FINTECH EQUITIES

Fintech's powerful momentum: 10 key charts

- Strong recovery in fintech continues as sector outperforms in 2024
- Rapid global consumer penetration in payments, data and financial services
- Capital markets fuse is lit as earnings start to flow

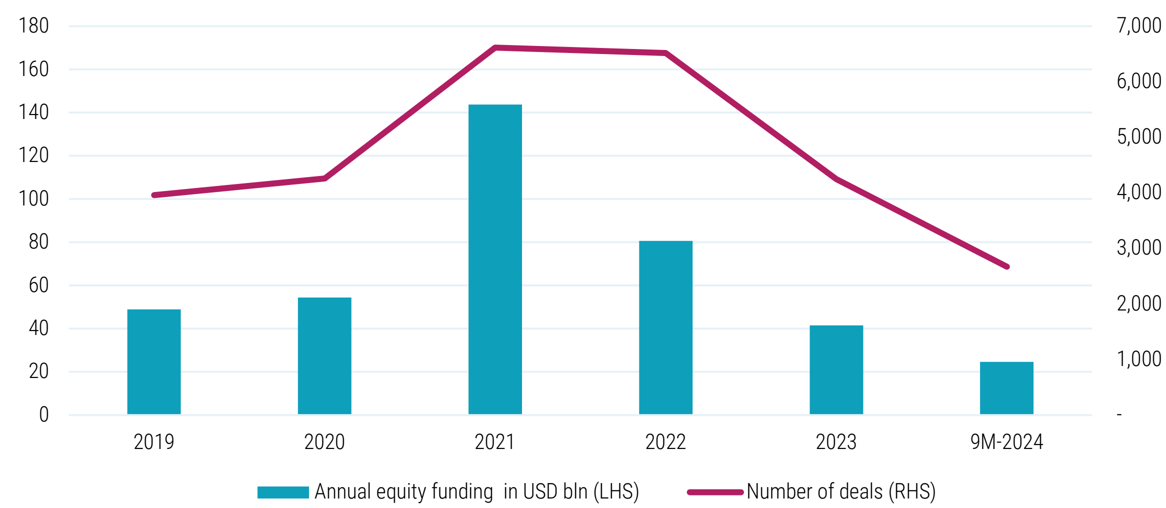
With the Magnificent Seven grabbing headlines, the outperformance of fintech companies has flown under the radar in 2024. Here are ten charts showing the fintech trends underpinning this powerful momentum.

As the ten charts we have assembled below show, investing into fintech will expose you to an incredibly diverse group of sub-sectors and eco-systems far beyond the payments companies and neobanks that generate headlines in the financial media. After a difficult period when the Covid-era euphoria subsided, the growth potential of the fintech investment universe is now only starting to be realized, making it an opportune time to gain exposure.

1. Capital markets: Start your engines

Since the US election, excitement in M&A teams is at fever pitch on anticipation of a much more permissive regulatory regime under Trump 2.0, with the financial sector in general and fintech in particular likely to be in focus for dealmakers. Figure 1 shows that activity has has potentially reached trough levels and is expected to rebound on looser monetary conditions, and increased confidence in the growth potential of fintech business models.

Figure 1 - Private fintech funding set to rebound



Source: CB Insights, Robeco, October 2024.

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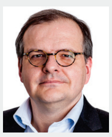

Patrick Lemmens
Portfolio Manager


Michiel van Voorst
Portfolio Manager


Koos Burema
Portfolio Manager

This recovery in capital markets activity was highlighted in public markets by Capital One acquiring Discover Financial for USD 35 billion. In the venture capital space we have seen 12 new unicorns in the year-to-date according to CB Insights, which brings the total to 325 fintech unicorns (private companies valued at more than USD 1 billion). We have also seen exits like Airbase being sold for USD 325 million to Paylocity, Tegus being acquired for USD 930 million by AlphaSense, and S&P Global taking over Visible Alpha for circa USD 500 million.

IPOs in 2025

Interest in fintech IPOs is clearly on the rise with buy now pay later (BNPL) pioneer Klarna announcing it intends to launch an IPO on the Nasdaq with an anticipated valuation between USD 15-20 billion.[1] Its success will be a good gauge of how the market views this segment. Stripe, and Revolut could follow suit, and the rumor is that Chime is planning to go public in 2025. As one of the leading US neobanks, Chime has gained prominence by offering customers the perk of accessing their paychecks two days early by opening a Chime checking account.

