

# FT PARTNERS FINTECH INDUSTRY RESEARCH

January 6, 2020

## PAYMENTS CEO INTERVIEW:

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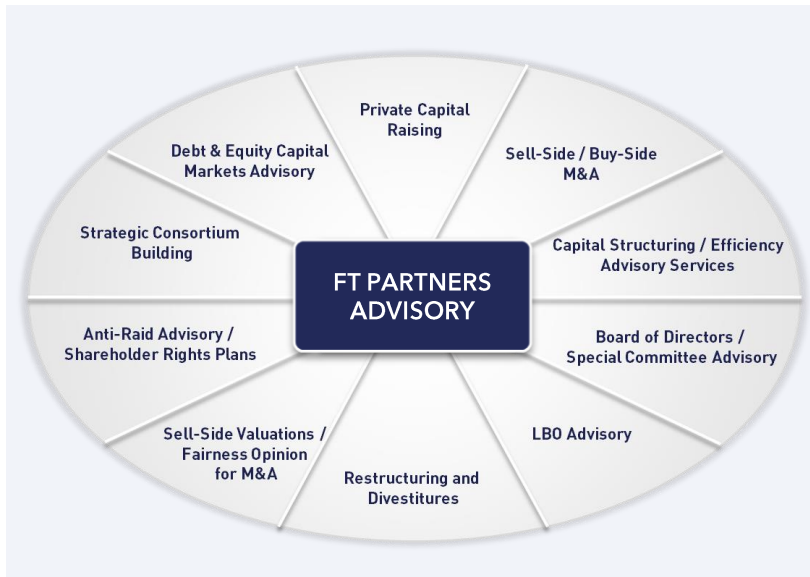
*with CEO Nitya Sharma*

**Alternative Payments / POS Credit**

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## Simpl Overview



### Company Overview



CEO: Nitya Sharma

Offices: Bengaluru, Karnataka, India  
San Francisco, California

Founded: 2015

- Simpl is a technology company that empowers online merchants to offer their customers 1-click checkout, POS credit and data-driven loyalty rewards
- Simpl integrates with merchants' mobile apps and creates an accurate consumer credit profile using a variety of different data points
- A consumer can use Simpl for a period of 15 days for free and potentially extend credit terms for an additional 10 days for a small fixed fee
- Simpl creates a unified bill for all online payments of an individual at the end of the 15-day cycle, enabling consumers to pay for all of their purchases at once
- The Company will be launching a new loyalty program that will allow merchants to allocate loyalty rewards and points to different customers

### Performance Metrics

- 3 million transactions per month
- 310K Monthly Active Users
- Average consumer uses Simpl 10 times a month
- 10,000 strong merchant network

### Selected Financing History

Date	Size	Financing Round	Selected Investor(s)
NA	NA	Early Stage VC	Green Visor Capital, FJ Labs, Hard Yaka, IA Ventures, Recruit Holdings
08/17/17	NA	Series A	Green Visor Capital, IA Ventures, SF Capital
01/16/16	NA	Seed	Green Visor Capital; IA Ventures

### Selected Merchants Who Accept Simpl





**Nitya Sharma**

Co-Founder & Chief Executive Officer

***“At Simpl, we are reimagining payments from the ground up by building a new payments platform with trust, relationship and loyalty between merchants and its cornerstones.”***

### ***Can you tell us a bit about the long-term vision for Simpl?***

Each year, more than \$100 billion is extracted from businesses and consumers by payment companies and credit card issuers in the form of various fees. As intermediators, credit card companies and payment gateways use information asymmetry to monopolize the relationships between merchants and consumers, to the disadvantage of both.

At Simpl, we are reimagining payments from the ground up by building a new payments platform with trust, relationship and loyalty between merchants and its consumers as its cornerstones.

Think about this; each time you swipe your credit card to buy the morning coffee from your favorite neighborhood store, the store owner has to pay 3% in fees to process that transaction. These fees are used to pay for your loyalty points that you love. These points, however, create loyalty for the issuer of the card (typically the bank). While the coffee shop owner just paid to increase your loyalty and relationship with your bank, her only hope at loyalty is the punch card, which remains an afterthought to the consumer.

