

PayPal Holdings, Inc. (PYPL)

\$112.18 (As of 03/05/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

PayPal's portfolio strength remains its key catalyst. Venmo's improving monetization efforts and rising adoption rate across various platforms are aiding total active accounts. Further, robust mobile checkout services of One Touch are contributing to the company's total payment volume growth. Growing momentum across core peer to peer is also aiding in acceleration of payment volume. Additionally, the company is benefiting from well-performing core PayPal and Braintree. Positive contributions from Hyperwallet buyout are tailwinds. The stock has outperformed the industry it belongs to over a year. However, eBay's managed payments transition remains a concern. Moreover, declining eBay volume remains a headwind for the company's TPV. Moreover, PayPal anticipates Honey and GoPay buyouts to limit earnings growth in 2020.

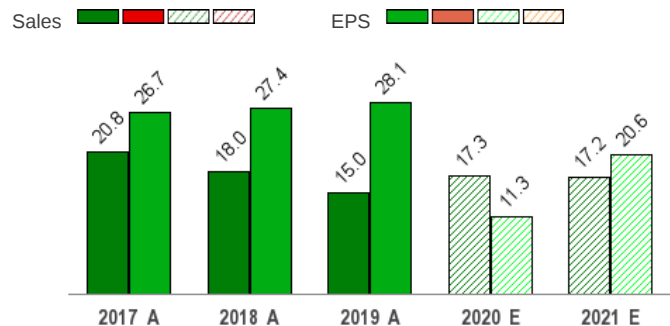
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.45 - \$94.51
20 Day Average Volume (sh)	8,152,820
Market Cap	\$131.6 B
YTD Price Change	3.7%
Beta	0.92
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Internet - Software</u>
Zacks Industry Rank	Bottom 35% (165 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/22/2020
Earnings ESP	-2.7%
P/E TTM	36.1
P/E F1	32.5
PEG F1	1.8
P/S TTM	7.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,563 E	5,899 E	6,051 E	6,882 E	24,443 E
2020	4,800 E	5,084 E	5,165 E	5,818 E	20,850 E
2019	4,128 A	4,305 A	4,378 A	4,961 A	17,772 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.93 E	\$0.99 E	\$1.05 E	\$1.20 E	\$4.16 E
2020	\$0.78 E	\$0.84 E	\$0.86 E	\$0.96 E	\$3.45 E
2019	\$0.78 A	\$0.86 A	\$0.61 A	\$0.86 A	\$3.10 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

San Jose, CA-based PayPal Holdings Inc. was incorporated in 2015. The company operates a technology platform offering online payment solutions. The platform is based on a two-sided network where both merchants and consumers have PayPal accounts with stored balance functionality.

This allows customers to pay and get paid, withdraw funds from their bank accounts and hold balances in their PayPal accounts in various currencies.

Withdrawal of funds from bank accounts supports 56 currencies and holding balances in PayPal accounts support 25 currencies. Additionally, transfer of funds supports more than 100 currencies globally.

The company offers merchant authorization, settlement capacities and quick access to funds. Its payment platform includes PayPal, PayPal Credit, Venmo, Xoom, iZettle and Braintree products.

Moreover, it offers domestic and international person-to-person payment facilities with the help of PayPal, Venmo and Xoom products. Further, its payment platform is ideal for mobile commerce.

Notably, the platform is based on the combination of proprietary and third-party technologies and services. The company has connections with financial service providers worldwide. With all these features, PayPal allows customers to send payments in more than 200 markets throughout the world.

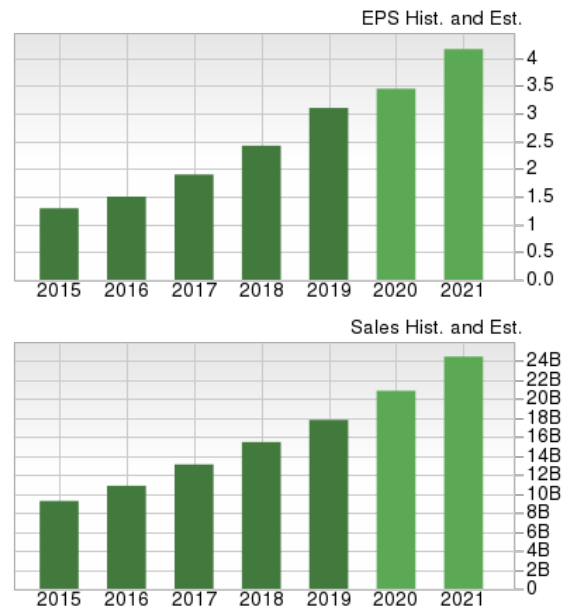
PayPal earns revenues transactions and other value-added services.

