



# Square

## UTMCAPITAL

### Management

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## Management



**JACK DORSEY**  
**CEO & Chairman**

- CEO and Co-founder of Square and Twitter
- Exceptional focus & time-management ability
- Prioritizes transparency & efficiency

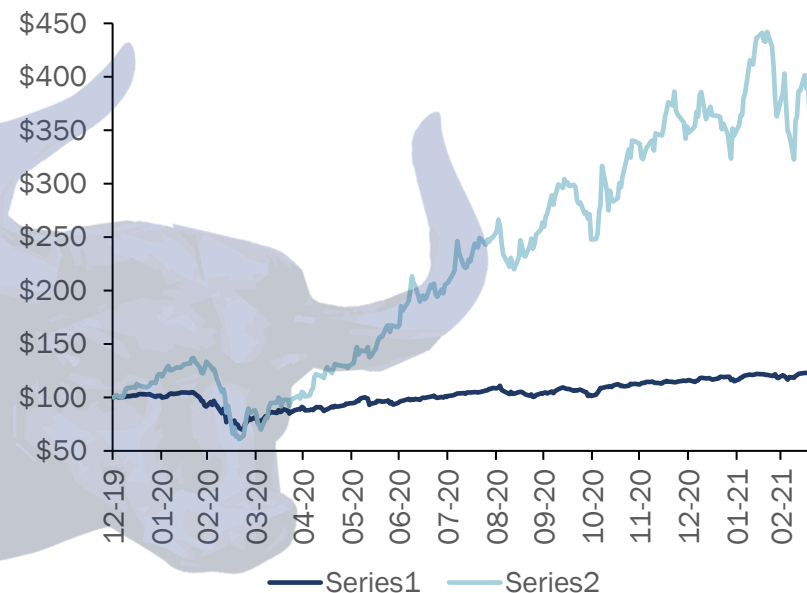


**BRIAN GRASSADONIA**  
**Cash App Lead**

- Lead since 2013
- Youngest executive at 37 years old
- Oversaw expansion into Bitcoin trading
- Helped launch Square's credit card reader

- Founded in 2009; focusing on Financial Services, Merchant Services and Mobile Payments
- Growing FinTech company with **36 million MAU in Q4**
- Offers ecosystem of services with competitive pricing

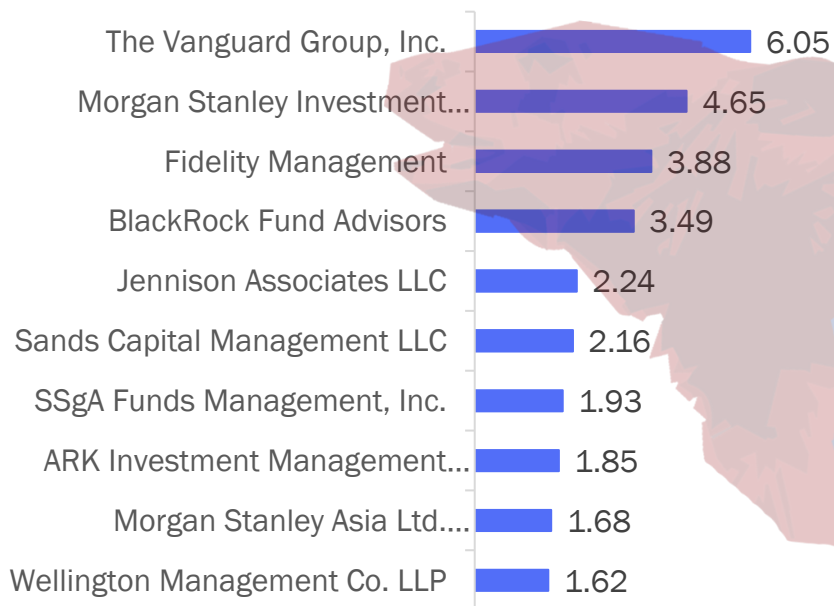
## Share Price Performance



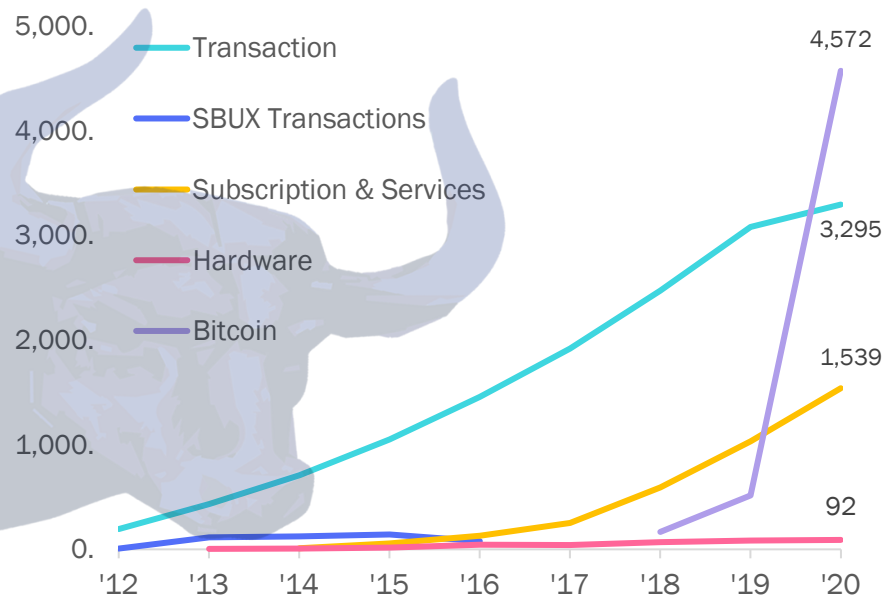
LTM: SQ maintains a beta higher than the S&P and outperformed; can further benefit with economic opening

- Publicly traded on NYSE (SQ) since Nov. 2015.
- **ESG:** Carbon Neutral by 2030, Bitcoin Clean Energy Investment Initiative, \$100M to minority & underserved communities; no issues with board of directors

## Top 10 Shareholders



## Revenue Distribution by Segment (\$M)



- Top 10 shareholders of SQ-US own almost 30% of Class A shares and consist of top-tier firms
- SQ included in Top 5 Holdings of Cathie Wood's ARK Investment
- 2020 Gross Payment Volume totaled \$112.3Bn
- 2020 Net Revenue increased 101% YoY to \$9.50Bn
  - Excluding bitcoin was 17% YoY growth to \$4.93Bn

