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KLARNA - NAVIGATING A SCALE-UP THROUGH MARKET TURBULENCE-

STRATEGIC MEASURES TO ACHIEVE PROFITABILITY FOLLOWING A PERIOD OF IMMENSE GROWTH AND NEGATIVE NET INCOME

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Abstract

Klarna has earned a reputation as the leading "Buy-now-pay-later" service provider. The fintech's success is heavily built on external capital, having raised $3.7bn and achieving a post-money valuation of $45.6bn in 2021. The case begins in June 2022 when Klarna is forced to decide whether to accept a down round to cover its high cash burn and negative profitability after market conditions worsen. The aim of this case is to explore:

- Implications of a downturn of financial markets on venture capital-backed companies
- Growth vs. profitability strategies

Keywords (Venture Capital, Downround, Valuation, Fintech, Growth, Profitability, Strategy, Management, Entrepreneurship, Entrepreneurial Strategy, Investments, Entrepreneurial Finance)

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Table of Contents

GROUP PART

1. Intro

It was early in the morning in June 2022. Sebastian Siemiatkowski, the CEO and Co-Founder of Klarna, was standing in line at his favorite bakery in Stockholm to get breakfast, as he does every day. Today he was particularly tired, as he had repeatedly slept poorly. There were many things circling in his head at the moment, but probably the toughest decision this year still caused him the most discomfort and is the reason why he racked his brain all night. Only last month, Siemiatkowski had to inform his staff via a recorded video message that 700 employees, 10% of the workforce, would have to leave the company (Browne 2022). The CEO of the buy-now-pay-later (BNPL) service provider rectified the decision by naming the war in Ukraine, the change in customer sentiment, rising inflation, and volatile stock markets as the main reasons contributing to a shift in the company's future outlook. "We are strongly influenced by the outside world. When we set our goals for 2022 in autumn, it was a very different world than the one we have today," he said (Billing 2022). Indeed, similar layoffs occurred at Robinhood, Better.com, or BitPanda, which, like most tech companies, have been affected by changing market conditions and need to become more crisis-resistant (Azevedo, TechCrunch - Fintech startups lead the layoff wave 2022). This was also the case for Klarna, which has experienced a steep rise since its founding in 2005, thanks to a transformation from a profitable startup with consistent growth to an international fintech giant with an aggressive growth strategy. This growth was built on a series of funding rounds that provided Klarna with more than $3.7bn, provided by renowned investors such as Silver Lake and Sequoia Capital. This was necessary to maintain its position as a leader in the BNPL market. Siemiatkowski, who was on his way to the office equipped with an orange juice and a sandwich, knew that after only a year since its last funding round of $639m in June 2021, the fintech would reach the end of its runway with no additional capital forthcoming - In other words, Klarna would get into real trouble. This threw up some new hard decisions that he and his management team had to face. There was the option of accepting $800m in funding, amid the worst stock downturn in 50 years, which would mean slashing Klarna's valuation by 85%, from $45.6bn to $6.7bn, causing media backlash and dilution for the founder. On top of that, there was already a tough meeting coming up this afternoon with investors who wanted an update on the firm's strategy. With a recession looming, and the prevailing adverse market conditions driven by large declines in the value of tech stocks in his mind, Siemiatkowski had to ask himself the following questions not only to be prepared for the upcoming discussion with the investors but also to pave the way for Klarna's future strategy to go through tougher times: What are the company's steps to adapt to the market environment? What measures does Klarna need to take to achieve profitability and how would this influence the long-term strategy of the company? And what will be a fair valuation he can accept given the more cautious investor sentiment and the sharp downfall in public markets?

2. Background

Sebastian Siemiatkowski and Niklas Adalberth became friends when they worked on the assembly line at Burger King. Besides having to pay their dues, they also followed the ambition of becoming entrepreneurs themselves. Together with their university friend Victor Jacobsson, they eventually founded a startup in 2005 that would become Klarna, one of the world's most successful online payment processors. Before founding Klarna, the three young postgraduates participated in the Stockholm School of Economics annual entrepreneurship award in 2005 and came up with the idea to make online payments easier and more secure for both consumers and retailers. Although their vision was not enthusiastically received and they ended up being last in the pitch competition, they held on to the pitch of "buy now, pay later" and founded the company under the brand name Kreditor Europe AB. "It made us sound serious, trustworthy and larger than we were," the founders remembered (Klarna n.d.). Fortunately, the founders of

Klarna were eventually introduced to the Swedish angel investor Jane Walerud at a networking event after their initial rejection. The trio ultimately received €60,000 in seed financing from Walerund in return for a 10% stake in the business (see Exhibit 1). Walerund was not only convinced by their idea but also provided five software engineers to begin working on the project in exchange for a further 37% ownership stake in Klarna (Failory 2022). In their early days, they developed a website that made it simple for customers to buy things online and receive an invoice within 30 days. "When they began, they didn't position themselves so much as a startup or as a fintech," recalls Skype founder Niklas Zennström, whose venture capital firm Atomico would eventually invest in Klarna. "People referred to them as the invoicing company" (O'Hear 2020).

Being among the first ones developing this payment service, this gave Klarna a significant advantage over its rivals at the time, as e-commerce was still a relatively new idea, putting Klarna early on to the forefront of retail sales. Subsequently, Klarna, still under the name Kreditor, managed to raise capital on a larger scale for the first time in 2007 to begin its international expansion. Through a Series A funding round, the Swedish company AB Öresund invested $2.2m. This enabled Klarna to launch its payment solution in Norway, Finland, and Denmark within the next two years. Meanwhile, the business benefited especially from the increasing e-commerce activity and gained more and more acceptance among consumers. In 2009, Kreditor was renamed Klarna and employed 120 people before entering the German and Dutch markets the following year (see Exhibit 2). The company's recent success did not go unnoticed in Silicon Valley. In May 2010, Sequoia Capital became an investor and joined the fintech's board. The San Francisco-based VC firm fueled Klarna's growth with a $9m Series B funding round. As a result, Klarna increased its revenue by 80% to more than $50m in 2010. The rapid growth coupled with a well-known investor on board eventually attracted interest from other growth investors. These included General Atlantic, which led a $155m funding round in 2011 with participation from DST Global and secured seats on the board. In 2012, Klarna launched its checkout product, introducing the "buy now, pay as you go" approach. This gave Klarna the opportunity to manage the entire checkout process instead of being "just" one of the payment options. The product immediately achieved a high level of acceptance among consumers as well as retailers. After just one year, the number of users rose to 10 million. In 2013, after only eight years since its inception, the BNPL provider achieved a $1bn valuation and $200m in revenue, making it an unicorn.

2014 was a difficult year for the company, as they had to deal with a large number of invoices not being paid on time as well as complaints. But despite these difficulties, Klarna decided to launch its solutions in the US, while being valued at more than $2bn. Starting with 10 American merchants, including Overstock.com, the company conquered 18 geographic markets and by the end of the year served more than 50,000 merchants with about 1,000 employees globally. Shortly after announcing its entry into the US market, one of the co-founders, Niklas Adalberth, stepped down from his position as deputy managing director but remained in his position as director of the board. His decision meant that CEO Sebastian Siemiatkowski would remain the only one of Klarna's original founders. Former CFO and co-founder Victor Jacobsson left Klarna in 2012. In 2016, the company launched its successful "Smoooth" marketing campaign to illustrate how frictionless payments can be for consumers and online merchants using the platform. The "smoooth" concept included the three ways consumers can shop with Klarna: "Pay now" - pay directly at the checkout, "pay later" - pay after 14 days and "slice it" - split the payments for the purchase over time. The successful marketing efforts were accompanied by Klarna's transformation into a bank. In 2017, the company received a full Swedish banking license, which it had applied for in 2015. The license gave Klarna the ability to launch an open-banking platform that provided access to more than 5,000 European banks in 16 countries (Lunden 2017).

After that, in 2019, Klarna raised $460m. This round lifted the company's valuation to $5.5bn, making Klarna the highest-valued private fintech company in Europe and the sixth largest in the world. At the same time, Klarna announced its first year of losses. The fintech company posted a net loss of $92.8m. This was a clear sign of a turning point in Klarna's strategy, which had become focused on growing and entering new markets by any means necessary, accumulating more and more external capital while showing steadily increasing negative cash flow. Symbolic of this development, Klarna raised a $650m funding round at a valuation of $10.65bn in September 2020 to tackle its increasing cash burn. It was led by global technology investment firm Silver Lake (Dillet 2020).

At the time, investors saw Klarna as undervalued. Hans Otterling, a partner at Northzone, told the Swedish press that this was a bargain compared to fintechs like Paypal or AfterPay because Klarna was growing so fast. "I would say this is a low valuation of the company," he said (Skjelsbæk 2020). At the time, there was already speculation about Klarna going public within a year or two. In March 2021, Klarna's valuation tripled to $31bn. In 2020, sales increased by 40% to $1bn. This Covid-driven growth was enough to convince several new and existing investors to put $1bn into the company in March 2021 (Drozdiak 2021). However, it is worth noting that despite the revenue increases in 2020, Klarna's net losses increased by 50% to around $109m that year due to high expansion costs. Only three months later, the company received fresh capital of $639m again while the valuation increased exorbitantly to $45.6 bn (Azevedo 2021).

But this boom did not last long. Initially, through the onset of the Covid pandemic, Klarna's products gained significant popularity and continued to drive its growth. Overall, many tech companies such as Netflix, Zoom, or Peloton experienced a brilliant upswing during the pandemic, fueled by stimulus programs and higher demand due to the lockdowns. However, in 2022, the market environment changed significantly, especially for the tech sector. Since the beginning of the year in 2022, stock markets have sold off sharply, inflation levels increased sharply and consumer spending slowed. With a fear of recession, Klarna was to switch its focus from growth to short-term profitability, according to the fintech's CEO Sebastian Siemiatkowski: "We decided that we're going to change the weight of our investments and focus more on short-term profitability over long-term new, potential investments" (Pymnts 2022). As a result, Klarna was forced to start reducing costs. As a first step Siemiatkowski announced in May 2022 that the fintech would lay off about 700 employees, or 10% of its workforce. Despite these circumstances, Siemiatkowski told employees that "Klarna continues to hold a strong position in the market" and says he's still "relentlessly optimistic about Klarnas's future" (Roth 2022).

3. BNPL Industry

Despite its growing popularity and newfound adhesion, the buy-now-pay-later method has been around since the 19th century. This short-term financing method grew from the installment plan system, where merchants made their expensive products such as furniture, pianos, and farm equipment, more accessible to consumers. In the US, after the Second World War, several retailers such as Sears and Macy's provided individual store accounts and, later, retail store credit cards, where debt was written off monthly (King 2020).

The first store card to reach a large crowd was the famous Diners Club card, created in 1950 by Frank McNamara after going out for dinner and noticing he had left his wallet at home. Considered the birth story of modern credit cards, it set up the borrowing system we are familiar with today. At the time, restaurants would bill the patrons' meals to Dinners Club, which in turn would pay the restaurant, taking a small commission on the transaction, and required cardholders to pay their debt each month. Later in 1958, the previous freight transport company American Express started to provide charge cards, replacing the need of carrying large sums of money, charging customers a monthly fee for this safer service, and taking a percentage of the amount charged from merchants.

However, the digitalization of finance brought up innovation to this space. Now, BNPL is not restricted to expensive items and equipment as it gives customers the choice to defer payment of cheaper items and larger shopping carts through point of sale (POS) installment loans. Adding to the debt aversion experienced by millennials and younger generations, the increase in purchasing power and the control felt by nearly instant credit approvals, faster payment schedules, and interest-free credit alternatives made BNPL plans' popularity skyrocket (see Exhibit 3). On the retailers' side, BNPL translates into decreasing shopping cart abandonment and increase in sales volume and recurring clients (Tijssen and Garner 2021). In sum, it provides a simple payment solution that can be easily installed by merchants and has a great usability for the customers. Since Klarna is paying the retailers directly, they do not have to worry about missing payments or fraud and have at the same time the possibility of offering payment plans (see Exhibit 4). As such, Klarna had seen its user base grow from 86 million to 147 million in 2021, as opposed to its competitors Afterpay and Affirm that, as of June 2021, had 16 million and 7 million active users respectively, with 250.000 merchants accepting Klarna as a payment option, on a market that was forecasted to grow at a 45% rate until it reaches $3.86t in 2030. High the highest adoption rate amongst its peers (Business of Apps 2022), Klarna was well underway to become a market leader.

But how do Klarna and its competitors make money? Revenue relies on both key actors: merchants and consumers. From the sellers' side, BNPL firms receive either a small percentage of each purchase amount or they charge a flat fee for each transaction. Despite merchants being asked to give up some of their profit, there is evidence that the lower commitment and easier checkout process for customers lead to higher conversions. Most BNPL players do have apps or some sort of network with partner merchants. To be part of such a network is highly valuable for retailers since the BNPL companies generate leads. When looking closer, these generated leads are of high quality. New potential customers which already have Klarna or other BNPL applications installed and are keen to spend some money are redirected from these providers to the merchants. Most likely it is easier to generate revenue with such leads than with others. The monetization from the consumers' side comes from the default of payment. Nevertheless, the clear benefit for buyers is the access to credit at a low price and therefore an outstanding alternative to conventional credit cards. Also, the outstanding amount of money only must be paid when the articles arrive, and the buyer wants to keep them. This is eliminating insecurities and comes in extremely handy when shopping for clothes, for example.

But Klarna, and other big BNPL firms for that matter, hadn't been profitable since 2018. Despite valuation multiples on pure BNPL players going as high as 58 times, as opposed to 4 times for traditional lenders, these business models are very hard to monetize. The extremely competitive and saturated market, fostered by low asset intensity requisites and soft regulations, puts pressure on players to keep up with one another and capture as many users as possible. To make matters worse, fee-based revenue models translate into very low margins for firms despite their high sales volume, making them extremely sensitive to funding costs.

Then how can these valuations be explained? Even though BNPL doesn't seem like a profitable business model, it is incredibly attractive to users, turning pure-BNPL firms into customer acquisition accelerators. Companies such as PayPal and Square can sustain themselves through their other products on the fintech space but use the opportunity that POS is to increase user growth. This means that, for investors, BNPL companies are made of "exit through acquisition" material.

4. Klarna's Business Model

As described above, BNPL companies are making money through customer fees and merchant commissions. Klarna is hereby offering various options to its customers. The shoppers can usually choose to either repay Klarna in up to 30 days or spread the costs of the purchase into three equal installments in the UK and Europe, and four installments in the USA. These possibilities are free of charge for the customer if the debt is paid back on time. Merchants, however, do have to pay a commission in form of a flat fee, which is usually around $0,30, depending on the country, and a percentage of the purchase's value ranging from 3.3-6%.

For bigger acquisitions, such as expensive electronics or furniture, there are financing plans available for up to 36 months. This option requires the buyer to pay an interest fee of up to 18.99% as well as the merchant to pay a commission of 3.5%. Although Klarna is famous for its BNPL payment model, it is interesting to see, that 50% of their volume is pay now, which is free of charge for the customer and only the retailer must pay a commission here. (Klarna 2021) It is also important to mention that Klarna cannot keep all commissions. Usually, with every transaction, Klarna pays 1.5-3% processing fees to credit card or payment processing companies, such as Visa, Mastercard, or Stripe (see Exhibit 5) (Sacra 2022).

Retailers who want to use Klarna must register and add the respective option to their checkout panel in their online shop. If customers want to use the service, they do have to create an account online or in the Klarna app. Throughout the onboarding process of customers, Klarna conducts an initial credit card check to ultimately enable them to make purchases. When making a purchase through Klarna, another soft credit check, which usually does not take longer than a few seconds, is carried out to ensure that the customer is authorized for credit. This is important, because when a shopper is buying something via Klarna's BNPL services, the merchant is receiving its money right away. This means, that all credit default risks from the buyers are transferred to Klarna which might result in significantly risky situations if credit checks are conducted imprecisely.

It is important to mention, that Klarna's business model does not only work with e-commerce merchants but is also available for many brick-and-mortar stores of larger retail companies. Whenever a merchant is making revenue through the Klarna platform, a flat fee and an additional commission of the amount paid must be carried out by the seller. When the payment went through, customers receive payment instructions from Klarna plus an invoice. Klarna customers can also use Klarna services in physical stores that are not official partners of the network with the Klarna card. This card is available in a physical or virtual version.

Another important thing to mention is the Klarna app. With the app, Klarna is providing an all-in-one solution for customers, where the whole shopping experience, from the initial idea, over getting inspired, comparing products, to the final payment is all done via the app. Also, new features are constantly introduced, such as a coupon and loyalty system, or functions that support virtual shopping. This app has the potential to turn first time users into loyal customers, which is desirable. The initial credit check does not need to be conducted anymore and usually, for existing customers there are less marketing efforts needed to make them buy items. Also, the app is a cheap and effective way to place promotions for customers. All in all, customer acquisition costs can get decreased significantly with the help of the app. Another great benefit of loyal customers is that the credit default risk is typically considerably lower than with new ones.

4.1 Value Proposition

Klarna is making the life of shoppers easier on the one hand, and on the other hand helping merchants by increasing conversion rates and average basket sizes. However, these benefits are not Klarna-specific and are described further up in the document. Since Klarna can be considered the first mover of BNPL providers, customers benefit extremely from the network effect. In the 2021 financial report, it is stated, that Klarna is partnering with more than 400k global retail partners. For customers of the company, this is extremely convenient. On top of that, Klarna achieved to have the world’s largest open banking network with 15,000 connected banks, spread over 26 markets (Klarna 2022).

