

Key Statistics

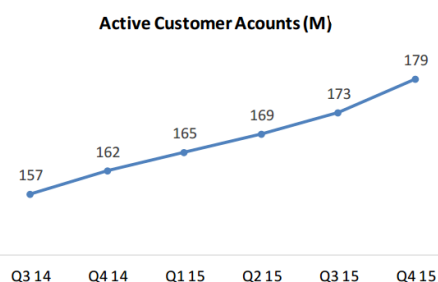
Current Price (close 29.02.2016)	38.14	EBITDA 2015	2,142
Shares out	1,223	EBITDA Margin 2015	23.2%
Market cap (\$M)	46,633	EV/EBITDA	20.2
Enterprise value (\$M)	43,222	P/E	38.0

Source: Bloomberg

Company Description

PayPal Holdings, Inc. (PYPL US) is a largest independent payment service provider (PSP) company, with about 180M active customer accounts across the globe, transacting in all major currencies.

On September 30, 2014, eBay Inc. announced its intent to separate its payments business into an independent, publicly-traded company. On July 20, 2015, PayPal separated from eBay via a tax-free common stock distribution (1 PayPal share per each eBay share).

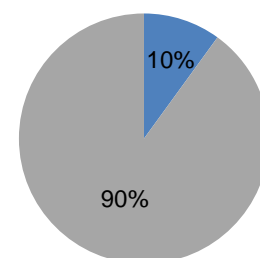


Source: Company Presentation

Market Overview

Of the global retail market of US\$ 25Tn (c. US\$ 19Tn, excluding China) online and mobile payments are about 10%, while 90% is still traditional In-store purchases. Digital commerce is increasing by about 20% annually. PayPal holds market share of 15-38% (depending how we define market) of the US and 13% of global (ex-China) sales.¹

Global Retail Market 2015



■ Online and Mobile Payments
 ■ In-Store

Source: Company Presentation

Value Proposition

Strategic

- 1) Strategic value based on strong brand (N1 trusted digital wallet) and global scale (revenues are split c. 50/50 between US and international).
- 2) Embedding payments – eBay (it's been shown that ecosystems integrated with payments scale rapidly including eBay/PayPal, Alibaba/Alipay, Apple/iTunes, Amazon/1-click)
 - creates a tighter transactional, billing relationship with consumers that
 - enhance consumer loyalty and personalized experiences (including advertising) by virtue of knowing what consumers are purchasing, at virtually no cost.

New Opportunities:

- P2P (payments, lending)
- Money transfers
- Lending

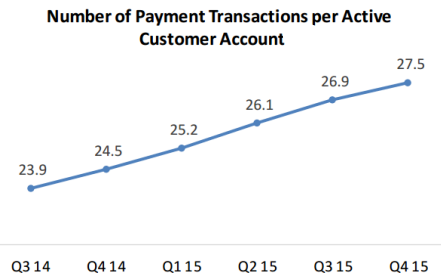
Financial

- 1) **Revenue** - PayPal charges its users transaction fees also called "Take Rate" (c. 3.3 - 3.4%, slightly decreasing because of increasing large merchants and low margin businesses (Braintree/Venmo) – in

¹ Source: JP Morgan

line with strategy), primarily based on TPV, and earns other revenue by providing additional value added services like PayPal Credit products. FX neutral revenue growth accounted 20% in 2015 (driven by increase in TPV).

2) **Growth** - Mid-teen organic revenue growth - PayPal enjoys mid-twenties TPV growth over the last three years, over 2x MasterCard and Visa’s aggregate purchase volume growth rate. PYPL added several large merchants during 2015 (IKEA (Europe), Macy’s, REI, and Symantec), and indicated that it has an “immense pipeline” of booked business to be on-boarded. Along with growth in TPV, we see growth in customer reach, number of transactions per customer has increased 15% q/q in Q4 2015.

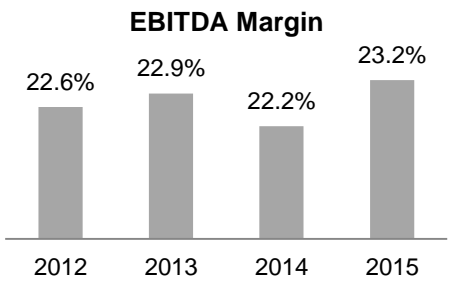


Source: Company Presentation

3) **Well positioned** across three of the fastest growing areas in payments, which should help to maintain the growth over the next years.

