

PayPal Holdings, Inc.

Industry
NASDAQ: PYPL
Market: Outperform | Buy



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Return on Investment

Current Share Price	\$187.00
Target Price	\$260.18
Implied Return	32.32%

Market Profile

52-Week Range High/Low	\$310.16 / 189.57
Market Capitalization (mm)	\$227,489.2 mm
Net Debt (mm)	(4,592.0) mm
Enterprise Value (mm)	\$222,886.2 mm
Beta (5-Year Monthly)	1.08

Metrics

Revenue (mm)	\$24,569.0 mm
EBITDA (mm)	\$5,684.0 mm
EPS	3.43
EV/EBITDA	27.03x

Figure 1: Product Mix

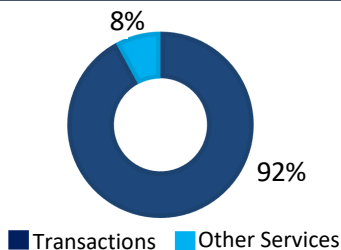
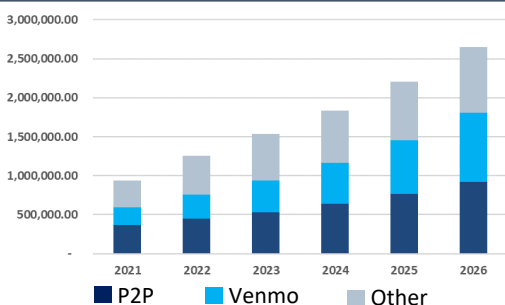


Figure 2: Total Payment Value (TPV)



Investment Summary/Thesis and Catalysts

PayPal's two-sided platform, offers safety and simplicity of transactions for customers and merchants. The Company is a natural beneficiary of the shift toward digital payments and is well positioned to perform regardless of the virus' trajectory given its leadership in e-commerce. Paypal will also benefit from some online shopping volume returning to brick-and-mortar through the reintroduction of contactless in-store payment capabilities which will further drive mobile wallet adoption, tapping into a new revenue stream market.

Business Overview

PayPal is an e-commerce business that specializes in facilitation of transactions between people, and business. The Company allows users to create free accounts giving access to shop securely online anywhere regardless of physical borders or differing currencies. PayPal generates revenue through fees on transactions of which 416M accounts have processed 4.9B transactions totaling \$310B USD in 2021 Q3.

Executive Management

The Company's CEO since 2015 Dan Schulman, has an impressive track record with well-known companies such as AT&T and Virgin Mobile. Since 2015 PayPal's share price is up ~458%. The Company's executive team has implemented an aggressive corporate strategy acquiring 16 business since 2015 allowing them to expand rapidly into exciting new foreign markets, while maintaining a large market share

Financial Analysis and Valuation

The Company's intrinsic value was determined using a discount cash flow model, where we used a weight average cost of capital (WACC) of 10.20% to derive an implied share price of \$260.18. PayPal was also valued against its peers using comparative analysis on a P/E, EV/EBITDA and EV/Revenue basis. PayPal continues produce large amounts of cash flows and is committed to paying down its debt and continuing its share buy-back program. The past four months have been rough for PayPal inventors, but the sell-off has reduced the stock's valuation to a more reasonable level and can be seen as a potential entry point for many investors.



Presented by: Ryan Crisalli, Justin Giacomini, Shohaam Pandit, Julian Rodriguez, and Riley Williams

10/21/2021

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Investment Thesis

Attractive Growth Prospects

- Digital first aspect for payments is growing while the company takes new initiatives targeting brick-and-mortar stores
- Peer-to-peer service, Venmo, is a key catalyst behind the solid growth in Total Payment Value (TPV)
- One Touch is driving PYPL's mobile volumes owing to its robust checkout service, contributing to the merchant and customer base

Strategic Partnerships

- Visa in the United States, Europe and Asia Pacific
- Mastercard and PayPal currently run a co-branded credit card. As the introduction of new services and offers for debit and credit cards by collaborating with JP Morgan and Bank of America.'
- PayPal also partners with e-commerce giants such as Apple, Facebook, Pinterest, Alibaba, Intuit and Amazon,

