



Adyen: Business Breakdowns Research

Research by: [Erick Mokaya](#)

Primary Research Sources

- [The 2020 annual report](#)
- [Adyen Blog](#)

Company History & Key People

- **2006:** Adyen was founded in the Netherlands by Pieter Van der Does, Arnout Schuijff, and a number of other entrepreneurs. The business was named Adyen - *Surinamese for "start over again,"* to signify that this was the second project by the founders after selling BiBit Global Payment Services. The aim was to build a modern payment processing platform that is directly connected to card networks and local payments methods and allows for global, unified commerce.
- **2009:** Adyen signed on their first global merchant, Groupon.
- **2012:** Obtained a European acquiring license, and expanded to San Francisco, Paris, Stockholm, and London.
- **2014:** Raised \$250 million in funding to accelerate the growth of its platform. The funding was led by growth equity firm [General Atlantic](#), joined by existing investors [Temasek Holdings](#), [Index Ventures](#), and Felicis Ventures.
- **2015:** Achieved a valuation of EUR2 billion, making it the sixth-largest European privately owned startup that is valued at over EUR 1 billion. Opened an office in Sydney in the same year.
- **2016:** Launched Adyen for platforms, obtained an acquiring license in Brazil through a BIN sponsorship, and was ranked number 10 on the Forbes Cloud 100 list.
- **2017:** Obtained a European banking license that gives it the status of an acquiring bank. It also obtained one in Singapore, Hong Kong, Australia, and New Zealand. Also surpassed EUR 100 billion in processed volume.
- **2018:** IPO with offer price at €240. The largest shareholder was early backer Index Ventures, which invested in Adyen in 2011 and owned 16.86%. Also launched Terminal API which integrates payment terminals.
- **2019:** Adyen opened new offices in Tokyo and Mumbai, and expanded its payment offering in Africa. Also launched Adyen Issuing, a virtual and physical card-issuing business to complement payments services to merchants.
- **2020:** [Mobile Android POS devices](#) launched worldwide in the second half of the year, and opened a new office in Dubai, expanding its offering in the Middle East.
- **2021:** Adyen becomes eBay's primary payments processing partner (previously this was PayPal), capturing the majority of eBay's marketplace customers.

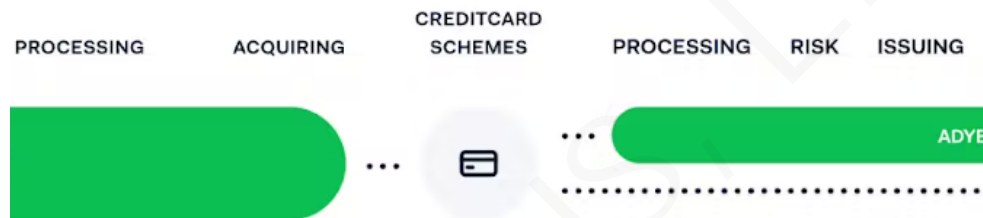
Key People

- Pieter van der Does - CEO and Co-Founder.
- Arnout Schuijff - Co-Founder.
- Ingo Uytdehaage - CFO.
- Mariëtte Swart - Chief Legal and Compliance Officer.
- Alexander Matthey - Chief Technology Officer.
- Kamran Zaki - Chief Operating Officer.

