

A close-up photograph of a dark, perforated metal surface, likely part of a large-scale art installation or architectural feature. The surface is covered in a grid of small, triangular holes. The word "PayPal" is prominently displayed in a large, white, sans-serif font across the center. To the right of the main text, a smaller "tm" trademark symbol is visible. The background is dark and out of focus, showing some structural elements and a warm light source.

PayPaltm

PayPal (NASDAQ: PYPL)

Esther Chen | Mark Jawornicki | Nikita Gaiind | Leon Tam



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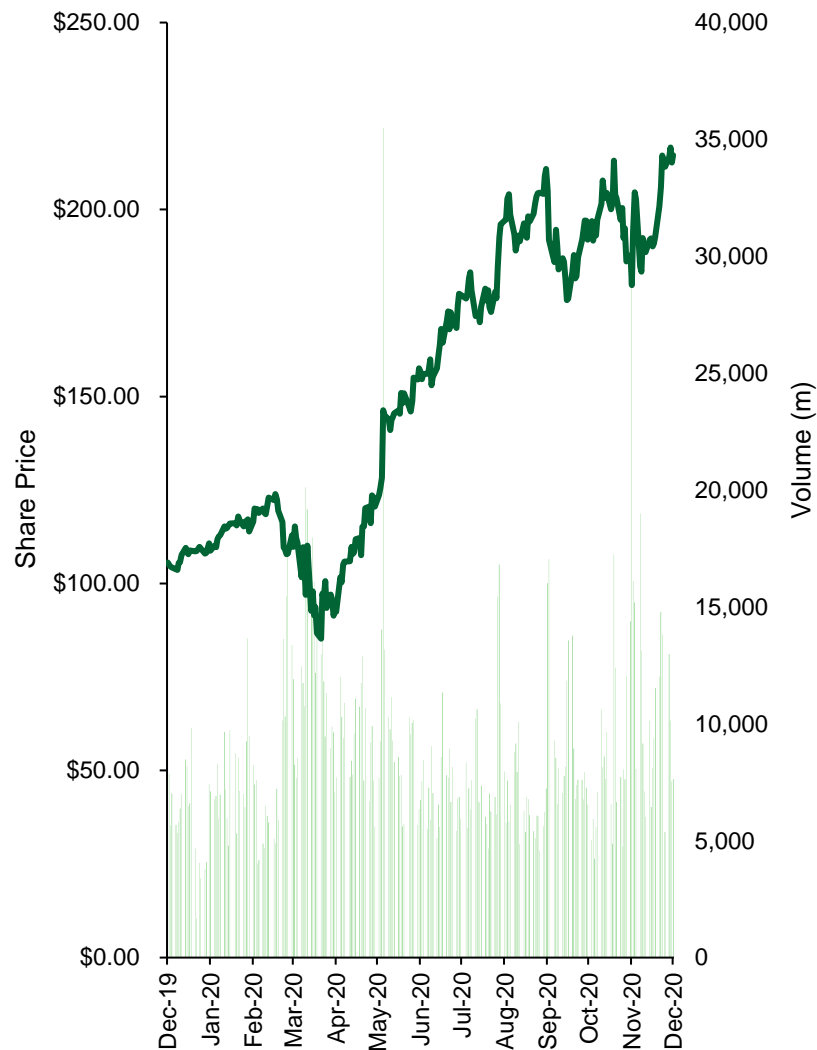


Historic Stock Price (1-year)

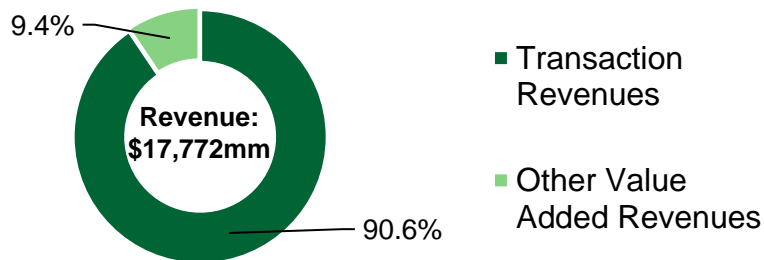
PayPal Holdings, Inc. (PYPL) is an American company operating a worldwide online payments system that supports online money transfers and serves as an electronic alternative to traditional paper methods like checks and money orders.

The company operates as a payment processor for online vendors, auction sites, and many other commercial users, for which it charges a fee in exchange for benefits such as one-click transactions and password memory.

Price-Volume Chart (1-year)



2019 Segmented Revenue



Transaction Revenues: fees charged to merchants and consumers for transactions, currency conversions, cross-boarder transaction, and instantaneous fund transfers

Other Value Added Revenues: revenues from partnerships, subscription fees, and gateway fees

Company Overview



Dan Schulman
President & CEO

Mr. Schulman received his BA at Middlebury College and MBA from New York University. He has been working for PayPal since 2014 as his former experience includes American Express and Sprint Nextel



Peggy Alford
EVP, Global Sales

Ms. Alford has been a part of the PayPal team since 2011. Her prior experience includes President of Rent.com



John Rainey
CFO

Since 2015, Mr. Rainey has served PayPal in multiple positions. His last position includes being the CFO for United Continental Holdings



Louise Pentland
EVP, Chief Business Affairs

Ms. Pentland has been a part of the PayPal team since 2015 as she previously was an EVP at Nokia



Mark Britto
Chief Product Officer

Since 2017, Mr. Britto has been contributing to the PayPal team. His prior experience includes being the Co-Founder and CEO of Boku



Jonathan Auerbach
Chief Strategy

Mr. Auerbach has been working with PayPal from 2015 where he earlier served as the CEO of Group Digital Life in Singapore

