

Thriving in a desert: Kapital's evolution building fintech in a capital-scarce world

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Today we examine [Kapital](#), an emerging market fintech company focused on serving LatAm SMEs, that we believe exemplifies a new generation of fintechs that have discovered how to thrive in a capital-scarce world.

The company empowers businesses with valuable data and insights through its Automated Intelligence Dashboard (AID) software. It uses this subscription as a wedge into its full-stack financial platform, offering loans, credit cards, expense management, and other financial services.

- We believe market participants have previously analyzed fintech businesses incorrectly, looking past monetization in favor of volume-based metrics. This approach has led to high-profile missteps, marked by significant down rounds in once-hot fintech companies.
- Kapital stands out because it has prioritized monetization from launch, achieving efficient growth through customer expansion and diversifying revenue with multiple product offerings.
- With a strong focus on customer retention and continuous improvement of its product suite, Kapital is well-positioned to become the go-to full-stack fintech platform for LatAm SMEs, reshaping investor perspectives on sustainable fintech models.

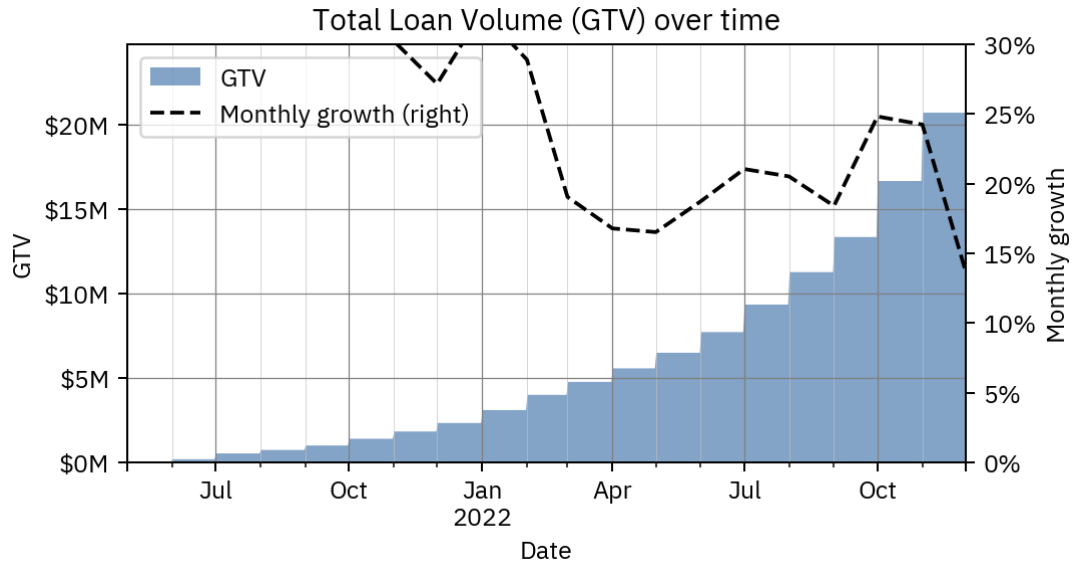
Building an emerging market fintech company the right way

Kapital, a disruptive neobank in Latin America, is transforming the financial industry by offering a diverse array of services to small and medium-sized enterprises (SMEs), replacing costly and inefficient offerings provided by traditional banks. Kapital recognizes the essential requirements of LatAm SMEs and addresses them through a comprehensive suite of offerings, including loans, corporate credit and debit cards, and invoice management. To empower SMEs further, Kapital has developed a groundbreaking SaaS product called the Automated Intelligence Dashboard (AID). AID grants SMEs access to sophisticated data and analytics, providing valuable insights into their business operations and cash flows. By equipping SMEs with this information, Kapital aims to enhance decision-making, expedite loan repayments, and foster business expansion among its customer base.

Kapital focuses primarily on lending because of the significant credit disparity LatAm SMEs face. As of 2020, there were 4.9 million SMEs registered in Mexico, accounting for 78% of private sector employment and representing 52% of the country's GDP¹, yet these businesses receive a meager 11%

¹ Economist Impact, "Mexican SMEs: The Digital Drivers of Economic Recovery", available at <https://impact.economist.com/projects/digital-brazil-mexico/mexican-smes/> (last visited June 2, 2023).

of the total bank credit available for businesses². This discrepancy highlights the urgent need for a financial institution like Kapital to step in and address the challenges SMEs face in securing adequate financing. The lack of credit access exacerbates working capital issues caused by delayed payments from large corporations. By being intimately involved in the flow of funds and armed with a wealth of data, Kapital is uniquely positioned to underwrite its customers successfully. This has allowed Kapital to achieve an extremely low default rate.



