

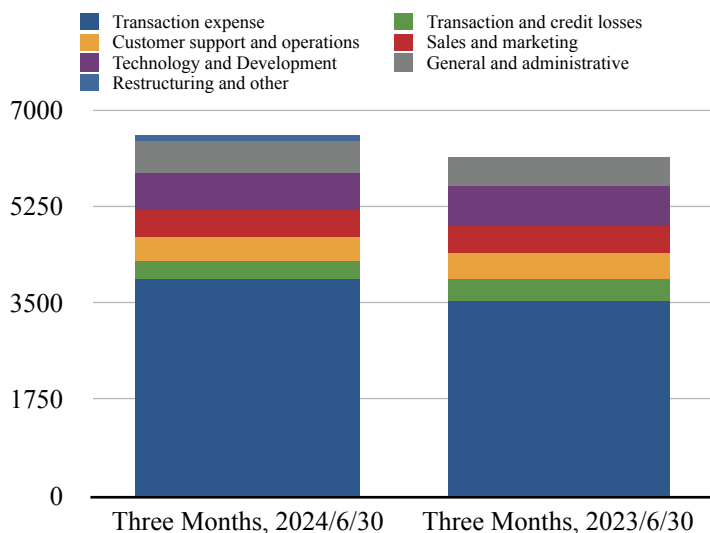
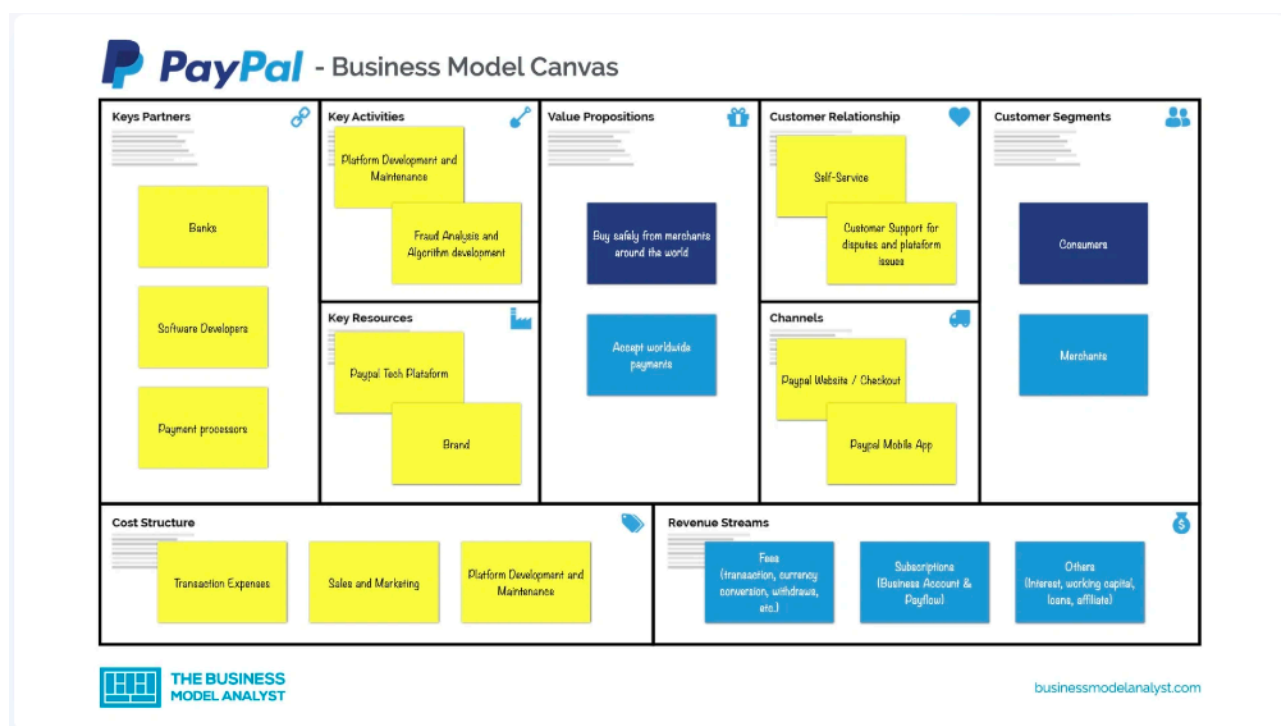
PayPal Holdings (PYPL) Stock Research Report

Written by Xiyuan Wei, Sep 23 2024

Company & Product Summary:

Stock Category: Fintech Stock, Online Payment.

For each industry there is a different way of evaluating the company's performance and future prospect, and it is impossible to find an agreed method to analyze companies of all industries. Thus, I did a bit of diving into the PayPal's business model, developed by businessmodelanalyst.com. I would refer back to this canvas below in the following analysis.



