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Equity Research Proposal

HULT International Business School

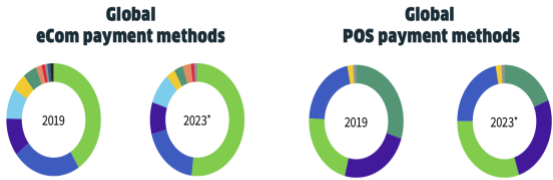
BMFIN1 Investments

Professor Joseph Gallagher

The background of the document features a repeating pattern of the PayPal logo in blue and yellow. The logo is rendered in a stylized, bold font, with the word 'Pay' in blue and 'Pal' in yellow. The pattern is dense and covers the entire page, creating a textured effect.

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	2019	2023*		2019	2023*
Digital/Mobile Wallet	41.8%	52.2%	Cash	30.2%	18.7%
Credit Card	24.2%	18.8%	Debit Card	24.3%	26.3%
Debit Card	10.6%	8.8%	Digital/Mobile Wallet	21.5%	29.6%
Bank Transfer	9.0%	9.3%	Credit Card	20.9%	22.3%
Charge & Deferred Debit Card	5.0%	3.0%	Charge Card	2.1%	2.1%
Cash on Delivery	4.5%	2.7%	Pre-Paid Card	1.0%	1.2%
Buy Now Pay Later	1.6%	2.8%			
PostPay	1.3%	0.9%			
Pre-Paid Card	1.0%	0.5%			
PrePay	0.6%	0.3%			
Other	0.6%	0.3%			

PayPal Holdings, Inc. (PYPL) (☆ Follow)  
59.15 +0.80 (+1.38%) 58.90 -0.26 (-0.44%)



## Executive Summary

PayPal, as a top-notch technology platform, makes digital payments and simplifies commerce for both merchants and consumers worldwide. PayPal intends to comply with global legislation governing anti-money laundering, cybersecurity, and consumer protection in the bitcoin industry. Furthermore, involvement in cryptocurrency offers may require PayPal to meet extra legal requirements, such as licensing and compliance with securities regulations, if cryptocurrencies are classified as securities.

PayPal's financial performance can be affected by macroeconomic events such as international conflicts, supply chain interruptions, recessions, inflation, and interest rate variations. These variables could have an impact on consumer spending as well as corporate stability, potentially hurting PayPal's operations, and finances.

The digital payments sector is predicted to grow steadily due to increased demand for simple payment solutions. PayPal competes with both major banking institutions and upstart fintech firms, demanding continuous innovation and strategic positioning to maintain market leadership.

PayPal's financial performance and valuation assume 8.2% sales growth, steady tax provisions, and estimated depreciation and amortization increases to ensure long-term revenue and profitability growth. PayPal's intrinsic value is assessed using valuation methods such as the Discounted Cash Flows (DCF) approach, which considers the weighted average cost of capital (WACC) and expected growth rates.

Financial analysis reveals persistent growth trends in revenue, profitability, efficiency, liquidity, leverage, and interest coverage ratios. Investment risks include regulatory compliance challenges, cybersecurity concerns, industry



competition, technological disruptions, economic downturns, and legal/regulatory risks associated with cryptocurrency offerings.

### Business Overview

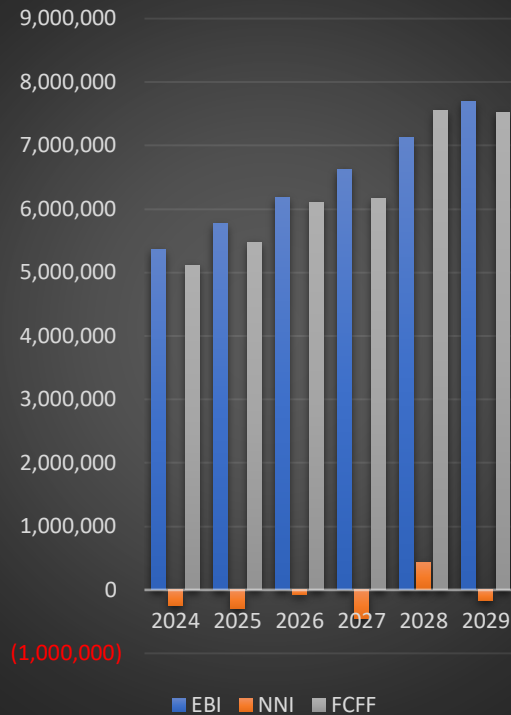
Founded in Delaware in January 2015, PayPal Holdings, Inc. facilitates digital payments and streamlines commerce interactions worldwide for merchants and consumers. To enhance individuals' financial well-being and broaden economic opportunities worldwide, we democratize financial services. We are dedicated to empowering our users to manage and transfer funds seamlessly across borders, markets, and devices, including person-to-person ("P2P") transactions. We recognize the importance of addressing non-financial risks and embracing opportunities, particularly in the environmental, social, and governance ("ESG") realms, to generate value for our stakeholders while staying true to our mission and strategic objectives. Additionally, we uphold our core values to inspire innovation and commitment within our diverse global workforce, ensuring the delivery of products and services that cater to the varied needs of our customers. All references to "we," "our," "us," "the Company," or "PayPal" refer to PayPal Holdings, Inc., and its affiliated subsidiaries, unless otherwise stated.

### Environmental, Social, Governance Factors.

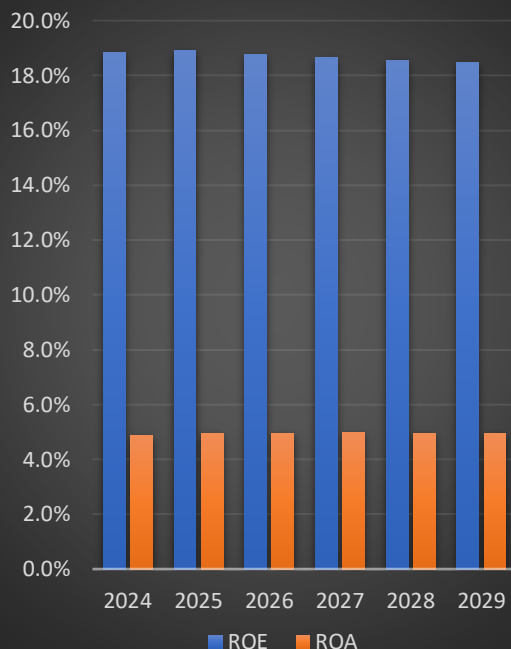
PayPal, as a top-notch technology platform, makes digital payments and simplifies commerce for both merchants and consumers worldwide. They're dedicated to improving financial services to enhance the financial well-being of individuals and to open economic opportunities for businesses of all sizes. Their aim is to empower merchants and consumers to manage their money anywhere, anytime, using any platform or device, including person-to-person transactions.

Operating globally, PayPal faces a constantly changing regulatory landscape, with regulators worldwide focusing on various aspects of the payments

### Free Cash Flows



### ROE vs ROA





## SWOT ANALYSIS OF PayPal



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industry, such as countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. They keep a close eye on these areas and work to create compliant solutions for their customers.

In recent years, cybersecurity and information security risks have escalated for global payments and technology companies like PayPal. Despite implementing systems and processes to safeguard data and prevent security incidents, they acknowledge that these risks persist. There's no guarantee that their security measures will be sufficient to prevent breaches or attacks, and they continue to invest significant resources in bolstering their protections.

