



**Tapasya**

*Creating  
Generational  
Wealth*

**OCTOBER 31, 2023**

**TAPASYA INVESTMENT FUND I**

# **GLOBAL INVESTMENT REVIEW - VI**

# INTRODUCTION

Welcome to the **6th edition** of the “**Global Investment Review**”. As mentioned in previous letters, the intent of this document is to detail the thesis of companies we have made investments in.

While explaining our portfolio composition and sizing, I have used the analogy of soccer to describe the portfolio broken up into Defense, Mid-Field and Offense.

As a quick refresher, **Defense** companies are expected to outperform the market during market downturns but at par or at times below par when the markets are in a euphoric state. **MidFielder** companies are expected to be steady compounders (not linear) that make up the bulk of our portfolio (>70%). **Offense** companies have potential for asymmetric returns but carry higher risk. These make up about 10%-15% of the portfolio inclusive of cash.

This edition I will talk about **Adyen**, a new investment in the MidFielder category.

'Adyen' has been a company on my watchlist for some time and I was having the feeling that the price has run away from me. Sometimes wanting to buy companies cheap, I thought I may have lost long term profits.

This is a common mistake across investors, where we tend to anchor to price and sometimes are unwilling to buy it at a higher price. I tend to be prone to make this mistake but over time keep reminding myself to avoid it.

In any case, as far as Adyen is concerned, it had a recent correction of over 50%, reasons which I will highlight later. This allowed the stock to come into my buy range and was able to take advantage of it. Advantage only should the thesis hold and we are able to make profits in the long term. In any case, unless the thesis changes I expect to hold this company for the long term (10+ years).

As I have previously mentioned we are a concentrated fund, hence going forward I will be highlighting one company at a time. In lieu of the extra blank pages, I have decided to write about what is top of mind 'topic' while drafting this document

This time I am focusing on "**Investing in the times of Uncertainty**". The reason to choose this topic is primarily the complexity we are all dealing with, in the context of investing. There is a lot going on, significant geo-political tensions, 2 wars, inflation, high stock market volatility, soon there will also be elections.

What are we supposed to be doing as investors, hold cash, invest in bonds, equities or something else? I would like you to know how I think about this and hopefully it is helpful to you.

**Happy Reading!!**

# ADYEN

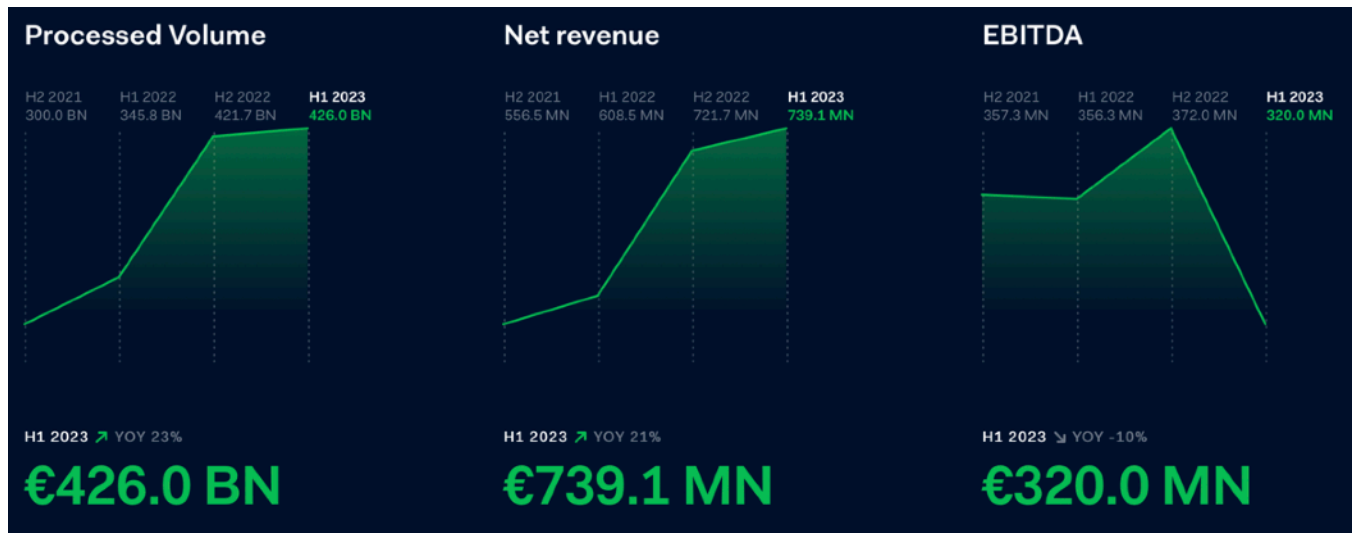
Adyen N.V. (means “starting over again” in Surinamese) operates a payments platform in Europe, the Middle East, Africa, North America, the Asia Pacific, Latin America. Adyen was incorporated in 2006 and is **headquartered in Amsterdam**, the Netherlands.

