



Bocconi Students Fintech Society

European Venture Capital in Fintech

Equity Research: **Pento**, payroll services optimization company backed by Point Nine Capital

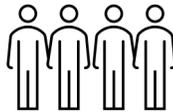
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An introduction on Point Nine Capital

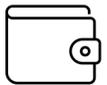
Point Nine Capital is...

- **An European venture capital company**
- **Headquartered in Berlin, Germany**
- **Founded in 2009 by C. Janz, K. Hebenstreit, L. Gadowski, P. Chudzinski**
- **Focused on early-stage Internet investments in SaaS and digital marketplaces**



Key numbers...

- **Raised a total of \$315.1 million across 4 funds**
- **Total number of investments: 215 companies**
- **Current portfolio: 98 companies**
- **Exits: 29 companies**
- **Employees: 12**

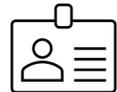


Sources: Point Nine Capital, Crinchbase

An introduction on Pento

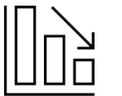
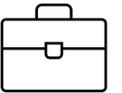
Pento is...

- A payroll and HR platform
- Headquartered in London (UK) and Copenhagen (DK)
- Founded in 2016 by E. Hagbarth Rasmussen, J. Bogh Larsen
- Provides a SaaS-based online platform to automate payroll system and offer complementary features to employees
- Plans to expand geographically, hire new people, build more integration, and launch an open API
- **Venture capital-backed:** funded by 21 investors



Key numbers...

- Around 700 corporate clients
- Employees: 55*
- **Negative income:** DKK -6,350,954 (EUR -854,023) due to high staff costs, depreciation, amortisation, and impairment losses
- Enterprise value: \$62-94 million
- Funded by 21 investors, raised \$19 million in funding over 3 rounds



Business description

The first fully automated payroll for European businesses

A unique value proposition

- **Real-time calculations:** automated adjustment of earnings and contributions
- **Simple and secure import of employee data**
- **Pension auto-enrolment:** check of eligibility for pension
- **Salary templates, statutory pay**
- **Security & Privacy** (GDPR compliant)
- **Automated payments and payslip distribution**
- **Integrations:** HMRC*, pension providers, and accounting platforms



Main characteristics

- **Innovative idea:** make payroll digital and flexible, for everyone
- **Modern, easy-to-use software and reliable payroll support**
- **Help companies to cut 50-80% off the time on payroll**
- **Focus on employee benefits**
 - **Compensation package:** equity option plans
 - **Flexible working:** can decide when where to work
 - **Workspace:** home or co-working
 - **Travel stipend**
 - **Tech:** provision of necessary tech
 - **Books** provision
 - **Team summits** for growth generation



*non-ministerial department of the UK Government for tax collection

Sources: Pento website, Fintech Global

Industry overview

Pento aims to replace manual workflows by providing cloud-based tools, real-time calculations, transparency, and remote support

Industry Trends

- **High and intensifying competition:** large number of incumbents and innovative vendors
- **Leading vendors**   
- **Initially used only by large enterprises, then small-scale companies entered**
- **The global payroll market size is expected to grow by \$5.01 billion during 2020-2024**
- **The global market growth will accelerate at a CAGR of almost 5%,** driven by workforce expansion and by the adoption of cloud-base payroll software

Sources: Technavio

Vendor Analysis

- The **market is fragmented**
- The **growth** of the players depends on factors such as **geographical presence, product portfolio, financials, R&D**; the demand for payroll services competitiveness remains high
- To succeed players should **focus on growth opportunities in the fast-growing segments** (as North America), while simply preserving their positions on the slow-growing ones (as Europe)
- **Pento** is disrupting the European payroll market, which is one of the least digital advanced service market, by providing for the first time a **fully automated and complete payroll service**.
- **Main Pento's competitors**  PayFit  brightpay 

Sources: Technavio, Techcrunch, Craft

Investment Rationale

So far, Point Nine Capital participated in all funding rounds of Pento. The payroll services optimization company completed **Seed and Series A rounds**. The total funding amount reached \$19M.

Risks

- Not all companies need all the functionalities of Pento's software and therefore they may end up paying for services they do not require
- Because of the innovativeness of the idea, it may be impossible to integrate Pento's software into existing traditional solutions
- Partner companies lose direct control over payroll functions

- Pento is still in its infancy and only operates in Denmark and the UK
- As payroll is related to both HR and Finance fields, it may be possible that HR solutions will dominate Pento's market
- Pento's software, like any other IT system, might contain flaws, bugs and errors. Because it is cloud-based, there exists a central point of server failure

Sources: Pento website, Crunchbase, Medium article by Ricardo Amram (employee at Point Nine), Matchr

