



Rating
Buy

North America
United States

TMT
Payments, Processors, &
IT Services

Company
PayPal

Reuters PYPL.OQ Bloomberg PYPL US Exchange NMS Ticker PYPL

Date
26 July 2018

Results

Price at 25 Jul 2018 (USD)	91.37
Price target	98.00
52-week range	91.41 - 58.02

PYPL: Solid But Limited Upside

Key takeaway – Business fundamentals intact

Given the strong run in the shares leading up to earnings, solid but mostly in-line results are likely to disappoint shorter term investors but not core holders, in our view. Core metrics like net adds (+7.7m Q/Q), engagement (accelerated to +9% Y/Y), P2P volume growth, and One Touch penetration were positives and suggest the underlying business model is resilient and growing share as the company rolls out capabilities to stay ahead of competition. However, Transaction revs disappointed, due primarily to the deceleration in cross-border TPV while incremental acquisitions increased dilution in 2018 / 2019 (accretive beginning 2020), which the company will offset with its new \$10bn repurchase authorization. In addition, 3Q18 rev guidance was lower than consensus (although in-line with our estimate) and indicates a 2-3ppt sequential deceleration when excl. the impact of the credit portfolio sale (4Q should improve). PYPL raised FY18 EPS guidance by \$0.01 and we are raising our FY18/19/20 EPS estimates by \$0.02/\$0.02/\$0.06 to \$2.35/\$2.82/\$3.41. Maintain Buy.

Positives – OVAS growth, Net-adds & engagement, repurchase authorization

PYPL reported 2Q18 adj. net revs of \$3,857m (+23% Y/Y, +22% cc) driven by 19.6% and 49.3% growth in txn revs and Other Value Added Services (OVAS), respectively as well as EPS of \$0.58 vs. our est. of \$0.56. OVAS revs of \$539m (+49.3% Y/Y) benefitted ~\$80m combined from Credit portfolio gains and continued strength in the merchant offering (e.g. SWIFT). The company raised 2018 rev guidance primarily given momentum in the business (~\$100m) due to growing partnerships and solutions (e.g. dynamic buttons) that are expanding merchant and customer additions/engagement. Robust FCF generation (~\$737m normalizing for HFS accounting) is driving repurchase activity (6.1m shares repurchased for \$500m in 2Q18) and rev accretive investments (+\$50m in 2018). In addition, the company announced an incremental \$10bn share repurchase authorization (\$12.7bn total), which we believe will be used to offset dilution from strategic acquisitions (now dilutive to 2018 EPS by \$0.08-\$0.10).

Risks to monitor – Potential top-line slowdown, FX, G&A leverage

PYPL guided to 3Q18 rev growth of +12-13% Y/Y which anticipates ~7ppt of impact from the sale of the US consumer credit portfolio, implying ~19-20% cc rev growth (iZettle expected to close near the end of 3Q). Once iZettle and Hyperwallet close, however, we expect revenue growth to accelerate in 4Q18 to ~14% Y/Y. Cross-border TPV growth decelerated to +23% in 2Q18 from +30% Y/Y in 1Q18, which PYPL attributed to FX volatility and pricing actions took in 2017 (tough comp). We would expect cross-border volumes to rebound as the company

Valuation & Risks

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Key changes

EPS (USD)	2.33 to 2.35	↑	0.7%
Revenue (USDm)	15,392.5 to 15,412.6	↑	0.1%

Source: Deutsche Bank

26 July 2018

Payments, Processors, & IT Services

PayPal



builds capabilities, particularly the rollout of alternative payment methods (+100 will be made available) while overall TPV growth should benefit from the Pay with Venmo rollout. Adj op margins expanded 30bps Y/Y to 21.3%, lower than consensus est. of 22%, as G&A expenses increased 59bps Y/Y offsetting leverage in other support areas. Positively, PYPL guided to 3Q18 margin expansion of +50bps as customer support leverage continues shining though it may ramp investments for growth in 4Q18, which we will monitor.



