



Current Price:

\$249.48

As at 03/15/2021

12-month target:

\$329.83

Upside:

32.2%

BUY

Over-weight



Advantage in fast growing BNPL space



Ability to capitalise on in-store transaction market



Diversified strong portfolio leads to organic and artificial growth

Valuation



Bull Case

\$ **467.58**

86.2% Upside



Strong Buy

Base Case

\$ **329.83**

32.2% upside



Strong Buy

Bear Case

\$ **235.10**

5.6% Downside



Hold

Source: Team Estimates

Overview

BNPL

In Store TAM

Strong Portfolio

Valuation

Summary



Business Overview

Business Overview



\$292B

Market
Capitalization



377m

Customer's
World Wide



24m

Merchants worldwide



200

Countries

Source: Annual report, Bloomberg

Overview

BNPL

In Store TAM

Strong Portfolio

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Business Overview



Merchants integrate once with PayPal to manage their business



Checkout



Payments Processing



Payouts



Point of Sale



Risk Services



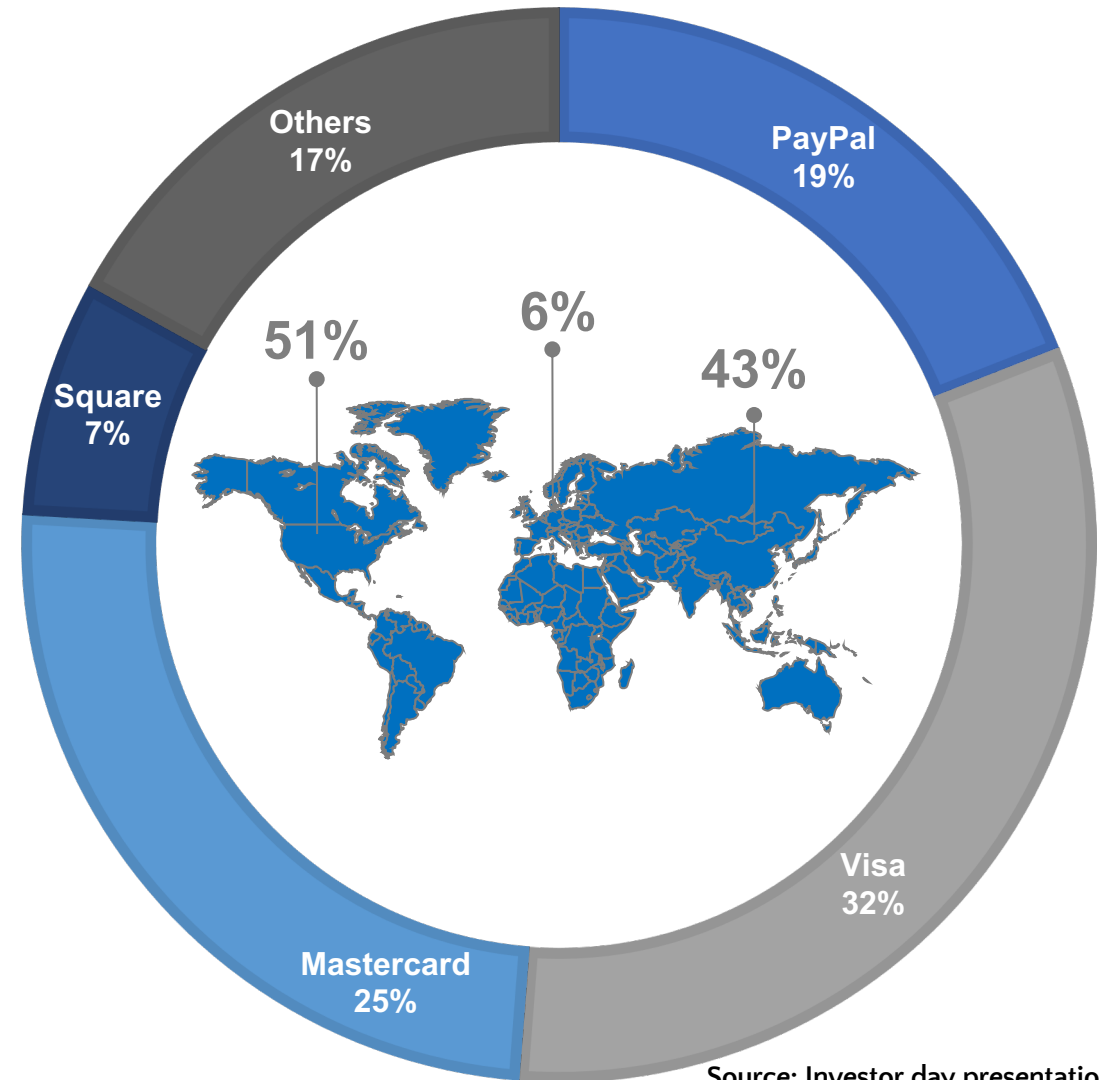
Marketing Tools



Business Services



Connect to **377 million** active users



Source: Investor day presentation

Overview

BNPL

In Store TAM

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Industry Overview



Industry Growth Drivers

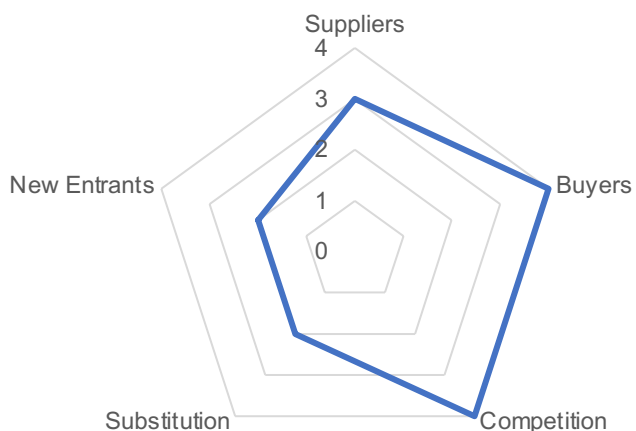
- Shift to digital payments
- Introduction of 5g boosting online payments
- COVID-19 as a catalyst transitioning away from a cash based economy
- Increase in e-commerce

50%

of users transitioned from brick and mortar to online shopping

33%

of users were likely to increase their online shopping spend



Scale serves as a significant barrier to entry

Scale reduces buying power of suppliers

Massive consumer base reduces threat of substitution

Significant competition in different areas of portfolio, however, no one strong competitor

Source: Team Estimates, Mckinsey report

Overview

BNPL

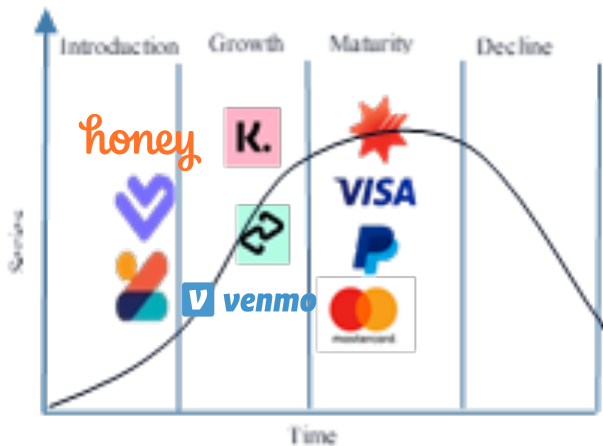
In Store TAM

Strong Portfolio

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Industry Overview

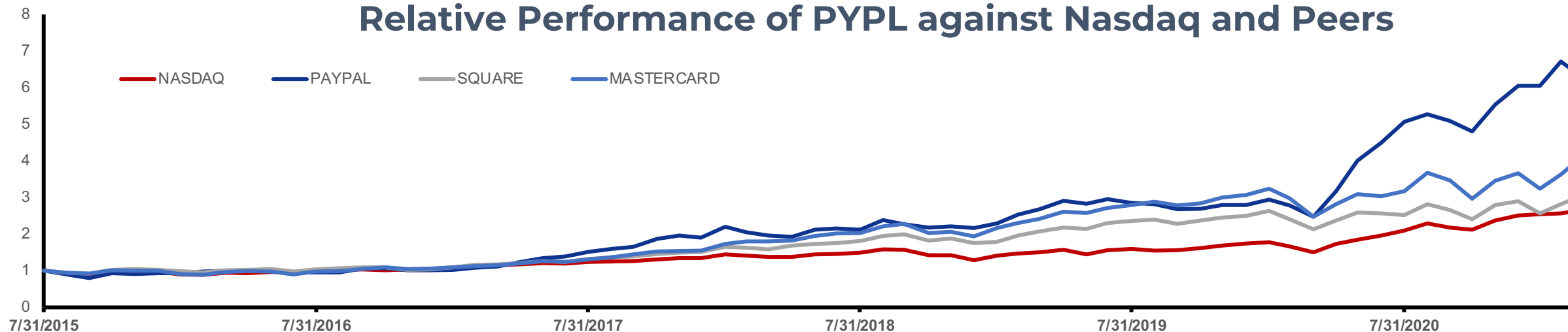


M&A is helping PayPal extend its product lifestyle against its competition

	Revenue	Market Cap	P/E	Current Price
	18,262,000	291.99B	70.43	\$249.48
	15,301,000	379.842B	60.03	\$382.38
	23,885,000	495.43B	46.39	\$224.70

Source: Team Estimates, Bloomberg

Relative Performance of PYPL against Nasdaq and Peers



Overview

BNPL

In Store TAM

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Advantage in BNPL space

BNPL| International BNPL Competitors



VISA



QUADPAY

affirm

Source: Team Estimates

Overview

BNPL

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BNPL | Aggressive growth in BNPL sector



50
million

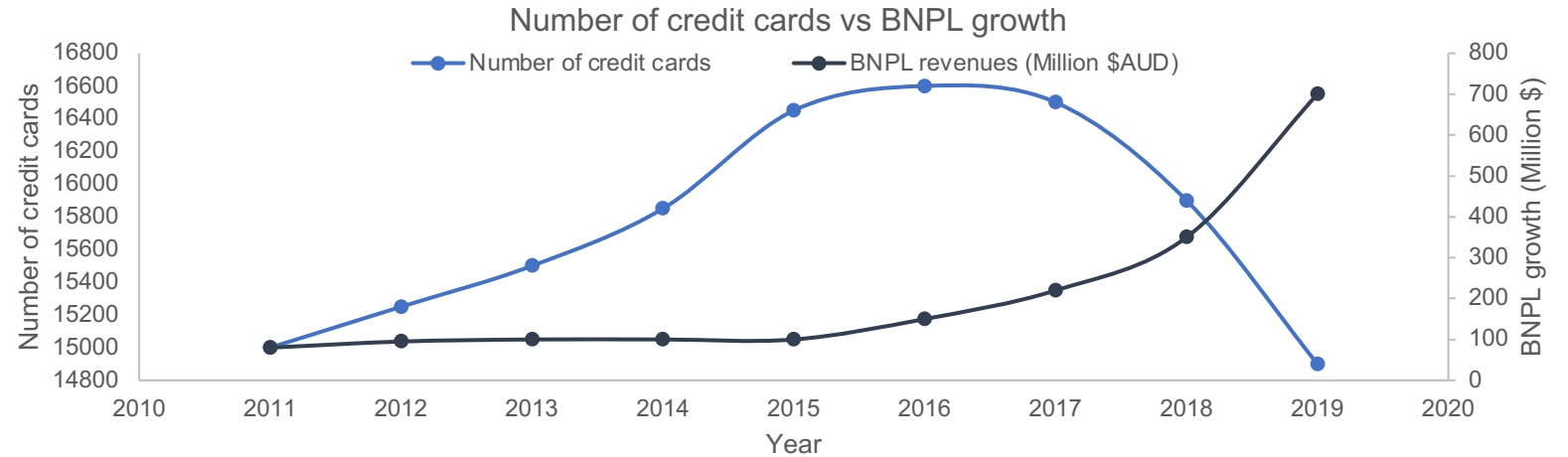
worldwide
BNPL users

39
Percent

year-on-year
industry
growth

9.5
Trillion

total
addressable
market



CUSTOMERS (000 000)			MERCHANTS (000 000)		
[Redacted]	322			29	[Redacted]
[Redacted]	218			12	[Redacted]
[Redacted]	123			1	[Redacted]
[Redacted]	85			0.2	[Redacted]
[Redacted]	9.9			0.55	[Redacted]

Source: Team Estimates

Overview

BNPL

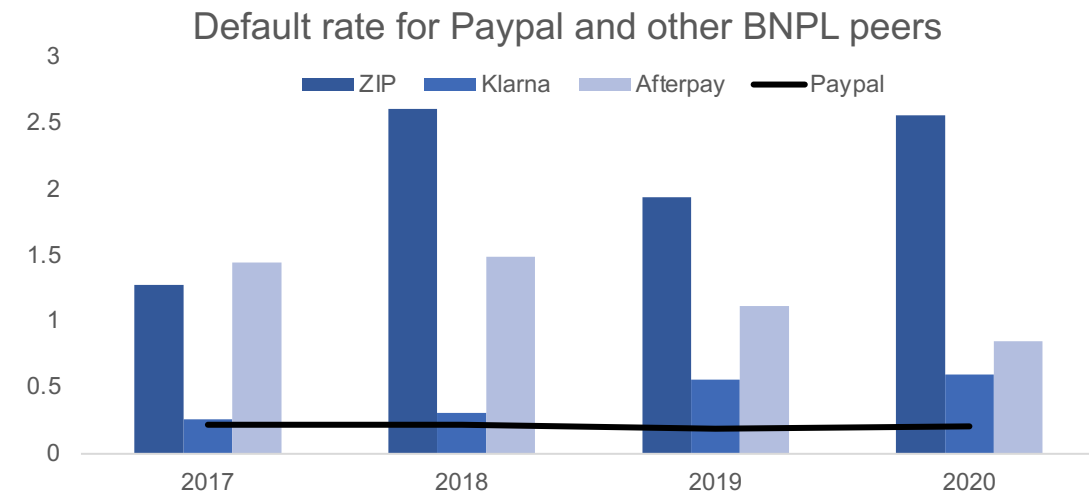
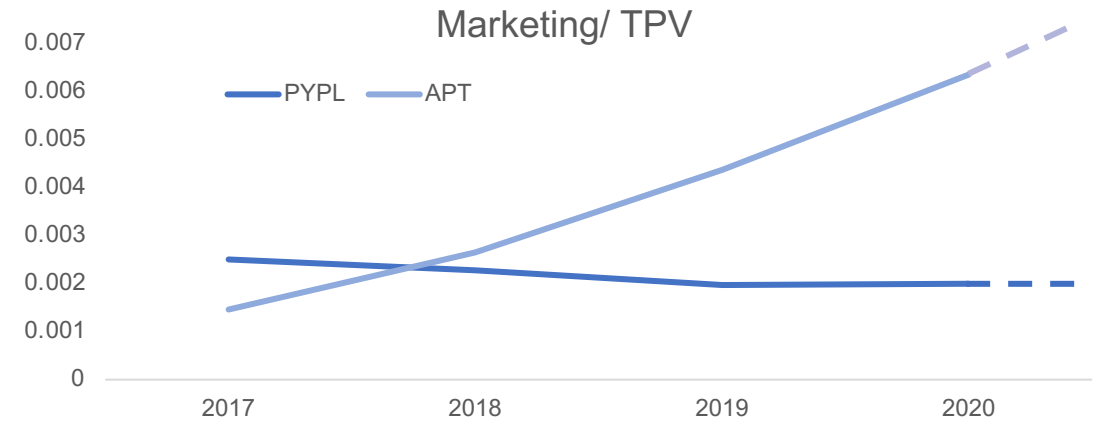
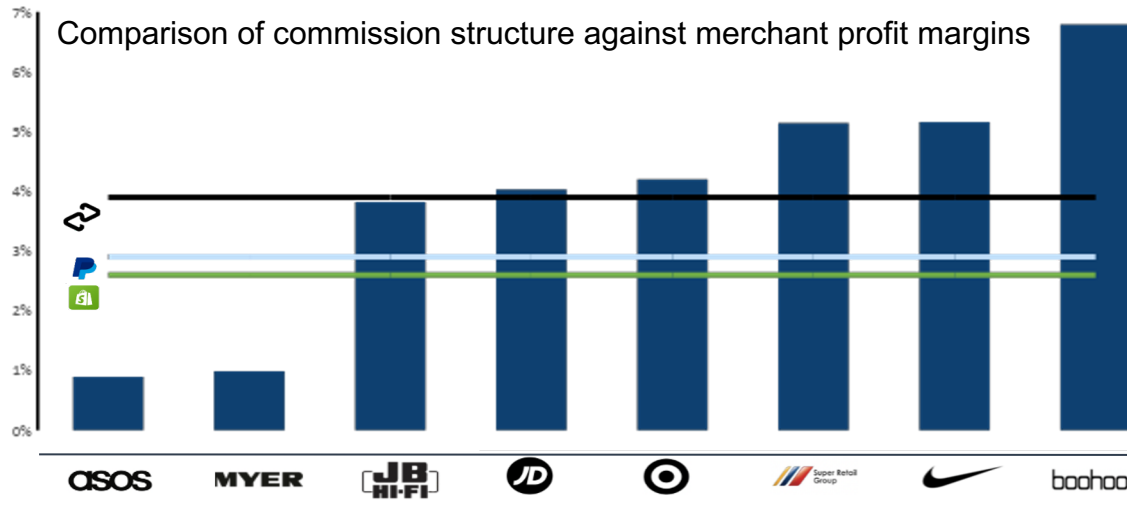
In Store TAM

Strong Portfolio

Valuation

Summary

BNPL | Material advantage over competition



Paypal's intangible advantages

- Strong and mature compliance and risk foundations.
- Pre-existing technology which allows the efficient on-boarding of merchants to new products and services.
- Consumer base consists of mature and stable income earners.

Source: Team Estimates

Overview

BNPL

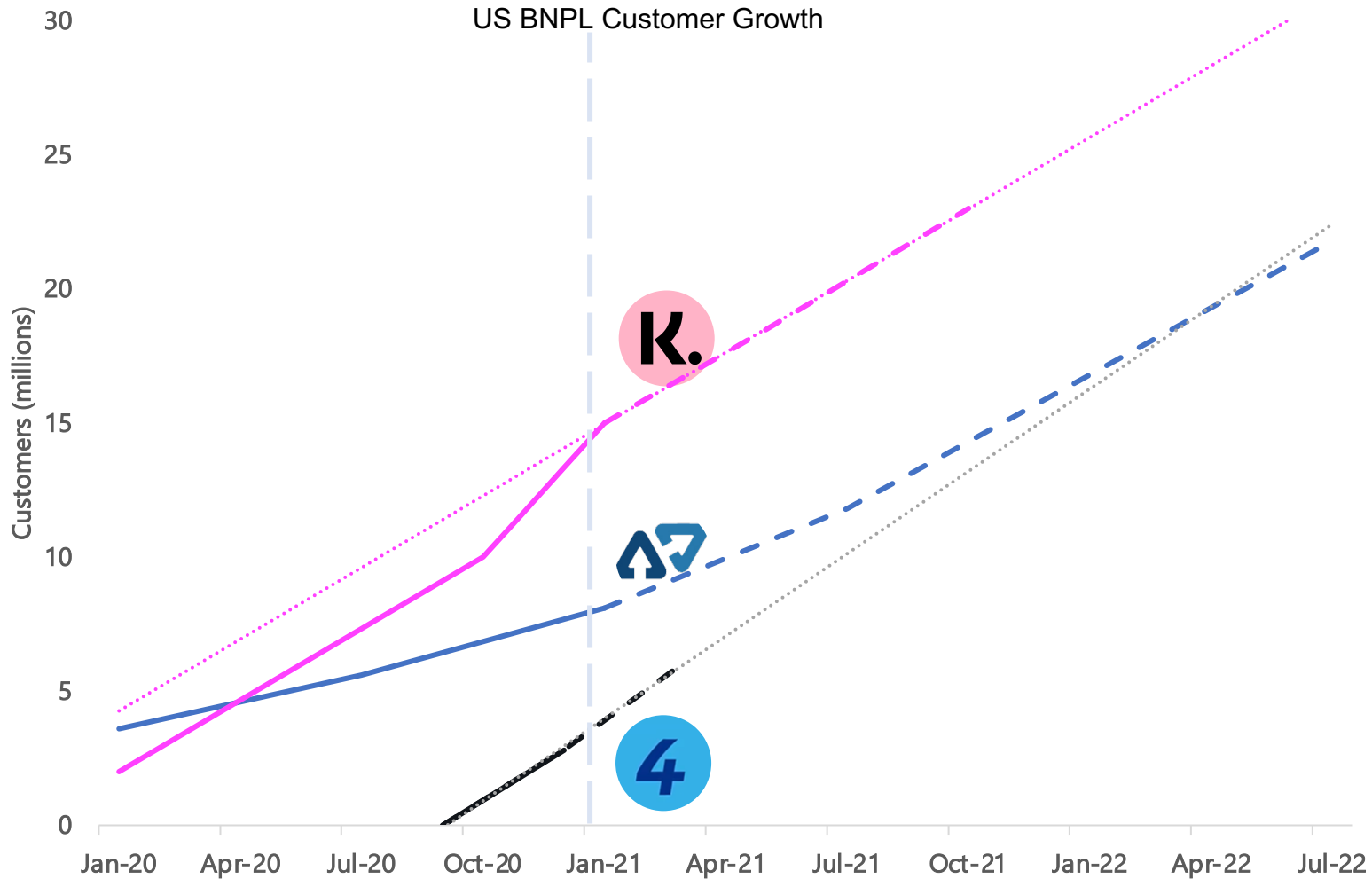
In Store TAM

Strong Portfolio

Valuation

Summary

BNPL| Growth Rate in US Market



2020 Customer Growth

- K.** 7.5x
- A7** 2.25x

PayPal to Pay in 4 Customer Conversion Requirement

- P** 190,000,000 total customers
- K.** 7.89% to overtake
- A7** 4.26% to overtake
- 4** 1.47% current penetration

