



EXECUTIVE SUMMARY

PayPal Holdings, Inc. was incorporated in Delaware in 2015 and is a leading technology platform and digital payments company that enables digital and mobile payments on behalf of merchants and consumers worldwide. PayPal mission is to increase the ease of access to affordable financial services and thus increase the financial health of its customers.

Its main markets are the United States and Europe, however, it is expanding aggressively in Asia and South America, by offering its products directly or indirectly through subsidiaries. We believe that PayPal is an established company with a strong brand image, financials, and customer base, however, there is still a significant room for it to grow. The total E-commerce market is currently valued at \$4.9 trillion but it makes up only 20% of the total retail industry. Meaning that companies in e-commerce are going to gain market share from traditional retail companies besides organic growth they could achieve by offering a faster and more convenient shopping experience. PayPal is in a suitable position to capitalise on this growth and expand its offering to gain additional customers besides its current 377 million active accounts.

Our valuation of this company has resulted in an implied share price of \$227, which is 21.7% higher than its current price, as of the 3rd of December.

INDUSTRY OVERVIEW

PayPal operates within the global payments industry with 377 million active users across over 200 markets.

Recently, PayPal has begun to expand their operations in foreign markets. In 2021 PayPal completed an acquisition of GoPay, an online payment service provider in China. This provides PayPal with access to a market which is expected to grow over 20% year on year until 2023 and will be driven particularly by the growth in e-commerce.

Furthermore, in 2019 PayPal invested \$750 million in the Argentinian e-commerce giant MercadoLibre. The South American e-commerce markets is relatively immature and hence this provides PayPal massive opportunities to grow. Moreover, the global E-commerce market is currently estimated to worth \$4.9 trillion. However, this represents only 20% of the total retail market and thus e-commerce's organic growth could be complemented with gaining market share from traditional retailers. This substantial growth in this industry would fuel PayPal's over 20% year-on-year revenue increase.

PayPal has achieved significant growth in previous years and intends to keep up its success by developing ambitious goals. By 2025, they indent to increase their active accounts to 750 million and more than double their annual revenue to over \$50 billion. Moreover, they expect earnings to rise at a CAGR of 22% between 2020 and 2025. They expect this the increasing expectance of NFC and QR code payments as well as the augmentation of its platform with new financial services, to act as the primary catalyst in this growth.

COMPANY OVERVIEW

PayPal was founded in 1998 with the merger of two small payment transaction firms: Confinity and X.com. It was then bought by eBay in 2002. During it's time under eBay, it bought or merged with five other firms before being finally spun out from eBay under pressure from activist investors in 2015. This way it could purse its own strategic and financial objectives to overcome competition. Since then, it has consolidated its market power and expanded its geographical reach. It now controls 100% of GoPay, a payments application with 18.9% of China's online payments market share and has acquired the Swedish iZettle and the online payments firm Honey as well as the payments-splitting app Venmo.

PayPal's net income CAGR is 16.57% and, its main revenue sources being driven by cross-border transaction fees and loans to merchants, it is driven by consumer spending and very cyclical. 4th quarter income, for example, is an average of 11.5% higher than income for each other quarter, consistent with a firm that receives a large part of its revenue from the Christmas bump in demand. Accordingly, Q3 2021 was PayPal's worst quarter since being carved off from eBay (-0.9% quarter-on-quarter growth), as poor economic conditions combined with supply chain issues to significantly affect transaction volumes.

OPERATIONS

| | | |
|--|---|---|
| <p>CONSUMER ACCOUNT FEES</p> <ul style="list-style-type: none"> • Selling on platform such as Ebay • International Payments • Instant transfers to bank accounts • Transferring money to debit/credit card • Buying/Selling Cryptocurrencies | <p>BUSINESS ACCOUNT FEES</p> <ul style="list-style-type: none"> • Payment Pro feature allows processing of Visa, Mastercard and American Express payments Transaction fee (2.9% online, 2.7% in-store) 1.5% • International transaction fee • Debit/Credit card fee • Micropayment fee • Dispute fees • Currency conversion fees | <p>PAYPAL HERE</p> <ul style="list-style-type: none"> • POS System • Sale of card readers • Transaction fee for in-store payments |
| <p>PAY FLOW</p> <ul style="list-style-type: none"> • Links website to processing network and merchant account • Merchant pays fixed fee for every transaction | <p>PAYPAL WORKING CAPITAL</p> <ul style="list-style-type: none"> • Allow businesses to apply for loans • Loans are repaid on a per-transaction basis | <p>PAY IN 4</p> <ul style="list-style-type: none"> • Installment payment plans • Generates income from delayed payment fees |
| <p>CASHBACK</p> <ul style="list-style-type: none"> • By promoting cashback, they receive a portion of the transaction value | <p>SHIPPING LABEL</p> <ul style="list-style-type: none"> • Works with the United States Postal Services and UPS to offer shipping services • Receives a portion of shipment fee from logistics provider | <p>CASH INTEREST</p> <ul style="list-style-type: none"> • Residing cash is lent out to other institutions |