Transaction revenues include net transaction fees that consumers and merchants pay based on volume of activity processed through the company's Payment platforms.

Revenues from other value-added services include interest and fees earned on PayPal Credit loans, gateway fees, subscription fees, gain on sale of participation interest in consumer loans receivable, interest earned on certain PayPal customer account balances, revenues earned through partnerships, fees earned through Paydiant products and other services.

Further, its revenues are categorized between United States and International regions geography wise.

In 2019, PayPal generated revenues of \$17.8 billion. As of Dec 31, 2019, PayPal had about 305 million active accounts, reflecting growth of 14% from 2018. In 2019, the company processed nearly 12.4 billion payment transactions, up 25% from 2018.



Reasons To Buy:

- ▲ PayPal's **safety and simplicity of transactions and the fact that it's both brand and technology pioneer** differentiates it from its competitors. The company offers simple and affordable financial services and digital payment facilities enabling customers and merchants to access and move their money anywhere, anytime and through any connected device. The company's risk management and tokenization help secure legitimacy of transactions and prevent illegal or fraudulent transactions. PayPal's onboarding facility offers more choice to customers while opening a PayPal account. The company has plans to roll out account setting and check-out experiences that are expected to enhance customer engagement. Additionally, PayPal's two-sided platform enables it to develop and maintain direct financial relationship with both customers and merchants. The platform connects consumers and merchants facilitating unique end-to-end product experiences to both parties. Merchants are able to keep track of customer behavior and engagement using PayPal's data. The platform enables PayPal to maintain a deep and trusted relationship with its growing merchants and consumer base.
- ▲ PayPal continues to forge **strategic partnerships**. The company's ongoing strategic partnership with Visa in the United States, Europe and Asia-Pacific provides enhanced consumer choice, point of sale acceptance, instant money withdrawal facility and data quality. The partnership provides certain economic incentives to the company such as Visa incentives for increased volume and greater long-term Visa fee certainty. This partnership has been recently expanded to Europe and Asia-Pacific. PayPal and Mastercard have been working together for 10 years. They currently run a multi-year PayPal Extras Mastercard co-branded consumer credit card program. MasterCard is a "clear and equal" payment choice in PayPal's wallet. This partnership has been recently expanded Europe, Latin America, Canada, Africa, the Caribbean and the Middle East. PayPal's partnerships with Google, Facebook, Pinterest, Alibaba and Intuit are also delivering positive results. Over the past one year, the company has put itself in a favorable place for partnerships across multiple original equipment manufacturers (OEM), technology companies, mobile-carriers, retailers and financial institutions. Further, PayPal's new partnerships with CaixaBank, Bankia, HSBC and Barclays Bank are helping the company to improve its customer base. Additionally, the introduction of new services and offers for the debit and credit card users by collaborating with JP Morgan and Bank of America helped in attracting customers to the platform.
- ▲ **One Touch** continues to be PayPal's most rapidly adopted product. This platform allows customers to make purchases through a variety of merchant websites or apps without having to enter additional information. Currently, the service is in use by more than 14 million merchants and 199 million consumers. OneTouch is now a secular tailwind behind PayPal, a clear advantage in mobile with which it is witnessing increased conversion. The platform has opened new market opportunities internationally with opportunities to expand in many more markets of Venmo.
- ▲ **Venmo** continues to bolster PayPal's stake in mobile payments. This application enables the transfer of money between family and friends via mobile devices. In fourth-quarter 2019, the app processed more than \$29 billion, up 56% year over year. The company is constantly adding new features to this app. Venmo users can now pay at more than 2 million PayPal merchants across the United States. Further, it is making good progress in acquiring net new actives. Moreover, the company's ongoing partnership with MasterCard will continue to aid the adoption rate of Venmo. With all these, Venmo will continue to deploy more and more merchants across major brands. At the end of 2019, Venmo's customer base crossed 52 million active accounts.

PayPal's two-sided platform, safety and simplicity of transactions, opportunities in the fast-growing mobile space and strategic partnerships are major positives.