The company had its IPO in 2018 and since then has seen a meteoric rise in its stock price. In recent times the stock has seen a major correction owing to lower gross margins and management guidance. We will look into all this shortly.

Let's start with the financials for Adyen, understand how it makes money, what should its valuation be if it's not a listed company and we wanted to make a purchase of the entire company. This will help if we got the company, or our portion of it for a fair price or not.

**A company is worth the present value of its future cash flows.**

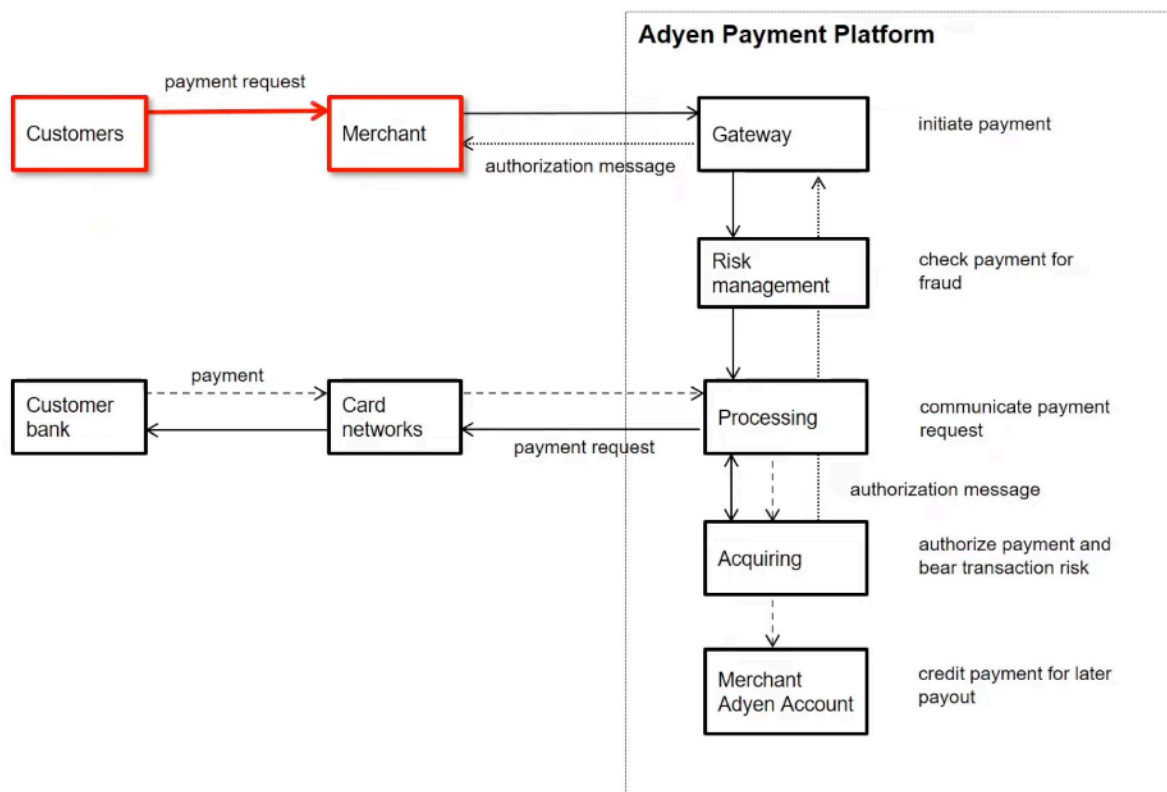
## Financials



As you would see here, there has been a meteoric rise in Adyen’s revenues (processed and net) with high EBITDA rates. That said there was a significant decline in H1’2023 leading to a ‘disproportionate’ correction in the stock price.

