



Klarna Group (KLAR)

US | Main Market | Large Cap | Financials

2025-10-07

Rating:

Buy

12 M Target price:

55 USD

Current price:

41.5 USD

Upside:

33 %

Strong growth momentum and improving market conditions

Klarna Group (KLAR) entered the public markets with strong operational momentum and renewed profitability, supported by robust consumer engagement and expanding merchant adoption. As global interest rates trend lower and household spending recovers, Klarna's scalable "Buy Now, Pay Later" ecosystem is poised to capture accelerating growth across key markets.

Although Klarna has yet to provide formal market guidance, the company's first quarters as a listed entity could mark the beginning of a more structured investor communication strategy. Improved transparency and IR engagement post-IPO may serve as additional sentiment catalysts, attracting institutional investors and helping the stock close its valuation gap relative to peers.

Key insights

Macro tailwind from falling global rates:

With global interest rates declining and consumer sentiment improving, Klarna is well positioned to benefit from lower funding costs and stronger household spending, directly supporting transaction growth and credit volumes across its BNPL platform.

Profitable growth with scale advantage:

Klarna has reached sustained operating profitability, combining ~20 % revenue growth and a 25 % YoY increase in GMV. Its hybrid model — blending payments, credit, and merchant solutions — creates strong network effects and scalable margins.

Strong balance sheet and low free float as technical drivers:

With a record net cash position of USD 5.5 bn and no structural debt, Klarna has one of the strongest balance sheets in the fintech sector. The IPO's limited 9 % free float could lead to upward price pressure as index inclusion and institutional demand build over the coming quarters.

Attractive valuation and re-rating potential:

Despite its profitability inflection, Klarna trades at a low EV/FCF multiple versus global fintech peers. Our blended valuation (DCF + technical factors) supports a 12-month target price of USD 55/share, representing ~33 % upside from current levels, with potential for a move toward USD 65–70 under a bullish scenario.

Analyst

Nick Derek

Head of Treasury & Fund

Market Data

Exchange	NYSE
Trading Currency	USD
Share Class	Ordinary
Shares OS ('000)	377 794
Market Cap	16.0B USD
EV	10.0B USD

Metrics & Drivers

	2024	2025E	2026E
GMV (bUSD)	105	126	158
Credit Loss (% of GMV)	0.48	0.46	0.44
Take Rate (% of GMV)	2.55	2.70	2.70
Number of customers (m)	93	120	140
Merchants ('000)	675	820	900

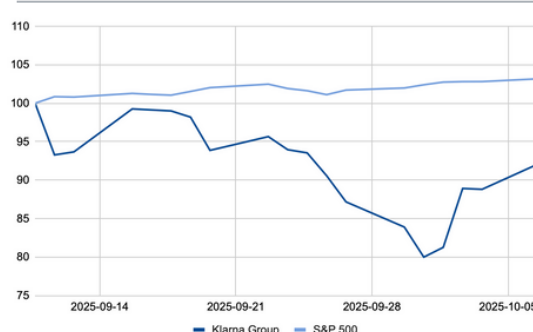
Forecast, mUSD

	2024	2025E	2026E
Transaction & Service Income	1838	2206	2758
- Growth LFL Y-o-Y	10.0%	20.0%	25.0%
Interest Income	576	634	697
- Growth LFL Y-o-Y	4.0%	10.0%	10.0%
Total Income	2414	2840	3455
- Growth Y-o-Y	8.5%	17.6%	21.7%
Transaction Margin (%)	43%	45%	46%
Transaction Margin dollar	1038	1278	1589
Operational Profit	121	178	539
- Growth Y-o-Y	-	47.1%	202%

Major Shareholders (votes)

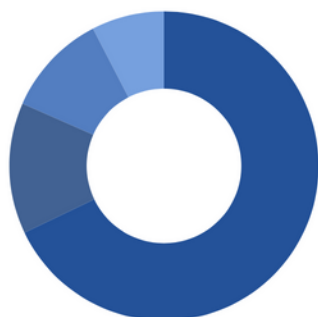
Sequoia Capital	20.3%
Victor Jacobsson	8.0%
Heartland A/S	7.9%
Sebastian Siemiatkowski	6.8%
Commonwealth Bank of Australia	4.6%
Silver Lake	3.8%
GIC Private Limited	1.4%