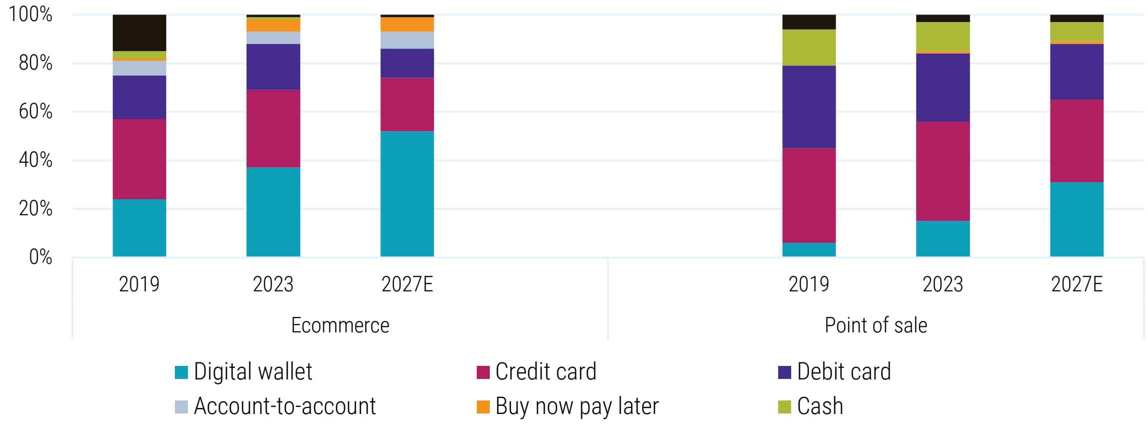
According to Forbes, Chime boasts an impressive 38 million checking account customers, with half of them considering Chime their primary checking account provider. This translates to a market share of 8.1%, comparable to giants like Wells Fargo (8.5%) and JP Morgan Chase (7.6%). While Chime’s early paycheck access remains free, the company generates revenue by collecting a portion of interchange fees from customer debit or credit card transactions. As it gears up for its IPO, Chime faces the challenge of diversifying its revenue streams and demonstrating a clear path to profitability.

[1] Klarna’s Seb Siemiatkowski — from burger flipping to billionaire club – Financial Times, 15 November 2024

2. Payments: Apple muscling in

The shift toward digital wallets and embedded financial services remains evident, with Apple serving as a prime example. Investors as well as (European) regulators have expressed concerns the impact of this 800-pound gorilla in the payments arena, but we remain sanguine given a host of innovative fintech players are also gaining traction.

Figure 2 - Digital wallets gaining share both online and offline in the US



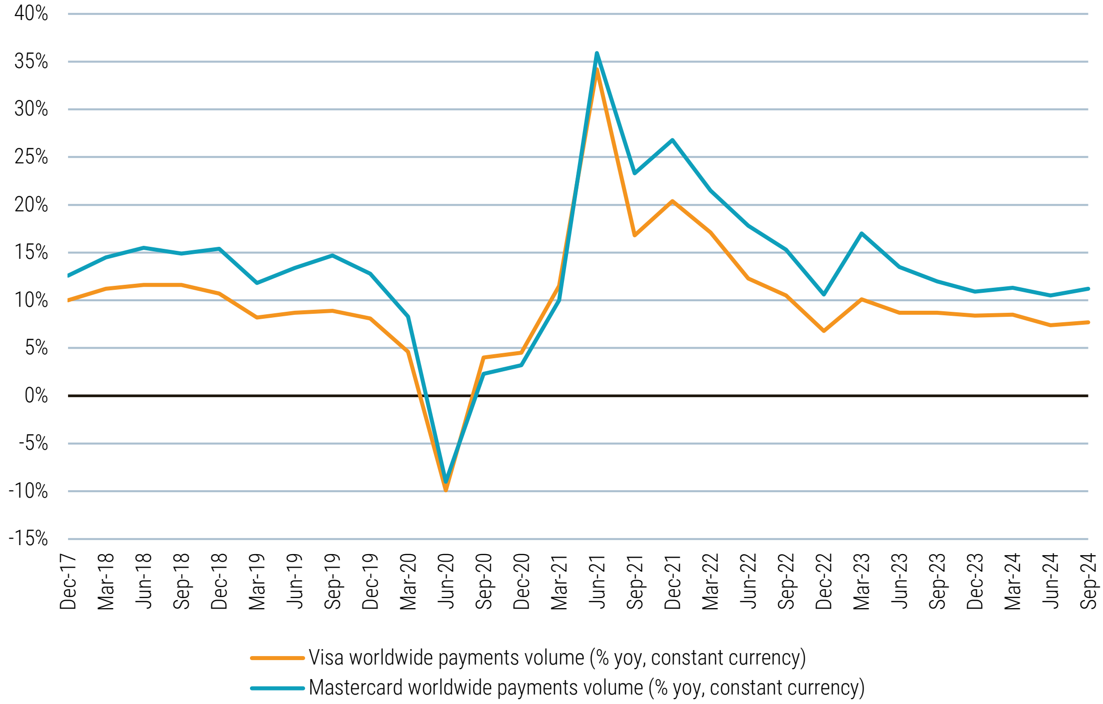
Source: Worldpay, Robeco, June 2024.