Second Quarter Review

- TPV growth of 29.3% (27% cc) to \$139.4bn missed our est. of ~30% growth (but was in-line with our cc est. of 26.9% growth)
- Revenues of \$3,857m (23% Y/Y, 22% cc) beat our est. of \$3,806m (21.4% Y/Y, 19.7% cc)
 - Transaction revenues came in at \$3,318m (19.6% Y/Y) below both consensus and our est. of \$3,358m (21% Y/Y)
 - Other value added services revenues of \$539m (49.3% Y/Y) came in well ahead of consensus and our est. of \$448m (24.1% Y/Y)
- Total company take rate of 2.77% came in above consensus est. of 2.73% and our est. of 2.71%
 - Transaction take rate of 2.38% came in below both consensus and our est. of 2.39%
- Operating margins of 21.3% were below consensus est. of 23% and slightly ahead of our 21.2% est.
- EPS of \$0.58 beat consensus est. by \$0.01 and our est. by \$0.02

Figure 1: Quarter review

	Guidance	2Q18		Actual
		Consensus	DB est	
Transaction revenues		3338.7	3357.8	3318.0
Y/Y Growth		20.3%	21.0%	19.6%
Other value-added services		467.6	448.0	539.0
Y/Y Growth		29.5%	24.1%	49.3%
Adj Net Revenues	\$3,780-\$3,830	\$3,811.7	\$3,805.8	\$3,857.0
Y/Y Growth	21-22%	21.5%	21.4%	23.0%
Constant currency growth	19-20% cc		19.7%	22.0%
TPV		\$139,430.1	\$140,247.8	\$139,403.0
Y/Y Growth (usd)		29.3%	30.1%	29.3%
CC growth			26.9%	27.0%
Take Rate (Transaction)		2.39%	2.39%	2.38%
Total Take Rate		2.73%	2.71%	2.77%
Non GAAP op margin		22.0%	21.2%	21.3%
Tax Rate			18.0%	18.0%
EPS	\$0.54-\$0.56	\$0.57	\$0.56	\$0.58

Source: Company data, FactSet, Deutsche Bank estimates

Business highlights

Operating Metrics remain on track

PYPL reported total active accounts of 244m (incl. 19.5m merchant accounts), growing +15% Y/Y, while net additions increased 7.7m, growing 18% Y/Y, driven primarily by core PayPal. Customer engagement was 35.7 transactions per active account, increasing 9% Y/Y, with 8.7bn txns recorded. Importantly, 102m consumer accounts have opted into One Touch (up from 92m in 1Q18) as have 9.5m merchants (up from +8.6m in 1Q18). In addition, 84% of the Internet Retailer 100 now offer One Touch as a payment experience. The company continues building partnerships while it is also rolling out new capabilities. Notably, a recent comScore study found 52% of mobile consumers made more online purchases



because PayPal was offered while one out of three PayPal Mobile customers surveyed said they would have abandoned a purchase if it was not offered as a checkout option.

Expands partnerships and capabilities

PYPL increased its presence in the UK and India through partnerships with three companies, namely Santander, Clydesdale, and HDFC Bank. The three financial institutions will enable their customers to link cards to a PayPal Wallet and open PYPL accounts from the banks' online channels. It also rolled out cash back rewards with Shinhan Bank in South Korea while expanding its Google partnership. eBay also will continue promoting Credit through 2025. The company continues expanding its Venmo monetization options (Venmo card on MA rails) and with more merchants (e.g. Uber, Grubhub, etc.) that have an affinity amongst the millennial population. Importantly, 17% of Venmo users have engaged in a monetizable experience through 2018, up from 11% noted during its investor day. Finally, the company announced a strategic investment in PPRO that extends its ability to offer acceptance of +100 alternate payment methods (bodes well for expansion in Europe and APAC) while it also has a participation interest in Pine Labs, a leading India POS solutions provider.

