

## Block Inc

## Finishing '23 with a flourish

Maintain Rating: BUY | PO: 85.00 USD | Price: 67.96 USD

## Very solid print and guide has shares trading higher

Shares are deservedly trading higher after-hours on meaningful P&L outperformance in 4Q (for both GP and adj. EBITDA, while GPV was in-line) and initial '24 top-line guidance modestly ahead of buy-side expectations. '24 adj. EBITDA/AOI outlook was raised more than expected (by 10%/31%, respectively and this could still be conservative). SQ also reiterated its "Rule of 40" (GP growth + AOI margin) target by '26, delivering 29% in '23 with expected improvement in '24. In addition, the 1Q forecast for GP is in-line, while adj. EBITDA is handily above. Maintain Buy, as we believe SQ is undervalued, business model quality is high, and execution is trending well.

## Well-received '24 guidance commentary

Initial '24 GP growth guidance of "at least" 15% is modestly ahead of buy-side at ~14-15% (BofAe/Street at 17%) and assumes stable macro. Expect Cash App growth to moderate in '24 vs. '23 (lap pricing) but remain faster than Square. '24 adj. EBITDA of \$2.63B+ was raised from \$2.4B and '24 AOI was raised to \$1.15B+ vs. \$875M prior. This is being driven by managing headcount, marketing spend, and overhead while getting more SBC leverage. SQ is now operating below its 12K headcount cap.

## 1Q top-line outlook is in-line, profitability metrics above

1Q GP growth of ~17% is in-line, with growth in both Square and Cash App expected to moderate vs. 4Q. In January, Square GPV slowed 3-4% due to weather. 1Q adj. EBITDA of \$570M-\$590M (29% margin) is 13% above the Street, and adj. operating income guide of \$225M-\$245M (12% margin) is ahead of BofAe/Street at \$158M/\$137M.

## 4Q results showed upside across the board

4Q GP growth of 22% came in higher than BofAe/Street at 19%, with upside from Square, where GP growth was 18% vs. BofAe/Street at 13%/14%. Cash App growth of 25% was modestly ahead (benefitted from bitcoin pricing benefit in 4Q). Instant deposit represented 29% of '23 GP (new disclosure, +13% y/y), while Financial Services (ie. Cash App Card, Cash App Pay) represented 38% of '23 GP (+58% y/y). 4Q Square GPV growth of 10% was in-line. Adj. EBITDA of \$562M handily beat BofAe/Street by 25%/21%.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.27	1.00	1.86	3.04	3.82
GAAP EPS	0.29	(0.96)	(0.23)	0.32	0.90
EPS Change (YoY)	60.8%	-21.3%	86.0%	63.4%	25.7%
Consensus EPS (Bloomberg)			1.91	2.98	4.05
DPS	0.02	0.01	0	0	0
Valuation (Dec)					
P/E	53.5x	68.0x	36.5x	22.4x	17.8x
GAAP P/E	234.3x	NM	NM	212.4x	75.5x
EV / EBITDA*	37.4x	38.2x	30.7x	41.8x	37.1x
Free Cash Flow Yield*	1.9%	0%	1.7%	3.8%	4.2%

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

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## Stock Data

Price	67.96 USD
Price Objective	85.00 USD
Date Established	11-Dec-2023
Investment Opinion	C-1-9
52-Week Range	38.85 USD - 83.08 USD
Mkt Val (mn) / Shares Out (mn)	37,621 USD / 553.6
Free Float	99.2%
Average Daily Value (mn)	659.29 USD
BofA Ticker / Exchange	SQ / NYS
Bloomberg / Reuters	SQ US / SQ.N
ROE (2023E)	6.4%
Net Dbt to Eqty (Dec-2022A)	0.2%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

AOI: adjusted operating income

GPV: gross payment volume

GP: gross profit

# iQprofile<sup>SM</sup> Block Inc

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	1.0%	-2.3%	-0.4%	1.1%	2.3%
Return on Equity	6.4%	3.4%	6.4%	10.0%	11.6%
Operating Margin	0.9%	-2.0%	2.3%	4.7%	7.3%
Free Cash Flow	714	5	652	1,440	1,562

