Adyen NV

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Mohammed Moawalla: Great. Good morning, everyone. Thank you for joining us for the next session. We are delighted to have management of Adyen with us today at the conference. With us from the company, sitting in the middle, is Ingo Uytdehaage, who is the co-CEO. Next to Ingo, at the far end, is Ethan Tandowsky, the group CFO. Ingo, Ethan, it's a pleasure to have you again.

Ingo Uytdehaage: Thanks for having us.

Mohammed Moawalla: To maybe sort of just to kick off maybe, you recently reported your half-year results. So, give us a state of kind of the current state of affairs. I know that you're still growing pretty well, but relative to sort of prior periods the growth has seen a slowdown. So, you highlight a number of issues in sort of North America pricing competition, but maybe a kind of summary of the key highlights (inaudible). Maybe Ingo, to kick off and then we can take it from there.

Ingo Uytdehaage: Sure. Thanks, Mo. I think if you look at our company, how we've grown the company, we have always focused on building a company for the long run. And if you look at where we are currently, we've been growing and adding market share in all the markets over the past half-year, be it at a slightly slower rate than the years before. That's something that we have seen before; so, we're not too worried about it. Also because if you look at how we built a company with the different commercial pillars that we've been focusing on, there's a huge growth opportunity, going forward. And that's where the team is focusing on right now, making sure that we deliver in those different areas.

So, what are we focusing on? First of all, digital. Digital is how we've started the company, helping international merchants to accept payments online. And it's also the area where we have been very successful here in the U.S.

And the moment that we started here in the U.S. with digital payments, a lot of people said, like, "Hey, it's almost impossible to gain market share there because it's a super competitive environment." And the key question is, like, how do you gain market share in a very competitive environment? And that's what we're trying to do differently than a lot of other companies. We want to make payments a functionality game; so, add value for merchants by improving authorization rates or by making sure that we lower total cost of ownership. And that's how we got there.

Also in the U.S. – because I think that's one of the things that is misunderstood in our first half-year – we continued to add market share here, but it's indeed at a lower rate than the half-years before.

At the same time, we have a focus on unified commerce. Unified commerce is where we help retailers to bring in-store and online together, optimized for customer journeys. And also there we have huge traction here in the U.S. It's helping not just international merchants to go into the U.S., but also making sure that we help local U.S. players to implement this strategy. So, also for them, the complexity has only increased. If you want to get the right customer journeys and customer insights, it helps to have a technology player that has a single platform that can bring those insights.

And then, the third big part where we're investing right now is on the platform side. It's helping platforms to cater for their small and medium-sized businesses to offer them payments or also, in the longer run, other financial products. And also there we have seen a massive growth in this pillar over the past half-year. And that's also where we continue to invest.

So, although the market reaction on our half-year results was not positive, we as management feel very strong about the investments that we're currently making and that we are on the right path and that we will continue our growth.

Mohammed Moawalla: Okay. I know we'll kind of come back to discuss the longer-term drivers, but just staying maybe with the kind of near term, so how should we think about sort of the pace of recovery in your business and particularly in North America? Maybe talk us through some of the initiatives that sort of you're undertaking. And I think a kind of broader question that many investors have is if pricing competition is here to stay, does it just simply tell us that payments is a kind of commodity market? And how would you kind of address that?

Ingo Uytdehaage: I think that payments is not a commodity market. If payments was a commodity market, we would never been in a position to win market share in the U.S. So, it is all about making sure that we work with our merchants to implement the right strategies. And I think as a result of different macroeconomic circumstances, the focus of merchants has shifted. So, there is more focus on cost right now. So, one of the things that we are working on with our merchants is how can we help them to lower total cost of ownership. And that, again, is like a functionality game and not a commodity. So, I think that's how we like to help and how we like to gain market share also here in the U.S.

Mohammed Moawalla: Got it. And I think you sort of also alluded to some of the initiatives around explaining to the customers the value of the platform, the total cost of ownership. And I think maybe talk us through some of those, at least the education of the sales force and the communication with the customer that will hopefully kind of address this.