Strong Balance Sheet and Financials

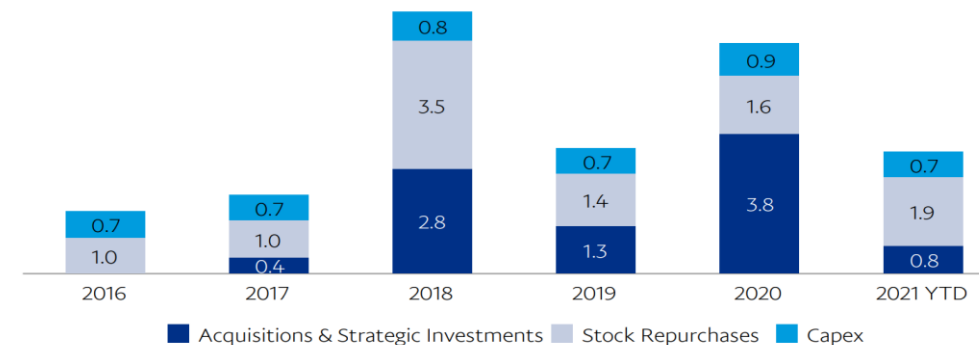
- Debt-to-capital falling 3.5% to 26.5% as of September 2021
- The company produces significant cash flows that boost liquidity and continues share buy back program
- 2020 Revenues increased to \$21.5 billion compared to \$17.8 in 2019

Recommendation

Action	→	Buy
Rating	→	Sector Outperform

Current Price	→	\$187.00
Target Price	→	\$260.18
Implied Return	→	34.32%

Capital Allocation (\$B)



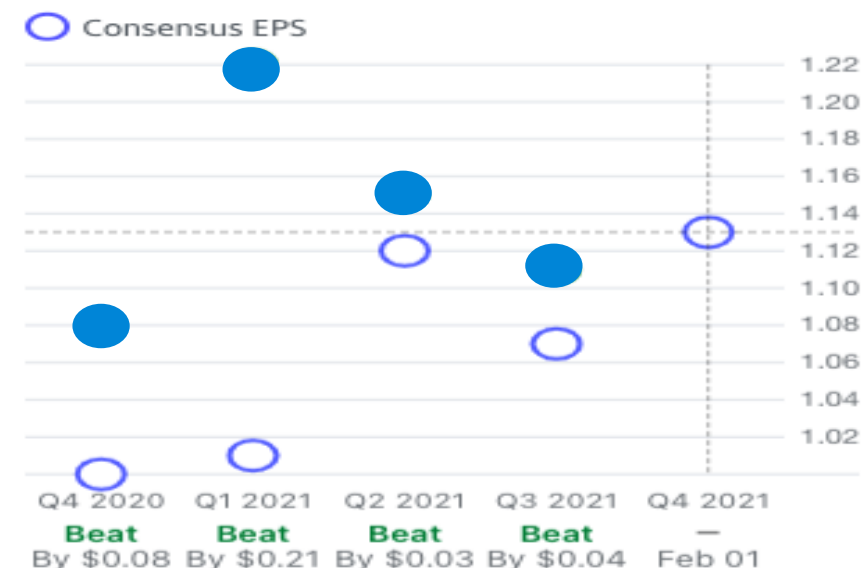
Company Overview

- **History:** Originally Founded in 1998 under the name Confinity. A company that developed security software to hand held devices. Later in March of 2000 a merger occurred with X.com a company owned by Elon Musk. The company went public under the name PayPal in 2002 and focused their business in the money transfer operations.
- PayPal Holdings Inc. includes PayPal, PayPal Credit, Braintree, Venmo, Xoom, iZettle, and Hyperwallet products and services.
- **Stock Performance:** The stock has consistently performed higher than analyst rating for the first 3 quarters of 2021. PayPal has a 5Y beta of 1.10 and a 3 month average daily trading volume of 11.5 million.
- **Strategy:** Created a convenient one-click payment as well as contactless QR code in-store reader during the pandemic which grew the YoY 33% compare to the 27% from previous year.
- Hoping to become a one stop shop for all consumer financials needs. They have recently started incorporating Crypto within financial transactions. As well as expressed interest in moving into banking and stock trading.
- **Recent Corporate Finance Transactions:** Starting next year customers can use their Venmo accounts to make purchases on Amazon.
- **Ownership Breakdown:** Institutional Investors own over 50% of the company. The largest shareholder being The Vanguard group, inc. with 7.9%