Kapital’s loan book growth was visualized. Kapital has rapidly scaled GTV despite its conservative underwriting, showing the depth of demand within the market. Source: Tribe Capital Proprietary Analysis, Jan 2023.

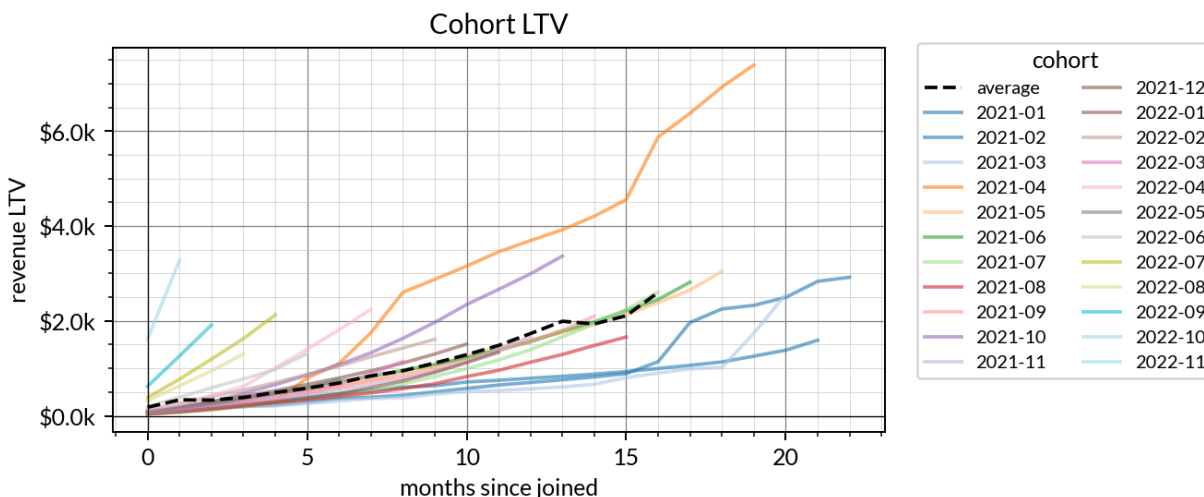
Kapital’s vision goes beyond traditional financial services, with the company’s ultimate goal being to accelerate the economic growth of North LatAm through the empowerment of SMEs. By providing essential tools and valuable insights, such as AID for full cash flow visibility and performance evaluation, Kapital actively supports SME expansion. With its comprehensive offerings, Kapital's innovative platform adapts and facilitates the growth of SMEs, parallel to the expanding regional economy.

An exception where fintech companies have previously missed the mark

Within the fintech industry, Kapital stood out to us as an exceptional example of how we believe fintech businesses can be successful:

- Strong focus on monetization from launch
- Highly efficient growth driven through cohort expansion
- Diversification of revenue via the launch of multiple products

² The World Bank, “Expanding Financial Access for Mexico’s Poor and Supporting Economic Sustainability”, available at <https://www.worldbank.org/en/results/2021/04/09/expanding-financial-access-for-mexico-s-poor-and-supporting-economic-sustainability> (last visited June 2, 2023).



Kapital has superlinear cohorts, which is a rare trait in which customers, on average, spend more each month on the platform. Source: Tribe Capital Proprietary Data, Jan 2023.

