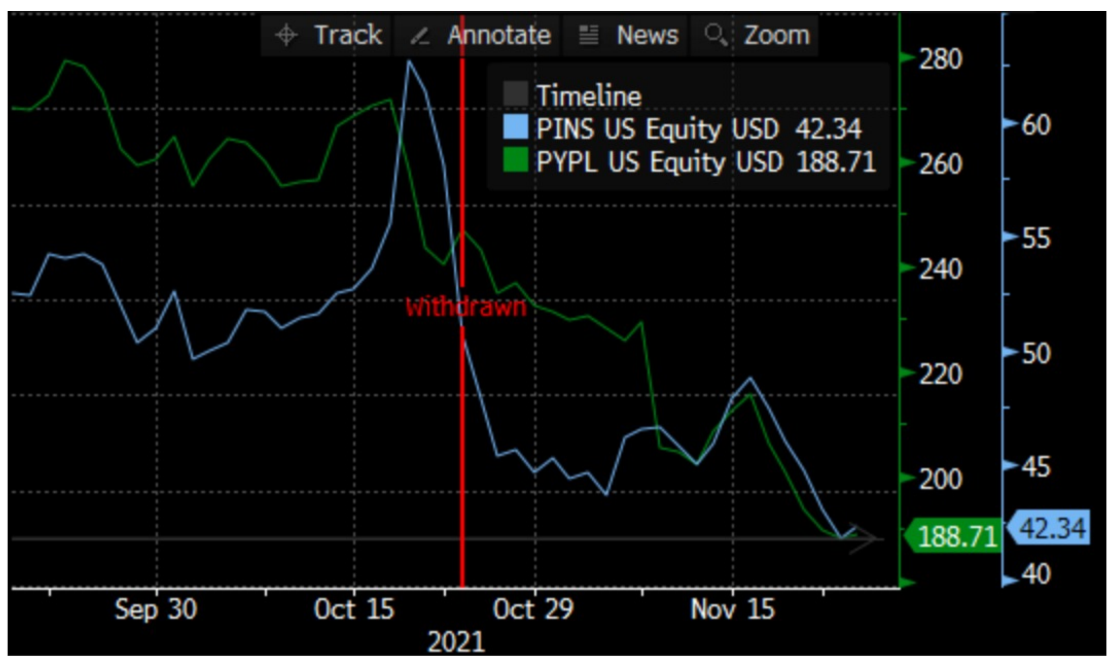
FINTECH & SOCIAL MEDIA: SHOULD PAYPAL ACQUIRE PINTEREST? BY FRANCESCO CAVALLERO

Political Economy/Economics| Signature Work Class of 2022

Introduction



On October 24th, 2021, PayPal Holdings Inc. stated in a public release that "it was not pursuing an acquisition of Pinterest at this time". Although PayPal has never officially announced a proposed acquisition of Pinterest, information leaked on October 20th when Bloomberg reported that the two companies were considering a merger privately.

As shown in the graph above, by the time PayPal backed off the potential takeover on October 25th, its shares have already fallen by 4.65 percent from $258.36 to $246.88, while Pinterest has lost its previous 19 percent gain entirely. This paper critically evaluates whether PayPal's shareholders should have acquired Pinterest for the proposed $39 billion as the price implied a positive net present value (NPV) of the merger.

Materials and Methods

To perform our analysis of whether PayPal should have acquired Pinterest, our dataset is extracted solely from the Bloomberg Terminal. The Bloomberg Terminal is a computer system that provides news, price quotes, and financial information covering all market sectors. Both PayPal and Pinterest are publicly traded companies on the New York Stock Exchange. Therefore, the U.S. Securities and Exchange Commission (SEC) requires them to disclose annual reports, including certain types of business and financial data.

This paper used a merger model analysis (Brealey et al., 2020) to estimate whether the PayPal-Pinterest deal could have been accretive and dilutive. Our model is composed of two part:

1. A linear regression analysis to derive the discount rate based on the CAPM
2. A discounted cash flow analysis to estimate the synergies, or the merger gain.