Valuation

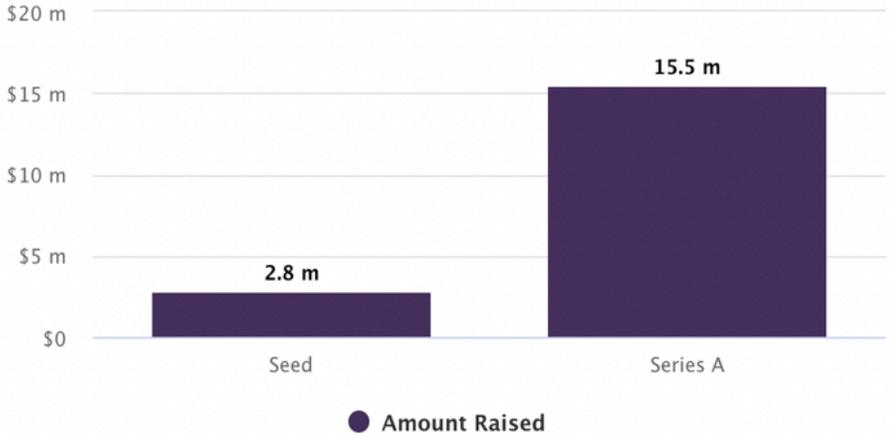
By successfully completing **3 funding rounds**, Pento has proven popular with major investors and highlighted the huge **potential** of its payroll software.

Pendo Valuation & Funding

- Pento has been able to raise over \$20M over 3 rounds of funding, since being established in 2016¹
- Backed by 21 investors, including Zoom and Stripe²
- Over 700 companies use Pento's services¹, indicating that Pento provides real value when it comes to employee compensation

Date	Deal type	Number of investors	Money raised (\$)	Lead investors
May 19, 2021	3. Later Stage VC (Series A)	15	\$15.6 million	General Catalyst
Sep 10, 2019	2. Early-Stage VC	5	\$2.8M	Point Nine, Seedcamp
Oct 23, 2017	1. Seed Round	5	\$685,000	PreSeed Ventures

Exponential growth of capital raised



Sources: Statista, Financial Times, «Robinhood files for IPO amid GameStop controversy»; CNBC, «Robinhood is still on track for a hot IPO despite the GameStop uproar»

1) According to PitchBook, which provides capital market data and analytics tools.

2) According to Cbinsights, which shows all the registered investors in Pento

Financial Analysis

With **expansion** and **rapid growth** as Pento's key objectives, the company is heavily investing in **product development** and as a result has **not been profitable to date**

Financial Statement

- Pento has failed to be profitable since its establishment
- Net loss is significantly increasing over the years, which should be alarming to investors
- Management claims that the COVID-19 virus, which led to several lockdowns in Denmark, has negatively impacted the financial statements of Pento due to fewer incoming orders

¹	2020 (DKK)	2019 (DKK)	2018 (DKK)
Gross profit/loss	(804,810)	(553,265)	(113,691)
Operating profit/loss	(4,154,040)	(3,060,966)	(1,505,413)
Profit/loss before tax	(6,951,808)	(3,404,555)	(1,516,837)
Net profit/loss	(6,350,954)	(3,028,569)	(1,190,725)

Balance Sheet

- Significant growth of assets and reduction of liabilities from 2018-2019 mainly due to the increase in number of completed development projects as well as cash in 2019
- Decrease in assets from 2019-2020 due to heavy spending and investment of cash
- Shows that company is investing almost all of its cash resources from its three rounds of funding

²	2020 (DKK)	2019 (DKK)	2018 (DKK)
Assets	(12,680,152)	(19,108,503)	(6,579,367)
Liabilities	(849,240)	(926,637)	(3,612,916)
Equity	(11,830,912)	(18,181,866)	(2,590,465)

Sources: Deloitte

1) The Annual General Meeting adopted the annual report on 17.06.2020

2) The Annual General Meeting adopted the annual report on 04.06.2021

Our "Buy/Sell" recommendation

- Provides an effective service which has a practical use in the **B2B** business model
- Backed by **major investors** and technological firms which shows that the technology is well-developed and believed in
- Raised approximately **\$20 million over 4 years**, heavily investing in research and development
- However, despite huge investments and funding, Pento has **failed to be profitable** up to date
- **Net loss** has significantly been **increasing** over the last 3 financial years
- Pento's **equity** has greatly **fallen** from **2019-2020**, primarily due to a **decrease in its cash**
- These **large increases in net loss** every year, accompanied by **falling equity** is particularly alarming and why this can be classified as a risky investment



Rating:
**OVERVALUED/
TOO RISKY/
SELL**



Project Lead



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*Scientific French Baccalaureate Background and Economics student at Bocconi University. Ghali offers extensive hands-on experience through **Investment Banking** and **Investment Management** internships, experiences and trainings at **BNP Paribas**, **M Capital Group** (US Investment Bank) and **Amplify Trading** (British Prop Trading Firm).*

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