommend investing in the Company. An acquisition could be highly likely, particularly by a strategic partner, given the company's revenue growth, reputation for customer service, and command of the growing crowdfunding segment from a sales standpoint. We believe investment dollars might yield a higher return sooner than later.

[10] "WePay Takes Home Gold", PR Newswire, accessed September 23, 2016, http://www.prnewswire.com/news-releases/wepay-takes-home-gold-at-2016-stevie-awards-for-sales--customer-service-300232254.html