Payment services

Most preferred
Nexi S.p.A. | TP 22.0€

Least preferred
Square | TP 245 $

What better way to play the upcoming reopening in Europe than payment?

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Price 04/01/21	Reco.	Curr.	Price	TP
Adyen NV	Neutral	EUR	1982.00	2200.00
Edenred	Outperform	EUR	44.75	52.00
Nexi S.p.A	Outperform	EUR	14.87	22.00
PayPal	Outperform	USD	247.54	350.00
Prosus NV	Outperform	EUR	99.84	133.00
Square	Neutral	USD	229.51	245.00
Worldline	Outperform	EUR	71.80	90.00

Next Events		
21/04/2021	Worldline	Q1 Results
22/04/2021	Edenred	Q1 Sales
11/05/2021	Edenred	Annual General Meeting
13/05/2021	Nexi S.p.A	Q1 Results
27/07/2021	Edenred	H1 Results

With the contribution of
Alexis Soreau – Trainee analyst

After five years of clear outperformance, the payment sector performed merely in line with the tech sector in 2020, thanks solely to online players such as Adyen. The reopening that is taking shape in Europe as vaccinations are stepped up argues for a catch-up for players most exposed to brick-and-mortar retail, such as Worldline, Nexi and Edenred (Outperform). We also reiterate our Neutral rating on Adyen and initiate PayPal at Outperform and Square at Neutral. We confirm our Outperform rating on Prosus (30% of NAV exposed to fintech services).

In 2020, payment performed merely in line with the broader tech sector

In 2020, the payment sector performed merely in line with the Nasdaq vs an outperformance of 12 points/year on average in the previous five years. This observation masks big differences between online and offline players. The fall in transaction volumes in brick-and-mortar stores, due to health restrictions, penalised the performance of players mainly exposed to offline (Worldline, Nexi, Edenred). A significant share of volumes shifted online, favouring an outperformance by online players (Adyen, Square, PayPal). In a very short space of time, the discount for offline vs online went from 30% to 60%. It should gradually narrow.

Play the reopening in Europe with the recovery of volumes, in a still favourable structural framework with Worldline, Nexi and Edenred

The acceleration in vaccination campaigns in Europe should allow restrictions to be lifted and a reacceleration in transaction volumes in physical stores. This is what happened recently in the US, where processor stocks outperformed in the reopening phase. This is of course likely to primarily benefit players exposed to brick-and-mortar retail such as **Worldline**, **Edenred** (€ 52 vs € 50) and **Nexi** (Outperform), which are now trading at a discount to the sector (respectively 17x, 22x and 17x EBITDA 2021e vs the sector excluding online at 26x). This should also come at a time when the structural framework for the payment market is favourable: 1/ ongoing M&A deals in Europe (fragmented market dominated by banks which are likely to continue to pull out of the sector); 2/ acceleration in the standardisation of the European market with the EPI; 3/ several IPOs at lofty multiples look probable (Klarna, Wise, Stripe, Trustly, Marqeta, etc.).

Several themes driven by fintechs are growing rapidly: Buy Now Pay Later, crypto, P2P, banking, etc.

The COVID-19 period has strongly accelerated the emergence of new services: Buy Now Pay Later, crypto-currencies, peer-to-peer money transfers, mobile asset management. All this is likely to speed up the cannibalisation of cash by electronic payment methods, while also expanding the payment market, with new opportunities in the banking market (the ultimate aim being to create a financial super app).

Among the innovators, we initiate PayPal at Outperform, Square at Neutral and reiterate our Neutral rating on Adyen

We initiate **PayPal** at Outperform (target price $ 350) and **Square** at Neutral (target price $ 245). While we are very confident on their growth opportunities (digitisation of banking services, convergence towards omnichannel), we prefer PayPal because we think that at 36x EBITDA 12m forward (vs 125x for Square) its growth story is underestimated (strengthening of client engagement with BNPL, monetisation of Venmo and creation of a super app) while Square's valuation leaves little scope for positive surprises, particularly against the backdrop of intensifying competition/regulation. We maintain our Neutral recommendation on **Adyen**.

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Changes to our target prices and estimates

	Currency	Market cap (m)	Rating		TP		EPS		PE (x)	
			Revised	Former	Revised	Former	2021e	2022e	2021e	2022e
Edenred	€	10 376	Outperform	Outperform	52.0	50.0	1.38	1.69	32.3	26.5
PayPal	$	293 087	Outperform		350.0		4.56	5.80	54.3	42.7
Square	$	93 119	Neutral		245.0		1.18	1.74	194.4	131.9

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THE PERFORMANCE MERELY IN LINE WITH TECH MASKS AN UNDERPERFORMANCE BY TRADITIONAL PLAYERS

2020 will remain an anomaly in many respects, with the payment sector having performed merely in line with the rest of the tech sector. Indeed, in the five previous years, the sector largely outperformed the Nasdaq (+34% per year vs +22%). In the sector, strong divergences appeared between players mainly exposed to brick-and-mortar retail, which suffered as a result of the fall in volumes, and online pure players. This helped widen the discount to a perhaps exaggerated extent (~60% for players strongly exposed to offline vs 30% before the COVID-19 crisis). Against this backdrop, the catch-up in volumes, with the gradual lifting of health restrictions in Europe from Q2 and especially in H2 with the progress in vaccination campaigns, could be a major trigger for a catch-up by these players.

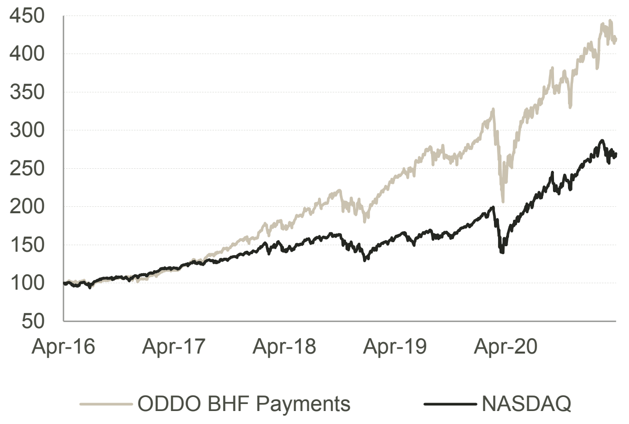
For the first time in a long time, payment did not outperform tech in 2020…

Over the last five years, the payment sector has significantly outperformed the technology sector overall. Our ODDO BHF Payments index has gained +323% over 5 years vs +167% for the Nasdaq. This gives an annualised average performance of +34% vs +22%, a gap of 12 points per year on average.

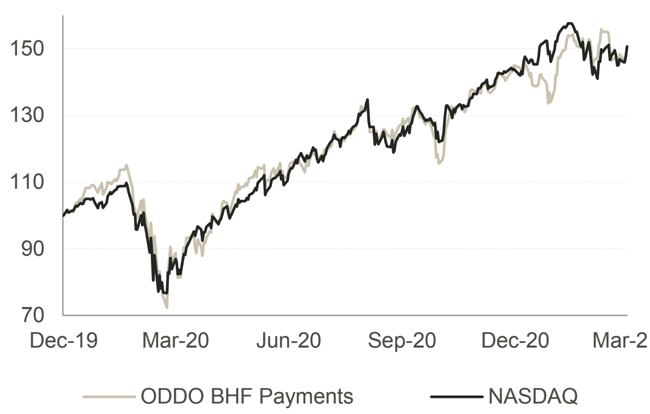
In our view, this outperformance reflects the factoring in by the market of the very solid growth outlook for the payment sector, which is at the heart of the structural transition of the economy towards more digital societies. Electronic payment is an essential part of this transition.

2020 was an exception, however, since the payment sector performed well (+51% since the start of 2020), but did not outperform the tech sector (represented by the Nasdaq, also at +51%). This trend has continued in 2021, with payment up +4%, and the Nasdaq at +5%…

Sector stock market performance vs Nasdaq over 5 years



Share performance of our coverage* since the start of 2020



Charts 1 - Sources: FactSet, ODDO BHF Securities

**The ODDO BHF Payments index comprises 15 of the world's biggest payment players: Nexi (Italy), Worldline (France), Edenred (France), Adyen (Netherlands), PayPal (US), Square (US), Visa (US), Mastercard (US), Fidelity International Services (US), Fiserv (US), Global Payments (US), Afterpay (Australia), PagSeguro (Brazil), Affirm (US) and Nuvei (Canada). It is weighted by market capitalisation.*

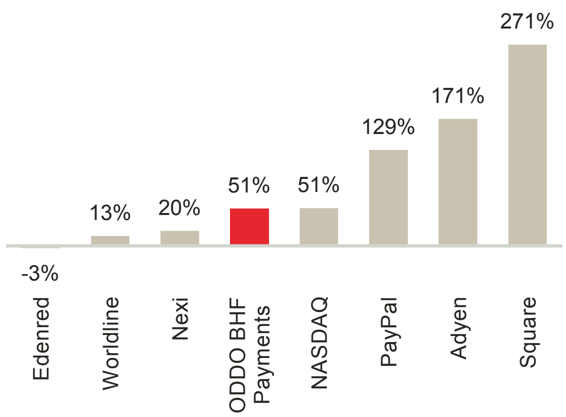
…but online pure players have massively outperformed

Despite this lack of outperformance by the payment segment vs the broader tech sector, there are very clear differences within the sector between players mostly exposed to online, which have significantly outperformed (Adyen +171%, PayPal +129% and Square +271% since the start of 2020), and those mainly exposed to brick-and-mortar retail, even if they are never entirely absent from the online segment (Worldline 30% of revenues and Nexi 20% of the future entity Nexi/Nets/SIA). The latter have clearly underperformed (Nexi +20%, Worldline +13% and Edenred -3%).

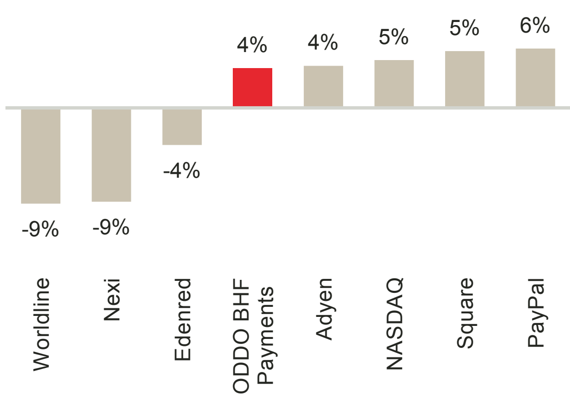
Since the start of 2021, there has not been any change of regime relative to 2020.

This observation stems logically from health restrictions: when the restrictions are severe, a lot of physical stores close or at least reduce their capacity to receive the public, and therefore suffer reductions in their activity. Conversely, the spending moves online (and a part often remains online when the restrictions are lifted), where these new players are dominant. They are only affected by the reduction in spending relating to tourism (aircraft, trains and hotels), which is mainly booked online.

Share performances since the beginning of 2020



Share performances since the beginning of 2021



Charts 2 - Sources: FactSet, ODDO BHF Securities

…and the sector has re-rated

The sector's EV/EBITDA 12m forward multiple recently reached an all-time high in the last few months at 45x and today has 'fallen' to 37x following the recent stock market correction for well valued stocks.

This multiple is driven up by those of online pure players (Adyen, Square, PayPal and PagSeguro), which are trading at very lofty valuation levels relative to their peers mostly exposed to brick-and-mortar retail.

After adjustment for these players, the EV/EBITDA multiple works out close to its recent historical level, at around 25x forward EBITDA. It is still well above that of the Nasdaq at 18x.

By stock, the positive momentum of online payment was driven by the valuation of **Adyen** at 92x EBITDA 12m forward (vs an average of 75x since the IPO).

Square has re-rated at 125x EBITDA 12m forward (vs around 65x previously) with the very rapid adoption of its payment application Cash App, which today represents close to 50% of the gross margin (versus just under 25% in 2019).

Momentum has also been very positive for **PayPal**, valued at 36x 12m forward EBITDA (vs a historical average of 28x), whose gains were nevertheless less swift notably due to its significant exposure to cross-border payments (around 20% of transactions).

Where stocks significantly exposed to offline payment are concerned, their valuations fell below the levels reached at the height of the COVID-19 crisis, before recovering rapidly against the backdrop of an acceleration in the digitisation of payments (even though volumes fell due to the health measures) and an accelerating M&A theme for European players (Ingenico and ANZ for Worldline, SIA and Nets for Nexi).

Nevertheless, although the sector's medium-term outlook has been bolstered by the crisis and the technology sector has re-rated (Nasdaq at 18x forward EBITDA vs around 13x previously), the valuation multiples of these offline players have today returned to their pre-crisis levels, i.e. respectively 16x, 18x and 21x EBITDA 12m forward for **Nexi** (profile including SIA and Nets), **Worldline** (profile including Ingenico) and **Edenred**.

Sector EV/EBITDA over 3 years (x)

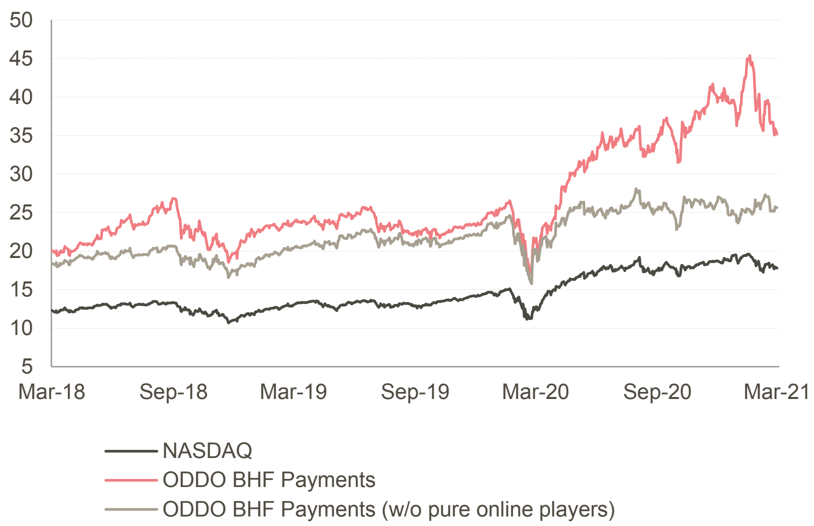


Chart 3 - Source: ODDO BHF Securities

The valuation differences have never been so great between online and offline

The payments sector is admittedly well valued on average but the difference in valuations between online pure players and the others has never been so great (discount of around 60% vs 30% before the COVID-19 crisis).

We believe that the valuation levels of sector companies can only be assessed based on their EBITDA growth, the fairest indicator (since definitions of EBITDA diverge we might as well analyse its growth).

The sector median EV/EBITDA 12m forward is 23x (average of 38x due to Adyen and Square, which push up the sector average) for median 2020-2022e EBITDA growth of 18%e (average of 24%).

The median EBITDA PEG (EV/EBITDA ratio / 2020-2022e EBITDA CAGR) therefore works out at 1.3 (average of 1.5).

EV/EBITDA 12m fwd vs 2020-2022e EBITDA CAGR

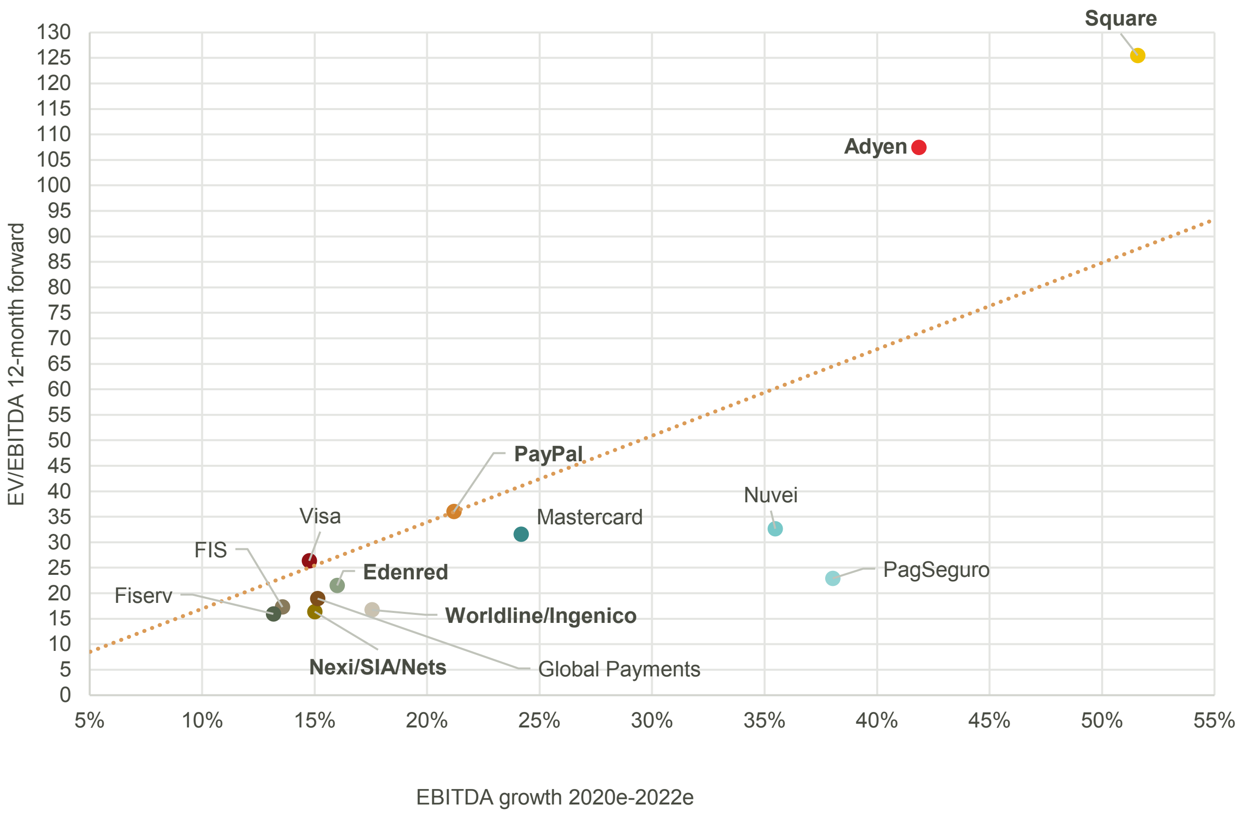


Chart 4 - Source: FactSet

** Worldline and Ingenico pro forma ODDO BHF Securities*

It seems that most of the stocks in the sector are valued coherently, around the linear regression. Note that we excluded Afterpay and Affirm, which are not yet profitable.

Based on analysis of this linear regression, **Worldline**, **Nexi and Edenred** appear undervalued, partly reflecting the traditional gap between European and US tech stocks, with the latter often better valued. **PayPal** is fairly valued. On the other hand, **Adyen** and **Square** seem to be overvalued relative to the sector.

Sector EBITDA PEG (EV/EBITDA ratio / 2020-2022e EBITDA CAGR)

Company name	EV/EBITDA 12m fwd (x)	EBITDA 2020-2022e growth	EBITDA PEG
Nexi	**16.4**	**15%**	**1.1**
Adyen	**107.4**	**42%**	**2.6**
Worldline	**16.7**	**18%**	**1.0**
Edenred	**21.5**	**16%**	**1.3**
PayPal	**36.0**	**21%**	**1.7**
Square	**125.5**	**52%**	**2.4**
Visa	26.4	15%	1.8
Mastercard	31.5	24%	1.3
FIS	17.3	14%	1.3
Fiserv	16.0	13%	1.2
Global Payments	19.0	15%	1.3
PagSeguro	22.9	38%	0.6
Nuvei	32.7	35%	0.9
Median	**22.9**	**17%**	**1.3**
Average	**38.1**	**23%**	**1.5**

Table 5 - Sources: ODDO BHF Securities, FactSet

Payment sector peers

x	Market cap (€ bn)	EV/EBITDA		P/E		FCF yield (%)		Div. yield (%)	
		2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e
Nexi	9	16.9	14.8	33	29	3.4	4.4	0.1	0.1
Adyen	60	115.1	84.4	161	114	1.9	2.0	0.0	0.0
Worldline	20	17.5	14.3	33	27	3.1	3.9	0.0	0.0
Edenred	11	22.3	19.1	32	27	1.8	4.5	0.8	0.9
PayPal	247	38.0	31.2	54	43	2.1	2.8	0.0	0.1
Square	89	143.4	91.2	189	122	0.7	0.8	0.0	0.0
Visa	394	29.3	24.0	39	31	2.8	3.4	0.6	0.6
Mastercard	307	33.5	26.9	45	35	2.2	2.8	0.4	0.5
FIS	76	17.8	16.0	23	20	4.9	5.4	1.0	1.0
Fiserv	70	16.4	14.8	23	19	5.2	5.9	0.0	0.0
Global Payments	52	19.6	17.3	26	22	4.1	4.7	0.4	0.4
PagSeguro	14	25.0	18.4	46	33	0.1	0.0	0.1	0.1
Afterpay	19	>400	>150	n/a	>250	n/a	n/a	0.0	0.0
Affirm	8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.0
Nuvei	7	34.2	28.7	49	43	2.3	2.8	0.0	0.0
Median		**25.0**	**19.1**	**39**	**31**	**2.3**	**3.4**	**0.0**	**0.1**
Average		**41.2**	**31.0**	**59**	**43**	**2.7**	**3.4**	**0.3**	**0.3**

Table 6 - Source: FactSet

Prefer Nexi, Worldline, Edenred and PayPal

Against this backdrop, we prefer Nexi, Edenred (target price increased to € 52 vs € 50), Worldline (catch-up for European players exposed to brick-and-mortar retail) and PayPal (way to play the new structural trends in the sector, particularly the digitisation of banking services, with a reasonable valuation). We are at Neutral on Adyen and Square on valuation grounds.

Recap of our recommendations

Companies	Recommendation	Target price	Upside
Adyen	Neutral	€ 2 200	11%
Edenred	Outperform	€ 52 (vs € 50)	16%
Nexi	Outperform	€ 22	48%
PayPal	Outperform	$ 350	41%
Prosus	Outperform	€ 133	33%
Square	Neutral	$ 245	7%
Worldline	Outperform	€ 90	25%

Table 7 - Source: ODDO BHF Securities

PLAY THE UPCOMING 'REOPENING' IN EUROPE, WITH A STRUCTURAL FRAMEWORK THAT IS STILL JUST AS FAVOURABLE

The payments sector is in our view one of the best investment vehicles to play the reopening. The reopening, which has already started in the US, showed us that it is synonymous with a stock market outperformance for players exposed to physical stores (Fiserv up +19% since the start of February, FIS +17% and Mastercard +15%). We anticipate a similar scenario in Europe. This catch-up will moreover come amid very favourable circumstances: 1/ advantageous base effects in Q2 ('strict' lockdowns in Q2 2020); 2/ ongoing M&A in Europe (fragmented market dominated by banks which are likely to continue to pull out of the sector); 3/ an acceleration in the standardisation of the European market with the EPI (fluidification); 4/ several visible IPOs and at lofty multiples are probable (Klarna, Wise, Stripe, Trustly, etc.).

Volumes will return as health restrictions are lifted and a stock market catch-up is likely

The prospect of a reopening, or an easing of health restrictions, in Europe will in our view be synonymous with a renewed possibility for a stock market outperformance for the European payment sector, in particular for players exposed to brick-and-mortar retail

Since the start of the health crisis, the share performances of payment players have indeed generally closely tracked trends in transaction volumes. Players exposed to brick-and-mortar retail such as **Nexi**, **Worldline** and **Edenred** have therefore largely underperformed, at respectively 20%, 13% and -3% since the start of 2020 (51% for ODDO BHF Payments)

Comparing year-on-year growth (rolling weekly basis) in transaction volumes in Italy with the trend in Nexi's share price, a clear link emerges between the group's share performance, a sign of improving market sentiment, and the volumes of transactions processed.

Trend in year-on-year growth (rolling weekly basis) in transaction volumes in Italy versus Nexis's share price (€)

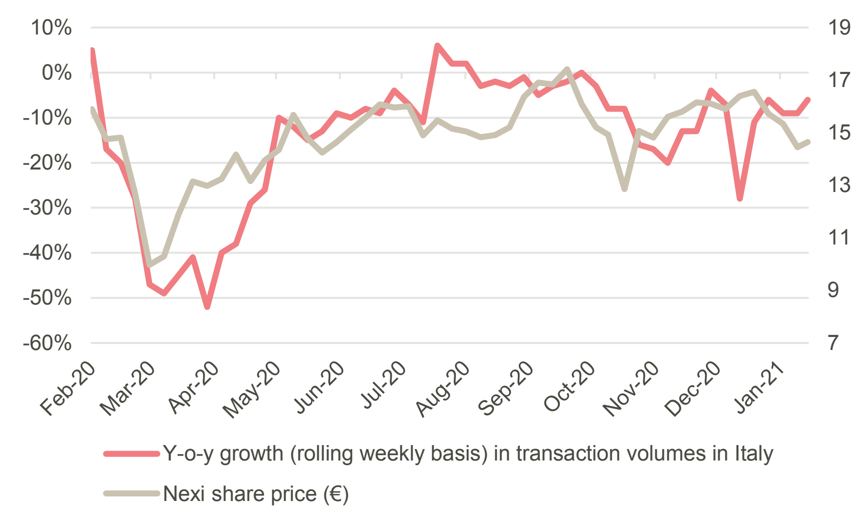
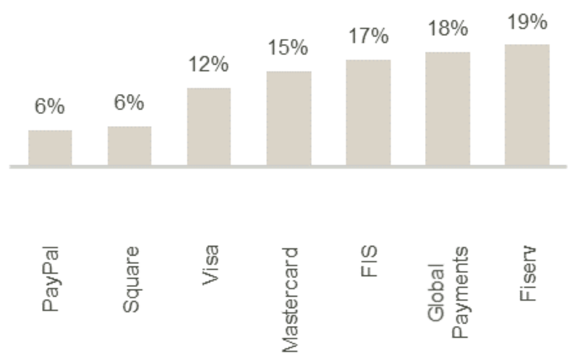


Chart 8 - Sources: Nexi, FactSet, ODDO BHF Securities

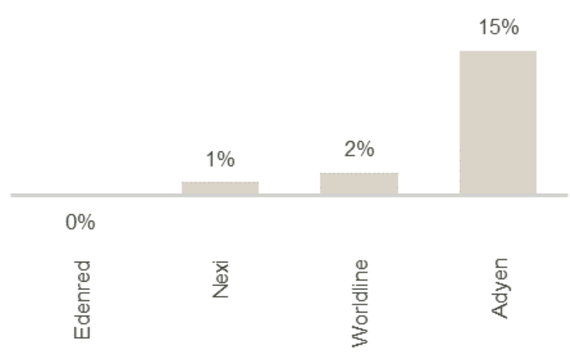
The US has already begun to reopen (the first announcements came in February in most States) and this has resulted in a clear outperformance for US players strongly exposed to offline payment since the start of February: Fiserv (19%), FIS (17%), Global Payments (18%), Visa (12%) and Mastercard (15%), i.e. a performance superior to that of online players Square (+6%) and PayPal (+6%).

We see the opposite situation in Europe where, in the same period, Nexi, Edenred and Worldline have largely underperformed at respectively 1%, 0% and 2%, while Adyen (online pure player) posted a good performance at 15%.

Share performances of US players since the start of February (first reopening announcements)



Share performances of European players since the start of February



Charts 9 - Sources: FactSet, ODDO BHF Securities

With the ramp-up of vaccination campaigns in Europe and the gradual lifting of health restrictions, we therefore expect a similar scenario in Europe, with a strong catch-up for players exposed to brick-and-mortar retail.

Any significant improvement in the situation in the coming weeks, either via a slowing of the third wave and/or an acceleration in the number of people vaccinated, could therefore offer good entry points ahead of the Q1 earnings releases at the end of April/start of May, at which a fall in volumes is already largely anticipated (we look for a fall in revenues of -10% for Worldline in Q1 and -1% for Nexi due to lighter restrictions in Italy and the group's recurring business model which only relies on volumes for 50% of the group's revenues), but where the management tone (if the situation improves) could be very positive (probably high single-digit growth over the full year in the event of a normalisation of the situation vs full-year targets of at least 5% and 6M for Worldline and Edenred, respectively, and mid-to-high single-digit growth for Nexi).

Consolidation of the payment sector is by no means over, particularly in Europe…

European consolidation is not over

Sector consolidation accelerated in 2020 in Europe with the Worldline/Ingenico and then Nexi/SIA and Nexi/Nets deals, but it is far from over.

