



Square

The Simplest Way to Make Money

Elizabeth Cheng | Jing-Jing Li | Irwin Liu | Jessica Lukrich

The Square Proposition



Management Team



 *The team has the background, proven track record and vision to succeed*



Jack Dorsey - Co-Founder, CEO

- Co-Founder, Chairman of Twitter
- Advisor at Ustream

Keith Rabois - COO

- VP of Strategy & Business Development for Slide
- VP of Business & Corporate Development at LinkedIn
- EVP of Business Development and Policy for PayPal

Bob Lee - CTO

- Founder at Twubble
- Software Engineer at Google

Jim McKelvey - Co-Founder

- Owner at Mira
- Co-founder at Third Degree Glass Factory

Successfully Managing



twitter



LinkedIn

MIRA



twubble

Google slide

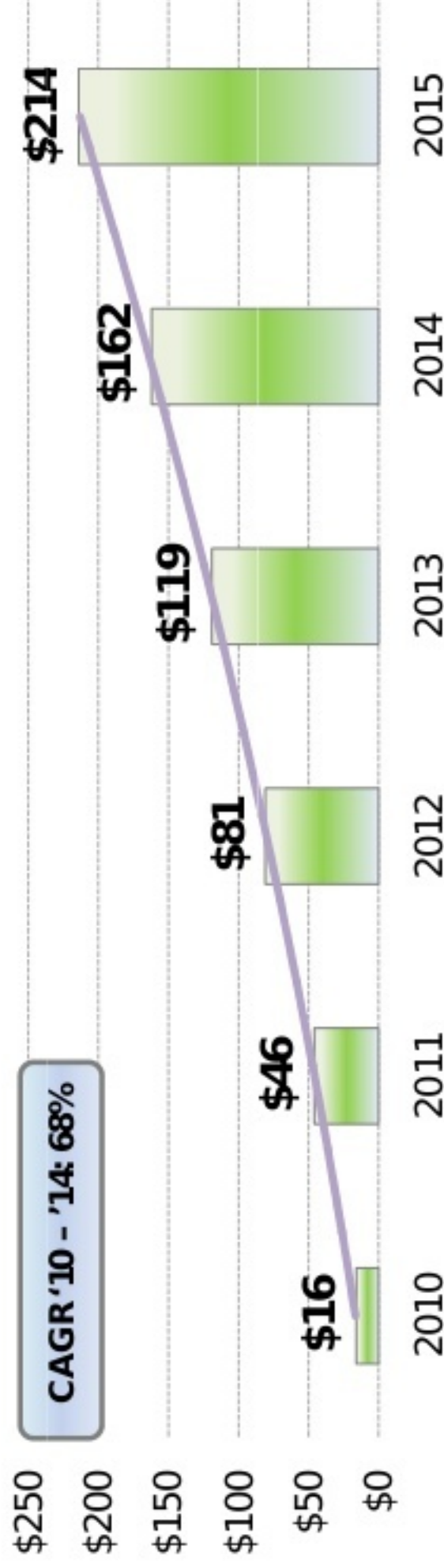
Other Key Advisors

Gideon Yu
Roelof Botha
Ryan Gilbert
Alyssa Milano
Greg Kidd
Andrew Rasiej

The Market



Mobile payments is a massive, rapidly growing but underpenetrated industry



Dollar Amount of Mobile Payments In The U.S. (billions)*

Opportunity

- Traditional card readers are **unwieldy** & **expensive**
- Difficult** for small business owners to use card services
- Alternative online services are **expensive**

Market Changes

- Rapidly burgeoning** interest in mobile payments
- NFC tech adoption but **credit card usage prevails**
- Capturing a **loyal user base** has huge revenue potential

Square Positioning

- First mover** advantage
- Scalable** across multiple platforms
- Low costs** address target customer needs

