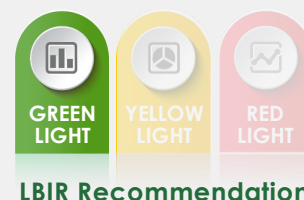


SQUARE INC.

(TICKER: SQ)



Stock Price: \$141.96 (8/14/20)	Company Size: \$62.9B	Author: Garvit Bahndari
Company Rank: 3.0	Sector: Technology	Industry: FinTech

Square Inc. is a provider of credit card payment processing solutions. The company provides Point-of-sale (PoS) hardware and software solutions and has also expanded into financial and marketing services for merchants.

IN THIS FRESH LOOK WE'LL COVER:

► Summary of the Business

Square provides payment acquiring services to merchants, along with related services. The company also launched Cash App, a P2P payment network.

► Recent Developments

The seller ecosystem has been impacted due to COVID-19, while Cash App ecosystem delivered a very strong Q2. The July trends suggest the worst could be behind.

► Competitive Environment

We think Square has strong competitive positioning relative to its peers driven by its ecosystem that extend beyond payments and strengthens its value proposition.

► Conclusions/Recommendations

Square is a fast-growing, highly scalable business, addressing a large market with significant growth potential.



Grab-and-Go™ THESIS

An investment in Square is a play on the intersection of payments and technology in attractive market segments such as SMBs, ecommerce and omnichannel. Square's ecosystem of services that extends beyond payments strengthens its value proposition. Prospect for new product launches & continued new customer additions are supportive of future growth.

Data as of 8/14/20 unless specified

Enterprise Value:	61.2B	Market Cap:	62.9B	Revenue Fwd (TTM):	\$6.8B (\$5.8B)
YTD Return:	126.9%	Fwd (TTM) Price/Sales:	9.1x (11.3x)	RSI:	61.2
Gross Margin (TTM):	36.7%	Revenue Growth (TTM, YoY):	49.0%	ROIC (TTM):	(4.0)%
52-Week High:	158.43	52-Week Low	32.33	200-day Moving Avg.	86.2
EBITDA	39M	CFO	148M	FCF	59M

Insider Transactions (2020): Insiders sold ~366k shares YTD

SUMMARY OF BUSINESS

Square Inc. is a provider of credit card payment processing solutions. The company provides Point-of-sale (PoS) hardware and software solutions and has also expanded into financial and marketing services for merchants. It provides an entire ecosystem for merchants to run and grow their business. Beyond merchant payments and services, Square has also expanded into consumer payments with the Cash app product, which is a digital wallet allowing consumers to manage their money.

Today, Square has built an ecosystem of both seller and consumer products and services, expanding well beyond payments.

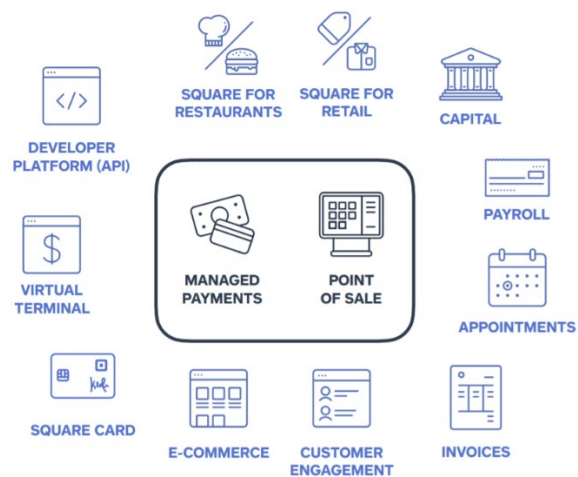
Seller Ecosystem: comprises 30 distinct products and services available to sellers to help them manage their business. This includes offerings such as:

Square Capital: offering business loans;

Square Online Store: helping sellers to build online store,

Square for Retail: tailored for sellers in retail industry

Square for Restaurants: tailored for full-service restaurants



Sellers

Source: [Company Presentation](#)

Cash App Ecosystem: Within the Cash App, it provides an ecosystem of financial products and services that helps individuals manage their money. Cash App products include peer-to-peer payments, Cash Card, Boost, stock brokerage, bitcoin investing, and direct deposit. Cash Card is a debit card that is linked directly to a customer's Cash App balance. Customers can also use Cash

App to invest their funds in US stocks and exchange-traded funds (ETFs) or buy and sell Bitcoin. As of June 2020, Cash App had ~30 million monthly active customers.



