Square, Inc has grown from a scrappy payments startup to a $26 billion FinTech giant. Square shares soaring on Thursday. I love this stock. It's Square SQ the payment technology company that **can turn any smartphone or tablet into a credit card reader**. Not bad for something that started off as a side project for Twitter inventor Jack Dorsey. We're building a tool for small businesses that actually rivals and is much better than what most big businesses have. Square credits its success to a mission of economic empowerment, giving business owners an ecosystem of tools to seamlessly accept payments and finance growth. We have designed a beautiful experience for our buyers and sellers that has really set us apart in the industry. But critics wonder if it's overvalued and getting distracted from its core business as it faces fierce competition on all sides. This is clearly broken. It's like the trend is not there. Still way too

expensive. More downside to go. We are steering clear of this one. So how does Square make its money and can its growth spurt last?

The company's beginnings are said to trace back to a St. Louis area glassblowing studio in 2009. Jim McKelvey owned the studio and like many small business owners around the country, he faced a daily dilemma of whether or not to accept credit cards. He could use a complex structure of exorbitant fees to run any kind of card or only accept some forms of payment and watch a chunk of his customers walk out the door. A computer scientist and economist by training McKelvey figured there had to be a way to create an **affordable and simple card processing system for small business owners** like him. And lucky for McKelvey. He happened to have an old friend who could help him make that happen, Jack Dorsey. Dorsey and McKelvey realized that almost everything you needed to run a card already lived inside a relatively new and increasingly popular invention, the iPhone.

Computer chip, network connection, TouchPad for signing...

the only thing missing, a card reader. So the two got to work building **a little square shaped reader** capable of **plugging into a headphone jack**. That square reader became the company's namesake being released to the public in 2010. Square would send out the reader for free. Then, like most other card processing companies, Square took a cut of every swipe 2.75% plus 0.15. But that was it. Unlike other

processors, Square did away with complex contracts and additional fees. And soon it even dropped the one extra fee it did have, that 0.15 on top of every transaction. By early 2011, the company was reportedly shipping 50,000 readers and processing $66 million in payment volume. We sat down with Square's hardware lead, Jesse Dorogusker, to learn more about the company's design ethos. At the very beginning, we were really just trying to build the simplest thing we could for as many people as possible. A free piece of hardware that was very simple, plugged into the smartphone you already have, download a free app, get started in five minutes. Suddenly that housecleaner, dog groomer, farmers market vendor, cash only takeout restaurant or even cookie selling Girl Scout troop could all **swipe credit cards**. But then something interesting started happening. Sellers who could afford to pay standard card processors started using Square. Checking out on a sleek Apple product became trendier in many ways than using a standard card reader. By 2013, the company said it was processing $15 billion per year. We're not just for small businesses. We can't be a company that says, hey, we only serve small businesses because

that means as soon as they grow, which is part of our mission to help them do, then they would grow out of us and we'd have to point them somewhere else. We're going to make sure that they see us all the way along the path. And as they go from 10 locations to 20 locations or from a coffee cart to the size of a Starbucks, we can handle both extremes. Square started to realize it had the ability to compete in these larger payments processing business, creating an ecosystem of hardware and software products businesses could pay extra to take advantage of. There was Square stand which could replace a register, a suite of software products to help manage things like payroll, and even small business loans. Building off that momentum, Dorsey took the company public in 2015. An important day for tech as Square, the mobile payments company, goes public at the Big Board. CEO Jack Dorsey is due to ring the

NYSE opening bell. But ringing the opening bell with his mother, Marsha Dorsey. Not a bad Twitter follow in her own right. 3.7 million shares of Square open at $11.20. That's a very good price. I mean, it's all about getting the business of accelerating the business. And that's what we came here to do today. And we did it. But after the billion-dollar company went public, its **share price started faltering**, dipping

below its IPO price three times in less than a year. Analysts began questioning whether Dorsey could run two major companies. It requires a full time CEO. I know Jack's being stretched and pulled in different directions with these two firms. Jack's an incredible product thinker, an incredible person, but I think it's hard to see both companies going through the cultural change as public companies while his time is split.

New trendy payments companies like Toast and Clover started pushing into Square's core market. Then Square reported worse than expected losses. I read a lot of analysts notes who think they just have no path to profitability like ever. But Jesse says Square has always been able to offer something its competitors struggle to replicate. What's really powerful about building an ecosystem top to bottom, the