*Source: Aite Group

The Product



☐ *Square satisfies buyers and vendors through an easy-to-adopt platform*

Consumer Desires

- Use credit cards
- Swipe and go

Vendor Desires

- Accept credit cards
- Save on processing fees
- Simple and intuitive interface



Designate amount

Swipe credit card

Enter tip and sign
with finger on-screen

Transaction
completed

The Technology

Transaction

Magnetic reader that plugs into headphone jack of smartphone

Data Conversion

Once card is swiped, data is converted into an audio signal

Information Processing

Processors route signal to Square software application

Transmission

Encrypted data sent through Wi-Fi or 3G to back-end servers

Communication

No info stored on devices, auto-communication with payment network

Value to User



■ Square offers the simplest and most compelling way to accept credit cards

	 Square	Traditional Card Processing Firms	Online Card Processing
Ease of Use	Scan and go; Intuitive interface	Requires some training; Problems require technician	Tied to computer; Manual input of card information
Costs	Free card reader; Flat 2.75% fee	Expensive reader; Up to 5% variable + 30¢ flat rate; Expensive update and maintenance fees	Up to 3.5% variable rate + 30¢ flat rate
Benefits	Saves money; Saves time; Accessible across multiple devices	Familiar to user; Technical support	Cheaper than traditional; Only requires computer and internet

Customer Acquisition



☐ *Through wide exposure, Square targets anyone that seeks easy payment*

Target Customer

- Small businesses, independent workers, individuals selling goods
- Market: anyone who accepts payments
- Square's Cost: gaining customer awareness + free card reader



Selling Points

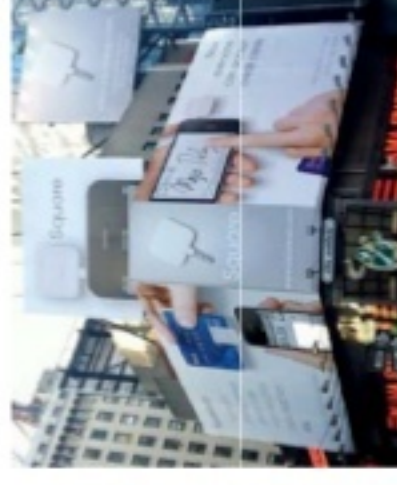
- Easy convenient everyday usage
- No surprise fees
- Adaptable across multiple devices

Advertisement

- Social media and internet advertising
- Traditional mediums with max exposure/min cost

Retail

- Selling through online registration and Apple stores
- Follows razor blade retail model