Let us understand how it makes money, competitive landscape and potential for future growth. This would help understand whether this can be a long term compounder for us or not.

### How does Adyen payment processing work



The Adyen solution is designed to make it easy for businesses to accept payments from customers all over the world. The solution works by routing payments through Adyen's global network of payment processors. This allows businesses to accept payments from customers in any country, regardless of the payment method they prefer.

Here is a step-by-step overview of how the Adyen solution works:

1. A customer visits a business's website or app and wants to make a purchase.
2. The customer selects their preferred payment method and enters their payment information.
3. The business's website or app sends the payment information to Adyen.
4. Adyen routes the payment through its global network of payment processors.
5. The payment is processed and the customer's account is debited.
6. The business receives the funds from the sale.

The Adyen solution is a simple and effective way for businesses to accept payments from customers all over the world. The solution is secure, reliable, and scalable.

### **How does Adyen make money?**

Adyen charges a %age and fixed fee (2.9% + 0.10 Euro) per transaction it processes. This model is no different from its competitors (Stripe and PayPal) outside of being lower cost provider.

### **Key advantages for Adyen vs. competitors in my view?**

1. **Payment methods:** It can process the highest number of payment methods (includes currencies) over 250+ allowing it to expand globally.
2. **Enterprise customers:** Adyen's customers are predominantly large businesses. Though typically sales cycles are longer and higher investment in sales required these

customers typically are expected to be more stickier. Some examples are Facebook, Uber, Netflix etc, they will grow as their customers' businesses grow.

3. **Marketshare:** Based on Marketshare estimates from 6sense, Adyen has less than 1% marketshare. This gives it ample room to grow between the 3 key players of PayPal, Stripe and Adyen.

### **Share price correction and is this here to stay?**

There are some near term headwinds

1. The **investments in hiring** new talent to grow the business will bode well for them. That said it **impacted margins** for H1'2023 and will continue to hurt till the revenues catch up. Hence I expect this to be a challenge for about a year or so.
2. With the **calls for recessions, lower liquidity** etc, in general hurts their business. Reason being their customers tighten their spend, expect concessions, etc. Also lower consumer spend eventually impacts Adyen's business. That said, over time history has proven that there will be more money in the economy across countries.
3. This space is **highly competitive**, and is expected to continue. That said, given Adyen's product superiority along with being the cost leader and possibility of significant global and US expansion I expect strong growth (25%+ CAGR) over the next 5+ years.

I think this is a great buy at current levels given our long term horizon (10+ years in this case). I would like to stock to move upwards in the next 6 months or so.

## INVESTING DURING TIMES OF UNCERTAINTY

Recently (on 10/29) I gave a talk on “Investing during times of uncertainty” to a large group of entrepreneurs in Houston. I think it is a relevant topic to touch upon here as well. The reason being, we have a lot going on.

I am not a macro investor, nor an economist to predict the impact of macro factors on the markets. For those economists who make predictions, we do not have a single billionaire economist. If you find evidence otherwise, please do share.