## Macroeconomic Environment

The broader macroeconomic environment presents uncertainties, including recent international conflicts like the Russia-Ukraine conflict, supply chain shortages, potential global or market-specific recessions, inflation, and interest rate fluctuations. A downturn in these conditions could lead to reduced consumer spending, business bankruptcies, higher credit losses, currency fluctuations, or other disruptions, which may adversely affect PayPal's financial performance in the future.

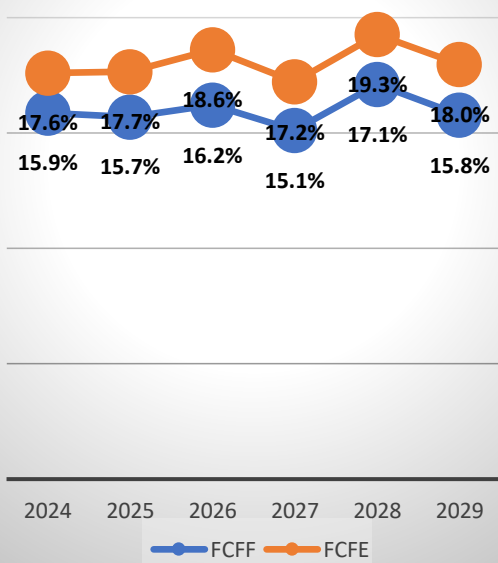
## Industry Overview

PayPal is a part of the rapidly expanding digital payments industry, which includes a variety of financial services made possible by digital platforms. Being one of the major participants in this market, PayPal has had a major impact on how online payments are carried out all over the world.

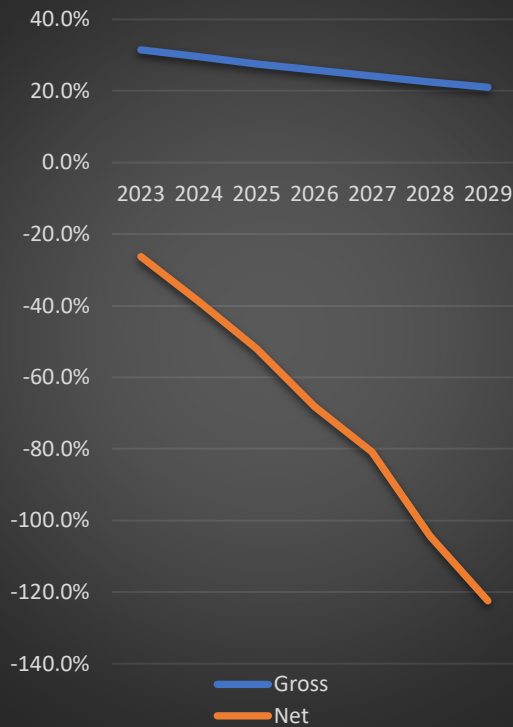
The desire for safe and practical payment options has increased along with the growth of online purchasing, which has propelled the digital payments industry. PayPal is a favorite option for online transactions because of its smooth interaction with e-commerce platforms.

Mobile payment solutions have become more popular because of the widespread use of smartphones and other mobile devices. PayPal's cutting-edge

## Free Cash Flows vs Sales



## Debt vs Capital



mobile payment alternatives and mobile-friendly interfaces serve the growing number of customers who like to purchase and make payments while on the go. The rise in cross-border e-commerce has increased the demand for payment systems that facilitate global transactions. Due to its versatility and capacity to process payments across borders, PayPal is now regarded as a reliable partner for companies entering new markets.

The rise of fintech firms and disruptive technology has increased competition in the digital payments industry. Despite this, PayPal's established brand, strong infrastructure, and ongoing innovation have allowed it to maintain its leadership position.

The overall revenue of the finance market is predicted to increase by 10.96% each year between 2022 and 2027, reaching \$1.40 billion in 2022 and \$2.50 billion by 2027.

According to Gitnux, the financial services market is predicted to increase from \$25,848.74 billion in 2022 to \$37,484.37 billion in 2027, with a compound annual growth rate (CAGR) of 7.5%.

## Porter's Five Forces

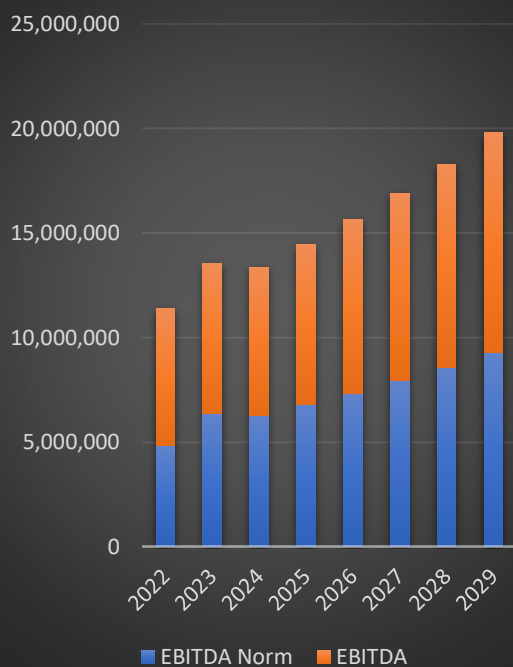
Paypal's success is attributable to their competitive prices, customer service, and effective marketing campaign that enabled it to maintain a leading edge on the market. The Porter's Five Forces model will help to evaluate how the company maintains its competitive advantage and positioning in the payment processing industry.

### Bargaining Power of Suppliers

The bargaining power of suppliers is one of Porter's Five Forces that influences a company's earnings. This force assesses suppliers' control over the pricing and quality of goods or services they offer to the company.

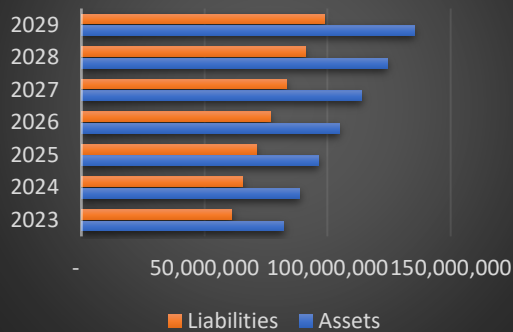
In the case of PayPal Holdings, Inc. (PYPL), suppliers have relatively limited bargaining leverage. The organization relies mostly on technical infrastructure, which is readily available from a variety of suppliers. Switching costs between suppliers are very minimal, allowing PayPal to easily switch to another

## EBITDA Comparison

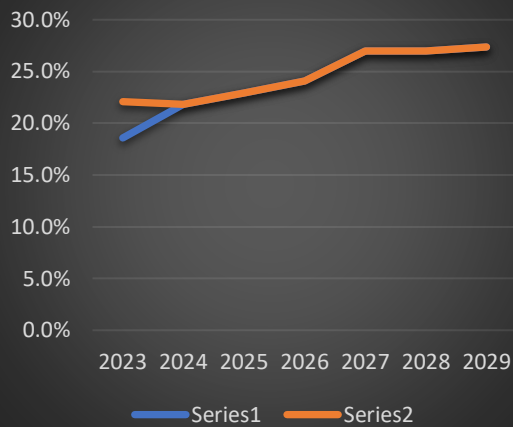




## Total Asset vs Liability



## ROIC vs Tax Neutral



provider if needed. As a result, suppliers have less bargaining leverage with the corporation.

