



PayPal Final Report
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Executive Summary

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Recommendation

Our recommendation for the Spellman Fund is to purchase 30 shares of PayPal. We recommend that those 30 shares be funded by the sale of 65 shares of Emerson Electric Co.

Recent Stock Price

PayPal has seen substantial growth over the past two years.

- Recently seen a dip in the stock price.
- Great opportunity to invest while the price is low.
 - Maximize potential gains.



PayPal Family of Brands



Business Background

Founded in 1998 and going public in 2002, PayPal has been a payment platform for many e-commerce sites and personal wallets for consumers to manage their finances.

- Numerous acquisitions and strategic alliances.

Revenue

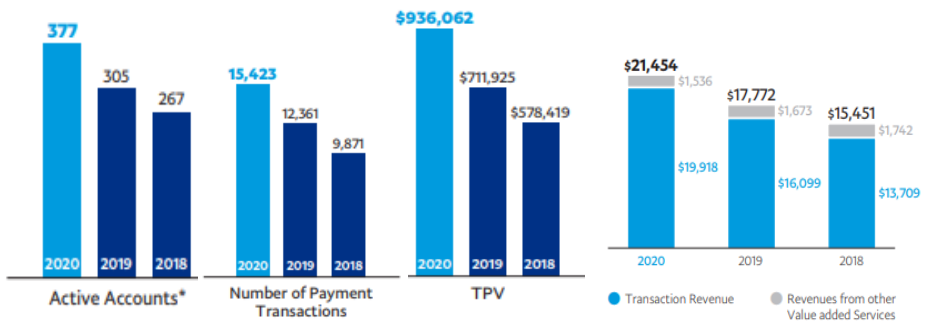
Two main sources of revenue:

Transactional Revenue

- Fees charged to merchants and customers
- TPV directly related to the number of transactions
- Conversion of currency or instant transfers

All Other Revenue Streams

- Other services considering partnerships, subscription fees, referral fees, and services outside transactions
- Internet and fees based on loan receivables and customer balances



Key Financials

Although a currently high P/E, PYPL should still be considered:

- ROE exceeding 20% since 2018
- Strong growth in EPS, projected \$6.75 through 2024
- Likely to continue strengthening the growth of financial performance in the future

	TTM	2020	2019	2018
P/E	40.34	66.16	52.26	49.18
ROE	24.45%	23.61%	15.36%	13.51%
EPS	4.21	3.57	2.09	1.74

Growth Opportunities

Key Drivers:

Transaction Fees

- PayPal's main source of revenue is from collecting on transaction fees throughout purchases
- Last year transactions fees accounted for 94% of revenue
- PayPal currently holds an 18% market share in the e-commerce industry
- Transactions Fees Revenue will only grow as the online shopping industry continues to develop

Buy Now, Pay Later

- PayPal's "Pay in 4" allows consumers to split payments into 4 interest-free payments
- Offers customers payment flexibility with the most trusted pay later brand, interest-free choices, and purchasing power
- Offers merchants/businesses increased sales, no additional costs, easy promotion, and next-gen shoppers
- A study conducted showed that consumers are 64% more likely to purchase with split payment services

Secondary Drivers:

Electronic Point of Sale Transactions

- Easy way to buy products and services
- Benefits and key features include managing staff, easy shopping and returns, generation of sales reports, building customer profiles, and real-time inventory updates
- Tablets, mobile phone devices, barcode scanners, receipt printers, credit card readers, etc.

Zettle by PayPal

- Acquired in 2018, the business already had 500,000 merchants and operated in 12 countries
- Predicted payments grow this year and hit a value of \$5.621 trillion
- The standard rate for equipment and transactions allows them to grow revenue

Summary of the Board

PayPal ensures the board of directors is “composed of individuals who have highly relevant skills, professional experience and backgrounds, bring diverse viewpoints and perspectives and effectively represent the long-term interest of stockholders” (PayPal, 2021).

- Current CEO since 2015, Dan Shulman
 - Last year, ranked third on *Fortune’s* list of the World’s Greatest Leaders
- Board members inside purchases in 2021: 74 purchases of 1,243,998 shares, 187 sales of 1,069,364 shares



SWOT Analysis

Strengths

- Brand name and reputation
- User-friendly and consumer satisfaction driven
- A substantial competitive advantage in terms of users, 300 million users and 20 million merchant users

Weaknesses

- Vulnerable to fraudulent activities and hackers
- Controversies influencing the company, i.e., the recent rumored acquisition of Pinterest
- Some restrictions on international companies due to political tensions

Opportunities

- Continuing to expand and enter new markets
- A recent offering of trading cryptocurrencies for users
- Constant updating of technology, both online and mobile, to create more efficiency

Threats

- Competitors offering similar services
- Cybersecurity and fraud
- System and technology failures

Summary

- PayPal Has evolved from a digital wallet into a company offering a variety of electronic financial services.
- Some major strengths of the company that could benefit their stock include a variety of services, safety of transactions, acquisitions, and growth of the company.
- Some weaknesses are net security, fraud exposure, hacking, lack of availability, and usability in less developed countries.
- The Fintech industry has potential due to increasing dependency on technology and advancements in AI and Cryptocurrencies.
- PayPal has created many strong partnerships allowing them to have over half the market share of financial payment processing
- PayPal has been very innovative in penetrating promising markets such as the BNPL
- online shopping becoming more popular has proven a promising future for PayPal
- PayPal has been heavily involved in creating a sound ESG strategy
- PayPal faces very impactful risks; however, they are fortunately low in probability.
- It heavily correlates with MasterCard, however, has been showing greater growth potential.
- Has a great market share in the BNPL industry with promising growth potential.

