

PayPal Holdings Inc

Takeaways from meetings w/ new CEO/CFO

Maintain Rating: NEUTRAL | PO: 64.00 USD | Price: 63.00 USD

New mgmt moving with urgency; stock requires patience

Yesterday we hosted PYPL's new CEO Alex Chriss and CFO Jaime Miller for investor meetings in Boston. Innovation and profitable growth are top priorities. High degree of urgency around execution is evident. Bias in near-term ests seems modestly higher. However, we believe it will take time to change the trajectory of transaction profit growth sufficiently to drive significant multiple expansion. Maintain Neutral; still see '24 as transition year, while valuation/sentiment may offer some downside support.

Product velocity accelerating but impact will take time

Regarding product, we believe new management is accelerating time to market amid a very competitive landscape in both branded and unbranded. However, '24 guidance does not include a material contribution from the six product initiatives outlined at January's First Look event. In our view, core button modernization (where mobile is especially critical), PPCP (bringing Braintree to SMB market), and Fastlane (optimizing guest checkout) have the most needle-moving potential longer-term.

Leadership team set; opex savings can fund investments

After a flurry of changes since late '23, we believe the broader leadership team is now set and is culturally aligned within a revamped organizational structure (consumer, enterprise, SMB) driving more accountability. Product investments can be funded through more opex efficiencies (ie, recently launched AI-enabled customer service chatbot, sunset legacy integrations over time). Once the turnaround is further along, PYPL plans to provide a multi-year financial framework to the Street.

Other areas of focus: AI/data, NFC, Venmo

Other takes: 1) AI/data can be used to optimize funding mix and improve margins, 2) PYPL could seek to leverage NFC technology for in-store usage (ex. US iPhone users for now), 3) Venmo opportunities: direct deposit, debit card, Business Profiles (beyond just acceptance), 4) new merchant integrations now take 2 hours to deploy rather than 2 weeks, which should drive more migrations & unlock more favorable pricing conversations, 5) PYPL has identified top 10K back-book merchants to target w/ PPCP.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.13	5.10	5.17	5.56	6.08
GAAP EPS	2.09	3.83	3.63	4.02	4.39
EPS Change (YoY)	-10.2%	23.5%	1.4%	7.5%	9.4%
Consensus EPS (Bloomberg)			5.16	5.56	6.04
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.3x	12.4x	12.2x	11.3x	10.4x
GAAP P/E	30.1x	16.4x	17.4x	15.7x	14.4x
EV / EBITDA*	11.8x	10.4x	10.5x	10.3x	9.8x
Free Cash Flow Yield*	7.3%	6.3%	7.4%	8.1%	8.6%

* For full definitions of *IQmethod*SM measures, see page 4.

15 March 2024

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Stock Data

Price	63.00 USD
Price Objective	64.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-9
52-Week Range	50.25 USD - 77.95 USD
Mrkt Val (mn) / Shares Out (mn)	67,520 USD / 1,071.7
Free Float	99.8%
Average Daily Value (mn)	1146.68 USD
BoFA Ticker / Exchange	PYPL / NAS
Bloomberg / Reuters	PYPL US / PYPLOQ
ROE (2024E)	22.2%
Net Dbt to Eqty (Dec-2023A)	-43.1%
ESGMeter TM	High

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PPCP: PayPal Commerce Platform

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Timestamp: 15 March 2024 12:01AM EDT

iQprofileSM PayPal Holdings Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	14.9%	16.2%	14.2%	12.9%	12.6%
Return on Equity	22.8%	27.3%	22.2%	19.1%	18.0%
Operating Margin	21.3%	22.4%	20.5%	19.4%	18.8%
Free Cash Flow	4,929	4,220	4,993	5,456	5,823

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	0.9x	1.0x	1.1x	1.1x
Asset Replacement Ratio	0.5x	0.6x	0.5x	0.6x	0.6x
Tax Rate	15.7%	18.2%	19.4%	19.0%	19.0%
Net Debt-to-Equity Ratio	-38.4%	-43.1%	-39.5%	-42.0%	-44.4%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	27,518	29,771	31,979	34,752	37,659
% Change	8.5%	8.2%	7.4%	8.7%	8.4%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	5,870	6,679	6,565	6,733	7,079
% Change	-6.9%	13.8%	-1.7%	2.6%	5.1%
Net Interest & Other Income	(199)	221	190	200	200
Net Income (Adjusted)	4,782	5,646	5,446	5,616	5,896
% Change	-12.3%	18.1%	-3.5%	3.1%	5.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,419	4,246	3,824	4,061	4,261
Depreciation & Amortization	1,317	1,072	1,052	1,052	1,052
Change in Working Capital	(20)	(1,406)	(1,213)	(1,218)	(1,139)
Deferred Taxation Charge	(811)	(668)	(1,400)	(1,600)	(1,800)
Other Adjustments, Net	2,727	1,599	3,309	3,789	4,129
Capital Expenditure	(703)	(623)	(578)	(628)	(680)
Free Cash Flow	4,929	4,220	4,993	5,456	5,823
% Change	-9.3%	-14.4%	18.3%	9.3%	6.7%
Share / Issue Repurchase	(4,056)	(4,875)	(4,703)	(5,087)	(5,177)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	3,287	3,503	2,000	2,000	2,000