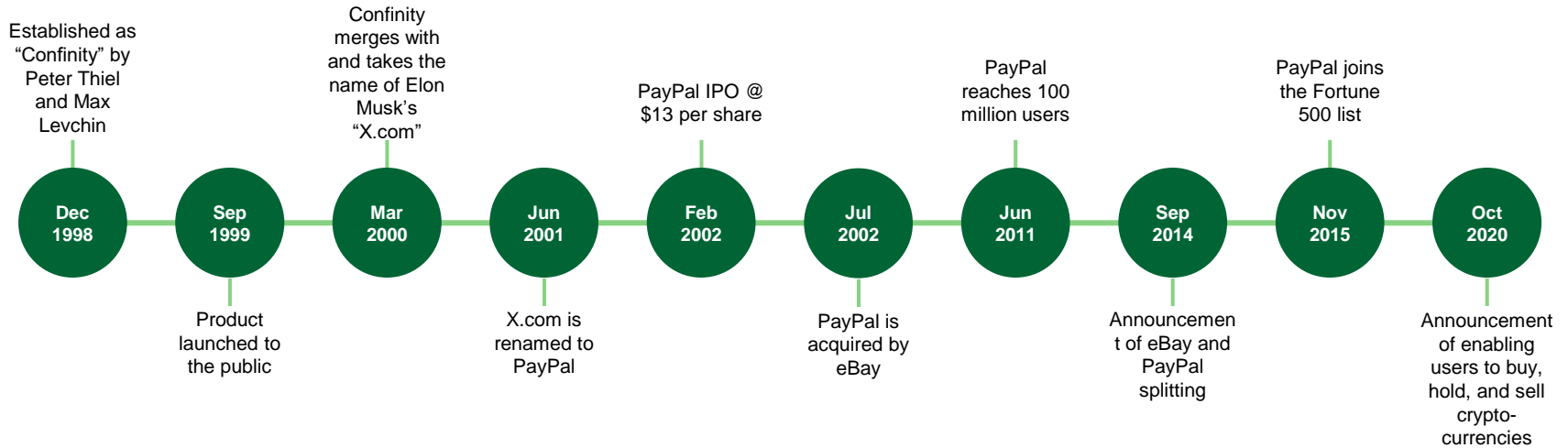


Aaron Karczmer
Chief Risk Officer

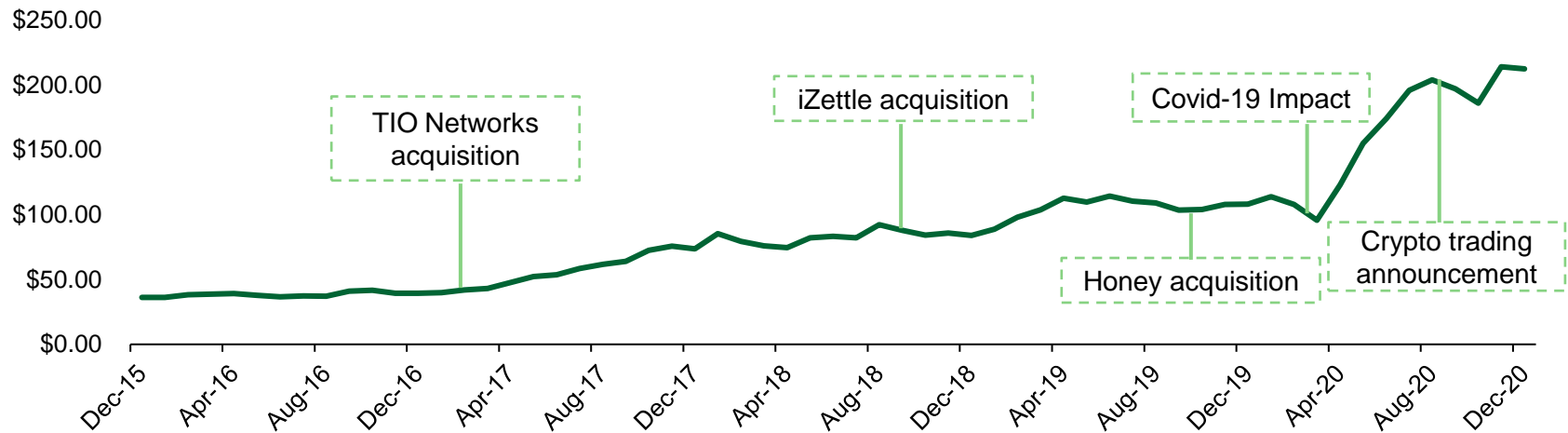
Mr. Karczmer has served PayPal leading back to 2016. His experience includes being SVP for American Express