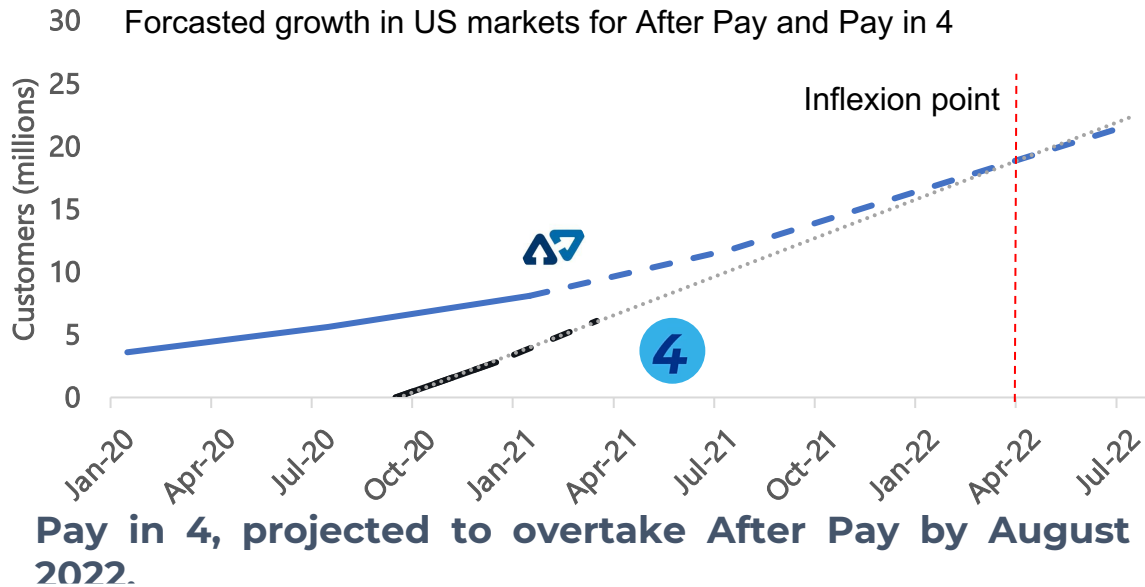
Source: Team Estimates



Inflexion points to manifest by 2022 annual report

Point 1

Overtaking After Pay in the US markets



Point 2

Entering the Australian Market

110,000 merchants

current merchant partners in Australia

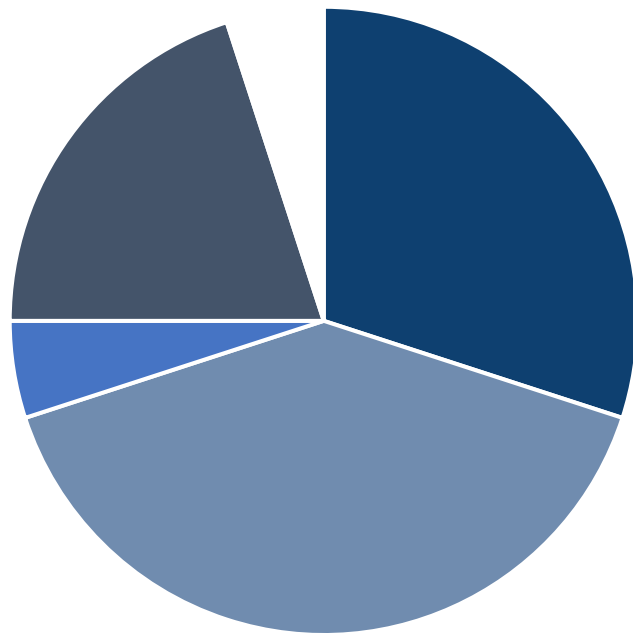
600,000 customer

customers in Australia

Source: Team Estimates, Bloomberg Intelligence

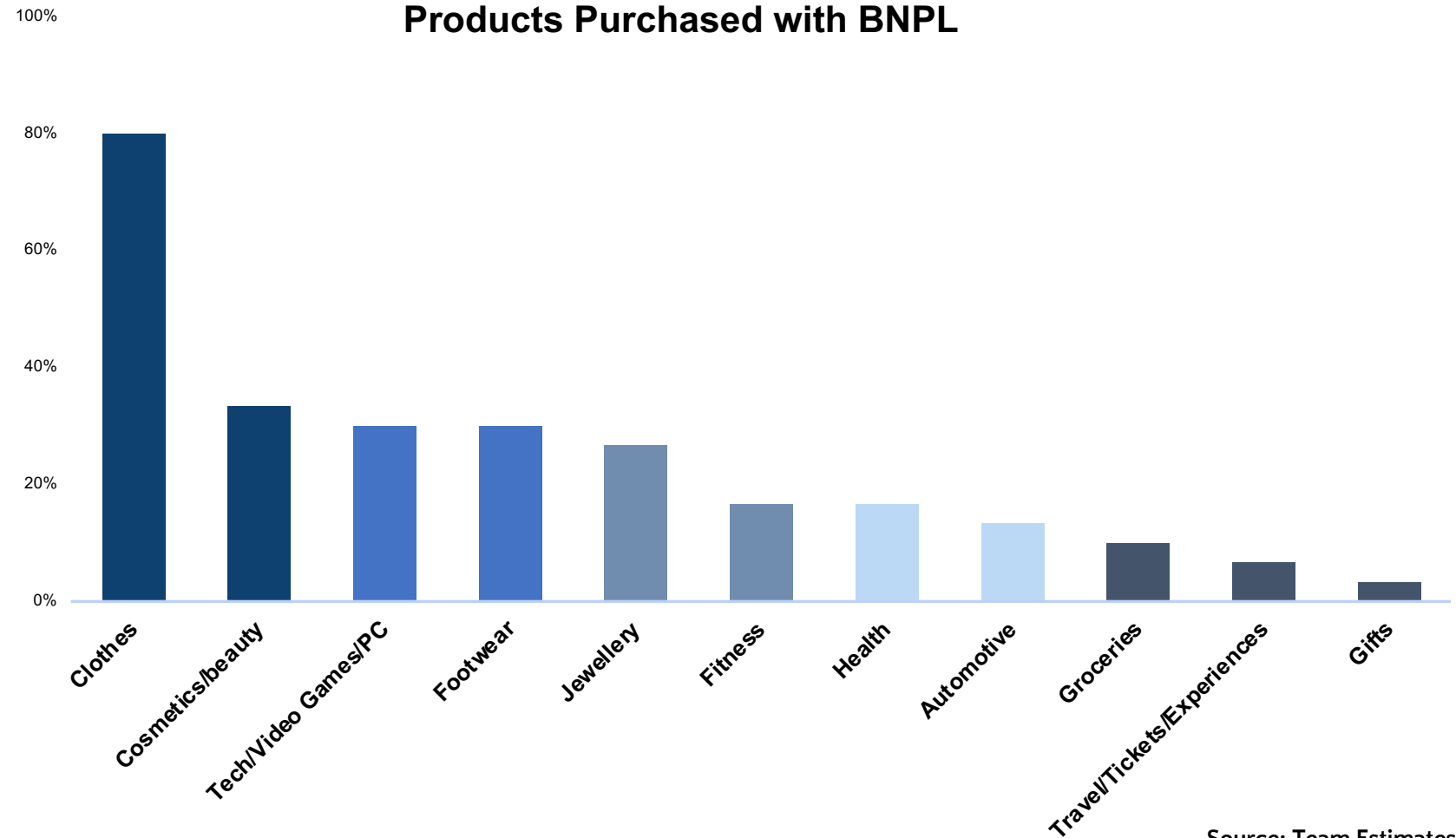


How Often Do You Use Your BNPL Service?



- Less than once a month
- Once a month
- Weekly
- Fortnightly
- Multiple Times A Week

Products Purchased with BNPL



Source: Team Estimates

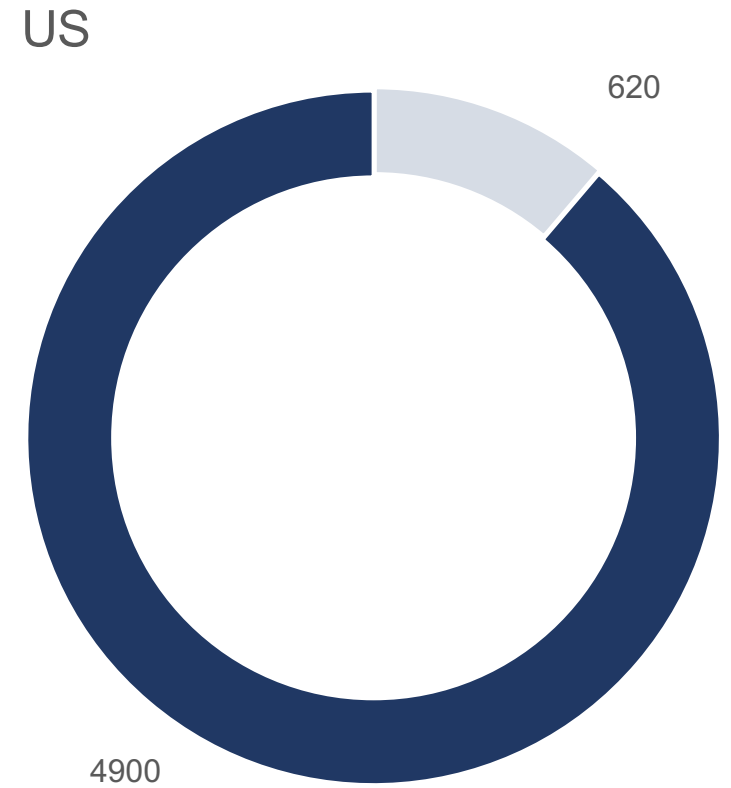
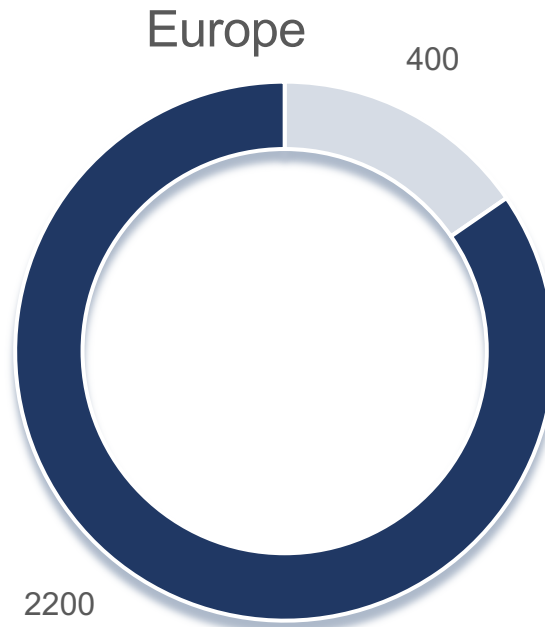
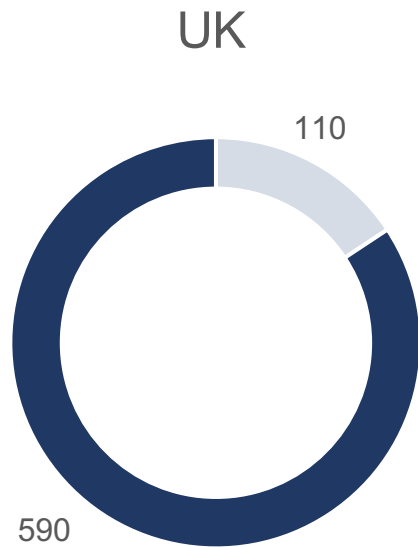
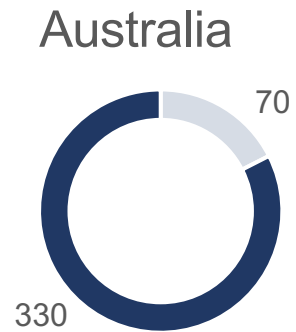


Instore digital wallet capabilities

Total Addressable Market- Instore vs Online



■ Online Retail ■ In-Store Retail
(TAM) (\$AU Bn)



Source: Team Estimates, Ibis world

Overview

BNPL

In Store TAM

Strong Portfolio

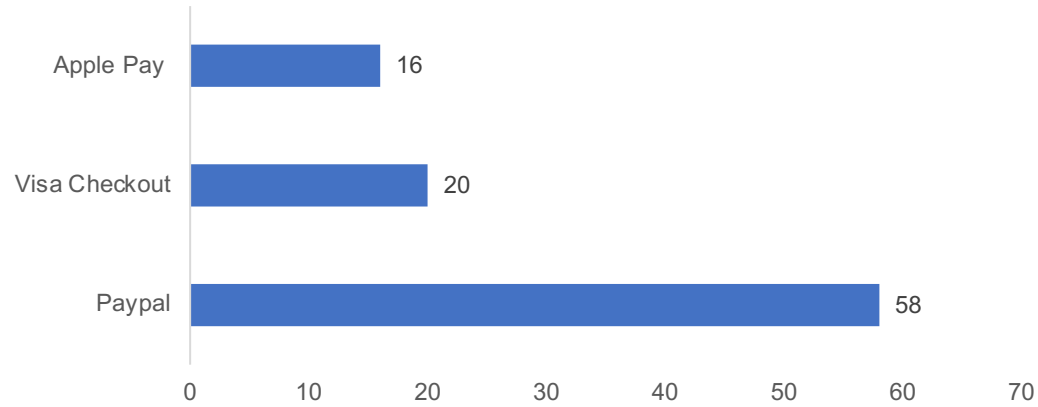
Valuation

Summary

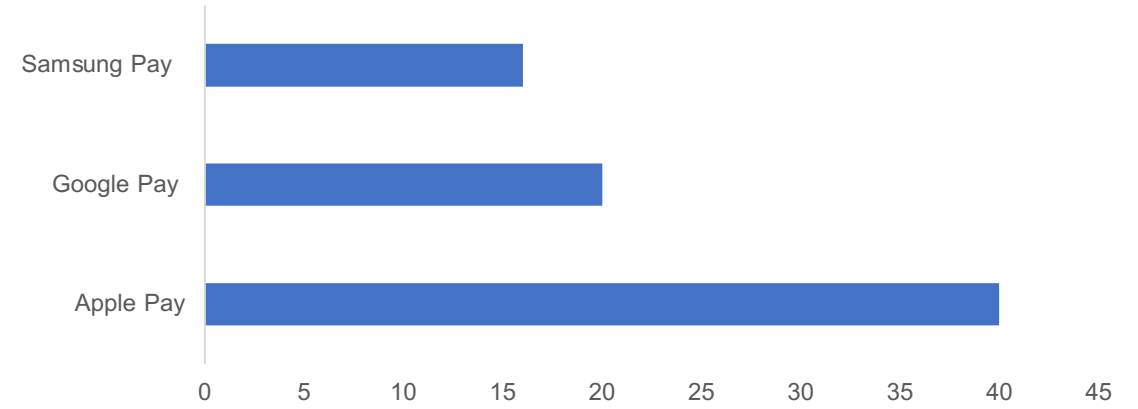
Payment penetration by Population ('Millions) in 2019



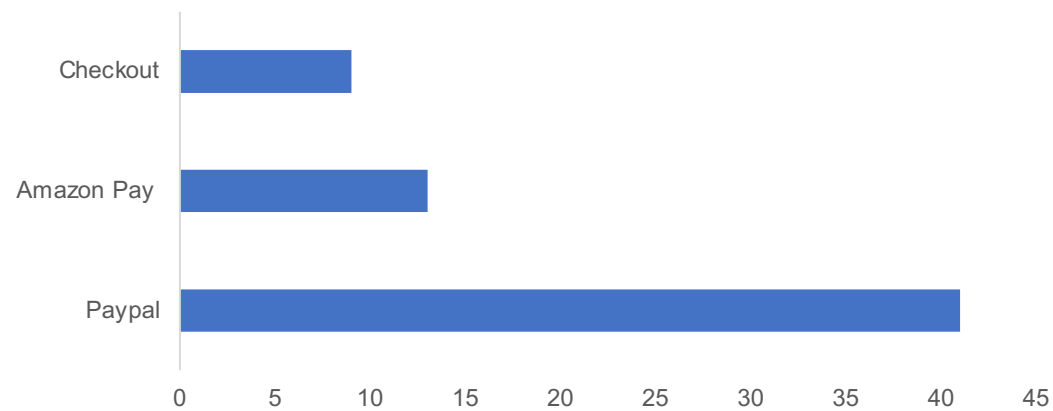
In App



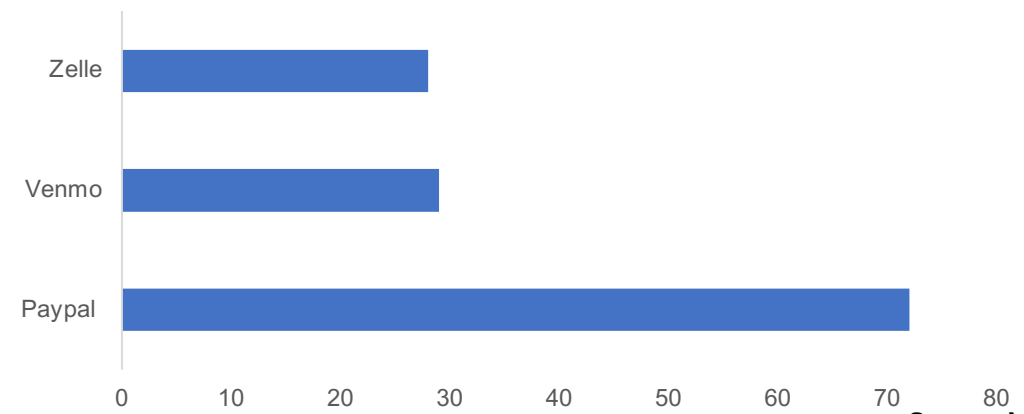
In Store



Online



Peer to Peer



Source: Mckinsey report

Overview

BNPL

In Store TAM

Strong Portfolio

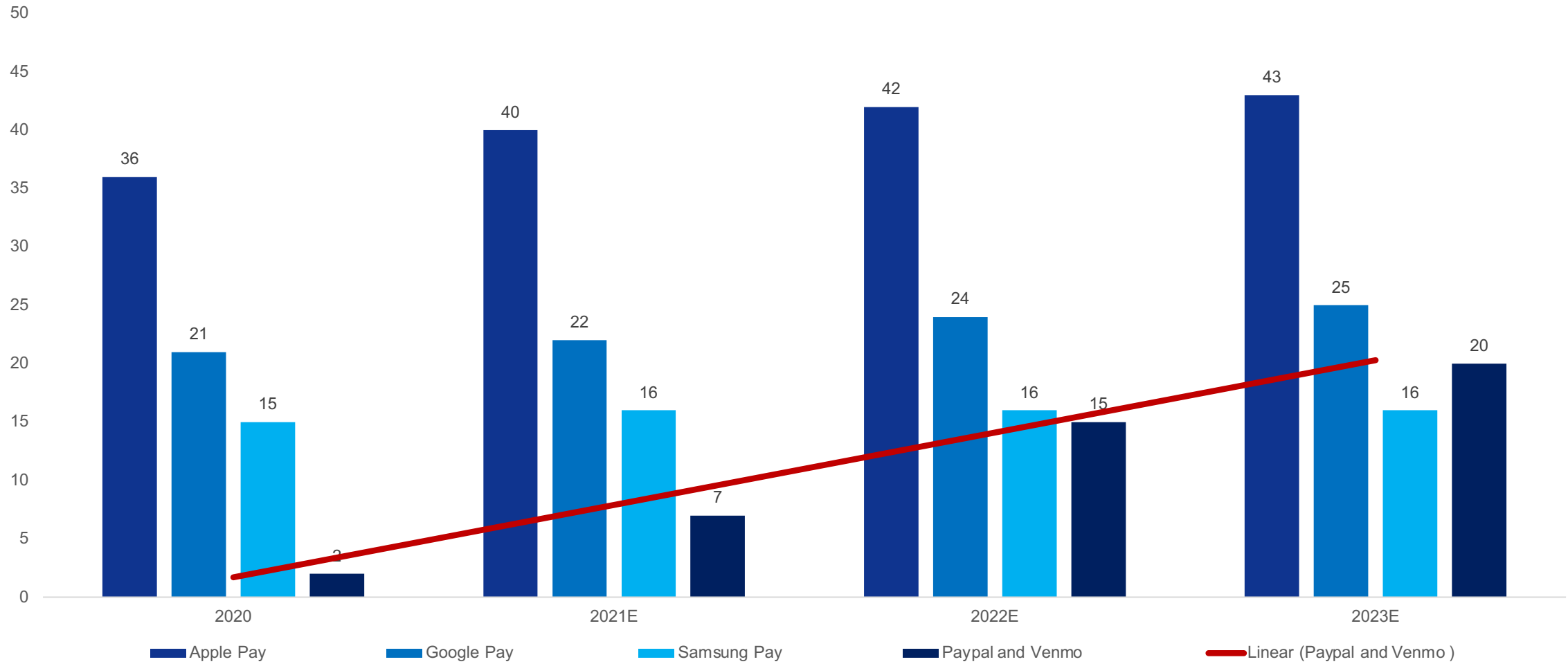
Valuation

Summary

Population penetration in- store Digital Wallet



By 2023E Paypal is expected to lock in a large share of In-store mobile wallet users in the US



Source: Team Estimates, Bloomberg Intelligence

Overview

BNPL

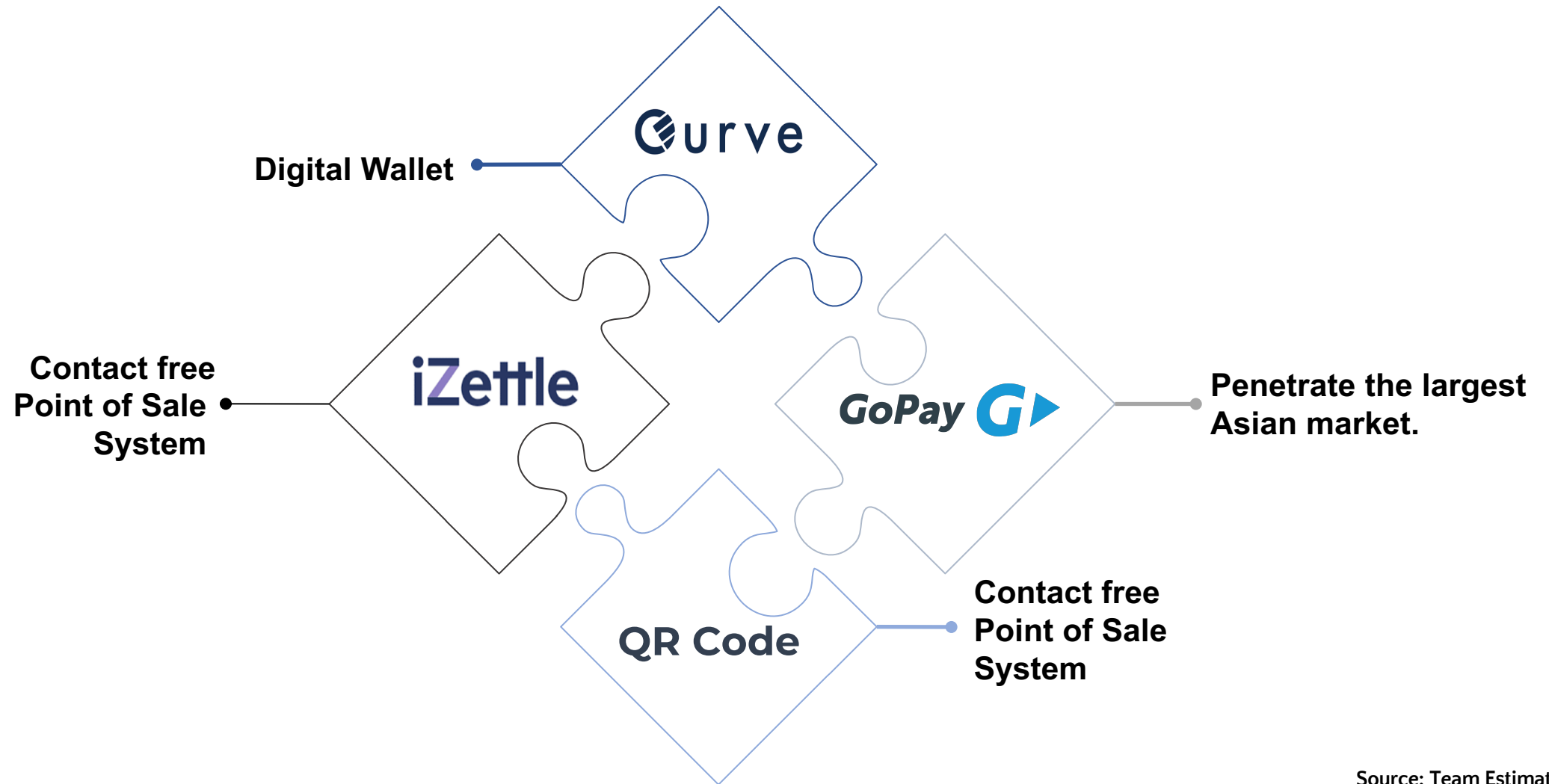
In Store TAM

Strong Portfolio

Valuation

Summary

In-store opportunity | 4 prong approach



Source: Team Estimates

Overview

BNPL

In Store TAM

Strong Portfolio

Valuation

Summary

Contactless Point of Sale Payment systems



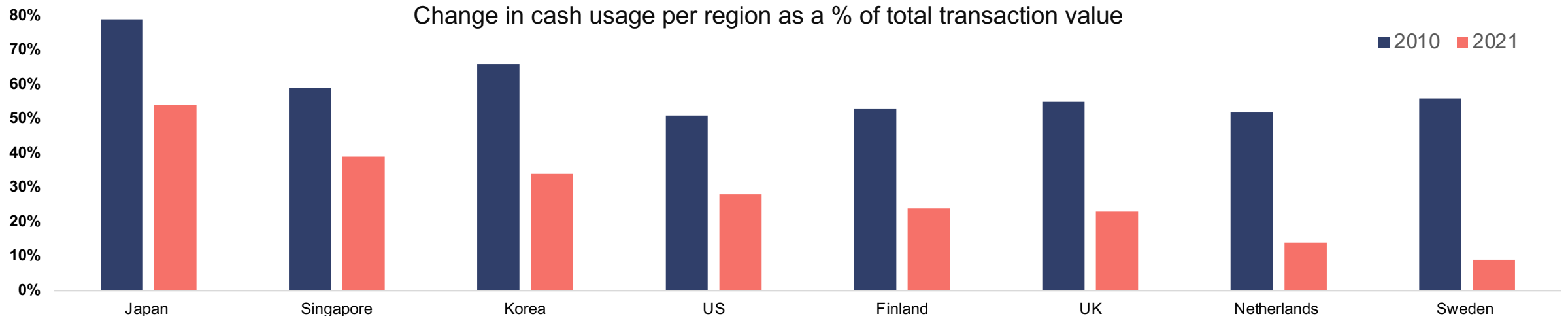
iZettle

- Point of sales transaction processing terminal
- Low infrastructure costs
- Penetration into the European market