Management

Cash App's growth is driving Subscription & Service Revenue and SQ's future post-pandemic

## Business Lines

### Square Point of Sale



- POS founded in 2017
- **Key Features:** Fast Checkout, Automated Creation of Customers, Loyalty Programs, Reporting and Analytics, Inventory Management, Team Management
- Designed to be customizable

### Square Capital

- Industrial bank providing small business loans since March 2021
- **FDIC Approved**
- Also offers PPP loans.
- **Adjustable loan** payments based on sales (below)

Loan Payment  
Sales

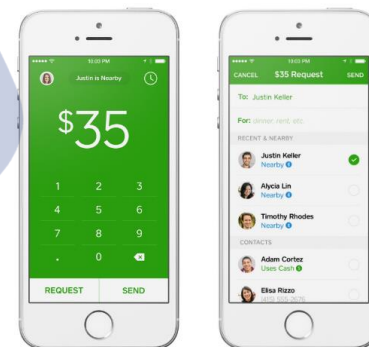


### Square Marketing

- Help small business engage and attract with customers
- **Key Features:** Email & Text msg marketing, Sales & discount tracking, automated guidance, share Promotions via Digital Receipts

\$10  
Get \$10 off next time you visit, on us!

### Cash App



- **P2P Features:** Receive direct deposits, donate money, buy bitcoin, and trade securities on app
- **Registered Broker-Dealer** 2.5M users traded (Oct'20)
- 20% users own a Cash Card

Square's diverse business lines make it a tough fintech competitor

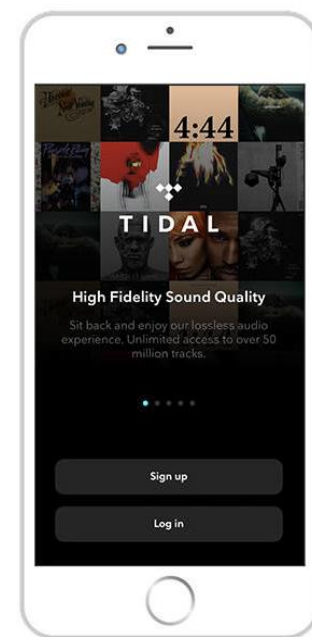
## Acquisition

Majority Stake \$297M expected to close Q2 2021  
No material impact on cash



### Strategy:

- Maximizing **brand exposure**
  - Boost engagement with Cash App + ecosystem
  - Promo in songs
- Access to new **client base**
  - Music industry moving towards Non-Fungible Tokens to monetize artists and secure their intellectual property
  - Bank and monetize the creators



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Majority stake in Tidal expands SQ's reach with celebrity endorsement

## SWOT Analysis

### Strengths

- Successful Track Record of Product Innovation
- Strong Base of Reliable Suppliers
- Successful Integrations through M&A

### Weaknesses

- Increased Debt (positive net cash position); Debt/EBITDA inc 2.25x to 9.37
- CEO multitasking with Twitter (fiduciary responsibilities)
- High employee attrition rate (more specialized training required)

### Opportunities

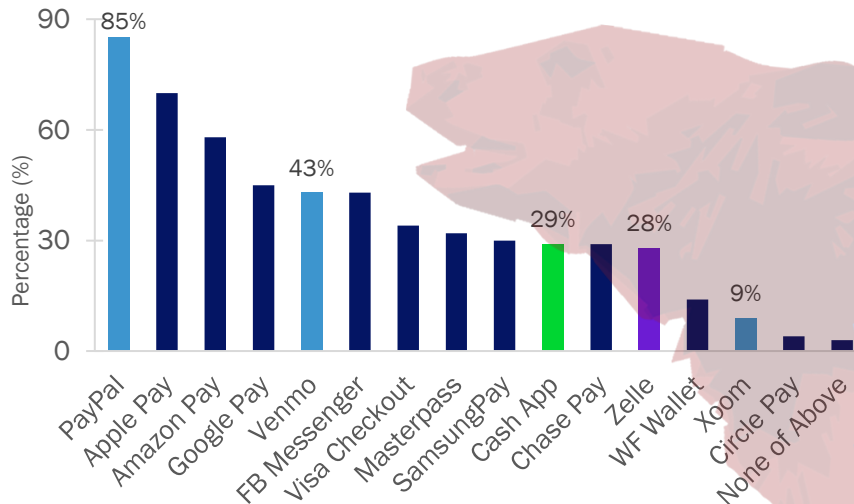
- Stable free cash flow enables investment in adjacent product segments.
- Cash allows Square to invest in new technologies. They acquired Stitch Labs in 2020, providing businesses with inventory & order management.
- Cash App will further enhance Square's competitive advantage.

### Threats

- New technologies developed by competitors or market disruptors could be a serious threat to the industry in medium- to long-term future.
- No regular supply of innovative products.
- Exposed to global currency fluctuations & countries' local laws/regulations

Square has resources at its disposal to navigate any obstacles and progress

## U.S. Mobile Payment Brand Awareness 2019

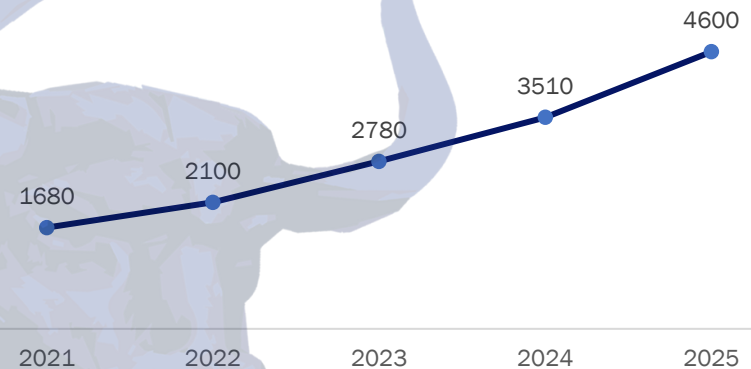


### Industry Estimates

- Digital wallets to penetrate **75%** of U.S. adult pop. in 5 yrs.
- Number of digital wallets in U.S. will be **~200M** by 2023
- Industry will be **dominated** by Venmo (PayPal) & Square

## Future Industry Outlook

Projected Global Mobile Payments Revenue in Billions



- Mobile payments expected to grow 250% from 2020-25 2025.
- Mobile payments adoption low in some European countries → excellent growth opportunities
- Millennials are the driving consumer force, gradually building up their wealth and on track to become the dominant generation in the financial space in 2029.

