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TransferWise, A Profitable FinTech Unicorn, Spurns IPO For Rare All-Secondary Sale $3.5 Billion Valuation

While tech unicorns like Pinterest and Uber go public with mixed results, one London-based financial services startup, TransferWise has opted for a different route – conducting a multi-hundred million dollar secondary sale that valued it at $3.5 billion.

Financial tech startup TransferWise announced on Wednesday it raised $292 million in the secondary sale, bringing its funding to $689 million to date. Investors Lead Edge Capital, Lone Pine Capital, Vitruvian Partners and BlackRock (through funds it manages) led the investment, while Andreessen Horowitz and Baillie Gifford expanded their stakes. The company didn't disclose who exactly sold in the transaction, which didn't offer new shares but instead offered "secondary," or existing shares, held by early employees and investors.

TransferWise's new valuation of $3.5 billion is a significant increase from its 2017 valuation of $1.6 billion. But its raise is more unusual because it effectively serves as a cash-producing "liquidity event," much like an IPO, at a time when tech companies are going public with decidedly mixed results. Since pricing its public offering at $45 in May, ride-hailing company Uber now trades at $41.50 – below even its debut price. Pinterest hovers not far above its initial price. And Lyft, Uber's smaller rival, currently trades about 23% below its list price from its March IPO.There have been positive movers, too – just look at Zoom, the video communications company trading at more than double its list price – but the wave of unicorns has so far encountered mixed reactions on Wall Street. So TransferWise's move, to neither pursue the public market nor raise a traditional round of new funding, presents a third option for maturing tech companies.

According to CEO Kristo Käärmann, TransferWise was able to pursue an all-secondary round of this size because it's been profitable for two and a half years. Funding rounds that combine the two – issuing new shares to new investors, while allowing some early investors to sell – are common, Käärmann says. What makes TransferWise different, he says, is that it didn't need to raise any capital for its own growth. "When we fundraised last time, we were already profitable but we wanted a little money for a cushion in case something happened, or the financials changed," he says. "Now we are so confident in what we are doing that we agreed that the company doesn't need to fundraise."

Companies that do go public often speak of three benefits: cash (the money they raise from the offering to fuel operations); marketing (the added exposure and trust with big companies that being public can offer); and liquidity (the ability for long-serving employees, founders and investors to see cash proceeds from their work). TransferWise, which says it serves five million customers and saves them $1 billion each year in bank fees, says it didn’t need more publicity. In September, the company, originally founded in Estonia, told *Forbes* it had nearly quadrupled revenue in two years. And with its profitability, Käärmann says the company was able to fuel that growth from its own operations, meaning it didn’t need cash. So by offering a secondary transaction, TransferWise checked off the third box – liquidity – without the headaches of the public markets.

The move, which essentially replaces some early investors on TransferWise’s cap table with later-stage specialist ones like BlackRock, also serves as a reminder of the time constraints that can face early stage tech investors. Käärmann says some early investors didn’t sell at all, or sold only a portion of their shares. But for seed investors like IA Ventures, Index Ventures, Valar Ventures and Seedcamp, their first checks into the company were seven years ago. While its unclear which of those investors, if any, sold, TransferWise’s plan not to go public anytime soon may have presented a crunch where some funds wanted to make good on the high paper returns of their early investments in the business.

TransferWise could still go public, its CEO says – this move is more about alleviating pressure and controlling the timeline than eliminating it, he insists – and Käärmann says he’s intrigued by recent stock market alternatives like Eric Ries’ Long-Term Stock Exchange, which received government approval earlier this month. (One obvious tie: Andreessen Horowitz is a backer of both the LTSE and TransferWise.) But this round is one example “that the border between public and private is graying a little bit,” Käärmann adds. “I don’t want to say it’s ready for disruption, but there might be some phase of evolution of the market, for both public and private stocks.”

With fears of trade war and anemic earnings from higher-burn startups potentially souring some public market investors from startups, it’s a tactic that other later-stage tech companies might consider moving forward – if they can afford it. “Once you’re sustainable and profitable, you will have a lot of functionality available,” Käärmann says.

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