Transaction revenue growth decelerates

TPV grew 27% cc in 2Q18 (remained stable over 27% growth in 1Q18) driven primarily by mobile volumes (+49% Y/Y to \$54bn) while cross-border growth decelerated significantly from 30% Y/Y to 23% Y/Y, representing 20% of TPV (down from 21% in 1Q18). PYPL suggested that the deceleration was due to translation impact from FX volatility, lower consumer preference for travel, and difficult comps from pricing actions taken in the prior year quarter (could continue in the year). Coupled with a -19bps Y/Y decline in transaction take rate (+2/3 of it due to hedge declines and growth in P2P volumes), this led to Txn rev growth of 19.6%, which was primarily driven by core PYPL and Braintree. More than 70% of the 14bps decline in total take rate was due to \$42m hedge delta (\$23m hedge loss in qtr vs. \$19m hedge gain last year) and continued growth in P2P volumes.

Other Value Added Services growth robust

Other Value Added Services revs grew 49% cc Y/Y but benefitted from HFS accounting treatment of the US consumer credit portfolio (~\$44m benefit) as well as continued strength in SWIFT-related merchant loans. The Simility and Jetlore acquisitions bode well for boosting the value-added-solutions platforms the company offers.

Operating margins in-line with our expectation but below street

Adj. operating margins expanded ~25bps Y/Y to 21.3% (vs. our est. of 21.2% and consensus est. of 22%) as leverage in non-transaction related expenses continued though G&A as a percentage of revenues increased 60bps Y/Y due primarily to operating costs related to transitioning the US Consumer Credit portfolio to Synchrony and acquisition related expenses. We expect the G&A costs to remain elevated for the next 9 months as more acquisitions come on-board but expect this to be the high water mark for the year. Txn expenses were 41% of txn revs while txn and loan losses grew 24bps Y/Y representing 8.7% of total revs all resulting in transaction margins of 56% (-30bps Y/Y). Non-transaction related expenses grew 21% Y/Y on a non-GAAP basis but, excluding HFS accounting impacts and the three acquisitions the company has completed, they grew 7% Y/Y (in-line with the prior qtr). Acquisitions lowered leverage by 39bps.

Cash flow generation and capital allocation



PYPL reported FCF generation of -\$170m. However, when adjusting for the impact of HFS accounting, FCF for the quarter was \$907m. However, this also was impacted by a \$125m cash tax payments related to the Tax Cut and Jobs Act of 2017, which is expected to reoccur in the second quarter every year, creating some seasonality in FCF generation. Regardless, the company ended 2Q18 with \$6.1bn in Cash, Cash Equivalents and Investments (\$3.9bn int'l, \$2.2bn US) and expects to receive another \$6.9bn from the sale of the US Consumer Credit portfolio. In the quarter, PYPL repurchased ~6.1m shares totaling \$500m while the Board authorized a \$10bn share repurchase program (\$12.7bn remaining total), which is inline with its capital allocation plans laid out at its Analyst Day. Further, it noted an anticipated outlay of \$2,736m for M&A related to the iZettle, Hyperwallet, Similarity, and Jetlore acquisitions, which are expected to contribute \$50m in 2018 revs but be \$0.02 dilutive to earnings and \$0.08-\$0.10 dilutive to 2019 earnings before turning slightly accretive in 2020.

Guidance

3Q18 guidance

PYPL guided to 3Q18 revs of \$3,620-\$3,670m (+12-13%, +12-13% cc) and adj. EPS of \$0.53-\$0.55. This includes ~7ppt revenue impact from the sale of the US consumer credit receivables portfolio and margin expansion of +50bps Y/Y. iZettle is also expected to close near the end of the quarter and be an immaterial contributor to 3Q18 revenues.