As depicted in Figure 2, digital wallets like PayPal, Apple Pay ShopeePay, Venmo, CashApp, Pago and Shop Pay continue to grow transaction volumes. In the US, digital wallets accounted for 37% of total ecommerce transaction value and 15% of point-of-sale transaction value in 2023. The appeal lies in increased user convenience and reduced fraud risks, driving the shift away from manual card entries, card-on-file, and cash. Apple Pay is gaining ground both online and in-store and Bernstein estimates that it held approximately 5% of the US ecommerce checkout share and represented 3.2% of in-store retail spending in the US in 2023 (according to the US Census Bureau).

3. Payments: Bellwethers profiting from value-add services

Visa and Mastercard have reported a deceleration in payment volume growth, as illustrated in Figure 3. In the US, both companies have seen payment volume growth taper to 5-6% year-on-year, due to lower inflation and a slowdown in US consumption also observed in retail numbers. This sparked a debate about whether Visa and Mastercard can sustain historical double-digit revenue growth into 2025 and beyond. Value-added services like cybersecurity, fraud analytics, and loyalty solutions accelerated to 23% and 19% year-over-year for Visa and Mastercard, respectively. This allows both network companies to print double-digit revenue and earnings growth. We continue to like the long-term compounding characteristics of Visa and Mastercard but valuations leave little room for disappointment.

