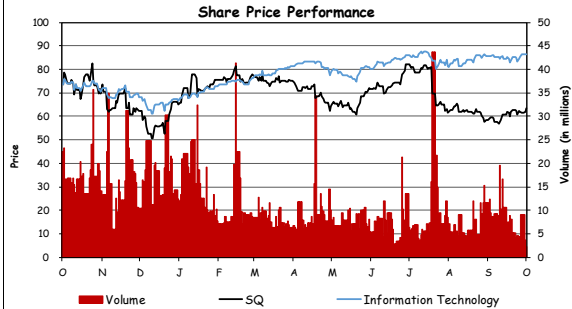


Symbol:	SQ
Analyst:	Stephen Clarke
Buy below:	\$85.02
Sell above:	\$121.07
Probability of Price Increase:	90%
Last Price:	\$63.59
Intrinsic Value:	\$96.86
Target Dividends:	\$0.00
Target Price:	\$106.27



<b>Description</b>	
Square, Inc. provides payment and point-of-sale solutions in the United States and internationally.	
<b>Sector</b>	Information Technology
<b>Industry</b>	IT Services
<b>Last Guidance</b>	December 11, 2018
<b>Next earnings date</b>	November 6, 2019

<b>People</b>	
Dorsey, Jack, Chairman, President & CEO	
McKelvey, James, Co-Founder & Director	
Whiteley, Sivan, General Counsel & Corporate Secretary	
Henry, Alyssa, Seller Lead	
Reses, Jacqueline, Square Capital Lead	
Ahuja, Amrita, CFO & Treasurer	

<b>Top Competitors</b>	
Global Payments Inc.	Fiserv, Inc.
PayPal Holdings, Inc.	Fidelity National Information Services, Inc.
The Western Union Company	Visa Inc.
FleetCor Technologies, Inc.	WEX Inc.
Mastercard Incorporated	Alliance Data Systems Corporation

<b>Market Statistics</b>	
Market Capitalization (mil)	\$26,409.49
Last Price per share	\$63.59
52 week high	\$83.20
52-week low	\$49.82
Volatility	0.00%
Daily volume (mil)	2.26
Short interest	8.16%
Days to cover short interest	3.97
Beta	2.56

<b>Financials</b>			
<b>Profitability</b>			
	<b>SQ (LTM)</b>	<b>SQ Historical</b>	<b>Peers' Median (LTM)</b>
Return on Capital	23.3%	78.28%	14.56%
Adjusted EBITDA Margin	11.2%	2.22%	36.04%
Return on Equity	15.0%	12.1%	22.0%
Adjusted Net margin	7.0%	3.5%	17.6%
<b>Invested Funds</b>			
	<b>SQ (LTM)</b>	<b>SQ Historical</b>	<b>Peers' Median (LTM)</b>
Cash/Capital	17.9%	88.2%	27.9%
NWC/Capital	0.0%	-16.4%	1.2%
Operating Assets/Capital	70.4%	28.1%	30.1%
Goodwill/Capital	11.8%	5.0%	39.6%
<b>Capital Structure</b>			
	<b>SQ (LTM)</b>	<b>SQ Historical</b>	<b>Peers' Median (LTM)</b>
Total Debt/(Market Cap.+ Other Claims on Capital)	0.04	0.02	0.23
Minority Interest/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
Preferred Equity/(Market Cap.+ Other Claims on Capital)	5.2%	0.0%	0.0%
CGFS Credit Rating	B		BBB
Credit Rating Model	b+ to bb-		bbb-
Probability of Default Model	bbb to bbb+		a- to a
Likely Current Cost of Debt	3.23%		3.84%
Likely Current Cost of Equity (Cost of Debt + MRP)	8.94%		9.55%
Likely Current WACC	8.73%		8.4%

**Investment Thesis**

**UNIQUE LONG-TERM GROWTH PROSPECTS AND MARGIN EXPANSION**

I am initiating coverage of SQUARE INC with a BUY at \$61.83 and a \$120 price target. As the Payment Card Industry grows, cash will become more and more obsolete. Square offers the services to facilitate this change. In one aspect, they offer lines of portable card readers to small businesses and vendors, a market that is underserved in the opinion of David Ritter. They also offer the Cash App. Mobile payment apps are fastly becoming a more popular method of transferring money between two parties. Going forward, they will be refocusing on this financial side as they sell off Caviar to DoorDash. They're stock severely dropped after last quarters disappointing earnings, and this gives great opportunity going forward as they restructure and refocus on their specialty.

**For the long:**

**1. Sale of Caviar freeing up more funds for their seller and Cash divisions**

Square currently has a pending sale of Caviar in place with DoorDash. Through their already standing relationship with DoorDash, this will allow them to use that cash and instead invest it into their already existing services within the restaurant industry.