Figure 2: 3Q Guidance vs consensus and DB estimates

	Guidance	Consensus	3Q18	
			Updated DB Est.	Prior DB Est.
Transaction revenues		3427.2	3387.0	3442.1
Y/Y Growth		19.9%	18.5%	20.4%
Other value-added services		284.6	274.3	243.8
Y/Y Growth		-25.3%	-28.0%	-36.0%
Adj Net Revenues	\$3,620-\$3,670	\$3,704.6	\$3,661.4	\$3,686.0
Y/Y Growth	12-13%	14.4%	13.0%	13.8%
Constant currency growth	12-13% cc		12.7%	12.6%
TPV		\$145,793.8	\$144,721.3	\$146,449.7
Y/Y Growth (usd)		26.5%	25.6%	27.1%
CC growth			26.5%	26.5%
Take Rate (Transaction)			2.34%	2.35%
Total Take Rate			2.53%	2.52%
Gross Margin			52.7%	53.2%
Non GAAP op margin		21.5%	21.3%	21.7%
Tax Rate			18.0%	18.0%
EPS	\$0.53-\$0.55	\$0.54	\$0.55	\$0.55

Source: Company data, FactSet, Deutsche Bank estimates

2018 guidance

PYPL adjusted FY18 guidance for adjusted revenues to \$15,300-\$15,500m (17-19% Y/Y, 16-18% cc) from \$15,200-\$15,400m (16-18% Y/Y, 15-16% cc). The company continues to expect modestly expanding operating margins. It also now expects a currency benefit of ~100bps (from ~150bps prior) with an ~\$80m headwind expected for 2H18. In addition, the company adjusted guidance for FY18 EPS to \$2.32-\$2.35 from \$2.31-\$2.34.

Revenue guidance incorporates ~\$100m from core momentum, ~\$50m from the announced / closed acquisitions, ~\$30m in outperformance in 2Q18, and an incremental \$80m headwind from the USD strengthening. EPS guidance



incorporates ~\$0.02 from 2Q18 outperformance, \$0.01 from momentum improving, and \$0.02 dilution from acquisitions.

Figure 3: 2018 guidance vs. consensus and DB estimates

	FY18				Current guidance	Prior Guidance	Original guidance
	Consensus	Updated DB Est.	Prior DB Est.				
Transaction revenues	\$13,848	\$13,786	\$13,892				
Y/Y Growth	20.4%	19.9%	20.8%				
Other value-added services	\$1,558	\$1,626	\$1,475				
Y/Y Growth	-2.2%	2.1%	-7.4%				
Adj Net Revenues	\$15,396	\$15,413	\$15,367	\$15.30 - \$15.50bn	\$15.20 - \$15.40bn		
Y/Y Growth	17.9%	18.1%	17.7%	17-19%	16-18%	~16.5%	
Constant currency growth		17.6%	16.3%	16-18%	15-16%		
TPV	\$583,390	\$584,782	\$587,091				
Y/Y Growth (usd)	27.9%	28.4%	28.9%			Mid to High 20%	
CC growth		27.1%	26.6%				
Non GAAP op margin		21.8%	22.1%				
EPS	\$2.34	\$2.35	\$2.33	\$2.32-\$2.35	\$2.31-\$2.34		

