

Marqeta

Plenty of upside optionality; upgrade to Buy

Rating Change: BUY | PO: 7.00 USD | Price: 5.77 USD

De-risked story and attractive entry point = Buy

We transfer coverage on modern card issuing platform provider MQ and upgrade to Buy from Neutral. Overall, we believe MQ has an enviable combination of near-term visibility (w/75%+ of TPV now renewed) and longer-term opportunities (ie. credit) that could drive attractive medium-term top-line growth ('25-'26) of ~20%. Coupled with lagging performance of the stock post-Investor Day, this represents an attractive entry point.

Read-thru data points suggest comfort w/near-term ests

MQ reports on 2/28, and we believe 4Q results were likely in-line+ (likely more EBITDA upside), supported by intra-quarter data points (Ex. 1). We see stable/improving trends in key verticals of BNPL, Fintech (SensorTower data for Cash App, Ex. 2-3), and on-demand delivery (Fiserv's Spendtrend data and BAC aggregated credit and debit card restaurant data). We also believe MQ will continue to demonstrate significant opex discipline (ie. further reduction in hiring outside key focus areas), driving upside to margins (see analysis in Ex. 12).

Attractive growth outlook of 20%+ seems achievable

Based on our analysis on some of MQ's key end-market verticals, as well as the burgeoning credit opportunity, we believe MQ can grow top line 20%+ in the medium-term. As shown in Ex. 6, key customers Block, Doordash and Affirm are all expected to grow revenues in the 15-20% range over the next two years. MQ's renewed go-to-market strategy has also driven significant re-acceleration in bookings, with 75% of TPV renewed between 2Q22-3Q23 (12-18 month ramp time).

US credit opportunity could yield >20% incremental TPV

In our analysis, we used Visa and Mastercard's US credit vols of \$4.4T in F23 as a proxy for the US credit market. Assuming MQ is able to achieve just 1% penetration, plausible due to MQ's recent credit wins (ie. Sunwest Vision Card commercial card in Jan '24) and existing bank partnerships, and the US credit market is expected to grow ~5% in '24, this would yield \$46B in TPV in '24 or ~21% potential incremental TPV growth for MQ (Ex. 6-7). BofAe/Street are modeling 28%/26% for core TPV growth in '24 (guidance for ~30%). Even if MQ is not able to execute entirely on this opportunity in '24, we believe this represents significant opportunity in '25-'26 that is not fully reflected in ests.

Recent pullback is overdone; PO of \$7 = 21% upside pot.

Our \$7 PO is based on 7x (vs. 6x '24 EV/GP prior) our '24 GP estimate of \$350M and DCF (11% WACC). Our multiple is in-line, given higher top-line growth and client concentration. Key risks include ongoing client concentration (SQ), exposure to volatile high-growth end-markets.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|--------|--------|--------|--------|--------|
| EPS | (0.45) | (0.34) | (0.41) | (0.19) | (0.04) |
| EPS Change (YoY) | -15.4% | 24.4% | -20.6% | 53.7% | 78.9% |
| Consensus EPS (Bloomberg) | | | (0.42) | (0.32) | (0.26) |
| DPS | 0 | 0 | 0 | 0 | 0 |
| Valuation (Dec) | | | | | |

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12658204

Timestamp: 12 February 2024 06:00AM EST

12 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|--------------|----------|---------|
| Inv. Opinion | C-2-9 | C-1-9 |
| Inv. Rating | NEUTRAL | BUY |
| 2024E EPS | -0.21 | -0.19 |
| 2025E EPS | -0.05 | -0.04 |

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Stock Data

| | |
|---------------------------|--------------------|
| Price | 5.77 USD |
| Price Objective | 7.00 USD |
| Date Established | 1-Dec-2023 |
| Investment Opinion | C-1-9 |
| 52-Week Range | 3.46 USD -7.24 USD |
| Mkt Val / Shares Out (mn) | 2,697 USD / 467.5 |
| Free Float | 99.6% |
| Average Daily Value | 26.12 USD |
| BofA Ticker / Exchange | MQ / NAS |
| Bloomberg / Reuters | MQ US / MQ.OQ |
| ROE (2023E) | -15.8% |
| ESGMeter™ | NLA |

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".