Transaction Expense	11.3%
Transaction and credit losses	-15.8%
Customer support and operations	-11.4%
Sales and Marketing	-4.09%
Technology Development	-3.36%
General and administrative	16.09%
Restructuring and other	370.83%

From Figure 1 (see Appendix), we could see that the customer segments are Consumers and the Businesses. The three major costs of PYPL are Transaction Expenses, Sales and Marketing, and Platform Development and Maintenance. Also, the revenue streams are fees (transaction, withdrawal, currency conversion, etc.), subscription of business accounts (business account, pay flow), others (working capital, interest, loans). Therefore, we could possibly dive into each of the revenue streams and each of the cost streams, to understand future potential of the company.

Q2 2024 Earnings Report

After a general read through of the most recent earnings release (Q2 2024), the report is seen as overall positive.

- The net revenues increased **8%** to 7.9 billion
- The transaction margin dollars¹ increased **8%** to 3.6 billion dollars
- The GAAP operating income and GAAP operating margin both **increased to 17%**.
- The GAAP EPS increased **17%** to \$1.08.

At the same time, several questions emerged in my mind. While trying to go through more information, the following questions would also be kept in mind (the relative ratio is for three months ended June 30th of 2023 and three months ended June 30th of 2024):

1. Why did the transaction expense increase by over 10%?
2. Why did the general and administrative expenses increase by 15%?
3. Why did the restructuring and other expense increase by over 300%?
4. Where were the long term investments spent at as we have seen a 42% increase?

Analysis of the Company's key metrics:

Account and activity metrics¹ detail

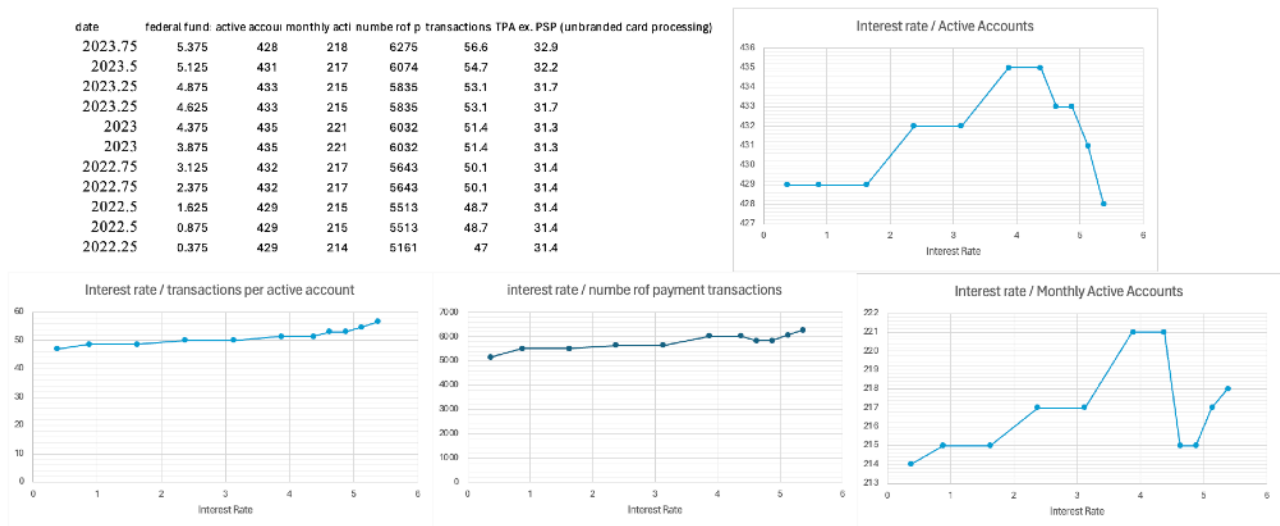
(in millions, except % and TPA)	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	3Q'23	4Q'23	1Q'24	2Q'24
Active accounts	416	426	429	429	432	435	433	431	428	426	427	429
Y/Y growth	15%	13%	9%	6%	4%	2%	1%	—%	(1%)	(2%)	(1%)	—%
Monthly active accounts (MAA)	213	219	214	215	217	221	215	217	218	224	220	222
Y/Y growth	11%	8%	4%	2%	2%	1%	1%	1%	1%	1%	2%	3%
Number of payment transactions	4,900	5,343	5,161	5,513	5,643	6,032	5,835	6,074	6,275	6,798	6,505	6,580
Y/Y growth	22%	21%	18%	16%	15%	13%	13%	10%	11%	13%	11%	8%
Transactions per active account (TPA)	44.2	45.4	47.0	48.7	50.1	51.4	53.1	54.7	56.6	58.7	60.0	60.9
Y/Y growth	10%	11%	11%	12%	13%	13%	13%	12%	13%	14%	13%	11%
TPA ex. PSP (unbranded card processing)	32.1	31.7	31.4	31.4	31.4	31.3	31.7	32.2	32.9	33.5	33.9	34.2
Y/Y growth	1%	(2%)	(5%)	(4%)	(2%)	(1%)	1%	2%	5%	7%	7%	6%