Key M&A deals since 2017 (>€ 0.5bn)

Target	Buyer	Deal value (€ bn)	Announcement date	EV/sales (x)	EV/EBITDA (x)
Worldpay	Vantiv	9.8	04/07/2017	7.4	17.7
Bambora	Ingenico	1.5	20/07/2017	7.4	X
Paysafe	Blackstone + CVC	3.3	21/07/2017	X	X
Nets	Hellman & Friedman + Advent + Bain	4.4	25/09/2017	4.9	17.8
Gemalto	Thalès	5.4	17/12/2017	1.9	10.7
SIX	Worldline	2.3	15/05/2018	X	X
iZetlle	PayPal	2.0	17/05/2018	X	X
Concardis	Nets	5.1	04/07/2018	X	X
First Data	Fiserv	33.7	16/01/2019	4.1	12.8
Worldpay	FIS	37.6	18/03/2019	10.9	26.9
Safecharge	Nuvei	0.9	22/05/2019	X	X
TSYS	Global Payments	23.1	28/05/2019	6.4	20.4
ISP acquiring	Nexi	1.0	19/12/2019	11.1	11.9
Plaid	Visa	4.8	13/01/2020	31.8	X
Ingenico	Worldline	9.2	03/02/2020	2.7	15.4
Finicity	Mastercard	0.9	23/06/2020	>50	X
SIA	Nexi	4.6	05/10/2020	7.1	18.8
Nets	Nexi	7.1	02/11/2020	7.3	20.1
ANZ acquiring	Worldline	0.6	14/12/2020	3.4	17.1

Table 10 - Sources: companies, FactSet, ODDO BHF Securities

Indeed, several markets have yet to consolidate, notably France, the Iberian Peninsula and Greece. The further consolidation of the European sector will therefore concern two types of players:

- **Specialised players**: probably smaller, such as Portugal's SIBS, Borgun in Iceland or Greek player Cardlink.
- **Banks**: such as Caixa-Bankia in Spain or those in France (where the acquiring market is still almost exclusively controlled by banks). Note that around 50% of acquiring transaction volumes are still managed by banks in Europe.

A large share of volumes is still managed by the banks, but they are gradually pulling out

The last ten years have shown a clear trend: banks are gradually pulling out of their payment activities and leaving the field clear for specialised players. There is a simple reason: the payment industry is becoming increasingly competitive and requires constant technological progress that the banks have failed to achieve.

They have therefore gradually pulled out of the sector, either because they lacked a vision of what the market could become, or because they lacked the size needed to make the activity sufficiently profitable, as fixed costs are too high for bank platforms handling small volumes.

We therefore believe that European banks will eventually either:

- **Sell their payment assets**, left behind by innovation and trends such as omnichannel and cross-border payments (requiring significant levels of capex and opex, while at the same time European banks have had to contend in the last few years with low interest rates and regulatory tightening, pushing them to reduce costs). The bank assets in the Iberian Peninsula (Santander in particular has a partnership with Nets in northern Europe and Caixa has a joint venture with US player Global Payments) and in France (Crédit Agricole, Crédit Mutuel and Natixis Payments notably) could be the focus of strong competition between Worldline and Nexi;
- **Forge partnerships** with specialised players. We could for example point to the partnerships forged by the Sparkassen German savings banks and Australian bank ANZ with Worldline, UBI Banca with Nexi and Swedish bank SEB with Nets. In the short term, this is likely to be the solution favoured by the banks.

In this framework, Worldline (leader in third-party processing in Europe) and Nexi (size effect with the acquisitions of Nets and SIA that are synonymous with economies of scale and credibility with banks) should therefore be the main sector consolidators in Europe. Adyen, which is seeing strong organic growth in volumes and touts its single platform as a differentiating factor (since M&A deals result in an increase in the number of payment platforms to be managed), is likely to stay out of the consolidation in Europe.

…where ongoing standardisation (EPI, PSD2, SEPA) makes it an attractive market

The European authorities have been pushing for the European payment market to standardise for several years. We could point in particular to the SEPA (simplification of bank transfers between European countries) and PSD2 (harmonisation of consumer protection regulations) initiatives.

Nevertheless, we think that the real accelerator of European market standardisation for the players we cover could be the EPI (European Payments Initiative). This initiative, backed by the European Commission and the ECB, aims to create a European payment solution that replaces national domestic schemes (CB in France, Bancomat in Italy, Dankort in Denmark).

Members of the initiative are moreover shareholders in the EPI Interim Company (responsible for initiating implementation before the operating company is created). The EPI was officially launched in July 2020 by 16 major European banks (generating ~50% of domestic payments) which were joined by specialised players Worldline and Nets in November 2020, enhancing the project's credibility. The first volumes are expected in 2022 with a ramp-up lasting until 2025.

Even though Italy has not joined the initiative for the time being (the Italian payment sector is in the throes of consolidation based around Nexi with the acquisitions of SIA, Intesa, Ubi, etc.), Nexi's acquisition of Nets is likely to bring it into the alliance. Note also that Nets is likely to be a key player in the initiative since it manages the most widely used debit card schemes in Denmark (Dankort) and Norway (BankAxept).

And we think that the **EPI will be very positive for specialised players** for at least two reasons:

- The harmonisation of the European landscape should reduce the complexity of processing platforms at the European level by establishing transnational standards (with fewer platforms specially created for local debit card schemes), and we therefore anticipate **bigger scale effects and a reduction in costs**;
- We believe that the EPI **will enable specialised players to gain market share in Europe**, particularly on markets where they were previously absent. Indeed, a significant share of payment volumes transit via domestic schemes (such as CB in France), which in most cases are owned by local banks and represent strong entry barriers for a specialised player looking to gain a foothold on the market (substantial costs involved in creating a platform). With the EPI, specialised players will have a ready platform irrespective of the market and the costs relating to entry into a new market could be limited to the sales force.

The market will therefore expand in the sense that it will no longer be seen as a sum of domestic markets but as a single market, a vision at the heart of the political agenda of European institutions. Therefore, as US payment companies are banned in China and vice versa, the European market, previously seen as too fragmented (and therefore "too small") could shortly become a battlefield for the US and Chinese (Tencent, Ant) giants, and Nexi and Worldline could potentially be their next targets

A number of initial public offerings are probable, which should support valuations

In the table below we listed the potential future IPOs that we expect in the payment sector.

Companies likely to be listed on the stock market

Company	Activity	Valuation	Valuation before last	IPO announcement	IPO date
Klarna	Buy Now Pay Later (BNPL)	$ 31bn (03/21)	$ 11bn (09/20)	No	2021/2022 (estimate)
Wise	Money transfers/issuing	$ 5bn (07/20)	$ 3.5bn (07/19)	No	2021 (estimate)
Stripe	Acquiring/issuing	$ 95bn (03/21)	$ 36bn (04/20)	No	2021/2022 (estimate)
N26	Neobank Issuing	$ 3.5bn (07/19)	$ 2.7bn (01/19)	No	2023 (estimate)
Revolut	Neobank Issuing	$ 5.5bn (07/20)	$ 1.7bn (04/18)	No	2022/2023 (estimate)
Marqeta	Acquiring/issuing	$ 10bn (IPO target)	$ 4.3bn (05/20)	Yes	Q2 2021
Ant Financial	Neobank/ Acquiring/issuing	$ 310bn (11/20)	$ 225bn (08/20)	Postponed	2022 (estimate)
Trustly		$ 6-9bn (IPO target)	$ 1bn (06/20)	Yes	Q2 2021
Checkout.com	Online Acquiring	$ 15bn (01/21)	$ 5.5bn (06/20)	No	2022/2023 (estimate)

Table 11 - Source: ODDO BHF Securities

It is interesting to note that the valuations of most of these players have doubled even tripled in the last few months, reflecting the change in sector perception.

While we do not have precise earnings figures for most of these players, the valuation multiples are therefore probably very high (above 15x revenues). New IPOs (many of which are expected in 2021, notably Wise, Marqeta and Trustly and possibly Klarna or Stripe) should therefore drive up sector valuations.

This will merely accentuate the gap, already excessive in our view, between the valuations of these new players and players such as Worldline or Nexi with mix profiles more weighted towards offline.

ACCELERATING INNOVATION, DRIVEN BY FINTECHS

The COVID-19 crisis has been a clear accelerator in terms of digitisation for the payment sector, not only for the cannibalisation of cash (growth in domestic payments despite health restrictions) but also for the adoption of new services such as 'buy now pay later' (BNPL), cryptocurrencies, peer-to-peer money transfers, and brokerage services. While the US fintechs (Square, PayPal) are currently driving innovation in the sector, and European payment players have relatively limited positions on these emerging markets (with the possible exception of Nexi), there are significant opportunities. All this is likely to accelerate the cannibalisation of cash through electronic payment methods, while also expanding the payment market, with new opportunities in the banking market (the end ambition being to create a financial super app), although the regulatory framework is set to become a focus point.

New payment behaviours and new services emerging (BNPL, cryptocurrencies, etc.)

Payment digitisation is gaining momentum …

This has been repeated several times over: COVID-19 has accelerated digitisation, particularly for the payment market.

While the decline in transaction volumes has had a negative impact on those players exposed to physical retail, there are clear underlying trends, with the accelerating cannibalisation of cash (growth in domestic payments despite the health restrictions), convergence on omnichannel strategies (through 'pick and collect' notably), and new payment behaviours (more online, acceleration in contactless and mobile payment).

As such, in Q4 2020 the volumes processed by Visa (quite representative of card payments worldwide) saw growth of 4% y-o-y, while cross-border payments continued to decline, at -21% (-66% excluding online payments and intra-European payments). Similarly, Nexi provided details on its acquiring volume trends (Italian cards) for 2020, with growth of respectively 26% and 12% on consumer staples and discretionary consumption excluding hotels, restaurants, travel, transport and entertainment.

This growth in payments, despite unfavourable market conditions, signals an acceleration in the changing payment behaviour of consumers and cash cannibalisation. On this front, the CEO of Worldline said in January in an interview with France's *Les Echos* that the current crisis had given the industry a lead of between three and four years on the transaction volumes it would have achieved without the COVID-19 crisis, with the significant adoption of contactless payment in particular.

Payment transaction volume growth in the US (Visa)

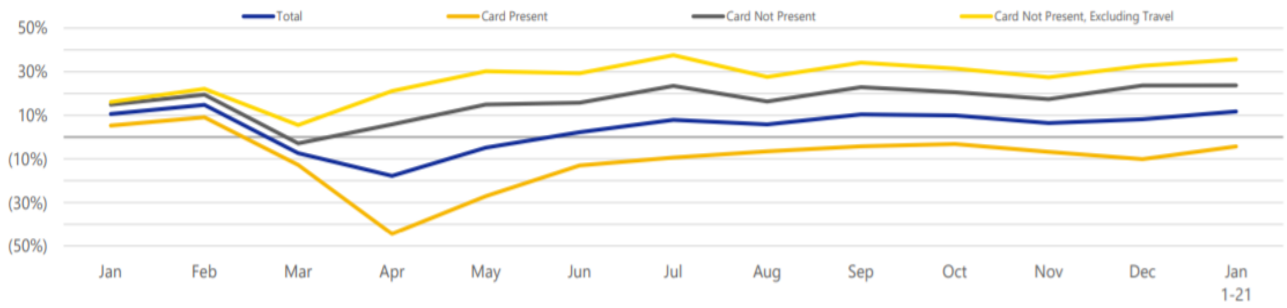


Chart 12– Source: Visa
**Card Not Present means online payment*

In terms of growth in online payments, it remained robust throughout the year, at around +15%-20% (+30/35% excluding transactions related to travel, according to Visa), and the crisis also accelerated the omnichannel transition (offline/online convergence), made necessary for several merchants seeking to continue to operate. Note also that this transition is far from over, with PayPal, for example, stating that around 50% of US merchants had still not transitioned to an omnichannel platform.

…and new services emerging (BNPL, wealth management by mobile, P2P, cryptocurrencies, etc.)

The faster pace of digitisation was also marked by the emergence, or at least the growing adoption, of alternative payment services, among them:

Buy now pay later (BNPL)

With this solution, consumers can spread a payment over several instalments. This approach is increasingly in demand from consumers and adopted by merchants (as it guarantees the debt of their clients and eliminates the financial risk for the seller and the buyer).

The providers of these payment solutions generally assume the risk in their balance sheet, after having determined the consumer's credit risk (often through a fairly flexible assessment of the consumer's credit capacity).

They are paid through a fee that is charged to the merchant, which: 1/ improves its buying conversion rate (some payments are rejected as the payment card ceiling has been reached, for example, which avoids BNPL), and 2/ increases its sales volumes (some consumers are more disposed to spend if payment is not immediate). In many cases, short-term loans (less than six months) are interest-free (PayPal, Klarna, Afterpay), and in the event of delays on a payment, some players apply late-payment fees (such as PayPal, Afterpay, Klarna), while others (Affirm) do not.

In the future, we also see these players, which gather a large amount of data relating to consumers, forging partnerships with banks and insurance companies to improve their credit scoring (this is not currently the case in Europe and in the US, but it is already happening in China with WeChat Pay and Alipay) monetising this data with merchants to a greater extent.

PayPal launched its BNPL service in 2020 and Square in 2018. Among the other major players, we note Sweden's Klarna in Europe (unlisted group, with its valuation virtually tripling since September 2020 to $ 31bn), Australia's Afterpay (EV of $ 25bn) and the US-based Affirm (recently floated and with a valuation also in excess of $ 20bn).

Sales trends at Afterpay (world leader in BNPL) from 2017 to 2020

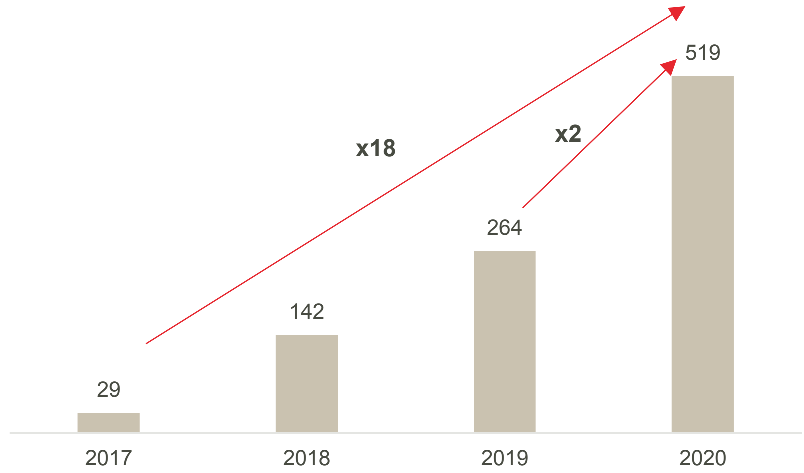


Chart 13 – Source: Afterpay

It is worth noting, on this front, that **Nexi** acquired Ratepay (Germany-based BNPL specialist) through the purchase of Nets, with Ratepay having been bought by Concardis in 2017 (itself acquired by Nets the following year). This forms part of the potential revenue synergies that could be generated through this acquisition, as Nexi may be in a position to offer this service to merchants in Italy. But Nexi is in a tricky position as it is the long-standing partner of Italian banks (for more detail, see the section on the positioning of European players on page 20). As regards **Worldline**, the group does not operate this business directly and has integrated the Klarna solution in its platforms in its main target markets (Scandinavia, DACH region, Benelux, UK). **Adyen** has, in the same way, reached a partnership with Afterpay to provide this solution on its platforms.

Payment and investment in cryptocurrencies

Due to the volatility in their value, cryptocurrencies are still seen more as a speculative investment than as a payment method.

However, US players such as Square and PayPal have made cryptocurrencies an integral part of their offering. Square's Bitcoin solution, which is integrated into its Cash App, was a huge success in 2020 (revenue growth of >700%) while PayPal also decided recently to extend its offering, with the option of buying, holding, or selling cryptocurrencies on its platform, while also allowing payment in cryptocurrencies at merchants using PayPal.

Bitcoin revenue trends ($ m) at Cash App

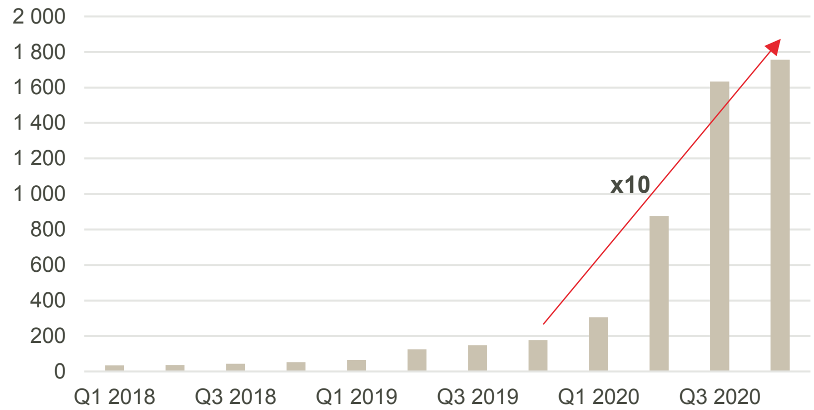


Chart 14– Source: Square

We also note that Mastercard last month announced that it expects to open its network up to some cryptocurrencies (the group already offers cards allowing for payment with a cryptocurrency but the transaction does not go via the Mastercard network), but it will focus initially on stablecoins (the price of which is pegged to an existing currency, which rules out Bitcoin and Ethereum). Visa has already integrated stablecoins in its network and the group's CEO said Visa would also add Bitcoin in the coming months.

It is worth adding that Square recently invested around $ 220m in Bitcoin and Tesla said it had bought $ 1.5bn of Bitcoin. Other companies could follow suit and there is a clear movement aimed at legitimising the use of cryptocurrencies.

However, it is true that these services are, for now, more attractive for consumers than for merchants, who for the most part do not consider cryptocurrencies as legitimate forms of payment.

In our coverage universe, **Worldline** and Ingenico offer some payment services for cryptocurrencies, while **Nexi (via SIA)** also has some capacity in this area. As for **Adyen**, its CEO was very clear on this subject, affirming that its clients were not interested in this solution and that the group was not therefore planning to offer it on its platforms (but this could change in the future if there is demand from the group's merchants).

Peer-to-peer (P2P) money transfers

Money transfer services from peer to peer (from one user to another) do not generally generate revenue (they are usually free if they are done by bank transfer, and only transfers by bank card may be subject to transaction fees).

This business is thus, in most cases, more a way of reducing the cost of acquiring new clients. The aim is to attract consumers to an ecosystem and monetise the client relationship using other leverage (virtual card, payment at POS by mobile, premium subscription, etc.).

P2P payments have experienced considerable success with the Lydia application in France but especially in the US, where Venmo (PayPal) and Cash App (Square) between them have the bulk of the market. This has allowed them to attract large numbers of consumers to their ecosystem.

Transaction volumes at Venmo ($ m) since 2017 (mainly P2P transactions)

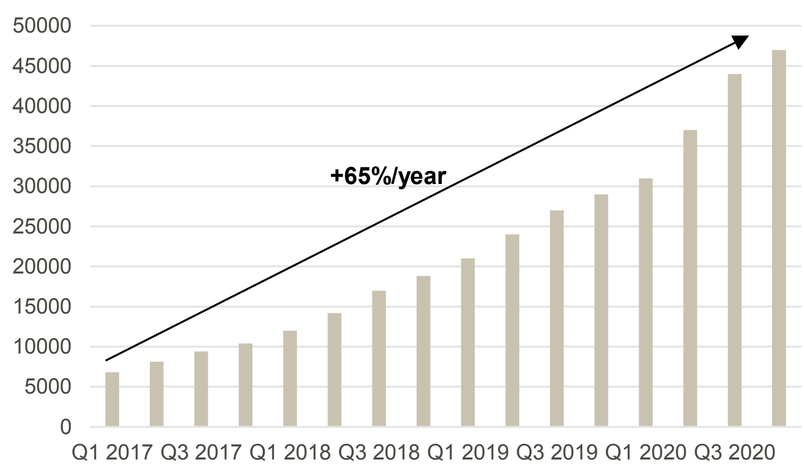


Chart 15 – Source: PayPal

We note that Nexi offers this service through its YAP application but also in northern Europe after the acquisition of Nets (notably in Poland with Przelewy24). Worldline is exposed to this business mainly through its processing activity for banks (account-to-account).

Wealth management services on mobile

Investment for retail clients has been particularly robust since the start of the COVID-19 crisis, with impetus from mobile applications facilitating access to the financial markets with an aggressive commercial policy (no commission fees). Robinhood and Square (through its Cash App application) have been the main beneficiaries of this momentum. The European players in our coverage universe are not exposed to this market for the time being.

In what is a sufficiently unusual occurrence to be worth highlighting, in the last week of January, three financial applications (Robinhood, Square's Cash App and Webull) ranked among the top 6 most downloaded applications on Apple's App Store and on Android (the latter normally being dominated by social applications).

Robinhood sales in the US between 2017 and 2020

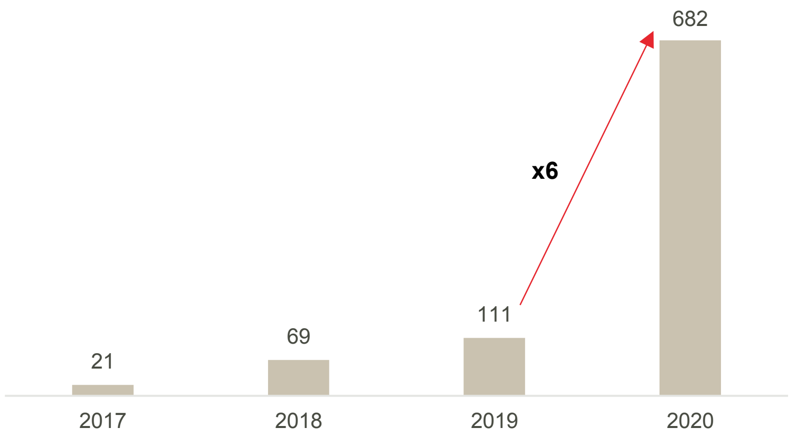


Chart 16– Source: Robinhood

End ambition: create a financial Super App and take on the banking market…

A new market for payment players: the consumer after merchants

It is worth noting that the new innovations in the payment sector are focused primarily on consumers (as opposed to merchants) which represent a very significant source of growth leverage for payment sector players in the next few years.

Indeed, traditional banking players have for the most part missed out on the digital transition of their bank services on mobile. Players such as Square and PayPal in the US, or Revolut in Europe, have thus taken up position to capture a portion of their market share.

China is an excellent example of this trend. It is probably (with Scandinavian markets) the most advanced country in terms of the digitisation of payment. This cannibalisation of cash was initiated by Tencent and Ant Financials (with their respective payment solutions WeChat Pay and Alipay) which currently have a virtual duopoly in the Chinese market (>90% market share).

Having begun as straightforward payment methods, WeChat Pay and Alipay have built up a genuine ecosystem around their electronic portfolios. In addition to payment, these applications allow users to obtain micro-loans, invest in the financial markets, sign up to insurance services and exchange money on a peer-to-peer basis.

How are European players positioned

For the time being the European players in our coverage universe are not that exposed to this new financial services market for consumers, which is only in its infancy in Europe.

But we note that **Nexi** looks to be the best positioned to develop an ecosystem around a payment application. Indeed, Nexi is the only player in our coverage which has developed mobile payment applications, with:

- **Nexi Business**: this mobile application is aimed at helping merchants to track and analyse their operations thanks to a dashboard allowing them to compare key performance indicators and to understand the profile of their clients more fully. It is one of the most popular applications for Italian SMEs, with over 120,000 merchants using it monthly.
- **YAP**: this application is aimed at younger users, featuring a built-in prepaid card that is rechargeable and free of charge. It allows users to make P2P money transfers (transactions doubled y-o-y in Q4 20). Currently the application has one million users (300,000 users added in 12 months), or around 13% of the target population in Italy (12-24 year olds). Its utilisation is close to that of the Lydia application in France. The group could accelerate its monetisation by offering, for example, cryptocurrency or investment services, with the target population for the application more likely inclined to try new services.
- **Nexi Pay**: this Nexi application is aimed at consumers. With the app, consumers can pay with their smartphone (through Apple Pay, Google Pay, Samsung Pay), track their expenditure, manage bank cards, get access to benefits and awards and control their budget by monitoring their spending. The application also allows payments to be spread out with its Easy Shopping functionality. This is similar to BNPL, but it is characterised by limitations vs competitors such as Klarna in that it is only linked to the credit cards issued by Nexi in partnership with the banks. For now, Nexi uses a licence model for this business, as it licences its technology to the banks, which manage the client relationship and therefore assume the credit risk. This situation could change in the future, particularly if the group integrates its Ratepay solution, acquired through Nets, into its application.

Nexi's payment application (Nexi Pay)

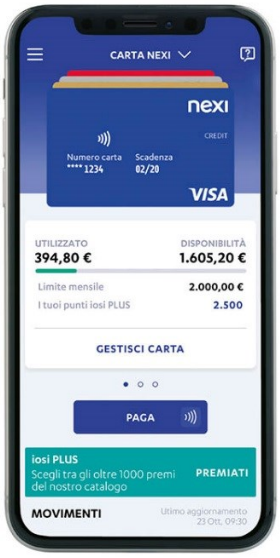


Chart 17– Source: Nexi

It is also important to note that Nexi has simplified, through its application, access to the cash back measures put in place by the Italian government (repayment of 10% of each transaction made by payment card, up to € 3,000). It is therefore possible on the Nexi Pay application for users to activate the cash back programme for their payment cards. This has allowed Nexi to win large numbers of users for its application. The cash back programme, launched in December, has been a major success, with close to 10% of Italian cards joining the initiative.

Also, Nexi has gained a BNPL specialist, Ratepay, through the acquisition of Nets. Ratepay, formerly a subsidiary of Germany's Otto, was acquired in 2017 by Concardis, itself bought by Nets in 2018. Ratepay is now Germany's leading BNPL group (€ 3bn of transactions processed in 2019, with >1,000 online merchants). For now, Ratepay operates as an independent player, but Nexi could extend this solution to its other markets.

But Nexi is the long-standing partner of banks in Italy and is reliant on them for 50% of its clients (where the bank is in direct contact with the merchant or where Nexi is a third-party provider). This service would therefore be in direct competition with the banks (which would receive fewer fees when clients exceed lending limits), putting Nexi in a tricky position. Nets is also a key partner for banks in Scandinavia as a processor for third parties. The group is therefore, in the first place, likely to focus on developing this solution in its other markets (Germany, eastern Europe, Poland).

As regards Worldline and Adyen, their business models look to be geared towards merchant acquiring, where the clients are merchants, and processing on behalf of banks for issuing. As such, these players do not seem to be the best positioned to capture value with consumers. But they will benefit indirectly from these trends in the payment market, as they should promote the cannibalisation of cash to the advantage of electronic payments, with new services (BNPL, P2P payments, etc.) generating more transactions. Worldline and Adyen have forged partnerships with, respectively, Klarna and Afterpay, to integrate BNPL solutions on their platforms.

Lastly, we note that **Prosus** is exposed to these themes in the payment market through its 31% stake in Tencent (pioneer in developing a payment ecosystem for the consumer with WeChat Pay, while the fintech segment accounts for 23% of group sales) and its payment division (portfolio excluding Tencent) with **PayU** (99% stake), a leading player in online payment in India (about 50% of sales generated in the country) where the group has been developing a credit offering for a little over two years (BNPL-type consumer loans) for the Indian population via mobile (underbanked historically). We estimate that the payment business accounts for close to 30% of the group's value (or $ 92bn before applying a holding company discount of 20%).

… but watch out for the regulatory backdrop

Regulatory issues set to become a focus point

The regulatory backdrop for consumer lending operations provided by non-banking players (BNPL) will nonetheless be a focus area which is set to gain in importance over the next few years and potentially the next few months.

This lending is subject to relatively light-touch regulation compared to bank lending. The main reason is that the fees on this BNPL credit are often not paid directly by consumers but by the merchants (which may or may not pass this cost onto consumers).

At least two issues could emerge: 1/ the issue of consumer protection, particularly for younger users (potentially more inclined to take on more debt than they can afford); 2/ the financial stability and capital requirements of these players versus banks.

In February, the UK government confirmed that BNPL groups would be subject to tighter restrictions being under the supervision of the British financial regulator (FCA). This means BNPL players will have to carry out solvency assessments before lending to consumers (it is estimated around 1 consumer in 10 is unable to repay the loan). The latter will also be authorised to lodge a complaint with the British financial mediator. Sweden (where Klarna was founded) has also adopted specific legislation (February 2020) whereby payment service providers are required to offer the least expensive direct payment options to consumers before proposing alternative credit payment options.

Among the upcoming regulatory measures that could be adopted, we anticipate a limit on marketing (which could be seen as promoting debt), tighter verification of consumers' solvency or a ban on the latter making other purchases where they have failed to meet a number of payments.

On this front, Klarna, which acquired a European banking licence in 2017, said it supported and was quite capable of operating in a more closely regulated market environment. It is worth noting that the valuation of Klarna ($ 31bn, or 25x 2020 sales) would indicate that this issue is not a source of concern for the vast majority of investors. Still, Klarna had one of its Instagram campaigns banned by the UK authorities. They deemed it "irresponsible" as it promoted the use of credit in a bid to "improve the morale of its users". Similar criticisms were raised by the Chinese regulator in relation to Ant (see section below on this subject). Given its relatively recent adoption in the US, the American regulator has not so far stated its position on the issue. We think that the European regulator will probably be at least as restrictive as its British counterparts, particularly after the Wirecard scandal (though it is not at all the same problem). In view of the valuation of these players, we think that this risk is therefore underestimated.

Lastly, the regulations concerning Bitcoin investments, which mainly concern players such as Square and PayPal, could also be subject to greater regulation in the future. Bitcoin, as a payment method, raises concerns among European and American authorities around money laundering notably. India, for example, in March unveiled a bill aimed at criminalising the possession, issuance, mining, trading and transfer of cryptocurrencies.

Lessons from the Chinese market: set to come in line with banking regulations

The Chinese market is a good indicator of how the payment market could pan out going forward, as the country is several years ahead of the curve in terms of electronic payment penetration and the adoption of new services by consumers. Similarly, the Chinese regulator could be an inspiration for European and American regulators.