GP: gross profit

TAM: total addressable market

TPV: total payment volume

S&M: sales and marketing

BNPL: buy now pay later

Pot.: potential

iQprofileSM Marqeta

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|--------|--------|--------|--------|-------|
| Return on Capital Employed | -15.3% | -12.3% | -20.0% | -10.1% | -3.9% |
| Return on Equity | -24.1% | -12.1% | -15.8% | -8.0% | -1.6% |
| Operating Margin | -32.3% | -28.9% | -49.3% | -30.6% | -9.9% |
| Free Cash Flow | 53 | (15) | (6) | (37) | 79 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio | NM | NM | NM | NM | NM |
| Asset Replacement Ratio | 0.8x | 0.6x | 0.1x | 0x | 0.1x |
| Tax Rate | 0.4% | 0.1% | 2.8% | 2.8% | 2.8% |
| Net Debt-to-Equity Ratio | -79.3% | -80.4% | -71.9% | -66.8% | -68.5% |
| Interest Cover | NA | NA | NA | NA | NA |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|----------------|---------------|---------------|--------------|--------------|
| Sales | 502 | 726 | 633 | 490 | 614 |
| % Change | 77.3% | 44.5% | -12.8% | -22.6% | 25.3% |
| Gross Profit | 232 | 320 | 327 | 350 | 421 |
| % Change | 96.5% | 38.1% | 2.2% | 6.9% | 20.5% |
| EBITDA | (12) | (42) | (9) | 2 | 43 |
| % Change | 18.8% | -232.9% | 78.9% | NM | NM |
| Net Interest & Other Income | (3) | 25 | 53 | 40 | 40 |
| Net Income (Adjusted) | (164) | (185) | (219) | (107) | (22) |
| % Change | -243.9% | -12.7% | -18.6% | 51.4% | 79.3% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|-------------|------------|--------------|----------------|-----------|
| Net Income from Cont Operations (GAAP) | (164) | (185) | (219) | (107) | (20) |
| Depreciation & Amortization | 4 | 4 | 11 | 9 | 5 |
| Change in Working Capital | 67 | 10 | (6) | (80) | (2) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 149 | 158 | 210 | 141 | 96 |
| Capital Expenditure | (3) | (2) | (1) | 0 | 0 |
| Free Cash Flow | 53 | -15 | -6 | -37 | 79 |
| % Change | 9.8% | NM | 63.3% | -557.0% | NM |
| Share / Issue Repurchase | 1,328 | (64) | (126) | 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) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 1,248 | 1,184 | 938 | 901 | 980 |
| Trade Receivables | 13 | 16 | 15 | 15 | 19 |
| Other Current Assets | 538 | 547 | 444 | 443 | 451 |
| Property, Plant & Equipment | 10 | 7 | 17 | 17 | 17 |
| Other Non-Current Assets | 22 | 16 | 179 | 179 | 179 |
| Total Assets | 1,830 | 1,770 | 1,593 | 1,556 | 1,646 |
| Short-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 238 | 283 | 276 | 196 | 205 |
| Long-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Non-Current Liabilities | 19 | 15 | 11 | 11 | 11 |
| Total Liabilities | 257 | 297 | 288 | 207 | 216 |
| Total Equity | 1,573 | 1,473 | 1,306 | 1,349 | 1,430 |
| Total Equity & Liabilities | 1,830 | 1,770 | 1,593 | 1,556 | 1,646 |

* For full definitions of iQmethodSM measures, see page 13.

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 4,579,449

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|--------|--------|
| Q1 | -0.11A | -0.13A |
| Q2 | -0.08A | -0.11A |
| Q3 | -0.10A | -0.10A |
| Q4 | -0.05A | -0.07E |

Investment Highlights

Best-of-breed technology in card issuing

Marqeta has developed a best-of-breed, end-to-end card-issuing platform designed to meet the needs of the largest multi-national enterprises down to the smallest fintechs.

Marqeta provides customizable modern card issuing and transaction processing, including features such as instant card issuance, provisioning to digital wallets, just-in-time (JIT) funding (which allows real-time authorization for end users' transactions in real-time), Tokenization as a Service, and dynamic spend controls.

As a result of its open Application Programming Interface (API) and cloud-based platform, Marqeta's platform is easily accessible, configurable, and scalable, which allows the company to be agile with rolling out new products and technology.

With the rise of digital payments and omni-channel experiences, it has become more important than ever to provide a seamless shopping experience for customers both online and in-person. MQ's technology embedded in modern cards enables mobile notifications that deliver real-time transaction data along with account, spending activity, rewards, and chargeback status updates. Along with open APIs and customizable software development kits (SDKs), brands can build a card experience that sits alongside other existing financial or shopping services, creating the opportunity for stronger engagement, immersive brand centric experience, and cross-sell.

Positive read-thru data gives us comfort with 4Q/'24

MQ sells products to clients in four main verticals: (1) Financial Services / Fintech; (2) On-Demand Delivery; (3) Expense Management; (4) Lending / BNPL. Based on intra-quarter data points from other large BNPL providers (ie. Afterpay), Fintech (largest client Block), crypto providers (ie. recent CoinGecko volume), and restaurant data (read-thru to trends for DoorDash, Instacart), we believe MQ's volumes were likely fine, with potential upside to consensus estimates for TPV/net revenue/gross profit growth of 30%/(46%)/(10.5)%, which are in-line with guide (Ex. 1).

Exhibit 1: Summary of read-thru data points for MQ's key verticals

Read-thru data points for Lending/BNPL, Fintech, On-Demand Delivery

| Lending / BNPL | | Data Points |
|-----------------------|--|--|
| Afterpay | | On 11/28/23, SQ reported that during BFCM, its Afterpay business saw a 19% y/y increase in BNPL purchases and 47% y/y growth in Afterpay transactions at Square sellers. Outside of fashion and beauty purchases, the largest Afterpay item categories were hardware, home and garden, arts and entertainment, office supplies, and electronics. |
| Adobe | | Commentary from Adobe suggests \$8.3B was spent via BNPL in the month of November (through Cyber Monday), with Cyber Monday contributing \$940M of spending, up 42.5% y/y. |
| Fintech | | Data Points |
| Block | | Cash App: According to SensorTower, 4Q MAU growth saw modest acceleration vs. 3Q levels on a y/y and q/q basis of 5%/1%, respectively, vs. 4%/(3)% in 3Q. |
| Crypto (ie. Coinbase) | | 4Q data points to a COIN transaction volume beat after reaching multi-year lows in 3Q. Per CoinGecko, aggregate crypto transaction volumes across the aforementioned exchanges rallied significantly in 4Q, growing 86% q/q following a 28% decline in 3Q. |
| On Demand Delivery | | Data Points |
| BAC Restaurant Data | | BAC aggregated credit and debit card data showed overall y/y US restaurant spending growth slowed modestly to 1.8% in 4Q vs. 3.1% in 3Q. However, growth accelerated to 3.6% in Dec. vs. 2.3% in Nov. and -0.6% in October. |
| Bloomberg | | Bloomberg Black Box Intelligence Data showed SSS growth for restaurants improving to 2.5% in Dec. from 1.9% in Nov. and 1.4% in Oct., reflecting 4Q growth of 1.9% vs. 1.6% in 3Q. |
| SpendTrend (Fiserv) | | Fiserv's SpendTrend data showed volume growth at Food Services/Drinking Places tick up to 6.0% in 4Q vs. 5.1% in 3Q. |

Source: BofA Global Research, Bloomberg

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For more on BAC card spending data, and detailed explanation of the methodology disclaimers and limitations regarding BAC card data, please see the latest [BofA on USA](#) report.