Stock Price Movement since IPO 2025-09-10 %



Investment Thesis Overview

Diversified Income and Market Exposure



67.9% Income from merchants & partners
13.7% Consumer income
10.8% Net interest income
7.6% Other income

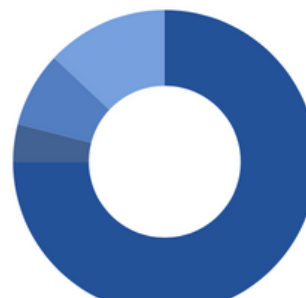


29.8% USA
24.6% Germany
15.4% Sweden
12.3% UK
18% Others

Solid Balance Sheet

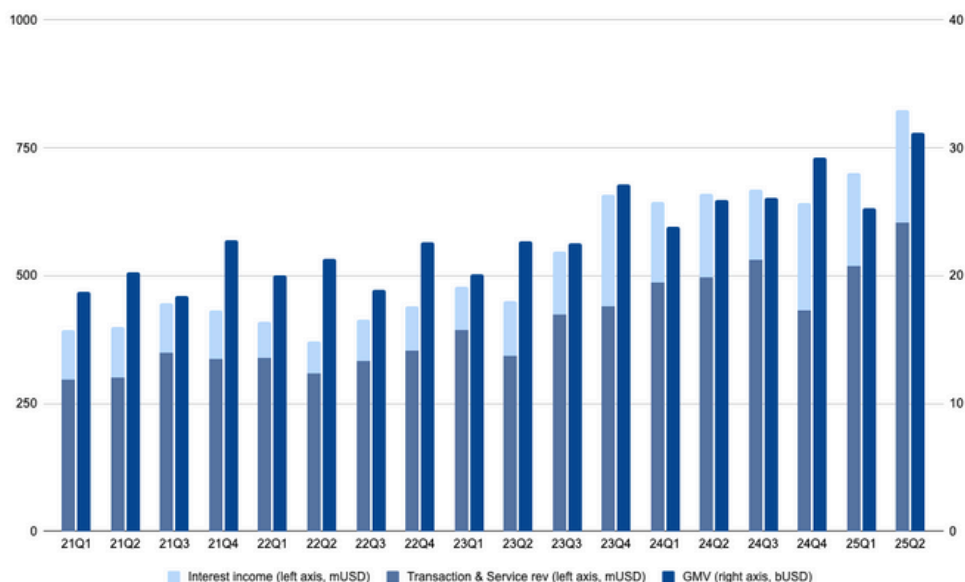


38% Loans to customers
29% Cash and cash equivalents
19% Trade receivables & other assets
7% Debt securities
5% Intangible assets & goodwill



75% Consumer deposits
4% Borrowings (notes payable etc.)
8% Other liabilities
13% Total equity

Long Term Growth in GMV and Income





Investment Thesis

Momentum in a lower rate environment and rising consumer sentiment

Global interest rates have begun to decline following a prolonged tightening cycle, easing funding costs for fintech lenders and reducing pressure on credit losses. As macro sentiment improves, consumer spending is likely to recover — providing a tailwind for Klarna's transaction volumes, credit activity, and take-rate income.

Scale, ecosystem effects, and differentiation

Klarna operates as more than a BNPL provider — it is a full-stack payments and lending platform connecting merchants and consumers in one ecosystem. With strong brand equity, deep merchant relationships, and data-driven underwriting, Klarna can monetize both transaction fees and interest income at high take rates. Its scale in Europe and rapid expansion in the U.S. position it to benefit from both network effects and operating leverage.

IPO structure, free float mechanics, and institutional demand

In its IPO, Klarna offered 34.3 million ordinary shares at USD 40 each, raising about USD 1.37 billion. Klarna itself sold 5.56 million shares, while 28.76 million shares were from existing shareholders. With 377.8 million shares outstanding, this implies a relatively low free float, which may constrain available supply in the near term and lead to upward price pressure as institutional investors seek exposure. Over time, index inclusion and mandatory allocations may force additional inflows.

Undervalued relative to fundamentals, with strong downside protection

Despite its profitability inflection and global presence, Klarna trades at conservative multiples vs. high-growth fintech peers. The company's net cash position of approx. USD 5.5 billion provides a buffer against downside risk. While our DCF suggests a valuation above market, we apply a conservative adjustment to land our 12-month price target at USD 55/shares, allowing room for multiple expansion if execution and sentiment align.