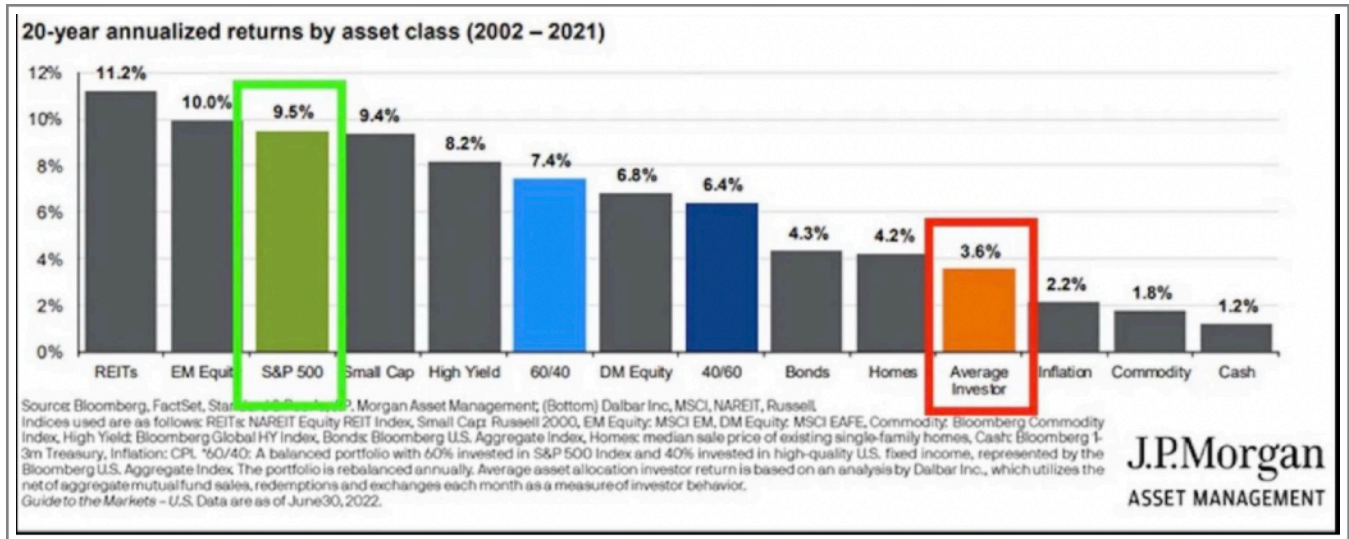
There is a lot going on right now in the world, 2 wars, geo-political tension between US and China, potential of the war expanding to other countries, persistent high inflation, increasing interest rates, talks of recession in the wake of almost 5% GDP growth rates , etc.

It is probably as confusing as ever for the average investor to understand what action is the best. Usually or in fact almost always staying invested instead of bouncing in-and-out of your investments tends to be the best action. At least history has proven that to be the case. The very wise, like Warren Buffett, Charlie Munger and many others have suggested the same.

Yet very few heed to this, given we are wired to take action in the wake of any perceived risk, we can confidently blame the evolution of the human species for that. Human's would have not been alive had we not done that. But since then we have climbed from the middle of the food chain to the top of it. The world has changed around us, the predated is now the predator (us). We don't need to be scared about being eaten or killed by large animals anymore. That said, some of our behaviors towards perceived risk have not changed.



As you see below, over a 20 year period in a study conducted by JPM Asset Management, we see that the average investor made 3.6% lagging most benchmarks.



