

PayPal Holdings, Inc. (PYPL)

\$115.28 (As of 01/13/20)

Price Target (6-12 Months): **\$121.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

PayPal is driven by growth in total payments volume owing to Venmo and One Touch. Also, increasing net new active accounts and strengthening customer engagement on the company's platform are positives. Additionally, growing momentum of the company's core peer to peer and merchant services remains positive. We believe PayPal's continuous efforts toward strengthening services portfolio will continue to aid its customers momentum. The stock has outperformed the industry it belongs to over a year. However, declining eBay volume remains a headwind for the company's total payment volume. Sale of the U.S. consumer credit receivables portfolio to Synchrony are risks to PayPal's top-line growth. Also, increasing competition from Square remains a major concern.

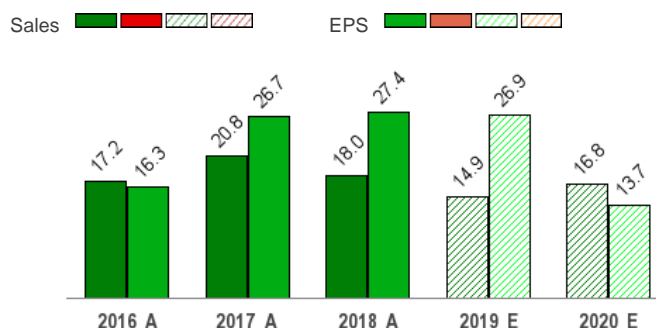
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$121.48 - \$86.62
20 Day Average Volume (sh)	5,587,676
Market Cap	\$135.4 B
YTD Price Change	6.6%
Beta	0.94
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 43% (109 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.3%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/29/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,853 E	5,083 E	5,116 E	5,708 E	20,733 E
2019	4,128 A	4,305 A	4,378 A	4,943 E	17,755 E
2018	3,685 A	3,857 A	3,683 A	4,226 A	15,451 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.83 E	\$0.86 E	\$0.86 E	\$0.93 E	\$3.49 E
2019	\$0.78 A	\$0.86 A	\$0.61 A	\$0.83 E	\$3.07 E
2018	\$0.57 A	\$0.58 A	\$0.58 A	\$0.69 A	\$2.42 A

*Quarterly figures may not add up to annual.

P/E TTM	39.2
P/E F1	33.0
PEG F1	1.8
P/S TTM	8.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

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.

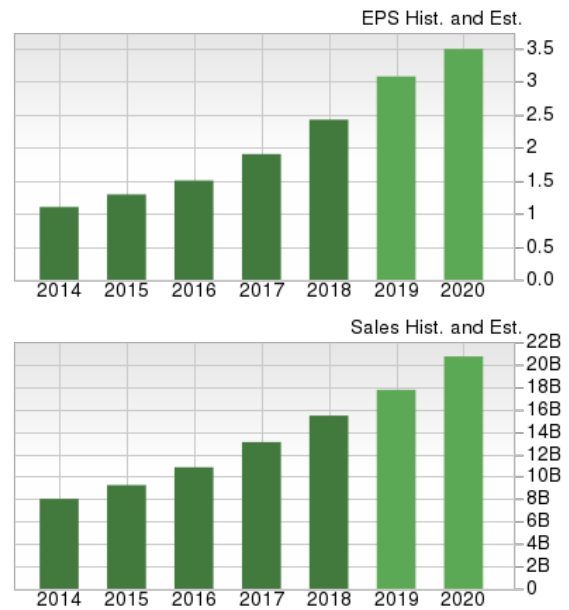
PayPal earns revenues transactions and other value-added services.

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 2018, PayPal generated revenues of \$15.45 billion, up 18% from 2017. As of Dec 31, 2018, PayPal had about 267 million active accounts, reflecting growth of 17% from 2017. In 2018, the company processed nearly 9.9 billion payment transactions, up 27% from 2017.



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 13.8 million merchants and 172 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 third-quarter 2019, the app processed more than \$27 billion, up 64% 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. The company projects Venmo to contribute \$200 million toward revenues in 2019.

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 8.21. 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 Q3 Earnings Beat Estimates, Revenues Up Y/Y

PayPal Holdings delivered non-GAAP earnings of 61 cents per share in the third quarter of 2019, which surpassed the Zacks Consensus Estimate by 9 cents and rose 5.2% on a year-over-year basis.

However, the figure was down 29.1% sequentially. We note that the company bore the brunt of unrealized losses on strategic investments in MercadoLibre and Uber Technologies during the reported quarter which resulted in a negative impact of 15 cents per share against the contribution of 14 cents from the same investment portfolio in the previous quarter.

Moreover, the year-over-year growth in the bottom line was hurt by this loss, excluding which EPS would have grown 31% to 76 cents.