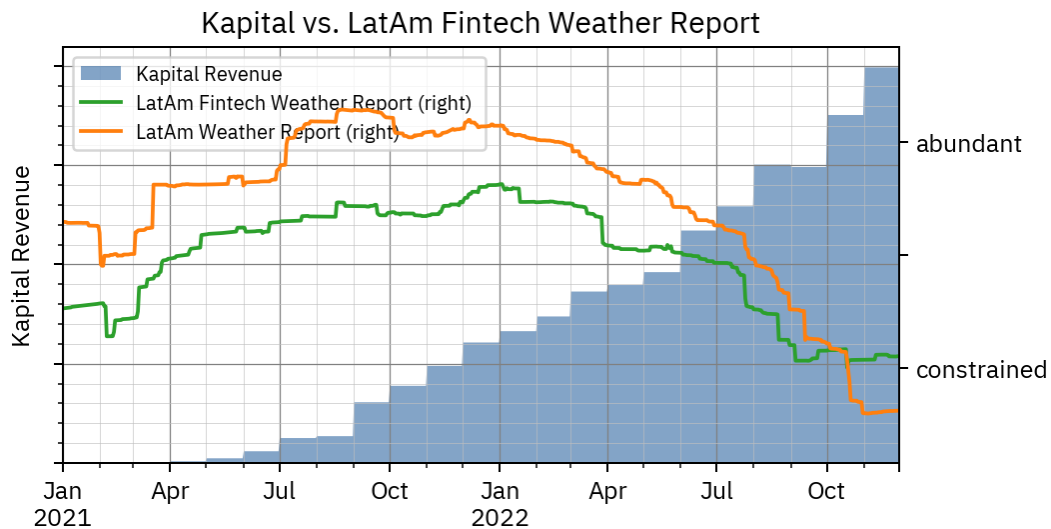
In understanding what makes a company like Kapital special, we need to focus on the mistakes that past fintech businesses have made. The previous paradigm within fintech was to spend excessively on customer acquisition, with the idea that the company could monetize at scale. Instead of revenue, companies prioritized volume-based metrics such as Gross Transaction Volume (GTV) or Total Payment Volume (TPV). Recent macro conditions have heavily punished these companies. Below we highlight a few examples of fintech companies that we believe have made missteps in this regard. To clarify, we're not suggesting that these companies or industries are destined for failure. We're simply highlighting a misstep in their growth journey that, regrettably, affected their performance in the capital markets. For example, we believe Klarna is a fundamentally sound company with a good chance to recover some of its 'lost' valuation.

Klarna - Klarna, the Swedish BNPL (Buy Now Pay Later) company, saw a devaluation of 85% in July 2022, falling from its peak valuation of \$45.6B to \$6.7B. Klarna primarily pursued traction, investing heavily in costly marketing campaigns, while not giving sufficient attention to monetization strategies. As a result, the company burnt almost \$1B in 2022. Additionally, Klarna's narrow focus on its BNPL product creates difficulty in growth through user expansion and, more importantly, leaves it vulnerable to competition. Apple launched its Pay Later program in March 2023, representing a serious threat to Klarna given that Apple charges no fees to merchants besides a small fee that allows them to accept Apple Pay.

Clara - Clara is another LatAm company aiming to be an all-in-one spend management platform for LatAm businesses. Clara recently raised a round at a 70% discount to its previous round. Like Klarna, Clara concentrated heavily on growing TPV, specifically focusing on their credit card product. The singular focus on the credit card makes monetization difficult due to the reliance on interchange fees, which are generally low in LatAm, especially compared to the cost of capital needed to fund these revenues. More importantly, we feel that Clara addresses a more downstream problem, with many businesses in LatAm not yet at the maturity where spend management is a pressing need.

BlockFi - BlockFi is a digital asset lender valued at \$3B in 2021 before being acquired by FTX for \$240M, contingent on performance, in July 2022. Investors believed BlockFi had achieved product-market fit due to its impressive growth rates and strong retention. However, in reality, BlockFi was essentially a business giving away \$1 for \$0.95, given that they were lending out money at a lower rate than their cost of capital as a means of customer acquisition.

Moreover, it is important to note that the recent slowdown in venture funding has disproportionately affected the Latin American (LatAm) fintech sector. This slowdown is particularly challenging for fintech companies, given the outsized capital needs that many of them require. This makes operating efficiency even more important, as companies are now forced to aim for profitability much quicker than previously anticipated.



Kapital continues to grow at an impressive rate, even as capital flowing into LatAm fintech startups has become more constrained. Source: Tribe Capital Proprietary Analysis, Jan 2023.