4.2 Revenue streams

Klarna’s core business revenue-creating activities can be divided into the following: Firstly, Klarna charges interest fees for customers who are making larger purchases with financing options up to 36 months. Hereby, the annual percentage rate (APR) can be as high as 18,9% depending on the credit score of the customer (Klarna 2022).

Another revenue stream is late fees: These apply when a customer fails one of their payments. The late fees differ between missed one-time payments or late months when paying in installments (see Exhibit 6). Next to the different kinds of fees, Klarna is also gaining revenue through commissions. These must be paid by the merchant and depend on the payment option the shopper is choosing. The commissions always consist of a flat fee which is usually around $0.30, depending on the country, as well as a percentage in the range of 3%-6% of the transaction amount. The final stream of revenue is the Klarna card which works like a credit card and can be used to pay in physical stores. Main source of revenue here are late fees from nonpaying shoppers. According to Klarna’s financial statement (2021), the biggest driver of revenue is retailer income. In 2020, as well as 2021, this position did account for more than 50% of sales. Consumer income generated around 45% of revenue in the respective years. Klarna stated in its 2021 financial report, that commission income did increase 42% YoY, caused by an expanding network of retail partners and consumer adaption. Interest income also grew significantly by 24% YoY. However, not at such an immense pace as revenues through commissions because there has been a higher demand for Klarna’s interest-free products on the customers’ side (Klarna 2021). Until 2017 Klarna’s sales were highest in its home country market Sweden. From 2018 onwards though, Germany is the market where Klarna is earning most of its revenues (Klarna 2020). In 2021, $80bn has been achieved in gross merchandise volume which resulted in $1.6bn total net operating income. It is impressive to see that the year-over-year growth was 42% and 38% for the respective. Revenues kept growing at such a pace since Klarna continued to launch new products and enter new markets. Generally, when looking at the graph of total operating income since 2014, it can be observed that there is exponential growth with a CAGR of 32% from 2014 to 2021 (see Exhibit 7) (Klarna 2021).

4.3 Cost structure

4.3.1 Operating costs

Total expenses before credit losses increased from 2014 to 2016 in a relatively stable manner, with around 30% year over year. 2016 to 2017 Klarna managed to save costs compared to revenues which resulted in only a 16% growth in operating expenses. The years from 2017 to 2020 were characterized by more than 40% growth YoY in operating costs before credit losses and from 2020 to 2021, costs skyrocketed by 73%. All in all, there is evidence that there is a clear tendency for an increase in the change of operating costs YoY (see Exhibit 8). When looking at the graph of operating expenses in absolute numbers, a slight exponential growth can be observed (see Exhibit 9). General and administrative expenses were the greatest cost factor throughout the years. 2018 the respective costs reached 80% of sales and increased steadily until 2021 when solely this position did outweigh the net operating income. Klarna is justifying these numbers with the further very ambitious market and product expansion. Therefore, average full-time equivalents (FTE) were 4789 throughout 2021 for the Klarna Group as the company scaled to provide its service all around the globe. Looking at the financials, however, one can see that spending on salaries decreased in percentage, relative to the total general and administrative expenses. Nevertheless, with in between 20% and 30% throughout the past years, this position has been a considerable cost factor for Klarna (Klarna 2021).

Another significant element of expenses in the past have been marketing effort. The company did spend a big amount of money on the "Smoooth" campaign in 2016 (see Exhibit 10). In that year, these clips were all over the internet and created an international buzz around the brand.

Since then, a rather aggressive growth strategy was aimed, and consequently, marketing spending had to be increased year after year. Two other examples are the 2019 campaign with well-known music artists Snoop Dogg and the 2021 campaign with A$AP Rocky (see Exhibit 11) (Klarna 2022).

Moreover, there is spending on the development of products. Especially as a tech company, it is important to develop and reinvent products constantly further. One example is the launch of the Klarna app in 2017. From planning over development to rollout, such processes are costly and take time. Another substantial component of expenses is the technology behind Klarna. To support products like apps, browser add-ons, and the whole payment structure in general, the company needs to maintain an expensive IT infrastructure.

4.3.2 Credit losses

When breaking down Klarna's business model and the risk associated with it, one considerable part of it is providing credit. Therefore, it is crucial to keep an eye on credit losses. When analyzing this position, it is conspicuous that credit losses showed very volatile annual change rates over the years (see Exhibit 12). The total numbers, however, did show tendencies of exponential growth in credit losses. Total sales exhibited the same behavior. Increasing sales caused increasing credit losses. When looking closely, however, one can see that credit losses grew at a more significant rate than sales. Between 2015 and 2021, operating revenues grew with a compounded annual growth rate of 32%, whereas credit losses showed an increase of 55% compounded annual growth rate (see Exhibit 13 and Exhibit 14).

However, it is more interesting to compare the growth of GMV with the increase in credit losses. Between 2018 and 2021, the figures increased by 40% and an incredible 81% CAGR respectively. Credit losses grew steadily in relation to sales from 13% in 2015 to 34% in 2021. When comparing credit losses as a percentage to GMV, the same tendency is observable with 0.3% in 2018 and 0.7% in 2021 (Klarna 2021).

Although Klarna's credit losses of 0.7% of GMV in 2021 might seem high, but when putting things into perspective by analyzing competitors, this number does not seem that bad anymore. Credit losses of Affirm, Afterpay and Zip are 1.65%, 1.06% and 1.22% of GMV respectively (see Exhibit 15).

5. Klarna's growth strategies

5.1 M&A

The transformation from a small Swedish startup to the leading BNPL provider, which now offers a comprehensive range of digital payment, banking, and shopping services, required some time. Corporate acquisitions have been an important strategic tool for the technology company's tremendous growth. Exhibit 16 and Exhibit 17 provide an overview of selected M&A deals and the new segments Klarna has entered as a result.

In 2011, Klarna made its first transaction with the acquisition of Analyzd, an Israeli risk and fraud management company (Butcher 2011). Klarna entered the open banking space for the first time when it acquired SOFORT, a leading payment service provider for €150m in 2014. This enabled Klarna's customers to pay instantly in one step without installments using the "Pay Now" feature (Klarna n.d.). At the same time, the transaction paved the way for the strong growth the fintech experienced with its open banking business, which has been transferred into a separate business unit called Kosma since March 2022 (Williams 2022). Among other things, the acquisition of the startup SOFORT enabled Klarna to serve 14 European countries and work with more than 43,000 merchants (Penn 2013). Today, Klarna has more than 450,000 merchant partners, covering 150 million active users and two million transactions per day. In 2016, Klarna acquired the technological assets and employees of Cookies Labs, a German-based financial technology company that offers person-to-person money transfers (Samavati 2016). In 2017, Klarna acquired German payments company BillPay, gaining access to over 5,000 merchant partners to strengthen Klarna's payments presence in Germany and across

Europe (Klarna 2017). In 2018, Klarna acquired ShopCo, a German developer of browser extensions that can turn websites into connected online shops, by buying only the intellectual property and eight ShopCo employees (Ecommerce News 2018). In 2018, Klarna bought Close Brothers Retail Finance from UK merchant banking group Close Brothers Group with the aim of significantly strengthening its position in the UK retail finance market (Klarna 2018). In 2020, Klarna acquired a total of six companies, sending a clear signal to further prioritize its inorganic growth. These include US-based retail marketing company Spring Marketplace, Italian BNPL startup Moneymour, UK online shopping portal Nuji, post-purchase experience startup Woilà, including its intellectual property and team, and Swedish startup search Engine Marketing, which operated two services, Semtail and Shoptail, that enable sellers to advertise more effectively on Google. With seven acquisitions in 2021, Klarna even managed to break its acquisition record from 2020. In the first quarter of 2021 Klarna acquired San Francisco-based Toplooks.ai, which provides AI-driven content creation tools that offer retailers personalization features and virtually unlimited shoppable content. To further enhance the e-commerce business for its retailers, Klarna acquired UK-based Hero in July 2021, a virtual social shopping platform that provides live-streaming solutions for online retailers and store associates to assist and convert online shoppers. In the same month, startup APPRL Fashion joined the FinTech giant. Their SaaS platform allows content creators and retailers to easily collaborate to create engaging and informative shoppable content. Alongside retailers, Klarna is also striving to continuously improve the consumer experience and attract new customers. For a sum of €110m, Klarna acquired Stocard, a leading mobile wallet provider, and its customer base of more than 3.5 million users. Klarna also added the online travel planner Inspirock, which, according to Siemiatkowski, " makes the entire journey from inspiration to planning to prepare a trip easier, less stressful, and more fun for customers, while Klarna's merchant partners can better reach and engage with their audience by offering personalized content. This is a natural extension of the benefits Klarna brings to payments and shopping" (Klarna 2021). Since the acquisition of the startup Piggy, consumers are able to use a browser extension to get discount offers displayed while browsing a website and make purchases with Klarna's payment options in any online shop, even if the merchant is not yet a Klarna partner (Schlenk 2021). In addition, Klarna bought the Swedish price comparison platform PriceRunner for around $1bn, with the aim of developing the Klarna app as the main point of contact for consumers. Overall, the recent acquisitions can be interpreted as part of Klarna's strategy to evolve beyond its origins as a buy-now-pay-later (BNPL) company into a one-stop shop for the entire customer shopping experience and to become a so-called super app. Chief Product Officer David Fock let on in this context that this would put Klarna in a position to take on the big tech companies: "Klarna will not be a marketplace, but a viable and competitive alternative for retail partners against Amazon, Google, and Facebook," he said (Competition Policy International 2022). Industry experts confirm that Klarna's growth strategy, with the help of a wider product range for the benefit of retailers and consumers, is necessary to offer customers a comprehensive and unique shopping and banking experience and thus establish itself as an established player in the market (Johansson 2021).

5.2 Geographical expansion and product development

Together with corporate M&A activities, the expansion of services and operations into new geographical markets has also been of tremendous importance to the growth strategy of Klarna (see Exhibit 18). Obviously, Klarna started to provide its services initially in Sweden. However, the company started to reach new markets rapidly. Between 2006 and 2008, Klarna launched in Finland, Norway, and Denmark. These markets were still managed from the headquarter in Stockholm, Sweden. Already in 2010 though, Germany and the Netherlands were integrated. The firm decided to not only provide its services in the respective areas but also be present there for operational activities and therefore opened offices in Nuremberg, Germany, and

Amsterdam, Netherlands. In 2011, Klarna entered another market through the acquisition of Israeli-based risk management company Analyzd which turned into an office of the Klarna Group in Tel Aviv. However, until today, it is not possible to use Klarna's services in Israel. The next market entered was Austria in 2012. At the same time, the new product Klarna Checkout was launched. A payment solution that enabled management of the whole checkout process instead of being only one of the payment options available. This service was not introduced to all markets at the same time and had to be rolled out step by step. Consequently, in 2013 the Klarna Checkout reached Norway and Finland. In the same year, Klarna achieved to have more than 10 million customers within the seven active markets so far.

Klarna continued to grow at an immense rate, expanded in 2014 to the UK, and opened an office in London. One year later, in 2015, the corporation made its first attempts to enter the American market by opening offices in Columbus, Ohio, and New York City. According to the Klarna website, opening the offices in the USA was meant to test the market first instead of launching products right away with full commitment.

The Klarna app finally launched in 2017. Customers can now get the whole shopping experience from getting inspired all the way to making the payment in one app. In 2018, the pay in 4 installments product was launched in the USA whereas, in the UK, the product is called "pay in 3", with only three installments to be paid. Both markets started to gain traction that year. Another important product launch in 2018 was the Klarna card in Sweden. The great effort of product launches and massive growth in two such big markets could also be observed in the income statement. SGAs increased by almost 50% from 2017 to 2018.

After successfully launching the Klarna card in Sweden, Germany was the next country where this product was introduced in 2019. Also, within the US market the product portfolio was expanded with the launch of the Klarna app. 2020 marked another milestone in terms of growth to new geographic markets. Klarna launched its services in Australia, Belgium, Spain, and

Italy. Moreover, Klarna did reach 11 million customers in the USA plus 2 million monthly active users of the app. In the following year, US customers were almost doubled to 20 million and Klarna introduced real bank accounts for its German customers and launched the Klarna browser extension. 2021 saw once again immense growth in terms of geographic expansion. Shoppers in New Zealand, France, Poland, Ireland, Portugal, and Switzerland were able now to benefit from Klarna's services.

Nowadays, Klarna is active in over 20 markets across 3 continents. There are Klarna offices in 28 different cities including Zurich, Berlin, Paris, Toronto, and Shanghai. The last two cities might be indicators for future expansions.

In terms of product development, Klarna has launched the Klarna Checkout, which entails the different individual payment options the firm is providing, the Klarna app, the physical card for in-store payments, and even real bank accounts for certain markets.

Nowadays, around 35% of all e-commerce stores using Klarna are from Germany, which are well over 40.000. The United States and UK both have somewhat between 17.000 and 18.000 active stores which do rely on the services of Klarna. Both countries account for approximately 15% of stores that are using Klarna, whereby the United States has a slight edge here. The country, ranking on place four in terms of stores using Klarna is Sweden with 9% followed by Austria with circa 5% (see Exhibit 19) (Store Leads 2022).

Especially when looking back on Klarna's various product launches since Sebastian Siemiatkowski and his friend founded the company in 2005, it becomes clear that Klarna is not only a BNPL company anymore. The firm is offering a holistic product, including payment card functions, bank accounts, shopping features such as loyalty programs, delivery tracking, and discounts (Klarna 2022).

6. Klarna's efficiency strategies

Over the course of its years of operations, Klarna has seen consistent growth, driven by consumers moving away from credit card payments towards BNPL solutions, large external capital injections to fund Klarna's aggressive expansion strategy, and, more recently, the Covid pandemic, which has accelerated merchant adoption and repeat consumer usage. These favorable market conditions have enabled Klarna to compete in the market without demonstrably implementing efficiency measures and cost savings to sustainably improve the company's profitability situation, in addition to growing into a leading BNPL provider. However, it shows that the fintech may well be forced to change its course as soon as external factors develop in the opposite direction. Klarna's profitability declined in 2021 and 2022, thus pushing the company to shift its focus from expansion to profits. The profits, which Klarna reports as net result, amounted to minus \$826m when compared to the average SEK/USD exchange rate for the entire year 2021 (Best 2022). This trend became more pronounced in the fourth quarter of 2021 and the first quarter of 2022 when economic uncertainty and the war in Ukraine led to a shift in consumer sentiment. Additionally, net losses in the first quarter of 2022 nearly tripled compared to 2021 to minus \$275.35m. In addition, due to more cautious investor sentiment and volatile stock markets, Klarna as a result had to take initial steps to make its organizational structure more efficient. "We've had a few years now where growth has been really heavily prioritized by investors," Siemiatkowski said. "Now, understandably, they want to see profitability" (The Financial Revolutionist 2022). To reduce employee expenses, Siemiatkowski announced in May 2022 the decision to lay off about 10% of its global workforce to focus again on the core business and short-term profitability.

7. Competition among BNPL players

Klarna is facing increasing competition from "buy now, pay later" providers, which mainly target the US market to benefit from the consumer shift from credit cards to BNPL services. One of them is Affirm. Founded in 2012 by one of the co-founders of Paypal, Affirm initially operated its BNPL lending service only in the US before entering in Canada by acquiring BNPL competitor PayBright in December 2020. Affirm offers "buy now, pay later" installment loan products for almost any transaction size and for terms from 6-48 months. The fintech contracts directly with merchants who offer the Affirm platform as a payment option. The merchants pay Affirm fees based on a percentage of the total order value, which vary depending on the interest rate offered. Merchant fees are typically 3-5%. Apart from their BNPL solution, Affirm offers various products ranging from installment pay, virtual cards, split pay, consumer marketplace app and savings accounts. After only 8 years of operation, Affirm was listed on the NASDAQ stock exchange in January 2021. In 2021, Affirm reported \$15.5bn worth of completed transactions. The company's activities had garnered \$1.35m in revenues in 2022 growing at a compound annual growth rate of 81% from 2019 to 2022. In addition, Affirm has raised more than \$1.5bn in funding. Overall, Affirm has access to more than 234,000 partner merchants and 14 million active users, coming mostly from the US.

Splitit, another direct competitor of Klarna which was founded in 2012 and went public in 2009 is based in New York. The company's approach to the BNPL space is unique as it allows consumers to leverage their existing credit. By using their own credit or debit cards with the installment program, customers see installments on their bills, effectively balancing the cash flows. The ability to split payments into smaller chunks without incurring additional interest, applications, or fees, while building credit, makes Splitit an attractive option for consumers as well as a safe option for merchants. Core operating markets include the US, Canada, and Australia. While many BNPL services focus on business-to-consumer (B2C) transactions, Splitit targets a business-to-business (B2B) context and tailors its functions to the needs of suppliers and companies. With Splitit, customers can split the bills in 3-24 installments, while merchants are charged a fee of around 1.5% per transaction. In 2021, Splitit reported a \$395m GMV, with revenues reaching nearly \$11m growing more than 150% from 2019-2021. In addition, the company recorded more than 400,000 active shoppers who transacted with over

1,500 merchants at an average order value of $1,000.