Valuation and EPS Consensus

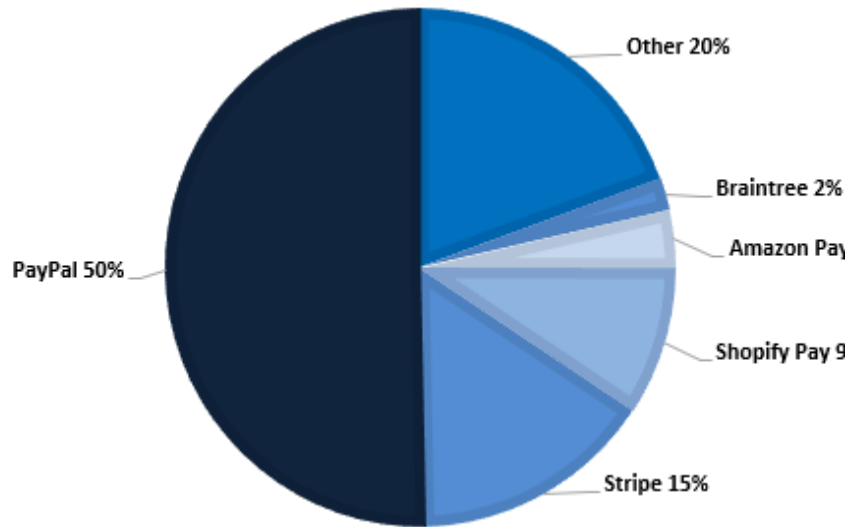
Key Valuation Statistics (\$mm)

Enterprise Value (EV)		\$222,886.2	
Market Cap.	\$227,489	EBITDA (FY21)	\$5,684
P/E	49.68	EBITDA Margin	22.04%
EV / EBITDA	31.56	Debt / EV	0.04
Cash	1329.00	Total Debt	9,700
Share Price		Current: \$187.00	



Market Overview

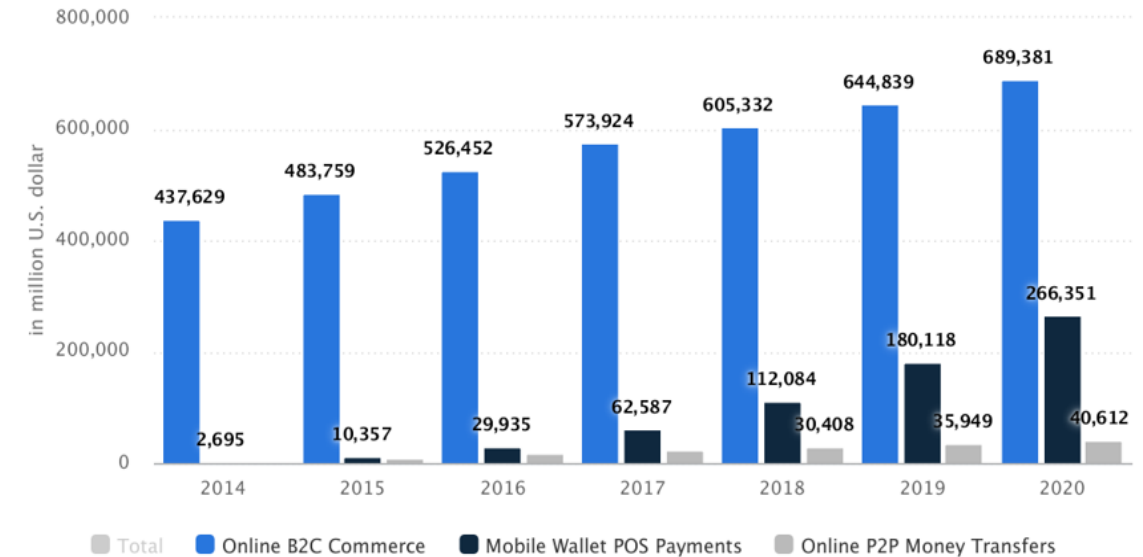
PayPal Market Share in Total Payment Value (TPV)



Emerging Categories

- **Digital First**, the lines between physical and digital are disappearing, and this will fundamentally change how business is conducted. Digital will be the primary method of customer engagement
- **Digital Wallets** will create an ecosystem and simple way to enable, pay, and track transactions across all touchpoints
- **E-commerce**, the shift away from in-store purchases will increase importance of platforms like Honey that enable merchants to tap into demand
- **Digital Currencies**, a new cashless financial system emerging, that introduces new market opportunities for digital payment platforms.