Reasons To Sell:

- ▼ PayPal operates in the highly competitive global payments industry with its participants, many of which are traditional financial services companies such as MasterCard and Visa, enjoying dominant and secure positions. PayPal, being an intermediary, is vulnerable to competitive moves from these companies in the digital wallets space, although they have not gained much traction so far.
- ▼ The nature of business makes PayPal vulnerable to foreign exchange risk. A significant part of the company's operations are international and thus, appreciation or depreciation of the U.S. dollar versus foreign currencies such as British Pound Euro, Canadian Dollar and Australian Dollar could impact the company's financial results. The company holds some customer and corporate funds in non-U.S. currencies and thus could face foreign exchange risk while translating them to U.S. dollars. The same is true when it comes to the company's assets and liabilities denominated in currencies other than the functional currency of its subsidiaries.
- ▼ The company is exposed to interest rate risk from its interest rate sensitive assets and investment portfolio. The assets underlying PayPal's customer balances that are held in its balance sheet as customer accounts are maintained in interest and non-interest bearing bank deposits, corporate debt securities, time deposits, and U.S. and foreign government and agency securities.
- ▼ Moreover, the company is trading at premium in terms of Price/Book (P/B). PayPal currently has a trailing 12-month P/B ratio of 7.78. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is closer to the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/B perspective.

PayPal operates in a highly competitive global payments industry that is exposed to foreign exchange and interest rate risks on a continuous basis.

Last Earnings Report

PayPal's Q4 Earnings & Revenues Beat Estimates

PayPal Holdings reported non-GAAP earnings of 86 cents per share in fourth-quarter 2019, which surpassed the Zacks Consensus Estimate by 3.6%. The figure improved 24.6% on a year-over-year basis and 40.9% sequentially.

The company's strategic investments contributed 2 cents to the bottom line during the fourth quarter. Notably, investment in MercadoLibre (MELI) acted as a key catalyst.

Net revenues of \$4.96 billion beat the Zacks Consensus Estimate by 0.3%. The figure improved 17.4% from the year-ago quarter on a reported basis and 18% on FX-neutral basis. Further, it advanced 13.3% from the prior quarter.

Growing total payment volume (TPV) owing to increasing net new active accounts contributed to the top line. Further, strong performance delivered by Venmo, One Touch, core PayPal and Braintree drove the transactions in the reported quarter. This remained a tailwind.

Additionally, Hyperwallet buyout remained a positive. In fact, the company witnessed solid demand for payouts capabilities courtesy of the acquisition during the reported quarter.

However, the mid-point of the guided range for 2020 earnings is lower than the estimates. Moreover, the company has provided weak outlook for first-quarter earnings and revenues.

The company expects Honey and GoPay buyouts to hinder earnings growth in 2020. Further, eBay's managed payments transition remains a concern.

Nevertheless, the company remains optimistic about investments in advanced technologies, which are expected to yield good returns. Further, its strategic acquisitions and partnerships bode well for its continuous efforts toward strengthening services portfolio.

All these factors are instilling investor confidence in the stock.

Top Line in Detail

By Type: Transaction revenues came in at \$4.53 billion (91% of net revenues), up 18% from the year-ago quarter. Other value-added services generated \$426 million of revenues (accounting for 9% of net revenues), increasing 14% year over year.

By Geography: Revenues from the United States came in at \$2.61 billion (53% of net revenues), up 19% on a year-over-year basis. International revenues were \$2.35 billion (47% of revenues), improvement 16% from the prior-year quarter.

Key Metrics to Consider

PayPal witnessed year-over-year growth of 14.2% in total active accounts with the addition of 9.3 million net new active accounts during the reported quarter. The total number of active accounts was 305 million in the quarter, in line with the Zacks Consensus Estimate.

Additionally, the total number of payment transactions came in at 3.46 billion, up 21% on a year-over-year basis. Notably, the company processed 3.5 billion transactions in the reported quarter. However, the figure missed the Zacks Consensus Estimate of 3.57 billion.

Further, the company's payment transactions per active account were 40.6 million, which increased 10% from the year-ago quarter, reflecting strong customer engagement on PayPal's platform. However, the figure lagged the Zacks Consensus Estimate of 40.8 million.

TPV came in at \$199.4 billion for the reported quarter, reflecting year-over-year growth of 22% on both spot rate and currency neutral basis, courtesy of core PayPal, Venmo and Braintree. However, the figure missed the Zacks Consensus Estimate of \$202.7 billion.

Nevertheless, year-over-year growth in TPV was primarily driven by robust Venmo, which accounted for more than \$29 billion of TPV, soaring 56% on a year-over-year basis driven by its strong monetization efforts. Notably, Venmo's customer base crossed 52 million active accounts at the end of 2019.

Further, accelerating mobile volumes contributed \$88 billion (44% of TPV), up 32% year over year. This can be attributed to robust mobile checkout services of One Touch, which had 14 million merchants and 199 million customers at the end of the fourth quarter.

