

# Square, Inc. (NYSE:SQ)

BUY - Growth

## Investment Thesis

Digital payments have overtaken the use of cash, forcing businesses to provide payment solutions to customers. Business owners have also begun consulting analytics software, cross-sold by technology firms, to drive sales and margin expansion. Square provides both, helping small businesses grow into larger companies and manage themselves.

## Catalysts

Organic growth of Square supported businesses will drive revenue for Square.

## Highlights

Square reported a Q3 EPS of \$0.07, coming in above estimates by \$0.02. Net loss was \$16 million, down from a loss of \$32 million in Q3 last year. EBITDA grew 195% year over year.

- \$57 billion trailing four-quarter gross payment volume
- 41% year over year revenue growth

On November 27, shares of Square fell over 16% because research firm BTIG downgraded Square, citing an overdone rally, high valuations, and steep expectations. Two days later, a selloff in technology incited another 8% drop in Square. We feel the reaction in both is well overdone.

## Buy Rating

Current Price: \$37.74

**Target Price: \$54.03**

Upside: 43.13%

YTD Return: 162.88%

## Security Performance

### Technology – Transactions Services

Square, Inc. is a payment service provider which offers businesses point-of-sale software used to process payments. Equipped with a mobile application, Square also helps with business analytics, sales reports, and inventory, among other things.



Last Close	\$ 37.75
Market Cap	\$ 14,609
Q3 EPS	\$ 0.07
52 week low	\$ 12.46
52 week high	\$ 49.56



## Catalyst – Repeated Cycles of Merchant Growth

Square has engineered several ways to help merchants grow businesses. Square is a vendor to a wide range of merchants, some who contribute under \$125 thousand in Gross Payment Volume (GPV) each year and some who contribute over \$500 thousand. Larger businesses have grown their share of Square’s total GPV. Total GPV from sellers who contribute over \$125 thousand is now 47% of the entire pool, versus 37% two years ago. Square will benefit from growth in these merchants, growth in smaller merchants, and new adoption. Wealthy countries are not a stranger to wealth inequality, it is almost inevitable. We observe the same divergence in transaction volume profile. Larger merchants have quickly become the majority (illustrated in **image 1**).

Square spends over 10% worth of sales revenue, or about 30% of gross profit, on selling & marketing. On the other hand, the company spent almost 40% of gross profit on research & development in the past year. Management has successfully developed a product that allows businesses to “self-onboard.” This has led to quick adoption and easy discovery. CFO Sarah Friar says large sellers (over \$125 thousand GPV) still self-onboard onto Square 80% of the time.

TAM in the United States today is \$3 Trillion in GPV; Square consistently nets 2.93% – 2.94% of GPV as transaction-based profit. Since Q1 2017, transaction based revenue as a percentage of GPV fell 3 basis points (still equal to Q3 2016). In 2012, it was 2.98%, and 2.95% in 2015. We want to see a gradual decline in this figure, citing more fluid transactions based on transaction cost. Management estimated a much larger TAM overseas: \$55 trillion in global card volume. Transaction-based revenue is the main driver in Square, but the company has diversified well. Management predicts there lies a \$38 Billion market TAM within its e-commerce, software, Square Capital, and Caviar offerings.

What’s propelled Square stock has been the favorable trends of machine learning and electronic payments. E-commerce blends in well with both trends, and the exciting prospects of analytics for decision making involve Square wholly in its enterprise. The company can collect important data to draw insights from; it already provides analytics for its merchants. Square will be a beneficiary of big data and electronic currency.

Square has the digital infrastructure to bring in new business segments and immediately deploy acquisitions if they fit under Square’s ecosystem. Management plans to hike capital expenditures in the future. We model this in the next 5 years because acquisitions seem likely.

CFO Friar identified a \$26 billion market opportunity in the United States.

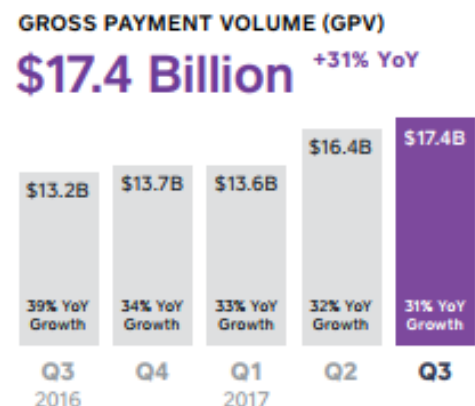
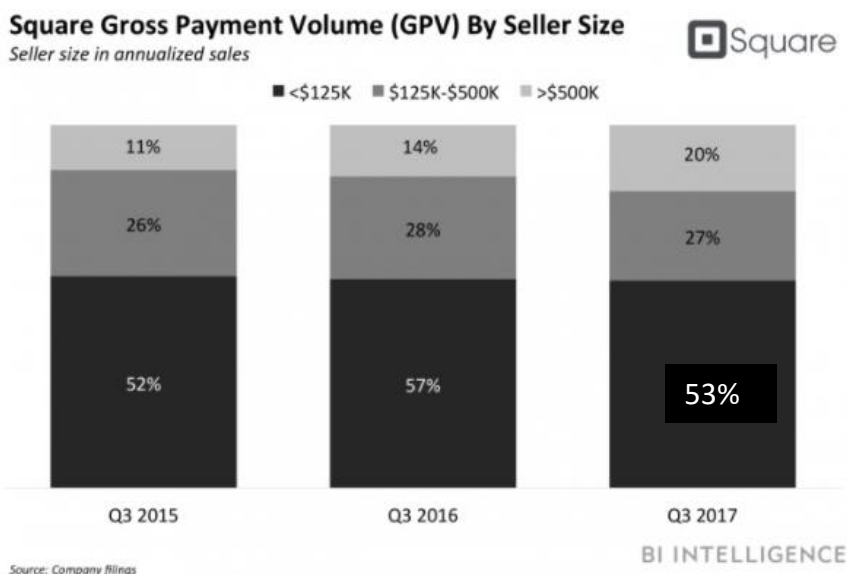


Image 2

Image 1



Square’s largest contributing merchants are growing their overall Gross Payment Volume footprint, directly benefitting Square’s top line. Square satisfactorily retains merchants each year, with a retention rate of 113%. In the past 12 months, GPV has grown over 30% to \$17.4 billion, shown in the image above.