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FinTech is booming → investments are ripe, competition is fierce, and demand is high.

## Porter's Five Forces

### Threat of New Entrants

- **Medium threat of new entrants**
- Economies of scale difficult to achieve
- High capital requirements & strong emphasis on product differentiation

### Threat of Substitutes

- **Threat of substitutes is weak**
- Very few substitutes available; some are of high quality but more expensive
- Square's industry sells at comparatively lower prices

### Bargaining Power of Buyers

- Buyers have **little control over prices**
- More suppliers in industry than firms producing the products
- High product differentiation makes switching less of a concern

### Bargaining Power of Suppliers

- **Weak bargaining power** due to a surplus of suppliers less differentiated products, and low switching costs
- Suppliers don't provide a credible threat for forward integration

### Rivalry Among Existing Competitors

- **Few direct competitors** in Square's industry
- The few competitors have a large market share. This means that they will engage in competitive actions to gain position and become market leaders.

Square's commerce ecosystem and the high potential of its industries firmly establish its presence

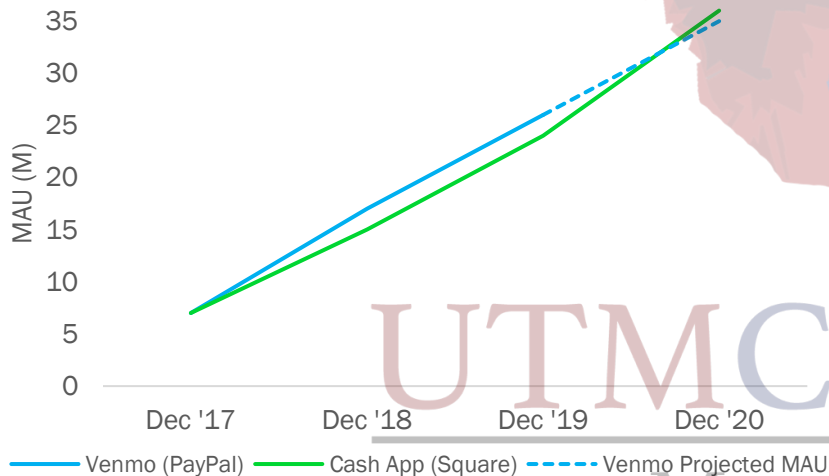
# Competitor Overview: Square (SQ: NYSE) vs. PayPal (PYPL:NASDAQ)



## Cash App vs Venmo

- Square's mobile payment service Cash App vs PayPal's Venmo
- Cash App although resembles Venmo, adds Bitcoin and free stock-trading features.
- Square surpassed PayPal's Venmo in total downloads in 2019 (Instinet)

## Monthly Active Users



## Growth

- Square and PayPal generate most of their revenues by retaining a cut of each payment processed on their platforms

## Gross Payments Volume Growth (YOY)

Company	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
PayPal	23%	22%	24%	25%	22%
Square	28%	27%	25%	25%	25%

- Square's payment volume increasing slightly faster

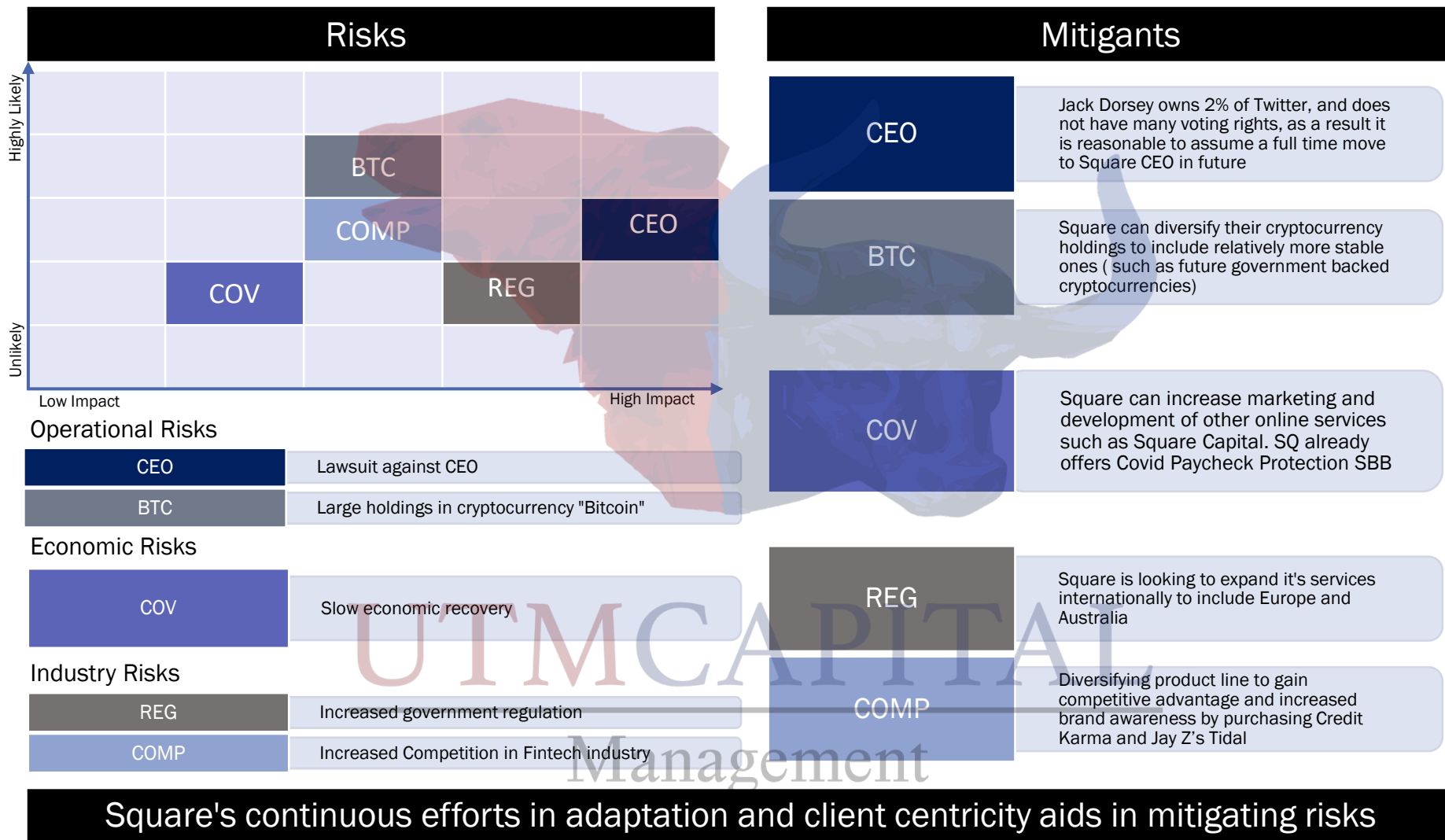
## Revenue Growth (YOY)

