

Initiating Coverage:

# PayPal Holdings Inc (\$PYPL)

How PayPal is Reinventing Itself from Checkout to Crypto

**Key Take-away:** With the constantly evolving payment market, PayPal Holdings Inc (\$PYPL) has strategically positioned themselves to seize significant opportunities in the payment industry. With five consecutive quarters of profitable growth, the company has adopted and retained practices such as branded checkout, PSP, omnichannel, and Venmo. PayPal's two-sided platform consisting of merchants and consumers, and acquisition of competing companies like Venmo and Braintree, position it to capture growth in the payment market.

**Stablecoin:** PayPal currently faces a huge opportunity in stablecoin, as especially as President Trump supports looser crypto regulations (e.g., the proposed GENIUS Act). In August 2023, PayPal launched PayPal USD, a U.S. dollar stablecoin. It has not been able to capture significant market share, however, as the market already has many centralized stablecoins. If PayPal does not take hold of this, it risks losing market share to competitors using blockchain's advantages.

**Buy now, pay later:** In August 2020, PayPal released the buy now, pay later (BNPL) feature, offering more flexible options to purchase goods. With the increasing use of BNPL (This year 60% of Coachella attendees used the service, compared to 18% when the festival first began offering the service in 2009), consumers are willing to pay the fee on top of the payment that they are unable to finance. PayPal has also started rolling out its BNPL initiatives to Europe this quarter, where they have the advantage of its existing scale to gain market share. PayPal's strong brand recognition and trust among consumers place them at the front end of the BNPL movement.

**Expansion of Braintree and Venmo:** Braintree now makes up 40% of total payment volume (TPV) and is growing faster than branded checkout. It allows transactions in multiple currencies and crypto, and powers Uber, Airbnb, and Shopify, processing billions in transactions. This diversifies PayPal's revenue away from consumer-facing checkout risks, such as Apple Pay competition. The company has also made innovative features within Venmo. Venmo's P2P platform has over 90 million users, but low monetization, so they tried to change this through rolling out various new services. Venmo Plus was released to the public in mid-2024 for premium features like early direct deposit, and the company also released Venmo credit and debit cards. The CEO's Pay with Venmo strategy includes customer driven features, such as pooling and splits.

**Valuation:** We initiate coverage with a \$83 PT.



Consortium Research Group  
FIG | Specialty Finance  
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Stock Rating: Equal Weight

Price Target: USD \$83

Price: \$74.17

Potential Upside/Downside: 11.58%

Ticker: \$PYPL

1 Year History



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## Company Overview

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**Company Description:** PayPal is one of the giants in the digital payment platform field, serving as an alternative to traditional banking. The company makes most of its profits from transaction fees, which include merchant fees and currency conversion. It also profits from partnerships and value-added services. The company was one of the first in its field, with strong brand trust among consumers and many partnerships with businesses. It identifies what the world needs and is constantly evolving with new services such as peer transactions and BNPL. The company has historically aggressive growth, through acquiring Braintree and Venmo, and their consumer base consists of 435 million active accounts, with the average age range being 25-45. 50% of its market is in the US, and the number of users is growing in Europe.

**Market Position and Strength of Brand:** When it comes to digital payments, there are a lot of issues that can arise. Payment data can be compromised, companies may engage in fraudulent activities, and personal information is vulnerable to breaches. However, this is one of PayPal's many assets. Its history with consumers from the start of e-commerce with eBay and being the go-to company during the pandemic when all in-person shopping was at a halt places the brand name as one that is recognized and trusted by many users.

**Growth Strategy:** PayPal's heavy acquisition approach buys market share and competitors when they arrive. They take companies that specialize in the areas they are lacking in, helping them grow and diversify. Some of these acquisitions include: Venmo, Braintree, Honey, Paidy, and iZettle. This results in fast entry into markets and eliminates rivals, which helps with user growth and results in more profits through transactions. Acquisitions also allow the company to reach new targets. Venmo's social payments are popular among Gen Z/millennials, and PayPal's expertise in e-commerce checkout is popular among millennials/Gen X.