In November, the IPO of Ant Group (connected to Alibaba) was put on hold after the Chinese authorities indicated that the company may not be in compliance with IPO criteria. Before the listing, a bill pertaining to fintechs had alluded to the obligation for digital lenders like Ant to not be merely intermediaries between banks and private individuals but to provide at least 30% of the credit. Note that the valuation targeted by Ant was $ 314bn.

Until recently, China's major technology groups could offer banking services at a low price, regulated by much lighter rules than banks and with a fraction of the capital (Ant Financial books on its balance sheet no more than 2% of the amount of the loans which it provides in partnership with the banks vs a 30% targeted by the regulator). These groups claim that they use data collection to better identify the credit risk of users, but the absence of a regulatory framework has in recent years led to an increase in the amount of fraud (the 2016 insolvency of the online lender Ezubo, specialised in peer-to-peer lending, is perhaps the most striking example, with over 900,000 users impacted for up to $ 7.6bn). Moreover, the over-indebtedness of some consumers (a portion of the users on these platforms lack the creditworthiness needed to obtain a loan from conventional banks) is concerning for the Chinese regulator.

The Chinese banking regulator thus adopted at end-February tighter requirements concerning consumer loans in partnership with internet platforms. The proportion of the capital held by the partner internet platform must be no lower than 30%. The balance of internet loans issued by a bank with one partner must not exceed 25% of the bank's net tier-one capital, and the balance of internet loans issued jointly by commercial banks and cooperative institutions cannot exceed 50% of the bank's total balance. The regulator also announced that businesses must adhere to the new rules by 17 July 2022. A number of new measures have also been adopted, such as a ban on micro-lending to students and on loans above a certain amount.

Newsflow on the regulatory framework in China

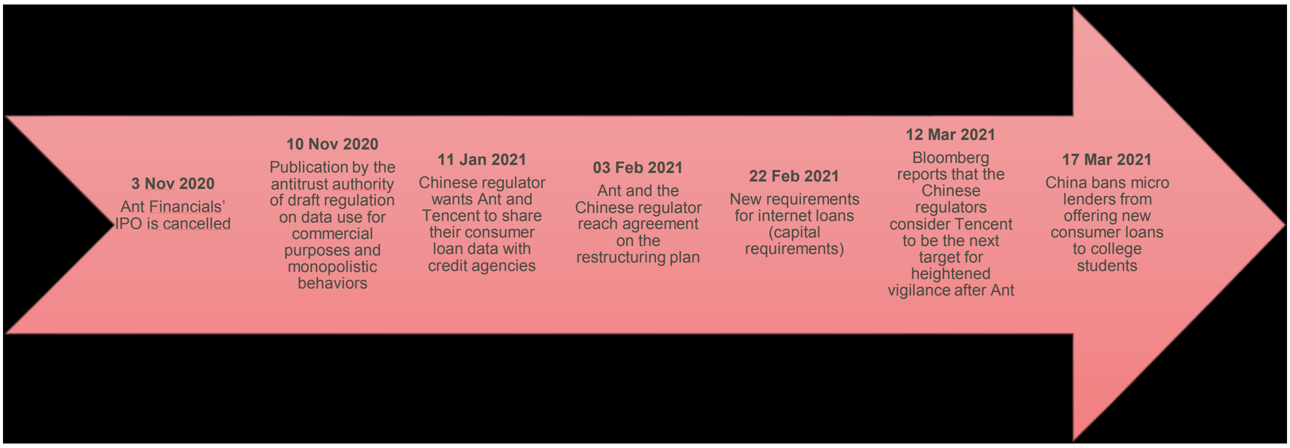


Chart 18 - Source: ODDO BHF Securities

Ant and the regulator have reached an agreement on the restructuring plan which should see Ant transform into a holding company in its own right. The group will thus be subject to the same capital requirements and rules as the banks. The regulations will increase the potential capital requirements for the lending operations of internet platforms such as Ant Financial (affiliated to Alibaba).

Tencent could be subject to the same rules but it is important to note that the bulk of the group's lending business (which is a key focus of the regulator's concerns) is distributed through the Tencent subsidiary WeBank, which has a banking licence and had already been compliant with existing regulations for some time (self-regulating). Note, moreover, while the fintech business accounts for around 30% of our valuation for Tencent, or 27% of the NAV of **Prosus,** we estimate that the at-risk portion (Tencent's banking services) represents less than 5% of Tencent's revenues. We remain confident that these new regulations will not call into question the dominant positioning of Tencent (which has developed a relatively open approach concerning the Chinese ecosystem, often with minority shareholdings, unlike Alibaba which prefers majority stakes) and WeChat (the most used application in China and an ecosystem with very high barriers to entry).

ABN·AMRO

Newsflow
Payment services | Netherlands

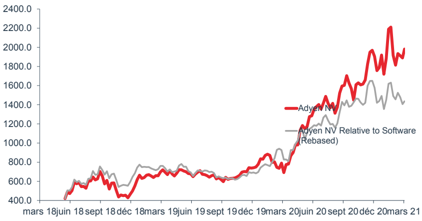
Adyen NV

Neutral ➔ | Target 2200 €
Price (01/04/2021): 1982.00 € | Upside: 11 %

Revision	2021e	2022e
EPS	-	-

A 'lollapalooza' company with 35-40% growth

Tuesday 06 April 2021



Capital			
ADYEN NA | ADYEN.AS			
Market Cap (€m)			60 063
Enterprise value (€m)			65 848
Extrema 12 months (€)		691.2 –	2 211
Free Float (%)			ns

Performance (%)	1m	3m	12m
Absolute	1.6	4.0	167.9
Perf. rel. Country Index	-3.0	-3.9	92.6
Perf. rel. Software	-3.5	-8.9	65.4

P&L	12/21e	12/22e	12/23e
Sales (€m)	972	1 375	1 908
EBITDA (€m)	572	810	1 158
Current EBIT (€m)	531	751	1 078
Attr. net profit (€m)	410	585	840
Adjusted EPS (€)	12.34	17.40	24.98
Dividend (€)	0.00	0.00	13.52
P/E (x)	160.7	113.9	79.3
P/B (x)	36.8	27.2	19.6
Dividend Yield (%)	0.0	0.0	0.7
FCF yield (%)	1.9	2.0	3.1
EV/Sales (x)	67.71	49.69	35.47
EV/EBITDA (x)	115.1	84.4	58.4
EV/Current EBIT (x)	124.0	91.0	62.8
Gearing (%)	238	227	221
Net Debt/EBITDA (x)	6.9	6.3	6.0

Next Events	
19/08/2021	Earnings Release

Investment case: a 'lollapalooza' company

Adyen is a 'lollapalooza' company, with multiple positive drivers moving in the same direction and strengthening each other. We expect its net revenue growth rate of 35-40% to continue for the next few years, as it: a) benefits from the fast growing e-commerce market (70-90% of its customers/ business), b) is expanding the business for existing clients, c) is adding new clients, d) is expanding geographically on a global basis, and e) still has multiple untapped products/services which can also add to future revenues. Adyen operates a highly profitable business with a 40-45% net profit margin as it benefits from the scalable business model of its single global integrated platform. Adyen's 'moat' is good and wide as: a) merchant clients are loyal, especially the attractive larger businesses where it has been focusing its attention, b) with the payment aggregator offering, new payment schemes can easily be added to the Adyen offering towards merchants so they have no reason to leave Adyen, and c) it is difficult to build a global integrated payment offering and win the trust of the payment schemes. Furthermore, for shareholders it is good that Adyen has not had to issue shares to raise capital, as some peers have had to do, because it is already largely profitable. In addition, Adyen's capital allocation has been good, as it has preferred to build its growing business organically rather than doing expensive acquisitions.

Positive outlook

Adyen is growing at its fastest possible rate, as it grew its FTE base by +48% in 2020 (and +35% in 2019). Apart from the many growth opportunities in its existing product/market combinations, it can also grow in many new such combinations (e.g. loans, data, issuing, SMEs).

Much higher organic growth warrants a much higher valuation multiple

Adyen is a great company which is growing much faster than the market and its peers. It warrants a much higher P/E valuation multiple (this is about 2.3x its payment peers) because its EPS growth rate is much stronger (about 2.3x) than that of its payment peers. Our target price is € 2,200. We have a Neutral rating for absolute valuation reasons, and momentum-wise there will likely be a temporary slowdown in ecommerce growth later in 2021, when the lockdown restrictions are eased/removed after vaccination campaigns (though Europe is clearly taking longer to roll these out than the US and the UK).

Recent events: upgrade to future profit guidance

On 10 February 2021 at its FY 2020 results, Adyen also raised its EBITDA margin guidance to >65% in the long term (from >55%). We estimate that this 10pp higher EBITDA margin reflects: a) +4pp for the restatement of historical earnings to a higher level (already announced at the Q3 2020 results), with no cash flow impact, and b) 6pp for additional EBITDA margin expansion. About 6pp on € 972m of net revenue in 2021 equates to € 58m of EBITDA which is € 47m or 11% extra net profit.

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ADYEN NA | ADYEN.AS **Neutral** **Price 1982.00EUR**
Payment services | Netherlands **Upside 11.00%** **TP 2200.00EUR**

PER SHARE DATA (€)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Adjusted EPS	1.69	2.21	4.69	7.21	7.93	12.34	17.40	24.98
Reported EPS	**3.31**	**2.42**	**5.11**	**7.85**	**8.61**	**13.38**	**18.83**	**27.04**
Growth in adjusted EPS	53.1%	30.9%	ns	53.8%	9.9%	55.6%	41.0%	43.6%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	13.52
FCF to equity per share	6.03	6.44	12.53	17.08	32.83	38.34	38.66	61.32
Book value per share	10.72	13.24	20.39	30.79	40.20	53.80	72.84	100.98
Number of shares market cap (m)	29.38	29.44	29.54	29.83	30.30	30.66	31.06	31.06
Number of diluted shares (m)	30.40	32.20	32.18	32.47	32.93	33.24	33.61	33.61
VALUATION (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price (€)			738	743	1 970	2 211		
12m lowest price (€)			411	463	683	1 715		
(*) Reference price (€)			544	661	1 237	1 982	1 982	1 982
Capitalization			16 067	19 716	37 477	60 761	61 553	61 553
Restated Net debt	1 447	1 279	2 042	2 656	4 102	5 545	7 390	6 941
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	16.0	20.7	168	298	345	458	616	829
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value			**17 942**	**22 074**	**41 234**	**65 848**	**68 327**	**67 665**
P/E (x)			116	91.7	156	161	114	79.3
P/CF (x)			85.8	75.2	113	137	95.7	67.0
Net Yield			0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
FCF yield			2.3%	2.6%	2.7%	1.9%	2.0%	3.1%
P/B incl. GW (x)			26.68	21.47	30.77	36.84	27.21	19.63
P/B excl. GW (x)			26.68	21.47	30.77	36.84	27.21	19.63
EV/Sales (x)			48.04	41.31	60.27	67.71	49.69	35.47
EV/EBITDA (x)			86.9	69.6	102	115	84.4	58.4
EV/Current EBIT (x)			**90.7**	**74.9**	**110**	**124**	**91.0**	**62.8**
(*) historical average price								
PROFIT AND LOSS (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	158	218	373	534	684	972	1 375	1 908
EBITDA	67	99	206	317	402	572	810	1 158
Depreciations	-4.1	-5.9	-8.7	-22.3	-28.6	-40.8	-59.1	-80.1
Current EBIT	**63**	**93**	**198**	**295**	**374**	**531**	**751**	**1 078**
Published EBIT	63	93	198	295	374	531	751	1 078
Net financial income	0.2	-1.2	-8.5	0.3	-50.7	-12.0	-10.5	-15.4
Corporate Tax	-11.8	-20.9	-38.3	-60.7	-62.1	-109.0	-155.5	-223.2
Net income of equity-accounted companies	45.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	97	71	151	234	261	410	585	840
Adjusted attributable net profit	**51**	**71**	**151**	**234**	**261**	**410**	**585**	**840**
BALANCE SHEET (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other intangible assets	4.0	4.0	5.1	7.6	10.0	13.2	18.5	25.8
Tangible fixed assets	23.9	30.2	35.7	47.3	66.2	92.7	130	182
WCR	1 332	1 082	1 652	2 256	3 737	5 321	7 033	9 578
Financial assets	16.0	20.7	168	298	345	458	616	829
Ordinary shareholders equity	315	390	602	918	1 218	1 649	2 262	3 136
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	315	390	602	918	1 218	1 649	2 262	3 136
Non-current provisions	3.8	5.1	47.6	113	210	305	404	537
Net debt	**1 057**	**742**	**1 211**	**1 578**	**2 730**	**3 931**	**5 131**	**6 941**
CASH FLOW STATEMENT (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**67.1**	**99.4**	**206.5**	**316.9**	**402.5**	**572.0**	**809.8**	**1 158.4**
Change in WCR	78.6	141.9	196.8	267.2	686.2	766.6	611.4	1 060.6
Interests & taxes	-10.0	-40.3	-13.1	-53.8	-21.2	-113.1	-155.5	-222.4
Others	53.8	-0.4	-6.2	-0.9	-50.8	-14.9	-11.5	-17.1
Operating Cash flow	189.6	200.6	384.0	529.5	1 016.6	1 210.6	1 254.2	1 979.5
CAPEX	-12.5	-11.0	-13.8	-20.0	-21.9	-35.3	-53.7	-75.2
Free cash-flow	**177.1**	**189.6**	**370.2**	**509.5**	**994.8**	**1 175.3**	**1 200.5**	**1 904.2**
Acquisitions / disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	-4.1	4.0	0.0	0.0	0.0	0.0
Others	0.2	1.0	9.2	5.4	3.4	12.0	11.0	91.9
Change in net cash	-481.2	314.5	-468.4	-367.1	-1 152.2	-1 201.2	-1 199.7	-1 810.0
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	60.5%	38.2%	71.1%	43.1%	28.1%	42.1%	41.4%	38.7%
Lfl sales growth	**60.5%**	**38.2%**	**71.1%**	**43.1%**	**28.1%**	**42.1%**	**41.4%**	**38.7%**
Current EBIT growth	54.2%	48.4%	ns	49.0%	26.9%	42.0%	41.3%	43.6%
Growth in adjusted EPS	53.1%	30.9%	ns	53.8%	9.9%	55.6%	41.0%	43.6%
Net margin	32.6%	32.7%	40.4%	43.8%	38.2%	42.2%	42.5%	44.0%
EBITDA margin	**42.5%**	**45.5%**	**55.3%**	**59.3%**	**58.8%**	**58.8%**	**58.9%**	**60.7%**
Current EBIT margin	**39.9%**	**42.8%**	**53.0%**	**55.1%**	**54.6%**	**54.6%**	**54.6%**	**56.5%**
CAPEX / Sales	-7.9%	-5.1%	-3.7%	-3.7%	-3.2%	-3.6%	-3.9%	-3.9%
WCR / Sales	ns	ns	ns	ns	ns	ns	ns	ns
Tax Rate	18.6%	22.7%	20.3%	20.6%	19.2%	21.0%	21.0%	21.0%
Normative tax rate	18.6%	22.7%	20.3%	20.6%	19.2%	21.0%	21.0%	21.0%
Asset Turnover	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2
ROCE post-tax (normative tax rate)	**4.8%**	**5.8%**	**11.2%**	**11.7%**	**9.9%**	**9.1%**	**9.4%**	**10.0%**
ROCE post-tax hors GW (normative tax rate)	4.8%	5.8%	11.2%	11.7%	9.9%	9.1%	9.4%	10.0%
ROE	18.3%	20.2%	30.4%	30.8%	24.4%	28.6%	29.9%	31.1%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	ns	ns	ns	ns	ns	ns	ns	ns
Net Debt / Market Cap			0.08	0.08	0.07	0.06	0.08	0.11
Net debt / EBITDA	**ns**	**7.47**	**5.86**	**4.98**	**6.78**	**6.87**	**6.34**	**5.99**
EBITDA / net financial charges	-463.0	424.8	187.9	73.7	49.9	47.7	77.5	75.4

Sources: ODDO BHF Securities, SIX

Newsflow
Payment services | France

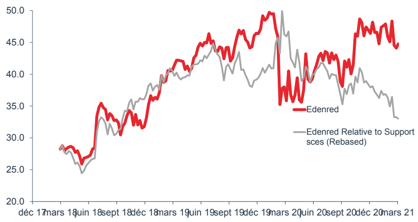
Edenred

Outperform➔ | Target 52.0 € vs 50.0 € ➚
Price (01/04/2021): 44.75 € | Upside: 16 %

Revision	2021e	2022e
EPS	0.0%	0.0%

Fundamentals unchanged and potential to beat cautious 2021 guidance

Tuesday 06 April 2021



Capital		
EDEN FP | EDEN.PA		
Market Cap (€m)		10 376
Enterprise value (€m)		14 853
Extrema 12 months (€)	33.00 –	48.67
Free Float (%)		100.0

Performance (%)	1m	3m	12m
Absolute	-5.6	-3.6	27.1
Perf. rel. Country Index	-9.9	-11.0	-8.6
Perf. rel. Support sces	-10.0	-12.9	-25.9

P&L	12/21e	12/22e	12/23e
Sales (€m)	1 621	1 836	2 071
EBITDA (€m)	667	766	874
Current EBIT (€m)	533	621	717
Attr. net profit (€m)	328	402	475
Adjusted EPS (€)	1.38	1.69	1.98
Dividend (€)	0.80	0.90	0.91
P/E (x)	32.3	26.5	22.6
P/B (x)	ns	ns	ns
Dividend Yield (%)	1.8	2.0	2.0
FCF yield (%)	1.8	4.5	5.3
EV/Sales (x)	9.16	7.95	6.89
EV/EBITDA (x)	22.3	19.0	16.3
EV/Current EBIT (x)	27.9	23.5	19.9
Gearing (%)	ns	ns	ns
Net Debt/EBITDA (x)	1.9	1.3	0.7

Next Events	
22/04/2021	Q1 Sales
11/05/2021	Annual General Meeting
27/07/2021	H1 Results
21/10/2021	Q3 Sales

Strengths (growth, innovation, etc.) unchanged coming out of the crisis

Edenred's fundamentals and growth engines will be unchanged coming out of the crisis, and even strengthened. The group should continue to benefit from the digitisation of its solutions, notably via its canteen 2.0 strategy in employee benefits (gains of clients with physical canteens), compatible with a teleworking environment and tailored to new consumption habits (meal delivery). In the fleet & mobility segment, Edenred continues to diversify out of fuel cards, in particular via toll payment solutions and VAT recovery, which on the whole enabled it to reduce its sensitivity to fuel prices by 20% in 2020. In B2B payment, we like the recent announcement concerning the move to strengthen the partnership with Sage, which will now offer CSI's supplier payment solution on an integrated basis in its ERP, providing a new distribution thrust for CSI.

Cautious 2021 outlook: potential to beat the EBITDA guidance

The 2021 EBITDA guidance, for at least +6% organic growth, is cautious due to the lack of visibility in the short term (timetable for reopening restaurants, situation in Brazil, etc.) but it reflects a floor (bear case) which Edenred aims to exceed. The degree to which this guidance is upgraded will depend on the speed at which the restrictions are lifted. We are confident the group will do better (ODDO BHF +15%e, unchanged), thanks to the robust recovery in operating revenue growth (ODDO BHF +10.9%e), which will drive renewed operating leverage, as well as the ongoing digital transition (roll-out of cards or mobile payment instead of paper vouchers), with a positive impact on the cost base (fewer logistics/production costs). The next trigger will be the Q1 2021 sales (22/04) release which we expect to show a slight sequential deterioration in organic operating sales growth (+0.4%e vs 1.1% in Q4 2020) given the tighter restrictions in Europe (Germany, UK, Italy, etc.) and despite the comparison base getting easier from end-March. The marked upswing in organic growth is set to show through from Q2 2021 (+20.6%e). We will also be keeping a close eye on fuel price trends (potential tailwind with the uptick) and the situation regarding the health situation in Brazil (potential headwind, incl. forex). Brazil accounted for 24% of EBIT in 2020 (vs 31% in 2019).

Outperform rating maintained, target price raised to € 52.0 (vs € 50.0)

We remain positive and confident on Edenred's resilience and growth momentum, as it has diversified its activities and geographic exposure (46 countries). Our Outperform rating is underpinned by: 1/ the stock-market repositioning on the specialised payment sector, with prospects for major structural growth (normative operating organic revenue growth of >8% per year), reflecting the under-penetration of its markets (average penetration rate of 25-30%); 2/ the solid growth outlook (coming out of the pandemic) which should significantly recover as of Q2 2021e after a return to positive growth in Q3 2020; 3/ still-significant potential for margin improvement, buoyed in particular by solution digitisation and a business model boasting operating leverage (organic growth in EBITDA of >10% per year on a normative basis); and 4/ strong FCF generation (normative cash conversion of >65%). We have raised our target price to € 52.0 (vs € 50.0, average DCF / fwd P/E multiple 2022e) following the upward revision to our market data (risk premium). Despite it being a specialised payment player, Edenred's current valuation suggests an EV/EBITDA multiple for 2021-2022e of 21.3x, reflecting a discount of 5-10% to the generalist payment sector, despite similar structural growth prospects (for both revenues and EBITDA).

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EDEN FP | EDEN.PA **Outperform** **Price 44.75EUR**
Payment services | France **Upside 16.20%** **TP 52.00EUR**

PER SHARE DATA (€)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Adjusted EPS	0.89	1.08	1.19	1.39	1.14	1.38	1.69	1.98
Reported EPS	**0.78**	**1.06**	**1.07**	**1.30**	**0.97**	**1.33**	**1.63**	**1.93**
Growth in adjusted EPS	2.5%	21.7%	10.7%	16.6%	-18.3%	21.9%	21.9%	17.7%
Net dividend per share	0.62	0.85	0.86	0.70	0.75	0.80	0.90	0.91
FCF to equity per share	1.53	1.71	1.84	1.82	2.78	0.79	2.02	2.39
Book value per share	-5.35	-6.17	-6.60	-4.96	-5.03	-5.18	-4.38	-3.37
Number of shares market cap (m)	231.87	234.21	237.90	242.07	245.91	245.91	245.91	245.91
Number of diluted shares (m)	232.74	235.79	239.00	242.46	245.41	245.41	245.41	245.41
VALUATION (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price (€)	21.97	24.94	35.63	47.59	50.30	48.35		
12m lowest price (€)	13.94	19.05	23.86	31.87	31.81	44.01		
(*) Reference price (€)	18.31	22.71	29.86	42.21	42.56	44.75	44.75	44.75
Capitalization	4 246	5 318	7 104	10 218	10 466	11 004	11 004	11 004
Restated Net debt	2 471	2 701	2 885	3 521	3 461	3 436	3 168	2 849
Minorities (fair value)	140	720	620	680	560	560	560	560
Financial fixed assets (fair value)	192	103	114	144	196	196	196	196
Provisions	77.0	84.0	79.0	65.0	49.0	49.0	49.0	49.0
Enterprise Value	**6 742**	**8 720**	**10 574**	**14 340**	**14 340**	**14 853**	**14 586**	**14 266**
P/E (x)	20.7	21.1	25.0	30.4	37.5	32.3	26.5	22.6
P/CF (x)	14.1	13.6	17.7	18.1	20.2	21.9	18.7	16.4
Net Yield	3.4%	3.7%	2.9%	1.7%	1.8%	1.8%	2.0%	2.0%
FCF yield	8.4%	7.5%	6.2%	4.3%	6.5%	1.8%	4.5%	5.3%
P/B incl. GW (x)	ns	ns	ns	ns	ns	ns	ns	ns
P/B excl. GW (x)	ns	ns	ns	ns	ns	ns	ns	ns
EV/Sales (x)	5.92	6.61	7.67	8.82	9.79	9.16	7.95	6.89
EV/EBITDA (x)	15.8	17.1	19.7	21.5	24.7	22.3	19.0	16.3
EV/Current EBIT (x)	**18.2**	**20.0**	**22.9**	**26.3**	**31.5**	**27.9**	**23.5**	**19.9**
(*) historical average price								
PROFIT AND LOSS (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	1 139	1 320	1 378	1 626	1 465	1 621	1 836	2 071
EBITDA	427	510	536	668	580	667	766	874
Depreciations	-57.0	-73.0	-75.0	-123.0	-125.5	-134.6	-145.4	-157.0
Current EBIT	**370**	**437**	**461**	**545**	**455**	**533**	**621**	**717**
Published EBIT	344	430	430	520	414	521	609	705
Net financial income	-58.0	-50.0	-37.0	-35.0	-37.0	-36.6	-34.9	-33.2
Corporate Tax	-102.0	-108.0	-119.0	-153.0	-124.0	-142.9	-159.3	-185.7
Net income of equity-accounted companies	8.0	11.0	11.0	14.0	13.0	14.3	15.3	16.4
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	-12.0	-36.0	-31.0	-34.0	-28.0	-28.0	-28.0	-28.0
Attributable net profit	180	247	254	312	238	328	402	475
Adjusted attributable net profit	**206**	**254**	**285**	**337**	**279**	**340**	**414**	**487**
BALANCE SHEET (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	904	994	976	1 604	1 457	1 445	1 433	1 421
Other intangible assets	313	433	432	706	655	655	655	655
Tangible fixed assets	38.0	46.0	52.0	169	148	119	89.1	56.4
WCR	-1 883.0	-1 988.0	-2 226.0	-2 231.0	-2 346.0	-2 142.7	-2 168.7	-2 207.9
Financial assets	261	160	189	238	245	245	245	245
Ordinary shareholders equity	-1 230.0	-1 437.0	-1 561.0	-1 193.0	-1 230.0	-1 274.3	-1 076.4	-829.3
Minority interests	69.0	150	110	150	96.0	124	152	180
Shareholders equity	-1 161.0	-1 287.0	-1 451.0	-1 043.0	-1 134.0	-1 150.3	-924.4	-649.3
Non-current provisions	206	219	215	239	178	178	178	178
Net debt	**588**	**713**	**659**	**1 290**	**1 115**	**1 293**	**1 000**	**641**
CASH FLOW STATEMENT (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**427.0**	**510.0**	**536.0**	**668.0**	**580.1**	**667.4**	**766.2**	**874.4**
Change in WCR	111.0	89.0	125.0	-26.0	269.0	-203.3	26.0	39.2
Interests & taxes	-155.0	-153.0	-155.0	-196.0	-163.0	-179.5	-194.2	-218.9
Others	27.0	31.0	19.0	90.0	97.0	14.3	15.3	16.4
Operating Cash flow	410.0	477.0	525.0	536.0	783.1	298.8	613.3	711.2
CAPEX	-58.0	-78.0	-90.0	-98.0	-104.0	-105.4	-115.6	-124.3
Free cash-flow	**352.0**	**399.0**	**435.0**	**438.0**	**679.1**	**193.4**	**497.6**	**586.9**
Acquisitions / disposals	-144.0	-289.0	-225.0	-853.0	-109.0	0.0	0.0	0.0
Dividends	-199.0	-126.0	-165.0	-87.0	-81.0	-214.9	-203.9	-227.9
Net capital increase	50.0	-9.0	-29.0	-71.0	-78.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net cash	99.0	-134.0	25.0	-702.0	97.0	-178.4	293.7	359.0
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	6.5%	15.9%	4.4%	18.0%	-9.9%	10.6%	13.2%	12.8%
Lfl sales growth	**7.8%**	**8.6%**	**11.9%**	**13.8%**	**-2.0%**	**10.8%**	**11.4%**	**10.9%**
Current EBIT growth	8.5%	18.1%	5.5%	18.2%	-16.6%	17.2%	16.5%	15.6%
Growth in adjusted EPS	2.5%	21.7%	10.7%	16.6%	-18.3%	21.9%	21.9%	17.7%
Net margin	18.1%	19.2%	20.7%	20.7%	19.0%	20.9%	22.5%	23.5%
EBITDA margin	**37.5%**	**38.6%**	**38.9%**	**41.1%**	**39.6%**	**41.2%**	**41.7%**	**42.2%**
Current EBIT margin	**32.5%**	**33.1%**	**33.5%**	**33.5%**	**31.0%**	**32.9%**	**33.8%**	**34.6%**
CAPEX / Sales	-5.1%	-5.9%	-6.5%	-6.0%	-7.1%	-6.5%	-6.3%	-6.0%
WCR / Sales	ns	ns	ns	ns	ns	ns	ns	ns
Tax Rate	32.7%	27.9%	28.1%	30.0%	29.7%	28.8%	27.2%	27.1%
Normative tax rate	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Asset Turnover	1.1	1.0	0.9	0.8	0.6	0.7	0.8	1.0
ROCE post-tax (normative tax rate)	**24.2%**	**21.5%**	**21.1%**	**18.5%**	**12.9%**	**15.9%**	**18.9%**	**22.3%**
ROCE post-tax hors GW (normative tax rate)	ns	ns	ns	ns	ns	ns	ns	ns
ROE	-15.4%	-19.0%	-19.0%	-24.5%	-23.0%	-27.1%	-35.2%	-51.1%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	ns	ns	ns	ns	ns	ns	ns	ns
Net Debt / Market Cap	0.14	0.13	0.09	0.13	0.11	0.12	0.09	0.06
Net debt / EBITDA	**1.38**	**1.40**	**1.23**	**1.93**	**1.92**	**1.94**	**1.30**	**0.73**
EBITDA / net financial charges	7.4	10.2	14.5	19.1	15.7	18.2	22.0	26.3

Sources: ODDO BHF Securities, SIX

Newsflow
Payment services | Italy

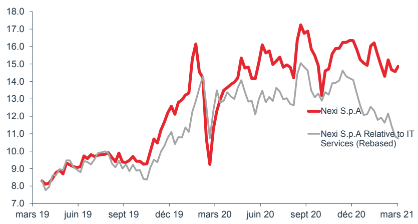
Nexi S.p.A

Outperform ➔ | Target 22.0 €
Price (01/04/2021): 14.87 € | Upside: 48 %

Revision	2020e	2021e
EPS	-	-

Continuing growth story in Italy and rapid construction of the second payment giant in Europe

Tuesday 06 April 2021



Capital			
NEXI IM | NEXII.MI			
Market Cap (€m)			9 332
Enterprise value (€m)			11 004
Extrema 12 months (€)		12.20 -	17.44
Free Float (%)			56.6
Performance (%)	**1m**	**3m**	**12m**
Absolute	-2.8	-9.0	26.7
Perf. rel. Country Index	-7.2	-16.0	-8.9
Perf. rel. IT Services	-7.7	-20.3	-21.8
P&L	**12/21e**	**12/22e**	**12/23e**
Sales (€m)	1 117	1 208	1 300
EBITDA (€m)	650	720	792
Current EBIT (€m)	505	557	623
Attr. net profit (€m)	244	297	346
Adjusted EPS (€)	0.45	0.51	0.58
Dividend (€)	0.10	0.14	0.17
P/E (x)	33.1	29.3	25.8
P/B (x)	5.3	4.7	4.2
Dividend Yield (%)	0.7	1.0	1.1
FCF yield (%)	3.4	4.4	5.3
EV/Sales (x)	9.85	8.82	7.88
EV/EBITDA (x)	16.9	14.8	12.9
EV/Current EBIT (x)	21.8	19.1	16.5
Gearing (%)	132	99	69
Net Debt/EBITDA (x)	3.6	2.7	2.0

Next Events	
13/05/2021	Q1 Results
30/07/2021	Q2 Results
11/11/2021	Q3 Results

Sharp underperformance due to the health situation

Like Worldline, Nexi has significantly underperformed since the start of the year (-10%), due to the health restrictions. As a result, the valuation is back in very attractive territory, at 16.6x 2021 EBITDA and 14.5x 2022 EBITDA.