Transaction Value in Digital Payments Markets (\$USD mm)

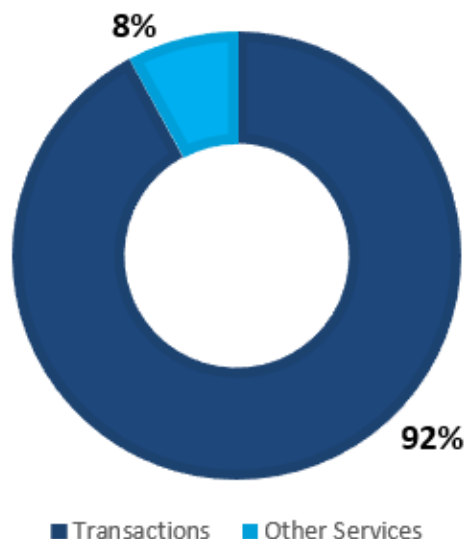


Market Growth

- The global Fintech market is projected to grow at a CAGR of 26.87%
- Mobile transaction volume has an average annual growth rate of 62%
- 18.9% of growth on retail e-commerce sales
- By 2024, US volume of e-commerce is expected to grow to \$418.9 Billion
- China and India have a FinTech adoption rate of 87%
- Increase in digital payments, global FinTech adoption, and movement of financial services to digital platforms (insurance, banking, and transactions)

Business Model

Revenue by Business and Geographic Segment (USD, mm)



Country	% of Revenue
United States	53.36%
United Kingdom	10.55%
Other countries	36.10%
Total	\$4305 Million

Overarching Competitive Advantage

The business model of PayPal allows the company to compete for a market share in the financial services scenario, with its most immediate competitors being Mastercard and VISA on the payment connectivity services and FinTech startups on the electronic banking and e-commerce.

The company has made steps to grow on the FinTech, with examples being the acquisitions of Venmo, iZettle, and Honey, expanding the most on this sector over the recent years.

Revenue Segments

1. **Financial Transactions:** which includes revenue from the electronical transfer of funds between individuals and businesses. Similarly, provide credit card getaway solutions for online transactions and international exchange .

2. **Merchant services:** which includes providing payment solutions to small and large e-commerce merchants. Also including fraud analysis and algorithm improvement, as a key component of FinTech.

Sales and Marketing Strategy

PayPal aims its digital payment service to both ends of the transaction: consumers and merchants. As a FinTech provider, the two-sided model of PayPal consists in generating revenue through transaction fees, pay-flow payment gateway fee, international exchange, withdrawal fees, credit interests, and medium of liquidity for online purchases and transactions. PayPal has also been characterized for its keenness on lending for small businesses and facilitating borrowing for early entrepreneurial projects.

Diverse Product Portfolio

PayPal competes with VISA (V) in ,financial services and transaction connectivity as well as Mastercard (MA). The Company has strategically positioned itself between the two target markets allowing for clients to use PayPal as an effective, solid and easy-going service provider for online banking, purchases, and e-commerce reliability

Operating Forecast

Revenue Drivers

Ecommerce Industry Growth:

- With an average Growth rate in Global Ecommerce Retail sales of 21% in the last 7 years and projections of 5,424B in total sales in 2022.
- Consumer Trends & Business switching from traditional shopping means to electronic payments and shopping online.

PayPal Internal Growth:

- With a current user base of 416M active user growing 15.2% since Q3 of 2020 it expects to add 55M by fiscal year end.
- Number of users transactions growing from 40 to 44.2 and at average rate of 10% per year (since 2015). Facilitating approximately 15.4 Billion transactions per year.
- Total Payment Volume of \$310B moving through PayPal's services in Q3, while growing at a rate of 26%.

Versatility and Future Opportunities:

