LAYBUY

Investor Newsletter

MAY 2022

Highlights

GMV ↑

Strong growth continues, with Q4 GMV up 26% compared to the same quarter last year. UK GMV was up 39%.

Income ↑

Q4 revenue up 23% from the same quarter last year, reaching NZ$12.1 million.

UK Customers ↑

UK active customers reached 609,500 in Q4, up 32% when compared to the same quarter last year.

New Merchants ↑

Active merchants reached 13,700, driven by strong growth in the UK with a 12% increase in merchants in that country this quarter.

What does a rising interest rate mean for Laybuy?

For nearly a decade, interest rates across most developed economies have been falling as new technology drives productivity and efficiency gains, resulting in falling costs and low inflation. But this is beginning to change.

Quantitative easing to reduce the economic impact of the pandemic, supply chain issues, skills shortages, and geopolitics have combined to create inflationary pressure. As a result, central banks are now moving to tighten monetary policy and increase interest rates.

While global economies remain relatively strong, with low levels of unemployment, rising interest rates can act as a hand brake on the economy by increasing the cost of borrowing and encouraging increased saving rates.

But what does this mean for Laybuy and the BNPL sector?

“There are two strands to this question,” says Gary Rohloff, Co-founder & Managing Director of Laybuy. “The first is the effect rising interest rates have on our cost of sales, while the second is understanding the impact higher interest rates are having on our customers?

“From a cost of sales perspective, a rising interest rate environment has a minimal impact on Laybuy’s cost base. A 2% increase in the underlying interest rate, for example, translates into a four basis points (0.04%) reduction to our Net Transaction Margin.

“This is because the business model we have developed is extremely capital efficient. Our weekly repayment cycle means that we recycle our capital around 20x per annum.

“The average duration of our loans is only two and a half weeks, so interest is a very minimal cost for us, especially compared to others who have much longer loan durations. In fact, Laybuy is the most capital efficient BNPL provider in the market.

“Better still, our funding line with our UK debt partners, which drives our UK growth, is at a fixed rate. This means we're not exposed to interest rate rises in the UK. In fact, our UK cost of borrowing actually falls as we continue to scale with the debt facility we're using.

“This is quite different to some other BNPL providers, some of which have quite a large percentage of their business in longer-dated finance facilities. As a result they don't spend their capital as fast, and are more susceptible to rising interest rates.”

Gary says when it comes to consumers, rising interest rates can impact discretionary spending by increasing debt servicing costs.

“While only time will tell what effect rising interest rates will have on the BNPL sector, because most of our customer base skews younger, it is quite possible increased interest rates have a minimal impact given most of our customers are unlikely to have mortgages,” says Gary

“And while cost of living pressures might be tightening consumer wallets, this could result in increased demand for our services as consumers look to make use of Laybuy to help spread their payments across a number of weeks.

“This is a double edged sword, because consumers who are facing economic pressures are naturally at a high risk of default. That is why we are proactively taking steps to mitigate this risk, including being more vigilant around credit and affordability testing, while also being more cautious around increasing credit limits – just because a customer can afford $20 a week, doesn't mean they can afford $40 a week.

“The key takeaway is that we don’t anticipate a significant impact on our business as a result of rising interest rates.”

Laybuy appoints global leader in risk management as new Chief Risk Officer

This month we welcomed leading risk management expert Jamie Byles as our new Chief Risk Officer.

In this newly created position, which is part of Laybuy’s senior leadership team, Jamie will be responsible for driving our fraud prevention strategy, ensuring that we are implementing the best tools available to prevent fraud and minimise credit risk.

Jamie brings a wealth of experience to Laybuy, having spent his career working at senior levels in risk management, including fraud prevention, at some of the world’s largest financial institutions.

Joining Laybuy from HSBC, where he was Group Head of Fraud - Wealth & Personal Banking, Jamie has previously held roles as Risk Director at Barclays, Head of Fraud Strategy at Visa, and Head of Credit Fraud Risk at NatWest Group.

