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Marqeta is optimistic about the long term despite projecting slower growth for 2023

Article

The data: Marqeta's total processing volume (TPV) grew 41% year over year (YoY) in Q4, compared with a 76% increase the same period the prior year, per its earnings release. Net revenues in Q4 reached $204 million, growing 31% YoY—a slowdown from 76% the year before.

How we got here: Block made up 74% of Marqeta's revenues in Q4, up from 72.5% the prior quarter. Block's revenue contribution was primarily driven by **Cash App**, with **Afterpay** and the **Square** debit card also playing a role, Marqeta CFO Mike Milotich said on the company's earnings call.

Here's a breakdown of Marqeta's TPV performance on a vertical basis.

- **Financial services:** TPV growth was slightly faster in Q4 than in Q3 thanks to increasing Cash App card penetration. The card's growing engagement led to higher spend per card user, according to Milotich.
- **On-demand delivery:** TPV in this vertical grew in the double digits, also on par with Q3 performance thanks to merchant category expansion and strengthening customer demand.
- **Lending:** Growth slowed but remained in the double digits, Milotich said. One of Marqeta's clients moved a program to another processor in Q3, which hurt Q4 TPV. Holiday shopping helped lift buy now, pay later (BNPL) volume in Q4 but couldn't compete with 2021's BNPL surge. Some clients tightened their lending standards, which also hurt Marqeta's volume.

What's next? Marqeta anticipates a modest slowdown in consumer and business spending in 2023—though not to the extent that a recession would bring. But the firm is optimistic about long-term growth as it explores new opportunities in wage access and disbursement, accounts payable, and point-of-sale lending, according to new CEO Simon Khalaf.

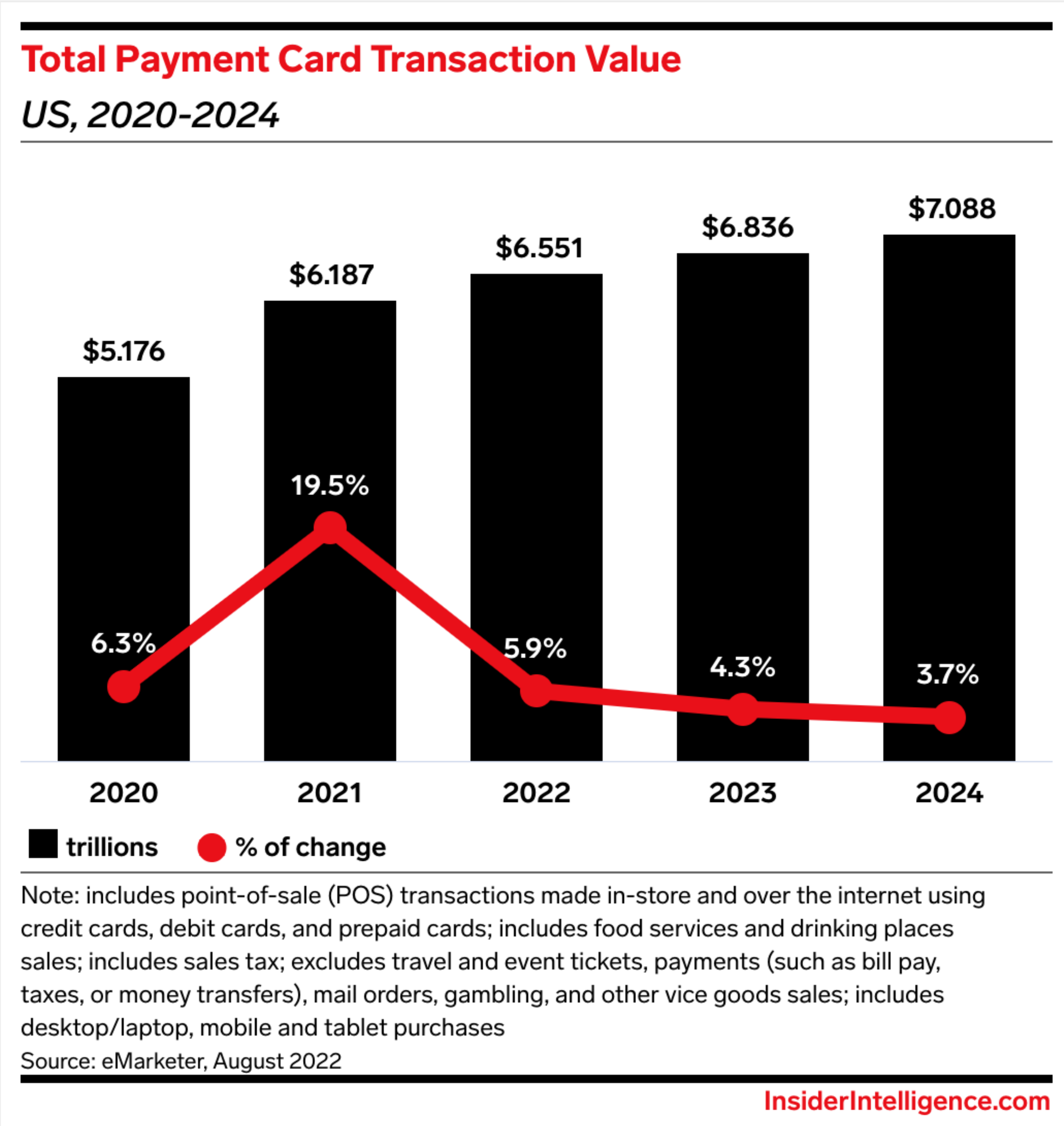
The company has also noticed business demand moving away from fintechs and toward larger financial institutions in the last few quarters—therefore, Marqeta intends to focus on increasing loyalty for these larger businesses.

Marqeta outlined three key priorities for 2023.

1. It will integrate **Power Financial**—the credit card tech startup it acquired in January—into its business. This will help Marqeta improve credit solutions and tap a large addressable client market. Marqeta doesn't expect Power to make a significant contribution to its business in 2023 because the fintech won't be fully integrated until the third quarter.

2. Marqeta will focus on improving sales. New sales bookings missed internal expectations between the end of 2021 and Q3 2022, which is now starting to weigh down on performance. To that end, Marqeta revamped its sales team over the summer to make it more efficient and segment-specific. Marqeta believes showcasing unique product use cases will help it attract more business customers.
3. It will also focus on enhancing its economies of scale. Marqeta has already started automating some tasks, like onboarding customers. It will continue to improve platform capabilities to help drive efficiency.

Marqeta is also focused on renewing its contract with Block. Execs said they were confident that the firms would reach a deal this year, but without one, Marqeta could lose a big chunk of volume and revenues after its current arrangement expires in 2024.



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