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## Square, Inc. Business Overview

- Full service payment processing for merchants with data analytics and reporting built in.
- Merchants are brought into this system within minutes, allowing them to accept payments with a transaction fee of 2.75%. Manual transactions are marked with a \$0.15 fixed fee and 3.50% of the transaction.
- Merchants have access to next-day settlements, payment dispute management, and digital receipts.
- Merchants are able to manage inventory, orders, employees, and payroll.
- Individual users have access to a platform offering access to a quick and simple way to send and receive money on a mobile phone: Square Cash.
- Square's e-commerce GPV – from Virtual Terminal – has already surpassed 1 billion since its launch in October 2016. It is the fastest Square product to reach the milestone. This, too, has potential to become a meaningful sales driver.
- Square Caviar helps restaurants engage their customers with delivery services.
- Square Register, a digitized register, has been redeveloped and released.

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## More Internal Synergy With Square Capital

Square now has an internal process of growing its merchants' businesses. Square facilitated \$318 million in loans in Quarter 2 of 2017, up 65% year over year. The company totaled 47,000 loans in Q2 alone, up 45% year over year for Q2. Square lends money on the basis of transaction fee "credit rating."

New merchants who employ Square take advantage of Square Capital. They use funds to purchase inventory or fulfill orders. Some instead take loans to expand their business, driving two revenue streams within transaction-based revenue. The average size of a Square Loan is \$6000. This will help the businesses under Square's umbrella, and especially those who contribute below \$125 thousand in GPV. Square capitalizes on this entire process: profiting from interest and transaction volume growth; now, GPV growth is funded by Square Capital.

CEO Jack Dorsey notes that Square is now serving merchants with loans which would otherwise be facilitated by banks or merchants' friends and family. Square loans are a quick, easy way to get the next foot down for a business. Square collects data and understands its merchants; loan loss rates are about 4%. Square Capital will drive growth in GPV as small businesses adopt Square technology to qualify for loans while existing, growing merchants consult Square Capital for expansions, large purchase orders, and infrequent financing necessities.

The Business Lending Index reported the following statistics for small business loans in September 2017:

- Loan approval rates at big banks were 24.6% (up 20 basis points from August)
- Loan approval rates at small banks were 49.1% (up 10 basis points from August)
- Loan approval rates were 63.9% for institutional lenders (up 10 basis points from August)
- Loan approval rates were 57.0% for alternative lenders (down 10 basis points from August)
- Loan approval rates for credit unions remained at 40.3%

Small businesses are turning to different sources for capital, like institutional lenders and alternative lenders, because traditional lending institutions have more stringent policies. Those who are denied loans by big banks (three quarters worth of applicants) now have the option to consult Square Capital instead.

## Market for Non-Cash Payment

The United States' economy has remained healthy under Trump and consumer sentiment is at the highest levels in over a decade. We will see heightened spending, and therefore more transaction volume, in the consumer sector. Square Inc. is well positioned in a large and expanding niche market. Image 3 delineates consumer payment preferences; transaction volume composition between card and cash in the past 4 years rests at a 90/10 split. A shift toward credit cards is an explicit sign the United States' population is more inclined to take on debt. This has been a well-observed trend for some time, and it has caught on overseas. Square identifies \$55 trillion in international card volume, citing IFC's "The Nilson Report." The 2016 World Payments Growth Report shows worldwide non-cash transaction is now over \$400 billion; the figure grew at a CAGR of over 8% between the years of 2010 and 2014.

## Competitive Advantage

Square is able to onboard new users in a matter of minutes. Once in the system, merchants are immediately able to collect payments. Square's ventures into spaces occupied by PayPal/Venmo and Snapcash (for individuals' money transfers) will take market share at low cost. PayPal and Snapchat face stiffer competition from banks who can mobilize mobile applications for peer to peer payments and transfers.

Square's competitor, PayPal, charges business 2.9% of a transaction on top of a \$0.30 flat rate on the transaction. Square charges only 2.75% of the entire transaction. Moreover, Square comes equipped with add-ons such as data analytics and inventory management, as well as hardware (digital register). PayPal's e-commerce dominance is well noted; however, Square has improved its e-commerce offering too. Square Cash App is the top-ranked finance application in the Apple App Store. Ease of access and merchant support help Square retain revenue and mobilize the company to penetrate competitors' market share.

Square's ecosystem now includes analytics and low fees driving merchant retention, loan facilitation driving merchant growth, and items like Caviar and Cash penetrating growing markets.

Image 3

U.S. Consumer Preferred Payment Type

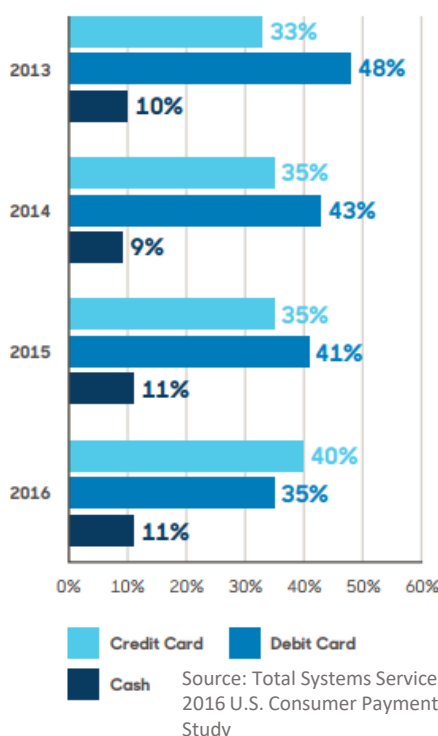
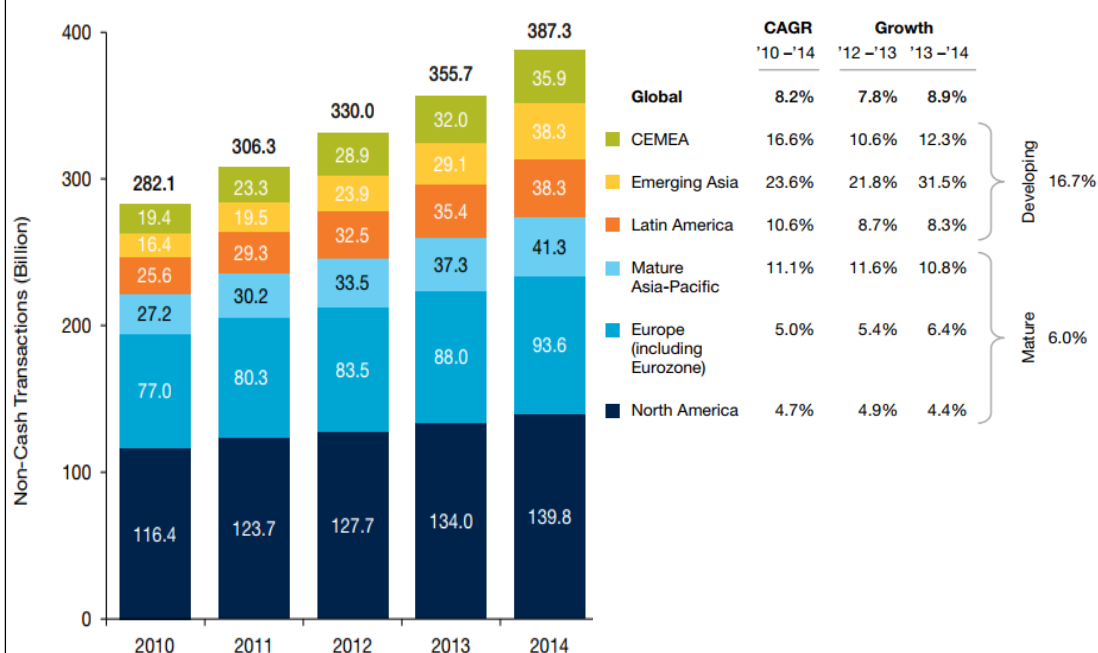


