

Company Overview: Square is a software and technology company, disrupting the financial services industry by building a full commerce ecosystem that helps sellers of all size start and grow businesses.

Lines of Business: Square Point-of-Sales, CashApp, Stich Labs Inc, Weebly Inc, Verse Technologies Inc, Eloquent Labs, Third Party Trade LLC, Tidal, and soon AfterPay Ltd

SQ 5-Year Adj Close Historical Data



Executive Summary:

- Square Inc holds over \$1.5 Billion in Long Term Investments, \$1.876 Billion in Accounts Receivable, and earned \$2.315 Billion Cash from Financing.
- Square reported strong Q3 revenue and maintains hyper growth.
- Leading sector in small and medium merchant payment processing.
- Expanding product portfolio of SAAS payment solutions to attract larger merchants and expand globally.
- High shareholder rights and board risk
- High regulatory and legal Risk.
- Bitcoin revenue is uncertain and Square needs to demonstrate more success outside of core business products
- Maintain a Buy rating with a price target of \$225.
- Square lost more than 5% of stock price after corporate name change and news of CEO Jack Dorsey working full-time at Square.

Valuation Summary:

From the comparable companies model we received target prices from the P/E multiple of \$139.31 for the LTM, and forecasted one year at \$292.87, and two years at \$360.95. For the P/TBV multiple the comps model estimated Square's valuation for the LTM to be \$175.68, for January 1st, 2022 to be \$219.32, and January 1st, 2023 could not be computed because there is not a forecasted estimate for tangible book value in 2023. A discounted cash flow model was then computed to get a more accurate valuation of the target firm. The Gordon model was used to calculate the terminal value. The DCF using the Gordon model to calculate TV estimated Squares value to be \$250.70 per share. The DCF supported the valuation from the comps model and the price target for Square will remain in the middle at \$225 a share

Rating:	BUY
Target Price:	225.00
Price (08-December-21):	194.78
52 Week Range:	170.75 – 289.23

Key Data

Market overview

Market Cap:	89.85B
Total Shares outstanding:	456,200,000
Sector:	Financial Payment Processors

LTM

Revenue:	16,741.6
Gross Profit:	4,041.5
EBITDA:	236.8
Net Income, Adj:	369.9
EPS, Adj:	0.74

Financial strength: (as of 12/31/20)

Cash & Equivalents:	3,158.1
Other Long-Term Assets:	953.6
Short Term Debt:	52.7
Long Term Debt:	2,976.6
Other Long-Term Liabilities:	85.3
Total Debt/Capital Ratio:	53.04
Return on Equity:	9.69
Return on Assets:	2.96
Quick Ratio:	0.94
Current ratio:	1.88
Enterprise Value	83,489

Ratios

P/E:	245.52
P/B:	28.24
P/TB:	38.49
P/OCF:	210.56
P/FCF:	129.07
EV/S:	4.99
EV/EBITDA:	201.77
EV/EBIT:	319.99

Risk:

5-Year Adj Beta:	1.690
% of Float Held by Institutions:	93.53%

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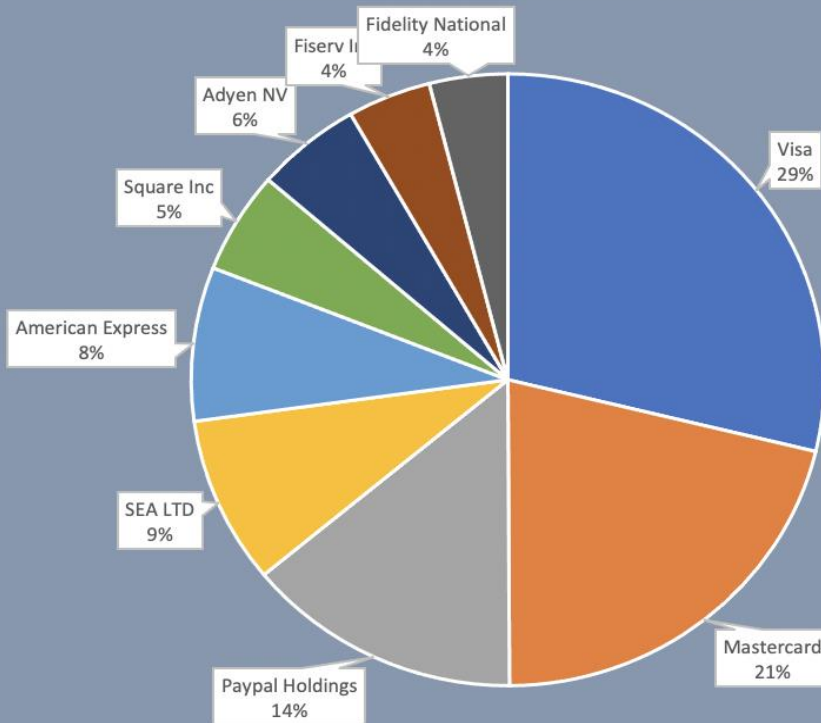
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Financial Transaction Processors Sector Breakdown by Industry Leaders



Industry Overview

- Sector leaders within the Financial Transaction Processors are Visa Inc, MasterCard Inc, PayPal Holdings, Sea LTD-ADR, and American Express
- The total market cap according to Bloomberg is \$2.26 Trillion.
- The Financial Transaction Processors sector has an average P/E of 38.92 and total revenue of \$558.80 Billion
- Square manages to hold hyper growth by maintaining a strong brand name and being an industry leader in small merchant payment processing.
- Currently over 2,000,000 merchants use Square as their payment processor
- Coronavirus Pandemic accelerated payments industry by 2-3 years according to Insider Intelligence
- Online retail sales grew to \$794.50 billion in 2020, making up 14.4% of US retail.
- The Financial Transaction Processors sector is undergoing change in consumer behavior, regarding transition from cash and checks to digital payment solutions. Digital payment solutions like peer-to-peer (P2P) payment solutions are fueling growth in E-Commerce sales and decline of brick-and-mortar retail sales.
- Bigger industries reliant on mega payment providers are searching for business-to-business (B2B) digital payment solutions to stay ahead, become more efficient, and reduce costs associated with payment processing.
- Currently, Square only has 5% market share when compared to top 9 industry leaders. Square can distinguish itself from sector leaders as they serve a niche market of small and medium merchants.
- Square will be able to increase market share of the sector by increasing gross payment volume (GPV) of merchants and creating new products to provide digital payment solutions to larger merchants

Recent News

Square Inc. News:

March 1st, 2021: **Square began its banking operations called Square Banking**

- Square's industrial loan company charter was approved by the Federal Deposit Insurance Corporation ("FDIC") and the State of Utah.
- This approval of the charter allows Square to expand the current seller ecosystem and offer a variety of banking services to clients.
- Square banking will offer merchants more access to capital and new products to help manage cash flows.
- Square Banking participated in the Paycheck Protection Program and provided loans through Square Capital- a service providing loans through Square Banking

April 30th, 2021: **Square completed the acquisition of a majority ownership interest in TIDAL**

- TIDAL is a global music and entertainment platform founded by Jay-Z.
- The strategic acquisition will bring entertainers into the Square ecosystem and expand brand recognition of Square
- Since there was a risk of entertainers and musicians leaving TIDAL after the Square acquisition, Jay-Z was added to the Board of Directors for Square and will continue to run daily operations of TIDAL
- Square has the opportunity to expand their payment solutions to help artist collect royalties and further monetize their music.