Company Background



PayPal was originally founded as Confinity in December of 1998 and went public in 2002 as PayPal. It was created to send payments over email and became very popular through eBay. This was because in the early 2000s people spent most of their money through checks or mail. In 2002 PayPal was made eBay's official way to make payments between the buyers and sellers. In 2008 PayPal and Bill Me Later teamed up to allow sellers to offer deferred payments. By 2013 Braintree joined PayPal, while Braintree had just acquired Venmo. Venmo is an online personal wallet making transferring money very accessible and quickly. Venmo is used by a wide variety of people from students to business owners. Venmo also implements debit and credit cards that allow you to purchase in stores and online right from your account. PayPal's parent company was eBay from 2002-2015 when it sold for \$1.5 Billion in October 2002. Then in 2015 PayPal became its own independent company and started trading on the Nasdaq stock exchange with the ticker symbol "PYPL". Later

that year Xoom joined, which is a company that allows people to transfer money from the digital and real world. According to PayPal's website "Since that time, PayPal has forged more than 40 strategic partnerships, including with leading banks like Bank of America, Banorte, Barclays, Citi, HSBC, JPMorgan Chase, ShinhanCard and Wells Fargo, card networks and issuers like American Express, Discover, Mastercard and Visa and other strategic financial institution partners like FIS, Paymentus, and Synchrony." Then in 2018 Swift and SImilarity joined to help with sale and risk services. Due to the global pandemic in PayPal provides \$25 million in interest-free cash advances to help federal workers. Most of their revenue comes from their fees and payment transactions. They also announced \$535 million to show their support for black and minority-owned businesses, especially considering the pandemic times. As of July 2021, PayPal has 403 million active customer and merchant accounts, 27,700 employees, 35,867 payment transactions per minute, and more than 1,1 trillion payment volumes in the last 12 months. Recently PayPal has partnered with Amazon to allow customers to use platforms like Venmo to checkout. This is a large partnership that will lead to high volume increases on the Venmo app especially with cryptocurrencies being more widely used and accepted. They are also allowing PayPal cards, PayPal cash cards, and PayPal Key to checkout with on Amazon. PayPal's family of brands includes Braintree, Chargehound, Happy Returns, Honey, Hyperwallet, Paidy, Simility, Venmo, Xoom, and Zettle. Finally, PayPal's current leaders and executives are:

- Dan Schulman- President and CEO,
- Mark Britto- EVP and Chief Product Officer,
- John Rainey- CFO and EVP, Global Customer Operations,
- Louise Pentland- EVP, Chief Business Affairs and Legal Officer,
- Jonathan Auerbach- EVP, Chief Strategy, Growth and Data Officer
- Peggy Alford- EVP, Global Sales
- Aaron Karczmer- Chief Risk Officer and EVP, Risk, and Platforms
- Sri Shivananda- EVP, Chief Technology Officer
- Kausik Rajgopal- EVP, Chief Human Resources Officer
- Alfonso Villanueva- SVP, Global Corporate Strategy and Venture

PayPal Family of Brands



Franz Paasche-SVP, Chief Corporate Affairs Officer

Gabrielle Rabinovitch- SVP, Corporate Finance, and Investor Relations

The only person who is considered an executive leader and on the board of directors would be President and CEO, Dan Schulman.

Strengths & Weaknesses

Apart from their current P/E ratio, there are many strengths that PayPal has. The website Marketing91.com has published a SWOT analysis of PayPal and states that its biggest strength is its global presence. Active in 202 countries across the world, PayPal has a large reach making it the largest company of its kind within this market. They also offer a wide variety of services, allowing them to engage a wide variety of customers and merchants alike. They continue to innovate ways to safely send money digitally. Ease of use is becoming more important to everybody today, and PayPal excels at this creating more of an appeal in comparison to its competitors. More recently, according to an article published on Popular Science's website, PayPal and Amazon have formed a partnership allowing consumers to purchase items using their Venmo balance. This is important because it creates awareness for PayPal's Venmo service and it streamlines online purchases, creating a much higher convenience level which is important for a large portion of PayPal's target market.

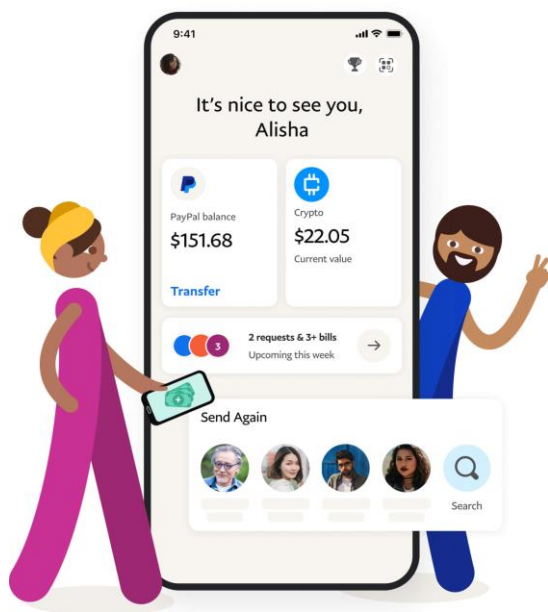
The Amazon logo, featuring the word "amazon" in a bold, black, sans-serif font. A curved orange arrow starts under the letter 'a' and points towards the letter 'n'.The Venmo logo, featuring the word "venmo" in a bold, blue, sans-serif font.

They are a highly active company, constantly offering more to users and updating their apps and programs for ease of use, as well as security of users' money. Found on the PayPal Newsroom website, they released a new app in September of 2021 that "offers an all-in-one app as the primary destination for customers to easily manage their day-to-day financial lives". The introduction of this app shows they are a business that aims to please its customers which will lead to financial success. Their earnings call transcript on their website focuses on the acquisition of other companies has also been a major strength for PayPal as they have all been successful and well-known companies. The three most significant are Venmo, Xoom, and Honey. PayPal now offers personal and professional, digital transactions of money across the U.S. and now internationally. Honey is an online coupon extension that searches the web for coupons to help online shoppers save money while making purchases. Unlike many other companies, COVID-19 helped PayPal as it encouraged the use of electronic commerce and transactions. The transition from physical to digital transactions and shopping has been growing for years. PayPal has taken all the right steps in supporting this and in turn have gotten a great amount of revenue, profit, users, and a rise in stock price. E-commerce has had growth in the total retail sales and will continue to do so, giving PayPal a long-term advantage.

Although PayPal has a lot of strengths, there are also several weaknesses. Most of their weaknesses come from the threats of electronic and online environments. Reaching back to the

Marketing91 article, fraud, and hacking is something that their online security must deter, but they are not invincible. This puts people's money and personal information at risk. In terms of being available in other countries, a weakness is used in less developed countries. Having to be connected to Wi-Fi and using a smartphone primarily for Venmo and mobile apps, they are less accessible for developing countries. PayPal has also struggled in the past with high transaction fees over their international offerings, they have also been known to use excessive power by freezing or deactivating accounts with little to no notice. Overall, it affects their brand image and that is something that needs to be addressed in the future.