Afterpay is a BNPL company based in Australia. It serves international markets including the US, UK, Canada and New Zealand. In 2017, Afterpay merged with Touchgroup, an Australian fintech before it went public at a $500m IPO in Australia. After the company's success in 2018, Afterpay acquired 90% of the shares of Clearpay, a competitor in the UK. Within two weeks, the platform gained over 200,000 users and strengthened Afterpay's presence in the UK. Afterpay was acquired by the US fintech Block for $29bn in August 2021. Like Klarna, Afterpay does not impose a specific credit score that is required for a loan. However, unlike Klarna, Afterpay does not check the creditworthiness of its customers, which implies a more favorable procedure. In addition, Afterpay does not report credit delinquency to the authorities, so the use of the platform should not affect a customer's credit history. Afterpay received funding worth around $375m and over $833m in revenue and carried out nearly $20bn in transactions, mainly from BNPL and cash services. As of 2021, Afterpay reportedly has 16.2 million users and 98,200 merchant partners across 40 countries worldwide.

PayPal is a well-known fintech giant from the US and was founded in 1998. The company has raised a relatively small amount of $216m before it had its IPO in 2002. Although more popular as an international digital wallet, PayPal has also introduced its own BNPL, known as PayPal's 'pay in 4' in 2020 and 'pay monthly' in 2022. As the name implies, PayPal BNPL works by allowing customers to make purchases at the point of sale through credit, which is then paid in four installments, or in the case of "pay monthly", it can be split into 6 to 24 installments. The term depends on the customer's preferences and can range from 6 weeks to 2 years. PayPal does not charge additional fees for late payments to customers, nor does it charge additional fees on top of the existing fees of around 3% for its existing merchant network. Although PayPal does not disclose earnings and other figures in each business segment it operates, it was reported that around 70% of PayPal's customers also used the platform's BNPL installment feature in 2021. During the same period, PayPal BNPL generated over $3.6bn worth of transaction volume. The platform's "buy now, pay later" feature is only available in the US, UK, Germany, France, Italy, Spain, and Australia. As of 2021, PayPal has 35 million global partners and already 250,000 merchants using the BNPL feature on their website.

Zip can also be considered one of the leading companies in the BNPL space. Founded in 2013 and headquartered in Australia, the company offers payment options for retail giants such as Apple, Amazon, and Walmart. With categories covering everything from education and pets to shoes and travel, Zip is available on a variety of platforms as well as in physical retail shops, offering customers interest-free payment options. After three years of operations, the company was listed on the Australian Securities Exchange and raised more than $5m in 2016. In 2018, the company launched its marketplace app on the Apple Store and Google Play Store, where Zip recorded more than one million downloads on each platform. As of early 2022, Zip is one of BNPL's top 5 apps in terms of downloads and ratings, along with Klarna, Afterpay and Affirm. In 2020, Zip acquired QuadPay, a US-based fintech company operating in the same industry. This increased the combined value of the two companies to $1bn and helped Zip enter the US market. Zip not only offers zero interest rates but is also not as strict about credit checks. People of legal age who have an approved debit or credit card can get their loans approved quickly on the platform. Zip splits the customer's bill into four installments, which are paid within six weeks. Depending on the customer's preference, repayments can be made weekly or monthly. The Australian fintech charges merchants a fee of about 2-4% per transaction. As of June 2022, Zip has an estimated worth of $1.93bn. In addition, their revenue has peaked at more than AU$397m, while the reported volume of transactions was worth about AU$5.8bn. Zip recorded 7.3 million users in 2021, with markets in Australia, the US, Canada, the Czech Republic, Mexico, India, the Philippines, New Zealand, Poland, Saudi Arabia, UAE, South Africa, and the UK.

The first half of 2021 had been particularly favorable for BNPL valuations as market capitalizations reach a historical high with Afterpay achieving a market cap of $35.13bn in February, with operational KPIs of $924.7m in revenue, 16.2m users, and 98.2k merchants worldwide. As of November 2021, Affirm broke the record with a $45.61bn market cap and, by the end of the year, finished ahead of the market leader with a market capitalization of $28.26bn within their first trading year. With a revenue of $870m but only 7.1m active users and 29k merchants, this achievement was short-lived as stock value plumbed and Afterpay was the clear number one by April 2022 with a $14.77bn valuation. While Afterpay and Affirm fought for the top, ZipPay's public valuation stayed in the top 3 all along, ending 2021 on a $2.55m market cap. By that time, ZipPay had 7.3m users and was making over $390m in revenue. Overall, both users and merchants clearly preferred Afterpay out of these three.

Klarna, on the other hand, maintaining its private valuation of $45.6bn, was catering to 147m active users and had plans with 400k merchants, four times more than Afterpay, and had made $1.42bn in revenue the past year. As such, Klarna was favored by users and merchants over its public counterpart and industry giant Afterpay. While both would set up four installments of 25% of the total purchasing price, starting at shipping, Afterpay's late fees were tighter than Klarna's $7, as they charged at the minimum between $68 or least $10 and up to 25% of the loan's value. Additionally, Klarna would let you set up single-use cards to finance your purchases even if a retailer didn't have an agreement with them and you could opt for longer repayment terms that were subject to interest.

To determine the health of an e-commerce business it is important to look at parameters such as the gross merchandise value (GMV) as it accounts for the total value of merchandise sold and fees charged over a period. As such, it is also a key metric for BNPL firms as they facilitate e-commerce, without ever owning any merchandise, and since it portrays the total monetary value of sales. With a GMV of $80bn in comparison with Afterpay's $21bn, Klarna is the one that manages most purchases made through this method. Exhibit 15 provides an overview of the competitive landscape around BNPL.

8. Macro environment impacting the VC market

Whilst not quite as exposed to macroeconomic trends as other institutions such as banks, the contraction of economies makes VC funds susceptible to market risk, therefore impacting the funding market and its players.

Traditional VCs manage funds raised from their Limited Partners (LPs), that can range from wealthy private investors to banks, insurance companies or pension funds, and invest in startups that they consider to be opportunities with potential for high growth and favorable exits. These types of investments are also considered high risk and have a long-time horizon. Nevertheless, VC funding is held as an accelerator for innovation, especially with the rise of new emerging industries based in high-tech. Kortum and Lerner (2000) measured that during periods of high VC activity there was a significant rise in patent pursue and that it was responsible for about 10% of US industrial innovations.

When the first symptoms of financial crisis start to hit the most exposed institutions such as banks and insurance companies, VC funds get caught up on the down turns. Raising investment funds gets more and more difficult as the traditional LPs shy away from such risky activities. Additionally, with stock markets following economies' growth, exits through Initial Public Offerings (IPOs) become unattractive for investors and no longer pose as viable and profitable options. When comparing the charts of the Nasdaq and S&P500 indexes it becomes evident, that especially stock prices of tech companies decreased strongly, in comparison to more traditional stocks (see Exhibit 20) (Euromonitor International 2022). While BNPL companies received strongly increasing valuations from spring 2020 onwards, the situation changed promptly in late 2021 as the stock prices of respective companies started to tumble (see Exhibit 21). Strong decreases in the stock markets can usually be interpreted as a sign of fear among investors. Often, when the public markets experience negative growth previously, the private markets follow with slight delay.

Also, recessions led to the decrease in consumer spending which heavily impacts the ventures in the portfolios and the VCs' ability to generate profit. However, historically there has never been an absolute halt in VC funding during these times. What is seen is an increase in due diligence from VCs and a bigger proportion in financing of early stage and seed rounds as these are the moments to invest in great opportunities at a discount, since banks shy away from this early of a venture which usually don't have hard assets to secure their loans on. Later-stage companies, on the other hand, receive about 20% less funds during crisis than they would the period before according to Block and Sandner (2009).

As venture capitalists tighten their investment protocols and company valuations begin to decline, the market is likely to see an increase in down round financings. This occurs when a company raises additional funds at a lower valuation than in previous rounds. Down rounds usually have adverse consequences for previous investors, founders, and employees, such as dilution and impairment of their shares. But when companies need equity to keep operating in the face of an economic downturn, poor performance or increased competition, accepting a down round may be their only chance of survival.

Klarna has long been tipped as one of Europe's brightest IPO candidates, but recently it has been caught in a storm in capital markets sparked by rampant inflation, rising interest rates, and the Russo-Ukrainian war.

As such and as of now, with a war in Ukraine causing looming energy prices which are fueling inflation, investors are rather careful and appreciate money-saving measures to become profitable, as well as consumers who are trying to save up to compensate for the increase in prices of basic goods, such as food, electricity, and gasoline. For companies such as Klarna, this ultimately means less volume in merchandise, since the firm's business model profits mainly from shoppers spending money on electronics, apparel, or sports equipment.

Also, inflation is forcing central banks to increase their benchmark interest rates. Until May 2022, the US saw already five raises, a trend that is very likely to continue (Euromonitor International 2022). Rising interest rates are poison for unprofitable companies since future earnings are worth less when higher interest must be paid on the debt in future years. It also means, that higher interests will decrease Klarna's margins.

On top of the negative sentiment among investors, the current economic situation, and the resulting actions from central banks, the still fairly new BNPL sector might experience huge regulatory developments in the near future (Euromonitor International 2022). Depending on legislation it could mean that certain groups of consumers will not get access to credit so easily anymore and eventually shrink the total addressable market for BNPL products. Also, more requirements, such as additional credit checks will increase costs for lenders. It will be hard to pass on the respective to consumers without losing them.

One year after raising a \$639m round that valued the company at \$45.6bn, Klarna had the possibility to raise another massive round to manage its rapid growth and cash burn with the caveat that this would most certainly be a down-round. However, the company was burning cash at a considerable rate. Approximately 1bn SKE which equals circa \$120m each month. With that rate, Klarna would run out of funds in approximately six months (Klarna 2022).

But what would a cut in valuation mean for Klarna, its investors, and its employees? First, a down-round would require Klarna to give out more shares which would heavily impact anyone without any kind of anti-dilution privileges. Typically, it is rather the investors holding such privileges, whereas the employees' stock options and founders' shares decrease in worth. This could lead to displeasure among employees and compromise future motivation and performance. Furthermore, with signaling being one of the most important factors in this ecosystem, it would generate negative feelings on the public and investors, as well as on employees.

Nevertheless, what the historical data has shown, is that down rounds do not necessarily doom the companies for failure, as data from 2008 to 2014 shows that only 13% of US venture-backed companies that took down rounds during this period were unable to raise new rounds or exit immediately after, either through a buyout or a private equity acquisition (Mathur 2022).

9. The road ahead

Siemiatkowski has arrived at his desk meanwhile, taking the last bite of his sandwich and sipping on his orange juice, reflecting on the tough situation Klarna is facing: On the one hand, he and all Klarnauts can be extremely proud of what they achieved during the past 17 years. On the other hand, there are serious challenges ahead that are threatening Klarna's future success.

The current economic environment with rising interest rates and inflation is causing a market environment where investors are acting rather tentatively. Consequently, it will not be as easy as in 2021 to attract new VC investors in such a scope while still writing red numbers.

"Despite these extremely adverse conditions for funding", thought Siemiatkowski to himself, "we cannot wait much longer for the next infusion of money to keep Klarna alive." Time was running against Siemiatkowski. He was thinking about the past round of funding in Q1, 2021 when Klarna achieved a post-money valuation of $45.6bn and became the highest-valued privately owned company in Europe. When approaching a new financing round in such an environment, it is certain that it must be agreed on a down round at a valuation lower than in the previous round.

The founder thought back about the beginnings of Klarna and how BNPL is well established in their home market in Sweden for more than a decade now. In other markets, such as the USA, there is probably still a lot of potential and since a considerable amount of consumers are not familiar with the benefits of BNPL in comparison to credit cards yet, this market appears to have significant potential. Demand for such services is probably still high, but with increasing competition, it will be hard for all players to become profitable on the one hand, while on the other hand showing some considerable growth. Especially now, it would be important for Klarna to continue its aggressive growth strategy to outperform its competitors. His thoughts were wandering around different scenarios, the road ahead of Klarna and the whole BNPL industry. Has the BNPL industry already seen its saturation point? Is it possible that the party is already coming to an end?

INDIVIDUAL PART – ROBERT FEZER

Case Synopsis

In 2005 Sebastian Siemiatkowski, Niklas Adalberth, and Victor Jacobsson close friends and fellow students founded Klarna, a global payment, and shopping service provider. The Swedish fintech has earned a reputation as the leading "buy now, pay later" (BNPL) service provider by offering credit to their clients throughout the checkout process. Klarna's success is heavily built on external capital raised from investors such as Sequoia and SoftBank. After raising more than $3 billion and reaching a valuation of $45.6 billion in June 2021 the market environment changed completely. A set of circumstances such as high inflation, rising interest rates, mounting fears of a recession, and the aftereffects of the Covid pandemic caused a significant downdraft of tech stock prices with peers dropping 80-90% compared to peak valuations.

When the case picks up at the end of June 2022, Siemiatkowski must decide what to do next. After laying off 10% of Klarna's workforce the company is still burning an extensive amount of cash which eventually lead to pre-tax losses that have tripled to $250 million in the first quarter of 2022 compared to last year. Concerned by the current market environment, the change in investor sentiment, and the high cash burn rate, Siemiatkowski has to simultaneously address several issues that will have a significant impact on Klarna's future development. Time is running out as the CEO faces a tense meeting with his investors, who are awaiting an update on Klarna's strategic direction and liquidity position. What is the impact of the contrary market situation including the downturn of financial markets on the company's strategy? What steps are needed to make Klarna's business model profitable in the near future? What would be a fair valuation of Klarna in the current market situation?

Learning Objectives

This case offers students a profound insight into a topic that is rarely discussed by neither entrepreneurs nor venture capitalists – a significant drop in valuation or in other words: a down-round. A down-round is a financing round where the valuation of a company loses a substantial value compared to the previous funding round. Students are encouraged to critically think about possible reasons for such decreasing valuations of privately owned companies and dive deeply into topics such as market conditions, investors' sentiment, and how to navigate a company in times of an economic downturn. The case will also provide the possibility to assess the trade-off between focusing on growth versus profitability – a dilemma, many founders and managers are facing. Moreover, students can put themselves in the shoes of venture capitalists and examine which valuation methods are most suitable for a company like Klarna in such a situation and if the firm might be potentially under or overvalued.

Target Audience

This case and its assigned questions are suitable for undergraduate, graduate, or MBA students who are pursuing a degree related to business or management. It can be taught in classes which are addressing the topics of strategy, entrepreneurship, or entrepreneurial finance.

Teaching Plan

This case can be taught during one lesson in any course related to the topics of strategy, entrepreneurship, entrepreneurial finance, or venture capital. Prior to the lesson, students are encouraged to read the case and prepare themselves accordingly by answering the assignment questions. Since the case study is based on true facts, students can do additional research about the company and the case to stimulate a more practical approach. The assignment questions aim to inspire students toward critical thinking and evaluating the tradeoffs of real-life management decisions. In-class discussions should be encouraged.

Assignment Questions

1. Which measures does Klarna need to take to achieve profitability and how would this influence the long-term strategy of the company?
2. What growth strategy should Klarna further pursue?
3. Comment on the trade-off between profitability and growth, Klarna is facing.

Analysis

1. Which measures does Klarna need to take to achieve profitability and how would this influence the company's long-term strategy?

Understanding the difference between profit and profitability is vital. While profit is solely the difference between sales and expenses profitability is a complex variable that considers a firm's efficiency and performance (Fonseca, Guedes and da Conceição Gonçalves 2022). Higher profits can be achieved through efficient operations; though, making profits does not automatically indicate efficiency. Klarna has been growing at an immense speed throughout the past years in terms of employees as well as sales. It opened many offices in various metropoles all over the world, launched different products, and acquired several companies within the payment sector. Growing into an organization of such a considerable size has its pros and cons. On the one hand, developing towards an established firm is great since with increasing size comes increasing resources in terms of marketing or research and development budget to drive innovation. Also, access to funding and new markets is generally more approachable for bigger firms (Sheppard 2020). Furthermore, larger firms profit from economies of scale since they tend to have bigger production capacities and various services. There are more resources to contribute to the internal optimization of processes and can therefore profit from different management strategies (Leal-Rodríguez, et al. 2015). Although many strengths are coming with size, there are also limitations. Big organizations can also suffer from diseconomies of scale because such firms often need more layers of control to keep the overview due to the increasing complexity of operations. Also, the bigger the company, the harder it is to keep employees motivated and identify themselves with the firm, leading to lower motivation levels and less efficient working practices (Phillips, Pukthuanthong und Rau 2018). Nevertheless, when checking Klarna's financials, there is evidence that losses have been growing at a faster pace than revenues throughout the past years which ultimately resulted in a steep increase in negative net income since 2019 (Klarna 2021). In times of uncertain market environment, this is not necessarily what lets investors rest calmly at night. Klarna now must manage to turn around its downward trend of net income on the one hand, while also keeping an eye on the efficiency of its operations.

In the 2022 Klarna interim report, the CEO and founder Sebastian Siemiatkowski states that Klarna has been achieving profits for its first 14 years of existence and that navigating the firm through the 2008 financial crisis did proof that their business model is much better than the one of traditional credit card providers in a tougher economic environment. He reasons that credit card companies make money by granting customers limits of up to $30k and hope that they spend as much as possible at the highest possible interest rate. Klarna customers, on the contrary, have an average outstanding debt of $100 and pay the respective in installments, usually in under two months which helps their cash flow. Siemiatkowski believes that Klarna's business model is more aligned with the concerns of consumers, especially in times of economic uncertainty, due to the removal of unnecessary fees (Klarna 2022).

Also, he states that big investments have been made throughout the past years which is putting them in a comfortable situation of not having to do these now, but rather profit from expansions to 11 markets since the beginning of 2020 while launching products, such as the Klarna app, across 18 markets at the same time. Acquisitions of platforms like Hero, Stocard, and

PriceRunner help Klarna to provide complementary technologies and extend into products like virtual shopping or a digital loyalty card wallet for the Klarna app.