August 1st, 2021: **Square Inc. Acquisition of AfterPay**

- Square has entered into a Scheme Implementation Deed with AfterPay Limited to acquire all of AfterPay's shares with Square equity.
- AfterPay is an Australian firm that pioneered 'Buy Now, Pay Later' (BNPL) services. Square will integrate BNPL services into their existing seller and Cash App ecosystems, allowing merchants of any size to offer BNPL to their customers.
- Square plans to capitalize on AfterPay's existing 16 million customers and over 100,000 merchants by integrating BNPL services into the seller ecosystem and offering After Pay consumers the ability to pay their installations directly in Cash App
- Cash App users will also be able to search for merchants using BNPL directly from the app. This can increase exposure to merchants in the seller ecosystem and possibly increase transactions. If merchants in the seller ecosystem increase transactions Square will increase revenue by taking a transaction and processing fee for each purchase.

November 19th, 2021: **Square Releases White Paper Detailing Protocol for a Decentralized Bitcoin Exchange**

- Square announced the creation of TBD, a bitcoin-focused business established to build an open developer platform with the goal of making it easy to create non-custodial, permissionless, and decentralized financial services.
- Square will expand their financial services offerings to provide merchants and average consumers the ability to participate and benefit from ‘crypto innovation.’
- Cash App already offers consumers the ability to buy, sell, and trade cryptocurrencies. TBD will expand these capabilities to merchants and create a more seamless system to access cryptocurrencies.
- TBD may also attract new clients to Square that are already participating or looking to participate in payment solutions using cryptocurrencies.

November 30th, 2021: **Jack Dorsey Leaves Twitter to Focus on Block Inc.**

- CEO and Co-Founder of Square, Jack Dorsey, announced he will be stepping down as CEO of twitter to focus on Square.
- Dorsey is a product visionary and for six years acted as CEO of both Twitter and Square. He would split his work week, spending half his time on Twitter operations and the other half on Square operations.
- This announcement is important because it signifies Dorsey’s confidence in Square. He will be able to bring more of his business influence, political influence, management skills, and expertise to expand Square’s product offerings, attract larger merchants, and identify industries in need of digital and traditional payment solutions.

December 1st, 2021: **Square Inc. Changes Corporate Name to Block Inc.**

- Shortly after Dorsey announced stepping down as CEO of Twitter to focus on Square, the company decided to change their corporate name to Block Inc.
- Square decided to make the change because they recognized that the existing seller ecosystem was tied to the name Square. Block Inc. will enable the firm to expand their brand into new business offerings while maintaining the same mission they have always had- Economic empowerment.
- Block Inc. announced they are an overarching ecosystem of many businesses united by their purpose of economic empowerment. The corporate name change signals a shift from providing payment solutions to a comprehensive ecosystem of businesses built to provide access to services traditionally not offered to medium or smaller merchants, artists and musicians, and even the average consumer.
- Block Inc. is the corporate entity to Square (seller ecosystem), Cash App (CashApp ecosystem), Spiral (blockchain ecosystem), TIDAL (entertainment ecosystem), and TBD54566975 (Bitcoin protocol), but there will be no organizational changes to existing products.

PESTELI Analysis

Political:

- Square offers a variety of digital payment solutions. Federal Reserve Chairman Jerome Powell has discussed regulation on digital payment and his outlook on changing global payments landscape due to technological advances may change and negatively or positively impact Square
- Square collects a large amount of sensitive information regarding an individual's identity, banking records, and spending history. Regulators across the world are discussing proposals of legislation that may restrict data collection and security. If legislation is passed it may impact Square's business intelligence, product offerings, and creation of new products.
- World leaders have agreed on a global corporate tax of 15%. U.S. Technology firms have been accustomed to low tax rates and the global corporate tax rate may negatively impact Square's ability to reinvest capital and increase revenue.
- Square Banking could add more risk to Square's operations as politician's are discussing major banking regulatory changes that may impact Square's ability to successfully grow Square Banking. These changes may force Square to modify Square Banking to comply with regulation and inhibit existing plans.

Economy

- Coronavirus shifted global macroeconomic trends.
- Global Financial Payments industry hurt by less spending and more saving.
- However, Coronavirus accelerated digital payments, and helped increase growth for Square.
- If recession occurs, individuals will seek to save instead of spending their income, and this could radically change Square and competitors' growth outlooks, impacting the current valuation of these firms.

Social Change:

- Society is changing their perspective of corporations and Investors are looking for firms with high Environmental-Social-Governance (ESG).
- Square announced a \$100 Million investment into "Minority and Underserved Communities."
- CEO Jack Dorsey committed \$1 Billion of his own Square Inc. equity to support relief efforts for the Covid-19 Pandemic.
- Square announced a \$25 million grant to The Keepers Fund and The Black Economic Development Fund managed by LISC.
- Square Banking assisted more than 80,000 small businesses by providing more than \$850 million in Paycheck Protection Program loans through Square Capital.

Technology Change:

- Society is shifting from cash and checks to digital payment solutions.
- Technological advancements in networking, databases, hardware, and software are disrupting industries around the world. Companies are poaching top talent to build technological solutions onto existing infrastructure to make business operations more efficient, cheaper, and better managed.
- Specifically, digital payments and digital banking are disrupting how individuals and businesses spend, transact, save, and even invest capital.
- Blockchain technologies are changing the way we think about currency, information collection, and security due to advancements in cryptography and networking.
- Advancements in AI and machine learning are impacting how data is collected, what data is collected, and what insights we can gain from 'big data.'
- Square is at the crossroad of these technological innovations utilizing digital payments and banking, blockchain technologies, and AI/machine learning.
- Square will have to strategically navigate data breaches, regulation, and uncertainty of blockchain technologies as they build a platform that could be severely impacted by these technological changes.

Environment:

- In 2020, Square maintained its focus on bolstering its four key priority areas: Climate Action, Social Impact, Employees and Culture, and Corporate Governance.
- Square announced a commitment to plan for net zero carbon emissions by 2030.
- Square's Cash App lets users buy, sell, and trade Bitcoin. Bitcoin is extremely energy intensive and causes harm to the environment and challenges to net-zero carbon emissions initiatives. For this reason, Square has launched the Bitcoin Clean Energy Investment Initiative.
- In 2020, Square conducted a comprehensive global carbon audit across its business and key emission categories.
- Square announced it would be allowing employees to permanently work from home, helping to reduce commute emissions, energy consumption, and the embodied carbon of workplace construction.

Legal Challenges:

- Square is currently facing a lawsuit in California Northern District Court over its proposed acquisition of Afterpay Limited for \$29 billion.
- Square is currently facing a Lawsuit regarding withholding 30% of merchant's transaction revenue in a Reserve for up to 120 days.
- Square's new bank charter exposes Square Inc. to new regulatory compliance risk
- Data collection from digital payment processing under regulatory risk due to numerous data breaches at firms globally

International Developments:

- The Square app is currently available in the US, Canada, Australia, the United Kingdom, Japan, Republic of Ireland and France
- Square's hardware is subject to testing and certification for compliance with country-specific regulations, such as for FCC compliance in the United States, or Restriction of Hazardous Substances (RoHS) compliance in the EU.
- Square's hardware sold or intended for sale in the United States is not approved for use in Australia, Canada, Japan, Republic of Ireland, the United Kingdom or France.
- Currently, cross-border card payments are unsupported. Plans to implement cross-border payments to Square's offerings.
- Square is focused on fueling growth internationally by achieving product parity globally, investing further into brand awareness, and launching Square in new markets.
- Recently, Square launched Square Marketing in the UK, Australia, and Canada, as well as Square Loyalty in the UK, providing sellers with fully integrated solutions that help retain and reengage more customers.
- In September, Square introduced Square Register and Square Card in Canada.
- Square has also entered France with an ecosystem of omnichannel products and services.

