

Research Update:

Payments Platform Provider Adyen N.V. Assigned 'A-' Rating; Outlook Stable

November 23, 2021

Rating Action Overview

- Amsterdam, Netherlands-based Adyen N.V. is a global payments platform provider integrating payment gateway, risk management, processing, issuing, acquiring, and settlement. It benefits from a unique single platform. This has helped to increase its market share and given it superior organic growth prospects and higher profit margins than peers. It takes a conservative risk approach within its merchant-acquiring operations.
- The rating is supported by Adyen's conservative financial policy; it has no financial debt on its balance sheet and pursues an organic growth strategy that precludes mergers and acquisitions (M&A). It focuses on reinvesting cash generated into the business, rather than distributing to shareholders.
- We are assigning our 'A-' long-term issuer credit rating to Adyen N.V.
- The stable outlook indicates that we expect Adyen to report net organic revenue growth of about 35%-45% and generate free operating cash flow (FOCF) excluding working capital inflows related to merchant settlement of more than €300 million a year over the next two years, while maintaining a conservative financial policy and a net cash position.

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Rating Action Rationale

Adyen benefits from unique payment solutions globally run on a single platform. Adyen is one of the leading challengers in the payments processing industry and benefits from a differentiated unified payment processing platform that allows merchants to gain insights into the behavior of its consumers, across all sales channels and geographies, via a single integration, regardless of their location or whether they used the online or offline payment channel. Its in-house platform also controls the processing chain from the merchant to the card scheme, helping to improve transaction authorization rates and response times. In our view, this supports Adyen's very low merchant churn (less than 1%). The unique product has helped Adyen gain market share from different regions and sales channels, though more than 80% of growth is generated from its existing merchants. Historically, most of Adyen's total processed volumes (TPV) were from large online enterprises. However, in recent years, its omnichannel solution has gained more traction

Research Update: Payments Platform Provider Adyen N.V. Assigned 'A-' Rating; Outlook Stable

within its target merchant base and point-of-sale (POS) volumes have grown to contribute over 10% of TPV.

We expect Adyen to continue delivering above-average organic growth in 2021 and 2022. Adyen competes with various payment solutions providers, such as Fidelity National Information Services (FIS) and Fiserv Inc. in the U.S. and with FIS and Worldline in Europe. In addition, it also competes with traditional banks and online payment systems like Paypal. The company's strong omnichannel proposition has allowed it to win over new large global customers. Some of its omnichannel wins include the Body Shop, LVMH, and Dick's Sporting Goods. Further, it also has leading internet-based platforms such as eBay, Spotify, Booking.com, Uber, and Groupon, as its clients.

The company reported resilient operating performance, with net revenue growth of about 28% in 2020, despite the lockdowns. Although the pandemic adversely affected in-store volumes, Adyen outperformed most of its competitors thanks to its exposure to large internet-based service-providing merchants that boomed during lockdown, relatively limited exposure to POS transactions and benefit from the transition to digital platforms. The company also benefitted from the surge in online retail volumes during 2020. Most of its peers reported an organic decline in revenue. We expect Adyen's net revenue to grow by about 45% in 2021 and 36% in 2022, based on existing and merchant additions, underpinned by Adyen's unified platform. Its global omnichannel integration and data enablement supported merchant's operations, particularly when the pandemic started in 2020.

Focus on organic growth and ecommerce helps to further improve profitability above the market average. Unlike most of its competitors, Adyen focuses on pursuing only organic growth, so that it continues to benefit from a single platform. In our opinion, although inorganic growth could add scale and breadth to the service portfolio, it would also erode the margin profile by adding integration costs and the cost of running and developing multiple platforms. In addition, 85% of Adyen's revenue is from e-commerce transactions, which have a lower cost compared with POS (in-store) transactions. As a result, Adyen benefits from superior EBITDA margin compared with its peer group. For Adyen, any incremental features or improvement/innovation is done on the platform and thus can be scaled globally to the entire customer base efficiently at minimal cost. As a result, S&P Global Ratings-adjusted EBITDA-to-revenue (net of pass-through costs) and return on capital, at 56.4% and 35.7%, respectively, in 2020, were above the peer average for its rated peers. We expect margins to improve further to 59% in 2021 and 61% in 2022.

Adyen benefits from large low risk merchants and limits exposure to risky customers Adyen's customer base includes a substantial amount of large, high-volume merchants. Such clients typically have better credit than smaller retail merchants, which further contributes to Adyen's low churn rate. In addition, Adyen's conservative policies mean that it limits its exposure to risky industries that have a long lead time to delivery, such as airlines. As such, despite its e-commerce focus, it is exposed to relatively low chargeback risk. At the same time, Adyen is also expanding into higher-margin mid-market and platform segments. We expect the economies of scale to outweigh the declining take rate, which contracts as the process volume from merchant goes up.

Adyen has a well-diversified geographic presence. Adyen continues to expand its geographic presence and is among the most balanced in terms of geographic presence among peers. It generated about 62% of its net revenue in 2020 from Europe, 19% from North America, 9% from Asia-Pacific, and about 9% from Latin America. Now that it has a U.S. branch banking license, we

expect the company to be able to offer full-service merchant accounts, as it does in Europe. This will simplify the settlement process and reduce reliance on external banks.