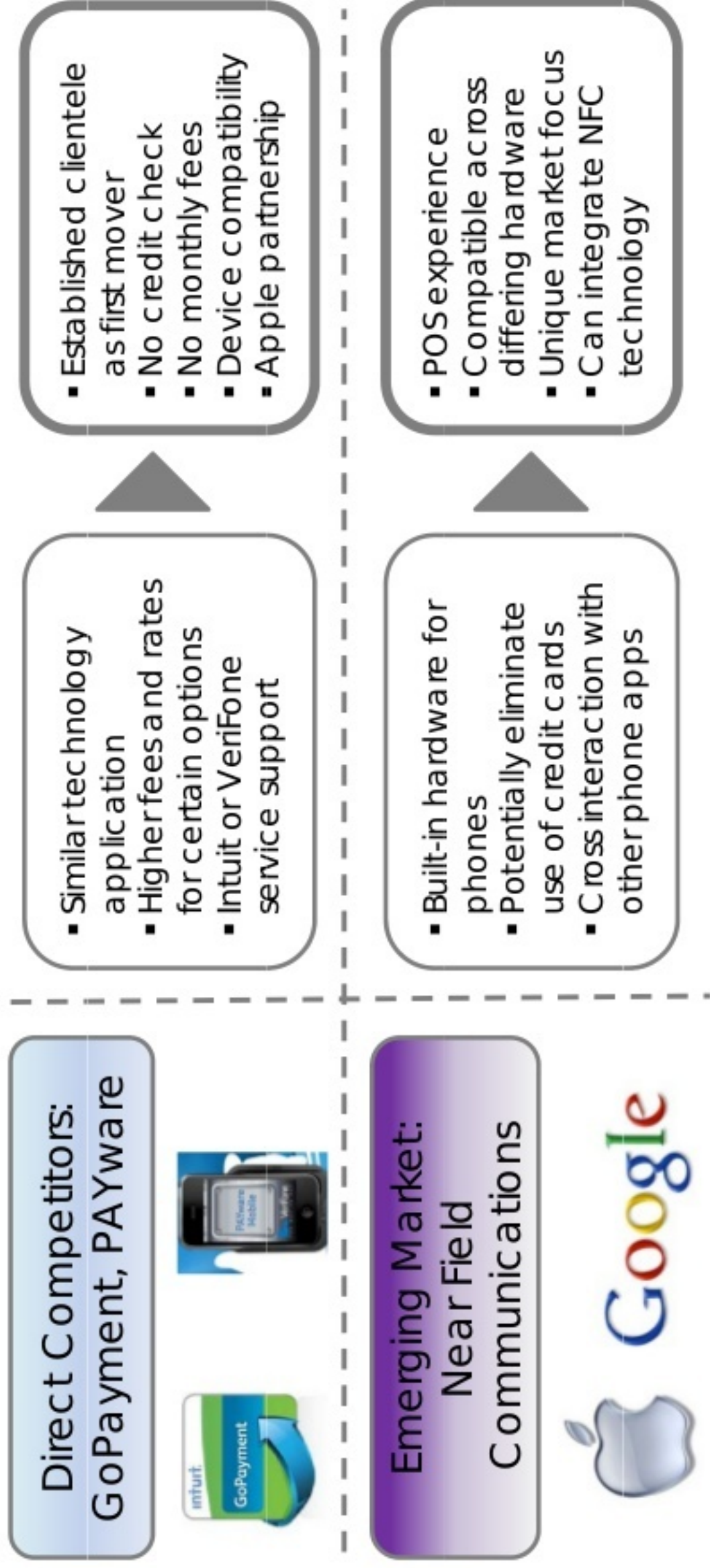


Acquiring 100,000+ customers per month

Competition and Defensibility



■ *Its established presence and niche market give Square a competitive edge*

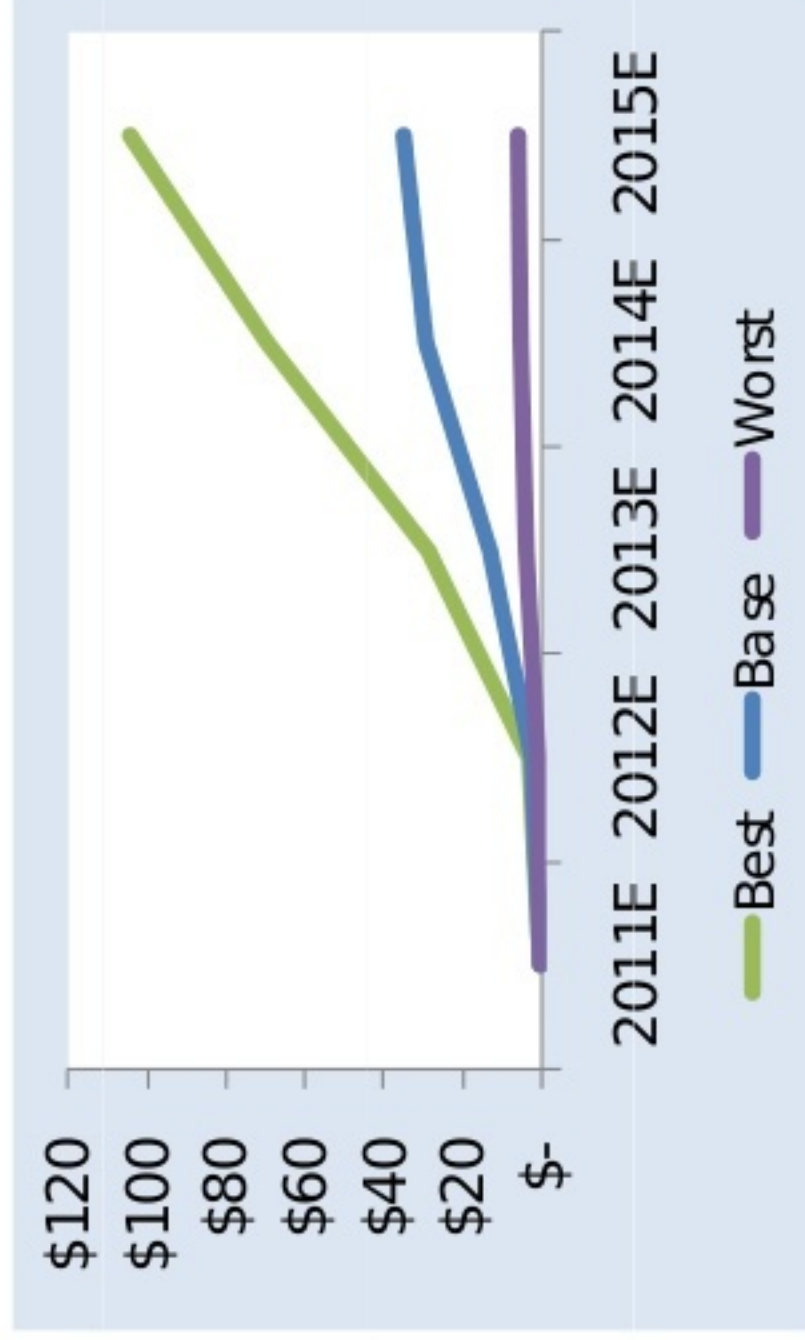


Financial Model and Projections



 Square will make for a lucrative investment even with conservative projections

By Year End	2011E	2012E	2012E	2014E	2015E
Payments Processed Per Day (\$mm)	1.1	7.7	23.1	41.6	49.5
Growth Rate	1000%	600%	200%	80%	19%
Annual Revenue	\$ 10.59	\$ 74.11	\$ 222.34	\$ 400.21	\$ 476.25
EBITDA	0.53	4.45	20.01	44.02	52.39
EBITDA Margin	5%	6%	9%	11%	11%
EBIT	0.32	2.96	13.34	28.01	33.34
EBIT Margin	3%	4%	6%	7%	7%



Assumptions

- Investment: \$20m
- Stake: 20%
- Hurdle Rate: 15%

IRR of 55%

- Sale or IPO at 2.5x 2015 Revenue

Why Invest Now