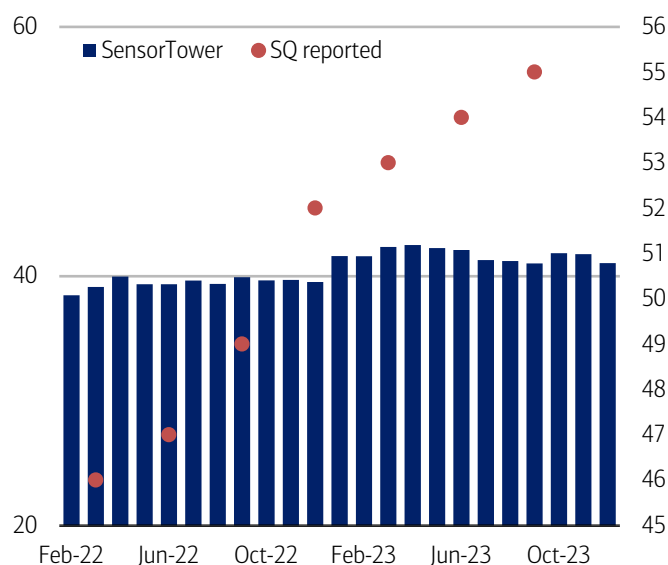


SensorTower mobile app data

We analyzed SQ's 4Q23 app downloads and monthly active users (MAUs) from SensorTower (Ex. 2-3). According to SensorTower, MAUs are defined as the number of unique users who open the app at least once during the month, as a proxy for Cash App monthly active users. We note that SensorTower's MAU data has a 0.8 R-squared correlation with SQ's reported Cash App MAU metric. Overall, our analysis showed that 4Q MAU growth saw modest acceleration vs. 3Q levels on a y/y and q/q basis of 5%/1%, respectively, vs. 4%/(3)% in 3Q. Assuming SensorTower MAU data above trended in-line with Cash App GP growth in 4Q at least directionally, this would imply growth in Cash App gross profit accelerated modestly, while BofAe/Consensus are modeling slight underlying deceleration in 4Q.

Exhibit 2: SensorTower Cash App total MAUs– Feb '22 – Dec '23

SensorTower data suggests y/y and q/q improvement in MAUs in 4Q vs. 3Q

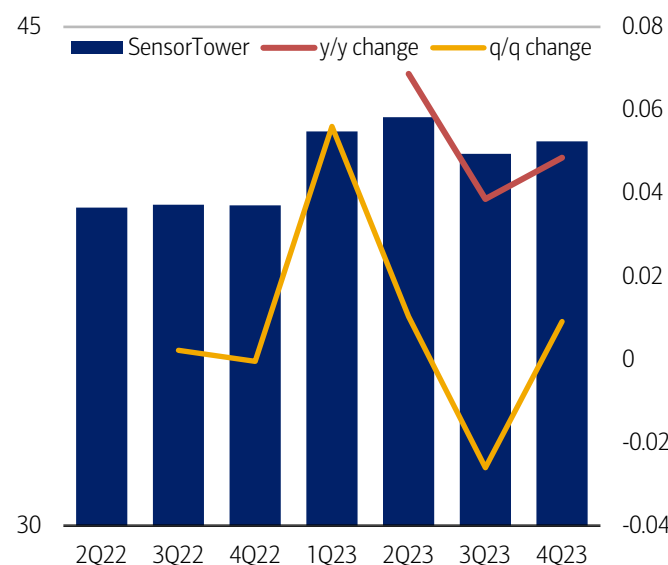


Source: SensorTower

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Exhibit 3: SensorTower Cash App total MAU growth – Feb '22 – Dec '23

SensorTower data suggests y/y and q/q improvement in MAUs in 4Q vs. 3Q



Source: SensorTower

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Compelling longer-term financial targets look achievable

During the Investor Day, MQ provided long-term financial targets, including mid-20% growth in net revenue and low-20% growth in gross profit, as well as mid-single to low-double-digit adj. EBITDA margins (see Exhibit 4). Medium-term targets are being driven by a combination of accelerating structural tailwinds in embedded finance, international, and credit management programs.

These revenue and margin targets are significantly higher than legacy payment providers such as Fidelity National Services (FIS), Fiserv (FISV), and Global Payments (GPN), as well as vertical-specific card providers such as WEX and Fleetcor (FLT). This financial profile is more similar to Block (SQ), neobank Sofi (SOFI), which owns modern card-issuing peer Galileo, as well as newer ecommerce acquirers Adyen (ADYEN NA) and Stripe.

Exhibit 4: MQ Longer-term Financial Outlook

MQ provided long-term financial targets during its November Investor Day

| | '24 | '25 - '26 | | |
|---------------------|--------------|---------------------------------|------|--------|
| | Guide | Guide | BofA | Street |
| Net Revenue Growth | (20) - (24)% | Mid-20% | 24% | 25% |
| Gross Profit Growth | 6 - 9% | Low-20% | 23% | 23% |
| Adj. EBITDA Margin | (2) - 0% | Mid-Single to Low-Double Digits | 9% | 9% |

Source: BofA Global Research estimates, Company Filings, Visible Alpha

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Based on our analysis on some of MQ's key end-market verticals, as well as the burgeoning credit opportunity, we believe MQ could grow in the low-20% in the medium-term. As shown in Exhibit 5, Financial Services, represented by Block (~50% of GP), is expected to grow total GP ~16%, including Cash App GP growth of ~20%. DoorDash is a top client for MQ, and is expected to grow revenue 18% in '24 and 15% in '25-'26. BNPL, represented by AFRM, is expected to grow revenue less transaction expense (best proxy for top-line growth) by 22% in C24 and 21% in C25.