Company	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
PayPal	13%	12%	12%	19%	17%
Square	51%	43%	44%	44%	41%

- Square's Revenues are increasing at a much faster pace
- After the pandemic Square should grow at even a faster pace, as most of its users are small businesses which have been negatively impacted.

Square offers a more aggressive approach with higher potential returns in long term

# Risks and Mitigants



## Three Catalysts For Potential Growth

### Cash App Expansion

- Has 36M MAU, 75M expected by 2025; **double sales team** by year end
- Lowest fees for buying **bitcoin**; looking to increase transaction limits, expand deposit capabilities and increase quality of customer service
- **Low** customer acquisition cost of \$5
- Currently \$45 Avg. Rev. Per User, \$260 ARPU expected by 2025\*
- Expected gross profit of **130% YOY for 2021.**

### Expansion of Square's New products

- **Omnichannel Commerce:** Square announced plans to grow omni capabilities and global expansion
- Gross Pmt Vol from omnichannel & online sellers represented **more than half** of total Seller GPV, up from one-third two years ago
- Development **Business card:** Number of Cash App card owners has **doubled** from 2019 (3.5 million) to 7 million in 2020

### Expansion in Midmarket Merchants

- **Development of Point-of-Sale System:** increase in number of merchants willing to use innovative solutions because of the **pandemic**
- **Expansion of Square Bank:** increasing financial service offerings to sellers of all sizes

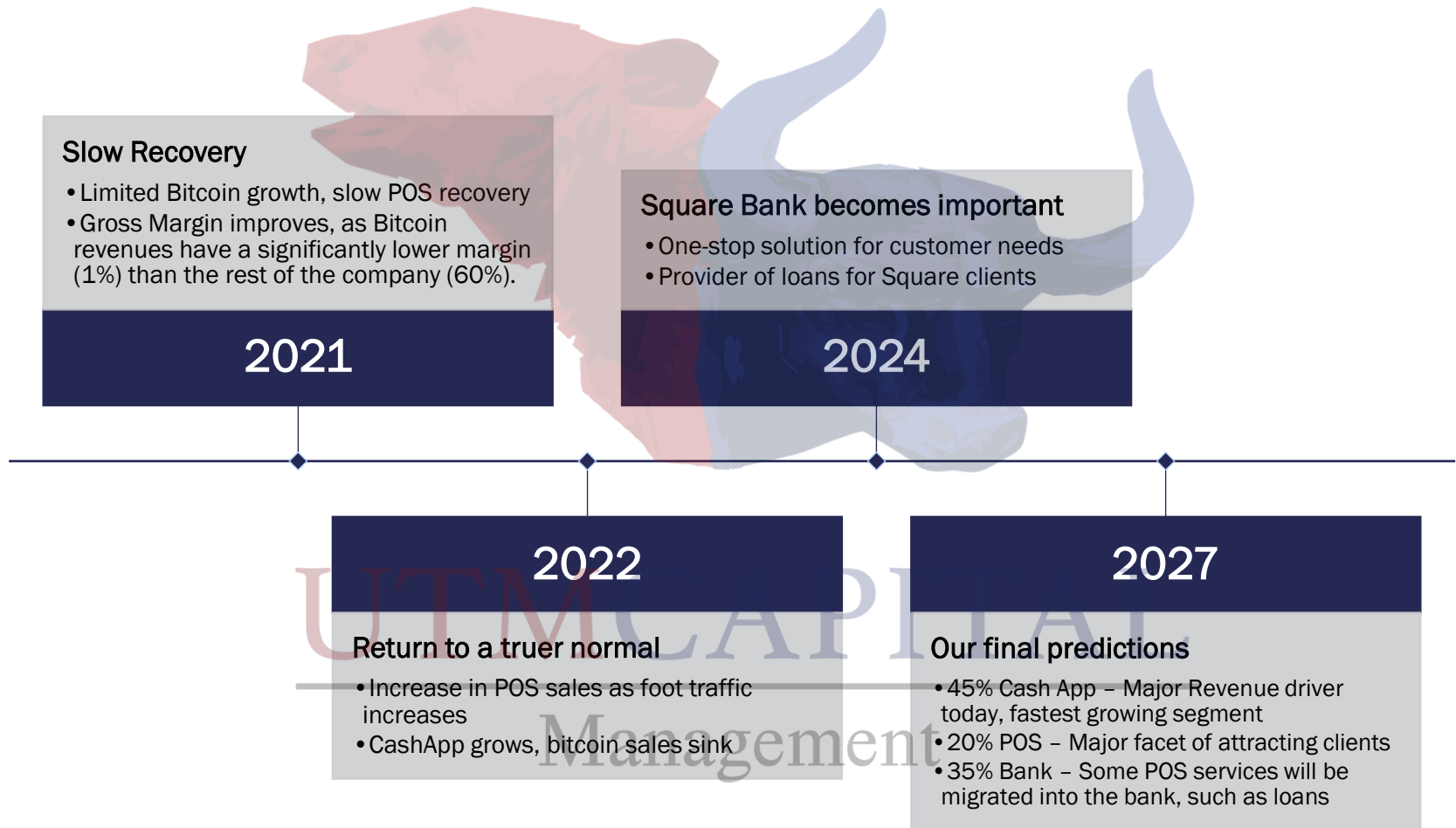
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Cash App is main catalyst for SQ growth

# Valuation



# Our Timeline



## Cash App (45%)

- 30% Shopify, 10% Square, 5% PayPal
- Similar “growth story” with Shopify



## POS (20%)

- 10% PayPal, 5% Mastercard, 5% Square
- Earliest sector to mature, as Square diversifies



## Bank (35%)

- 35% Citizens Financial
- Small bank, with decent revenues, consistent growth.



