

Square (NYSE: SQ)

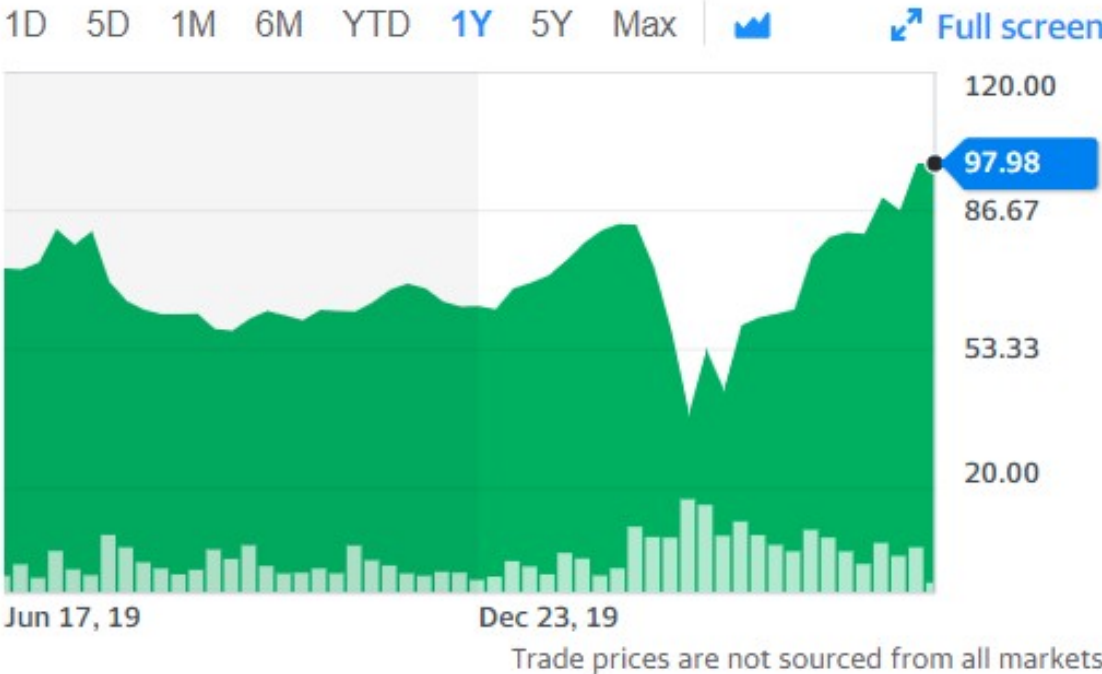
Investment Proposal

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<div>LISTING</div> <div>NYSE</div>	<div>SECTOR</div> <div>TECHNOLOGY</div>	<div>INDUSTRY</div> <div>SOFTWARE-INFRASTRUCTURE</div>	<div>CURRENT PRICE</div> <div>97.98</div>
<div>REVENUE</div> <div>5.14 Billion</div>	<div>MARKET CAP</div> <div>43.05B</div>	<div>BETA</div> <div>2.67</div>	<div>PE RATIO</div> <div>148.23</div>

Previous Close	98.27	Market Cap	43.048B
Open	100.10	Beta (5Y Monthly)	2.67
Bid	97.37 x 1200	PE Ratio (TTM)	148.23
Ask	97.50 x 1000	EPS (TTM)	0.66
Day's Range	97.92 - 102.26	Earnings Date	Jul 29, 2020 - Aug 02, 2020
52 Week Range	32.33 - 102.26	Forward Dividend & Yield	N/A (N/A)
Volume	13,801,438	Ex-Dividend Date	N/A
Avg. Volume	15,136,223	1y Target Est	71.48



Strong growth potential in the industry

- Fintech industry has been growing rapidly over the past years and is expected to continue the trend.
- Many growth drivers and potential technological advancement that could accelerate the growth.
- Tremendous growth on their products, Cash App monthly active users went from 7 M users by the end of 2017 to 25 M two later.

Porter's 5 forces

- Strong competition in the industry inducing constant innovation and strong differentiation among competitors
- Growing attractive industry with low barrier for entrants and threats of substitutes
- Low bargaining power of buyers since the companies in the industry have large diversified customer base.
- Moderate power of suppliers because of the concentration in the supply chain.

