

Spun off from eBay in July 2015, PayPal is a technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. It accepts payments from merchant websites, mobile devices and applications, and at offline retail locations through its PayPal, PayPal Credit, Venmo, and Braintree products.

## Analyst's Notes

Analysis by Stephen Biggar, April 29, 2025

**ARGUS RATING: BUY**

- New buyback program leads to 7% decline in 1Q shares
- On April 29, PayPal reported adjusted 1Q25 EPS of \$1.33, up from \$1.08 a year earlier and above the \$1.16 consensus.
- Along with 1Q results, management reiterated guidance for 2025 calling for non-GAAP EPS of \$4.95-\$5.10. A \$15 billion share buyback program announced in early 2025 led to a 7% decline in 1Q shares outstanding.
- Revenue growth has been a bit light as the company works through re-pricing initiatives at its Braintree mobile payments product, while looking to expand Braintree transaction margins but with lower volume growth.
- We expect PayPal to show long-term growth in payment volumes as it adds merchants, signs additional partnerships, and benefits from the secular shift to digital payments. Our target price is \$81.

## INVESTMENT THESIS

We are maintaining our BUY rating on PayPal Holdings Inc. (NYSE: PYPL) following 1Q25 results. The company dubbed 2024 a transition year, and during the year announced several innovation efforts that in our view are making progress, as demonstrated in 1Q.

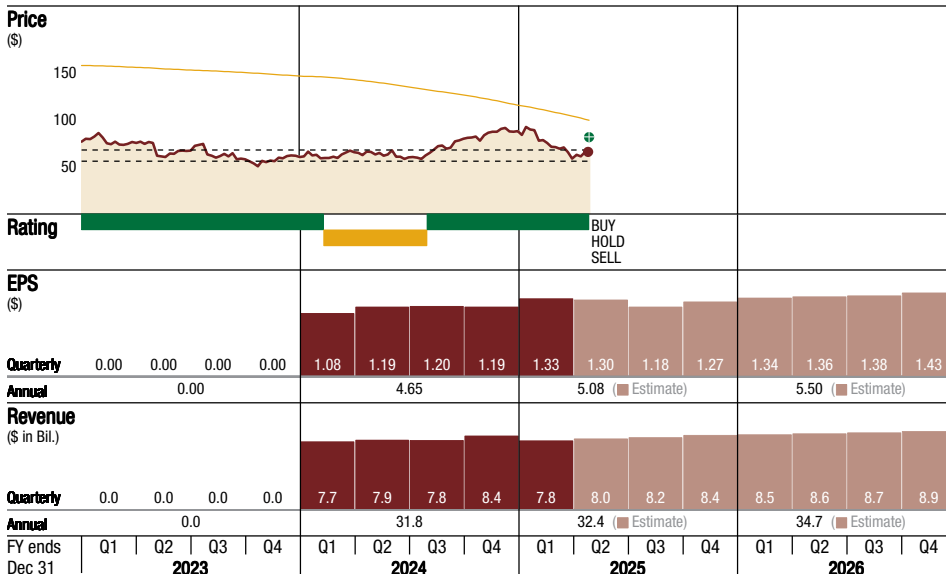
In February 2025, the company held an Investor Day at which it outlined its growth objectives. It intends to expand its volumes faster than e-commerce at large, aided by growth in online branded checkout, but also by increasing its penetration in off line venues and driving money market account expansion and engagement. PayPal intends to deliver at least low-teens non-GAAP EPS growth by 2027, aided by an acceleration in transaction margin dollar growth, with long-term aspirations for better than 20% growth. Free cash flow (FCF) is expected to expand in line with net income. The company intends to distribute 70%-80% of FCF annually, with a near-term focus on share buybacks.

Active accounts were 436 million on March 31, up from 434 million at the end of 2024. The company has altered its marketing strategy to focus less on new users and more on greater utilization by existing users. It added a substantial 122 million net new active

## Market Data

Pricing reflects previous trading week's closing price.

— 200-Day Moving Average — Target Price: \$81.00 — 52 Week High: \$67.57 — 52 Week Low: \$55.85 — Closed at \$65.34 on 4/25



## Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 26% Hold, 0% Sell.

## Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

### Market Overview

Price	\$66.32
Target Price	\$81.00
52 Week Price Range	\$55.85 to \$93.66
Shares Outstanding	977.40 Million
Dividend	--

### Sector Overview

Sector	Financial
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	14.70%

### Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	34.3%
Return on Equity	24.2%
Net Margin	14.3%
Payout Ratio	--
Current Ratio	1.26
Revenue	\$31.89 Billion
After-Tax Income	\$4.55 Billion

### Valuation

Current FY P/E	13.06
Prior FY P/E	14.26
Price/Sales	2.03
Price/Book	3.21
Book Value/Share	\$20.69
Market Capitalization	\$64.82 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	9.25%
5 Year EPS Growth Forecast	12.00%
1 Year Dividend Growth Forecast	N/A

### Risk

Beta	1.27
Institutional Ownership	74.80%

## Analyst's Notes ...Continued

accounts to its platform in 2020-2021. Although many of these were likely pulled forward from future years due to the pandemic, the sharply higher base of accounts continues to lead to increased payment volumes.

PayPal is actively innovating in the payments space. The company recently announced several new innovations in e-commerce, including improving check-out speed and helping merchants incentivize customers to return. The company has also expanded its 'Buy Now Pay Later' offering by introducing short-term installment products in the U.S. and UK.

PayPal, which was spun off from eBay in July 2015, is taking advantage of the changing payments landscape, and we believe several trends favor the company's growth. These include the greater adoption of mobile devices for payments, and the technological integration of different payment types and channels.

Unlike MasterCard and Visa, PayPal's network enables account holders to both pay and be paid for merchandise or services. PayPal is accepted at more than 75 of the top 100 retailers in the U.S., and we expect even greater penetration in the next year.

In our view, the company has several competitive advantages as it seeks to grow payment volumes. These include a strong international presence, with 100 million non-U.S. users in more than 200 countries. The company also provides merchants with end-to-end payment authorization and settlement capabilities, as well as instant access to funds. Our long-term rating is also BUY.

## RECENT DEVELOPMENTS

Over the past year, PYPL shares are up 1% versus a 9% increase for the S&P 500.

On April 29, PayPal reported adjusted 1Q25 EPS of \$1.33, up from \$1.08 a year earlier and above the \$1.16 consensus. Revenues rose 1% to \$7.8 billion (2% on an FX-adjusted basis). Adjusted net income was up 15% to \$1.3 billion. Adjusted EPS rose 23% following a 7% decline in average shares outstanding.

Total 1Q payment volume rose 3% from the prior year (4% FX-adjusted) to \$417.2 billion and was primarily responsible for the revenue gain. PayPal had 436 million active accounts March 31, up from 427 million the prior year. The number of payment transactions was down 7% to 6.05 billion.

## EARNINGS & GROWTH ANALYSIS

On the 1Q25 earnings call, management reiterated 2025 guidance calling for non-GAAP EPS of \$4.95-\$5.10, up from \$4.65 in 2024. Weaker revenue growth in recent quarters has been attributed to re-pricing initiatives at mobile payments product Braintree as the company looks to expand Braintree transaction margins but with lower volume and revenue growth. For 2Q25, the company guided for adjusted EPS of \$1.29-\$1.31.

We expect revenue growth at PayPal overall to benefit from increased merchant acceptance of the company's services, growth in the number of mobile devices using mobile payment apps, and an increase in average transactions per active account.

The company is meaningfully reducing its cost structure. In

## Growth & Valuation Analysis

### GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	21,454	25,371	27,518	29,771	31,797
COGS	9,675	11,375	13,745	16,067	17,139
Gross Profit	11,779	13,996	13,773	13,704	14,658
SG&A	3,931	4,559	4,356	3,868	4,148
R&D	2,642	3,038	3,253	2,973	2,979
Operating Income	3,428	4,324	4,044	4,944	5,763
Interest Expense	121	175	130	-133	-280
Pretax Income	5,065	4,099	3,366	5,411	5,329
Income Taxes	863	-70	947	1,165	1,182
Tax Rate (%)	17	—	28	22	22
Net Income	4,202	4,169	2,419	4,246	4,147
Diluted Shares Outstanding	1,187	1,186	1,158	1,107	1,039
EPS	3.54	3.52	2.09	3.84	3.99
Dividend	—	—	—	—	—

### GROWTH RATES (%)

Revenue	20.7	18.3	8.5	8.2	6.8
Operating Income	22.9	26.1	-6.5	22.3	16.6
Net Income	70.9	-0.8	-42.0	75.5	-2.3
EPS	71.0	-0.6	-40.6	83.7	3.9
Dividend	—	—	—	—	—
Sustainable Growth Rate	18.0	24.3	10.9	18.8	22.2