Exhibit 5: MQ key verticals and growth outlook

Growth by players in MQ's key verticals

| Vertical | Key Clients | Represented by: | 2024 | 2025 - 2026 |
|--------------------|---|-----------------|------|-------------|
| Financial Services | Block | Block (SQ) | 17% | 16%* |
| | | Cash App | 30% | 20%* |
| On-Demand Delivery | Instacart, Postmates, Doordash, Uber Eats | DoorDash (Dash) | 18% | 15% |
| Lending / BNPL | Klarna, Affirm, Afterpay, Sezzle | Affirm (AFRM) | 22% | 21%* |

Source: BofA Global Research estimates

Block GP growth for '25-'26 only includes BofAe published estimates for 2025

Affirm top-line growth is represented by revenue less transaction expenses, and 2025-2026 is represented by C25 growth

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Credit has significant growth potential

In credit, MQ's full-stack modern card issuing platform will include credit servicing and program management capabilities. MQ will offer virtual cards, rewards, compliance, JIT authorization, digital wallets, ledger management, card and risk management, portfolio analytics, and customized card issuance, with an average time-to-market of 6-9 months. Post-Power Acquisition, MQ offers unsecured and secured consumer credit, as well as commercial credit offerings embedded directly into the brand experience.

Credit represents ~50% of total US purchase volumes, and is projected to grow at a faster clip than debit. Of note, MQ's '24 guidance does not include any meaningful impact from credit, and we believe even a small percentage of credit penetration could be a material contributor in '24-'26.

In our analysis (Ex. 6-7), we first looked at V and MA's US credit volumes in F23, which totaled \$4.4T and used this as a proxy for the US credit market. Assuming MQ is able to achieve just 1% penetration, which we believe is plausible due to MQ's track record of credit wins and existing bank partnerships, and the US credit market is expected to grow ~5% in 2024 based on BofA estimates, this would yield \$46B in TPV in '24. This represents ~21% incremental TPV growth for MQ, and BofAe/Street are modeling 28%/26%, TPV growth, respectively, in '24.

Exhibit 6: Analysis of credit opportunity for MQ

Assuming 1% US credit penetration and 5% growth in US credit in '24, this would imply a 21% lift to MQ's TPV

| | | % of US credit penetration | | | |
|------------------|----|----------------------------|--------|--------|--------|
| | | 0.5% | 1.0% | 1.5% | 2.0% |
| US Credit Growth | 1% | 22,296 | 44,592 | 66,887 | 89,183 |
| | 3% | 22,737 | 45,475 | 68,212 | 90,949 |
| | 5% | 23,179 | 46,358 | 69,536 | 92,715 |
| | 7% | 23,620 | 47,241 | 70,861 | 94,481 |
| | 9% | 24,062 | 48,124 | 72,185 | 96,247 |

Source: BofA Global Research estimates

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Additionally, on 1/25/24, MQ announced the launch of the Sunwest Visionary Card, Sunwest's commercial credit card and expense management solution, together with Torpago, a commercial credit card and spend management provider, and Sunwest Bank, an entrepreneurial business bank. This demonstrates MQ's ability to partner with banks and win in the commercial card market.

Renewed strategy drives bookings re-acceleration

Bookings growth slowed in 3Q21-3Q22 until MQ announced its renewed go-to-market strategy in 4Q22, which structured teams around independent pods that focused on specific market verticals. MQ added integrated solution and sales engineering to the modular teams, giving leaders end-to-end account ownership and sustained relationships based on deep account knowledge and payment expertise. MQ also changed the comp structure of the sales organization and is focused on signing longer-term contracts with clients.

This new effort has driven significant re-acceleration in bookings, and the company has renewed 75% of TPV between 2Q22-3Q23 (expected 18-24 month ramp). Since 4Q22, 25% of net new customer wins were from competitors (2/3 being full flips and 1/3 adding MQ as an additional partner), and 60% of sales bookings were expansions. MQ assumes revenue from new bookings in '23 will contribute ~\$20M in '24, accelerating to \$60M+ by '25/'26.

Embedded finance to drive next leg of growth

During MQ's inaugural Investor Day on 11/10/23, MQ provided a deep-dive into its various business markets, provided an updated medium-term outlook, and growth drivers supportive of these targets (ie. embedded finance, credit). The company has evolved from being a debit-centric program management provider for fintechs/neobanks, to becoming a full-stack modern card issuing platform for both credit and debit program management.

MQ sees significant runway in embedded finance, defined as solutions that enable companies whose primary business is neither banking nor finance to offer financial services to their customers through integration with existing products. In 2022, over 50% of MQ's bookings came from embedded finance clients, and ~35% of '23 bookings were for embedded finance.

MQ provides comprehensive debit, credit, money movement, risk control, and program management services including deposit accounts, direct deposit, early pay, and ATM usage. While Marqeta has offered these financial services for its larger customer, Block, for some time, it is now being more widely offered to clients who would like to add such features. The company views these as horizontal product offerings complementary to the other business proposition, driving incremental revenue streams.