Our mission at Simpl is to build a platform that empowers any merchant, large and small, to build a trusted relationship with their consumer one transaction at a time via 1-click checkout, POS credit and targeted loyalty rewards, all packed into a cohesive consumer experience at checkout. I believe that the best payment experience is NO EXPERIENCE and the only experience that matters is that of buying and enjoying the purchase.

Today, Simpl is focused on large e-commerce merchants that consumers use frequently, but we believe the opportunity is universal across online and offline commerce. While we started in India, it is clear that Simpl can create value and space for merchants and consumers to reclaim their relationships around the globe.



## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***"As I saw the world move towards mobile commerce, it was clear that the opportunity was so much bigger than the opportunity set offered by a value hedge fund. That was the starting point in a long series of events that lead to the founding of Simpl."***

#### ***How did your background on Wall Street lead to the founding of Simpl?***

I started my career at Bear Stearns in the mortgage backed securities group in 2004 and then went on to trade collateralized debt obligations and credit correlation at Goldman Sachs; for sure it was an interesting time to be on Wall Street, however, I knew that I wanted to do something more entrepreneurial. Looking back, my background on Wall Street and credit was helpful but by no means the perfect career path to become an entrepreneur and to be honest I never thought I'd start a payments company. That happened entirely by accident as I was preparing to launch a value investing fund in India.

When I moved back to India, I was searching for a local credit card to provide the same services and conveniences I enjoyed in NYC. I was shocked that with my background (a successful career on Wall Street, an Amex platinum card and two other lesser known credit cards in the US, a not insignificant bank balance and plenty of other information that should suggest that I could be eligible for a credit card), the bank in India with whom I had a very strong relationship rejected my application. This really drove home the issue facing millions of high-quality Indian consumers, with the same qualifications and characteristics as me, who were unable to access the benefits and convenience of a credit card.

As I saw the world move towards mobile commerce, it was clear that the opportunity was so much bigger than the opportunity set offered by a value hedge fund. That was the starting point in a long series of events that lead to the founding of Simpl.

#### ***What are the key problems Simpl is solving in India? Why are traditional credit and debit cards not the right solutions?***

There is a perfect storm in India. On one hand, India is the fastest growing mobile commerce market in the world -- there are 400 million people with a smart phone connected to the internet and the country has one of the most advanced banking infrastructures in the world, 900 million people now have a bank account, all of these consumers have debit cards and UPI handles, and almost 1 billion consumers are KYC'd (Aadhar).

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“A common misconception is that people prefer cash for nefarious purposes. While in some sectors this may be true, in e-commerce and daily use case transactions, the heavy dependence on cash can readily be attributed to lack of trust and poor user experience.”***

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On the other hand, more than 60% of all e-commerce transactions in India are still done with cash (Cash on Delivery), only ~25 million unique people have a credit card, 25% of all digital transactions on mobile fail at checkout and a digital transaction typically involves multiple factors of authentication leading to a dreadful and cumbersome user experience at checkout.

A common misconception is that people prefer cash for nefarious purposes. While in some sectors this may be true, in e-commerce and daily use case transactions, the heavy dependence on cash can readily be attributed to lack of trust and poor user experience. Paying at the time of delivery builds trust in the transaction and cash on delivery is a true 1-click checkout.

Contrast that with using a debit card or UPI. Multiple passwords lead to a poor checkout experience and 25% transaction failure rate on mobile. Paying with debit also makes consumers bear the entire risk of the transaction going as expected with the added risk of having their bank account exposed to the online world. The demand for this product is evident in the US, where a combination of 1-click checkout, access to credit cards and strong buyer protection in the form of chargeback resolution for consumers has worked in terms of getting consumers' trust in online payments.