Image 4

Worldwide Non-Cash Transactions '10-'14 (Billions)



### Competition with Square (Moderate Force):

Square faces swift competition from rival PayPal for business platforms. However, Square’s payment processing is noted as the best-in-class by businesses. Square’s peer to peer payment process is rivaled, again, by PayPal’s Venmo. Moreover, Square faces competition from lenders such as banks and alternative lenders.

### Threat of New Entrants (Moderate Force)

Machine learning, artificial intelligence, and data analytics make way for new players to walk into the marketplace with a better mousetrap. The market for business solutions is not difficult to penetrate, as new entrants can begin operations with a single merchant.

### Threat of Substitutes (Strong Force)

There is no shortage of payment solution providers. PayPal can slash its transaction fees to entice merchants to employ their solutions. Classic registers without the data analytics and inventory management is another solution for small businesses, especially those with skilled management. There is also the threat of cash emerging in prominence of transaction volume.

### Bargaining Power of Square’s Customers (Strong Force)

Merchants employing Square are the focus of Square’s performance. They will be able to stronghold Square for lower fees if they deem fees too high. There are several merchants who contribute over \$125 thousand in gross payment volume; no customer accounts for over 10% of either GPV or revenue, yet.

### Bargaining Power of Square’s Suppliers (Low Force)

Square has a few suppliers who manufacture parts for the hardware.

### Market Position

There are numerous companies offering payment services; however, Square is an ideal option for businesses to employ given the breadth of hardware and software platforms included with the service. Furthermore, Square operates for niche clientele – primarily – with only simple applications for a broader audience.

### Financial Health

Square has paid out larger stock-based compensation each of the last 4 years, dating back to before the 2015 IPO. We take this into consideration for the valuation, and conservatively model stock-based compensation to remain at \$138.79 million for the next 15 years. Square sits on total assets amounting to over \$1.6 billion, while liable for less than \$60 million of long-term debt. Meanwhile, the company reported a loss of \$0.21 per share (12-month rolling EPS).

TOTAL NET REVENUE



Image 5

GPV Mix by Seller Industry  
 (For 12 months ended June 30, 2015)

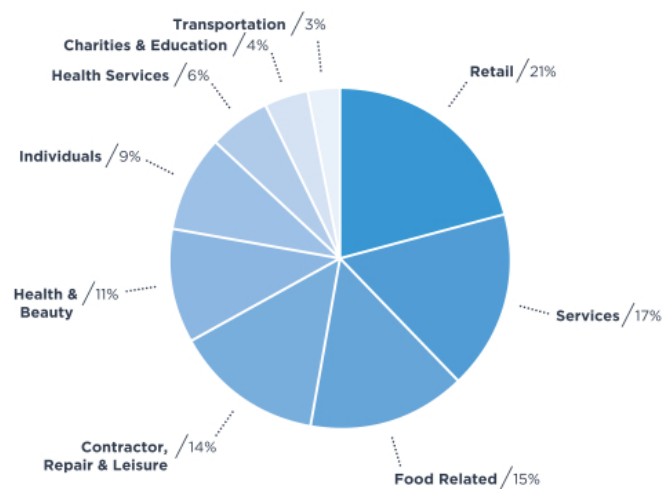


Image 6

Individuals’ transactions account for less than 7% of Gross Payment Volume.

Table 1

### Square, Inc. Corporate Structure

Weight in Debt	3.80%
Cost of Debt	0.52%
Weight in Equity	96.20%
CAPM	11.63%
Floating Shares (millions)	387.00
WACC	11.21%
Intrinsic Value	\$54.03
Current Price	\$37.75
Discount	30.13%



## Square and PayPal

Square has surpassed PayPal in terms of a comprehensive business platform. Merchants consult Square solutions for several business needs, whereas PayPal offers investors ubiquity in e-commerce. PayPal is engineering new ways to grow GPV while Square engineers ways to support their largest GPV contributors.

With “Pay with Venmo,” PayPal enables merchants to accept Venmo payments. Adoption of both Square and PayPal platforms is expected. While PayPal taps into e-commerce, Square will dominate physical locations and intrude into e-commerce. PayPal is working to launch a “Pay with Venmo” debit card in 2018 for in-store purchases. Square Cash is already deployed in stores, and Square already issues “Cash Card’s (debit cards linked to Square Cash accounts).” PayPal’s other debit card is not universally accepted and not connected with PayPal yet. Jack Dorsey, CEO of Square and Twitter, leverages his Twitter influence to promote Square. Image 7, a Cash Card, was shared on his Twitter feed.

Square released a large-merchant-tailored register last month. No longer an iPad powered device, Square Register is the second installment of a register. It costs \$999 or \$1176 over 24 months; the older version costs \$500, or \$169 without an iPad. Square designed the register specifically for large merchants.

