Paypal

Ticker: PYPL

Equity Valuation Report

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Recommendation: **HOLD** **Target Price:** **$50-55**

Stock Data

Price (USD)	56.56
52w Range	55.85 – 93.25
Mkt Cap (USD bn)	54.03
Avg Daily Vol	16,415K
Beta	1.287
Shares Out. (mn)	936.65
CEO	Alex Chriss
Employees	24400

Stock YTD

Company Overview

PayPal Holdings, Inc. stands as a dominant force in the **global fintech landscape**, dedicated to democratizing financial services and empowering both consumers and merchants through seamless digital payment solutions. Originally established in **1998** during the early internet boom and subsequently operating as a **subsidiary of eBay** until its strategic spinoff in 2015, the company has successfully transitioned into an independent giant with a market-leading position. PayPal operates a unique, massive two-sided global network that serves as a trusted bridge between the digital and physical economies, connecting hundreds of millions of active consumer accounts with millions of merchants worldwide. This closed-loop ecosystem allows the company to facilitate secure transactions across more than 200 markets and in numerous currencies, effectively eliminating friction in global commerce and enabling cross-border trade on an unprecedented scale.

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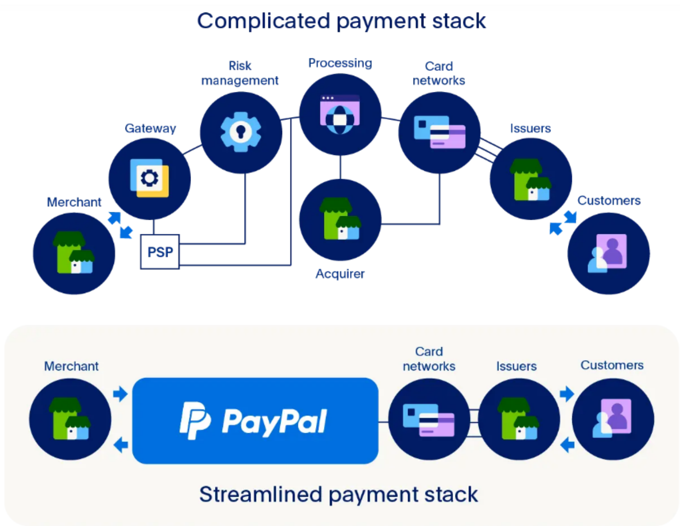
The PayPal ecosystem includes:

- PayPal Wallet (online and P2P payments);
- Venmo (social payments, primarily in the US);
- Braintree (payment service provider for large merchants);
- Xoom;
- Value-added services such as Buy Now Pay Later, express checkout, and solutions for SMBs.

The business model is primarily based on **transaction fees**, supplemented by ancillary services, and the management of customer balances. In 2024, PayPal generated approximately $31.8 billion in revenue, with a **strong capacity for free cash flow generation**, largely used for share buybacks.

After the sharp post-pandemic slowdown and the consequent compression of multiples, PayPal is today in a phase of strategic transformation. Under the leadership of new CEO **Alex Chriss**, the company is seeking to evolve from a simple payment processor to an integrated commerce platform, focusing on the revitalization of branded checkout (Fast Lane), integration into the AI ecosystem, and "agentic commerce."



Qualitative Analysis

Porter's Five Forces

To better understand PayPal's competitive positioning and the market dynamics influencing its profitability, we have applied Porter's Five Forces model. This tool allows us to analyze the key external factors that can impact the sustainability of the competitive advantage in the medium-to-long term:

Threat of new entrants – Risk level: MEDIUM

- Moderate technological barriers: creating a wallet or a payment service is relatively simple.
- High barriers to scale: replicating PayPal's global network requires time, capital, and trust.

- Network effects: the more users and merchants use PayPal, the greater the value of the platform.

Bargaining power of suppliers (networks, banks, merchants) – Risk level: n.a.

- PayPal depends on payment networks (**Visa, Mastercard**) and banking partners. However, in light of the recent approval of the banking license, it is difficult to express an opinion.

Bargaining power of customers – Risk level: HIGH

- Low switching costs: consumers can easily switch providers.
- Widespread alternatives: other solutions exist such as cards, wallets, or BNPL.
- UX (user experience): users are sensitive to friction in the checkout and/or promotions.

Threat of substitute products/services – Risk level: HIGH

- "Substitute" risks: direct card payments, proprietary wallets (**Apple Pay, Google Pay**) and/or competing BNPL solutions.
- "Commodity" risk: PayPal is increasingly perceived as a "commodity," which is why the company needs to evolve towards an ecosystem.

Rivalry among existing competitors – Risk level: VERY HIGH

- Intense and global competition: **Stripe, Adyen, Block, Shopify Payments, Apple, Google.**
- Competition on price, margins, and integration.

However, PayPal maintains a global scale, a recognized brand, and proprietary data on purchases.

Q3 Earnings Analysis

Q3 2025 marks a **return to growth** for PayPal after a transition period, with numbers showing a **clear improvement in profitability and cash generation**. Revenues grow by 7% YoY, while EPS accelerates by 32%, confirming the effectiveness of the new price-value strategy, oriented toward less low-margin volume and better-remunerated transactions.

The figure that may appear weaker is the decrease in payment transactions (-5%) and TPA (-6%). However, this is a **deliberate consequence of management's choices**: PayPal has in fact reduced exposure to the "poor" transactions of the PSP/Braintree business, characterized by high volumes but very low margins. The "clean" data is clear: excluding the PSP, TPA grows by 5%, signaling **greater usage by core users**.