Simpl is an elegant solution to address challenges around trust and user experience. Simpl provides consumers a 1-click checkout with pay later functionality to build trust and provide strong buyer protection. This helps online retailers give their consumers an exceptional checkout experience and post-transaction customer service.

Merchants love Simpl because we help move consumers away from Cash on Delivery, increase transaction success rates to 99%+ (from 75%), and, on top of that, increase order frequency by c. 20% as the checkout experience becomes more seamless and directly embedded in the merchant's infrastructure.



## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“We don’t view Simpl as an affordability or credit product, but rather as a convenience and trust building feature that merchants offer to their best customers.”***

#### ***How is Simpl similar / different to other alternative payment methods including Affirm, Afterpay, LazyPay, and Klarna?***

All of the above are part of the fastest growing payment categories in the world called Pay-Later. With that in mind, Simpl has always focused on small transactions that consumers do frequently. We are approaching this segment with a user experience that is superior to all other current payment options from a consumer and merchant perspective (in India), which drives massive engagement and habit formation.

For Simpl, the superior user experience addressing the deficiencies of the India payments stack through our deep integration with merchants is as important as the pay-later feature. We don’t view Simpl as an affordability or credit product, but rather as a convenience and trust building feature that merchants offer to their best customers. This builds loyalty and trust along the way, just like a tab or house account in offline commerce in India, functioning as a powerful tool for building relationships between merchants and consumers.

Klarna, LazyPay and Afterpay are at the intersection of convenience and affordability for e-commerce transactions that consumers do less frequently, but at a higher ticket size per transaction (e.g. consumer discretionary, fast fashion, and similar verticals). Affirm is a true credit product providing affordability for large ticket purchases that occur very infrequently. Each of these platforms address a particular use case, however we believe that at scale, due to the habit formation and trust, Simpl can offer consumers convenience and safety at checkout, affordability when required and loyalty rewards that they deserve.

With its proven ability to shape consumer habit, at scale Simpl will own each of these segments, meeting consumers’ demands for the range of payment and financing options consumers and merchants want through the deep horizontal integration we have in their daily lives.





## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“Simpl is a B2B2C platform, where we directly acquire users from our merchant network at the point of sale, which has allowed us to be extremely efficient in our CAC (to date we have spent almost zero in direct customer acquisition costs).”***

#### ***How are you acquiring customers?***

Simpl is a B2B2C platform, where we directly acquire users from our merchant network at the point of sale, which has allowed us to be extremely efficient in our CAC (to date we have spent almost zero in direct customer acquisition costs). Unlike most of our pay-later peers, Simpl does not allow users to sign up or opt-in. The “Pay with Simpl” button is only visible to those consumers who are pre-approved for credit on the network.

Through the invite-only nature, Simpl attracts a positively selected group of convenience seekers (rather than credit seekers) who constitute the most loyal and highest value customers of our merchants, creating an inherent risk mitigation framework. In addition to hindering adverse selection, through the pre-approval process, Simpl has also removed any negative experiences for first-time users who would otherwise be denied a line of credit.

#### ***What is your pricing structure and how does this compare to traditional payments?***

Simpl’s pay-later business currently has two revenue sources. One is directly from the merchants who pay a Merchant Discount Rate (or “MDR”). This MDR compensates Simpl for the cost of the transaction (covering everything from the credit risk associated with the underwriting to the financing of the advance to the merchant and the full stack cost of collections and servicing). Simpl has completely unbundled the cost structure and allows merchants to pick and choose how they wish to structure the advance. If they wish to bear some of the financing cost (i.e. a delayed settlement) or some of the credit risk, there is a direct economic benefit to the merchant, allowing them to most efficiently integrate Simpl into their workflow and product roadmap.

On the consumer side, Simpl is absolutely free to use, and we do not charge consumers for utilizing our service. However, we do allow a subset of our user base to extend their balance payment period for an additional 10 days for a small fixed fee. Although this is not mandatory, and only a portion of our user base chooses to utilize this feature, it does create an additional revenue source for Simpl.





## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“The basis for Simpl’s initial credit approval on our platform is driven by the deep and habitual engagement with the users of our platform transacting multiple times per month for very small dollar amounts.”***

#### ***How do you underwrite consumers for credit? How has your credit performance been?***

Although Simpl’s platform definitively is exposed to the credit performance of the users on our platform, the type of credit exposure is markedly different to the exposure a traditional point of sale or installment lender faces. The basis for Simpl’s initial credit approval on our platform is driven by the deep and habitual engagement with the users of our platform transacting multiple times per month for very small dollar amounts (averaging 10+ per month, with our top users transacting 20+ per month). Through our deep integration with merchants on the Simpl network, Simpl is able to underwrite this small credit line (which for the first billing cycle is no more than USD \$15-20, enough to satisfy historical spending on users’ favorite merchants) in real time utilizing unstructured data provided through our network.

Our credit performance has proven that our underwriting models work, with credit losses continuing to meet or outperform target loss levels even as the user base expands. Our best customer cohort (which constitutes 65%+ of the portfolio at any given time) provides extremely attractive gross margins when fully incorporating all costs, and our overall portfolio unit economics are also quite attractive even when fully risked for first time users.

#### ***How are you funding the credit you are providing and how do you expect this to change over time?***

Although Simpl’s long term vision has always been to provide the intelligent technology layer which allows capital to flow directly from lending institutions to consumers at the point of sale, Simpl has always understood that it needed to first prove out both its authentication and underwriting framework utilizing its own balance sheet and taking the credit risk on a principal basis.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***"Our platform will enable merchants to directly design and apply a loyalty offering which provides direct rewards to consumers."***

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For the past 18 months, Simpl has created on balance sheet financing vehicles which utilize securitization technology to finance the merchant advances. Given the high velocity of the assets (less than 14-day WAL), Simpl has always had adequate access to debt capital from local lenders to finance its working capital needs. The structures have been designed to stand up to institutional rigor with minimal structural changes as we onboard larger and more sophisticated lenders as our capital needs mature.

Parallel to our balance sheet activity, Simpl has recently executed the first of many expected partnerships with major Indian banks, allowing the entity to provide pay-later lines of credit directly to their customers utilizing Simpl's network and rails. Through this initiative, we have started to execute on our long term vision of creating the world's first and only merchant focused payments network, where any capital provider (whether a bank, NBFC, or any other type of consumer financing balance sheet) can utilize a neutral platform with access to proprietary data to allocate point of sale credit to the best and most loyal consumers of a single merchant, a cohort of merchants, or an entire network based on their desired risk and demographic profile.

#### ***What is Simpl's vision for data-driven loyalty?***

In the current payments value chain, merchants are funding their customers' loyalty points through opaque and expensive MDR. However, the loyalty created by credit card rewards programs accrues to the issuer rather than the merchant. I think this is the original sin in payments. Our platform will enable merchants to directly design and apply a loyalty offering which provides direct rewards to consumers.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***"We are using our learnings in India to re-imagine what a credit card should look like in the world of smartphones, the internet, big data and machine learning."***

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We know that merchants want to give their customers, especially their best customers, discounts and rewards, but they are less excited about funding your 3% cash-back when you pump gas. Today, only merchants with massive scale are able to give attractive, bilateral rewards via a credit card (e.g. Amazon Prime Card, Target Card), but once the experience becomes fully digital, the physical limitation of the card in your wallet disappears and all merchants irrespective of their size should be able to give the right customers the rewards that are enticing enough to turn them into loyal, long-term customers. Utilizing the proprietary data our network provides, we are uniquely positioned to enable merchants to offer personalized rewards to the right consumers directly and in real time. At scale, our bilateral (and if merchants choose, cooperative) loyalty platform, controlled directly by the merchant, results in a highly relevant and supercharged rewards program that provides immense value back to the merchants and consumers alike.