History of PayPal

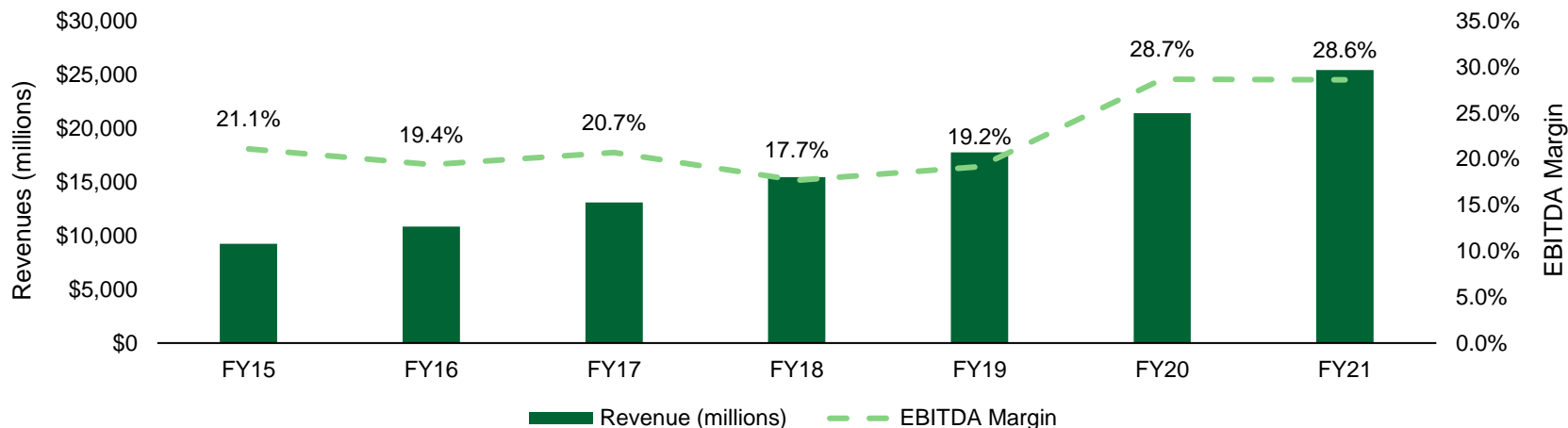


5-year Stock Price

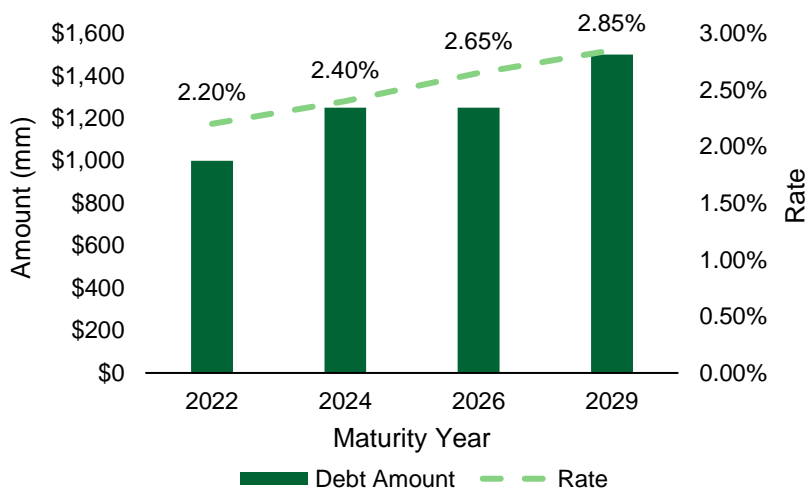




Revenue and Margins



Debt Maturity Schedule



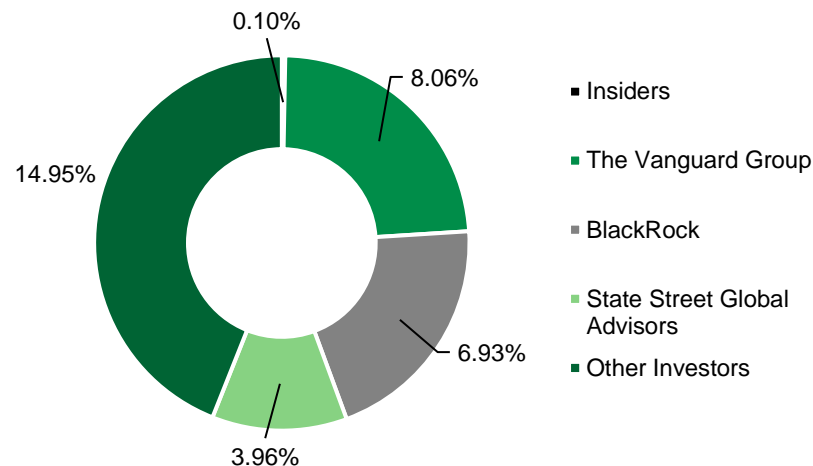
Key Stats (Dec 3, 2020)

Share Price	\$214.54
52-Week Range	\$82.07-\$220.57
Market Cap	\$251.37B
Cash & Short Term Investments	\$14,158
Total Debt (mm)	\$5000
Enterprise Value	\$244.60B
Credit Rating (S&P)	BBB+

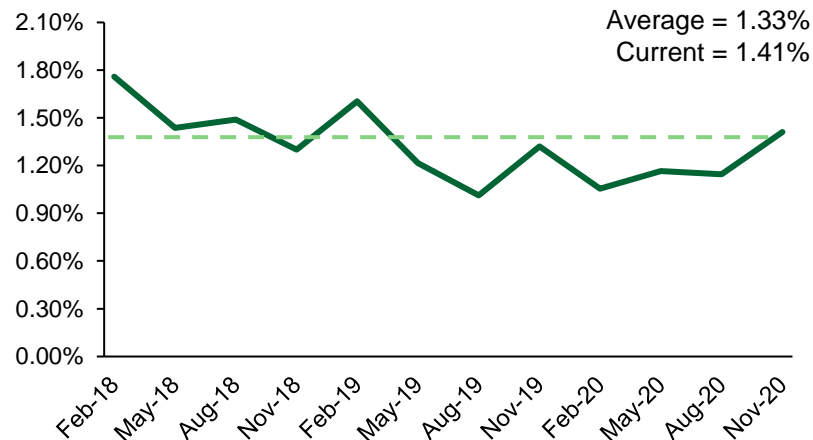


Shareholder Summary

<i>(in millions)</i>	<u># of Shares Held</u>	<u>% of Shares Outstanding</u>
Insiders		
Daniel Schulman	0.49	0.03%
John Rainey	0.11	0.01%
Mark Britto	0.08	0.01%
William Ready	0.08	0.01%
Jonathan Auerbach	0.06	0.01%
Other Insiders	0.36	0.04%
Total Insiders	1.18	0.10%
Institutions		
The Vanguard Group	94.44	8.06%
BlackRock	81.20	6.93%
State Street Global Advisors	46.39	3.96%
Fidelity Investments	46.37	3.96%
T. Rowe Price	43.10	3.68%
Capital Research and Management	33.66	2.87%
Comprehensive Financial Management	32.96	2.81%
Geode Capital Management	17.48	1.49%
J.P. Morgan Asset Management	15.69	1.34%
Edgewood Management	14.63	1.25%
Other Institutions	569.42	48.60%
Total Institutions	995.33	84.95%
Other Investors	175.18	14.95%
Total Basic Shares Outstanding	1,171.69	100%