Further, growing momentum of core peer to peer (P2P) contributed more than \$53 billion (27% of TPV), up 35% from the prior-year quarter, owing to Venmo, Xoom and core PayPal contributions. Moreover, merchant services volume accounted for 92% of TPV. Merchant volume was also up 26% year over year, owing to core PayPal, Venmo and Braintree.

Additionally, cross-border trade volume was above \$34 billion (17% of TPV), up 14% year over year.

However, eBay volume, which was down 4% year over year in the reported quarter, remains a concern.

Operating Details

PayPal's operating expenses were \$4.2 billion in the fourth quarter, up 14.7% from the prior-year quarter. As a percentage of net revenues, the figure contracted 190 bps year over year.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.37%
EPS Surprise	3.61%
Quarterly EPS	0.86
Annual EPS (TTM)	3.11

Consequently, non-GAAP non-GAAP operating margin came in at 23.6%, expanding 200 bps from the year-ago quarter.

Balance Sheet & Cash Flow

As of Dec 31, 2019, cash equivalents and investments came in at \$10.8 billion, up from \$10.5 billion on Sep 30, 2019.

PayPal had a long-term debt balance of \$4.9 billion at the end of fourth quarter.

The company generated \$1.3 billion of cash from operations, up from \$1.1 billion in the previous quarter.

Free cash flow came in at \$1.1 billion during the reported quarter, up from \$923 million in the prior quarter.

Further, the company returned \$305 million to the shareholders and repurchased 2.9 million shares.

Guidance

For first-quarter 2020, PayPal expects revenues between \$4.78 billion and \$4.84 billion, suggesting year-over-year improvement in the range of 16-17% at current spot rate and 17-18% at FX-neutral basis.

Non-GAAP earnings are anticipated in the range of 76-78 cents per share. This guidance includes contribution worth 2 cents from the PayPal's strategic investment portfolio.

For 2020, PayPal anticipates revenues between \$20.8 billion and \$21 billion, suggesting improvement in the range of 17-18% at current spot rate and 18-19% at FX-neutral basis from 2019.

Further, the company expects 2020 non-GAAP earnings in the band of \$3.39-\$3.46 per share. This guidance excludes the impact of any gains and losses from the company's strategic investment portfolio.

Recent News

On **Feb 27, 2020**, PayPal trimmed first-quarter 2020 revenue guidance due to the coronavirus outbreak. The company now expects COVID-19 to reduce year-over-year revenue growth in the current quarter by one percentage point on both a spot and foreign currency-neutral basis. Moreover, revenues in the current quarter are anticipated to be near the lower-end of the guided range of \$4.78-\$4.84 billion.

On **Jan 22, 2020**, PayPal joined forces with UnionPay International in an attempt to support UPI acceptance across its own global acceptance regions.

On **Jan 6, 2020**, PayPal completed the buyout of Honey Science Corp. for a hefty amount of about \$4 billion. This acquisition will strengthen its presence in the e-commerce market. The deal is likely to help the company to get new sources of data and insights into online shopping behavior of consumers.

On **Dec 19, 2019**, PayPal completed the acquisition of a 70% equity interest in Guofubao Information Technology Co., Ltd. (GoPay). The deal makes PayPal the first foreign company to make inroads into the digital payment service market in China.

On **Oct 17, 2019**, PayPal extended partnership with Synchrony. As a part of the deal, the latter will become the issuer of a Venmo co-branded consumer credit card in the U.S., thus strengthening the consumer credit relationship between the two companies.

Valuation

PayPal shares are up 6.4% in the past six-month period and 16.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 4.5% and up 11.6% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 6% and 19.4%, respectively.

The S&P 500 index is up 5.2% in the past six-month period and 12.6% in the past year.

The stock is currently trading at 6.12X forward 12-month sales, which compares to 6.17X for the Zacks sub-industry, 3.38X for the Zacks sector and 3.19X for the S&P 500 index.

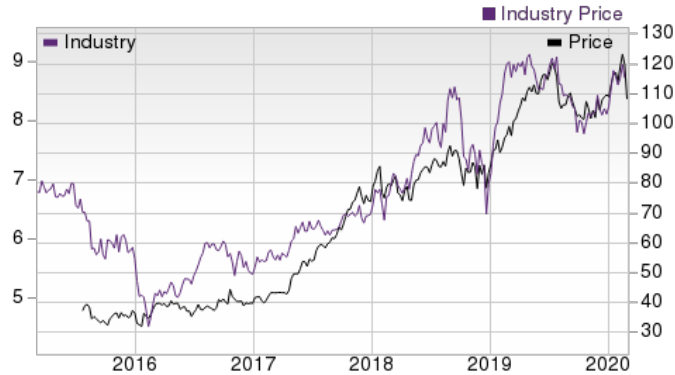
Over the past three years, the stock has traded as high as 7.32X and as low as 3.86X, with a 3-year median of 5.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$118 price target reflects 6.44X forward 12-month sales.