Figure 3 - Visa's and Mastercard's worldwide payments volume growth



Source: Visa, Mastercard, Robeco, October 2024

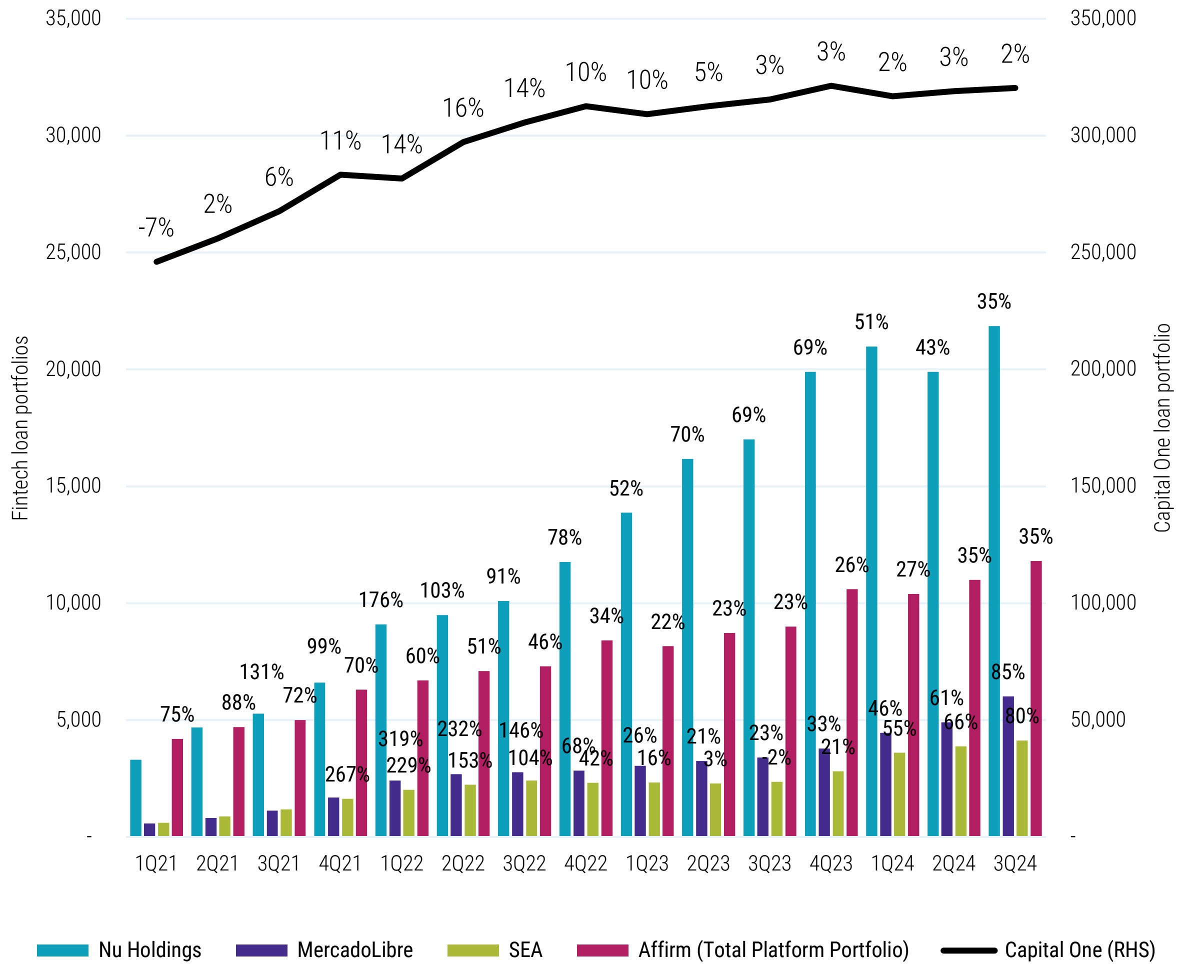
A challenger is Fiserv, which shows similar growth prospects at a valuation discount to the aforementioned two. Fiserv's SMB payment solution, Clover, reached USD 311 billion in annualized Gross Payment Volumes, up 15% year-on-year, driving a 28% increase in overall revenue. Clover's comprehensive software package, includes fraud solutions, data analytics, and loyalty programs.

4. Financial management: Strong loan growth while managing credit quality

Lending money is the long-term profit driver for financial companies and it's no surprise that fintech leaders around the world are aggressively moving into this space. Credit portfolios of Nu, MercadoLibre, SEA and Affirm have been showing strong growth. By way of comparison, these companies combined gross loan books represent just over 10% of card issuer Capital One's loan book. Given that Capital One now accounts for 10-15% of outstanding receivables in the US, we anticipate significant growth opportunities for fintech challengers.

Financial management company Nu Holdings reported 35% year-on-year loan growth on an FX-neutral basis, with an efficiency ratio of 31% leading to an annualized ROE of 30%. These numbers are impressive as the company is scaling its operations by introducing new products like payroll loans in Brazil and acquiring customers in Mexico and Colombia.

Figure 4 - Fintech's gross loan portfolios (USD mln, % YoY) strongly growing but still a fraction of incumbent loan portfolios