QR Code

- Uses QR codes to make payments
- Truly contactless
- No infrastructure costs
- Less negative sentiment, less technological errors



Overview

BNPL

In Store TAM

Strong Portfolio

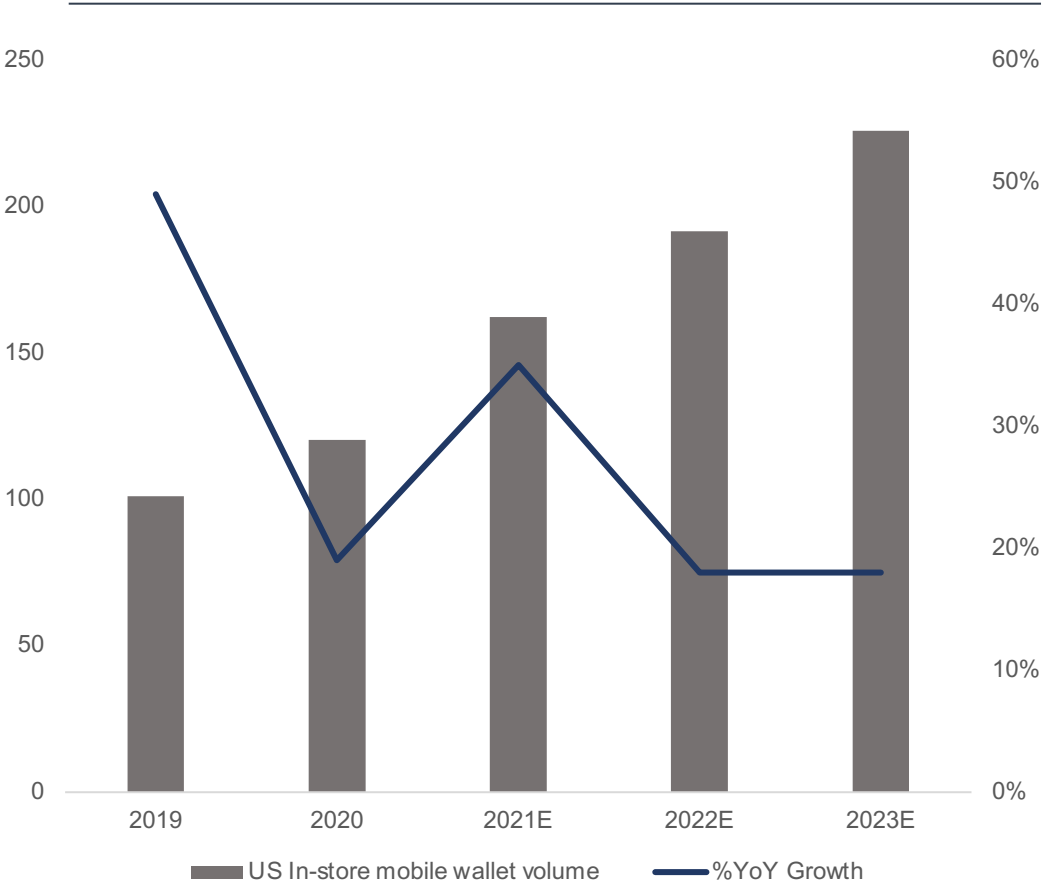
Valuation

Summary

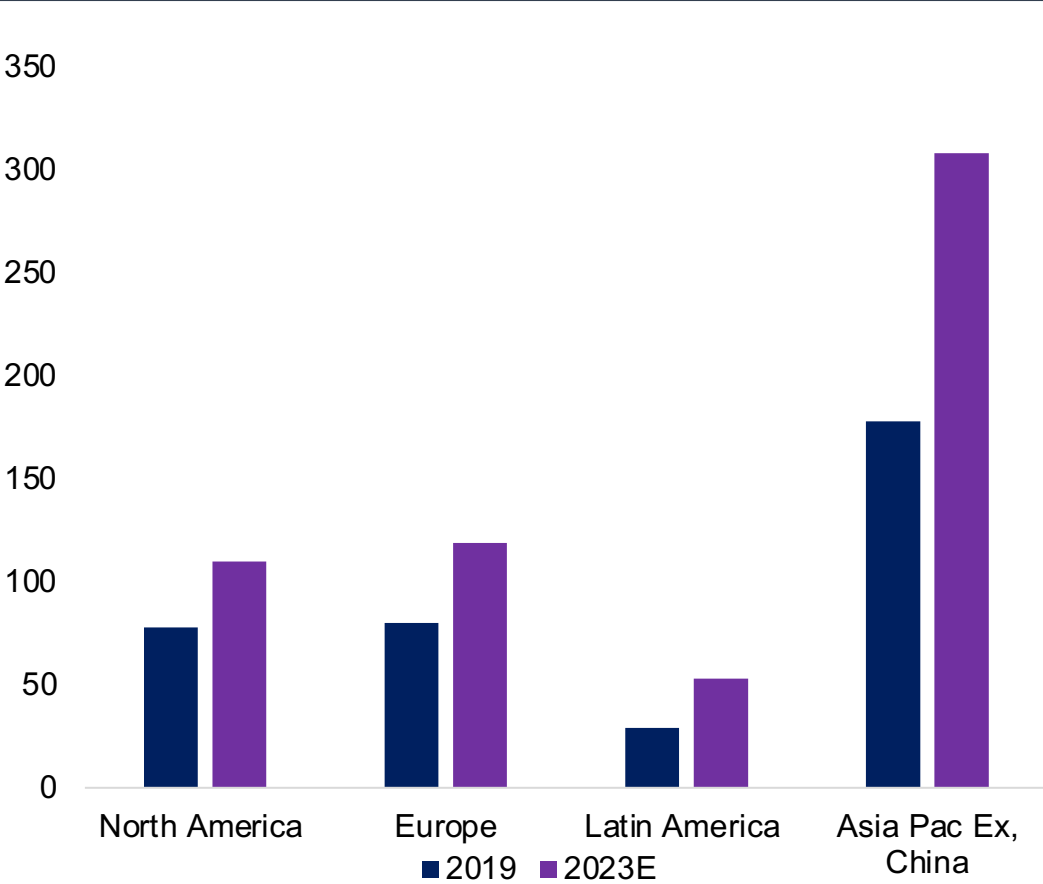
In-Store| Trends in Mobile Banking



US In-Store mobile wallet volume and YoY Growth %



In-store Mobile wallet users by Region

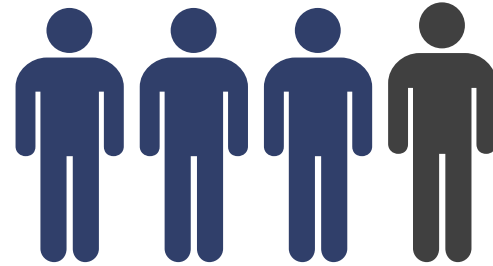


Source: Team Estimates, Bloomberg Intelligence

Curve

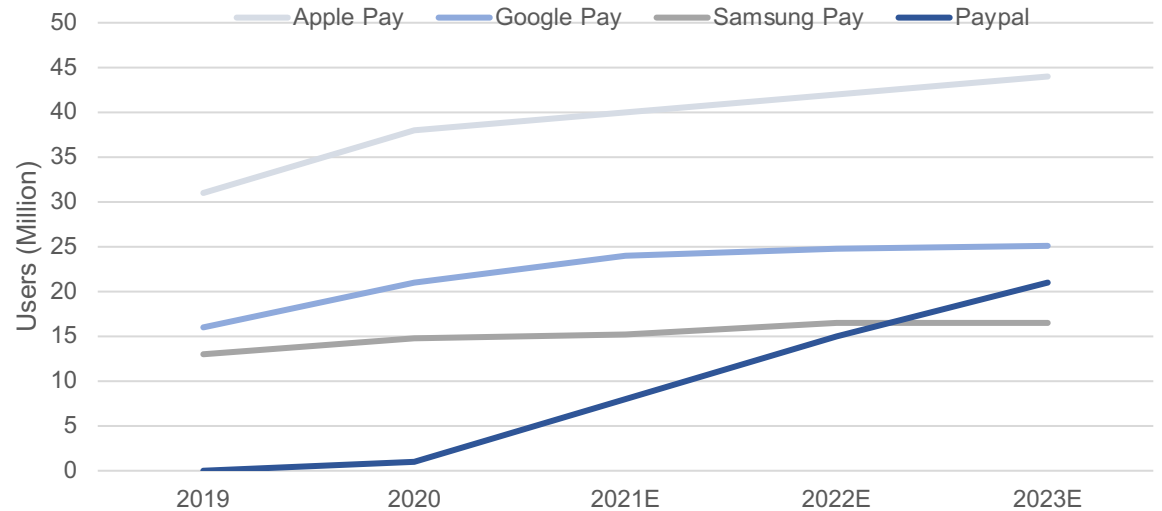
Cost of acquisition is still under negotiation, however a memorandum of understanding for the purchase has been signed

- Combines all cards into on net bank account
- Capitalise on shift to digital wallets.
- One stop shop for all digital payments, will rival Apple pay, Google pay and Samsung pay
- Allows for foreign exchange



3 out of 4 users used digital payments methods in the US.

US Mobile Wallet Users



Source: Team Estimates, McKinsey reports



20
million

active
users

100
million

transactions
per month

Industry
TAM – \$5 trillion
CAGR- 10.47%

China
TAM – \$2 trillion
CAGR- 9.8%



Source: Team Estimates

Overview

BNPL

In Store TAM

Strong Portfolio

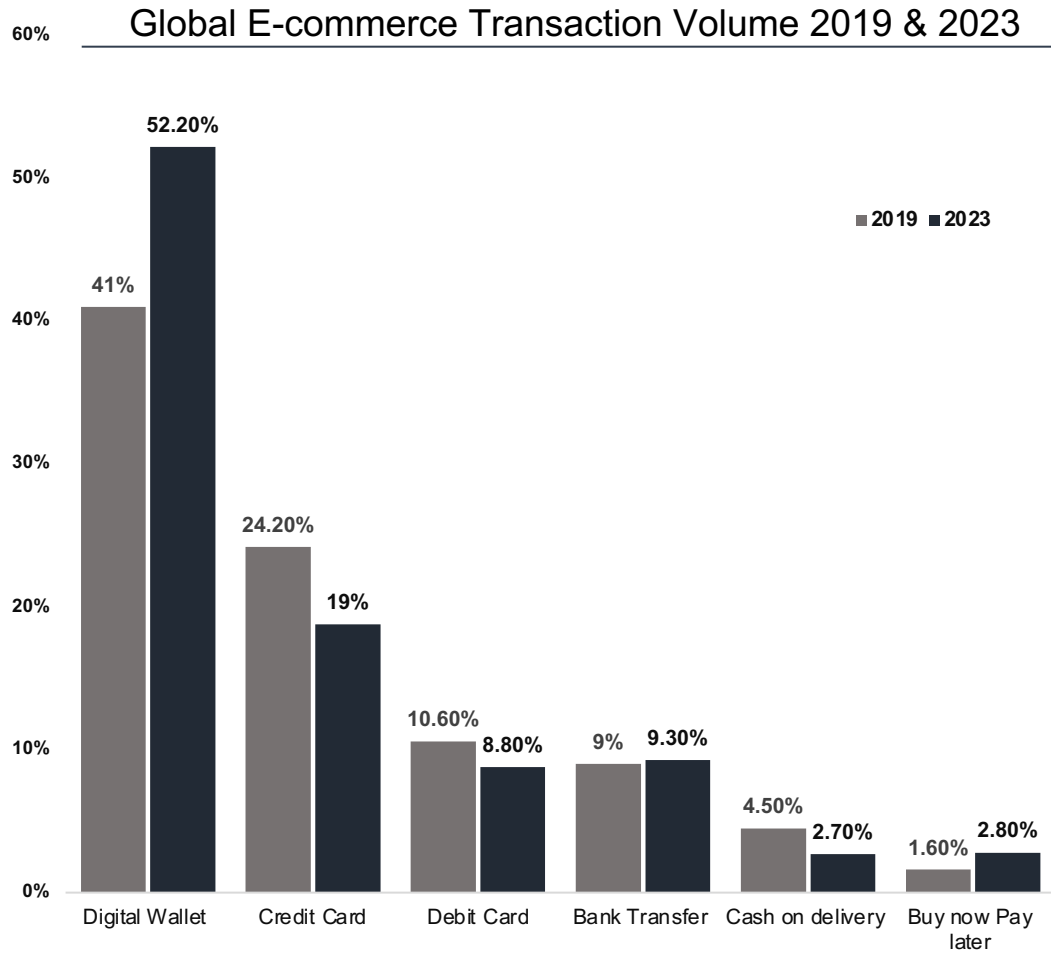
Valuation

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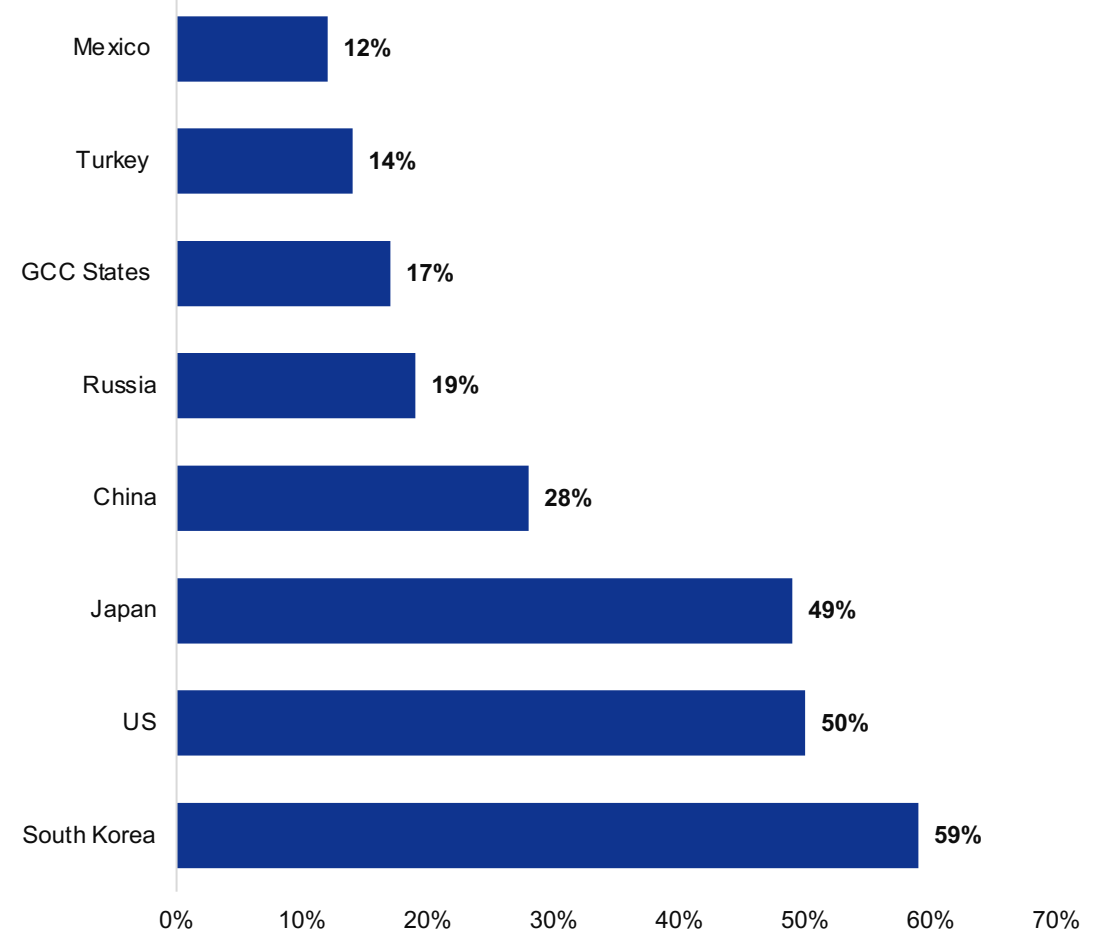


Strong diversified portfolio

Favourable Industry driver for strong portfolio



5G connections as a share of all mobile subscriptions by 2025



Overview

BNPL

In Store TAM

Strong Portfolio

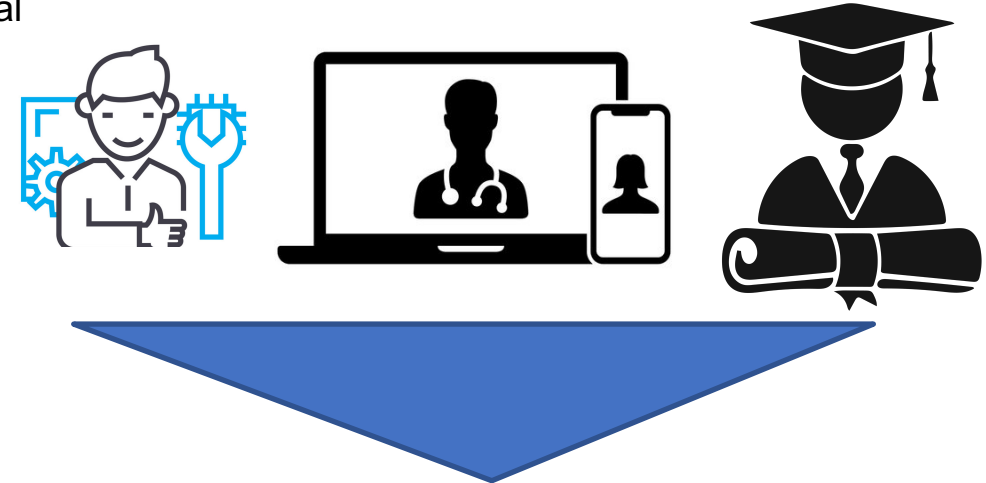
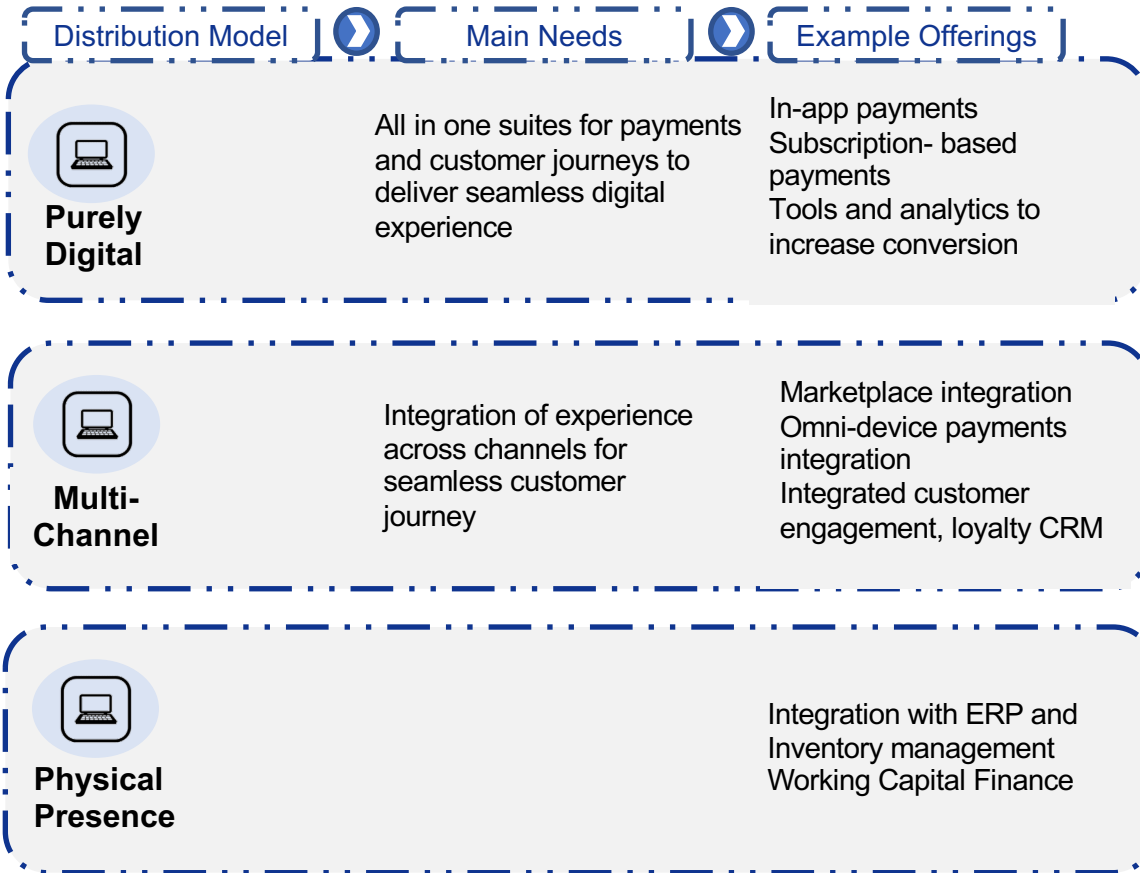
Valuation

Summary

Strong Portfolio | Merchants are moving online



Evolving Merchant Business Models pave way for new opportunities for PayPal



Shift in industries to boost digital platforms sign ups by 150%

PayPal is well positioned to attract more merchants to their platform due to its

- High Cart Conversion
- Strong anti fraud reputation

Source: Team Estimates

Strong Portfolio | New services boost TAM

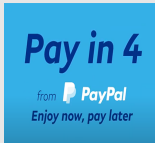


New services to boost organic growth by 2025



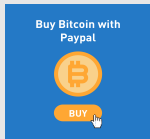
In store QR Code

- In 6 months 600,000 merchants started accepting the QR code payments
- Total Payment Volume \$20 billion
- 19% increase in spending by QR code users



Buy Now pay later

- Users generated 12% more TPV post adoption of BNPL
- 40% are repeat users

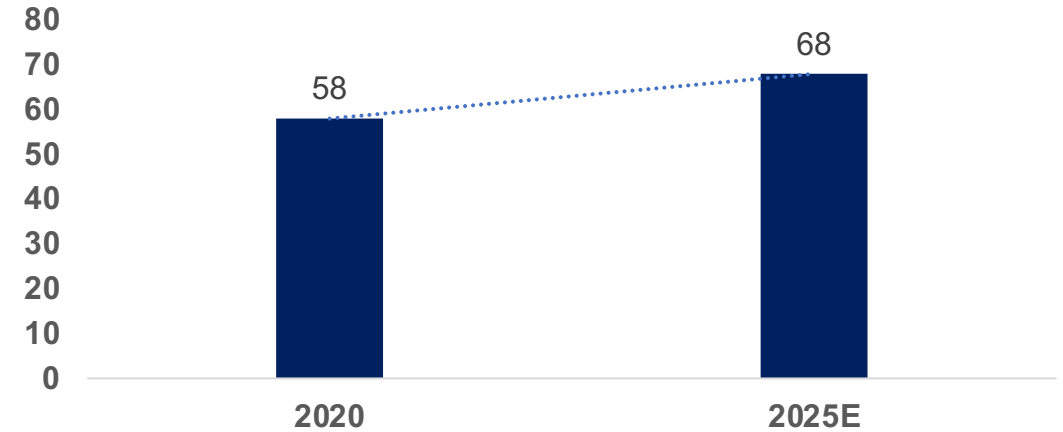


- 50% of cryptocurrency holders log into the PayPal app everyday 2x their prior rate

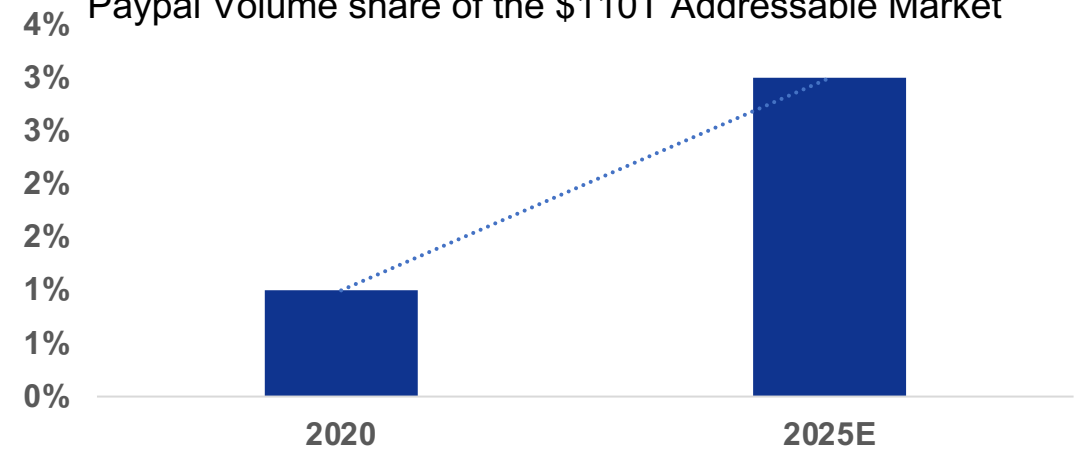


- DD are used to spend, pay bills and invest
- Direct deposits users generate 56% more value

