



## **Square Inc. NYSE: SQ**

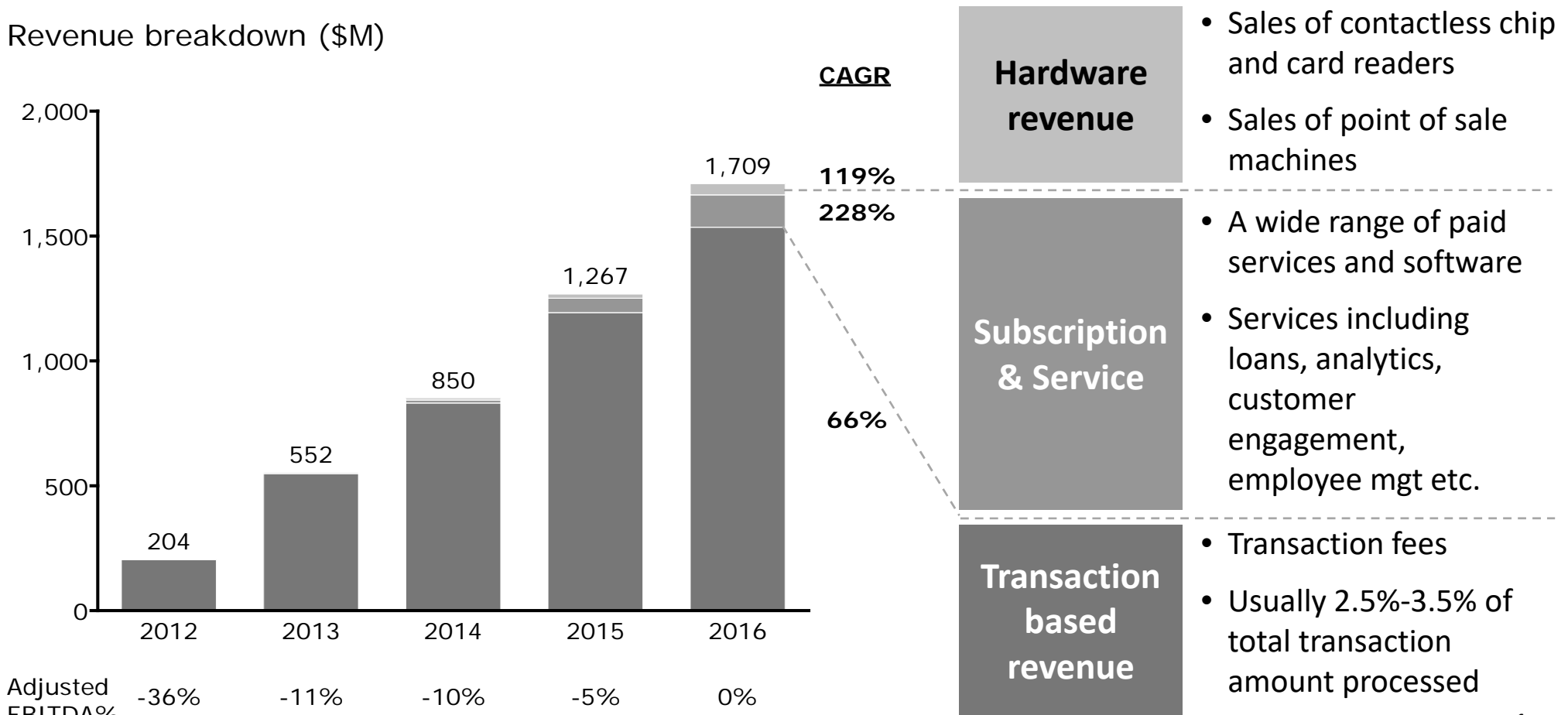
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# Square Inc. (SQ) has three major revenue streams and all have enjoyed significant growth in the past 5 years

*Square, Inc. (NYSE:SQ) was founded in 2010 and went public in Nov 2015. It is a commerce ecosystem that combines software with hardware to enable sellers to turn mobile devices and computing devices into payments and point-of-sale solutions.*

Revenue breakdown (\$M)