Q1 could be stable, despite the renewed restrictions

The renewed restrictions announced in Italy, until the Easter weekend, seem to have had a measured impact on Nexi's business. The group generates revenues of around € 90m per month, of which half (€ 45m) is recurring (linked to the installed base), with the other half linked to volumes. Volumes could be down by no more than 20% over the three weeks of lockdown. As a result, we calculate that revenues in March could come to € 83m (45 + (0.25*45) + (0.75*0.8*45)), a decline of € 6-7m. With a margin of 58%, the EBITDA impact should be around € 4m, vs EBITDA of € 650m, or 0.6%. Note also that: 1/ the group has cushioning factors, notably variable processing costs, and 2/ trends were positive in February with the country opening up again. We therefore still forecast a largely stable quarter vs Q1 2019 (the best yardstick).

Mid-to-high single-digit growth scenario for 2021 still intact and double-digit growth still possible

For 2021, the group is targeting ‘mid-high single digit’ sales growth (i.e. 5-9%), with a stable EBITDA margin. The absence of operating leverage vs 2020 partly stems from the fact that a significant chunk of costs is variable and will increase again in 2021, as volumes re-accelerate. Management is very confident, repeating several times that the 2021 guidance could, under certain circumstances, be conservative and that double-digit growth was possible. The group’s optimism can also be attributed to the acceleration in the penetration of cash in Italy, which is likely to continue in 2021, with several drivers (cash back, contactless payment limited to € 50, lottery, etc.). By quarter, we forecast flat growth in Q1, +16% in Q2 (favourable comparison), +6% in Q3 and +9% in Q4. A faster upturn than expected in foreign card payments (if tourism picks up over the summer) could offer upside on our forecasts.

SIA and Nets deals progressing as planned

In 2021, Nexi is expected to close the Nets deal in Q2, with no anti-trust issues involved. With the ongoing plan to integrate Concardis within Nets, Nexi will not begin the integration process until 2022. The SIA transaction could be completed in Q3. We understand that, with the future change of control (lower stake for Mercury, higher for CDP), the deal is set to be examined by the Italian rather than European authorities, which we think increases the chances of success.

Outperform rating confirmed, target price € 22

We confirm our Outperform rating with a target price of € 22. On a stand-alone basis, our investment case is still based on a catch-up in Italy, the most under-penetrated market in Europe. We see the recent M&A deals (SIA and Nets) as ambitious, transformative and positive. The profile of the new group is set to be at least as attractive growth-wise, with sizeable potential for revenue synergies (cross-selling opportunities with Nets, outsourcing of processing by banks) and cost synergies (scale effect, creation of a unified European Payments Initiative (EPI)). The new entity looks undervalued, with a 2021 EV/EBITDA multiple of 14.8x (after synergies) vs 25x for the sector (excluding online pure players).

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NEXI IM | NEXII.MI **Outperform** **Price 14.87EUR**

Payment services | Italy **Upside 48.00%** **TP 22.00EUR**

PER SHARE DATA (€)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
Adjusted EPS	0.17	0.32	0.34	0.35	0.37	0.45	0.51	0.58
Reported EPS	**0.11**	**0.13**	**0.04**	**0.22**	**0.26**	**0.39**	**0.47**	**0.55**
Growth in adjusted EPS	-	85.3%	6.9%	3.8%	5.7%	19.9%	13.1%	13.7%
Net dividend per share	0.16	0.10	0.00	0.00	0.05	0.10	0.14	0.17
FCF to equity per share	0.04	1.12	-0.01	0.02	-2.94	0.51	0.66	0.79
Book value per share	4.88	5.48	0.84	2.10	2.47	2.80	3.17	3.57
Number of shares market cap (m)	550.00	550.00	550.00	627.78	627.78	627.78	627.78	627.78
Number of diluted shares (m)	550.00	550.00	550.00	627.78	657.19	657.19	657.19	657.19
VALUATION (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
12m highest price (€)				12.38	17.44	16.61		
12m lowest price (€)				8.04	8.62	14.30		
(*) Reference price (€)				9.53	14.56	14.87	14.87	14.87
Capitalization				5 985	9 141	9 332	9 332	9 332
Restated Net debt	-8.4	-76.8	2 454	1 456	2 126	1 841	1 487	1 080
Minorities (fair value)	13.9	5.6	6.5	7.1	9.7	12.2	15.2	18.8
Financial fixed assets (fair value)	113	146	156	185	181	181	181	181
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value				**7 262**	**11 095**	**11 004**	**10 653**	**10 250**
P/E (x)				26.9	38.9	33.1	29.3	25.8
P/CF (x)				71.2	18.5	ns	19.0	17.1
Net Yield				0.0%	0.4%	0.7%	1.0%	1.1%
FCF yield				0.2%	ns	3.4%	4.4%	5.3%
P/B incl. GW (x)				4.54	5.90	5.31	4.69	4.16
P/B excl. GW (x)								
EV/Sales (x)				7.38	10.63	9.85	8.82	7.88
EV/EBITDA (x)				14.5	18.4	16.9	14.8	12.9
EV/Current EBIT (x)				**19.0**	**24.3**	**21.8**	**19.1**	**16.5**
(*) historical average price								
PROFIT AND LOSS (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
Sales	511	822	931	984	1 044	1 117	1 208	1 300
EBITDA	171	338	424	503	601	650	720	792
Depreciations	-27.4	-55.1	-74.8	-121.0	-144.8	-145.2	-163.1	-169.0
Current EBIT	**144**	**283**	**349**	**382**	**457**	**505**	**557**	**623**
Published EBIT	94	116	179	300	322	420	495	566
Net financial income	0.0	2.3	-108.5	-159.9	-65.3	-52.1	-46.7	-44.2
Corporate Tax	-33.6	-46.5	-49.0	-4.2	-89.4	-121.3	-147.8	-172.1
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	2.2	0.2	0.3	0.0	0.0	0.0	0.0	0.0
Minority interests	-3.8	1.0	-1.5	-0.9	-1.7	-2.5	-3.1	-3.6
Attributable net profit	59	73	20.0	135	166	244	297	346
Adjusted attributable net profit	**95**	**176**	**188**	**222**	**246**	**295**	**333**	**379**
BALANCE SHEET (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
Goodwill	1 501	2 072	2 093	2 093	2 856	2 856	2 856	2 856
Other intangible assets	406	536	575	591	851	783	683	574
Tangible fixed assets	116	163	159	195	189	224	256	287
WCR	716	208	244	148	2 360	319	270	197
Financial assets	113	146	156	185	181	181	181	181
Ordinary shareholders equity	2 683	3 014	464	1 317	1 548	1 756	1 989	2 242
Minority interests	13.9	5.6	6.5	7.1	9.7	12.2	15.2	18.8
Shareholders equity	2 697	3 020	471	1 325	1 558	1 768	2 005	2 261
Non-current provisions	163	182	193	177	265	265	265	265
Net debt	**-8.4**	**-76.8**	**2 564**	**1 712**	**2 615**	**2 330**	**1 976**	**1 569**
CASH FLOW STATEMENT (€m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**171.3**	**338.2**	**424.1**	**502.5**	**601.4**	**650.2**	**720.0**	**791.8**
Change in WCR	0.0	507.9	-36.0	96.1	-2 212.6	2 041.6	49.1	72.5
Interests & taxes	33.6	46.5	20.5	-26.7	89.4	121.3	147.8	172.1
Others	-136.0	-196.3	-268.7	-391.7	-196.1	-2 350.3	-375.5	-416.8
Operating Cash flow	68.8	696.3	139.9	180.2	-1 717.9	462.9	541.5	619.5
CAPEX	-49.4	-80.5	-145.5	-167.3	-125.3	-145.2	-126.2	-123.5
Free cash-flow	**19.4**	**615.8**	**-5.5**	**12.9**	**-1 843.2**	**317.7**	**415.2**	**496.0**
Acquisitions / disposals	-1 033.0	-713.2	-6.4	150.6	-1 000.0	0.0	0.0	0.0
Dividends	-69.3	-89.8	-56.0	0.0	0.0	-33.1	-61.0	-89.1
Net capital increase	1 090.9	314.1	0.0	684.2	500.0	0.0	0.0	0.0
Others	0.4	-0.9	-2 202.8	-0.8	0.0	0.0	0.0	0.0
Change in net cash	8.4	68.3	-2 640.9	854.6	-903.0	284.5	354.3	406.9
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
Sales growth	-	60.9%	13.2%	5.7%	6.1%	7.0%	8.1%	7.6%
Lfl sales growth	**-**	**60.9%**	**13.2%**	**5.7%**	**6.1%**	**7.0%**	**8.1%**	**7.6%**
Current EBIT growth	-	96.8%	23.4%	9.2%	19.7%	10.6%	10.3%	11.8%
Growth in adjusted EPS	-	85.3%	6.9%	3.8%	5.7%	19.9%	13.1%	13.7%
Net margin	18.5%	21.4%	20.2%	22.6%	23.5%	26.4%	27.6%	29.1%
EBITDA margin	**33.5%**	**41.2%**	**45.6%**	**51.1%**	**57.6%**	**58.2%**	**59.6%**	**60.9%**
Current EBIT margin	**28.2%**	**34.4%**	**37.5%**	**38.8%**	**43.7%**	**45.2%**	**46.1%**	**47.9%**
CAPEX / Sales	-10.2%	-10.0%	-16.2%	-17.0%	-12.0%	-13.0%	-10.5%	-9.5%
WCR / Sales	ns	25.3%	26.2%	15.0%	ns	28.5%	22.3%	15.2%
Tax Rate	35.7%	30.6%	44.4%	2.4%	30.9%	30.3%	30.8%	31.1%
Normative tax rate	35.7%	30.6%	44.4%	2.4%	30.9%	30.3%	30.8%	31.1%
Asset Turnover	-	0.3	0.3	0.3	0.2	0.2	0.3	0.3
ROCE post-tax (normative tax rate)	**-**	**6.9%**	**6.4%**	**12.2%**	**6.8%**	**6.7%**	**9.3%**	**10.8%**
ROCE post-tax hors GW (normative tax rate)	-	18.3%	20.6%	39.0%	14.5%	14.9%	30.4%	37.9%
ROE	-	6.2%	10.8%	24.9%	17.2%	17.8%	17.8%	17.9%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20e**	**12/21e**	**12/22e**	**12/23e**
Gearing	0%	-3%	ns	ns	ns	ns	99%	69%
Net Debt / Market Cap				0.29	0.29	0.25	0.21	0.17
Net debt / EBITDA	**ns**	**ns**	**6.05**	**3.41**	**4.35**	**3.58**	**2.74**	**1.98**
EBITDA / net financial charges	ns	-146.6	3.9	3.1	9.2	12.5	15.4	17.9

Sources: ODDO BHF Securities, SIX

Initiating coverage
IT services | US

PayPal

Outperform ➔ | Target 350 $
Price (01/04/2021): 247.54 $ | Upside: 41 %

Revision	2021e	2022e
EPS	ns	ns

The best positioned player in the sector – initiating coverage at Outperform

Sunday 04 April 2021

Capital			
PYPL US | PYPL.OQ			
Market Cap ($m)			293 087
Enterprise value ($m)			273 783
Extrema 12 months ($)		92.39	304.8
Free Float (%)			99.9
Performance (%)	**1m**	**3m**	**12m**
Absolute	-9.5	5.7	170.9
Perf. rel. Country Index	-13.7	-2.4	94.8
Perf. rel. IT Services	-14.1	-7.4	67.2
P&L	**12/21e**	**12/22e**	**12/23e**
Sales ($m)	25 604	31 241	38 318
EBITDA ($m)	7 704	9 659	12 427
Current EBIT ($m)	6 373	8 128	10 665
Attr. net profit ($m)	3 575	4 709	6 332
Adjusted EPS ($)	4.56	5.80	7.53
Dividend ($)	0.00	0.00	0.00
P/E (x)	54.3	42.7	32.9
P/B (x)	12.3	10.2	8.3
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	2.6	3.2	4.0
EV/Sales (x)	10.69	8.55	6.74
EV/EBITDA (x)	35.5	27.6	20.8
EV/Current EBIT (x)	43.0	32.8	24.2
Gearing (%)	-42	-47	-54
Net Debt/EBITDA (x)	ns	ns	ns

Next Events	
28/04/2021	Q1 Results

PayPal, a unique model with very high barriers to entry

PayPal is one of the world's main players in the payment sector (2020 sales of $ 21bn) and the preferred payment method for e-merchants (ex Amazon). The group offers very competitive transaction fees thanks to a unique model in the payment universe. It is, at once, a processor of payment transactions, a provider of payment acceptance services (merchant acquirer), a payment method and an online account. The quality of the PayPal model is derived primarily from its network of merchants (30m in over 200 countries, 50% of sales generated in international markets) who have nothing to gain from dropping the PayPal solution (no interchange fees). The relationship of trust built up over nearly 20 years and PayPal's volume effect would be very tough for a rival to replicate and constitute very significant entry barriers.

Substantial growth potential, with the Super App as a backdrop

PayPal has experienced very strong and regular growth since its IPO (>15%/year), but we think this momentum will accelerate in the years ahead. The growth drivers are as plentiful as they have ever been: structural growth in cross-border payments (new partnerships in Latin America and the first non-Chinese player to break into China), stronger client engagement ("buy now pay later" services will be accelerators as will monetisation of its Venmo application), with the financial Super App as a backdrop (the aim is to become one of the 8-10 most used applications, by bringing together the main financial services: online and offline payment, consumer credit, brokerage, cryptocurrencies, P2P money transfer, invoice payment, coupons, etc.). PayPal thus estimates its addressable market has expanded substantially (total addressable market of $ 110tn). Moreover, the group has shown its capacity to make very tactical acquisitions (Braintree, Venmo, iZettle, Honey, etc.) to fill out its product portfolio with the latest sector innovations and generate new growth opportunities.

Strong earnings growth (>25%/year) and regular FCF generation

We anticipate a sales CAGR of 20% out to 2025e but stronger earnings growth (CAGR of 26%) and solid and regular cash generation (FCF margin of >20%). In the short-medium term, we think PayPal will invest more aggressively than in the past (growth in R&D > sales out to 2023e), notably to seize Super App opportunities (the potential from which offers sizeable upside on our forecasts), but we still see it posting an EBIT margin of 32% in 2025e (vs 25% in 2020) thanks to scale effects. Our 2022-2023 EPS estimates are thus respectively 1% and 6% above the FactSet consensus.

Initiating coverage at Outperform with a target of $ 350, or 41% upside

We are initiating PayPal with an Outperform rating and a target price of $ 350 (average DCF and P/E of 35x 2025e EPS), or 41% upside on the current share price. We think that PayPal's growth story will accelerate (strengthening client commitment with the roll-out of BNPL solutions, monetisation of Venmo and creation of a Super App) and that the group is probably the best positioned player in the sector (high barriers to entry, global presence and comprehensive technological portfolio) to benefit from its structural trends (digitisation of bank services, growth in cross-border payment, convergence towards omnichannel platform). The stock is trading at 36x NTM EBITDA (vs 125x for Square and 107x for Adyen), which we see as very reasonable for this degree of visibility (EBITDA growth of 25%/year out to 2025e), plus a profile that is less risky than that of Square (whose story is heavily dependent on Cash App, where the competition and regulatory situation could ramp up) and more attractive than that of Adyen (more opportunities in financial services for consumers).

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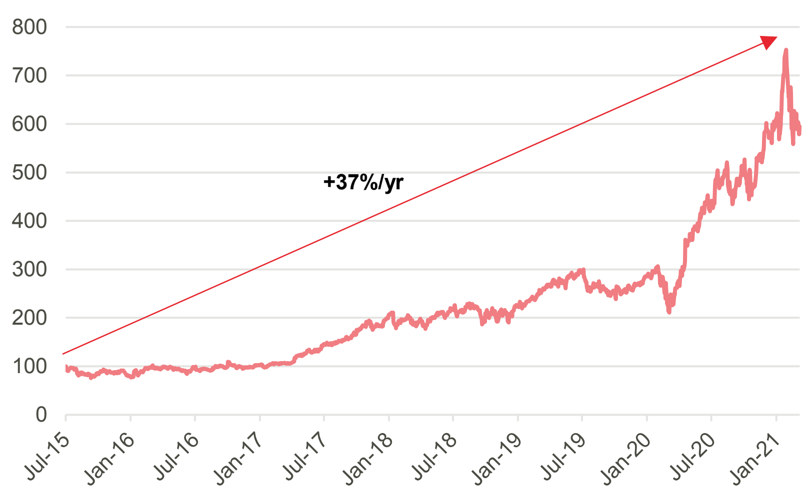
Brief overview of PayPal

PayPal is one of the world's main players in the payment sector (2020 sales of $ 21bn), and is characterised by being, at once: 1/ a processor of payment transactions, 2/ a provider of payment acceptance services for merchants (merchant acquirer), 3/ a payment method for consumers, and 4/ an online account.

The American group was founded in 1998, as a money transfer service, by Peter Thiel and Max Levchin, under the name Confinity. In 2000, Confinity merged with the online bank X.com founded by Elon Musk. In 2002, the group was floated initially under the PayPal name, before being quickly bought up by eBay, as it became its payment processor. In 2014, Dan Schulman (former CEO of Virgin Mobile and executive VP of American Express) joined the group as its CEO. In 2015, the group was listed again, after being spun off from eBay.

Since the IPO, the share price has climbed strongly (x6) and pretty steadily (37%/year on average), but it has seen a significant uptick since the start of 2020 (+129%) with the growing adoption of online payment during the pandemic.

PayPal's share performance (base 100)



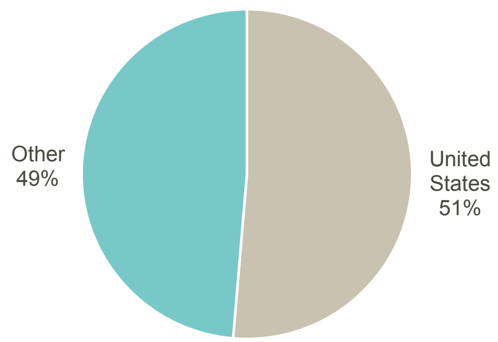
Sources: ODDO BHF Securities, FactSet

A global group …

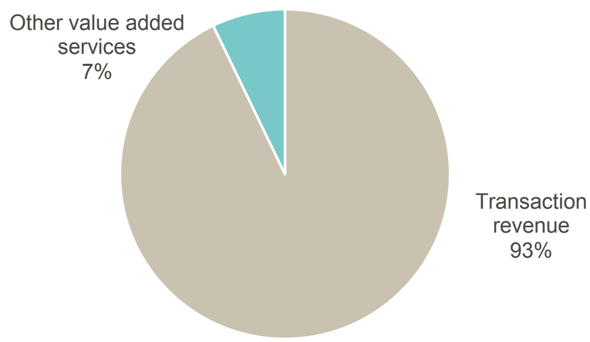
PayPal is a global player, currently present in over 200 countries, although the US remains by far its largest market (51% of sales) followed by the UK (12% of sales).

The bulk of its sales are generated through the fees applied to each payment transaction (93% of sales, including BNPL and P2P transactions for Venmo). The rest stems from the group's value-added services, i.e. loans for merchants (PayPal Credits), subscription services (PayPal Subscription), purchase, sales and payment in cryptocurrencies (e-wallet PayPal and soon to be extended to Venmo), and online coupons (Honey).

Geographic breakdown of sales (2020)



Segment breakdown of sales (2020)



Source: ODDO BHF Securities

…which has successfully extended its range of services thanks to a very tactical P&A strategy

PayPal has grown its pallet of services through a very tactical M&A strategy. This has involved multiple acquisitions of new products and specific services developed by fintechs, which are then integrated into PayPal's ecosystem and network, in order to accelerate their growth. It has thus been able to make reasonably-sized acquisitions (<$ 5bn), develop its range of services and maintain strong growth (>15%) while also continuing to adapt very quickly to innovation in the payment market.

The main acquisitions include **Braintree** in 2013 for $ 800m (the online payment processor which itself acquired, in 2007, the e-wallet **Venmo**, P2P payment specialist), **iZettle** in 2018 for $ 2.2bn (Swedish company specialising in POS payment acceptance through a cloud-based payment terminal and associated mobile application), allowing PayPal to extend its services in the offline segment and position in the omnichannel market (PayPal has also deployed its own QR code technology), and **Honey** in 2019 for $ 4bn (specialising in online discount coupons).

Main acquisitions by PayPal in recent years

Company	Date	Amount	Activities
Braintree (and Venmo)	September 2013	$ 800m	Payment transaction processor and e-wallet Venmo
Xoom	July 2015	$ 890m	Money transfers via mobile
TIO networks	February 2017	$ 233m	Invoice payment
Swift Capital	August 2017	$ 183m	Online credit for SMEs
Jetlore	May 2018	-	Artificial intelligence, prediction of consumer behaviour
iZettle	May 2018	$ 2.2bn	Omnichannel solution at POS and mobile solutions
Hyperwallet	June 2018	$ 400m	B2B payment platform
Simility	June 2018	$ 120m	Fraud prevention
GoPay	September 2019	-	Chinese payment platform
Honey	November 2019	$ 4bn	Discount coupon search
Curv	March 2021	$ 235m	Cryptocurrencies and cybersecurity

Source: ODDO BHF Securities

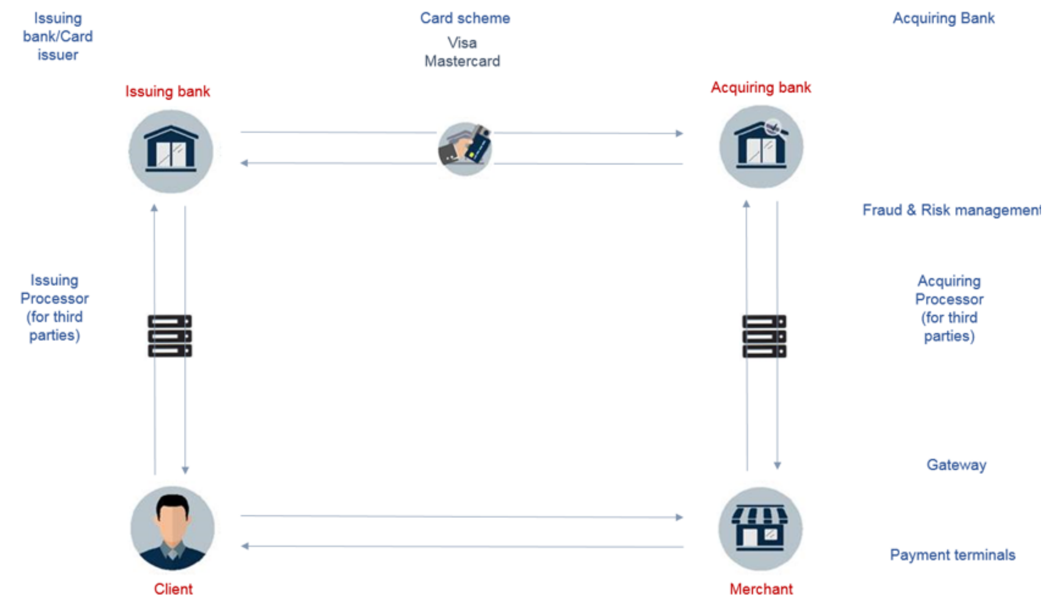
Unique positioning, with very high barriers to entry

A unique business model …

PayPal's unique specificity in the payment sector is derived from its business model: unlike traditional players that use the Visa and Mastercard network for their payment transactions, PayPal has its own network.

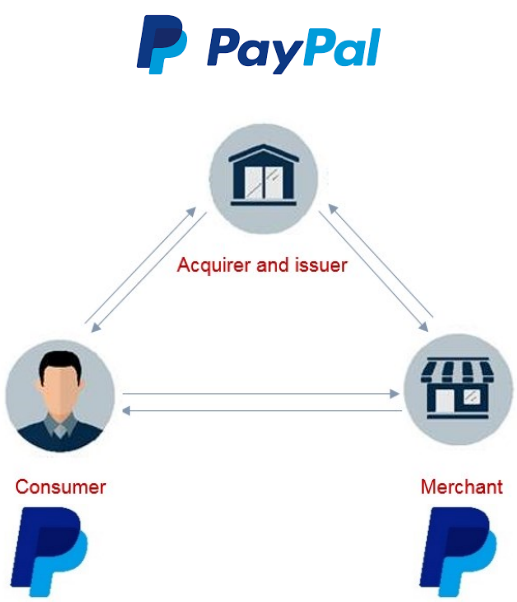
PayPal can thus bypass the payment networks as the group has the accounts of players on both sides of the payment transaction (the consumer and the merchant). This is the three-cornered model.

Traditional model (four corners)



Source: ODDO BHF Securities

PayPal's three-cornered model



Source: ODDO BHF Securities

This means that to pay the merchant, consumers have three possibilities: 1/ use the balance on their PayPal account (in this case PayPal captures all the transaction fees as no other players are involved); 2/ make a bank transfer to their PayPal account (the consumer's bank then takes a very small fee); or 3/ use the PayPal payment method by charging up their account with the amount via their payment card (these are the least profitable transactions for PayPal as it shares a portion of the fees with the card networks). In all events, PayPal will capture the bulk of the value derived from each transaction while a conventional transaction is shared between multiple players in the value chain.

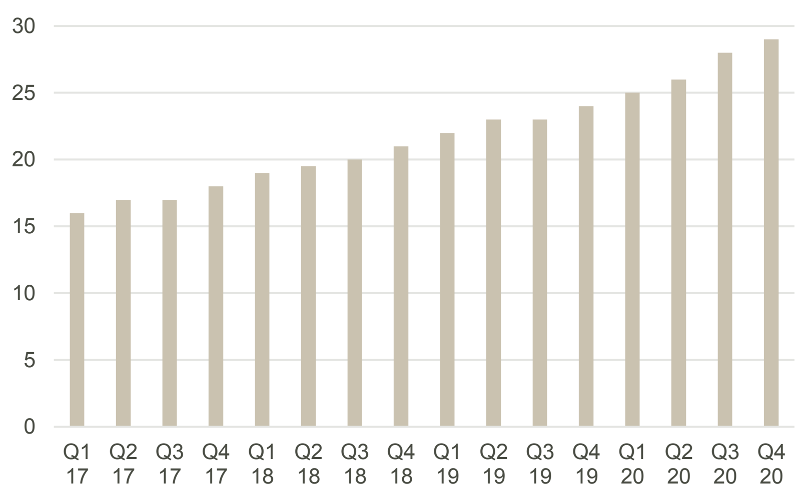
This positioning also gives direct access to the consumer (unlike traditional acquiring players like Adyen or Worldline) and enables it to offer various additional services (BNPL, brokerage, etc.) more easily.

A unique business model with very high barriers to entry

The legitimacy of the three-cornered model is derived mainly from the quality of the payment service provider's merchant network. Indeed, the first condition for each transaction is based on the merchant's acceptance of PayPal's payment method.

PayPal has thus built up a relationship of trust with its clients and currently boasts one of the world's largest payment networks with 30 million merchants (vs ~50m for Visa, >5m for Square or ~3,000 for Adyen), which constitutes a major entry barrier.