PayPal is left with the benefit of e-commerce ubiquity; Square is poised to dominate the industry of point of sale systems, software, and digital hardware. Moreover, valuations for Square will be skewed upward when e-commerce GPV, the fastest growing segment for Square, helps expand margins.

Square still retains the most important advantage: pricing. Square charges 2.75% of merchants’ transactions; PayPal charges 2.90% in addition to a \$0.30 base fee. Square’s infrastructure of business development services gives us conviction in its ability to challenge PayPal online. PayPal’s revenue was over 5x that of Square; those bullish on PayPal should also consider Square.

Image 7



Image 8

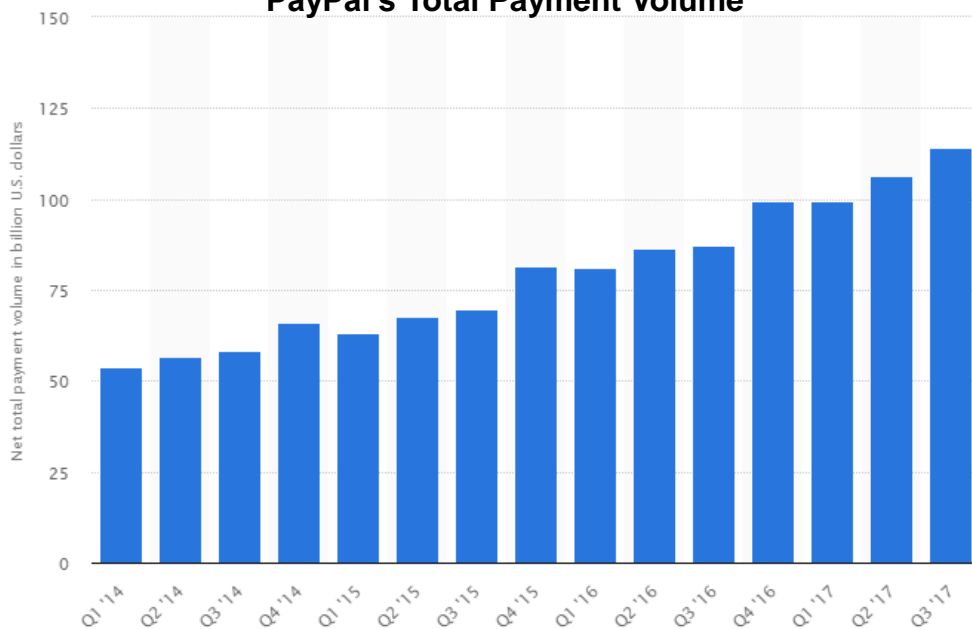


Image 9



Image 10

### PayPal's Total Payment Volume



### E-commerce

PayPal now oversees over 100 billion in total payment volume every quarter. Square’s fastest growing GPV segment is e-commerce, and it has a lot of ground to cover. It only eclipsed 1 billion so far. An expansion of e-commerce GPV will contribute to a gross margin expansion. Image 10 delineates PayPal’s total payment volume over the past 3 years. Since Q1 2014, it has almost doubled. The chart comes from The Statistics Portal.

## Discounted Cash Flow Valuation

Our DCF Models use:

- 2.38% for the 10-year U.S. Treasury risk-free rate of return
- A 7.12% market risk premium
- A forecast of sales growth for the next 15 years
- Perpetual growth of 3%
- 1.30 Beta for Square
- 11.21% WACC for Square

Sum of PV FCF	\$ 10,095.03
FCF 2022	\$ 4,516.48
Terminal Value	\$ 11,170.88
Enterprise Value	\$ 21,265.91
Less: Debt	\$ 356.13
Equity Value	\$ 20,909.78
<b>Intrinsic Value</b>	<b>\$ 54.03</b>

*Table 2*

Internal growth and management's ability to recruit new merchants each year aid our conviction for sustainable growth well into the future. In our forecast, we calculate the remainder of fiscal 2017 using management expectations of \$2.19 billion in revenue. This said, we still trust a revenue beat in Q4 and suggest a purchase, for both Q4 momentum and the recent selloff. We model the next 15 years, starting with 2018.

- Gross margin is expected to expand 200 basis points each of the next two years
- Operating expenses are expected remain at 39.54% in 2018, then drop an average of 20 basis points each year.
- Square pays no tax, as it has been unprofitable. We expect the company to turn a \$17 million profit in 2019 when begins to pay an expected 20% corporate tax rate.
- Square is anticipating acquisitions in the future. Capex is increased in the next 5 years to reflect acquisitions.
- As Square has grown, it has paid out more in stock-based compensation. We conservatively forecast stock-based compensation to remain at \$139.79 million.
- Historically, Square has a very rigid structure within operating expenses. We take into account historical % of sales in operating expense for the forecast.
- Revenues are forecasted to grow at an average CAGR of 32.19% for the next 15 years

Shares of Square, Inc. trade for \$37.75, a 30.13% discount according to the valuation. The intrinsic value of Square shares is \$54.03. Shares still trade over 8% discount to Square's 52 week high, according to our projection.

## Risks

- ❖ CEO Jack Dorsey is also the CEO of Twitter Inc.; his dedication to Twitter may impact the performance of Square, Inc.
- ❖ Poor business management on behalf of merchants can deter revenues for Square.
- ❖ A merchant who grows to become a significant portion of Square's revenue and subsequently underperforms can have an impact on Square.
- ❖ Competition can erode market share, especially from new competitors who have substantially superior data analytic ability. Square will have to keep up with development.
- ❖ Brand reputation can erode sales if negatively impacted.
- ❖ A recession can expose Square's sensitivity to economic conditions; the company relies on consumer spending.
- ❖ Q2 tends to be a period of usual surge in business; seasonality can derail cash flows and inhibit assumption accuracy
- ❖ Bitcoin investment carries a risk of default. For now, this is limited to the sunk cost of development; however, if cryptocurrency transactions grow to meaningful size within the business, bitcoin demand becomes a risk.

## Disclosure

The analysis provided is based on financial information and speculation of future performance in statements associated with this company. All outside sources are perceived to be credible, and the analysts do not take fault for any changes in numerical or informational accuracy that may result. This report is for informational purposes only and is the opinion of the writers. This report has no regard for the specific investment needs or objectives of readers. Investors are encouraged to conduct their own research and come to their own conclusions before making the decision to invest in a company. Sources used in the making of this report are considered to be accurate.