From this table above, we could derive a bunch of information. For example, the number of active accounts, ranging from Q3'21 to Q2'24, are in the range of \$416M to \$435M dollars, and for Q2'24 the value is on the upper end, 429M. A factual piece of information is that the

¹ how much profit PayPal makes from each transaction (Transaction Margin Dollar = transaction revenue - transaction cost)

Fed starts increasing interest rate in 2022 March (Q1'22). The interest rate has steadily increased

To analyze the company's revenue growth rate,



From these constructed charts, we could see that the interest rate hike from 4.375% to 4.625% has led to a substantial decrease in monthly active account and active accounts in general. However, we could see after the sharp drop, monthly active accounts have rebounded from 215 million to 218 million, while overall active accounts have been steadily declining. It could be combined with the understanding of “Interest rate / transactions per active account” graph, we would understand that the transactions per active account has increased, and also number of payment transactions have increased.

Consider the next paragraph critically:

The loyal customers could be divided into two groups, one is highly loyal (monthly active accounts), the other one is mid-loyal (yearly active accounts). We could see that the highly loyal customers have steadily rebounded by number, and steadily increased by number of transactions. However, the overall economic environment has a strong impact on potential customers' motivations of using PayPal. However, it remained unclear to us why the loose-customer count is dropping as well. We would keep this question in mind while reading through the company's earnings presentation.

Earnings Presentation analysis:

Highlights of the earnings presentation:

- Bringing Fast-lane payment option to market: general availability in August for all US merchants on Braintree, PPCP, and key partners
- Early Fast-lane results: achieving ~80% of conversion for returning users vs. industry average guest checkout conversion of ~50%.
- The total payment volume increased 11%, 11% FXN² to 416,814 millions.
- Driving consumer momentum with monthly active account growth.
- Reinvesting cost savings into growth initiatives such as checkout, omni channel, and ads platform.

Concerns addressed by the earnings presentation:

- PSP (unbranded card processing) has increased 19% (compared to 28, 26 in prior terms), which is less than before, and it is especially concerning when it constitutes 37% of total TPV³.
- The yearly active users are still in a decreasing trend, especially needs to pay attention to this data in the next earnings report.
- Especially important in following up with the DoorDash partnership, Venmo monetization, in-person payments.

Paypal Equity Analyst Report

Morningstar Equity Analyst Report:

Bulls say:

- There is still plenty of runway for growth in electronic payments. Electronic payments only surpassed cash payments on a global basis a couple of years ago.
- The scalable nature of the business show allow PayPal to improve its margins over time/
- PayPal's long-running experience in online payments is a unique asset that is becoming more valuable as e-commerce becomes a bigger piece of the pie.

Bears say:

- The separate between online and point-of-sale transactions is blurring, and PayPal may increasingly come into competition with larger companies in the future.

² foreign exchange neutral: growth rate shown has been adjusted to remove the effects of currency exchange rate fluctuations

³ total payment volume

- Alipay and WeChat provides examples of how governments could favor local players, and this could shut PayPal out of a number of emerging market opportunities.
- Opportunities to monetize Venmo could be limited.

CFRA Equity Analyst Report:

Overall, a HOLD recommendation, with 12-month target price being USD 67.00. Risk assessment being medium, and they think PYPL continues to make strides juggling uneven growth across branded/unbranded processing volumes.

Downside risks are macroeconomic deterioration, greater-than-expected market share losses, slower e-commerce adoption trends, and failure to monetize Venmo to a greater extent.

Paypal's value proposition for merchants includes a quick onboarding process with no setup or recurring fees for standard service, allowing merchants to quickly and easily accept payments online or in-store through multiple sources. Merchants get an end-to-end payment solution that provides authorization and settlement with the potential for instant access to funds.

The fair value rank is 3, which means it is properly valued. The fair value calculation is 76.89USD. Volatility is average, technical evaluation is neutral.

Their fundamental view of the Transaction and Payment Processing Services sub-industry is positive. Businesses and consumers continue to demand more - faster service, greater convenience, more choices, and enhanced security. Most companies have a tilt toward tech-heavy operating models, ranging from higher-growth SaaS makeups to more transaction-based facilitators across key venues that include disbursements, remittances, commercial point-of-sale [POS] payments, accounts payable, and consumer bill pay.