Business Model & Secret Sauce

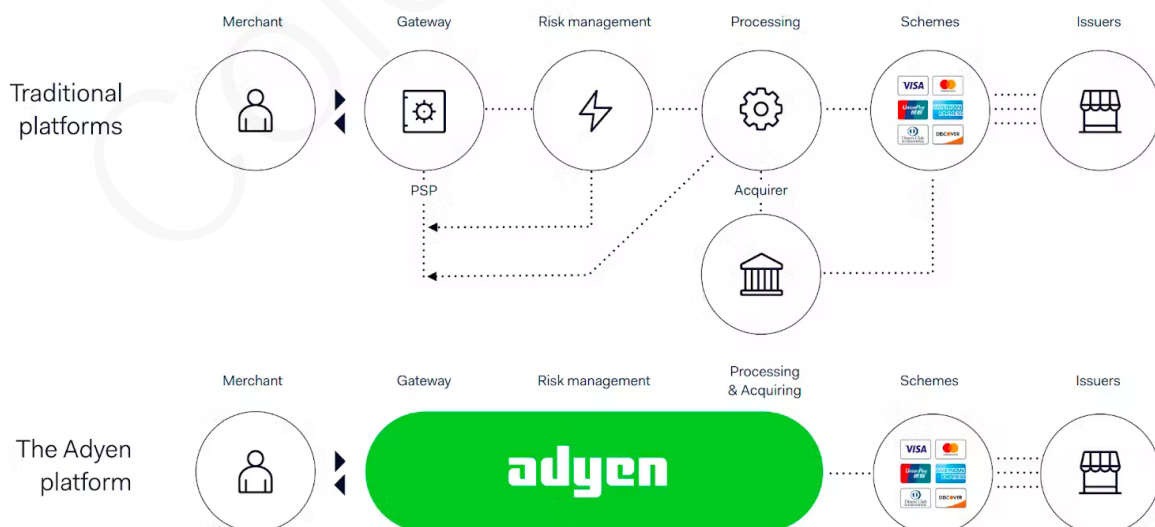
Value Proposition

- Adyen provides a global payments platform that integrates *gateway, risk management, processing, issuing, acquiring, and settlement*.



Source: Adyen

- It is a highly integrated in-house payment platform that provides end-to-end solutions that manage the whole payment flow from check out to settlement and eliminates the many parties involved in traditional payment processing. This creates convenience and lower transaction costs for merchants.

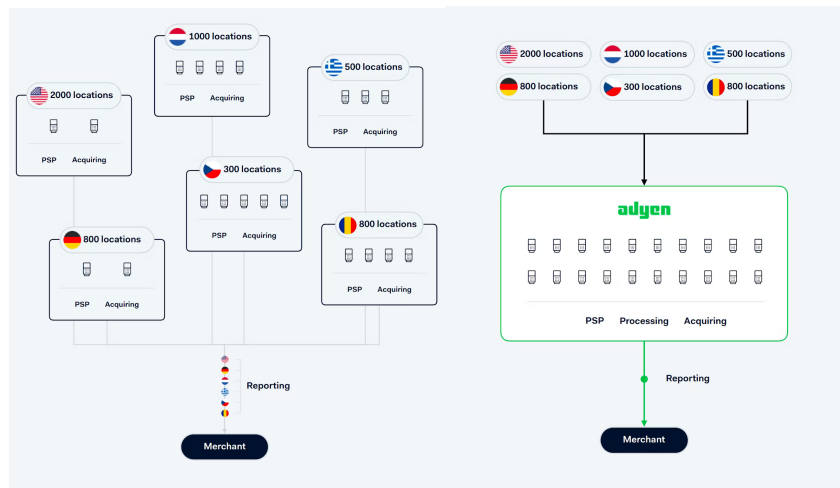


Source: Adyen

- Other Payment Service providers (PSP) have one large merchant account in which all funds are deposited which makes them easy to set up and implement. However, these tend to be more expensive and limiting in

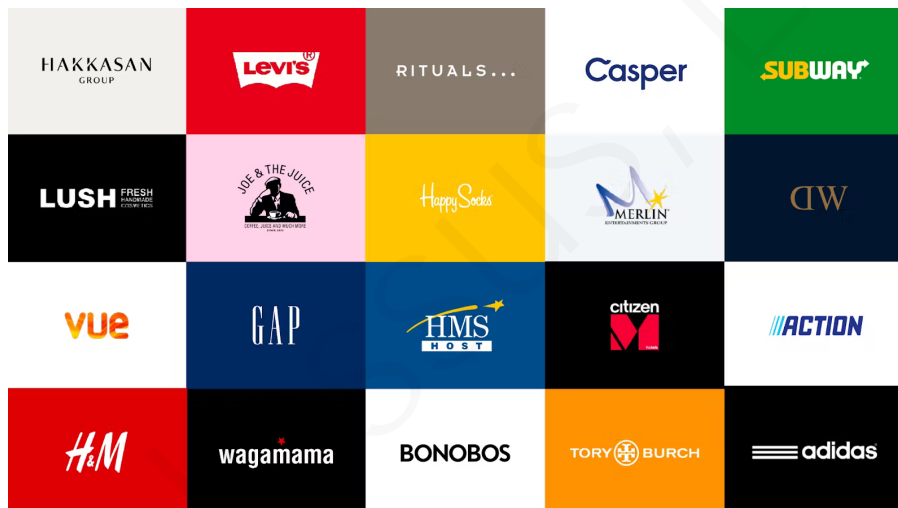
terms of payment capabilities and delivering cross-geographies and cross-channel insights.

