

PayPal Holdings Inc

Turnaround will likely take time; maintain
Neutral

Reiterate Rating: NEUTRAL | PO: 64.00 USD | Price: 63.24 USD

Lackluster outlook outweighs solid 4Q

PYPL reported a solid 4Q (more details on pg. 3), with upside to TPV/revenues and adj. EPS. However, we think the '24 guide of flat y/y transaction margin (TM) dollars and adj. EPS was disappointing. This along with a light 1Q outlook plus slowing branded TPV in 4Q likely explain the negative after-hours stock reaction. New product initiatives are not expected to move the needle in '24. New CEO identified branded checkout and FastLane (guest checkout) as top strategic priorities this year. Reiterate Neutral; continue to see '24 as a transition year, while valuation/sentiment may offer some downside support.

'24 outlook: flat y/y TM \$ and adj. EPS; op margins down

PYPL's new CFO indicated that given '24 transition, just quarterly revs guidance (not annual) will be provided for now. Starting in 1Q, PYPL will include stock-based compensation (SBC) in non-GAAP EPS, which should be welcomed. PYPL expects flat TM \$ growth this year, right in-line w/ BofAe but below the Street at 4%. This does not include any material contribution from new product initiatives, pending signs of execution. Branded TPV growth is expected to be steady vs. 6% in '23. Flat TM \$ growth combined with guide for LSD non-transaction opex growth implies a y/y decline in operating margins, as PYPL plans to reinvest savings from the recent 9% headcount reduction and other efficiencies into product. '24 EPS guide of \$5.10 (flat y/y) is below BofAe/Street at \$5.32/\$5.49. FCF this year is forecast at ~\$5B, with buybacks of \$5B+.

1Q guide a little light; two new metrics introduced

PYPL guided to 1Q24 net revenue growth of ~6.5% spot (vs. BofAe/Street at 6.2%/7.0%) and ~7% CC. PYPL expects 1Q24 non-GAAP EPS growth in the mid-single digits, below BofAe/Street at 7.7%/8.5%. Management indicated that branded TPV growth in January was consistent with 5% levels in 4Q23. PYPL introduced a monthly active accounts (MAA) metric, which were 224M in 4Q and grew 1% y/y, as well as transactions per active account (TPA) ex. unbranded, which grew 7% TTM in 4Q.

Estimate and PO changes

We lower PO to \$64 from \$66 based on 16x (unchanged) our lowered '24 non-GAAP EPS including SBC of \$3.95 and updated DCF.

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)			5.49	6.11	6.74
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.3x	12.4x	12.2x	11.4x	10.4x
GAAP P/E	30.3x	16.5x	17.4x	15.7x	14.4x
EV / EBITDA*	11.9x	10.5x	10.6x	10.4x	9.9x
Free Cash Flow Yield*	7.2%	6.2%	7.3%	8.0%	8.5%

* For full definitions of *IQmethod*SM measures, see page 6.

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07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	66.00	64.00
2024E Rev (m)	31,490.2	31,978.6
2025E Rev (m)	34,264.5	34,751.5
2026E Rev (m)	NA	37,659.0
2024E EPS	5.32	5.17
2025E EPS	5.85	5.56
2026E EPS	NA	6.08

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Stock Data

Price	63.24 USD
Price Objective	64.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-9
52-Week Range	50.25 USD - 83.67 USD
Mrkt Val (mn) / Shares Out (mn)	68,182 USD / 1,078.1
Free Float	99.7%
Average Daily Value (mn)	1182.61 USD
BofA Ticker / Exchange	PYPL / NAS
Bloomberg / Reuters	PYPL US / PYPLOQ
ROE (2024E)	22.2%
Net Dbt to Eqty (Dec-2023A)	-43.1%

ESGMeterTM

High

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".

CC: constant-currency

TPV: total payment volume

TTM: trailing 12 months

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 6.