Company Overview

Klarna Group PLC is a Swedish-founded fintech company offering payment, credit, and shopping services across over 45 markets. Its platform enables consumers to pay immediately, in installments, or later, while providing merchants with conversion tools, marketing analytics, and risk mitigation.

In Q2 2025, Klarna reported revenue of USD 823 million (up ~20% year-over-year), with GMV rising ~25% to USD 31.2 billion. The company had ~111 million active users and ~790,000 merchants under contract.

Revenue breakdown is approximately:

- Transaction & Service Income: ~73 % of total income
- Interest Income: ~27 % of total income

Klarna's balance sheet stands on a solid footing with USD 5.5 billion in net cash and no meaningful structural debt. The firm also uses a multi-class share structure (with Class B shares carrying greater voting rights) to maintain founder and early investor control.

Business Strategy

Klarna's growth strategy can be summarized in three pillars:

1. Unified commerce ecosystem – integrate payments, credit, loyalty, marketing, and consumer services into a single platform to deepen engagement and increase monetization per user and per merchant.
2. Geographic scale with credit-localization – expand aggressively in high-growth markets (e.g. U.S., parts of Europe) while customizing credit risk models to local regulatory and consumer behavior norms.
3. Operational excellence through tech & AI – automate underwriting, collections, fraud detection, and customer support via AI to drive margin expansion and risk efficiency.

While Klarna has not yet issued formal forward financial guidance, management has emphasized disciplined capital allocation, profit-first growth, and expanded investor communication post-IPO.

Market Overview

The digital payments and BNPL sectors are underpinned by structural shifts: growing e-commerce penetration, consumer preference for convenience, and rising expectations for seamless checkout experiences. The BNPL market is forecasted to expand double-digit annually over the next decade.

As global rates ease, capital becomes cheaper, credit losses fall, and fintech lenders gain a margin tailwind. Klarna is well-positioned to benefit from this regime shift. Compared with peers such as Block (Afterpay), PayPal, and Adyen, Klarna's model is differentiated by combining consumer lending and payments in a single data-driven ecosystem.

Recent macro signals — lower funding rates and improving consumer indicators — may create a supportive backdrop for fintech revaluation cycles.

Valuation

We apply three equally weighted valuation components:

1. DCF – Using WACC of 8.2% and long-term growth of 2%, our base DCF implies a valuation above current levels.
2. Relative / Peer Benchmarking – While we avoid explicit multiples in this narrative, Klarna currently trades on a relatively low EV/FCF compared to growth fintech peers, suggesting room for rerating.
3. Technical / IPO premium – Low free float, expected index inclusion, and institutional allocations provide potential upward momentum beyond fundamental drivers.

Combining these, we derive a 12-month target price of USD 55 per share. This level implies a closing of the valuation gap. In a bull scenario — with stronger consumer demand, multiple expansion, and sustained execution — we believe stock could trend toward USD 65–70 / share.

Conclusion

Klarna enters the public markets at a moment of opportunity: global rates are falling, consumer sentiment is recuperating, and fintechs are once again in focus. The blend of scale, ecosystem effects, and strong net cash gives Klarna a unique position with both growth and downside protection.

We initiate coverage with a Buy rating and a 12-month target price of USD 55, with upside optionality toward USD 65–70 if strategy and sentiment align.

Peer Valuation

Peer Valuation	Market Data		Financials FY2024			Valuation	
Company name	Mkt Cap	Enterprise Value	GMV	Sales	EBIT	EV/Sales	EV/EBIT
	LTM (bUSD)		LTM (bUSD)			LTM	
Affirm	24,7	31,2	36,7	2,3	(0.56)	13,6	neg.
PayPal	73,9	75,2	1680	31,7	5,63	2,4	13,3
Block	48,7	42	179,6	24,1	1,04	1,7	40,3
Adyen	53,9	42,7	1491,6	2,3	0,96	18,6	44,4
American Express	231	232	1550	65,9	12,9	3,6	18
Median						3,6	29,15
Mean						7,98	29
Klarna Group	16	10	105	2.8	0.18	4	56