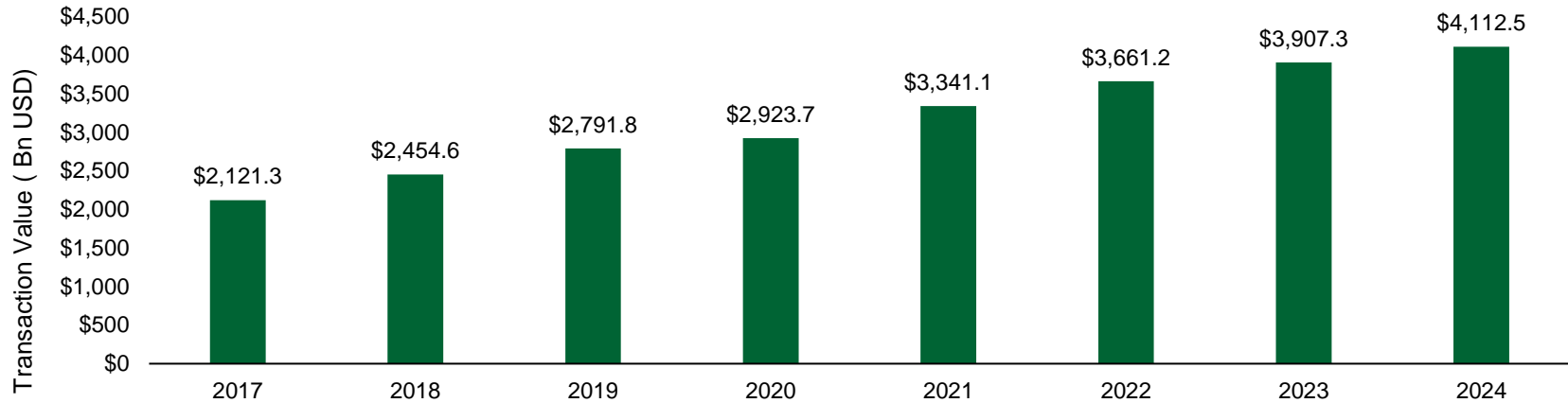


Short Interest

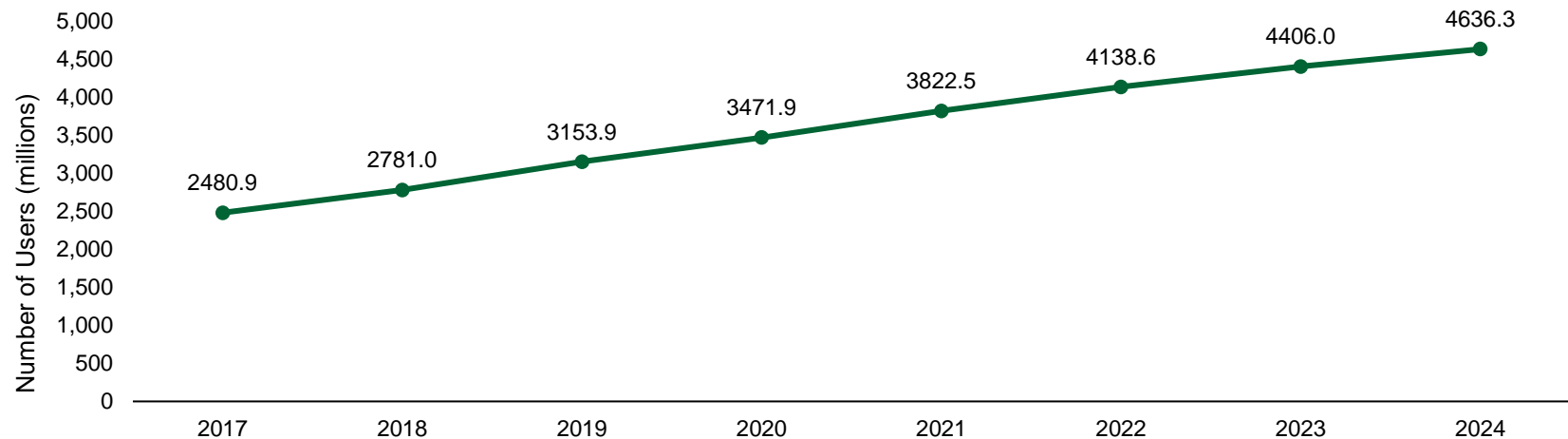




Growth in Digital Transaction Value



Growth in Number of Users



Top Trends in Financial Technology



Artificial Intelligence

- A combination of computer systems that uses big data to help process, store, and drive insights.
- Ex. Nvidia Corp.



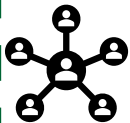
Robotic Process Automation

- The RPA industry's focus is to reduce labour costs and streamline operations by leveraging innovative technology.
- Ex. UiPath



Conversational Interfaces

- Interfaces are used to decrease human interaction and increase productivity.
- Ex. Forrester Chatbot



Blockchain Technology

- Blockchain or Distributed Ledger Technology is an advancement that makes it almost impossible to hack or cheat a system.
- Ex. SALT Lending



Mobile Payment Innovation

- The Mobile Payment sector improves efficiency and customer experience when handling transactions.
- Ex. PayPal

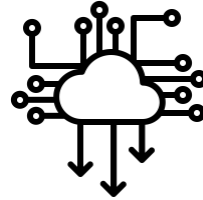
Key Players of FinTech



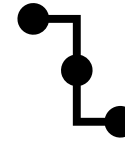
Government
Entities



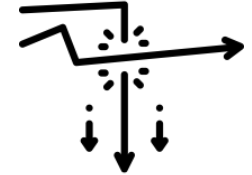
Traditional
Financial Firms



Tech
Companies



Companies that
provide Tech for
Financial Services



Disruptive
Companies

Trends due to Covid-19 in Financial Technology

Increased
demand for
mobile
payments

FinTech service
companies are
doubling down
on their
investments.