Porter's Five Forces Model:

1. Rivalry in The Industry: High

The rivalry in the Financial Transaction Processors sector is extremely high. Competing with large volume financial payment processors like Visa, Mastercard, and PayPal is extremely difficult as they hold 64% of the market cap of the top nine firms in the sector. Additionally, there is a variety of younger companies trying to innovate the Financial Payment Processor sector through technological advancements. Currently, Visa can process 24,000 transaction messages per second with very good records of security and reliability. Square and many of the younger firms have side-stepped this problem by paying large volume payment processors to process payments while they provide merchants hardware and software solutions to carry out those transactions- for a small fee. Smaller and younger firms within the Financial Payment Processors sector are forced to innovate P2P and B2B payment solutions to capture a small percent of the total sector market cap, because it is so hard to rival with the large payment processing firms that are deeply ingrained within the global payment processing infrastructure

2. Bargaining Power of Customers: Moderate

Square will not negotiate fees with merchants of any size. However, they do offer custom pricing so a business with high volume of sales and low average ticket price will receive a lower fee rate than smaller merchants with higher average ticket prices.

3. Threat of New Entrants: Low

Large volume financial payment processors such as Visa and Mastercard hold 50% of the total market cap of the top nine leading firms in the Financial Payment Processors sector. Visa was founded in 1958 and Mastercard was founded in 1966. The partnerships and experience these companies have made them highly versatile and flexible with integration into many banks and financial institutions around the world. Smaller payment processors like American Express, PayPal, and Square are younger firms that are still working on integrating their payment solutions around the world. The spending power of larger payment processors makes it extremely difficult to successfully integrate new payment solutions into the existing global payment infrastructure. As previously mentioned, technological innovations that create payment solutions, to increase transactions around the world and take a small fee, are the only way that new entrants are able to capture a percent of market share of the Financial Payment Processors sector.

4. Threat of Substitute Products: High

Although it is extremely difficult to enter the Financial Payment Processors sector, it is very possible for large firms to create substitute products that mimic the payment solutions offered by a younger firm competing. Intellectual property and brand awareness are one way to combat the threat of substitute products. But new technological innovations from large firms, within the sector, may provide the same payment processing solution younger firms offer at a reduced price due to capital and existing business relationships.

5. Bargaining Power of Suppliers: High

As mentioned in the 3rd quarter 10Q SEC filing, many of the key components to Square Inc's products are produced by a "single or limited number of suppliers." Since, key components are produced by limited suppliers Square is reliant on quality control, intellectual property protection, and consistent delivery from these limited non-domestic suppliers. This leaves high supplier risk of price increases, shortages, tariffs, changes, delays, or even discontinuation of key components that allow Square to successfully conduct business.

Intangibles

As of December 31, 2020, Square Inc. has \$454.31 million in Total Intangible Assets. Goodwill totaled \$316.7 million, and identifiable intangible assets totaled \$137.61 million. Identifiable intangible assets consisted of Customer Assets, Capitalized Software, Trade Name, and Other. Customer assets totaled \$47.76 million, capitalized software totaled \$76.42 million, trade name totaled \$10.498 million, and other totaled \$2.9 million. Goodwill + Intangible Assets equaled 5.85% of Total Assets owned by Square as of 12/31/20.

Square's strategic acquisitions, intellectual property of software, and trade name, are essential to the continuing success of Square. Square has become a sector leader in small and medium size merchant payment processing by monetizing these intangible assets. This is emphasized on the balance sheet as over 5% of Total Assets owned are Total Intangible Assets. Additionally, Square does not plan to stop acquiring businesses to continue building their ecosystem. Square has gained infrastructure, exposure, and cohesiveness of their payment ecosystem through

these strategic acquisitions. Square's statement to continue acquiring strategic businesses and create more software to expand their portfolio of SAAS solutions, indicates that Total Intangible Assets will continue to grow and remain a large percentage of Total Assets.

Business Model:

Square has monetized their services into two ecosystems, the seller ecosystem and the Cash App ecosystem.

Seller:

The Square seller ecosystem is a comprehensive portfolio of 30 software, hardware, and financial service products that empower merchants of any size to process payments. The seller ecosystem is monetized in five different categories, fees, transactions, subscriptions, hardware, and financial services.

Processing Fees:

Revenue: \$3,529.2M

Fees are paid when merchants sell products. All merchants will pay the same GPV processing fee of 2.6%; however, merchants with high volume of sales and low-ticket prices may be eligible for lowered fees.

Transaction Fees:

Revenue: \$3,295M

Transaction revenue is paid per product sold by merchants. Square charges a static transaction fee of 10 Cents per product. This transaction fee may be lowered for merchants with a high volume of sales and low-ticket prices.

Subscription and Services:

Revenue: \$1,539.4M

Square offers competitive fees and subscription pricing models. Square has created an extensive suite of SAAS (software-as-a-service) products that are monetized through a processing fee, a transaction fee, and subscription costs.

Software Portfolio:

- Square Point of Sale
- Square Appointments
- Square for Retail
- Square for Restaurants
- Square Online
- Square Online Checkout
- Square Invoices
- Square Virtual Terminal
- Square Team management
- Square Contracts
- Square Loyalty, Marketing, Gift Cards, and Feedback
- Square Dashboard
- Payment API
- Commerce API

Square Financial Services:

Revenue:

Square is now able to act as both the merchant of record and the payment service provider (PSP). This allows the firm to offer financial services that make it easier for merchants to manage cash flows and access capital

Financial Services Portfolio:

- Managed Payments
- Risk Manager
- Instant Transfer
- Square Card
- Square Capital
- Square Payroll

Hardware:

Revenue: \$91.7M

Square offers hardware for merchants to process digital payments in all payment forms including stripe, EMV chip and NFC. The hardware can process cards issued by Visa, MasterCard, American Express, Discover, JCB, Interac Flash (Canada) e-Money (Japan), and eftpos (Australia).

Hardware Portfolio:

- Square Terminal
- Square Register
- Square Stand
- Contactless and chip reader
- Magstripe reader

Cash App:

Revenue: \$5,968.4M

Square offers a variety of financial tools available to individuals within the Cash App ecosystem. As of December 31st, 2020, Cash App had a stored balance of approximately \$2.0 billion from customers.

Cash App Portfolio:

- Storing, Sending, and Receiving Funds
- Spending
- Investing
- Tax Preparation

Bitcoin:

Revenue: \$4,571.5M

Bitcoin is available to buy, sell, or trade on the Cash App ecosystem. Square received a Bit-License in the state of New York to allow customers to buy, sell, or trade the cryptocurrency. Moreover, Square holds Bitcoin on their balance sheet. Square has produced revenue by purchasing Bitcoin on their balance sheet and monetized Bitcoin on the Cash App ecosystem by

charging a fee to sell Bitcoin. Bitcoin is an extremely volatile asset that poses new firm specific risk by adding the asset to their balance sheet.

Corporate Governance

Below are the ISSI risk factors given to Square Inc. ISSI risk factors rank firm specific risk on a scale of 1-10 (1 being the least risky and 10 being most risky)

ISSI Risk Factors

Audit	1
Board	6
Shareholder Rights	10
Compensation	10

Square received a low score of 1 for audit, indicating low audit risk. This is expected, Square charted an Audit and Risk Committee on November 4th, 2015. The purpose of this committee is to oversee accounting and financial reporting processes and internal controls, assess the qualifications and independence of the independent-auditor, ensure compliance with applicable law, and conduct risk management and assessment pertaining to financial, accounting, and tax matters. Additionally, in order to qualify for the committee, Board of Directors must be an independent director, financially literate with accounting or finance management expertise, and not serve on the audit committee of more than two other public companies. Lastly, it is required that at least one member of the committee be an 'audit committee financial expert' with requisite financial sophistication. Square receives low audit risk from ISSI because of their diligent selection of the Audit and Risk Committee and strict internal control over financial, accounting, and tax matters.