- With Adyen, each merchant has to set up their own account, and the highly integrated system with cutting-edge data analytics capabilities provides customer insights from different regions and across different channels, enabling merchants to customize customer experience, increase conversion, and prevent fraud. The insights also enable merchants to send give location based discounts to their customers
- Adyen uses the interchange plus pricing model, which limits fees to interchange fees plus its commission, while other PSPs use fixed pricing model which charges a flat fee plus a % of the transaction amount. Interchange plus pricing is complex but transparent as opposed to fixed pricing which is easier but costlier.
- Adyen's pricing model is best suited to merchants with a large volume of transactions, which has been the main target segment for Adyen.
- Adyen offers a single payments platform that incorporates hundreds of payment methods with direct connection to card schemes, enabling merchants to accept payments anywhere, on any device, through the following ways:
 - **Online payments** - Increases conversion rates by allowing merchants to receive online payments from any channel or device, and easily add payment methods.
 - **Point of sale (POS)** - Uses the latest technology to optimize POS solutions and enrich customer experiences.
 - **Platforms** - An end-to-end, peer-to-peer marketplace payment solution that enables the onboarding of sub-merchants, verification of account holders, process payment, transfer funds, payout, and reconciliation of transactions.
 - **Unified Commerce** - Uses one system to connect online and offline payments.
 - **Issuing** - Uses advanced API technology to generate, issue, customize payment cards, send funds to cards, and approve payments.
- Adyen is focused on driving growth across *three core areas of its business*. They include:
 - **In-store:** Adyen's in-store acceptance capabilities are a critical part of its unified commerce value proposition, and this enables retailers to accept multi-channel payments via a single processing platform.
 - **Midmarket:** While Adyen has previously been known as an enterprise-focused payments provider, it is making investments to reach the midmarket as well. The company increased hiring for midmarket-focused sales and product roles, in addition to implementing dedicated development teams focused on SMB commerce platforms. Many of Adyen's enterprise clients are high-growth entities themselves, hence as their revenue grows, so does the transaction volume Adyen processes for them.
 - **Larger Merchants:** Adyen has also demonstrated an ability to win new business within existing accounts, in part through product enhancements such as the integration of Visa and Mastercard's account updater services and automated transaction routing. The new wins include eBay, Cabify, Valve, Dollar Shave Club, Netflix, Spotify, Uber, and LinkedIn.
- The online payments firm has 1700+ employees, 24 offices around the world(more on office locations here), and €303.6B (+27% YoY in processed volume in 2020).



Source: Adyen

- The company targets large international merchants and has already amassed an impressive roster of clients that include Spotify (SPOT), Uber (UBER), Booking.com (BKNG), and Microsoft (MSFT), among others. An increasing number of companies are switching to Adyen across the world.
- Some notable Adyen customers are:



Source: Adyen

Strategy for growth

Adyen's business model consists of workstreams that collaborate with merchants to enable growth. To better serve merchants, the company has identified pillars of growth that help in identifying and categorizing merchant needs based on their size and sales channels which include:

- **Enterprise:** The enterprise segment; large international businesses is what the Adyen platform was built for and growth largely comes from enterprise merchants. The key drivers of growth in the enterprise segment are:
 - **Existing merchants:** Most of Adyen's growth is driven by organic growth from merchants and existing merchants expanding their take-up of Adyen's services.