\$ Revenue per user



Paypal Volume share of the \$110T Addressable Market



Source: Team Estimates, Bloomberg

Overview

BNPL

In Store TAM

Strong Portfolio

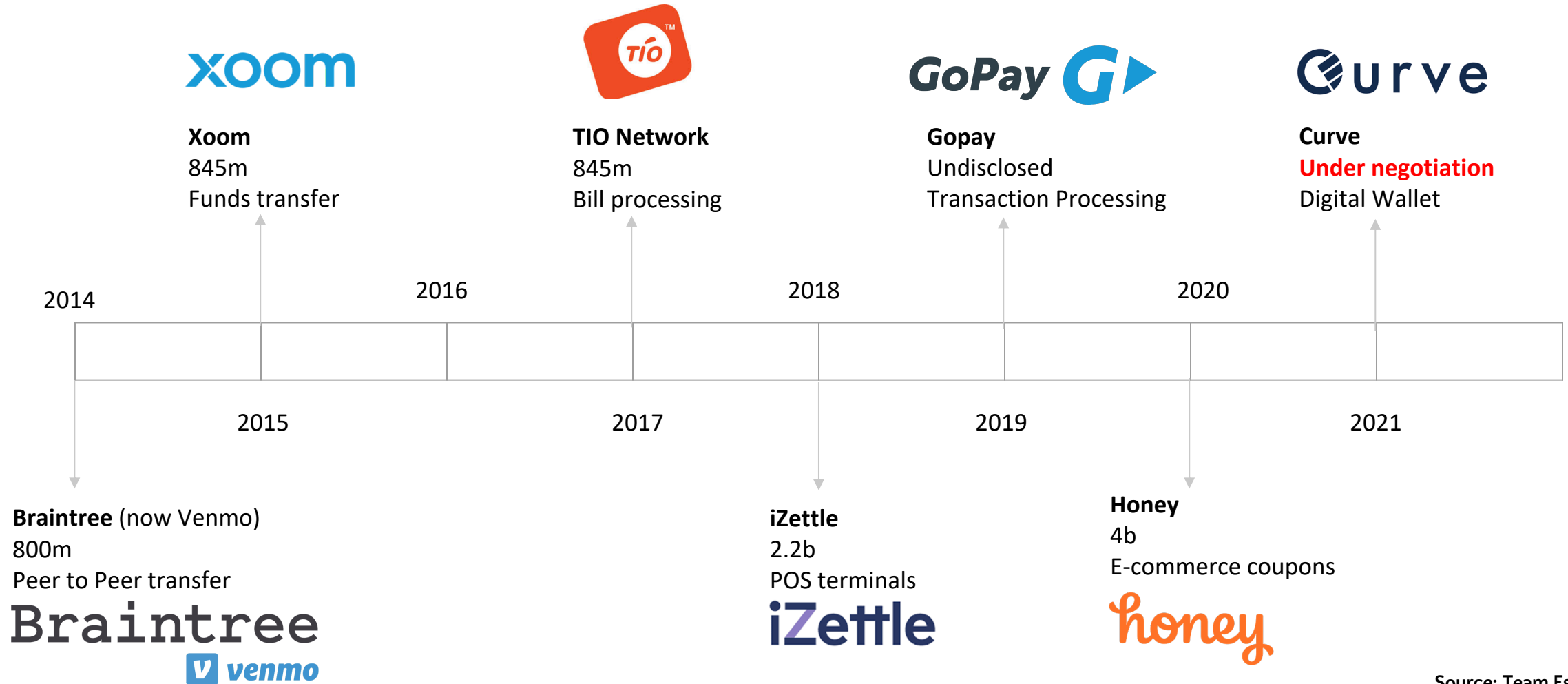
Valuation

Summary

Strong Portfolio | M&A timeline



Strategic M&A to continuing at \$1-3b a year



Source: Team Estimates

Overview

BNPL

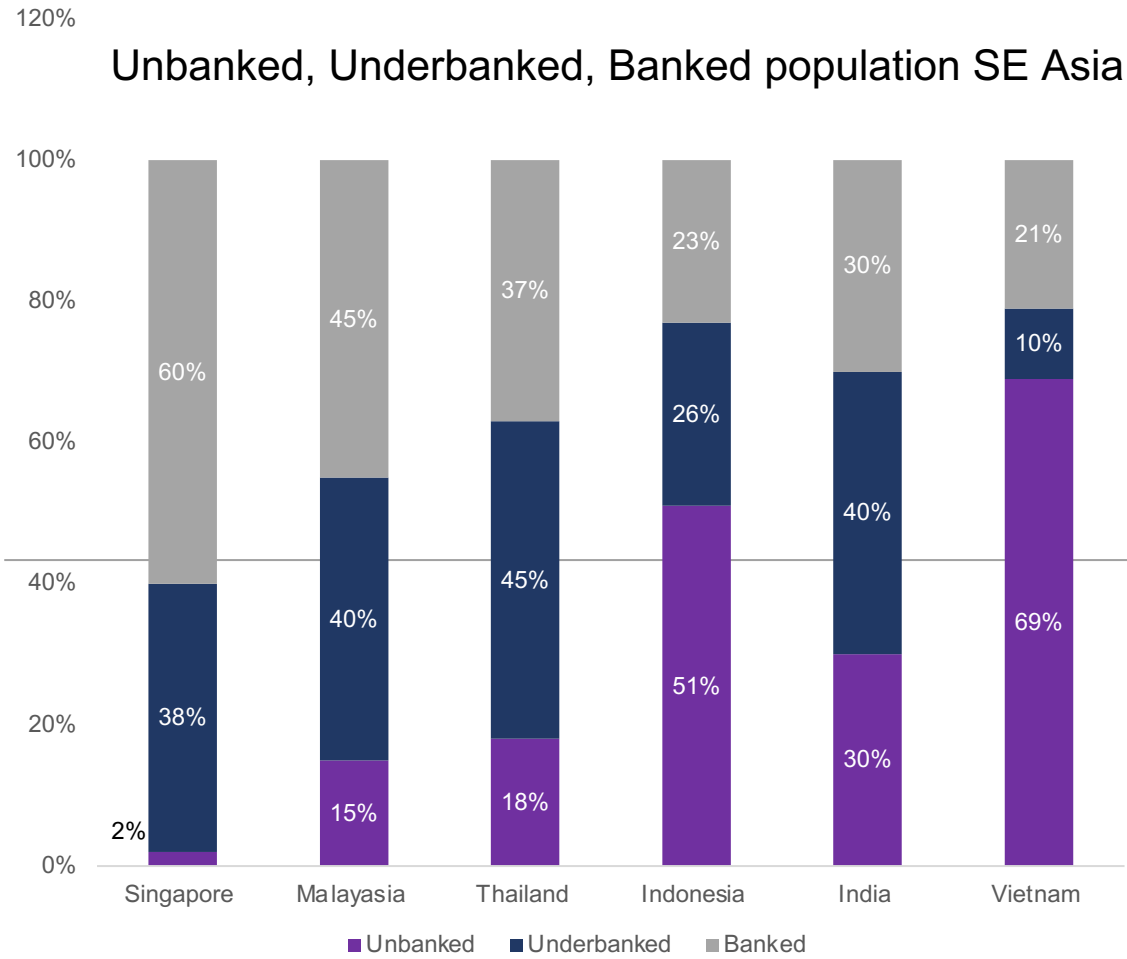
In Store TAM

Strong Portfolio

Valuation

Summary

Strong Portfolio | Expanded opportunities



Partnerships in Asia and Europe to Bolster revenue



- Partnered in 2015
- Attracted hundreds of thousands of Merchants
- Paypal has access to 170 million people in Indonesia.



- Acquired 2018
- Received access to over 200 million merchants from across Europe



Source: Team Estimates, Industry reports

Strong Portfolio | Horizontal and Vertical Integration



Horizontal and Vertical Integration will help consumer seamlessly integrate all their services

Online transaction processing			
Crypto-currency			
Consumer Credit			
business debit	Pay in 4		
Instore transaction processing			
		QR Code	
Direct Deposit			
Peer to Peer			

Source: Team Estimates



Valuation

Valuation Overview



Buy

32.2% upside

\$329.83

FCFF Model

\$395.65

40% weighting

FCFE Model

\$372.82

30% weighting

Relative Valuation

\$199.07

30% weighting

Overview

BNPL

In Store TAM

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Valuation

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Valuation | FCFF and FCFE Model



FCFF Target Price

\$395.65

FCFE Target Price

\$372.82

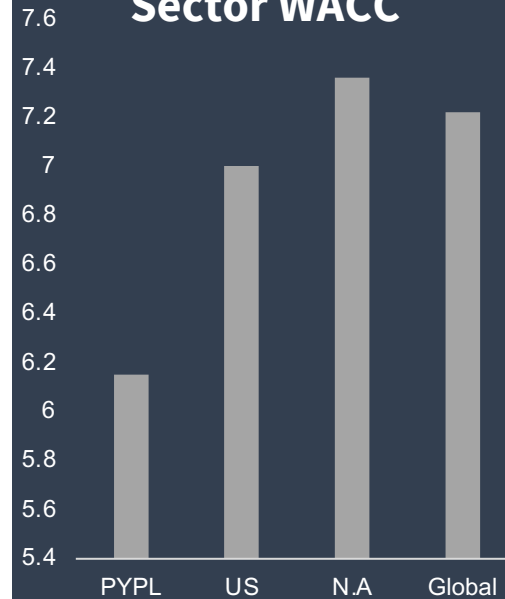
CAPM

6.32%

WACC

6.15%

Financial Service
Sector WACC



Terminal Growth Rate

1.94%

GDP 2.20%

Inflation 2.24%

Population 1.10%

Overview

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Valuation| FCFF and FCFE Model



Relative Valuation
Target Price

\$199.07

P/E
\$179.41

EV/EBITDA
\$197.93

P/S
\$240.66

Peers group



fiserv.

VISA



Overview

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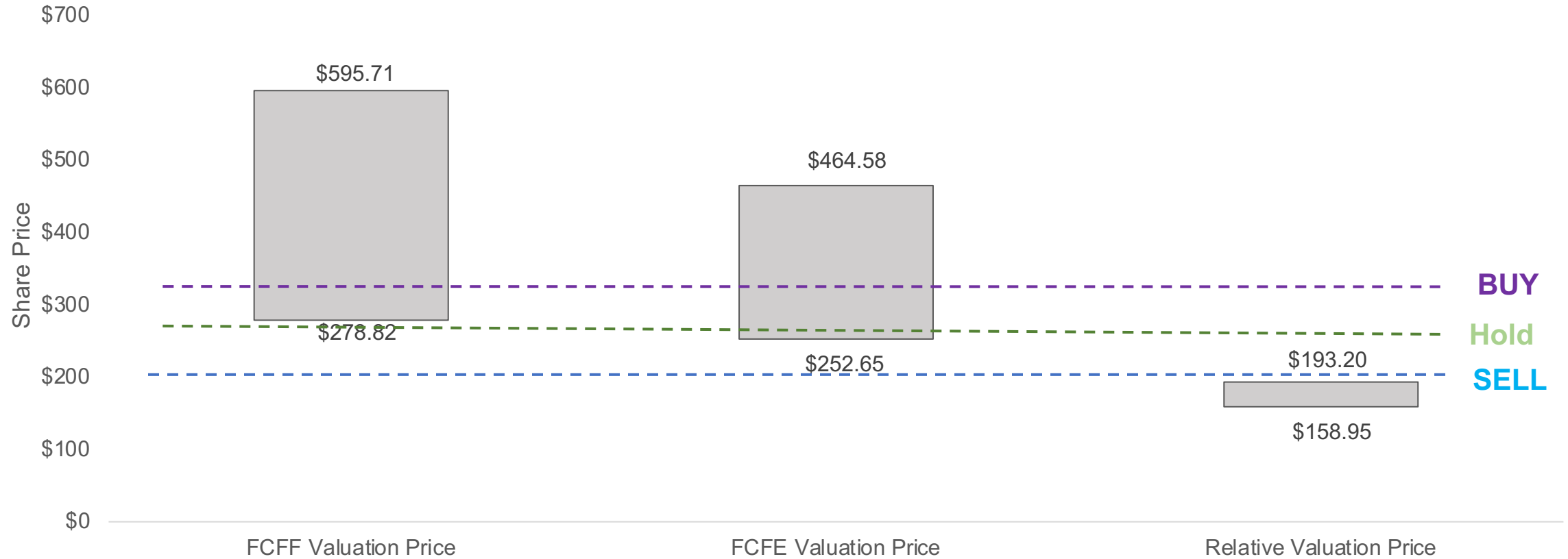
Valuation

Summary

Valuation| Football Field Analysis



A blended intrinsic and relative valuation is used to calculate a target price of \$328.19.00, representing a 31.6% upside to the close of \$249.48



Source: Team Estimates

Overview

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In Store TAM

Strong Portfolio

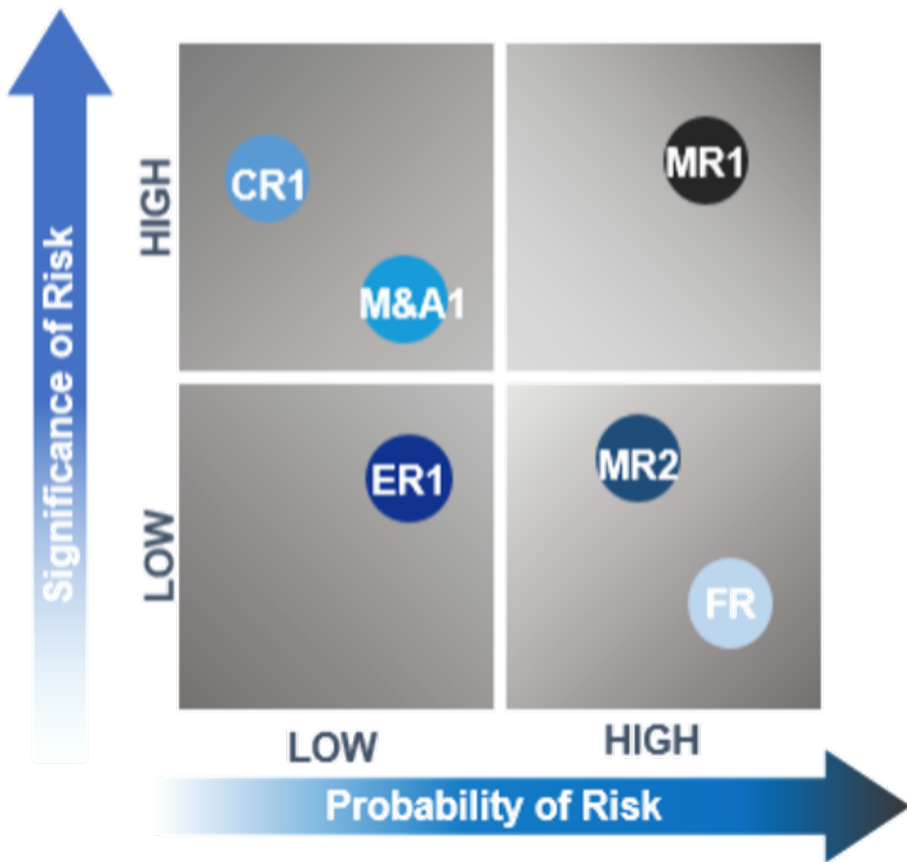
Valuation

Summary



Investment Risks

Investment Risks| Key Risks to recommendation



- MR1** Competition Risk: to remain innovative and engaging
- MR2** Economic Sensitivity: changes to economic conditions
- ER1** Execution Risk: Executing growth plan and managing roll outs
- M&A** M&A integration given its active growth
- CR1** Credit Offering to consumers and merchants – potential collection, charge off and default risks
- FR** Foreign Exchange Risk: Exchange rate risk when compared to the US dollar that is volatile

Source: Team Estimates



Conclusion

Conclusion



Current market valuation leaves room for substantial multiple expansion

We issue a BUY recommendation with a 12 month target price of \$328.19. This represents 31.6% upside potential from the last close (15/03/21).

Pay in 4 industry to dominate BNPL Industry

In-store payment expansion

Strong Portfolio to support organic and inorganic growth



BUY

Target price

\$328.19

31.6% upside

Overview

TAM expansion

BNPL

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Q & A



Appendix

Cost of Equity

Risk free rate	0.84%
Beta	1.16
Market Risk Premium	4.72%
Cost of Equity	6.32%

Weighted cost of Capital

Equity Value	292,313.72
Cost of Equity	6.32%
Debt Value	9,818.45
After-tax cost of debt	1.30%
Cost of Capital	6.15%

Cost of Debt

	2015	2016	2017	2018	2019	2020
Interest expense	0	0	0	77	115	209
Total Interest Bearing Liabilities	0	0	0	0	4965	8939
Growth						80.04%
ST Debt	0	0	0	0	0	0
LT Debt	0	0	0	0	4965	8939
Implied Cost of Debt	0.00%	0.00%	0.00%	0.00%	2.32%	2.34%
Average Implied Pre-Tax COD	0.78%					
Tax rate	18.00%					
After tax cost of debt	0.64%					

METHOD 2 - Synthetic Rating	2020
Risk free rate	0.84%
Default spread (A2/A)	0.99%
Tax rate	18.00%
Synthetic After-Tax COD	1.50%
Synthetic Pre-Tax COD	1.83%

Cost of Debt	Comments
Average After-Tax COD	1.30%
Average Pre-Tax COD	1.07%

Terminal Growth Rate



Terminal Growth Rate

		Weighting
GDP	2.20%	50%
Population Growth	1.10%	25%
Inflation	2.24%	25%
Terminal Growth Rate	1.94%	

Source: Team Estimates

Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

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Free Cash Flow to Firm



FCFF

	2020	2021E	2022E	2023E	2024E	2025E
EBIT	3466	4246.65	7577.37	12082.03	17963.75	24629.90
Tax Rate	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
EBIT(1 - T)	2842.12	3482.25	6213.45	9907.26	14730.28	20196.52
Dep. & Amort.	1349.00	1559.55	1802.96	2084.36	2409.69	2785.78
Capital Expenditure	866.00	908.09	953.49	1010.70	1059.82	1111.33
Net Working Capital	-4982.00	-5734.95	-6394.44	-2763.82	-2368.46	-49.19
FCFF	8307	9869	13457	13745	18449	21920
FCCF Growth		19%	36%	2%	34%	19%
Terminal Value						529823.6213
Discount Factor		0.94	0.89	0.84	0.79	0.74
PV of FCFF		9297	11943	11491	14529	409346
Total PV of PYPL		456605.05				
Less: Total Debt		9818.45				
Add: Cash & Equiv.		13083				
Equity Value		459870				
Shares Outstanding		1171.69				
Intrinsic Value		392.48				
Target Price		\$ 395.65				



Overview

TAM expansion

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Free Cash Flow to Firm - Bear



FCFF - Bear

	2020	2021E	2022E	2023E	2024E	2025E
EBIT	3466	3139.290831	4467.026378	6178.33	8369.85	11160.88
Tax Rate	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
EBIT(1 - T)	2842.12	2574.22	3662.96	5066.23	6863.27	9151.92
Dep. & Amort.	1349.00	1559.55	1802.96	2084.36	2409.69	2785.78
Capital Expenditure	866.00	863.41	905.37	949.38	995.52	1043.90
Net Working Capital	-4982.00	-4200.28	-5110.12	-6214.49	-4232.73	-4695.65
FCFF	8307	7471	9671	12416	12510	15589
FFCF Growth		-10%	29%	28%	1%	25%
Terminal Value						371061.138
Discount Factor		0.94	0.89	0.84	0.79	0.74
PV of FCFF		7038	8584	10383	9856	286999
Total PV of TLS		322860.5067				
Less: Total Debt		9725				
Add: Cash & Equiv.		13083				
Equity Value		326219				
Shares Outstanding		1170				
Intrinsic Value		278.82				



Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

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Free Cash Flow to Firm - Bull



FCFF - Bull

	2020	2021E	2022E	2023E	2024E	2025E
EBIT	3466	3776.330831	5690.723178	8965.316537	13332.38754	18482.38985
Tax Rate	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
EBIT(1 - T)	2842.12	3096.591282	4666.393006	7351.55956	10932.55779	15155.55968
Dep. & Amort.	1349.00	1559.55	1802.96	2084.36	2409.69	2785.78
Capital Expenditure	866.00	908.09	952.22	998.50	1047.03	1097.92
Net Working Capital	-4982.00	-5173.79	-2130.65	-2692.89	-844.71	-7137.22
FCFF	8307	8922	7648	11130	13140	23981
FCFF Growth		7%	-14%	46%	18%	83%
Terminal Value						639143.2214
Discount Factor		0.94	0.89	0.84	0.79	0.74
PV of FCFF		8406	6788	9308	10352	492217
Total PV of TLS		527071.4287				
Less: Total Debt		9725				
Add: Cash & Equiv.		13083				
Equity Value		530429				
Shares Outstanding		1170				
Intrinsic Value		453.36				



Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

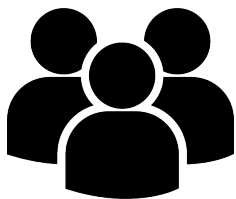
Summary

Free Cash Flow to Equity



FCFE

	2020	2021E	2022E	2023E	2024E	2025E
EBIT	3466	4246.65	7577.37	12082.03	17963.75	24629.90
Tax Rate	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
EBIT(1 - T)	2842.12	3482.25	6213.45	9907.26	14730.28	20196.52
Dep. & Amort.	1349.00	1559.55	1802.96	2084.36	2409.69	2785.78
Capital Expenditure	866.00	908.09	953.49	1010.70	1059.82	1111.33
Net Working Capital	-4982.00	-5734.95	-6394.44	-2763.82	-2368.46	-49.19
FCFF	8307	9869	13457	13745	18449	21920
FFCF Growth		19%	36%	2%	34%	19%
Terminal Value						529823.6213
Discount Factor		0.94	0.89	0.84	0.79	0.74
PV of FCFF		9297	11943	11491	14529	409346
Total PV of PYPL		456605.05				
Less: Total Debt		9818.45				
Add: Cash & Equiv.		13083				
Equity Value		459870				
Shares Outstanding		1171.69				
Intrinsic Value		392.48				
Target Price		\$ 395.65				



Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary

Free Cash Flow to Equity -Bear



FCFE -Bear

	2020	2021E	2022E	2023E	2024E	2025E
Net Income	2482.00	2462.37	3527.84	4890.58	6651.63	8897.67
Depreciation and Amortisation	1349	1559.549169	1802.960422	2084.362807	2409.685903	2785.784764
Changes in Working Capital	-4982	-4200	-5110	-6214	-4233	-4696
Capital Expenditure	866	863.4110613	905.3740482	949.3764951	995.5175225	1043.901069
Net Borrowings	4253	-9725	0	0	0	0
FCFE	12200	-2366.211411	9535.546804	12240.05047	12298.52559	15335.20813
FCFE Growth		-119%	-503%	28%	0%	25%
Terminal Value						350816.9512
Discount Factor		0.9406	0.8847	0.8322	0.7827	0.7362
PV of FCFE	-\$ 2,226	\$ 8,436	\$ 10,186	\$ 9,627	\$ 269,578	
Total PV	\$ 295,601					
Shares Outstanding	1,170.00					
Target Price	\$ 252.65					



Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary

Free Cash Flow to Equity -Bull



FCFE -Bull

	2020	2021E	2022E	2023E	2024E	2025E
Net Income	2482.00	2984.74	4531.27	7175.90	10720.92	14901.31
Depreciation and Amortisation	1349	1559.549169	1802.960422	2084.362807	2409.685903	2785.784764
Changes in Working Capital	-4982	-5174	-2131	-2693	-845	-7137
Capital Expenditure	866	908.088813	952.2232012	998.5025826	1047.031207	1097.91839
Net Borrowings	4253	3890	5446	-190.61	-566.1117	-366.085566
FCFE	12200	12699.99427	12958.65792	10764.04607	12362.16706	23360.30783
FCFE Growth		4%	2%	-17%	15%	89%
Terminal Value						595738.9036
Discount Factor		0.9406	0.8847	0.8322	0.7827	0.7362
PV of FCFE		\$ 11,946	\$ 11,465	\$ 8,958	\$ 9,676	\$ 455,810
Total PV		\$ 497,854				
Shares Outstanding		1,170.00				
Target Price		\$ 425.52				



Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary



Residual Income

	2020	2021E	2022E	2023E	2024E	2025E
NPAT	2482	3370	6089	9770	14581	20038
Book Value of Common Equity	20063	23908	28159	35988	49809	75758
Beginning BV of Common Equity		23908	28159	35988	49809	75758
(Beginning BV of Equity) X (Cost of Equity)		1510	1778	2273	3146	4784
Residual Income		1861	4310	7497	11435	15254
Discount Period:		1	2	3	4	5
Present Value of Residual Income		1750	3813	6239	8951	11231

Return on Common Equity	
Cost of Equity:	6.32%
Present Value of Equity Calculations	
Current Value of Common Equity	\$ 20,063
Sum of PV of Residual Income	\$ 31,984
Terminal Growth Rate	1.94%
Estimated Year 5 NI to Common	\$ 20,038.00
Residual Income Terminal Value	\$ 357,095
PV of Residual Income Terminal Value	\$ 262,910
Present Value of Equity	\$ 314,957
Shares Outstanding	1,171.7
Implied Share Price:	268.80

Sensitivity Analysis



	FCFF		WACC								
	\$	383.75	5.50%	6.00%	6.15%	6.30%	6.50%				
	1.00%	\$	370.70	\$	332.24	\$	322.17	\$	312.67	\$	300.81
	1.50%	\$	411.51	\$	364.30	\$	352.13	\$	340.71	\$	326.57
TGR	1.94%	\$	456.91	\$	395.65	\$	383.75	\$	370.72	\$	353.91
	2.15%	\$	482.78	\$	418.43	\$	402.27	\$	387.28	\$	368.90
	2.50%	\$	533.95	\$	455.90	\$	436.66	\$	418.95	\$	397.40

	FCFE		COE								
	\$	375.83	5.30%	6%	6.32%	7%	7.30%				
	1%	\$	395.71	\$	338.71	\$	317.67	\$	280.43	\$	266.57
	1.50%	\$	441.47	\$	371.10	\$	345.76	\$	301.73	\$	285.60
TGR	1.94%	\$	493.00	\$	406.20	\$	372.82	\$	323.95	\$	305.28
	2.15%	\$	522.67	\$	425.79	\$	392.35	\$	335.98	\$	315.85
	2.50%	\$	582.01	\$	463.64	\$	424.00	\$	358.52	\$	335.54

	P/E	Premium/Discount					
	\$	179.41	30%	40%	57%	70%	80%
	\$	1.80	94.44	101.70	114.05	123.50	130.76
	\$	2.30	120.67	129.95	145.73	157.80	167.08
EPS	\$	2.83	148.48	159.90	179.31	194.16	205.58
	\$	3.60	188.88	203.40	228.10	246.99	261.52
	\$	4.00	209.86	226.00	253.45	274.43	290.58

	EV/EBITDA	Debt										
	\$	197.93	\$ 8,000.00	\$ 9,000.00	\$ 9,818.00	\$ 11,500.00	\$ 12,000.00					
	\$	5,000.00	\$	170.84	\$	169.98	\$	169.28	\$	167.85	\$	167.42
	\$	5,300.00	\$	181.50	\$	180.64	\$	179.94	\$	178.51	\$	178.08
EBITDA	\$	5,806.20	\$	199.48	\$	198.63	\$	197.93	\$	196.50	\$	196.07
	\$	6,000.00	\$	206.37	\$	205.52	\$	204.82	\$	203.38	\$	202.95
	\$	6,500.00	\$	224.14	\$	223.28	\$	222.58	\$	221.15	\$	220.72

Overview

TAM expansion

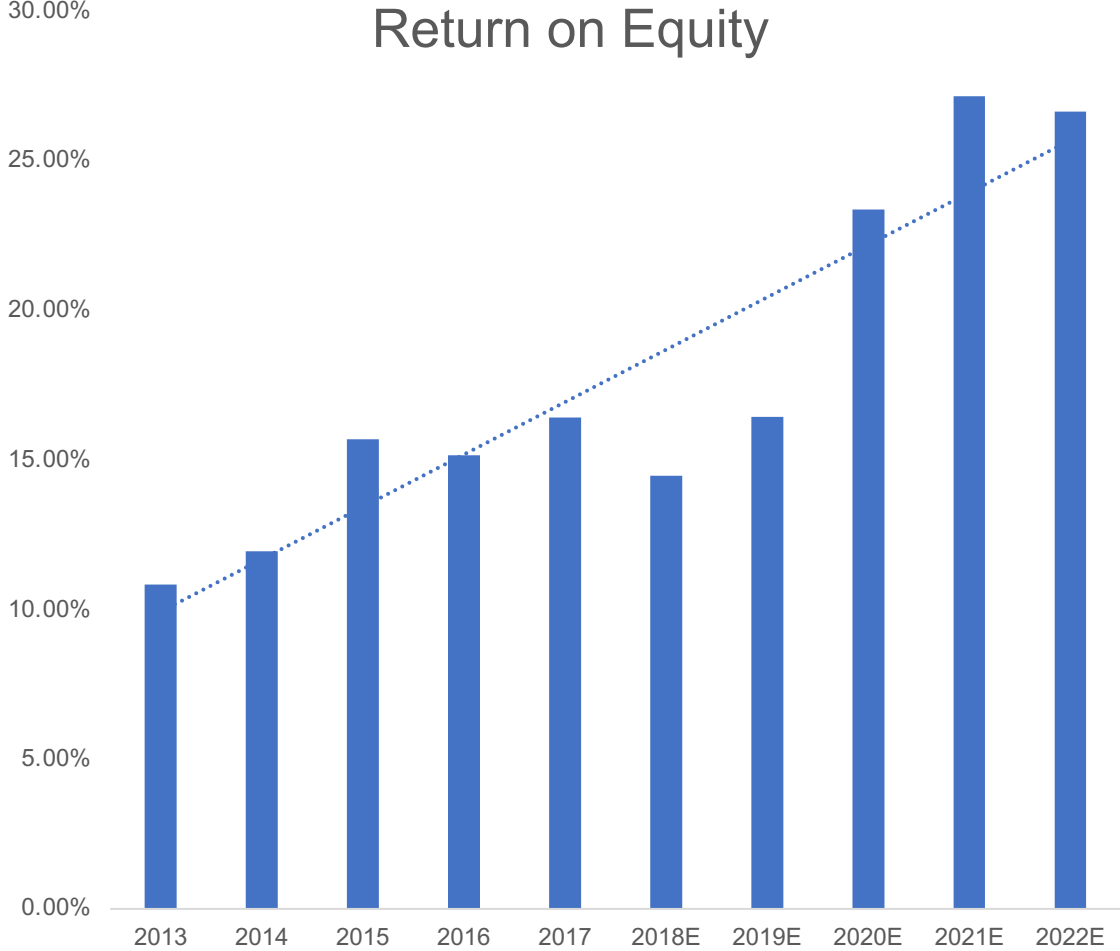
BNPL

Strong Portfolio

Valuation

Summary

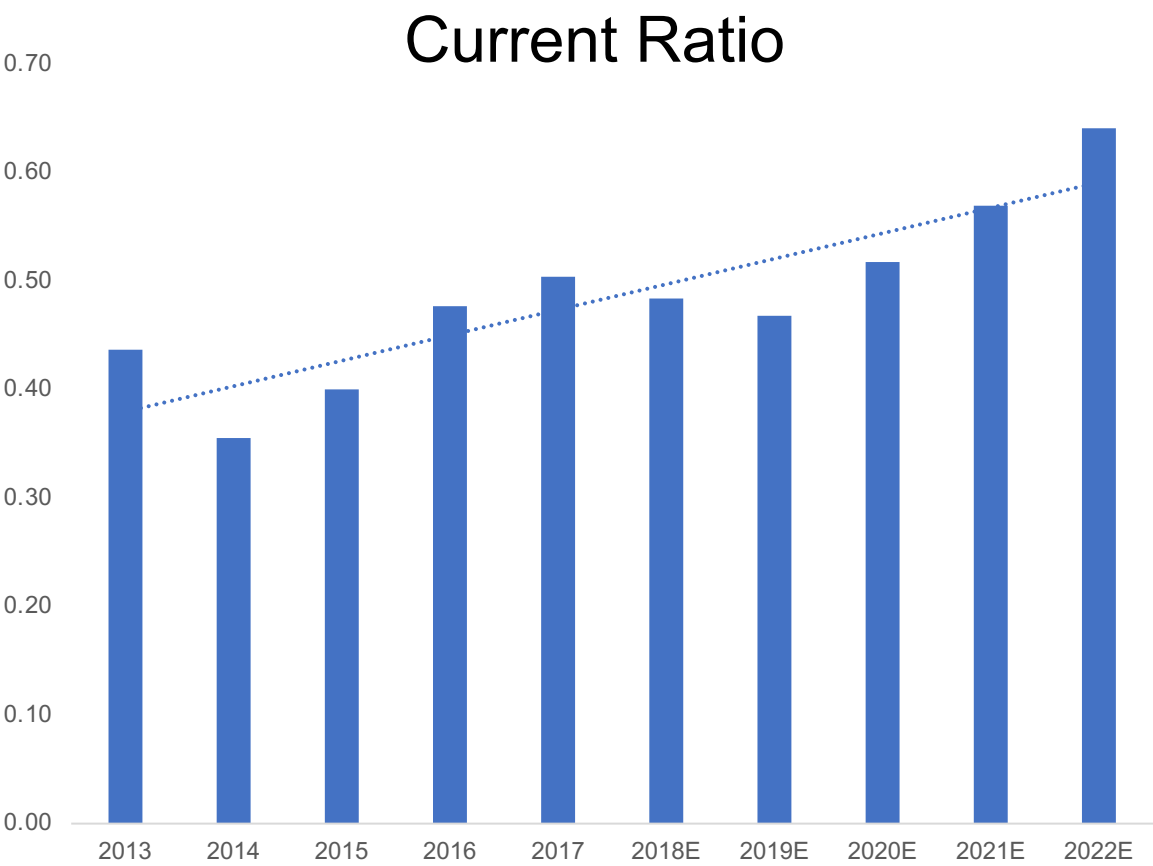
Ratio Analysis



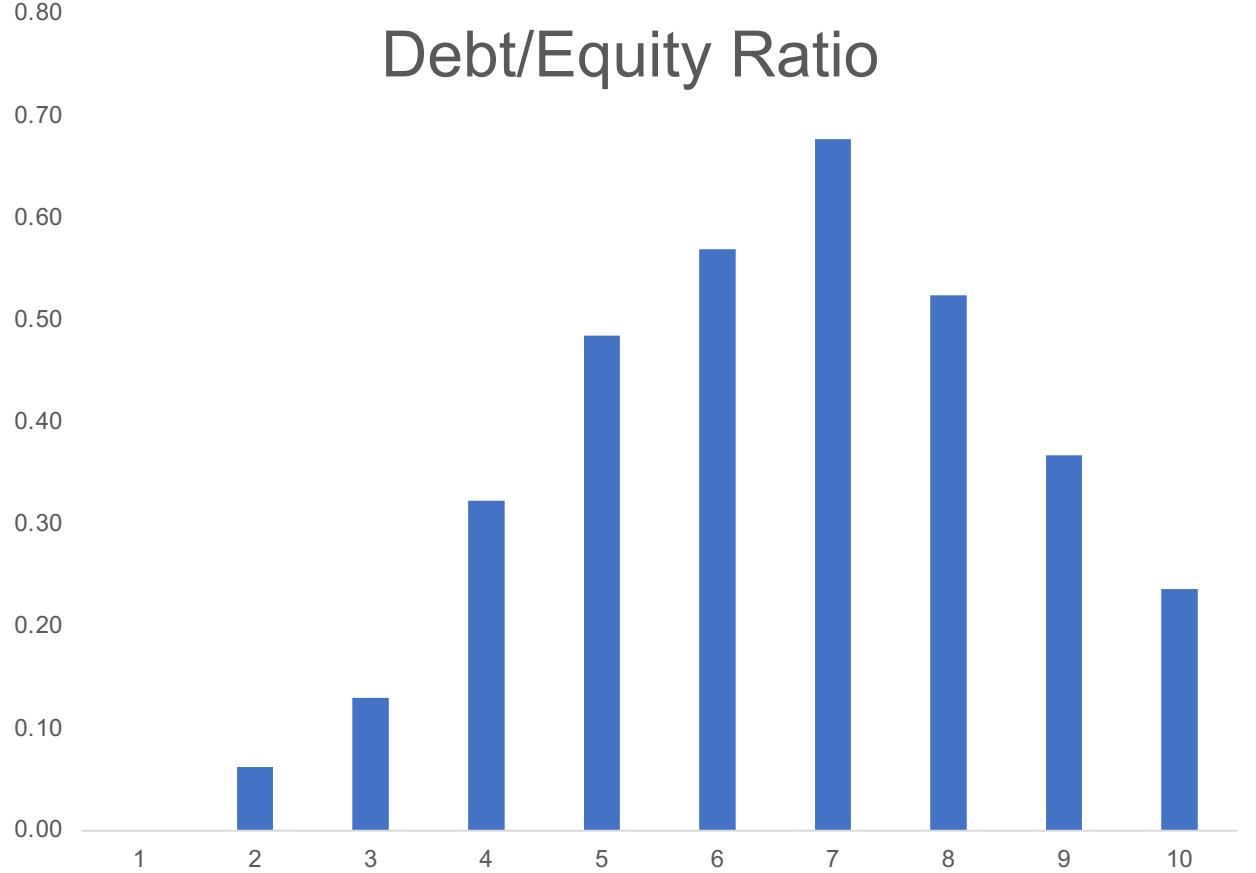
Ratio Analysis



Current Ratio



Debt/Equity Ratio



Blue Chip Partners



Banks	Card Networks	Digital Wallets	Consumer Apps	Marketplaces	Processors
JPMORGAN CHASE & CO.	VISA	Apple Pay	Uber	ebay	FIS
Bank of America	mastercard.	G Pay	GRUBHUB	mercado libre	fiserv.
Capital One	AMERICAN EXPRESS	SAMSUNG pay	Spotify	AliExpress	Paymentus
citi	DISCOVER	FACEBOOK PAY	Instagram	Etsy	
HSBC	UnionPay 银联	M-PESA	airbnb	Pinterest	

Source: Team Estimates

Proprietary ESG matrix -BNPL



E - Carbon Foot Print



S - Diversity



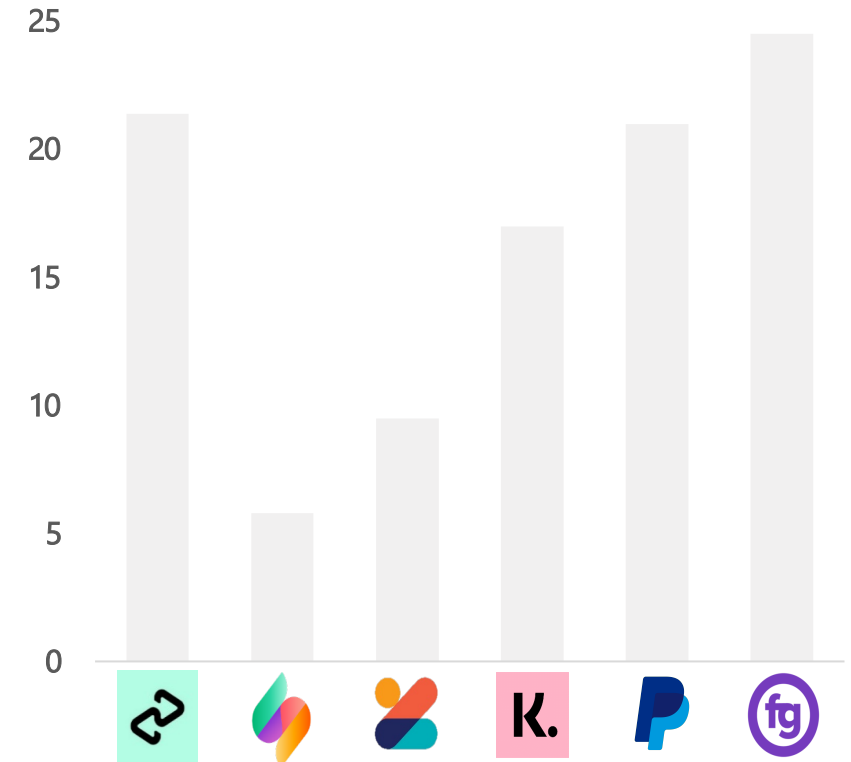
S - Community Impact



G - Remuneration



G - ASX Principles



Source: Team Estimates

Overview

TAM expansion

BNPL

Strong Portfolio

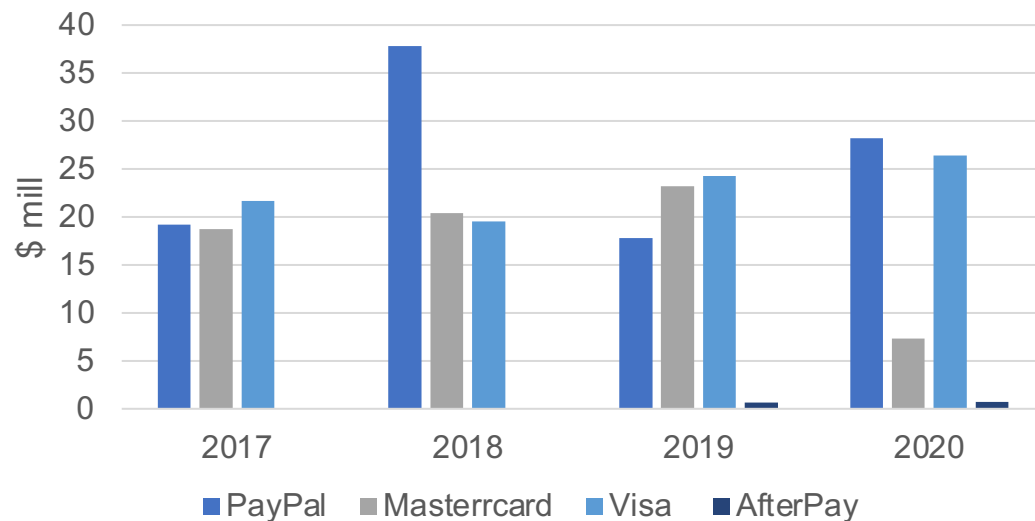
Valuation

Summary

CEO Compensation



Total Compensation received by CEO's over the years



Board tenure as at 30 June 2020

0 -1 Years



1 - 4 Years



4 - 6 Years



Source: Team: Annual Report

Overview

TAM expansion

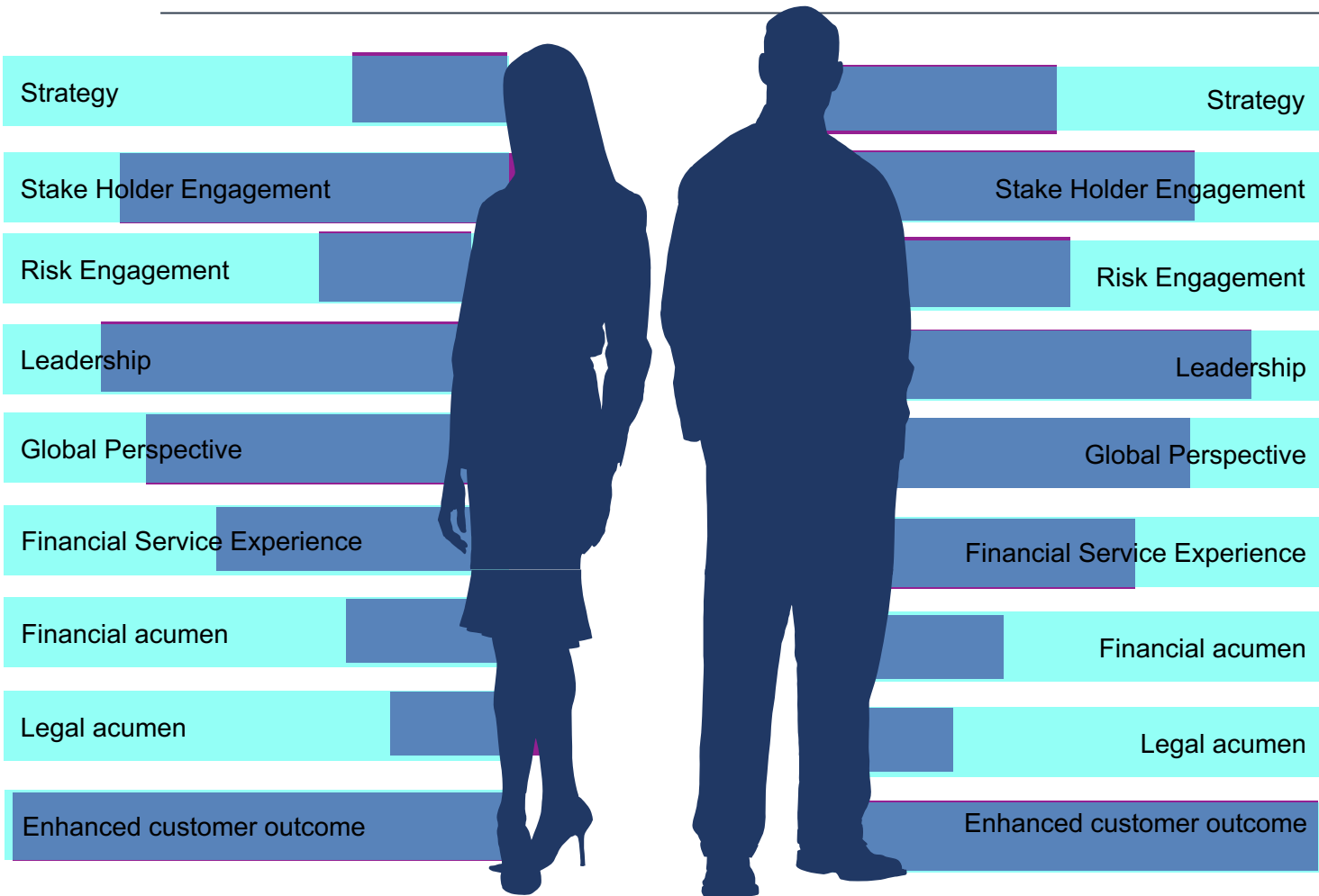
BNPL

Strong Portfolio

Valuation

Summary

Board Skills Matrix



DIRECT EXPERIENCE

HIGH COMPETENCY



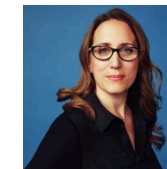
Dan Schulman
President and CEO, PayPal
Appointed: 2017



Mark Britto
EVP, Chief Product Officer
Appointed: 2017



John Rainey
CFO and EVP, Global Customer Operations
Appointed: 2018



Louise Pentland
EVP, Chief Business Affairs and Legal Officer
Appointed: 2016



Jonathan Auerbach
EVP, Chief Strategy, Growth and Data Officer
Appointed: 2018



Peggy Alford
EVP, Global Sales
Appointed: 2020



Aaron Karczmer
Chief Risk Officer and EVP, Risk and Platforms
Appointed: 2020



Sri Shivananda
EVP, Chief Technology Officer
Appointed: 2020



Franz Paasche
SVP, Corporate Affairs
Appointed: 2020



Gabrielle Rabinovitch
VP, Corporate Finance and Investor Relations
Appointed: 2017

Source: Team Estimates

Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary

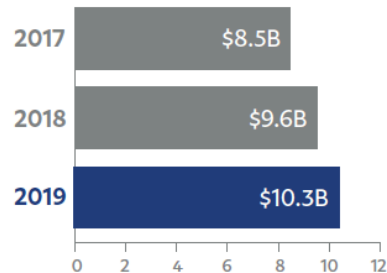
Social Contribution



Social Innovation

- Reached \$10B+ in funding to 225K+ small & medium businesses since inception
- Expanded Xoom services to 130+ markets, aligned with UN SDG Goal 10 to reduce inequalities

Funds Raised by Charities



Employees & Culture

- Instituted diverse hiring policy for every open position Director-level and above
- Established supplier diversity program to identify/increase use of diverse businesses

100%
global gender
pay equity

100%
U.S. ethnic
pay equity

Environmental Sustainability

- Made progress towards setting a science-based company-wide ESG emissions goal
- Revised our Environmental Sustainability Policy in accordance with ISO 14001 and other relevant standards

2019 Progress:
~65% of owned/
leased data centers
were matched with
renewable energy

Goal: 100% renewable energy
use in data centers by 2023

Responsible Business Practices

- Partnered with Polaris to create Financial Intelligence Unit to combat human trafficking
- Established a robust third-party code of conduct that includes requirements for sustainability, human rights, business ethics, etc.