- (1) core browser-based commerce market
- (2) mobile and in-app purchases
- (3) proximity payments

4) Strong and **sustainable margin** of c. 20%. Most of the expenses are variable. Some semi variable expenses include: (1) support, call centre and (2) product development



Source: Bloomberg

5) **Growing areas:** Paypal Credit, Venmo, Braintree, Paydiant, Xoom

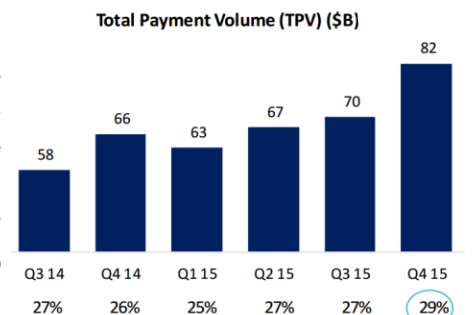
Risks

- 1) PayPal faces competition from other players with unique channel advantages (Visa Checkout, Pay with Amazon, MasterPass, Alipay, Android Pay, Apple Pay, etc.).
- 2) Significant eBay revenue concentration (c. 30%² of revenue and higher % of EBIT, as its almost expense-free revenue).
- 3) Channel lines are blurring - competitive advantages PayPal enjoyed in the traditional online commerce channel do not necessarily carry over into the mobile and offline worlds.

Mitigating Risks

- 1) **Competitors** – since Google Checkout made its debut in 2006, PYPL has been challenged by such would-be rivals as Amazon Payments in 2007, Square in 2010, Facebook Credits, Google Wallet and Stripe in 2011, Visa’s V.me in 2012 and Apple Pay last year. None of these offerings has altered PYPL’s growth trajectory as most recently demonstrated by its 29% increase in total payment volume (TPV) to \$82bn in 4Q15. Two major points here:

- Most of competitor payments are supposed to work on single platform: amazon pay works only on amazon, google wallet



Source: Company Presentation

² JP Morgan estimate

on google etc. While PayPal is universal and even provides off-line payment possibilities.

- Even the developments are successful it will take time (somewhere between 3 to 5 years) for the competitors to monetize these. PayPal has a huge advantage in terms of established brand and market.
- 2) *eBay revenue concentration* – PayPal has non-compete agreement for 5 year with eBay, that prohibits eBay to develop PayPal prototypes, but allows it to use other providers; at the moment we see neither real competitor nor reason for eBay to change the service provider. To note, the same agreement also prohibits PayPal to develop eBay prototype.
- 3) *New channels* – In addition to traditional desktop based payments, company is active on alternative channels and develops several different technologies to compete in non-traditional areas:
- **Venmo** lets customers make instant payments with their smartphones using money from their Venmo accounts or through links to their banks or debit cards. It differentiates itself through its underlying social platform. “To Venmo” has become a verb among Millennials. The app, which generated \$2.4bn in TPV during 2014, generated \$2.5bn in TPV in 4Q15 alone. CEO Dan Schulman during the call said that “by the end of next year we really expect to fully monetize the Venmo asset.”
 - **Braintree**, a payment gateway specializing in mobile commerce, Braintree was founded in 2007 and specializes in: payment gateway services, recurring bill processing, card data storage, end-to-end encryption, and one-touch purchases. Notable clients include LivingSocial, Uber, Airbnb, Wrapp, LevelUp and OpenTable.
 - **Paydiant** provides retail payment and customer engagement applications that allow smart-phone users to pay for goods and earn and redeem rewards at the point of sale. Notable clients include Merchant Customer Exchange (MCX), Subway, Capital One and FIS
 - **Xoom** is a leader in international remittances, enabling online and mobile money transfer services from the United States to 32 countries and cross-border bill payment services from the United States to five countries. Xoom has over one million active users and a presence in key emerging markets, including India, China, the Philippines, and Mexico, which collectively received more than \$187bn in remittances in 2014.

Risks - Summary

1. Competitors – work on single platform, need time to monetize
2. eBay revenue concentration – 5 year non-compete agreement
3. New channels – developing several technologies on feasible stage already

Valuation

Simple DCF model values the shares at US\$ 46.7. Main assumptions in base case are assumed to be similar to the figures in FY 2015:

1. TPV growth – 25%
2. Net take rate – 3%
3. EBITDA margin – 23%
4. Profit margin – 13%

We ignore net debt which is negative at the moment and assume it to be zero going forward.

