

# Adyen

## A leading provider of unified commerce

### INTRODUCTION

Payments industry has undergone significant disruption in recent years with the rise of e-commerce, unified commerce and changing demands for risk management. Such complexity has created a significant burden on merchants who must manage the rapidly changing demands of consumers within an ever-changing regulatory landscape.

Adyen, a Dutch payments processor, is thriving in this environment. Founded in 2006, Adyen positioned itself from the beginning as a single solution for merchants that would make it simple to meet both customer and compliance demands. Not only a payment gateway, the service covers all areas of merchant's requirements with issuing and acquiring services, fraud protection, POS devices, data capture, and reporting automation. The platform is global and facilitates merchants' compliance for local laws allowing payments to be made in any jurisdiction by any means.

Processing volumes for Adyen now total €240 billion having risen 51% YOY. The company has been able to sustain revenue growth of 61% yoy and 68% CAGR over the last five years profitably with ROIC of 27%.

#### Sustainability Thesis

Adyen has progressed to become a leading payments service provider, while also leading the way on social and environmental impact. Through a range of policies and programs they're managing their impacts on the environment, and they're going further through deploying a number of 'impact' programs to look at how they can make a positive contribution to the world, all aligned with the UN's Sustainable Development Goals.

We recognise this as not only a powerful driver of sustainable practices in the world, but also a positive indicator of a responsible management team, who are focussed on the long-term, and that's good for business.

#### Footprint:

In 2019 Adyen measured their organisation-wide GHG emissions through an audit with South Pole. They learned a lot, and not only have they vowed to reduce their future emissions, but they have also offset all their emissions since they were founded in 2006.

They even captured Scope 3 emissions from the power requirements of their customers' use of data centres and POS payment systems.

They're now a proud 'carbon neutral' company through funding 'carbon compensation' projects that balance carbon sequestration with the socio-economic wellbeing for local communities. They've funded the following projects:

- Kariba Reforestation and wildlife protection on the shores of Lake Kariba, Zimbabwe
- Jacundá Rainforest conservation and wildlife protection in Jacundá, Brazil
- Luz del Norte Generating solar energy, Chile
- Mytrah Wind energy in Rajasthan, Andhra Pradesh, Madhya Pradesh and Telangana, India
- Vietstar Sustainable waste treatment, Cu Chi, Vietnam

#### Adyen Impact:

Through the Adyen Giving program they're working to reduce friction when donors give to charity. Their platform has an inbuilt capability for merchants to accept donations in the checkout process. The company ensures all the funds make it to the charity by forgoing a fee.

#### Local Initiatives:

Adyen is supporting the social support work their staff do by offering capacity building technology and resources. Also, the Adyen Accelerator program is a week-long program for European social enterprises that aims to amplify the participants' positive impact on society and share lessons learned along Adyen's growth path.

## MAJOR DISRUPTION IN GLOBAL PAYMENTS

### **Growth in E-Commerce demands a globalised payments solution**

Few sectors have seen as much change as the payment industry has in recent years. E-commerce is expected to continue its growth at 8.2% CAGR increasing the number of cross-border transactions and the complexity that goes with transactions in multiple jurisdictions. In this environment the demands on merchants are to accept a multitude of payment types as they vary not only from country to country but amongst domestic demographics as well.

At the centre of Adyen's offering is its online payments gateway well suited to platforms. Recently eBay has begun integration of Adyen in a move away from Paypal. Other global brands such as Uber, Spotify, and Etsy rely on Adyen's capabilities in accepting payments from around the world. Adyen follows its merchants. Recently Adyen partnered with Cellulant, Pan-Africa's leading financial technology provider to bring new payment capabilities across Africa. The initiation of the partnership has brought Adyen to Africa for the first time. Adyen will begin offering their services to other clients on the continent as well. However, operating internationally means merchants must not only accept local payments but meet local compliance as well.

Regional differences in complexity in regulation regarding payments has remained despite years of globalisation. For example, in Europe, the Payment Service Directive (PSD) was initiated to create a standard compliance framework to protect consumers and counter fraud and terrorism. The framework has now been amended to PSD2 with a suite changes all merchants must now be compliant to. Adyen makes compliance easy. As a platform that aggregates all data points across the transaction in a single source of truth, they are best placed to facilitate compliance and this is a core value-add.

### **Internet of Things and Artificial Intelligence unlock a wave of value creation**

The advent of Artificial Intelligence and IOT has unlocked a wave of value creation previously not possible. Merchants must capture that value or become excluded from their market. IOT has brought the internet to the offline world where consumers now expect a frictionless transition from their online environment. There are huge advantages for merchants in data capture in offline environments too. Point of sale (POS) devices, being internet enabled, open up a wave of data flow showing who bought what when. With the right insights, tremendous value can be mined from this data. Artificial intelligence (AI) opens up a range of insights from these data flows that are game changing for merchants. With data capture and AI enabled, merchants can track their customer habits from online to offline and make data-led decisions across inventory management, product placement, product mix, advertising optimisation, and staff management.