Jamie was also twice elected Chairperson of the Visa Risk Working Group, appointed as a civilian advisor to UK law enforcement agencies, and has worked with government and regulators in designing and implementing the Contingent Reimbursement Model in the UK, helping reduce incidences of scams.

He also led an international law enforcement operation with Europol, labelled the Airline Day of Action, targeting ticketing fraud that resulted in 128 criminals being arrested in one day across 40 countries.

Jamie was also a director of Ethoca, a Fintech specialising in intelligence and technology solutions to fight fraud, reduce chargebacks and improve the customer experience. Ethoca was acquired by Mastercard in 2019 as part of their effort to reduce digital commerce fraud.

Laybuy Managing Director Gary Rohloff says he is delighted to welcome someone of Jamie’s unrivalled experience to Laybuy’s leadership team.

“Globally, there has been an increase in fraudulent activity involving companies in e-commerce and this is impacting those providing online payment services, including the BNPL sector,” says Gary.

“At Laybuy, we are taking the growing threat of attempted fraud seriously and are committed to doing all that we can to proactively reduce the incidences of fraud, minimise its impact and continuously improve the security of our payment platform. Jamie will play a critical role in helping us achieve this.”

Jamie says he is excited to be joining Laybuy as it continues to accelerate its growth in New Zealand, Australia and the UK.

“Fraud is a growing challenge for all those involved in e-commerce and it is important that companies have a strong and robust strategy to keep one step ahead of criminals, who are always looking to find and exploit a gap in security,” says Jamie.

“Our priority needs to be preventing them from doing this by continuously improving the security of the platform and acting quickly and decisively when new threats or vulnerabilities emerge.

“Not only does this allow us to protect our customers and merchants partners, but successfully reducing losses from fraud also helps improve our revenue and will play an important role in our path to profitability.”

Jamie will be based in Laybuy’s London office and is responsible for all of Laybuy’s risk and compliance functions.

Inside Retail Whitepaper – It’s not just about the money

Last month, Laybuy partnered with Inside Retail to publish a new insights paper on the emerging technology and trends that are helping shape retail payments in Australia and New Zealand.

The paper identified that in an increasingly competitive retail sector, payments are emerging as a key competitive differentiator for retailers, and it is becoming more important than ever that they ensure they are meeting rapidly changing consumer expectations.

Consumers are demanding new ways to pay, with increasing numbers of Australians turning against traditional forms of payment, such as cash and credit cards, and looking towards alternative payment options.

In fact, the paper found nearly three-quarters of Australians are open to trying new payment methods, with 44% having tried one in the last year. At the same time, one million credit cards have been cancelled in Australia and credit card debt is at its lowest level in 18 years.

One of the reasons cited for a decline in credit card use has been the rapid growth in BNPL, with growing numbers of consumers embracing its ease of use, interest-free credit and structured repayments.

As a result, BNPL is now firmly entrenched as a key payment option, with more than 44% of Australians and 35% of New Zealanders saying they have used BNPL to make a purchase in the past year.

But it’s not only BNPL that is driving change in the payments landscape. The uptake of digital wallets has accelerated dramatically in the last two years, while we are also seeing rapid growth in contactless payments via wearable devices.

It is anticipated that ongoing innovation and rapid digitisation will see continued disruption in the payment sector, with retailers exploring new forms of contactless in-store payment systems.

As the payment sector continues to evolve, the report concludes it will become increasingly important for merchants to provide a range of payment options that meet the needs of their customers. Not doing so risks impacting sales and losing customers.

But it is also important for payment providers to continue innovating and providing merchants with new solutions to their payment problems. At Laybuy, products like Laybuy Boost, Laybuy Global and the Laybuy Card are just some examples of new innovations rolled out to do just that.

To read the full report, visit Inside Retail to download a copy.