Ingo Uytdehaage: Sure. So, I think the question is, like, for instance, here in the U.S. – and to also put it in perspective – our U.S. market share – sorry, our share in our total revenues for the U.S. is around 25%. Around 60% of our volumes are in digital. But that gives a bit of a sense for how big our digital in the U.S. is.

The way how we like to work with merchants now is, like, what can we do to drive down, for instance, interchange cost? Like, what kind of additional data can we send through the schemes to qualify for lower interchange? And if you think about interchange – so, the fees that you pay to the issuers – they're typically around 1.5%, 2% here in the U.S., while our average take rate is 17 basis points. So, if you can make savings on this

1.5%, 2% interchange, that's way more significant than the fees that they pay to us. So, again I think an example where you can add to value and lower the total cost of ownership without basically competing just on price.

Ethan Tandowsky: Maybe I'd just add that our growth in any given year typically comes mostly from our existing customers. So, it's about growing the wallet share that you do with your existing customer base. And in that sense, none of our large customers have left us. So, our account management team is in very active discussions with our customer base about how best to help them, and some of these interchange optimization routes are some of the projects that get prioritized in this type of environment that they're actively in discussion about. So, it is really about making sure that we can best help our customers, whatever their priorities are.

Mohammed Moawalla: Got it. So, maybe shifting kind of more to the kind of medium- and long-term horizons, you've reiterated your midterm and long-term guidance. Maybe help us kind of understand the building blocks, given a lot of, as you said, growth is existing customer-driven. You've obviously got a bunch of new products kind of in the pipeline you're investing around coming in. So, maybe just it would be super helpful to understand that, and then how kind of share of wallet or any new geographies fit into that picture. Just curious to kind of get that perspective, please.

Ethan Tandowsky: Sure. So, to Ingo's earlier point, we split our customer base into three commercial pillars. So, we talk about digital, unified commerce, and platforms. Digital is about 60% of our volumes today; about 25% on unified commerce; and then another 15% or so on platforms.

So, ultimately, if you talk about where you need to grow, then digital plays a very, very important role. And where we've always helped digital customers, especially when they're large international customers with broad operations around the world, they typically have a lot of complexity in their business. That's where we can really make a difference, and that's typically how we go into new markets.

So, if you take some of the newer markets that we've announced more recently, if you take Japan or Mexico or even just getting started in India, then you typically go in with large international customers, and then over time you build out your domestic presence. I think the U.S. was the same. We started with helping large U.S. customers go internationally, but over time we've been able to have success with them domestically.

And therefore, it plays a very key role for us that we have success in this market, but we also have digital customers around the world. Europe is a very important market for us still. APAC is a very important market for us, as well. There's a lot of fragmentation in those markets. There's a lot of complexity. And so, our ability to gain wallet share with those customers on the digital side will play a really important role for us in the growth, in our growth trajectory.

But it's also about unified commerce. Unified commerce, I think we did 16% of our total volumes on point of sale in the first half of the year. In the overall payments market, that's more like 80%, 85%. And we see that many verticals are looking to digitize their tech stack, and payments plays a key role in that. So, helping these customers on that transition and growing the unified commerce presence that we have within our overall customer base will be really important to that growth trajectory as well.

And then, of course, platforms. And platforms is the smallest piece of our business today, but we have a very strong belief that SMBs will get their payments and broader financial services from platforms over the next years. We did some research where we see that about a third of SMBs get payments from platforms today, but that likely goes to something like three-quarters of SMBs. So, making sure that we have an offering that helps these platform customers play a role in that platform-ization of the payments market, that's really key for us. And there, we're seeing really strong traction. So, excluding eBay, we grew 82% in the first half on the platform side. That's especially in Europe, and the U.S. plays a really big part of that, too. Many of the biggest platforms in the world are here. So, making sure that we're a part of that is really key.

So, it is about each of the pillars. Digital still has to play a very key role for us to get to that medium-term trajectory. We feel confident there. There are new markets, but it's the core markets that we're in, we have a very small market share still today. There's a lot of room for us to continue to grow. And there, we feel confident that we can do it.