Net revenues of \$4.378 billion increased 19% from the year-ago quarter and 1.7% sequentially. Further, the figure was ahead of the Zacks Consensus Estimate of \$4.341 billion.

Solid performance of Venmo and One Touch drove the top line. Further, rapidly increasing net new active accounts and strengthening customer engagement on the company's platform that provided a significant boost to total active accounts and bolstered payment transactions also contributed by driving growth in total payment volume (TPV).

We believe the company's continuous efforts toward strengthening services portfolio have yielded favorable results. Further, its two-sided platform enables it to develop and maintain direct financial relationship with customers and merchants.

Top Line in Detail

By Type: Transaction revenues came in at \$3.955 billion (90% of net revenues), up 18.3% from the year-ago quarter. Other value-added services generated \$423 million of revenues (accounting for 10% of net revenues), increasing 24.4% year over year.

By Geography: Revenues from the United States came in at \$2.327 billion (53% of net revenues), up 19% on a year-over-year basis. International revenues were \$2.051 billion (47% of revenues), increasing 20% from the prior-year quarter.

Key Metrics to Consider

PayPal witnessed year-over-year growth of 16% in total active accounts with the addition of 9.8 million net new active accounts during the reported quarter. The total number of active accounts was 295 million in the quarter, in line with the Zacks Consensus Estimate.

Additionally, the total number of payment transactions came in at 3.09 billion, up 25.5% on a year-over-year basis. However, the figure missed the Zacks Consensus Estimate of 3.129 billion. Nevertheless, the company crossed 1 billion transactions per month for the first time, which marks a big achievement.

Further, the company's payment transactions per active account were 39.8 million, which increased 9% from the year-ago quarter, reflecting strong customer engagement on PayPal's platform. However, the figure lagged the Zacks Consensus Estimate of 40.03 million.

TPV came in at \$178.67 billion for the reported quarter, exhibiting year-over-year growth of 25% and 27% on spot rate and currency neutral basis, respectively. Further, the figure comfortably outpaced the Zacks Consensus Estimate of \$177.67 billion. Growth in TPV was driven by robust Venmo, which accounted for above \$27 billion of TPV, soaring 64% on a year-over-year basis driven by its strong monetization efforts.

Further, accelerating mobile volumes contributed significantly to TPV growth. This can be attributed to robust mobile checkout services of One Touch, which had 13.8 million merchants and 172 million customers at the end of the third quarter.

Further, growing momentum of core peer to peer (P2P) contributed \$51 billion, up 39% from the prior-year quarter. Moreover, merchant services volume was up 31% year over year.

However, eBay volume, which was down 3%, is a concern. Further, it accounted for 8% of TPV, contracting 300 bps from the year-ago quarter.

Operating Details

PayPal's operating expenses were \$3.7 billion in the third quarter, up 15.3% from the prior-year quarter.

Non-GAAP operating income rose 30.4% year over year to \$1.03 billion. Further, non-GAAP operating margin came in at 23.4%, expanding 200 bps on a year-over-year basis.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash equivalents and investments came in at \$10.5 billion, up from \$8.4 billion on Jun 30, 2019.

PayPal generated \$1.1 billion of cash from operations, down from \$1.2 billion in the previous quarter.

Free cash flow came in at \$923 million during the reported quarter.

Guidance

For fourth-quarter 2019, PayPal expects revenues between \$4.89 billion and \$4.95 billion, suggesting improvement in the range of 16-17% at

Quarter Ending 09/2019

Report Date	Oct 23, 2019
Sales Surprise	0.85%
EPS Surprise	17.31%
Quarterly EPS	0.61
Annual EPS (TTM)	2.94

current spot rate and 17-18% at FX-neutral basis.

Non-GAAP earnings are anticipated in the range of 81-83 cents per share.

For 2019, PayPal revised its revenue outlook from \$17.60-\$17.80 billion to \$17.70-\$17.76 billion. Further, the year-over-year growth rate is pegged at 15% at both current spot rates and on FX-neutral basis. The guidance assumes gains from 2018 acquisitions. However, the sale of U.S. consumer credit receivables portfolio to Synchrony has been a deterrent.

Further, the company revised non-GAAP earnings per share outlook downward from \$3.12-\$3.17 to \$3.06-3.08. This includes benefit of 11 cents from PayPal's strategic investments in the first, second and third quarter of this year.

Recent News

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 down 5.4% in the six-month period and up 24.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 5.4% and up 14.4% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 17.3% and the sector is up 50%.

The S&P 500 index is up 9.7% in the six-month period and 25% in the past year.

The stock is currently trading at 6.49X forward 12-month sales, which compares to 6.41X for the Zacks sub-industry, 3.7X for the Zacks sector and 3.52X for the S&P 500 index.