# Despite recent outperformance, we believe SQ is uniquely positioned to capture long term growth

## HISTORICAL PERFORMANCE<sub>1</sub>



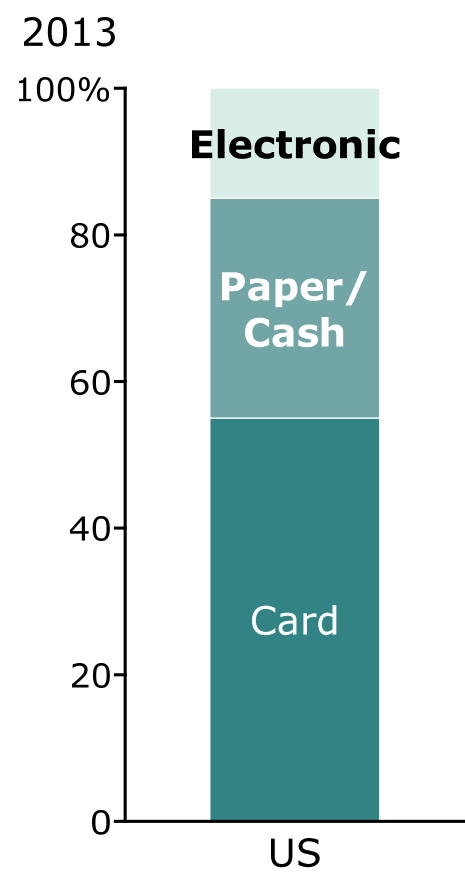
Market Cap: 15.74B  
52 Week Range: 11.43 - 39.73  
Average Volume: 7,566,393  
PE Ratio: NA

## INVESTMENT THESIS

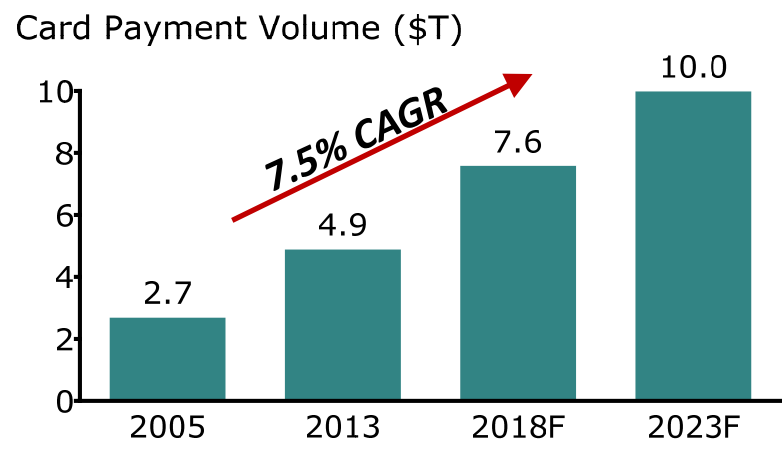
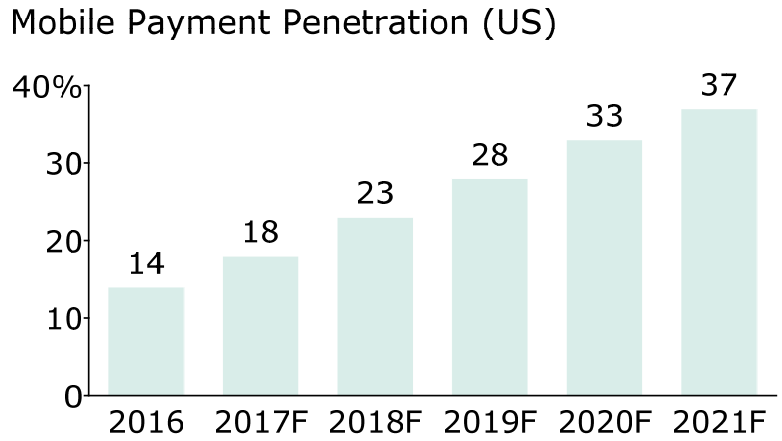
- 1 SQ is expected to benefit from the continuing **increase of cashless payment penetration** in the US
- 2 SQ is well position to capture the unmet needs for **Small & Median Enterprises** through **value add services beyond payment**
- 3 SQ could ride on the continuous **ecommerce growth** to further tap into **online payment**
- 4 Strong brand equity and first mover advantage enables SQ to **expand further internationally**

# 1 US market still expect fast growth in cashless payment

## PENETRATION



## CASHLESS PAYMENT



## KEY DRIVERS

- High level adoption of smartphones and increase level of convenience
- Discount and promotional incentives to consumers
- Increasing amount of online retailers
- Relatively lower risk compared to cash and check
- Growing economy and disposable income

