



# Square, Inc.

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Technology Sector



# Recommendation

- Trading at \$77.87
- My evaluation of square is \$83 (52 week avg)
- 6.2% undervalued
- Buy as long as its under \$83
- Target price: \$115
- The projection of revenue increase will drive the price up further



# Company Background

**Square, Inc:** Founded in 2009

**CEO:** Jack Dorsey- Co-founder and CEO of Twitter

- Peer to Peer payment company
- Owns Cash App (Mobile payments)
- Small business payroll service
- Integrated payment processing
- Installment payments
- Various products including reader, stand and register

# Investment Thesis



After evaluating SQ, we suggest the stock will **increase** over the next 6 months.

From Q2, 2017 to Q2, 2018

|                           |          |
|---------------------------|----------|
| Total Revenue             | ↑ 67.67% |
| Gross Profit              | ↑ 65.67% |
| Net Income                | ↑ 63%    |
| Cash Flow from Operations | ↑ 3.74%  |
| Cash Balance              | ↑ 52.77% |

## Percent of Revenue:

Transaction-based: **77%**

Subscription and services-based: **16%**

Hardware: **2.4%**

BitCoin: **4.6%**



# Investment Thesis

## Cost of Square Services:

- 2.75% for swipe
- (3.50% + \$0.15 manual)
- 1% for instant deposit
- Range of prices from \$5 to \$60



### Invoices

Bill customers from anywhere—invoices are free to send.

2.9% + 30¢



### Marketing

Create and send email and Facebook campaigns to targeted customer groups.

From \$15 /mo



### Loyalty

Create loyalty programs to keep customers coming back.

From \$25 /mo



### Square for Restaurants

Run your restaurant faster with a built-from-scratch platform of software, hardware, and payments.

From \$60 /mo



### Payroll

Payroll processing designed for hourly businesses.

From \$5 /mo



### Employee Management

Empower your employees and protect your business.

\$5 /emp./mo



### Gift Cards

Sell gift cards customized for your business.

From 80¢



### Square for Retail

Sell more and worry less with inventory, catalog, customer, and employee tools for retail.

From \$60 /mo

# Investment Thesis



## What Sets SQ Apart:

- Square has created an ecosystem for businesses
  - Uses readers to swipe magstripes, card chips and wireless transactions
  - Sells registers as well as stands for tablets
  - Allows consumers to pay with Cash App
  - Records data for businesses (Time cards, sales, expenses)
  - Provides ability for businesses to take out loans
- 1 of 9 companies certified to accept BitCoin
  - Provides another revenue stream

Square continues to innovate by introducing new products as well as services to increase their revenue while providing a simpler and more efficient way to run businesses of all sizes.

# Investment Thesis

Launched  
Oct. 2013



## Cash App

- 7 Million Users
- Introduced Cash Boost for Cash Card
- Consumers spent \$250M in June 2018, 3x that of December 2017

Monthly Customer Spend on Cash Card



Acquired  
Aug. 2014



## Caviar

- Allows businesses to add another source of revenue
- Makes online ordering easier on restaurants as well as customers
- Provides insurance to deliverers
- Acquisition of Zesty allows catering to corporate customers
- Has grown 100% YoY

Launched  
May 2018



## Square for Restaurants

- Easy to use interface to organize tables, make changes to menu, and accept transactions
- “Back of the house” functionality: revenue, cost reporting
- Only company that provides both the point of sale and the food delivery and pickup platform
- Square Payroll to pay employees.



# Recent Catalysts

- Square CEO Jack Dorsey sold \$10.1 million of SQ stock at \$97.67.
- On October 8, 2018, SQ dropped 8.5% from \$94 to \$86.
- This was due to a negative report being published by a very bearish analyst. The report centered its critique around Square's increasing dependence on credit exposure, evoked by Square Capital's announcement of Square Installments, a layover-like financing option.





# Future Catalysts

- Next earnings announcement is November 7, 2018.
- SQ sent on a 30% upsurge since beating last quarter's estimates announced August 1.
- Average earnings estimate of \$0.09, last quarter \$0.13
- Revenue guidance readjusted from \$3.03-3.09 billion to \$3.19-3.22 billion
- Currently experiencing a correction on a YOY 200% uptrend.



# Valuation

- EPS and Free Cash Flow
- Price/Earnings = (506.24)
- Price/Sales = 5.94

**Bullish Outlook:** Although EPS is negative, the gap has been shrinking. Square should break into positive EPS in the near future.



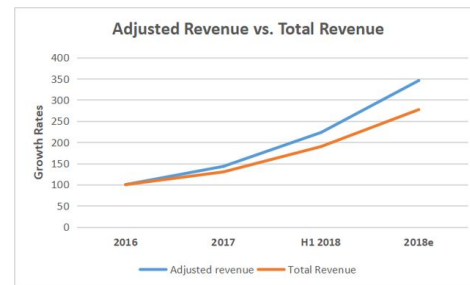
## Top risk factors include

1. *Being able to sustain growth levels*
2. *Competitors on all sides of business*
3. *The addition of “Square Installments”*

# Sustaining Growth Level



- When examining revenue growth rates, it is important to pay attention to the difference between adjusted revenue and total revenue.
  - *Adjusted revenue excludes transaction based costs, bitcoin costs, and adds back deferred revenue adjustment accounting.*
  - *Adjusted revenue has widely outpaced total revenue growth.*
- Basically, Square has benefited from declining transaction-based costs.
  - *As Square continues to grow, economies of scale will normally down transaction-based costs, aiding revenue growth.*
  - *But there will come a point where transaction-based costs reach a limit.*
- When this scenario arises, Square could expect to view a lowered growth rate for adjusted revenue, where growth is more similar to that of total revenue.



# Competition



- **Stripe**
  - Square's top competitor
  - Focus on online businesses compared to Square's core is more tailored for retailers and multichannel sellers.
- **Square Cash**
  - Venmo, Zelle, Facebook, Snap, Apple Pay, Google Pay, Amazon Pay
- **Mobile Credit Card Payments**
  - Paypal Here, Quickbooks Go Payment, Costco, Sam's Club
- **Amazon**
  - Have launched mPOS system in past.
  - "Amazon Lending"
  - With such a strong subscriber base, the fear is that Amazon may enter more avenues of business that could restrict Square in the future.



## Square Installments

- Credit Risk
  - Square very recently launched “Square Installments”, which is able to provide customers the ability to make large purchases and spread out the cost over monthly payments.
  - The annual percentage rates Square has on these loans are lower compared to others in this service.
  - Square sells the majority of these loans to investors
    - The fear here is the volatility of the credit markets and the potential impact that may play in negatively growth guidance