***You have built a neat solution for the Indian market that collapses the entire payments value chain into one platform, how do you think about the opportunity set outside of India?***

In India, we enable a differentiated 1-click checkout experience that solves for the imperfections of the Indian payments' ecosystem through alternative forms of authenticating and underwriting consumers with limited reliance on traditional credit metrics (such as repayment history, credit score, etc., which do not exist at scale) at attractive unit economics. We are using our learnings in India to re-imagine what a credit card should look like in the world of smartphones, the internet, big data and machine learning. India is the perfect market to build and scale this product because traditional credit-based payments are struggling to establish themselves as global players and have not yet achieved the scale they have in other markets.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***"In building a solution for the Indian payments market, we inadvertently created a unique solution to solve a major problem facing global e-commerce platforms, which bear a large processing expense for transactions."***

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In building a solution for the Indian payments market, we inadvertently created a unique solution to solve a major problem facing global e-commerce platforms, which bear a large processing expense for transactions. These problems are only compounded as transaction frequency increases and transaction size decreases, and the fixed processing costs further erode margins to the point of transaction indifference. Simpl's platform elegantly solves the problem for processing small dollar payments: as the processing and payment rails are owned completely by Simpl and bear no fixed costs, we are indifferent to processing a 10 cent transaction or a 1,000 dollar transaction in an efficient and scalable manner for merchants at a price that makes economic sense for all parties. We believe that this technology will only further deepen and ingrain our merchant side relationships, and our value proposition will enable us to use these key merchants to act as a wedge into more developed markets.

In both emerging and developed markets, Simpl will be able to process payments at a significantly lower cost than a traditional credit card and enable merchants and consumers to build relationship and trust with each other. Our integrated approach to payments and our deep merchant relationships put us in a unique position to take cost out of the system while driving tremendous value for both merchants and consumers. We believe the core problem Simpl solves exists all around the world and, at the right time, Simpl will pursue this global opportunity.

***How do you expect the market structure of payments to change over time? For example, do you expect interchange rates to change significantly in the future? How do you see the role of the traditional networks (Visa, MasterCard, Amex, Discover) changing over time?***

The majority of innovation in the payments ecosystem in recent years has occurred on top of the existing infrastructure, primarily focused on providing better access to the payments system (e.g. PayPal, Square, Stripe). While all of these companies are offering highly valuable services to their customers, they are inflationary in nature.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“When the smartphone becomes the payment instrument, the internet becomes the network and technology and data can be leveraged to solve for identity and trust.”***

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In credit-based payments, the key contribution of the four-party value chain is creating a network that allows for information to flow quickly and securely and establishing identity and trust in a transaction. When the smartphone becomes the payment instrument, the internet becomes the network and technology and data can be leveraged to solve for identity and trust. Therefore, we expect the economic rent that is currently extracted from merchants by the payments value chain to compress over time and the payments ecosystem to become more integrated as a result. Interchange should decrease as innovation makes the industry operate more efficiently. The form-factor of the credit card has cemented the competitive position of traditional networks for years; however, as more and more commerce transitions to mobile, the form-factor ceases to be a limiting factor, and API & SDK-based solutions like Simpl should be playing a bigger role in a \$1 trillion ecosystem waiting to be disrupted. This disruption will naturally lead to price compression as merchants need pricing concessions to support their payment needs, and Simpl intends to be at the forefront of this shift.

***What were the biggest challenges in building Simpl and how has overcoming those challenges helped you create a better business?***

Building a multi-party marketplace from the ground up with an unproven business model is quite challenging. Now we have proved product market fit and we are able to retain attractive unit economics in the process. The hardest thing was to convince the first set of merchants to join our network because when we approached them, they were going to be the first node of the network (why would anyone want to be that?). We often jokingly say, the first 10 merchants are impossible, the next 100 are very hard, but the next 10,000 are easy. On the consumer side, the same chicken-and-egg problem exists, but our merchant network has now reached the scale where it makes sense for us to aggressively grow the platform.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***"Since the Company's founding, our lead investor has been Green Visor Capital, a San Francisco based venture capital fund that is led by Joe Saunders, ex-CEO and Chairman of VISA."***