Industry Summary



PayPal is currently in the Financial Technology Services Industry also called Fintech. This Fintech industry according to Forbes is algorithms and applications for both computer and mobile devices. Platforms that help do everything from paying bills to applying for financial aid. During the global pandemic, the use of platforms such as PayPal increased but many businesses have suffered due to downsizing, and customer struggles. However, the demand for technology was even higher during the global pandemic, many companies and people relied on technology to navigate their finances. The future of this industry is extremely uncertain, but partnerships and innovation continue to drive new needs especially with the rising cryptocurrencies and AI. Currently,

PayPal's market share is about 55%, with the next closest competitor being Stripe at 19%. Stripe can create different types of transactions and is more focused on the eCommerce space. According to a Forbes article, Stripe's fee for swipe/chip transactions is 2.9% plus \$0.30 per transaction, while PayPal's is 2.29% plus \$0.09. The fee for keyed transactions for PayPal is higher, at 3.49% plus \$0.09, while Stripe's fee does not change. Both companies issue a chargeback fee—\$20 for PayPal and \$15 for Stripe". These are the two leading financial payment processing companies in the market to date. Another upcoming driver in the industry is the use of cryptocurrencies. Venmo has now allowed customers to not only use but also purchase cryptocurrencies within their app. This will create a larger draw to the market by allowing customers to easily purchase, manage, and exchange cryptocurrencies. The only downfall within not only this industry but technology, in general, is the impact of fraud online. Overall, the use of

Fintech has increased dramatically throughout the past year and will continue to grow and evolve to keep pace with technology increases and advancements of the future.

According to the Valueline report, the future projections of PayPal in comparison to other credit companies like Mastercard are significant. As shown in Figure 1, the 5 years projected total return is approximately 460 in comparison to Mastercard at 222. This is over double what Mastercard is expected to return, based on price appreciation and dividends.

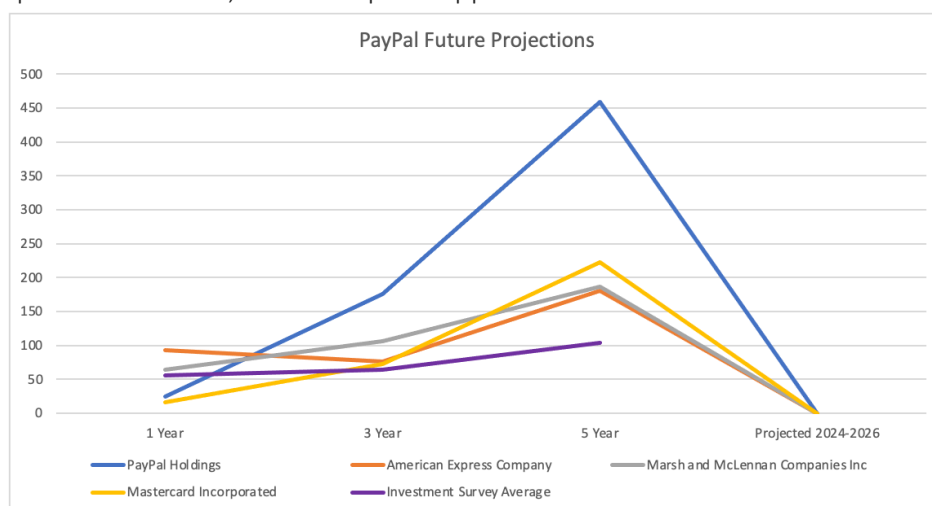


Figure 1- PayPal Future Projection Comparisons

Growth Story

As the pandemic continues to rage on, the eCommerce industry continues to boom. This means that PayPal has the potential to even grow bigger as more financial transactions are through these eCommerce platforms. Last year alone PayPal saw a growth rate of 30%. As for 2021 PayPal is projected to add another 55 million new users to its platform. An area that PayPal has a very exciting driver in is buying now pay later (BNPL). This is a system where the buyer can choose to break up the amount paid into smaller interest-free payments. PayPal has rolled out the "Pay in 4" payment plan. This payment plan allows the buyer to split the amount into four different payments every two weeks all interest-free. These payment plans are merchant-friendly as the merchant can receive the payment right away from a third-party platform, such as PayPal. This driver has led PayPal to have a \$750 million in volume from ~2.8 million unique customers in the first quarter that the buy now pays later plan was released, and the service's expansion will see PayPal further penetrate the BNPL market which has a projected \$166 million market by 2023.

Key Drivers

Online Sales

As times keep ever-changing more and more consumers are transitioning to online shopping as their preferred method of shopping. PayPal has been able to adapt with the times accounting for a major percentage of their revenue to come from online sales. According to PayPal, the most recent research has shown that PayPal has over 337 million users, which is up an astonishing 72 million from 2019. Of those 337 million, merchants account for 24 million of the users. Another statistic that shows the success of PayPal in the online sales industry is that 87.5% of online shoppers have used PayPal in the past to complete an online transaction. Along with the overall consumers and merchants using PayPal they have seen a very large increase in transaction volume and transactions in the past year alone. Paypal payment volume has increased by over 200 billion dollars from 2019 to 2020 alone. While Paypal Transactions have increased 3 billion in the same period as well. Paypal has already proven to be a successful company but mixing these numbers you can see that Paypal can continue to grow as consumers rely more on online shopping in the future.

EPS for Online Sales

Online transaction fees are the main growth driver that accounts for Paypal. The figure below shows the projected EPS growth based solely on transactions fee with market share growth rate and profit margin all being constant.

- The growth rate of 12.3% is based mainly on research from the grand valley which has a projected 14.7% growth rate over the upcoming years. As the pandemic's future is uncertain whether it will continue to increase or decline in infections has a big impact on PayPal's growth rate. The assumption used on this growth rate is that Covid-19 will continue to decrease resulting in a lower projected rate of growth in the eCommerce community. As well as using a lower growth rate than our sources we maintained a constant market share to make up for uncertainties and not project an inflated EPS number.