Company Analysis

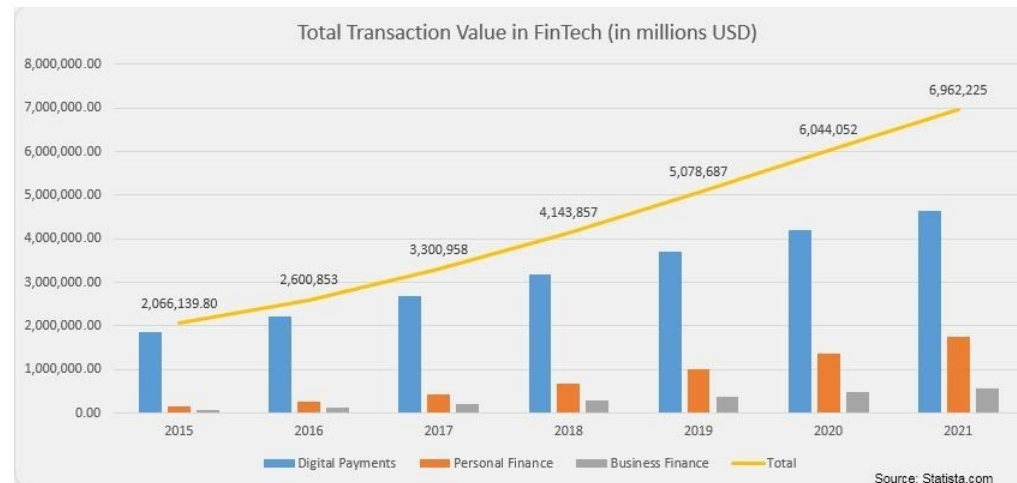
- Healthy financials overall.
- The company is rapidly growing and does not have optimal cost structure yet. It is likely that the company will stabilize its costs and record stable margins in the future.
- Despite the use of cash in CAPEX and R&D, the company still has significant excess cash leading to a negative net debt.

Competitor Analysis

- The main competitor of the company in terms of size and services is shopify
- Square Inc has big substitute competitors such as Paypal and other indirect mastodons such as Visa.
- The company has a still immature cost structure which is expected to improve in the future, leading to an increase in share price.

Industry Overview

- Square Inc. (SQ) is part of the Fintech industry. This industry regroups all companies providing technologies aiming to compete with traditional financial methods in the delivery of financial services.
- Fintech industry uses numerous innovation such as AI, Big Data & Cloud technologies in order to improve efficiency and quality of financial services.
- The total transaction value in FinTech is continuously rising with a 22.44% CAGR from 2015 to 2021. FinTech market transaction value is set to grow 20 percent a year.