All employees
complete annual
compliance and
ethics training

Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary

Proprietary ESG matrix -ASX Principles



Principle	Weighting	APT	Zip	Klarna	Sezzle	Paypal	Flexigroup
Principle 1: Lay solid foundations for management & oversight.	12.5%	4.6	5	5	5	5	5
Principle 2: Structure the board to add value.	12.5%	5	3	5	3	5	5
Principle 3: Instil a culture of acting lawfully, ethically & responsibly.	12.5%	5	5	5	5	5	5
Principle 4: Safeguard integrity in financial reporting.	12.5%	5	5	5	5	5	5
Principle 5: Make timely & balanced disclosure.	12.5%	5	5	5	5	5	5
Principle 6: Respect the rights of shareholders.	12.5%	5	5	5	5	5	5
Principle 7: Recognize manage risk.	12.5%	5	5	5	5	5	5
Principle 8: Remunerate fairly & responsibly.	12.5%	5	5	5	5	5	5
Total	100.0%	4.9	4.5	5	4.8	5	5

Source: Team Estimates

Overview

TAM expansion

BNPL

Strong Portfolio

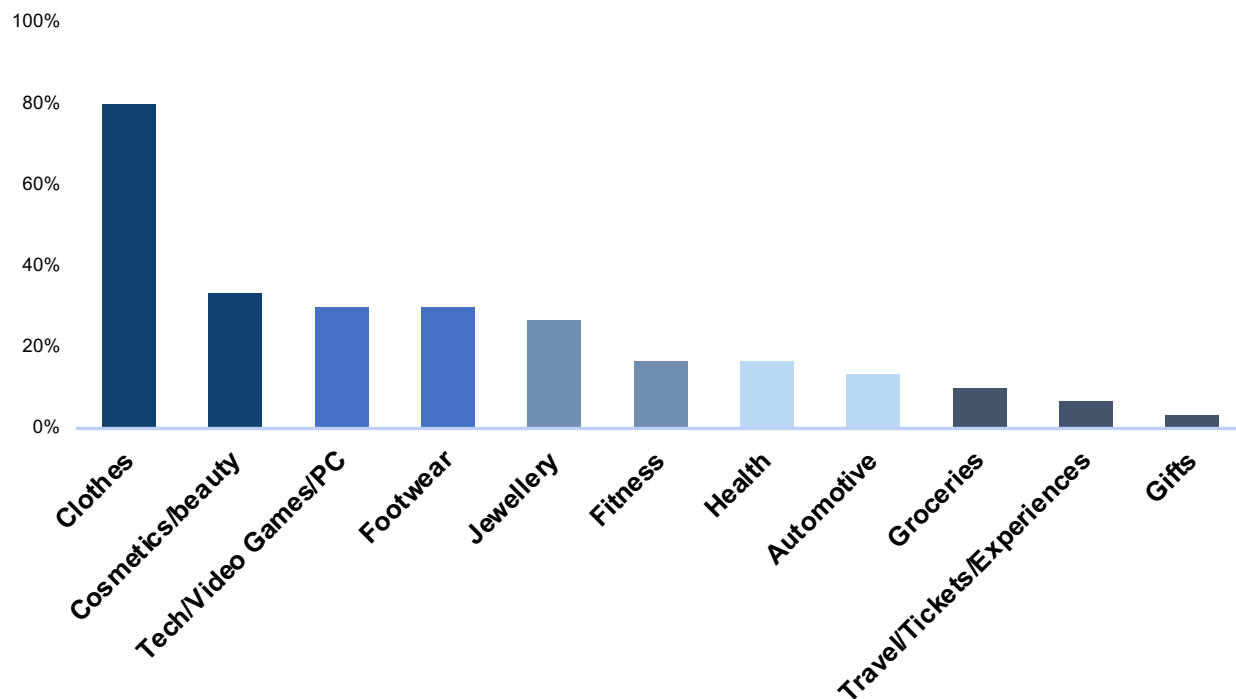
Valuation

Summary

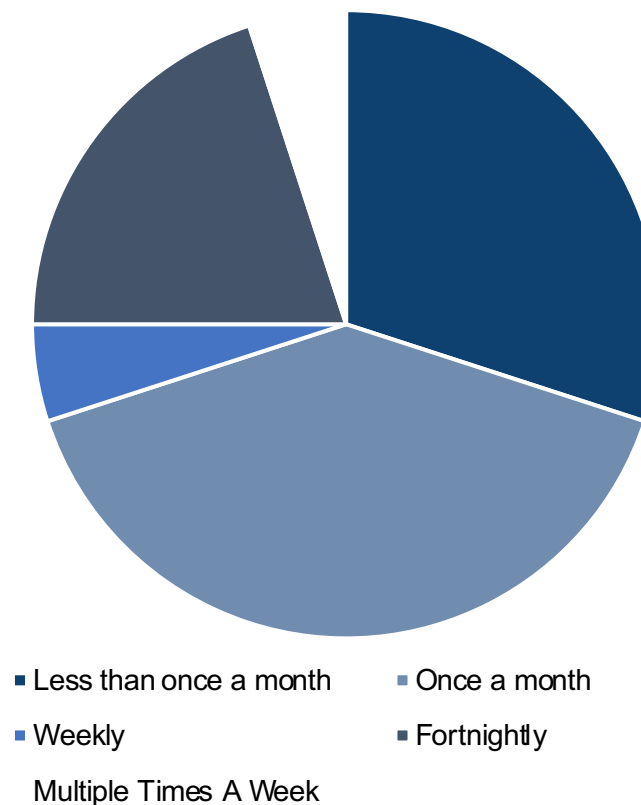
BNPL consumer survey 1



Products Purchased with BNPL



How Often Do You Use Your BNPL Service?

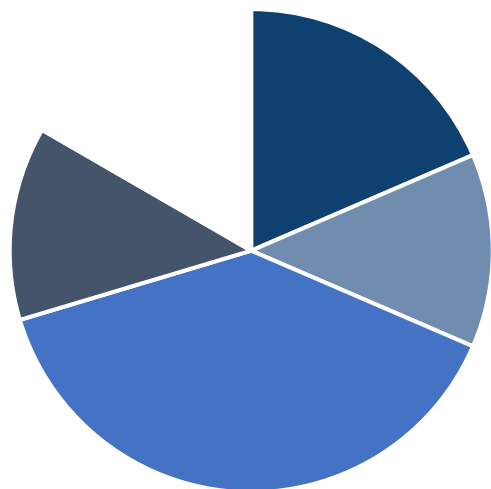


Source: Team Estimates

BNPL consumer survey 2

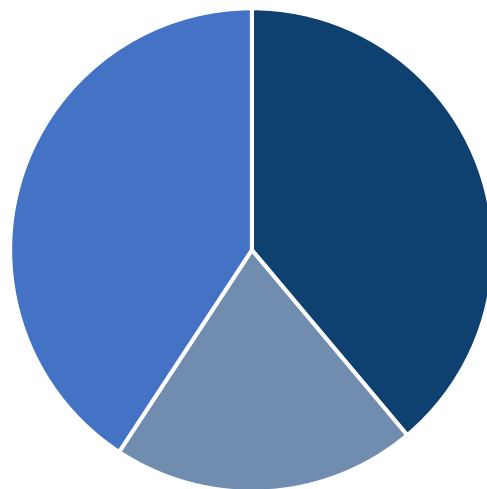


Perception if BNPL Service Owned By a Bank



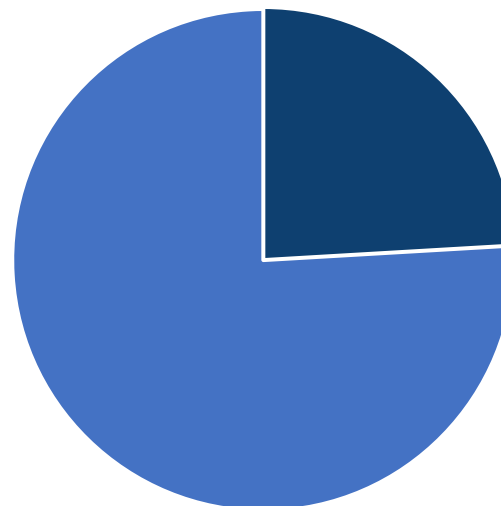
- Would Use
- Neutral
- Would Consider
- Hesitant to Use
- Wouldn't Use

Do you feel more comfortable with a bank or a BNPL provider?



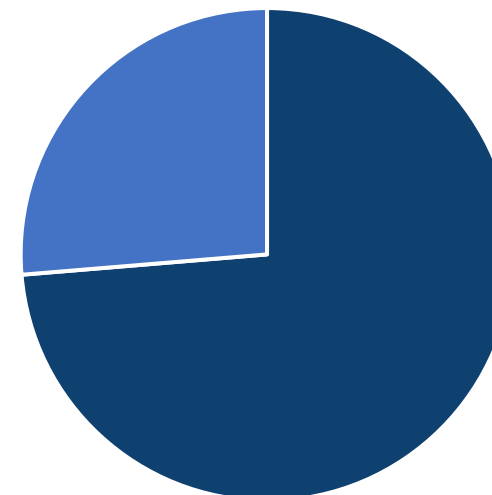
- Bank
- BNPL service
- Neutral

Do you have a credit card?



- Yes
- No

Do you trust banks?



- Yes
- No

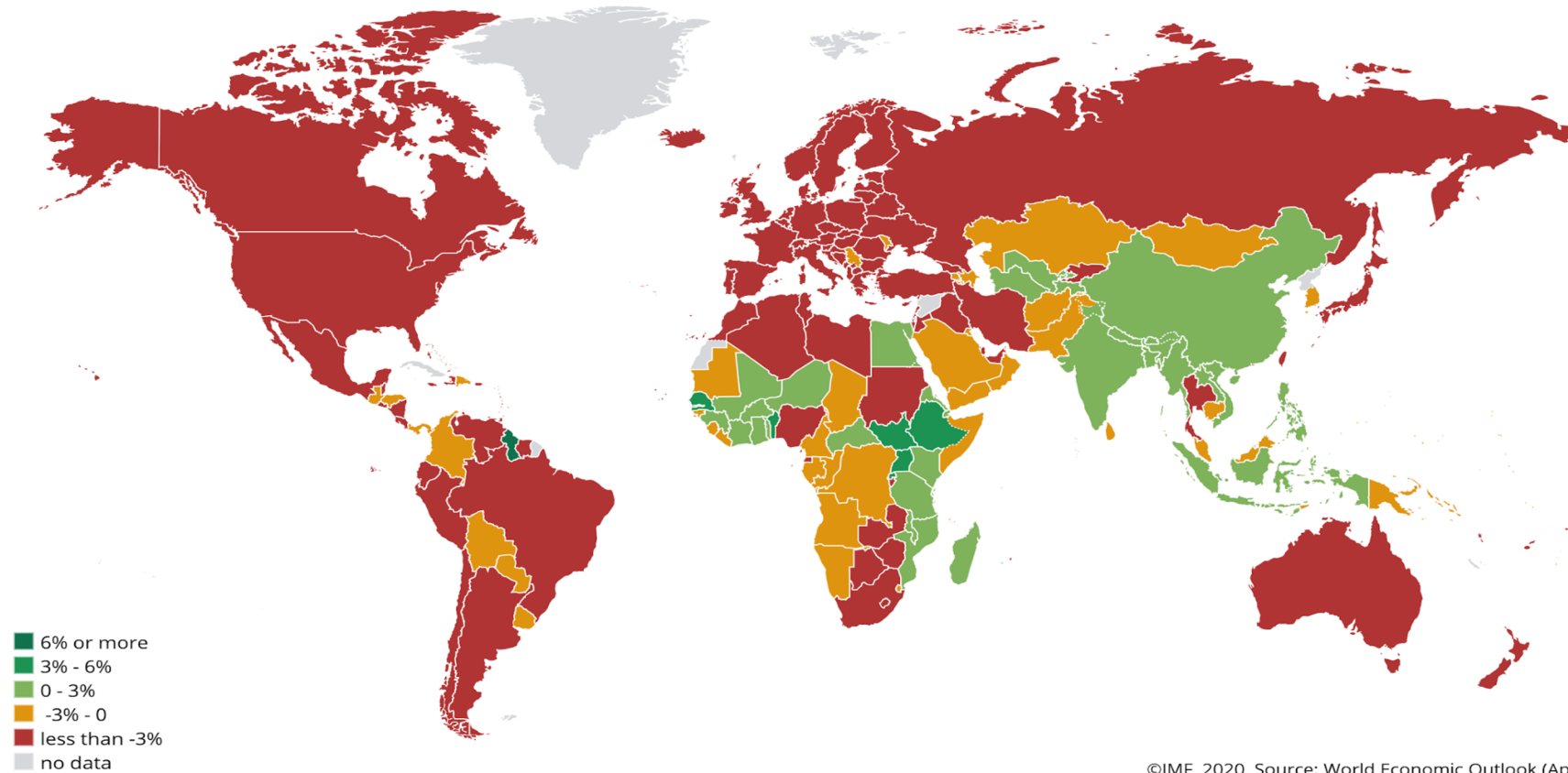
Source: Team Estimates

Real GDP Growth



IMF DataMapper

Real GDP growth (Annual percent change, 2020)



Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary

Strengths:

- Worldwide Operations: Provides online services for more than 200 countries
- Large Customer base: Two-sided scale that connects merchants and consumers with 305million active accounts- 281 million active consumer accounts and 24 million merchant account as at 2020
- Variety of Service: paypal, PayPal credit, Braintree, venmo, xoom and izettle – these products enable customers to send and receive payments
- Strong tech Background: Equipped with latest tech to ensure smooth transaction between merchants and consumers around the world over any device.
- User friendly: Easy use of access that allows merchants to join easily and customers to use the services.

Weaknesses:

- Exposure to Fraud: Tech support needs to ensure that hackers are guarded against at all times.
- High service fee: High fee on card authorisation, transactions, chargebacks and international cards.
- Controversies: That PayPal company terminates, withholds funds, and freezes the accounts of some of the users.
- Depends on Internet Connection: If there is no internet, then services are not available.
- Restrictions in some countries: PayPal is restricted in some fast developing countries like Sri-Lanka and Pakistan.

SWOT

Opportunities:

- Move towards lower cash economies: Developing countries like India are becoming cash-less and it provides a space for PayPal to expand
- Digital Cryptocurrency: Usage of Crypto is becoming more mainstream and PayPal accepts currencies like bitcoin.
- Linked with business: PayPal can increase its customer base and funds transfer rate by linking with many B2C types of businesses.

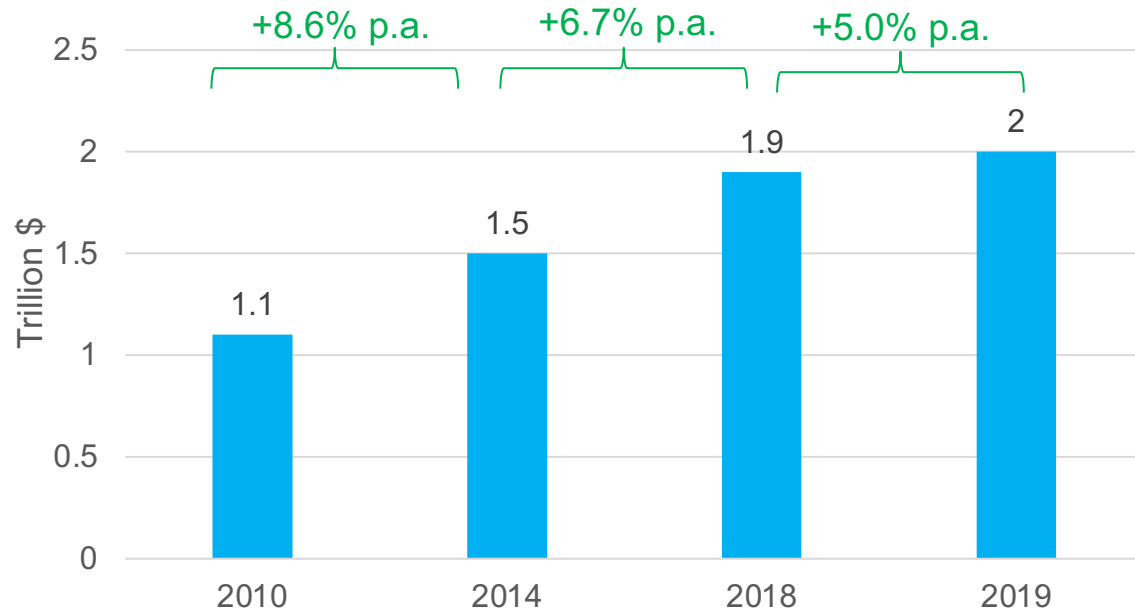
Threats:

- Strong Economic Regulations and Policies: countries like Taiwan, China, and Japan has strict rule and regulations for companies like PayPal to set up their business operations there
- Competitors: PayPal has very strong competitors like Google Wallet, WePay, etc. and they also have a large number of active users worldwide.
- Fraud and Hackers: Due to the large space that PayPal operates in, there is a large likelihood of risks from hackers.
- Bank/ Financial Services: PayPal used to have a great advantage when banks used to work manually. But nowadays, many banks provide the service of online transferring of funds.

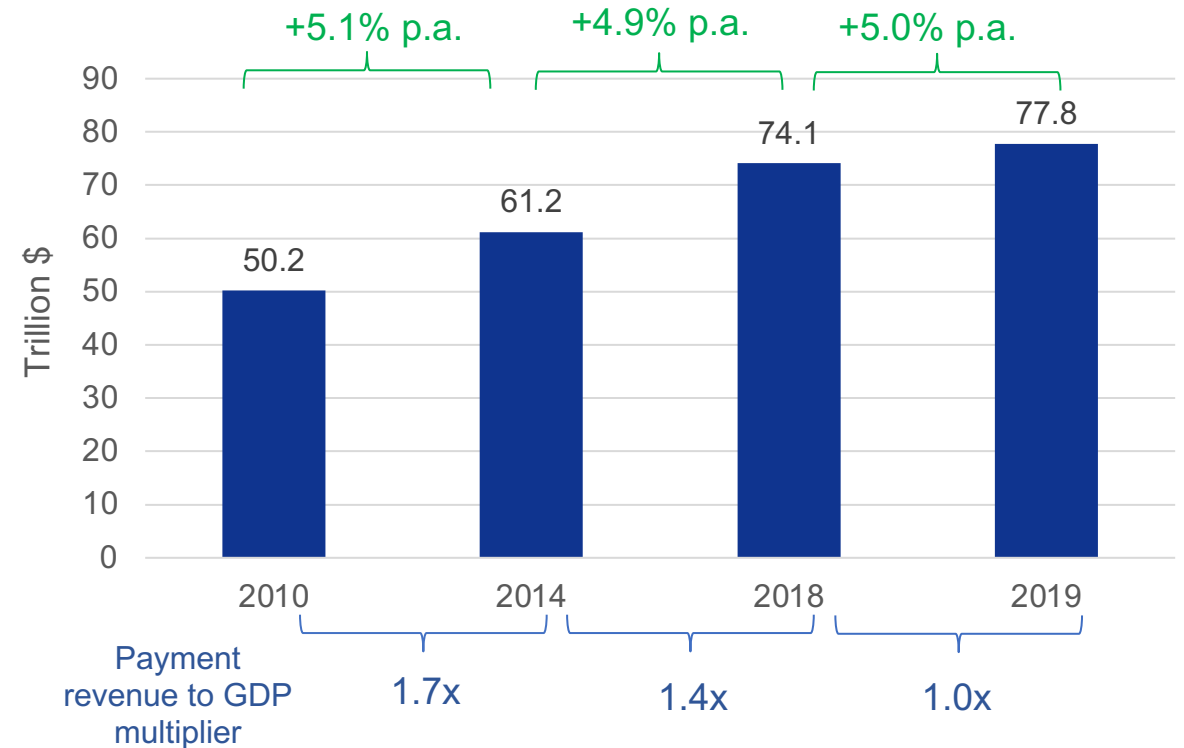
Growth in Payment Revenue has outpaced GDP