Of course, one must consider that in a letter to the shareholders, the CEO is most likely drawing things only from the sunny side, but the significant number of investments throughout the past years is indeed putting Klarna in a good situation in which it is possible to concentrate on saving money. Looking at the numbers, one can see that throughout the past years, Klarna invested heavily in the future. Investing activities did increase by 359% CAGR between 2018 and 2021. Even in the first half of 2022, 70% of the prior year's investing activities have been made. This impressive number is mainly due to the acquisition of PriceRunner on April 1, 2022 (Klarna 2022).

Looking at operations, Klarna’s costs can be segmented into two main sections: operating expenses, which include general and administrative costs as well as depreciation and amortization. The other cost position on Klarna’s P&L statement is net credit losses. It shows the amount of money lost from issued credits to customers who turned out to be insolvent. Diving into Klarna’s financial report of 2021 it is evident that both, general and administrative costs, and credit losses increased over time, relative to net operating revenues (see Exhibit 21). Firstly, let’s take a closer look at general and administrative costs: Unfortunately, Klarna is not disclosing how the total position is composed in detail. However, they are disclosing staff costs and the number of full-time equivalents (FTEs). Interestingly, there can be exponential growth observed in terms of the number of FTEs. Though, the costs of the respective are declining relative to the total amount of general and administrative costs (Klarna 2018-2021). Also, when dividing the money spent on salaries by the average number of FTEs, it becomes evident that Klarna spent less money per FTE in 2021 than in 2019. A reason for that phenomenon could be that the company was employing a higher proportion of highly qualified staff in earlier years to do market research, develop products, and ultimately support growth and scale the business.

In recent years, hiring more employees with low to moderate salaries probably made sense for tasks like customer service and operations (see Exhibit 22).

Nevertheless, Klarna needed to find ways of saving money, and one of the simplest ways to do so is to restructure the employees. From this point of view, it was a necessary step in terms of prolonging the cash runway and decreasing the burn rate to lay off 10% of staff. When looking at the development of operating costs, one can see that between 2018 and 2021 these expenses have been growing by more than 50% CAGR. When putting this into perspective with an increase in total operating revenues of 36% CAGR and gross merchandise volume of 40% CAGR within the same time, one might consider that perhaps operating costs did grow at a too intensive pace throughout the past three to four years (see Exhibit 23) (Klarna 2021).

Another factor why Klarna turned so deep into the reds is credit losses. Within the just mentioned time frame between 2018 and 2021, the firms' credit losses increased by an unbelievable 81% CAGR.

These numbers make it appear even more unbelievable, that Klarna is claiming in its 2021 annual report, that losses are "at an all-time low". Hereby, they promote a new underwriting process that apparently reduces credit loss rates by over 30%. Firstly, in the 2021 annual report, Klarna is comparing its credit loss rate from 2019 with the recent one and claims with the nowadays underwriting process, losses would be 30% lower. With the 2019 credit loss rate, losses were $200m, but when subtracting the 30%, 2021 credit losses for the same volume of customers as 2019 are $140m. Then, Klarna states that because of immense growth, another approximately $100m of losses were created. These were calculated at country-level 2021 credit loss rates to the 2019 to 2021 volume growth. Sadly, this country-level data is not disclosed and therefore it cannot be checked how exactly this was calculated. Lastly, Klarna is adding another $300 million of credit losses to the 2019 figure, due to volume growth from new customers in new markets. Typically, new customers have higher default rates than existing ones. Adding these three buckets results in approximately $500m and comparing that with a GMV of $80b leads to a credit loss rate of 0,67% (see Exhibit 24).

Nevertheless, when putting things into perspective, one can see that Klarna's credit losses probably decreased for existing customers and the growth rate is mainly due to new markets and customers. It would be advisable to leverage this fact and ultimately decrease credit losses by concentrating on marketing toward existing customers instead of trying to acquire new shoppers at all costs. The first milestones have been set here with the implementation of a loyalty system in the Klarna app and providing a smooth experience that makes shopping very convenient for regulars, hence encouraging them to continuously use Klarna as a shopping platform. Another measure Klarna should think about to decrease credit losses is to introduce tighter debt limits for customers.

After discussing ways of decreasing expenses, it is also important to acknowledge that revenues should also be increased if Klarna wants to write green numbers any time soon. For this, a logical measure would be increasing fees. However, by doing so Klarna must be extremely careful. It is not advisable to increase prices in markets that have been penetrated recently. When being more expensive than competitors, merchants will choose them before Klarna. Comparing the take rates from merchants, one can see that Klarna's rates are already more expensive for sellers than the competitors. Therefore, increasing prices is only advisable in markets where Klarna has a strong standing in terms of brand image and network effect. As one can see in Exhibit 25, the Nordics and DACH region can be considered as such due to impressive market shares. Before blindly raising prices, Klarna must clarify how much additional merchants make by offering Klarna solutions. These findings can serve as base to carefully increase prices in markets where sellers depend on Klarna due to strong networking effects.

To summarize, Klarna already implemented the most difficult but also most effective measure of laying off 10% of their workforce. Also, Klarna must take the above-described steps to decrease credit losses and focus on increasing revenues with existing customers.

2. What growth strategy should Klarna further pursue?

Research about the growth of companies usually differentiates between organic growth and growth achieved through mergers and acquisitions (M&A) (Lockett, Davidsson und Girma 2011). Hereby researchers describe organic growth often as the normal way of growth (Achtenhagen, Brunninge und Melin 2017). Organic growth can be achieved by taking advantage of existing or new opportunities in new or already penetrated markets with old and/or new products and services (Brush, Ceru und Blackburn 2009).

Companies can invest in new production facilities, for example, or in supply chains of certain products to ultimately reach higher levels of market shares due to expanding production and distribution capacities. Hence, internal growth is important to grow organically (Achtenhagen, Brunninge und Melin 2017). Such internal growth can be achieved by optimizing processes, making them leaner and cost-efficient, introducing professional sales structures, or exploiting a prevailing brand image. These processes often help organizations identify opportunities in new markets or customer segments. Especially for SMEs, organic growth is often self-financed, to ensure liquidity and avoid a high level of leverage throughout growth phases. However, once a company reaches a certain size and pace of growth, companies rely on external funding, such as debt, private equity, or venture capital (Achtenhagen, Brunninge und Melin 2017). In addition to that, it is crucial that managerial capacities and specialized resources are available to exploit growth opportunities (Penrose 1995). Firms that showed strong organic growth in the past, will usually find it more challenging to pursue the same levels of organic growth in the present (Lockett, Davidsson und Girma 2011). Therefore, it is advisable to rely on organic as well as acquisitive growth instead of solely aiming for continuous organic growth.

According to Penrose (1995), expenses and managerial complexities can be reduced by acquiring other companies which for example are already specialized in a certain field. It is usually cheaper to take over a company or a unit of the respective, rather than building up a new department, product, or service from scratch. However, synergy effects are often well overestimated by acquirers and fail to deliver due to cultural differences, and companies with a strong company culture might even be reluctant to acquisitive growth (Achtenhagen, Brunninge und Melin 2017). Research has shown that companies that previously achieved growth through acquisitions are more likely to grow organically within the following period (Lockett, Davidsson und Girma 2011). Thinking of the many acquisitions Klarna pursued throughout past years, it is advisable to take advantage of this situation and concentrate on organic growth during the coming period, according to Locket (2011).

Breaking down the growth of firms into important factors, it can be observed that there are many components. However, decisions in terms of management, markets, and money seem to be exceptionally important when it comes to accomplishing growth (Brush, Ceru und Blackburn 2009). A dominant management style that focuses on planning, budgeting, and optimizing operations is often interpreted as crucial to achieving growth. The second set of major variables is geographic expansions in new markets as well as product innovations and diversifications. Lastly, enterprises need money to expand. Thus, the main concerns are reflections on how to generate revenues or obtain funding (Brush, Ceru und Blackburn 2009). Klarna's CEO and founder Sebastian Siemiatkowski, and his management team can execute a dominant management style, as they proved with the restructuring measures in Q2, 2022. Although the market condition, as well as liquidity, are rather problematic factors. Especially in such an environment, it is important to acknowledge that companies as well as business models evolve over time to respond to threats, exploit opportunities and create capabilities (Applegate 2017). According to the Product-Market Matrix (see Exhibit 26) there are four approaches to developing business models:

- **Enhance** current products or markets by adding features or improving sales channels.
- **Expand** by launching new products or entering new markets in terms of geography or segments.
- **Explore** new businesses by launching new products that are sold to new markets or entering new industries.
- **Exit** a product or market or decide to outsource.

Applying this framework to Klarna's way of operating throughout the past ten years, the company did mainly expand in terms of new products and new geographic markets. Klarna did enhance its business model in countries where the company is actively operating for a long time already. Websites of countries like Sweden, Norway, Denmark, and Finland are at almost 100% when it comes to the market share of websites that are offering BNPL solutions. The same applies to the DACH countries. The share of Klarna offered among web shops with BNPL solutions with German, Austrian, or Swiss domains is over 96% (see Exhibit 27). This means that Klarna is undoubtedly the biggest player when it comes to BNPL solutions in these countries and it is very likely that if websites decide to implement BNPL checkouts, Klarna will be the partner of choice due to its strong brand image and satisfied customers, which the strong performance in NPS (net promoter score) results are proving (Klarna 2021). Also, the market share of BNPL in e-commerce in Sweden and Germany was 25% and 20% respectively in 2021 (see Exhibit 28) (Statista 2022). This proves that Klarna has been extremely successful with solely enhancing existing markets. At the same time, the company did expand towards new geographical markets and launched new products.

Interpreting this data and applying the product-market matrix, it becomes clear that there are huge chances for Klarna to enhance in other geographic markets. Klarna opened its first office in the United States in 2015 to get a feeling about the market and get partners on board. This was an important measure because if Klarna would have started offering its services without a huge network of merchant partners in the USA, the products would not have been very valuable for customers. Looking at the data of Exhibit 28, one can see that the share of e-commerce payments, made with BNPL providers is still very low in the USA compared to the Nordic countries or the DACH region with 4% in comparison to 17% and 16% on average respectively (Statista 2022). In terms of growth, however, the American market seems very attractive with a CAGR of 100% from 2019 to 2021. Sweden's CAGR in this period is 0% which might be an indicator of a saturated market whereas Germany is also growing rather slowly with a 5% CAGR. As attractive as the American market seems to appear, it will most likely be significantly harder for Klarna to achieve such market shares as in its home market or Germany. The competition in the American market is fierce. PayPal is also offering a BNPL solution now and there are Affirm and Afterpay, which are specialized in BNPL, also fighting for market share. From the beginning of January 2022 until April 2022, 4,5 million users were downloading the Klarna app, whereas PayPal got almost 9 million downloads. This might seem like a huge advantage for PayPal. However, when looking closely, one can see that back in 2019, Klarna achieved only 19% of downloads compared to the total number of PayPal app downloads. Another encouraging sign for Klarna is, that app downloads grew with a CAGR of 105% since 2019 whereas PayPal only got to 16% CAGR and even negative growth from 2020 to 2021. Klarna's main competitors Affirm and Afterpay could show even higher growth rates of app downloads from 2020 to 2021 with 92% and 77% respectively, in terms of absolute numbers Klarna did have a clear edge though. Especially when looking at recent data from 2022, Klarna's app is the clear winner among all competitors (see Exhibit 29) (Statista 2022). These facts do suggest that Klarna is profiting from heavy investments of the past years and that brand awareness is at a level where the company is able to outperform its competitors. Since there are still such low numbers in the American market for BNPL implementations, it can be expected that in the coming years the usage of the respective services will increase. Hereby, when applying the Product-Market Matrix (see Exhibit 26) and considering the current market environment, it would be advisable to slow down expanding activities and concentrate on enhancing the business model for existing products and markets. When reading through Klarna's annual reports of the past years, one gets the impression that next to the USA, the UK has also been a target market to penetrate. The situation there is similar to the US. Klarna is the leading brand when it comes to app downloads and the BNPL share in e-commerce is still relatively low, however with less impressive growth, compared to the USA (Statista 2022). Another important factor, when thinking about growth strategies is to take the total addressable market into consideration. Statista Digital Market Outlook suggests that the Chinese e-commerce market will create around $1.5 trillion in revenue in 2022. The United States ranked second, will generate more than half of China's revenue, around $875 billion, followed by Japan with $241 billion. Only then comes the German market with a potential $148 billion and the UK with $143 billion (see Exhibit 30) (Statista 2022). One must keep in mind that Klarna is also starting to provide offline payment solutions which even increases the TAM. Considering that Klarna has not made any efforts to enter the Chinese or Japanese market yet, thus penetrating here would require immense capital resources, and the company is experiencing the first signs of market saturation in Germany, it becomes clear that Klarna can gain significantly more revenues in the USA with considerably less market share than in the UK.

Looking at the cultural factors of the two mentioned markets, it becomes evident that in the UK as well as in the USA, the demand for short-term debt payment options might not be as high as in Germany, for example (Hardin 2021). For this, it is important to look at Hofstede's cultural factors of individualism and uncertainty avoidance. Hardin's (2022) research showed that countries with high levels of individualism tend to make higher use of online shopping. Considering uncertainty avoidance though, one might think that countries with a lower level of the respective factor are more likely to accept short-term debt. In the context of online shopping, however, the exact opposite is true. BNPL solutions are providing additional safety for the customer and consequently, countries with higher levels of uncertainty avoidance, like Germany, (Hofstede, Hofstede Insights 2022) are rather taking advantage of BNPL products (Hardin 2021). Bearing in mind that the UK as well as the USA record extremely high levels of individualism but rather moderate to low levels of uncertainty avoidance, (Hofstede, Hofstede Insights 2022) it must become clear to Klarna that it might not be as easy as in Germany to convince shoppers from the advantages of BNPL (see Exhibit 31). Therefore, it is crucial to further invest in product innovation to make the shopping experience, especially with the help of the Klarna app, as unique as possible, which would address the high levels of individualism in these countries. It is more likely to gain market share with a flawless all-in-one product in these markets than with the option to pay later. If Klarna can prove what they are claiming in their 2022 interim investor presentation, namely that by now, Klarna is much more than only BNPL with additionally providing virtual shopping solutions, in-store payments, content creation, discounts and deals, a budgeting tool, and the express button, the product is well suited for highly individualist markets of countries such as the UK and the USA. Considering that Klarna is slowly experiencing the first signs of saturation in established markets and the efforts throughout the past years to penetrate the USA and UK, which are both areas with considerable TAMs, it is advisable to further enhance these locations. Also, Klarna’s current products do suit these markets and one can see that the company gained considerable momentum when studying the market data. In terms of growth, it would not be advisable to aggressively expand to new markets at the moment but try to keep the momentum going in the USA and UK by solely enhancing its business model there, signing new partners, acquiring new shoppers, and constantly improve the service for existing customers. The analysis of the above part points out that in these areas Klarna can achieve the best results in terms of growth with the least capital effort.

3. Comment on the trade-off between profitability and growth, Klarna is facing.

In the two sections above, solutions for profitable operations and growth strategies have been discussed. It became evident, that to obtain growth, capital resources are necessary. While companies are still considered SMEs, these capital resources are mostly self-generated, thus making profits (Lu und Beamish 2006). When companies grow bigger, hence expansions need more capital, and it is more common to procure funding by either taking out a loan or through private equity (Achtenhagen, Brunninge und Melin 2017). Looking at Klarna, one can see that growth and operating profits are not necessarily mutually exclusive. As the founder and CEO Sebastian Siemiatkowski is stating in the 2022 interim report of Klarna, the company has been making profits throughout the first 14 years of existence. Considering the rapid growth during the period between 2006 and 2018 it is evident that Klarna managed to expand into many new geographical markets and launch new products, whereas always in a matter that positive net income was recorded at the end of each period. Solely in the past years, it seemed that the fintech firm was influenced by a rather greedy market sentiment. In 2019, Klarna has grown into a company with more than 2000 FTEs and funding rounds became increasingly bigger each year. Also, in 2019 Klarna decided to commit fully to the expansion toward the United States. From that point in time, the company increased operational spending by over 40% each year and more than doubled its FTEs until the end of 2021. This shows, that if Klarna grew at a constant pace and only expanded to smaller new markets close by, it was possible to make profits next to pursuing growth. However, when goals became more ambitious, huge capital resources were needed.

Investing activities increased by an unbelievable 1707% from 2018 to 2019. One could argue now that investing activities that are stated in the cash flow statement do not affect the profits of a firm in the income statement. This is only true to a certain extent: Of course, Klarna did receive a lot of funding from 2019 onwards (see Exhibit 1) which did mostly go directly into investments, such as acquisitions of firms or the opening of new offices in new cities that ultimately increased the size of the Klarna group. Of course, spending money from investors for those things does not affect the P&L statement in the same year. However, owning or leasing more PPE will significantly increase expenses in terms of overheads and depreciation in the coming years. Additional revenues need to be generated in the future to compensate for this. In Klarna's case, the additional revenues through growth were not enough so far, to cover the new liabilities which is putting the company in a dilemma: Either the firm tries to save money, which will probably decrease growth and even affect sales. One measure, for example, could be to compromise on marketing spending. This would most likely lead to lower brand awareness and new potential customers might choose competitors before Klarna which will ultimately harm the creation of future revenues and market share. If a company gets into a state where sales are stagnating, investors are usually not too interested in new funding rounds anymore. Also, if expenses are growing more rapidly than sales for a long time, investors also tend to get shy and stop funding the company. In the worst case, bankruptcy is the result. Therefore, Klarna is at a critical point. Huge investments have been made and investors want to see results now. Especially in fearful market environments, it is crucial to prove the capability of turning a business toward profitability. The case of Klarna's past, however, proves that it is possible to operate profitably while pursuing growth. Once a company is receiving such immense amounts of funding as Klarna did though, pressure is applied to the management to invest instead of sitting on huge cash reserves. Big investments stimulate growth on the one hand, but also cause future operations to become more expensive. It will be exciting to see if Klarna can take advantage of its heavy investments of the past and turn them into future revenues soon in a way that exceeds expenses soon.