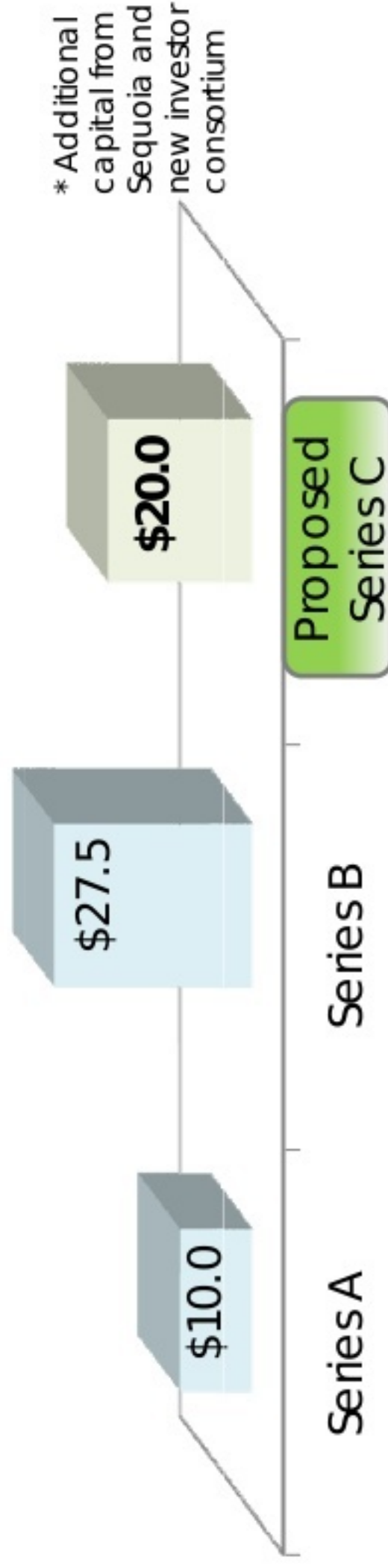
- Additional investment will generate *outsized returns* due to *growth prospects*

Need for Additional Investment

- Additional resources needed to maintain first mover advantage
- Competitive pressures increasing
- Expected spend in advertising and customer acquisition

High Potential for Growth

- Potential for growth will allow new investors to see an outsized return
- Customer adoption will scale up exponentially
- The key to success will be in locking in a loyal customer base early



Exit Strategies



☐ *Square will have multiple exit opportunities that will result in a high ROI*

Highly Viable M&A Prospects

- Multiple buyers possible → competitive bidding
- Valuable user base with recurring revenue stream
- Clear fit into product portfolios