	2020	2021	2022	2023	2024
Market Share	18%	18%	18%	18%	18%
Transaction Revenue	17.6B	19.76B	22.3B	25.04B	28.112B

Growth Rate	12.3%	12.3%	12.3%	12.3%	12.3%
Profit Margin	19.8%	19.8%	19.8%	19.8%	19.8%
Net Profit from transaction Fees	3.45B	3.87B	4.37B	4.91B	5.51B
EPS per online sales	2.92	3.28	3.70	4.16	4.67

Buy Now Pay Later

Buy now, pay later is a revolutionary payment option that many tech/fintech companies have begun implementing in online stores. It allows consumers the second option of payment, splitting the net price into several payments. Although companies have different details within their process, PayPal has implemented their buy now, pay later service, Pay in 4. Their consumers will be able to “split their purchase into 4 interest-free payments with no late fees. There’s no impact on their credit score and it’s backed by PayPal” (PayPal). Along with their Pay in 4 services being implemented in several e-commerce platforms, including Amazon, PayPal has made an extremely beneficial acquisition of Paidy, a Japanese buy now, pay later platform. With Japan being the third-largest e-commerce market in the world, this gives PayPal a huge advantage of market share in the future.



A study was commissioned by PayPal and conducted by Logica Research to see the effect of the implementation of buy now, pay later services on consumers. In May of 2020 2000 U.S. consumers were studied, half being PayPal Credit users while the other half was not. The statistics achieved from this study showed that consumers are “64% more likely to purchase with a retailer that offers interest-free payment options. Businesses with pay-over-time messaging on their site saw a 56% increase in overall PayPal AOV” (PayPal). Pay in 4 offers many benefits for both consumers and merchants using it for their transactions.

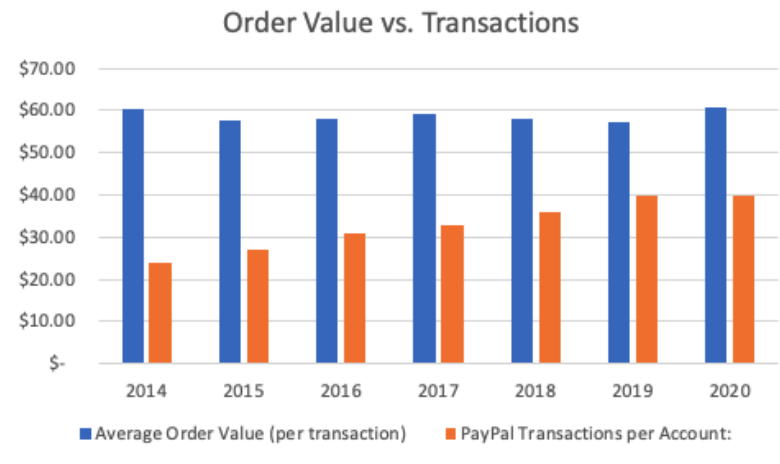
Customers	Merchants/Businesses
Payment flexibility	Increased sales
Most trusted pay later brand	No additional costs
Interest-free choice	Easy promotion
Purchasing Power	Next-Gen Shoppers

EPS for BNPL

Later in November of 2020, PayPal commissioned a second study to be conducted by Forrester Consulting to analyze consumers and their reaction to BNPL offerings. “The Forrester study found that 21% of sales come from BNPL

options among the business-to-consumer (B2C) merchants polled” (PayPal). They also found that these options, with zero interest payments, can better reach a younger audience of consumers, enabling them to purchase things they may not have been wary of in the past. Due to this second study conducted being more recent, this was used to calculate projections of effect on EPS.

With 2020 Sales being \$21,400,000,000, 21% of that is \$4,494,000,000. This percentage of sales was then multiplied by the gross profit margin of 19.6% to find their earnings, then divided by their outstanding shares. This resulted in an EPS for driver 3, BNPL, of \$0.742 per share.



	2021	2022	2023	2024
Transaction Revenue	19.76B	22.3B	25.04B	28.11B

% Of Revenue	21%	21%	21%	21%
Growth Rate	21%	21%	21%	21%
Profit Margin	19.8%	19.8%	19.8%	19.8%
Net Profit	821.5M	994.0M	1.20B	1.45B

Secondary Drivers

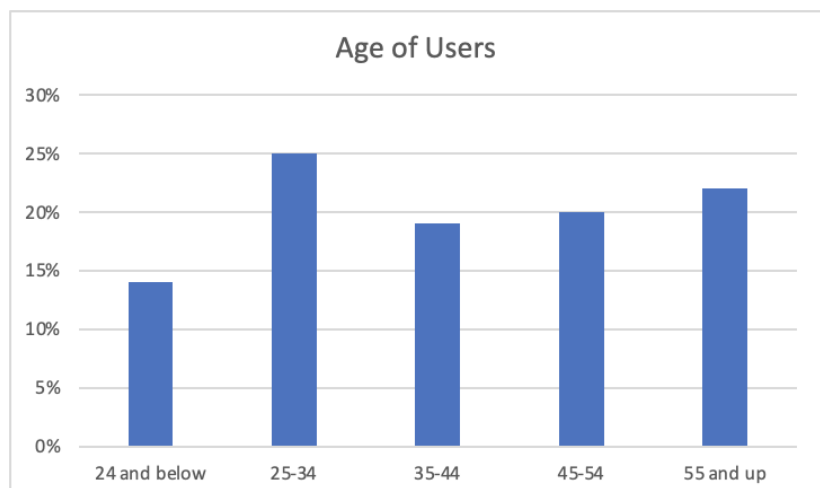
Demographics for PayPal Services

According to an article written by Kate Rooney, published on CNBC PayPal's fastest-growing segment was individuals over 50 years of age. The pandemic played an important role in this because those above the age of 50 are considered by the CDC to be more vulnerable to COVID-19 and are at higher risk for severe illness. As mentioned in the article, CFO John Rainer stated that this trend could become sustainable for PayPal's business. Although, it is known that the generation of younger adults, ranging from below 24 to age 35 are more likely to use platforms like PayPal as online financial services begin to take precedence over traditional banking.

Looking at the chart below, all these statistics have been taken from Statista and then we created the chart below to showcase the relatively even distribution of the age groups of users. Here is that spread.

Figure 2- Age of Users

- 14% are adults no older than 24.