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	7,776	9,081	11,019	13,036	15,331
Trade Receivables	963	1,069	1,599	1,829	1,982
Other Current Assets	48,778	52,419	57,461	63,506	70,408
Property, Plant & Equipment	1,730	1,488	1,014	590	218
Other Non-Current Assets	19,470	18,109	18,109	18,109	18,109
Total Assets	78,717	82,166	89,202	97,070	106,048
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	45,101	48,466	48,556	53,196	58,584
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	13,342	12,649	12,738	12,830	12,925
Total Liabilities	58,443	61,115	61,294	66,026	71,509
Total Equity	20,274	21,051	27,907	31,044	34,539
Total Equity & Liabilities	78,717	82,166	89,202	97,070	106,048

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Payments, Processors & IT Services

Company Description

PayPal is a global, technology-driven payment platform with over 400 million direct customer relationships in more than 200 countries. PayPal empowers a streamlined digital and mobile payment experience in-browser, on mobile devices, and in-app. PayPal is accepted at 75%+ of the largest 100 internet retailers.

Investment Rationale

While PYPL has a strong brand, balance sheet and scale, we expect shares to be range-bound near-term, with valuation and weak sentiment providing downside support. We see '24 as a transaction year, as a new CEO and CFO seek to earn Street credibility.

Stock Data

Average Daily Volume

18,201,284

Quarterly Earnings Estimates

	2023	2024
Q1	1.17A	1.22E
Q2	1.16A	1.21E
Q3	1.30A	1.26E
Q4	1.48A	1.48E

Price objective basis & risk

PayPal Holdings Inc (PYPL)

Our PO of \$64 is based on a 50/50 blend of 16x '24E P/E including stock-based compensation and our DCF model. We believe this multiple is warranted as sustained improvements in top-line metrics and initiatives to improve transaction profit growth may be taking longer than expected to implement. Our DCF assumes a weighted average cost of capital (WACC) of 13% and a terminal growth rate of 3.5%.

Downside risks to our price objective are: 1) macro (PYPL's business skews towards lower to middle income consumers' spending on more discretionary purchases, which could be impacted by the higher inflation/higher rates environment, though stubbornly low unemployment gives us some comfort), 2) execution on the ongoing strategic initiatives to improve transaction profit/unbranded margins, and 3) competition (we expect the PYPL market share debate to remain unsettled for the foreseeable future).

Analyst Certification

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US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg



US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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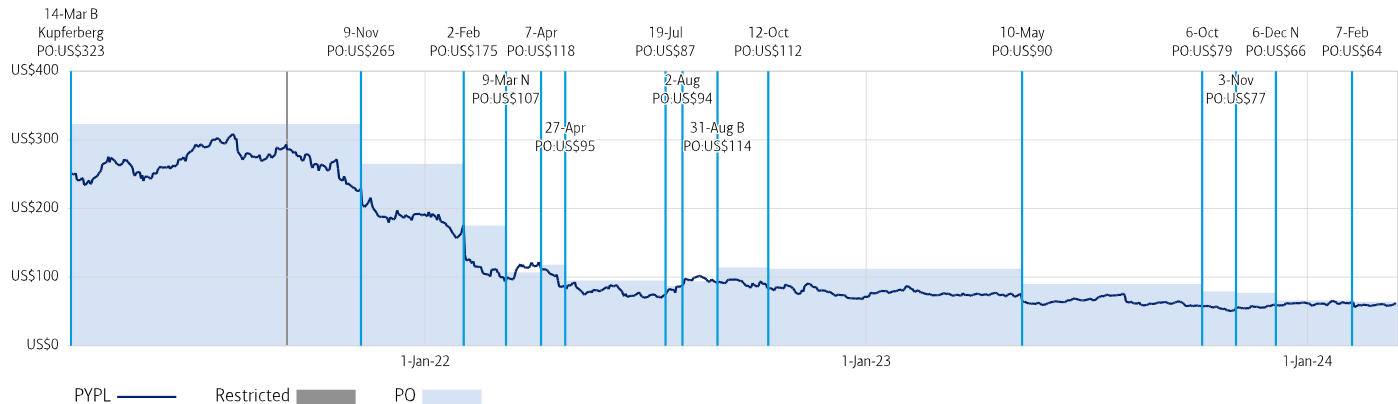
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PayPal Holdings Inc (PYPL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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