PayPal's merchant network (M) since 2017



Source: ODDO BHF Securities

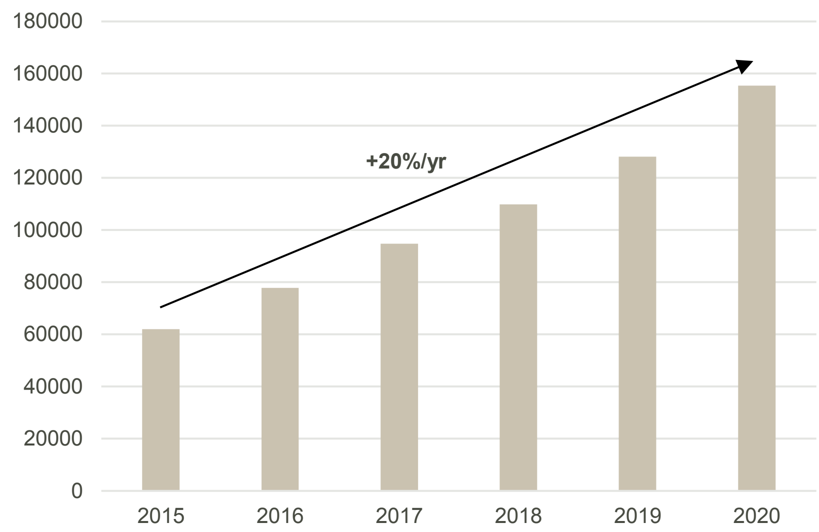
It is worth adding that merchants have no reason to drop the PayPal solution as it allows them to avoid paying interchange fees (billed by the bank issuing the transaction, i.e. the consumer's bank). They thus benefit from lower fees (up to 1.9% for merchants that receive over $ 3,000 each month through PayPal, vs over 2.5% otherwise if interchange fees are paid) and it is very much in their interests to have their clients use PayPal.

Moreover, once the payment transaction is received on the merchant's account, the latter can very quickly pay its suppliers with a PayPal account (also benefiting from a very low transaction fees), so that the money stays in the PayPal ecosystem.

…and strong positioning in cross-border payments

The PayPal model is also highly competitive in cross-border payments, which account for 17% of transactions. This nonetheless represents a larger share of the revenue related to transactions (around one-quarter), as the fees are higher on the latter (generally about 5%).

Cross-border transaction volumes since 2015



Sources: ODDO BHF Securities, PayPal

PayPal's solution is particularly well suited to cross-border payments as it: 1/ offers a cheaper, quicker and easier way of moving money across borders than international bank transfers, and 2/ is an international payment method that benefits from a global network of merchants and consumers.

PayPal is also looking to make cross-border payments a key element of its strategy in the next few years. In **China**, PayPal was the first non-Chinese player to obtain a licence enabling it to provide payment services after the acquisition of the Chinese firm GoPay in 2019 (the group is focused on cross-border payments, the Chinese market being dominated by Alipay and WeChat Pay). We note also that the group recently decided to pull out of the domestic Indian market to concentrate on cross-border payments. PayPal is also looking to expand in **Japan** (the third-largest e-commerce market globally) and in **Australia** (launch of BNPL services). Furthermore, it is expected to draw on national partnerships in **Brazil** and **Mexico** to introduce a larger range of products in Latin America, notably through its partnership with Mercado Libre (Latin America's leading player in e-commerce). The European market, with higher margins generally, still has relatively low penetration and offers opportunities, particularly in the **UK** and **France**, where the group has launched BNPL services (set to accelerate client adoption). PayPal is also set to expand its positions in **Africa** (the world's most underpenetrated market), having established a partnership with the fintech Flutterwave to allow consumers to pay African e-merchants.

Furthermore, PayPal wants to extend Venmo internationally over the next five years.

PayPal's partnerships worldwide

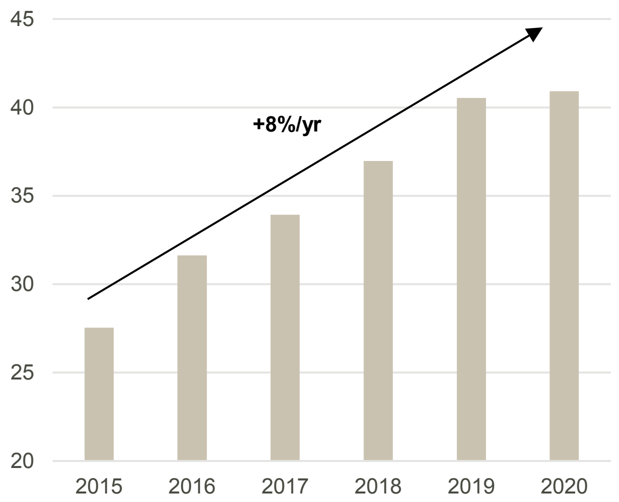
Source: ODDO BHF Securities

Acceleration in client engagement, with the financial Super App driving growth

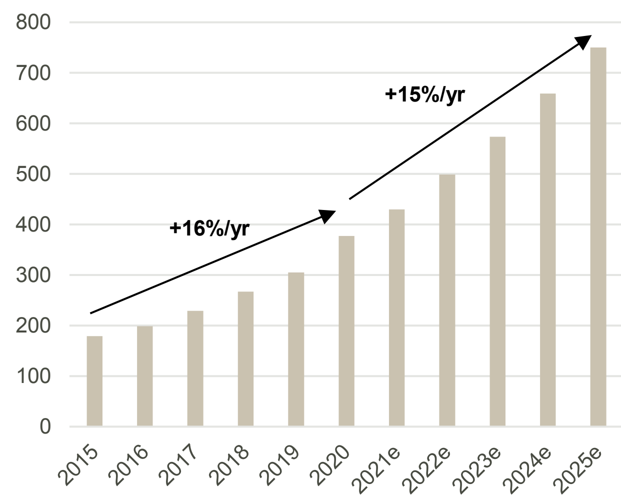
Visible growth in client engagement

The last few years have seen sharp growth in client engagement for PayPal solutions. In 2015, the average PayPal user made 28.1 transactions. Excluding the positive impact of the Honey deal, PayPal users made 40.9 transactions in 2020. On top of this, there has been robust and regular growth in the number of active clients (CAGR of 16% since 2015), from 181 million accounts in 2015 to 377 million in 2020. The group also expects the account base to double by 2025 (750 million, or a 2020-2025 CAGR of 15%).

Average number of transactions per account



Number of active PayPal accounts



Sources: ODDO BHF Securities, PayPal

and 'buy now pay later' (BNPL) services set to be significant accelerators …

PayPal last year launched its 'buy now pay later' service, first in the US (September 2020) and then in the UK (October 2020).

This marks a shift in the credit solutions offered by PayPal, where PayPal would charge consumers interest, whereas in BNPL solutions it is the merchant which pays a commission rate (on average around 4%). In the case of late payment, fees may also apply (around 8% of the transaction).

The group also announced at the start of March that it was developing this solution in Australia and we think it will continue to roll it out in other countries.

Note that since launching its solution, PayPal has seen a 12% increase in weekly spend for users of the service. We think that this service, which is enjoying growing success with consumers, will help attract new users to the PayPal ecosystem and strengthen the adoption of its solutions (40% of consumers in the US who used the BNPL service returned to made two further transactions in the following three months).

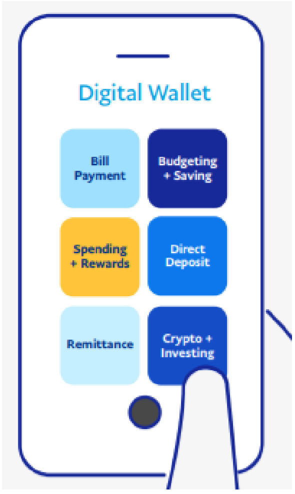
…a key focus being the race for the financial super app, where PayPal looks to be well positioned

PayPal's new ambition (announced in February at its investor day) is to bring together a disparate range of financial and commercial applications in one single app. This would make PayPal a direct competitor of Square and its Cash App application. To this end, PayPal's management has established an ambitious roadmap to develop a financial super app over the next three to five years.

PayPal thus aspires to be one of the eight to ten applications that is used daily. We are very confident in PayPal's capacity to achieve this, based on at least three reasons:

- The group can draw on its **very extensive client base** (>350m), notably through its mobile application **Venmo** (65m users) which could represent a key growth engine (payment transaction growth of >50% since its creation whereas we forecast average growth of 33%/year out to 2025e);
- PayPal's **close relations** with **the banks** (although some tensions could emerge as it would be taking banking market share);
- Through its acquisitions, the group has developed **a broad range of services** that could quickly be added to this application and strengthen client engagement (**Crypto wallet** to buy, sell and exchange cryptocurrencies, possibility of paying merchants in the PayPal network in cryptocurrencies with **Checkout Crypto**, recurring payment services with **Bill Pay**, consumer credit and BNPL solutions with **PayPal Credits** and **PayPal in 4**, rewards and coupons with **Honey**, P2P payments with **Venmo** and QR code payment for offline payments). Brokerage services are also likely to be added.

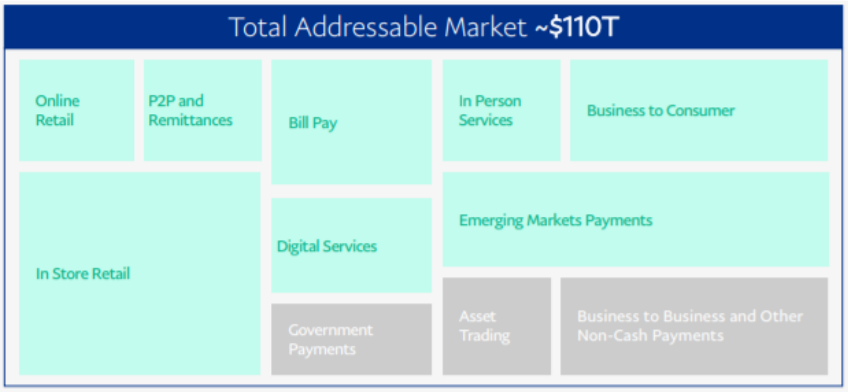
Services of PayPal's future digital portfolio



Source: PayPal

PayPal estimates this market offers a massive opportunity, with an addressable market in excess of $ 100tn. There are regulatory risks for these banking activities (see page 22 of our report), but these activities account for a limited share of sales (probably less than 15%), particularly by comparison with Square (63%). We note that the group has made regulatory compliance and its relations with governments and central banks a key aspect of its strategy for the years ahead.

PayPal's addressable market (~$ 110tn)



Source: PayPal

It is also worth noting that the group is expected to continue monetising its Venmo application (specialising in peer-to-peer payments), which accounts for 20% of PayPal users (>65m) but less than 4% of group sales (it is targeting sales of $ 900m in 2021, or 3.5% of total sales). For now, the main revenue generators for Venmo stem from the transaction fees billed to merchants (around 3%) when a consumer pays with the application and with immediate transfers (fee of 1% charged to the user).

The monetisation of Venmo services is thus a priority for PayPal. With annual volume growth regularly exceeding 50% a quarter since 2017, the Venmo application is particularly strategic as it has become a very strong brand (as in the verb, “venmo”) with the application working like a social network allowing users to comment on the payments sent to others. Venmo also allows the group to attract at a lower cost (effect of P2P payment networks, see report on page 22) a user base that is both younger (more likely to try new services) and slightly wealthier than the average US consumer. The monetisation of the application should thus accelerate as new services emerge.

Among the potential sources of monetisation, PayPal's plan includes Venmo: 1/ allowing users to purchase, sell and hold cryptocurrencies on the Venmo app; 2/ providing subscription management and invoice payment services; 3/ continuing to roll out the Venmo credit card (2.5% in withdrawal fees); 4/ integrating Honey's tool for tracking promotions, coupons and rewards (fees charged to merchants).

SWOT analysis

Strengths	Weaknesses
• High barriers to entry • Excellent positioning in cross-border payments and worldwide merchant network • A full and diversified offering (online processor, offline, credit, BNPL, online invoices, coupons) • Strong cash generation (FCF margin >20%), allowing it to make bolt-on acquisitions	• Significant exposure if ecommerce growth slows • Transfer of eBay volumes from PayPal to the Adyen platform (until 2022) • Limited penetration of offline market • Not yet positioned in brokerage (unlike Square)
Opportunities	**Threats**
• Cannibalisation of cash and e-commerce growth • Financial super app (cryptocurrencies, brokerage, consumer credit, P2P payments, coupons, etc.) • Acceleration in client engagement with the launch of BNPL • Monetisation of Venmo • Stimulus cheques and transition to debit (vs credit)	• Significant client losses (example of eBay in 2021) • Tighter regulatory framework in its digital services • Competition with new entrants (Square's Cash App) • Security risks • Pressure on margins due to technological investment

Source: ODDO BHF Securities

We forecast strong and regular growth in profits (2020-2025e CAGR of >25%)

Growth driven by transaction volumes and client engagement, while the potential offered by super-app could exceed our expectations

PayPal's business model is mainly centred around fees that may be applied in payment transactions (93% of 2020 sales) but the group also offers other value-added services (7% of sales, including credit services, coupons, cryptocurrencies, etc.).

We forecast average transaction growth (by value) of 25% out to 2025. Nonetheless, we expect less robust growth in revenues related to transactions (CAGR of 19% out to 2025), given that the growth in transactions is partly driven by the Venmo application, which is not very extensively monetised for now. We forecast a gradual decline in the take rate, from 2.13% in 2020 to 1.68% in 2025.

In 2021, we estimate that the transfer of eBay transaction volumes to the Adyen platform will have an impact on transaction growth of 5.7 points (or 26.5% of growth instead of 32.2% without the negative eBay impact). We forecast an impact of 3.8 points of growth in 2022 (27.5% of growth vs 31.3% excluding the eBay impact), when the transferral of all the eBay transaction volumes should be completed. This negative impact looks to be largely manageable and already broadly anticipated by the market.

Moreover, we see strong revenue growth related to value-added services with the prospect of: 1/ Venmo's growing monetisation, and 2/ the creation of a financial super-app. With these new digital services (BNPL, cryptocurrencies, brokerage, coupons), we think that PayPal will add new users and generate more revenue with them than previously (i.e. $ 8 per account in 2025 vs $ 4 currently). On this basis, we see average annual growth of 33% out to 2025 for value-added services. We nonetheless estimate that there is significant potential for our expectations in this segment to be exceeded, in the event of a more marked acceleration than expected in the adoption of the financial super app from PayPal.

We therefore forecast average annual sales growth of 20% out to 2025, or 2025e sales of $ 54bn (in line with the group's ambition for sales of >$ 50bn in 2025) vs sales of $ 25.6bn in 2021e (guidance of $ 25.5bn).

PayPal sales by segment

$ m	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Total payment volume (TPV)	451 265	578 419	711 925	936 061	1 184 117	1 509 749	1 917 382	2 358 380	2 830 055
- growth	*27%*	*28%*	*23%*	*31%*	*27%*	*28%*	*27%*	*23%*	*20%*
Take rate	2.53%	2.37%	2.26%	2.13%	2.00%	1.90%	1.81%	1.74%	1.68%
- growth	*-5.7%*	*-6.2%*	*-4.6%*	*-5.9%*	*-6.0%*	*-5.0%*	*-4.5%*	*-4.0%*	*-3.5%*
Transaction revenues	11 402	13 709	16 099	19 918	23 684	28 688	34 794	41 085	47 576
- growth	*20.1%*	*20.2%*	*17.4%*	*23.7%*	*18.9%*	*21.1%*	*21.3%*	*18.1%*	*15.8%*
Other value added services	1 692	1 742	1 673	1 536	1 920	2 554	3 524	4 757	6 327
- growth	*25.1%*	*3.0%*	*-4.0%*	*-8.2%*	*25.0%*	*33.0%*	*38.0%*	*35.0%*	*33.0%*
Total revenues	**13 094**	**15 451**	**17 772**	**21 454**	**25 604**	**31 241**	**38 318**	**45 842**	**53 904**

Source: ODDO BHF Securities

Investments in the short term but profitability still very solid

We expect PayPal to accelerate its capex out to 2023 more aggressively than in the past. By our estimates, R&D spending is set to increase more quickly than sales (+25%/year by 2023e). Marketing spend is also expected to be robust (+20%/year out to 2023e).

We forecast a slightly lower operating margin in 2021e (24.9% vs 25.1% in 2020), but with the group's scale effects, we expect 27.8% in 2023e then 32.5% in 2025.

We thus anticipate 2021 EPS of $ 4.56 (guidance of $ 4.54) and 2025e EPS of $ 12.22, or EPS growth of 26% per year on average out to 2025e, a faster rate over the period (as the group is set to invest aggressively in the short term).

Note also that PayPal's business generates large amounts of FCF (FCF margin of >20% and an FCF/EBITDA ratio of >100% most years). PayPal has indicated it plans to generate over $ 40bn of FCF between 2021 and 2025. We expect $ 47bn of FCF out to 2025e and regular and accelerating FCF generation to achieve an FCF margin of 28% in the long term. The group also has a net cash position ($ 3.3bn), allowing it to consider new share buyback programmes (>$ 1bn per year since 2017) and to continue its very tactical M&A strategy (reasonably-sized acquisitions offering a net fit with PayPal's technological portfolio).

PayPal P&L

$ m	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Total revenues	**13 094**	**15 451**	**17 772**	**21 454**	**25 604**	**31 241**	**38 318**	**45 842**	**53 904**
- growth	*20.8%*	*18.0%*	*15.0%*	*20.7%*	*19.3%*	*22.0%*	*22.7%*	*19.6%*	*17.6%*
Transaction expenses & loan losses	-5 430	-6 855	-8 170	-9 675	-11 349	-13 797	-16 746	-19 776	-22 814
- as % transaction revenue	-47.6%	-50.0%	-50.7%	-48.6%	-47.9%	-48.1%	-48.1%	-48.1%	-48.0%
SG&A and other	-3 779	-4 571	-4 798	-5 848	-6 786	-7 815	-8 938	-10 021	-11 077
- as % of sales	-28.9%	-29.6%	-27.0%	-27.3%	-26.5%	-25.0%	-23.3%	-21.9%	-20.6%
R&D	-953	-1 831	-2 085	-2 642	-3 329	-4 128	-5 102	-5 969	-6 739
- as % of sales	-7.3%	-11.9%	-11.7%	-12.3%	-13.0%	-13.2%	-13.3%	-13.0%	-12.5%
Operating income - GAAP	2 932	2 194	2 719	3 289	4 141	5 501	7 532	10 075	13 272
- as % of sales	22.4%	14.2%	15.3%	15.3%	16.2%	17.6%	19.7%	22.0%	24.6%
Operating income - Non-GAAP	**2 755**	**3 349**	**4 131**	**5 388**	**6 373**	**8 128**	**10 665**	**13 734**	**17 495**
- as % of sales	21.0%	21.7%	23.2%	25.1%	24.9%	26.0%	27.8%	30.0%	32.5%
Income tax and other expenses	-332	-137	-260	913	-566	-792	-1 200	-1 648	-2 361
- as % of operating income	-11.3%	-6.2%	-9.6%	27.8%	-13.7%	-14.4%	-15.9%	-16.4%	-17.8%
Net income - GAAP	1 795	2 057	2 459	4 202	3 575	4 709	6 332	8 427	10 911
- as % of sales	13.7%	13.3%	13.8%	19.6%	14.0%	15.1%	16.5%	18.4%	20.2%
EPS GAAP diluted ($)	1.47	1.71	2.07	3.54	3.02	4.00	5.39	7.20	9.36
- growth	*27.8%*	*16.3%*	*21.1%*	*71.0%*	*-14.6%*	*32.2%*	*35.0%*	*33.6%*	*29.9%*
EPS non-GAAP diluted ($)	**1.90**	**2.42**	**3.10**	**3.88**	**4.56**	**5.80**	**7.53**	**9.70**	**12.22**
- growth	*26.7%*	*27.5%*	*28.1%*	*25.1%*	*17.5%*	*27.3%*	*29.7%*	*28.9%*	*25.9%*

Source: ODDO BHF Securities

Our forecasts (vs consensus) for 2021, 2022 and 2023

$ m	2021e			2022e			2023e		
	ODDO BHF	Css	ODDO BHF vs Css	ODDO BHF	Css	ODDO BHF vs Css	ODDO BHF	Css	ODDO BHF vs Css
Sales	25 604	25 594	0.0%	31 241	30 950	0.9%	38 318	37 654	1.8%
Sales growth (%)	*19.3%*	*19.7%*		*22.0%*	*20.7%*		*22.7%*	*20.7%*	
Adj. EBIT	6 373	6 651	-4.2%	8 128	8 281	-1.8%	10 665	10 225	4.3%
EBIT margin (%)	*24.9%*	*26.0%*	*-110 bp*	*26.0%*	*26.8%*	*-74 bp*	*27.8%*	*27.2%*	*67 bp*
Adjusted EPS ($)	4.56	4.54	0.4%	5.80	5.72	1.4%	7.53	7.12	5.7%
EPS growth (%)	*17%*	*17%*		*27%*	*26%*		*30%*	*26%*	

Source: ODDO BHF Securities

Initiation of PayPal with an Outperform rating and a target price of $ 350

We value PayPal at $ 350 per share (average of a DCF and a multiples-based valuation for 2025 P/E), giving upside of 41% (at the price of Thursday 1 April 2021).

DCF valuation: $ 370

Our DCF yields a valuation of $ 370 per share. Our main assumptions are:

- Average organic growth in net sales of +14.6% over the next ten years. We estimate net sales growth at around 20% per year out to 2025, which is consistent with the group's target of achieving sales of over $ 50bn in 2025, with the rate trending gradually towards 5%.
- A long-term operating margin of 35% thanks to scale effects and strong transaction volume growth (25%/year out to 2025). While the group is set to continue to invest in the short term, we think slower marketing and technological spend will allow the EBIT margin to expand by 10 points by 2026.
- A WACC of 7.2% (β of 0.90, risk premium of 7.80% and a risk-free rate of 0.18%).
- A long-term growth rate of 3.0% reflecting the under-penetration of online payment.

PayPal DCF

M $	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	CAGR 2021/30
Sales	25 604	31 241	38 318	45 842	53 904	62 528	70 657	77 722	83 163	87 321	14.6%
% of Change	*19.3%*	*22.0%*	*22.7%*	*19.6%*	*17.6%*	*16.0%*	*13.0%*	*10.0%*	*7.0%*	*5.0%*	
Adjusted EBITDA	7 704	9 659	12 427	15 706	19 652	24 386	27 556	30 312	32 434	34 055	18.0%
EBITDA margin	*30%*	*31%*	*32%*	*34%*	*36%*	*39%*	*39%*	*39%*	*39%*	*39%*	
Adjusted EBIT	6 373	8 128	10 665	13 734	17 495	21 885	24 730	27 203	29 107	30 562	19.0%
Operating margin	*25%*	*26%*	*28%*	*30%*	*32%*	*35%*	*35%*	*35%*	*35%*	*35%*	
Depreciation	1 331	1 531	1 763	1 971	2 156	2 501	2 826	3 109	3 327	3 493	
% of sales	5%	5%	5%	4%	4%	4.0%	4.0%	4.0%	4.0%	4.0%	
Tax on EBIT	-1 192	-1 544	-2 133	-2 747	-3 674	-4 596	-5 193	-5 713	-6 112	-6 418	
Tax rate	*18.7%*	*19.0%*	*20.0%*	*20.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	
WCR	*509*	*292*	*43*	*-193*	*-411*	*-625*	*-707*	*-777*	*-832*	*-873*	
% of sales	*2.0%*	*0.9%*	*0.1%*	*-0.4%*	*-0.8%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	
Change in WCR	26	217	248	236	218	214	81	71	54	42	
Capex	-1 024	-1 250	-1 533	-1 834	-2 156	-2 501	-2 826	-3 109	-3 327	-3 493	
% of sales	*-4%*	*-4%*	*-4%*	*-4%*	*-4%*	*-4.0%*	*-4.0%*	*-4.0%*	*-4.0%*	*-4.0%*	
Free Cash-flow	5 515	7 082	9 010	11 361	14 040	17 503	19 618	21 561	23 049	24 186	17.9%
% of sales	*22%*	*23%*	*24%*	*25%*	*26%*	*28%*	*28%*	*28%*	*28%*	*28%*	
% of change	*60.2%*	*28.4%*	*27.2%*	*26.1%*	*23.6%*	*24.7%*	*12.1%*	*9.9%*	*6.9%*	*4.9%*	
Discounted cash flow	5515	6722	7977	9384	10817	12580	13153	13484	13447	13162	

Source: ODDO BHF Securities

Calculation of the target price using a DCF ($ m)

Sum of discounted FCF 2021-2031e	106 224
Terminal value	322 710
Enterprise value	428 933
Net debt 2020e	3 358
Financial fixed assets	7 394
Valuation of shareholders' equity	439 786
PayPal per-share valuation ($)	**370**

Source: ODDO BHF Securities

Sensitivity of the DCF valuation to the EBIT margin and long-term growth rate

$		Perpetual growth		
		2.0%	3.0%	4.0%
Op. margin	30%	277	324	400
	35%	316	**370**	459
	40%	355	417	518

Source: ODDO BHF Securities

Valuation by multiples: $ 330

We see the PayPal story as one of structural growth, making it legitimate to adopt a five-year view. Based on our assumptions for 2025, we estimate 2025e EPS at $ 12.22. At 35x earnings, our valuation for 2025 would work out at $ 428, i.e. $ **330** discounted to one year.