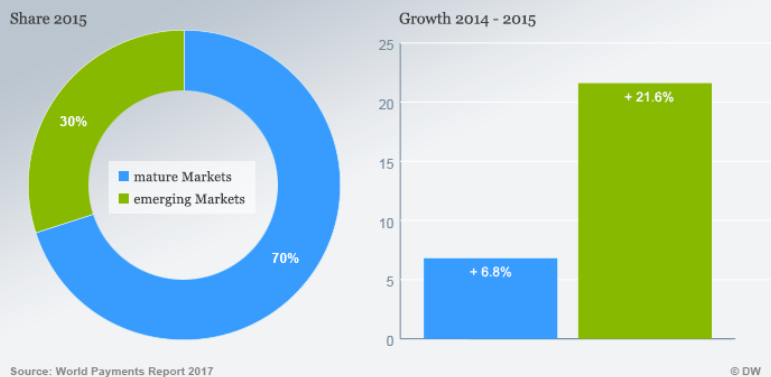
## APPENDIX

### DCF Assumptions and Output

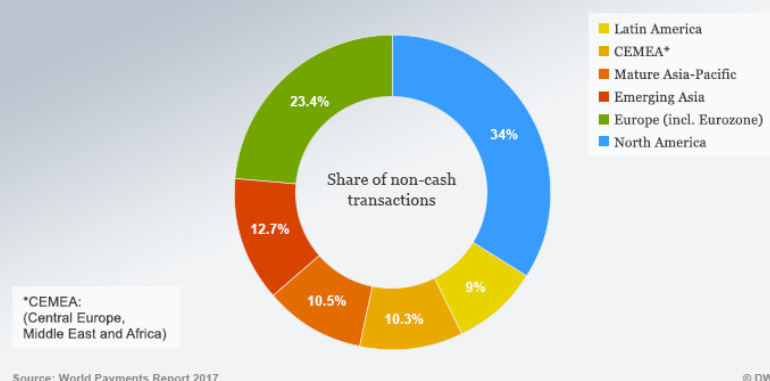
Assumptions	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Sales	45.00%	35.00%	35.00%	35.00%	35.00%	25.00%	25.00%	25.00%	25.00%	15.00%	15.00%	5.00%	5.00%	5.00%	3.00%
Cost of Revenue as % of sales	53.79%	57.79%	56.79%	55.79%	54.79%	53.79%	52.79%	51.79%	50.79%	50.79%	50.79%	50.79%	50.79%	50.79%	50.79%
Operating Expenses as % of sales	39.54%	38.73%	38.13%	37.69%	37.36%	37.17%	37.02%	36.90%	36.80%	36.75%	36.71%	36.70%	36.68%	36.67%	36.67%
Selling & Marketing	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%
General & Administrative	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%
Research & Development	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%	14.35%
Other Operating Expense	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%	3.12%
Tax Rate	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Depreciation	\$ 48	\$ 64	\$ 87	\$ 117	\$ 158	\$ 197	\$ 247	\$ 308	\$ 386	\$ 443	\$ 510	\$ 535	\$ 562	\$ 590	\$ 579
CapEx	\$ 75	\$ 60	\$ 50	\$ 60	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
Change in Net Working Capital	\$ 100	\$ 400	\$ 100	\$ (200)	\$ 400	\$ 200	\$ 200	\$ 200	\$ (250)	\$ (250)	\$ (250)	\$ 250	\$ 250	\$ 250	\$ 250
Free Cash Flow	\$ 28	\$ (138)	\$ 311	\$ 804	\$ 534	\$ 1,065	\$ 1,504	\$ 2,086	\$ 3,305	\$ 3,758	\$ 4,279	\$ 3,979	\$ 4,189	\$ 4,409	\$ 4,516

Discounted Cash Flow Model	Estimated														
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Total Revenue	\$ 3,176	\$ 4,287	\$ 5,787	\$ 7,813	\$ 10,547	\$ 13,184	\$ 16,480	\$ 20,600	\$ 25,751	\$ 29,613	\$ 34,055	\$ 35,758	\$ 37,546	\$ 39,423	\$ 40,606
Total Cost of Revenues	\$ 1,899	\$ 2,477	\$ 3,287	\$ 4,359	\$ 5,779	\$ 7,092	\$ 8,700	\$ 10,669	\$ 13,079	\$ 15,041	\$ 17,297	\$ 18,161	\$ 19,070	\$ 20,023	\$ 20,624
Gross Profit	\$ 1,277	\$ 1,810	\$ 2,501	\$ 3,454	\$ 4,768	\$ 6,092	\$ 7,780	\$ 9,931	\$ 12,672	\$ 14,573	\$ 16,759	\$ 17,596	\$ 18,476	\$ 19,400	\$ 19,982
Gross Margin	40.21%	42.21%	43.21%	44.21%	45.21%	46.21%	47.21%	48.21%	49.21%	49.21%	49.21%	49.21%	49.21%	49.21%	49.21%
Total Operating Expenses	\$ 1,256	\$ 1,660	\$ 2,207	\$ 2,944	\$ 3,940	\$ 4,901	\$ 6,101	\$ 7,601	\$ 9,477	\$ 10,884	\$ 12,501	\$ 13,121	\$ 13,773	\$ 14,456	\$ 14,890
Selling & Marketing	\$ 348	\$ 470	\$ 635	\$ 857	\$ 1,157	\$ 1,446	\$ 1,807	\$ 2,259	\$ 2,824	\$ 3,247	\$ 3,734	\$ 3,921	\$ 4,117	\$ 4,323	\$ 4,453
General & Administrative	\$ 353	\$ 476	\$ 643	\$ 868	\$ 1,171	\$ 1,464	\$ 1,830	\$ 2,288	\$ 2,860	\$ 3,289	\$ 3,782	\$ 3,971	\$ 4,170	\$ 4,378	\$ 4,509
Research & Development	\$ 456	\$ 615	\$ 830	\$ 1,121	\$ 1,513	\$ 1,892	\$ 2,365	\$ 2,956	\$ 3,695	\$ 4,249	\$ 4,886	\$ 5,130	\$ 5,387	\$ 5,656	\$ 5,826
Other Operating Expense	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 99	\$ 102
Operating Margin	39.54%	38.73%	38.13%	37.69%	37.36%	37.17%	37.02%	36.90%	36.80%	36.75%	36.71%	36.70%	36.68%	36.67%	36.67%
EBIT	\$ 21	\$ 149	\$ 294	\$ 510	\$ 828	\$ 1,192	\$ 1,679	\$ 2,330	\$ 3,195	\$ 3,689	\$ 4,257	\$ 4,475	\$ 4,704	\$ 4,944	\$ 5,092
EBIT Margin	0.67%	3.48%	5.08%	6.52%	7.85%	9.04%	10.19%	11.31%	12.41%	12.46%	12.50%	12.51%	12.53%	12.54%	12.54%
Tax Expense	\$ 4	\$ 30	\$ 59	\$ 102	\$ 166	\$ 238	\$ 336	\$ 466	\$ 639	\$ 738	\$ 851	\$ 895	\$ 941	\$ 989	\$ 1,018
NOPAT	\$ 17	\$ 119	\$ 235	\$ 408	\$ 663	\$ 954	\$ 1,344	\$ 1,864	\$ 2,556	\$ 2,951	\$ 3,406	\$ 3,580	\$ 3,763	\$ 3,955	\$ 4,074
Stock Based Compensation	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139	\$ 139
Depreciation	\$ 48	\$ 64	\$ 87	\$ 117	\$ 158	\$ 197	\$ 247	\$ 308	\$ 386	\$ 443	\$ 510	\$ 535	\$ 562	\$ 590	\$ 579
Capital Expenditure	\$ 75	\$ 60	\$ 50	\$ 60	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
Change in Net Working Capital	\$ 100	\$ 400	\$ 100	\$ (200)	\$ 400	\$ 200	\$ 200	\$ 200	\$ (250)	\$ (250)	\$ (250)	\$ 250	\$ 250	\$ 250	\$ 250
Discount to PV	\$ 23	\$ (100)	\$ 203	\$ 472	\$ 282	\$ 506	\$ 643	\$ 801	\$ 1,142	\$ 1,167	\$ 1,195	\$ 999	\$ 946	\$ 895	\$ 917

