

Initiated 2026-10-15 · Price \$57.16 (close 2026-10-15, stockanalysis.com) · Mkt cap \$48.9bn · Financials / payments · Model: verified

Rating: Buy — Conviction: Low

PayPal is priced as a franchise in decline: ~7x GAAP EBITDA, ~10x forward earnings, a 13.7% FCF yield, and ~12% of shares retired in a year. The base case assumes mid-single-digit growth and no exit re-rating, and still sits above today's price. The call is fragile: it rests on branded checkout holding at low single digits, and becomes a Hold at a 1pp higher discount rate or on the exit method alone.

Conviction tests (3a-v-c): T1 fail (Buy → Hold at +1pp: base return +24.1% → +14.0%) · T2 fail (exit-multiple method alone +12.9%, a Hold; Gordon +35.3%) · T3 pass · T4 pass

MODEL VALUE RANGE VS PRICE



Business overview

PayPal runs a two-sided payments network: \$33.2bn of net revenue in FY2025 and \$17.0bn in H1 2026 (+5.9%, ~3pp FX). Transaction revenue is 90%; value-added services (partnerships, credit, interest on customer balances) the rest. US is 58%. Products: branded checkout (the high-margin core), Braintree/PSP unbranded processing (thin margin), Venmo, and consumer/merchant credit, including BNPL receivables originated for sale. Three variables drive earnings:

- branded checkout growth (~2% FXN in Q2 2026);
- the transaction-margin rate (44.9% in Q2 2026 vs 46.4% a year earlier), which mix toward Braintree and lower interest on customer balances (~\$281mm in Q2) both pull down;
- operating cost under CEO Enrique Lores's transformation plan.

Competition

- **Rivals.** Branded checkout competes with Apple Pay, Shopify's Shop Pay and Stripe's Link at the wallet layer. Braintree competes with Stripe and Adyen in processing. Credit competes with Affirm and Klarna.
- **Growth gap.** PayPal guided Q3 branded checkout down to ~1–2% in September (TIKR, October 2026). Consensus forecasts 3-year revenue growth of ~25.9% for Affirm and ~10.2% for Block (stockanalysis, 2026-10-15). No wallet-share datapoint was verified this session.
- **Where pressure shows first.** In the checkout growth rate and the transaction-margin rate, before total payment volume, which still grew 10% in Q2 because of unbranded processing.

- **Valuation.** Priced like Fiserv, an incumbent the market distrusts (7.9x vs 6.8x aggregator EV/EBITDA); Block and Affirm trade at growth multiples.
- **Private-market check.** Stripe and Advent bid \$60.50 a share in July 2026 (CNBC/Reuters, 2026-07-15). The board rejected it, and the consortium dropped its pursuit on 2026-08-27 (Bloomberg via Reuters). That is ~7.5x FY2025 EBITDA on the model's basis.

Bull case

1. **Branded checkout stabilizes, and Venmo and Braintree monetize.** Two quarters of ~2% FXN checkout growth, Venmo momentum and the July guide raise (TM\$ ~\$15.6bn, non-GAAP EPS ~\$5.38) support mid-single-digit revenue growth. Plays out if Q3 and Q4 checkout growth stays at or above 2% FXN and Venmo grows debit and Pay-with-Venmo volume. *Model: rev_growth*
2. **The transformation restores margin.** GAAP EBITDA margin fell from 21.2% (FY2025) to 20.0% (H1 2026). Cost discipline and pricing could lift it back to ~23% by Year 5. Plays out if operating expenses grow more slowly than transaction margin dollars from 2027. *Model: ebitda_margin*
3. **The multiple re-rates from a trough.** Today's 7.07x sits below the 7.5x a strategic/PE consortium offered; a move to 9x compounds with ~8–12% annual share shrink. Plays out if two clean quarters arrive. *Model: exit_ev_ebitda*