## Industry Overview

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**The Rise of "Super Apps":** Tech giants like Apple and Google have significantly expanded their payment ecosystems, capturing significant shares of both consumer-facing transactions and merchant processing markets. Vertically integrated "super apps" combine wallets, BNPL, and cards in an easy to access format. While PayPal lacks control over mobile operating systems, this plays as both a weakness and strength. It avoids platform lock-in but must compete with pre-installed alternatives. Google and Apple Pay are pre-installed on over 90% of new smartphones, resulting in use without user acquisition costs. Unlike smaller fintechs, PayPal's scale and diverse features let it counter with a multi-app strategy, although branded checkout faces threats from Apple/Google's pre-installed payment system.

**Mobile Wallets:** Mobile wallets have changed the payment industry by replacing physical cards with secure digital alternatives, making it both more secure and convenient for consumers. This represents one of the most disruptive shifts in payments since the introduction of the credit card. PayPal was initially created to facilitate digital payments and provide a secure way for consumers and businesses to send and receive money online. However, with near field communication (NFC) payments, tokenization means no card numbers are stored, providing a safe and trusted option among consumers. In China, Alipay and WeChat Pay dominate through QR code based payments embedded in social media apps, while in the West, Apple Pay and Google Pay leverage smartphone OS dominance for in-store payments. PayPal initially lagged in NFC adoption, limiting its in-store presence. However, its strength in online checkout and recent QR code, split, and pool initiatives help bridge the gap.

**Regulatory Pressures:** The payment industry is currently navigating its most complex regulatory environment. The 2024 CFPB ruling requires that BNPL providers must run credit checks, disclose annual percentage rate

equivalents, and handle disputes like traditional lenders. After this ruling, Affirm's stock dropped 6.7%, Block fell 5.9%, and PayPal slipped 3.2%. PayPal's relatively modest decrease is likely due to its compliance with many of the new regulations. This shows how dangerous the BNPL industry is with its lack of regulations, and how sensitive investors are to regulatory changes.

**Stablecoin:** Stablecoins have the possibility of pushing PayPal out of business if not adopted. Their success is attributed to Trump's deregulation of the cryptocurrency scene and investor's interest in the field. The move towards stablecoin is evident in CRCL's surge in stock price after their IPO and Mastercard's single day 2.6% - 2.7% increase after rolling out their own stablecoin integration. Stablecoins also pose a significant threat to PayPal's core business model. Since stablecoins enable direct peer-to-peer transactions on blockchain networks with lower fees and almost instant settlements, they can potentially bypass/reduce the need for payment processing services. Although PayPal has released their own stablecoin, it has not captured significant market share compared to its competitors.

## Peer Comparisons

### Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
PAYO	\$2,510	\$1,990	22.9x	\$996	\$148
XYZ	\$41,990	\$29,920	36.7x	\$24,120	\$2,272
PSFE	\$780	\$2,970	8.6x	\$1,690	\$452
INTU	\$215,820	\$218,380	63.3x	\$18,184	\$4,714
PayPal Holdings Inc	\$64,500	\$76,800	14.2x	\$31,800	\$6,740

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth Rate LF
PAYO	13.1x	81.8%	27.0%	15.2%	14.9%
XYZ	15.7x	36.4%	21.2%	4.8%	4.6%
PSFE	7.4x	58.0%	27.4%	9.3%	6.0%
INTU	40.3x	78.5%	28.7%	25.8%	15.0%
PayPal Holdings Inc	11.4x	45.8%	21.2%	15.0%	8.0%

High	40.25x	81.8%	28.7%	25.8%	15.0%
75th Percentile	15.74x	78.5%	27.4%	15.2%	14.9%
Average	17.58x	60.1%	25.1%	14.0%	9.7%
Median	13.10x	58.0%	27.0%	15.0%	8.0%
25th Percentile	11.39x	45.8%	21.2%	9.3%	6.0%
Low	7.41x	36.4%	21.2%	4.8%	4.6%

### General Dynamics Valuation

Implied Enterprise Value (25th Percentile)	\$	76,800
Implied Enterprise Value (Median)	\$	88,294
Implied Enterprise Value (75th Percentile)	\$	106,088
Implied Share Price (25th Percentile)	\$	73.66
Implied Share Price (Median)	\$	85.47
Implied Share Price (75th Percentile)	\$	103.77

