



ANALYST QUICK NOTES

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PayPal Holdings Inc. (NGS: PYPL: BUY)

Target Price: \$47

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Investment Thesis

- Expected to report 4Q16 EPS on January 26, after market close:
 - Argus estimate is \$0.43. Consensus is \$0.42.
 - Looking for 2016 revenue growth of 17%.
 - 4Q is seasonal peak for transaction volume.
 - Looking for 17% growth in 4Q payment volumes.
- Several drivers for payment volumes:
 - National Retail Federation reported 4% growth in holiday sales, above estimates.
 - Secular switch to digital payment forms for convenience and rewards.
 - Internet sales (electronic payment only) are growing mid-teens are displacing physical store sales (potential cash payments).
- PayPal at the forefront of changing payments landscape:
 - Mobile adoption.
 - Online, in-app and in-store integration.
 - Merchant acceptance of digital payments, including 75 of top 100 U.S. retailers.
 - Person-to-person payments (Venmo).
- Shares flat since election versus 6% rise for the S&P 500:
 - Post-election weakness could be due to concerns about potential repeal of Durbin amendment (cap on debit interchange fees).
 - Losing cap on interchange fee would return incentives to banks to reward debit card users.
 - Repeal is less likely than other Dodd Frank rules, given negative impact on small business, which lobbied hard for the rule.
 - Believe news is priced in.
- Carl Icahn is PYPL's fifth largest shareholder with a \$1.3 billion stake.

- We see PYPL as a high-revenue and earnings-growth story with a strong balance sheet:
 - See mid-teens revenue growth over next few years.
 - High teens earnings growth.
 - Target of \$47 implies 26.4-times our 2017 estimate, slightly ahead of V and MA given PYPL's faster growth:
 - PYPL at 1.4 PE/G, while V and MA at 1.8-1.9 PE/G.
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