### Cash and non-cash transaction share and development

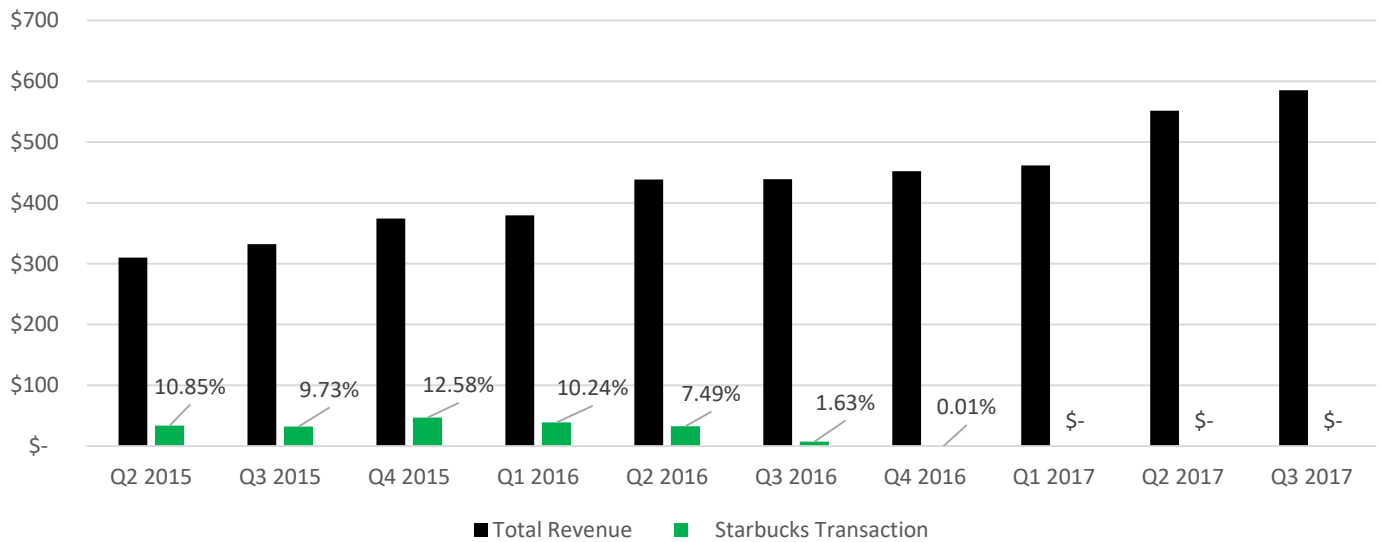


### 2015 Share of non-cash transaction volumes (%), by region





### Square's Starbucks Transaction Revenue as % of Total Revenue (millions)



## Income Statement

Square Inc (SQ US) - Adjusted							
In Millions of USD except Per Share	FY 2013	FY 2014	FY 2015	FY 2016	Last 12M	FY 2017 Est	FY 2018 Est
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016	09/30/2017	12/31/2017	12/31/2018
<b>Revenue</b>	<b>552.4</b>	<b>850.2</b>	<b>1,267.1</b>	<b>1,708.7</b>	<b>2,050.1</b>	<b>967.3</b>	<b>1,275.2</b>
+ Sales & Services Revenue	552.4	850.2	1,267.1	1,708.7	2,050.1		
- Cost of Revenue	423.6	624.1	897.1	1,132.7	1,284.1		
+ Cost of Goods & Services	423.6	623.1	891.4	1,124.7	1,277.0	0.374	
+ Depreciation & Amortization	—	1.0	5.6	8.0	7.1		
<b>Gross Profit</b>	<b>128.8</b>	<b>226.1</b>	<b>370.0</b>	<b>576.0</b>	<b>766.0</b>	<b>364.1</b>	<b>493.8</b>
+ Other Operating Income	0.0	0.0	0.0	0.0	0.0		
- Operating Expenses	228.6	376.4	543.6	698.6	821.1		
Selling, General & Admin	133.1	206.8	288.5	377.9	452.5		
<i>Selling &amp; Marketing</i>	<i>64.2</i>	<i>112.6</i>	<i>145.6</i>	<i>172.9</i>	<i>224.8</i>		
<i>General &amp; Administrative</i>	<i>68.9</i>	<i>94.2</i>	<i>142.9</i>	<i>204.0</i>	<i>227.7</i>		
Research & Development	82.9	144.6	199.6	268.5	294.1		
Other Operating Expense	12.6	25.0	55.5	52.2	64.0		
<b>Operating Income (Loss)</b>	<b>-99.8</b>	<b>-150.4</b>	<b>-173.6</b>	<b>-122.5</b>	<b>-55.1</b>	<b>-53.8</b>	<b>18.9</b>
- Non-Operating (Income) Loss	-1.0	2.2	1.6	-0.8	5.8		
+ Interest Expense, Net	0.0	1.1	1.2	—	—		
+ Foreign Exch (Gain) Loss	0.3	1.1	1.8	0.0	—		
+ Other Non-Op (Income) Loss	-1.2	0.0	-1.4	-0.8	3.9		
<b>Pretax Income (Loss), Adjusted</b>	<b>-98.8</b>	<b>-152.5</b>	<b>-175.2</b>	<b>-121.7</b>	<b>-60.8</b>	<b>-61.4</b>	<b>10.8</b>
- Abnormal Losses (Gains)	5.1	0.1	0.9	47.9	0.1		
+ Merger/Acquisition Expense	—	—	0.6	—	—		
+ Disposal of Assets	2.7	0.1	0.3	-0.1	—		
+ Impairment of Intangibles	2.4	—	—	—	—		
+ Legal Settlement	—	—	—	48.0	—		
<b>Pretax Income (Loss), GAAP</b>	<b>-104.0</b>	<b>-152.7</b>	<b>-176.1</b>	<b>-169.7</b>	<b>-60.9</b>	<b>-61.4</b>	<b>10.8</b>
- Income Tax Expense (Benefit)	0.5	1.4	3.7	1.9	1.4		
+ Current Income Tax	0.5	4.1	3.7	1.9	—		
+ Deferred Income Tax	0.0	-2.7	0.0	0.1	—		
<b>Income (Loss) from Cont Ops</b>	<b>-104.5</b>	<b>-154.1</b>	<b>-179.8</b>	<b>-171.6</b>	<b>-62.3</b>	<b>-63.5</b>	<b>2.6</b>
- Net Extraordinary Losses (Gains)	0.0	0.0	0.0	0.0	0.0		
