



Alex Wilde



Chloe Feng



Cici Zhang

Matt Warnagieris

Nuh Bahemia

# Company Overview



Revenue \$19.7B  
Profit \$2.3B  
Annual Growth 7.2%  
Businesses 1,441



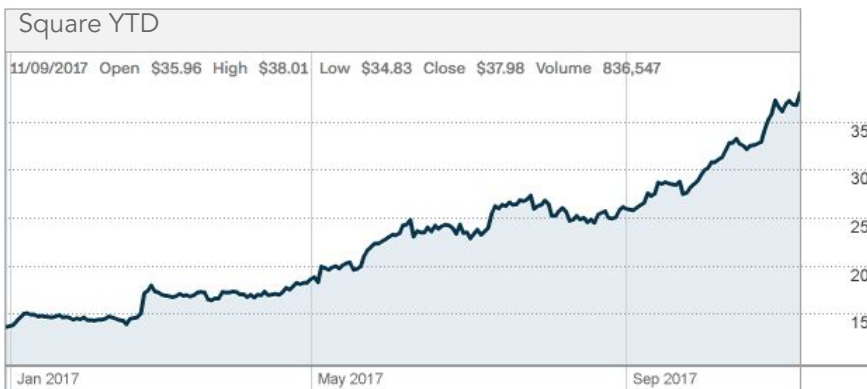
NYSE: SQ  
Stock Price \$39.21  
Market Cap \$15.2B

- Square Inc. is a financial services, merchant services aggregator and mobile payment company
- Founded in San Francisco, USA in 2009 by Jack Dorsey
- Listed on the NYSE in 2015
- In 2016 Square processed \$49.7 billion via one billion credit card payments

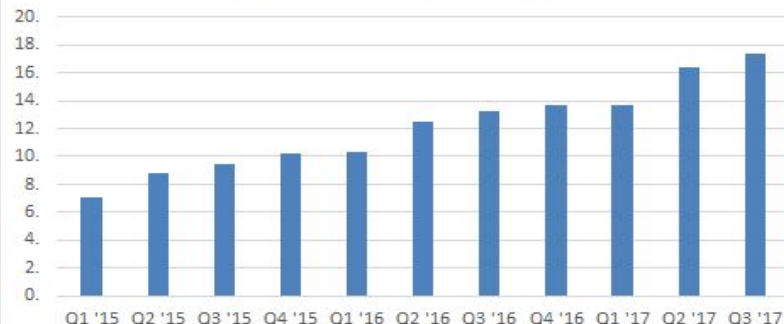
# Company Overview



- Sell digital cash register hardware
- Offers fully-serviced, managed payments backed by strong point-of-sale software and an API for small businesses to sell online
- Created Square Capital, a loan service for sellers, in May 2014 and acquired Caviar, a high-end food delivery service, in Aug. 2014



Square quarterly gross payment volume 2015-2017 in billion U.S. dollars



Square Inc. || *Payment Processor*



Caviar || *Food Delivery*



Square Capital || *Loan Issuance*

# Recent Events



## NYSE IPO

Square Inc. began trading on the New York Stock Exchange under the ticker symbol "SQ" after its initial public offering at \$9 per share.



## Expansion to the U.K.

Square Inc. first launched in the U.K. in March 2017. CEO Jack Dorsey stated "There's over 5 million small businesses in the U.K. and we think less than half accept credit cards so we think the market opportunity is huge."



## OrderAhead Acquisition

Acquisition of OrderAhead, a mobile ordering startup that allows customers to place take-out orders. This will boost Caviar, Square's food delivery app's, market share by giving customers and restaurants more convenience.



## Eventbrite Partnership

\$25M strategic partnership to power all of Eventbrite's payment processes including mobile, online and in-person payments. If Eventbrite's payment processing fees stay the same, Square would gain access to about 104 million tickets sold per year for a 3% payment processing fee.

# Management Assessment



## Jack Dorsey | *Founder and CEO*

- Serves as CEO of Square & Twitter
- Serves on the Board for Disney
- TIME Magazine's Top 100 Most Influential People



## Sarah Friar | *CFO*

- Previous experiences include SVP of Finance & Strategy for Salesforce, Business Unit Leader for Goldman Sachs' Technology Research Group
- On the Board of Directors for tech companies Slack and New Relic.

## Kevin Burke | *Marketing and Sales Lead*

- Previously CMO of Visa Inc.
- Was on team for both Visa and Square Inc's IPO preparation
- Hired to lead customer acquisition from 9 years of experience at Visa Inc.