Mohammed Moawalla: Great. So, maybe – sorry. Did you want to say something?

Ingo Uytdehaage: Maybe to add, like, I think the – so, consistently, we've been focusing on building a global platform. We fully control our platform. We're not dependent upon any third party there. Also in the way how we, for instance, have our own private clouds that we build out globally. That gives us full control. We have our own banking licenses in the main markets. So, we're not dependent upon third parties. And if you look at taking friction out of the system, that is only possible if you have all those building blocks, and we have those building blocks. That's how we're going to add value and why payments is just not a commodity.

Mohammed Moawalla: Great. Which I think dovetails well into unified commerce, because I think this is where you've had a sort of significant first-mover advantage and when again we think about commodity versus sort of value-add. Maybe talk us through kind of where you are in that unified commerce journey. And in terms of you had the kind of early adopters and given sort of verticals who have led, I assume that there hasn't been any kind of shift in terms of (inaudible) earnings there. Is there anyone with an alternative? And how do you kind of see the runway of opportunity in unified commerce?

Ingo Uytdehaage: The unified commerce opportunity is huge. I think the way how we've approached the market is of course focusing first on retailers that are relatively high-end, where customer experience, customer insights are very important. So, high-end fashion as an example.

But you see that there's a huge shift in the way how it is being looked at unified commerce. For instance, if you take fast food as an example, like, we've been working with McDonald's to focus on their app traffic. So, we built out a capability to accept payments in the McDonald's app, and that uptake has been very, very significant. If you think this through, that is basically lowering the number of transactions at the counter.

So, if you want to get full insights into how customers spend their money, it makes a lot of sense to one moment in time also think about, okay, how then are we going to add, for instance, the counter to it? And I'm not saying, like, in this specific example that they will, but I think that is the strategic shift that's currently taking place.

If you had basically discussed this like three, four years ago, the likelihood that a fast food chain would work with a processor like ourselves to accept payments, I would have said that likelihood is relatively low, because it's just they need (inaudible), they need at the counter just to process quickly. But now it's completely shifted because it is about consumer insight. It is about how making sure that no matter if you pay in the app or at the counter that you have the right information. So, it opens up a lot of new verticals, and that's what we're focusing on right now.

Mohammed Moawalla: And do you feel that your (inaudible) competitive differentiation and your lead is still significant? Because we're seeing a lot of these kind of more platform or verticalized software offerings coming in payments as well? And how long can you kind of sustain that?

Ingo Uytdehaage: I think we have a lot of – we're ahead of competition. Like, there's no global player that can offer this in a single platform. We haven't seen it so far. And of course, the key thing is to stay ahead of competition. I think also on the platform side this is where we're going to help, the unified commerce proposition for platforms. That's also very unique. There is no one else that can do it in the way we can do that currently. So, that's also where we expect a lot of growth from.

Mohammed Moawalla: Great.

Ethan Tandowsky: And maybe just to add on the platform side, they're mostly targeting SMBs, and that's been an area where we haven't focused on from a direct sales perspective. So, to help them access those customer base without that channel conflict, I think that's also a strong position for us to be in.

Mohammed Moawalla: So, I was going to sort of touch on platforms. You mentioned that kind of growth ex-eBay was strong. But maybe just to sort of square the circle on eBay first, because that's been a big focus, can you help us sort of understand what sort of went on there? Because that seemed to be a significant kind of volume optimization. And where are we, going forward? Has this kind of now been reset? And what was the reason? And to the extent you're able to comment where that volume went, I think that would be great. And then we can talk about the rest of the platform business.

Ethan Tandowsky: So, of course we've been working with eBay now for the last five years or so. The idea was for them to take more control over the payments flow. I think they've done that quite successfully. They've been open about it, that they've moved almost everything to eBay-managed payments, which means that they have the control over their payment stack, and we provide the technology for that.

Of course, as you get to full capacity you also decide what you do yourself and what you use your payments partner for. There are certain payment methods where you can take a choice of integrating directly or doing that through a payments partner; think, like, AMEX or PayPal are a few of those types of examples. So, that's the phase that they're in now.