Appendix

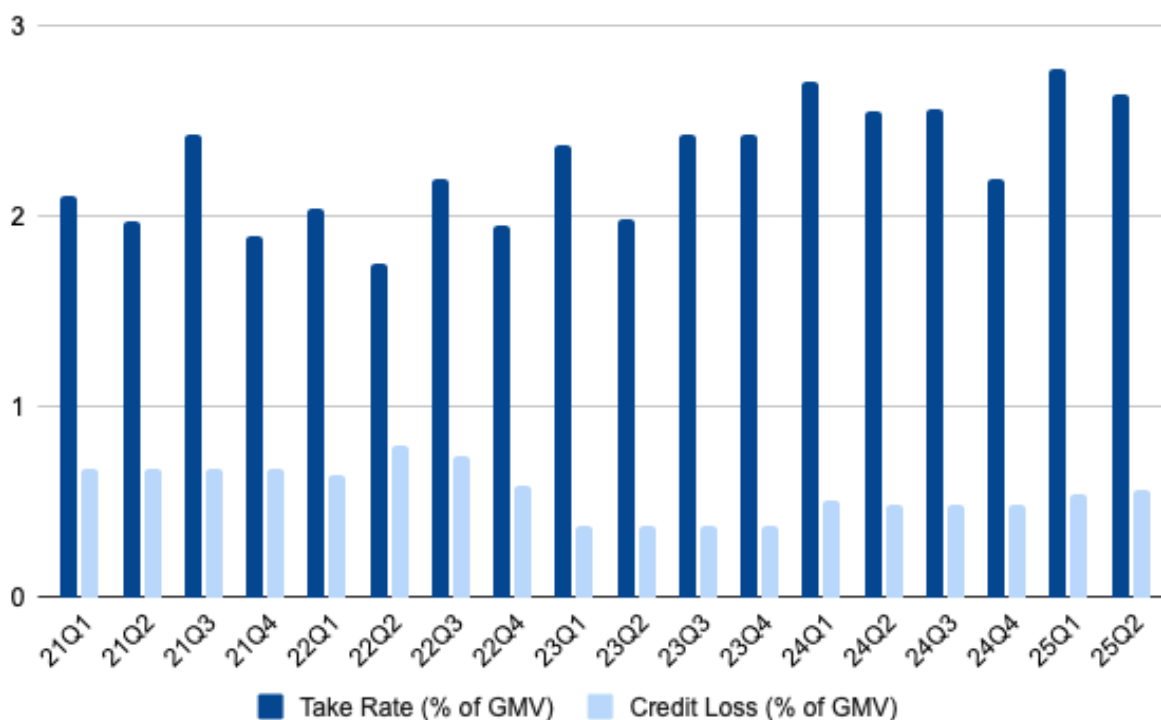
DCF

DCF (mUSD)	2024A	2025E	2026E	2027E	2028E	2029E	Term
Transaction & Service rev	1838	2206	2758	3448	4138	4966	
- LfL Growth (%)	10.0%	20.0%	25.0%	25.0%	20.0%	20.0%	2.0%
Interest Income	576	634	697	767	844	928	
- LfL Growth (%)	4.0%	10.0%	10.0%	10.0%	10.0%	10.0%	2.0%
Total Income	2414	2840	3455	4215	4982	5894	
Transaction Margin (%)	43%	45%	46%	47%	48%	50%	50%
Transaction Margin dollars	1038	1278	1589	1981	2391	2947	
Operation Expenses	1159	1100	1050	1000	1000	1000	
Operating Profit (Loss)	121	178	539	981	1391	1947	
Tax	25	37	111	202	287	401	
FOCF	96	141	428	779	1104	1546	25424
NPV	96	130	366	614	805	1043	20095

WACC	
Cost of Debt	4.5%
Cost of Equity	9.25%
Tax Rate	20.6%
Beta	1.35
Market Risk Premium	5.0%
Liquidity Premium	0.5%
Risk Free Interest Rate	2.0%
Long-Term Growth Rate	2.0%
Weighted Average Cost of Capital (WACC)	8.2%

DCF Valuation Breakdown (b USD)	
NPV	23.149
Cash (Debt)	5.5
Value of Minorities	0
Equity Value DCF	28.65
No Shares, Diluted ('000)	377 794
Current Mkt Cap	16.0
Equity Value DCF per share (USD)	75.8

Take Rate & Credit Losses



Data sources: Klarna Group Quarter & Annual Reports, BörsData, Nasdaq, Millestream, Modular Finance/Holdings, Google Finance & ER-papers.



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