hardware the software that runs on the hardware, the iOS and Android apps and

all the backend systems is that you can really observe how they all work together. Our competitors in this space are much more siloed. And in retrospect, the stock did rebound. A big part of that rebound came from growth in a part of Square's business a lot of people don't even know exist, Square Capital. While Square is not a bank, it partners with financial institutions to offer loans to many of its small business sellers. Jackie Reese, head of Square Capital, sat down with us to explain how a payments processor got into the loans business. We started lending years ago after listening to our sellers talk about their biggest pain points. What Square says they discovered is that a ton of these sellers just couldn't get access to capital from traditional banks. Our biggest competition is competing with friends and family. It's not going to a bank because banks don't even come close to offering loan sizes that are in the scale that we offer at Square Capital. Sixty five hundred dollars or a five hundred dollar loan or a fifty thousand dollar loan. And so when a small business owner wants to gain access to credit, they have an emergency on a Saturday morning before Square capital they would go ask the parents. They would go ask their sibling, which is in many cases an uncomfortable relationship to be in. Square's payment ecosystem gave it a unique look inside businesses that most lenders never had. It's very unusual to have real time data, which can show revenue of a business regardless of how small it is. We can see increases, decreases, number of transactions per day, types of credit cards, day to day business behavior based on the types of transactions that happen in a business. We think that type of granular data is extraordinary in terms of understanding risk. In fact, they say this data is so powerful that they don't even use credit scores. Instead, they run their own AI based model daily, extending loan offers directly to thousands of businesses via the Square dashboard. Square also developed a different model for getting paid back. Once a seller takes out a loan, they pay it back based on their average daily card swipes. So that if their business grows faster than expected, they pay back more. If their business is a little bit slower, they're closed for a day, they don't have the pressure of paying back the loan. To protect themselves from holding all of this risk on their balance sheet, Square also sells off the loans for a lump sum to other

companies and then continues to collect a servicing fee from the buyer until the loan is fully repaid. After dipping its total into the market with one point eight billion dollars lent out to more than one hundred and forty thousand businesses, the company announced its intent to go all in with a bank charter application in 2017. It's a move that could give Square a leg up on an even wider array of tech companies offering small business loans– like PayPal, Amazon and Stripe. Square has also upped its game against other fintech competitors with Cash App. Originally launched in 2013, the Venmo like peer to peer cash transfer app opened a whole new market for Square. Cash that really came out of nowhere. I mean, this was not a meaningful piece of the business two years ago now it's a quarter of revenues and far outgrowing the rest of the business. Like Venmo, Cash App makes money by charging small fees to link credit cards instead of debit cards and for expedited balance withdrawals. I think the popularity of peer to peer apps is because of the utility that they offer. You can see the structural growth of that market evolving for decades. There's so much opportunity for banking services across peer to peer apps because they really save consumers a trip to the bank. Square already offers a collection of banking services on the app through its partner banks and has stayed relevant with younger audiences by offering the ability to trade cryptocurrency on the app– a passion project of CEO Jack Dorsey. It does provide an opportunity to give

more people access to the financial system. So, we're going to make sure that we are learning and leading here. In 2018, Cash App's users doubled from 7 million to 15 million and there may be more growth ahead. We would absolutely expect that they'll start to extend credit on the consumer side through Cash App. Probably fairly soon. It's a no brainer extension. By late 2018, Square had hit its stride. Its core payments business continued growing. While Cash App's unexpected resonance wowed investors and the small business loans' high performance teased a huge new banking market. The success made Square a Wall Street darling. The outperformance here is Square. The stocks had an incredible. Run it up 100 percent year to date. This is a potential $50 to $60 dollar opportunity, pushing the stock high from its post IPO low of just below $9 to $99. But then Square's future began to look a bit more uncertain. Tough day for Square investors. That stock plummeting. A Square beatdown, the stock falling nearly 30 percent since August. Suddenly this former market darling, it has become a complete battleground stock. Some analysts began to wonder if the company had lost focus. Their GPV growth, which is their core volume growth, purchase volumes, the volumes of payments running over their point of sale systems decelerated for the fifth or sixth quarter in a row. And investors are getting very nervous about why that core business, which generates all the profit of the company, is decelerating. Is it because they're just not investing in sales and marketing sufficiently? Which we think is what's been happening and now they're upping the investments and everything would be rosy again? Or actually, is there a deeper problem that that they're

starting to struggle a little bit with growth? This focus issue came front and center when Square sold Caviar, its high end meal delivery service. That market is just fiercely competitive. That business has had dramatically slowing growth over the last year. It's very unprofitable. It's very labor intensive because it has all these delivery people. It's just not anything as attractive as the core business. And so, you know,

we're thrilled they sold it. Some analysts have also begun to worry whether Square can sustain such

positive returns on its loans, especially if the U.S. experiences an economic downturn. Square, however, has pushed back hard against this assertion. If there is a downturn, we think we're incredibly well positioned. Payment processing isn't discretionary. It's how people run their business. Second, as it relates to capital. Interestingly, our loans are 9 month duration. So these are very short duration and they can adjust to the way that the payments models adjust literally every day. These concerns have likely contributed to a lagging stock in 2019. Even as other companies like Visa, MasterCard and PayPal hit a rally. Of course, the payments giant has gone through changes and dips in its stock price before. The question now becomes, is Square losing an edge? Or just gearing up for its next big play?