PayPal has also developed strong supplier ties and benefits from economies of scale. This allows the corporation to negotiate better rates and terms with its suppliers. Furthermore, the organization has established tight supplier selection standards to ensure the quality of the products and services it receives from them.

However, PayPal's reliance on certain crucial suppliers may pose a risk to its operations. For example, the corporation uses card networks such as Visa and Mastercard to process payments. Any modifications to PayPal's regulations or fees could have a big impact on its profitability. Furthermore, the company's strategic collaboration with eBay contributes significantly to its revenue. Any rupture in this connection might also harm PayPal's operations.

### The Impact on PayPal

- Low bargaining power of suppliers
- Minimal impact on pricing and quality
- Relatively low risk of disruption to operations
- Strong relationships and economies of scale to negotiate with suppliers.

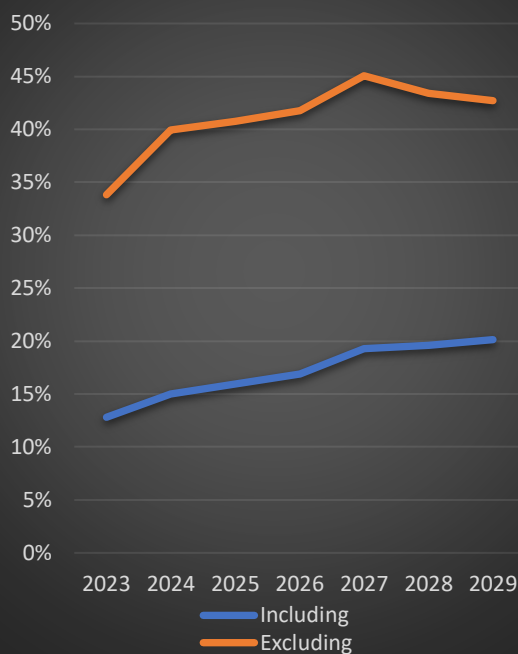
Dependence on some critical suppliers like card networks and eBay Overall, the bargaining power of suppliers is a relatively low force affecting PayPal's business. The company's strong supplier relationships, economies of scale, and strict supplier selection criteria position it well to negotiate with suppliers and maintain quality products and services. However, the dependence on some critical suppliers remains a potential risk to the company's operations and profitability.

Customers' Bargaining Power at PayPal Holdings, Inc. (PYPL).

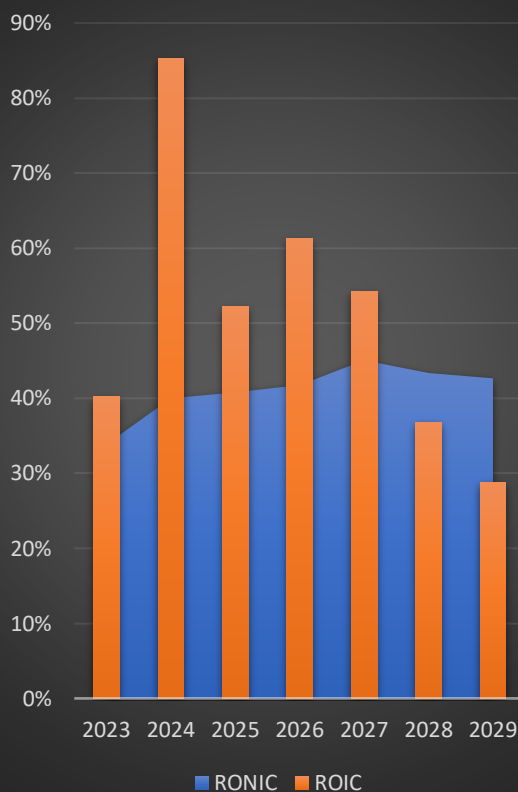
Customers' bargaining power is one of the five forces that influence an industry's competitiveness, according to Michael E. Porter. Customers have the option to negotiate prices and terms of sale with firms.

PayPal Holdings, Inc. (PYPL) is a global leader in technology and digital

## Impact of Goodwill ROIC



## RONIC vs ROIC



payments. PYPL offers a variety of services to its consumers, including online payments, money transfers, and payment processing for businesses. Customers of PYPL have relatively limited bargaining power due to the following reasons: The company has a vast user base and is well known all around the world. Customers value PYPL's services and are less willing to negotiate lower prices or terms of sale. PYPL offers a varied set of services to its consumers. Customers are less likely to negotiate excessively when they can obtain a service that satisfies their demands. Switching to competing services may be challenging because PYPL may have simpler ways to utilize or interact with other products or services that users use. Overall, customers in PYPL's market have relatively little negotiating power. PYPL has gained global recognition as a dependable, secure, and efficient digital payment platform.

PayPal Holdings, Inc. (PYPL) has a competitive rivalry as one of its five forces. According to Michael Porter's Five Forces model, competitive rivalry is one of the primary forces that can influence a company's profitability and long-term performance. This force is influenced by a variety of factors, including the number and size of competitors, industry growth rate, and market saturation. PayPal Holdings, Inc. (PYPL)'s competitive competition has a substantial impact on its market position.

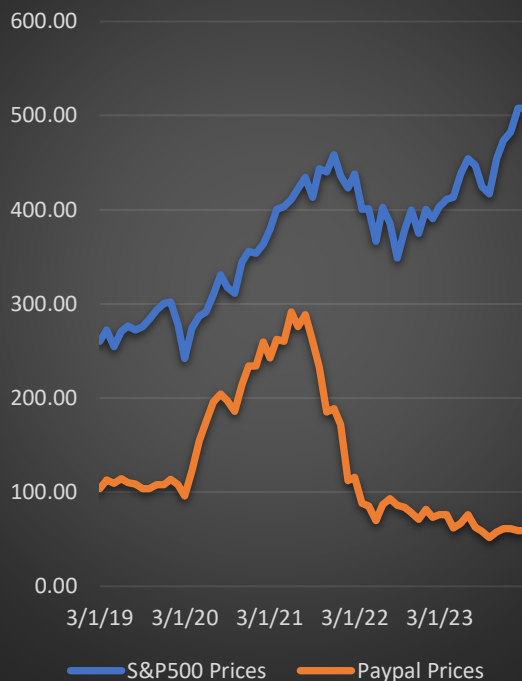
PayPal is a dominant participant in the online payment market, but it confronts stiff competition from a variety of other players. The company competes with both established financial institutions including banks, credit card providers, and payment processors, and newer players like Square, Stripe, and Venmo.