Note: all data sources listed under PowerPoint "Notes" section

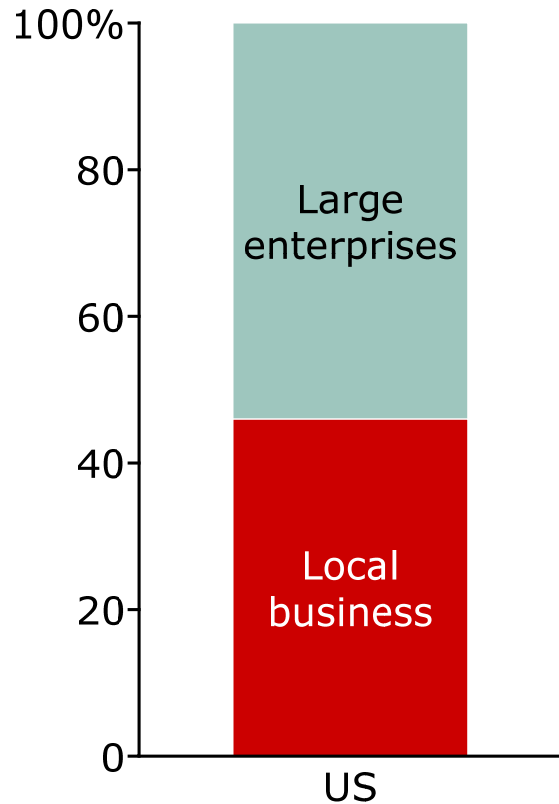
## 2 SMEs (local businesses and start-ups) present sizable growth potential for payment providers

**LOCAL BIZ REPRESENT 46% OF US OUTPUT...**

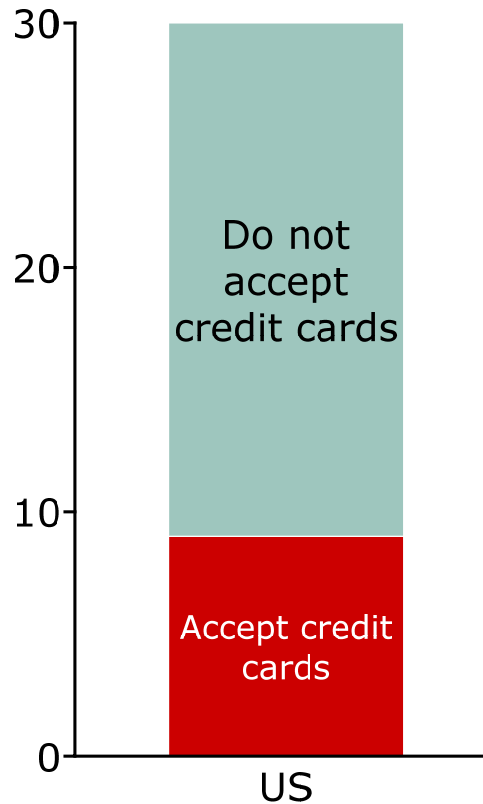
**...MAJORITY OF WHICH STILL DON'T ACCEPT CARDS...**