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In order to build the infrastructure to scale we had to take a very disciplined engineering and risk management approach. Because our affinity and credit models are based on machine learning algorithms, we had to open the consumer funnel up wide enough so that we could also observe the bad behavior to build anti-fraud systems and prevent these users from entering the platform when we achieve scale. Taking those learnings from fraud events and leveraging them to build better risk and underwriting models is really what drives our competitive advantage as we ramp the consumer side. We believe that our moat is extremely deep, consisting of not only the merchant side integrations and proprietary data, but also our models' performance over time and the learnings obtained by utilizing them, which create immense barriers to entry for new participants.

***How have you funded the business to-date and how do you think about the Company's financing needs going forward?***

Simpl has been lucky enough to work with some very talented and world class investors. Since the Company's founding, our lead investor has been Green Visor Capital, a San Francisco based venture capital fund that is led by Joe Saunders, ex-CEO and Chairman of VISA. Joe's experience in both financial services and most importantly payments has been a huge tailwind for Simpl, not only in thinking through consumer engagement, but also on how we should be thinking about building the payment network of the future. In addition to Green Visor, our cap table includes IA Ventures, FJ Labs, and Recruit Strategic Partners on the institutional side and a number of family offices and HNWI individuals who have relevant industry expertise and believe in Simpl's vision for the future of payments.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“The next step in our product roadmap is to open our issuing platform to third party providers of capital, allowing capital to flow from the cheapest cost of funding to the point of sale.”***

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For our working capital and balance sheet financing, we are working very closely with sophisticated institutional lenders who are positioned to meet Simpl's balance sheet needs in an efficient and scalable framework for the foreseeable future. The facilities we have designed are meant to be future proof, and able to accommodate incremental upsizing without incurring additional legal and restructuring expense.

As we look towards the future, we understand that additional financing will be necessary to execute on our growth plan, and this capital will consist of both debt and equity. As such, we are in the middle of a capital raise now, which we hope to have wrapped before the end of Q1 2020. We are very excited about the prospects of expanding our investor base and bringing additional global thought leaders onto our cap table.

#### ***What new products / services are on your future roadmap?***

Simpl's long term goal is to offer consumers convenience and safety at checkout, affordability when required and loyalty rewards that they deserve. We do so by building a smart data and intelligence layer facilitating commerce between merchants, consumers, and capital providers. Being a neutral entity allows us to be the intermediary of trust that connects the three groups to each other in a way that creates value for everyone involved.

While our current focus is on scaling the pay-later business with more merchants (including offline) and consumers, the next step in our product roadmap is to open our issuing platform to third party providers of capital, allowing capital to flow from the cheapest cost of funding to the point of sale. This will also enable us to expand the Simpl use case from smaller transactions to bigger ticket purchases. The trust and engagement we are building with consumers by being a part of their daily lives positions us well to launch installments and personal loans in the future.

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## Interview with Nitya Sharma (cont.)



### Exclusive CEO Interview

***“Ultimately, facilitating commerce and giving India’s upwardly mobile middle-class access to credit-based payments in a convenient and secure fashion is what gets us excited to come to work every day.”***

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By platformizing our issuance stack, we have laid the groundwork to take a role similar to traditional card networks, allowing providers of capital like banks, NBFCs, or even merchants to fund consumer purchases. We view Simpl as a data and technology company rather than a specialty finance company, but we are planning to continue to provide capital in places where traditional data is weak and acquire and season consumers until their metrics allow them to be acquired by traditional financial services players.

The loyalty offering we are building is a key milestone in further augmenting the value proposition to consumers and offering merchants a high ROI way of deploying their marketing spend at the same time. Launching with offline merchants will further increase our stickiness with consumers and get us a step closer to our goal of becoming the dominant platform for credit-based payments in India. Ultimately, facilitating commerce and giving India’s upwardly mobile middle-class access to credit-based payments in a convenient and secure fashion is what gets us excited to come to work every day.