### VALUATION ANALYSIS

Price: High	\$244.25	\$310.16	\$196.10	\$88.63	\$93.66
Price: Low	\$82.07	\$179.15	\$66.39	\$50.25	\$55.77
Price/Sales: High-Low	13.5 - 4.5	14.5 - 8.4	8.3 - 2.8	3.3 - 1.9	3.1 - 1.8
P/E: High-Low	69.0 - 23.2	88.1 - 50.9	93.8 - 31.8	23.1 - 13.1	23.5 - 14.0
Price/Cash Flow: High-Low	49.4 - 16.6	62.2 - 35.9	35.7 - 12.1	26.0 - 14.8	12.9 - 7.7

## Financial & Risk Analysis

### FINANCIAL STRENGTH

	2022	2023	2024
Cash (\$ in Millions)	7,776	9,081	6,561
Working Capital (\$ in Millions)	12,416	14,103	12,716
Current Ratio	1.28	1.29	1.26
LT Debt/Equity Ratio (%)	51.4	46.0	48.4
Total Debt/Equity Ratio (%)	51.4	46.0	48.4

### RATIOS (%)

Gross Profit Margin	50.1	46.0	46.1
Operating Margin	14.7	16.6	18.1
Net Margin	8.8	14.3	13.0
Return On Assets	3.1	5.3	5.1
Return On Equity	11.5	20.5	20.0

### RISK ANALYSIS

Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	8.2	7.8	10.9
Oper. Income/Int. Exp. (ratio)	12.1	16.6	15.0
Payout Ratio			

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## Analyst's Notes ...Continued

January 2024, it announced a headcount reduction of 9% of its workforce through direct reductions and the elimination of open roles in 2024.

We expect PayPal to benefit over time from secular trends that have boosted growth for credit card processors, such as the increasing use of digital payments over checks and cash for convenience and security. We expect further market share gains as the company leverages its platforms globally and takes advantage of its strong brand recognition and rapid growth in merchant acceptance.

We look for revenue growth of 2% in 2025. PayPal saw a surge in new accounts during the 2020/2021 pandemic as customers moved more spending online amid shelter-at-home policies. However, we believe that this essentially pulled growth forward and is now contributing to slower growth. We expect operating margins to benefit as the company leverages the scale of its network and embarks on cost-saving initiatives.

We are raising our 2025 EPS estimate to \$5.08 from \$5.00, mainly on the better-than-expected 1Q results, while keeping our 2026 forecast of \$5.50.

### FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on PayPal is High. Balance-sheet metrics are favorable, with cash and short-term investments of \$11.2 billion and long-term debt of \$11.4 billion as of March 31, 2025. PayPal accessed the public debt markets for the first time in

3Q19, raising \$5.0 billion in senior fixed-rate notes at favorable interest rates, as it seeks to optimize its capital structure. PayPal issued \$4 billion in debt in May 2020 at an effective rate of 2.26%.

Free cash flow is expected to be reinvested in the business and used for acquisitions and buybacks. PayPal repurchased 19 million shares in 1Q25 for \$1.5 billion, and 92 million shares in all of 2024 for about \$6 billion. Along with 4Q24 results, the company announced a new \$15 billion share buyback program, which is in addition to \$4.9 billion left under a prior authorization. The company does not expect to pay a regular cash dividend.

### MANAGEMENT & RISKS

As of September 2023, PayPal is led by president and CEO Alex Chriss, who joined from Intuit and replaced the retiring Dan Schulman. Jamie Miller was appointed CFO in November 2023.

PayPal faces considerable competition in the payments market from well-established brands, including Apple's ApplePay, Visa's Checkout, MasterCard's MasterPass, and American Express's Later Pay services, as well as other digital products from Facebook and Google. Customers generally have a range of payment options in addition to PayPal at the point of sale, and the company must compete on convenience and transaction price. It must also respond quickly to changing customer preferences, including the increasing demand for mobile payment services.