"Most of our yearly growth (consistently over 80% from each half-year period since our IPO in 2018) comes from the growth of merchants already on our platform when the period began. As such, we measure success by how we grow together with our merchants."- [Adyen 2020 Annual Report](#).
 - **New merchants:** The company is focused on onboarding new merchants onto the platform globally, and has a direct sales approach to enable it to realize this.
 - **Capitalize on evolution in the industry:** Adyen's strength lies in *speed and ability to react to market developments* giving merchants an advantage.

- **Unified Commerce:** Adyen's unified commerce offering is focused on providing merchants in various verticals the flexibility to shift seamlessly between sales channels and give their customers a unified experience. These are the key drivers of success in this space.
- **A holistic view of payments:** A unified single payment platform allows for the collection of data that provides customer insight to the merchant while helping to combat fraud.
- **Seamless shopper journeys:** Adyen enables merchants to meet shifting customer expectations by providing a uniform shopper experience across all channels.
- **Increased focus on point-of-sale (POS):** There has been steady growth since the launch of the POS and improvement in performance on the merchant's side.

Economics

Key Metrics: The company focuses on 3 key metrics:

- **Net revenue growth:** a CAGR of between the mid-twenties & low-thirties in the medium term.
- **EBITDA margin:** A target of above 65% over the long term.
- **Capital expenditure:** A sustainable capital expenditure level of up to 5% of net revenue. For 2020, CapEx was 3% of net revenue, 14% down from 2019, primarily due to the low cost of operating the single platform.

Figures in 000'S	2017	2018	2019	2020	CAGR
Revenue	1,012,440	1,652,948	2,656,774	3,641,389	37.7%
<i>Growth YOY</i>		63%	61%	37%	
Net Revenue	218,278	348,913	534,300	684,200	33.1%
<i>Growth YOY</i>		60%	53%	28%	
EBITDA	99,400	181,946	316,942	402,480	
Operating Income	93,465	173,210	294,616	373,913	
Net Profit	71,307	131,146	234,284	261,019	
Total Income	92,224	164,710	294,877	323,180	
Total Assets	1,137,202	1,860,416	2,608,974	4,158,461	
Total equity	389,777	582,404	918,334	1,218,134	
<i>EBITDA Margins</i>	45.54%	52.15%	59.32%	58.82%	
<i>Operating Margins</i>	42.82%	49.64%	55.14%	54.65%	
<i>Net profit margins</i>	32.67%	37.59%	43.85%	38.15%	
Return on Assets	6%	7%	9%	6%	
Return on equity	18%	23%	26%	21%	
CAPEX	11,029	13,810	19,959	21,892	
<i>As %age of Revenues</i>	5.05%	3.96%	3.74%	3.20%	

Revenue

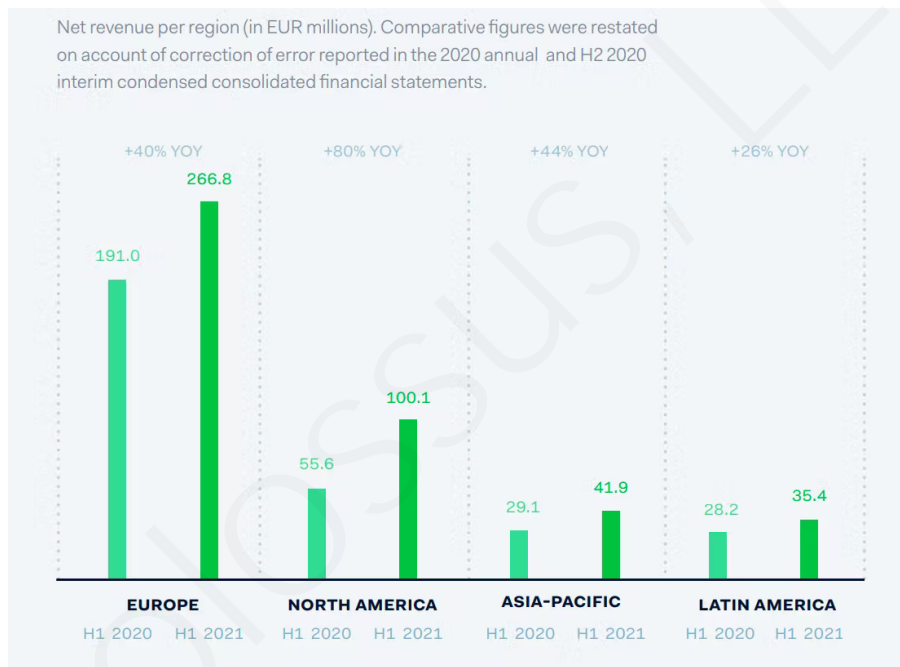
- Net revenue was EUR445M in H1 2021, up 46% year-on-year from EUR304.8M in H1 2020. In FY 20, revenue stood at EUR 3.6Bn representing a 37% increase in annual revenue from EUR 2.7Bn in FY19.
- Adyen primarily earns revenue through settlement fees and processing fees charged to its merchants on a per transaction basis. These fees change based on the method of payment, and also the region in which the transaction takes place.
 - In North America, for example, *there's a \$0.12 processing fee, and a \$0.25 payment fee, for the use of a debit card. For using an American Express card, there's the same processing fee, but a 3.95 percent payment fee. For using Interac Online, the payment fee is CAD 0.60, +2.00% when no local entity.*