+ Discontinued Operations	0.0	0.0	0.0	0.0	0.0		
+ XCO & Accounting Changes	0.0	0.0	0.0	0.0	0.0		
<b>Income (Loss) Incl. MI</b>	<b>-104.5</b>	<b>-154.1</b>	<b>-179.8</b>	<b>-171.6</b>	<b>-62.3</b>	<b>-63.5</b>	<b>2.6</b>
- Minority Interest	0.0	0.0	0.0	0.0	0.0		
<b>Net Income, GAAP</b>	<b>-104.5</b>	<b>-154.1</b>	<b>-179.8</b>	<b>-171.6</b>	<b>-62.3</b>	<b>-63.5</b>	<b>2.6</b>

## Balance Sheet

<b>Square Inc (SQ US) - Standardized</b>				
<b>In Millions of USD except Per Share 12 Months Ending</b>	<b>FY 2013 12/31/2013</b>	<b>FY 2014 12/31/2014</b>	<b>FY 2015 12/31/2015</b>	<b>FY 2016 12/31/2016</b>
<b>Total Assets</b>				
+ Cash, Cash Equivalents & STI	166.2	225.3	470.8	511.9
+ Cash & Cash Equivalents	166.2	225.3	470.8	452.0
+ ST Investments	0.0	0.0	0.0	59.9
+ Accounts & Notes Receiv	0.0	0.0	0.0	6.2
+ Accounts Receivable, Net	0.0	0.0	0.0	6.2
+ Notes Receivable, Net	0.0	0.0	0.0	0.0
+ Inventories	0.0	0.0	0.0	0.0
+ Raw Materials	0.0	0.0	0.0	0.0
+ Work In Process	0.0	0.0	0.0	0.0
+ Finished Goods	0.0	0.0	0.0	0.0
+ Other Inventory	0.0	0.0	0.0	0.0
+ Other ST Assets	87.6	184.6	234.8	483.3
+ Prepaid Expenses	3.1	5.1	7.1	7.4
+ Derivative & Hedging Assets	0.0	0.0	—	—
+ Misc ST Assets	84.5	179.5	227.7	475.9
<b>Total Current Assets</b>	<b>253.8</b>	<b>409.9</b>	<b>705.6</b>	<b>1,001.4</b>
+ Property, Plant & Equip, Net	51.7	63.7	87.2	88.3
+ Property, Plant & Equip	61.9	90.3	133.2	161.7
- Accumulated Depreciation	10.3	26.5	46.0	73.3
+ LT Investments & Receivables	0.0	0.0	0.0	27.4
+ LT Investments	—	—	—	27.4
+ Other LT Assets	12.9	68.3	102.0	94.2
+ Total Intangible Assets	1.2	50.5	83.5	76.5
+ <i>Goodwill</i>	0.6	40.3	56.7	57.2
+ <i>Other Intangible Assets</i>	0.6	10.3	26.8	19.3
+ Deferred Tax Assets	—	0.5	0.2	0.3
+ Derivative & Hedging Assets	0.0	0.0	—	—
+ Misc LT Assets	11.7	17.3	18.3	17.5
<b>Total Noncurrent Assets</b>	<b>64.5</b>	<b>132.0</b>	<b>189.2</b>	<b>209.9</b>
<b>Total Assets</b>	<b>318.3</b>	<b>541.9</b>	<b>894.8</b>	<b>1,211.4</b>
<b>Liabilities &amp; Shareholders' Equity</b>				
+ Payables & Accruals	21.3	31.3	80.4	72.2
+ Accounts Payable	4.5	5.4	18.9	12.6
+ Other Payables & Accruals	16.8	25.8	61.6	59.6
+ ST Debt	0.0	0.1	0.1	0.7
+ ST Borrowings	0.0	0.0	0.0	0.0
+ ST Capital Leases	0.0	0.1	0.1	0.7
+ Other ST Liabilities	108.4	159.8	253.7	504.6
+ Deferred Revenue	0.0	0.0	0.0	0.0
+ Derivatives & Hedging	0.0	0.0	—	—
+ Misc ST Liabilities	108.4	159.8	253.7	504.6
<b>Total Current Liabilities</b>	<b>129.7</b>	<b>191.1</b>	<b>334.2</b>	<b>577.5</b>