### Competitive Positioning

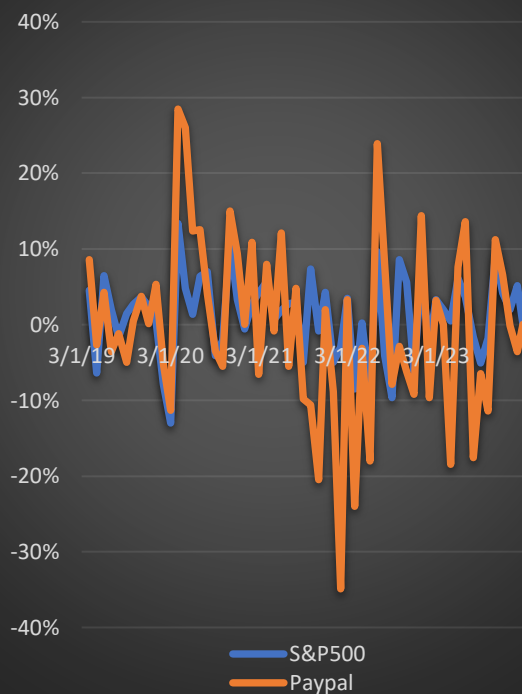
PayPal's founded on a solid basis that will propel growth and set us apart from the competition. Increasing the involvement of our active accounts is an important component of our overall growth plan, which we anticipate will result to increased payment transactions, total payment volume, and net revenues. Their competitive advantages include the following:



## Paypal vs S&P500 Prices



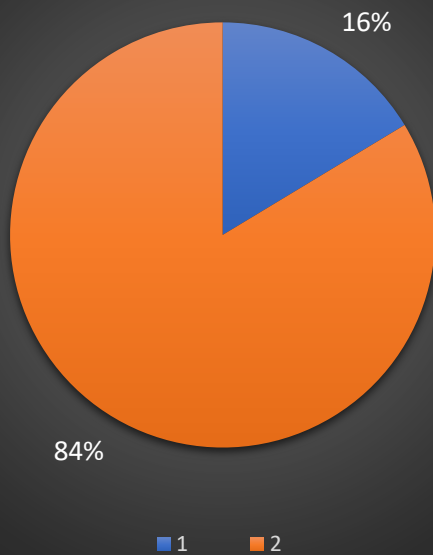
## Paypal vs S&P500 Growth



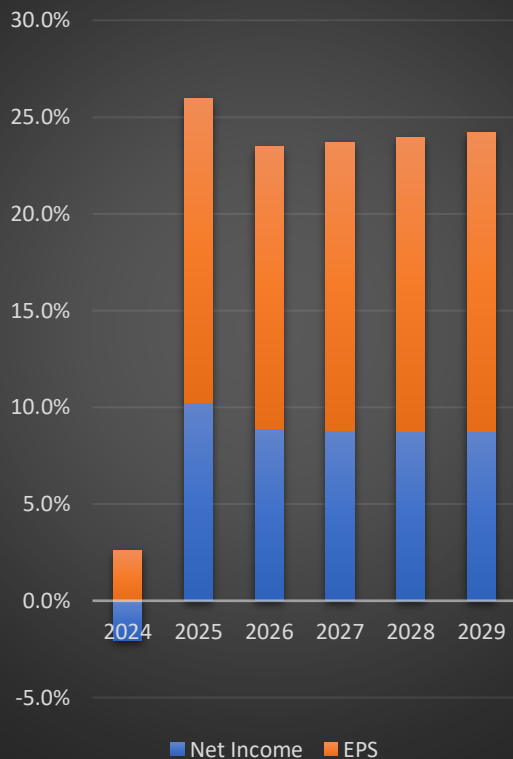
- Two-sided network: the payments platform that connects merchants and consumers, allowing PayPal to provide unique end-to-end product experiences that reduce friction for consumers and increase sales conversion for merchants, all while gathering vital data about how our customers use our platform. The payments platform supports digital and in-store transactions while remaining technology and platform agnostic.
- Merchant and consumer choice: their branded and unbranded card processing payment solutions contribute to an open ecosystem that gives merchants and consumers the ability to make and receive payments utilizing a wide range of funding alternatives and digital wallet solutions.
- Scale: our worldwide reach enables us to accelerate organic growth. As of December 31, 2023, they had 426 million active accounts, including 391 million consumer accounts and 35 million merchant accounts in about 200 markets globally. A market refers to a country, territory, or protectorate where their products and services are available. In 2023, they handled \$1.53 trillion in TPV.
- Trusted brands: They have established and strengthened well-known and trusted brands such as PayPal, Braintree, and Venmo. Their communications and marketing initiatives across countries and demographics help increase brand visibility, usage, and preference among customers.
- Enterprise risk and compliance management: the program protects client information, processes valid transactions globally, and identifies and reduces illegal, high-risk, or fraudulent activities.
- Regulatory licenses: Their regulatory licenses, which allow them to operate in marketplaces all over the world, are a particular advantage and assist support business growth.

## Investment Summary & Valuation

## Capital Structure



## Net Income vs EPS Growth



## Valuation Methodology

For the valuation of the company PayPal, a Discounted Cash Flows to Firm method was performed. This approach entails estimating the future cash flows that the company is likely to earn over a specific time, usually several years in advance. These expected cash flows account for a variety of factors, including revenue growth, operational expenses, capital expenditures, and changes in working capital.

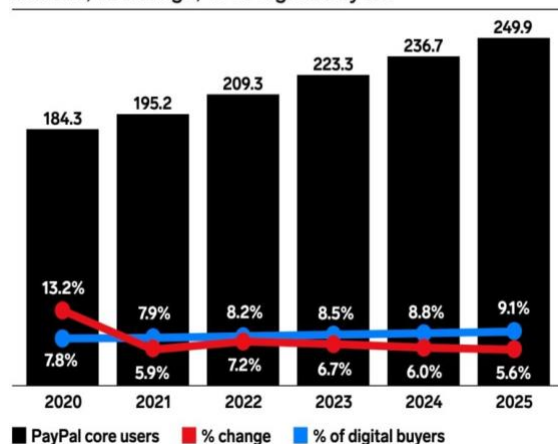
Once the cash flow predictions have been computed, they are discounted to present value using a discount rate that considers the time value of money and the risk associated with the investment. The discount rate is frequently calculated using the company's cost of capital or the required rate of return expected by investors.

In the assumptions, there are 3 different scenarios with their respective assumptions (Slow, Sustainable, Rapid). The Excel calculations for the forecast were formatted to estimate the valuation on the company on different scenarios. For the calculations of the forecast, a sustainable scenario is being used. As part of the sustainable scenario, it was assumed that the Sales Growth is an 8.2%. The growth prospective of the remaining Income Statement was calculated as a percentage of Revenue for the estimated period. The Interest expense was projected as a percentage of Long-Term Debt of the company and Interest Income as a percentage of Cash & Investments. Provision for Income Tax is estimated at 21%. Depreciation & Amortization were assumed to have a stable increase based on the growth of the Revenues.

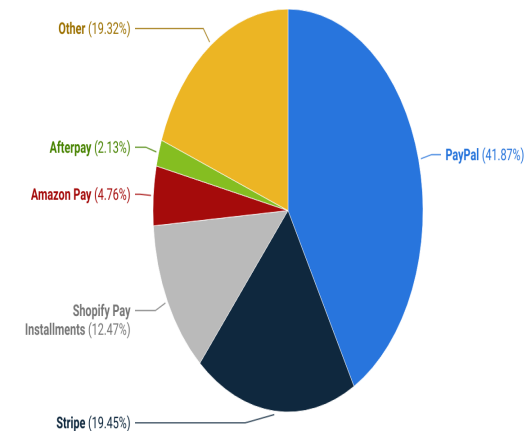
For the Balance Sheet projections, it was assumed that the Short-Term Assets and Liabilities would have a 10% growth over the previous inputs. Stock Based Compensations was assumed to be a 35% of Total Selling, General and Administrative Expenses. The Capital Expenditures were assumed to be a percentage of the overall revenues.