Source: [Company Presentation](#)

Square reports revenue in four key buckets, Transaction-based, Subscription- and services-based, Hardware, and Bitcoin.

Transaction revenue: comprises fees charged to sellers for the payments solution. It is calculated mainly as a percentage of the payment volumes processed.

Subscription & services: comprises both seller and consumer services. This includes revenues from Instant Deposit, Square Capital, Cash Card, Square Appointments, Payroll etc.

Hardware: comprises revenue from sale of hardware such as chip readers, Square Stand, Square Register, Square Terminal etc.

Bitcoin: revenue is recognized when customers purchase bitcoin and it is transferred to the customer's account.

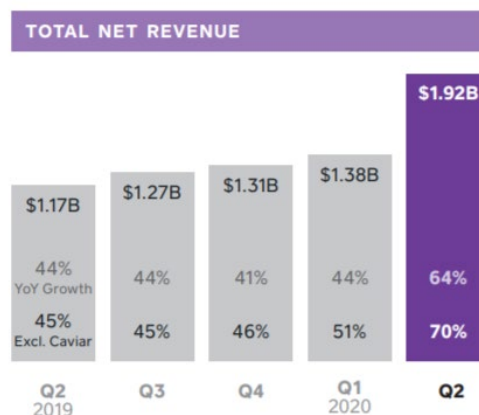
Square remains a predominantly US-based business, with ~95% of revenue coming from the home market. Square receives ~5% of revenue from International, which currently is made up of

businesses in Canada, Japan, Australia, and the UK.

The company's addressable markets are large and growing. The seller ecosystem in the US is ~\$85 billion opportunity currently and is expanding further with new products and use cases. The Cash App ecosystem represents ~\$60 billion opportunity in the US currently with multiple vectors for future growth. SQ has <3% penetration in the seller ecosystem and <2% in the Cash App, leaving significant runway for growth.

RECENT DEVELOPMENTS

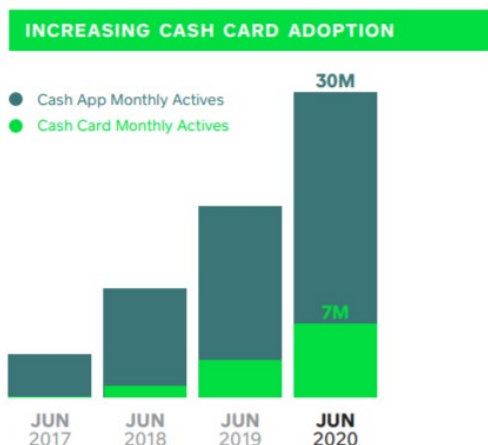
SQ reported better-than-expected Q220 results beating street estimates. Overall, net revenue stood at \$1.92 billion in Q2 2020, up 64% YOY basis driven by strong performance of Cash App (+361% YOY), partially offset by weakness in Seller ecosystem (down 17% YOY). Gross profit was \$597 million in Q220, up 28% YOY or 32% (excluding Caviar which was sold in Q419). Adjusted EBITDA was \$98 million in Q220, compared to \$105 million in Q219. The decrease was driven primarily by a slowdown in Seller revenue. Adjusted EPS was \$0.18.



Source: [Company data](#)

Cash App: delivered a very strong quarter, generating \$1.20 billion of revenue and \$281

million of gross profit, which increased 361% and 167% YOY, respectively. As of the end of Q220, Cash App had more than 30 million monthly transacting active customers, with more than 7 million using Cash Card (up ~2x YOY).