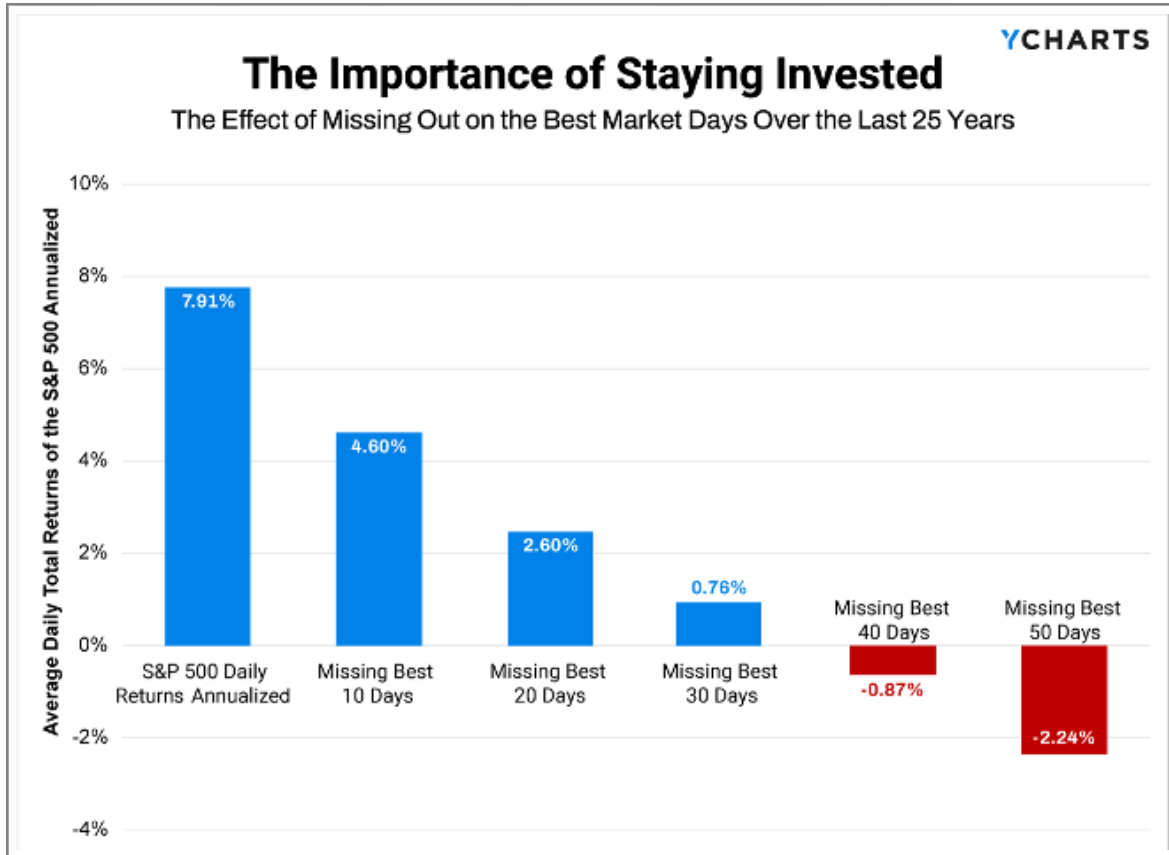
## Best Investors are Dead Investors

~ Fidelity study for a period between 2003 and 2013

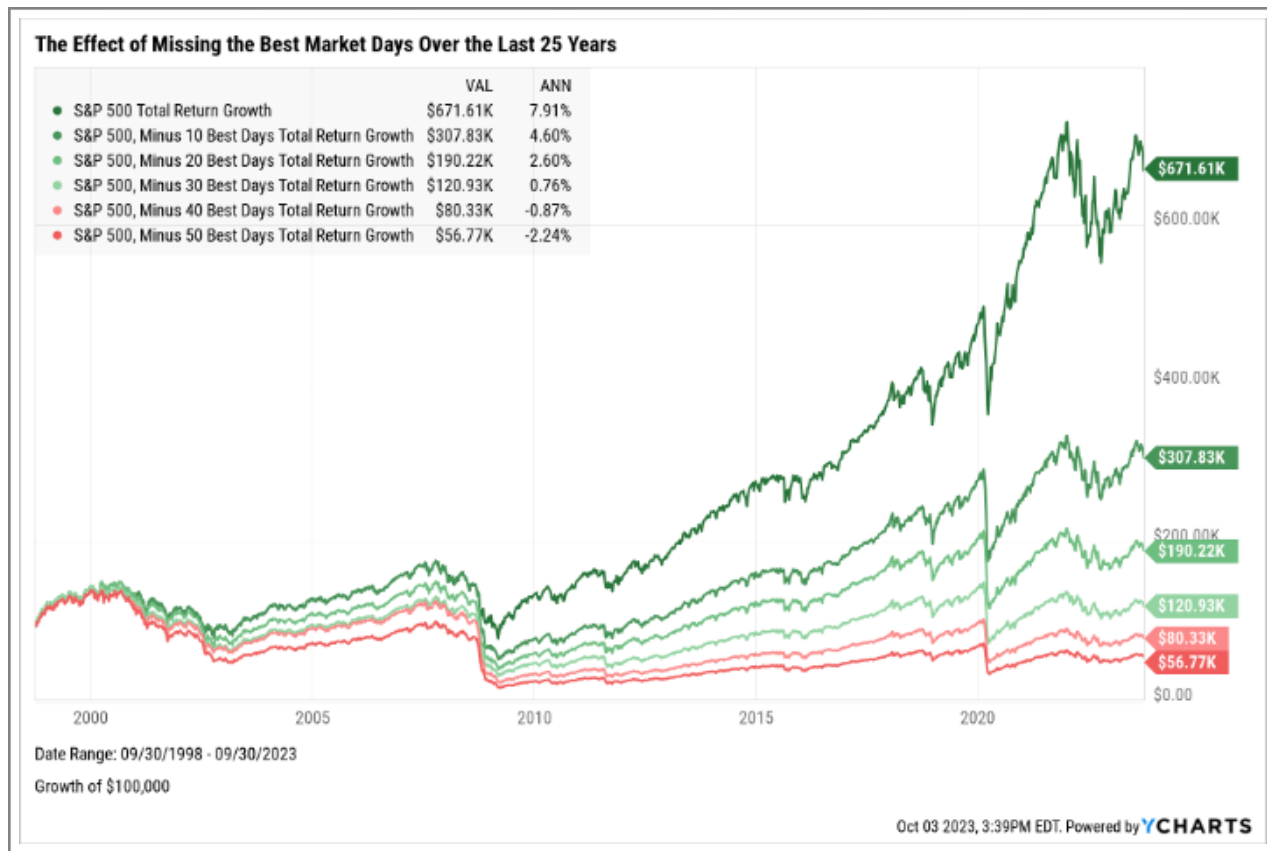


Fidelity had conducted a study in which they found the best investors were the ones who did not transact. There are several such studies conducted where they have found that investors trailed the mutual funds they invested in, given they try to time the ups' and down's of the market.

**'Time in the market is more important than timing the market'**



The chart above shows the difference in returns if one misses the best 10,20,30,40 and 50 days across a 25 year period. This small difference in returns over a long timeframe creates a large difference in returns in dollar terms due to the power of compounding as shown below.



Small changes over the long term can work magic!! Due to the power of Compound interest. As Albert Einstein called it the 8th wonder of the world. The problem, it is back-ended I.e. most of the returns are seen later vs. the investors expectations who would like to see returns front loaded. Unfortunately in life only incentives to insurance agents and their kin are front loaded.

## Starting with \$100K of Initial investment

|          | Assumed S&P Returns @10% | 15%         | 18%          | 20%          |
|----------|--------------------------|-------------|--------------|--------------|
| 10 years | \$259,374                | \$404,555   | \$523,383    | \$619,173    |
| 15 years | \$417,724                | \$813,706   | \$1,197,374  | \$1,540,702  |
| 20 years | \$672,749                | \$1,636,653 | \$2,739,303  | \$3,833,759  |
| 30 years | \$1,744,940              | \$6,621,177 | \$14,337,063 | \$23,737,631 |

