



Business Report
2024

Preface

This report is divided into two primary sections: general background and recommendations. The first part delves into Checkout.com's complete history, current financial performance, market positioning in the FinTech sector, and competitors within the World Economic Forum's disruption framework. The second part assesses potential opportunities and threats for Checkout.com, with identified strategic recommendations.

Key Findings

- Checkout.com holds a stringent criteria for working only with selected high-performing businesses.
- The business is widely praised for its external assigned valuation of \$40 billion, despite limited data available to accurately estimate its profitability.
- Substantial investments are made in the development of advanced technologies such as unified Application Programming Interface (API) and cloud-based architecture.
- The business accounts for merely 0.04% of market share in the payment processing industry.

General Background

History

Checkout.com was founded by Guillaume Pousaz in 2012, with the initial objective of solving the problem of online payment processing between suppliers and customers. This idea was inspired by Opus, a company that operates a payment platform in Hong Kong, also founded by Pousaz in 2007. During its early stages, Checkout.com collaborated with some of the leading digital wallet platforms in China, Alipay and WeChat Wallet. In the next few years, it continued to see the business working with many world-renowned credit card payment processors, including Mastercard, UnionPay, Visa (Team TBH, 2022). In 2017, the business reached a key milestone when it was approved as an Electronic Money Institution in the UK (Financial Conduct Authority, 2023). Since then, Checkout.com has acquired high growth expectations, securing multiple rounds of funding across different series, including a notable series D funding round of \$1 billion, and reached valuation at \$40 billion in January, 2022 (Romain Dillet, 2022).

Current Financial Performance

As of today, Checkout.com is a recognisable, fast-growing UK-based multinational FinTech start-up. The FinTech magazine (2023) ranked it as the second biggest FinTech unicorn in 2023 by market valuation, overtaking Revolut as the UK's largest company. However, the internal financial assessment of 2021 shows that Checkout's UK entity has reported a loss, and the revised internal valuation went down to \$11 billion, according to Amy O'Brien (2023). In addition, the rate of revenue growth has significantly slowed down, with a marginal increase of barely 2.7% compared to the 73% seen in the previous year.

Market Positioning

Checkout.com operates within the payment gateway sector of the FinTech industry. The business's core objectives, as stated by its business model, include "boosting acceptance rates, cutting processing costs,

fighting fraud and creating extraordinary customer experiences” (Checkout.com, 2024). Specifically, the business fits into the “payment” category within the World Economic Forum’s disruption framework (World economic Forum, 2017). This WEF taxonomy highlights that both cryptocurrencies and mobile payments are supported by the payment processor. Checkout.com is also committed to delivering extraordinary customer experiences, implying the importance of fast and secured transactions, which aligns with the subcategory of “emerging payment rails”.

As a rapidly growing digital payments startup, Checkout.com continually designs new branded products for collaborating businesses, focusing on the acquiring and issuing segments. Three main payment-related products are created: payment processing, payouts and card issuing. These designs empower the use of debit and credit cards in the payment process. Recent years have seen Checkout.com expand its range of payment methods. Currently, its payment processing supports over 150 currencies, 20 settlement currencies, and services in nearly 50 countries (Rayan Malik, 2023).

The business has utilised many advanced technologies to optimise its payment solutions. The implementation of its own unified Application Programming Interface (API) has proved effective in speeding up the payment process. The API system integrates in-sync with businesses’ existing platforms, enabling live and automated processes, thus reducing development time. To overcome the issues of scalability and flexibility, Checkout.com has developed the cloud-based architecture, which allows Checkout.com to dynamically adjust to the changing needs of businesses. Another innovative technology is smart routing, which is highly beneficial in boosting acceptance rates and reducing processing fees for businesses. In short, this technology directs each transaction through multiple possible routes and chooses the one with the highest likelihood of processing the payment successfully, while also taking transaction fees into consideration (Kabilan Thavabalalingam, 2023).

Competitors

To assess Checkout.com’s position within the payment process industry, market share is a crucial metric. The data indicates that Checkout.com is ranked 65th in size, with a market share of just 0.04% and 507 customers (Datanyze, 2024). For a more insightful analysis, Stripe is the major competitor of Checkout.com, as both companies offer similar services, targeting businesses with a focus on advanced technology integration and innovative payment solutions, including support for cryptocurrencies. In a recent analysis conducted by the data provider 6sense (2024), a comparison of customer bases and their market shares was undertaken, the results show that Stripe significantly outperforms Checkout.com in both categories.