During its Investor Day, MQ cited a total addressable market (TAM) of \$2.6T in volume (5% of total US financial transactions) growing at a 22% CAGR to \$7T+ vols by '26 (10%+ of total US financial transactions). This translates to a '23-'26 revenue CAGR of

Exhibit 7: Analysis of credit opportunity for MQ

Assuming 1% US credit penetration and 5% growth in US credit in '24, this would imply a 21% lift to MQ's TPV

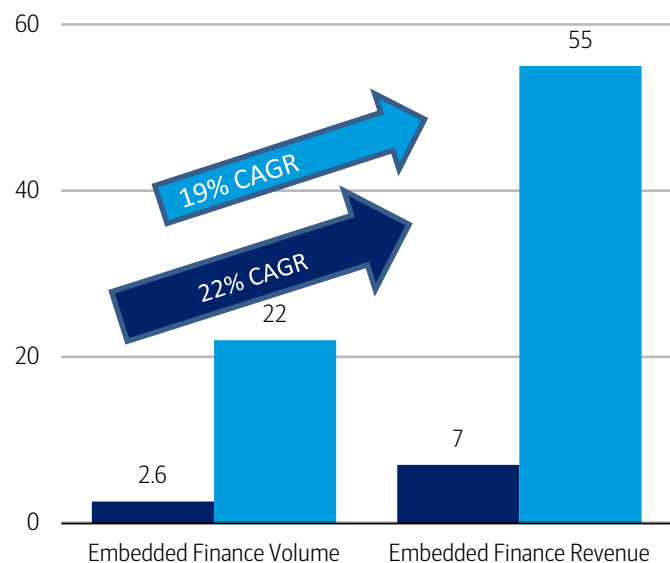
| | | % of US credit penetration | | | |
|------------------|----|----------------------------|------|------|------|
| | | 0.5% | 1.0% | 1.5% | 2.0% |
| US Credit growth | 3% | 10% | 20% | 30% | 40% |
| | 4% | 10% | 21% | 31% | 41% |
| | 5% | 10% | 21% | 31% | 42% |
| | 6% | 11% | 21% | 32% | 43% |
| | 7% | 11% | 22% | 33% | 44% |

Source: BofA Global Research estimates

19% to \$55B. MQ sees the most opportunities in accelerated wage access (\$2T+ TPV TAM), B2B (\$1.8T+ TPV TAM), cobranded credit (\$1T+ TPV TAM). These are summarized in Exhibits 8-10.

Exhibit 8: Embedded Finance Revenue/Volume TAM and '22-'26 CAGR

Embedded finance represents a \$7T in '26 for MQ

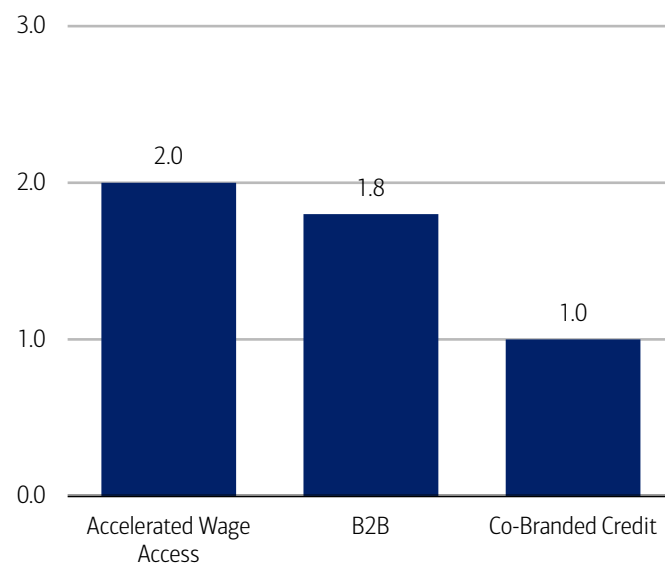


Source: BofA Global Research, Company Filings

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Exhibit 9: Embedded Finance Volume TAM by segment

MQ sees TAM opportunities in accelerated wage access, B2B, and co-branded credit

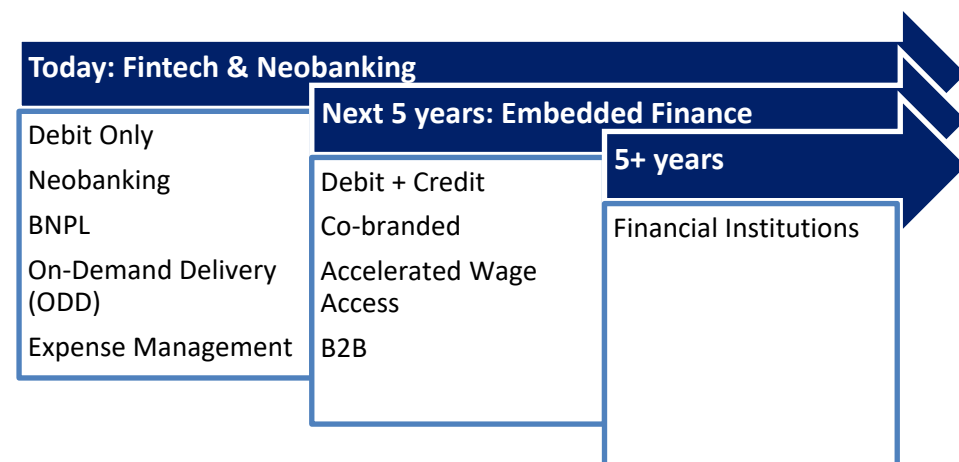


Source: BofA Global Research, Company Filings

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Exhibit 10: MQ product strategy roadmap