**2. Rapid Growth within the Cash App:**

Cash App delivered \$135 million in quarterly revenue, not including Bitcoin. It has grown at an annualized rate of \$500 million per year. To expand and grow the Cash App shouldn't require a lot of extra investment, and even if it did they will have that available to them with the pending sale of Caviar. As they build up their Cash and their vendor divisions, these can soon be brought together to work more efficiently for customers and sellers all in one program.

**3. International Growth**

As of right now, international revenue only makes up 5% of the total revenue. They have been actively marketing in the UK and this is driving down customer acquisition costs. Japan is offering subsidies to people who are switching to digital card payments. As they grow closer to establishing their home growth, they should be able to better tackle the unique challenges abroad.

**For the short:**

**1. Strong Competition from Competitors**

While Cash App is a rapidly growing app, they face strong competition from PayPal. PayPal already has two services for money transfer: themselves and their app Venmo. Both are digital transferring funds, and they will also face competition from other credit card companies as they have partnered with VISA to create a Cash Card that is linked to the Cash App.

**2. Severe reactions to Earnings**

If earnings are poor again and Cash App growth slows, there could be another steep drop in price like at the end of Q2. Square said the Caviar deal should be completed by the end of the year.

**Key Catalysts for price change**

- Selling of product lines to reinvest in Square
- Digital Transfer growth
- Constant possibility of Crypto growth.

**Valuation**

My \$120 price target is derived from Discounted Levered Free Cash Flow estimates

<b>Ownership</b>		<b>Change in Ownership (over the past "Number" months)</b>	
Shares outstanding (mil)	427.13		
Weighted Diluted shares outstanding (mil)	416.57		
Options and Warrants (Shares equivalent)	44.94		
% shares held by institutions	62%		"INPUT from BB"
% shares held by investments Managers	44%		"INPUT from BB"
% shares held by hedge funds	6.88%		"INPUT from BB"
% shares held by VC/PE firms	5.549%		"INPUT from BB"
% shares held by insiders	18.13%		-3.30%
Poison Pill and Type	NONE		

<b>Quarterly Earning Surprises (Actual/Median Estimates)</b>			
<b>Revenue</b>		<b>Last 5 quarters</b>	
6/30/2018	\$3259.752 (122.7%)		
9/30/2018	\$3528.432 (113.6%)		
12/31/2018	\$3730.112 (105.9%)		
3/31/2019	\$3837.436 (99.6%)		
6/30/2019	\$4696.952 (111.6%)		
<b>History:</b>		<b>Last 4 years</b>	
Mean Surprise		124.51%	
99th percentile "surprise" range		-82% to 331%	
<b>EBITDA</b>		<b>Last 5 quarters</b>	
6/30/2018	\$38.724 (-85.1%)		
9/30/2018	\$25.252 (-90.3%)		
12/31/2018	\$35.72 (-88.8%)		
3/31/2019	-\$12.284 (-106%)		
6/30/2019	\$71.76 (-80.8%)		
<b>History:</b>		<b>Last 4 years</b>	
Mean Surprise		-108.85%	
99th percentile "surprise" range		-555% to 338%	

Square, Inc.	Symbol: SQ	Cost of Capital Estimates			
Analyst	Stephen Clarke		C6FS Credit Rating	Credit Rating Model	Probability of Default Model
Buy below	\$85.02	Implied Cost of Borrowing (SQ)	4.9%	5.8%	4.5%
Sell above	\$121.07	Implied Cost of Borrowing (Peers)	4.2%	5.0%	3.9%
Probability of Price Increase	90%		Base Year	Explicit Period (15 years)	Continuing Period
Last Price	\$63.59	Cost of New Debt Estimate	4.35%		4.01%
Intrinsic Value	\$96.86	Country Risk Premium Estimate	5.71%		5.71%
Target Dividends	\$0.00	Cost of Equity Estimate	10.06%		9.72%
Target Price	\$106.27	WACC Estimate	9.83%		9.49%