## CONCLUSION

I expect Adyen to be a multi-bagger and long term compounder and plan to hold it for 10+ years which basically means I am unlikely to sell it. That said, like everything else I will continue to monitor it and should my thesis prove wrong I will not hesitate to wind down our position. I have not given the details of the purchase price , etc., as I am building up on this position.

I would welcome any feedback you may have on this document and as always feel free to reach out to me by email or phone if you have any questions.

We are in this journey together, **our biggest advantage is going to be our collective focus on the long term** along with my skills on capital allocation.

If you have managed to read this document in its entirety itself is one measure of success for me, as unless I receive feedback I will assume it was a reasonably good read.

My next letter would be the Annual Partner Letter for 2023 which I will publish in January.

## APPENDIX

In regard to the investment thesis document, I want to mention some references that I have used for ideas on writing this document.

Firstly, Nick Sleep and Qais Zakaria (Nomad Investment Partnership), used to provide such documentation to their investors. You would see a common thread across my investment philosophy and how I manage the fund, similar to Nomad's which closed in early 2014 (thankfully, else they would be the best game in town - I would still compete though!!).

Other Tools and websites used-

- 1) TIKR - Analytical tool to analyze financial metrics
- 2) Value Investor Club, YouTube Videos, Bard, Google, Investor relation website of PayPal , etc.

Thank you for taking the time to read this and as always, if there are any questions please do not hesitate to reach out to me.

Sincerely,

*Pratik Kodial*