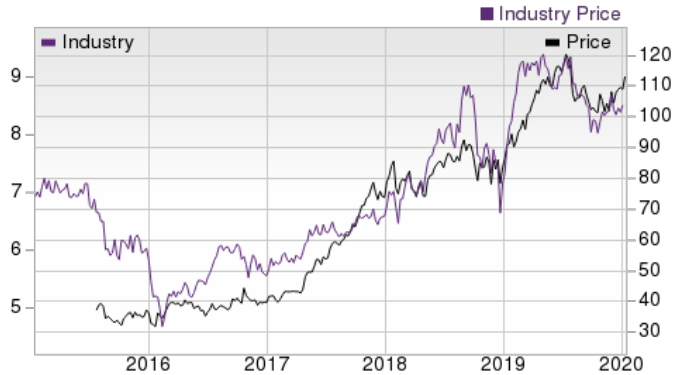
Over the past three years, the stock has traded as high as 7.32X and as low as 3.71X, with a 3-year median of 5.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$121 price target reflects 6.81X forward 12-month sales.

The table below shows summary valuation data for PYPL

Valuation Multiples - PYPL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	6.49	6.41	3.7	3.52
	3-Year High	7.32	6.61	3.7	3.52
	3-Year Low	3.71	3.2	2.62	2.76
	3-Year Median	5.92	5.68	3.16	3.15
EV/Sales TTM	Current	7.62	6.93	4.35	3.29
	3-Year High	8.29	7.6	4.35	3.3
	3-Year Low	3.92	3.23	3.05	2.46
	3-Year Median	6.62	6.03	3.73	2.95

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



Top Peers

Apple Inc. (AAPL)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
Alibaba Group Holding Limited (BABA)	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 Neutral	AMZN Neutral	SQ Neutral
VGM Score	D	-	-	C	C	C
Market Cap	135.36 B	641.31 M	24.31 B	1,389.56 B	937.70 B	29.50 B
# of Analysts	14	5	13	12	13	14
Dividend Yield	0.00%	0.00%	1.76%	0.97%	0.00%	0.00%
Value Score	D	-	-	D	D	F
Cash/Price	0.08	0.11	0.04	0.07	0.05	0.04
EV/EBITDA	41.20	-1.98	14.12	17.64	32.72	685.26
PEG Ratio	1.83	2.54	2.05	2.29	2.63	2.18
Price/Book (P/B)	8.21	5.43	3.34	15.56	16.59	23.57
Price/Cash Flow (P/CF)	46.29	34.84	13.66	20.77	36.56	410.59
P/E (F1)	32.78	57.54	18.82	24.09	72.10	72.38
Price/Sales (P/S)	7.95	4.42	2.64	5.34	3.53	6.81
Earnings Yield	3.03%	0.74%	5.29%	4.15%	1.39%	1.38%
Debt/Equity	0.30	0.09	0.72	1.01	0.40	0.83
Cash Flow (\$/share)	2.49	-0.01	6.94	15.26	51.74	0.17
Growth Score	C	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	19.98%	16.72%	10.56%	9.59%	116.18%	NA
Proj. EPS Growth (F1/F0)	13.49%	14.57%	7.49%	10.64%	27.90%	21.95%
Curr. Cash Flow Growth	17.43%	4.03%	14.83%	-3.74%	85.21%	-2,039.38%
Hist. Cash Flow Growth (3-5 yrs)	15.82%	14.52%	9.00%	7.40%	48.43%	22.37%
Current Ratio	1.43	1.53	1.23	1.54	1.10	1.68
Debt/Capital	23.15%	18.02%	42.99%	50.36%	28.45%	45.31%
Net Margin	14.89%	-14.19%	11.08%	21.24%	4.27%	-1.01%
Return on Equity	16.73%	-12.09%	17.16%	53.82%	22.52%	5.72%
Sales/Assets	0.36	0.66	0.55	0.76	1.45	1.06
Proj. Sales Growth (F1/F0)	16.77%	17.63%	4.23%	5.80%	18.55%	21.85%
Momentum Score	C	-	-	A	F	F
Daily Price Chg	2.08%	0.62%	0.73%	2.14%	0.43%	0.99%
1 Week Price Chg	3.83%	2.63%	0.39%	4.34%	0.44%	7.92%
4 Week Price Chg	5.21%	5.11%	1.84%	13.26%	6.90%	3.20%
12 Week Price Chg	13.64%	7.13%	6.48%	31.79%	5.92%	12.28%
52 Week Price Chg	27.48%	2.35%	23.15%	111.31%	16.95%	5.34%
20 Day Average Volume	5,587,676	274,005	1,578,594	28,934,692	3,231,909	5,725,407
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.45%	0.00%	-2.02%
(F1) EPS Est 4 week change	-0.12%	0.00%	0.00%	0.62%	-1.03%	-2.02%
(F1) EPS Est 12 week change	-3.02%	-1.09%	-0.48%	1.20%	-18.79%	-55.27%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.39%	-2.70%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	C
VGM Score	D

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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