Large Companies
Competing in
Mobile Space



Service Providers
and Hardware
Manufacturers



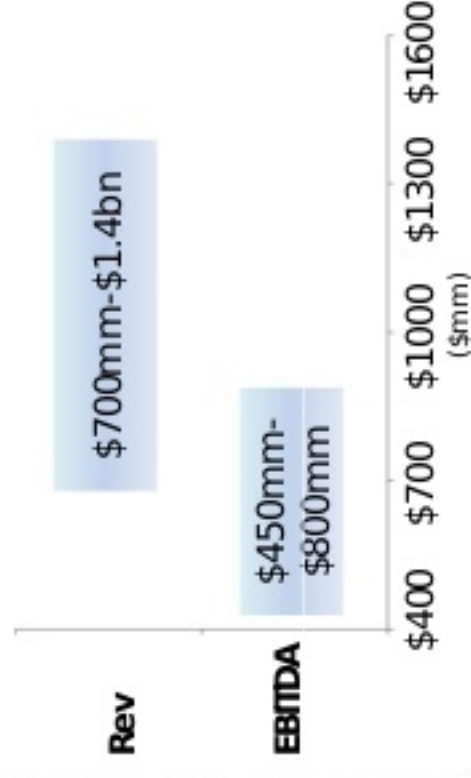
Payment Processors



IPO Considerations

- Depends on user base expansion success and consideration of M&A
- High standalone potential

Potential Valuation



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Pay with



Financial Assumptions



■ *Growth expected to scale exponentially and valuation will increase*

M O D I V E R S

Growth Assumptions

- Expected to process \$40 million in transactions in Q1 of 2011
- Currently signing up 100,000 merchants per month
- Compare to 30,000 monthly signups last Fall.
- \$1 million in payments per day
- Processing a few million in mobile transactions per week as of last fall

Valuation Assumptions

- Valued at \$240m after last round of funding in January 2011 (\$27.5m)
- Valued at \$40m at first round of funding in December 2009 (\$10.0m)

Sources

- DealBook, TechCrunch, Wall Street Journal, VentureBeat, Capital IQ

Financial Model



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EBIT	0.32	2.96	13.34	28.01	33.34
EBIT Margin	3%	4%	6%	7%	7%
Growth Assumptions	2011E	2012E	2013E	2014E	2015E
Best Case	1000%	800%	400%	100%	50%
Base Case	1000%	600%	200%	80%	19%
Worst Case	1000%	200%	100%	20%	5%
EBIT	2011E	2012E	2013E	2014E	2015E
Best	\$ 0.32	\$ 3.34	\$ 28.59	\$ 69.56	\$ 104.34
Base	\$ 0.32	\$ 2.59	\$ 13.34	\$ 29.22	\$ 34.77
Worst	\$ 0.32	\$ 1.11	\$ 3.81	\$ 5.56	\$ 5.84

NPV & IRR Calculation	2011E	2012E	2013E	2014E	2015E	Sale
\$	(20.00)	\$ 0.06	\$ 0.52	\$ 5.84	\$ 6.95	\$ 238.12
NPV @ 15%	\$ 79.95					
IRR	55%					

* represents 20% stake

Assumptions from Comparables



Margin projections derived from median of comparable companies

Company Name	LTM Gross	LTM EBITDA	LTM EBIT	LTM Net	LTM Total
	Margin %	Margin %	Margin %	Income Margin %	Revenues, 1 Yr Growth %
Ebay Inc.	72.0%	31.0%	22.7%	19.7%	4.9%
Gerber Scientific Inc.	30.7%	4.5%	2.9%	(3.0%)	21.0%
Iltron Inc.	30.9%	14.0%	8.2%	4.6%	33.9%
Iteris Inc.	43.5%	8.3%	6.4%	(8.3%)	(1.2%)
Mastercard Incorporated	100.0%	53.3%	50.7%	33.3%	8.6%
PAR Technology Corp.	26.1%	2.7%	1.6%	1.3%	7.6%
Perception Inc.	37.3%	0.8%	(1.0%)	1.9%	30.4%
VeriFone Systems Inc.	37.7%	14.8%	11.3%	11.3%	24.3%
Veritec Inc.	60.8%	(64.2%)	(67.8%)	(86.5%)	108.0%
Visa Incorporated	84.4%	60.0%	56.8%	37.0%	17.0%
Summary Statistics	LTM Gross	LTM EBITDA	LTM EBIT	LTM Net	LTM Total
	Margin %	Margin %	Margin %	Income Margin %	Revenues, 1 Yr Growth %
High	100.0%	60.0%	56.8%	37.0%	108.0%
Low	26.1%	(64.2%)	(67.8%)	(86.5%)	(1.2%)
Mean	52.3%	12.5%	9.2%	1.1%	25.5%
Median	40.6%	11.2%	7.3%	3.3%	19.0%