Global Payments Revenue



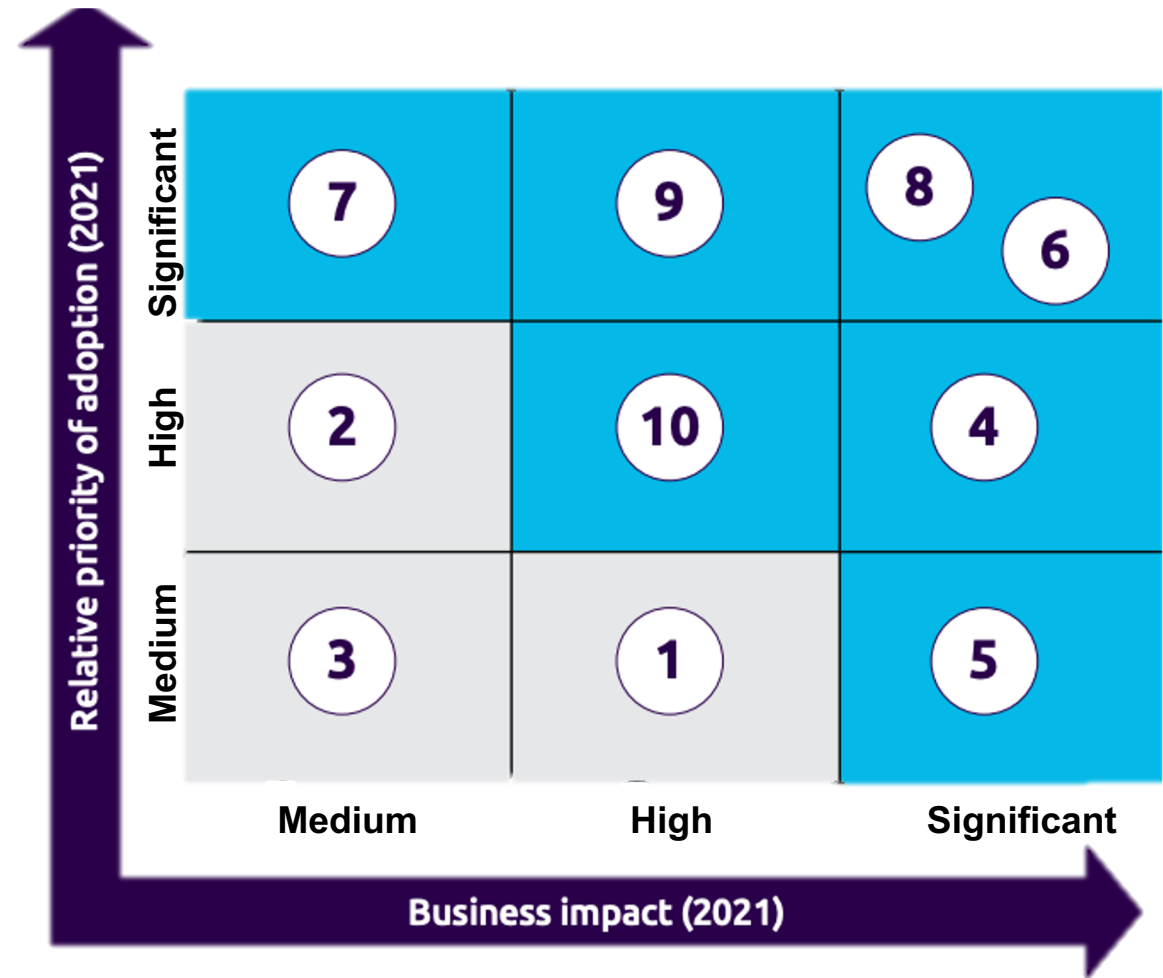
Nominal GDP



Trends in the Digital Payment Sector 2021



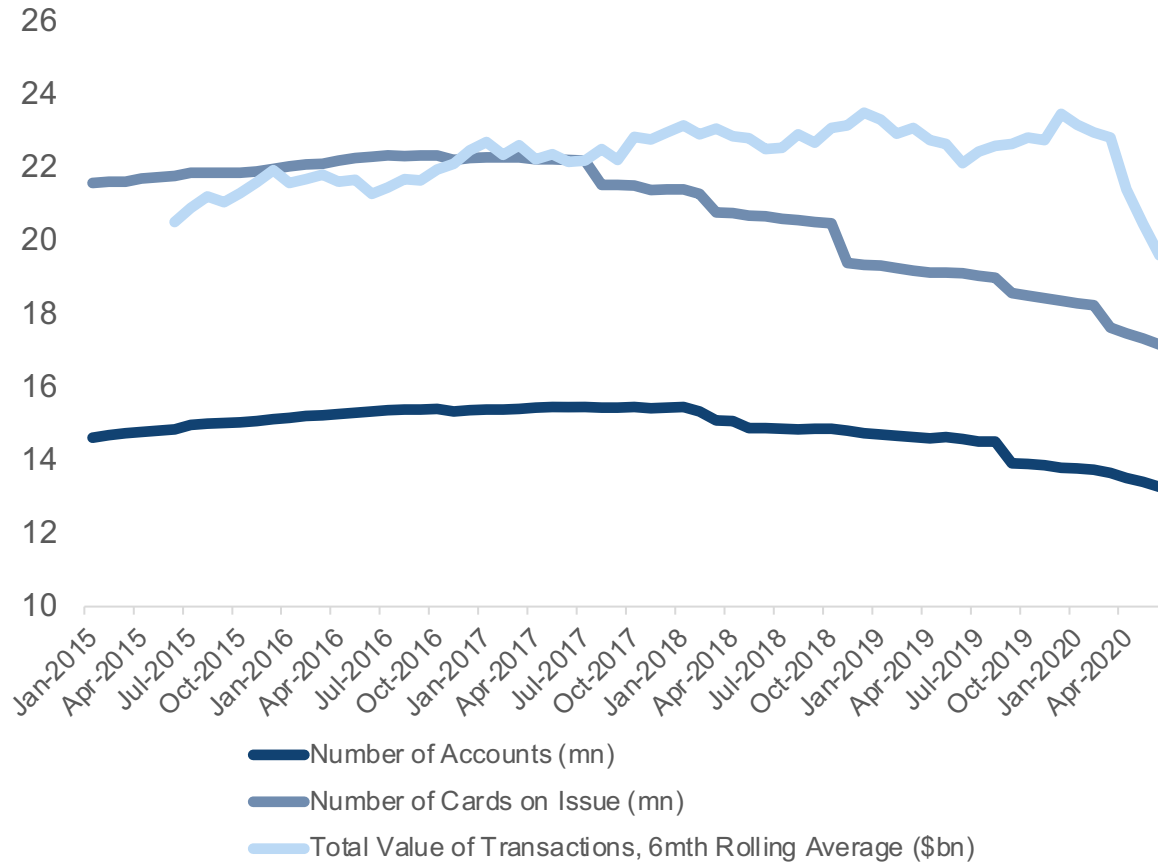
- 1 Payments-as-a-Service gains traction among small- and mid-tier institutions
- 2 Super-app operating models offer a path to one-stop functionality markets and end-to-end CX
- 3 Payments firms turn to DLT for efficiency and economy
- 4 Data-driven offerings are the latest winning propositions for payments firms
- 5 Digital ID becomes an invisible payments enabler for retailers
- 6 COVID-19 is fast-tracking alternative payments adoption
- 7 With an eye on expansion, tech giants augment payments offerings to attract new users
- 8 Investments in emerging technologies upsurge as payments firms augment their focus to combat fraud and fortify transaction data security
- 9 Regulators beef up scrutiny of new players and offerings as the ecosystem evolves
- 10 Evolving regional payment schemes are poised to challenge the powerhouse status quo



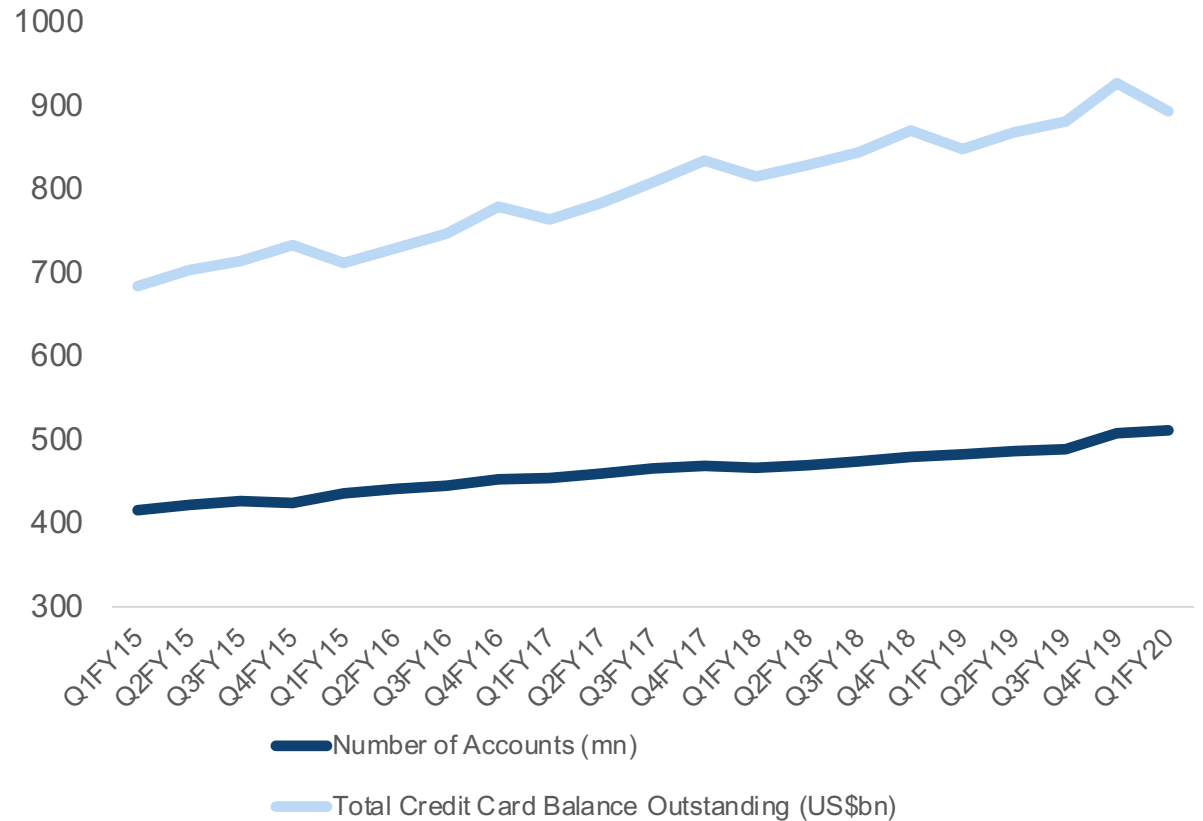
Credit card usage in Australia



Personal Credit Cards in Australia



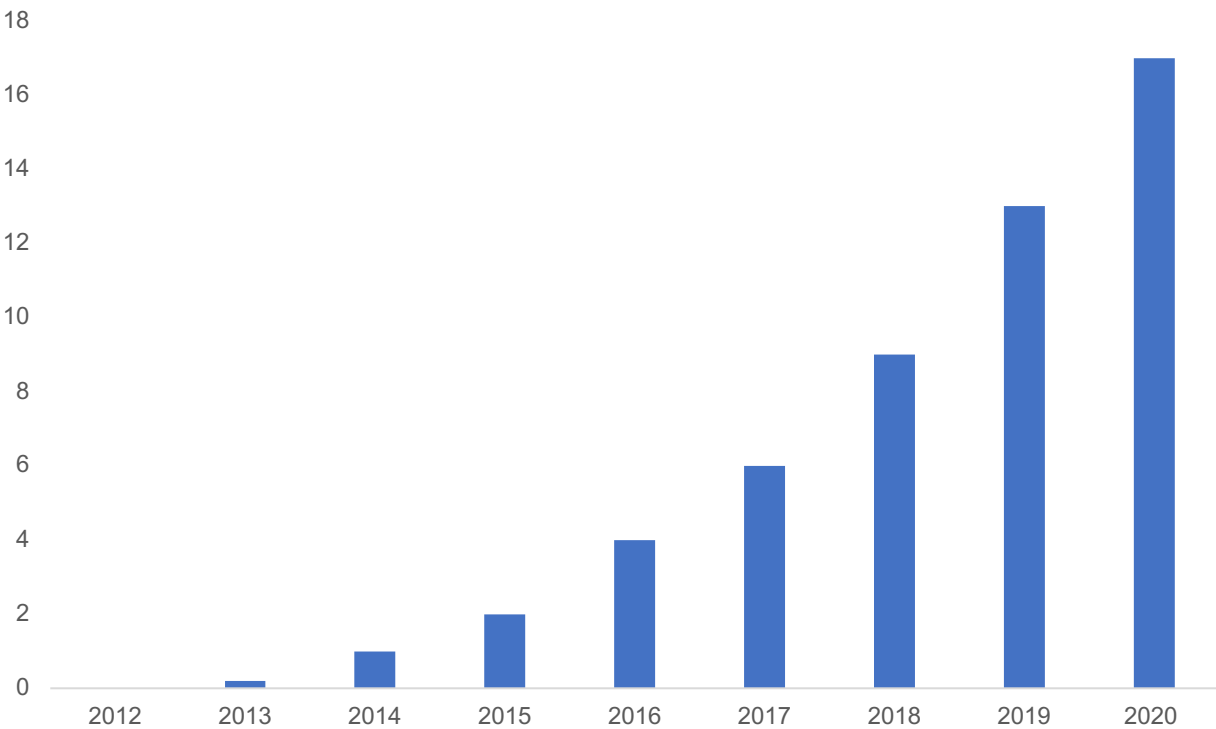
Personal Credit Cards in US



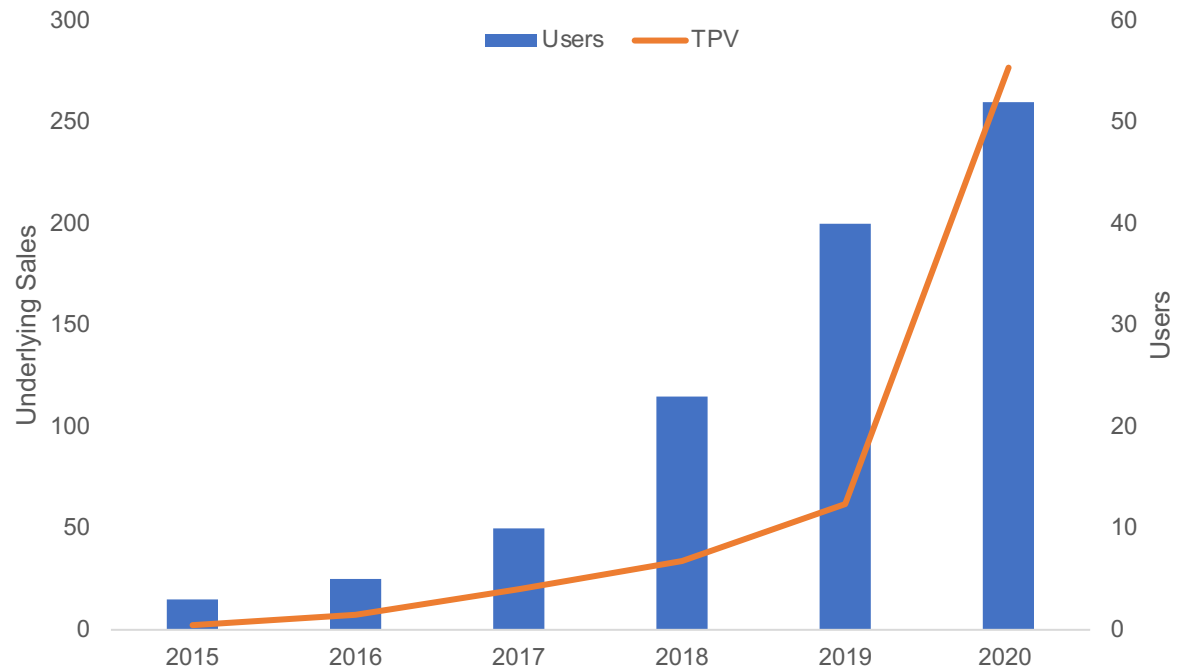
Honey & Venmo



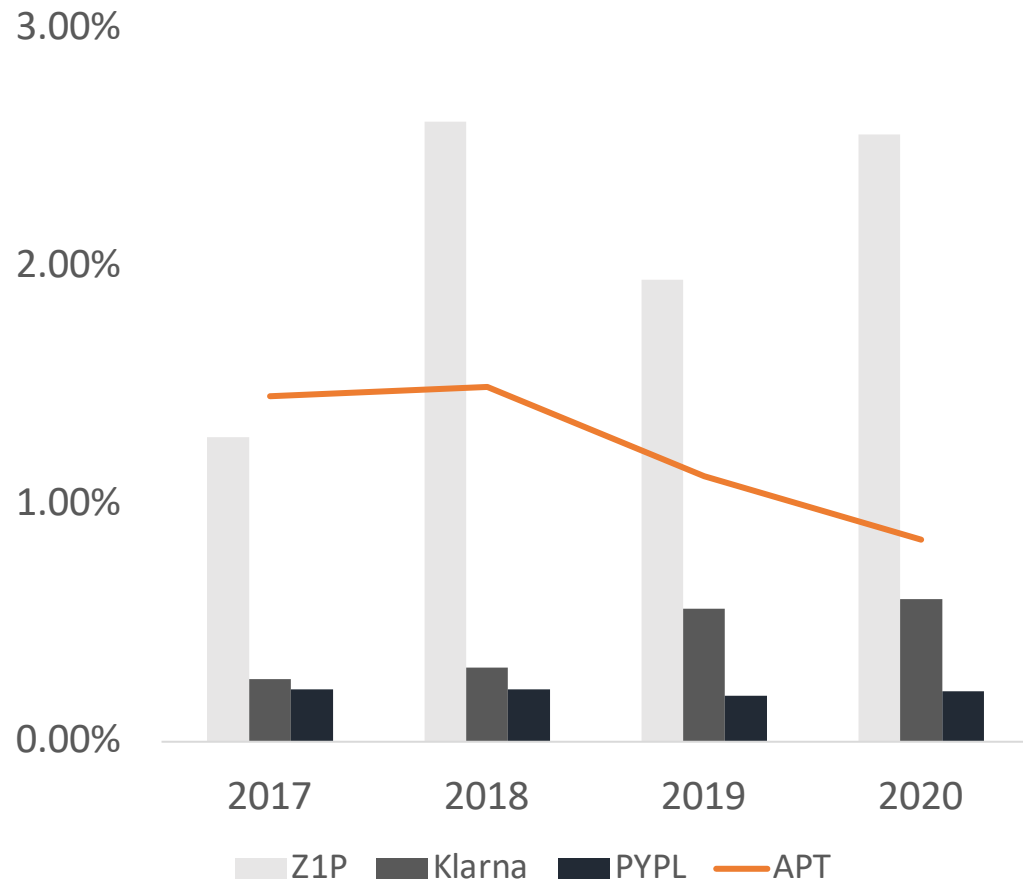
Honey Users



Venmo Users and underlying sales over time



BNPL - Impairment Expense/ GMV



	2017	2018	2019	2020
APT	1.45%	1.49%	1.12%	0.85%
Z1P	1.28%	2.61%	1.94%	2.56%
Klarna	0.26%	0.31%	0.56%	0.60%
PYPL	0.22%	0.22%	0.19%	0.21%

Source: Team Estimates,
Annual Report

Overview

TAM expansion

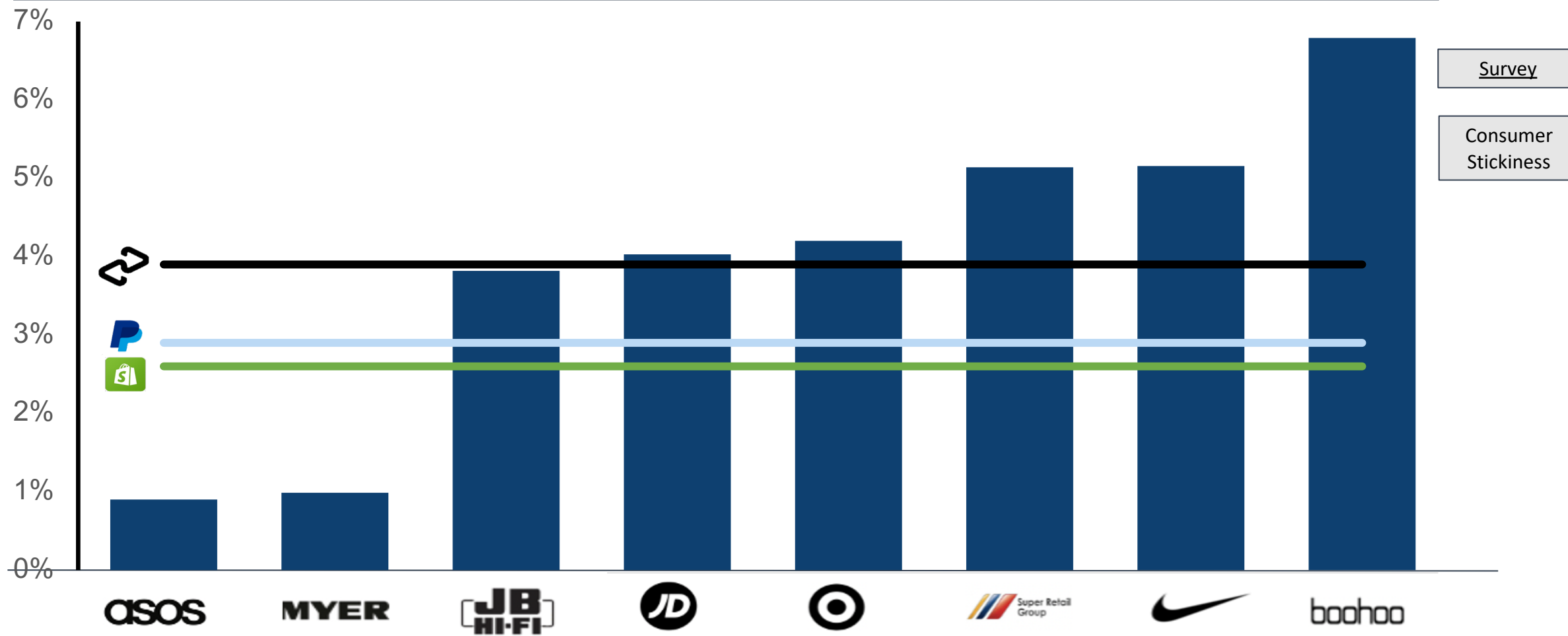
BNPL

Strong Portfolio

Valuation

Summary

Merchant Profit Margins VS Merchant Fees



Source: 2020 Annual Reports

Overview

TAM expansion

BNPL

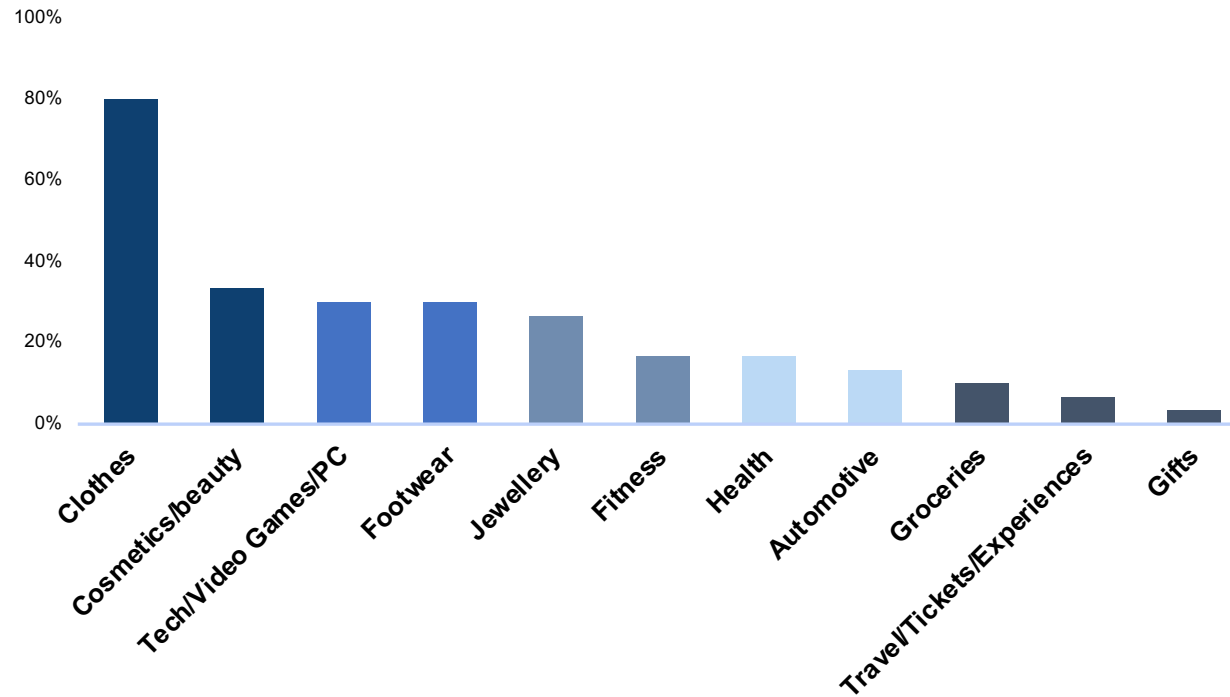
Strong Portfolio

Valuation

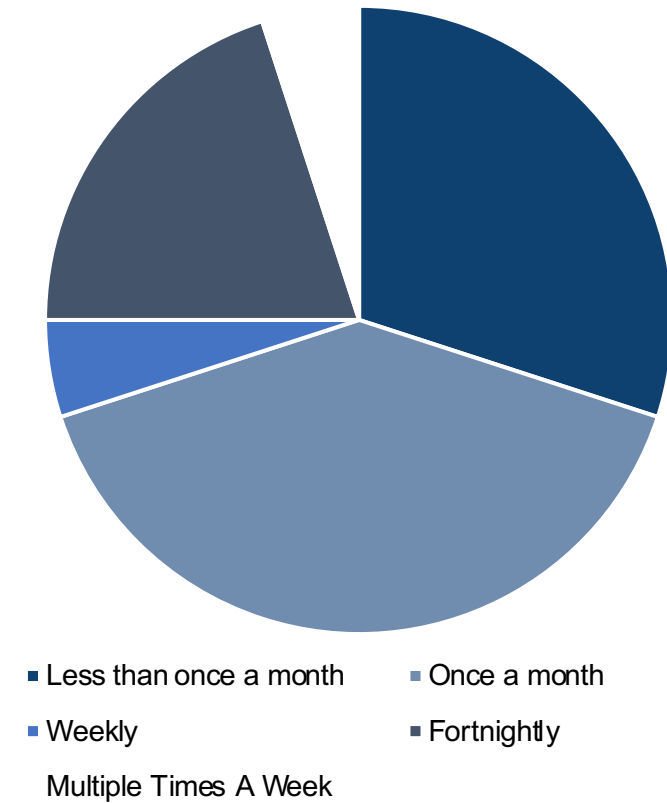
Summary

Survey Results - Consumers

Products Purchased with BNPL



How Often Do You Use Your BNPL Service?