## Jesse Dorogusker | *Hardware Lead*

- Previously Director of Engineering for Apple's iPhone, iPad, and iPad accessories
- Headed the development of the Apple works-both-ways Lightning connector

# Competitive Assessment



## Strengths

- Allows small businesses to accept credit card payments at a low fixed fee and with many providers; has a tight grip on the small business for payment processing
- Capitalizes on payment data by creating Square Capital which provides loans to sellers and mitigates asymmetric information thanks to data transparency
- Existing infrastructure in small businesses



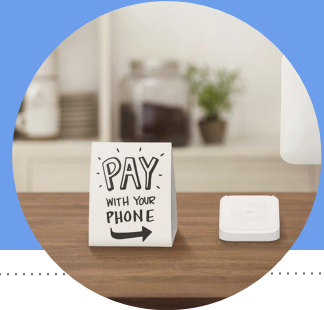
## Weaknesses

- Inability to service companies that mostly operate in bulk transactions. Partnership with Starbucks failed in late 2014 because of rate disputes.
- Withheld funds and sudden terminations are a possibility



## Opportunities

- Ongoing product momentum with Virtual Terminal, Square Cash and other initiatives
- New software partners and compelling investments
- Positioned nicely to possibly incorporate Blockchain into products, which could rule out potential lost payments



## Threats

- User trust and security
- Increasing competition from other micro-transaction companies
- New Blockchain based payment products could outpace Square in the long term

Business Description

Industry Analysis

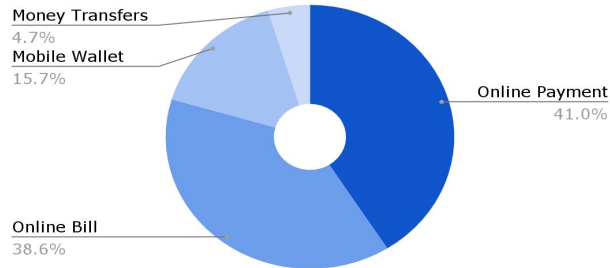
Future Considerations

Valuation

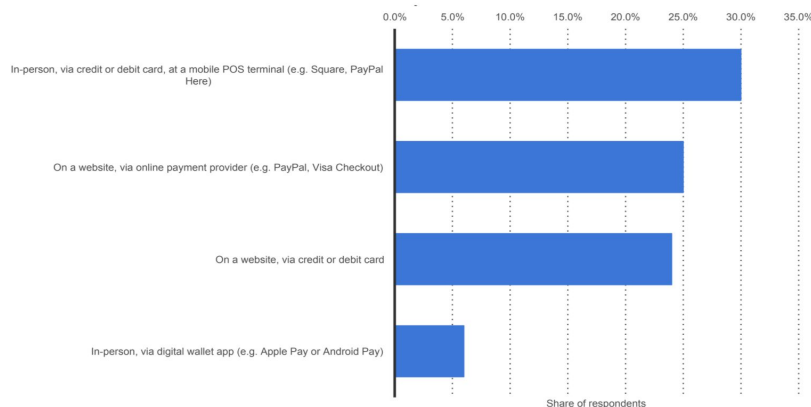
# Industry Analysis



Products and services segmentation (2017)



Share of small business owners in the United States who accept digital and mobile payment methods as of July 2016



## Key External Drivers

### *Per Capita disposable income*

As consumers' disposable income increases, the number of purchases they make will also rise, stimulating purchases and industry revenue.

### *Percentage of services conducted online*

The percentage of services conducted online represents the increasing use by consumers and businesses of the internet for services they used to pay for in physical form. The percentage of services conducted online is expected to increase over 2017.

### *External competition*

Online payment processing software developers compete with other forms of payment, including credit or debit card payments, direct bank transfers and money orders.

# Risk Analysis



## Competitive Market

- Low barrier to entry thus therefore dependent on sellers' level of satisfaction with the pricing, quality and efficiency
- Generally do not have long-term contracts with sellers, potential for easy switch to competitors such as PayPal or Visa Inc.

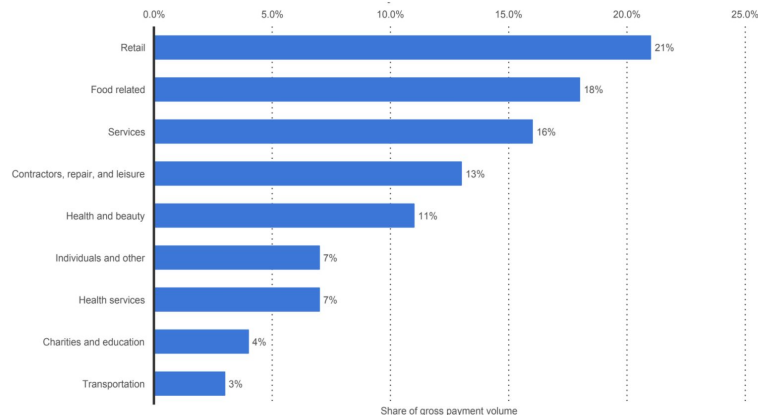


## Macroeconomic Conditions

- Dependence on business growth of Square sellers makes Square susceptible to adverse macroeconomic conditions
- Founded following the financial crisis therefore unpredictable impact on business model if recession does occur