Source: Company data, FactSet, Deutsche Bank estimates

Figure 4: PYPL income statement

	1Q17	2Q17	3Q17	4Q17	2017A	1Q18	2Q18	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E
Transaction revenues	\$2,624.0	\$2,775.0	\$2,858.0	\$3,244.0	\$11,501.0	\$3,197.0	\$3,318.0	\$3,387.0	\$3,884.3	\$13,786.3	\$3,793.3	\$3,942.9	\$4,033.8	\$4,614.8	\$16,284.8	\$4,489.7	\$4,640.2	\$4,694.4	\$5,320.1	\$19,146.4
Other value-added services	\$351	\$361	\$381	\$500	\$1,593.0	\$488	\$539	\$274	\$325	\$1,636.3	\$337	\$383	\$362	\$407	\$1,488.1	\$410	\$462	\$431	\$481	\$1,783.8
Net revenues	2,975.0	3,136.0	3,239.0	3,744.0	13,094.0	3,685.0	3,857.0	3,661.4	4,209.3	\$15,422.6	4,130.0	4,326.6	4,395.9	\$5,021.4	\$17,772.9	4,900.2	\$1,017.7	\$5,127.6	6,800.7	\$20,930.2
Adj. Net revenues	\$2,975.0	\$3,136.0	\$3,239.0	\$3,705.0	\$13,055.0	\$3,685.0	\$3,857.0	\$3,661.4	\$4,209.3	\$15,412.6	\$4,130.0	\$4,326.6	\$4,395.9	\$5,021.4	\$17,757.9	\$4,900.2	\$1,017.7	\$5,127.6	\$6,800.7	\$20,930.2
Transaction expense	987	1,064	1,102	1,266	\$4,419.0	1,275	1,362	1,389	1,611	\$5,636.9	1,602	1,694	1,759	2,032	\$7,087.4	2,006	2,110	2,147	2,489	\$8,751.3
Transaction and loan losses	300	308	363	323	\$1,294.0	305	334	343	375	\$1,337.3	367	387	414	456	\$1,623.9	444	462	467	532	\$1,903.3
Customer support and operations	287	301	308	326	\$1,222.0	313	318	289	333	\$1,232.8	326	324	317	351	\$1,318.7	338	357	349	365	\$1,409.4
Sales and marketing	210	251	242	285	\$988.0	241	274	253	311	\$1,079.1	264	290	286	341	\$1,181.3	284	316	292	348	\$1,240.8
Product development	169	173	176	195	\$713.0	194	191	179	223	\$787.5	211	225	211	246	\$892.6	245	255	236	255	\$991.2
General and administrative	221	219	237	246	\$923.0	248	292	275	278	\$1,092.4	277	294	290	321	\$1,182.4	299	321	318	331	\$1,268.9
Depreciation and amortization	138	161	165	165	\$649.0	152	150	153	154	\$609.0	157	159	162	163	\$639.0	165	166	167	169	\$666.0
Restructuring and other charges	-	-	-	92	\$92.0	128	116	-	-	\$244.0	-	-	-	-	\$0.0	-	-	-	-	\$0.0
Non-GAAP Operating Income	\$643.0	\$659.0	\$646.0	\$807.0	\$2,755.0	\$829.0	\$820.0	\$780.2	\$924.5	\$3,353.6	\$927.0	\$952.1	\$957.5	\$1,111.0	\$3,947.6	\$1,119.7	\$1,114.2	\$1,151.8	\$1,311.7	\$4,697.4
Adj EBITDA	\$801.0	\$820.0	\$811.0	\$972.0	\$3,404.0	\$981.0	\$970.0	\$933.2	\$1,078.5	\$3,962.6	\$1,083.5	\$1,110.6	\$1,119.0	\$1,273.5	\$4,586.6	\$1,284.2	\$1,280.2	\$1,318.8	\$1,480.2	\$5,363.4
Other income (expense), net	7.0	17.0	28.0	21.0	\$73.0	14.0	37.0	15.1	\$81.4	\$15.0	15.0	15.3	15.3	\$61.0	15.6	15.7	15.9	16.1	\$63.3	
