



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 1Q17 EPS on April 26, after market close:
 - Argus estimate is \$0.42. Consensus is \$0.41. 1Q16 EPS was \$0.37.
 - Looking for 1Q revenue growth of 16%.
 - Expect 21% growth in 1Q payment volumes though with lower take-rate from mix of larger merchants.
 - Co. guidance calls for operating income growth to accelerate in second half of year on less FX impact.
- Payment volume growth driven by:
 - General growth in spending.
 - 4-5 million new active accounts per quarter (197 million in 4Q), higher transactions per active account.
 - Secular switch to digital payment forms for convenience and rewards.
 - Internet sales (electronic payment only) are growing mid-teens and displacing physical store sales (partly cash).
 - One Touch checkout service has reached 50 million users, 5 million merchants.
- PayPal at the forefront of changing payments landscape:
 - Mobile payments increased over 50% last year (to \$100 billion).
 - 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) popular with Millennials.

- Partnerships have accelerated:
 - Now has partnerships in place with Visa, MasterCard and Discover where cardholders have the ability to checkout anywhere PayPal is accepted online, while expanding use of PayPal to retailers that accept these cards in physical locations.
 - PayPal and Visa have extended the partnership in Asia Pacific, expect others partnerships to follow.
 - Visa noted success of the partnership on its 2Q conference call on April 20.
 - Carl Icahn is PYPL's fifth-largest shareholder with a \$1.4 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.
 - No debt, \$5 billion in cash likely to be used for acquisitions.
 - Target of \$47 implies 27-times our 2017 estimate, in line with V and MA despite PYPL's faster growth:
 - PYPL at 1.5 PEG, while V and MA at 1.9-2.0 PEG.
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