More bundling
of capabilities



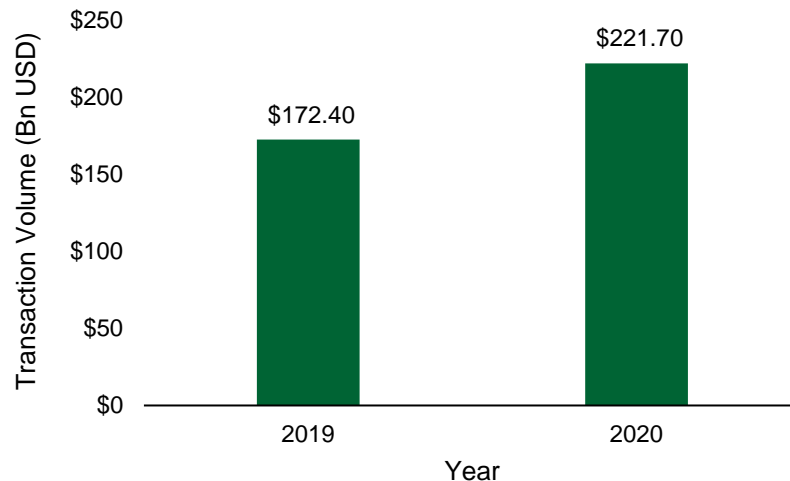
Increased Online Activities

- Online transactions have dramatically increased with industries shifting from physical to digital
- The company had its strongest user growth on record, adding 21.3 million new net active accounts in the quarter
- It is forecasted that US retail sales will reach \$6.1 T by E-Commerce in 2024, vs \$1.1 by In-store

The Launch of Cryptocurrency Service

- Users can now buy, hold, and sell cryptocurrencies with PayPal
- PayPal plans to allow customers to purchase with cryptocurrency as well in the year of 2021
- PayPal increased its weekly cryptocurrency purchase limit from \$10,000 per week to \$20,000 per week, due to the initial demand from the customers

User Transactions between April and June



Accretive Acquisitions

- Management has done remarkably well in capitalizing on industry trends that establishes a sustainable competitive advantage
- The acquisition of iZettle gives PayPal a solid platform to expand into point-of-sale transactions
- With 17 million monthly active users and 30,000 online retailers from Honey, PayPal can pair Honey's services to bolster the company's online offerings



Alternative Solutions Offered By Retailers

- Retailers are starting to develop their own online payment platform such as Amazon Pay and Walmart Pay
- It could be a major threat as retailers could offer incentives for customers that switched to their QR-code payment solutions



Central Banks

- There is significant risk that central banks launch their own payment solutions and act as direct competition to PayPal
- It is already occurring in India and China where in India, the reserve bank of India operating a payment system called the United Payments Interface



Increased Competition In The Online Payment Industry

- There are more online payment companies evolving and it can significantly reduce PayPal profitability as well as their market share
- More companies are interested in replicating the PayPal model as e-commerce continues to evolve and there is a huge profit potential in the online payment industry
- On the consumer side, services such as Apple Pay or Google Wallet represent a new type of competition for PayPal.
- Customers might prefer Apple Pay or Google wallet as an easier payment method over PayPal

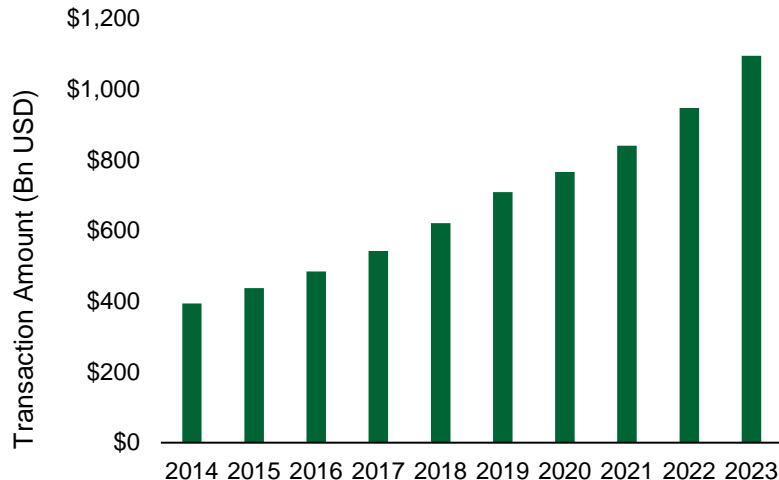




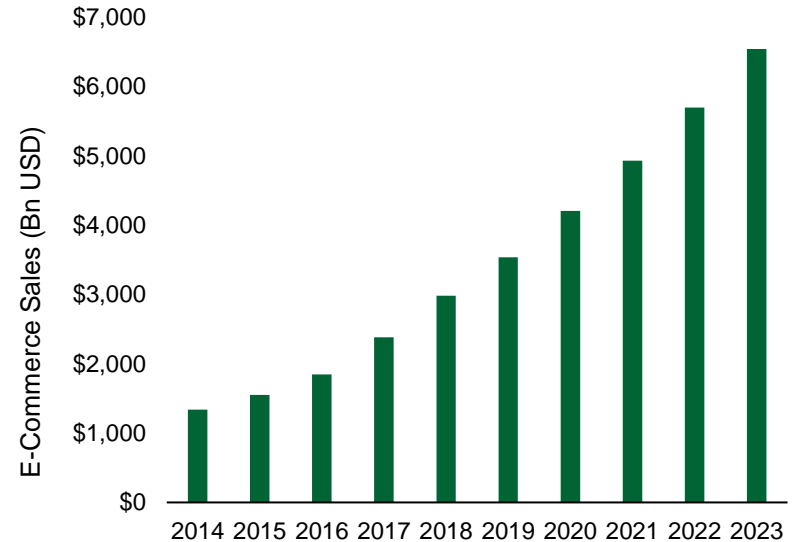
Growth in Global E-Commerce Sales

- Online sales will continue to rise as consumer preferences shift and businesses adapt to online platforms
- Covid-19 has forced businesses to expand their online presence and lockdown restrictions forced consumers to do much of their shopping online
- Due to Covid-19, PayPal’s Q3 2020 revenue rose 25% YoY to \$5.46 billion, a record high

