

DALALBYTES RESEARCH

Klarna Group

Five-Pillar Analysis

NYSE: KLAR | OCTOBER 12, 2026

Companion to the Klarna Group investment report (68/100, Selective Positive). One pass, three partial, one fail: a sunrise industry and fortress-grade funding, priced as if the failing pillar were permanent.

Reference price \$14.06 (October 9, 2026 close).

P1 SUNRISE: PASS

The tailwind is the migration of everyday consumer credit away from revolving card debt toward transparent, fixed-term, digitally underwritten credit, and it is early. US pay-in-4 volume was roughly \$70 billion in 2025, about 1.1% of credit card spending, growing ~20% a year in real terms since 2021 (Richmond Fed estimate). Klarna's guided ~\$150B of 2026 GMV sits inside a global consumer-payments ocean measured in the tens of trillions, and its card, membership and deposit products attack the everyday-spend layer where the card networks earn their toll.

Three structural gusts support the grade. Regulation is moving from headwind to moat: the EU Consumer Credit Directive (November 2026), UK FCA rules, and New York's BNPL Act raise bars that a licensed bank clears more easily than unlicensed rivals. Distribution is standardizing on flexibility: Stripe, Worldpay, Nexi and JPMorgan Payments switch pay-later on by default. And consumer preference is generational: pay-in-4 charge-offs (1.83% in 2023) run well below bank card charge-offs (4.19%). The caution inside the pass: sunrise industries invite giants. The pillar tests the industry, not the company, and the industry's direction is unambiguous. PASS.

P2 LEADERSHIP: PARTIAL

The case for a pass is substantial. Sebastian Siemiatkowski has run Klarna for 21 years: profitable for the first 14, a Swedish banking license in 2017, survival of the 2022 collapse from \$45.6B to \$6.7B, and a rebuild that delivered a GAAP-profitable 2024. He sold no shares at the IPO, holds ~7.5% (28.6M shares), and bought ~\$10M more at \$14.37 on August 26, 2026, eight days after the guidance crash. On did-they-do-what-they-said, the operational record passes: the card pivot (1.3M to 6.5M users in a year), memberships (8x to 2M), and the TMD trajectory were promised and delivered.

Two facts block the pass. The AI rhetoric: 2024 claims that AI agents could replace hundreds of support staff were walked back after quality failures and partial rehiring, teaching the market to discount management's words when a newly public company most needs them believed. And the August 2026 bench event: a guidance cut in the same release as the CFO and CMO departures (effective early 2027), the CFO seat unfilled. A founder this strong makes the company; whether the institution around him is equally strong is unproven, and 2026 dented it. PARTIAL.

P3 MOAT: PARTIAL

Klarna's moat is a stack, and parts are genuinely hard to copy. Two-sided scale: 120M consumers and 1.2M merchants, each side lowering acquisition cost for the other. Data: ~\$0.5 trillion of underwriting history with per-transaction, real-time re-underwriting on short-duration loans. Licenses: a Swedish bank since 2017, deposit funding across Europe, a pending US charter. Default distribution: switched on inside Stripe, Nexi, Worldpay and JPMorgan Payments, so merchants get Klarna without integrating Klarna.

Why not a pass? The consumer-facing layer is contested by the owners of the operating system and the checkout: Apple and Google can surface pay-later to billions of devices, PayPal sits in hundreds of millions of accounts, and the networks are adding installments at the rail level. Merchants multi-home, consumers show limited loyalty to a payment button, and the 2.7% take rate (roughly a third of Affirm's monetization per GMV dollar) is the signature of a company still buying share with economics. The moat is real at the infrastructure layer and thin at the brand layer. PARTIAL, improving as memberships and the card convert rented distribution into owned relationships.

P4 IRON FORTRESS: PARTIAL

For a lender, the fortress test is funding, and Klarna's funding is the best in its peer set. Consumer deposits of \$13B (Q4 2025, +37% YoY) supply ~91% of funding at ~270 days average duration: granular, insured, sticky. The model is deliberately capital-light: forward flow (a \$2B facility from Q1 2026 supporting ~\$17B of US financing capacity) and securitization move loans to investors, so the holdco carries net cash (enterprise value ~\$2.3B against a \$5.3B market cap). Loan durations are short and the book re-underwrites itself constantly.

The debits are about earnings armor. FY2025 produced a \$(273)M net loss when credit provisions rose ~60% on the Fair Financing mix shift, and adjusted operating profit fell to \$65M on \$3.5B of revenue. A consumer-credit fortress should absorb a bad year without going underwater; Klarna at its current mix cannot yet, because 36-month Fair Financing credit is growing into an unseasoned book faster than the deposit-and-membership profit base. The walls are stone; the garrison is still being recruited. PARTIAL.

P5 FREE CASH FLOW: FAIL

The engine's final test is the least arguable: does the business convert growth into cash for owners? On the trailing record, no. FY2025 closed with a \$(273)M net loss and adjusted operating profit of just \$65M, and reported free cash flow for the recent period was negative (roughly -\$1B on third-party compilations of the filings, reflecting lending-book growth and expansion spend). Granting that a lender's cash flow is distorted by loan-book accounting, by the standard this pillar applies across the library (owner earnings, positive and growing), Klarna does not clear the bar.

The forward view is better and stated fairly: adjusted operating income guided to \$280-300M for 2026, two GAAP-profitable quarters in H1 2026, and transaction margin dollars compounding at 42%. If 2027 delivers sustained GAAP profit and positive owner cash flow at scale, this pillar flips quickly. But pillars are graded on evidence, not trajectory. FAIL, with the shortest path to an upgrade of any fail in this library.

>> SUMMARY

Pillar	Grade	One-line basis
Sunrise	PASS	Everyday credit migration is early and structural; regulation is turning into a moat
Leadership	PARTIAL	Elite founder record and alignment; AI overclaim and the Aug 2026 bench event dent credibility
Moat	PARTIAL	Infrastructure moat real (licenses, data, deposits, defaults); brand layer contested by giants
Iron Fortress	PARTIAL	Best-in-class deposit funding; earnings cushion still too thin for a credit cycle
Free Cash Flow	FAIL	Negative owner cash flow on the trailing record; inflecting, not yet delivered

One pass, three partial, one fail maps to the report's 68/100, Selective Positive: a sunrise industry and a fortress-grade funding model, priced as if the fail pillar were permanent. The re-rating path runs through two deliverables: sustained GAAP profit through 2027, and the Utah charter. Watch both, and watch the Q3 2026 print on November 17 for the first checkpoint.