RISKS

Considering the global presence and various business lines of PayPal, the company is exposed to various direct and indirect risks. The most pressing currently is the uncertainty about cybersecurity. Data breaches has exposed over 36 billion records in the first half of 2020 and thus PayPal must prepare for potential attempts. Its data has already been compromised in 2017, when it had to shut down its TIO network as 1.6 million customers' data has been accessed by unauthorised individuals.

The physical vulnerability of its servers and offices are also to be considered, especially since most of its main operations are in Silicon Valley, California, which is a seismically active region. An earthquake could shut down the power supply

of the company and therefore its ability to allow seamless transactions would be disturbed. This situation could not only cause a loss of revenue but also a decrease in customer trust.

Regulation of financial services are also significant for PayPal as it has operations across Asia and America, besides its major markets, Europe, and the USA. The United States and China's worsening relationship must be monitored as the CCP could impose tariffs and increase the strictness of its already highly regulated cross border transactions. This means a competitive disadvantage to PayPal and its services could become obsolete in its fastest growing market.

PEER COMPARISON

| Company | Competitive Advantage / Weakness | |
|---|----------------------------------|--|
|  | + | PayPal charges an international transfer fee of 1.50% for all commercial transactions plus fixed fee based on the currency, whereas Square does not charge any fees. |
| | + | Square has cheaper credit card transaction fees than PayPal. Square offers a rate of 2.6% plus \$0.10 per transaction while PayPal charges 2.70% plus fixed fee of \$0.30 |
| | - | In terms of on-boarding for merchants, Square is a more expensive option in comparison to PayPal. A payment terminal from Square starts from \$299 while a terminal from PayPal costs \$249 |
|  | + | Wise has a much more transparent pricing system in which all transfer / transaction fees are clearly stated. This is unlike PayPal where hidden costs are not uncommon. |
| | - | The processing time for transfers through Wise can take an average of 2-4 days before it is reflected on the receiver's account. Instantaneous transfers for PayPal-to-PayPal transfers. |
| | - | PayPal is more flexible than Wise in terms of available transfer services. Wise is limited to bank-to-bank transfers only while PayPal offers PayPal-to-PayPal transfers, PayPal-to-Bank transfers with Xoom. |
|  | + | Payoneer card fees amount up to \$29.95 annually while PayPal pre-paid Mastercard has a monthly fee of \$4.95 (\$35.40 annually). Therefore, making Payoneer a more cost-efficient option |
| | - | In terms of market outreach, Payoneer falls short as money transfer solutions are only offered to businesses and freelancers - B2B. On the other hand, solutions by PayPal are ideal for both B2B and B2C use cases. |

ASSUMPTIONS

To arrive at the implied share price of \$227, we made the following assumptions.

Regarding revenue, PayPal has managed to increase its growth in the past two years and therefore we assumed that they could achieve a revenue growth of 25% in 2021. Following this year, it was assumed that the firm could keep this growth rate constant until 2024 due to the significant growth in its new markets and the overall growth of the total ecommerce industry. A significant amount of the company's revenue comes from merchants who intend to sell their products online and the 31% increase in total payment volume in 2020 demonstrates that the revenue of their customers are increasing rapidly.

Due to the substantial increase in revenues and the firm's low fixed costs, it increased its EBIT margin for the past three years by 4% on average. It was assumed that an annual increase of 3% in the margin is sustainable and thus the firm will achieve an EBIT margin of 38% by 2025.

As PayPal's industry is not capital heavy, it has decreased its capex margin in the past few years, leading to a 6% net capex margin in 2020. Although the company doesn't need to invest large sums into PPE, it must invest a significant portion of its revenues into Research& Development, which we consider capital expenditure. Therefore, we assumed a constant 6% which means several billions of dollars over the forecasted years due to the significant increase in sales.