Strategic Direction

Opportunities

Accounts-to-Account (A2A) payments: A2A payments is a novel payment method involving the direct transactions between two bank accounts without the need of intermediaries like credit or debit cards. A2A payments often require the application of open banking APIs, this presents a challenge to traditional payment processing companies like Visa but potentially an advantage to Checkout.com. The company has focused on advanced technology integration and demonstrates expertise in similar API technologies. In

this scenario, Checkout.com might consider competing with traditional card processors by offering lower transaction fees to businesses as a strategy to gain more influence in the industry. Furthermore, the projected compound annual growth rate of 10% in A2A payments in the UK and Europe until 2026 presents another favorable factor for Checkout.com, given that the business's customer base is mainly from Europe and North America (Jamie Pearson, n.d.; 6sense, 2024).

Fraud Detection: As digital payments become more popular over the years, online fraud remains a huge issue. Therefore, the importance of payment gateway companies like Checkout.com has increased within the payment sector. Businesses are now considering different effective ways to mitigate risks, many of which involve the concept of machine learning. Checkout.com has shown its proficiency in this field with successful products such as 3D secure 2 solutions and risk-scoring systems (John Solomon, 2024; Rayan Malik, 2023). Besides, Solomon (2024) also stated that small businesses have suffered the most in fraud cases, it is vital for them to search for payment gateways companies to enhance security on their systems. As a recommendation, Checkout.com should consider adjusting its philosophy of only collaborating with high-performing businesses and explore these potential opportunities of expanding its customer base.

Vertical Expansion: The COVID-19 pandemic has driven the trend of digital payments in Asia. The report from The World Bank (2022) claims that "In India, more than 80 million adults made their first digital merchant payment after the start of the pandemic, while in China over 100 million adults did." Checkout.com should realise these chances and consider vertical expansion, as currently it only operates in Europe, North America, and Australia (6sense, 2024).

Threats

Cryptocurrency Payments: The uncertainty of cryptocurrencies has posed risks to Checkout.com, which has partnered with many of the world's leading crypto businesses. Cryptocurrencies are viewed as highly volatile assets, and fluctuation in their values can result in financial losses. There is also a lack of financial regulations to monitor cryptocurrencies, and crypto transactions are often associated with fraud activities. According to Statista (2022), there has been significant growth in losses, rising more than nine times since 2020 and reaching £480 billion in 2021 (Sienna Roberts, 2023). Previously, Checkout.com's former largest customer, the leading crypto platform Binance, was suspected of money laundering and eventually led to termination of the partnership in August, 2023 (David Jeans, 2023). The precedent case underscores the importance of regularly scrutinising its partners to prevent financial crimes. It is advised that the company should conduct thorough background checks and financial reviews.

Competitors: Despite Checkout.com being regarded as one of the fastest-growing businesses in the payment processing industry, the other FinTech unicorns remain as a significant threat in many ways. Callum Godwin (2024) believes that the current market structure lacks sustainable competition. Under digital transformation, there is a huge barrier hindering the innovative technology businesses from entering the market unnecessarily. External factors, such as approval rates and tokenisations in some countries, limit the choices for merchants and favours established payment processors, leaving no substitute for competition. In this scenario, Checkout.com is recommended to improve support for its partners, focus on technological research and diversify its products to attract a broader customer base.

Financial Status: Checkout's UK entity reported a pre-tax loss of \$13.4 million in the financial year of 2021. The company faces challenges in hiring, resulting in nearly double wages and salaries payments compared to previous year. Despite claims by the CEO and founder that the company is profitable, there is a lack of financial data and public information to authenticate since the company is private and operates globally (Amy O'Brien, 2023). For Checkout.com to effectively attract investments at this development stage, it is essential for the business to be transparent and provide detailed financial reports to the public. The business should also maintain a healthy amount of capital to handle unexpected financial events.

Conclusion

Checkout.com stands as an emerging powerhouse in the payment processing and gateway industry, renowned for its strategic partnerships with leading global businesses. The company is committed to designing technologically advanced products, and its extensive expertise might prove beneficial in enhancing its market position through A2A payments and fraud detection. The company might also consider expanding their target markets to Asia, given the trend of digital payments growth there. On the other hand, Checkout.com has encountered some potential threats based on uncertainties in the cryptocurrency market and competitions from rivals. It is advisable for the business to be more aware of its financial situation and be more transparent.

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