Future Valuation Perspective



📊 Square's valuation would price at premium to multiples due to early stage

Company Name	TEV/ Total Revenues LTM - Latest		TEV/ EBITDA LTM - Latest		TEV/ EBIT LTM - Latest		TEV/ Forward Total Revenue		NTM	TEV/ Forward EBITDA		NTM	NTM Forward P/E	
	Revenues LTM - Latest		- Latest		Latest		Total Revenue			EBITDA				
Ebay Inc.	3.83x		12.34x		16.88x		3.3x			9.4x			15.9x	
Gerber Scientific Inc.	0.49x		10.95x		16.80x		0.5x			7.9x			21.9x	
Iltron Inc.	0.71x		8.55x		11.10x		0.7x			6.3x			16.5x	
Iteris Inc.	1.18x		8.47x		14.51x		1.2x			7.7x			13.0x	
Mastercard Incorporated	5.46x		10.23x		10.77x		4.9x			9.0x			15.8x	
PAR Technology Corp.	0.29x		10.73x		17.98x		0.3x			7.9x			23.7x	
Perceptron Inc.	0.53x		67.04x		NM		0.5x			9.7x			37.3x	
VeriFone Systems Inc.	4.49x		30.27x		39.89x		4.0x			19.3x			29.6x	
Veritec Inc.	4.03x		NM		NM		-			-			-	
Visa Incorporated	6.12x		10.21x		10.80x		5.5x			8.6x			15.3x	
Summary Statistics	TEV/ Total Revenues LTM - Latest		TEV/ EBITDA LTM - Latest		TEV/ EBIT LTM - Latest		TEV/ Forward Total Revenue		NTM	TEV/ Forward EBITDA		NTM	NTM Forward P/E	
High	6.12x		67.04x		39.89x		5.5x			19.3x			37.3x	
Low	0.29x		8.47x		10.77x		0.3x			6.3x			13.0x	
Mean	2.71x		18.75x		17.34x		2.3x			9.5x			21.0x	
Median	2.51x		10.73x		15.66x		1.2x			8.6x			16.5x	

Concerns and Responses



Concern

NFC will overtake credit card use

Large companies will leverage ability to provide at lower prices

Consumer concerns over security on a newly introduced platform

Square will face execution risks

No defining industry standard

Response

Credit cards too engrained in daily life to become outdated in the near future

Square has a different target audience and has the first mover advantage

Partner bank verifies service and secure server makes security claims unfounded

Square has a successfully run and experienced management team

Flexibility of the industry promotes innovation; a standard will soon be reached



Partnerships



There are a multitude of partnership opportunities for Square

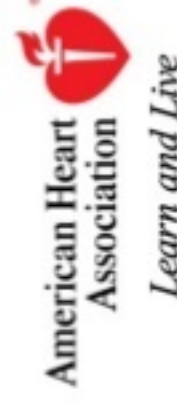
Present



VIVIENNE TAM



Future



Company Vision



- ▣ Square: 0 to \$60 in under 10 seconds

Target consumers are
small business



- ▣ Vision is to create **zero friction** and complexity around payments

- ▣ Emphasis on **simplicity** & **efficiency**

Free app for iPhone,
iPad & Android

Daily deposit to your
bank account

Simple pricing, free
shipping

**The simplest way to
make money**

Market Analysis



- Strong market growth and advantageous company position

Market

Expanding & unsaturated marketplace

Position

First Mover Advantage
Few comparable competitors
Currently underfunded

High growth potential

Competitors

Large Competitors

- le. Google, Apple
- Not focused enough to drive Square out of its niche market

Small Competitors

- le. VeriFone, Intuit
- Lack first mover advantage