Square received a score of 6 for their board risk. This risk is moderate as the Board of Directors have implemented effective internal controls and effective management of the firm. However, the ISSI risk score is not higher because of how much control the Board of Directors have in decision making and extremely high compensation.

Square received the riskiest ISSI risk rating of 10 for shareholder rights risk. As aforementioned, the Board of Directors hold most of the control when it comes to voting rights. Square employed a dual-class share structure with 611 Class B shareholders who own 291,005,896 shares of equity. These insiders vote as a group and maintain voting power by doing so. Since Class B shareholders hold so much control over Class A shareholders, Square received a high shareholder rights risk rating of 10 from ISSI.

Square also received the riskiest ISSI risk rating for compensation risk. This is expected as the average compensation of all Board of Directors in 2020 was \$8,448,700.4 while the median employee salary is \$188,087. The Board of Directors receives 44.9x more in compensation than the median employee salary. The price disparity in compensation between executives and employees justifies the high compensation risk rating of 10 from ISSI.

SWOT Analysis

Strengths

- Sector leader in payment processing of medium and small merchants
- Maintaining strong revenue growth by continuing to increase GPV and adding new solutions to product portfolio.
- Continued strategic acquisitions and extensive intellectual property comprising over 5% of Total Assets.
- Infrastructure created to capitalize on consumer trend moving from cash and checks to digital payment solutions.
- Strong internal control and management by Board of Directors.
- CEO Jack Dorsey
- Large Investments in environment, social, and governance matters.
- Strong brand name

Weaknesses

- Dual-class structure creates high shareholder rights and compensation risk.
- Fees from risky assets such as Bitcoin make revenue forecasts uncertain.
- Only slightly profitable, still a growth company.
- Performance strongly correlated to market conditions.
- Limited success outside core business
- Necessary to heavily invest in R&D to keep at pace with industry leaders
- High employee turnover

Opportunities

- Large opportunity to expand operations because Square only hold 5% of market share when compared to top nine firms in sector.
- New SAAS products to attract high volume merchants.
- Approval of Bank Charter to provide merchants better management of cash flows and access to capital.
- Block Inc. corporate entity to build suite of different business with the shared goal of economic empowerment.
- Expansion to international markets.
- Implementation of blockchain technologies and AI/machine learning into ecosystem could attract new clients.
- Low costs once SAAS ecosystem is fully built.

Threats

- Extremely high competition In Financial Payment Processors sector.
- Limited suppliers of key components.
- High regulatory and compliance risk.
- Legal risk from pending lawsuits.
- Large firms in Financial Payment Processors sector could afford to create substitute products.
- Data leaks could permanently impact brand.
- Foreign currency fluctuations given volatile political environment in many markets.

Square is a unique growth company in the Financial Payments Processors sector. When compared to comparable companies, Square is currently unprofitable; however, strong growth

fueled by strategic acquisitions and new SAAS products will increase GPV and capture large volume merchants. Square poses many threats and is a risky investment compared to comps but if Square expands into international markets and successfully builds a platform for economic empowerment, they may become an industry leader.

Comparable Firms Data

Ticker	SQ	FIS	FISV	GPV	AFRN	FLT	WU	WEX
Firm Name	Square Inc.	Fidelity National Information Services	Fiserv Inc	Global Payments	Affirm Holdings	Fleetcor Technologies	Western Union CO	WEX INC
Currency	USD	USD	USD	USD	USD	USD	USD	USD
Far Forecast Revenue	\$21,351.70	\$15,032.90	\$16,589.50	\$8,751.60	\$1,737.80	\$3,136.80	\$5,300.30	\$2,091.10
Far Forecast Date	12/31/22	12/31/22	12/31/22	12/31/22	6/30/23	12/31/22	12/31/22	12/31/22
LTM Revenue	\$15,930.80	\$13,211.00	\$15,424.00	\$7,975.50	\$870.50	\$2,478.60	\$5,030.00	\$1,651.30
LTM Date	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21
LTM Gross Profit	\$3,702.70	\$1,507.00	\$7,825.00	\$4,613.50	N/A	N/A	\$2,090.10	\$996.50
LTM EBITDA	\$254.60	\$5,315.00	\$6,227.00	\$3,192.70	\$10.20	\$1,432.70	\$1,284.90	\$571.20
LTM EBIT	\$103.10	\$1,507.00	\$2,981.00	\$1,531.10	-\$9.70	\$1,169.60	\$1,028.50	\$305.10
LTM OCF	\$831.20	\$4,693.00	\$4,241.00	\$2,463.50	-\$188.90	\$1,026.90	\$879.20	\$9.10
LTM FCF	\$682.80	\$4,179.00	\$3,247.00	\$1,877.90	-\$213.40	\$1,394.20	\$789.80	\$776.55
LFY FCF	\$243.20							
Rev Forecast Mo.	18	18	18	18	24	18	18	18
Rev Forecast Yrs.	1.5	1.5	1.5	1.5	2	1.5	1.5	1.5
Value Drivers								
Exp. Rev. Growth	21.6%	9.0%	5.0%	6.4%	41.3%	17.0%	3.6%	17.0%
Gross Profit Margin	23%	11%	51%	58%	N/A	N/A	42%	60%
EBITDA Margin	2%	40%	40%	40%	1%	58%	26%	35%
EBIT Margin	1%	11%	19%	19%	-1%	47%	20%	18%
OCF Margin	5%	36%	27%	31%	-22%	41%	17%	1%
FCF Margin	4%	32%	21%	24%	-25%	56%	16%	47%

Ticker	EEFT	MA	V	PYPL	MGI	ACIW	EPAY	EVOP
Firm Name	EuroNet Worldwide	Mastercard	Visa Inc	Paypal Holdings	MoneyGram International	ACI WorldWide	Bottomline Technologies	Evo Payments Inc
Currency	USD	USD	USD	USD	USD	USD	USD	USD
Far Forecast Revenue	\$3,495.30	\$22,643.70	\$28,830.20	\$31,689.30	\$1,356	\$1,405.30	\$581.70	\$547.90
Far Forecast Date	12/31/22	12/31/22	9/30/22	12/31/22	12/31/22	12/31/22	6/30/22	6/30/22
LTM Revenue	\$2,738.30	\$16,640.00	\$22,647.00	\$23,846.00	\$1,285.90	\$1,289.80	\$471.40	\$462.10
LTM Date	9/30/21	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21	6/30/21
LTM Gross Profit	\$965.80	N/A	\$30,157.00	N/A	\$597.20	\$662.40	\$275.00	\$384.90
LTM EBITDA	\$348.60	\$9,453.00	\$15,517.40	\$5,611.00	\$177.40	\$319.60	\$60.20	\$148.80
LTM EBIT	\$158.90	\$8,813.00	\$14,689.40	\$4,231.00	\$116.90	\$181.80	-\$1.50	\$57.70
LTM OCF	\$248.30	\$7,638.00	\$13,352.00	\$5,131.00	\$45.00	\$319.00	\$76.10	\$90.10
LTM FCF	\$155.90	\$6,885.00	\$12,687.00	\$4,988.00	\$56.50	\$318.50	\$44.30	\$95.50
Rev Forecast Mo.	15	18	15	18	18	18	12	12
Rev Forecast Yrs.	1.25	1.5	1.25	1.5	1.5	1.5	1	1
Value Drivers								
Exp. Rev. Growth	21.6%	22.8%	21.3%	20.9%	3.6%	5.9%	23.4%	18.6%
Gross Profit Margin	35%	N/A	133%	N/A	46%	51%	58%	83%
EBITDA Margin	13%	57%	69%	24%	14%	25%	13%	32%
EBIT Margin	6%	53%	65%	18%	9%	14%	0%	12%
OCF Margin	9%	46%	59%	22%	3%	25%	16%	19%
FCF Margin	6%	41%	56%	21%	4%	25%	9%	21%

Analysis of Comparable Companies Base Data

Above is the raw data of 16 comparable companies to Square Inc. It is Important to recognize that although Square has one of the higher Expected Revenue Growth, compared to comps, Square is struggling to become a very profitable firm. Compared to some of the more established firms like Fidelity, PayPal, Visa and Mastercard, Square is struggling to retain earnings and therefore has significantly lower EBITDA Margin, EBIT Margin, OCF Margin, and FCF Margin. This is expected and observed in comps with similar growth like EuroNet and Bottomline Technologies, because these firms are reinvesting their earnings and focused more on revenue growth than FCF growth. Once Square's revenue growth slows down and they begin to transition into a value company, management will focus more on increasing FCF and retaining earnings.