## Investment Theses

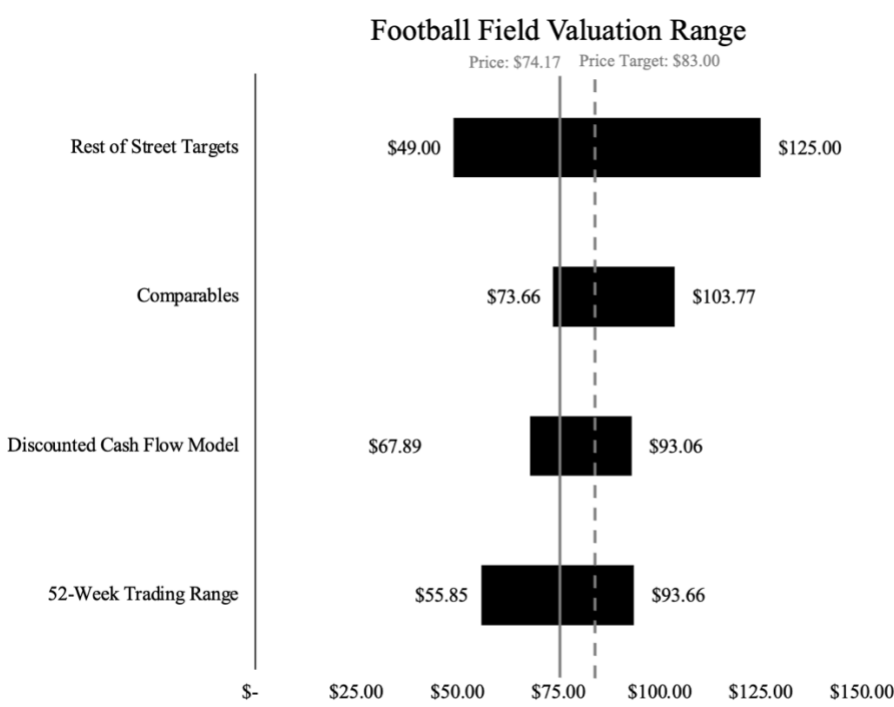
**Adaptability Position it to Capitalize on Emerging Payment Trends:** PayPal's huge consumer base—435M users and 35M merchants—creates a powerful network, enabling it to expand into new payment segments quicker than its competitors. The increasing adoption of BNPL and cross border payments represent high-growth areas where PayPal's merchant relationships give it an advantage. Markets emerging in countries like Southeast Asia and Latin America skip past traditional banking and adopting mobile and digital payments, and PayPal has already made investments to capture international market share. An example of this is their acquisition of Paidy, a popular BNPL service based in Japan. They have focused on building their international payment capabilities to help merchants sell worldwide with improved currency conversion. Compared to their competitors with niche, standalone services, PayPal has had multiple acquisitions with their own specialties and users that allow the company to adapt and change with fluctuations in consumer spending or regulation by the government.

**Potential Shifts in the Digital Payment Industry:** The fintech industry continues to evolve with changes in consumer behavior and new technology, which redefine the payment industry. Although no company can dominate every shift, those who strategically acquire businesses with loyal users are best positioned to adapt and grow. This has been PayPal's approach—and it's working. China has adapted to QR codes due to its convenience and safety, and U.S. consumer behavior can result in higher QR code

adoption. Although QR code payments are not yet widespread in the U.S., there are signs of cultural shift. The COVID-19 pandemic accelerated consumer preference for contactless payments, and younger users—Venmo’s main users—are increasingly comfortable with QR-based interactions in social settings, retail, and food delivery. If merchant adoption follows with incentives or ease of implementation, QR codes can gain ground in the U.S. Venmo’s social payment QR codes and PayPal’s support for QR payments through Braintree creates an infrastructure that is ready for mass adoption when the payment scene changes once again or merchants incentivize QR code acceptance. If QR codes do not infiltrate the U.S. market as it did with China, PayPal still has an advantage in its interoperability through various payment methods like QR, NFC, and card.

Price Target & Valuation

Our analysis gives PYPL a price target of \$83 and an equal weight rating.



Potential Downsides to Our Rating

**Competition from Other Companies and Fields:** The intensifying competition in the digital payments industry can significantly impair PayPal’s growth trajectory. With many different companies offering various services, the competition for users is getting fiercer. Apple Pay and Google Pay now consist of over 50% of US contactless transactions, using their mobile OS dominance to take over PayPal’s offline relevance. PayPal’s lack of NFC capabilities and declining branded checkout share can limit TPV growth to just 3-5% annually, possibly derailing the DCF’s base case assumptions. Additionally, stablecoin’s support from President Trump and interest from investors raise the question if PayPal’s business model can survive if stablecoin ends up becoming mainstream and the next big move in Fintech.