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	0.3x	0.7x	0.8x	0.7x
Asset Replacement Ratio	1.0x	1.0x	0.3x	0.3x	0.3x
Tax Rate	NM	11.9%	10.0%	15.0%	15.0%
Net Debt-to-Equity Ratio	6.2%	0.2%	-3.3%	-10.3%	-16.1%
Interest Cover	4.9x	-17.2x	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	17,661	17,795	21,829	22,284	24,527
% Change	86.0%	0.8%	22.7%	2.1%	10.1%
Gross Profit	4,420	6,255	8,089	9,557	11,313
% Change	61.7%	41.5%	29.3%	18.2%	18.4%
EBITDA	1,014	991	1,234	906	1,021
% Change	115.2%	-2.2%	24.5%	-26.6%	12.7%
Net Interest & Other Income	(33)	(36)	50	86	86
<b>Net Income (Adjusted)</b>	<b>632</b>	<b>579</b>	<b>1,133</b>	<b>1,907</b>	<b>2,470</b>
<b>% Change</b>	<b>71.6%</b>	<b>-8.4%</b>	<b>95.7%</b>	<b>68.3%</b>	<b>29.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	159	669	1,029	653	716
Depreciation & Amortization	135	180	421	517	598
Change in Working Capital	(381)	(674)	(1,040)	(1,175)	(1,764)
Deferred Taxation Charge	(10)	(70)	(87)	0	0
Other Adjustments, Net	946	71	465	1,605	2,178
Capital Expenditure	(134)	(171)	(137)	(159)	(167)
<b>Free Cash Flow</b>	<b>714</b>	<b>5</b>	<b>652</b>	<b>1,440</b>	<b>1,562</b>
<b>% Change</b>	<b>193.4%</b>	<b>-99.3%</b>	<b>NM</b>	<b>121.0%</b>	<b>8.4%</b>
Share / Issue Repurchase	2,132	(990)	(387)	18	18
Cost of Dividends Paid	(10)	(5)	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	4,951	4,544	4,725	6,183	7,762
Trade Receivables	1,172	2,416	4,033	4,223	4,634
Other Current Assets	6,570	8,663	8,945	9,171	9,660
Property, Plant & Equipment	289	329	0	0	0
Other Non-Current Assets	16,874	15,412	15,024	15,062	15,144
<b>Total Assets</b>	<b>29,856</b>	<b>31,364</b>	<b>32,727</b>	<b>34,638</b>	<b>37,200</b>
Short-Term Debt	1,089	460	0	0	0
Other Current Liabilities	5,817	7,974	9,597	9,597	9,623
Long-Term Debt	4,928	4,110	4,118	4,118	4,118
Other Non-Current Liabilities	918	1,569	858	858	858
<b>Total Liabilities</b>	<b>12,753</b>	<b>14,113</b>	<b>14,573</b>	<b>14,573</b>	<b>14,599</b>
<b>Total Equity</b>	<b>17,103</b>	<b>17,251</b>	<b>18,154</b>	<b>20,064</b>	<b>22,601</b>
<b>Total Equity &amp; Liabilities</b>	<b>29,856</b>	<b>31,364</b>	<b>32,727</b>	<b>34,638</b>	<b>37,200</b>

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

## Company Sector

Payments, Processors & IT Services

## Company Description

Block is a commerce enablement platform composed of two distinct ecosystems - Square (formerly Seller) and Cash App. Square is a one-stop-shop for technology solutions (both hardware and software) to help SMBs grow their business. Cash App is a mobile financial platform that allows P2P, payments, and other banking services. In 2022, Block generated \$3.0B of gross profit from Square and \$2.95B from Cash App. In Jan22, SQ acquired BNPL-provider Afterpay, which will fully be reflected in Cash App.

## Investment Rationale

We are bullish on SQ's full-fledged dual-sided ecosystem (Square and Cash App). Shares underperformed in '23 due to macro concerns, but we believe the stock is not being given enough credit for the general resilience the business has shown to date as well as its opex discipline. SQ also doesn't have the "legacy tech" overhang of some other payment companies, which should make it easier to own. New timeframe for achieving "Rule of 40" by '26 reflects enhanced profitability focus.

