

Credit Suisse Payments Innovation Event Series

Introduction to Atomic, the infrastructure for connecting to payroll accounts

Payments, Processors and FinTech | Expert Insights

- **Insights & discussion with Atomic:** We recently hosted a fireside chat with two executives from [Atomic](#), including the company's CEO & Co-founder, alongside the Head of Markets. Atomic is an infrastructure platform that allows connectivity into payroll systems, specifically via user permissions to access the data. One of the core use cases ([Atomic's Deposit offering](#)) allows a user to update the destination bank account for their payroll direct deposit. Atomic noted that it is typical for its customers (Neobanks and other financial services providers such as traditional banks, credit unions, etc., with Atomic already having signed many of the top ~20 Neobanks in the US) to see a ~50% improvement in the number of people moving over their direct deposit once Atomic's offering is embedded into their offerings (alongside instances where direct deposit penetration can increase as much as ~4-5x vs. prior levels). Atomic launched in August 2020 (founded 2019), and counts the likes of Greylock, Core Innovation Capital, and Portag3 as investors.
- **Replay details:** A replay of the call will be available for a short time at (855) 859-2056, ID# 1873400. This call is relevant for those interested in Cash App (Square), PayPal & Venmo (PayPal) within our coverage, but also other public and private Neobanking and other financial service providers.
- **Business overview:** Atomic has already developed ~165 unique integrations into payroll systems, which provides the platform access to ~65-75% of the US workforce (i.e., ~95 million workers mapped by Atomic). These integrations include the more well-known payroll providers, modern HR platforms, custom systems (at large corporations), gig economy platforms, government systems (e.g., state unemployment systems), and more. This infrastructure allows Atomic to offer a range of products, including [Deposit](#), [Verify](#), [Identify](#), and [Balance](#). Atomic's Deposit offering allows users to connect their payroll account (via entry of their payroll logon credential) and redirect their direct deposit to a different or newly formed account (e.g., when a customer is opening an account with a Neobank), detailed further below. Atomic's Verify gives platforms the ability to verify income and employment information (e.g., confirm employment status, verify salary, discern the cadence with which they are paid, tenure of employment, job title changes, etc.). The Identity product provides feedback on customer identity-related items, such as address confirmation, employee information, etc. In addition to direct deposit switching (Atomic Deposit), Atomic's additional capabilities bring valuable insights to consumer lending decisions (more detail below).
- **Deposit product overview & mechanics:** Atomic Deposit allows users to update the destination of their direct deposit in a secure and verified in real-time manner, a big improvement from the typical high-friction process today that's often paper-based. To better illustrate how simple the process has been made, [Atomic's website](#) provides a sample demonstration of how its payroll connect offering works from the consumer's perspective. First, the user selects their employer. Then, the user is prompted to enter their payroll account credentials (enabling the payroll account to be verified). The direct deposit account is then updated with the new destination information (routing number, account number).

Research Analysts

Timothy Chiodo, CFA
415 249 7921
timothy.chiodo@credit-suisse.com

Nik Cremo
415 249 7922
nikolai.cremo@credit-suisse.com

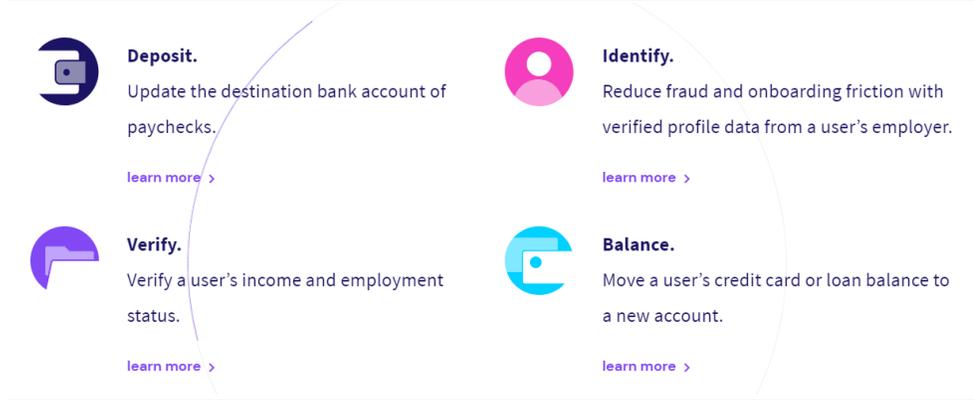
Justin Forsythe, CPA
415 249 7924
justin.forsythe@credit-suisse.com