MQ sees significant opportunity in embedded finance in the next 5 years



Source: BofA Global Research, Company Filings

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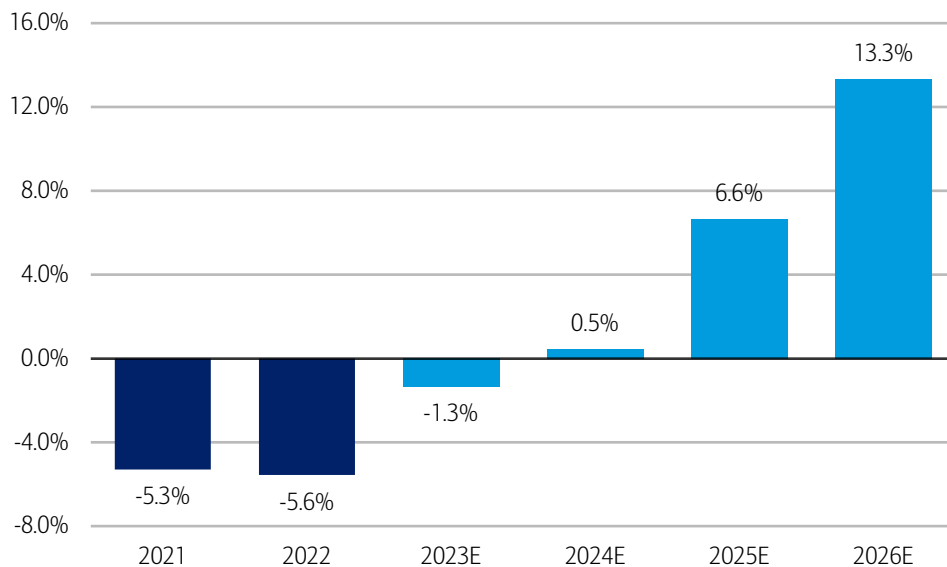
Potential for big profitability upside

While MQ has occasionally given glimpses of positive profitability, MQ now expects to achieve sustainable positive adj. EBITDA in 2H24 of 0-2%, with a medium-term target of mid-single to low-double-digits in '25-'26. This will come from a combination of reduced

expenses around product personnel (slowing hiring) and technology, and scale from previous platform investments. Both we and the Street are modeling ~(-1)% margins in '24, improving to 5%/12% in '25/'26 (Exhibit 11).

Exhibit 11: MQ adj. EBITDA margins 2021-2026E

We estimate 0.5% adj. EBITDA margins in '24



Source: BofA Global Research estimates, Company Filings

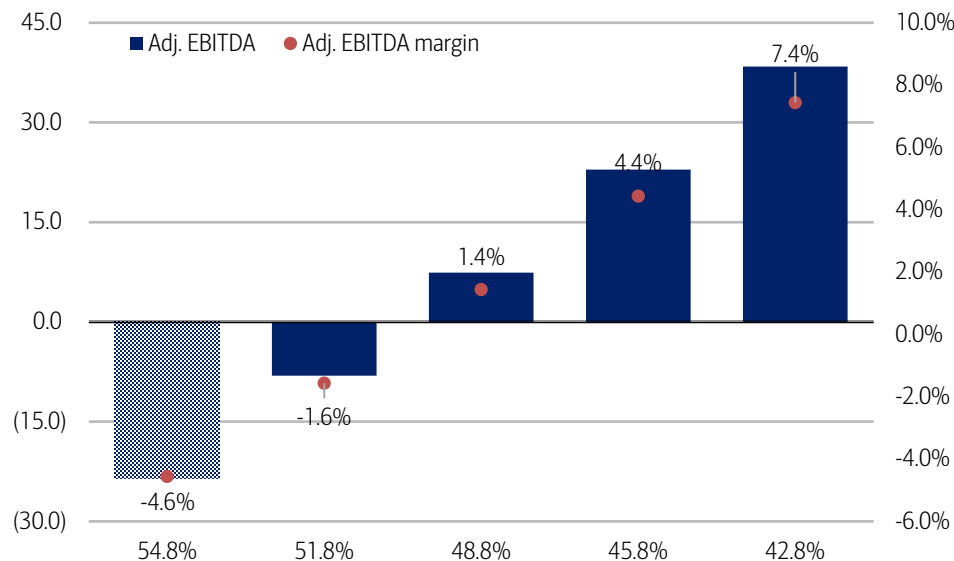
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While MQ has made positive strides in enhancing its focus on profitability, including reducing ~20% of headcount in May '23, we believe there is still more opex opportunity the company can execute against. Roughly 85% of MQ's expected '23 adj. opex is driven by Personnel and Technology costs, and we expect salaries, bonuses, benefits & payroll to represent ~55% of revenues in '23. During the 3Q23 call, MQ indicated that the company plans to exit '23 with a net headcount reduction of over 15%, with plans for additional hiring in lower-cost regions being delayed to 2H24.

As shown in Exhibit 12, assuming MQ reduces salaries, bonuses, benefits & payroll expenses as % of revenues by just 3% in '24 to 52% of revenues, this would improve '24 adj. EBITDA margins to (1.6)%, in-line with '24 adj. EBITDA margin outlook of (2)-0%.

Exhibit 12: MQ Adj. EBITDA margin scenario analysis (\$M)

Salaries, bonuses, benefits & payroll expenses are expected to represent ~55% of revs in '23



Source: BofA Global Research estimates, Company Materials

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Investment Risks

Client concentration risk (SQ) likely to persist

While MQ had over 200 clients in 2022, Block (SQ) accounted for 71% of total net revenues as well as ~50% of gross profit. Revenue from SQ generally grown at a faster clip than the overall business, growing 49% in 2022 vs. MQ net revenue growth of 45%. That said, we believe the risk from SQ is mitigated due to the recent Block renewals in both Square and Cash App, which now expire in July '28. Post-renewal, MQ will still account for ~50% of GP.