Income before income taxes	\$650.0	\$676.0	\$674.0	\$828.0	\$2,838.0	\$843.0	\$857.0	\$795.5	\$939.6	\$3,435.0	\$942.0	\$967.3	\$972.8	\$1,126.5	\$4,008.6	\$1,135.3	\$1,129.9	\$1,167.7	\$1,327.8	\$4,760.7
Income tax expense	116	122	114	158	\$510.0	151	154	143	169	\$617.3	170	174	175	203	\$721.6	204	203	210	239	\$856.9
Non-GAAP net income	\$534.0	\$554.0	\$560.0	\$670.0	\$2,318.0	\$692.0	\$703.0	\$652.3	\$770.5	\$2,817.7	\$772.4	\$793.2	\$797.7	\$923.8	\$3,287.1	\$931.0	\$926.5	\$957.5	\$1,088.8	\$3,903.8
Diluted EPS	\$0.44	\$0.46	\$0.46	\$0.55	\$1.90	\$0.57	\$0.58	\$0.55	\$0.65	\$2.35	\$0.66	\$0.68	\$0.69	\$0.80	\$2.82	\$0.81	\$0.81	\$0.84	\$0.96	\$3.41
Weighted average shares - diluted	1,216	1,215	1,223	1,228	1,221	1,217	1,202	1,195	1,187	1,200	1,179	1,171	1,164	1,157	1,168	1,152	1,147	1,142	1,137	1,145
% growth Y/Y	1Q17	2Q17	3Q17	4Q17	2017A	1Q18	2Q18	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E
Transaction revenues growth	16.1%	18.2%	22.3%	22.8%	20.0%	21.8%	19.6%	18.5%	19.7%	19.9%	18.7%	18.8%	19.1%	18.8%	18.8%	18.4%	17.7%	16.4%	13.3%	16.9%
Other value-added services growth	23.6%	19.1%	15.5%	47.1%	26.7%	39.0%	49.3%	-20.0%	-35.0%	2.1%	-31.0%	-29.0%	32.0%	25.1%	-8.5%	21.9%	20.6%	19.1%	18.2%	19.9%
Adj net revenues growth	16.9%	18.3%	21.4%	24.3%	20.4%	23.9%	23.0%	13.0%	13.6%	18.1%	12.1%	12.1%	20.1%	19.3%	16.0%	18.6%	17.9%	16.6%	15.5%	17.1%
Transaction expense	31.3%	31.4%	32.8%	32.7%	32.1%	29.2%	28.0%	26.1%	27.2%	27.6%	25.6%	24.4%	26.6%	26.2%	25.7%	25.2%	24.3%	22.0%	22.3%	23.3%
Transaction and loan losses	17.6%	20.8%	33.9%	5.2%	18.9%	1.7%	8.4%	-5.3%	16.2%	4.9%	20.3%	15.9%	20.8%	21.4%	19.6%	21.0%	19.2%	12.8%	16.9%	17.3%
Customer support and operations	3.2%	1.7%	1.3%	7.2%	3.4%	9.1%	5.6%	-6.1%	2.0%	2.5%	4.2%	2.0%	9.4%	5.7%	5.3%	3.6%	10.1%	10.2%	4.0%	6.9%
Sales and marketing	-3.2%	10.1%	14.2%	25.0%	11.6%	14.8%	9.2%	4.4%	9.3%	9.2%	9.7%	5.8%	13.1%	9.6%	9.5%	7.5%	9.2%	2.8%	1.9%	3.0%
Product development	4.3%	-0.6%	-2.8%	9.6%	2.6%	14.8%	10.4%	1.9%	14.4%	10.4%	8.6%	17.8%	17.6%	10.3%	13.3%	16.3%	13.4%	11.8%	3.7%	11.0%
General and administrative	8.9%	0.0%	3.5%	4.2%	4.6%	12.2%	33.3%	15.9%	12.9%	18.4%	11.6%	0.7%	5.7%	15.7%	8.2%	8.0%	9.6%	3.9%	7.3%	6.9%
Depreciation and amortization	12.9%	15.0%	10.0%	6.5%	10.9%	-8.8%	-6.8%	-7.3%	-6.7%	-6.2%	3.0%	5.7%	5.6%	5.5%	4.9%	5.1%	4.7%	3.4%	3.7%	4.2%
Other Operating Expenses	4.5%	4.5%	4.8%	18.9%	8.3%	22.1%	21.4%	1.9%	-0.8%	10.4%	-3.3%	-3.7%	10.1%	9.5%	2.9%	7.8%	9.6%	7.7%	3.2%	6.9%
Non-GAAP operating income growth	19.7%	24.8%	31.8%	30.4%	26.7%	28.9%	24.4%	20.8%	14.6%	21.7%	11.8%	16.1%	22.7%	20.2%	17.7%	20.8%	17.0%	20.3%	18.1%	19.0%