Source: [Company data](#)

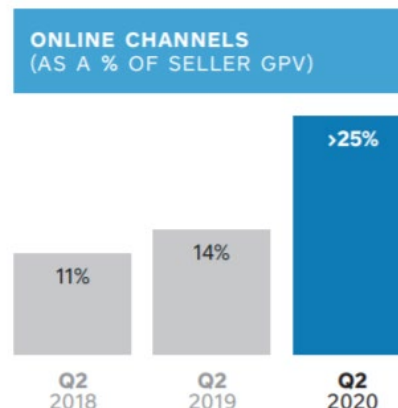
In Q2, active Cash App customers transacted more than 15 times per month on average, an increase of ~50% from a year ago period. Cash App engagement also benefitted from disbursements of the CARES Act stimulus programs and unemployment benefits, including many customers who direct deposited these payments into their Cash App accounts.

Cash Card spend was resilient during the first half of 2020, despite the impact of COVID-19. While other major issuers on average reported a 8% decline (QoQ) in card spend during Q220, Cash Card spend increased ~50% QoQ.

Seller ecosystem: generated \$723 million of revenue and \$316 million of gross profit, down 17% and 9% YOY, respectively. During Q2, GPV growth in the Seller business declined YOY but improved sequentially each month from April through June. The improvement was driven by a combination of states relaxing shelter-in-place restrictions, sellers adapting to contactless commerce, new sellers joining Square, and an

increase in consumer spending due to government disbursements.


GPV from online channels was up more than 50% YOY and accounted for more than 25% of total Seller GPV.



Source: [Company data](#)

July Trends Strong: The company saw impressive growth in Cash App and signs of stability on the Seller ecosystem. In July, Seller GPV was up 5% YOY. Cash App reported 200% YOY increase in gross profit during July driven by new customer additions and increase in new product adoption. We think that the government stimulus programs contributed to a large part of the growth and these levels are unlikely to sustain as it is rolled back.

Sales & marketing spend to trend higher: SQ noted that it plans to invest incremental \$100 million in Q3, with majority of it being allocated to sales and marketing to acquire new customers and gain market share.



LB•LOGIC SQ is seeing continuous improvement across both – Cash App and Seller ecosystems highlighted by strong new customer acquisitions



COMPANY MANAGEMENT

The business was founded by Jack Dorsey (who currently serves as CEO) and Jim McKelvey. Mr. McKelvey who ran a glass business was missing out on sales because he was not accepting cards. The idea of Square was born out of this problem, at first aiming to allow small businesses to accept payments via their mobile phones. Mr. McKelvey is no longer involved in day-to-day operations of the company but continues to remain on Board.

[Jack Dorsey](#) is the co-founder of the company and has been the company's CEO since inception in 2009. Interestingly, Jack Dorsey also serves as the CEO of Twitter Inc. He splits his time equally between the two companies.

[Amrita Ahuja](#) has been the CFO of Square since 2019. Previously, she was the CFO of Blizzard Entertainment and has held various leadership positions at Fox Networks Group, the Walt Disney Company and Morgan Stanley.



COMPETITIVE ENVIRONMENT

The company faces strong competition in both the Seller as well as Cash App ecosystem. In the Cash

App segment, the main competitors are: PayPal Holdings (Venmo App), Apple Pay, Google Pay. Seller ecosystem faces intensifying competitive landscape from incumbents launching similar products and moving up market into larger merchants. This includes Fiserv (Clover), GPN (Vital) and PayPal (iZettle).

Square's emphasis on developing an ecosystem of services beyond just payments expands its value proposition compared to traditional competitors which focus mainly on payments. The company's full-service offerings makes it easier for sellers to implement compared to installing systems from multiple vendors. The multiple offerings beyond payments increases engagement and improves retention.