Worldwide Cashless Transactions



Worldwide E-Commerce Sales



- PayPal has a two-sided network that connects merchants and consumers with 305 million accounts
- Being a leader in the online payments industry and having this large network gives PayPal a moat
- The growth in E-Commerce acts as a tailwind to revenue growth for PayPal

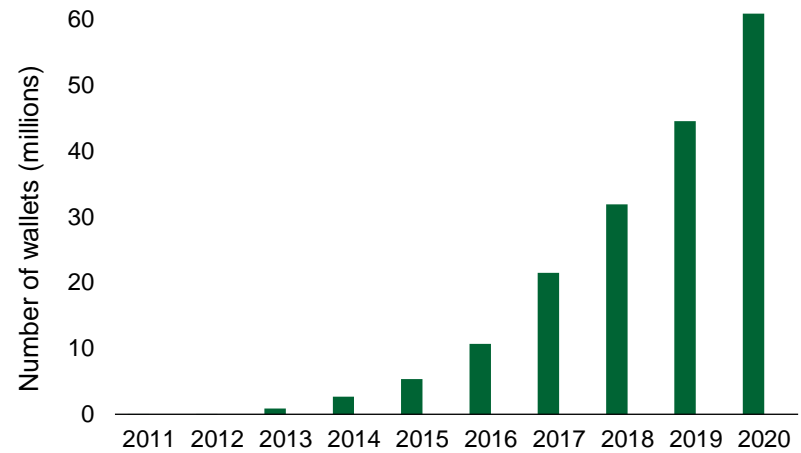


New Potential Market for PayPal

- There are currently 60 million blockchain wallets users in the market and it is predicted that the number will increase to 400 million by 2030.
- Cryptocurrency is now seen as an alternative investment to gold in respect to the massive money printing policies from the Central Banks
- There is a lot of potential for combining the utility of cryptocurrency with the expansive network of consumers and merchants of PayPal



Number of Blockchain Wallets Worldwide



Possibility of Developing its Own Crypto

- Cryptocurrencies can speed up transactions, particularly cross-border transactions, while reducing their cost
- A PayPal cryptocurrency can also reduce its dependence on traditional banking and payments partners
- This could enable PayPal to lower its fees and increase its profit margins



DCF Base Case Output

Gordon Growth Method	
PV of Forecast Period	11,362
% of Enterprise Value	32.3%
Terminal Value	
Terminal Year UFCF	4,803
Perpetuity Growth Rate	2.0%
Terminal Value	46,433
PV of Terminal Value	23,773
% of Enterprise Value	67.7%
Enterprise Value	35,135
Less: Net Debt	(4,494)
Equity Value	30,641
Fully Diluted Shares Outstanding (B)	118
Implied Share Price	\$258.79
Current Share Price	\$214.54
Implied Margin of Safety	20.6%

Terminal Multiple Method	
Cumulative PV of Free Cash Flow	11,362
% of Enterprise Value	27.7%
Terminal Value	
Terminal Year EBITDA	7,226
EBITDA Multiple	7.5x
Terminal Value	54,198
PV of Terminal Value	27,749
% of Enterprise Value	70.9%
Enterprise Value	39,111
Less: Net Debt	(4,494)
Equity Value	34,617
Fully Diluted Shares Outstanding (B)	118
Implied Share Price	\$292.37
Current Share Price	\$214.54
Implied Margin of Safety	36.3%

Base Case Sensitivity Analysis

Terminal Growth Share Price Sensitivity (\$)

Terminal Growth	WACC				
	11.6%	12.1%	12.6%	13.1%	13.6%
1.0%	256.82	247.83	239.61	232.08	225.14
1.5%	267.75	257.81	248.77	240.51	232.94
2.0%	279.82	268.78	258.79	249.71	241.41
2.5%	293.22	280.90	269.81	259.78	250.65
3.0%	308.18	294.36	281.99	270.85	260.76

Exit Multiple Share Price Sensitivity (\$)

Exit Multiple	WACC				
	11.6%	12.1%	12.6%	13.1%	13.6%
6.5x	261.12	261.12	261.12	261.12	261.12
7.0x	276.75	276.75	276.75	276.75	276.75
7.5x	292.37	292.37	292.37	292.37	292.37
8.0x	308.00	308.00	308.00	308.00	308.00
8.5x	323.62	323.62	323.62	323.62	323.62



Comparable Companies Universe

Company	Equity Value (\$mm)	TEV (\$mm)	LTM EV/Revenue	NTM EV/Revenue	LTM EV/EBITDA	NTM EV/EBITDA	NTM P/CFPS
Visa	443,883	453,568	20.8x	19.6x	30.2x	28.6x	35.1x
Mastercard	334,110	336,144	21.6x	19.6x	37.2x	33.5x	42.3x
Fiserv	77,804	99,123	6.6x	6.3x	18.4x	16.1x	15.6x
Square	92,681	92,468	12.1x	7.3x	-	156.1x	111.3x
Alphabet	1,233,967	1,128,466	6.6x	5.5x	22.2x	15.7x	17.5x
Median			12.1x	7.3x	26.2x	28.6x	35.1x
Mean			13.5x	11.7x	27.0x	50.0x	44.4x
PayPal	251,375	246,925	12.2x	10.1x	53.3x	35.7x	37.0x

Analysis

- PayPal is trading 29% below the average of its peers forward EBITDA
- PayPal allowing users to buy, hold, and sell cryptocurrency will result in an increase digital wallet monetization and could result in multiple expansion
- Comparable companies were picked on managements guidance for competitors
- The average of the mean and median NTM EV/EBITDA was used for the valuation of PayPal