- The constituents of total revenues are as follows:

Types of goods or service (in EUR '000)	H1 2021	H1 2020 Restated
Settlement fees	2,349,274	1,395,421
Processing fees	126,870	103,611
Sales of goods	14,551	8,571
Other services	63,536	52,471
Total revenue from contracts with customers	2,554,231	1,560,074

Source: Adyen

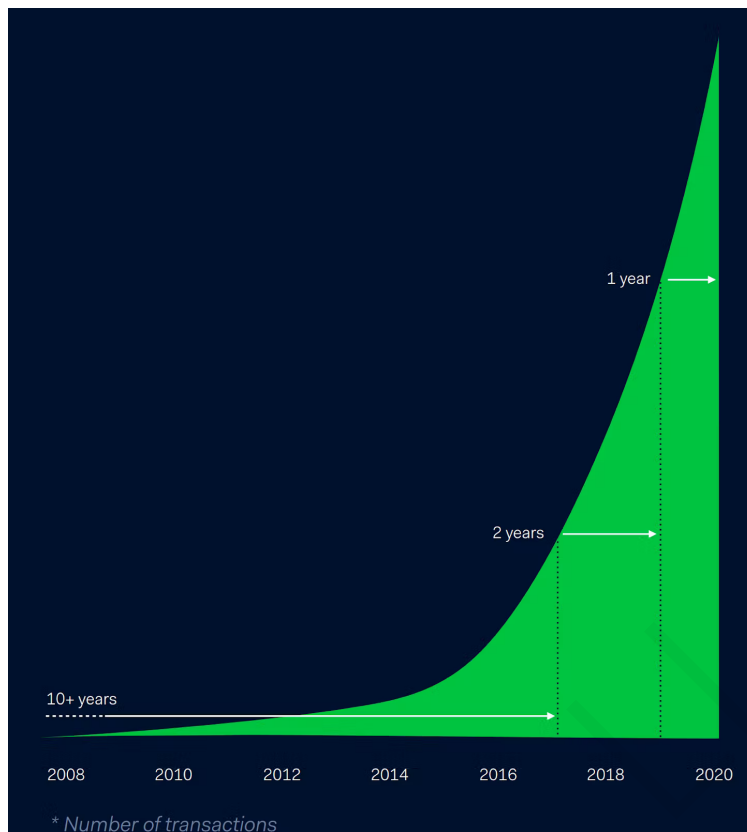
- **Settlement fees:** Fees for settled transactions. Merchants are charged a % of the transaction value.
 - Settlement fees include interchange and payment network fees and other costs incurred from financial institutions.
- **Processing fees:** Merchants pay a fixed fee per transaction for the use of the platform.
- **Sales of goods:** Revenue generated from the sale of POS terminals and related accessories.
- **Other services:** This is revenue generated from third-party commissions and foreign exchange service fees.
- **Geographical split:** Europe remains the largest contributor to net revenue at 60% in H1 2021 followed by North America(22%), APAC(9%), and LATAM(8%).