PYPL US | PYPL.OQ **Outperform** Price 247.54USD
IT services | US Upside 41.39% TP 350.00USD

PER SHARE DATA ($)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Adjusted EPS	1.50	1.90	2.42	3.10	3.88	4.56	5.80	7.53
Reported EPS	**1.16**	**1.49**	**1.74**	**2.09**	**3.59**	**3.06**	**4.05**	**5.46**
Growth in adjusted EPS	16.0%	26.7%	27.5%	28.1%	25.1%	17.5%	27.3%	29.7%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	2.06	1.55	3.94	3.30	4.36	6.33	7.82	9.83
Book value per share	12.16	13.30	12.99	14.38	17.08	20.20	24.33	29.88
Number of shares market cap (m)	1 210.00	1 203.00	1 184.00	1 174.00	1 172.00	1 167.74	1 163.49	1 159.23
Number of diluted shares (m)	1 218.00	1 221.00	1 203.00	1 188.00	1 187.00	1 182.74	1 178.49	1 174.23
VALUATION ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price ($)	44.15	78.57	93.07	121	243	305		
12m lowest price ($)	31.20	39.31	71.73	82.09	85.26	226		
(*) Reference price ($)	38.27	55.86	82.60	105	162	248	248	248
Capitalization	46 301	67 194	97 803	123 349	189 307	289 064	288 010	286 957
Restated Net debt	-4 975.0	-4 695.0	-7 111.0	-5 289.0	-3 358.0	-5 085.5	-8 355.6	-13 912.9
Minorities (fair value)	0.0	0.0	0.0	44.0	44.0	51.5	65.3	84.4
Financial fixed assets (fair value)	1 601	2 079	1 520	4 148	7 394	10 247	12 732	14 810
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	**39 725**	**60 420**	**89 172**	**113 956**	**178 599**	**273 783**	**266 988**	**258 318**
P/E (x)	25.5	29.4	34.1	33.9	41.6	54.3	42.7	32.9
P/CF (x)	13.5	24.5	ns	16.6	42.0	34.3	27.3	21.8
Net Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	5.4%	2.8%	4.8%	3.1%	2.7%	2.6%	3.2%	4.0%
P/B incl. GW (x)	3.15	4.20	6.36	7.31	9.46	12.25	10.18	8.29
P/B excl. GW (x)	3.15	4.20	6.36	7.31	9.46	12.25	10.18	8.29
EV/Sales (x)	3.66	4.61	5.77	6.41	8.32	10.69	8.55	6.74
EV/EBITDA (x)	13.7	17.0	21.6	22.6	27.2	35.5	27.6	20.8
EV/Current EBIT (x)	**18.3**	**21.9**	**26.6**	**27.6**	**33.1**	**43.0**	**32.8**	**24.2**
(*) historical average price								
PROFIT AND LOSS ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	10 842	13 094	15 451	17 772	21 454	25 604	31 241	38 318
EBITDA	2 898	3 560	4 125	5 043	6 577	7 704	9 659	12 427
Depreciations	-724.0	-805.0	-776.0	-912.0	-1 189.0	-1 331.4	-1 530.8	-1 762.6
Current EBIT	**2 174**	**2 755**	**3 349**	**4 131**	**5 388**	**6 373**	**8 128**	**10 665**
Published EBIT	1 586	2 127	2 194	2 719	3 289	4 141	5 501	7 532
Net financial income	45.0	73	182	279	1 776	256	312	383
Corporate Tax	-230.0	-405.0	-319.0	-539.0	-863.0	-822.2	-1 104.6	-1 583.1
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	1 401	1 795	2 057	2 459	4 202	3 575	4 709	6 332
Adjusted attributable net profit	**1 825**	**2 318**	**2 913**	**3 684**	**4 605**	**5 389**	**6 837**	**8 838**
BALANCE SHEET ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	4 059	4 339	6 284	6 212	9 135	9 135	9 135	9 135
Other intangible assets	211	168	825	778	1 048	1 048	1 048	1 048
Tangible fixed assets	1 482	1 528	1 724	1 693	1 807	783	-466.8	-1 999.6
WCR	-632.0	-1 300.0	-7 692.0	-7 572.0	-13 781.0	-13 755.0	-13 537.7	-13 289.3
Financial assets	4 986	4 891	3 054	7 560	15 683	18 536	21 021	23 099
Ordinary shareholders equity	14 712	15 994	15 386	16 885	20 019	23 594	28 303	34 635
Minority interests	0.0	0.0	0.0	44.0	44.0	51.5	65.3	84.4
Shareholders equity	14 712	15 994	15 386	16 929	20 063	23 645	28 368	34 720
Non-current provisions	1 513	917	44.0	2 013	2 144	2 144	2 144	2 144
Net debt	**-6 119.0**	**-7 285.0**	**-11 235.0**	**-10 271.0**	**-8 315.0**	**-10 042.5**	**-13 312.6**	**-18 869.9**
CASH FLOW STATEMENT ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**2 898.0**	**3 560.0**	**4 125.0**	**5 043.0**	**6 577.0**	**7 704.5**	**9 659.1**	**12 427.2**
Change in WCR	-260.0	-207.0	6 137.0	-2 865.0	1 350.0	-26.0	-217.3	-248.4
Interests & taxes	52.0	-1 299.0	-171.0	-269.0	165.0	0.0	0.0	0.0
Others	468.0	477.0	-4 608.0	2 652.0	-2 238.0	733.4	906.8	749.5
Operating Cash flow	3 158.0	2 531.0	5 483.0	4 561.0	5 854.0	8 411.9	10 348.6	12 928.3
CAPEX	-669.0	-667.0	-820.0	-687.0	-746.0	-1 024.2	-1 249.7	-1 532.7
Free cash-flow	**2 489.0**	**1 864.0**	**4 663.0**	**3 874.0**	**5 108.0**	**7 387.7**	**9 098.9**	**11 395.5**
Acquisitions / disposals	-19.0	-323.0	-2 124.0	-70.0	-3 609.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	-886.0	-862.0	-3 376.0	-1 273.0	-1 498.0	-1 000.0	-1 000.0	-1 000.0
Others	2 924.0	3 946.0	1 116.0	1 487.0	9 737.0	2 988.7	8 455.4	10 614.9
Change in net cash	4 726.0	1 166.0	3 950.0	-964.0	-1 956.0	1 727.5	3 270.1	5 557.3
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	17.2%	20.8%	18.0%	15.0%	20.7%	19.3%	22.0%	22.7%
Lfl sales growth	-	-	-	-	-	-	-	-
Current EBIT growth	10.1%	26.7%	21.6%	23.4%	30.4%	18.3%	27.5%	31.2%
Growth in adjusted EPS	16.0%	26.7%	27.5%	28.1%	25.1%	17.5%	27.3%	29.7%
Net margin	16.8%	17.7%	18.9%	20.7%	21.5%	21.0%	21.9%	23.1%
EBITDA margin	**26.7%**	**27.2%**	**26.7%**	**28.4%**	**30.7%**	**30.1%**	**30.9%**	**32.4%**
Current EBIT margin	**20.1%**	**21.0%**	**21.7%**	**23.2%**	**25.1%**	**24.9%**	**26.0%**	**27.8%**
CAPEX / Sales	-6.2%	-5.1%	-5.3%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
WCR / Sales	-5.8%	-9.9%	-49.8%	-42.6%	-64.2%	-53.7%	-43.3%	-34.7%
Tax Rate	14.1%	18.4%	13.4%	18.0%	17.0%	18.7%	19.0%	20.0%
Normative tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Asset Turnover	1.5	2.7	5.3	15.8	-63.1	-11.2	-9.5	-8.6
ROCE post-tax (normative tax rate)	**23.7%**	**44.2%**	**90.1%**	**ns**	**ns**	**ns**	**ns**	**ns**
ROCE post-tax hors GW (normative tax rate)	53.8%	ns	ns	ns	ns	ns	ns	ns
ROE	12.8%	15.1%	18.6%	22.8%	25.0%	24.7%	26.3%	28.1%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	-42%	-46%	-73%	-61%	-41%	-42%	-47%	-54%
Net Debt / Market Cap	-0.13	-0.11	-0.11	-0.08	-0.04	-0.03	-0.05	-0.07
Net debt / EBITDA	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**
EBITDA / net financial charges	ns	ns	ns	ns	ns	ns	ns	ns

Sources: ODDO BHF Securities, SIX

ABN·AMRO

Newsflow
Internet service providers | Netherlands

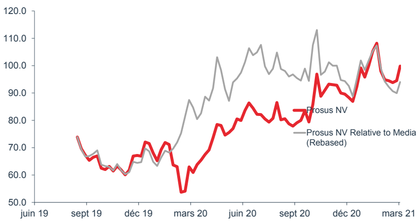
Prosus NV

Outperform ➔ | Target 133 €
Price (01/04/2021): 99.84 € | Upside: 33 %

Revision	2021e	2022e
EPS	-	-

A European investment vehicle to play growth in electronic payment in China and India

Tuesday 06 April 2021



Capital			
PRX:NA | PRX.AS			
Market Cap (€m)			162 275
Enterprise value ($m)			ns
Extrema 12 months ($)		60.94 –	109.1
Free Float (%)			27.4
Performance (%)	**1m**	**3m**	**12m**
Absolute	-0.3	13.0	63.0
Perf. rel. Country Index	-4.8	4.3	17.2
Perf. rel. Media	-6.1	1.5	11.6
P&L	**03/21e**	**03/22e**	**03/23e**
Sales ($m)	4 076	5 417	6 861
EBITDA ($m)	33.2	553	1 221
Current EBIT ($m)	-296.0	116	667
Attr. net profit ($m)	4 778	6 622	8 666
Adjusted EPS ($)	3.04	4.21	5.52
Dividend ($)	0.00	0.00	0.00
P/E (x)	32.8	27.8	21.3
P/B (x)	5.6	6.4	6.1
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	ns	0.2	0.6
EV/Sales (x)	ns	ns	ns
EV/EBITDA (x)	ns	ns	ns
EV/Current EBIT (x)	ns	ns	ns
Gearing (%)	5	4	-1
Net Debt/EBITDA (x)	ns	1.9	ns

Next Events	
21/06/2021	FY Results
24/08/2021	Annual General Meeting
22/11/2021	H1 Results

Prosus is a key player for fintech services in emerging markets (close to 30% of group NAV)

Prosus is one of the few European investment vehicles through which to play growth in electronic payment in emerging countries. The group's exposure stems from its 31% stake in Tencent (nearly all its sales come from China) and its 99% stake in PayU (50% of sales in India, with the rest generated in Latin America, Russia, central Europe, Turkey and some African countries). In China, **Tencent** (2020 fintech sales of $ 16bn) is a dominant player in electronic payment (40% market share, through its mobile payment solution WeChat Pay). A specific feature of WeChat Pay is that it operates on a closed circuit basis (the merchant and the consumer have a WeChat Pay account) which allows the group to offer services for both merchants (offline payment acceptance via QR code, online gateway, couponing services) and consumers (WeChat Pay e-wallet, peer-to-peer payments, consumer loans, wealth management on mobile, insurance services, etc.). **PayU** (2020e sales of $ 545m) is a leading player in the Indian market for online payment and offers transaction solutions (processing) and payment acceptance solutions for merchants (acquiring), mainly through an online gateway (PayU Hub gateway). It has also developed an online credit offering in recent years. The Indian and Chinese markets have seen the strongest growth in electronic payment in the last few years (2015-2018 CAGR of respectively 52% and 44%). We value these stakes (before the holding discount of 20%) at $ 85bn for Tencent and $ 7bn for PayU. The total valuation ($ 92bn, or $ 74bn after discount) equates to close to **30% of group NAV**.

Strong growth outlook (~30%/year out to 2023e), despite regulatory risk in China, which we think is limited

We anticipate strong sales growth in fintech services at Tencent and PayU (~30%/year out to 2023e). Regarding **Tencent**, WeChat Pay's unique positioning and its integration in WeChat (1.2bn users) should allow the group to benefit from a range of cross-selling opportunities (consumer loans, wealth management, insurance), for which the potential is still relatively unexploited, in our view. Moreover, while the regulatory framework is set to continue to tighten in China, we think that the impact will be relatively limited for Tencent. We note that the group operates its lending business (main concern of the regulators and less than 5% of total sales, in our view) through its WeBank subsidiary, an approved bank (already in line with the current regulations and subject to much tighter measures than Ant notably). As for **PayU**, we think that the high degree of under-penetration in the Indian market (50% of sales) in terms of online payment (about 1% of electronic transactions vs 10-20% in developed countries) and the extent to which the population is underbanked (difficult access to credit) offer significant growth opportunities which could exceed our forecasts (average sales growth of 25% per year out to 2025e). We see the business reaching its profitability threshold in 2023e (scale effects and deceleration in costs on the credit portion).

Outperform rating and € 133 target price maintained

We confirm our Outperform rating and € 133 target price. We still think that Prosus will take measures to reduce its discount (lowering of Naspers' weight in South African indices through a spin-off of up to 50% + 1 share, strengthening ESG measures) and could sell a small portion of its Tencent stake in the next few months. Note that the group is no longer limited by a lock-up clause. A disposal of up to 4% of the capital looks a credible scenario. This would allow Prosus to obtain ~$ 7bn per 1% tranche of Tencent, potentially with share buybacks after that.

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PRX:NA | PRX.AS **Outperform** **Price 99.84EUR**

Internet service providers | Netherlands **Upside 33.21%** **TP 133.00EUR**

PER SHARE DATA ($)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Adjusted EPS	1.48	6.99	2.20	2.35	3.04	4.21	5.52
Reported EPS	**1.48**	**6.99**	**2.20**	**2.35**	**3.04**	**4.21**	**5.52**
Growth in adjusted EPS	-	ns	-68.5%	7.0%	29.3%	38.6%	30.9%
Net dividend per share	0.00	0.00	0.00	0.13	0.00	0.00	0.00
FCF to equity per share	-0.28	-0.21	-0.15	-0.19	-0.08	0.29	0.76
Book value per share	6.92	14.69	16.77	17.90	17.69	18.20	19.16
Number of shares market cap (m)	1 625.35	1 625.35	1 625.35	1 625.35	1 571.01	1 571.01	1 571.01
Number of diluted shares (m)	1 625.35	1 625.35	1 625.35	1 625.35	1 571.01	1 571.01	1 571.01
VALUATION ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
12m highest price ($)			82.00	115	132		
12m lowest price ($)			65.20	53.93	103		
(*) Reference price ($)				71.91	99.68	117	117
Capitalization				116 876	156 596	184 235	184 235
Restated Net debt	-1 011.0	-7 289.0	-5 935.0	-4 546.0	1 481	1 031	-165.2
Minorities (fair value)	319	21.0	132	2 691	2 691	2 691	2 691
Financial fixed assets (fair value)	0.0	0.0	0.0	289 928	289 928	289 928	289 928
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value				**ns**	**ns**	**ns**	**ns**
P/E (x)				30.6	32.8	27.8	21.3
P/CF (x)				ns	939	236	119
Net Yield				0.2%	0.0%	0.0%	0.0%
FCF yield				ns	ns	0.2%	0.6%
P/B incl. GW (x)				4.02	5.64	6.44	6.12
P/B excl. GW (x)							
EV/Sales (x)				ns	ns	ns	ns
EV/EBITDA (x)				ns	ns	ns	ns
EV/Current EBIT (x)				**ns**	**ns**	**ns**	**ns**
(*) historical average price							
PROFIT AND LOSS ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Sales	1 835	2 303	2 654	3 330	4 076	5 417	6 861
EBITDA	-507.0	-354.0	-265.0	-324.0	33.2	553	1 221
Depreciations	-308.0	-261.0	-163.0	-269.0	-329.2	-437.6	-554.2
Current EBIT	**-815.0**	**-615.0**	**-428.0**	**-593.0**	**-296.0**	**116**	**667**
Published EBIT	-815.0	-615.0	-428.0	-593.0	-296.0	116	667
Net financial income	-821.0	-491.0	179	92	-257.1	-258.6	-258.6
Corporate Tax	-11.0	-39.0	-258.0	-75.0	-90.0	-108.0	-129.6
Net income of equity-accounted companies	1 739	12 470	3 139	3 857	5 339	6 905	8 348
Profit/loss of discontinued activities (after tax)	2 311	30.0	872	434	0.0	0.0	0.0
Minority interests	0.0	0.0	71	109	82	-32.3	39.5
Attributable net profit	2 403	11 355	3 575	3 824	4 778	6 622	8 666
Adjusted attributable net profit	**2 403**	**11 355**	**3 575**	**3 824**	**4 778**	**6 622**	**8 666**
BALANCE SHEET ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Goodwill	2 147	2 198	2 035	2 169	3 063	3 063	3 063
Other intangible assets	1 038	979	794	844	844	844	844
Tangible fixed assets	55.0	622	143	377	507	687	887
WCR	-872.0	-2 623.0	-600.0	-1 044.0	-874.0	-724.0	-574.0
Financial assets	10 932	16 853	19 919	23 382	26 982	26 982	26 982
Ordinary shareholders equity	11 254	23 875	27 250	29 100	27 785	28 598	30 104
Minority interests	319	21.0	132	214	296	263	303
Shareholders equity	11 573	23 896	27 382	29 314	28 081	28 861	30 407
Non-current provisions	2 738	1 422	844	960	960	960	960
Net debt	**-1 011.0**	**-7 289.0**	**-5 935.0**	**-4 546.0**	**1 481**	**1 031**	**-165.2**
CASH FLOW STATEMENT ($m)	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
EBITDA	**-507.0**	**-354.0**	**-265.0**	**-324.0**	**33.2**	**553.4**	**1 220.9**
Change in WCR	0.0	0.0	-121.0	-173.0	-170.0	-150.0	-150.0
Interests & taxes	-245.0	-216.0	-115.0	-116.0	-347.1	-366.6	-388.2
Others	346.0	291.0	356.0	404.0	480.6	593.5	713.6
Operating Cash flow	-406.0	-279.0	-145.0	-209.0	-3.3	630.2	1 396.3
CAPEX	-53.0	-69.0	-106.0	-97.0	-130.0	-180.0	-200.0
Free cash-flow	**-459.0**	**-348.0**	**-251.0**	**-306.0**	**-133.3**	**450.2**	**1 196.3**
Acquisitions / disposals	2 961.0	7 921.0	-8 167.0	-4 622.0	-894.0	0.0	0.0
Dividends	-15.0	-25.0	-16.0	-216.0	0.0	0.0	0.0
Net capital increase	0.0	0.0	0.0	0.0	-5 000.0	0.0	0.0
Others	-1.0	-141.0	-1 549.0	67.0	0.0	0.0	0.0
Change in net cash	2 473.0	7 464.0	-8 444.0	1 856.0	-6 027.3	450.2	1 196.3
GROWTH MARGINS PRODUCTIVITY	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Sales growth	-	25.5%	15.2%	25.5%	22.4%	32.9%	26.7%
Lfl sales growth	**-**	**52.5%**	**17.4%**	**17.0%**	**32.5%**	**26.9%**	**19.9%**
Current EBIT growth	-	ns	ns	ns	ns	ns	ns
Growth in adjusted EPS	-	ns	-68.5%	7.0%	29.3%	38.6%	30.9%
Net margin	ns	ns	ns	ns	ns	ns	ns
EBITDA margin	**-27.6%**	**-15.4%**	**-10.0%**	**-9.7%**	**0.8%**	**10.2%**	**17.8%**
Current EBIT margin	**-44.4%**	**-26.7%**	**-16.1%**	**-17.8%**	**-7.3%**	**2.1%**	**9.7%**
CAPEX / Sales	-2.9%	-3.0%	-4.0%	-2.9%	-3.2%	-3.3%	-2.9%
WCR / Sales	-47.5%	ns	-22.6%	-31.4%	-21.4%	-13.4%	-8.4%
Tax Rate	-0.7%	-3.5%	ns	-15.0%	-16.3%	-75.6%	31.8%
Normative tax rate	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%
Asset Turnover	-	1.3	1.5	1.4	1.4	1.5	1.7
ROCE post-tax (normative tax rate)	**-**	**-27.0%**	**-18.8%**	**-19.6%**	**-7.8%**	**2.4%**	**12.8%**
ROCE post-tax hors GW (normative tax rate)	-	ns	97.2%	ns	-70.4%	14.0%	52.8%
ROE	-	64.6%	14.0%	13.6%	16.8%	23.5%	29.5%
DEBT RATIOS	**03/17**	**03/18**	**03/19**	**03/20**	**03/21e**	**03/22e**	**03/23e**
Gearing	-9%	-31%	-22%	-16%	5%	4%	-1%
Net Debt / Market Cap				-0.04	0.01	0.01	0.00
Net debt / EBITDA	**1.99**	**ns**	**ns**	**ns**	**ns**	**1.86**	**ns**
EBITDA / net financial charges	-2.8	-2.2	4.1	-14.7	0.1	2.1	4.7

Sources: ODDO BHF Securities, SIX

Initiating coverage
IT services | US

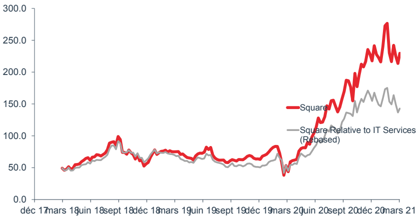
Square

Neutral ➔ | Target 245 $
Price (01/04/2021): 229.51 $ | Upside: 7 %

Revision	2021e	2022e
EPS	ns	ns

A sparkling run, but the valuation has caught up – Initiation at Neutral

Sunday 04 April 2021



Capital			
SQ US | SQ.N			
Market Cap ($m)			93 119
Enterprise value ($m)			98 134
Extrema 12 months ($)		43.72 –	276.6
Free Float (%)			86.1
Performance (%)	**1m**	**3m**	**12m**
Absolute	-4.8	5.5	390.3
Perf. rel. Country Index	-9.1	-2.6	252.5
Perf. rel. IT Services	-9.5	-7.7	202.6
P&L	**12/21e**	**12/22e**	**12/23e**
Sales ($m)	14 363	17 039	20 003
EBITDA ($m)	736	1 080	1 585
Current EBIT ($m)	619	927	1 384
Attr. net profit ($m)	34.6	204	459
Adjusted EPS ($)	1.18	1.74	2.51
Dividend ($)	0.00	0.00	0.00
P/E (x)	194.4	131.9	91.3
P/B (x)	31.2	24.7	19.0
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.0	1.3	1.8
EV/Sales (x)	6.83	5.72	4.81
EV/EBITDA (x)	133.3	90.1	60.7
EV/Current EBIT (x)	158.6	105.0	69.5
Gearing (%)	-23	-39	-53
Net Debt/EBITDA (x)	ns	ns	ns

Next Events	
06/05/2021	Q1 Results

Square, the most innovative player in payment services

Square is a US payment services provider that has become a major player (2020 revenues of $ 9.5bn) in the space of just a few years thanks to its strong capacity to innovate. The group started life as a transaction processor (34% of 2020 revenues) and hardware supplier (1%), but succeeded in opening up to new markets: first by developing ancillary services and management tools for merchants (12%) and then by creating a financial services application, Cash App, which today accounts for the lion's share of revenues (63%).

The story is now based around the strong growth of Cash App

Cash App has been the driver of the equity story for the past year (most widely-used financial application in the US). For several years, the application was merely a P2P money transfer platform that generated little in the way of revenue. However, it enabled the group to rapidly gain new clients for a very low cost. Square then used this client base by monetising the application (virtual Cash Card, cash back, Bitcoin, brokerage services, etc.). During the COVID-19 pandemic, the story accelerated with very strong adoption of the services offered by the application, particularly Cash Card (twofold increase in the number of users), Bitcoin (ninefold rise in revenue) and the brokerage activity (2.5 million clients for a service launched just a few months earlier). Gross profit rose +168% in one year and growth opportunities are still significant ($ 60bn addressable market). We therefore expect strong growth for Cash App (growth in gross profit of 41%/year out to 2025e) thanks to the acceleration in client engagement, new product launches and potential international expansion.

But watch out for competition (margin pressures) and regulation (slowdown in growth?)

We look for very strong growth for Square in the coming years (gross profit +32%/year out to 2025e). We nevertheless believe that competition will ramp up (particularly PayPal), which will force the group to be aggressive in terms of marketing and technology spending (opex +31%/year out to 2023e). We therefore look for an EBITDA/gross profit ratio of 23.7% in 2023e (vs 17.2% in 2020), below the consensus forecast of 26.7%. Moreover, the evolving regulatory environment might slow the group's growth with: 1/ the FedNow project concerning instant payment transfers (opening up of competition on a market where Square is a major player); and 2/ stronger regulations concerning Bitcoin, which represents 48% of revenues and 4% of gross profit (while being a means of attracting new users to the ecosystem). Our 2022e-2023e EPS estimates are 5% below the FactSet consensus.

The current valuation leaves little room for slip-ups – We initiate coverage at Neutral with a target price of $ 245

We initiate Square with a Neutral rating and a target price of $ 245 (average of a DCF and a P/E multiple of 50x 2025e EPS). Square has had a dazzling run, particularly since last year (share price up +267% since the start of 2020) and the acceleration in the take-up of Cash App. We nonetheless think that at these valuation levels (125x EBITDA 12m forward vs 36x for PayPal), the company seems to be valued for perfection. Yet, execution will not be straightforward with the competitive and regulatory environment likely to become more challenging. Therefore, while we are confident regarding Square's growth opportunities and its positioning, we still think that the current valuation leaves little potential for a nice surprise (unlike PayPal) and exposes it to a correction in the event of any mishaps (margin pressure/slowing of growth).

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What is Square?

Square is a US company that provides financial and payment services. The group has been one of the most innovative players in the sector in recent years, first in hardware (Square Reader next-gen payment terminals), then in payment services, mainly for SMEs (a number of innovations in merchant acquiring such as Square Gift Cards, Square Payroll, Square Invoices, Square Capital, etc.) and finally in financial services for consumers (introduction of the Square Installments consumer credit system in 2018 and the financial application Cash App in 2013).

The company was founded in 2009 by Jack Dorsey (still the CEO) and Jim McKelvey. Note that Jack Dorsey is also the CEO of Twitter.

Square was listed on the stock market in 2015 and the share price has risen very strongly (+70%/year on average), albeit fairly erratically. While the share price showed little change in the first two years, it made rapid gains in 2018 under the impact of an acceleration in growth. Growth in transaction volumes then slowed in 2019 while the valuation remained very demanding (>60x EVEBITDA 12m forward) and the share underperformed that year. However, the equity story changed in 2020 (+267% since the start of 2020) with the very strong growth of its payment application Cash App.

Square's share performance (base 100)

Sources: ODDO BHF Securities, FactSet

A presence across the entire value chain: in both hardware and software, offline and online...

Square first started out as a hardware player. The company's name (Square) comes from the square shape of its first payment card readers (payment by connecting the reader to a smartphone). Today, the hardware segment represents just 1% of sales.

The group than rapidly expanded its services by becoming a payment transaction processor and then supplying ancillary software services, thereby giving SMEs (the group's main clients) an end-to-end solution.

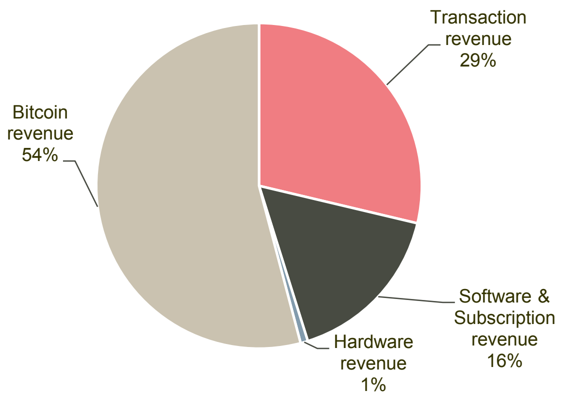
This positioning not only allows Square to seize all opportunities right along the payment value chain, but also to simplify its offering (with a ready-make packaged solution) and create synergies in its different activities by observing how the different products interact together.

These services (including online services, i.e. around 25% of acquiring transaction volumes) are housed in Square Seller services (merchant services) and represented around 53% of gross profit in 2020.

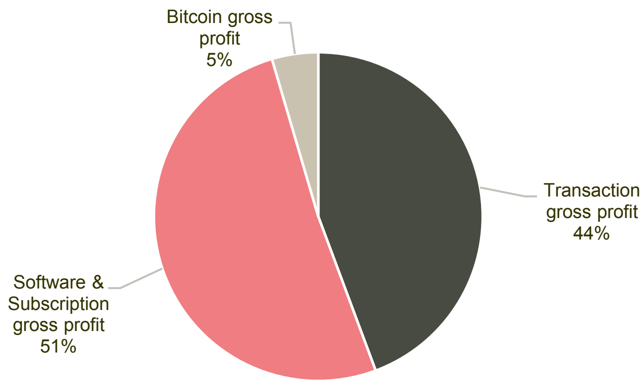
The rest of gross profit (47%) comes from the group's Cash App application, offering financial services to consumers. When it was launched (2013), Cash App was a peer-to-peer money transfer application (which was very little monetised) but which today has become a comprehensive financial application (with a virtual payment card, Cash Card, attached, brokerage and crypto-currency investment services).

Note that Square generates its revenues almost exclusively in the US (though it has a small presence in Canada, Australia, the UK and Japan) but could expand its services (notably Cash App) to Europe.

Breakdown of revenues by segment (2021e)



Breakdown of gross profit by segment (2021e)*



Source: ODDO BHF Securities

**The gross margin in the hardware segment is negative*

Breakdown of Square's revenues and gross profit by product type

	Products	Transaction based	Software & subscription based	Hardware	Bitcoin
% of revenues (2021e)		**29%**	**16%**	**1%**	**54%**
% of gross profit (2021e)		**45%**	**52%**	**-1%**	**5%**
Y-o-y revenue growth (2021e)		**25%**	**54%**	**15%**	**70%**
Sidecar payments	POS app with payments usage only	X			
Software and integrated payments	Invoices, Virtual Terminal, Developer, APIs/SDKs, third party apps	X			
	Square for Retail, Restaurants, Appointments, Square Online Store	X	X		
	Team management, Marketing, Loyalty		X		
Financial services	Square Card, Instant transfer		X		
Capital	Core flex loans, Installments		X		
Hardware	Square Stand (register), Terminal, Square Reader (contactless chip reader), third-party peripherals			X	
Cash App	Instant Deposit, Cash Card, credit card funding, P2P payments, stock brokerage, Bitcoin	X	X		X

Source: ODDO BHF Securities

Note that the group also carried out some acquisitions to round out its product portfolio and diversify its activities, with notably: Caviar (food delivery) in 2014 for $ 100m (sold to DoorDash in 2019 for $ 410m), Weebly (website creation tool) in 2018 for $ 241m, Credit Karma (tax filing service for consumers) in 2020 for $ 50m and, more recently, Tidal (music streaming service) in March 2021 for $ 297m.

We remain fairly sceptical on the group's M&A strategy (it has not had the same success as PayPal with its acquisitions) and we believe there is a risk that the group might carry out acquisitions that involve new costs while generating few synergies (such as Caviar, which was sold without being profitable, or the streaming service Tidal, which is also a highly competitive sector where synergies with the current businesses are not obvious).

However, it should be noted that the group has demonstrated on several occasions its strong capacity for in-house innovation, which has often enabled it to avoid carrying out new acquisitions to round out its product portfolio.

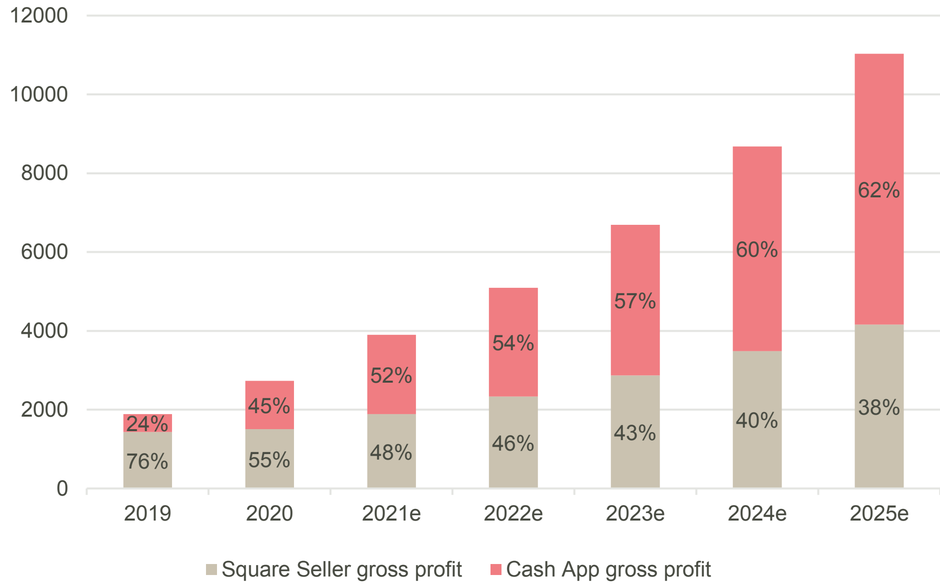
…but Cash App is likely to become preponderant and account for 69% of revenues and 60% of gross profit in 2024e

While gross profit is currently split evenly between merchant-related business (55% of gross profit comes from Square Seller) and consumer-related business (45% of gross profit comes from Cash App), the situation will be fairly different in a few years' time.

Indeed, the two activities are growing at sharply different rates (by our estimates growth in gross profit generated by Cash App was +168% in 2020 vs +5% for the rest of the business, undermined by COVID-19). In 2019, Cash App represented around 24% of gross profit (23% of revenues) and we estimate that it will represent 60% of gross profit in 2024e (69% of revenues). Cash App will therefore become the main generator of revenues and probably the driver of the equity story in the coming years.