## Exit Multiple Method

- Our assumptions predict Square will continue its' rapid growth for a couple of years, followed by a reduction in pace all the way to 2027.
- Our revenues for next year are lower than analysts' consensus, as we are less optimistic regarding bitcoin revenues, and Tidal's impact on Square. There may be some upside to our numbers.
- By 2027, we expect Square will continue to be in a growth trajectory, and we picked an exit multiple that we feel matches their future growth rate, **Mastercard** (currently trading at a 44x EV/EBITDA ratio)

		Implied Share Price				
		Exit Multiple				
		43.0x	44.0x	45.0x	46.0x	47.0x
WACC	12.5%	\$238.56	\$243.57	\$248.58	\$253.59	\$258.60
	11.5%	\$253.45	\$258.79	\$264.12	\$269.45	\$274.78
	10.5%	\$269.45	\$275.12	\$280.80	\$286.48	\$292.16
	9.5%	\$286.62	\$292.68	\$298.73	\$304.78	\$310.83
	8.5%	\$305.09	\$311.54	\$318.00	\$324.45	\$330.90

## Perpetuity Growth Method

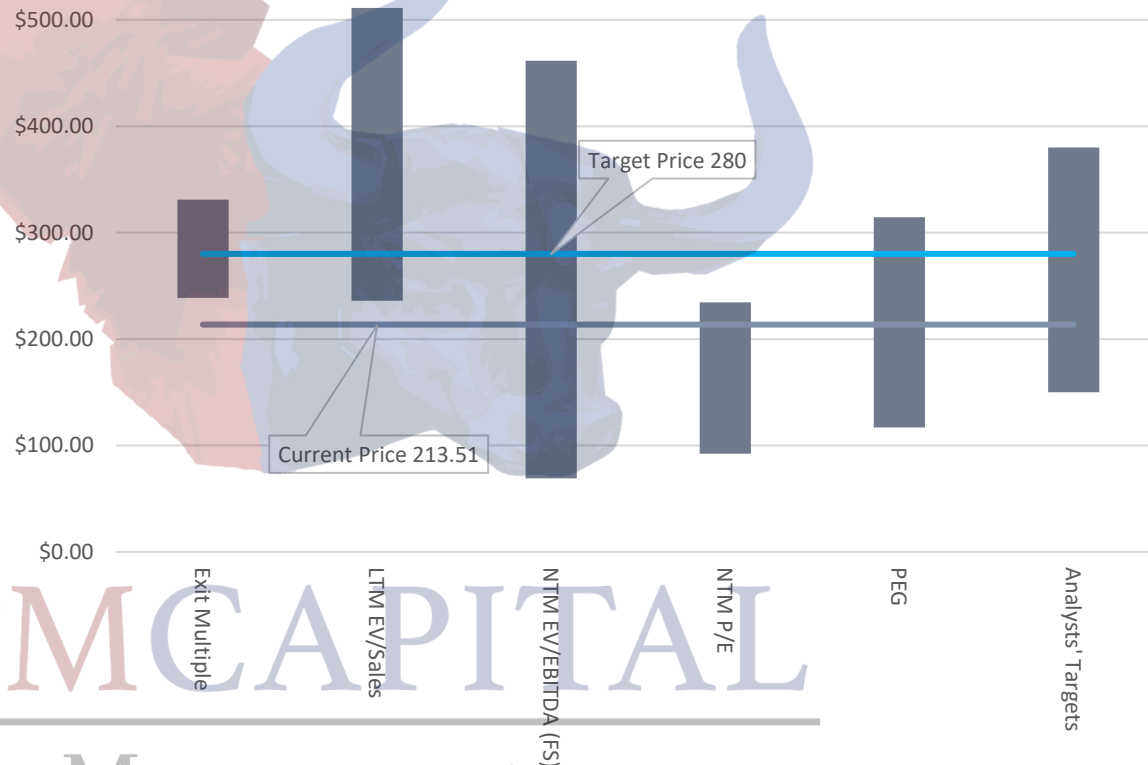
- We used the average GDP growth rate to plot free cash flow growth; this is considerably lower than Square's 40-50% average FCF growth over five years.
- We did not consider this factor important for two reasons:
- In the long term, the economy will start to cool down, so our long-term rate will be volatile for a while
- We believe that Square will not be a mature company in 2027. Peers Mastercard and VISA still experience growth rates almost equivalent to WACC. (7-8%)

		Implied Share Price				
		Long Term FCF Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	12.5%	\$65.89	\$66.88	\$67.92	\$69.01	\$70.16
	11.5%	\$74.20	\$75.48	\$76.83	\$78.25	\$79.76
	10.5%	\$84.44	\$86.13	\$87.92	\$89.82	\$91.84
	9.5%	\$97.35	\$99.64	\$102.08	\$104.69	\$107.49
	8.5%	\$114.07	\$117.28	\$120.73	\$124.45	\$128.49

## Methodology

- We put a 40% emphasis on the Exit Multiple Method, none on Perpetuity Method
- Comps were 35% of the valuation, as we felt our weighted method captures the greatest range.
- Square undervalued in EV/Sales and P/E category, overvalued in EV/EBITDA and PEG.
- NTM values used to best represent next year's figures.
- 15% of our value derived from analyst recommendations (analyst recommendations often adjusted)
- Our recommended price is higher than DCF because Square has yet to put a large emphasis on growing cash flows

## Football Field



**Buy Recommendation: 1 Year Target Price of \$280**

# Appendix

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## Exit Multiple Method

Enterprise Value	
Present Value of Projected FCF	\$9,263.8
Terminal Value	
Terminal Year EBITDA	\$4,453.3
Exit Multiple	45.0x
Terminal Value	\$200,398.8
Discount Factor	0.50
Present Value of Terminal Value	\$99,627.8
% of Enterprise Value	91%
Enterprise Value	\$108,891.6