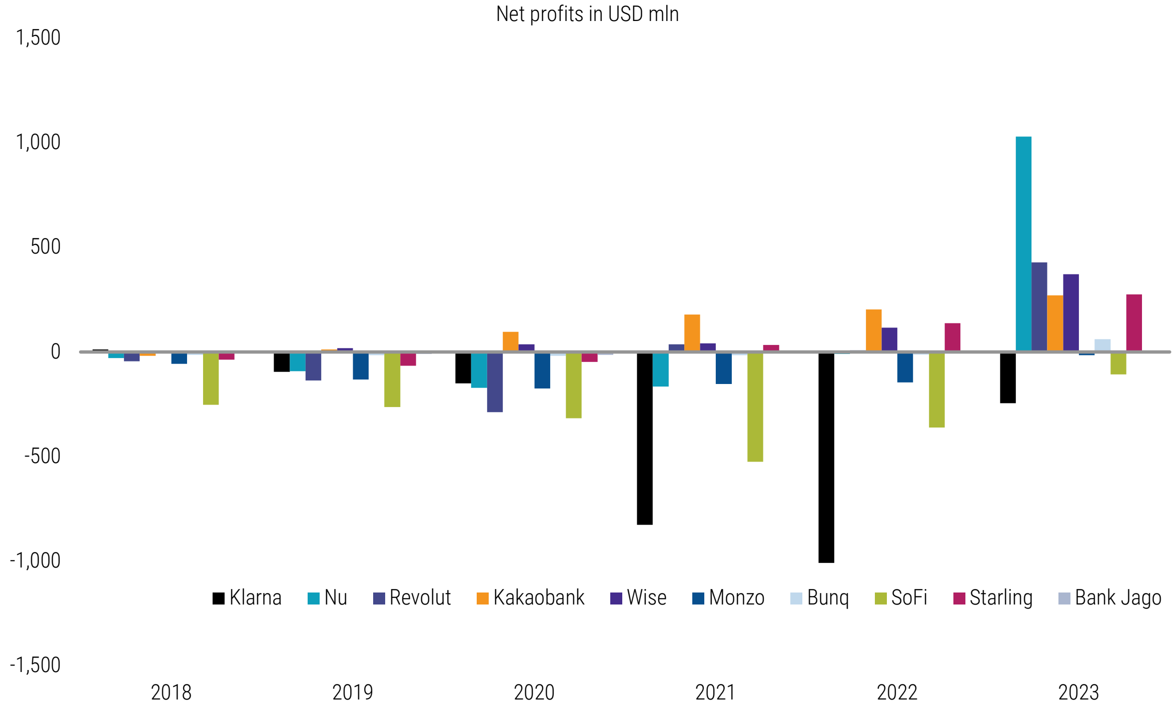


Source: Company reports, Robeco, August 2024.

5. Neobanks: Turning to profit

Neobanks are scaling profitably. As user bases have rapidly grown, and their financial services offering is broadening, we observe an increasing number of neobanks, like Nubank, Revolut, Klarna and Starling turning profitable for the first time in 2023. The positive trend has continued into 2024 with Dave, MoneyLion, Chime and SoFi turning to profitability in recent quarters in the US. This is validation for the sub-sector and is driving investor interest. We expect IPOs for Revolut and Chime in 2025.

Figure 5 – Potential is being realized

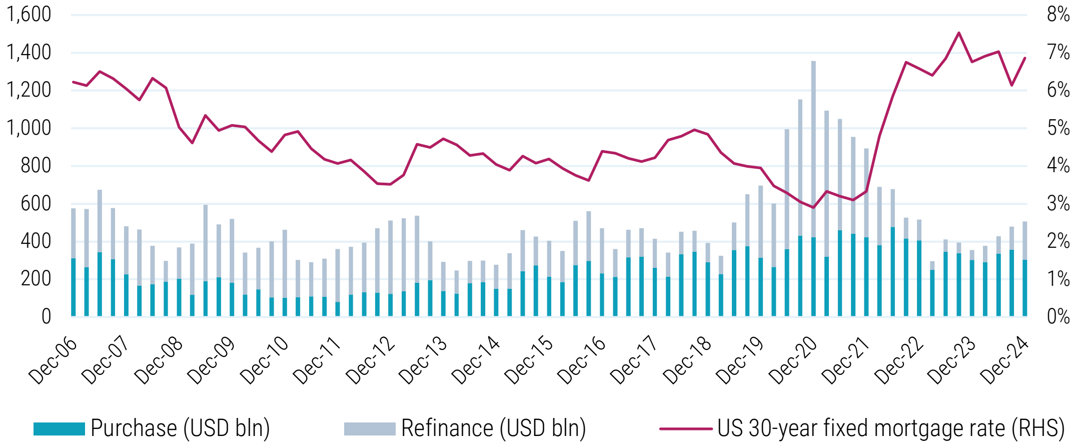


Source: Robeco, company data, December 2023.