**Regulatory Issues:** Regulatory pressures and BNPL margin compression can undermine PayPal’s profitability. New Consumer Financial Protection Bureau (CFPB) rules that impose credit checks and dispute handling requirements that increase compliance costs by \$100-150 million annually. When these new rulings pass, investors also get volatile and the stock prices of the companies affected drop significantly, as shown by the results of the 2024 CFPB ruling.

Our Price Target: \$83.00

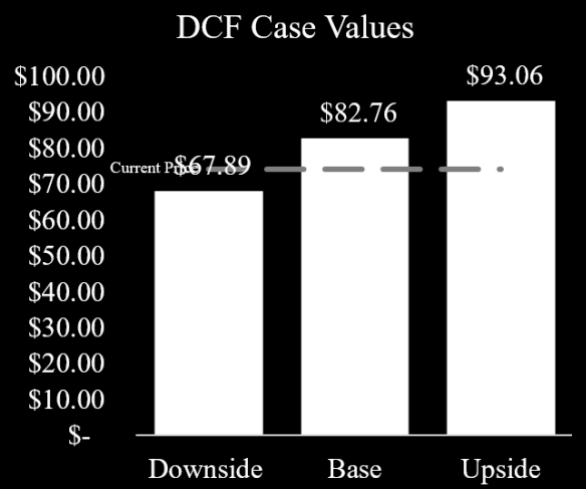
Our PT assumes higher-single digit revenue growth, as Braintree’s growth offsets slowing branded checkout. If the company can capture stablecoin market share, they are able to keep up with the ever-changing digital payment landscape and not get squeezed out.

Our Upside Case: \$93.00

Our upside case is based on PayPal’s ability to capture stablecoin market share and other country’s BNPL market share, especially Europe. It is also based on maintaining growth in their user base to gain transactions-based revenue and monetizing Braintree.

Our Downside Case: \$68.00

Our downside case is based on market share loss from many competitors, including other stablecoins, Apple Pay, and Google Pay- especially if they accelerate their dominance in mobile checkout, taking over 5% of PayPal’s branded transaction volume. If consumers start to bypass PayPal at checkout in favor of built in OS payment options or stablecoins, this serves as a huge disadvantage to PayPal. Additionally, if persistent high interest rates and weaker e-commerce growth occurs, this would pressure transaction volumes.



## Projections

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<b>Income Statement (\$mm)</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>CAGR%</b>
Revenue	31,797	33,100	36,378	39,854	43,525	11.0%
EBITDA	5,657	5,790	5,945	6,115	6,300	3.7%
EBIT	5,330	5,480	5,640	5,810	5,990	4.0%
NOPAT	4,148	4,314	4,412	4,515	4,624	3.7%
<b>Margin &amp; Growth Data</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>AVG%</b>
EBITDA Margin	17.8%	17.5%	16.3%	15.3%	14.5%	16.3%
EBIT Margin	16.8%	16.6%	15.5%	14.6%	13.8%	15.4%
Revenue Growth	6.8%	4.1%	9.9%	9.6%	9.2%	7.9%
EBIT Growth	6.0%	2.8%	2.9%	3.0%	3.1%	3.6%
<b>Valuation Metrics</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>AVG%</b>
P/FCF	30.5x	18.0x	15.3x	14.2x	13.2x	18.2x
EV/Sales	2.4x	2.3x	2.2x	2.0x	1.9x	2.2x
EV/EBITDA	13.7x	13.4x	10.5x	9.8x	9.2x	11.3x
FCF Yield	3.3%	1.2%	6.6%	7.1%	7.6%	8.1%

## About PayPal (\$PYPL)

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PayPal Holdings, Inc. (\$PYPL), founded in 1998, operates as a leading global digital payments platform. The company facilitates online money transfers and serves as an electronic alternative to traditional paper methods like checks and money orders. PayPal offers a range of services, including payment processing for online merchants, peer-to-peer payments (via Venmo and Xoom), and cryptocurrency transactions, supported by its robust two-sided network of consumers and merchants. With a presence in over 200 markets and support for 25 currencies, PayPal differentiates itself through its trusted brand, scalable infrastructure, and innovative fintech solutions. The company's key goal is to democratize financial services, enabling individuals and businesses to participate in the digital economy securely and efficiently.