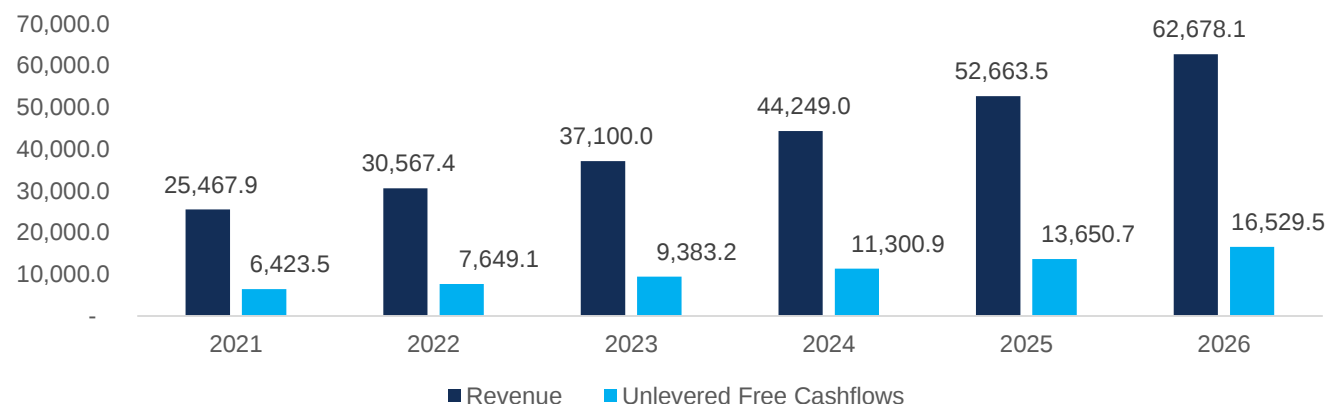
- With PayPal being established in Markets across the world and its large number of users across its variety of platforms PayPal has become a leading trusted source to be used for virtually any application of financial transactions or financial management.

Global Market Expansion for Business and Users:

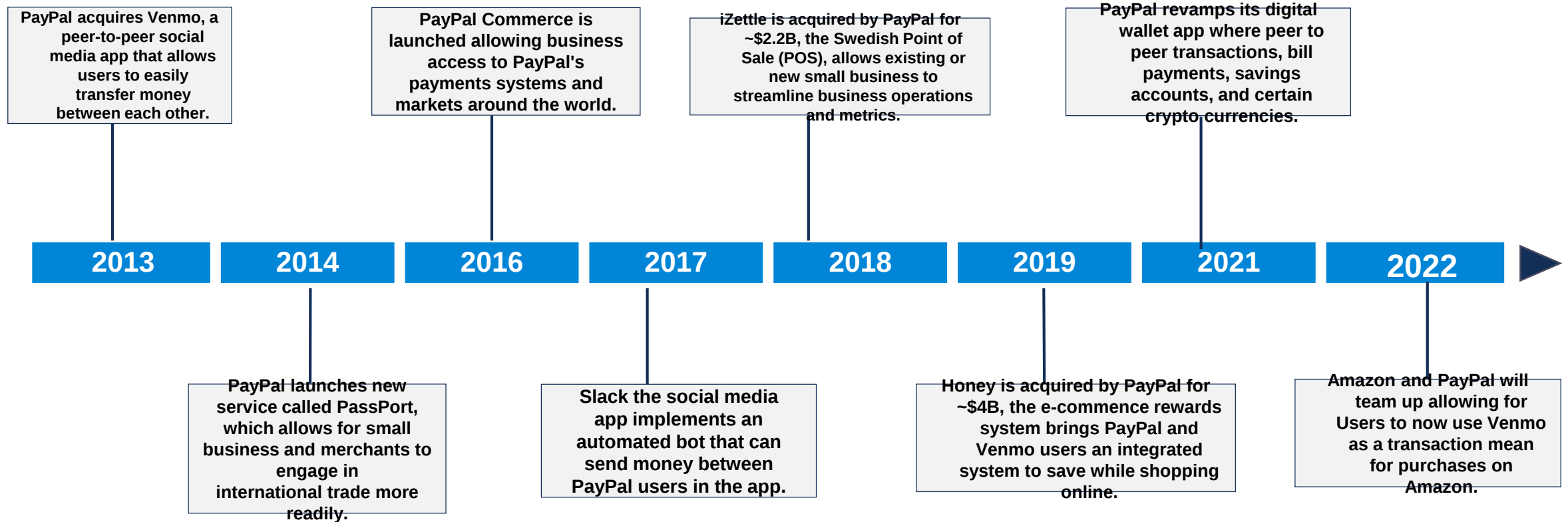
- Acquisitions PayPal has made such as Paldy, iZettle and Xoom establish PayPal as Global Service that can be used between peer-to-peer, business-to-business or business-to-consumer regardless of global borders.