- 25% fall between the ages of 25 and 34
- 35- to 44-year-olds take up 19%
- People in the 45-54 age group account for 20%
- 22% are older than 55

Electronic Point of Sale Transactions

According to PayPal, “Point of sale is an umbrella term for the instant a shopper buys your product or service.” These are new systems that allow for smooth sales and checkouts for customers and sellers. It goes beyond cash registers and allows data collection about your customer’s operations and assists in finding ways to improve and understand your business and customers. There are many different types such as tablets and monitors, credit card readers, receipt printers, barcode scanners, and cash drawers. Zettle is PayPal’s current POS system and companies can manage all online and offline transactions through one single business account (What is POS?). Some key features include generating sales reports, updating inventory in real-time, enabling easy shopping and returns, building customer profiles, and managing staff. There are also mobile POS systems that use cloud technology to store data and information.



In 2018, PayPal acquired Zettle for \$2.2 Billion, at that time Zettle had 500,000 merchants and operated in 12 countries. This was PayPal’s way to move to in-store payments as well. In-store transactions are projected to increase due to customers shopping in person again after the recent pandemic (Nunz). It is also predicted that score payments will continue to grow this year and hit a value of \$5.621 Trillion (Nunz). PayPal’s biggest competitor for EPOS transactions would be the company known as Square. According to Nunz, PayPal to use this acquisition to into small business-type transactions because they have existing merchant solutions combining these two to make it an ideal one-stop-shop for businesses.

Zettle by Paypal

- Standard rates for receiving transactions
 - Card-present transactions
 - $2.29\% + 0.09$ Per transaction
 - Manual card entry transactions
 - $3.49\% + 0.09$ Per transaction
 - QR Code transactions \$10.01 and above



- 1.9% + 0.10 per transaction
- QR Code Transactions \$10.00 and below
- 2.4% + 0.05 per transaction

(PayPal Zettle Fees: Pos pricing: Paypal US)

EPS Projections

	TTM	2021	2022	2023	2024
Baseline	4.15	4.61	5.25	5.94	6.75
Low Growth	4.15	4.61	5.07	5.58	6.13
High growth	4.15	4.61	5.53	6.64	7.97

The baseline growth rate is based on a percentage of 13.5%. This baseline growth rate is based on a weighted percentage of driver EPS times their growth rate projections. The low growth percentage is based on 10%. This is due to the fact since continues to grow as time continues but has the potential to slow down as this pandemic slows down. While on the other hand, we choose 20% as the high growth rate. This growth rate was chosen on two possible outcomes that are very realistic. The first is that the e-commerce community will continue to boom causing the Paypal growth rate to also grow with it. Secondly, if PayPal can capture an 18% market share in a trillion-dollar industry that will make PayPal's growth rate skyrocket up.

Financial Information

Year	▼	EPS	▼	P/E	▼	P/B	▼	ROE	▼	ROA	▼	NPM	▼	D/E	▼	PEG	▼
2018				1.71		49.18		6.42		13.51%		4.86%		13.31%		0.1299	
	Q1	\$		0.42		48.32		6.13		12.59%		4.92%		13.92%		0	2.129
	Q2	\$		0.44		49.86		6.56		13.34%		5.01%		14.02%		0	2.175
	Q3	\$		0.36		51.07		6.85		13.78%		4.97%		13.98%		0	2.079
	Q4	\$		0.49		49.18		6.42		13.68%		4.81%		13.31%		0	1.902
2019		\$		2.07		52.26		7.52		15.36%		5.13%		13.84%		0.294	
	Q1	\$		0.56		56.13		8.03		14.59%		5.82%		13.92%		0	2.209
	Q2	\$		0.69		54.5		8.35		16.25%		6.34%		15.36%		0	2.197
	Q3	\$		0.39		48.63		7.38		16.06%		6.01%		14.89%		0.3012	1.917
	Q4	\$		0.43		52.26		7.5		15.20%		6.11%		13.84%		0.294	1.881
2020		\$		3.54		66.16		13.71		23.61%		8.89%		19.59%		0.4465	
	Q1	\$		0.07		60.59		7.01		11.45%		3.67%		10.27%		0.499	1.742
	Q2	\$		1.29		79.92		11.56		15.40%		4.72%		13.44%		0.5065	3.655
	Q3	\$		0.86		74.35		12.46		18.17%		5.36%		15.48%		0.4835	2.506
	Q4	\$		1.32		66.16		13.68		23.25%		6.63%		13.84%		0.4465	2.886
2021																	
	Q1	\$		0.92		55.32		14.66		27.55%		7.68%		22.80%		0.46	2.545
	Q2	\$		1.00		71.09		16.38		24.67%		6.90%		20.42%		0.4279	2.921
	Q3	\$		0.92		45.14		13.83		23.93%		6.78%		20.09%		0.36	2.94
TTM		\$		4.16		40.34		10.3		24.45%		6.92%		20.09%		0.36	0.79

Figure 3 (Above) - Financial Ratios

Figure 4 (Below) - Competitors and Industry Averages

	Intuit	Square	Industry Average
P/E	41.18	197.45	7.60
PEG (past growth)	2.11	4.26	1.56
PEG (future growth)			
P/B	32.93	18.31	1.28
ROE	21.13%	26.41%	2.20%
ROA	4.71%	15.50%	1.10%
NPM	0%	11.36%	14.71%
D/E	1.847	0.2061	0.79

The data above has been collected using the Telemet software provided to us by the University of Wisconsin La Crosse.

PayPal has seen gradual growth when it comes to its EPS. Over the past three years, they have gone from between \$1.71 per share to a TTM value of \$4.16. Towards the end of 2020 and at the beginning of 2021 EPS had exceeded investor expectations according to

Robinhood research. There has also been a substantial amount of good news for the company as they begin to see an increase in online payment options, new partnerships, and availability as a payment option on airlines and other areas where electronic payments are accepted.

It has been known that PayPal's P/E ratio is high, which is a concern for investors as it may signal that the stock is overvalued. But PayPal is a growth stock, and growth stocks typically come with a high P/E ratio. According to the value line report, and our calculations shown in the appendix, we will see a decrease in the P/E ratio in the coming years, hopefully stabilizing at a lower level and taking away much of the sentiment investors have today. This decrease will come with the growth of PayPal's buy now pay later service, their development, and new market entry, and as the popularity of online money transfer/banking becomes more popular and efficient.