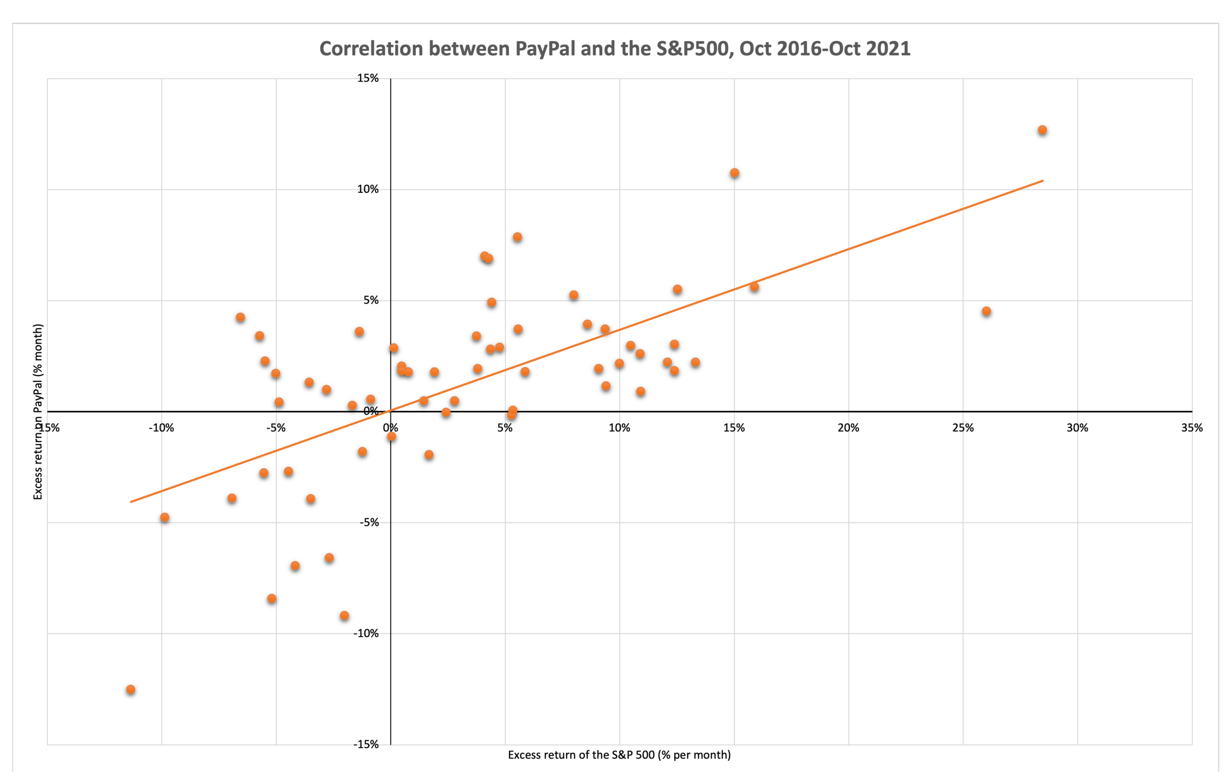
$$PV(PYPL+PINS) = PV(PYPL) + PV(PINS) + \Delta PV(PYPL + PINS)$$

Results

Our model suggests that:

I. The appropriate discount rate is estimated to be 11.12 percent
II. After individually analyzing four different cost and revenue synergies for PayPal and Pinterest, this paper estimated a conservative merger gain of $11.39 billion.
III. PayPal should have offered Pinterest's shareholders 141.9 million shares to finance the acquisition (i.e., 100% stock and 0% cash)
IV. The value of a share in the combined firm would have been $274.82, resulting in a 11.48 percent increase in PayPal's share price.

Discount rate using the CAPM



Merger Summary based on a DCF analysis

Merger Summary

As of 10/19/21			
	PYPL stock price	$	271.70
	PYPL shares outstanding		1174900000
	PV(PYPL)	$	319,220,330,000.00
	PINS stock price	$	55.58
	PINS shares outstanding		562700000
	PV(PINS)	$	31,274,866,000.00
	delta_PV(PYPL+PINS)	**$**	**11,393,397,393.53**
	Amount paid for PINS	$	39,000,000,000.00
	Merger premium	**$**	**7,725,134,000.00**
	% Merger premium		***24.70%***
	PV(PYPL+PINS)	$	361,888,593,393.53
	Number of shares offered		141909937.2
	New Price of PYPL	**$**	**274.82**
	NPV of merger	**$**	**3,668,263,393.53**
	Should PYPL acquire PINS' YES		

Discussion

A. *Intellectual Merits*: This paper addresses many of the questions that academics and practitioners raised when PayPal called off the acquisition of Pinterest. Particularly, this research clarifies whether PayPal's shareholders missed an opportunity to create lasting value for the company. The research also explores for the first time in the corporate finance literature the possibility of combining a fintech giant with a social media platform. Such conglomerate mergers between two firms that are involved in unrelated business activities will become more popular in a business environment where big tech firms, such as Meta, WeChat, Google, increase the number of services provided on their platforms.

B. *Practical impact*: This paper can benefit primarily three parties: PayPal's shareholders, investment banks, and fintech professionals. First, PayPal's shareholders will find this research particularly useful as it provides a more structured analysis of the merger based on established corporate finance theories. Second, investment banks can benefit from this research analysis as it estimates the merger gain as well as the effect on PayPal's stock price using a discounted cash flow analysis.. Lastly, fintech professionals can gain additional insights into how fintech giants are determined to become much more than just payments companies due to rising competition from big tech firms.

Conclusion

This paper concludes that Pinterest's shareholders would have earned more than double the amount that PayPal's shareholders would have gained from this deal. However, there are two reasons why PayPal's shareholders should have still pursued this option.

Firstly, PayPal needs to increase its user base as quickly as possible to face increasing competition from other social media platforms. Meta, for example, is entering the digital payment market and it will leverage network effects to ensure the success of its payment platform.

Lastly, Pinterest is currently trading at low price levels, despite its steady engagement with users as well as willingness to constantly launch new innovative products. Pinterest will become a more attractive stock in the future as advertisers seek to reduce their dependence on large platforms like Meta and Google. Therefore, PayPal's shareholders missed out on a good opportunity to create value.

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