**...AND THEY ARE EXPECTED TO ENJOY FASTED GROWTH**

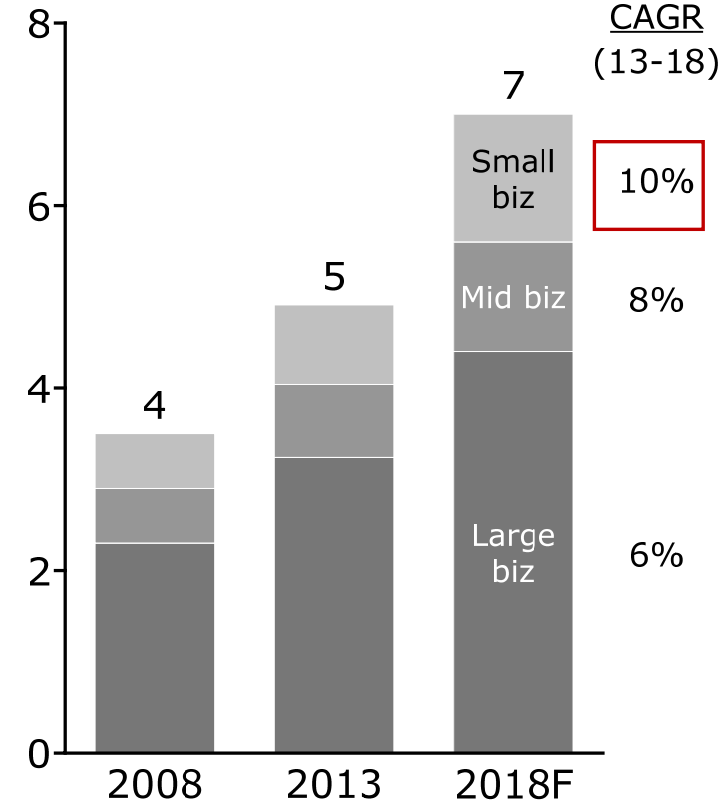
Total Economic Output 2015



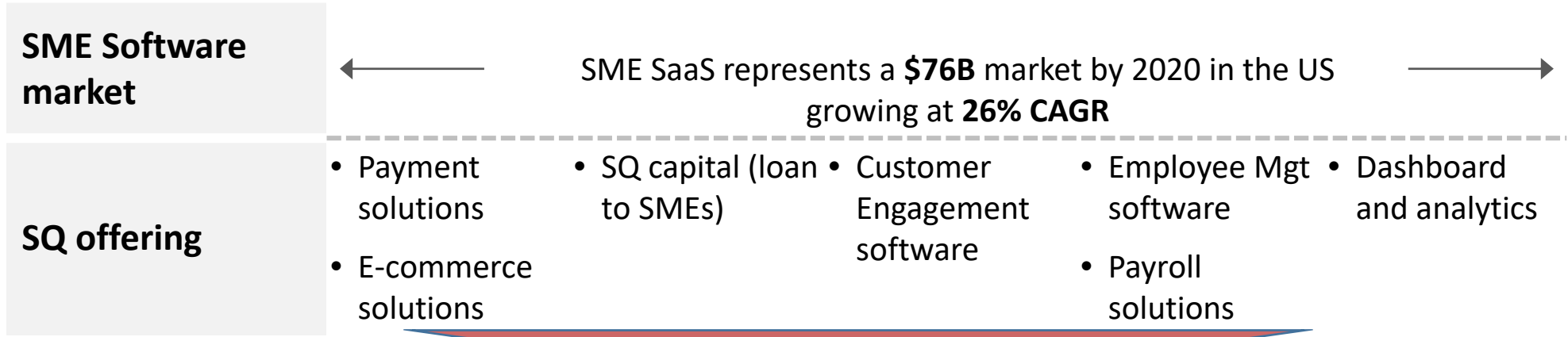
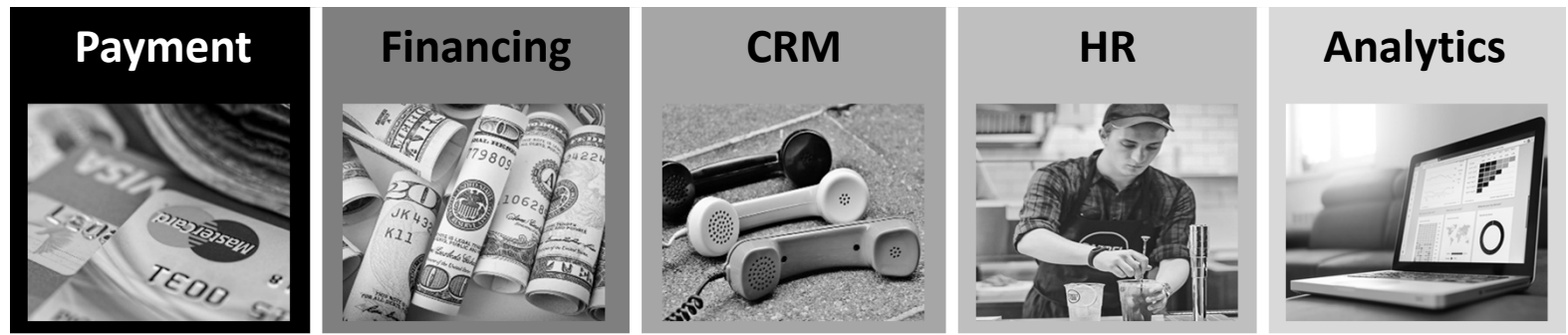
# of businesses 2015 (M)



