

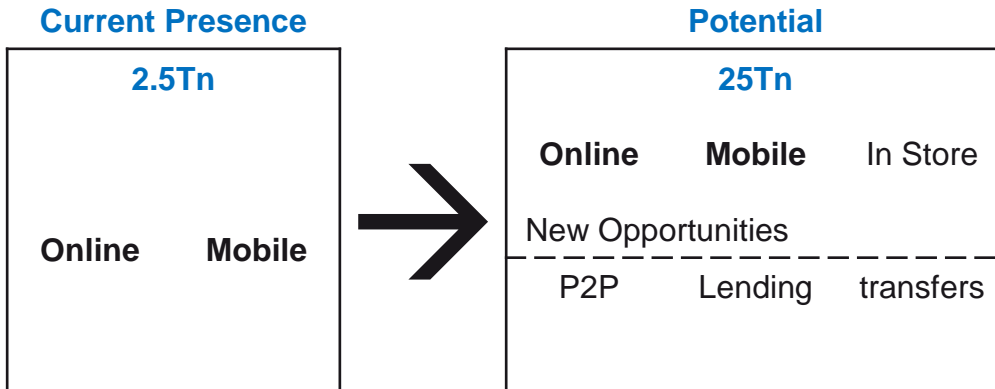
PayPal Holdings Inc. (PYPL US)  
BUY, TP \$46.7 (+25%)

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# Market Overview and Presence

## Strong Position on Huge and Growing Market



1. Of the global retail market of US\$ 25Tn (US\$ 19Tn, excluding China) online and mobile payments are about 10%, while 90% is still traditional In-store purchases.
2. Digital commerce is increasing by about 20% annually. PayPal holds market share of 15% of the US and 13% of global (ex-China) sales.
3. PayPal's key strength is strong position on rapidly increasing market by having largest network of merchants and customers, which is difficult if not impossible to be replicated.

### PayPal's unique position

- 180m** Active Customers
- 10m+** Merchants and Developers
- 5B** Transactions in 2015 (information about customers)
- 27.5** Transactions per customer (up 12%)

## Mix of Financial and Strategic Value

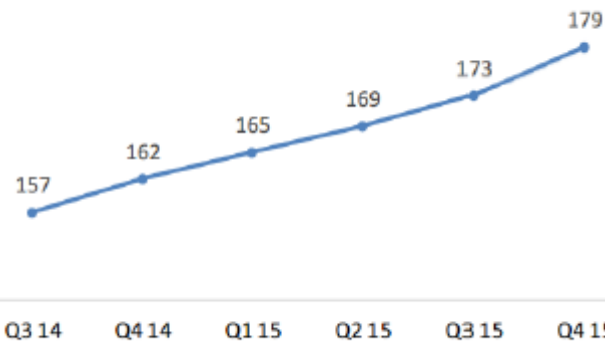
### Strategic

1. Brand awareness and first mover advantage
2. Already developed network of customers and merchants
3. Strong ties with eBay
  - 'Free' revenue
  - Data about customers

### Financial

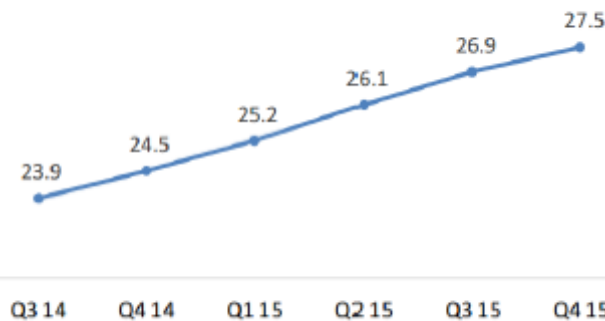
1. Revenue growth – driven by new merchants, customer engagement, increasing customers
2. Expenses – almost no fixed costs, semivariable expenses include customer service and product development → stable EBITDA margin of 20%+

Active Customer Accounts (M)