And it is according to our expectations. It's according to the relationship we have with them. We feel it's in a good place. And we haven't changed any of the assumptions that we have on the warrants that they have on us. And I think that's the reflection of the fact that this type of approach has always been in line with how we expected to build the relationship.

Mohammed Moawalla: So, this is kind of how we level-set on a kind of go-forward basis, would you say?

Ethan Tandowsky: Yes.

Mohammed Moawalla: Okay. So, maybe just turning to the rest of the platform business, I feel like Shopify has been forgotten amidst the H1 results, which was a kind of important reference win and, particularly, given one of your main competitors is a big processor within Shopify. Maybe talk us through kind of how that kind of came into being, what kind of the problems you're solving for, for Shopify, that perhaps existing providers can't, and how meaningful can this become kind of in time.

Ethan Tandowsky: So, of course it's a great win to be able to work with Shopify in this capacity. And what they're focused on is also moving up into enterprise. And I think it's a good proof point for us, especially if you say, hey, a majority of their business is U.S., it's digital. So, exactly where we're having these conversations about growth being slightly slower than we were expecting. I think this is a really nice proof point where we say, hey, of course international is important to them, but also the U.S. and digital business is core for them. And as they move up to enterprise, they said, who's the right payments partner to work with? And they felt that we are the right partner for them. So, I think it's a really good sign that we are positioned well to help also on the digital side, also in a market like the U.S., and we're excited about the opportunity to work together.

Mohammed Moawalla: So, thinking about kind of the broader kind of platform opportunity there still, I know you signed a number on, like eBay. There are still significant kind of platform providers out there. I know you work with Amazon in Japan, for example. Can you kind of sketch out the kind of platform targets that you're looking at to kind of onboard onto the Adyen system and kind of, again, the proof points you're looking to kind of solve? Is it bigger global players? But also, we see a lot of vertical or region-specific platforms.

Ethan Tandowsky: So, of course there's the marketplaces, which is a part of our platform offering, like the ones that you just mentioned, but there are also indeed the vertically focused SaaS providers, for example, if you talk about Olo is one that we announced in this half-year or Buildertrend. They're focused on certain verticals – restaurants or construction management in those two cases – and they want to provide further services than software. And that's starting with payments, but that can also be further financial products over time.

And so, it's selling into these types of vertical providers. There's also horizontal providers – if you think of, like, accounting software or other software businesses like that – that we feel that we can help them as they want to expand their product offering. And for them to increase stickiness, but also as a revenue driver, they're looking at what are the right products to enhance their offering. Payments has been a very logical opportunity to do so.

Many of them have a unified commerce need. So, many of them have physical locations as well that their customers are using.

So, for a lot of those reasons, we feel well positioned to do it. But they also need to sell into their customer base, right? So, it's helping them sell payments into their base. So, it's important we get new platforms onboarded, but also that we work with them as they grow and embed payments into more of their customer base. And we also benefit from that given that we're positioned inside of their (inaudible) offering.

So, it's marketplaces. It's SaaS businesses who are embedding payments and broader financial services. That's where the focus is. And I think to my earlier point around how we think three-quarters or so of businesses will get payments from platforms, you need to be part of that transition. And there, we feel like we have the right companies already that we're working with we can grow, but also that there are a lot of these businesses who will add payments in the coming years that we should be a part of that.

Mohammed Moawalla: So, if we sort of think about that sort of journey, it feels like the first phase of land-and-expand is providing the core kind of payment acquiring processing (inaudible) with sort of perhaps digital with unified commerce. Then, sort of the idea is that a lot of the new products that are kind of in development – some I know have gone live – like, a financial services product, issuing, etc. So, could you talk us through, I don't know, any examples of kind of that platform journey and where we are in kind of the rollout of the new products and when they become, in your view, more significant? And I guess, is that something that also is part of your midterm range? Is that kind of factored in, that perhaps the market right now is not really understanding?