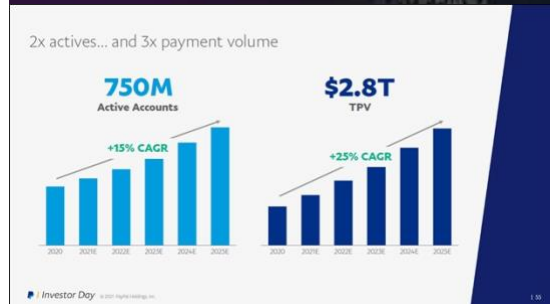
**PayPal Core Users Worldwide, 2020-2025**  
millions, % change, % of digital buyers



**PayPal Market Share**



Source: Enterprise Apps Today



## Investment Summary

PayPal has a continuous growth trajectory within its market segment. Its revenue streams are broad, and its financial performance in previous years suggests stability and potential for future growth.

Financially, the corporation has had a consistent track record. It has shown an average yearly revenue rise of 8%, indicating sustained top-line growth. Furthermore, the company's prosperity is reflected in its excellent profit margins across multiple parameters, including a gross margin of 46% and an operating margin of 17%. In terms of earnings, both net income and adjusted net income have steadily increased year after year, averaging 9%. Furthermore, strong cash flows from operations and free cash flow to the firm demonstrate the company's financial health and ability to generate cash.

In terms of financial situation, the company's leverage ratios have been steadily dropping, demonstrating cautious debt management. The company's balance sheet is strong, with ample liquidity and acceptable debt levels, allowing it to pursue growth possibilities while also withstanding economic setbacks. Shareholder equity has steadily increased, representing both retained earnings and the potential for shareholder value generation.

Future estimates indicate that revenue will continue to expand, as will profitability and cash flows. The company's conservative financial management and operational efficiency are expected to help drive long-term growth and shareholder value.

Several aspects should be considered while making an investment. Given its track record of stable growth and favorable market dynamics, the company makes an appealing investment opportunity for individuals looking for long-term growth potential. Strong financial performance, as seen by robust margins,





Last Price	Fair Value
\$ 59.16	\$ 84.36

Fair Value Estimate	84.36
Market Price	59.16
P / FVE	0.70

Economic Moat	Moat Trend	
Narrow	Stable	
Adjusted P/E	15.0	21.44
EV / Adjusted EBITDA	7.7	11.25
EV / Sales	1.8	2.62
Price / Book	2.70	3.84
FCF Yield	9.1%	6.4%
Dividend Yield	0.0%	0.0%

Uncertainty	Stewardship
Very High	Standard

Estimated COE	12.9%
Pre-Tax Cost of Debt	3.25%
Estimated WACC	11.3%
ROIC *	17.8%
Adjusted ROIC *	25.0%

Fair Value Estimate	2024
Present Value of Stage I	25,887,945
Present Value of Stage II	17,090,256
Present Value of Stage III	43,109,706
Enterprise Value	86,087,908
Cash and Investments	16,134,840
Debt	(9,676,000)
Preferred Stock	-
Other Adjustments	(50,000)
Total Equity Value	92,496,748
Projected Diluted Shares Outstanding	1,096,506
Fair Value Estimate (Beginning of Year)	\$ 84.36

cash flows, and balance sheet strength, reduces investment risk and boosts confidence in future results. Furthermore, the management team has exhibited outstanding strategic planning and execution, establishing the organization for future growth and value generation. Operating in a dynamic market with great development potential due to technical advancements and changing consumer preferences, the company is positioned for additional expansion and innovation.

The company has significant growth possibilities, supported by good financial performance and conservative management. Its strong fundamentals and favorable industry dynamics make it a compelling investment prospect. Nonetheless, investors should do extensive due diligence to identify risks and ensure compatibility with their investing goals and risk tolerance.

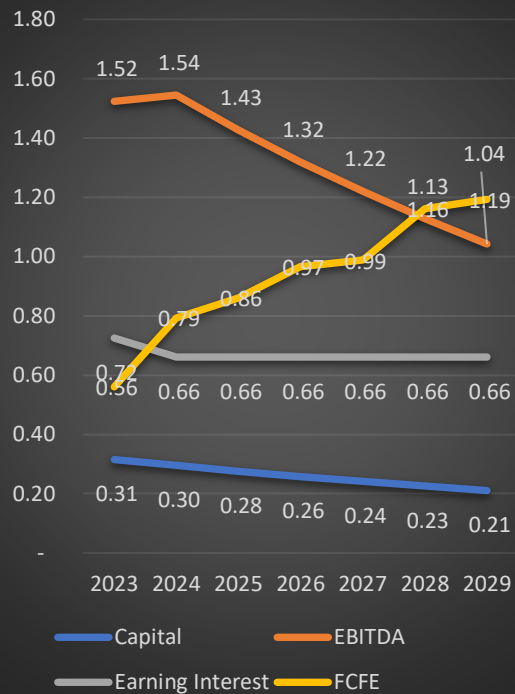
The DCF approach estimates PayPal's intrinsic value by discounting future cash flows to their present value. This method calculates the discounted cash flows for the period from 2024 to 2029, inclusive. The calculated Weighted Average Cost of Capital of 11.25% and a Growth Rate of 4.35% that is used in the DCF valuation to retrieve the Present Value. The Fair Value estimation of PayPal's stock price per share for the Year 2024 is of \$84.36 with the assumptions of a stable growth. It estimates that the company is currently undervalued and has a projected growth for the current period of 42.6% by the end of the year. However, it is crucial to highlight that DCF valuations are extremely sensitive to assumptions about future cash flows and the discount rate.

According to Yahoo Finance, PayPal has a 1-year target price estimate of \$70.70 which is an 18% decrease from our fair value estimation.

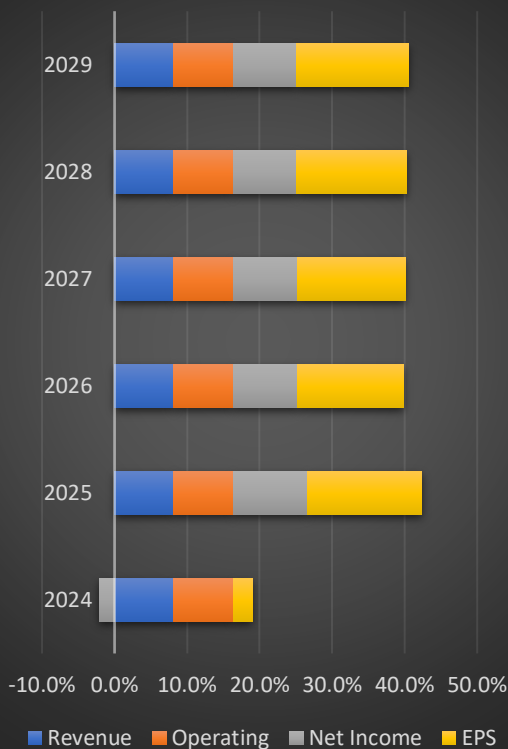
A rolling Enterprise Value and Fair Price Value has been estimated to see the company's growth over the expected periods. The estimated price value has a stable growth of 12.9% YoY. The estimated fair value of PayPal's stock price



## Leverage Ratios



## Growth Ratios



for 2029 is of \$121.09. The rolling Enterprise Value for the period of 2029 is of \$104,530,398.

## Financial Analysis

### Growth Analysis

The company has had positive and reasonably stable revenue growth throughout the years, with the growth rate gradually decreasing from 20.7% in 2020 to 8.2% in 2023 and thereafter.

Operating income growth has been variable, with substantial swings over time, including an abrupt decrease in 2022, followed by a recovery and stabilization in succeeding years.