## Stock Data

Average Daily Volume 9,701,208

## Quarterly Earnings Estimates

	2022	2023
Q1	0.18A	0.34A
Q2	0.18A	0.39A
Q3	0.42A	0.55A
Q4	0.22A	0.58E

## More on 4Q and guide

- 4Q GP growth of 22% came in higher than BofAe/Street at 19%, with the upside from Square, where GP growth was 18% vs. BofAe/Street at 13%/14%. Cash App growth of 25% was modestly ahead of BofAe/Street. Adj. EBITDA of \$562M handily beat BofAe/Street by 25%/21%.
- December Cash App MAUs grew 9% to 56M, including Cash Card MAUs of 23M (+25% y/y). SQ had 2M direct deposit users. In December, Cash App Pay had 3M users generating \$2.5B annualized GPV.
  - 4Q Cash App inflows of \$63B represented 18% y/y growth, and inflows per transacting actives were up 8 y/y to \$1,137.
  - SQ is de-prioritizing international markets for Cash App.
- 4Q GPV growth of 10% was in-line. This was driven by food and drink up 15%, service verticals up 8%, and retail up 4%. Card-present GPV was up 13% in 4Q, while card-not-present GPV was up 4% y/y.
- BNPL volumes grew 25% to \$8.6B in 4Q, generating \$242M in GP (+23% y/y). Starting 4Q23, BNPL is now being fully accounted for in Cash App (vs. 50/50 in Square/Cash App prior).
- In 4Q, 13% of Square GP was generated from international markets. GP from vertical point-of-sale solutions was up 27% y/y.
- Initial '24 top-line guidance of "at least \$8.65B" (+15% y/y) GP is roughly in-line with BofAe/Street at 17% (and buy-side at ~14-15%). '24 adj. EBITDA of \$2.63B+ was raised from \$2.4B and '24 AOI was raised to \$1.15B+ vs. \$875M prior
- 1Q GP of \$2.00B-\$2.02B (~17% y/y) is in-line, adj. EBITDA of \$570M-\$590M (29% margin) is 13% above the Street, and adj. operating income guide of \$225M-\$245M (12% margin) is also above BofAe/Street at \$158M/\$137M.



## Price objective basis & risk

### Block Inc (SQ)

Our price objective of \$85 is based on a blend of 6x C24E EV/adjusted gross profit (which we use as a proxy for adjusted net revenue) and our DCF (14% WACC, 4% terminal growth). Our target multiple is in-line with the comp group.

Upside risks to our price objective are 1) better-than-expected overall macro conditions for small / medium sized businesses, 2) better-than-expected accretion from pending Afterpay acquisition, 3) re-acceleration of Cash App gross profit growth, 4) market perception of SQ as a terminal value stock.

Downside risks to our price objective are 1) increased competition from a wider group of companies as SQ moves upmarket and international, and intensifying competition in Cash App, 2) overall macro conditions for small/medium-sized businesses, and 3) lack of diversification for Cash App revenue/gross profit streams.

## Analyst Certification

I, Jason Kupferberg, 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
	Discover Financial	DFS	DFS 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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	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

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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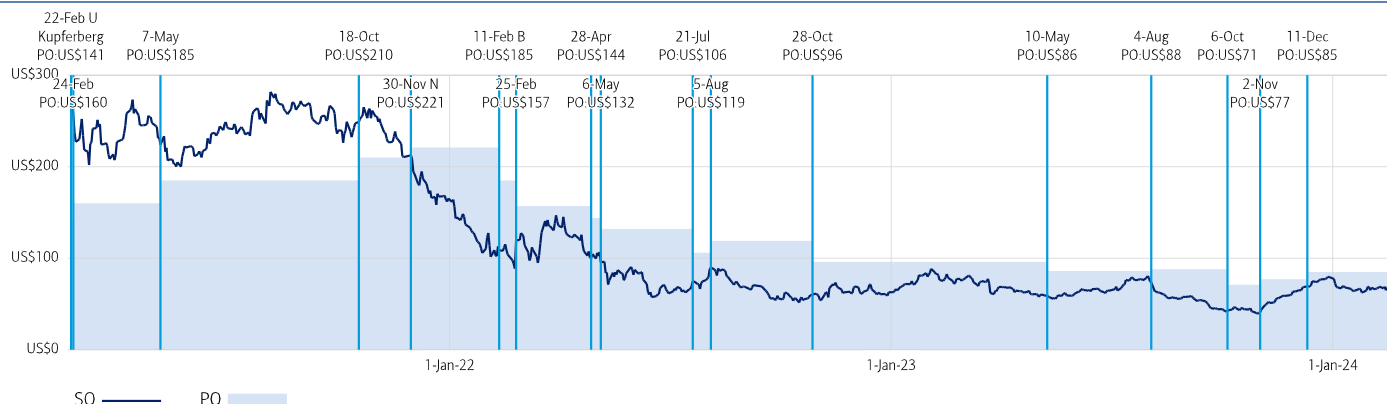
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# Disclosures

## Important Disclosures

### Block Inc (SQ) 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 <sup>R1</sup>	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 <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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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