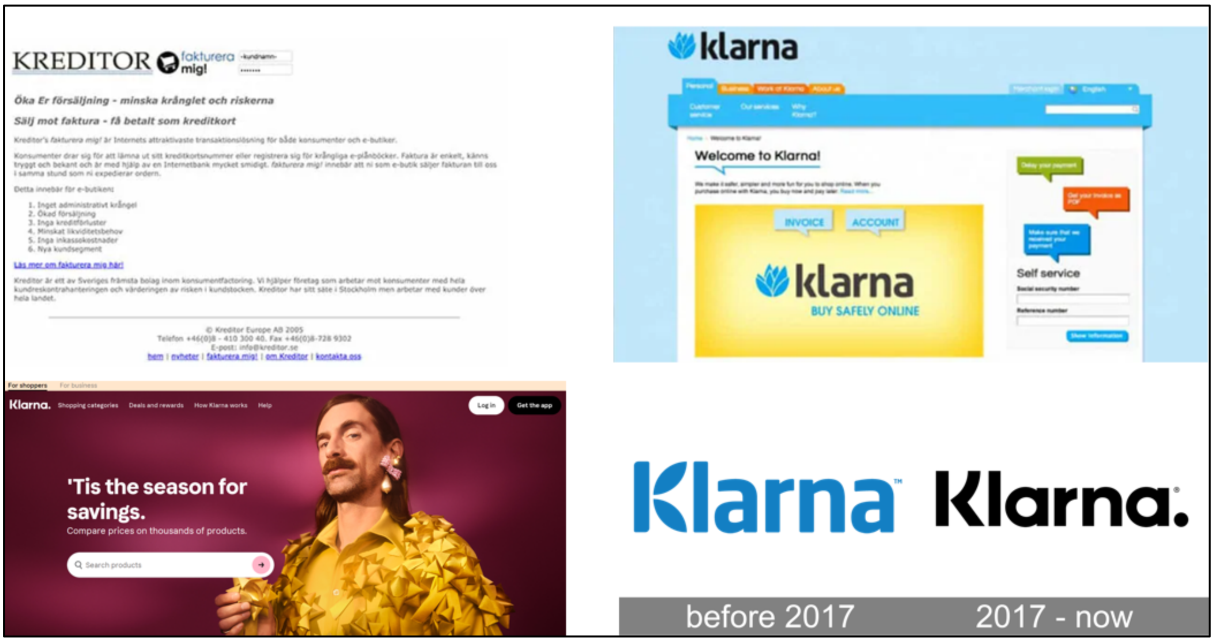
Appendix

Exhibit 1: Overview of selected venture capital backed financing rounds

Date	Stage	Amount	Pre-Valuation	Lead investor	Investors	Use
10/April/2005	Angel	$0,06M	$0,54M	Walerud Ventures		Project development
7/December/2007	Series A	$2,22M		AB Öresund		Expand to Norway, Finland and Denmark
6/May/2010	Series B	$9M		AB Öresund and Sequoia Capital		Foster growth - increased its revenue by 80% to more than $50 million in 2010
10/December/2011	Series C	$ 115,24M		General Atlantic	DST Gobal and Sequoia Capital	Increase product portfolio
14/March/2014	Series D	$ 90M		Tengelmann Ventures, General Atlantic and Panorama Point Partners	Lakestar, Atomico, IVP, SXM Global, Sequoia Capital, SSE Business Lab and Hartford Financial Services Group	
18/August/2015	Series E	$ 80M	$2,17B	Northzone Ventures and Wellcome Trust		
01/March/2019	Series F	$106M	$2,98B	Bestseller, Brightfolk and Permira	Sequoia Capital, Decisive Capital Management, Niklas Adalberth and Victor Jacobsson	Enter new markets and improve banking proposition
06/August/2019	Series G	$460M	$5,04B	Dragoneer Investment Group	Commonwealth Bank of Australia, IPGL, IVP, Chrysalis Investments, Inbox Capital, Louise Dahlborn Samet, Peter Sjunnesson, Mattias Ljungman, BlackRock, GP Bullhound, Första AP-fonden, Decisive Capital Management and HMI Capital	Increase growth in the US
10/June/2021	Series H	$639M	$45,6B	SoftBank Investments	Knuru Capital, ADIT Ventures, Elevation Capital, InterAlpen Partners, Khalili Brothers, Align Ventures, Inertia Ventures, Alpha Wave Global, Alder Companies, Honeycomb Asset Management, Mundi Ventures, Spring St. Group, Sutton Capital, WestCap Group, Harvest Growth Capital, MSA Capital, Maximize Capital, Novos Capital, Heliad Equity Partners, West Coast Equity Partners, Redo Ventures, Solida Capital, Hestia Holdings, University Growth Fund, StraightPath Venture Partners, Arctic Ventures, K20 Fund, Super Capital VC, Mastry, Blue Opal Capital, FinSight Ventures, Backstage Invest, Digital Horizon, Vista Equity Partners, Alstin Capital, Reimann Investors, NP Capital, Chaos Ventures, Flat Capital, The ECI Group, DFi Ventures, Newman Capital and Ericsenz Capital	Support international expansion and further capture global retail growth
Possible round in July 2022	*Series I*	*$800M*	*$6,7B*	*Bestseller, Silver Lake and Sequoia Capital*	*Commonwealth Bank, Ferter, Mubadala Investments Company, MSA Novo, D2 Ventures, Altun Capital, Two Culture Capital, Lume Capital and Canada Pension Plan Investment Board*	

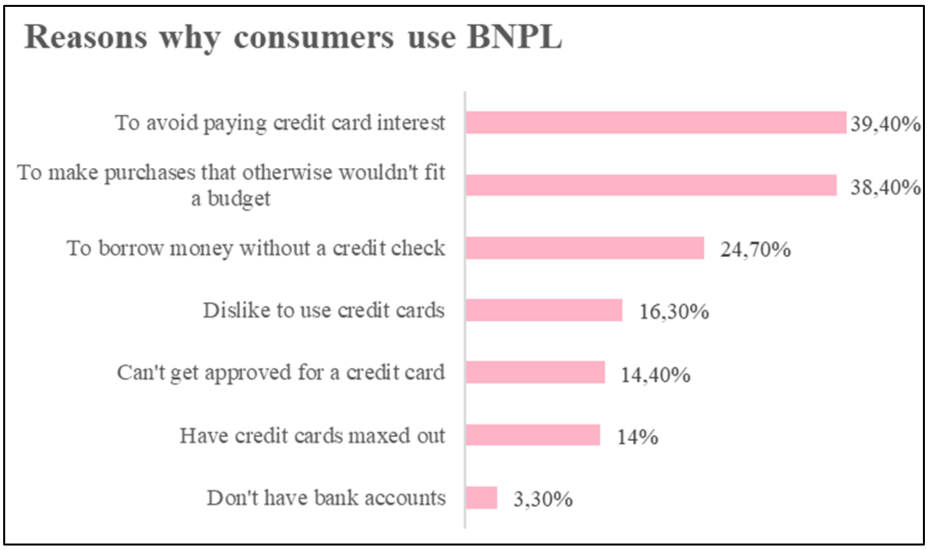
Source: Own illustration from information aggregated on Pitchbook

Exhibit 2: The evolution of Klarna's logo and website



Source: Company information

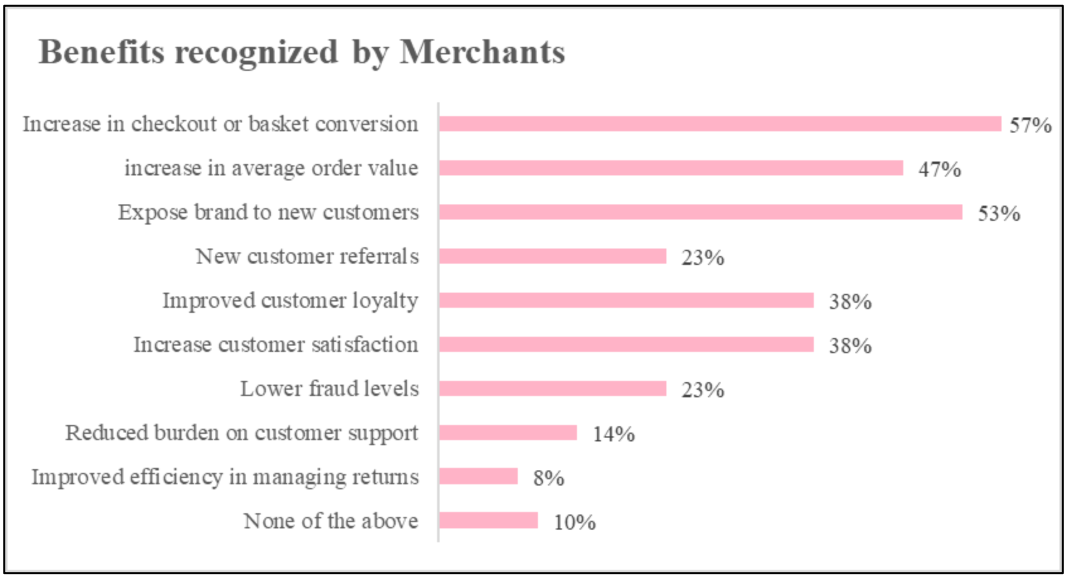
Exhibit 3: Reasons why consumers use BNPL



Notes – US consumers only; Respondents were able to select multiple responses.

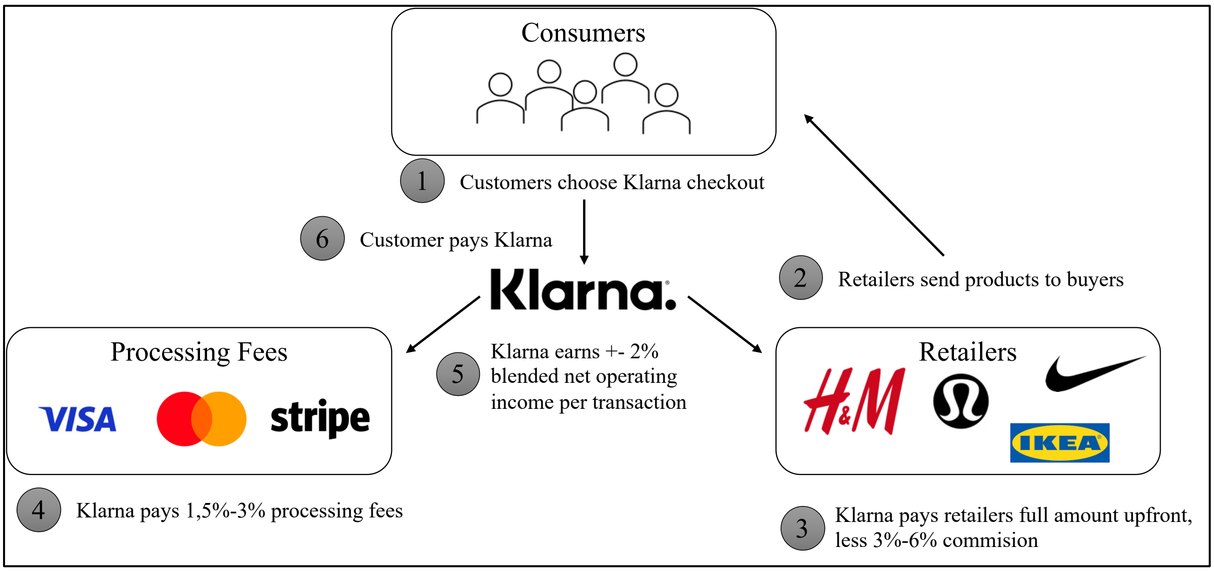
Source: Adaptation from (Insider Intelligence 2022)

Exhibit 4: Benefits recognized by Merchants



Source: Adaptation from (Bain&Company 2019)

Exhibit 5: Klarna's business model illustrated



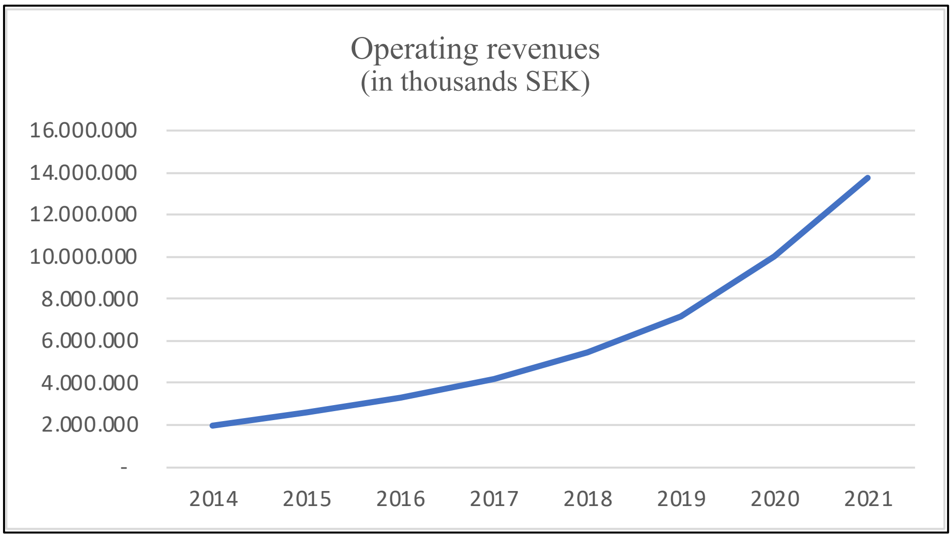
Source: (Goel 2021)

Exhibit 6: Klarna's late fee cost structure

Total order value	Fee per late repayment	Maximum late fee per order
Up tp $24,99	$0	$0
$25 - $59,99	$2	$6
$60 - $99,99	$4	$12
$100 - $199,99	$6	$18
$200 +	$8	$24