Ticker	DG
Firm Name	Dollar General
Currency	USD
Far Forecast Revenue	\$36,818.00
Far Forecast Date	1/31/23
LTM Revenue	\$33,665.30
LTM Date	7/30/21
LTM Gross Profit	\$10,789.30
LTM EBITDA	\$5,443.50
LTM EBIT	\$3,403.80
LTM OCF	\$2,286.40
LTM FCF	\$1,164.10
Rev Forecast Mo.	18
Rev Forecast Yrs.	1.5
Value Drivers	
Exp. Rev. Growth	6.1%
Gross Profit Margin	32%
EBITDA Margin	16%
EBIT Margin	10%
OCF Margin	7%
FCF Margin	3%

	Western Union	Moneygram	Fiserv	ACI	DG	Global Payment	Fidelity	EuroNet	Wex	Fleetcor	Evo	Paypal	Visa	Square	Mastercard	Bottomline	Affirm
Exp. Rev. Growth	4%	4%	5%	6%	6%	6%	9%	14%	17%	17%	19%	21%	21%	22%	23%	23%	41%
	Fleetcor	Mastercard	Fidelity	Square	DG	EuroNet	Nestem Union	Moneygram	Fiserv	ACI	Paypal	Global Payment	Bottomline	Wex	Evo	Affirm	Visa
Gross Profit Mar	N/A	N/A	11%	23%	32%	35%	42%	46%	51%	51%	55%	58%	58%	60%	83%	89%	133%
	Affirm	Square	Paypal	EuroNet	Bottomline	Moneygram	DG	ACI	Nestem Union	Evo	Wex	Fiserv	Global Payment	Fidelity	Mastercard	Fleetcor	Visa
EBITDA Margin	1%	2%	11%	13%	13%	14%	16%	25%	26%	32%	35%	40%	40%	40%	57%	58%	69%
	Affirm	Bottomline	Square	EuroNet	Paypal	Moneygram	DG	Fidelity	Evo	ACI	Wex	Fiserv	Global Payment	Nestem Union	Fleetcor	Mastercard	Visa
EBIT Margin	-1%	0%	1%	6%	8%	9%	10%	11%	12%	14%	18%	19%	19%	20%	47%	53%	65%
	Affirm	Wex	Moneygram	Square	DG	EuroNet	Paypal	Bottomline	Nestem Union	Evo	ACI	Fiserv	Global Payment	Fidelity	Fleetcor	Mastercard	Visa
OCF Margin	-22%	1%	3%	5%	7%	9%	10%	16%	17%	19%	25%	27%	31%	36%	41%	46%	59%
	Affirm	Square	DG	Moneygram	EuroNet	Bottomline	Paypal	Nestem Union	Evo	Fiserv	Global Payment	ACI	Fidelity	Mastercard	Wex	Fleetcor	Visa
FCF Margin	-25%	2%	3%	4%	6%	9%	10%	16%	21%	21%	24%	25%	32%	41%	47%	56%	56%

ACI	Fiserv	Global Payment	Fidelity	Western Union	Fleetcor	Mastercard	Visa	Evo	Wex	DG	Paypal	EuroNet	Affirm	Moneygram	Bottomline
0	1	0	1	1	1	1	1	1	2	3	4	5	5	5	5

Final Selection of Comparable Companies

The table above shows the 16 comparable companies and square's expected revenue growth and value drivers in ascending order. After sorting the exp revenue growth and value drivers, the conclusions from the raw data were supported displaying Squares expected revenue growth in the upper range and value drivers in the lower range. This is explained by Square's focus on high revenue growth, as the firm is in a hyper growth phase, and inability to retain earnings as they are reinvested into Capex and Intangible assets to fuel the hyper growth phase.

The dark blue highlight indicates comparable companies that are within the acceptable range and is used to find the closest comparable companies. The number of times that each firm was within the acceptable range was recorded below and a tally was kept to see which firms were closest to the target firm. The firms that appeared in the acceptable range the most are Dollar General, PayPal, EuroNet, Affirm, MoneyGram, and Bottomline Technologies.

Comparison of Valuation Metrics of final selected comparable companies to target firm:

Firm	Square	Wex	DG	EuroNet	Paypal	Affirm	Western Union	Bottomline	Mean	Median	% Diff
P/E	236.07	657.79	21.18	51.33	73.01	61.11	10.05	233.7	158.31	61.11	61.4%
P/BV	27.15	4.86	8.41	4.36	13.55	16.21	4.86	4.43	8.10	4.86	40.0%
P/TBV	37.01	Negative	86.17	8.76	27.19	20.96	Negative	43.44	37.30	27.19	27.1%
P/OCF	121.54	21.51	0.10	0.49	0.05	-0.87	0.02	0.63	3.13	0.10	96.9%
P/FCF	124.11	Negative	45.49	43.05	67.4	Negative	9.56	45.6	42.22	45.49	7.7%
EV/S	4.79	6.94	1.93	2.12	11.57	49.97	1.97	4.53	11.29	4.53	59.9%
EV/EBITDA	193.99	56.28	11.95	16.07	50.97	Negative	7.87	39.43	30.43	27.75	8.8%
EV/EBIT	307.66	Negative	19.11	29.36	68.09	Negative	9.89	Negative	31.61	24.24	23.3%

The table above includes each comparable company and their multiples. Looking at the data, Square is valued at an extreme premium; Square's stock price is 236.07x greater than earnings, 27.15x greater than book value, 37.01x greater than tangible book value, 121.54x greater than operating cash flow, and 124.11x free cash flow. Additionally, this is supported by a high enterprise value that is 4.79x sales, 193.99x EBITDA, and 307.66x greater than EBIT. These multiples are extremely high due to Square's current pure growth phase. As shown in the raw data Square is reinvesting capital and fueling extreme revenue growth. Looking at comparable companies Wex and Bottomline technologies have the closest P/E multiples and similar EV/S multiples. Although Square is currently not able to retain earnings, evaluating companies like Paypal provides insight on how Square's multiples may change as expected revenue growth slows and they transition to more of a value company. PayPal is similarly valued high to the market, stock price is 73.01x earnings, but this is more accurate of a valuation multiple when looking at value companies in the Financial Payments Processing sector. Overall, there are a lot of growth companies in the comparable companies set that are focusing on increasing expected revenue growth and struggling to increase book value, operating cash flow, free cash flow, EBITDA, and EBIT. For this reason some companies that reported negative tangible book value, free cash flow, EBITDA, and EBIT could not be used in the comp valuation.

Direct Valuation

Below are the price multiples for each comparable company. These multiples will be used to complete the direct valuation of the target firm.