## Disclosures & Ratings

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Consortium Equity Research does not hold any professional relationships with any reported equities.

**Overweight** means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

PayPal Holdings Inc	
Discounted Cash Flow	
Active Case:	2 Base
Current Share Price	\$74.17

DCF Analysis (\$mm)																
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	12/31/2030	12/31/2031	12/31/2032	12/31/2033	12/31/2034	12/31/2035
Stub						0.55	1.55	2.55	3.55	4.55	5.55	6.55	7.55	8.55	9.55	10.55
Discount Period						0.23	0.95	1.95	2.95	3.95	4.95	5.95	6.95	7.95	8.95	9.95
Revenue	21,454	25,370	27,520	29,771	31,797	33,100	36,378	39,854	43,525	44,511	47,816	51,312	55,015	58,928	63,063	67,417
Revenue Growth	0%	18%	8%	8%	7%	4%	10%	10%	9%	2%	7%	7%	7%	7%	7%	7%
Transaction Fees	19,918	23,402	25,206	26,857	28,842	30,000	32,400	34,956	37,675	40,563	43,628	46,876	50,313	53,947	57,783	61,828
Other Value Added Servi	1,536	1,969	2,312	2,914	2,955	3,100	3,320	3,518	3,727	3,948	4,188	4,436	4,702	4,981	5,280	5,589
NA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT	3,290	4,260	3,840	5,028	5,330	5,480	5,640	5,810	5,990	6,170	6,360	6,550	6,750	6,960	7,160	7,380
EBIT Margin	15%	17%	14%	17%	17%	17%	16%	15%	14%	14%	13%	13%	12%	12%	12%	11%
Tax Expense	863	(70)	947	1,165	1,182	1,166	1,228	1,295	1,366	1,438	1,515	1,563	1,613	1,665	1,715	1,770
Effective Tax Rate	26%	-2%	25%	23%	22%	21%	22%	22%	23%	23%	24%	24%	24%	24%	24%	24%
NOPAT	2,427.00	4,330.00	2,893.00	3,863.00	4,148.00	4,314.00	4,412.00	4,515.00	4,624.00	4,732.00	4,845.00	4,987.00	5,137.00	5,295.00	5,445.00	5,610.00
D&A	416	456	420	364	327	310	1,432	1,526	1,625	1,727	1,833	1,943	2,057	2,175	2,296	2,421
Capex	866	908	706	623	683	632	1,074	1,139	1,207	1,276	1,348	1,421	1,496	1,573	1,650	1,729
Changes in NWC	(1,310)	1,577	931	(322)	1,429	3,100	358	365	371	375	377	377	374	368	359	346
UFCF	3,287	2,301	1,676	3,926	2,363	892	4,727	5,088	5,471	5,877	6,305	6,758	7,234	7,736	8,262	8,815
PV of FCF						873	4,318	4,228	4,135	4,040	3,943	3,844	3,743	3,641	3,537	3,432

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	1.43
Risk Free Rate	4.39%
Cost of Equity	9.75%
Weighted Average Cost of Debt	3.00%
Tax Rate	20.00%
Cost of Debt	0.19%
Total Equity	\$71,831
Total Debt	\$5,168
Equity/Total Capitalization	92.20%
Debt/Total Capitalization	7.80%
WACC	9.94%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	\$8,815
Growth	2.10%
Terminal Value	\$112,466
PV of Terminal Value	\$43,792
PV of Projection Period	\$39,735
PV of Terminal Value	\$43,792
Implied TEV	\$83,527
(-) Debt	\$12,617
(+) Cash	\$7,449
Implied Equity Value	\$78,359
Basic Shares Outstanding	973
Implied Share Price	\$80.57
Upside/Downside	8.63%

Implied Exit BF EV/EBIT	11.3x
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$68.05
Upside/Downside	11.58%

Terminal Value	
Exit Multiple Method	
2034 EBIT	\$7,380
EV/EBIT Exit Multiple	11.0x
Terminal Value	\$81,180
PV of Terminal Value	\$31,610
PV of Projection Period	\$39,735
PV of Terminal Value	\$31,610
Implied TEV	\$71,345
(-) Debt	\$12,617
(+) Cash	\$7,449
Implied Equity Value	\$66,177
Diluted Shares Outstanding	973
Implied Share Price	\$68.05
Upside/Downside	-8.3%

Implied PGR	-14.0%
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