



**THE PAYMENTS INDUSTRY IS IN CONTINUAL FLUX,
WITH GROWTH RESUMING IN 2021 FOLLOWING A SLIGHT REDUCTION IN 2020
US PAYTECH COMPANIES DOMINATE THE GLOBAL MARKET
NEXI FOURTH IN EUROPE BY TOTAL REVENUES
SUBSTANTIAL ROOM FOR GROWTH IN THE ITALIAN MARKET**

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The Mediobanca Research Area has presented its first report on **international and Italian Paytech companies**.

The survey analyses the financial statements of the **25 international Paytech companies** with revenues of over €1bn in the 2018-20 three-year period and the first nine months of 2021. Of these 25 companies, 15 are based in the United States, two in Brazil and the other eight in Europe. The report also contains a focus on the Italian market: Electronic Money Institutions (EMIs), Payment Institutions (PIs), and Paytech companies, split between start-ups and innovative SMEs.

The complete survey is available for download from www.areastudimediobanca.com.

GLOBAL PAYTECH OPERATORS IN FY 2020 AND 9M 2021

In 2020, the **aggregate turnover** of the **25 international Paytech companies with total sales of over €1bn** amounted to **€140bn**. In general terms the pandemic impacted adversely on these companies' financial statements, which, nonetheless, demonstrated resilience in managing to keep the reduction in their aggregate revenues to relatively low levels (down just 2% versus 2019). Between the open banking revolution, macroeconomic scenarios in continual transformation, and an economy that is increasingly digital, the global scenario facing the payments industry has changed radically and now sees the giants of the banking sector competing with new technology platforms, challenger banks and big tech companies. **Cashless transactions** achieved record highs in 2020, posting volumes of €785bn (compared to €389bn in 2014). However, their growth rate slowed from 16.5% in 2018-19 to 7.8% in 2019-20, showing the effects of the pandemic.

The top five players worldwide are all based in the United States, and account for 59.2% of the aggregate total revenues. This figure rises to 88% of the aggregate total revenues if the results of the 15 US-based companies in the survey are considered. Second and third in the rankings are the European and Brazilian groups, with 10% and 2% of the total revenues respectively. As far as regards **revenue composition**, 57% of the total income is generated by the "scheme cards & global payments" segment (down 4.5% on 2019, following a reduction in cross-border transactions), 36% by firms operating in acquiring and processing (up 2.3% on 2019), and 7% by companies specializing in the "fleet management, welfare & remittance" segment, which were affected by the lower levels of international remittances and restrictions on work-related travel (down 8.8% on 2019).

Looking at the main earnings indicators, **EBIT as a percentage of total income** was 26.2% (4.6 p.p. lower than in 2019), the **Return on Invested Capital (ROIC)** was 10% (down 3 p.p.), whereas the **Return on Equity (ROE)** was 14.5% (down 4 p.p.). The US Paytech companies also

ranked first by **profitability**: their Ebit margin was 28% (versus 16.3% for the European operators), helped in part by the fact that all the most profitable companies operating in the "scheme cards & global payments" segment are based in the United States (with an aggregate Ebit margin of 43.8%).

In Europe, French group **Worldline** (with pro forma total revenues of €4.8bn), which acquired Ingenico, also of France, in 2020, ranked first by total sales, followed by the European divisions of **MasterCard** (€4.4bn) and **Visa** (€3.1bn), with Italian operator **Nexi**, which acquired Danish group Nets in July 2021 and pending completion of the combination with Sia, ranking fourth with pro-forma total sales of €2.9bn.

Positive signals from the results for 9M 2021, with the Paytech companies resuming growth. Aggregate revenues for the nine months totalled €110.6bn (up 14.4% on 9M 2020, with the US companies' revenues up 14.5% and the European companies' top line climbing by 11.6%), whereas operating profit improved by 17%, with growth by the European groups in particular accelerating (GOP up 24.1%).

PAYTECH COMPANIES IN ITALY

The **payments market in Italy** shrank in 2020, recording total sales of €245.8bn (down 8.8% on the €269.6bn posted in 2019). **Traditional retail** was the standout performer, accounting for 73% of the total, with €180.5bn, although the segment has been slowing since 2018 at an annual average rate of 6.7%. In contrast, **digital payments** grew at an average annual rate of 7.1% in the 2018-20 period, approaching a total of €40bn in 2020, €35.5bn of which in prepaid instruments (electronic money). Overall, at year-end 2020 the **stock of electronic currency** in issue in Italy was worth €11.4bn (28.1% higher than in 2019). However, while the digital payment sector is growing, **the share of cash changing hands in Italy** remains high (in 2019 cash accounted for 58% of total transactions in value terms and of 83% in volume terms), higher than the European average (which was 48% and 73% respectively). This is despite the myth that electronic payments are more expensive than cash, given that the latter involves a series of hidden costs related to production, transport and management, that the Bank of Italy estimates at €7.4bn per annum (0.45% of GDP), and which impact on firms' profitability and the competitiveness of Italy generally.

Of the €11.4bn of electronic money in issue, €7.3bn (64.4%) is attributable to **EMIs (Electronic Money Institutions)**, up more than 40% in the last year, while the other €4.1bn is attributable to **credit institutions** which reflect a slower growth rate (of 8.6%). Total revenues posted by EMIs rose by 5.8% in 2020 (to reach €1.7bn), while their operating profits were up 4.6% and their net profit up 1.1%. These results were boosted by the higher demand for electronic money as a result of the growth in e-commerce. Conversely, the **payment institutions'** results were affected by plummeting instore acquisitions during the first half of 2020 and reduced use of credit cards: their revenues decreased by 1.2% (to €518.1m), a decline which was more even pronounced at the operating and net profit levels (down 13.4% and 7.9% respectively).

The survey also analysis the **Italian Paytech companies** (which include start-ups, innovative SMEs and other significant companies), 56% of which are based in North-West Italy, especially in Milan where 21 of them are headquartered. In 2020 their **aggregate turnover** totalled €240m (up 25.7% on 2019), but reflected a decline at the operating profit level (down 19.8%). Having already been negative in 2019, the aggregate Ebit margin improved by almost 1 p.p. to minus 18.5% in 2020. The panel was also sub-divided further into a total of eight subsets: the most dynamic segments, albeit still with very low specific weightings, were **cryptocurrencies** and **online purchases**, both of which reported strong increases in revenues (up 238.4% and 748.9% respectively), but still firmly in the red at the bottom-line level. In 2020 only the

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payment solutions (net profit equal to 14.2% of total revenues) and **innovative POS** (3.1%) segments ended the twelve months in positive territory.

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