+ LT Debt	0.0	30.1	0.0	1.2
+ LT Borrowings	0.0	30.0	0.0	0.0
+ LT Capital Leases	0.0	0.1	0.0	1.2
+ Other LT Liabilities	26.3	47.0	52.5	56.6
+ Accrued Liabilities	0.0	0.0	0.0	0.0
+ Pension Liabilities	—	—	0.0	0.0
+ Pensions	—	—	0.0	0.0
+ Other Post-Ret Benefits	—	—	0.0	0.0
+ Deferred Compensation	5.5	3.4	1.1	0.1
+ Deferred Revenue	14.7	26.6	25.5	23.1
+ Deferred Tax Liabilities	—	—	—	0.5
+ Derivatives & Hedging	0.0	0.0	—	—
+ Misc LT Liabilities	6.1	17.0	25.8	32.9
<b>Total Noncurrent Liabilities</b>	<b>26.3</b>	<b>77.1</b>	<b>52.5</b>	<b>57.7</b>
<b>Total Liabilities</b>	<b>156.0</b>	<b>268.2</b>	<b>386.7</b>	<b>635.2</b>
+ Preferred Equity and Hybrid Capital	366.2	514.9	0.0	0.0
+ Share Capital & APIC	38.3	155.2	1,116.9	—
+ Common Stock	—	—	0.0	—
+ Additional Paid in Capital	—	—	1,116.9	—
- Treasury Stock	0.0	0.0	0.0	0.0
+ Retained Earnings	-241.5	-395.6	-607.6	-779.2
+ Other Equity	-0.7	-0.8	-1.2	1,355.4
<b>Equity Before Minority Interest</b>	<b>162.3</b>	<b>273.7</b>	<b>508.0</b>	<b>576.2</b>
+ Minority/Non Controlling Interest	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>162.3</b>	<b>273.7</b>	<b>508.0</b>	<b>576.2</b>
<b>Total Liabilities &amp; Equity</b>	<b>318.3</b>	<b>541.9</b>	<b>894.8</b>	<b>1,211.4</b>

## Statement of Cash Flows

### Square Inc (SQ US) - Standardized

In Millions of USD except Per Share 12 Months Ending	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2016 12/31/2016	Last 12M 09/30/2017
<b>Cash from Operating Activities</b>					
+ Net Income	-104.5	-154.1	-179.8	-171.6	-62.3
+ Depreciation & Amortization	8.3	18.6	27.6	37.7	37.6
+ Non-Cash Items	49.1	75.7	142.6	153.2	187.1
+ Stock-Based Compensation	14.7	36.1	82.3	138.8	84.1
+ Deferred Income Taxes	—	-2.7	0.0	0.1	0.3
+ Other Non-Cash Adj	34.5	42.2	60.3	14.4	102.7
+ Chg in Non-Cash Work Cap	-13.5	-49.5	30.7	3.8	-51.2
+ (Inc) Dec in Accts Receiv	-27.7	-50.4	-27.4	-178.4	-358.3
+ (Inc) Dec in Inventories	—	—	0.0	0.0	—
+ Inc (Dec) in Accts Payable	-0.9	0.2	7.8	-2.1	325.6
+ Inc (Dec) in Other	15.2	0.6	50.3	184.3	-18.5
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>-60.6</b>	<b>-109.4</b>	<b>21.1</b>	<b>23.1</b>	<b>111.2</b>

In Millions of USD except Per Share 12 Months Ending	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2016 12/31/2016	Last 12M 09/30/2017
<b>Cash from Investing Activities</b>					
+ Change in Fixed & Intang	-47.9	-29.2	-38.7	-25.5	-25.1
+ Disp in Fixed & Intang	0.0	0.0	0.0	0.3	0.3
+ Disp of Fixed Prod Assets	0.0	0.0	0.0	0.3	0.3
+ Disp of Intangible Assets	0.0	0.0	0.0	0.0	0.0
+ Acq of Fixed & Intang	-47.9	-29.2	-38.7	-25.8	-25.4
+ Acq of Fixed Prod Assets	-47.9	-28.8	-37.4	-25.4	-25.4
+ Acq of Intangible Assets	0.0	-0.4	-1.3	-0.4	0.0
+ Net Change in LT Investment	0.0	0.0	0.0	-87.3	-309.8
+ Dec in LT Investment	0.0	0.0	0.0	77.4	201.4
+ Inc in LT Investment	0.0	0.0	0.0	-164.8	-511.1
+ Net Cash From Acq & Div	-2.9	11.7	-4.5	-1.4	-3.0
+ Cash from Divestitures	0.0	0.0	0.0	0.0	0.0
+ Cash for Acq of Subs	-2.9	11.7	-4.5	-1.4	-3.0
+ Cash for JVs	0.0	0.0	0.0	0.0	0.0
+ Other Investing Activities	40.0	-7.1	-1.9	-8.5	-25.0
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>-10.8</b>	<b>-24.6</b>	<b>-45.1</b>	<b>-122.7</b>	<b>-362.8</b>
<b>Cash from Financing Activities</b>					
+ Dividends Paid	0.0	0.0	0.0	0.0	0.0
+ Cash From (Repayment) Debt	0.0	30.0	-30.0	0.0	335.1
+ Cash From (Repay) ST Debt	0.0	0.0	0.0	0.0	0.0
+ Cash From LT Debt	0.0	30.0	0.0	0.0	428.3
+ Repayments of LT Debt	0.0	0.0	-30.0	0.0	-93.2
+ Cash (Repurchase) of Equity	18.9	164.2	296.2	96.4	162.5
+ Increase in Capital Stock	18.9	164.2	296.2	96.4	162.5
+ Decrease in Capital Stock	0.0	0.0	0.0	0.0	0.0
+ Other Financing Activities	0.0	0.0	-1.4	-5.7	-18.5
+ Net Cash From Disc Ops	0.0	0.0	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>18.9</b>	<b>194.2</b>	<b>264.8</b>	<b>90.7</b>	<b>479.1</b>
Effect of Foreign Exchange Rates	-0.8	-1.1	-1.8	-0.4	0.9
<b>Net Changes in Cash</b>	<b>-53.2</b>	<b>59.1</b>	<b>239.0</b>	<b>-9.3</b>	<b>228.3</b>