Net income and earnings per share (EPS) growth have also been volatile, with significant changes year after year, signaling possible issues in maintaining profitability and bottom-line success.

Earnings before interest (EBI) and free cash flow to the company (FCFF) growth have fluctuated dramatically, with major negative growth in 2022, followed by a recovery and modest growth thereafter.

Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) growth has been quite stable, with constant growth rates recorded across the predicted period.

### Profitability Analysis

The gross margin has been reducing, falling from 55.2% in 2021 to 46.0% in 2023, which might suggest greater cost pressures or product mix alterations.

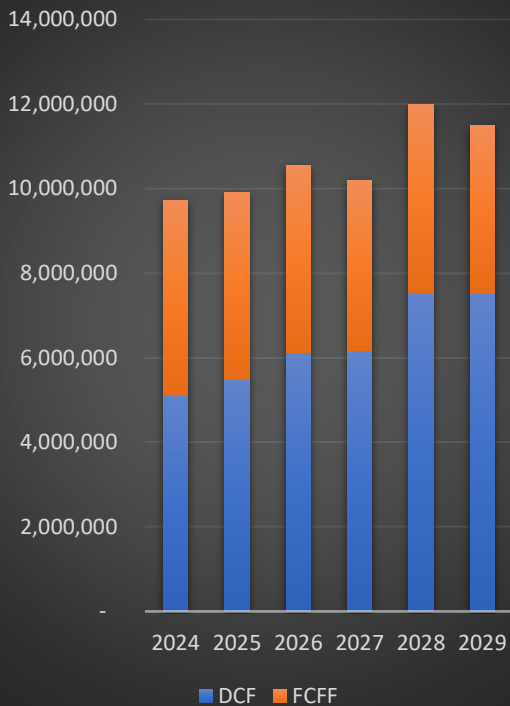
The operating margin has fluctuated but has generally remained within a small range, with a slight increase seen in 2022 followed by stability in succeeding years.

Net margin has been volatile, with a severe drop in 2022 followed by a partial rebound and stabilization in subsequent years.

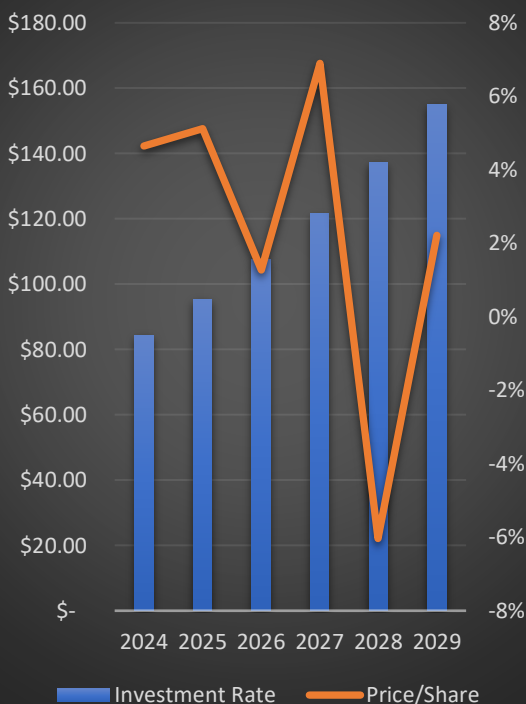
The adjusted net income to sales ratio has stayed reasonably steady over the predicted period.



## FCFF vs DCF



## Price vs Investment Rate



Both EBITDA margin and adjusted EBITDA margin have fluctuated slightly but remained within a stable range.

### Efficiency Analysis

Receivable days have been increasing, indicating possible difficulties in successfully handling accounts receivable. PayPal does not currently own any inventory. Payable days have steadily increased, pointing to a possible improvement in supplier credit terms or payment management.

The cash conversion cycle has shown a downward tendency, indicating difficulties in managing working capital effectively. Asset turnover has been somewhat increasing, indicating greater efficiency in asset utilization.

### Liquidity Analysis

Both the current ratio and the quick ratio have been falling, signaling probable challenges in meeting short-term obligations using liquid assets.

Unfortunately, the cash-to-short-term debt ratio was not disclosed during the projection period, making it difficult to fully analyze the company's short-term liquidity position.

### Leverage Analysis

Debt ratios fluctuated but remained manageable, with a downward trend recorded over the predicted period.

Negative net debt ratios imply a strong net cash position relative to capital, equity, and EBITDA.

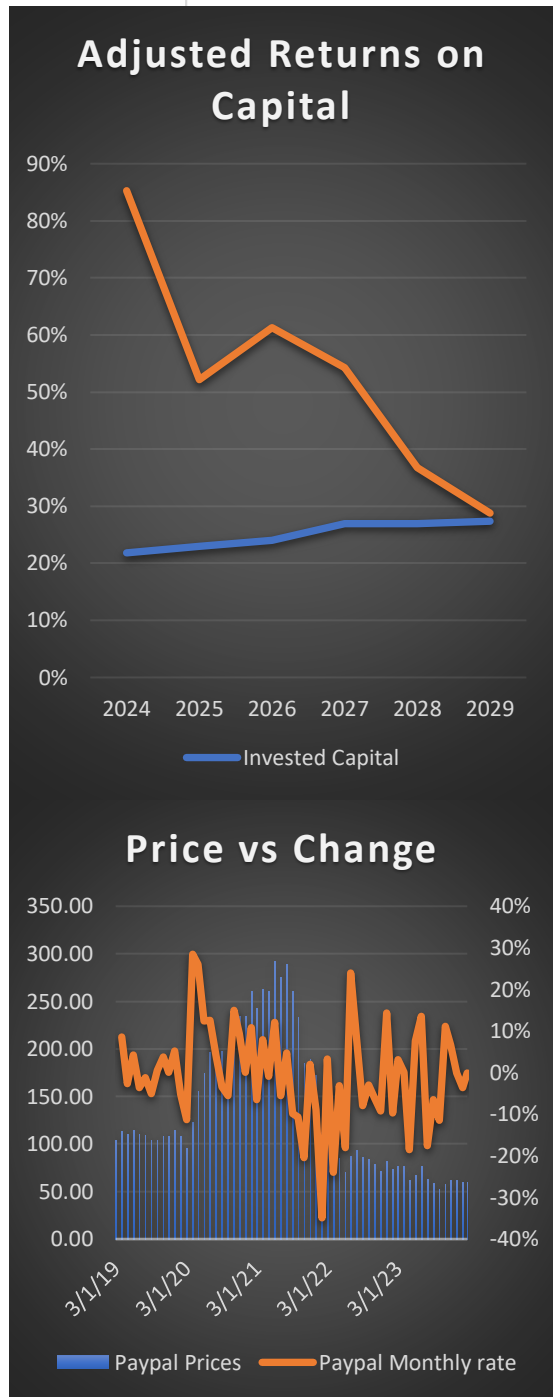
The debt-to-free cash flow to equity (FCFE) ratio has fluctuated but has generally maintained within a reasonable range.

### Interest Coverage Analysis

The low ratios of EBIT to interest expense and EBITDA to interest expense show difficulties in covering interest expenses from operating income and EBITDA, respectively. This indicates possible challenges in servicing debt commitments and emphasizes the significance of increasing profitability and cash flow creation to improve interest coverage ratios. The normalized EBITDA to interest expenditure ratio has improved slightly but remains below



Ratios	2023	2024	2025	2026	2027	2028	2029
<b>Interest Coverage</b>							
EBIT / Interest Expense	0.60	0.54	0.54	0.54	0.54	0.54	0.54
EBIT / Net Interest Expense	4.53	4.54	4.54	4.54	4.54	4.54	4.54
EBITDA / Interest Expense	0.72	0.66	0.66	0.66	0.66	0.66	0.66
Normalized EBITDA / Interest Expense	0.86	0.79	0.80	0.80	0.80	0.80	0.80



one, showing persistent difficulties in financing interest expenses with normalized EBITDA.