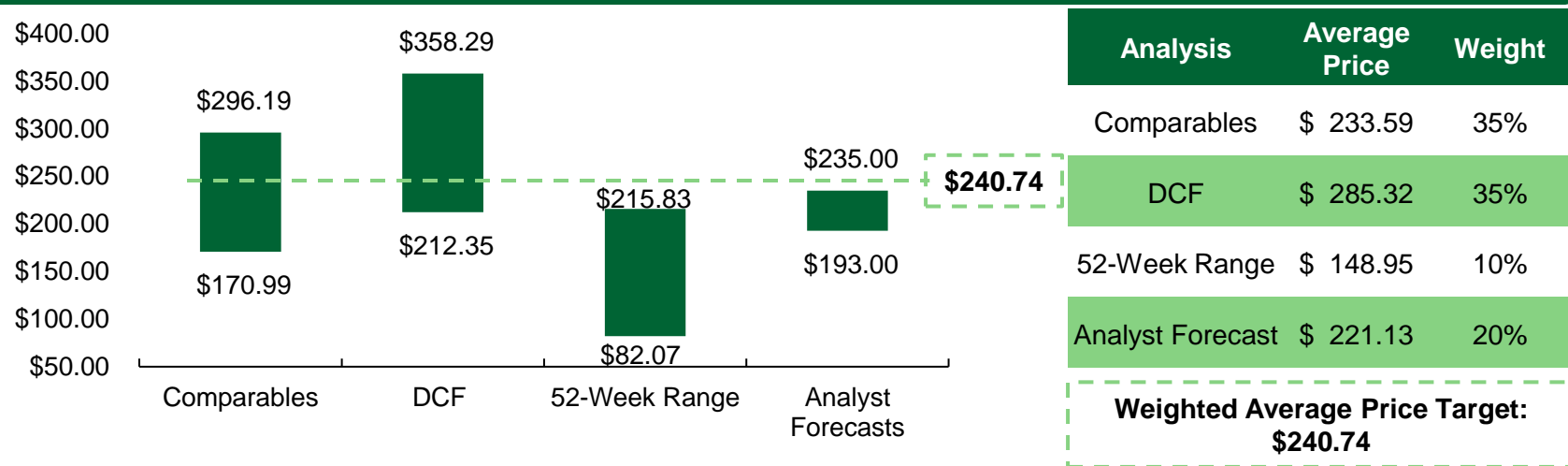
Valuation Summary

NTM EV/EBITDA	39.3x
PayPal NTM EBITDA	\$6,926
Total Enterprise Value	\$272,117
- Net Debt	-\$4,494
- Preferred Stock	\$0
- Non Controlling Interest	\$44
Equity Value	\$276,567
Shares Outstanding (mm)	1,184
Implied Share Price	\$233.59

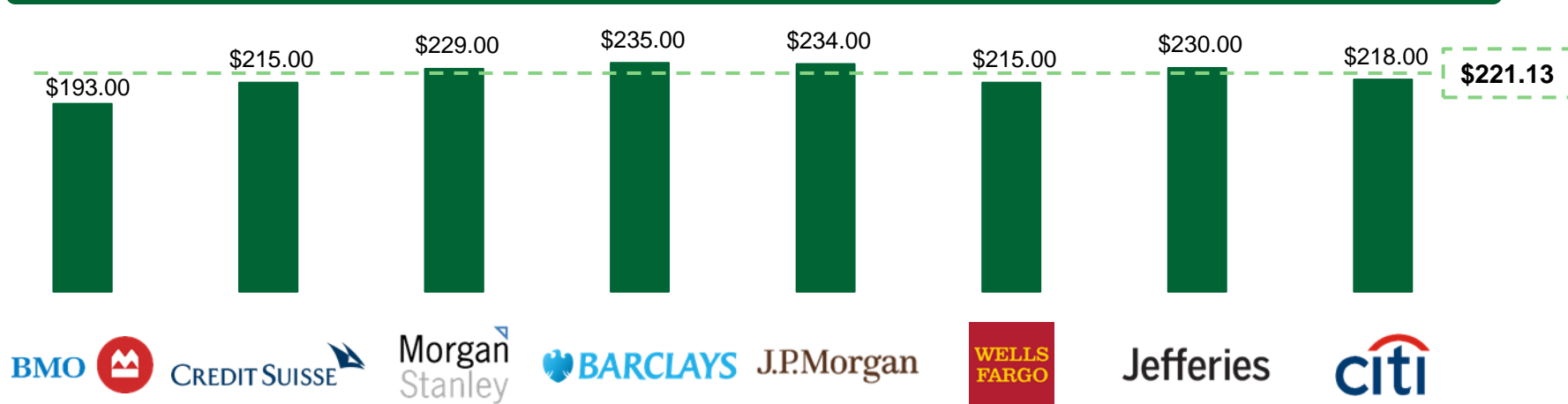
Recommendation – Buy with a Price Target of \$240.74



Football Field



Select Broker Price Targets



P

PayPal

Appendices



Mark Jawornicki

Position: Portfolio Manager

Program: Honours Commerce

Year: 3rd

Experience: Red Oak Succession Capital, Private Equity Analyst



Esther Chen

Position: Portfolio Manager

Program: Honours Commerce

Year: 4th

Experience: Eldon Group, Management Consulting



Nikita Gaind

Position: Associate

Program: Honours Commerce

Year: 3rd

Experience: Scotiabank, Senior Accounting Clerk



Leon Tam

Position: Associate

Program: Honours Commerce

Year: 4th

Experience: HSBC, Corporate Banking Analyst



Capital Structure	Total Value (mm)	Weight
Equity	\$204,371.8	95.48%
Debt	\$9,674.0	4.52%
Preferred Equity	-	0.00%
Total	\$214,045.8	100.00%