Summary of valuation is given below:

		TPV Growth Rate				
		20.0%	22.5%	25.0%	27.5%	30.0%
EV/EBITDA '18	18	37.19	39.56	42.04	44.61	47.28
	19	39.26	41.76	44.37	47.09	49.91
	20	41.32	43.96	46.71	49.56	52.54
	21	43.39	46.16	49.04	52.04	55.16
	22	45.45	48.35	51.38	54.52	57.79

Exhibit 1 – DCF Model

	2015	2016 F	2017 F	2018 F
TPV	282,000	352,500	440,625	550,781
TPV Growth	27.1%	25.0%	25.0%	25.0%
Net Take Rate	3.3%	3.0%	3.0%	3.0%
Net Revenue	9,248	10,575	13,219	16,523
EBITDA Margin	23.2%	23.0%	23.0%	23.0%
EBITDA	2,142	2,432	3,040	3,800
Profit Margin	13.7%	13.0%	13.0%	13.0%
Net Profit	1,268	1,375	1,718	2,148
EPS	1.04	1.12	1.41	1.76
Shares Outstanding				1,223
EV/EBITDA '18				20
EV '18				76,008
Mkt. Cap '18				76,008
Share Price '18				\$ 62.17
Discount Factor (@10%)	0.751	0.826	0.909	1.000
Share Price	\$ 46.71	\$ 51.38	\$ 56.51	\$ 62.17
P/E	45.04	45.69	40.21	35.38

All figures in millions except per share data and multiples

Exhibit 2 – Peers

Ticker	Market Cap (US\$ M)	P/E	EV/EBITDA	Last Price	52 wk high	52 wk low	Sales Growth (y/y)
PYPL US	46,455	38.0	19.8	38.1	42.6	30.0	15.2
V US	65,130	33.9	20.4	72.4	81.0	60.0	9.3
MA US	27,645	25.4	17.0	86.9	101.8	74.6	2.4
GPN US	3,564	27.6	17.7	61.0	74.6	43.8	8.6
HPY US	1,588	42.9	14.6	93.5	96.5	46.8	16.1
TSS US	4,424	24.2	12.8	43.6	56.7	37.1	13.6
VNTV US	8,522	54.8	17.2	52.0	54.2	35.9	22.6
WDI GY	4,200	34.0	20.9	36.6	49.0	31.9	24.8
INTU US	10,855	42.3	25.2	96.6	109.2	79.6	-1.2
FLT US	2,907	31.4	17.6	127.7	165.7	107.6	42.0
WEX US	758	19.6	13.8	65.3	119.0	54.4	4.5

Source: Bloomberg

Exhibit 3 – Peers Descriptions

Ticker	Company Description
PYPL US	PayPal Holdings, Inc. operates as a technology platform company that enables digital and mobile payments on behalf of consumers and merchants. The Company offers online payment solutions. PayPal Holdings serves customers worldwide.
V US	Visa Inc. operates a retail electronic payments network and manages global financial services. The Company also offers global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities.
MA US	MasterCard, Inc. is a global payment solutions company that provides a variety of services in support of the credit, debit and related payment programs of financial institutions. The Company offers transaction processing services for credit and debit cards, electronic cash, automated teller machines, and travelers checks.
HPY US	Heartland Payment Systems, Inc. provides bank card-based payment processing services to small-and medium-sized merchants in the United States
FIS US	Fidelity National Information Services, Inc. is a payment services provider. The Company provides credit and debit card processing, electronic banking services, check risk management, check cashing, and merchant card processing services to financial institutions and merchants.
FDC US	First Data Corporation offers its clients a range of integrated solutions in commerce technologies, merchant acquiring, issuing, and network solutions. The Company's services enables businesses to accept electronic payments, helps financial institutions issue credit, debit and prepaid cards, and assists in routing secure transactions between merchants and customers.
FLT US	FleetCor Technologies Inc. is an independent global provider of specialized payment products and services to commercial fleets, major oil companies and petroleum marketers. The Company serves commercial accounts in countries in North America, Europe, Africa and Asia.
VNTV US	Vantiv, Inc. is an integrated payment processor. The Company enables merchants of all sizes to accept and process credit, debit and prepaid payments and provide them supporting services, such as information solutions, interchange management and fraud management, as well as vertical-specific solutions in sectors such as grocery, pharmacy, retail, petroleum and restaurants.
TSS US	Total System Services, Inc. provides electronic payment processing and related services to financial and nonfinancial institutions. The Company's services include processing consumer, retail, commercial, government services, stored value and debit cards. Total System serves institutions throughout the United States and internationally.
GPN US	Global Payments Inc. provides electronic transaction processing, information systems, and services. The Company serves the financial, corporate, government, and merchant communities on a worldwide basis. Global Payments provides funds transfer, merchant services, merchant accounting, Internet services, and other services.
WEX US	WEX Inc. provides payment processing and information management services to the United States commercial and government vehicle fleet industry. The Company markets services directly to businesses and government agencies with vehicle fleets, automotive manufacturers, fuel retailers.
HAWK US	Blackhawk Network Holdings Inc is a prepaid payment network utilizing proprietary technology to offer a broad range of gift cards, other prepaid products and payment services in the United States and 18 other countries.
GDOT US	Green Dot Corporation operates as a bank holding company that offers personal banking products and services. The Company provides prepaid debit card products, prepaid card reloading services, and mobile banking accounts. Green Dot offers its products and services to consumers across the United States via retail, online, and digital distribution channels.