The table below shows summary valuation data for PYPL

Valuation Multiples - PYPL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	6.12	6.17	3.38	3.19
	3-Year High	7.32	6.66	3.58	3.43
	3-Year Low	3.86	4.73	2.62	2.76
	3-Year Median	5.96	5.73	3.19	3.16
EV/Sales TTM	Current	7.09	6.93	3.93	3.03
	3-Year High	8.29	7.64	4.19	3.42
	3-Year Low	4.17	3.41	3.05	2.45
	3-Year Median	6.71	6.14	3.75	2.97

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (165 out of 255)



Top Peers

Apple Inc. (AAPL)	Outperform
Alibaba Group Holding Limited (BABA)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Intuit Inc. (INTU)	Neutral
Mastercard Incorporated (MA)	Neutral
Square, Inc. (SQ)	Neutral
Visa Inc. (V)	Neutral

Industry Comparison Industry: Internet - Software				Industry Peers		
	PYPL Neutral	X Industry	S&P 500	AAPL Outperform	AMZN Neutral	SQ Neutral
VGM Score	C	-	-	D	C	C
Market Cap	131.58 B	619.33 M	21.47 B	1,281.67 B	957.80 B	32.79 B
# of Analysts	15	5	13	11	13	13
Dividend Yield	0.00%	0.00%	2.04%	1.05%	0.00%	0.00%
Value Score	D	-	-	D	D	F
Cash/Price	0.08	0.12	0.05	0.09	0.06	0.04
EV/EBITDA	32.17	-0.80	12.81	16.19	24.79	67.96
PEG Ratio	1.79	2.35	1.88	2.05	2.58	2.70
Price/Book (P/B)	7.78	4.98	2.95	14.31	15.43	19.12
Price/Cash Flow (P/CF)	34.45	25.00	11.75	19.20	28.70	203.82
P/E (F1)	32.01	41.21	17.19	21.57	69.68	83.17
Price/Sales (P/S)	7.40	3.82	2.32	4.79	3.41	6.96
Earnings Yield	3.08%	0.72%	5.81%	4.64%	1.44%	1.21%
Debt/Equity	0.29	0.12	0.70	1.04	0.38	0.61
Cash Flow (\$/share)	3.26	-0.01	7.01	15.26	67.05	0.37
Growth Score	A	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	20.43%	16.66%	10.85%	9.54%	110.19%	NA
Proj. EPS Growth (F1/F0)	11.23%	8.65%	6.27%	14.19%	20.00%	14.71%
Curr. Cash Flow Growth	30.28%	10.82%	6.07%	-3.74%	31.33%	130.71%
Hist. Cash Flow Growth (3-5 yrs)	18.18%	16.47%	8.52%	7.40%	49.26%	26.09%
Current Ratio	1.43	1.55	1.23	1.60	1.10	1.90
Debt/Capital	22.68%	17.41%	42.57%	50.97%	27.39%	37.92%
Net Margin	13.84%	-16.16%	11.69%	21.49%	4.13%	7.97%
Return on Equity	17.33%	-13.19%	16.66%	60.19%	21.07%	6.57%
Sales/Assets	0.36	0.62	0.54	0.80	1.41	1.07
Proj. Sales Growth (F1/F0)	17.46%	16.84%	3.90%	8.22%	19.14%	26.46%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	-2.71%	-0.99%	-3.79%	-3.24%	-2.62%	-3.71%
1 Week Price Chg	-9.62%	-8.26%	-12.06%	-12.68%	-10.13%	-0.19%
4 Week Price Chg	-6.43%	-8.50%	-10.92%	-9.93%	-6.16%	-2.79%
12 Week Price Chg	6.16%	-1.82%	-8.10%	7.91%	9.30%	15.88%
52 Week Price Chg	16.60%	-9.09%	4.09%	69.81%	18.33%	2.98%
20 Day Average Volume	8,152,820	277,175	2,483,920	44,414,352	4,880,579	10,682,400
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.51%	-0.06%	17.24%
(F1) EPS Est 4 week change	-0.06%	0.00%	-0.06%	-1.17%	0.16%	81.99%
(F1) EPS Est 12 week change	-0.17%	-4.71%	-0.42%	3.90%	4.20%	47.03%
(Q1) EPS Est Mthly Chg	-0.17%	-0.27%	-0.29%	-9.94%	-0.08%	111.67%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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