GAAP income before income taxes growth	17.8%	25.9%	34.3%	31.8%	27.4%	29.7%	26.8%	18.0%	13.5%	21.5%	11.7%	12.9%	22.3%	19.9%	16.7%	20.5%	16.8%	20.0%	17.9%	18.8%
Non-GAAP net income growth	18.1%	27.1%	31.8%	30.9%	27.0%	29.6%	26.9%	16.5%	15.0%	21.6%	11.6%	12.8%	22.3%	19.9%	16.7%	20.5%	16.8%	20.0%	17.9%	18.8%
Diluted EPS growth	19.0%	21.1%	30.8%	29.6%	26.7%	29.5%	28.3%	19.2%	19.0%	23.7%	15.2%	15.8%	25.6%	23.0%	19.9%	23.3%	19.3%	22.3%	19.9%	21.2%
Margin analysis (% of revenue)	1Q17	2Q17	3Q17	4Q17	2017A	1Q18	2Q18	3Q18E	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E
Transaction expense (% of txn revenues)	37.6%	38.3%	38.6%	39.0%	38.4%	39.9%	41.0%	41.0%	41.5%	40.9%	42.2%	43.0%	43.6%	44.0%	43.3%	44.7%	45.5%	45.7%	46.8%	45.7%
Transaction expense (bps of IPV)	98.1	98.7	95.6	95.3	96.9	96.3	97.7	96.0	95.7	96.4	96.5	96.7	96.4	95.9	96.4	96.3	96.4	95.1	93.8	93.9
Transaction expense	33.2%	33.9%	34.0%	34.2%	33.8%	34.6%	35.3%	37.9%	38.3%	36.6%	38.8%	39.2%	40.0%	40.5%	39.7%	40.9%	41.4%	41.9%	42.9%	41.8%
Transaction and loan losses	10.1%	9.8%	11.2%	8.7%	9.9%	8.3%	8.7%	9.4%	8.9%	8.8%	8.9%	9.0%	9.4%	9.1%	9.1%	9.1%	9.1%	9.1%	9.2%	9.1%
Transaction and loan losses (bps of IPV)	29.8	28.6	31.3	24.4	28.4	23.0	24.0	23.7	22.3	22.2	22.1	22.1	22.7	21.5	22.1	21.3	21.1	20.7	20.3	20.9
Transaction margins	56.7%	56.3%	54.8%	57.1%	56.2%	57.1%	56.0%	52.7%	52.8%	54.6%	52.3%	51.9%	50.6%	50.5%	51.3%	50.0%	49.6%	49.0%	47.9%	49.1%
Customer support and operations	9.6%	9.6%	9.5%	8.8%	9.4%	8.5%	8.2%	7.9%	7.9%	8.1%	7.9%	7.5%	7.2%	7.0%	7.4%	6.9%	7.0%	6.8%	6.3%	6.7%
Sales and marketing	7.1%	8.0%	7.5%	7.7%	7.6%	6.5%	7.1%	6.9%	7.4%	6.6%	6.4%	6.7%	6.5%	6.8%	6.6%	5.8%	6.2%	5.7%	6.0%	5.9%
Product development	5.7%	5.5%	5.4%	5.3%	5.3%	5.3%	5.0%	4.9%	5.3%	5.1%	5.1%	5.2%	4.8%	4.9%	5.0%	5.0%	5.0%	4.6%	4.4%	4.7%
General and administrative	7.4%	7.0%	7.3%	6.6%	7.1%	6.7%	7.6%	7.5%	6.6%	7.1%	6.7%	6.8%	6.6%	6.4%	6.6%	6.1%	6.3%	6.2%	5.7%	6.1%
Depreciation and amortization	5.3%	5.1%	5.1%	4.5%	5.0%	4.1%	3.9%	4.2%	3.7%	4.0%	3.8%	3.7%	3.7%	3.2%	3.6%	3.4%	3.3%	3.3%	2.9%	3.2%
Non-GAAP operating income	21.6%	21.0%	19.9%	21.8%	21.1%	22.5%	21.3%	21.3%	22.0%	21.8%	22.4%	22.0%	21.8%	22.1%	22.9%	22.9%	21.8%	22.5%	22.6%	22.4%
Income before income taxes	21.8%	21.6%	20.8%	22.3%	21.7%	22.9%	22.2%	21.7%	22.3%	22.3%	22.8%	22.4%	22.1%	22.4%	22.4%	23.2%	22.1%	22.8%	22.9%	22.7%
Income tax expense	17.8%	18.0%	16.9%	19.1%	18.0%	17.9%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Non-GAAP net income	17.9%	17.7%	17.3%	18.1%	17.8%	1														