Firm	Wex	DG	EuroNet	Paypal	Affirm	Western Union	Bottomline	Mean	Median	% Diff
P/E	657.79	21.18	51.33	73.01	61.11	10.05	233.7	158.31	61.11	61.4%
P/BV	4.86	8.41	4.36	13.55	16.21	4.86	4.43	8.10	4.86	40.0%
P/TBV	Negative	86.17	8.76	27.19	20.96	Negative	43.44	37.30	27.19	27.1%
P/OCF	21.51	0.10	0.49	0.05	-0.87	0.02	0.63	3.13	0.10	96.9%
P/FCF	Negative	45.49	43.05	67.4	Negative	9.56	45.6	42.22	45.49	7.7%

Calculating the mean, median, and percent difference of each price multiple narrowed down the choice for which price multiple would best value the target firm. Square has an extremely high P/E from Bloomberg but their earnings are steadily growing and similar to comparable companies. The mean and median of P/E for comparable companies had a 61.4% difference. The mean P/E of comparable companies was selected because Square is more similar to companies that would be considered outliers in the data. Since outliers are taken out in the median score, it was decided that the mean P/E score would be best to estimate valuation of the target firm. The mean P/E of comparable companies was 158.31 compared to Square's P/E of 236.07, according to Bloomberg. The direct valuation was computed below and estimated Square's valuation for the LTM to be \$139.31, for January 1st, 2022 to be \$292.87, and for January 1st, 2023 to be \$360.95.

SQ Per Share Values	LTM	1/31/22	1/31/23
EPS (normalized)	\$0.88	\$1.85	\$2.28
	x	x	x
Mean Multiple	158.31	158.31	158.31
	=	=	=
Estimated Price	\$139.31	\$292.87	\$360.95

The second multiple used to estimate the value of Square was Price/tangible book value. The mean and median of P/TBV for comparable companies had a 7.7% difference. Since the difference was so small between each comparable companies P/TBV, regardless of whether the firm was a growth or value firm, it was decided that it could most accurately value the target firm. Square is extremely comparable to each of the comps but, as noted, it is in hyper growth and many of the multiples are significantly different and could incorrectly value the target firm. The direct was computed below and estimated Square's valuation for the LTM to be \$175.68, for January 1st, 2022 to be \$219.32, and January 1st, 2023 could not be computed because there is not a forecasted estimate for tangible book value in 2023.

SQ Per Share Values	LTM	1/31/22	1/31/23
TBV	\$4.71	\$5.88	No Estimate
	x	x	x
Mean Multiple	37.30	37.30	37.30
	=	=	=
Estimated Price	\$175.68	\$219.32	#VALUE!

Indirect Valuation:

Firm	Wex	DG	Evo	Fidelity	EuroNet	Paypal	ACI	Affirm	Western Union	Bottomline	Mean	Median	% Diff
EV/S	6.94	1.93	6.88	7.23	2.12	11.57	0.4	49.97	1.97	4.53	9.35	5.71	39.0%
EV/EBITDA	56.28	11.95	22.62	20.47	16.07	50.97	9.67	Negative	7.87	39.43	26.15	20.47	21.7%
EV/EBIT	Negative	19.11	64.27	111.09	29.36	68.09	22.06	Negative	9.89	Negative	46.27	29.36	36.5%

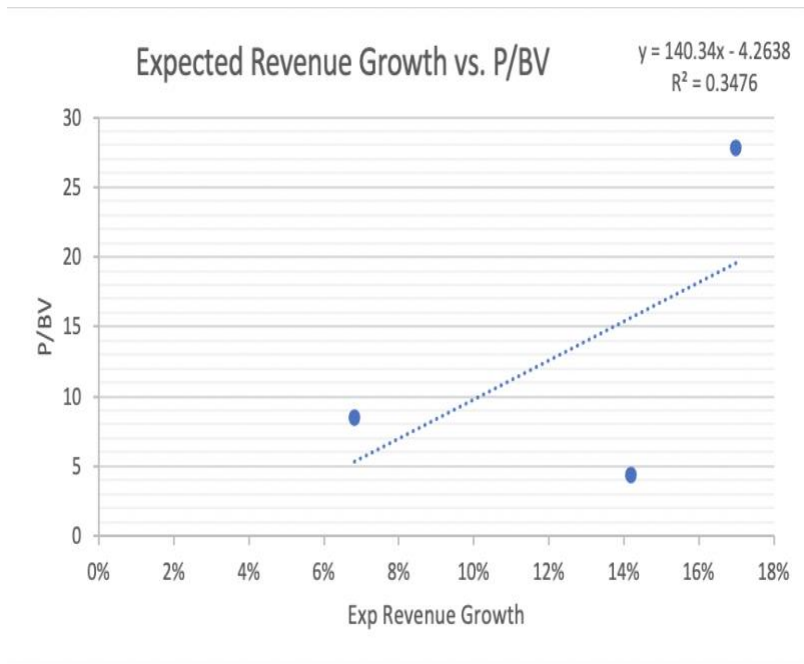
For the indirect valuation many of the selected comparable companies had negative EV/EBITDA or EV/EBIT. To get a fair valuation, additional comparable companies that were close to the target firm were selected and implemented into the model. The multiple used for the indirect valuation was the mean EV/EBITDA from all selected comparable companies. The mean EV/EBITDA was chosen because it has the smallest percent difference of each EV multiple. The valuation estimated the target firm's equity to be worth \$24.05 per share for the LTM, \$60.76 per share for January 1st, 2022, and \$78.70 for January 1st, 2023. Since the target firm, Square, has such a low EBITDA margin while other comparable companies in the model do not, it was decided that the direct valuation would be a more accurate valuation of the target firm. Square has high Capex and intangible assets that limit earnings retention. Square's low LTM EBITDA and high EV create disparities since EBITDA is the metric used to compute the indirect valuation.

	LTM	1/31/22	1/31/23
EBITDA	\$414	\$1,058	\$1,372
x EV/EBITDA	26.15	26.15	26.15
Ent Val	\$10,820	\$27,667	\$35,877
Less Debt	(\$5,189)	(\$5,189)	(\$5,189)
Less Pref	\$0	\$0	\$0
Less Min Int	(\$45)	(\$45)	(\$45)
Plus Cash	\$5,383	\$5,383	\$5,383
Total Eq Value	\$10,969	\$27,816	\$36,027
by # shares	456.20	457.80	457.80
Price per Share	\$24.05	\$60.76	\$78.70

Correlation Analysis:

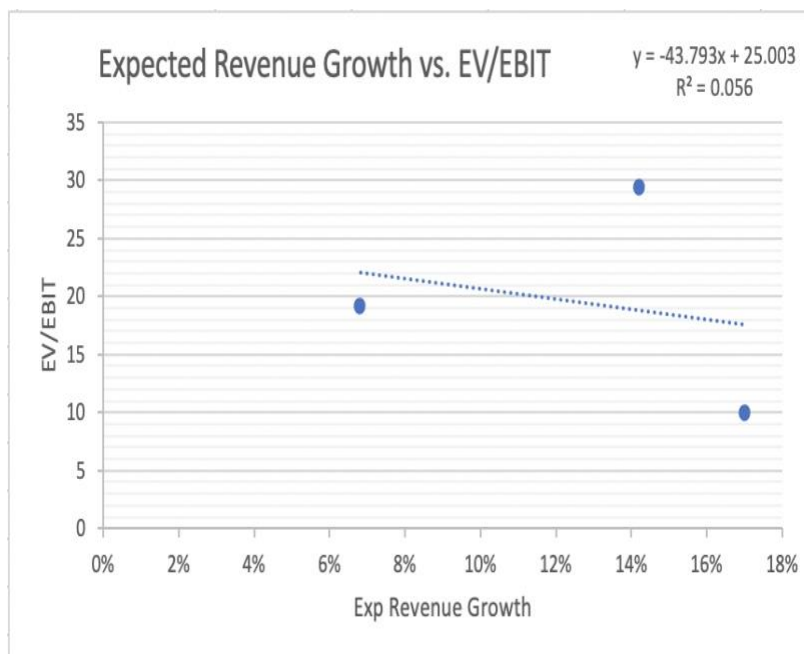
	Exp. Rev. Growth	Gross Profit Margin	EBITDA Margin	EBIT Margin	OCF Margin	FCF Margin
P/BV	0.589577641	0.8815992	0.9232139	0.9461643	-0.9073005	0.9719524
P/FCF	-0.753753508	-0.9642131	-0.9853784	-0.9943444	0.7917078	-0.9998994
EV/S	0.439699971	0.0065607	-0.0904372	-0.1547481	0.7949792	-0.2450725
EV/EBITDA	-0.263391748	-0.6557989	-0.7259137	-0.7689349	0.9975525	-0.8245438
EV/EBIT	-0.236555625	-0.634625	-0.7065739	-0.7509215	0.9991071	-0.8085468

P/BV vs. Expected Revenue Growth:



The highest value driving multiple from the correlation analysis was the P/BV. The R^2 is 0.3476 from the model. The model can estimate the target firms value by calculating $y = 140.34x - 4.2638$.