Electronic Payment Volume by Size (\$T)



## 2 Leveraging its leadership and customer base in payment, SQ is tapping into the sizable SME software market

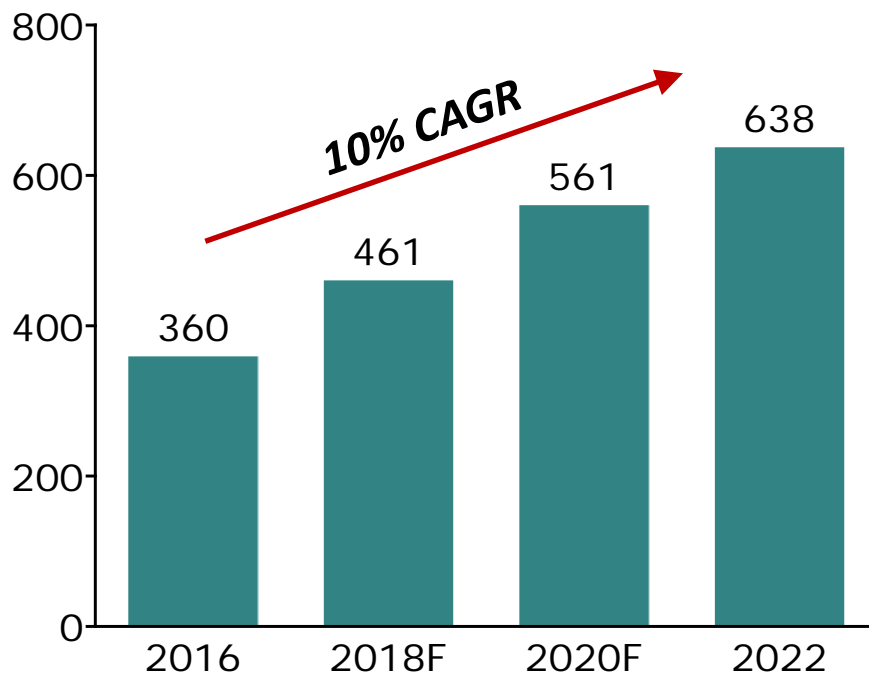


- 100k SQ users connected to the Square App Marketplace (proxy of users for value add services)
- Payment system brought in sticky/loyal customer base with accurate data access, presenting opportunities to bundle and cross sell services and software subscriptions
- SME software market are still nascent, SQ is well positioned to penetrate further

### 3 As the e-commerce continues to penetrate and SMEs go online, SQ will be able to share part of the growth

#### ECOMMERCE EXPECTED TO CONTINUE GROW IN US

US Retail Ecommerce Revenue (\$B)