Sub-Industry: Transaction and Payment Processing Services Peer Group*: Transaction and Payment Processing Services													
Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield on Equity (%)	Return on Equity (%)	LTD to Cap (%)	
PayPal Holdings, Inc.	PYPL	NasdaqGS	USD	77.57	79,302.0	7.9	27.5	15.0	76.89	N/A	22.0	29.0	
Affirm Holdings, Inc.	AFRM	NasdaqGS	USD	44.98	13,994.0	53.6	94.7	NM	24.42	N/A	-19.7	70.3	
Block, Inc.	SQ	NYSE	USD	68.64	42,258.0	5.8	44.3	25.0	65.92	N/A	3.5	20.9	
Corpay, Inc.	CPAY	NYSE	USD	312.78	21,717.0	8.2	13.7	18.0	327.49	N/A	33.4	47.9	
Fidelity National Information Services, Inc.	FIS	NYSE	USD	84.41	46,051.0	7.5	45.2	17.0	64.96	1.7	3.1	37.4	
Fiserv, Inc.	FI	NYSE	USD	178.78	102,928.0	6.4	49.4	22.0	N/A	N/A	11.8	43.6	
Global Payments Inc.	GPN	NYSE	USD	112.97	28,744.0	4.0	-7.9	10.0	155.83	0.9	6.3	37.7	
Jack Henry & Associates, Inc.	JKHY	NasdaqGS	USD	175.60	12,803.0	6.1	14.9	33.0	147.32	1.3	22.1	2.9	
Shift4 Payments, Inc.	FOUR	NYSE	USD	85.89	5,743.0	8.5	50.6	52.0	67.41	N/A	20.7	63.9	
Toast, Inc.	TOST	NYSE	USD	26.96	15,152.0	12.2	41.0	NM	N/A	N/A	-11.5	N/A	
WEX Inc.	WEX	NYSE	USD	206.01	8,464.0	14.5	2.3	36.0	199.95	N/A	13.9	49.4	

Appendix:

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Sept 18, 2024	-50	4.75% to 5.00%
July 26, 2023	+25	5.25% to 5.50%
May 3, 2023	+25	5.00% to 5.25%
March 22, 2023	+25	4.75% to 5.00%
Feb 1, 2023	+25	4.50% to 4.75%
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.50%
June 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Figure 1: The Fed’s Fund Rate Hikes between 2022 and 2024 (<https://www.forbes.com/advisor/investing/fed-funds-rate-history/>)

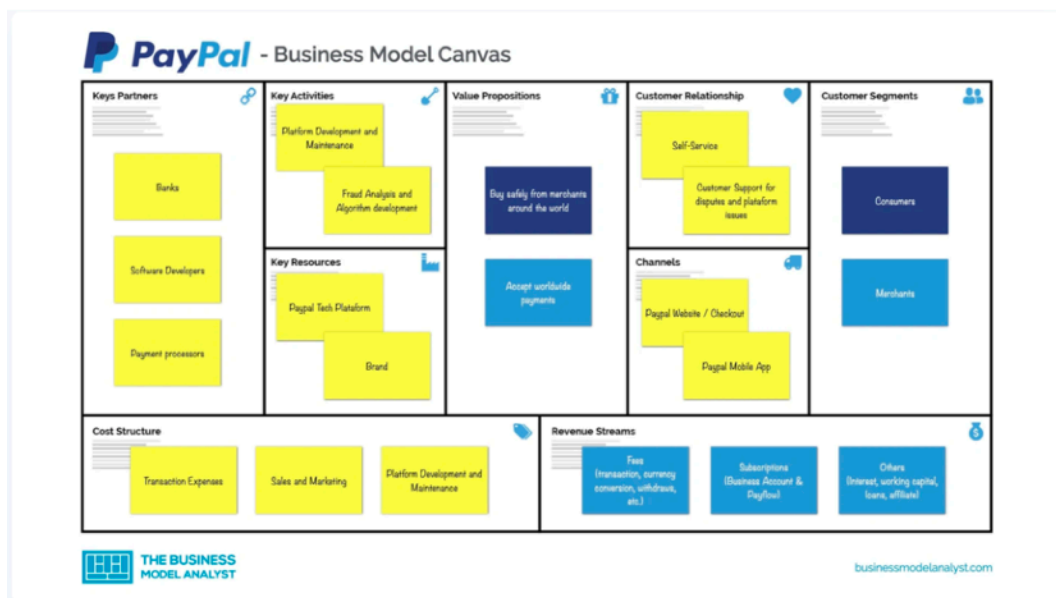


Figure 2: Business Model Canvas of PayPal (businessmodelanalyst.com)