Because so many value drivers and multiples were negative and needed to be excluded, the model has a low R^2 and inaccurately values the target firm. Due to insufficient data it was decided not to use correlation analysis in the valuation of the target firm.



The highest value driving multiple from the correlation analysis was the EV/EBIT. The R^2 is 0.056 from the model. The model can estimate the target firms value by calculating $y = -43.793x + 25.003$. Because so many value drivers and multiples were negative and needed to be excluded, the model has a low R^2 and a negative value for $m(x)$ which inaccurately values the target firm. Due to insufficient data it was decided not to use correlation analysis in the valuation of the target firm.

Recommendation from Comps Valuation:

After completing the direct and indirect valuation, the target price for Square is \$225. It was decided that the direct valuation would be the most accurate model to value the target firm. This decision was made because Square is a pure growth firm with low EBIT and EBITDA margins, making the indirect valuation inaccurate when comparable companies have high EBIT and EBITDA margins as value firms. The P/TBV multiple was used as the most accurate multiple to compute the valuation and the P/E provided a similar model to support the target price of \$225. The direct valuation using the P/E multiple estimates Square's valuation for the LTM to be \$139.31, for January 1st, 2022 to be \$292.87, and for January 1st, 2023 to be \$360.95. Moreover, the direct valuation using the P/TBV multiple estimates Square's valuation for the LTM to be \$175.68, for January 1st, 2022 to be \$219.32, and January 1st, 2023 could not be computed because there is not a forecasted estimate for tangible book value in 2023. Square's earnings will increase faster than their tangible book value and for this reason the target price was higher than the direct valuation using only P/TBV but lower than the direct valuation using only P/E.

Discounted Cash Flow Valuation:

Direct and Indirect valuation models are extremely accurate when the right comparable companies are chosen. The comparable companies' valuation relies on external information to value a comparable target firm. Comps models are reliant on the market being efficient and accurately representing the value of comparable firms. If the market is inefficient and comparable companies are over or under valued the model will be flawed and will incorrectly value a target firm. For this reason it is essential to also compute a discounted cash flow model. The DCF model relies on the target firms free cash flows and series of assumptions to compute a target price. The DCF model is very sensitive to inaccurate assumptions and the valuation may be inaccurate if assumptions made are unreasonable. Professionals can gather a variety of data starting with historical data to understand the firm and provide accurate assumptions. If done correctly the DCF can justify the comparable companies valuation or dispute the target price based only on the target firms free cash flows and assumptions made. Below a DCF model will be created to compute the target price for Square.

Historical Data

Square	Date			Current (LTM)
Historical Percentages:	2018	2019	2020	2021
Sales	3298.2	4713.5	9497.6	16741.6
% Sales Growth		42.91%	101.50%	76.27%
EBITDA	39.6	157.4	-150.4	236.8
EBITDA Margin	1.20%	3.34%	-1.58%	1.41%
Depreciation and Amortization	15.1	16.6	19.8	27.6
EBIT	-21.3	55.7	-296.3	84
EBIT Margin	-0.6%	1.2%	-3.1%	0.5%
Taxes	2.3	2.8	2.9	-3.5
Tax Rate	-10.8%	5.0%	-1.0%	-4.2%
EBIAT	-23.6	52.9	-299.2	87.5
Depreciation and Amortization	15.1	16.6	19.8	27.6
D&A/Sales	0.5%	0.4%	0.2%	0.2%
Capex	1325.0	1889.7	2733.4	4041.5
Capex/Sales	40.2%	40.1%	28.8%	24.1%
Less Increase (or Plus Decrease) in NWC	-53.2	-63.4	-154.1	-441.9
NWC/Sales	-1.6%	-1.3%	-1.6%	-2.6%

Base Case Assumptions

	2021	2022	2023	2024	2025	2026
Operating Scenario						
Sales	16741.6	25112.4	35157.4	47462.4	61701.2	78977.5
% Sales Growth		50.0%	40.0%	35.0%	30.0%	28.0%
EBITDA	236.8	703.1	625.8	949.2	1604.2	2369.3
EBITDA Margin	1.4%	2.8%	1.8%	2.0%	2.6%	3.0%
Depreciation and Amortization	27.6	50.2	98.4	142.4	216.0	315.9
D&A/Sales	0.16%	0.20%	0.28%	0.30%	0.35%	0.40%
EBIT	209.2	652.9	527.4	806.9	1388.3	2053.4
EBIT Margin	1.2%	2.6%	1.5%	1.7%	2.3%	2.6%
Taxes	-3.5	4.9	2.6	8.1	16.7	18.5
Tax Rate	-1.7%	0.8%	0.5%	1.0%	1.2%	0.9%
Unlevered Free Cash Flow						
EBIAT	212.7	648.0	524.7	798.8	1371.6	2034.9
Depreciation and Amortization	27.6	50.2	98.4	142.4	216.0	315.9
D&A/Sales	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%
Capex	4041.5	6529.2	9844.1	11865.6	18510.4	25272.8
Capex/Sales	24.1%	26.0%	28.0%	25.0%	30.0%	32.0%
Less Increase (or Plus Decrease) in NWC*	-441.9	(703.15)	(1037.14)	(711.94)	(925.52)	(1184.66)
NWC/Sales	-2.6%	-2.80%	-2.95%	-1.50%	-1.50%	-1.50%
Unlevered Free Cash Flow to the Firm	3839.9	6524.33	9430.1	12094.9	19172.4	26439.0

Expected Revenue Growth Assumptions

- Analysts have Square sales growth for 2021 above 80% dropping over the following years. I have decided to slightly lower sales growth assumptions because a large portion of sales growth has been fueled by revenue from fees on Bitcoin transactions that is recorded as sales. Bitcoin transactions may be affected by price volatility and in my opinion could not guarantee to continue creating this much revenue for Square. As reported on Bloomberg, Square "reported disappointing third-quarter sales, held back by a drop in Bitcoin-related revenue from its Cash App." (Kurt Wagner and Bloomberg) However, recognizing CAPEX multiply four times between 2018-2021 from multiple acquisitions and long-term investments, along with expanding its Cash App offering to as many as 20 million teens in the U.S. will fuel high growth rates above 30% until at least 2025. (Kurt Wagner and Bloomberg)

EBITDA Assumptions

- EBITDA is assumed to grow slightly from 1.4% in 2021 to 3.0% in 2026. The assumption is that Square will not be able to significantly increase profitability as they continue to invest in long-term assets to fuel growth and increase accounts receivable. The assumptions made are still based off sales growth.

Depreciation and Amortization Assumptions

- Depreciation & amortization assumptions follow Capex spending and revenue growth. As square invests in long-term assets and increases Capex, they will be able to depreciate those assets.