Bear case

1. **Checkout keeps losing share.** OS, browser and merchant wallets (Apple Pay, Shop Pay, Link) take the highest-margin transactions; the guide slipped from ~2% to 1–2% in one quarter. Plays out if Q3/Q4 checkout growth prints below 1% FXN. *Model: rev_growth*
2. **Take-rate and mix erosion.** Transaction margin fell 150bp to 44.9%; Braintree is thin-margin, and interest on customer balances (~\$1.1bn annualized) shrinks as the Fed cuts. Plays out if transaction-margin rate falls below ~44% and rate cuts arrive. *Model: ebitda_margin*
3. **The credit book absorbs cash and takes losses.** Loans receivable (net plus held for sale) rose from \$6.0bn (FY2023) to \$8.8bn (June 2026), lifting model-basis working capital from 23% to 27% of revenue. Plays out if consumer credit weakens or forward-flow buyers of the receivables pull back. *Model: nwc_pct_rev, ebitda_margin*
4. **Value trap.** With growth near zero, the market may keep paying Fiserv-like 5–6x regardless of FCF. Plays out if the takeover floor fades and checkout shrinks. *Model: exit_ev_ebitda, wacc, terminal_growth*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$49,693mm = mkt cap at 867mm diluted shares – cash and investments \$15,265mm + debt \$13,400mm + customer-fund shortfall \$2,000mm; GAAP EBITDA after stock comp)	7.07x FY2025	EBITDA margin 20.0–21.2% FY2023–25	Block 31.1x · Fiserv 6.8x · Affirm 45.8x (aggregator, lease-inclusive)	model-inputs.json ; stockanalysis.com 2026-10-15
Forward P/E (consensus)	10.1x	n/a (unverified)	Block 16.6x · Fiserv 6.3x · Affirm 37.9x	stockanalysis.com 2026-10-15
FCF yield (aggregator TTM FCF ÷ mkt cap)	13.7%	FY2025 CFO \$6,416mm – capex \$852mm	Block 8.1% · Fiserv 15.7% · Affirm 3.9%	stockanalysis.com 2026-10-15; FY2025 10-K

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$43.55 · Base \$70.94 · Bull \$99.92 per share, i.e. implied returns of –23.8% / +24.1% / +74.8% vs \$57.16. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

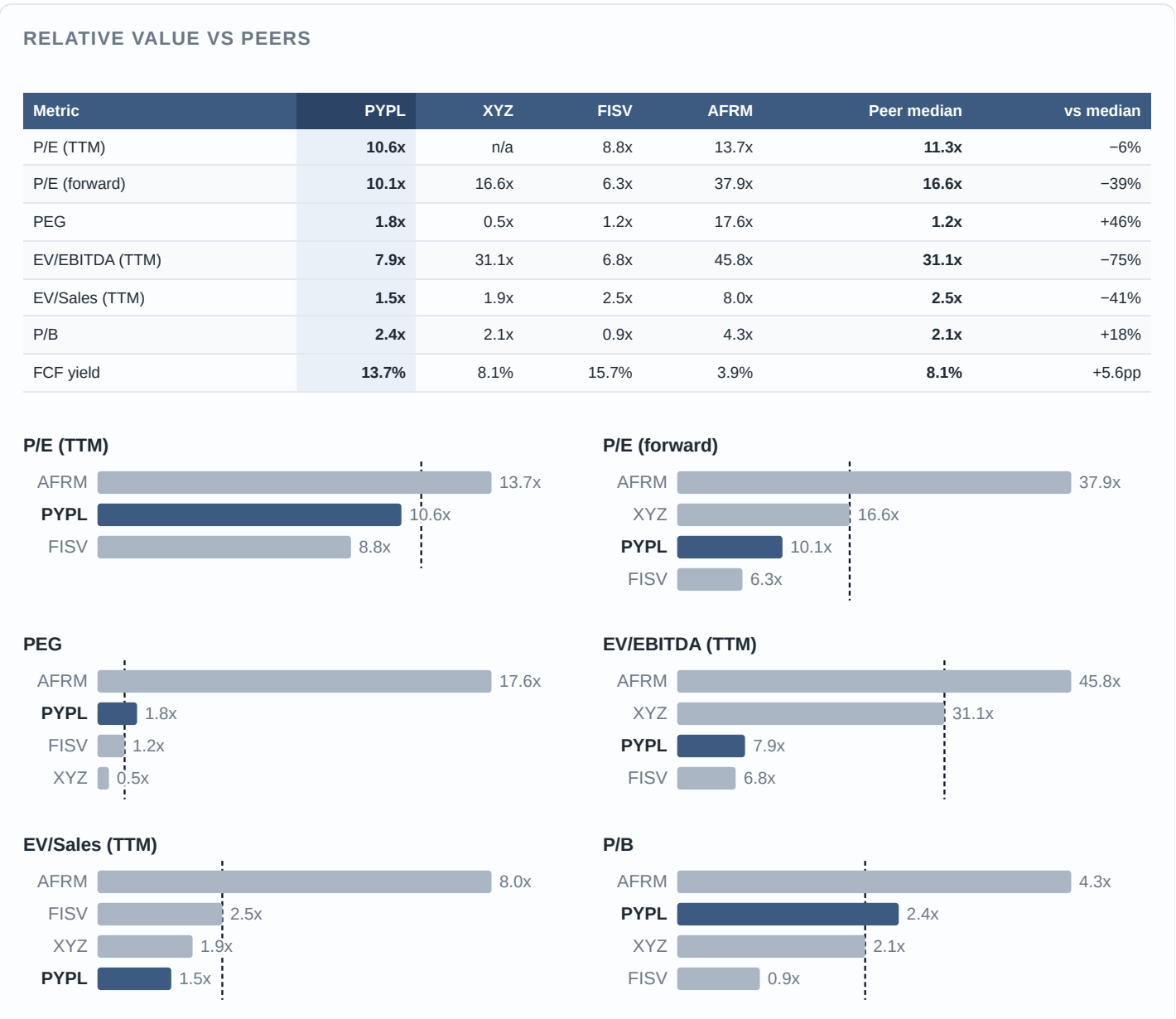
- **What the price implies.** Slightly below the bear-to-base midpoint: roughly even odds of the decline case.