Ethan Tandowsky: So, I want to be clear about one thing first, which is that the embedded payments opportunity by itself is really large. So, the reason to get into platforms is not to be able to sell other financial products. Even if it was just payments, it would be a very, very interesting opportunity, and that's typically the starting point for these platforms. So, it's really key that we get a lot of traction on the payments side first. That's where I said ex-eBay we grew at 82%. So, we are seeing that traction.

But ultimately, part of the pitch also on platform payments is that you expand your offering over time, that you will add on financial services. And that's the feedback that they get from their customer base, that one of the most difficult things for these SMBs to get services from is in the financial services space. So, to open a bank account can take six to eight weeks. To get a debit card, that can take the same, right? And then forget about getting a short-term loan to pay for expenses, working capital expenses.

So, there's a real need there to improve the products that are available to that customer group, and we always said it will be medium to long term that this makes an impact. But payments is already here and now, and that's already growing at a very fast rate. And that's where you typically see that on the shorter term it can make a big difference. It is still a small part of our overall payments volume, right? So, platforms, I think it's somewhere 13%, 14% of our payments volume. So, it's small, but it's growing very fast, and we think it will play a big role. And then, financial products will be added on. It will still take us some years for it to be meaningful, but it's absolutely core to our pitch today to these customers.

Mohammed Moawalla: Got it. So, maybe we'll take some audience questions, if there are. But while we compile them, maybe a quick one on the kind of hiring. You've been countercyclically hiring as you build the business for the long term. I think you've sort of indicated that we're kind of maybe through this accelerated pace, we'll probably be largely done by the end of the year. Maybe just talk us through the kind of hiring plans beyond that, over the medium term where you want to be. And I think, Ethan, you had mentioned that we should start to see margins inflecting from 2024 onwards. So, that kind of interplay and what your kind of hiring plans are.

Ethan Tandowsky: So, I think there were a few things we wanted to accomplish in the last couple of years when we were hiring. We're truly a global business, but global doesn't mean that you run everything centrally. It also means you need to be local. So, we had to build out our team in the local markets.

At the same time, we also want to move from a kind of single-product offering – being payments – to a broader offering, also including, for instance, these financial products. And that transition to go to a multi-product organization, to really have the right coverage in each of the geographies that we want to be in, that's why we felt it was important to invest and to get to this size.

We feel that we're about at that kind of capacity that gets us to where we want to be for this next phase of the company. And therefore, we see the next year as much more as kind of optimizations in the team than real structural, big investments that we need to make.

There is a lot of operating leverage inherent in our model. I think we've seen that in past years. There's very low marginal cost to increasing volume. So, we want to get back to that, and we want to show that this truly is part of our model. And that's why we think that this is the low point from an EBITDA margin perspective in 2023.

Now, of course, hiring has some trailing impacts. So, for instance, the people we hire now, there are only a few months of salaries in this year, but will be full in next year. So, there is some impact. But we expect to get back to increasing EBITDA margins already in '24.

Mohammed Moawalla: Right.

Any questions? Yes, right here at the front, please.

Unidentified Audience Member: Can I ask, given the move in the stock price and given what you see as the future, why not do a bigger buyback or a meaningful capital deployment, given how much operating leverage your business already has?

Ingo Uytdehaage: If you look at how we've built the company, we always benefited from the fact that we have a very strong cash balance. It helps towards regulators. We're a regulated entity in many markets. But it also helps with our rating. We have an S&P rating of A-. And of course, in getting more customers to our platform, having this very financial stable situation helps us. So, that's why we continue on this path, making sure that we continue to have this rating and also having this good relationship with regulators.

Mohammed Moawalla: Great. One near the front again.

Unidentified Audience Member: Ingo and Ethan, thank you for coming here today. Really helpful. Quick question. You mentioned that you didn't lose any gross customers. Obviously, you (inaudible) embedded in companies. But can you give us a trend line of how the net revenue is trending within your customers? So, dollar retention versus customer retention.

