



Square's Newest Challenger Is Also a Thorn in Paypal's Side

Description

Shares of **Square** (NYSE: SQ) recently slipped after Morgan Stanley analyst James Faucette noted that it had lost one of its customers, the Danish juice bar and coffee chain Joe & the Juice, to its European rival Ayden. Joe & the Juice operates over 300 stores across North America, Europe, Asia, and Australia.

Faucette noted that while Joe & the Juice's revenue contribution was "relatively immaterial" to Square, the company had previously cited it as a "key customer case" showing how it was gaining larger customers. That loss, Faucette claims, indicates that Square could struggle to expand overseas and lock in bigger customers.

Amsterdam-based Ayden went public last year and only trades on the Euronext exchange, but it's quickly becoming a familiar name for U.S. investors in [fintech stocks](#). Last year Ayden caused big headaches for **PayPal** ([NASDAQ: PYPL](#)) when it lured away the latter's longtime partner **eBay** ([NASDAQ: EBAY](#)). eBay plans to process most of its payments with Ayden by 2021, and completely phase out PayPal's services by 2023.

This means that Square and PayPal, which are rivals in the U.S. market, now share a common enemy. Let's see why investors should keep a close eye on Ayden's growth.

What does Ayden do?

Ayden was founded in 2006 by a team of payment industry professionals. Its platform lets merchants accept electronic payments linked to credit cards, bank accounts, cash-based systems, and other services.

It became one of Europe's hottest start-ups over the following years, and was granted a European banking license in 2017. Square doesn't have a banking license yet, but PayPal was granted a European banking license in 2008. Those licenses allow Ayden and PayPal to process payments instantly instead of waiting for the payments to clear through traditional banks, a process that can take several days.

Ayden currently serves over 3,500 customers worldwide. In the first half of 2019, it generated 65% of its revenue from Europe, 15% from North America, 10% from Latin America, and 9% from Asia.

Ayden's revenue rose 41% year-over-year to \$243.3 million during that period, with 46% growth in North America, 43% growth in Asia, 41% growth in Europe, and 36% growth in Latin America. Ayden's growth rate in North America should worry Square and PayPal, since one of its long-term goals is to reduce its dependence on the European market.

Ayden's EBITDA rose 79% annually to \$138.4 million during the first half of the year, while its free cash flow surged 88% to \$129.4 million. Those numbers indicate that Ayden is growing just as quickly as Square.

Why Ayden is a threat to Square

In the first half of 2019, Square's total revenue rose 44% to \$2.13 billion. Its adjusted revenue, which excludes transaction and bitcoin costs, rose 52% to \$1.05 billion. Its adjusted EBITDA increased 60% to \$167 million.



Image source: Square.

Square has expanded overseas with merchants in Canada, the U.K., Australia, and Japan, but 95% of its total revenue still came from the United States during the first half of the year. Ayden's worldwide growth represents a big obstacle for Square's overseas expansion.

Furthermore, Ayden's global reach makes it an appealing choice for larger U.S. companies with overseas operations, as well as overseas companies (like Joe & the Juice) that operate across multiple countries. As a result, Square could struggle to lock in bigger enterprise customers to reduce its dependence on smaller to medium-sized businesses.

Ayden is arguably less of a threat to PayPal, which has a first mover's advantage in the market, holds a banking license in Europe, operates in over 200 countries and regions, and generates nearly half of its revenue overseas. Ayden scored a brutal blow against PayPal by winning over eBay, but the divorce wasn't surprising — especially since eBay already spun off PayPal in 2015.

Should Square worry about Ayden?

Square’s investors shouldn’t head for the exits based on its loss of Joe & the Juice to Ayden. However, the loss indicates that Square’s [expanding ecosystem](#) might not be as sticky as it claims, and that its international expansion plans — which it’s highlighted in [recent conference calls](#) — could hit a brickwall.

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