

BLOCK

NYSE: SQ

Recommendation: **BUY**

Price Target: \$150

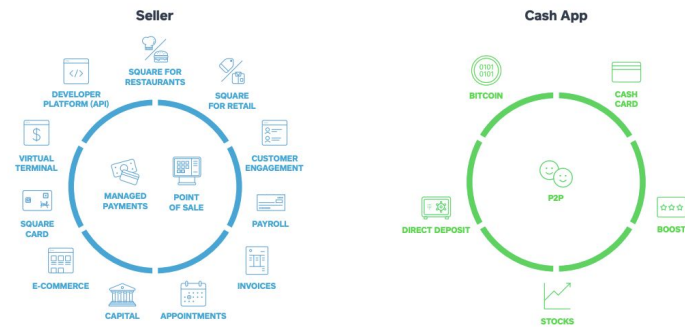
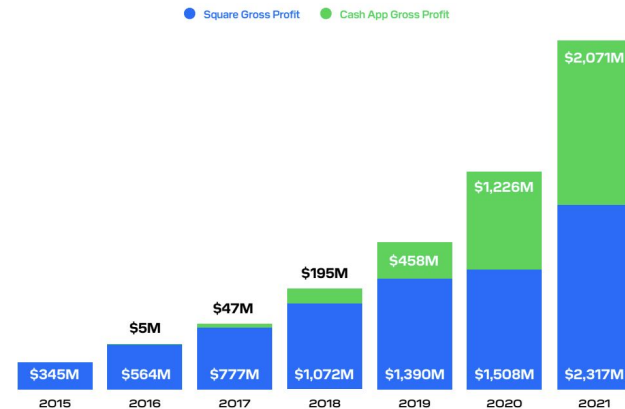
Fintech Group Stock Pitch



Company Overview

A Growing Company...

- Global leader as a **financial services** and **online payments** company
 - Both software and point-of-sale hardware tools with **44 million monthly average users**
 - Increase 47% YOY with **\$1.18 billion** in gross profit
- Owns subsidiaries fintech businesses (Square, Cash App, Afterpay, Weebly, TIDAL)
- Developing two main ecosystem: **Square** (Seller) and **Cash App** (Consumer)
- Spearheading into the **crypto and digitized asset** platform and trading
- Key statistics:
 - Market cap = \$68.86 billion
 - Expected growth = 21% per year
 - Share Price = \$101.13



2022 Industry Outlook

Significant Market Opportunities

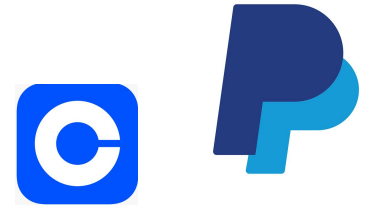
- Market Expected Value in 2025: **\$305 Billion** with a growth of **20%** over the next four years
- Boosted during **COVID** and **Ukraine Conflict**
 - Increase of fintech acquisitions and partners across industries
- Low crypto prices from tighten monetary policy by the Federal Reserve and laggard recovery in the job market
 - Expected to **rise above \$100,000**
- Growing technology in the industry: Blockchain, Data Analytics, Robotic Process Automation → increase **TRUST, ACCESS, CONVENIENCE**



Market Competition

Growing Competition

- Biggest competition are **well-developed fintech companies**
 - PayPal Holdings, INC. (PYPL), Intuit INC. (INTU), Shopify Inc. (SHOP)
- Facing fierce competition from both the technology, banking, and crypto-exchanges sectors
 - **Mainstream banks** with fintech inspired services: Capital One, Bank of America Corps.
 - **Tech Giants with IoT products** (hardware products): Apple, Google
 - **Crypto-based platforms** (bitcoin trading function on Cash App): Binance, Coinbase
- Avenues of Competition:
 - **Customer bases:** retention, trust, and word-of-mouth (particularly for the Cash App ecosystem)
 - **Lower fees** for faster, safer, and personalized services
 - Development of **new, accessible, easy-to-use digital products**



intuit.