Implied Equity Value	
Enterprise Value	\$108,891.6
Less: Total Debt	\$2,586.9
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$3,158.1
Implied Equity Value	\$109,462.8
Shares Outstanding	389.8
Implied Share Price	\$280.82

## Perpetuity Growth Method

Enterprise Value	
Present Value of Projected FCF	\$9,263.8
Terminal Value	
Terminal Year FCF	\$4,178.4
Perpetual FCF Growth Rate	2.0%
Terminal Value	\$49,161.9
Discount Factor	0.50
Present Value of Terminal Value	\$24,440.7
% of Enterprise Value	73%
Enterprise Value	\$33,704.5

Implied Equity Value	
Enterprise Value	\$33,704.5
Less: Total Debt	\$2,586.9
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$3,158.1
Implied Equity Value	\$34,275.7
Shares Outstanding	389.8
Implied Share Price	\$87.93

# Historical Financials



Square Inc.						Square Inc.					
Discounted Cash Flow Analysis						Working Capital					
(Millions of Dollars)						(\$ in millions)					
Calculation of FCFF						Historical Period					
						2016	2017	2018	2019	2020	
Operating Scenario	1	Base									
Revenue											
% Growth											
Cost of Goods Sold (Excl. D&A)											
Gross Profit											
% Margin											
Selling, General & Administrative											
EBITDA											
% Margin											
Depreciation & Amortization											
EBIT											
% Margin											
Income Taxes											
EBIAT											
						Sales					
						Cost of Goods Sold					
						Current Assets					
						Accounts Receivable					
						Inventories					
						Prepaid Expenses and Other					
						Total Current Assets					
						Current Liabilities					
						Accounts Payable					
						Accrued Liabilities					
						Other Current Liabilities					
						Total Current Liabilities					
						Net Working Capital					
						% sales					
						(Increase) / Decrease in NWC					

# DCF Model



## Discounted Cash Flow

### Analysis

(Millions of Dollars)

### Calculation of FCFF

### Operating Scenario

1Base

Revenue	1,708.7	2,214.3	3,298.2	4,713.5	9,498.6	\$12,823	\$17,952	\$22,440	\$30,295	\$37,868	\$46,389	\$55,666
% Growth	34.9%	29.6%	49.0%	42.9%	101.5%	35.0%	40.0%	25.0%	35.0%	25.0%	22.5%	20.0%
Cost of Goods Sold (Excl. D&A)	1,095.8	1,368.2	1,986.3	2,786.4	6,764.2	8,078.6	11,669.0	14,137.5	18,782.7	23,099.6	27,833.2	32,843.1
Gross Profit	612.9	846.1	1,311.9	1,927.1	2,734.4	4,744.6	6,283.3	8,303.0	11,511.9	14,768.6	18,555.4	22,823.2
% Margin	35.9%	38.2%	39.8%	40.9%	28.8%	37.0%	35.0%	37.0%	38.0%	39.0%	40.0%	41.0%
Selling, General & Administrative	646.4	796.0	1,194.7	1,668.3	2,491.6	3,718.7	5,565.2	6,956.5	9,997.2	12,496.5	15,308.2	18,369.9
EBITDA	(33)	50	117	259	243	1,026	718	1,346	1,515	2,272	3,247	4,453
% Margin	-2.0%	2.3%	3.6%	5.5%	2.6%	8.0%	4.0%	6.0%	5.0%	6.0%	7.0%	8.0%
Depreciation & Amortization	37.7	37.3	61.0	75.6	84.2	243.6	341.1	426.4	575.6	719.5	927.8	1,169.0
EBIT	(71)	13	56	183	159	782	377	920	939	1,553	2,319	3,284
% Margin	-4.2%	0.6%	1.7%	3.9%	1.7%	6.1%	2.1%	4.1%	3.1%	4.1%	5.0%	5.9%
Income Taxes	1.9	0.1	2.3	3.3	2.9	7.5	3.6	8.8	9.0	14.9	22.3	31.5
EBIAT	(73)	13	54	180	156	775	373	911	930	1,538	2,297	3,253
Free Cash Flow												
Adjustments:												
Plus: Depreciation & Amortization	37.7	37.3	61.0	75.6	84.2	243.6	341.1	426.4	575.6	719.5	927.8	1,169.0
Less: Capital Expenditures	25.8	26.1	62.8	62.5	138.4	192	323	404	454	568	696	835
Less: Increase in NWC						(476)	409	166	(34)	2,219	1,739	592
Free Cash Flow to Firm	-\$61.2	\$23.9	\$52.1	\$193.0	\$101.5	\$350.2	\$800.6	\$1,099.3	\$1,017.1	\$3,907.7	\$4,268.5	\$4,178.4
Weighted Average Cost of Capital	10.50%											
Discount Period						1.0	2.0	3.0	4.0	5.0	6.0	7.0
Discount Factor						0.90	0.82	0.74	0.67	0.61	0.55	0.50
Present Value of FCFFs						\$316.9	\$655.7	\$814.7	\$682.2	\$2,372.1	\$2,344.9	\$2,077.3

# WACC Calculation



Square Inc. Capital Structure		Square Inc. WACC Calculation	
<u>Common Equity</u>		<u>Cost of Debt</u>	
Share Price	\$225.00	Pre-Tax Cost of Debt	2.20%
Shares Outstanding (Millions)	389.8	Income Tax Rate	1.32%
Market Capitalization	\$87,705	After Tax Cost of Debt	2.17%
<u>Debt</u>		<u>Cost of Common Equity</u>	
Short-Term Debt	\$0.0	Risk-Free Interest Rate	1.59%
Long-Term Debt	\$2,586.9	Levered Beta	1.62
Total Debt	\$2,587	Market Risk Premium	5.60%
<u>Preferred Equity</u>		Cost of Common Equity	10.66%
Preference Shares (\$ Millions)	\$0	<u>Cost of Preferred Equity</u>	
Debt-to-Total Capitalization	2.9%	Preferred Dividend	\$0.00
Common Equity-to-Total Capitalization	97.1%	Preferred Equity	\$0
Preferred Equity-to-Total Capitalization	0.0%	Cost of Preferred Equity	0.00%
		WACC	10.42%