Compared to the industry average over the last three years, like P/E, PayPal's P/B ratio is on the higher side. Since a P/B ratio below 1 is typically considered a solid investment, there is risk associated with an investment in PayPal and it may show that the share price is overvalued. The P/B ratio has seen an increase as well, but over time if PayPal continues to evolve and be an industry leader within its sector there is a promise for lowering this ratio.

PayPal's ROE is exceptional, showcasing that they are leveraging their equity properly and achieving great returns on these debts. With their projected growth rates ROE will remain solid and continue to perform well, and this is important for investors to keep in mind.

When it comes to ROA, we can see that PayPal has exceeded sector averages over the past three years. Coming in on average 5% higher than that of the sector's average. Showing strength and promise for the stock, and investors going forward. ROA has been on a steady growth path and will continue to do so if the company maintains success.

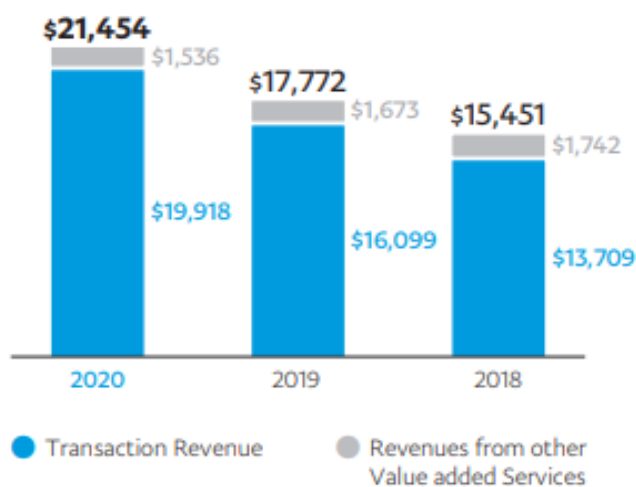
Over the past two years, PayPal has seen lower than average numbers for net profit margin, but there has been a rebound from the start of 2021 showing strength in converting revenue into profit.

Paypal showed a low D/E ratio in 2019 but saw a substantial increase, as did most companies, at the start of 2020. It is safe to say that the increase in borrowing came from the need to retain jobs and stay afloat during the peaks of the COVID-19 pandemic. PayPal's D/E ratio has begun to decrease to lower levels, but they are not in the clear just yet.

Finally, PayPal has seen a lower PEG ratio in comparison to sector averages over the last three years. This may be contradicting since other ratios have shown the potential for the stock to be overvalued. But since this ratio gives a more tuned and in-depth picture than the standard P/E ratio we can safely say that these assumptions of overvaluing may not hold as much legitimacy as they may seem. This PEG ratio shows there is an undervalued share price of PayPal and with the potential for growth and strength in the future throughout the entire sector, this number may remain lower.

When comparing PayPal to its closest competitors, as well as an industry, it holds strong ground. PayPal's financials are solid, as we know, but in comparison to the industry, they are outstanding. Putting P/E ratio aside, as well as P/B ratio, PayPal exceeds the industry average in PEG ratio, ROE, ROA, NPM, as well as D/E. All prove that PayPal is financially sound, and their stock overall is reacting to market sentiment as well as high expectations from investors. Their competitors have similar financials as well, solid returns and profit margins, but their P/E ratios are higher, and their D/E ratios are substantially higher. Showing us that PayPal does have the financial advantage over their competitors as they are leveraging their debt properly, and they are achieving financial security going forward.

Revenue



Paypal has two main sources of revenue as shown in Figure 4, they separate which is revenues from transactions and all other revenues. According to PayPal's 2020 annual report, growth in TPV is directly related to the number of transactions. They also earn more when they must convert currency and instant transfer from Venmo or PayPal accounts. Figure 5 shows the separations and an in-depth look at revenue sources forms transactions. When they calculate

revenues from other services, they are considering partnerships, subscription fees, referral fees, and other fees and services provided outside transactions. They also have internet and fees based on their loan receivables and customer balances (2021 Annual Report).

Figure 5- Revenue Sources

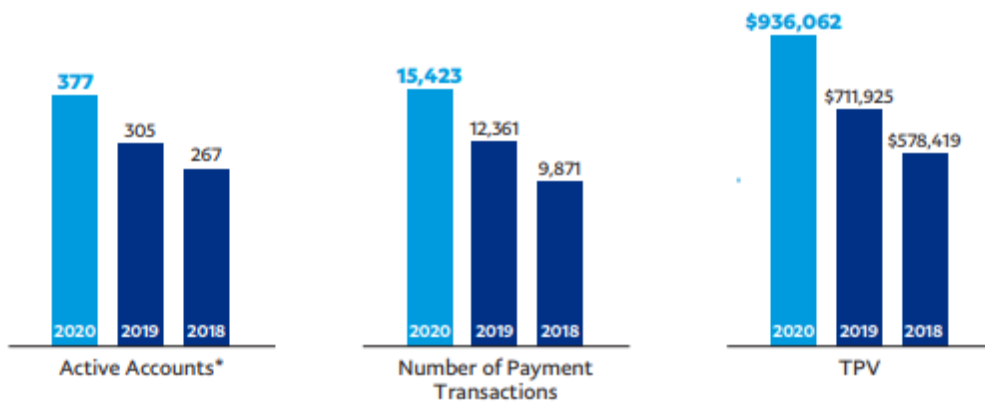
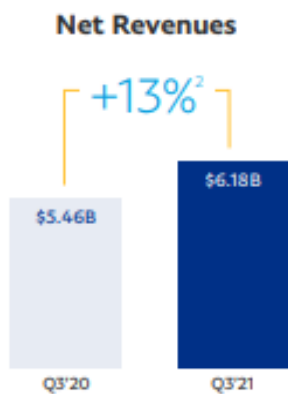


Figure 6- Transactions Revenue Details

Third Quarter Results



When looking specifically into the third quarter results of 2021 and at net revenues compared to 2020 you can see that there was an increase of 13% and almost 1 billion in revenue. According to the third quarter results revenue is expected to grow approximately 18% and at year-end have more than 430 million active accounts. This report also talks about how starting in 2022 customers will be able to check out in Amazon with Venmo. Overall, there has been customer and engagement growth also with about 4.9 billion payment transactions which are up 22% (PYPL Q3-21 investor update).