Investment Recommendation

Buy Recommendation with a \$150 Price Target

- **Underappreciated by investors:** We believe that the $\approx 62\%$ drop in price since August 2021 occurred mostly due to investors distaste for growth/high tech stock in the increasing interest rates environment, but that drop has not been reflected in fundamentals
- **Economic moat:** SQ owns platforms that dominate the space; CashApp has more than 44M active monthly users (increase of $\frac{1}{5}$ from a year earlier)
- **Strong forward guidance:** SQ is projected to surpass \$40B in revenue by 2026 and should be able to effectively transfer that value into high generated cash flow
- **Leader in the crypto space:** SQ holds over \$170M in BTC and can substantially benefit from its crypto investments in the near future



Catalysts

Unique market opportunity

- Fast, yet steady growth with increasing revenue
 - 50% six-year compounded annual growth rate
 - **\$2,317M** from Square + **\$2,071M** from Cash App
 - Expected **Growth of 57.72%** in its 12-months stock price forecast
- Growing two, huge financial ecosystems: **diverse consumer in various industries**
- **New innovations:** improving, provide autonomy, and appropriate additions
 - Next generation of Square stand, Square Photo Studio app, Cash App tax refund
- **Long-term partnership** with large, well-established business
 - Groupon, shopify, LegalZoom
- **Strong Customer Base** on Cash App:
 - 44 million transacting customers
 - low customer acquisition costs
 - 37% increase in gross profit
- Development of **Bitcoin trading** and activity space through Cash App



Risks

Potential Investment Risks

- Square-based products are still **very US-centric** (\$85 million in US vs. \$16 million in international) → **regulatory concerns**
- Almost 50% of revenue is from Cash App, **unsuccessful acquisitions** of other businesses?
- Majority of customers who are using financial services are for **transactions rather than spending and investing** (increasing lower customer growth margins)
- Mostly working with larger business (beyond micro-sized, >250K) → **lost of growth opportunity**
- **Lack of Crypto-diversity** and delving into highly saturated cryptocurrency market



Financial Evaluation: DCF

	Period #		1	2	3	4	5
DCF	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	9,497.58	17,661.20	19,074.10	23,461.14	29,326.42	38,916.16	40,861.97
<i>% growth</i>		85.95%	8.00%	23.00%	25.00%	32.70%	5.00%
EBIT	(18.82)	232.24	320.07	580.16	1202.38	2373.89	4535.68
<i>% growth</i>		-1334.01%	37.82%	81.26%	107.25%	97.43%	91.07%
Tax	0.23	2.00	16.00	43.51	90.18	189.91	362.85
<i>% tax rate</i>	-1.23%	0.86%	5.00%	7.50%	7.50%	8.00%	8.00%
EBIAT	(19.05)	230.24	304.07	536.65	1,112.20	2,183.98	4,172.83
Capex	138.4	134.32	143.06	175.96	263.94	389.16	408.62
<i>As % of Revenue</i>	1.46%	0.76%	0.75%	0.75%	0.90%	1.00%	1.00%
D&A	45.17	60.48	14.31	19.36	31.67	50.59	57.21
<i>As % of Capex</i>	32.64%	45.03%	10.00%	11.00%	12.00%	13.00%	14.00%
Change in NWC	549.4	381.22	381.48	516.15	645.18	1,167.48	1,225.86
<i>As % of Revenue</i>	5.78%	2.16%	2.00%	2.20%	2.20%	3.00%	3.00%
FCF	(661.68)	(224.82)	(206.17)	(136.10)	234.76	677.92	2,595.55
PV of FCF			(193.58)	(119.99)	194.34	526.97	1,894.44

Assumptions

Ticker	SQ
Currency	USD
WACC	6.50%
TGR	3.75%

Terminal Value	97,923.16
PV of TV	71,472.24
Enterprise value	73,774.41
Net Debt	203.29
Equity Value	73,571.12
Shares outstanding	501.78
Implied Share Price	146.62



Financial Evaluation: Comps Analysis

Company	Ticker	Price	EPS	EV	EBITDA	P/E	EV/EBITDA
Visa	V	201.10	1.79	425,301.72	17,540.00	112.35x	24.25x
Mastercard	MA	344.11	8.40	359,012.60	10,930.00	40.97x	32.85x
IBM	IBM	136.19	1.40	164,020.85	13,740.00	97.28x	11.94x
Fiserv	FISV	96.10	5.58	89,600.50	5,650.00	17.22x	15.86x
Global Payments	GPN	131.05	8.16	49,386.27	3,230.00	16.06x	15.29x
Block	SQ	100.47	1.79	74,839.11	336.80	56.13x	222.21x
Mean						56.77x	20.04x
Median						40.97x	15.86x
P/E							
Implied Share Price	101.63						
EV/EBITDA							
Implied EV	6,748.12						
Net Debt	-294.7						
Equity Value	7,042.82						
Shares Outstanding	464.944						
Implied Share Price	15.15						