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# Comps Analysis



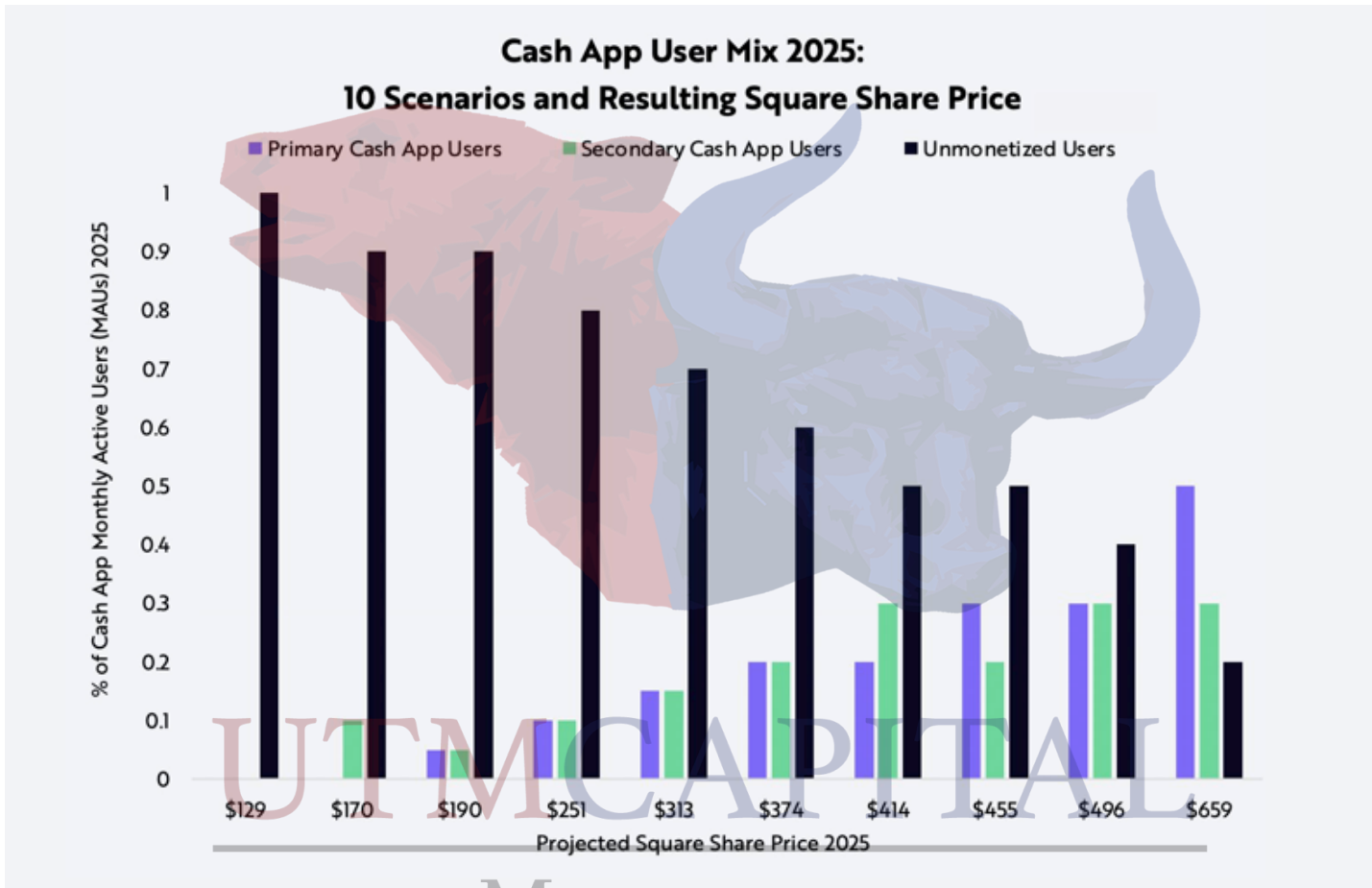
## Square Inc. Comparable Companies Analysis

Square Inc.							Enterprise Value						Price		
Comparable Companies Analysis							LTM	NTM (Factset)	21E (Bloom)	LTM	NTM	21E (Bloom)	LTM	NTM (Factset)	NTM
Company	Ticker	Share Price	52-Week High	Equity Value	Enterprise Value	Weighting	Sales	Sales	Sales	EBITDA	EBITDA	EBITDA	Earnings	Earnings	PEG
Square Inc.	SQ	\$225.00	\$283.19	\$87,705.00	\$91,410.00	15%	11.5x	7.5x	8.4x	389.5x	113.9x	147.4x	456.7x	179.8x	4.2x
Lightspeed POS	LSPD	\$59.49	\$82.53	\$7,100.00	\$6,250.00	0%	49.6x	23.2x	41.7x	N/A	N/A	N/A	N/A	N/A	N/A
Paypal Holdings	PYPL	\$241.74	\$309.14	\$283,144.00	\$261,480.00	15%	13.5x	10.7x	11.3x	64.2x	32.8x	39.4x	63.9x	70.8x	2.2x
Mastercard	MA	\$376.52	\$387.32	\$374,019.91	\$372,400.00	5%	25.0x	20.6x	21.2x	44.2x	33.0x	35.5x	33.0x	60.1x	2.1x
Shopify	SHOP	\$1,130.74	\$1,500	\$138,764.41	\$130,850.00	30%	46.4x	31.3x	33.8x	657.9x	223.4x	277.3x	223.4x	433.1x	5.6x
Citizens Financial Group	CFG	\$44.06	\$46.97	\$18,730.00	\$27,760.00	35%	4.1x	4.1x	4.1x	N/A	N/A	N/A	20.7x	20.5x	5.4x
Mean							25.0x	16.2x	20.1x	288.9x	100.8x	124.9x	159.5x	152.9x	3.9x
Weighted							20.4x	14.6x	15.6x	267.6x	90.7x	113.0x	154.0x	177.7x	4.6x
Median							19.3x	15.6x	16.2x	226.9x	73.4x	93.4x	63.9x	70.8x	4.2x
High							25.0x	20.6x	21.2x	657.9x	223.4x	277.3x	456.7x	179.8x	5.6x
Low							11.5x	7.5x	8.4x	44.2x	32.8x	35.5x	63.9x	70.8x	2.1x