Christopher Zhang, CFA
212 325 4431
chris.zhang@credit-suisse.com

Cole Hyland
212 325 2645
cole.hyland@credit-suisse.com

- **Atomic’s clear value proposition for redirecting direct deposit:** Achieving a primary account relationship (via direct deposit) is often their key aim for Neobanks and traditional financial service providers. Having this relationship allows the financial service provider to generate a higher level of interchange revenue (an attractive, recurring, transactional, largely non-discretionary revenue stream) and as a result, also provides a greater opportunity to cross-sell additional financial services via that pole position (as the primary account provider). Atomic allows its customers to meaningfully increase their direct deposit penetration (leading to meaningful revenue opportunities), while at the same time reducing the total costs to acquire these customers (vs. a backdrop of the costs to acquire a direct deposit customer being ~\$80-\$100 at the low-end, and potentially as high as ~\$200-\$300, and can be meaningfully higher for traditional banks). As referenced above, Atomic’s customers can experience a ~50% lift in direct deposit conversion (typically on the low-end), and some are seeing as much as ~4-5x increase in direct deposit penetration. Further, our guests noted that, broadly speaking, they have observed Neobank direct deposit penetration of roughly ~5-25% across the landscape, with a few select Neobanks having meaningfully higher success (in part due to their relationship with Atomic, alongside other factors including incentives, etc.). This compares to the ~40% range for a new retail banking account at a traditional financial institution (based on our guests’ broader industry observations over time).
- **Emerging capability to repay loans via paycheck (“Payroll Lending”):** Our guests noted that one of the larger opportunities over the next few years will be the increasing ability for consumers to take out loans and be able to pay them back directly via their paycheck (sometimes referred to as Payroll Lending). Atomic considers this a large opportunity, particularly for the consumers with sub-700 credit scores (e.g., more easily qualify for a loan, or receive a lower interest rate, if willing to pay back directly through his or her paycheck). This is a win-win, with the consumer receiving credit (and likely at a discount), while the lender takes on reduced risk (no need to collect repayment, rather, they are first in line with their repayment coming directly out of the consumer’s paycheck like taxes). As an additional benefit, the consumer is likely to improve their credit score in the process. Lastly, we note this could have implications for the BNPL group (e.g., ability to initiate a BNPL offering, and be repaid directly via paycheck).
- **Atomic’s revenue & pricing model:** Atomic’s pricing model assesses a fee per successful pull of data, per direct deposit switch, or per payment made. These fees can also vary based on volume and additional factors. Atomic’s customers tend to pay in the ~\$4-\$10 range for the direct deposit switching product (success-based), and generally lower (within that range) than that on verifying income. Most of Atomic’s customers sign up for a monthly minimum as part of their contract, and as long as that monthly minimum is met (which typically is), Atomic is able to benefit from any overflow on top of those minimums on a per transaction basis.
- **Additional points:** 1) During 2020, Neobanks evolved from solutions that were targeting specific pain points to full service digital banking platforms that are mass market addressable; 2) We note that accessing payroll data via APIs (like Atomic’s) provides a more certain and secure manner for gathering information about a customer prior to opening a banking and/or lending relationship (e.g., confirmed data from the source, vs. input on a form by the user, providing physical documentation that can be altered and/or fraudulent, etc.); 3) We continue to view the Neobanking space as one that is likely to somewhat consolidate over time (consistent with prior panels and events we have hosted on this topic), alongside a re-bundling of services (with each of the successful platforms likely offering a range of financial services, however coming from various different starting points – e.g., P2P, core checking accounts, lending, stock trading, BNPL, etc.); 4) Another emerging trend called out by our guests relates to employers increasingly offering more financial services to their employees (gig economy platforms, but beyond just those), with startups launching that are helping employers service their employees in this manner; and 5) For further views on the broader Payments, Processor, & FinTech sector, including the intersection of software and payments, please see our industry presentation, [“If Software is Eating the World... Payments is Taking a Bite”](#), containing slides related to our coverage universe, industry data, private company map, primer-like material, and “The Credit Suisse Payments, Processors, & FinTech Top 40 Industry Themes”.

Figure 1: Atomic's product offerings including Deposit, Verify, Identify, & Balance



Source: Company data

Companies Mentioned (Price as of 26-Apr-2021)

PayPal (PYPL.OQ, \$266.03)

Square (SQ.N, \$246.43)

Disclosure Appendix

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3-Year Price and Rating History for PayPal (PYPL.OQ)

PYPL.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
18-May-18	80.79	93.00	O
19-Jul-18	87.38	100.00	
02-Nov-18	83.51		NC
23-Jan-20	117.89	135.00	O *
07-May-20	146.29	140.00	
21-Jun-20	164.36	190.00	
30-Jul-20	192.51	205.00	
03-Nov-20	179.81	215.00	
03-Feb-21	251.90	275.00	
11-Feb-21	285.03	310.00	

* Asterisk signifies initiation or assumption of coverage.

Effective July 3, 2016, NC denotes termination of coverage.


3-Year Price and Rating History for Square (SQ.N)

SQ.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
03-May-18	49.21	44.00	N
19-Jul-18	70.32	81.00	O
10-Oct-18	77.45	94.00	
02-Nov-18	77.76		NC
23-Jan-20	69.29	84.00	O *
26-Feb-20	76.59	92.00	
30-Mar-20	55.00	66.00	
07-May-20	74.62	73.00	
20-May-20	82.04	80.00	
05-Aug-20	146.55	170.00	
27-Sep-20	157.72	175.00	
05-Nov-20	175.23	200.00	
24-Nov-20	202.90	210.00	
23-Feb-21	256.59	270.00	
08-Apr-21	258.37	290.00	

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This research report is authored by:

Credit Suisse Securities (USA) LLC Timothy Chiodo, CFA ; Nik Cremona ; Justin Forsythe, CPA ; Cole Hyland ; Christopher Zhang, CFA

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