Net revenue - Geographical breakdown and year-on-year growth	2020		2019 Restated	
	Europe	424,878	22%	347,632
North America	132,959	66%	80,250	51%
Asia-Pacific	64,950	29%	50,179	36%
Latin America	60,082	11%	54,225	46%
Rest of the World	1,331	-34%	2,014	41%
Total net revenue	684,200	28%	534,300	43%

Source: Adyen

- The number of transactions:



Source: 2020 Capital Markets Presentation

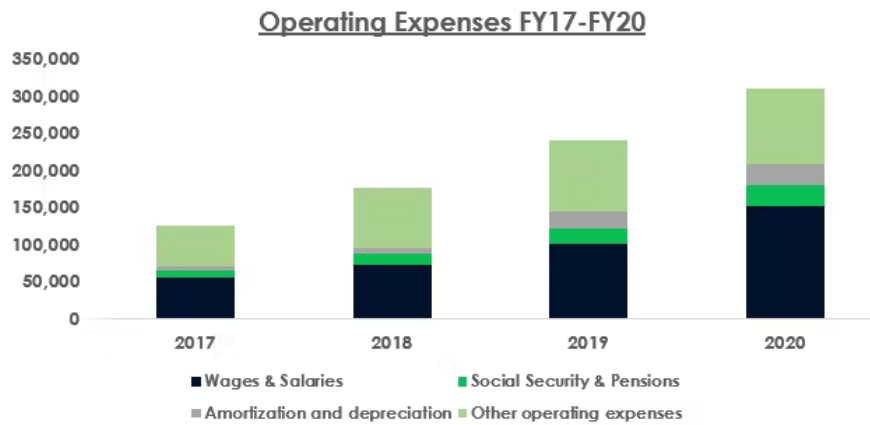
Cost structure

Cost of revenue

- *The cost of goods sold* is about the inventories point of sale (POS) terminals in connection with the rollout of the Unified Commerce strategy. FY20 cost of goods sold stood at EUR 22M representing a 33% increase in the cost of goods from FY19.
- *Scheme fees* are unregulated fees charged by financial institutions every time a transaction is made via a card scheme.
 - In the FY20, scheme Fees stood at EUR 2.9Bn this representing a 39% increase compared to FY19.
- *Net Revenue* is revenue net of interchange, scheme fees (“costs incurred from financial institutions”), and costs of goods sold.

Operating Costs

- Operating expenses for Adyen include *wages and salaries, social security and pension costs, and amortization and depreciation*. Adyen’s operating expenses were up 29% YoY in FY20 to EUR 310.4 Mn. H1 FY21 operating costs stood at EUR 188.8Mn, up from EUR 152.5Mn in the same period of FY20. Adyen’s operating expenses have been surging for the past half-decade:



Profitability

- Adyen's 2021 results reflect strong profitable growth. Adyen's EBITDA in H1 2021 was EUR272.7M, up 65% from EUR165.7M in H1 2020. This increase was driven by strong net revenue growth coupled with the operational scalability of the platform.
 - EBITDA margin was 61% for the period, up from 54% in H1 2020.
 - The company's operating margins have remained fairly steady between 9-11%.
- Over the last few years, Adyen has posted increasing revenues and has equally posted increasing operating income.
- Not only does it consistently achieve top-line growth, but the company is also profitable with an average net margin of 9.53% and a free cash flow margin of 22.67% on average in the past 5 years.

Cash Flows

- Free cash flow in H1 2021 was EUR246.4M, up 60% year-on-year from EUR154.2M in H1 2020.
- The free cash flow conversion ratio was 90% in H1 2021, down from 93% in H1 2020 mainly driven by the increase in CapEx.

Competitive Advantage

Adyen operates in an intensely competitive, crowded, and price-sensitive market. The company's chief differentiators include:

The Adyen Formula: The Formula describes the company's culture and consists of eight guiding principles which touch on every aspect of the business. These principles exist to foster speed, which is at the very core of the organization. As the business evolves, so do the principles.