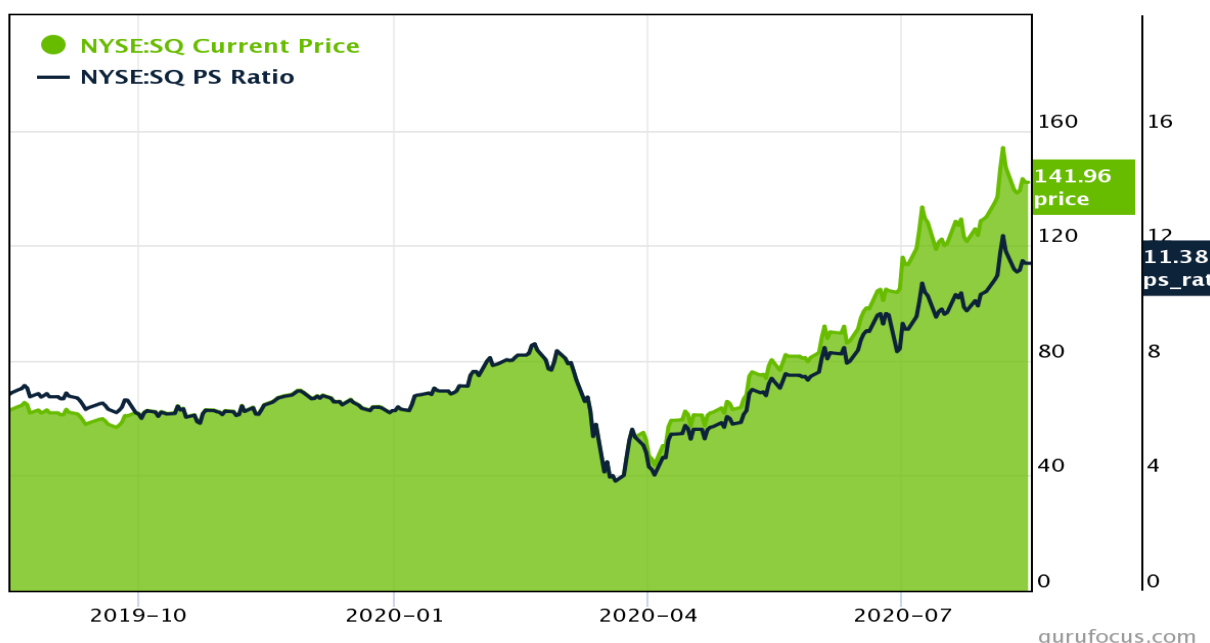
LB•LOGIC We think Square has strong competitive positioning relative to its peers. This is driven by Square's ecosystem that extend beyond payments and strengthens its value proposition.

 **CONCLUSION / RECOMMENDATION**

The combination of strong July trends (Cash App gross profit >+200%) and prospect for new product launches & continued new customer additions are supportive of growth. The company's ecosystem of offerings beyond

payments provides significant competitive advantage. SQ has <3% penetration in the seller ecosystem and <2% in the Cash App, leaving significant runway for growth. The company is trading at ~11.3x TTM sales which is almost in line with its nearest competitor PayPal (~11.8x). We assign a **GREEN LIGHT** rating to SQ.

Stock Chart for Square Inc. (SQ)



Performance Data

	2014	2015	2016	2017	2018	2019
RETURN ON INVESTED CAPITAL (%)	NA	-100.4%	-79.3%	-16.8%	-4.7%	2.0%
GROSS MARGIN (%)	NA	29.2%	33.7%	37.9%	39.5%	40.1%
EARNINGS (MILLIONS USD)	NA	(212.0)	(171.5)	(62.8)	(38.4)	375.4
YoY Earnings Growth (%)	NM	NM	-19%	-63%	-39%	NM
REVENUE (MILLIONS USD)	NA	1,267	1,709	2,214	3,298	4,713
YoY Revenue Growth (%)	NM	35%	35%	30%	49%	43%

Valuation Data

	2014	2015	2016	2017	2018	2019
SHARE PRICE (USD)	NA	13.09	13.63	34.67	56.09	62.56
SHARES OUTSTANDING (MILLIONS)	NA	170.5	341.6	379.3	405.7	425.0
MARKET CAP (MILLIONS USD)	NA	2,232	4,655	13,152	22,757	26,588
PRICE/SALES RATIO	NA	1.8	2.7	5.9	6.9	5.6

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