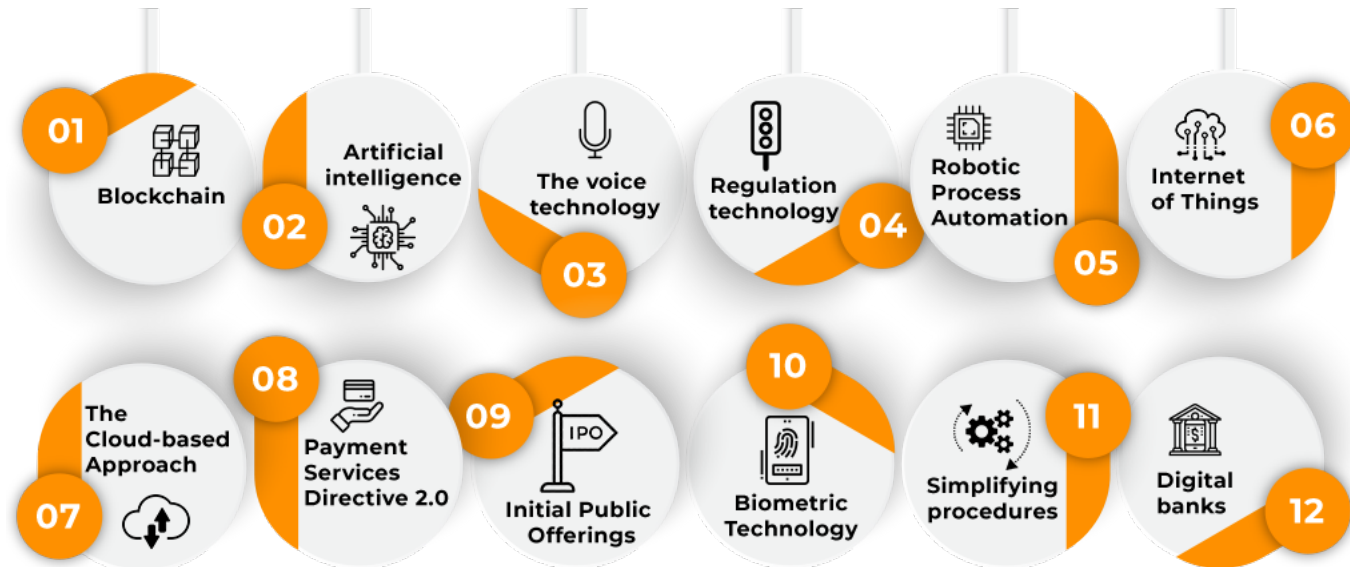


- The growth of the industry is driven by several factors. Some of these are the booming of e-commerce industries, the increasing adoption of mobile banking application and contactless and mobile payment usage has been on the rise for the past years and expected to continue growing.
- The growth of Fintech companies is also driven by the technological advancement. Due to the development of new tools, banks need to bring their processes into line with the new realities, fintech projects increase competition in the financial market, which ultimately leads to a win for the client.

Industry Trends

- **Prioritizing AI and blockchain:** these are expected to be the top priorities for fintech investors, followed by insurtech and regtech.
- **Higher usage of digitalization:** factors such as rise in competition among new entrants and growing global consensus on reducing remittance transaction fees are driving the penetration of digital channels
- **Progress of the remittance market:** Fintech companies in the remittance segment have been experiencing remarkable growth in the past few years. Due to the raising awareness about online money transfer, remittances through fintech solutions has considerably improved.

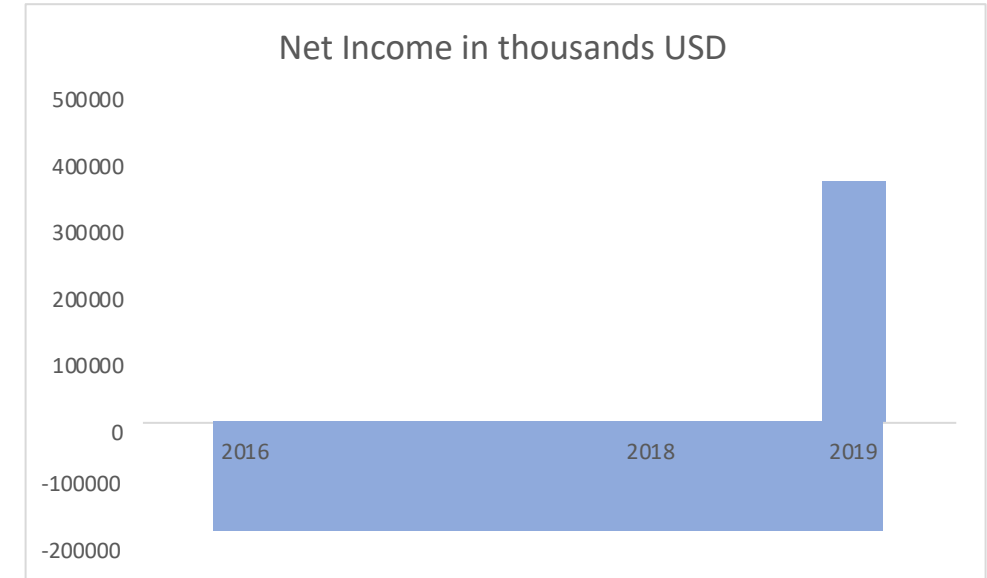
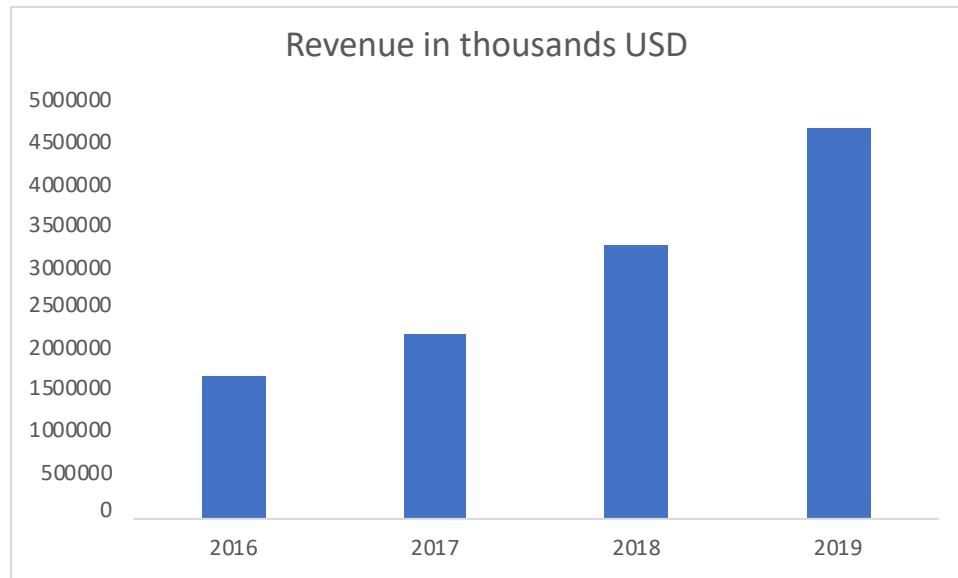
Latest Fintech Trends