Cost of Equity Analysis	
10-Year U.S. Treasury	0.92%
Market Risk Premium	10.1%
Beta	1.14
Cost of Equity	12.4%

Cost of Debt Analysis	
YTM	Mkt Value of Debt (\$mm)
2.40%	1250
2.65%	1250
2.85%	1500
2.20%	1000
Weighted Average Cost of Debt:	2.6%

WACC Analysis	
10-Year U.S. Treasury	0.92%
Market Risk Premium	10.1%
Beta	1.22
Cost of Equity	12.4%
Weighted Average Price	-
Weighted Average Div./Share	-
Total Shares Outstanding	-
Cost of Preferred Equity	-
Cost of Debt	2.6%
Tax Rate	15.0%
After-Tax Cost of Debt	2.2%
WACC	11.8%

Appendix- DCF Assumptions



Bull Case Assumptions						
	2020E	2021E	2022E	2023E	2024E	2025E
Revenue Growth	17.0%	17.0%	12.0%	12.0%	12.0%	12.0%
EBITDA Margin	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Tax Rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
AR, % of Revenue	174.2%	174.2%	174.2%	174.2%	174.2%	174.2%
Inventories, % of Revenue	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
AP, % of Revenue	156.5%	156.5%	156.5%	156.5%	156.5%	156.5%
Additions to PP&E, % of sales	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
PP&E Depreciation, % of gross	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Other D&A, % of Gross	49.0%	49.0%	49.0%	49.0%	49.0%	49.0%

Base Case Assumptions						
	2020E	2021E	2022E	2023E	2024E	2025E
Revenue Growth	15.0%	15.0%	10.0%	10.0%	10.0%	10.0%
EBITDA Margin	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Tax Rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
AR, % of Revenue	174.0%	174.0%	174.0%	174.0%	174.0%	174.0%
Inventories, % of Revenue	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
AP, % of Revenue	155.0%	155.0%	155.0%	155.0%	155.0%	155.0%
Additions to PP&E, % of sales	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
PP&E Depreciation, % of gross	-	-	-	-	-	-
Other D&A, % of Gross	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%

Bear Case Assumptions						
	2020E	2021E	2022E	2023E	2024E	2025E
Revenue Growth	13.0%	13.0%	8.0%	8.0%	8.0%	8.0%
EBITDA Margin	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Tax Rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
AR, % of Revenue	173.8%	173.8%	173.8%	173.8%	173.8%	173.8%
Inventories, % of Revenue	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)
AP, % of Revenue	153.5%	153.5%	153.5%	153.5%	153.5%	153.5%
Additions to PP&E, % of sales	-	-	-	-	-	-
PP&E Depreciation, % of gross	(5.0%)	(5.0%)	(5.0%)	(5.0%)	(5.0%)	(5.0%)
Other D&A, % of Gross	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%



Gordon Growth Method- Bull Case

PV of Forecast Period	13,107
<i>% of Enterprise Value</i>	31.7%
<u>Terminal Value</u>	
Terminal Year UFCF	5,693
Perpetuity Growth Rate	2.0%
Terminal Value	55,034
PV of Terminal Value	28,177
<i>% of Enterprise Value</i>	68.3%
Enterprise Value	41,283
Less: Net Debt	(4,494)
Equity Value	36,789
Fully Diluted Shares Outstanding	118
Implied Share Price	\$310.72
Current Share Price	\$214.54
Implied Margin of Safety	44.8%

Gordon Growth Method- Bear Case

PV of Forecast Period	9,754
<i>% of Enterprise Value</i>	32.9%
<u>Terminal Value</u>	
Terminal Year UFCF	4,017
Perpetuity Growth Rate	2.0%
Terminal Value	38,833
PV of Terminal Value	19,882
<i>% of Enterprise Value</i>	67.1%
Enterprise Value	29,636
Less: Net Debt	(4,494)
Equity Value	25,142
Fully Diluted Shares Outstanding	118
Implied Share Price	\$212.35
Current Share Price	\$214.54
Implied Margin of Safety	(1.0%)

Terminal Multiple Method- Bull Case

Cumulative PV of Free Cash Flow	13,107
<i>% of Enterprise Value</i>	27.9%
<u>Terminal Value</u>	
Terminal Year EBITDA	8,805
EBITDA Multiple	7.5x
Terminal Value	66,034
PV of Terminal Value	33,809
<i>% of Enterprise Value</i>	72.1%
Enterprise Value	46,916
Less: Net Debt	(4,494)
Equity Value	42,422
Fully Diluted Shares Outstanding	118
Implied Share Price	\$358.29
Current Share Price	\$214.54
Implied Margin of Safety	67.0%

Terminal Multiple Method- Bear Case

Cumulative PV of Free Cash Flow	9,754
<i>% of Enterprise Value</i>	30.2%
<u>Terminal Value</u>	
Terminal Year EBITDA	5,866
EBITDA Multiple	7.5x
Terminal Value	43,995
PV of Terminal Value	22,525
<i>% of Enterprise Value</i>	69.8%
Enterprise Value	32,279
Less: Net Debt	(4,494)
Equity Value	27,785
Fully Diluted Shares Outstanding	118
Implied Share Price	\$234.67
Current Share Price	\$214.54
Implied Margin of Safety	9.4%



Revenue- Base Case

Historical						Forecast					
Year	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
Revenue	9,066	10,723	13,077	15,444	17,772	20,438	23,503	25,854	28,439	31,283	34,411
Growth %		18.3%	22%	18.1%	15.1%	15%	15%	10%	10%	10%	10%

Fundamentals

	2015	2016	2017	2018	2019
Return on Equity	11.2%	9.8%	11.7%	13.1%	15.2%
EBITDA Margin	21.1%	19.4%	20.7%	17.7%	19.2%
Debt/Equity	-	-	6.3%	13.0%	29.4%
Interest Coverage	-	-	442.3x	35.5x	30.7x