

## Marqeta

## Strong finish to 2023

Reiterate Rating: BUY | PO: 8.25 USD | Price: 7.33 USD

## Solid 4Q/'24 guide and positive bookings commentary

Overall, Marqeta (MQ) delivered a solid F4Q beat, while overall '24 guide was reiterated from the November Investor Day, albeit with a few moving parts (3pts of GP growth was shifted from 1H24 to 2H24, while 2Q adj. EBITDA margin was lowered, and 2H margins were raised +1%). January/February trends are stable and 1% below December in the low-30% range. Encouragingly, MQ has renewed 80% of TPV in the last 7 qtrs, and saw 50%+ bookings growth in 4Q/2023. Reiterate Buy on best-in-class tech, accelerating momentum (ie. embedded finance and credit), and execution.

## Overall '24 guidance reiterated, with a few moving parts

1Q top-line guidance for net revenue growth/GP growth of (45)-(48)% (including ~65%-70% impact from Cash App renewal) and (8)-(10)%, respectively, is in-line, while adj. EBITDA margins of +1-3% is modestly ahead. 2Q GP growth is expected to be similar vs. 1Q, and is below the (3)-(6)% prior, due to mix and timing of certain price tiers. Expect acceleration in 2H to +23-26% (vs. 20-23% outlook prior) due to lapping Cash App renewal in 3Q, lapping elevated renewals, ramping of new bookings, positive business mix, and certain program restructuring to reduce network fees. 2Q adj. EBITDA margins are now expected to be (7)-(9)% (investments in hiring), improving to +1-3% in 2H (vs. 0-2% prior).

## 4Q upside across the board

4Q revenues declined 42% (including a ~69% decline due to Cash App accounting changes/pricing renewal), beating BofAe/Street/guide at ~(46)%. TPV growth of 33% was 3% ahead of ests, due to growth in BNPL, ODD, and embedded finance (accelerated wage access now represents 3% of total TPV). GP growth of (4)% was ahead of BofAe/Street/guide of ~(9)%, due to better network incentives. Adj. EBITDA margin of +3% handily beat BofAe/Street/guide at ~(3)%, helped by expense timing.

## Raising estimates and PO

We update our '24/'25 GP/adj. EBITDA margin estimates to \$354M/0% and \$430M/7% vs. \$350M/-1% and \$421M/5% prior. We raise our PO to \$8.25 (from \$7), rolling forward our estimates to 7x F25 EV/GP (vs. 7x F24 EV/GP prior, due to improved visibility on medium-term ests) and our updated DCF (now assumes 10% WACC, vs 11% prior).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.34)	(0.42)	(0.20)	(0.04)	0.05
GAAP EPS	(0.34)	(0.42)	(0.20)	(0.04)	0.06
EPS Change (YoY)	24.4%	-23.5%	52.4%	80.0%	NM
Consensus EPS (Bloomberg)			(0.31)	(0.26)	(0.30)
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	NM	146.6x
GAAP P/E	NM	NM	NM	NM	122.2x

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Timestamp: 28 February 2024 09:04PM EST

28 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	7.00	8.25
2024E Rev (m)	516.7	530.7
2025E Rev (m)	643.3	658.3
2026E Rev (m)	798.4	815.4
2024E EPS	-0.19	-0.20
2026E EPS	0.07	0.05

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## Stock Data

Price	7.33 USD
Price Objective	8.25 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	3.46 USD -7.36 USD
Mkt Val / Shares Out (mn)	3,426 USD / 467.5
Free Float	99.6%
Average Daily Value	37.74 USD
BofA Ticker / Exchange	MQ / NAS
Bloomberg / Reuters	MQ US / MQ.OQ
ROE (2024E)	-8.8%
ESGMeter™	NLA

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GP: gross profit

W

TPV: total payment volume

# iQprofile<sup>SM</sup> Marqeta

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-12.3%	-20.9%	-10.9%	-4.1%	0.2%
Return on Equity	-12.1%	-16.4%	-8.8%	-1.7%	1.9%
Operating Margin	-28.9%	-48.5%	-30.2%	-9.4%	0.4%
Free Cash Flow	(15)	20	(93)	85	134