Figure 7- Quarter 3 Net Revenue Comparison

ESG

Paypal has recently committed a lot of time to raising its ESG awareness in recent years. Paypal has four main focuses in its ESG strategy shown in the figure below as well as how they have implemented these focuses so far:



Figure 8- ESG Focus

Social Innovation

- Worked with the U.S small business administration to provide over 2 billion in loans using PayPal's Paycheck Protection Program.
- Supported the U.S treasury Department with the distribution of stimulus checks through the direct deposit feature of PayPal

Employees & Culture

- Expanded employee initiatives such as global wellness days, financial stipends to hourly workers, and crisis leave programs
- Implemented global gender and ethnic equal pay programs which includes over \$500 million in supporting Black and underserved employees

Environmental Sustainability

- Has pledged to reach net-zero greenhouse gas emissions by 2040
- Sourcing 75% of their supply chain spending from vendors with a greenhouse targets in the future.

Responsible Business Practices

- Has a 100% completion of annual compliance and ethics training.
- Launching PayPal Privacy hub to support customer privacy choice and education

Paypal has laid out a very good strategy moving forward that has kept stakeholders' ESG concerns at bay. Although they have a good strategy implemented there are still some cons to PayPal's ESG. These cons include just a small 33% of the board of directors are women. Along with that Paypal has also a lot of control when it comes to controlling your Paypal account. Many issues that users have experienced is that Paypal suspends and holds money with no warning in the past. Considering both the positives and negatives Paypal has a favorable rate based on ESG.

Correlation Matrix

<i>PYPL</i>	1.00	<i>DIS</i>	0.43	<i>PFE</i>	0.27
<i>MA</i>	0.62	<i>AMT</i>	0.39	<i>INTC</i>	0.27
<i>FB</i>	0.62	<i>JNJ</i>	0.38	<i>UNH</i>	0.26
<i>ADBE</i>	0.58	<i>BA</i>	0.36	<i>UNP</i>	0.25
<i>SAP</i>	0.55	<i>BKNG</i>	0.35	<i>JPM</i>	0.25
<i>AAPL</i>	0.53	<i>PRU</i>	0.34	<i>PG</i>	0.21
<i>EMR</i>	0.49	<i>AMAT</i>	0.33	<i>NEE</i>	0.21
<i>NXST</i>	0.48	<i>SBUX</i>	0.31	<i>CVS</i>	0.17
<i>GOOGL</i>	0.47	<i>GM</i>	0.30	<i>HEAR</i>	0.15
<i>QCOM</i>	0.44	<i>KO</i>	0.29		

Figure 9- Correlation Matrix

Highest Correlation	
Company	Correlation Coefficient
Mastercard (MA)	0.62011594
Meta Platforms Inc. (FB)	0.61592529
SAP SE (SAP)	0.54727899
Adobe Inc. (ADBE)	0.57793084
Apple (AAPL)	0.52557986

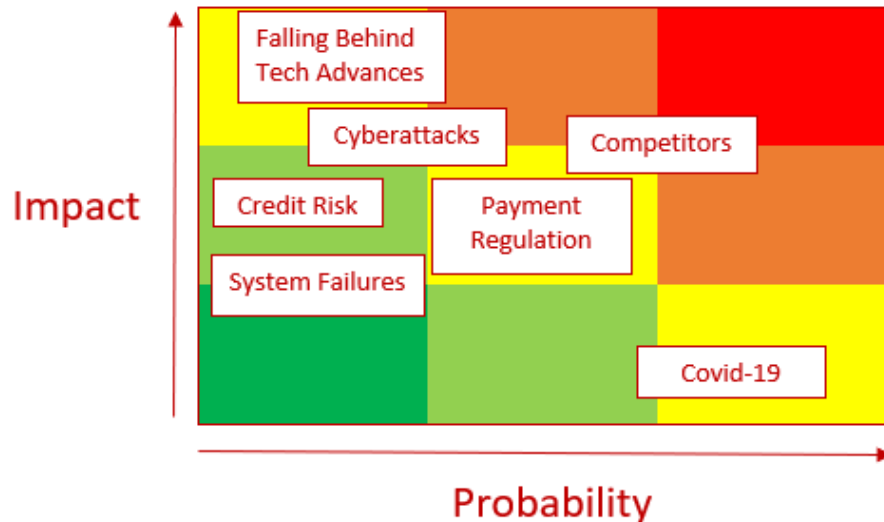
Lowest Correlation	
Company	Correlation Coefficient
JPMorgan & Chase Co. (JPM)	0.24522587
Procter & Gamble (PG)	0.20701473
NextEra Energy Inc. (NEE)	0.20514812
CVS Health Corp. (CVS)	0.16636991
Turtle Beach Corp. (HEAR)	0.14544873

All the stocks that PayPal strongly, positively correlates with are above 0.5. The stocks above make sense as they are all either financial services, tech, or fintech. If something is going to affect those industries, it will affect the other stocks in the fund as well. There are no stocks that negatively correlate with PayPal, however, there are several lowly correlated stocks. These companies include but are not limited to Turtle Beach Corp., CVS Health Corp, and NextEra Energy Inc. These companies are not as closely related to PayPal as they are in separate market industries. This explains why we see such a low correlation due to the impact of one industry not necessarily affecting the other.

Risk Matrix

Figure 10- Risk Matrix

There are several risks that PayPal is exposed to that they discuss in the “Risk Factors” portion of their annual reports. Some of them are listed above, as well as additional risks that may impact the fintech industry. Some risks that PayPal listed themselves included Covid-19, system



failure, cyberattacks, credit risk, and falling behind technological advancements. As shown above, Covid-19 is and has been highly probable for every company in the last year, although PayPal, along with other tech companies, has thrived from it. Being exclusively online, PayPal has been able to prosper as e-commerce shopping peaked during the pandemic. Although they aren't a high probability, risks such as system failures, credit risk, cyberattacks, and falling behind technologically all pose a major negative impact on the company. PayPal is a very intellectual property-heavy company with people's sensitive information. If this were to be stolen or given to other companies, they would be viable for a major loss.