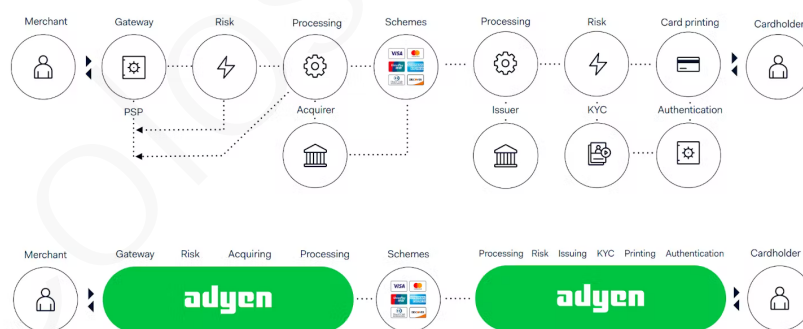
The Adyen Formula

- 1 We build to **benefit all merchants** (not just one)
- 2 We make **good choices** to build an ethical business and drive sustainable growth for our merchants
- 3 We **launch fast** and iterate
- 4 **Winning is more important than ego**; we work as a team - across cultures and time zones
- 5 **We don't hide behind email**, instead we pick up the phone
- 6 We **talk straight** without being rude
- 7 We include **different people** to sharpen our ideas
- 8 We **create our own path** and won't be slowed down by "stewards"

Source: [Annual report](#)

- **Hiring:** The Adyen Formula guides recruitment, growth, and retention of team members. Talent is crucial to the growth of the company, and to ensure only the best talent joins Adyen, the board oversees every hire.
 - “The board still oversees every hire, regardless of the role. You cannot be hired at Adyen without speaking to one of the six board members. The reason we do it is to put the bar high to ensure that only the best talent join Adyen.”- [Pieter van der Does](#)
- **The stickiness of existing merchants:** Most of the company’s growth comes from existing merchants who stay and grow their business with Adyen. With Adyen, businesses can process payments across online, mobile, and in-store (POS) with over 250 payment methods and 187 currencies:
 - “Most of our yearly growth (consistently over 80% from each half-year period since our IPO in 2018) comes from the growth of merchants already on our platform when the period began. As such, we measure success by how we grow together with our merchants.”- [Adyen 2020 Annual Report](#).
- **A single platform with global reach:** The company offers a single unified, cross-border and multichannel platform.
 - One of the biggest competitive advantages for Adyen is that it is a global platform with direct connections to international cards, allowing for adaptability and expansions in new regions. Adyen’s geographical reach accommodates more than 150 currencies.
- **With its trial and error method, Adyen launches new products extend their value chain:** One such product is Adyen card issuing that completes the payment stack. *This means that only Adyen and the card networks are in between the merchant and buyer.* Card issuing helps merchants avoid complex pricing and unpredictable third-party costs. Merchants also get greater visibility using interchange fees and in-depth reporting to help make sure the money leaving an account matches the actual money spent. Adyen offers two types of cards:
 - **Physical cards** - which include customized onboarding, card branding, and card-control rules, can be used to purchase online, in-store, and in-app, and is re-issued when expired, lost, or stolen.
 - **Virtual cards** involve the generation of single or multi-use cards the merchant can send single or batches of cards in preferred formats

Adyen Issuing: extending the value chain



Source [Adyen](#)

- Adyen focuses on **optimizing the authorization rate** for merchants. High authorization rates mean high sales, which translate into more revenue. Through high authorization rates, the company is able to demonstrate that increasing the authorization rate far outweighs the cost associated with the transactions.
- Adyen **leverages multichannel data and analytics** to grow its business. The company provides insights on consumer behavior to merchants, which help them design a great customer experience and increase conversion rates.
- **Data protection and risk management:** With the growth in cybersecurity risks, Adyen has focused on enhancing its risk management features - [RevenueProtect & RevenueAccelerate](#).