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	4.9x
Asset Replacement Ratio	0.6x	0.1x	0x	0.1x	0.1x
Tax Rate	0.1%	3.3%	2.5%	2.5%	25.0%
Net Debt-to-Equity Ratio	-80.4%	-78.9%	-69.2%	-71.2%	-73.7%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	726	655	513	643	802
% Change	44.5%	-9.7%	-21.8%	25.4%	24.8%
Gross Profit	320	330	354	430	534
% Change	38.1%	3.0%	7.4%	21.5%	24.2%
EBITDA	(42)	(2)	(1)	44	108
% Change	-232.9%	94.5%	64.1%	NM	145.6%
Net Interest & Other Income	25	52	40	40	40
<b>Net Income (Adjusted)</b>	<b>(185)</b>	<b>(223)</b>	<b>(112)</b>	<b>(22)</b>	<b>27</b>
<b>% Change</b>	<b>-12.7%</b>	<b>-20.7%</b>	<b>49.9%</b>	<b>80.4%</b>	<b>NM</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(185)	(223)	(112)	(20)	32
Depreciation & Amortization	4	11	8	4	5
Change in Working Capital	10	21	(133)	2	(1)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	158	212	144	99	98
Capital Expenditure	(2)	(1)	0	0	0
<b>Free Cash Flow</b>	<b>-15</b>	<b>20</b>	<b>-93</b>	<b>85</b>	<b>134</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>58.6%</b>
Share / Issue Repurchase	(64)	(182)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,184	981	888	973	1,107
Trade Receivables	16	20	17	20	25
Other Current Assets	547	388	395	403	413
Property, Plant & Equipment	7	19	19	19	19
Other Non-Current Assets	16	182	182	182	182
<b>Total Assets</b>	<b>1,770</b>	<b>1,590</b>	<b>1,501</b>	<b>1,597</b>	<b>1,746</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	283	337	208	221	235
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	15	10	10	10	NA
<b>Total Liabilities</b>	<b>297</b>	<b>346</b>	<b>217</b>	<b>231</b>	<b>235</b>
<b>Total Equity</b>	<b>1,473</b>	<b>1,243</b>	<b>1,283</b>	<b>1,366</b>	<b>1,502</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,770</b>	<b>1,590</b>	<b>1,501</b>	<b>1,597</b>	<b>1,737</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Other Financials

## Company Description

MQ operates a modern card-issuing platform for both credit and debit, providing customizable card issuing and transaction processing, leveraging open APIs and JIT funding. MQ's client verticals include online delivery (Instacart, DoorDash), BNPL (Klarna, Affirm), expense management (Divvy), and fintech/digital banking (Block). In 2022, MQ generated \$748M of revenues, \$320M of gross profit, and (\$42)M of adj. EBITDA.

## Investment Rationale

MQ is a developer-friendly, best-of-breed, end-to-end modern card-issuing platform. MQ provided medium-term targets ('25-'26) during its November '23 Investor Day including low-mid 20% top-line growth and high-single-digit/low double-digit adj. EBITDA margins, which we view as attractive and achievable. MQ also sees ample opportunities in embedded finance and credit. Recent pullback creates a particularly attractive entry point.

## Stock Data

Average Daily Volume 5,148,131

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.13A	-0.06E
Q2	-0.11A	-0.07E
Q3	-0.10A	-0.04E
Q4	-0.08A	-0.03E



## Price objective basis & risk

### Marqeta (MQ)

We establish a \$8.25 PO based on 50/50 blend of 7x C25E EV/Gross Profit (most important top-line metric) and our DCF (10% WACC, 4% terminal growth). Our target multiple is in-line to peers.

Upside risks are 1) renewal of top client Block's (SQ) contracts with better than anticipated terms/pricing, 2) significant international expansion, 3) faster-than-expected achievement of medium-term growth targets.

Downside risks are 1) high client concentration (SQ), 2) material pricing pressure, 3) intensifying competition

## Analyst Certification

I, Cassie Chan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	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

**iQmethod<sup>SM</sup> 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 &amp; 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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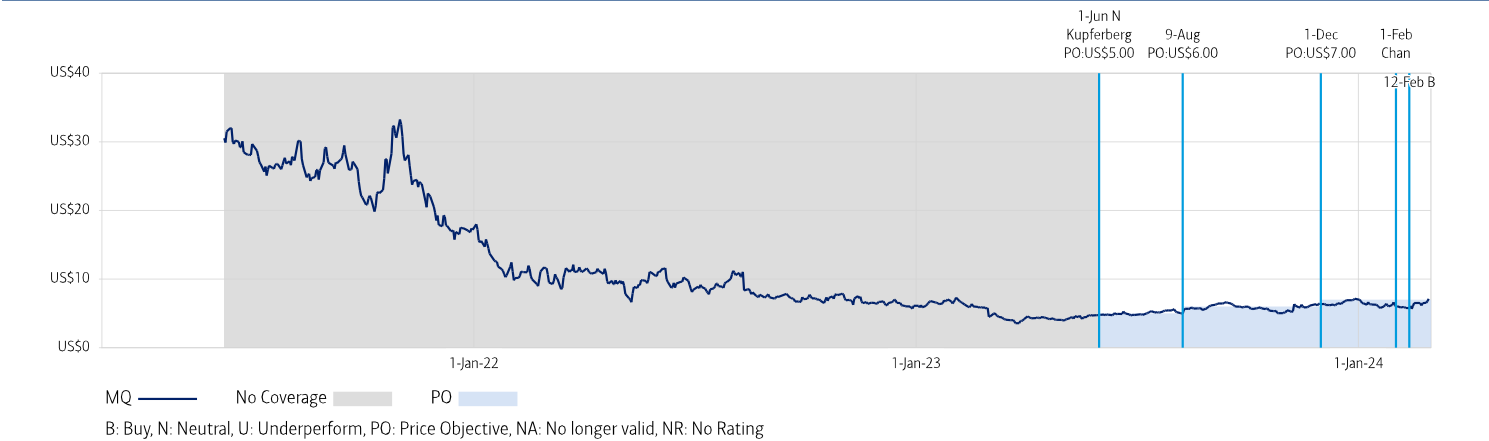
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Marqeta (MQ) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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