Porter's 5 Forces

- Competitive rivalry – **High**
 - There are numerous competitors in the market, therefore Square Inc has to differentiate and adapt quickly its product to earn customers' loyalty.
- Threat of entrants – **High**
 - New entrants in Internet Software & Services brings innovation, new ways of doing things and put pressure on Square, Inc. through lower pricing strategy, reducing costs, and providing new value propositions to the customers. Square, Inc. has to manage all these challenges and build effective barriers to safeguard its competitive edge.
- Threat of substitutes – **Moderate**
 - Even though switching costs are high for customers, Square Inc. has a lot of competitors. The company is service oriented and offers Business intelligence services that are provided by only few competitors.
- Bargaining power of buyers – **Low**
 - Since Square Inc. has a very large customer base, the power of the buyers is not strong.
- Bargaining power of suppliers – **Moderate**
 - Almost all the companies in the Internet Software & Services industry buy their raw material from numerous suppliers. Suppliers in dominant position can decrease the margins Square, Inc. can earn in the market. Powerful suppliers in Technology sector use their negotiating power to extract higher prices from the firms in Internet Software & Services field. The overall impact of higher supplier bargaining power is that it lowers the overall profitability of Internet Software & Services.

- Square was first created in 2009, it then IPO in November 2015. By combining an elegant integrated payments system with a distinctive conversation-triggering piece of hardware, Square has disrupted the costly credit card payments establishment while making credit card processing more accessible to small businesses everywhere. The company offers small enterprise to accept credit card payment and to track and analyse the related data. The company's Square Instant Deposit allows merchants to immediately receive payments instead of waiting a few days for settlement. Currently, More than 64 million businesses use this technology to facilitate credit card payments and track sales as of mid-2020.
- Square Stand, one of the company's few physical products, lets users turn an iPad into a complete point-of-sale tool. The company has also expanded into financing small businesses, with products like Square Capital, which provides cash advances to merchants, without locking them into payback schedules. The firm now provides complete payroll services to businesses in 38 states, with Square Payroll. Square also launched a new platform called Cash App, allowing for peer-to-peer money exchange, trading stocks and bitcoin, paying and receiving money, Square even delivers a free cash card. In the first Quarter of 2020, Cash App represented \$528 M in revenues, and is expected to grow significantly.
- The company now has slightly less than 4000 employees, and is rapidly growing. Indeed, the company has grown revenues from \$1.7 billion by the end of 2016 to \$4.7 billion in 2019. Square also became profitable in 2019 and is expected to enhance profitability on the coming years. In terms of liquidity terms, Square had at the end of 2019 \$1.5 billion of cash and cash equivalent, against \$1 billion of long-term debt, and no short term debt.
- The company is in a healthy stage, with a current and a quick ratio equal to 1.9.
- Square is still in a very consequent growth stage, the past 5 years have delivered a 40% CAGR growth rate and Yahoo finance analysts foresee a 30.63% growth rate over the next 5 years for the company, even considering the COVID19 impact. Analyst expect Square's revenues to diminish greatly over the next quarter or two, because numerous small business had to close due to the pandemic. The company therefore does not pay-out any dividend yet, as it is heavily investing to grow its business further, and is still in early expansion stage.
- Although growth outlook and possible ecosystem that Square can expand into seem significantly large, the company must ensure keeping up with service quality as closely as service quantity.
- Square has recently become one of the trending stock on the financial market, and has fully recovered from the Coronavirus market crash. The company is currently trading just under \$100/share, near all time highs.