Macro sensitivity and volatility in high-growth verticals

Given Marqeta's card distribution between lending products (BNPL), expense management, on-demand delivery, and Fintech, we see risk in a weakening macroeconomic backdrop.

We note that Marqeta has called out roughly one-sixth of its TPV as "more discretionary" and about one-third of TPV as non-discretionary. That said, if the economy weakens (i.e., higher unemployment, high inflation) consumers are likely to pull back on both discretionary and non-discretionary spending. On the card partnership side, a weaker macro backdrop may inhibit new product launches for new and existing partners as companies look to be more prudent with their operating expenses.

While MQ benefitted from strong growth in '20/'21 due to its exposure to high-growth end-markets (next-gen digital-centric verticals such as fintech, ride sharing and food delivery, BNPL), these industries are quite volatile, which inherently limits the amount of visibility that MQ has on its revenues.

Ongoing competition

Marqeta competes with legacy issuer processors, such as Fiserv (First Data) and Global Payments (Total System Services), and new entrants such as Galileo and i2c for new and existing card-issuing programs. For all these programs, card issuers compete on reliability, scalability, versatility and, to some extent, pricing. In most cases, the tech platforms and APIs are what give new players an advantage over legacy incumbents that are currently revamping their tech stacks. Most competition takes place for de novo



programs rather than existing ones, as the process of switching issuer processors can be cumbersome.

Company Overview

Based in Oakland, California, and founded by current Chairman Jason Gardner in 2010, Marqeta (MQ) has evolved into an issuer processor focused on providing an API-based platform for fintechs, digital banks, and larger financial institutions. MQ's modern card-issuing platform enables businesses to create customized payment cards for consumer and commercial use. The API platform empowers card issuing, expense management, and transaction processing on prepaid, debit, and credit products.

As of 12/31/2022, MQ served over 200 customers in 40 countries. Notable clients include: Affirm, Afterpay, Klarna, Block (SQ), Goldman Sachs, JP Morgan, Google, Coinbase, Uber, Instacart, DoorDash, Zip, Sezzle, Ramp, and Divvy. As of Dec. 31, 2021, roughly 493 million cards had been issued through the platform. Marqeta's processed volumes totaled \$166.3B in 2022 (50% y/y growth).

4Q preview

Exhibit 13 summarizes our estimates for key metrics vs. consensus.

MQ reports 4Q on 2/28 and we are comfortable with our/Street estimates. Our 4Q TPV/net revenue/gross profit (GP) estimates of \$60.7B/\$111M/\$79M are in-line with the Street and guidance for net revenue growth of (45)%-(47)%/(8)%-(10)% while our adj. EBITDA margin of (2.8)% is slightly better than the Street at (4)% and in-line with guidance of (3)-(4)%.

Exhibit 13: Summary of BofA and Consensus estimates

Our 4Q23 GP and adj. EBITDA estimates are slightly ahead of Consensus

| | 4Q23 | | | 1Q24 | | | 2024 | | |
|-------------------|----------|-----------|----------|----------|-----------|----------|-----------|-----------|----------|
| | BofAe | Consensus | Variance | BofAe | Consensus | Variance | BofAe | Consensus | Variance |
| TPV | \$60,715 | \$60,746 | -0.1% | \$65,026 | \$63,867 | 1.8% | \$279,145 | \$283,516 | -1.5% |
| y/y growth | 30.0% | 30.1% | | 30.0% | 27.7% | | 26.3% | 28.3% | |
| Net revenue | \$111 | \$111 | -0.2% | \$119 | \$116 | 3.1% | \$517 | \$517 | 0.0% |
| y/y growth | -45.6% | -45.5% | | -45.0% | -46.7% | | -21.4% | -21.4% | |
| Gross profit | \$79 | \$78 | 1.9% | \$84 | \$82 | 2.5% | \$350 | \$351 | -0.3% |
| y/y growth | -8.8% | -10.5% | | -6.2% | -8.5% | | 6.9% | 8.1% | |
| Gross margin | 71.7% | 70.2% | | 70.0% | 70.4% | | 67.7% | 67.9% | |
| Adj EBITDA | (\$3) | (\$4) | -30.9% | (\$3) | (\$4) | -26.8% | \$2 | (\$5) | -148.5% |
| Adj EBITDA margin | -2.8% | -4.0% | | -2.5% | -3.5% | | 0.5% | -1.0% | |

Source: BofA Global Research estimates, Company Materials, Visible Alpha

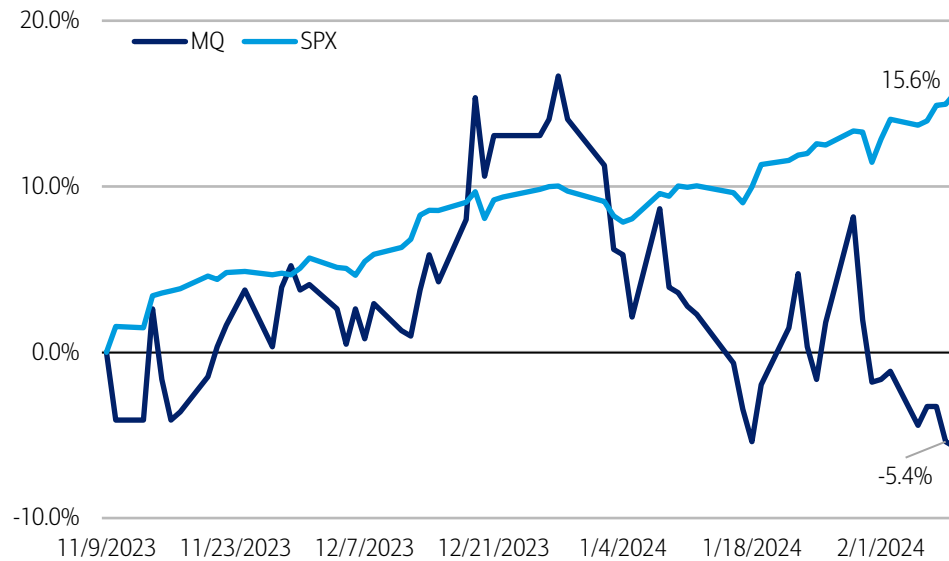
BofA GLOBAL RESEARCH

Valuation

We believe the stock has not gotten enough credit for a solid Investor Day, and has significantly underperformed the S&P500 by 2,100bps since 11/9/23 (Exhibit 14).