[Consumer Stickiness](#)

[Merchant Stickiness](#)

Overview

TAM expansion

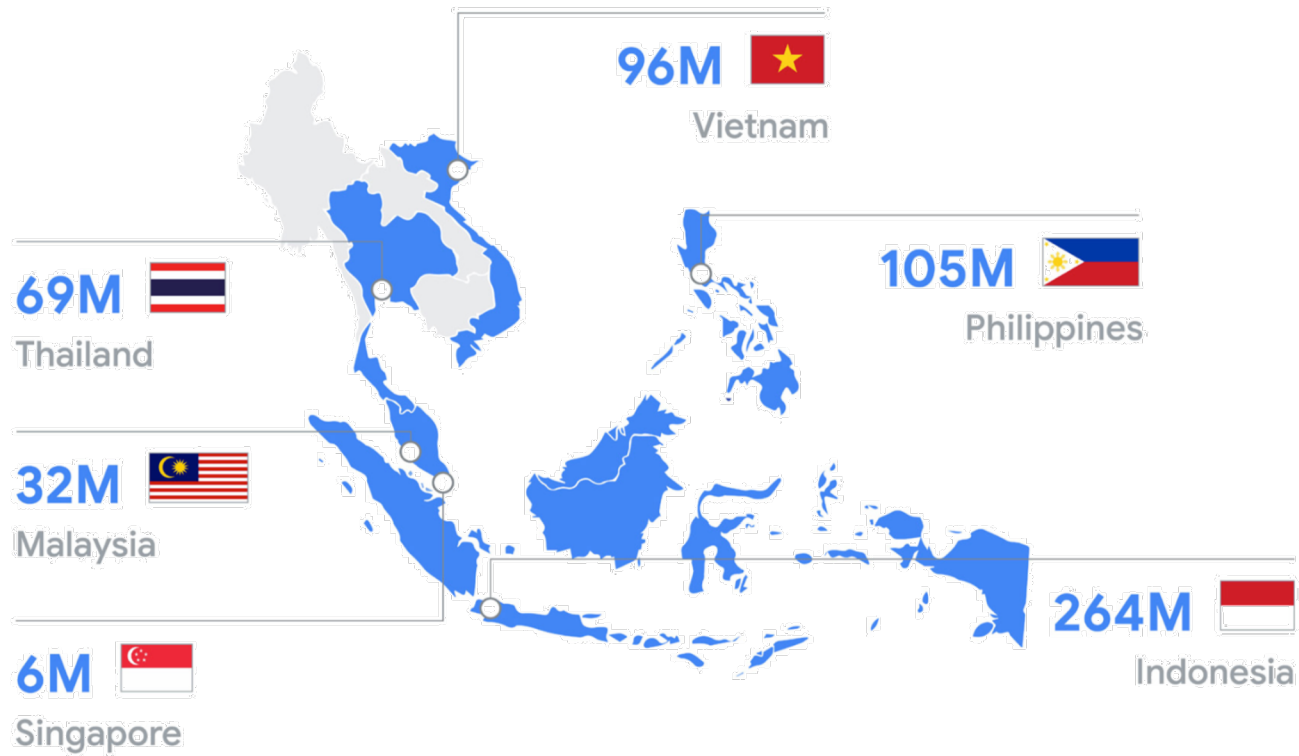
BNPL

Strong Portfolio

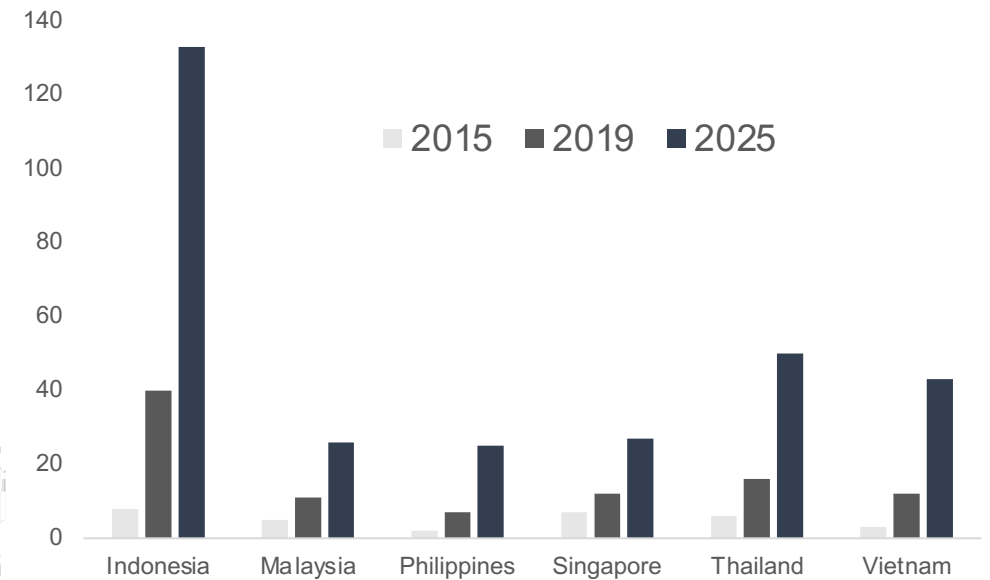
Valuation

Summary

South Asian and the internet economy



South-East Asia Internet Economy (GMV, US\$B)



Overview

TAM expansion

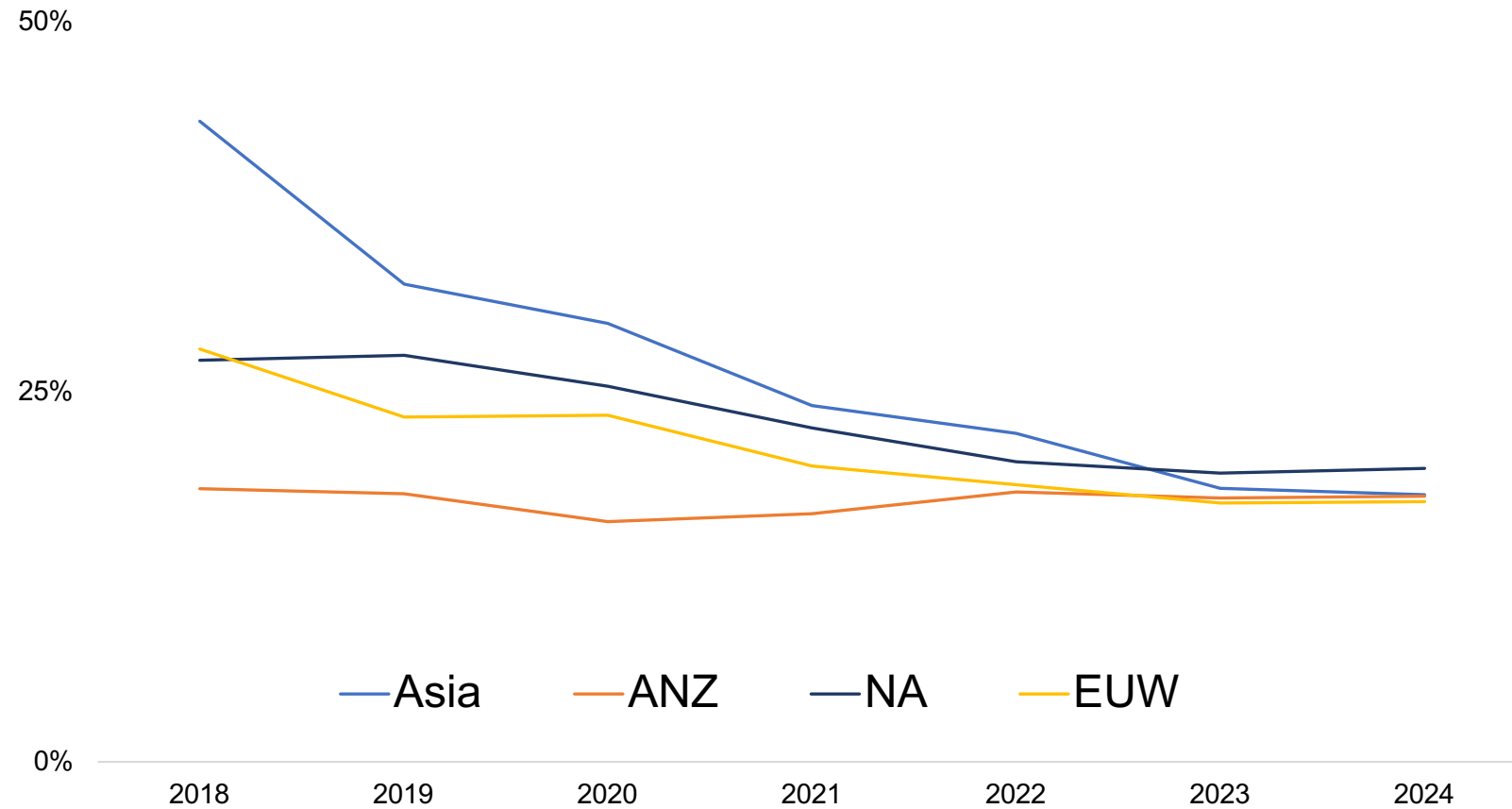
BNPL

Strong Portfolio

Valuation

Summary

M- commerce and Industry Growth



Source: Team Estimates

Overview

TAM expansion

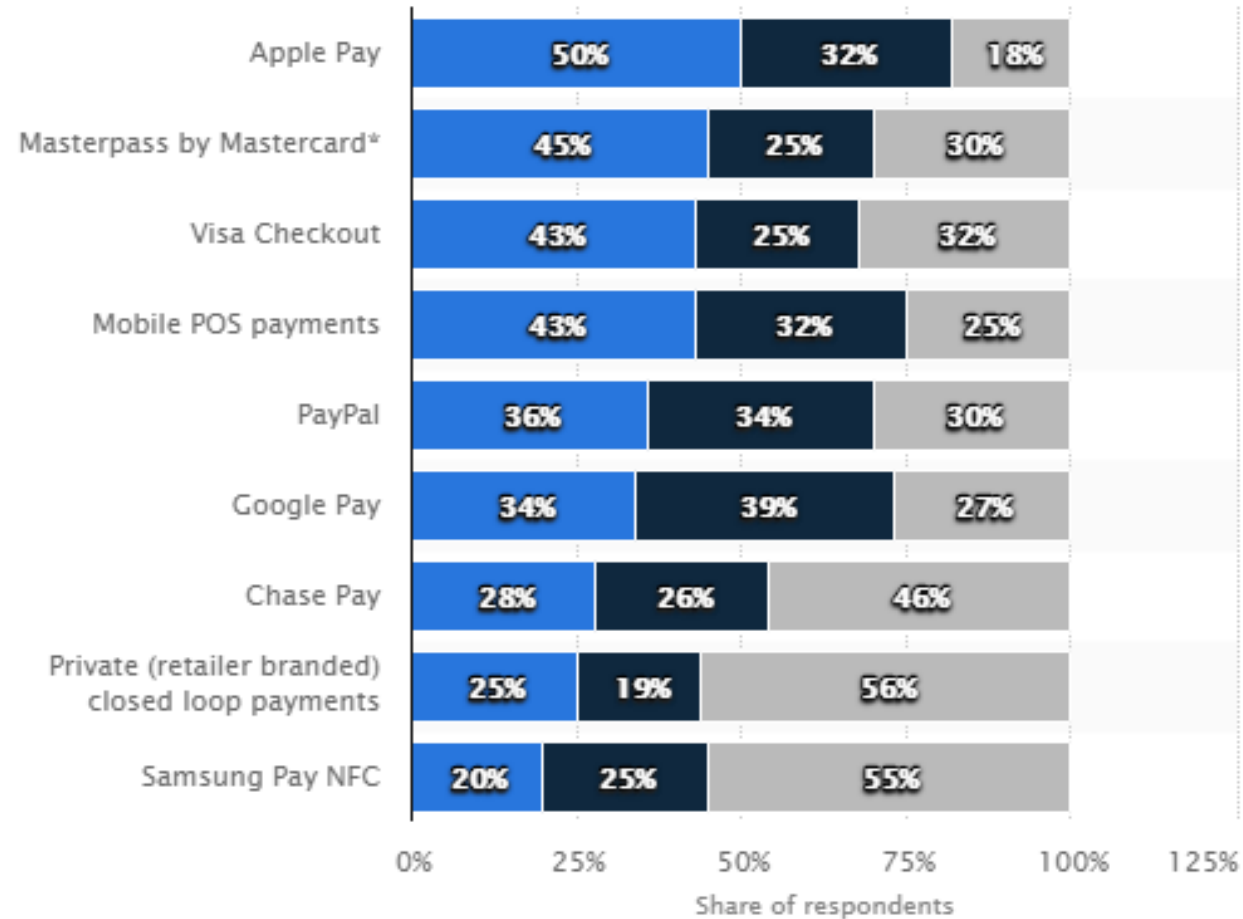
BNPL

Strong Portfolio

Valuation

Summary

Accepted payment methods by merchant



● Already accept ● Accept within 2 years ● Wait and see approach

Overview

TAM expansion

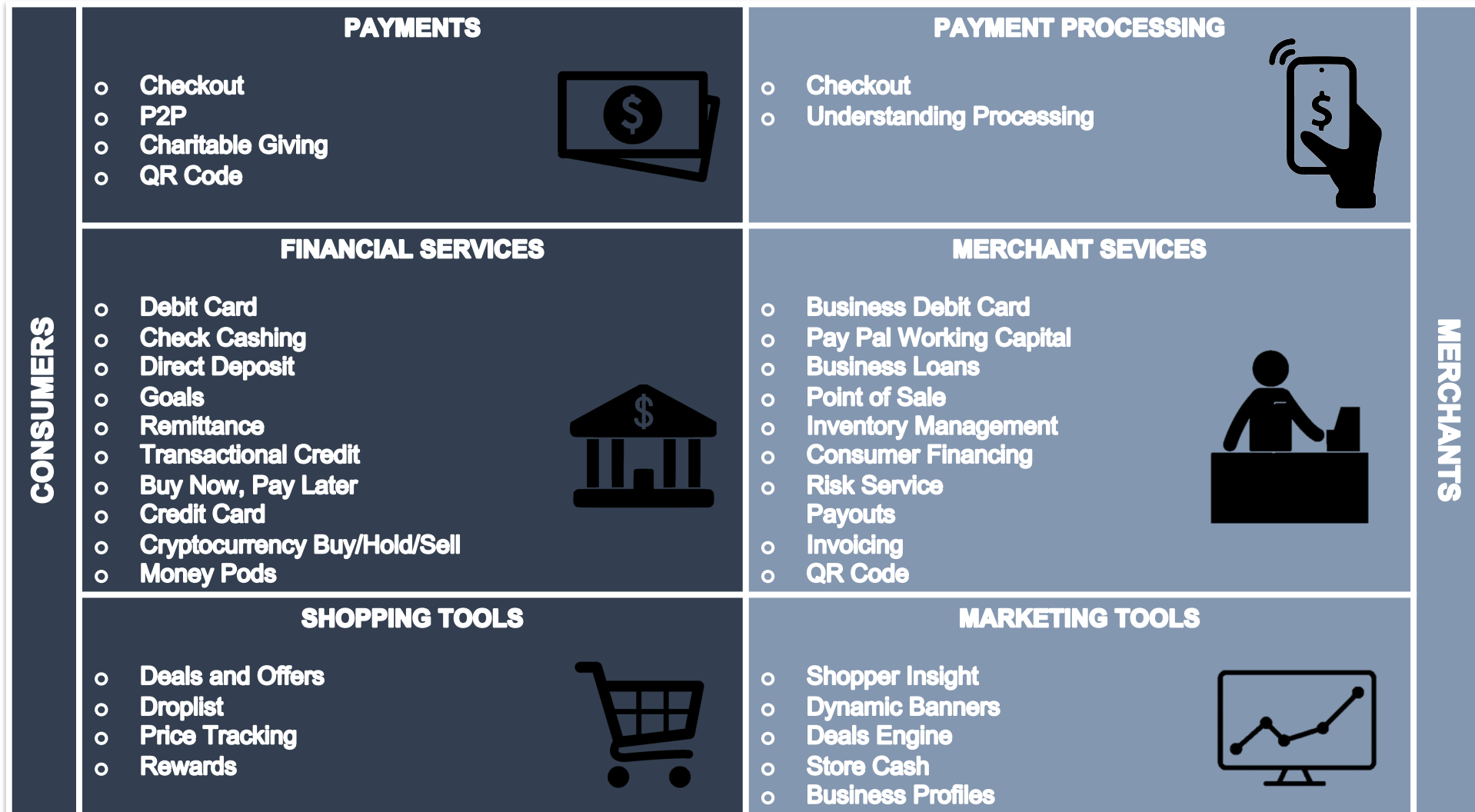
BNPL

Strong Portfolio

Valuation

Summary

Functionality



Source: Team Estimates, Annual report

Overview

TAM expansion

BNPL

Strong Portfolio

Valuation

Summary



PYPL..... THE MUST HAVE DIGITAL WALLET

We issue a **BUY** recommendation on PayPal Holdings Inc (NASDAQ: PYPL) based on a 12 month target price of \$328.19, representing a 31.6% upside from the last close of \$249.48 on 15 March 2020. We believe the current price represents the market underestimated the benefits PYPL receives due to synergies between growth in the e-commerce and e-banking industry and PYPL's extensive product suite.

PayPal Holdings Inc. (PYPL) is a global payments company formed through the 2015 divestment of eBay and PayPal. Now trading under the ticker PYPL, PayPal is the **market leader** in the online transaction processing industry. PYPL's goal is to enable consumers and merchants to manage and move money anywhere in the world, anytime, on any platform, and using any device. The California based company is operating across 200 countries with 377 million customers and xxx merchants.

PYPL's stock price has dropped 16.4% since its peak of \$298.37 USD on 12 February 2021, a correction experienced by most major technology stocks due to market concerns on the effect of rising interest rates on the industry. However, we believe the market has largely underestimated the catalytic effect of COVID-19 on e-commerce and the digital payments industry allowing PYPL to enter the in-store market, PYPL's ability to cannibalise their pre-existing consumer base to enter the Buy-Now-Pay-Later (BNPL) market and the integration benefit PYPL has achieved through aggressive M&A activity allowing them to become a one stop shop for all electronic banking products across the globe.

PayPal to overpower existing Buy Now Pay Later firm.

PYPL has a significant advantage in the BNPL space due to a pre-existing consumer base and infrastructure, which will positioned to significantly reduce PYPL's expenses. In September 2020, PYPL launched their BNPL service "Pay in 4" in the US market. The US BNPL market has a total addressable market of 5.7 trillion, accounting for 60% of the international market. In a 3 month period PYPL amassed an impressive 2.8 million subscribers. Dwarfing the growth rate of market leader's such as Klarna and Afterpay. Due to its pre-existing consumer base of 198,000,000 US users PYPL has significant intangible asset which would ultimately lead it to being a market leader in this sector. A 8% penetration in their pre-existing consumer base would make PYPL the market leader in the US BNPL market. BNPL peer Afterpay reported their marketing expense to account for 14% of revenues. However due to the synergies between BNPL and digital payments, marketing is a cost that PYPL can avoid.

While Afterpay entered the US market before PayPal, it took them 18 months to gain 2.8 million followers while it only took PayPal 3 months to achieve the same feat. Therefore, we expect that the release of the FY21 annual report to be one of the first inflection points for PayPal. This is proofed by the following to factors.

- Using a linear regression, we were able to pinpoint the time at which the Pay in 4, PYPL's BNPL app will exceed the consumer base of market darling Afterpay in the US BNPL market.
- Pay in 4 is due to launch in Australia in June 2021, by FY22 we predict that PYPL will have a significant market share in the Australian market, fuelled by merchant adoption of the platform.
- We expect an accelerated merchant adoption to PayPal's BNPL app because, PYPL offers a merchant fee rate that is much more in line with their NPM than that of Afterpay.
- Additionally it should be noted that the majority of these merchants would already have been integrated with the PYPL platform due to the platform being widely used to facilitate online transactions.

With consumers finally heading outside, PayPal has decided to not only relaunch its instore QR payment option but also head to china.

We expect in-store growth to significantly boost PayPal's revenue and customer base not only in the US, but also in China as they get the green light from Chinese officials. Currently PYPL is the market leader in the online digital payments industry, however, this industry is limited in its Total Addressable Market, when compared with the in store transactions industry. COVID-19 has acted as a catalyst to the extinguish the cash economy, and bolstered opportunities for contactless payments with 3 out of 4 Americans using at least one digital payment method. In this environment PYPL is in a unique position to take advantage of the synergies between in store payments and their digital payments capabilities. By using iZettle, Curve, QR Code and Go Pay, PYPL can target this instore market. Further by using this 4 prong approach PayPal will be able to leverage their pre-existing merchant base to boost the consumer transition into this market. As a result PayPal will not only capture the in-store digital wallet users in the US. With the acquisition of GoPay PayPal now has access to the \$5 trillion Asian payments transaction market. More specifically the \$2 trillion Chinese market.

Using QR Codes, PYPL can significantly reduce the cost of traditional POS terminals and due the low infrastructure requirements, existing merchants can be onboarded at an exponential rate.



Favourable Macro factors to complement PayPal's growth strategy and expand its Total Addressable Market.

Macro factors, aggressive M&A and the extinction of the cash based US economy and global economy, provided PayPal with an undeniable advantage to expand its Total Addressable Market, by serving and attracting consumers and merchants from South East Asia, Europe and Latin America.

Over the years PayPal has positioned itself as a market leader in the digital payments' platform due to the ongoing shift of consumer behaviour. Prior to COVID 19 the digital payments industry was poised to grow steadily at a 5-6% CAGR until 2023. However, with the introduction of the pandemic that turned nearly every human being's life upside down, a significant acceleration in the adoption of at least one type of digital payment method has taken place in the last 12 months. As a result, year on year transaction value in digital payments industry grew by 23.7% in 2020 representing a total value of \$4.93 trillion.

On top of the pandemic accelerating the transition of consumers to the digital payment's ecosystem the launch of 5G is expected to inflate the US cross border e-commerce sector's \$203 billion. With the launch of 5G we expect more consumers to have access to internet. This will lead to more online consumers worldwide and faster websites as the latency will be reduced by 10x and network efficiency by 100x. Further the advancement of 5G is expected to increase the shopping experiences to an even broader spectrum of digital consumers and boost the e-commerce revenue by \$12 billion in 2021, therefore merchants and retailers offering digital wallet services and the services of PayPal is expected to benefit from the trend greatly.

This digital shift with the consumers is encouraging merchants to shift their businesses online. Small businesses seller sign ups have increased by 150%. As PayPal is offering a seamless less intensive signup process we expect industries such as healthcare, professional services and education which in the past has not received a material portion of payments through B2C digital channels shifting to the digital payment platform and have PayPal be the primary payment service provider to 3/4 of new merchant.

We believe these macro points have complemented PayPal's organic and inorganic growth strategy giving it the opportunity to grow their revenues well above the industry median of 20% by 2025. We estimate the organic growth to come from PayPal's reintroduction of the in-store QR code, crypto accounts, direct deposits and Pay in 4. While these new services are not expected to grow the revenue significantly, we expect consumer stickiness, and expect it to flow on more merchants signing up with PayPal's Platform. The inorganic growth is pushed through the various strategic partnerships and acquisitions conducted by PayPal. Further these partnerships and acquisitions will help PayPal penetrate the underpenetrated south east Asian market. These acquisitions will give rise for PayPal to enhance its cross border payments which in return will inflate the growth rate of PayPal well above the industry median.

Things are set to get better for PayPal for the next 5 years.

Our valuation was derived by using the Free Cash Flow to Firm, Free Cash Flow to Equity and Relative Valuation models. Our FCFE model derived a valuation of \$395.65 and while the FCFE model derived a valuation of \$375.83. We used a conservative cost of equity of 6.32% and a cost of debt of 1.07%. Given our bullish view, we employed a conservative WACC of 6.15%. In order to obtain our Terminal Growth rate of 1.94% we considered the GDP, Population Growth and inflation rate. Using a relative valuation method, we achieved a Target Price of \$199.07. Using P/E, EV/EBITDA and P/S we get the following target prices respectively \$179.41, \$197.93 and \$240.66. We weighted the FCFE, FCFE and Relative valuation as 40%, 40% and 20% respectively. We have underweighted the relative valuation as none of PYPL's competitors have the coverage of the industries that PYPL covers, further the relative valuation does not account for the non-systematic growth that PYPL will experience in the next 12 months.

Following are research we believe that the market has failed to capture the true value of the services PayPal has to offer to a POST-COVID world. Therefore we propose a **LONG** position on the stock with a target price of \$325, with a **31.6% upside**.

Key Highlights	2020	2021E	2022E	2023E	2024E	2025E
Total Revenue	21454	27032	33790	42238	52375	63897
Operating Expenses	17988	21226	24410	28071	32001	36481
EBITDA	4815	5806	9380	14166	20373	27416
EBIT	3466	4247	7577	12082	17964	24630
EBT	3345	4110	7425	11914	17782	24437
Net Income	2482	3370	6089	9770	14581	20038
Shares Outstanding	1171	1190	1183	1180	1180	1180
EPS	2.11	2.83	5.14	8.27	12.36	16.98