## E-Commerce Growth



- Gross payments volume (GPV) from small sellers who generate less than \$125,000 annually represented 58% of total GPV in 2016
- Revenue growth may decline if these clients go out of business due to movement towards e-commerce in the retail industry

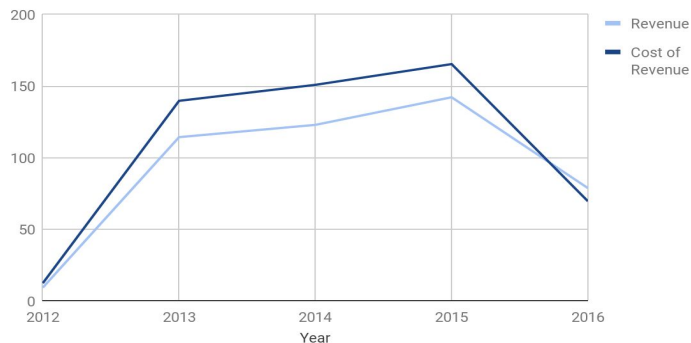


# Controversies



## The End of Square-Bucks

Starbucks Transaction Revenue vs. Cost of Revenue  
(Millions of Dollars)

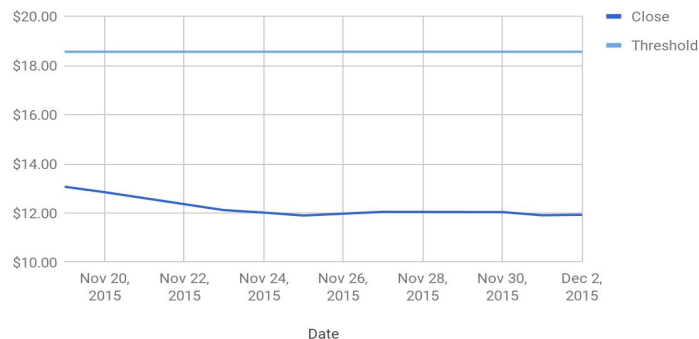


- Starbucks invested \$25 million in Square when it was privately held
- Starbucks received severely discounted rates, Square hoped that it would be mitigated by high volume
- Square renegotiated its deal with Starbucks in August 2015, Starbucks agreed to pay a higher transaction processing rate for as long as it uses Square



## Ratchetness

SQ Prices in Days Following IPO vs. Terms of Ratchet



- IPO November 19, 2015 → Open: \$11.20, Close: \$13.07
- Investors such as JPMorgan were guaranteed 20% returns and initially invested \$11 a share in 2012
- Ratchet clause → provides protection for investors, increases valuations for companies
  - \$96 million in payments

# Catalysts

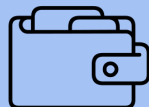


## Holiday Season 4Q Earnings



4.5%

Expected increase  
in sales  
(National Retail Foundation)



4%

Increase in  
disposable  
Income  
(Deloitte)



\$967.13

Average consumer  
spending  
(National Retail Foundation)



## Acquisition Target



Open to buying growth (25%):  
\$1.6 billion in cash



Low debt to equity (0.58)  
\$5.6 billion in cash  
Owns 1-10% of Square



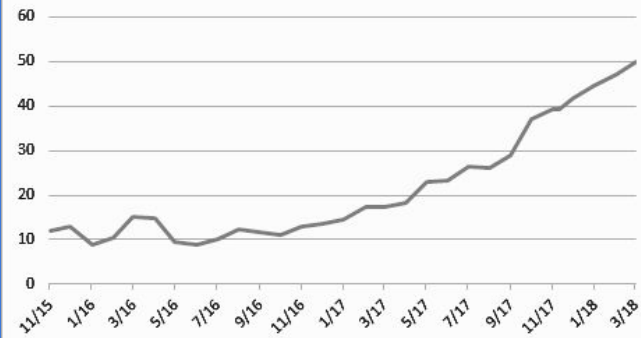
Acquisition rumors in 2014:  
Buy for less than half of  
\$6 billion valuation

# Final Valuation

**CIB** CAPITAL INVESTMENTS  
AT BERKELEY

- Current Share Price \$39.21
- Target Share Price: \$49.88
- Beta: 1.17
- Outstanding shares: 251,880,000
- Implied Return: ~27%
- Timeline: 3-4 months

Forecasted Share Price for SQ in USD



# Q & A

CIB CAPITAL INVESTMENTS  
AT BERKELEY