6. Data and analytics: US mortgage market recovery

The digitalization trend is rooted in the insatiable demand for data, which provides a structural tailwind for data and analytics companies. In addition numerous data and analytics firms will benefit directly if interest rates fall further. Equifax, TransUnion, and Intercontinental Exchange are notably impacted due to their stakes in the US mortgage market. Figure 6 illustrates that the demand for home purchases remains lower than in 2022, while refinancing activity is virtually non-existent. If the leading US 30-year fixed mortgage rate falls, the Mortgage Bankers Association anticipates a significant rebound in demand. Overall, our exposure to data and analytics has been reduced from 23% at the beginning of 2024 to 16% currently, and we will revisit that depending on the outlook for interest rates as we enter 2025.

Figure 6 - US mortgage market sees volume upside

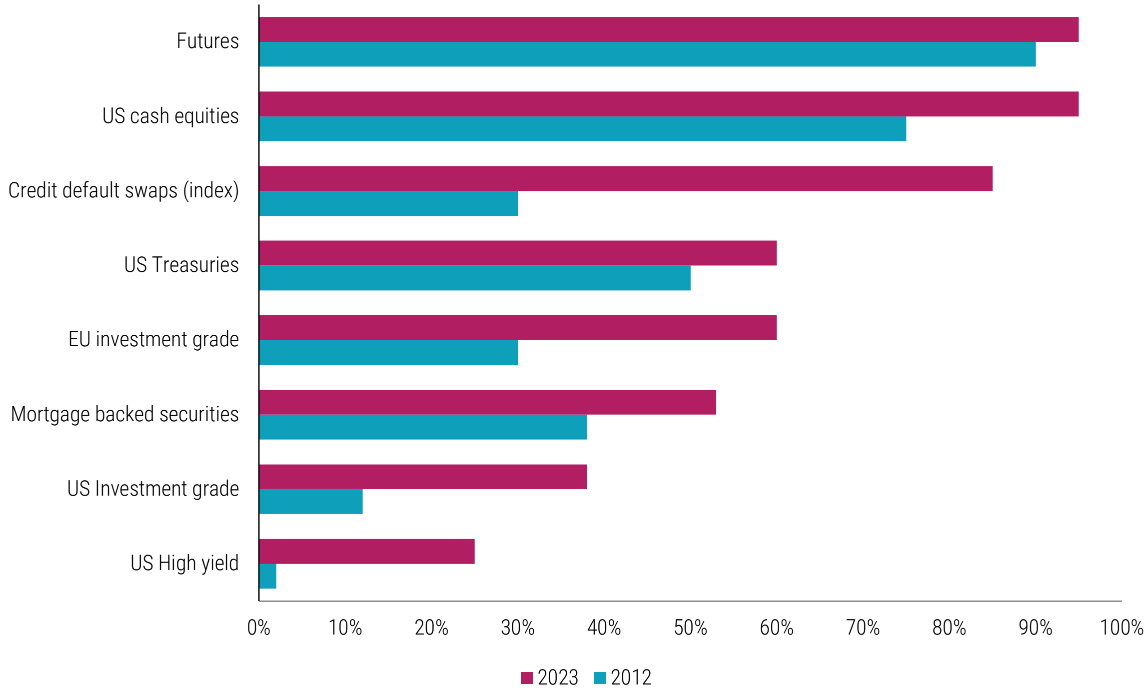


Source: Mortgage Bankers Association, Bloomberg, Robeco, October 2024.

7. Data and analytics: Fixed income electronification still short of other asset classes

The electronification and digitalization of finance is the long-term megatrend that has enabled the fintech sector to establish itself. Nevertheless, there remain asset classes which have stuck to traditional business models through inertia and sometimes regulatory constraints. Up to now fixed income had been one of them, and electronification is still well short of other asset classes, but progress is inexorable, and some data and analytics companies are finding their services in demand as Figure 7 illustrates.