Appendix 1

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*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
PayPal	PYPL.OQ	91.37 (USD) 25 Jul 2018	8, 14, 15

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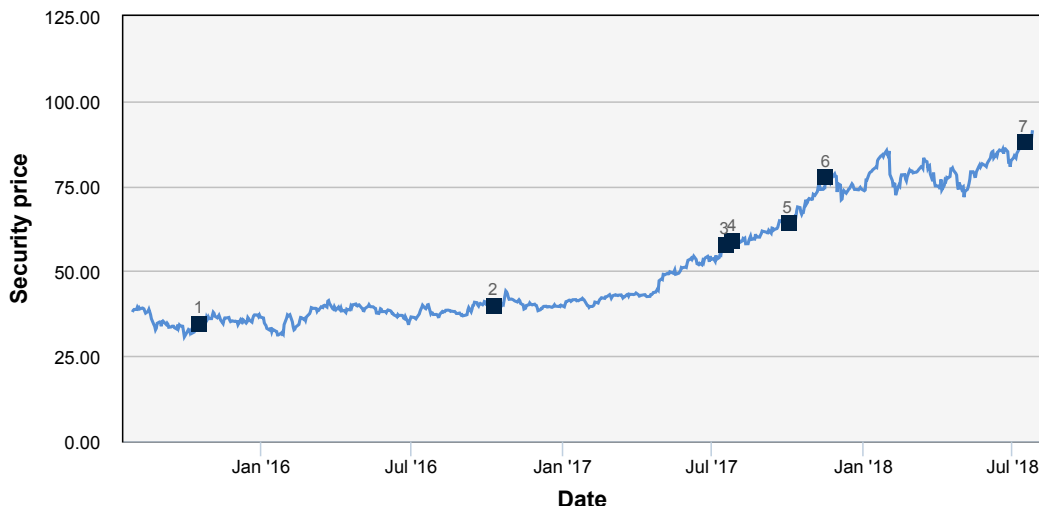
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Historical recommendations and target price. PayPal (PYPL.OQ)

(as of 07/25/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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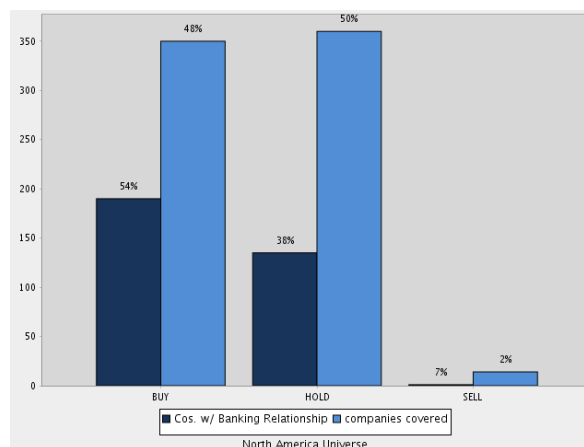
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