PayPal Q3 '25 Key Data

KPI Income Statement (mln $)

- Net revenues: $8,417 (+7% YoY)
- Operating income: $1,500 (+9% YoY)
- EPS: $1.30 (+32% YoY)
- Transaction margin: +6-7% YoY

Key Platform Performance

- TPV (Total payment volume): $458.1 bn (+8% YoY)
- Payment transactions: 6.33 bn (-5% YoY)
- Active accounts: 438 mln (+1% YoY)
- TPA (Payment transactions per active account): 57.6 (-6% YoY)
- TPA ex-PSP: +5% YoY

Discounted Cash Flow (DCF) - Valuation

Key Assumptions

For Paypal valuation, the **Discounted Cash Flow** (DCF) method was adopted, as it allows estimating the intrinsic value of the company based on its ability to generate future cash flows. This valuation approach is particularly suitable for PayPal, given its mature business profile, consistent free cash flow generation, and scalable global ecosystem
.

WACC was estimated as the weighted average between the cost of equity and the cost of debt, net of the tax effect. Regarding the financial structure, the current Debt/Equity ratio was used, under the assumption that it represents the company's target capital structure going forward.

The **cost of equity** (Ke) was determined using the Capital Asset Pricing Model (CAPM), using the current **10-year US Treasury bond yield** (4.15%) as the risk free rate, which represents the standard market benchmark for US listed companies.

Estimating a 5y **beta** of 1.287, already adjusted with the **Blume's approach** in order to forecast Paypal's future beta by correcting the historical beta to account for the natural tendency of betas to revert towards the market average. For the **Equity Risk Premium** (ERP), data published by Aswath Damodaran (NYU Stern School of Business) were used, specifically the value relating to United States.

Paypal's cost of debt (Kd) was estimated using bonds issued directly by the company, maturing in 2035, consistent with the time horizon of the other data used in the WACC calculation . The yield to maturity (YTM) of these bonds is 4.78%; this figure is consistent with the yield of **Single-A US corporate bonds** (4.75%).

For the five-year explicit forecast period, the **tax rate** assumption follows a linear convergence approach. The model utilizes an **initial rate of 22%**, consistent with the current effective tax rate disclosed in PayPal's latest Form 10-K filing. Over the projection period, the tax rate is assumed to rise incrementally, **stabilizing at a marginal rate of 25%** for the Terminal Value calculation and the Weighted Average Cost of Capital (WACC). This long-term target aligns with the aggregate U.S. statutory data provided in A. Damodaran's 'Effective Tax Rates by Industry' dataset and KPMG's 'Corporate Tax Rate Tables'.

	Discount Rate - WACC	
	Risk-free rate - T-Bond 10yrs	4.15%
	Equity Risk Premium	4.33%
	Beta	1.29
	Average D/E	0.22
	Corporate Tax Rate	25.0%
A	Ke - Cost of Equity	9.7%
B	Kd - Cost od Debt	3.6%
	Expected D/E	0.22
	D/(D+E)	17.7%
	E/(D+E)	82.3%
	Corporate Tax Rate	25.0%
C	WACC	8.64%

Figure 1: WACC Calculation

Following the determination of WACC, the valuation was carried out by projecting **Free Cash Flows to Firm** (FCFF). In line with recent management guidance and quarterly trends, a **conservative approach** was adopted for revenues estimates.The model assumes single digit growth while maintaining current operating margins, reflecting the company's transition into a **mature stage** where the management's strategy prioritizes returning capital to shareholders as as a primary driver of value creation.

FCFO	2025E	2026E	2027E	2028E	2029E	2030E
Operating Free Cash Flow	2,644.27	4,739.95	4,953.08	5,241.34	5,473.49	5,788.42
Discount Rate	0.98	0.90	0.83	0.76	0.70	0.66
***V* Operating Free Cash Flow**	2,590.08	4,273.77	4,110.94	4,004.40	3,849.37	3,825.67
Terminal Value(t5)	-	-	-	-	-	**104,597.84**
V Terminal Value (t5)	69,130.50	-	-	-	-	-
Enterprise Value(t0)	91,784.72	-	-	-	-	-
Debt (t0)	46,032.00	-	-	-	-	-
Equity Value (t0)	**45,752.72**	-	-	-	-	-

Figure 2: FCFF Calculation

The **Terminal Value** was calculated using the perpetual growth model, with a **long-term growth rate** (g) of 3%. This assumption is supported by the ongoing secular shift towards digital payments and PayPal's entrenched two-sided network effects (merchants and consumers). These structural drivers allow the Company to capture value from global e-commerce expansion, justifying a growth rate that aligns with, or marginally exceeds, the nominal GDP growth of mature economies.

From the model, it emerges that **PayPal's Enterprise Value stands at around $91.8 billion**. Considering a **net debt position of approximately $46.0 billion**, we obtain a **total Equity Value of approximately $45.8 billion**. On a base of 935.65 million shares outstanding, the **estimated intrinsic value per share is $48.90**. Based on these results, although this figure is well below the current market price of $56.56, we maintain a **HOLD** rating, justified by the company's qualitative strengths and structural solidity.

Final Recommendation

Our valuation analysis points to a **fair value range of $50-$55**, which is below the current market price. Despite this, we maintain a **HOLD rating** as the company demonstrates fundamental solidity. Indeed, we believe that the current business phase does not justify assumptions of structurally high growth, considering the maturity of the digital payments sector and the progressive trend toward the commoditization of the service.

The valuation is based on a **conservative reading of fundamentals**, which incorporates moderate revenue growth and a gradual improvement in profitability, without assuming a structural change in the company's growth profile. In this context, the appreciation potential linked solely to business expansion appears limited.

However, the reasons for our rating lie primarily in the **ualitative turnaround of the operating model**, supported by solid Free Cash Flow generation and a **structural buyback program**, which represent the main driver of shareholder value creation in the medium-to-long term."

Final Rating	**Target Price**
HOLD	USD 50-55

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