The financial study shows mixed performance across key financial measures, with some areas displaying stability and improvement and others presenting instability and problems. Stakeholders should perform more investigation to better understand the underlying dynamics driving these trends and make educated decisions as a result.

### Capital Structure

The capital structure of a company like PayPal, which operates in the financial technology sector, is a crucial aspect of its financial health and strategy. The capital structure refers to the way a company finances its operations through a mix of debt and equity.

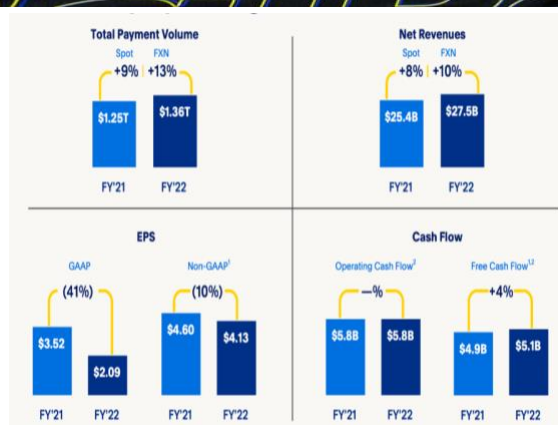
Market value of debt (MV debt) is \$12,649,000.

Market value of common stock (MV CS): \$64,721,040

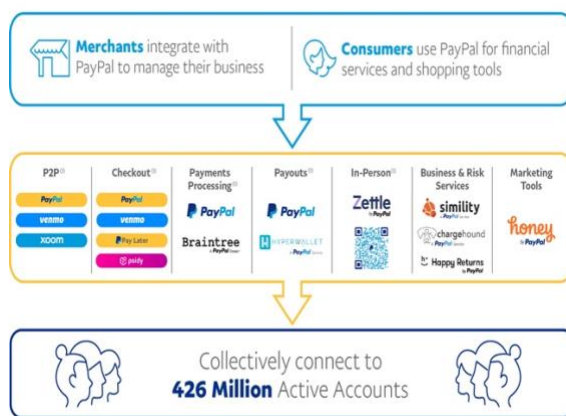
Total market value of capital resources (MV Total) is \$77,370,040.

These figures reflect the market's assessment of the value of PayPal's debt and equity instruments. The market value of debt comprises any bonds, loans, or other types of debt that PayPal has issued, whereas the market value of common stock is the current market price per share multiplied by the total number of outstanding shares.

- **Debt-to-Capital Ratio:** This ratio indicates how much of PayPal's total capital is financed through debt. In this situation, the ratio is around 16.36%, suggesting that debt financing accounts for roughly 16.36% of PayPal's total capital. A lower debt-to-capital ratio indicates lesser financial risk because the company is less reliant on borrowed funds to fund its operations.
- **Equity-to-Capital Ratio:** This ratio depicts the proportion of PayPal's total capital that is financed by equity. The ratio of roughly 83.64% indicates that the bulk of PayPal's total capital (about 83.64%) is derived from equity financing, such as the issuance of common stock. A



PayPal's Payment Solutions



higher equity-to-capital ratio often indicates less financial leverage and debt-related risk.

Expanding on these findings, PayPal's financial structure looks to be primarily equity-financed, indicating a prudent strategy. PayPal's reliance on equity investment shows that it may favor stability and financial flexibility, given it is not heavily loaded with debt. Furthermore, a larger equity-to-capital ratio can boost investor confidence and lower the company's exposure to economic downturns or interest rate swings. Overall, the presented ratios show that PayPal's capital structure appears to be well-balanced and in line with its long-term financial goals and risk management plan.

## Investment Risk

### Valuation Risk

Increased regulatory scrutiny or changes in financial services regulations, particularly those governing digital payments and data privacy, may impose compliance burdens or limit PayPal's operational flexibility, affecting its growth prospects and profitability. Failure to comply with new regulations or adapt to changing regulatory requirements may result in legal penalties, reputational damage, and a loss of customer trust.

The digital payments business is exposed to cyber threats such as data breaches, hacking, and identity theft. Any large security breach involving PayPal's systems might result in financial losses, reputational harm, and erosion of customer trust, affecting the company's market position and future growth. Furthermore, the costs associated with managing cyber threats and improving security procedures may strain PayPal's financial resources.

Higher competition from both established banking institutions and upstart fintech firms may erode PayPal's market share, weaken pricing power, and need higher investments in innovation and marketing to maintain its competitive advantage. Failure to successfully differentiate its offerings, adjust to changing

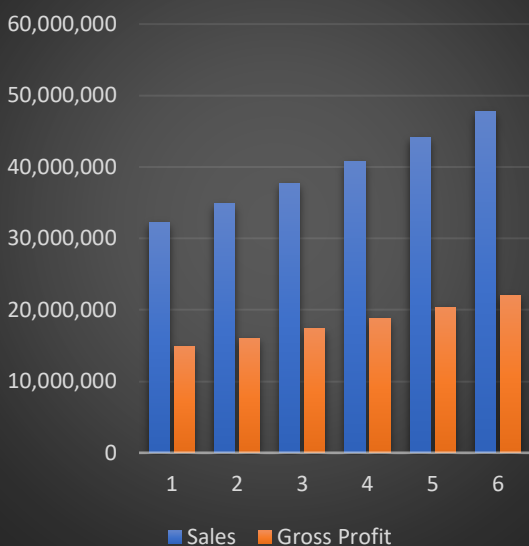




client preferences, or manage competition constraints may result in stagnant growth, reduced margins, and worse shareholder returns.

Rapid technical breakthroughs and shifting consumer preferences may result in disruptive innovations that render PayPal's current business model obsolete or irrelevant. Failure to predict and react to emerging technologies, such as blockchain or decentralized finance, or shifts in consumer behavior, such as the adoption of alternative payment methods, may result in a loss of market relevance, lower transaction volumes, and lower revenue.

**Total Gross Profit vs Sales**



A worldwide economic slowdown or recession could result in lower consumer spending, higher loan, and credit default rates, and increased financial market volatility. This might have a detrimental impact on PayPal's transaction volumes, revenue streams, and credit quality, impacting both its financial performance and valuation. Furthermore, a downturn may result in higher unemployment and lower customer confidence, reducing PayPal's growth possibilities.

PayPal's participation in legal disputes, litigation, or regulatory investigations, such as antitrust allegations or intellectual property issues, may result in legal fees, fines, or damage awards, hurting its profitability and shareholder value. Furthermore, extended legal processes or poor legal outcomes may result in unwanted publicity, reputational damage, and a loss of investor trust in the company's management and governance policies.