ESG Evaluations

Favorable ESG rating, leader in increasing access to finance

- **SQ holds an A ESG rating** on the MSCI scale, mainly backed by its commitment to human capital development, privacy & data security, and increasing access to finance for those unbanked
- **Increased community advocacy** to help covid-impacted local businesses : reducing barriers into tech and financial inclusion
- **+\$500 million social focused investment** for racial equality in financial industries
- Goal of **net zero carbon for operation by 2030 + investment in clean energy** with P-RECS and **removed 27,028 metric tonnes of carbon** through supported projects
- ESG risks include use of **proof of work consensus** mechanism crypto assets, lack of decarbonization target

ESG

MSCI ESG RATINGS

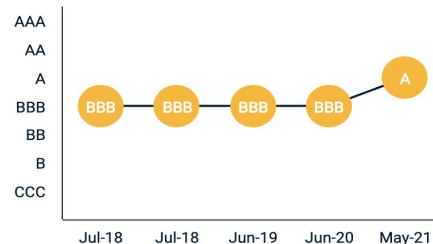


Square is **average** among 149 companies in the **software & services industry**.



ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.



References

References

- <https://investors.block.xyz/news/news-details/2022/Square-Introduces-the-Next-Generation-of-Square-Stand/default.aspx>
- <https://investors.block.xyz/overview/default.aspx>
- <https://time.com/nextadvisor/investing/cryptocurrency/bitcoin-crash-continues/>
- <https://www.investopedia.com/how-square-makes-money-4801197>
- <https://www.reuters.com/markets/companies/SQ/>
- <https://www.insiderintelligence.com/insights/fintech-ecosystem-report/>
- https://s29.q4cdn.com/628966176/files/doc_financials/2021/q4/4Q21-Shareholder-Letter_Block.pdf
- https://s29.q4cdn.com/628966176/files/doc_financials/2021/q4/Block-Investor-Presentation-December-2021.pdf
- https://s29.q4cdn.com/628966176/files/doc_downloads/Investor-Update-March-2020.pdf
- https://s29.q4cdn.com/628966176/files/doc_downloads/2022/03/Block-2021-Corporate-Social-Responsibility-Report.pdf