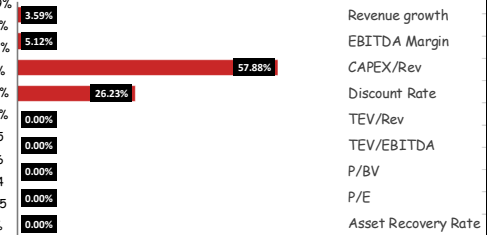
Forecast Assumptions

Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other
Base Year (Actual)	63.05%	1.2%	1.7%	0.82	SBC/Revenue 6.55%
year 1	-31.90%	18.4%	3.1%	0.97	Constant/same as LTM
year 2	29.20%	20.5%	3.5%	0.83	Lease term 10
year 3	36.40%	23.0%	3.5%	0.65	Rent Expense/Revenue 0.73%
year 4	20.00%	22.3%	4.1%	0.70	Tappers off to historical average
year 5	36.75%	24.9%	4.1%	0.49	R&D life 10
year 6	33.63%	24.5%	3.8%	0.54	R&D Expense/Revenue 10.49%
year 7	30.52%	24.1%	3.4%	0.58	Constant/same as LTM
year 8	27.41%	23.7%	3.1%	0.63	LIFO Reserve Tappers off to zero
year 9	24.30%	23.3%	2.8%	0.68	Non-operating pension costs Tappers off to zero
year 10	21.19%	22.9%	2.5%	0.72	Net financing pensions costs Tappers off to zero
year 11	18.08%	22.5%	2.1%	0.77	Overfunded pension plans Tappers off to zero
year 12	14.96%	22.1%	1.8%	0.82	Capitalized interests Constant/same as LTM
year 13	11.85%	21.7%	1.5%	0.86	Dividends/Revenue 0.00%
year 14	8.74%	21.3%	1.2%	0.91	Tax Rate 8.77%
year 15	5.63%	20.5%	0.8%	0.95	
Continuing Period	2.52%	20.5%	1%	1.00	

Simulation Assumptions

Random Variables	Distribution Assumption	MAX	Likely	MIN	
Deviations in annual Revenue Growth--Expl. Per.	Triangular	20.11%	0%	-19.79%	
Deviations in annual Revenue Growth--Cont. Per.	Normal	1.52%	0%	-1.52%	3.59%
Deviations from EBITDA Margin base annual estimates	Triangular	10.82%	0%	-18.11%	5.12%
Deviations from CAPEX/Revenue base annual estimates	Triangular	4.09%	0%	1.67%	57.88%
Deviations from Kd base annual estimates	Triangular	1.74%	0%	-3.42%	26.23%
Deviations from CRP base annual estimates	Triangular	1.82%	0%	-1.92%	0.00%
Deviations from TEV/Revenue base estimate	Triangular	9.43	0%	-4.25	0.00%
Deviations from TEV/Revenue base estimate	Triangular	8.93	0%	-7.86	0.00%
Change in P/BV (TTM)	Triangular	49.52	0%	-3.94	0.00%
Change in P/E (FW)	Triangular	10.01	0%	-18.05	0.00%
Recovery Rate	Triangular	10.00%	0%	-10%	0.00%

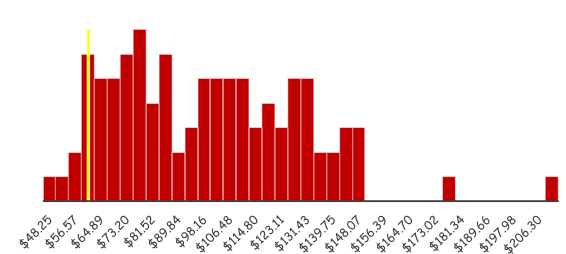
Sensitivity: Price Variance Attribution Analysis



Valuation

DCF Valuation	Base	Explicit Period (Average)	Continuing Period	
Revenues	\$3,948.23	\$19,437.75	\$46,537.66	
Net Margin	7%	22%	16%	
LFCF	-\$71.94	\$3,949.91	\$5,784.54	
Ke	10.06%	9.72%	9.72%	
ROE	15.00%	43.76%	9.72%	

Intrinsic Value Distribution--Probability (Upside)=90%



Relative Valuation

	Median Justified Multiple	Basis	Implied Equity Value
EV/Rev (FW)	6.6x	\$2,926.27	\$19,218.73
EV/EBITDA (FW)	17.1x	\$559.82	\$9,531.46
P/BV (TTM)	6.5x	\$2,477.01	\$16,209.78
P/E (FW)	23.6x	\$255.29	\$6,027.32

Asset Based Valuation

Recovery Rate	60%
Capital	\$34,056.32
Intangibles	\$354.38
Claims	\$3,214.17
Implied Equity Value	\$17,006.99

Valuation Summary

	Intrinsic Value	Target Price	Model Weight
DCF Valuation	\$ 105.89	\$ 115.30	100%
EV/Rev (FW)	\$ 41.64	\$ 45.74	0%
EV/EBITDA (FW)	\$ 20.65	\$ 22.68	0%
P/BV (TTM)	\$ 35.12	\$ 38.57	0%
P/E (FW)	\$ 13.06	\$ 14.34	0%
Asset Based Valuation	\$ 36.85	\$ 40.47	0%
Price per Share	\$ 105.89	\$ 115.30	100%