## Implied Share Price

Mean	\$511.70	\$509.04	\$560.14	\$175.41	\$208.92	\$200.14	\$81.91	\$199.34	\$219.55
Weighted	\$413.70	\$454.46	\$432.10	\$159.65	\$185.22	\$178.26	\$77.60	\$230.29	\$259.84
Median	\$394.21	\$490.64	\$453.37	\$138.04	\$152.66	\$150.03	\$32.79	\$92.30	\$234.50
High	\$511.26	\$644.32	\$591.48	\$397.50	\$461.48	\$442.58	\$234.50	\$234.50	\$314.36
Low	\$235.97	\$235.97	\$235.97	\$28.04	\$68.90	\$57.92	\$32.79	\$92.30	\$116.97

Management



Management

If monetized 20% of projected 75M users in 2025, Ark estimates SQ=\$375 in 2025

# Fees Across Mobile Payment Competitors

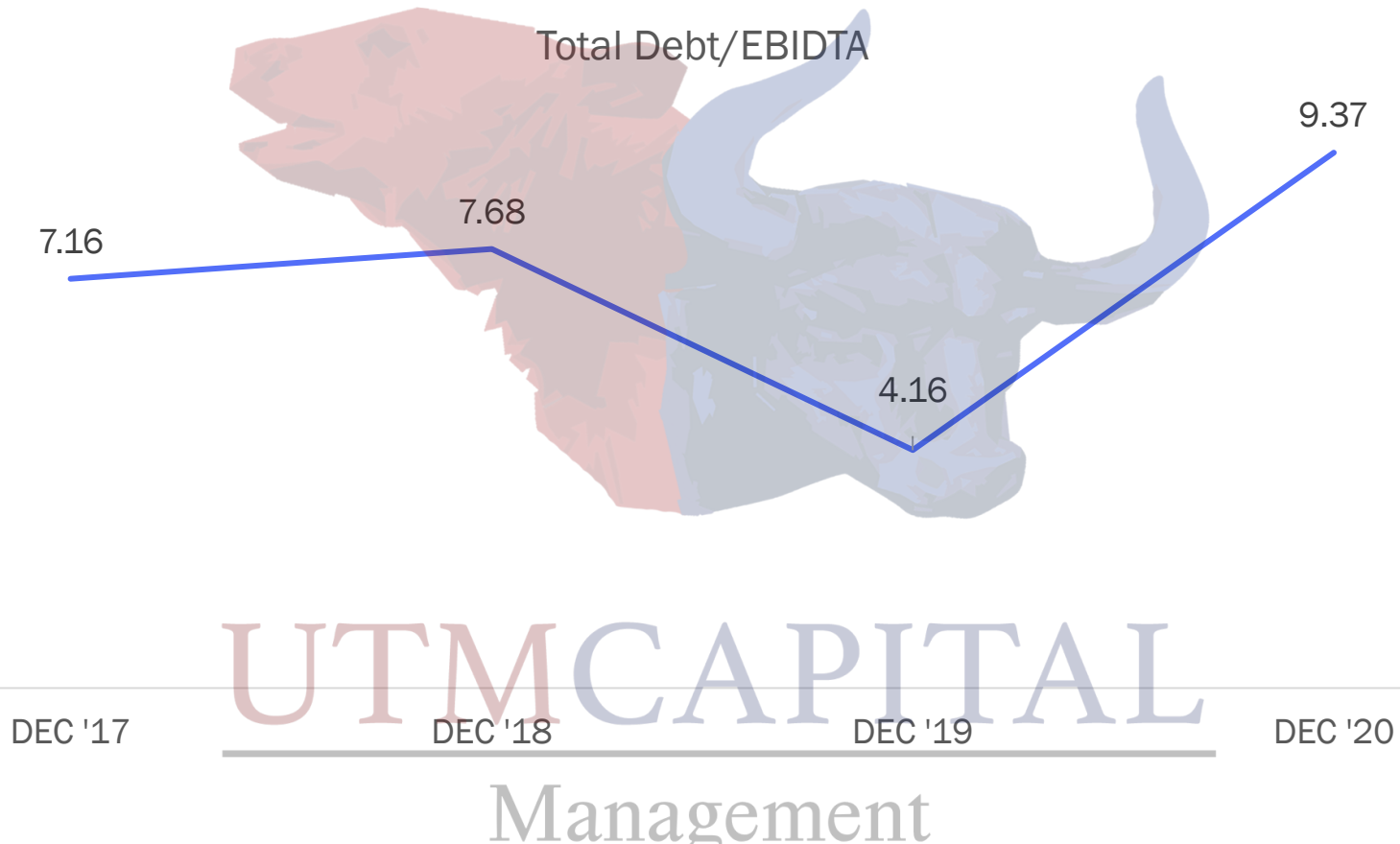


(As of Feb 2021)	Cash App	Venmo	PayPal	Google Pay	Apple Pay Cash
<b>Compatibility</b>	Android, iOS, Web	Android, iOS, Web	Android, iOS, Web	Android, iOS, Web	iOS
<b>Payment methods</b>	Credit, debit card	Credit, debit card, bank transfer	Credit, debit, bank transfer	Credit, debit card, bank transfer	Credit, debit card
<b>Credit fee</b>	3%	3%	2.9% + \$0.30	2.90%	3%
<b>Debit fee</b>	Free	Free (1% for instant transfers)	2.9% + \$0.30	Free	Free
<b>Bank transfer fee</b>	Free (1.5% for instant transfers)	Free	Free	Free	Free
<b>Withdrawal speed</b>	1-2 business days	Usually 1 business day	1-3 business days	1-3 business days	1-3 business days
<b>Transfer limits</b>	\$7,500	\$4,999.99	\$10,000	\$10,000	\$10,000
<b>Special features</b>	No need to set up an account	Quick transfers to banks	PayPal.me shareable links	Integration with other Google services	Automatically available in iOS

Square offers competitive pricing and superior products relative to peers

# Square's Total Debt to EBITDA

More than doubled since 2019. Largely due to their undertakings in Bitcoin



New debt is concerning, but it is at a low cost & rapid rev growth provides optimism