Forecasts

(\$USD mm)	2021	2022	2023	2024	2025	2026
Active Accounts	428	482	530	583	642	706
Total Payment Volume (TPV)	936,000	1,252,451	1,532,190	1,838,628	2,206,353	2,647,624
Revenue	25,467	30,567	37,100	44,249	52,663	62,678
Revenue Growth, %		20%	21%	19%	19%	19%
EBITDA	7,350.6	8,660.2	10,892.0	13,239.0	16,063.0	19,489.3
EBITDA Margin, %	28.9%	28.3%	29.4%	29.9%	30.5%	31.1%
Unlevered Free Cashflows	6,423.5	7,649.1	9,383.2	11,300.9	13,650.7	16,529.5



Corporate Finance Activity



Valuation - Comparable

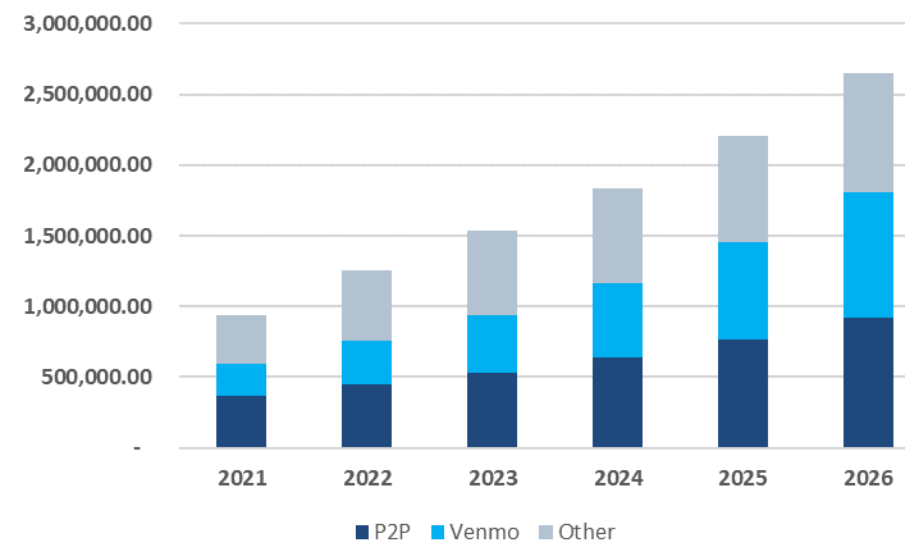
Company Name	Ticker	Price (\$/Share)	Market Capitalization (\$mm)	Enterprise Value (\$mm)	EV/EBITDA X	EV/ Total Revenue X	P/E X	P/E FY1 X	P/E FY2 X
PayPal Holdings Inc	\$PYPL	193	227,480	222,890	52.94x	7.54x	56.50x	41.97x	26.64x
Square Inc	\$SQ	225	103,850	103,700	466.21x	5.51x	304.86x	131.51x	120.20x
Visa Inc	\$V	209	437,940	439,520	25.98x	15.21x	38.41x	28.44x	23.78x
Mastercard Inc	\$MA	340	340,840	340,840	34.07x	15.42x	44.13x	41.03x	32.23x
Global Payments Inc	\$GPN	126	36,540	45,740	16.44x	5.49x	30.24x	15.41x	13.09x
Fiserv Inc	\$FISV	100	66,060	87,110	14.59x	5.31x	32.95x	17.94x	15.46x
Fidelity National Information	\$FIS	110	66,950	85,520	16.64x	5.73x	44.98x	16.71x	14.51x
FleetCor Technologies Inc	\$FLT	228	18,490	22,910	16.86x	7.27x	22.14x	17.42x	14.74x
Mean			162,269	168,529	80.47x	8.43x	71.78x	38.81x	32.58x
Median			85,400	95,405	21.42x	6.50x	41.27x	23.19x	19.62x

Valuation & Analyst Consensus

Sensitivity Analysis

% of Blend		Sensitivity
GGM	EV/EBITDA	Target Price
70.0%	30%	225.24
60%	40%	242.71
50%	50%	260.18
40%	60%	277.65
30%	70%	295.12

Total Payment Volume (TPV) Growth



Stock Price Performance

- PYPL stock price has recently taken a hit on its price-return as it drop from a 42.91% in October to a 5.46% YTD return in November
- We believe this is due to a market over reaction the company's recent revenue forecast and can be seen as a potential entry point

Analyst Consensus

Buys	80.8%	12M Target Price	276.80
Holds	15.4%	Last Price	187.00
Sells	3.8%	Return Potential	48.02%

The background of the image is a photograph of a modern, multi-story office building with a glass facade. The building's windows reflect the sky and surrounding environment. In the foreground, there are some green plants and bushes. Overlaid on the image is the PayPal logo, which consists of a large blue 'P' and the word 'PayPal' in blue. The text 'Question and Answers' is written in white, underlined, and positioned in the center of the image.

Question and Answers

PayPal