Ethan Tandowsky: So, I think one of the important data points that we look at is are we growing our business with our individual customers. And there, we are. So, if you look at our top customers – let's say the top 100 – then the vast majority of them if you look first half over last first half we grew them. So, if you take it on an overall basis, even where we talk the most, digital U.S., digital overall we grew 21% in volume; so, faster than the ecommerce market. And then even if you take that in the U.S., we grew faster than ecommerce grew in the U.S. So, on a total basis we gained market share. And then if you look on a per customer basis, we saw the same, that the overwhelming majority of our customer base we did grow volumes with in the first half.

Unidentified Audience Member: (inaudible) is a crucial question here, due to the last results. It seems like your structural return over invested capital of the overall business has diminished. And the competitive edge that you say that you have in the product might be a question mark due to more competition within the market itself and maybe the macro scenario, so on and so forth. So, if you could comment on this and how do you see this, going forward? Because you're hiring, the margin is going down, but how do you see this and the structural return on the business itself on the long term, please?

Ingo Uytdehaage: Building a company is never, like, a linear development, and that's how we look at it. Like, this half-year was of course lower growth than half-years before. But it's not the first time in the history of building this company – and I've been there a really long, long, long time – is that there is sometimes a half-year where things go slower. This is why we have this long-term view.

And I think your point around, yes, is there increased competition, well, this has always been a super crowded market. Even when we started the company, it was already a crowded market. So, that in itself has not changed. And the fact that the focus of some merchants is different now, I think that's where we need to play differently. And that's what we're focusing on right now. And I think that has always been our approach. Like, very well understanding what customers want and make sure that we build around this. Because if we do that well, we continue to grow. And that strategy is unchanged.

Mohammed Moawalla: One at the back there.

Unidentified Audience Member: Hi. Ingo and Ethan, thank you for your time. So, post your H1 results you respectively did a lot of calls with banks and investors, getting feedback. And I had the pleasure of being on them. And you said you were going to take the feedback forward, discuss internally. Some of those were buybacks. Some of them were insiders buying. Some of them was coming out defending the share price. So, out of all the suggestions you had from investors – and aside from business as usual – what are you doing to defend the share price and come back post H1 results?

Ingo Uytdehaage: So, I think the key thing that we have learned over the past weeks, of course the share price reaction was not a reaction that we had expected. And I think where we have learned a lot is that the view that we have on our growth is not being understood by the market. And that's one of the reasons why we said, okay, let's organize an investor day in November – November 8, here in San Francisco – to better explain what kind of building blocks we see to maintain our growth, going forward. Because I think that's the misperception. Like , what kind of investments are we making? How is that reflected in the different pillars that we just discussed? And how do we maintain our growth, going forward? And yes, we certainly need to better explain this. Otherwise, we wouldn't have seen this drop in share price.

Mohammed Moawalla: Any further audience questions?

One right here.

Unidentified Audience Member: Do you think – let's not put a timeline on it – the focus on interchange that you're helping your customers with relevant to take rate, do you think that's enough over several halves? So, let's not say six months or a year; let's say two years. Do you think that's enough to overcome the pressure in a more normal macro environment that you might see from take rates? Or do you think there are other factors in terms of new products that will kind of get you back to where you want it to be?

Ethan Tandowsky: So, I think the core of the question is, do we feel that we have the product offering that leads to more value for our customers, leading to us continuing to gain wallet share with them – because if you talk about a shorter time frame, then existing customers is where most of our growth needs to come from – then we do feel confident about that. So, it's not that we need to wait out the macro environment for it to turn again and that's the only time that we think we can get growth. We think that we have the right capabilities and product offering to be able to generate the growth that we've talked about in our medium-term objectives.

So, yes, ultimately, we think we have the right products to get us there, and the existing relationships still have a long way for us to grow. We're not at the end of growth with our existing base. So, we do feel that we're well positioned to get to those objectives.

Mohammed Moawalla: I think we're right on schedule. So, thank you very much, Ingo, Ethan, for the great insights, and thank you for joining.

Ingo Uytdehaage: Thank you, everyone.

Ethan Tandowsky: Thanks.