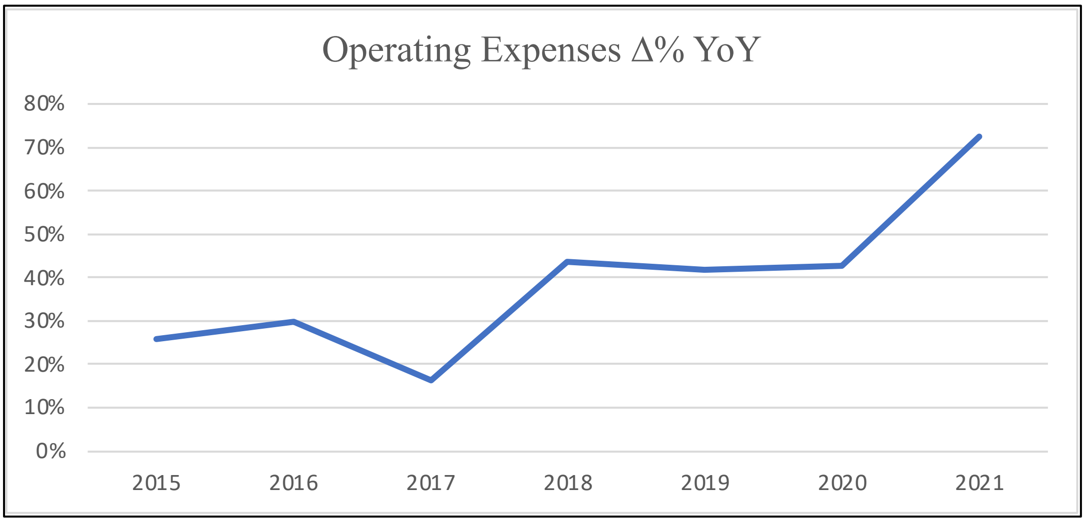
Source: Company information

Exhibit 7: Operating revenues



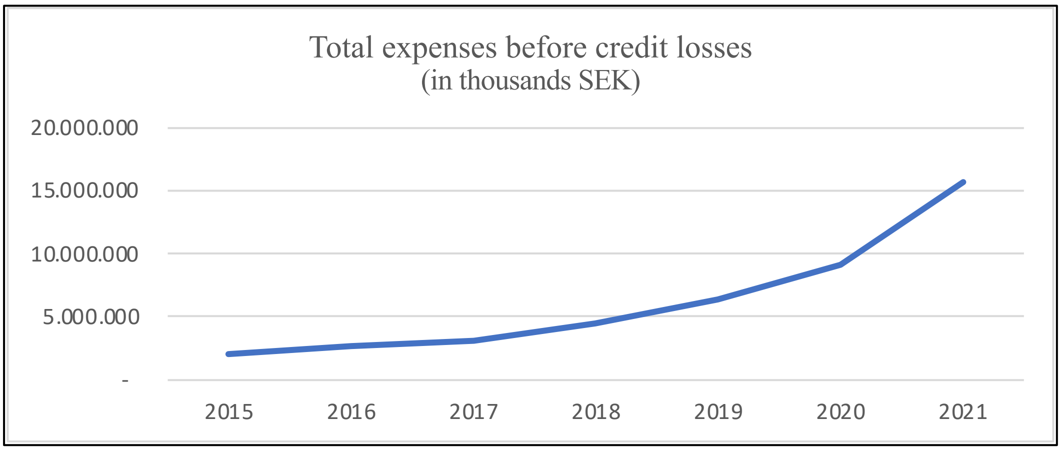
Source: Company information

Exhibit 8: Operating expenses Δ% YoY



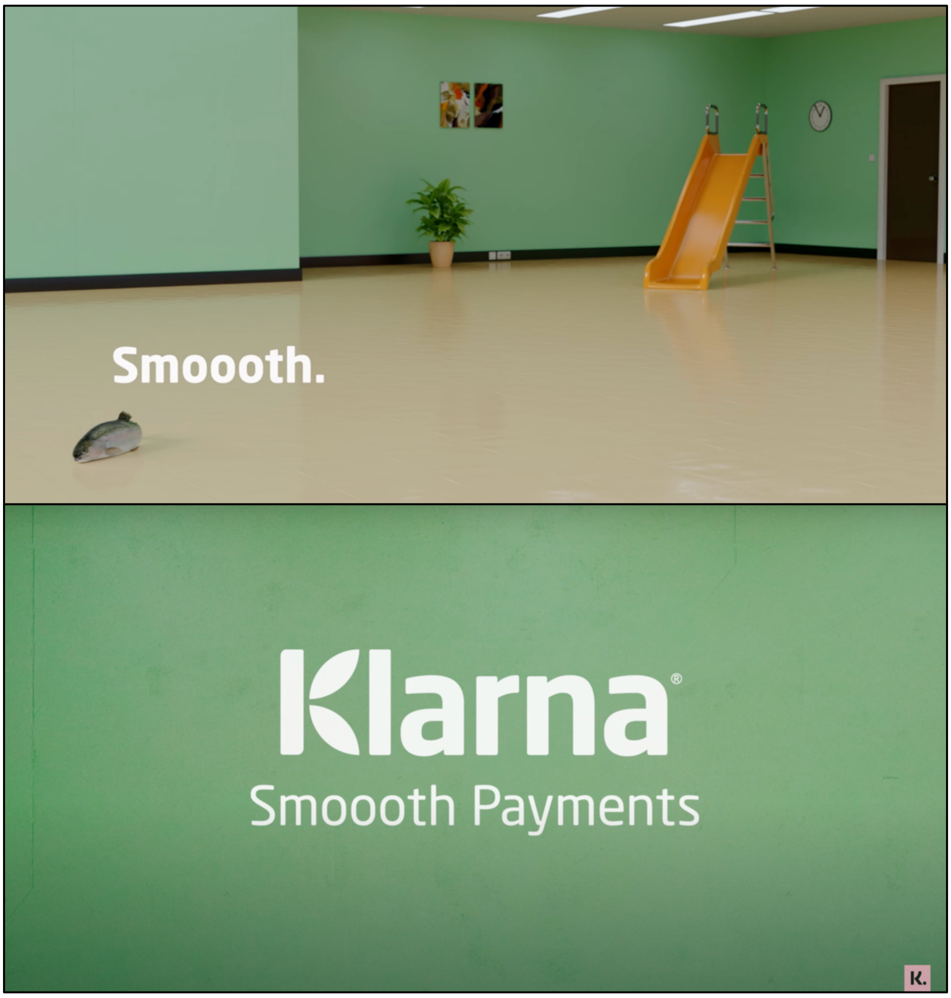
Source: Company information

Exhibit 9: Total expenses before credit losses



Source: Company information

Exhibit 10: Pictures of the Klarna Smoooth campaign

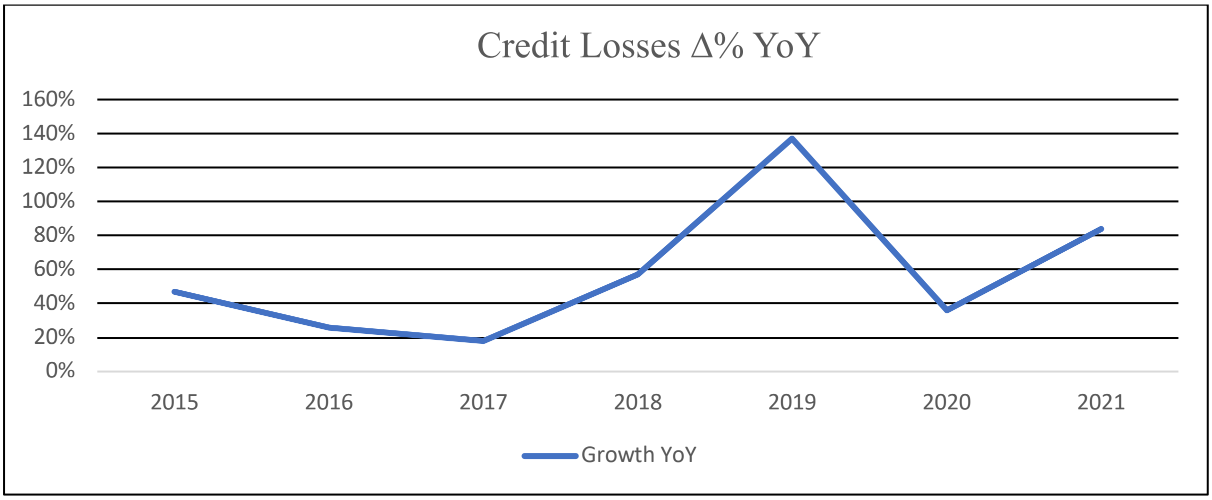


Source: (Youtube 2016)

Exhibit 11: Picture of the Klarna campaign with Snoop Dogg

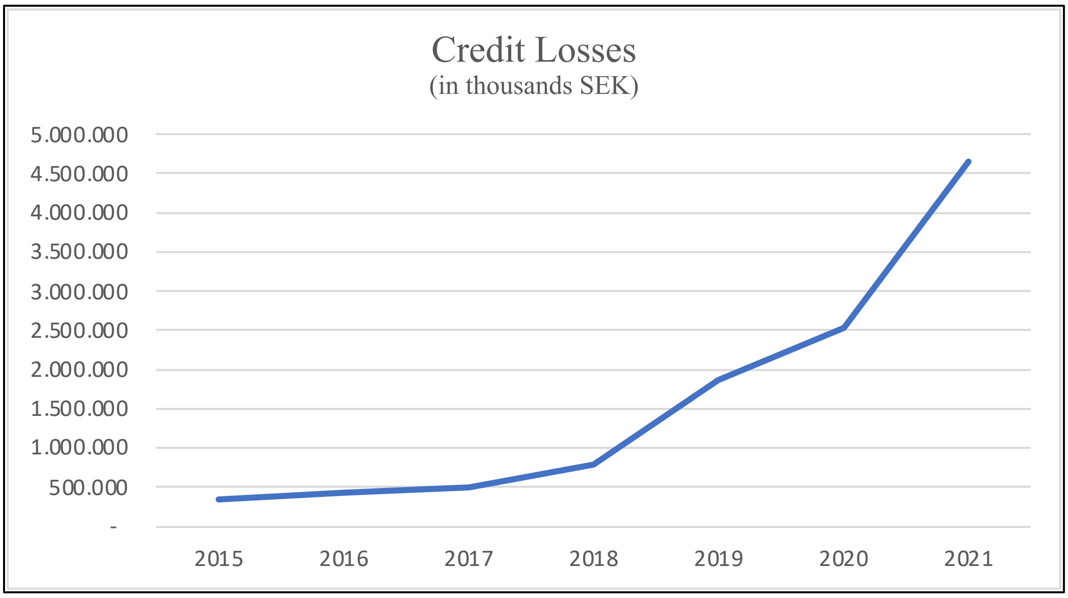
Source: (Klarna 2022)

Exhibit 12: Graph Credit Losses Δ% YoY



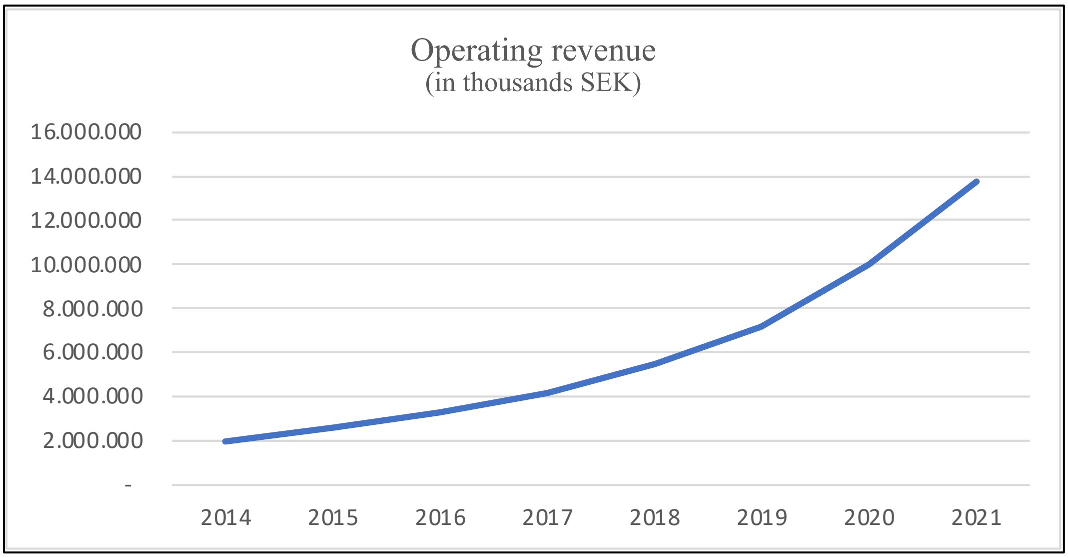
Source: Company information

Exhibit 13: Credit losses



Source: Company information

Exhibit 14: Operating revenue



Source: Company information

Exhibit 15: Overview of direct BNPL competitors of Klarna

	Klarna	Affirm	Splitit	Afterpay (Bloc Inc.)	PayPal (Credit)	Zip Co. Ltd.
Company	Klarna.	affirm	splitit	afterpay BLOCK	PayPal CREDIT	zip
Founded	2005	2012	2012	2014	1998	2013
Total Funding (until 30.06.2022)	$3.7bn	$1.5bn	$275m	$449m (Afterpay), $601m (Bloc Inc.)	$216m	$894m
Enterprise Value (as of 29.06.2022)[2]	Private	$8.9bn	$0.107bn	(Acquired by Bloc Inc. for $29 bn on 01.08.2021)	$101.4bn	$1.93bn
Main countries of operation	Nordics, US, Germany, UK	US, Canada	US, Australia, Canada	Australia, US, UK	US (Pay in 4 launched in Q4 2020), Germany, France, UK, Italy, Spain, Australia	Australia, US, Canada, Czech Republic, Mexico, India, Philippines, New Zealand, Poland, Saudi Arabia, UAE, South Africa, UK
Product Offering	BNPL' (split the cost of purchase into interest-free repayments with late fees charged), 'Pay in 30 days' (pay up to 30 days with late fees charged), 'personal financing' (Consumers can choose the term of loan and pay interest accordingly)	Installment Pay, Virtual Card, Splitpay, Consumer Marketplace, Savings account	Core installments via issuer by taking excess credit capacity and holding it	Installment pay (Pay for purchases in 4 installments with interest and late fees charged)	'Pay in 4' (pay for purchases, interest and late fee-free, over four separate payments), 'Pay monthly' (pay in 6, 12, or 24 payments)	Installment pay (BNPL)
Distribution Channels	Omnichannel (App, merchant website, in-store)	Omnichannel	Merchant website and in-store	Omnichannel	Omnichannel	Omnichannel
BNPL range of payback duration	6-36 months	6-48 months	3-24 months	14- 56 days	1.5-24 months	6 weeks
Take rates from merchants	~3-6%	~3-5% (no late fees charged)	~1.5-3%	~4-6%	~3%	~2-4%
Gross merchandise volume (GMV)	SEK689bn ($80bn) (FY 2021)	$22.4 bn (FY 2021), $15.5bn (LTM, 06.2022)	$395m (FY 2021)	$19.7bn (Afterpay, FY 2021)	$1.25tn (FY 2021)	$8.7bn (FY 2021)
GMV (H1 2022)	SEK396bn (+21% YoY) ($41bn)	$8.3bn (73% YoY)	$195bn (+ 19% YoY)	No breakdown available as Afterpay acquistion by Bloc Inc was completed in Q1 2022	$3.6bn (BNPL solution, FY 2021)	$4.4bn (+ 91% YoY)
Revenue[3)]	SEK14.9bn ($1.77bn) (LTM, 06.2022)	$1.35bn (LTM, 06.2022)	$108m (LTM, 06.2022)	$16.29bn (Bloc Inc. Total revenue), $833m (FY 2021, Afterpay revenue)	$26.39bn (LTM, 06.2022)	$451.34m (LTM, 06.2022)
Revenue CAGR (2019-2021)	39%	81%	152%	94%	19%	96%
Merchants	450k	234k	1.5k	98.2k (Afterpay, FY 2021)	35m globally, 280k (using BNPL)	81k
Annual active users	150m (30m in US) (LTM, 06.2022), 146m (FY 2021)	14m (mostly US) (FY 2021)	400k (FY 2021)	16.2m (Afterpay, FY 2021)	400m (~22m using BNPL in FY 2022)	9.9m (06.2022)
Credit default risk (credit loss as % of GMV and provision for credit loss as % of GMV)	0.67% (2021)	1.65% (LTM, 06.2022)	No - sits with issuer via hold on credit line	1.06% (US, 2021)	-	1.22% (FY 2022)
Average order value (GMV per total number of transactions per year)	$110 (assuming 2m transactions per day, FY 2021)	$600 (FY 2021)	$1000 (FY 2021)	$117 (FY 2021, Afterpay only)	-	$220 (assuming 20m transactions per year)

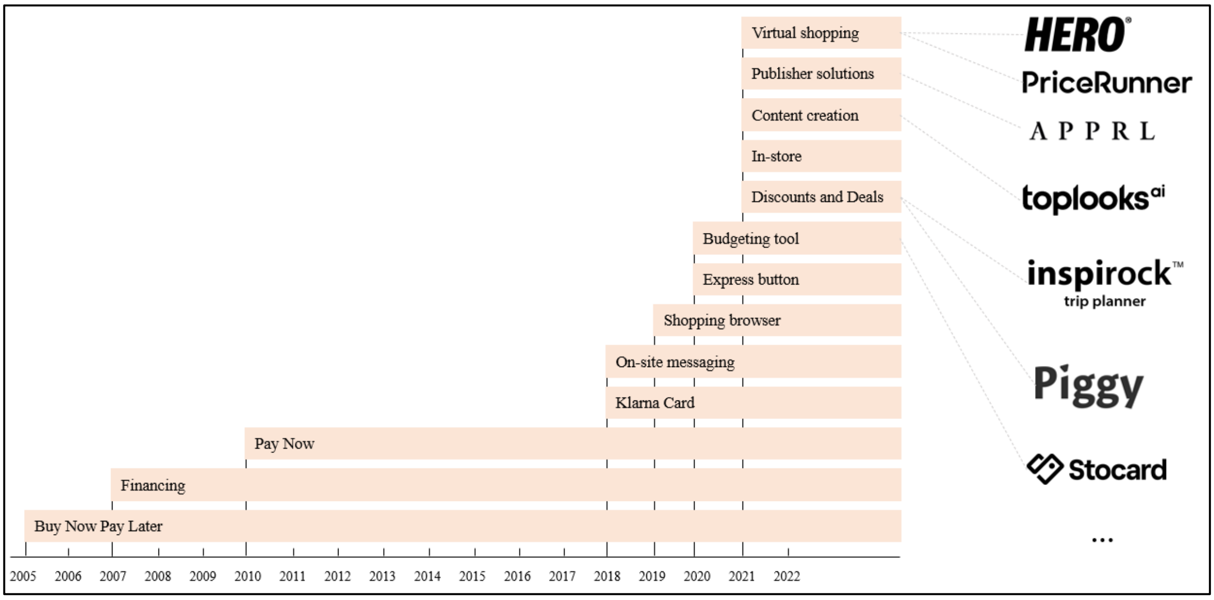
Source: 1) Ycharts 2) Company filings, press releases, 3) Bloomberg

Exhibit 16: Overview of selected and publicly disclosed transactions by Klarna

Company	Transaction Date	Origin	Description	Deal Value ($m)
Analyzd	2011	Israel	Risk and fraud management	-
SOFORT	2014	Germany	Online payment provider, open banking	150
Cookies Labs	2016	Germany	P2P money transfer	-
BillPay	2017	Germany	Online payment provider	70
ShopCo	2018	Germany	E-commerce shopping cart provider	-
Close Brothers Retail Finance	2018	UK	Retail finance	-
Spring Marketplace	2020	US	Marketing	-
Moneymour	2020	Italy	Online payment provider	-
Nuji	2020	UK	Online shopping portal	-
Woilà	2020	Sweden	Shopping experience	-
Semtail	2020	Sweden	Search engine marketing	-
Shoptail	2020	Sweden	Search engine marketing	-
Toplooks.ai	2021	US	AI-driven content creation tools	-
Hero	2021	UK	Virtual social shopping	-
APPRL Fashion	2021	Sweden	Shopping experience	-
Stocard	2021	Germany	Mobile wallet provider	110
Inspirock	2021	US	Online travel planner	-
Piggy	2021	US	Shopping experience, Automatic couponing	-
PriceRunner	2022	Sweden	Price comparison platform	1,000