- This incorporates state-of-the-art AI learning, device fingerprinting, risk engine, behavioral analytics, and transaction linking.
- Adyen uses multiple data analysis tools to prevent as many chargebacks caused by card fraud as possible.
- **Obtaining banking licenses:** With banking licenses, Adyen is able to do direct settlements of funds from its accounts to the merchant's accounts which greatly improves transaction settlement.

Competitive Position

Industry

- According to [Ivey FinTech](#), the global market for payment processing is massive, with US\$1.6 trillion in total addressable market revenues. Payment revenue is expected to grow at a CAGR of 7% through 2021. Adyen has plenty of room to grow, as a growth of 1% in Adyen's market share will lead to an additional US\$1.6 billion dollars of revenue.
- It competes with PayPal Holdings and Stripe among other competitors. Within the payments space, Adyen specializes in e-commerce, point of sale, and mobile.
- Adyen's primary competitors include:

Company Name	Description	Year Founded
Paypal	PayPal is a digital payments company that provides online payment solutions.	1998
Stripe	As one of Adyen's top rivals. Stripe was founded in San Francisco, California in 2010. Like Adyen, Stripe is a technology company building economic infrastructure for the internet. It also works within the Retail & Business Banking sector. Compared to Adyen, Stripe generates \$2.9B less revenue.	2010
Square	Also known as Squareup is a financial technology company that provides a range of software and hardware solutions for businesses	2009
Braintree	A private company that was founded in Chicago, Illinois. It operates in the Retail & Business Banking industry. Compared to Adyen, Braintree has 1,454 fewer employees.	2007
Worldplay	Provides payment services. The Company offers card machines, card readers, online payments, integrated card payments, email, and other payments solutions	2005
iZettle	iZettle develops mobile payment services and applications for businesses and individuals. The Company offers card readers for smartphones and tablets; and registers and tools for increasing sales.	2010
Payoneer	Payoneer is a financial services company with one core purpose: to enable businesses to pay each other and get paid both domestically and internationally.	2005

Position within the Industry

Market Share

- Adyen is a leading provider of omnichannel payment solutions with over 250 payment methods and 187 transaction currencies.

- Whilst initially only processing online payments, Adyen is leveraging the knowledge and expertise it has gained to now expand into the world of physical (point-of-sale) transactions.
- As of January, 4th 2022, Adyen announced the launch of mobile Android POS terminals in the EU, UK, and the US. The devices represent a fundamental change in the role of the payment terminal, to be an all-in-one solution, eliminating the need for separate cash registers, barcode scanners, and customer-facing displays. The terminals come with an app management system, which allows merchants to upload and manage the apps they use every day, for inventory management, loyalty programs, returns, and more. The launch of these multi-purpose terminals is aimed at reducing the cost of their hardware and helping businesses drastically improve in-person customer experiences.

Risks

- **Security risk:** Adyen handles very sensitive data and for any breach or attack the damage would be extensive.
- **Low barriers to entry:** The payments service provider industry lacks significant barriers to entry and is fairly easy for new entrants to compete in, as can be seen from the growing number of new entrants.
- **Difficulty in penetrating the SME market:** Adyen's offering has historically not always been the best for low-volume merchants, due to the minimum invoice amount required. Achieving significant penetration of this market may require offering a less specialized (for the merchant) product, but with the backing of a strong distribution and integration ecosystem.
- **Merchant's preference for multiple payment processors:** This reduces business risk and helps the merchant negotiate for better prices during contract renewal.
- **Low switching costs and friction:** The company's clients can decide at any time without notice, to change payment providers. The ease with which a company can sign up to modern payment service providers also makes it easier to leave for a competitor when a better offer or offering comes along.
- **Bank advantage:** Despite Adyen's technology being superior, bank-issued cards have higher authorization rates than what Adyen can deliver. This limits the potential TAM for Adyen.
- **Complex global regulatory landscape:** New payment regulations in the different geographies that Adyen operates in could negatively affect operations.
- **Reluctance to engage in M&A:** Mergers and acquisitions greatly contribute to capturing a bigger market share, Adyen has however historically not been too keen to undertake acquisitions.