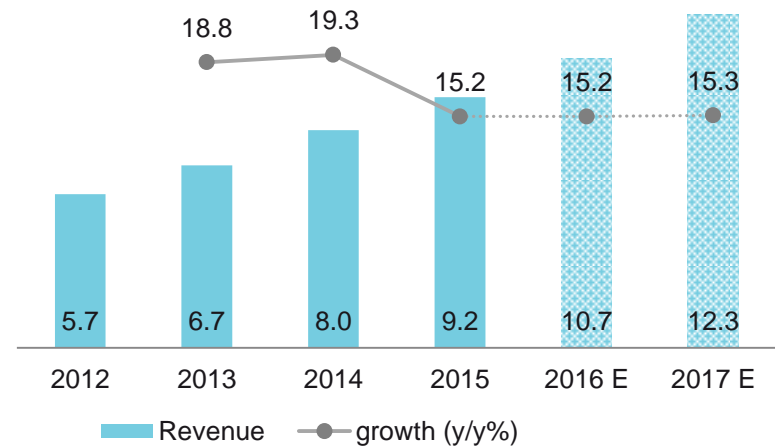
Source: Company Presentation

Number of Payment Transactions per Active Customer Account



Source: Company Presentation

Revenue Growth



Source: Bloomberg, Bloomberg estimate

...and why they are not important

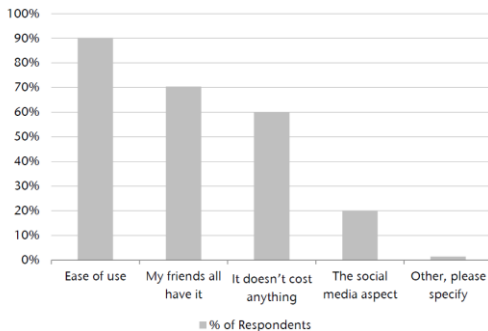
	Market Perceived Risks	Mitigating Risks
1	<p><b>Increased competition</b></p> <p><i>Google Checkout, Amazon Payments, Square, Facebook Credits, Google Wallet and Stripe Visa's V.me and Visa Checkout, Apple Pay.</i></p>	<p>Since first competitor product by Google in 2006 PayPal was challenged by rivals, but none of them altered its growth. Company has delivered stable growth of 20%+. Two factors with competitors:</p> <ol style="list-style-type: none"> <li>1. Most of them work on single platform</li> <li>2. It will take time to monetize</li> </ol>
2	<p><b>Alternative channels</b></p> <p><i>PayPal's position in traditional desktop based payments is losing its share against mobile and in app purchases</i></p>	<p>Company is growing presence on mobile, offline and in-app purchases.</p>
3	<p><b>eBay revenue concentration</b></p> <p><i>c. 30% of revenue and higher % of EBIT (as its almost expense-free revenue) comes from eBay</i></p>	<p>Non compete agreement* with eBay states:</p> <ol style="list-style-type: none"> <li>1. eBay shall not develop PayPal prototype</li> <li>2. PayPal shall not develop eBay prototype</li> </ol>

\*See Exhibit 1 for other details



Mobile

- Payment sharing app
- “To Venmo”
- Rapidly growing (TPV in 2014 = TPV Q42015=2.5b)
- Almost free – to be monetized
- Pay with Venmo – 67% pays with venmo at least 1-2 times per month
- Why Venmo?



Source: Jefferies survey of Venmo users



In app

- In app purchase gateway
- Major competitor is Stripe
- Developer friendly
- Notable clients include: Airbnb, Uber, LivingSocial



Offline

- White label mobile wallet
- Mobile payments, loyalty, ATM access
- Clients include Subway, MCX, Capital One
- May act as a “Trojan Horse” to penetrate in-store commerce



P2P transfers

- Money transfers provider
- P2P from US to 32 countries
- Cross border bill payment
- 1m customers
- Presence in India, China, Mexico, Philippines (\$187bn in remittances in 2014)
- 2014 – TPV 7bn, Revenue 160m, EBITDA 20m

# Q&A

## Investment Summary

1	Market Overview and Presence	Strong Position on Huge and Growing Market
2	Value Proposition	Mix of Financial and Strategic Value
3	Identified Risks	...and why they are not important
4	Alternative Channels	Mobile, In-app, Offline, P2P

## Separation Agreement Details

<b>Key Terms</b>	<b>Commentary</b>
Pricing	PayPal is required to offer eBay merchants payment processing services at prices consistent with existing rates and non-eBay merchants
Referral fees and usage payments	PayPal will pay eBay an annual referral service fee and a separate annual fee based on the notional value of PayPal credit extended to customers and merchants. The structure encourages eBay to maintain (or increase) its PayPal penetration rate.
Non-Compete	The companies are prohibited from creating competing products; however, PayPal may serve as a payments platform for other commerce sites, and eBay may accept alternative payment methods.
Change of control	If PayPal is acquired by certain entities, eBay can become the merchant of record for transactions effected on the core eBay Marketplaces site.

Source: JP Morgan, Company Reports

Simple DCF

	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	13.71%	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				76,008
Share Price '18				\$ 62.17
Discount Factor (@10%)	0.751	0.826	0.909	1.000
Share Price	\$ 46.71	\$ 51.38	\$ 56.52	\$ 62.17
P/E	45.04	45.69	40.21	35.38

		TPV Growth Rate				
		20.0%	22.5%	25.0%	27.5%	30.0%
EV/EBITDA '18	18	37.19	39.57	42.04	44.61	47.29
	19	39.26	41.77	44.38	47.09	49.92
	20	41.33	43.96	46.71	49.57	52.54
	21	43.39	46.16	49.05	52.05	55.17
	22	45.46	48.36	51.38	54.53	57.80