PayPal's offering of bitcoin services to the consumers may subject them to additional regulatory requirements, licensing responsibilities, or legal liabilities. In the United States, we are regulated as a virtual currency company by the New York Department of Financial Services, which does not allow us to conduct securities brokerage or trading activities. The regulatory classification of individual cryptocurrencies is still questionable under current regulations. If

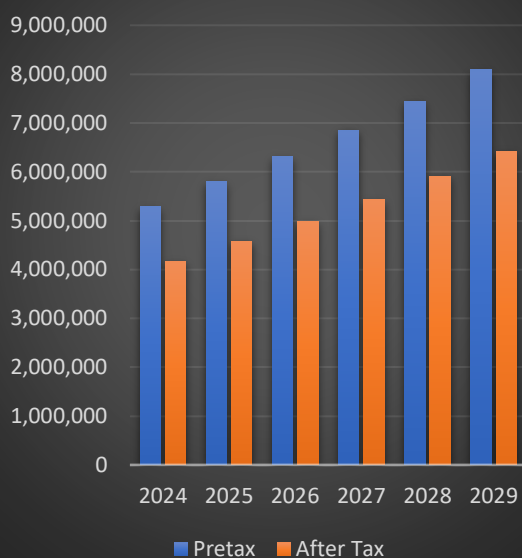
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chargeback claim.

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Resolve



## Net Income vs Pretax Income

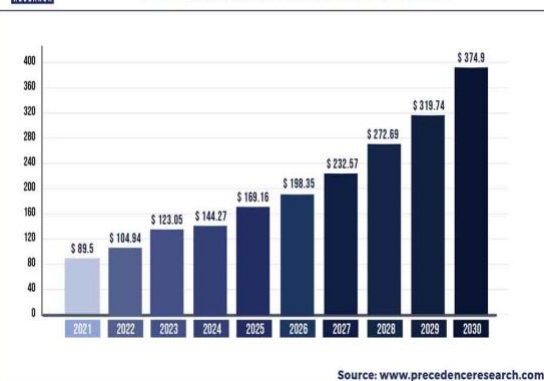


### GLOBAL DIGITAL PAYMENT MARKET 2022-2026



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### DIGITAL PAYMENT MARKET SIZE, 2021 TO 2030 (USD BILLION)



the Securities and Exchange Commission (SEC) determines that any of the cryptocurrencies they facilitate are securities, they may require PayPal to register as securities brokers or impose other regulatory obligations under federal securities laws in connection with that cryptocurrency.

### Market Risk

The digital payments industry is rapidly expanding, driven by rising demand for safe and convenient payment options, particularly as online purchasing grows, with the overall finance market expected to grow at a compound annual growth rate (CAGR) of 10.96% between 2022 and 2027, reaching \$2.50 trillion by 2027.

Mobile payment solutions have gained significant traction as smartphones and other mobile devices have become more widely adopted, pushing consumers to seek on-the-go transaction capabilities, which PayPal addresses with improved mobile payment alternatives and user-friendly interfaces.

The surge in cross-border e-commerce has highlighted the need for payment systems capable of facilitating seamless global transactions, which PayPal meets with its versatile platform capable of processing payments across borders, making it a preferred choice for businesses expanding into new markets.

Despite increased competition caused by the rise of fintech firms and disruptive technologies, PayPal maintains its leadership position in the digital payments sector thanks to its well-established brand, robust infrastructure, and dedication to continuous innovation.

PayPal's competitive position is bolstered by its two-sided network that connects merchants and consumers, offering a wide range of payment solutions, its global scale with millions of active accounts, trusted brands such as PayPal, Braintree, and Venmo, robust enterprise risk and compliance management practices, and regulatory licenses that allow it to operate in various markets around the world. These aspects work together to differentiate PayPal and ensure its long-term success in the dynamic digital payments industry.



## Assumptions

These assumptions are based on a forecast model that simulates financial performance under three scenarios: slow, sustainable, and quick. Each assumption is designed to reflect the projected performance of key financial measures under the chosen scenario.

## Sales Growth

The assumptions for sales growth describe the expected annual increase in revenue. The sluggish scenario assumes a conservative 5% growth rate, whereas the sustainable scenario anticipates an 8.2% growth rate, indicating consistent, long-term growth. The fast scenario forecasts a 10% growth rate, indicating accelerated expansion.

## Cost of Goods Sold

COGS as a percentage of sales represents the portion of revenue spent on the production or acquisition of products sold. The percentages differ between circumstances, with higher percentages suggesting increased expenditures. The slow scenario assumes higher expenses (56% of total sales), but the sustainable and quick scenarios assume reduced costs (54% and 50%, respectively).

## SG&A and Selling Marketing Expenses

These expenses, expressed as a percentage of sales, represent the fraction of revenue dedicated to general operations, marketing, research, and other operational costs. Lower percentages suggest more efficient operations. The assumptions differ between scenarios, with the slow scenario expecting more expenses than the sustainable and quick scenarios.

## Interest Expense and Income

These components indicate the expenditures and profits connected with debt interest and investment returns, respectively. The percentages are believed to be constant across scenarios, indicating solid financial management methods.

## Net Investment Income

Sales Growth	8.2%
CGS (% Sales)	54.0%
General & Admin Expense (% Sales)	6.9%
Selling & Marketing Expense (% Sales)	6.1%
Research & Development Expenses (% Sales)	10.0%
Other Operating Expense (% Sales)	6.4%
Interest Expense Net (% Long Term Debt)	4.0%
Interest Income (% Cash & Investments)	2.0%
Net Investment Income	1.5%
Irregular Income/Expense	0.6%
Total Non-Operating Income/Expense	0.4%
Provision for Income Tax	21.0%
Shares Outstanding	(50,000.0)
Depreciation (% Sales)	2.8%
Amortization (% Sales)	0.8%
Other Short-Term Assets	10.0%
Other Short-Term Liabilities	10.0%
Stock Based Compensation (% SG&A)	35.0%
Capital Expenditures (% Sales)	3.1%
Net Property, Plant, and Equipment	0.0%
Intangibles	20.0%
Net Working Capital	10.0%
Goodwill	70.0%
Other Long-Term Assets	1.8%
Other Long-Term Liabilities	1.0%



Slow	Sustainable	Rapid
5%	8%	10%
56%	54%	50%
7.6%	6.9%	6.0%
8.2%	6.1%	5.5%
11.8%	10.0%	9%
7.7%	6.4%	5.8%
4.0%	4.0%	4.0%
1.3%	2.0%	3%
-2%	1%	3%
-0.3%	0.6%	1%
-0.3%	0.4%	1%
21%	21%	21%
(40,000)	(50,000)	(60,000)
2%	3%	3%
1.7%	0.8%	0.6%
10%	10%	10%
10%	10%	10%
35%	35%	35%
3.6%	3.1%	2.6%
0%	0%	0%
20%	20%	20%
10%	10%	10%
70%	70%	70%
1.0%	1.8%	2.5%
0.4%	1.0%	1.8%

This item shows the net revenue from investments. The assumptions vary between situations, indicating differing expectations for investment performance.

#### Irregular and Total Non-Operating Income/Expense

These items denote irregular or non-operational revenue and expenses. The assumptions vary between scenarios, indicating varying expectations for one-time or non-recurring financial occurrences.

#### Provision for income tax

This shows the projected tax rate on taxable income. The assumption is similar across scenarios and represents the typical tax rate.

#### Shares outstanding

This shows the total number of shares issued by the corporation. The assumptions differ between scenarios, reflecting potential changes to the company's capital structure, such as share buybacks or issuance.

#### Depreciation and amortization

These items describe the cost allocation for tangible and intangible assets over their useful lives. The assumptions fluctuate between scenarios, indicating varying expectations for asset usage and capital expenditure.

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