- **Re-rating.** Base exit 7.0x is ~1% below today's 7.07x, so the exit method embeds no re-rating. The methods differ by 20% (Gordon \$77.37, exit \$64.51): Gordon embeds a terminal multiple well above 7x, a re-rating, not noise. Exit alone gives +12.9%, hence the T2 fail.
- **Tail.** Five years of revenue falling 2% a year (flat in Year 1), margin down to 15%, working capital at 31% of revenue, 4.5x exit, a 12% WACC and 0% terminal growth: \$29.35 (–48.7%).

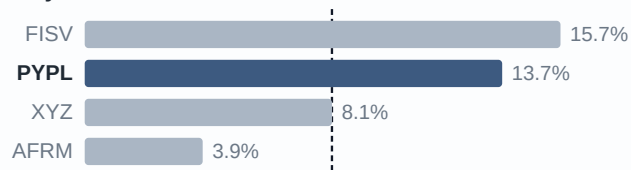
Balance sheet: Net leverage not meaningful: \$15.3bn cash and investments vs \$13.4bn debt (gross 1.9x EBITDA); the \$2.0bn customer-fund shortfall is treated as a claim. Coverage 15.0x. Nearest maturity: \$2.5bn short-term debt within 12 months. Ratings: n/a (unverified).

Model note: tier `full` , status `built` , verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs. No assumptions without basis. Scenario consistency is `OK` on all 14 rows.

- **Sourcing.** Historicals from FY2025/FY2024 10-K R-pages; market and debt facts from the Q2 2026 release (June 30 balance sheet).
- **Debt and NWC.** Tranches not retrieved: two blocks at an estimated ~3.5% blended coupon, placeholder 2032 maturity. NWC = receivables + loans – payables; accrued liabilities excluded (10-K presentation changed FY2024 → FY2025).
- **EPS vs guidance.** Base Y1 EPS is \$5.91, ~14% above the GAAP guide (mid-single-digit decline from \$5.41). The model excludes strategic-investment losses (–\$212mm in H1 2026) and H2 transformation charges, and assumes –8% share change.
- **WACC.** 10.1% = CAPM cost of equity 11.59% (10Y 5.19%, beta 1.28, ERP 5.0%) blended with a 4.51% after-tax cost of debt at 21% market weight. No haircut.



FCF yield



As of 2026-10-15. One source and one definition for every company: aggregator TTM and consensus-forward multiples, lease-inclusive EV. Not the model's own EV basis (see the report's valuation table). All figures at the 2026-10-15 close. Dashed line = peer median. Source: [stockanalysis.com /stocks/<ticker>/statistics/](https://stockanalysis.com/stocks/<ticker>/statistics/), fetched 2026-10-15.

Notes. Block's trailing P/E is 128.93x (above the 100x display cap), far above its 16.59x forward P/E.