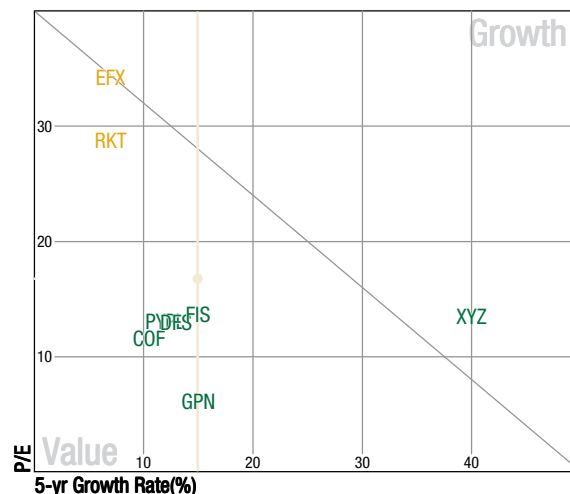
### COMPANY DESCRIPTION

Spun off from eBay in July 2015, PayPal is a technology

## Peer & Industry Analysis

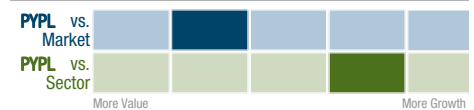
The graphics in this section are designed to allow investors to compare PYPL versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how PYPL stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how PYPL might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
COF	Capital One Financial Corp.	69,841	10.5	11.6	9.0	14.5	BUY
PYPL	PayPal Holdings Inc	64,821	12.0	13.1	14.3	8.3	BUY
DFS	Discover Financial Services	46,640	13.0	13.0	20.4	10.0	BUY
FIS	Fidelity Natl Information Serv	41,345	15.0	13.7	14.3	8.4	BUY
XYZ	Block Inc.	33,327	40.0	13.5	12.0	22.7	BUY
EFX	Equifax, Inc.	32,125	7.0	34.3	10.7	15.9	HOLD
RKT	Rocket Companies Inc	25,834	7.0	28.8	.5	60.0	HOLD
GPN	Global Payments, Inc.	18,841	15.0	6.2	15.5	10.8	BUY
<b>Peer Average</b>		<b>41,597</b>	<b>14.9</b>	<b>16.8</b>	<b>12.1</b>	<b>18.8</b>	

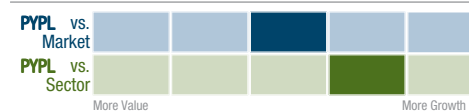
### P/E



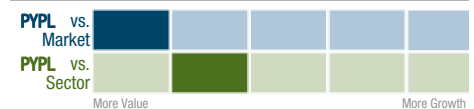
### Price/Sales



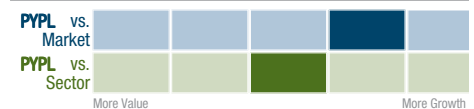
### Price/Book



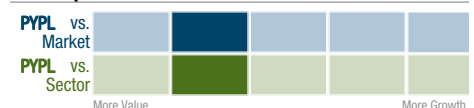
### PEG



### 5 Year Growth



### Debt/Capital



## Analyst's Notes ...Continued

platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. It accepts payments from merchant websites, mobile devices and applications, and at offline retail locations through its PayPal, PayPal Credit, Venmo, and Braintree products.

PayPal processes transactions in more than 200 markets and in more than 100 currencies. It also allows customers to withdraw funds from bank accounts in 56 currencies and hold balances in PayPal accounts in 25 currencies.

### VALUATION

PayPal shares are trading toward the lower end of their 52-week range of \$56-\$94, which we believe reflects uncertainty with respect to spending volumes due to the impact of tariffs. We continue to note several positives in the PayPal story, including management's transformation efforts (which are gaining traction) and a large share buyback plan.

We expect PayPal to show steady long-term growth in payment volumes as it adds merchants, signs additional partnerships, and benefits from a shift to digital payments. PayPal competes in the payments space with American Express, Discover, Visa and MasterCard, as well as with other mobile payment services such as ApplePay.

To value the stock, we believe that processing pure-plays Visa and MasterCard still offer the best comparisons. PayPal is a smaller player in the payments market, though it also has a strong brand and a record of innovation. We see the shares offering considerable value at 13-times our 2025 EPS estimate, a sizeable discount to the multiples of Visa and MasterCard, and we expect PayPal to work through current revenue and operating margin headwinds. Our target price is \$81 (lowered from \$90), or 16-times our 2025 estimate.

On April 29, BUY-rated PYPL closed at \$66.32, up \$1.39.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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