Adyen remains a challenger and has a smaller product portfolio than larger peers. Given the scale of operations of incumbent players, we still see Adyen as a challenger that is slowly gaining market share (as indicated by its strong organic growth). It still lags the incumbent payment processors in terms of the scale and breadth of its product portfolio. We view Adyen's business risk as weaker than that of larger and diversified fintech companies such as Fiserv, FIS, and Global Payments. These companies have increased the scale of their operations and the breadth of their product portfolio through acquisitions.

Adyen's customer concentration exceeds that of incumbent platforms, but has been reducing. Adyen predominantly has large customers and is also expanding its presence in the mid-market segment. Historically, Adyen's customer concentration was higher than peers but it has significantly improved over the past few years.

Adyen does not have any meaningful financial risk and we expect it to maintain a conservative financial policy. Adyen built up a net cash position of about €1.0 billion in 2020 (net of €1.7 billion of cash separately held for merchant settlement) thanks to its focus on organic growth and good free operating cash flow (FOCF) generation. Excluding settlement-related working capital movements, Adyen maintained a strong FOCF conversion rate of 76% of EBITDA in 2020. This highlights its modest own working capital needs, low tax payments, modest capital expenditure (capex), and minimal interest payments. The company's lack of external financial debt, as a result of its very conservative financial policy, reduces interest payments and also precludes distributions to shareholders and business acquisitions. We have assumed no shareholder returns to be distributed over the next two-to-three years as retained earnings continue to support and finance the organic growth strategy. Historically, the company has invested about 3.5% of revenue as capex, including software development. We expect the company to step-up its investment in capex, including software development costs, to about 4%-5% a year going forward as it expands its geographic footprint.

Outlook

The stable outlook indicates that we expect Adyen to report net organic revenue growth of about 35%-45% and FOCF generation of more than €300 million a year over the next two years, while maintaining a conservative financial policy and a net cash position.

Upside scenario

We do not expect an upgrade over the next 12-24 months as we do not expect a material change in Adyen's product portfolio, absent inorganic measures.

We could raise the rating if Adyen gains meaningful scale comparable with some of the larger peers while continuing to improve its margins and market share.

Downside scenario

We could consider a downgrade if Adyen deviates from the current financial policy; for example, if it were to undertake a debt-financed acquisition, dividend recapitalization, or repurchases.

Company Description

Headquartered in Amsterdam, Netherlands, Adyen is a global payments platform that combines gateway, risk management, processing, issuing, acquiring, and settlement into a single integration. In line with its organic growth philosophy, the company builds everything in-house. Its global licensing footprint includes a banking license in Europe, a branch license in the U.S., and acquiring licenses in several other countries, which further supports this approach.

For 2020, the company generated €684 million as net revenue from North America (19%), Europe (62%), Asia-Pacific (9%), and Latin America (9%). Adyen is publicly listed in Euronext Amsterdam and has a market capitalization of about €78 billion.

Our Base-Case Scenario

Assumptions

- Global macroeconomic conditions to improve, with U.S. GDP growth of 5.7% and 4.1% in 2021 and 2022, respectively; and European GDP growth of 5.0% and 4.1% in 2021 and 2022, respectively. We also expect the industrywide shift toward card and digital payments to continue over next two years.
- Growth in processed transaction volume growth in 2021 forecast at 60%-62%, as lockdown restrictions that affected in-store volume in 2020 were lifted. Growth largely stems from existing clients, through the capture of a greater share of clients' transaction volumes, new merchant wins, and further penetration into integration with platforms and the mid-market segment. We expect processed transaction volume growth of 39%-40% in 2022.
- Net revenue growth of nearly 44%-46% in 2021 and about 35%-37% in 2022, driven by processed transaction volume growth, partially offset by declining net take rates.
- Adjusted EBITDA margins of 9.5%-10.0% in 2021, declining to about 9.0%-9.5% in 2022. Based on revenue, less pass-through costs, this is equivalent to margins of 58%-60% in 2021, rising to 60%-62% in 2022. This reflects continued gains from operating leverage.
- Annual capex including development costs to represent 4%-5% of revenue in both 2021 and 2022. This includes capitalized software development costs of about €4 million-€7 million that are expensed under our standard adjustments.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted cash funds from operations of €475 million-€500 million in 2021, improving to €675 million-€700 million in 2022.
- Adjusted FOCF of just above €300 million in 2021 and €325 million-€350 million in 2022, excluding annual net working capital inflows from merchant settlement activities.

Liquidity

Adyen's exceptional liquidity is based on its significant cash balance and free cash flow generation, coupled with limited liquidity needs due to a very conservative financial policy--that is, a lack of external debt, dividend payments, or sizable business acquisitions. As a result, we

Research Update: Payments Platform Provider Adyen N.V. Assigned 'A-' Rating; Outlook Stable

forecast sources of liquidity to exceed uses by over 25x in the 24 months from June 30, 2021.

We expect the following principal sources of liquidity over the 12 months from June 30, 2021:

- Cash and liquid investments of about €1.25 billion, excluding cash held for settling merchant payables and thus unavailable for general corporate purposes; and
- Cash FFO of about €550 million-€570 million.

Principal uses of liquidity over the same period:

- Capex of about €55 million-€65 million; and
- Intra-year working capital requirements of around €10 million.

Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/--

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

Research Update: Payments Platform Provider Adyen N.V. Assigned 'A-' Rating; Outlook Stable

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating

Adyen N.V.

Issuer Credit Rating A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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