Adyen’s omnichannel model positions it well in the tough acquiring space

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Fintech is all the rage. The prevailing narrative is that the staid financial-services and payments industries are ripe for disruption by Silicon Valley savoir-faire and capital.

The prospect of upending entire industries stirs entrepreneurs’ blood and capital looking for rich returns. There are more than 20 fintech unicorns, or putative disruptors valued at over a billion dollars. Notional high flyers such as Mozido, LendingClub and Prosper, however, have stumbled.

Among the herd while not the flashiest, Dutch unicorn Adyen is conspicuous as a growth story with a proven business model. It’s a multinational, principally online, merchant acquirer and processor, founded in 2006 by veterans of Bibit; an e-commerce processor acquired by Worldpay in 2004 for $100 million. It charges volume-tiered fixed and ad valorem transaction fees for payment acceptance.

The Dutch unicorn employs one fully-integrated delivery system, end-to-end, for all channels, worldwide. There’s nothing proprietary, but it competes in an environment where merchants, gateways, PSPs and acquirers, often use different platforms for different channels and countries. For merchants, a processor that’s a tad better, a bit more comprehensive, can make an enormous difference.

Adyen also stands out in having a clean valuation. Stanford professor Ilya Strebulaev's research suggests the reported valuations of 100 ballyhooed unicorns are on average 51% greater than what they're really worth when preferred stockholders' special rights are factored in. Exceptionally, among the high and not-so-high flying fintech unicorns none of Adyen's investors have special rights. All shares are common. Adyen's $2.3 billion valuation in 2015 really was $2.3 billion.

The company has an old-school philosophy of building rather than buying, to create value. That can be slower but has meant it hasn't faced its competitors' integration and platform-rationalization headaches.

Adyen's a platform business, offering more than 250 payment schemes worldwide. Being credentialed and establishing secure connections with each entailed effort. Each additional network strengthens the platform and puts a step between the Dutch processor and the field. And, while hard to quantify, a platform is also about merchant engagement. Adyen's developers work proactively with demanding high-growth merchants, rolling out software updates every 4 weeks.

Adyen landed its first big global customer Groupon in 2009. Today its client roster includes storied firms such as Uber, Netflix, Spotify, Facebook and Etsy. Marquee clients attract marquee clients.

The processing phenom uses data and adaptive transaction routing and rerouting to increase approvals and optimize fraud. Management asserts 5% of turndowns are caused by issuer-system flaws – perhaps plausible in tier-two markets - and that it's increased merchant revenue 1.43%, which is huge. Sabre Airline Solutions said using Adyen boosted conversion rates in Mexico 8%.

Historically the industry segregated e-commerce, mobile commerce and payments at the physical pos, but those distinctions are blurring. Adyen touts omnichannel. It made its bones online. However, notwithstanding integrated support, Adyen faces a tough slog at the physical point of sale against well-entrenched competitors. Ingenico alumnus Jean-Marc Thienpont is leading the point of sale charge.

Overall, network coverage, integration, and suite of revenue-generating services, make Adyen’s merchant relationships sticker than the average acquirer’s.

The Dutch processor’s been profitable since 2011 and enjoys explosive growth. From 2013 through 2016 it increased payment volume and revenue an average of 86% and 99% annually, respectively. It reaps 20 basis points net merchant discount fees and 10 basis points of earnings. That's not exceptional, but credible given its target market.

Adyen’s core delivery-system costs are fixed, revenue variable, and incremental costs, excluding interchange and network fees, arguably zero. With consequent operating leverage, growth should have an outsized impact on performance.

While payment processing is ferociously competitive, when considering global scale e-commerce and omni-channel processors, the field narrows.

Adyen supports more payment methods than Chase Paymentech, Ingenico (Global Collect), Worldpay and Stripe.

Many of its larger competitors suffer fragmented delivery systems due to M&A. Behemoth First Data has multiple e-commerce payment platforms. In July the payments colossus announced it “will offer online merchants 195 local payment options when fully implemented.” If one aspires to build the next Facebook, a processor offering the world’s payment schemes off one platform, now, would be more appealing.

Most acquirers prefer small merchants over high-volume Goliaths like Walmart that demand razor-thin pricing. Notwithstanding greater unit origination and servicing costs, small merchants, in numbers, because of richer acceptance fees generate greater profits.

Square made its mark providing acceptance to small bricks-and-mortar merchants. But that’s not Adyen’s market. It focuses on large, sophisticated, principally online merchants. Its distinctive value proposition makes a bigger difference with an Uber than it would with Joe’s Café.

Growing and profitable, the Dutch payments unicorn has options and is in no rush for an exit. CEO Pieter van der Does said “Eventually we think this company should be in the public markets.” It’s an IPOable story, which ultimately seems the most likely path.

It would command valuation multiples like First Data, Global Payments and Vantiv, with a growth premium. Alternatively, it could enhance a traditional processor’s e-commerce proposition. While unlikely, perhaps most intriguing would be one of the tech Godzillas deciding it needed control of payment-acceptance and scooping up Adyen.

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