Valuation

To evaluate the projected stock price of PYPL, we utilized three different valuation strategies, FCFF, FCFE, and P/E method. After finding the average of FCFF and FCFE, we allocated a weight distribution of 90/10, P/E, and FCFF respectively, as the P/E method was more accurate to the

	2022 P/E Estimate	2022 EPS Estimate	2022 Price Estimate
Baseline	39.39	\$5.25	\$206.80
Pessimistic	39.07	\$5.07	\$201.98
Optimistic	40.76	\$5.39	\$219.71
DCF Method Estimates (Figure 15)			
	FCFF Value	FCFE Value	Average Value
Baseline	179.04	192.22	185.63
Pessimistic	156.73	169.94	163.10
Optimistic	224.19	237.26	230.72

current stock price. We used the current stock price of \$187.22 as of 12/10/21.¹ Although P/E is more volatile than FCFF, we believe that it more accurately reflects the fact that the stock's value is dependent on online transactions. Essentially, the industry is predicted throughout the next few years to grow exponentially in comparison to other mature industries.

Based on the valuation method chosen, the optimistic target price of PYPL is \$221.91 and the pessimistic price of PYPL is \$198.17 while the target return is 11.87%, determined from the stock price of \$187.22. The valuation method consisted of a 90% P/E ratio weight, compared to a 10% FCFE weight. Dividends should be taken into consideration when calculating this return amount. However, PYPL does not pay out cash dividends, therefore the dividend yield did not affect the return.

Weight: 90% P/E 10% DCF	Target Price
Baseline	\$209.16
Pessimistic	\$198.17
Optimistic	\$221.91
Current Price:	\$187.22

Figure 11 – 2022 Estimates, Free Cash Flow Estimates

Figure 12 – Price Estimates

Spellman Fund Fit
















	Portfolio (% of Stocks)	S&P 500 (%)
 Cyclical	23.87	30.50
 Basic Materials	0.00	2.27
 Consumer Cyclical	6.69	11.75
 Financial Services	13.76	13.85
 Real Estate	3.42	2.63
 Sensitive	55.69	47.16
 Communication Services	17.01	11.24
 Energy	0.00	2.54
 Industrials	10.67	8.73
 Technology	28.02	24.64
 Defensive	20.44	22.33
 Consumer Defensive	4.32	6.34
 Healthcare	12.28	13.52
 Utilities	3.84	2.46
 Not Classified	0.00	0.00

Figure 13 - Current Spellman Fund Holdings

When considering how PayPal fits in with the current holdings of the Spellman Fund, we are missing any stocks falling under the category of basic materials. Allowing for space to be filled in the Cyclical category by shares of PayPal. This would ideally bring the funds to return equal to or greater than the S&P 500 return. Our group has taken the approach to replace 30 currently held shares of Mastercard with 90 newly purchased PayPal shares. Mastercard is currently producing negative according to the fund (9/6/21 spreadsheet) and PayPal, by our calculations, is expected to grow which will offset some of the losses from Mastercard.

The COVID-19 Pandemic was unprecedented to everyone around the world. Forcing people to adapt and change the way they operate daily. Online purchases of clothing, groceries and even everyday items like toilet paper and dog food became the norm. PayPal was a service people turned to and will continue to turn to for the foreseeable future.

Recommendation

Figure 14 - Recommendation

BUY			SELL		
PYPL	30 Shares	\$187.22	EMR	65 shares	\$105.00
Total:		\$5,616.60	Total:		\$6,825.00

- Buy 30 shares of PayPal at \$187.22
- Replace this purchase with selling 65 shares of Emerson Electric at \$105.00

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Appendix

Information is from PYPL's 11/05/21 Value Line PDF report (2021 P/E is based on P/E ratio listed at the top of the report). 2022 P/E is from Yahoo's forward P/E estimate.									
PYPL	2021	2022	2023	2024	2025				
A. Input data									
P/E	57.00	39.84	46.00	40.50	35.00				
Cap spending/shr	0.80	0.85	1.02	1.18	1.35				
LT Debt (\$M)	8,945	8,945	8,297	7,648	7,000				
Shares (million)	1,170	1,160	1,147	1,133	1,120				
EPS	4.61	5.12	5.68	6.30	6.99				
Working capital	16,220	17,000	17,083	17,167	17,250				
B. Cash flow calculations									
Profits (\$M, after tax)	5,394	5,939	6,513	7,140	7,829				
Interest (\$M, after tax)	189	189	175	161	148				= (1-tax_rate) x r_debt x LT Debt
Chg working cap (\$M)		780	83	83	83				
Depreciation (\$M)	1,200	1,275	1,383	1,492	1,600				
Cap spending (\$M)		986	1,161	1,337	1,512				
						Terminal value			
FCFF (\$M)		5,637	6,827	7,373	7,981	133,033			
FCFE (\$M)		5,448	6,003	6,563	7,185	134,397			assumes fixed debt ratio after 2020
C. Discount rate calculations									
Current beta	0.9								from Value Line
Unlevered beta	0.879								current beta / [1 + (1-tax)*debt/equity]
Terminal growth	0.03								
tax_rate	0.17								
r_debt	0.025								YTM in September 2021 on Moody's AAAA rated LT debt
Risk-free rate	0.02								
Market risk prem	0.08								
MV equity	307,441				274,008				Row 3 x Row 11
Debt/value	0.03	0.03	0.03	0.03	0.02				linear trend from initial to final value
Levered beta	0.900	0.899	0.899	0.898	0.897				unlevered beta x [1 + (1-tax)*debt/equity]
k_equity	0.092	0.092	0.092	0.092	0.092	0.092			from CAPM and levered beta
WACC	0.090	0.090	0.090	0.090	0.090	0.092			(1-t)*r_debt*D/V + k_equity*(1-D/V)
PV factor for FCFF	1.000	0.917	0.842	0.772	0.708	0.708			Discount each year at WACC
PV factor for FCFE	1.000	0.916	0.839	0.768	0.704	0.704			Discount each year at k_equity
D. Present values									
							Intrinsic val	Equity val	Intrin/share
PV(FCFF)		5,171	5,746	5,693	5,654	94,237	116,501	107,556	91.93
PV(FCFE)		4,989	5,035	5,042	5,055	94,560	114,681	114,681	98.02
								94.9733	Average of FCFF and FCFE values
						P/E method:	203.9808		
						Target Price weights:			
						P/E	FCF		
							0.8	0.2	
						Target Price:			
							182.179		
						Current Price:			
							187.24		
						Target Return:			
							-2.70%		