Exhibit 14: MQ vs. S&P500 stock performance since Nov '23 Investor Day

MQ has lagged the S&P500 by ~2,100bps since the Investor Day



Source: Bloomberg

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We maintain our \$7 PO, based on a blend of 7x our '24 GP estimate of \$350M (vs. 6x '24 EV/GP prior) and updated DCF. Our multiple is in-line with the comp group (Exhibit 15) given faster top-line growth, but lower margin profile and high client concentration (SQ). Our PO implies 21% upside potential, warranting our Buy rating.

Exhibit 15: MQ comp sheet

MQ trades at a significant discount to peers on an EV/Gross Profit basis

| Company Name | Ticker | Ticker | 2/9/2024 | Market | Net | EV | Gross Profit | | EV/Gross Profit | | GP Growth | |
|-------------------|--------|----------------|-------------|----------|-----------|----------|--------------|--------|-----------------|------|-----------|------|
| | | | Stock Price | Cap | Debt | | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| Lightspeed | LSPD | LSPD US Equity | \$14.07 | \$2,156 | (\$775) | \$1,381 | 383.6 | 467.0 | 3.6x | 3.0x | 16% | 22% |
| Toast | TOST | TOST US Equity | \$19.28 | \$10,415 | (\$927) | \$9,488 | 1136.6 | 1482.6 | 8.3x | 6.4x | 242% | 30% |
| DLocal | DLO | DLO US Equity | \$16.86 | \$4,882 | (\$465) | \$4,417 | 381.0 | 506.2 | 11.6x | 8.7x | 15% | 33% |
| Flywire | FLYW | FLYW US Equity | \$22.37 | \$2,716 | (\$349) | \$2,367 | 316.6 | 402.8 | 7.5x | 5.9x | -5% | 27% |
| Sofi Technologies | SOFI | SOFI US Equity | \$8.13 | \$7,934 | \$2,257 | \$10,191 | 1553.2 | 1794.0 | 6.6x | 5.7x | 368% | 16% |
| Average | | | | | | | \$754 | \$930 | 7.5x | 5.9x | 127% | 26% |
| Marqeta | MQ | MQ US Equity | \$5.77 | \$3,011 | (\$1,612) | \$1,399 | 349.7 | 421.4 | 4.0x | 3.3x | 7% | 21% |

Source: BofA Global Research estimates, Company Materials, Visible Alpha

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Price objective basis & risk

Marqeta (MQ)

We establish a \$7 PO based on 50/50 blend of 7x C24E EV/Gross Profit (most important top-line metric) and our DCF (11% 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 |
|-------------------|--|-------------|------------------|------------------|
| 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 |
| | 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 |
| | Global Blue | GB | GB US | Mihir Bhatia |
| | 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 |
|---------------------|--------------------------------|-------------|------------------|------------------|
| 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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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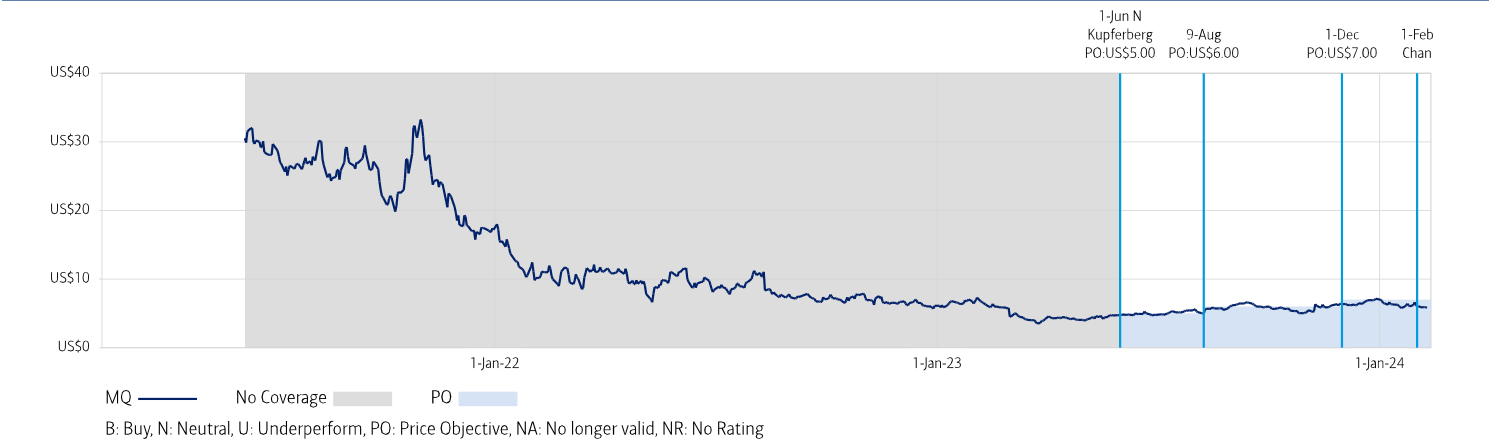
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Marqeta (MQ) Price Chart



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

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | 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 ^{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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