Appendix

Income Statement Projection

Block Inc. (SQ)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022E	FY 2023E	FY2024E	FY2025E	FY2026E
Income Statement									
Revenues	3,298.18	4,713.50	9,497.58	17,661.20	19,074.10	23,461.14	29,326.42	38,916.16	40,861.97
% Change YoY	49.00%	42.90%	101.50%	86.00%	8.00%	23.00%	25.00%	32.70%	5.00%
Cost of Goods Sold	(1,987.39)	(2,823.82)	(6,764.17)	(13,241.38)	(14,305.57)	(17,595.85)	(21,115.02)	(27,241.31)	(26,560.28)
As % of revenue	60.26%	59.91%	71.22%	74.97%	75.00%	75.00%	72.00%	70.00%	65.00%
Gross Profit	1,310.79	1,889.69	2,733.41	4,419.82	4,768.52	5,865.28	8,211.40	11,674.85	14,301.69
% Change YoY	55.00%	44.20%	44.60%	61.70%	7.89%	23.00%	40.00%	42.18%	22.50%
% Gross Margins	39.70%	40.10%	28.80%	25.00%	25.00%	25.00%	28.00%	30.00%	35.00%
Selling General & Admin Expenses	(750.40)	(1,062.00)	(1,688.87)	(2,600.52)	(2,746.67)	(3,378.40)	(4,223.00)	(5,603.93)	(5,884.12)
As % of revenue	22.75%	22.53%	17.78%	14.72%	14.40%	14.40%	14.40%	14.40%	14.40%
R&D Expenses	(497.48)	(674.17)	(885.68)	(1,399.08)	(1,716.67)	(1,876.89)	(2,346.11)	(3,113.29)	(3,268.96)
As % of revenue	15.08%	14.30%	9.33%	7.92%	9.00%	8.00%	8.00%	8.00%	8.00%
Amortization of Goodwill and Intangible Assets	(11.45)								
Other Operating Expenses	(88.08)	(126.96)	(177.67)	(187.99)	(286.11)	(351.92)	(439.90)	(583.74)	(612.93)
As % of revenue	2.67%	2.69%	1.87%	1.06%	1.50%	1.50%	1.50%	1.50%	1.50%
Sum of Other Op Expenses	(1,347.40)	(1,863.13)	(2,752.22)	(4,187.59)	(4,749.45)	(5,607.21)	(7,009.02)	(9,300.96)	(9,766.01)
Operating Income (EBIT)	(36.61)	26.56	(18.82)	232.24	19.07	258.07	1,202.38	2,373.89	4,535.68
% Change YoY	32.50%	172.50%	-170.80%	1334.30%	-91.79%	1253.00%	365.91%	97.43%	91.07%
% Operating Margins	-1.10%	0.60%	-0.20%	1.30%	0.10%	1.10%	4.10%	6.10%	11.10%
Interest Expense	(36.88)	(44.25)	(74.06)	(53.96)	(95.37)	(117.31)	(146.63)	(194.58)	(204.31)
As % of revenue	1.12%	0.94%	0.78%	0.31%	0.50%	0.50%	0.50%	0.50%	0.50%
Interest And Investment Income	18.90	22.73	17.11	20.84	19.07	23.46	29.33	38.92	40.86
As % of revenue	0.57%	0.48%	0.18%	0.12%	0.10%	0.10%	0.10%	0.10%	0.10%
Other Non Operating Income (Expenses)	(1.87)	12.05	(3.57)	(18.42)					
EBT Excl. Unusual Items	(56.47)	17.09	(79.33)	180.70					
Gain (Loss) On Sale Of Investments	20.34	(12.33)	295.30	47.89					
Gain (Loss) On Sale Of Assets		373.45							
Asset Writedown				(71.13)					
EBT Incl. Unusual Items	(36.13)	378.21	215.97	157.46	(57.22)	164.23	1,085.08	2,218.22	4,372.23
Income Tax Expense	(2.33)	(2.77)	(2.86)	1.36	(2.86)	16.42	108.51	221.82	874.45
% Tax Rate	6.45%	-0.73%	-1.32%	0.86%	5.00%	10.00%	10.00%	10.00%	20.00%
Net Income to Company	(38.45)	375.45	213.11	158.83	(54.36)	147.81	976.57	1,996.40	3,497.78



EPS / Net Income Projection

Net Income to Company	(38.45)	375.45	213.11	158.83	(54.36)	147.81	976.57	1,996.40	3,497.78
Minority Interest				7.46					
Net Income	(38.45)	375.45	213.11	166.28	(54.36)	147.81	976.57	1,996.40	3,497.78
Basic EPS	(0.09)	0.88	0.48	0.36	(0.12)	0.30	1.95	3.87	6.58
Diluted EPS	(0.09)	0.81	0.44	0.33	(0.11)	0.28	1.78	3.53	6.01
<i>% Change YoY</i>	44.30%	954.70%	-45.70%	-25.00%	-131.87%	-363.98%	541.47%	98.48%	70.10%
Diluted Shares Outstanding	405.73	466.08	482.17	501.78	516.83	532.34	548.31	564.76	581.70
<i>% Change YoY</i>	7.00%	14.90%	3.50%	4.10%	3.00%	3.00%	3.00%	3.00%	3.00%
Average Basic Shares Outstanding	405.73	425	443.13	458.43	472.18	486.35	500.94	515.97	531.45
<i>% Change YoY</i>	7.00%	4.70%	4.30%	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%

DCF Sensitivity Analysis

97.12	5%	6%	7%	8%	9%	WACC
3.00%	185.08	118.07	84.73	64.85	51.69	
3%	211.80	128.99	90.51	68.37	54.02	
3.50%	247.44	142.09	97.12	72.28	56.57	
4%	297.33	158.10	104.75	76.65	59.36	
TGR						