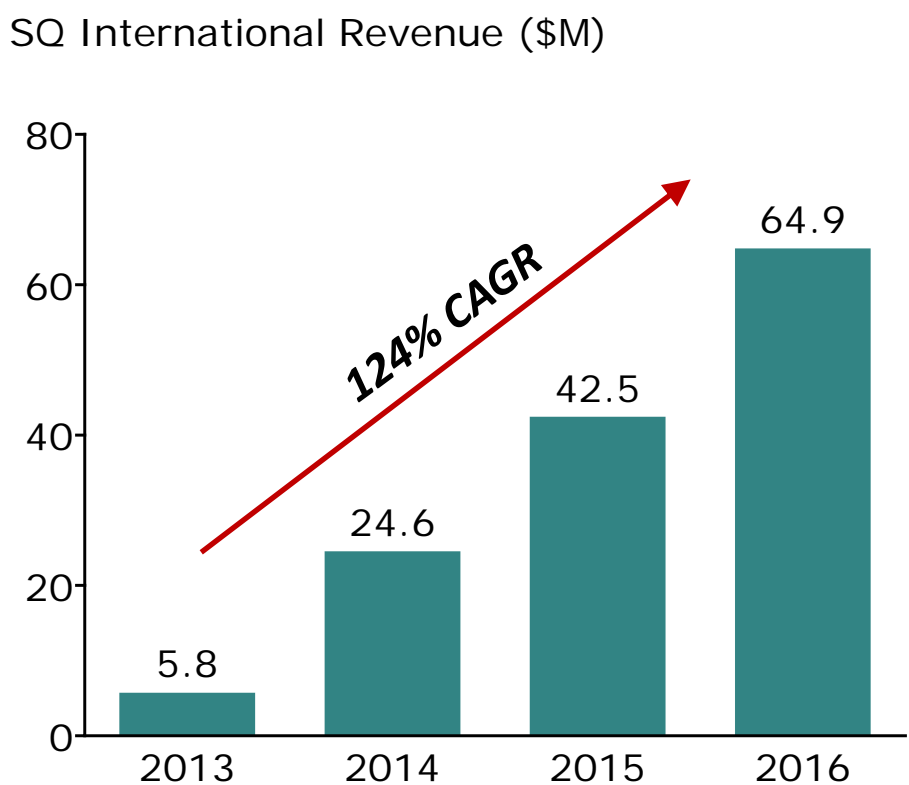


#### SQ COULD SHARE THE GROWTH

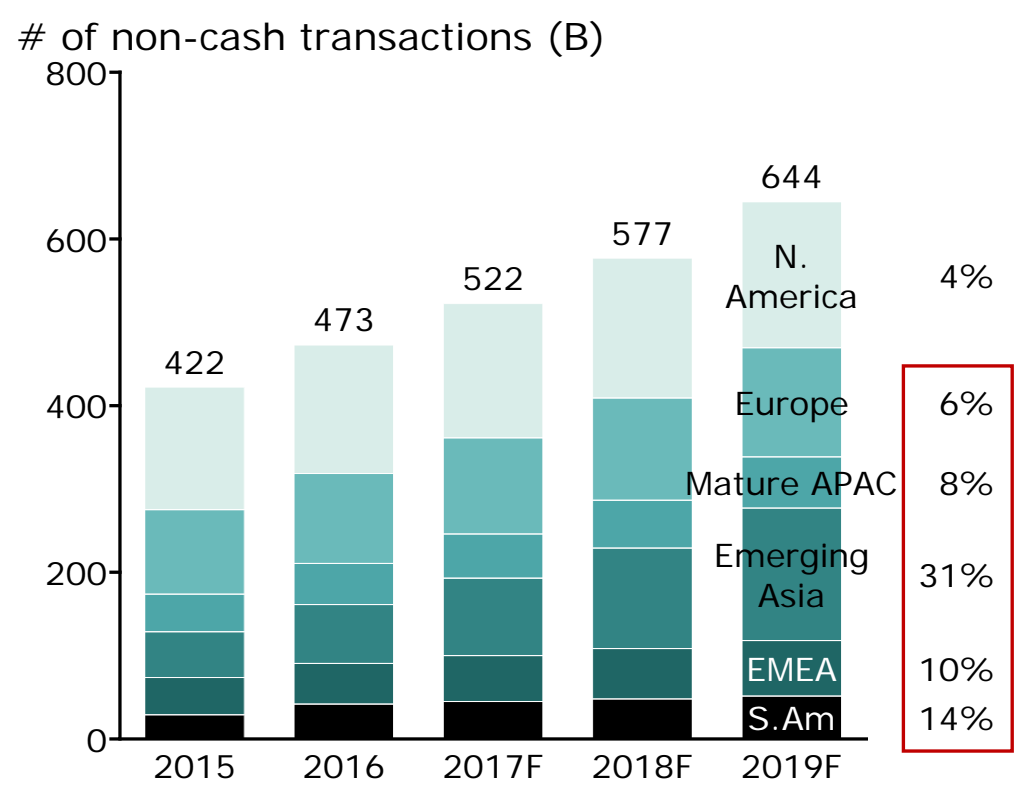
- Key players (e.g. Amazon, eBay, Stripe, PayPal) in e-commerce payment enjoyed **high growth** in the past years
- SQ customers (esp. SMEs) are migrating to online channels as **e-commerce continues to penetrate**
- SQ established a **full e-commerce payment solutions** which is **easy to migrate** for current brick & mortar customers
- **Competitive fee rates** compared with key competitors, attractive for both existing and new customers