Note that gross profit is in our view a better indicator than revenues for assessing growth in Square's activity, given the dominant share of Bitcoin, which represents close to half of revenues but just 4% of gross profit (since it generates a margin of 2%).

Growth in gross profit ($ m) between Cash App and Square Seller



Sources: ODDO BHF Securities, Square

From a highly innovative player in merchant services, but limited by the size of its market…

One of the main innovators in the merchant services sector...

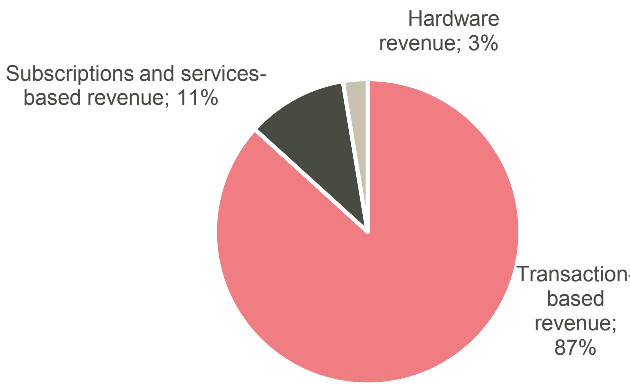
Square is considered the best in class among payment acceptance service suppliers in the US. The quality of its offering is particularly appreciated by SMEs thanks to:

- The **rapid onboarding** (less than 24 hours).
- **Transparent and clear pricing** (transaction costs of 2.75%, towards the upper end of average prices on the market, but no maintenance fees or hidden costs).
- A **very comprehensive offering (hardware and software)** considered by many SMEs as the best on the market.

Indeed, the group stood out from its rivals though the numerous innovations that it introduced to help merchants with their business. We could mention in particular: the **Square Reader** payment card reader (connected to a smartphone and the Square Point of Sale application), **Square Stand** (which turns a tablet into a connected cash register), **Square Analytics** (reporting and analytical tools for the merchant's business, enabling them to better understand consumer habits), **Square for Retail** (inventory management), **Square Appointments** (appointment scheduling), **Square Gift Cards** (gift card creation tool), **Square Payroll** (payroll management), **Square Installments** (consumer credit service offering deferred payment, increasing the purchase conversion rate) or the **Square Capital** fund (a system of flexible loans for SME of $ 300 to $ 100,000, based notably on internal credit ratings established on the basis of the data recovered with payment transactions).

Square Seller products

Square Seller revenue sources (revenue excluding Cash App)



Sources: ODDO BHF Securities, Square

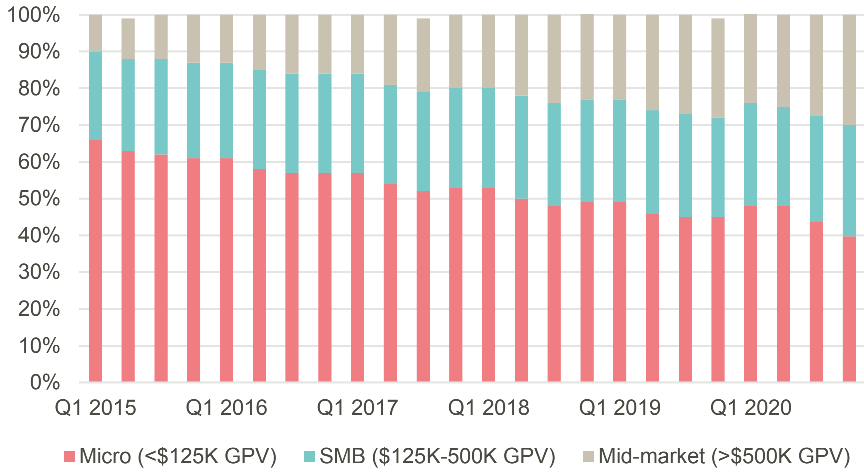
…but which has not managed to expand beyond the SME market in its acquiring business

The Square model is very attractive for small merchants, notably because the group offers a lot of ancillary services that improve their productivity (inventory management, payroll management, reporting, loans, etc.), but also because Square's solution (2.75%/transaction) is attractive for businesses that generate small-ticket transactions (such as restaurants), given that Square does not apply fixed prices for processing (in general 10 to 15 cents per transaction for other payment transaction processors).

However, large merchants negotiate lower take rates (generally around 2%) and moreover in general have their own inventory management, payroll management tools, etc. We therefore think that Square's solution is not best suited for large merchants.

The size of Square's market in acquiring is therefore limited by the fact that its main target market is SMEs, which curbs the group's growth. Close to 50% of transaction volumes are therefore generated with merchants that generate less than $ 125,000 in sales per year and 75% of volumes are generated with merchants with sales of less than $ 500,000. However, it should be noted that there has been a slight improvement in recent years (merchants generating over $ 500,000 in sales now account for 25% of transaction volumes versus 10% five years ago).

Trend in Square's mix between micro-merchants (<$ 125k in annual sales), SMEs ($ 125-500k) and large merchants (>$ 500k)



Source: Square

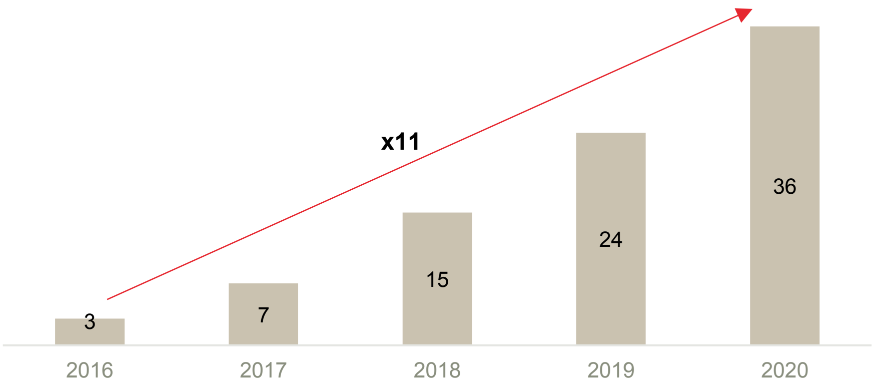
…to the most widely-used financial application in the US

The adoption of Cash App strongly accelerated business

The Cash App application was launched in 2013, initially as a peer-to-peer money transfer platform. The application did not generate much money since Square does not charge fees on peer-to-peer transactions. The main fees therefore consisted of instant transfers (1.5% + $ 0.25) and credit card payments (3%, whereas transfers from the balance on the Cash App application are free).

Yet, while Cash App did not generate much revenue, it enabled the group to attract a large number of clients to its ecosystem. Indeed, for peer-to-peer money transfers to be possible, all the users have to use the same platform, which encourages them to invite other users to download the application. This creates a very powerful network effect, which accelerated growth in users of the platform for a very low client acquisition cost. Today, there are around 36 million active Cash App users (who use the application at least once per month) versus 24 million in 2019, 15 million in 2018 and 7 million in 2017.

Growth in the number of active users (million) of Cash App



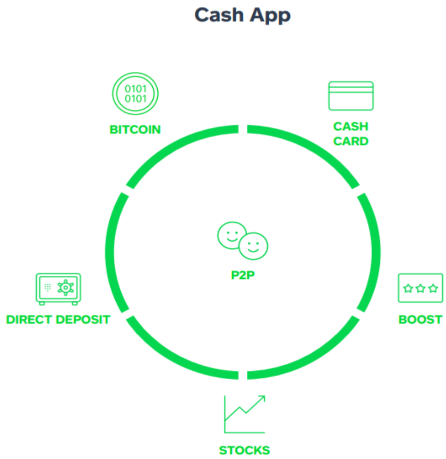
Source: Square

**Using the application at least once per month*

Square then capitalised on this client base by rolling out new services that generate higher revenues:

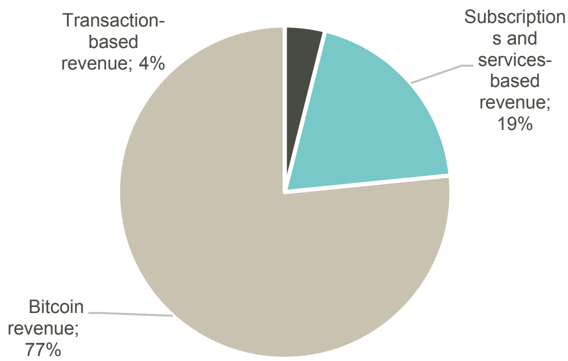
- **Cash Card** in 2016 (the card is free but there is a fee of $ 2 on withdrawals, with also a fee of 2.75% paid by merchants on online or offline purchases).
- **Cash Boost** in 2018, i.e. a cash back function (reimbursement of part of the transaction, up to 15% at certain retailers) on the Cash Card aimed at boosting its usage.
- The possibility to invest in **Bitcoin** in 2017, with Square having been one of the first companies to enable purchases of the cryptocurrency. While the service was free when it was launched, the group now applies a fee of 1.76% for each transaction. Note also that there used to be service fees for peer-to-peer exchanges of bitcoins (also 1.76%) but Square announced recently (March 2021) that these services will now be free.
- **Cash App Investing** in October 2019, i.e. equity brokerage services. Like rival Robinhood, Cash App does not levy any fees for equity purchases but is remunerated via payment for order flow by market makers. The market makers pay Square for receiving small-ticket orders (which is generally the case for private individuals who invest on Cash App) since this allows them to more easily match counterparties with large amounts, thereby improving execution quality for the broker. Square has also brought a new innovation in terms of equity brokerage, called "fractional shares", i.e. the possibility to buy fractions of shares (starting from $ 1), thereby enabling private individuals to invest in stocks with a unit value that might be too pricey.

Cash App products



Sources: ODDO BHF Securities, Square

Cash App revenue sources



During the COVID-19 pandemic, we saw a very strong acceleration in the adoption of these services (ARPU up +130% in 2020). In June 2020, more than 7 million consumers used the Cash Card as a means of payment (double the number in 2019). The strongest acceleration was in the group's brokerage business (2.5 million clients whereas the solution was only launched a few months earlier).

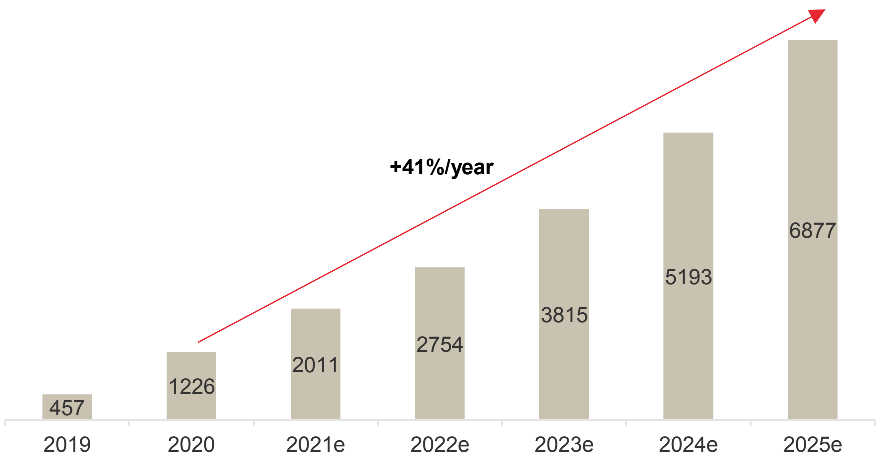
This resulted in very strong growth in revenues (+431% in 2020), driven by Bitcoin (which represents more than 75% of Cash App revenues but just 8% of the application's gross profit) and in its gross profit (+168% y-o-y in 2020). It should also be noted that the stimulus cheques ($ 1,200 per person in March 2020, followed by a further $ 600 in December) were major growth drivers for Cash App (this favoured the transition towards debit cards, i.e. a major source of revenues for fintech players such as Cash App and Venmo, with clients often using them as the preferred destination for direct deposits. A new cheque was announced in March ($ 1,400 per person).

Today, Cash App is one of the most widely-used applications in the US (no. 1 financial application since 2017 on Android and the App Store and among the top 10 most popular applications in 2020) and is perfectly positioned to continue to take advantage of growth opportunities on the digitised banking services market, with client engagement accelerating (25% of users active every month also used it every day in 2020, vs 18% the previous year).

Square's CFO Amrita Ahuja therefore estimates that the addressable market for Cash App with its existing products is worth $ 60bn while Square is also looking to develop Cash App abroad and notably in Europe (the group recently decided to hire extra staff for its offices in Ireland).

We therefore look for very strong growth for Cash App in the coming years (growth in gross profit of +41%/year on average out to 2025e).

Cash App growth in gross profit ($ m)



Source: ODDO BHF Securities

But competition is coming…

While Cash App is for the time being the most widely-used financial application in the US, it faces a highly competitive environment since it is in competition with Robinhood, Fidelity and Webull in its brokerage activities (also no commission fees) and with Coinbase in Bitcoin investments (lower transaction fees at 1% vs 1.76% for Cash App).

The application is also a rival to PayPal, Venmo (owned by PayPal) and Zelle (owned by several US banks) in P2P payments and mobile payment services.

We also think that the PayPal and Venmo applications are likely to ramp up in the next few years (integration of brokerage services, consumer credit and investment services, and cryptocurrency payments) and become the main rivals to Cash App as a financial Super App.

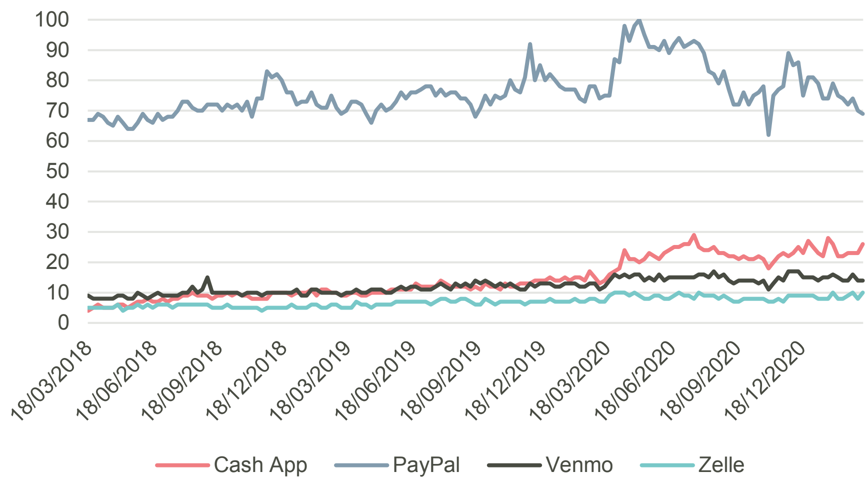
Cash App services vs Venmo and PayPal

	Venmo/PayPal app	Cash App
Peer-to-peer payments	Free	Free
Account-to-account transfers	Free	Free
Instant withdrawals	1%	1.5%
Transaction fees	2.9% (billed to companies) and up to 1.9% via PayPal	2.75% (billed to companies)
Payment by credit card	3%	3%
Crypto-currency purchases	2.30% (available in the near future on Venmo)	1.76%
Brokerage service	n/a (available in the near future)	Free for consumers Remunerated via payment for order flow

Source: ODDO BHF Securities

Indeed, we are particularly confident on the positioning of PayPal which has: 1/ the technology portfolio needed to build a comprehensive financial Super App; 2/ the capacity to undertake major investments in both R&D and marketing (the group is much more profitable than Square); and 3/ is a very strong brand that is already recognisable and a guarantee of confidence for consumers.

Google search trends in the US* (Cash App vs PayPal vs Venmo vs Zelle)



Source: Google Trends

** The results reflect the proportion of searches for a given key word in a region and for a specific period. 100 represents maximum use of the term in the period and place defined (here the US) and a value of 50 means that the key word was used half as often in the region in question*

…and regulatory risk is significant

Among Cash App's revenue sources, some are particularly exposed to potential new regulation. This mainly concerns: 1/ instant payments; and 2/ Bitcoin.

The FedNow project developed by the US central bank will enable financial institutions to carry out virtually instantaneous transactions (similar to the SEPA project in Europe). This will reduce transaction costs (which is likely to have a slightly negative effect on Square's transaction fees) and open up the platform to new players.

Moreover, nearly 80% of Cash App's revenue comes from Bitcoin transaction fees, even though they represent just 8% of the application's gross profit (4% of total gross profit) due to the low margin (2%) that Square generates on these transactions. Now, while the group is already exposed to the risk arising on the poor visibility on the future appeal of Bitcoin (and not to volatility risk, since greater volatility would mean higher transaction volumes), it is also exposed to regulatory risk in this business. Indeed, new regulations governing the use of crypto-currencies could come into force.

One measure mentioned for example would require platforms to record transactions or request proof of identity for transactions above a certain amount (the new US Treasury Secretary Janet Yellen is in favour of this). This could slow the group's growth in this activity and the acquisition of new clients (Bitcoin is a good way to attract new users to the ecosystem) while generating new regulatory compliance costs.

SWOT analysis

Strengths	Weaknesses
• Strong innovation capacity • Presence across the entire value chain (hardware/software, online/offline) • 'Best in class' in terms of the offering and services • Strong adoption of Cash App (no. 1 financial app in the US)	• Weak penetration at large merchants (SMEs account for 75% of transaction volumes in value terms) • Much lower margins than PayPal • Smaller than PayPal (fewer possibilities for spending on marketing) • Small international footprint

Opportunities	Threats
• Growing digitisation of banking services • International expansion • Greater penetration among large merchants • Stronger monetisation of Cash App • Creation of new products (innovation capacity) • Acceleration of omnichannel and adoption of the group's ancillary services • Stimulus cheques and transition to debit (vs credit)	• Stricter regulation (Bitcoin + instant payments) • End of stimulus cheques and slowdown of Cash App • Stronger competition (PayPal/Venmo) and margin pressures (+ marketing expenses) • Recession and SME bankruptcies (exposure in the merchant lending business) • Poorly controlled international expansion and M&A

Source: ODDO BHF Securities

Still a lot of growth, but costs are not likely to slow in the short to medium term

We expect strong growth in gross profit (+32% out to 2025e), with Cash App the main driver

Square generates its revenues via its offering of services (merchant acquiring, processing, loans to SMEs, hardware, etc.) for merchants (55% of 2020 gross profit) and via the financial services for consumers it offers on Cash App (45% of 2020 gross profit).

We forecast average transaction growth (by value) of 21% out to 2025 (25% of transaction volumes in online payment). We look for slightly lower growth in transaction-related revenues (2020-2025e CAGR of 20%), with a gradual decline in the take rate, from 2.93% in 2020 to 2.83% in 2025 (with a revenue mix that should shift more towards large merchants, which demand lower take rates).

Moreover, we look for strong Cash App revenue growth (2020-2025e CAGR of 26%), driven mainly by Bitcoin revenues in 2021e (+70% year-on-year) and then by the ramp-up of the group's other services in the following years such as equity brokerage and use of the Cash Card (2020-2025e CAGR of 42% for Cash App revenue excluding Bitcoin). Strong regulation of financial services offered to consumers (particularly where Bitcoin is concerned) could nonetheless hinder growth.

This results in gross profit growth for Cash App of 41%/year on average out to 2025e (with +64% in 2021e) and 23%/year for the rest of the Square Seller activities (gross profit excluding Cash App). Growth in gross profit works out at +32%/year on average out to 2025e.

Growth of Square's revenues and gross profit by segment

$ m	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Gross Processing Volume (GPV)	65 342	84 655	106 239	112 295	141 492	172 620	208 870	250 644	295 760
- growth	*32%*	*30%*	*25%*	*6%*	*26%*	*22%*	*21%*	*20%*	*18%*
Take rate	2.94%	2.92%	2.90%	2.93%	2.91%	2.89%	2.87%	2.85%	2.83%
- growth	*-4.9%*	*-0.7%*	*-0.7%*	*1.2%*	*-0.7%*	*-0.7%*	*-0.7%*	*-0.7%*	*-0.7%*
Transaction revenue	1 920	2 471	3 081	3 295	4 123	4 994	6 001	7 151	8 379
- growth	*31.9%*	*28.7%*	*24.7%*	*6.9%*	*25.1%*	*21.1%*	*20.2%*	*19.2%*	*17.2%*
Software & Subscription revenue	253	592	1 031	1 539	2 363	3 223	4 472	6 089	8 066
- growth	*95.3%*	*134.2%*	*74.3%*	*49.2%*	*53.5%*	*36.4%*	*38.8%*	*36.2%*	*32.5%*
Hardware revenue	41	69	85	92	105	118	130	141	151
- growth	*-6.5%*	*65.4%*	*23.4%*	*8.5%*	*15.0%*	*12.0%*	*10.0%*	*8.5%*	*7.0%*
Bitcoin revenue	0	167	516	4 572	7 772	8 704	9 401	10 153	10 965
- growth			*210.2%*	*785.2%*	*70.0%*	*12.0%*	*8.0%*	*8.0%*	*8.0%*
Net revenue	**2 214**	**3 298**	**4 714**	**9 498**	**14 363**	**17 039**	**20 003**	**23 534**	**27 560**
- growth	*35.9%*	*49.0%*	*42.9%*	*101.5%*	*51.2%*	*18.6%*	*17.4%*	*17.6%*	*17.1%*
Cash App revenue (including Bitcoin)			1 124	5 968	10 035	11 827	13 772	16 142	18 931
- growth				*431.2%*	*68.1%*	*17.9%*	*16.4%*	*17.2%*	*17.3%*
Square Seller revenue			3 590	3 529	4 328	5 212	6 231	7 392	8 629
- growth				*-1.7%*	*22.6%*	*20.4%*	*19.5%*	*18.6%*	*16.7%*
Transaction costs	-1 230	-1 559	-1 938	-1 912	-2 367	-2 828	-3 356	-3 963	-4 610
- as % transaction revenue	-64.1%	-63.1%	-62.9%	-58.0%	-57.4%	-56.6%	-55.9%	-55.4%	-55.0%
Software and data product costs	-76	-170	-234	-223	-339	-455	-622	-829	-1 064
- as % software revenue	-30.0%	-28.7%	-22.7%	-14.5%	-14.3%	-14.1%	-13.9%	-13.6%	-13.2%
Hardware costs	-62	-94	-136	-144	-157	-171	-183	-194	-204
- as % hardware revenue	-150.7%	-137.4%	-161.4%	-157.0%	-149.0%	-145.0%	-141.0%	-138.0%	-135.0%
Bitcoin costs	0	-165	-508	-4 475	-7 591	-8 485	-9 145	-9 856	-10 633
- as % Bitcoin revenue		-99.0%	-98.4%	-97.9%	-97.7%	-97.5%	-97.3%	-97.1%	-97.0%
Gross profit	**839**	**1 304**	**1 890**	**2 733**	**3 898**	**5 091**	**6 687**	**8 682**	**11 039**
- growth	*45.7%*	*55.3%*	*44.9%*	*44.6%*	*42.6%*	*30.6%*	*31.4%*	*29.8%*	*27.2%*
Cash App gross profit (estimated)			457	1 226	2 011	2 754	3 815	5 193	6 877
- growth				*168.1%*	*64.1%*	*36.9%*	*38.5%*	*36.1%*	*32.4%*
- as % of gross profit			24%	45%	52%	54%	57%	60%	62%
Square Seller gross profit (estimated)			1 432	1 507	1 887	2 337	2 872	3 489	4 161
- growth				*5.2%*	*25.2%*	*23.8%*	*22.9%*	*21.5%*	*19.3%*
- as % of gross profit			76%	55%	48%	46%	43%	40%	38%

Source: ODDO BHF Securities

…but watch out for margins, which might disappoint

We expect competition to ramp up in consumer financial services (notably PayPal). This is likely to trigger significant investments by Square for its Cash App application (doubling of the sales teams in 2021e) in terms of both marketing and technology outlays, in particular if the group steps up the application's international expansion.

We therefore think that R&D outlays are set to accelerate (+35%/year out to 2023e) and that the group will have to continue to be aggressive in marketing spending (+33%/year out to 2023e after nearly doubling in 2020 at +80%).

We therefore look for an EBITDA margin (on net revenues adjusted for payment and Bitcoin transaction costs) of 16.7% in 2021e (vs 15.1% in 2020) reaching 21.1% in 2023e. The adjusted EBITDA/gross profit ratio is also a good indicator to assess the group's profitability. We look for 18.9% in 2021e and 23.7% in 2023e (consensus at 18.6% in 2021e and 26.7% in 2023e).

We thus anticipate 2021e EPS of $ 1.18 (guidance of $ 1.20), i.e. EPS growth of 49% per year on average out to 2025e, accelerating over the period (as we see the group investing aggressively as of this year.

Note that the group did not give any guidance for the year but expects to increase its operating expenditure by $ 800m to $ 900m, a target with which we are aligned ($ 850m).

The group has invested part of its cash (~5%) in Bitcoin, i.e. two consecutive investments of $ 50m then $ 170m in Bitcoin (with the aim of making this form of currency more legitimate). Square's financial situation is moreover solid (+$ 854m net cash position), which gives it flexibility to carry out small acquisitions (< $ 1bn).

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Square P&L

$ m	2017	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Net revenue	**2 214**	**3 298**	**4 714**	**9 498**	**14 363**	**17 039**	**20 003**	**23 534**	**27 560**
- growth	*35.9%*	*49.0%*	*42.9%*	*101.5%*	51.2%	18.6%	17.4%	17.6%	17.1%
Gross profit	**839**	**1 304**	**1 890**	**2 733**	3 898	5 091	6 687	8 682	11 039
- growth	*45.7%*	*55.3%*	*44.9%*	*44.6%*	42.6%	30.6%	31.4%	29.8%	27.2%
SG&A and other	-309	-369	-501	-751	-1 079	-1 734	-2 432	-3 020	-3 772
- as % of gross profit	-36.9%	-28.3%	-26.5%	-27.5%	-27.7%	-34.1%	-36.4%	-34.8%	-34.2%
R&D	-207	-320	-413	-542	-743	-1 003	-1 344	-1 639	-1 934
- as % of gross profit	-24.6%	-24.5%	-21.9%	-19.8%	-19.1%	-19.7%	-20.1%	-18.9%	-17.5%
EBITDA - Non-GAAP	**139**	**257**	**417**	**470**	**736**	**1 080**	**1 585**	**2 530**	**3 937**
- as % of gross profit	16.6%	19.7%	22.1%	17.2%	18.9%	21.2%	23.7%	29.1%	35.7%
Income tax and other expenses	-9	-2	-25	232	-34	-56	-115	-235	-447
- as % of EBIT	-8.5%	-0.9%	-7.2%	60.1%	-5.5%	-6.0%	-8.3%	-10.4%	-12.4%
Adjusted Net profit Non-GAAP	115	226	388	426	600	885	1 281	2 054	3 198
- as % of gross profit	13.7%	17.3%	20.5%	15.6%	15.4%	17.4%	19.1%	23.7%	29.0%
EPS GAAP Diluted ($)	-0.17	-0.09	0.81	0.42	0.07	0.40	0.90	1.95	3.63
- growth	*-67.0%*	*-42.8%*	*-950.0%*	*-47.8%*	*-83.8%*	*489.6%*	*124.5%*	*116.2%*	*86.4%*
EPS Non-GAAP Diluted ($)	**0.30**	**0.56**	**0.83**	**0.84**	**1.18**	**1.74**	**2.51**	**4.03**	**6.26**
- growth	*589.2%*	*83.5%*	*49.8%*	*0.8%*	*40.6%*	*47.4%*	*44.5%*	*60.2%*	*55.5%*

Source: ODDO BHF Securities

Our forecasts (vs consensus) for 2021, 2022 and 2023

$ m	2021e			2022e			2023		
	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.	ODDO BHF	Cons.	ODDO BHF vs cons.
Gross profit	**3 898**	**3 821**	**2.0%**	**5 091**	**4 816**	**5.7%**	**6 687**	**6 362**	**5.1%**
Sales growth (%)	*42.6%*	*19.7%*		*30.6%*	*20.7%*		*31.4%*	*20.7%*	
Adj. EBITDA	**736**	**710**	**3.7%**	**1 080**	**1 133**	**-4.6%**	**1 585**	**1 698**	**-6.7%**
EBITDA/Gross profit	18.9%	18.6%	29 bp	21.2%	23.6%	-231 bp	23.7%	26.7%	-299 bp
Adjusted EPS ($)	**1.18**	**1.20**	**-1.6%**	**1.74**	**1.84**	**-5.4%**	**2.51**	**2.65**	**-5.1%**
EPS growth (%)	*41%*	*43%*		*47%*	*53%*		*44%*	*44%*	

Source: ODDO BHF Securities

Initiation of Square with a Neutral rating and target price of $ 245

We value Square at $ 245 per share (average of a DCF and a valuation based on 2025 P/E multiples), pointing to upside of 7% (on the price Thursday 1 April 2021). We therefore initiate coverage of the stock with a Neutral rating.

DCF valuation: $ 249

Our DCF yields a valuation of $ 249 per share. Our main assumptions are:

- Average annual growth in net sales and gross profit of respectively 17.0% and 24.2% over the next ten years. We therefore estimate growth in gross profit at around 32% per year out to 2025, gradually declining thereafter to around 5%.
- A long-term EBIT margin of 20% (vs 4% in 2020), thanks to scale effects, notably from Cash App (mainly fixed costs).

- A WACC of 7.2% (β of 0.90, risk premium of 7.80% and a risk-free rate of 0.18%).
- A long-term growth rate of 3.0% reflecting the under-penetration of online payment.