Income Statement

- The company has recorded a strong revenue growth and has become profitable for the first time in 2019.
- Cost of revenue rising at a lower rate than revenue.
- Positive EBIT but negative EBITDA meaning the company has significant depreciation and amortization. Might be explained by aggressive D&A accounting policies on recently acquired assets.
- In March 2020, Square Inc has recorded a net loss but expected to be positive in trailing 12 months (\$307M).

Balance Sheet

- On the balance sheet side, the company has negative net debt (due to significant excess cash)
- Interestingly, Cash and Cash Equivalent has risen despite increasing CAPEX, machinery and total employees. This is mainly explained by a significant rise in cash flow from operation.
- 88% increase in long term debt in 2020 meaning the company starts using leverage since its liquidity and solvency ratios are healthy. It is worth noting that net debt is still negative after the new debt issue.

- Square is a divisive stock for the bulls and bears. The bulls are impressed by the online payment company's robust revenue growth and expanding ecosystem, but the bears warn of its competitive threats, lack of consistent profits, and high valuation.
- Rivals include players in the small business payment industry such as First Data's (FDC.NS) Clover unit , PayPal Holdings (PYPL), Shopify (SHOP), Intuit (INTU) well-funded start-ups such as Stripe (private company) and even some of the biggest players like Visa and American Express.
- Visa and American express operate on the biggest players and on a much higher scale on digital payment than SQUARE. We will therefore compare the company with players competing for digital payment of business operating on a smaller scale.
- First Data clover unit launched Clover Go in 2016 to compete with Square on small businesses electronic payments. Clover competes on price, being the cheaper transaction operator when average transaction of businesses is over \$10 and the business accepts over \$3000/month. In any other case, Square remains the cheapest option. On the other hand, Clover offers more flexibility because it allows you to work with other payment processors.
- Even though Paypal does not offer a wide array of business management tools compared to Square, PayPal's name, recognition and easy One-Touch payments make it a better solution for online sales. The company is more individual rather than business orientated and is almost 4 times bigger than Square in terms of revenues.
- Intuit also compete for smaller business payment processes, but also focuses on helping them with tax filling, accounting and financial duty. Although the company is a direct competitor with Square, it also focuses on other activities, making it not as important as Square on digital payment processes.
- Currently, Shopify offers a complete suite of commerce tools for entrepreneurs who seek to conduct business online, in-store, and on the go. Shopify delivers a shopping cart solution, and is hence not a direct payment processor company. The line between the two entities is thin though, as Square is increasingly moving towards E-commerce, and Shopify could develop a payment processor system.

Name	Revenue (USD million)	Sales growth (YoY)	Gross margin	Net margin	ROE	P/E	Forward P/E	PEG	Price to Sales	Market Cap (USD million)
Paypal	18,260	15%	43.8%	10.27%	12.04%	103.96	50.76	3.35	10.93	192,955
Shopify	1,730	47%	54.5%	-7.65%	-5.11%	N/A	5000	N/A	57.23	103,320
Intuit	6.86	14%	82.2%	19.5%	30.35%	56.65	35.34	2.51	11.06	74,900
FDC.NS	14,130	13.5%	67.6%	16.98%	16.03%	19.72	N/A	N/A	3.4	42,860
Square	5,135	43%	37%	5.99%	21.01%	148.23	222.22	7.04	8.99	43,180

- Square's most alike competitor in terms of growth and product is Shopify. Even though Square's revenue is much higher than Shopify's, the company manages to record similar growth with its competitor.
- In terms of margins, the company has the lowest growth margin of its peer group. This shows the cost structure is not yet optimal and therefore the margins are likely to improve in the future.
- The P/E ratio may seem high compared with its competitors but could be explained by 2 factors. First, the low net margin compared with the peer group and second, the expected growth of the company is much higher than its competitors'.
- Price to Sales ratio is low compared with Square's peers and even lower if comparing only with Shopify, the most-alike competitor.



- The 50 days moving average price is equivalent to \$68.3, the current price is well above and thus the MA would be a strong support line.
- The Relative strength Index shows a metric around 67, meaning the stock is highly bought. This makes sense considering the market conditions we are in, with the recent market crash and the uptrend that the market has been following with the slowdown of the virus and the help of the FED.
- The Moving average Convergence/Divergence metric shows us that the bullish momentum is currently running the stock price.
- Finally, the stock is very near all time high at the moment, it is a high growth company with several opportunities ahead, but that operates in a tremendously competitive industry. We would recommend an \$85/share buy price.