Adyen began offering POS devices in 2015, and with it, a unified commerce solution with state of the art functionality. It gives merchants a complete view of their business with full access to shopper insights, consistent reporting across channels, countries, and payment methods. It also allows for in-depth shopper profiles that can significantly reduce fraud.

### **Increase in prevalence of fraud**

Growth in digital transactions has seen with it a rise in instances of illegal transactions. For example, in the UK online sales grew 16% from 2013 to 2014 while in the same period the value of online fraud in the UK increased 33% (Ali, et al 2017). A report by Gee & Button (2019) showed global losses of fraud to equate to 6.05% of GDP or USD \$5.13 trillion. Adyen's single platform is well suited in providing real-time fraud prevention utilising their global, cross-industry data to accurately identify customers, reduce false declines, and maintain an up to date response to changing fraud trends.

## ADYEN STRATEGY WELL PLACED FOR FUTURE GROWTH

### **Across the Enterprise**

Adyen aims to grow organically by increasing the portion of transaction volume within existing merchants, growing with their growth, and moving into new geographies as merchants move into those areas. As Adyen's capabilities improve, they are able to offer services in new adjacencies. For example, in the last 12 months Adyen has partnered SAP Commerce to provide integrated payments to retailers, expanded its payment offering to Africa, offered Apple Pay to customers in the Netherlands, supported Interac® Debit via Apple Pay and Google Pay and began issuing cards.

### **Build Upon Unified Commerce**

Adyen will continue to build-out their unified commerce solution by responding to emerging needs of merchants by offering a uniform experience for shoppers across all transactions, greater insights from data, more automation of reporting, improving targeting and facilitation of home delivery. They will increase their focus on POS offerings improving their service and capabilities with POS volumes growing now faster than online volumes.

### **Move Down to Mid-Market**

Historically, Adyen has focused on large multinational merchants but is now well positioned to target mid-market merchants, which is viewed as the next adjacent segment. Adyen's Unified Commerce platform has industry leading functionality. All merchants that use the platform gain access to the same performance and functionality as the world's largest companies. This makes the platform attractive to large domestic merchants and local merchants with international ambitions allowing them to future-proof their payments. Adyen has established a global footprint with offices worldwide which provide local presence, payment methods and expertise in key markets. The beauty of Adyen's Unified Commerce solution lies in its simplicity. It allows them to bring new merchants on-board without incurring huge on-boarding costs.

## Strong Financials

Adyen had set itself the following objectives at the time of its IPO which remain unchanged. It aims for Compounded Annual Growth Rate (CAGR) between mid twenties and low thirties in the medium term, increasing EBITDA margin to 55% in the long term and sustained capital expenditure of 5% of the Net Revenue.

The company's focus on alleviating pressures on retailers' operations, enriching functionality on payment terminals and on making payments frictionless has led to strong numbers over the last four years. Revenue has increased 61% YoY to €2.65 billion with CAGR of 68% over the last four years while funds from operations continues to grow as shown in Chart One below.

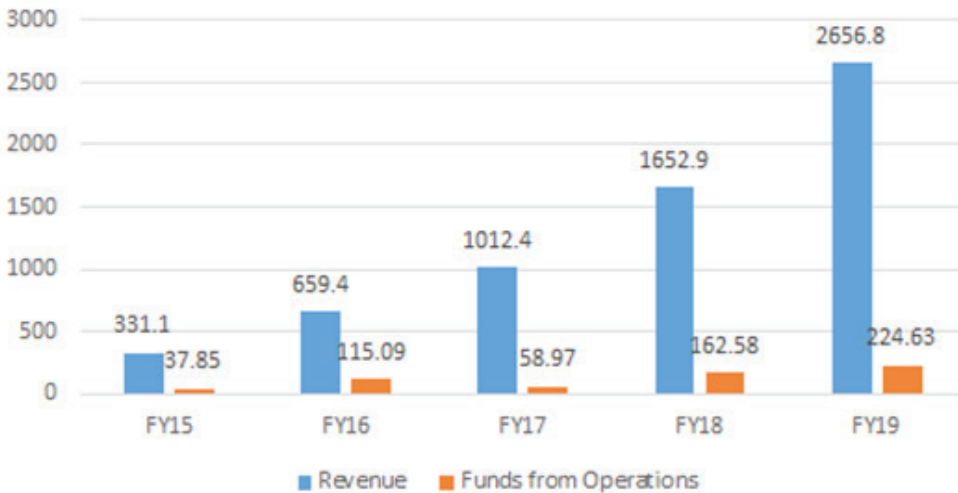


Chart One. Growth in Revenue and Funds From Operations. Source: FactSet.

Existing merchants make up a significant portion of the revenue growth. Volume churn is less than one percent, stable since IPO indicating strong relationships with existing merchants and high-speed of innovation.

Return on Invested Capital (ROIC) has remarkably kept pace with revenue growth as shown in Chart Two below. One generally associates high revenue growth with startups that aren't yet profitable or companies that win big contracts that boost sales. With ROIC of 41%, 17% and 33% respectively, over the last three years, Adyen has proved it can sustain profitable, rapid revenue growth.