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

18,700,416

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

More on 4Q and guidance

- 4Q23 TPV growth of 15% (13% CC) was above BofAe/Street at 13.5%/13.3%.
- 4Q23 TPV included: 1) Cross-border Trade (CBT) vols (12% of TPV) growth was up 8% y/y (+5% y/y CC); 2) Venmo vol growth was 8%; and 3) P2P volume up 6% (vs. 4% in 3Q23, and 23% of TPV).
- 4Q23 net revs grew 9% y/y (9% CC) to \$8.03B, above BofAe/Street at \$7.83B/\$7.88B and guidance of ~7%--8%.
- 4Q23 non-GAAP op margins of 23.3% were in-line with BofAe/Street at 21.9%/22.0%.
- 4Q23 adj. EPS of \$1.48 was ahead of BofAe/Street at \$1.36 and guide of ~\$1.36.
- Transactions per active user growth in 4Q grew 14% y/y (vs. 13% y/y in 3Q23).
- Transaction expenses as % of TPV of 97bps (up ~4bps y/y and q/q, and above BofAe at 95bps) was primarily driven by Braintree volume growth, partly offset by favorable geographic mix and Venmo rate benefits.
- PYPL ended 4Q23 with 426M (down 2% y/y) active accounts.
- PYPL introduced a MAA metric, which were 224M in 4Q and grew 1% y/y, as well as TPA ex. unbranded, which grew 7% TTM in 4Q.
- 4Q23 FCF of \$2.5B includes a \$1.7B positive impact from European BNPL loans originated as held for sale.
- PYPL completed \$0.6B of buybacks in 4Q23.

1Q24 guidance

- PYPL guided to 1Q24 net revenue growth of ~6.5% spot (vs. BofAe/Street at 6.2%/7.0%) and ~7% CC
- 1Q24 non-GAAP EPS growth is expected to be in the mid-single digits (1Q23 non-GAAP EPS of \$1.17) vs. BofAe/Street at \$1.26/\$1.27.
- 1Q24 non-GAAP effective tax rate of 19%-20%.
- PYPL also guided to non-GAAP adjustments in 1Q24 of ~\$600M, including SBC of ~\$400M and a restructuring charge of ~\$120M related to workforce reduction initiated in January 2024
- GAAP EPS expected to grow at mid-single digits

F24 guidance

- PYPL did not guide to F24 revenue growth (BofAe/Street=6.5%/8.0%)
- PYPL guided to low-single digit increase in non-transaction opex in '24.
- Along with a 19-20% tax, PYPL guided to F24 non-GAAP EPS to be in-line with prior year (F23 non-AAP EPS of \$5.10) vs. BofAe/Street at \$5.32/\$5.49, supported by at least \$5B of buybacks.
- '24 FCF is expected to be ~\$5B.
- '24 GAAP EPS guide of ~\$3.60.



- Estimated non-GAAP adjustments of ~\$1.8B, including SBC expense of ~\$1.4B and restructuring charge of ~\$120M

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

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
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
	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
	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
	Marqeta	MQ	MQ US	Cassie Chan
	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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

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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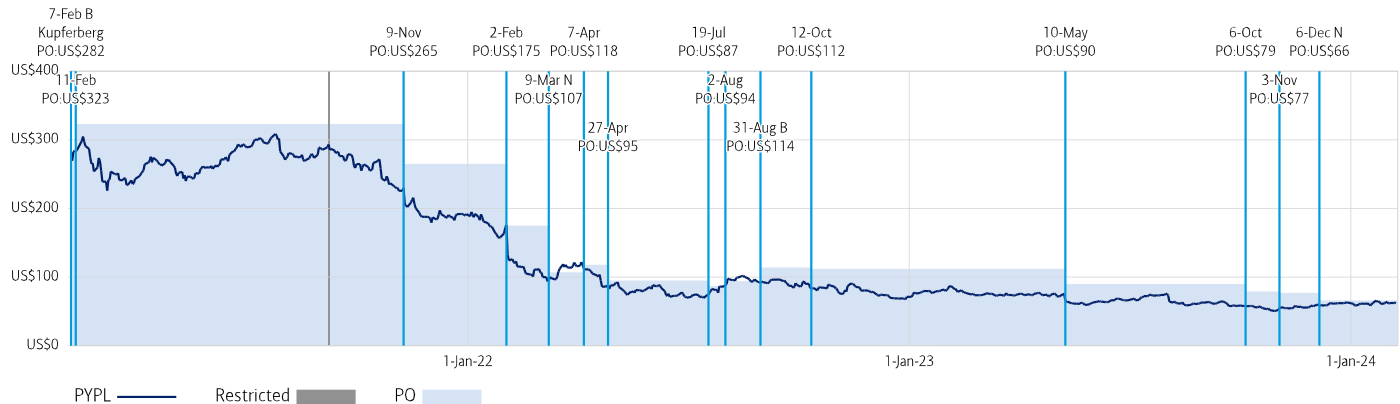
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Disclosures

Important Disclosures

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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