Tax Assumptions

- Square has had favorable tax rates by arguing it is a technology company and not a bank. In San Francisco, technology companies pay a lower tax rate. The assumption is made that as Square gains more users and operates more like a bank through recent acquisitions, their tax rate may increase slightly and is represented in the assumptions used for the model.

Capex Assumptions

- Capex is reliant on sales growth. Aforementioned justification for sales growth will enable Square to continue investing in long-term assets. Acquisitions and other investments will fuel sales growth and sales growth will continue to increase Capex at a similar rate until Square becomes a value company and not a growth company.

Change in NWC Assumptions

- Changes in NWC stay relatively consistent. Breaking down historical changes in NWC, Square reports very high accounts receivable. This is balanced by an even higher accounts payable. Square is susceptible to large changes in other current assets and this is why the change in NWC decreases during 2022 and 2023; however, if other current assets does not significantly decrease, Square will be able to sustain high accounts payable, while lowering accounts receivable and not have to worry about inventory since they don't have any. This is why change in NWC increases from 2024-2026.

DCF Analysis

Gordon for CV	2021	2022	2023	2024	2025	2026
Operating Scenario						
Sales	16741.6	25112	35157	47462	61701	78977
% Sales Growth		50.0%	40.0%	35.0%	30.0%	28.0%
EBITDA	237	703	626	949	1604	2369
EBITDA Margin	1.4%	2.8%	1.8%	2.0%	2.6%	3.0%
Depreciation and Amortization	28	50	98	142	216	316
D&A/Sales	0.2%	0.20%	0.28%	0.30%	0.35%	0.40%
EBIT	209.2	653	527	807	1388	2053
EBIT Margin	1.2%	2.6%	1.5%	1.7%	2.3%	2.6%
Taxes	-3.5	5	3	8	17	18
Tax Rate	-1.7%	0.8%	0.5%	1.0%	1.2%	0.9%
Unlevered Free Cash Flow						
EBIAT	213	648	525	799	1372	2035
Depreciation and Amortization	28	50	98	142	216	316
D&A/Sales	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%
Capex	4041.5	6529	9844	11866	18510	25273
Capex/Sales	24.1%	26.0%	28.0%	25.0%	30.0%	32.0%
Less Increase (or Plus Decrease) in NWC	(442)	(703)	(1037)	(712)	(926)	(1185)
NWC/Sales	-2.6%	-2.80%	-2.95%	-1.50%	-1.50%	-1.50%
Unlevered Free Cash Flow to the Firm	3840	6524	9430	12095	19172	26439
Discounting of Annual Free Cash Flow						
Discount Period (Mid-Year Convention)		0.5	1.5	2.5	3.5	4.5
WACC from Bloomberg		15.7%	15.7%	15.7%	15.7%	15.7%
PVLS Factor		0.93	0.80	0.69	0.60	0.52
Present Value of Free Cash Flow		6066	7577	8400	11508	13717

Enterprise Value:	
Cumulative Present Value of Unlevered Free Cash Flow to the Firm	47267
Present Value of Terminal Value	73529
% of Enterprise Value	60.9%
Enterprise Value	120796
Implied Equity Value	
Enterprise Value	120796
Short Term Debt	(52.8)
Long Term Debt	(\$2,976.60)
Preferred Stock	0.0
Minority Interest (Program in and label any stronger claims)	(44.9)
Cash and Cash Equivalents (Program in and label any hidden assets)	3158.1
Implied Equity Value (Market Cap)	120880
Fully Diluted Shares Outstanding	482.17
Implied Price Per Share	250.70

Terminal (Continuing) Value		
Exit Year	Free Cash Flow	26439
Long Term Normal Growth Rate		-1.4%
Terminal Value		152449
Discount Factor		0.48

Square:

Implied Terminal EV/Revenue	1.53
Implied Terminal EV/EBITDA	50.98
Implied Terminal EV/EBIT	58.83

Paypal:			Enterprise Value
EV/Sales	8.77		692,633
EV/EBITDA	38.6		91,456
EV/EBIT	51.59		105,936
Wex:			
EV/Sales	4.83		381,461
EV/EBITDA	27.66		65,536
EV/EBIT	231.52		475,407

Assumptions:

- The math to my long-term growth rate is presented on the right. I used the FRED data to get real GDP and Inflation changes. Since the pandemic occurred in 2020 and real GDP changed significantly, I recorded the data for Q1 2021, 2019 annual, and 2020 annual. I then added real GDP and inflation to calculate nominal GDP. Next, I recorded the Damodaran beta for financial services at 0.80. Lastly, I calculated long-term growth rate by multiplying nominal GDP by the Damodaran industry beta. Once, the calculations were done I decided to use the long-term growth rate based on the 2020 annual data. I made the assumption that the economic damage from the pandemic should be reflected in the model to give the most accurate valuation. As a financial services firm they will be directly impacted by slowed GDP growth and inflation concerns.
- The multiple EV/EBIT when compared to the closest comparable company, Paypal, justify the enterprise value. But 60.9% of the enterprise value consists of the terminal value and this can subject the valuation to change significantly if assumptions are incorrect or changed over the timeline the model represents.

Damodaran Beta	Financial Services = 0.80
Real GDP	
Q1 2020	0.5498
Annual 2019	2.28887
Annual 2020	3.40459
+	
CPI	
Q1 2020	1.442
Annual 2019	2.19172
Annual 2020	1.70625
=	
Nominal GDP	
Q1 2020	1.9918
Annual 2019	4.48059
Annual 2020	-1.69834
Long Term Growth Rate. = Nom GDP * Industry Beta	
Q1 2020	1.59344
Annual 2019	3.584472
Annual 2020	-1.358672

Reconciliation of Estimates:

Square is a unique growth company operating within the Financial Payment Processors sector. As a hyper growth firm it was clear that management was focusing on increasing expected revenue. This made it difficult as many of the comparable companies were established and value firms. The models were able to adapt as data was taken out or put in to accommodate high expected revenue and low profitability. From the comparable companies model we received target prices from the P/E multiple of \$139.31 for the LTM, and forecasted one year at \$292.87, and two years at \$360.95. For the P/TBV multiple the comps model estimated Square's valuation for the LTM to be \$175.68, for January 1st, 2022 to be \$219.32, and January 1st, 2023 could not be computed because there is not a forecasted estimate for tangible book value in 2023. A discounted cash flow model was then computed to get a more accurate valuation of the target firm. The Gordon model was used to calculate the terminal value. The DCF using the Gordon model to calculate TV estimated Square's value to be \$250.70 per share. The DCF supported the valuation from the comps model and the price target for Square will remain in the middle at \$225 a share

Conclusion:

Square has built a comprehensive portfolio of payment solutions to help merchants of any size. Square has made substantial changes to the business model incorporating multiple lines of business to generate revenue and create a seamless payment platform. The seller ecosystem is utilized by over 2,000,000 merchants and Square is looking to expand internationally, attract larger merchants, and increase GPV. A series of strategic acquisitions, intellectual property (SAAS software), and top talent has allowed the small firm to flourish to an \$89B market cap. Analyzing the threats and weaknesses you will realize Square is a risky investment. However, *although they do have many risks, their ability to continue brand name recognition, create new products, and assist merchants increase transaction then they will continue to fuel hyper growth of revenue and the opportunity may outweigh the risk. With the prospect of international expansion and product portfolio expansion backed by a comps model and DCF model, the target price is \$225.*

Final Recommendation:

With a current stock price of \$175.44, a \$225 target price presents upside of 22%. As mentioned in my assumptions on the DCF model I predict Square to maintain hypergrowth until 2026 and gradually transform into a value company by 2029. This leaves plenty of opportunity for investors to benefit from the global payment ecosystem Square is creating.