# 4 SQ started international expansion, however large amount of growth opportunities still exist

## SQ GREW FAST INTERNATIONALLY...



## ...AND ATTRACTIVE OPPORTUNITIES PRESENTED AT INTERNATIONAL MARKETS





# DCF valuation suggests share price at \$42.84, based on SQ's network effect and overall SME growth in the U.S.

Discounted Cash Flow - SQ	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
GPV	23,779.0	35,631.0	49,683.0	65,853.7	85,329.1	108,464.2	135,004.7	164,995.3
YoY % Change	60.5%	49.8%	39.4%	32.5%	29.6%	27.1%	24.5%	22.2%
<b>Total Net Revenue</b>	<b>850.1</b>	<b>1,267.1</b>	<b>1,708.8</b>	<b>2,220.2</b>	<b>2,898.1</b>	<b>3,711.0</b>	<b>4,652.8</b>	<b>5,727.7</b>
Total Cost of Revenue	(624.2)	(897.1)	(1,132.7)	(1,384.9)	(1,783.5)	(2,244.1)	(2,778.6)	(3,372.7)
<b>Gross Profit</b>	<b>225.9</b>	<b>370.0</b>	<b>576.1</b>	<b>835.3</b>	<b>1,114.7</b>	<b>1,466.9</b>	<b>1,874.2</b>	<b>2,355.0</b>
% margin	26.6%	29.2%	33.7%	37.6%	38.5%	39.5%	40.3%	41.1%
Total Operating Expenses	(376.6)	(544.5)	(746.5)	(890.7)	(1,075.9)	(1,303.6)	(1,548.5)	(1,817.6)
Other Adjustments	82.8	133.3	215.4	195.9	222.4	251.1	292.1	343.8
<b>Adjusted EBITDA</b>	<b>(67.7)</b>	<b>(41.0)</b>	<b>45.3</b>	<b>140.7</b>	<b>261.3</b>	<b>414.5</b>	<b>618.0</b>	<b>881.4</b>
% margin	-8.0%	-3.2%	2.6%	6.3%	9.0%	11.2%	13.3%	15.4%
Less: Depreciation and Amortization	(18.6)	(27.6)	(37.7)	(39.8)	(46.0)	(53.2)	(65.6)	(82.0)
<b>Adjusted EBIT</b>	<b>(86.3)</b>	<b>(68.6)</b>	<b>7.6</b>	<b>101.0</b>	<b>215.3</b>	<b>361.3</b>	<b>552.4</b>	<b>799.4</b>
Less: Taxes	(0.8)	(1.5)	0.1	4.5	(10.8)	(126.5)	(193.3)	(279.8)
Plus: Depreciation and Amortization	18.6	27.6	37.7	39.8	46.0	53.2	65.6	82.0
Less: Capex	(28.8)	(37.0)	(25.0)	(30.0)	(39.6)	(51.5)	(65.6)	(82.0)
Plus: (Increase) / Decrease in NWC	(95.0)	(153.0)	(51.0)	(57.2)	(55.0)	(68.2)	(78.3)	(97.9)
<b>Unlevered FCF</b>	<b>(192.3)</b>	<b>(232.4)</b>	<b>(30.7)</b>	<b>58.0</b>	<b>156.0</b>	<b>168.3</b>	<b>280.7</b>	<b>421.8</b>
WACC				9.4%	9.4%	9.4%	9.4%	9.4%
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				1.0	0.9	0.8	0.7	0.7
<b>Discount FCF</b>				<b>149.1</b>	<b>147.1</b>	<b>224.2</b>	<b>308.0</b>	<b>414.8</b>

Valuation Summary	Base	Bull	Bear
<b>Enterprise Value</b>	<b>13,726.9</b>	<b>15,127.4</b>	<b>12,086.6</b>
Add: Cash	888.9	888.9	888.9
Less: Total Debt	(354.2)	(354.2)	(354.2)
Less: Capital Lease Obligations	(3.0)	(3.0)	(3.0)
<b>Implied Equity Value</b>	<b>14,258.5</b>	<b>15,659.0</b>	<b>12,618.3</b>
Fully Diluted Shares Outstanding	332.8	333.7	331.5
<b>Implied Share Price</b>	<b>\$42.84</b>	<b>\$46.92</b>	<b>\$38.06</b>