Figure 7 – Global market electronification trends

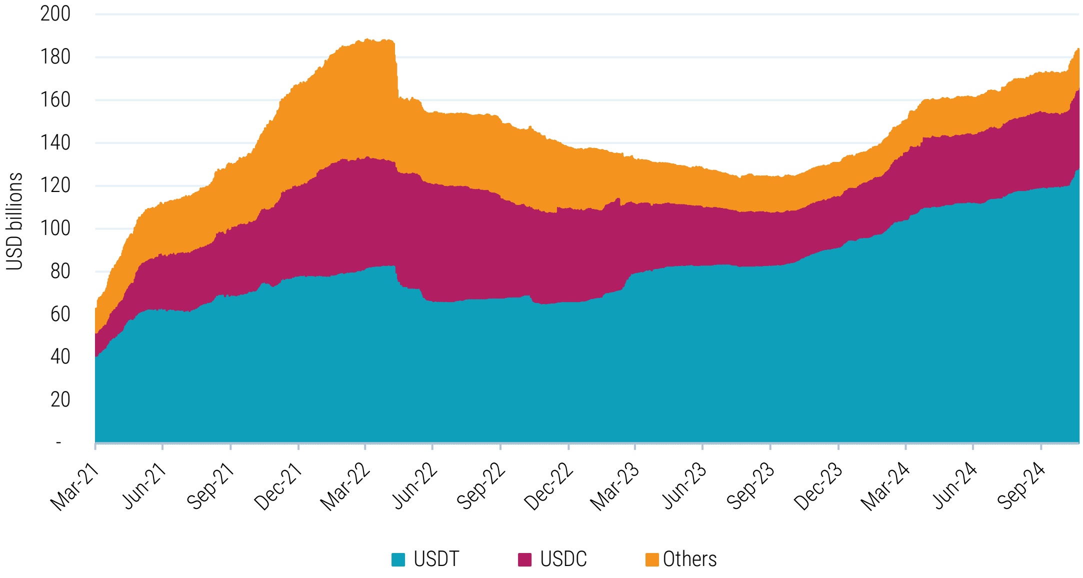


Source: Company reports, Bloomberg, Aite-Novarica Group, BIS, Greenwich Associates, McKinsey & Company, BofA, Robeco, June 2024.

8. Digital assets: Real world traction as stablecoins bridge the gap

Stablecoins (tokenized versions of US dollars) continue to gain traction, bridging the gap between traditional fiat currencies and the fast-growing world of crypto. Stablecoins are now a top-20 holder of US debt and beyond crypto trading use, stablecoins are a perfect fit for cross-border transactions. Stripe's recent acquisition of Bridge for USD 1.1 billion to facilitate stablecoin payments for its clients is another sign the US dollar and digital asset world are integrating. The synergy between AI and blockchain is also noteworthy with Coinbase recently demonstrating that AI agents can use smart contracts and stablecoins for transactions. Additionally, Coinbase's layer-2 network, Base, has seen increased developer interest. With growing activity in digital assets (see Figure 8), our 5% weight in related companies has been justified.

Figure 8 – Tether and USD Coin leading in stablecoin transaction value



Source: DefiLlama, Robeco, October 2024.

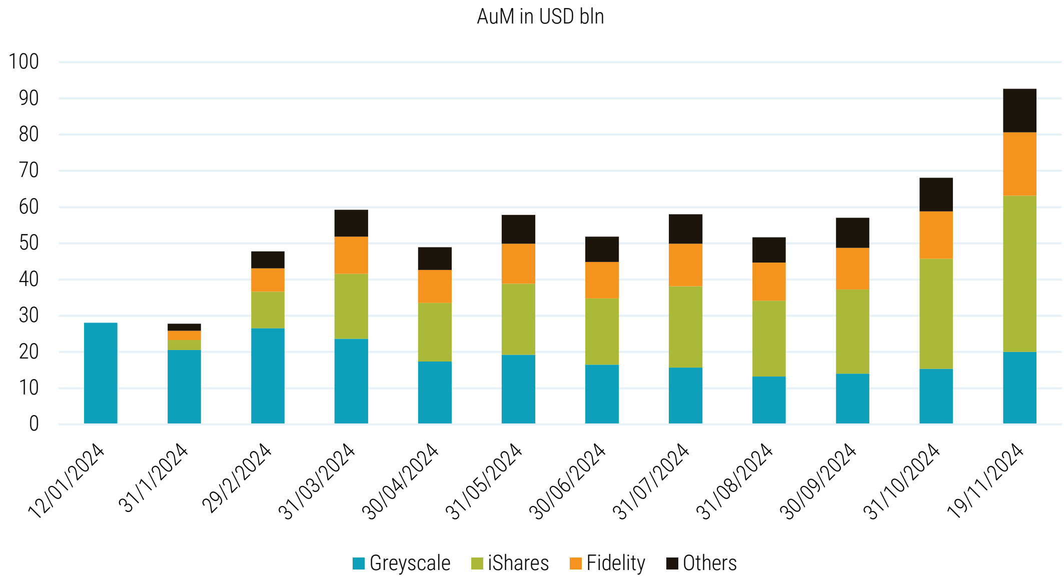
9. Digital assets: A political pivot to cryptocurrency

Cryptocurrencies have not only entered mainstream financial conversations but have also infiltrated US politics. Donald Trump, who dismissed Bitcoin when he was in the White House, delivered the keynote address at the Bitcoin 2024 Conference in July, and pledged his support to building a US-based digital asset industry.