Chart Two. Adyen has maintained high ROIC even while supporting rapid growth in revenues. Source: Factset.

Adyen has a strong balance sheet with no debt and retained earnings growing consistently over the last five years to its current €559.5 million as seen in Chart Three overleaf.

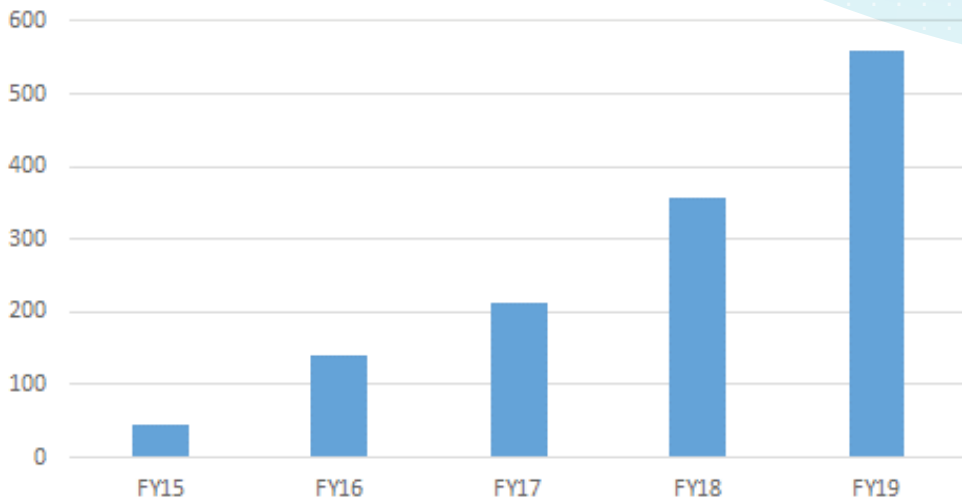


Chart Three. Adyen's Retained Earnings have risen steadily over the last four years. Source: Factset.

## VALUATION AND PURCHASE

Adyen presented itself to us through global scanning in March 2019 however was overvalued at that time. We continued to monitor the company and to build our knowledge of its business model. In September 2019, with updated financials from the June quarter, our valuation reflected a fair market price and we were eventually able to take a position in the company in mid December 2019 with proceeds from the sale of Afterpay in October that we deemed overvalued. Chart four below shows our entry price and subsequent stock performance.

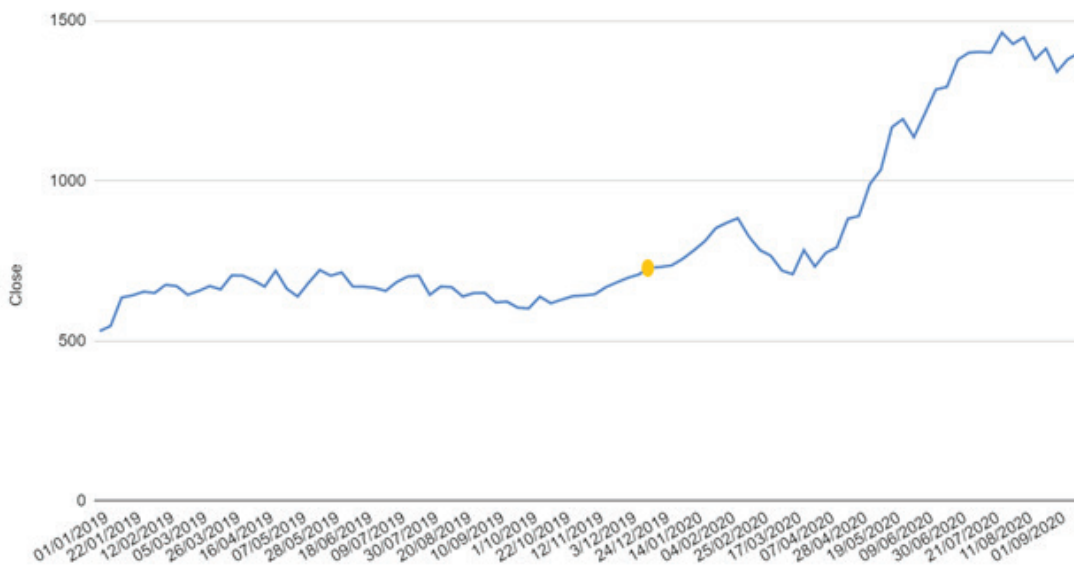


Chart Four. Entry point in Adyen on 17/12/19 at €714.80.

## REFERENCES

Ali, M A., Arief, B., Emms, M., & van Moorsel, A. "Does The Online Payment Landscape Unwittingly Facilitate Fraud?" Kent Academic Repository

Bansal, S., Botta, A., Bruno, P., Denecker, O., Digiacomio, N., Germann, F., Holl, R., Iyer, V., Jain, R., Kansal, M., Karwowski, B., Niederkorn, M., Townsend, Z., & Zell, J. "Global Payments Report 2019: Amid sustained growth, accelerating challenges demand bold actions". McKinsey & Company.

Jee, J., & Burton, M. 2019. "The Financial Cost of Fraud 2019" Crowe.