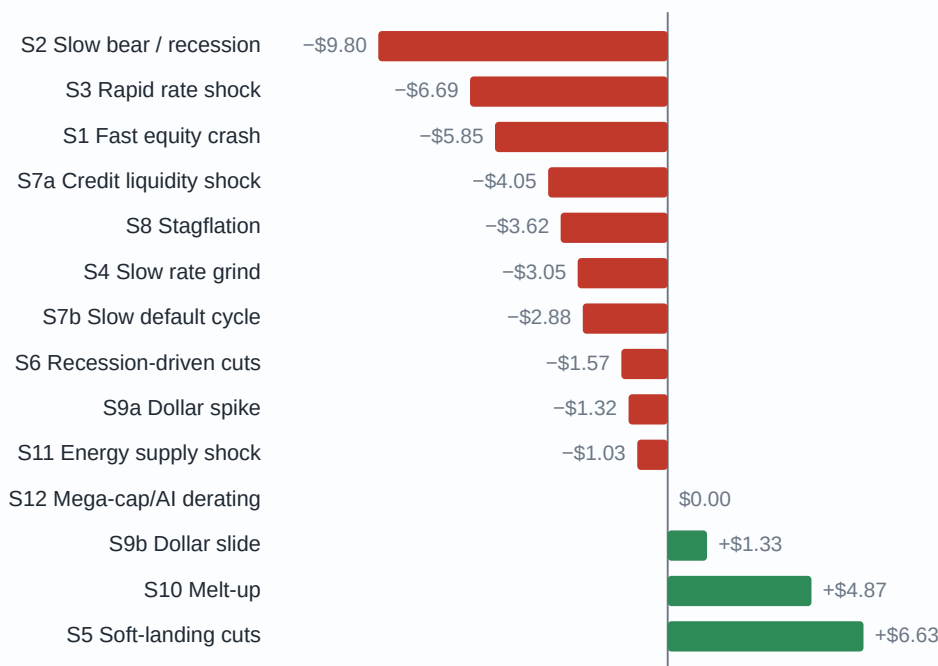
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	De-risking compresses an already low multiple; volumes unaffected	Med	–\$5.85
S2 Slow bear / recession	–	E-commerce and travel spending fall and loan-book losses rise. About a third of Base – Bear (\$27.39) because it lasts two years, while the bear resets growth, margin and multiple permanently	High	–\$9.80
S3 Rapid rate shock	–	Higher discount rate; extra interest on customer balances only partly offsets	High	–\$6.69
S4 Slow rate grind	–	Multi-year discount-rate drag; float income offsets the operating effect	Low	–\$3.05
S5 Soft-landing cuts	+	Lower discount rate and steady spending outweigh lower float income	High	+\$6.63
S6 Recession-driven cuts	–	Spending and credit deteriorate; lower rates also cut float income, so the discount-rate relief only partly offsets	Low	–\$1.57
S7a Credit liquidity shock	–	BNPL forward-flow funding gets costlier; multiple compresses	Med	–\$4.05
S7b Slow default cycle	–	Consumer and merchant credit losses build over three years	Low	–\$2.88
S8 Stagflation	–	Nominal volume holds, but a real consumer squeeze and higher rates hurt	Med	–\$3.62
S9a Dollar spike	–	42% international revenue translates lower; cross-border fees fall	Low	–\$1.32
S9b Dollar slide	+	Translation and cross-border tailwind	Low	+\$1.33
S10 Melt-up	+	Risk appetite lifts depressed multiples	Med	+\$4.87
S11 Energy supply shock	–	Fuel-driven consumer squeeze and travel disruption trim volume	Low	–\$1.03
S12 Mega-cap/AI derating	0	No material effect, not modeled: not priced for AI leadership and already at ~7x EBITDA	—	\$0.00

Currently active/on watch per the playbook: S3 partially active in `state.md`, crossed in the macro log (10Y 5.19% on 2026-10-14); S8, S10, S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: branded checkout growth returns to $\geq 3\%$ FXN for two quarters, with transaction-margin rate at or above 45%. Conviction also rises if the shares hold up through a +1pp rate move. **Downgrades if:** Q3 or Q4 branded checkout prints below 1% FXN, or the FY2026 GAAP EPS guide is cut beyond a mid-single-digit decline. Or if NWC exceeds 29% of LTM revenue.

Watch items

- **W1:** Branded checkout growth (FXN) — $\geq 2\%$ holds the thesis, $< 1\%$ triggers a downgrade review — Q3 2026 release — 2026-10-27 — *Model: rev_growth*
- **W2:** Transaction-margin rate and TM\$ ex-interest growth — $\geq 45\%$ and $\geq 3\%$ — Q3 2026 release — 2026-10-27 — *Model: ebitda_margin*
- **W3:** FY2026 GAAP EPS guide and the size of transformation charges — guide held at a mid-single-digit decline — Q3 2026 release / Q4 call — 2026-10-27 / early 2027 — *Model: ebitda_margin*
- **W4:** Loans receivable (net plus held for sale) vs LTM revenue — at or below 27.5% — Q3 2026 10-Q — Nov 2026 — *Model: nwc_pct_rev*

Sources

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