Driving growth and innovation through a comprehensive product suite

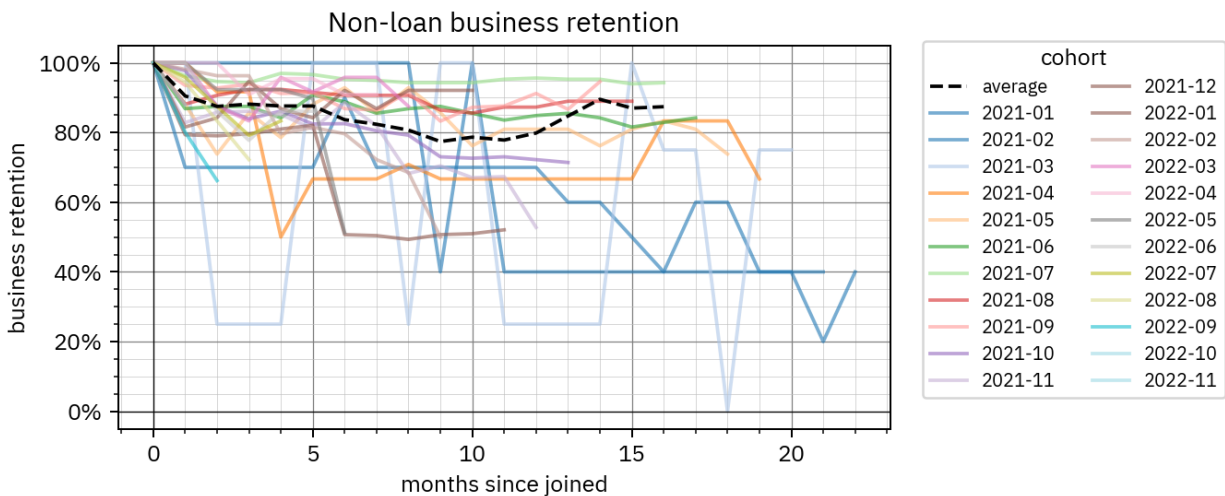
Given the takeaways gained from examining the difficulties of other fintech businesses. We believe that Kapital is poised to grow into the go-to full-stack fintech platform for LatAm SMEs. This is primarily driven by Kapital’s product suite, which is constantly evolving to cater to the current needs of its customers. The company's acquisition channel revolves around its AID dashboard, which they charge businesses a nominal subscription fee to access (~\$40). The value of this product to customers is evident from the fact that it has a 100% retention rate to date. Subscribing then gives access to Kapital’s remaining products, all designed with SMEs in mind.

Kapital offers a range of loan options to meet the diverse needs of SMEs. The simplest of these are traditional short-term loans spanning from 12 to 24 months. In addition, Kapital offers a unique product called Kapital Flex, which allows users to defer payment on received invoices. This innovative approach resonates with customers, providing them with improved cash flows and the ability to reinvest in their businesses, shifting the focus from mere survival to growth. The success of these loan offerings has

driven traffic to Kapital's credit card and corporate expense products, as companies graduate from working capital needs to cash flow management needs.

In 2023, Kapital forged a partnership with American Express (Amex), a move that significantly boosted take rates and opened up new market opportunities. The alliance with Amex not only increased Kapital's revenue but also enabled them to move upmarket, leveraging the premium nature of Amex cards. This strategic collaboration further solidifies Kapital's position as a comprehensive fintech provider.

Looking ahead, Kapital has ambitious plans to expand its service offerings. Payroll services and invoice generation, which fulfill key needs for many existing customers, will be the next two products. Furthermore, Kapital aims to introduce treasury accounts, allowing businesses to invest their savings. Launching these products will allow Kapital to continue having a diversified revenue stream, as well as ensure that they can continue to be the all-in-one platform their customers need.



Kapital's non-loan business retention is extremely strong, showing how the Kapital team has successfully built multiple product lines without losing focus on their core business. Source: Tribe Capital proprietary analysis, Jan 2023.

Another key area differentiating Kapital from competitors is that while they have an ambitious product roadmap, they have remained fully committed to continuously improving their core lending products. This is evident through the company's investments in AI underwriting tools and automated collections. These advancements enhance the efficiency and accuracy of their lending processes and set the foundations for a highly scalable digital lending business in a market where most lenders are still highly analog.

In addition to using AI in helping to underwrite, Kapital is also planning on launching Kapital Smart: a fully automated platform that uses AI to help SMEs save time, reduce costs, and uncover new possible opportunities by using proprietary transaction data to analyze whether companies are overpaying their suppliers, and then find cheaper suppliers within Kapital's network.

Kapital's success lies in its ability to efficiently monetize its customers while simultaneously building a comprehensive suite of products and services. By offering a range of solutions, including loans, credit cards, expense management, payroll services, and treasury accounts, Kapital embodies the future of fintech businesses. Their customer-centric approach and sustainable growth strategies position them as a trailblazer in the industry. Companies like Kapital are reshaping perspectives on fintech companies, moving away from a high volume, high burn model into a more sustainable model that is laser-focused on monetization.

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