The SEC's green light for Ethereum ETFs in July, following the approval of Bitcoin ETFs in January 2024, marked a pivotal moment for the industry. Despite Ethereum ETFs experiencing minor flows of USD 180 million through mid-November, due to Greyscale's conversion of its USD 9 billion Ethereum trust into an ETF, it is premature to make definitive judgments. Conversely, Bitcoin spot ETFs have been a resounding success, with net inflows of USD 27 billion contributing to a total of USD 93 billion in assets under management, as illustrated in Figure 2.

The evolving regulatory landscape in the US, coupled with the institutional embrace of ETFs, signals a positive outlook for digital assets and key industry players like Coinbase. As the custodian for the majority of Bitcoin and Ethereum ETFs, Coinbase's USD 35 million in custodial revenues may represent a modest 2% of its total quarterly revenue, yet it signifies a more substantial trend. The adoption of ETFs is crucial for the maturation of the digital assets sector. This could translate into increased trading volumes, and enhanced stablecoin and staking revenues.

Figure 9 - Net inflows of USD 18 billion made for a successful launch of bitcoin ETFs in 2024

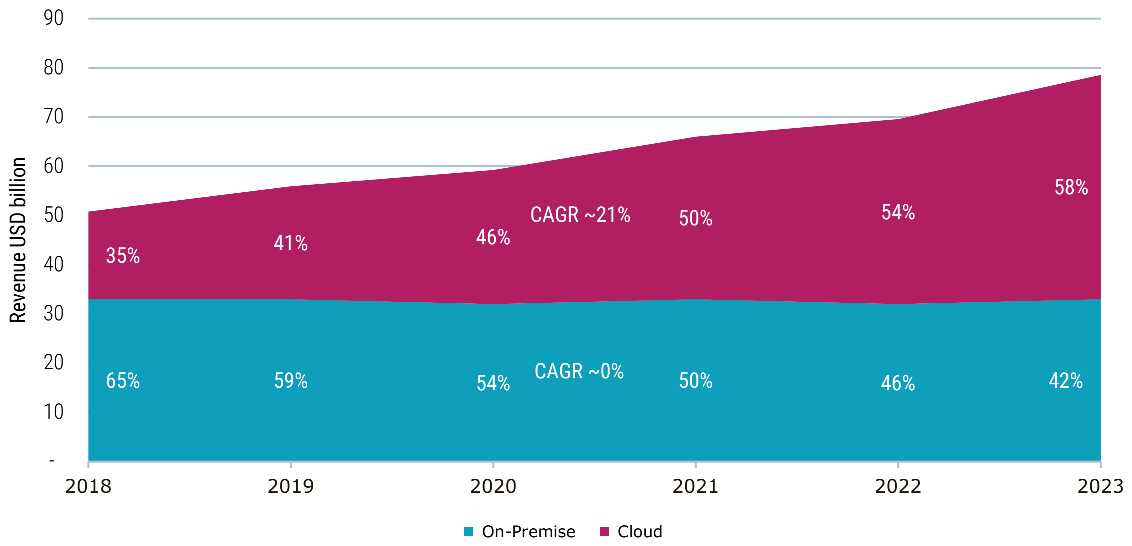


Source: Bloomberg, Robeco, November 2024.

10. Financial infrastructure: Toward the cloud

The Enterprise Resource Planning (ERP) sector is not only a key enabler of fintech companies by helping integrate core business processes such as finance, HR and customer relationship management (CRM) into a unified platform. It's also a growing sub-sector with a strong investment thesis in its own right. The Robeco Global FinTech Equities strategy is investing in cloud-based platform suppliers to banks, insurance companies and fintech challengers, based on their strong growth trajectory.

Figure 10 – ERP companies cloud revenue growing while on-premise stagnates



Source: Gartner, Bernstein, Robeco, September 2024.

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