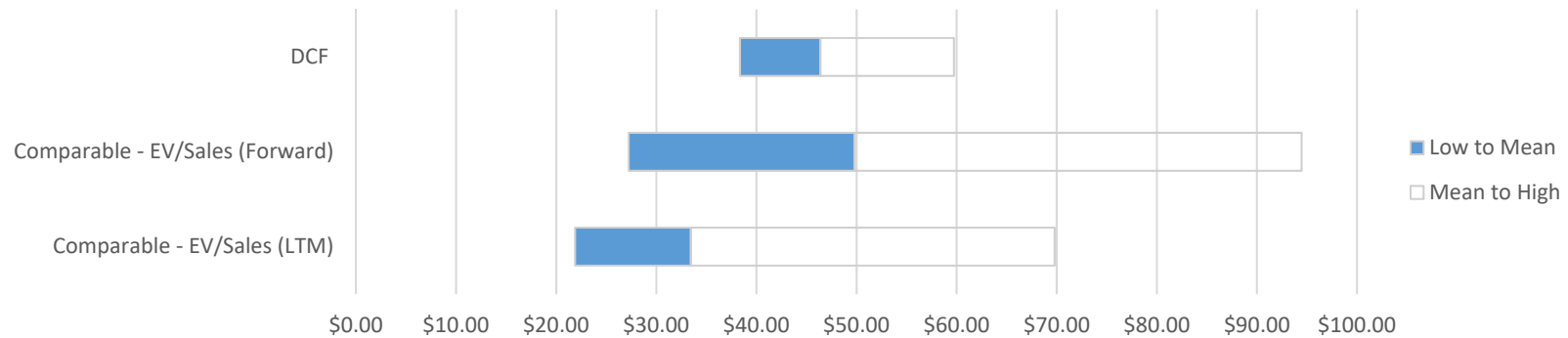
Implied Multiples			
2018E Adjusted Revenue	1,278.2	15,127.4	12,086.6
2018E Adjusted EBITDA	261.3	1,294.6	1,265.9
EV / 2018E Adjusted Revenue	10.7x	264.0	260.0
EV / 2018E Adjusted EBITDA	52.5x	11.7x	9.5x

TERMINAL VALUE ANALYSIS	Base	Bull	Bear
Terminal Year Perpetuity Growth	3.0%	3.0%	2.5%
WACC	9.4%	9.4%	9.4%
Terminal Year FCF	1,309.3	1,450.8	1,221.2
Terminal Value	21,070.9	23,348.4	18,140.7
Terminal Year Adjusted EBITDA	2,474.9	2,740.3	2,303.8
<b>Implied Exit Multiple</b>	<b>8.5x</b>	<b>8.5x</b>	<b>7.9x</b>
Discount Period	7.5	7.5	7.5
Discount Factor	0.5	0.5	0.5
<b>PV of Terminal Value</b>	<b>10,741.2</b>	<b>11,902.2</b>	<b>9,247.5</b>
Terminal Value as a % of EV	78.2%	78.7%	76.5%

Note: key assumptions available upon request

# Implied valuation using comparable companies is inline with DCF model, suggesting a share price around \$46-\$50

## SQ'S IMPLIED SHARED PRICE IS AVERAGING AROUND \$46-\$50



## COMPARABLE COMPANIES ARE OF SIMILAR SIZE AND CHARACTERISTICS

	Square, Inc. (NYSE: SQ)	Global Payments Inc. (NYSE:GPN)	Vantiv, Inc. (NYSE:VNTV)	FleetCor Technologies, Inc. (NYSE:FLT)	First Data Corporation (NYSE:FDC)	Total System Services, Inc. (NYSE:TSS)
Mkt Cap	14,154.6	15,731.2	11,263.3	16,170.2	15,763.6	13,297.6
EV	14,721.6	19,969.1	15,976.2	19,871.9	36,848.6	15,857.3
Revenue (LTM)	2,050.1	4,276.5	3,915.9	2,154.5	7,991.0	4,786.9
Revenue LTM growth (%)	25.69%	4.50%	12.65%	23.31%	1.67%	27.49%
Revenue (LQ) growth (%)	33.29%	9.14%	13.10%	19.29%	4.05%	8.78%
EBITDA Margin (LTM)	(1.2%)	27.9%	23.3%	50.9%	35.3%	20.6%
EPS (forward)	0.54	4.52	3.68	9.43	1.56	3.57
EV/Sales (LTM)	7.2x	4.7x	4.1x	9.2x	4.6x	3.3x
EV/Sales (forward)	12.39x	5.12x	7.06x	8.08x	2.95x	4.49x

Note: key assumptions available upon request