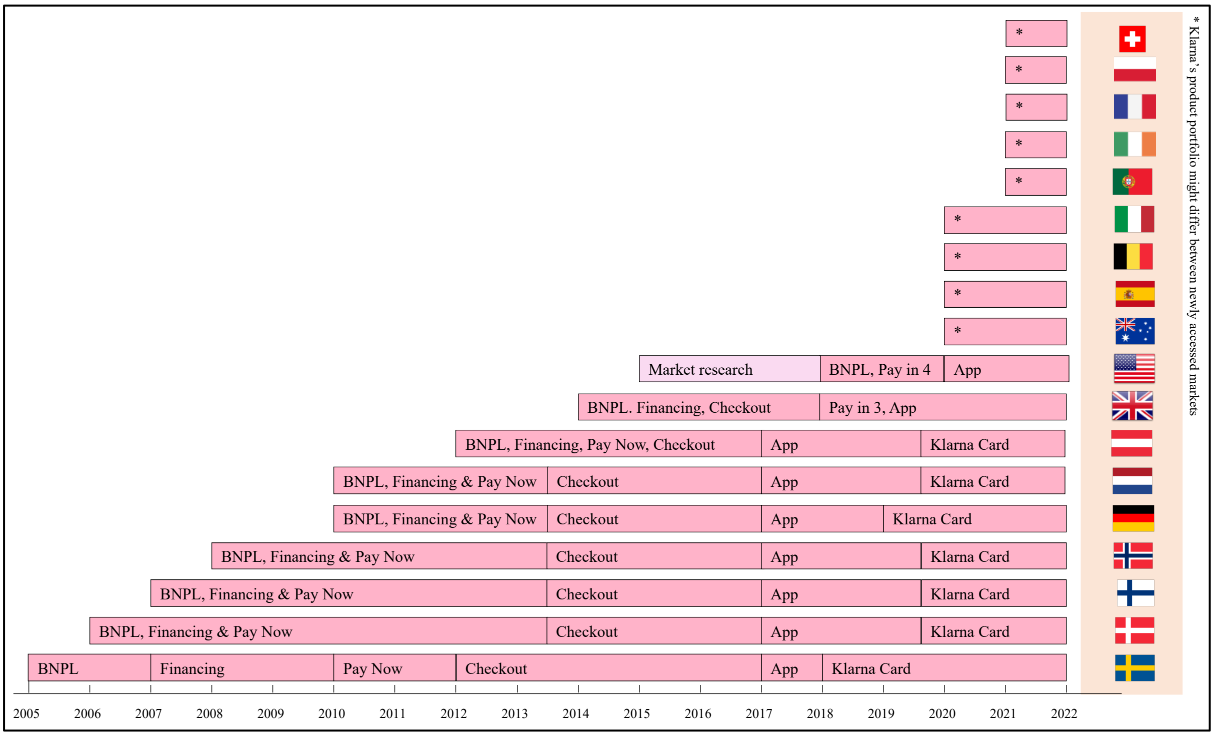
Source: Own illustration based on various press releases

Exhibit 17: Timeline of acquisitions and associated new segments



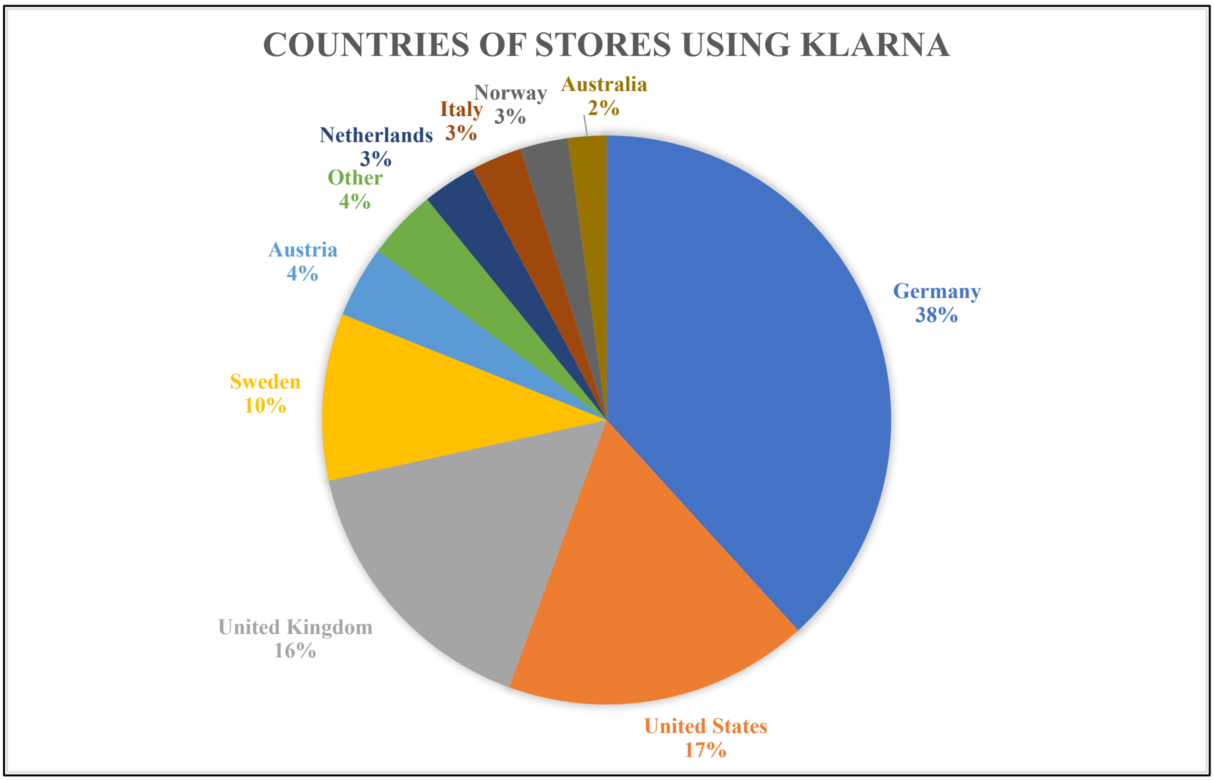
Source: Company information

Exhibit 18: How Klarna developed towards an internationally recognized fintech



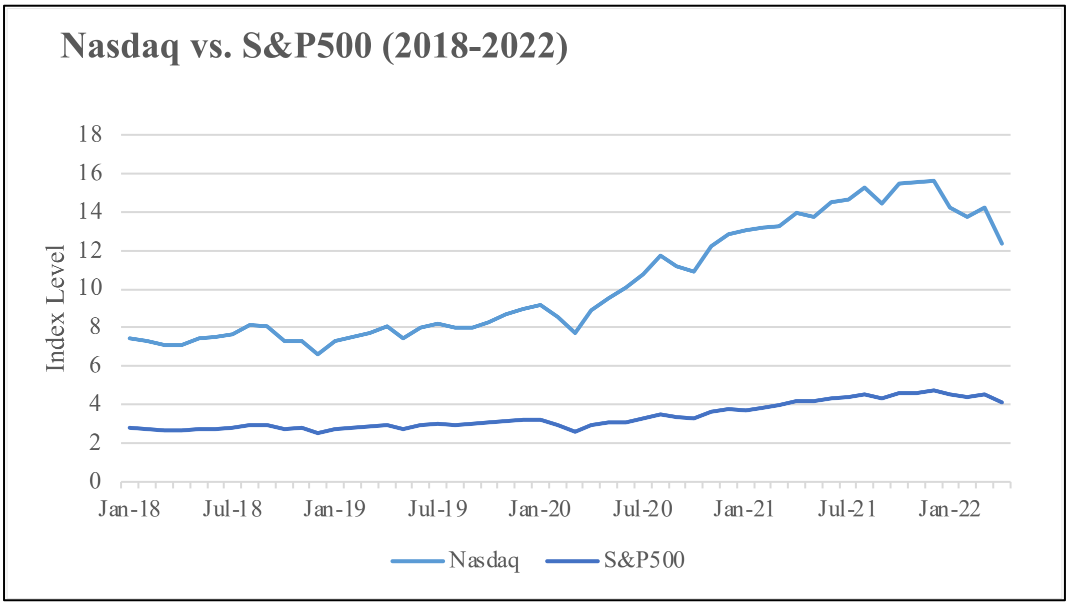
Source: Company information

Exhibit 19: Countries of stores using Klarna



Source: (Store Leads 2022)

Exhibit 20: Nasdaq vs. S&P500 (2018-2022)



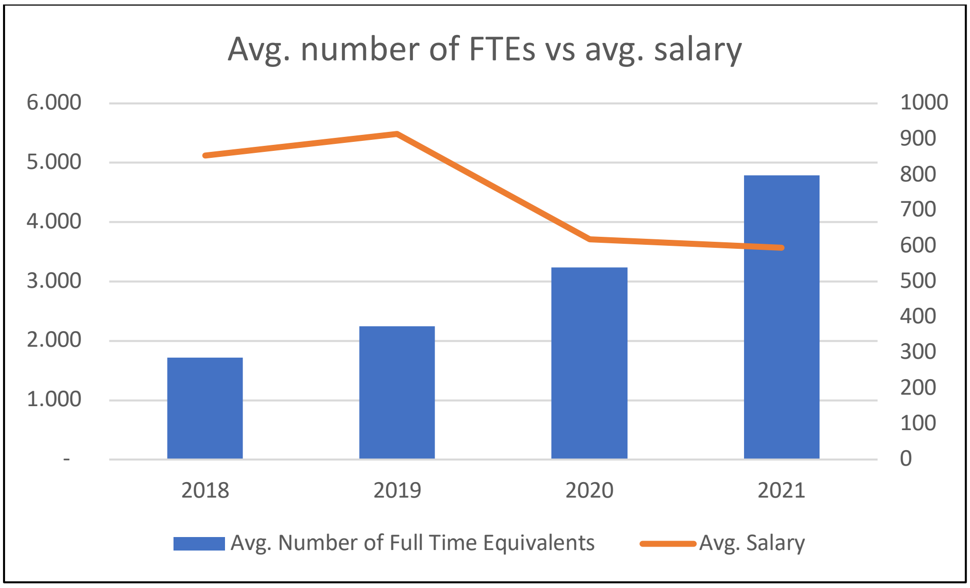
Source: (Yahoo Finance n.d.)

Exhibit 21: P&L Statement

Values in thousands USD	**2021**	**2020**	**2019**	**2018**	**2017**
Interest Income	443.987	358.763	307.117	223.463	174.837
Interest Expense	- 90.320	- 66.055	- 40.462	- 25.510	- 15.240
Net Interest Income	**353.667**	**292.709**	**266.656**	**197.953**	**159.597**
Commission Income	1.236.695	843.140	574.965	439.494	321.340
Commission Expense	- 77.996	- 63.088	- 52.310	- 36.140	- 22.555
Net result from financial transactions	- 73.707	10.125	- 8.400	- 2.964	- 2.626
Other operating income	72.823	16.026	5.317	643	1.173
Total operating revenues, net	**1.511.482**	**1.098.913**	**786.227**	**598.987**	**456.928**
General administrative expenses	- 1.651.965	- 953.865	- 668.267	- 477.973	- 322.282
Depr. And amortization	- 71.977	- 45.961	- 32.887	- 17.005	- 22.041
Total expenses before credit losses	**- 1.723.942**	**- 999.826**	**- 701.154**	**- 494.978**	**- 344.323**
Operating income before credit losses, net	- 212.459	99.086	85.073	104.008	112.605
Credit losses, net	- 510.635	- 278.111	- 204.705	- 86.326	- 55.024
Operating income	**- 723.095**	**- 179.025**	**- 119.632**	**17.682**	**57.581**
Income tax	- 56.301	27.837	20.472	- 6.119	- 19.602
Net income for the year	**- 779.396**	**- 151.188**	**- 99.160**	**11.563**	**37.979**