Square DCF valuation

$ m	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	CAGR 2020/30
Net sales	14 363	17 039	20 003	23 534	27 560	31 970	36 446	40 637	43 482	45 656	17.0%
Change	*51.2%*	*18.6%*	*17.4%*	*17.6%*	*17.1%*	*16.0%*	*14.0%*	*11.5%*	*7.0%*	*5.0%*	
Gross profit	3 898	5 091	6 687	8 682	11 039	13 909	17 247	20 351	22 794	23 933	24.2%
Change	*42.6%*	*30.6%*	*31.4%*	*29.8%*	*27.2%*	*26.0%*	*24.0%*	*18.0%*	*12.0%*	*5.0%*	
Adjusted EBITDA	736	1 080	1 585	2 530	3 937	5 447	6 927	8 377	9 383	9 969	35.7%
EBITDA margin	*5%*	*6%*	*8%*	*11%*	*14%*	*17%*	*19%*	*21%*	*22%*	*22%*	
Adjusted EBIT	619	927	1 384	2 269	3 606	4 960	6 323	7 665	8 585	9 131	37.2%
% gross profit	*16%*	*18%*	*21%*	*26%*	*33%*	*36%*	*37%*	*38%*	*38%*	*38%*	
Depreciation	117	153	201	260	331	487	604	712	798	838	
% of gross profit	3.0%	3.0%	3.0%	3.0%	3.0%	3.5%	3.5%	3.5%	3.5%	3.5%	
Tax rate	*5.0%*	*5.0%*	*7.0%*	*12.0%*	*15.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	
Tax on EBIT	-31	-46	-97	-272	-541	-1 042	-1 328	-1 610	-1 803	-1 918	
WCR	*-683*	*-810*	*-951*	*-1 119*	*-1 310*	*-1 598*	*-1 822*	*-2 032*	*-2 174*	*-2 283*	
% of sales	*-4.8%*	*-4.8%*	*-4.8%*	*-4.8%*	*-4.8%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	
Change in WCR	136	127	141	168	191	288	224	210	142	109	
Capex	-190	-242	-312	-396	-386	-487	-604	-712	-798	-838	19.7%
% of gross profit	*4.9%*	*4.8%*	*4.7%*	*4.6%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*	
Free Cash-flow	651	919	1 317	2 029	3 201	4 207	5 219	6 265	6 924	7 322	31.6%
% of gross profit	*4.5%*	*5.4%*	*6.6%*	*8.6%*	*11.6%*	*13.2%*	*14.3%*	*15.4%*	*15.9%*	*16.0%*	
Change	*38.3%*	*41.0%*	*43.4%*	*54.1%*	*57.8%*	*31.4%*	*24.1%*	*20.0%*	*10.5%*	*5.7%*	
Discounted Cash-flow	651	872	1167	1677	2468	3025	3501	3920	4042	3987	

Source: ODDO BHF Securities

Calculation of the target price using a DCF ($ m)

Sum of discounted FCF 2021-2030e	25 311
Terminal value	97 782
Enterprise value	123 093
Net debt 2020e	854
Financial fixed assets	2 236
Valuation of shareholders' equity	126 183
Square per-share valuation ($)	**249**

Source: ODDO BHF Securities

Sensitivity of the DCF valuation to the EBIT margin and long-term growth rate

$		Perpetual growth		
		2.0%	**3.0%**	**4.0%**
Op. margin	**15%**	171	200	247
	20%	210	**249**	311
	25%	250	299	376

Source: ODDO BHF Securities

Valuation by multiples: $ 241

Based on our assumptions for 2025, we estimate 2025e EPS at $ 6.26. At 50x earnings, our valuation for 2025 would work out at $ 313, i.e. $ **241** discounted to one year.

Note that we took a higher P/E multiple than for PayPal (35x), which has a more mature mix in terms of businesses (more focused on payment transactions and merchant services), whereas Cash App is a relatively recent business for Square (but is likely to represent 62% of gross profit in 2025e).

SQ US | SQ.N **Neutral** **Price 229.51USD**
IT services | US **Upside 6.75%** **TP 245.00USD**

PER SHARE DATA ($)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Adjusted EPS	0.04	0.30	0.56	0.83	0.84	1.18	1.74	2.51
Reported EPS	**-0.50**	**-0.17**	**-0.09**	**0.88**	**0.48**	**0.08**	**0.46**	**1.03**
Growth in adjusted EPS	ns	ns	83.5%	49.8%	0.8%	40.6%	47.4%	44.5%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	0.02	0.27	0.57	1.68	0.55	2.34	3.08	4.15
Book value per share	1.69	2.07	2.76	4.04	6.05	7.35	9.29	12.11
Number of shares market cap (m)	341.55	379.34	405.73	425.00	443.13	443.79	444.45	445.11
Number of diluted shares (m)	341.55	379.34	405.73	466.08	507.23	507.89	508.55	509.22
VALUATION ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
12m highest price ($)	15.48	48.86	99.01	82.28	242	277		
12m lowest price ($)	8.37	13.81	36.17	52.42	38.09	202		
(*) Reference price ($)	11.38	24.81	62.26	68.49	121	230	230	230
Capitalization	3 887	9 412	25 261	29 107	53 568	101 854	102 006	102 158
Restated Net debt	-534.1	-536.3	-109.3	-503.5	-853.9	-1 438.6	-2 275.6	-3 515.6
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial fixed assets (fair value)	133	395	927	1 210	2 222	2 282	2 348	2 400
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	**3 219**	**8 481**	**24 225**	**27 393**	**50 492**	**98 134**	**97 382**	**96 243**
P/E (x)	259	81.9	112	82.2	144	194	132	91.3
P/CF (x)	377	103	112	75.9	226	93.3	68.7	50.6
Net Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	0.2%	1.1%	0.9%	2.4%	0.5%	1.0%	1.3%	1.8%
P/B incl. GW (x)	6.75	11.97	22.54	16.97	19.98	31.22	24.71	18.95
P/B excl. GW (x)	6.75	11.97	22.54	16.97	19.98	31.22	24.71	18.95
EV/Sales (x)	1.88	3.83	7.34	5.81	5.32	6.83	5.72	4.81
EV/EBITDA (x)	71.7	61.0	94.4	65.7	107	133	90.1	60.7
EV/Current EBIT (x)	**451**	**83.4**	**124**	**80.3**	**131**	**159**	**105**	**69.5**
(*) historical average price								
PROFIT AND LOSS ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales	1 709	2 214	3 298	4 714	9 498	14 363	17 039	20 003
EBITDA	44.9	139	257	417	470	736	1 080	1 585
Depreciations	-37.7	-37.4	-61.1	-75.8	-84.6	-117.3	-153.1	-201.0
Current EBIT	**7.1**	**102**	**195**	**341**	**386**	**619**	**927**	**1 384**
Published EBIT	-170.5	-54.2	-36.6	26.6	-18.8	68	260	573
Net financial income	0.8	-8.5	0.5	352	235	-32.0	-45.0	-80.0
Corporate Tax	-1.9	-0.1	-2.3	-2.8	-2.9	-1.8	-10.7	-34.5
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	-171.6	-62.8	-38.5	375	213	34.6	204	459
Adjusted attributable net profit	**15.0**	**115**	**226**	**388**	**426**	**600**	**885**	**1 281**
BALANCE SHEET ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Goodwill	57.2	58.3	262	266	317	317	317	317
Other intangible assets	19.3	14.3	77.1	69.1	138	165	198	239
Tangible fixed assets	88.3	91.5	142	149	234	279	336	406
WCR	-212.8	-249.3	-319.6	-401.8	-546.5	-682.9	-810.1	-951.0
Financial assets	193	564	1 468	1 703	2 917	2 977	3 044	3 095
Ordinary shareholders equity	576	786	1 121	1 715	2 682	3 262	4 128	5 390
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders equity	576	786	1 121	1 715	2 682	3 262	4 128	5 390
Non-current provisions	57.7	69.5	93.3	94.5	549	549	549	549
Net debt	**-488.7**	**-376.5**	**416**	**-23.8**	**-172.5**	**-757.2**	**-1 594.2**	**-2 834.2**
CASH FLOW STATEMENT ($m)	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
EBITDA	**44.9**	**139.0**	**256.5**	**416.9**	**470.2**	**736.0**	**1 080.5**	**1 585.0**
Change in WCR	21.3	36.5	70.3	82.2	144.7	136.3	127.3	140.9
Interests & taxes	0.1	13.0	27.9	32.1	68.1	70.0	89.5	112.0
Others	-34.6	-60.8	-59.6	-65.5	-301.4	286.0	315.6	320.7
Operating Cash flow	31.6	127.7	295.1	465.7	381.6	1 228.3	1 612.8	2 158.5
CAPEX	-25.5	-26.1	-62.8	246.8	-138.4	-189.6	-242.5	-311.9
Free cash-flow	**6.1**	**101.6**	**232.3**	**712.5**	**243.2**	**1 038.7**	**1 370.3**	**1 846.7**
Acquisitions / disposals	-87.3	-287.6	-630.9	-13.1	-129.8	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	96.4	162.5	133.9	118.5	162.0	144.2	144.2	144.2
Others	-5.7	-66.1	-308.2	-243.6	198.8	-249.0	-263.2	-264.6
Change in net cash	-0.8	-112.2	-792.4	439.6	148.8	584.7	837.0	1 240.0
GROWTH MARGINS PRODUCTIVITY	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Sales growth	34.9%	29.6%	49.0%	42.9%	ns	51.2%	18.6%	17.4%
Lfl sales growth	**34.9%**	**29.6%**	**49.0%**	**42.9%**	**ns**	**51.2%**	**18.6%**	**17.4%**
Current EBIT growth	ns	ns	92.3%	74.5%	13.1%	60.4%	49.9%	49.2%
Growth in adjusted EPS	ns	ns	83.5%	49.8%	0.8%	40.6%	47.4%	44.5%
Net margin	0.9%	5.2%	6.8%	8.2%	4.5%	4.2%	5.2%	6.4%
EBITDA margin	**2.6%**	**6.3%**	**7.8%**	**8.8%**	**5.0%**	**5.1%**	**6.3%**	**7.9%**
Current EBIT margin	**0.4%**	**4.6%**	**5.9%**	**7.2%**	**4.1%**	**4.3%**	**5.4%**	**6.9%**
CAPEX / Sales	-1.5%	-1.2%	-1.9%	-1.3%	-1.5%	-1.3%	-1.4%	-1.6%
WCR / Sales	-12.5%	-11.3%	-9.7%	-8.5%	-5.8%	-4.8%	-4.8%	-4.8%
Tax Rate	-1.1%	-0.2%	-6.4%	0.7%	1.3%	5.0%	5.0%	7.0%
Normative tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Asset Turnover	-49.7	-33.3	86.2	38.6	84.8	131	289	792
ROCE post-tax (normative tax rate)	**-16.4%**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**	**ns**
ROCE post-tax hors GW (normative tax rate)	ns	ns	ns	ns	ns	ns	ns	ns
ROE	2.8%	16.9%	23.7%	27.4%	19.4%	20.2%	24.0%	26.9%
DEBT RATIOS	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**	**12/23e**
Gearing	-85%	-48%	37%	-1%	-6%	-23%	-39%	-53%
Net Debt / Market Cap	-0.13	-0.04	0.02	0.00	0.00	-0.01	-0.02	-0.03
Net debt / EBITDA	**ns**	**ns**	**1.62**	**ns**	**ns**	**ns**	**ns**	**ns**
EBITDA / net financial charges	ns	ns	14.3	19.4	8.3	14.2	16.6	19.8

Sources: ODDO BHF Securities, SIX

Full-year earnings
Payment services | France

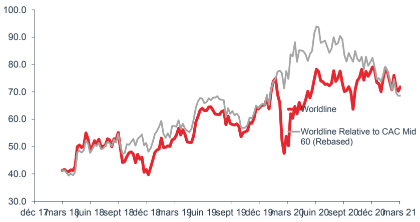
Worldline

Outperform ➔ | Target 90.0 €
Price (01/04/2021): 71.80 € | Upside: 25 %

Revision	2021e	2022e
EPS	0.0%	0.0%

After a challenging Q1, as expected, the gradual lifting of restrictions in Europe will drive a volume recovery

Tuesday 06 April 2021



Capital			
WLN FP | WLN.PA			
Market Cap (€m)			13 107
Enterprise value (€m)			23 499
Extrema 12 months (€)		50.30 -	81.66
Free Float (%)			83.7

Performance (%)	1m	3m	12m
Absolute	-3.6	-9.2	39.0
Perf. rel. Country Index	-8.0	-16.2	-0.1
Perf. rel. CAC Mid 60	-7.9	-16.8	-9.6

P&L	12/20	12/21e	12/22e
Sales (€m)	2 748	5 158	5 713
EBITDA (€m)	700	1 340	1 595
Current EBIT (€m)	521	998	1 238
Attr. net profit (€m)	164	411	596
Adjusted EPS (€)	1.98	2.16	2.71
Dividend (€)	0.00	0.00	0.00
P/E (x)	35.0	33.2	26.5
P/B (x)	3.7	1.8	1.7
Dividend Yield (%)	0.0	0.0	0.0
FCF yield (%)	1.8	3.1	3.9
EV/Sales (x)	4.87	4.56	4.00
EV/EBITDA (x)	19.1	17.5	14.3
EV/Current EBIT (x)	25.7	23.5	18.5
Gearing (%)	12	20	14
Net Debt/EBITDA (x)	0.6	1.7	1.0

Next Events	
21/04/2021	Q1 Results
27/07/2021	Q2 Results
19/10/2021	Q3 Results

Restriction-induced underperformance and very attractively valued

After the underperformance at the start of the year (-10% YTD, in line with Nexi) due to the health restrictions, the valuation is attractive at 17.5x 2021e EBITDA and 14.3x 2022e for organic EBITDA growth of 13% per year out to 2024.

Pretty cautious 2021 guidance, to absorb the last shocks

Despite news that is not headed in the right direction in several countries where the group has significant exposure (Germany, Switzerland, Belgium), we do not think that the 2021 guidance for mid-single digit growth is at risk for the time being. When the guidance was established, the group was sufficiently cautious. We know Q1 2021 was tough going, with guidance for a decline between that of Q2 2020 (-15%) and that of Q4 2020 (-5%), due to exposure to geographies with tighter restrictions in Q1 2021 than in Q4 2020 (Belgium, Netherlands, Germany, Sweden, etc.). We do not think that this series of announcements will mean a change to this guidance for now, as this quarter has seen some plus points (some restrictions being lifted early in Switzerland notably), and now some 'negatives'. That said, a longer application of the restrictions at the start of Q2 could jeopardise the prospect of a high single digit recovery in Q2. Still, here again, given the -15% in Q2 2020, this guidance is ultimately pretty cautious.

Volumes set to bounce back as soon as the reopening starts, as we saw in 2020 and even more recently in the US

As happened last year in Europe and more recently in the US, when the health restrictions are lifted volumes recover. We think that there is a very close correlation between share performance and transaction volumes, with stocks set to rally at this point.

Solution for POS business in 2021 and further M&A

On the strategic review of the POS business, a scenario seems to be taking shape, with the group having indicated that a listed vehicle was not the best way to transform the business from a hardware model to a subscription-based model incorporating software. We think the group will ultimately sell part of the business (potentially to a private equity fund), while retaining a stake (minority) to influence the technology roadmap for the business. This looks to be the best option to take advantage of upgrade cycles and generate synergies with the other businesses.
In terms of sector consolidation in Europe, 50% of acquiring volumes are still carried out by the banks. This situation is likely to shift through acquisitions or outsourcing contracts in countries like France, the Iberian Peninsula, Sweden, Greece and Poland. Moves outside Europe could be on the cards, after ANZ, particularly in markets where technological standards and payment habits are similar to those in Europe (pointing to significant synergies).

Outperform rating, € 90 target price

We confirm our Outperform rating with a target price of € 90: 1/ the group benefits from structural growth in the payment sector in Europe, where cash remains dominant (65-70% of transactions); 2/ standardisation in Europe (EPI, SEPA, PSD2, etc.) should accelerate this penetration; and 3/ its leader position (15% market share in Europe) makes it a natural consolidator to buy the assets of banks or forge partnerships.

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WLN FP | WLN.PA | **Outperform** | **Price 71.80EUR**

Payment services | France | **Upside 25.35%** | **TP 90.00EUR**

PER SHARE DATA (€)	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
Adjusted EPS	0.81	1.14	0.90	0.67	2.11	1.98	2.16	2.71
Reported EPS	**0.78**	**1.09**	**0.79**	**0.55**	**1.71**	**0.90**	**1.46**	**2.12**
Growth in adjusted EPS	2.9%	40.2%	-20.7%	-25.8%	ns	-6.3%	9.1%	25.4%
Net dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FCF to equity per share	1.00	1.07	1.35	1.15	1.72	1.22	2.25	2.79
Book value per share	5.98	8.55	9.42	19.82	17.66	18.56	40.48	42.60
Number of shares market cap (m)	131.93	132.35	132.90	182.56	182.76	182.76	281.99	281.99
Number of diluted shares (m)	131.93	132.35	132.90	182.56	182.76	182.76	281.99	281.99
VALUATION (€m)	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
12m highest price (€)	24.66	29.09	43.99	56.25	65.95	81.66	80.44	
12m lowest price (€)	15.70	18.99	24.86	40.10	38.92	39.00	68.58	
(*) Reference price (€)	19.92	24.78	33.01	46.71	56.15	69.33	71.80	71.80
Capitalization	2 628	3 280	4 387	8 527	10 263	12 671	20 247	20 247
Restated Net debt	-323.3	-398.9	-309.1	35.0	641	421	2 288	1 650
Minorities (fair value)	0.0	0.0	0.0	0.0	0.0	0.0	678	678
Financial fixed assets (fair value)	101	73.1	87.8	164	129	118	118	118
Provisions	91.8	187	188	335	404	404	404	404
Enterprise Value	**2 295**	**2 995**	**4 178**	**8 734**	**11 180**	**13 378**	**23 499**	**22 862**
P/E (x)	24.6	21.8	36.7	69.9	26.6	35.0	33.2	26.5
P/CF (x)	14.1	17.3	17.4	28.5	21.7	31.1	21.9	17.9
Net Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	5.0%	4.3%	4.1%	2.5%	3.1%	1.8%	3.1%	3.9%
P/B incl. GW (x)	3.33	2.90	3.51	2.36	3.18	3.74	1.77	1.69
P/B excl. GW (x)	6.43	8.99	13.82	14.47	96.08	37.02	ns	ns
EV/Sales (x)	1.87	2.29	2.62	5.08	4.69	4.87	4.56	4.00
EV/EBITDA (x)	9.8	11.6	12.5	22.3	18.6	19.1	17.5	14.3
EV/Current EBIT (x)	**13.1**	**15.2**	**16.5**	**29.8**	**25.3**	**25.7**	**23.5**	**18.5**
(*) historical average price								
PROFIT AND LOSS (€m)	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
Sales	1 227	1 309	1 594	1 720	2 382	2 748	5 158	5 713
EBITDA	235	259	335	391	602	700	1 340	1 595
Depreciations	-60.4	-62.1	-82.3	-98.2	-159.6	-179.0	-341.9	-356.9
Current EBIT	**175**	**197**	**253**	**293**	**443**	**521**	**998**	**1 238**
Published EBIT	148	210	186	206	294	245	653	893
Net financial income	-5.9	-5.9	-8.1	-20.4	122	-28.0	-108.6	-104.8
Corporate Tax	-38.8	-53.7	-44.1	-45.3	-75.0	-51.0	-127.9	-185.3
Net income of equity-accounted companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	-6.2	-27.8	-39.8	-29.7	-2.0	-5.0	-7.3
Attributable net profit	103	144	106	101	311	164	411	596
Adjusted attributable net profit	**107**	**150**	**120**	**121**	**385**	**361**	**608**	**763**
BALANCE SHEET (€m)	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
Goodwill	380	766	934	3 013	3 115	3 044	12 981	12 962
Other intangible assets	124	312	353	1 095	1 080	1 100	1 100	1 100
Tangible fixed assets	66.2	104	129	146	144	130	97.3	83.2
WCR	-114.2	-175.1	-198.5	-239.4	-200.2	-180.7	-197.5	-198.7
Financial assets	101	73.1	87.8	164	129	118	118	118
Ordinary shareholders equity	789	1 131	1 251	3 599	3 221	3 385	11 401	11 997
Minority interests	0.0	161	175	209	0.0	0.0	5.0	12.3
Shareholders equity	789	1 292	1 426	3 808	3 221	3 385	11 406	12 009
Non-current provisions	91.8	187	188	335	404	404	404	404
Net debt	**-323.3**	**-398.9**	**-309.1**	**35.0**	**641**	**421**	**2 288**	**1 650**
CASH FLOW STATEMENT (€m)	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
EBITDA	**235.3**	**258.7**	**335.4**	**391.1**	**602.1**	**700.0**	**1 340.4**	**1 594.9**
Change in WCR	11.9	37.3	33.8	15.7	-46.2	-19.5	16.8	1.2
Interests & taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	-48.5	-68.6	-83.2	-93.3	-129.1	-293.2	-415.2	-467.8
Operating Cash flow	198.7	227.4	286.0	313.5	426.8	387.3	942.0	1 128.3
CAPEX	-67.0	-85.3	-107.0	-105.5	-113.9	-164.9	-309.5	-342.8
Free cash-flow	**131.7**	**142.1**	**179.0**	**208.0**	**312.9**	**222.5**	**632.5**	**785.5**
Acquisitions / disposals	-1.8	-69.3	-221.2	-384.9	-5.4	0.0	-9 052.6	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net capital increase	-2.4	7.5	10.7	-36.8	647.7	0.0	7 604.8	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net cash	121.8	83.3	-37.6	-216.1	957.3	222.5	-815.3	785.5
GROWTH MARGINS PRODUCTIVITY	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
Sales growth	6.8%	6.7%	21.7%	7.9%	38.4%	15.4%	87.7%	10.7%
Lfl sales growth	**4.4%**	**3.5%**	**4.0%**	**6.2%**	**6.9%**	**15.4%**	**-0.4%**	**63.5%**
Current EBIT growth	2.7%	12.4%	28.7%	15.7%	51.1%	17.7%	91.6%	24.0%
Growth in adjusted EPS	2.9%	40.2%	-20.7%	-25.8%	ns	-6.3%	9.1%	25.4%
Net margin	8.7%	11.5%	7.5%	7.1%	16.2%	13.1%	11.8%	13.4%
EBITDA margin	**19.2%**	**19.8%**	**21.0%**	**22.7%**	**25.3%**	**25.5%**	**26.0%**	**27.9%**
Current EBIT margin	**14.3%**	**15.0%**	**15.9%**	**17.0%**	**18.6%**	**19.0%**	**19.4%**	**21.7%**
CAPEX / Sales	-5.5%	-6.5%	-6.7%	-6.1%	-4.8%	-6.0%	-6.0%	-6.0%
WCR / Sales	-9.3%	-13.4%	-12.5%	-13.9%	-8.4%	-6.6%	-3.8%	-3.5%
Tax Rate	27.3%	26.3%	24.9%	24.4%	18.0%	23.5%	23.5%	23.5%
Normative tax rate	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	23.5%	23.5%
Asset Turnover	2.7	1.8	1.4	0.7	0.6	0.7	0.6	0.4
ROCE post-tax (normative tax rate)	**27.5%**	**19.3%**	**16.4%**	**8.1%**	**7.8%**	**9.1%**	**8.5%**	**6.8%**
ROCE post-tax hors GW (normative tax rate)	ns	89.4%	69.5%	32.8%	31.5%	36.2%	74.6%	95.5%
ROE	15.1%	15.7%	10.0%	5.0%	11.3%	10.9%	8.2%	6.5%
DEBT RATIOS	**12/15**	**12/16**	**12/17**	**12/18**	**12/19**	**12/20**	**12/21e**	**12/22e**
Gearing	-41%	-31%	-22%	1%	20%	12%	20%	14%
Net Debt / Market Cap	-0.12	-0.12	-0.07	0.00	0.06	0.03	0.11	0.08
Net debt / EBITDA	**ns**	**ns**	**ns**	**0.09**	**1.07**	**0.60**	**1.71**	**1.03**
EBITDA / net financial charges	168.1	431.2	304.9	488.9	109.5	25.0	12.3	15.2

Sources: ODDO BHF Securities, SIX

- **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on ODDO BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

- **Sensitivity of the result of the analysis/ risk classification:**

The opinions expressed in the financial analysis are opinions as per a particular date, i.e. the date indicated in the financial analysis. The recommendation (cf. explanation of the recommendation systematic) can change owing to unforeseeable events which may, for instance, have repercussions on both the company and on the whole industry.

- **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Outperform: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Underperform: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

- **The prices of the financial instruments used and mentioned in this document are the closing prices.**
- **All publications by ODDO BHF concerning the companies covered and mentioned in this document are available on the research site: www.securities.oddo-bhf.com**

Recommendation split				
		Outperform	Neutral	Underperform
Our whole coverage	(507)	53%	33%	13%
Liquidity providers coverage	(83)	58%	39%	4%
Research service coverage	(41)	61%	37%	2%
Investment banking services	(22)	77%	18%	5%

Risk of conflict of interest:

Investment banking and/or Distribution	
Has ODDO BHF SCA or its affiliates managed or co-managed in the last 12 months a public offering of securities for the subject company/ies?	No
Has ODDO BHF SCA or its affiliates received compensation for investment banking services from the subject company/ies in the last 12 months or expects to receive or intends to seek compensation for investment banking services from the subject company/ies in the last 12 months?	No
Research contract between ODDO group & the issuer	
Have ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V. and the subject company/ies agreed that ABN AMRO - ODDO BHF B.V. or one of its parent companies will produce and disseminate investment recommendations on the subject company/ies as a service to the the subject company/ies?	No
Liquidity provider agreement and market-making	
At the date of the distribution of this report, does ODDO BHF SCA or its affiliates act as a market maker or has ODDO BHF SCA or its affiliates signed a liquidity provider agreement with the subject company/ies?	No
Significant equity stake	
Does ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V., own a net long or short position of 0.5% or more of any class of common equity securities of the subject company/ies?	No
Does the subject company beneficially own 5% or more of any class of common equity of ODDO BHF SCA or its subsidiary ABN AMRO – ODDO BHF B.V.?	No
Disclosure to Company	
Has a copy of this report; with the target price and/or rating removed, been presented to the subject company/ies prior to its distribution, for the sole purpose of verifying the accuracy of factual statements ?	No
Have the conclusions of this report been amended following disclosure to the company/ies and prior its distribution?	No
Additional material conflicts	
Is ODDO BHF SCA or its affiliates aware of any additional material conflict of interest?	No
Personal conflicts of interest	
Have those responsible for the drafting of the present document acquired securities from the issuer concerned by the present financial analysis?	No
Have those responsible for the drafting of the present document received remuneration directly linked to investment firm service transactions or any other kind of transaction they carry out or any trading commissions they, or any legal person who is part of the same group, receive?	No

Statement of conflict of interests of all companies mentioned in this document may be consulted on ODDO BHF: www.securities.oddo-bhf.com

Recommendation history over the last 12 months for the company analysed in this report

Company	Date	Reco	Price	
Prosus NV	19/01/2021	-	96.46	Jerôme Bodin

Target price history over the last 12 months for the company analysed in this report

Company	Date	Price Target	Price	Analyst
Adyen NV	11/02/2021	2200.00 EUR	2184.00	Cor Kluis
	02/02/2021	2000.00 EUR	1800.00	Cor Kluis
	29/10/2020	1650.00 EUR	1508.00	Cor Kluis
	25/09/2020	1450.00 EUR	1595.50	Cor Kluis
	21/07/2020	1400.00 EUR	1416.50	Cor Kluis
	16/06/2020	750.00 EUR	1237.50	Cor Kluis
Edenred	30/03/2021	52.00 EUR	44.63	Johanna Jourdain
	03/03/2021	50.00 EUR	44.01	Johanna Jourdain
	22/02/2021	52.00 EUR	47.46	Johanna Jourdain
	15/12/2020	50.50 EUR	46.34	Johanna Jourdain
	23/10/2020	47.00 EUR	42.30	Johanna Jourdain
	13/10/2020	46.50 EUR	42.96	Johanna Jourdain
	28/07/2020	48.00 EUR	43.05	Johanna Jourdain
	16/06/2020	45.00 EUR	39.43	Johanna Jourdain
Nexi S.p.A	13/01/2021	22.00 EUR	15.48	Stephane Houri
	06/10/2020	23.00 EUR	16.86	Stephane Houri
	16/06/2020	20.00 EUR	14.16	Stephane Houri
	13/05/2020	18.00 EUR	14.06	Stephane Houri
Prosus NV	16/03/2021	111.52 EUR	94.86	Jerôme Bodin
	19/01/2021	103.03 EUR	96.46	Jerôme Bodin
Worldline	25/02/2021	90.00 EUR	74.20	Stephane Houri
	03/11/2020	84.00 EUR	64.42	Emmanuel Matot
	29/06/2020	90.00 EUR	75.20	Emmanuel Matot
	16/06/2020	84.00 EUR	69.02	Emmanuel Matot
	29/04/2020	73.00 EUR	63.00	Emmanuel Matot

Fixed-income recommendations & ratings

	Recommendation	Rating		
		Oddo	S&P	Moody's
Adyen NV		\		
Edenred	Neutral	BBB+ \ Positive		
Nexi S.p.A		\		
PayPal		\		
Prosus NV		\		
Square		\		
Worldline		\		

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