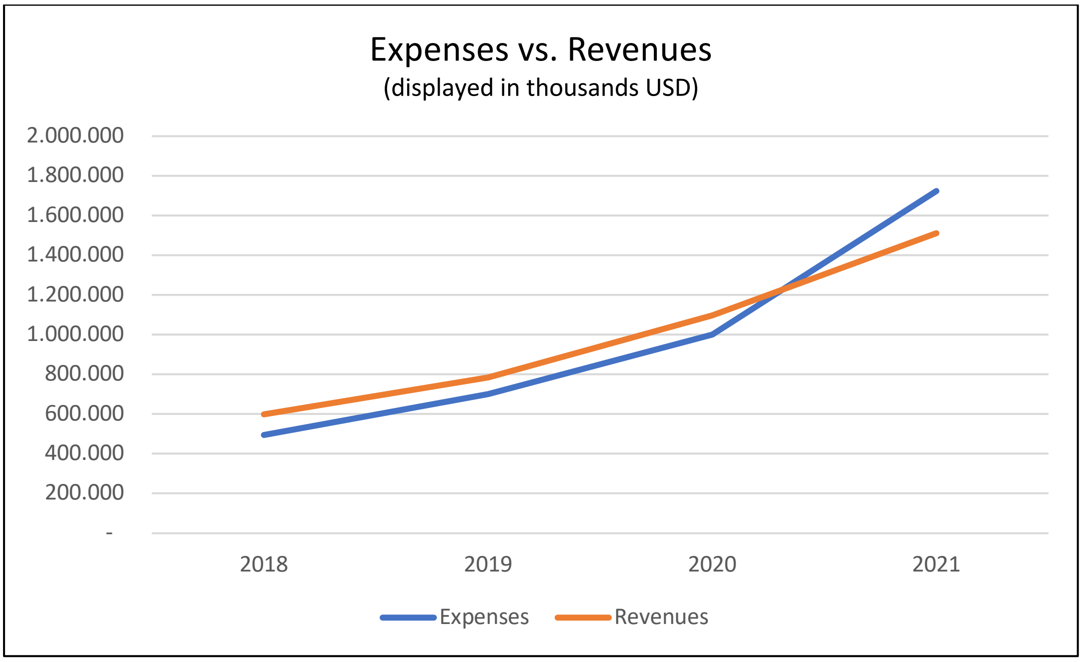
Source: Company information

Exhibit 22: Avg. FTEs vs. avg. salary



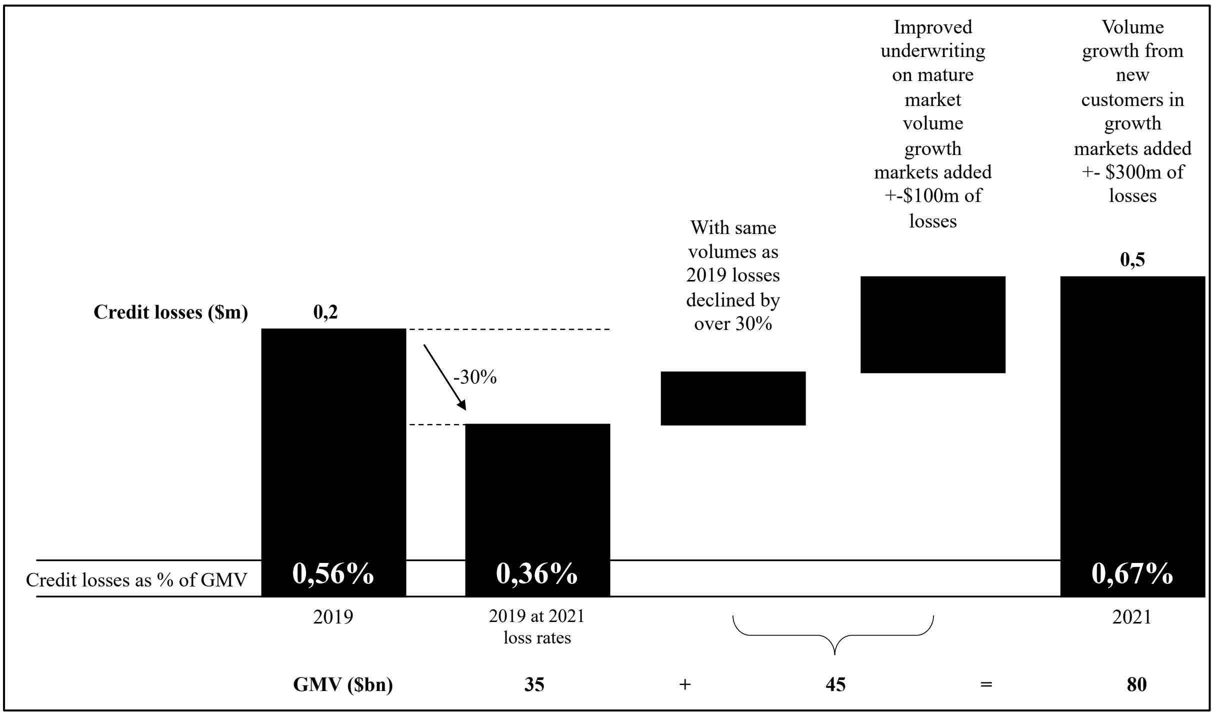
Source: Company information

Exhibit 23: Revenues vs. expenses



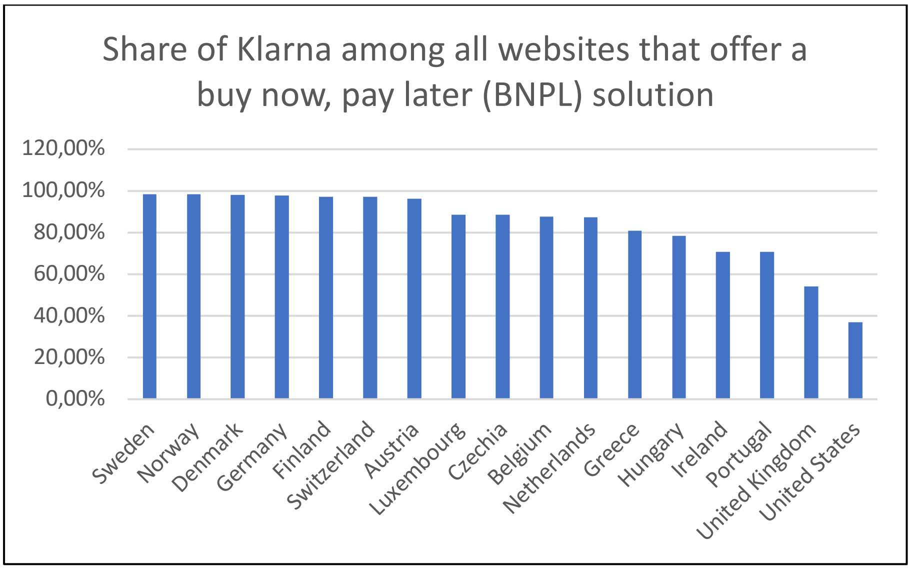
Source: Company information

Exhibit 24: Credit Losses Buckets



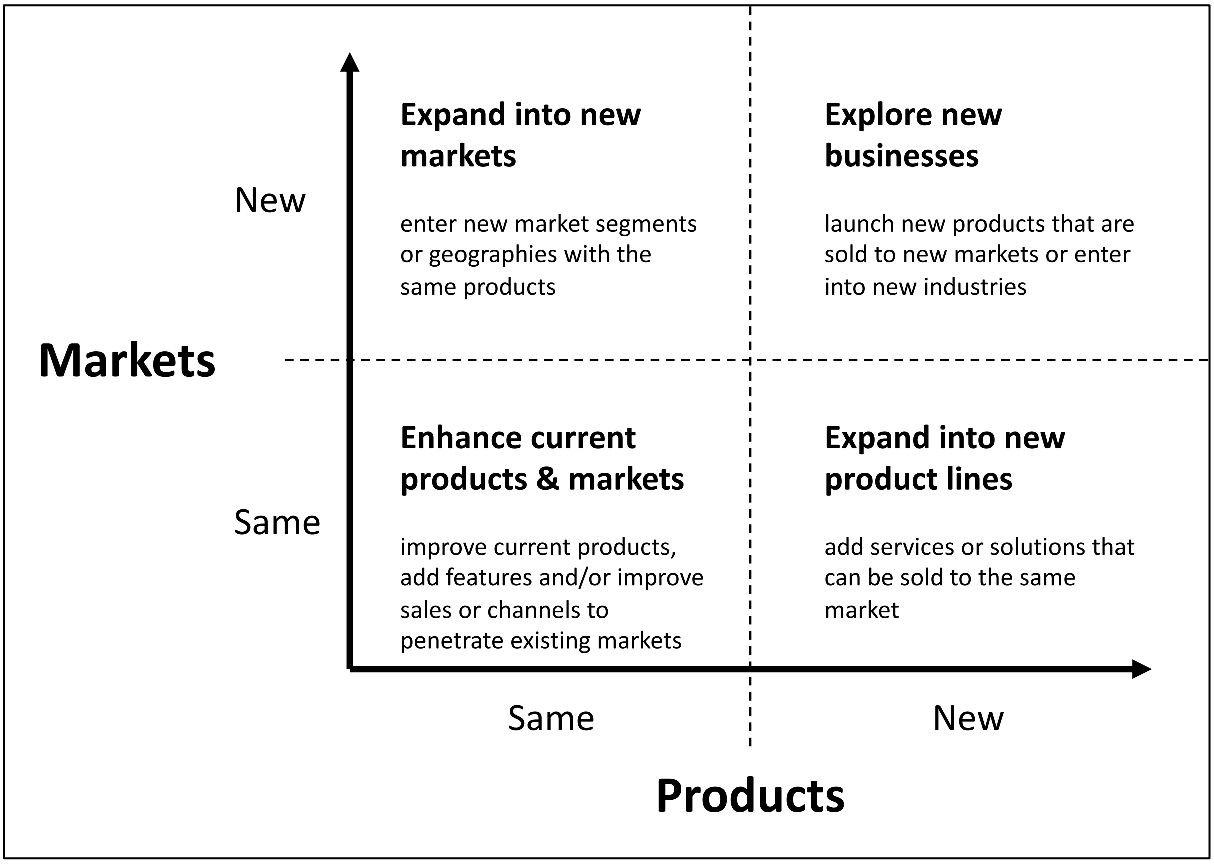
Source: (Klarna 2021)

Exhibit 25: Share of Klarna among all websites that offer BNPL



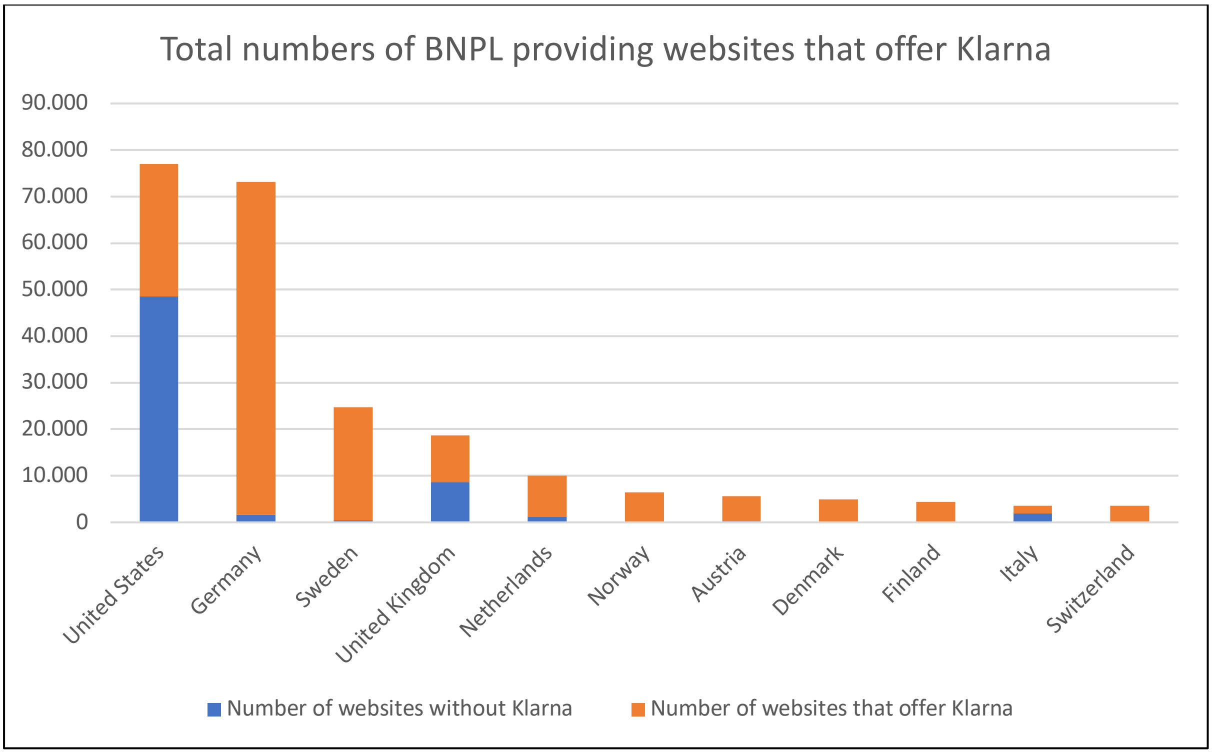
Source: (Statista 2022)

Exhibit 26: Product-Market Matrix



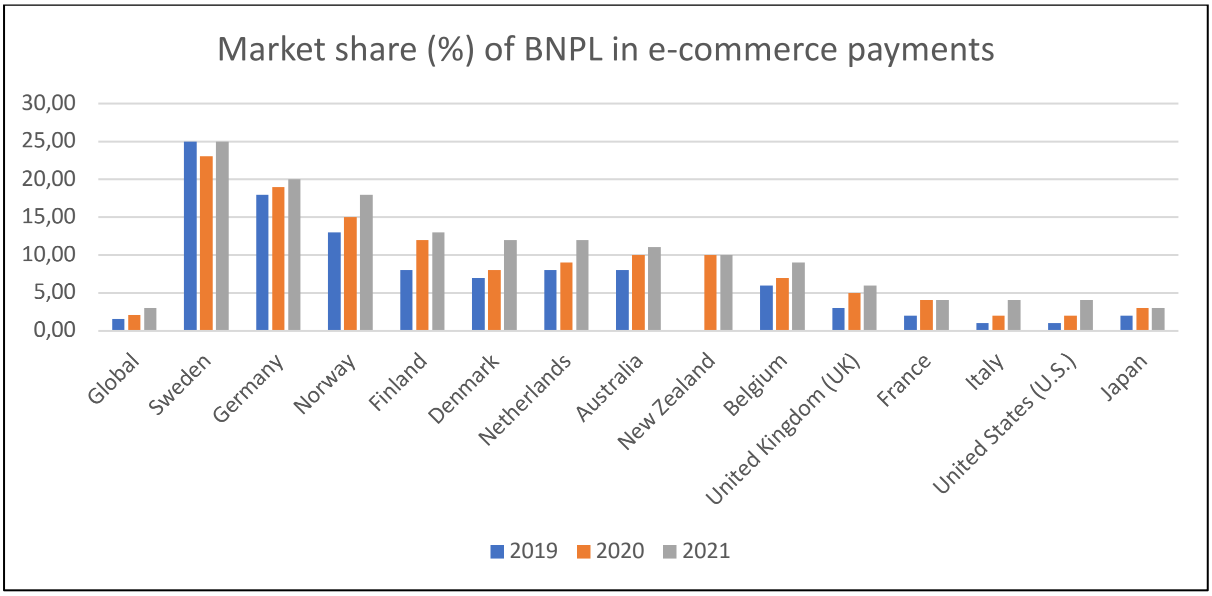
Source: (Applegate 2017)

Exhibit 27: Total number of websites offering BNPL by Klarna



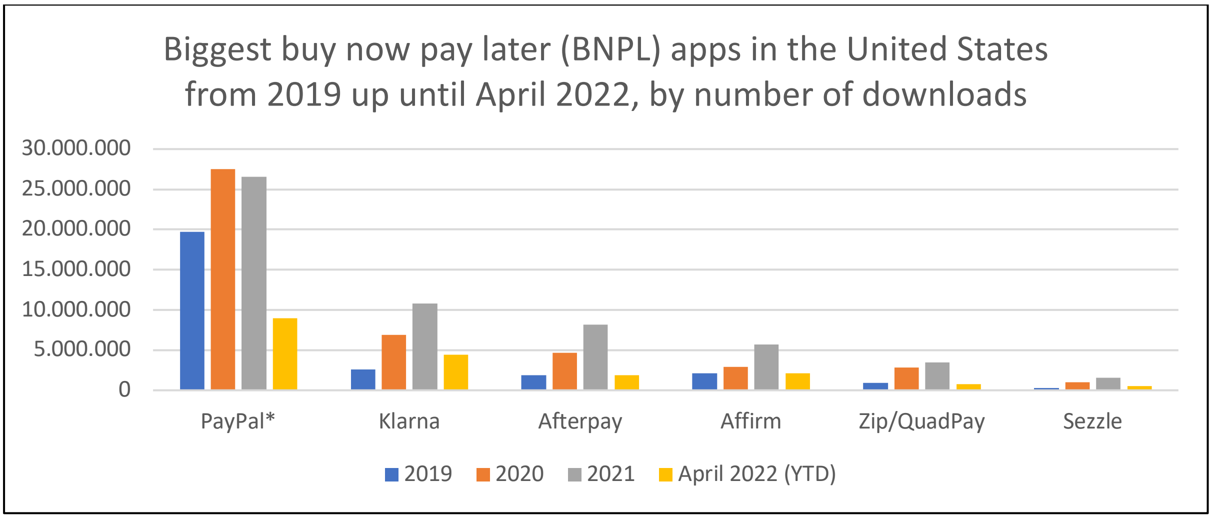
Source: (Statista 2022)

Exhibit 28: Market share of BNPL in e-commerce payments



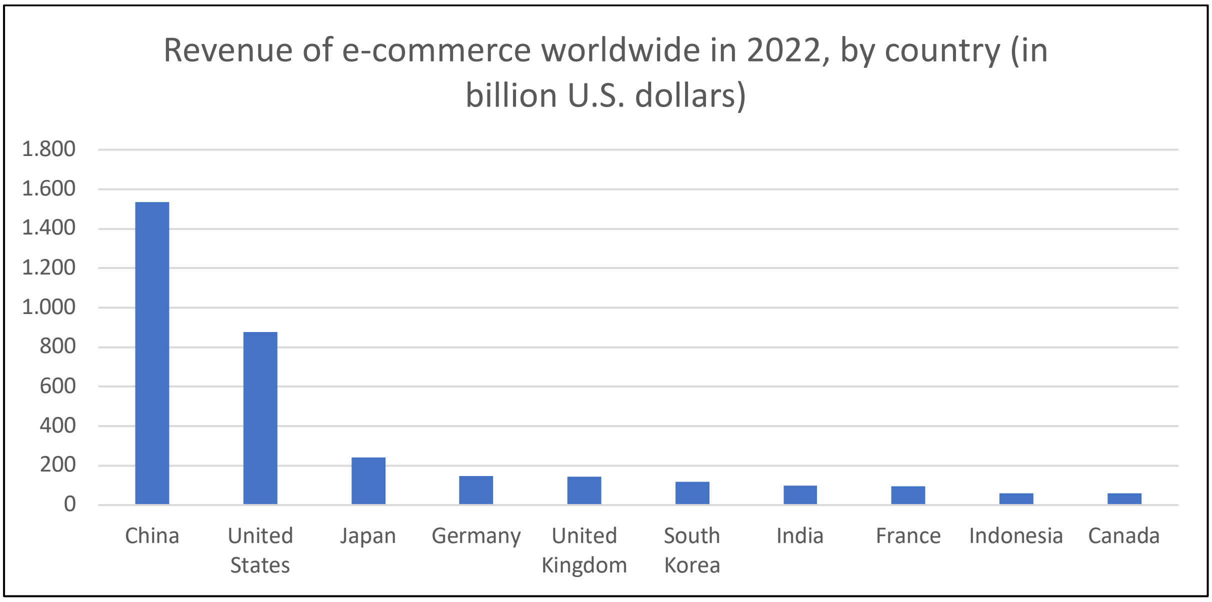
Source: (Statista 2022)

Exhibit 29: BNPL apps in the US from 2019 – April 2022, by number of downloads



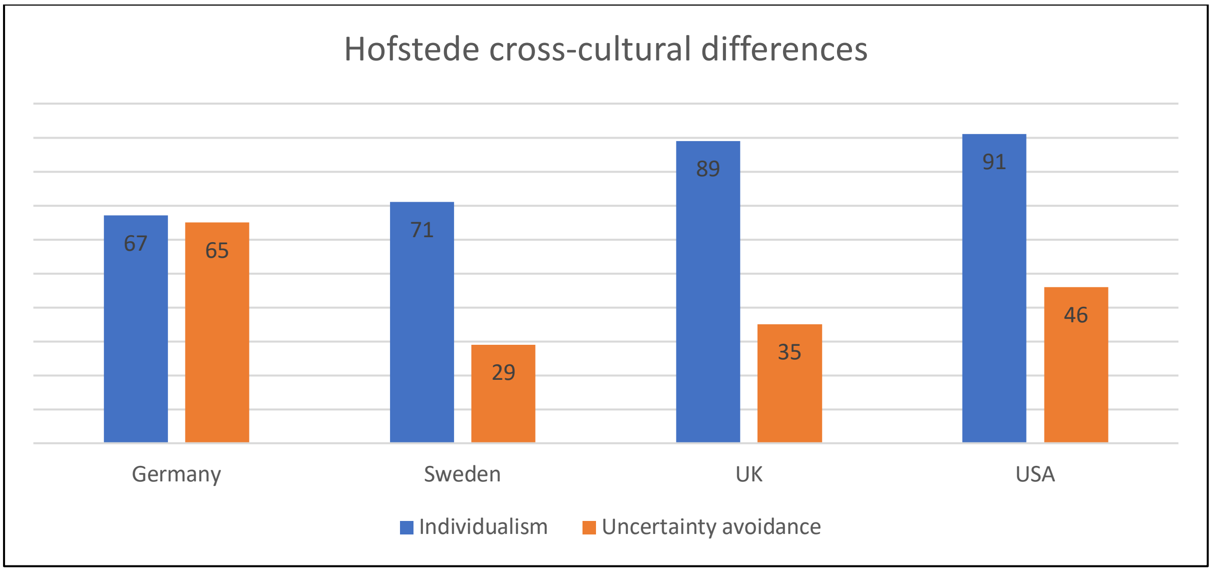
Source: (Statista 2022)

Exhibit 30: Revenue of e-commerce worldwide in 2022



Source: (Statista 2022)

Exhibit 31: Hofstede model showing cross-cultural differences



Source: (Hofstede, Hofstede Insights 2022)

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