

Background

- Leading provider of electronic payments, digital wallets, and point-of-sale terminals. Allow businesses to accept any form of payment a customer wants to use, and enable peer-to-peer payments, stock trading and cryptocurrency trading through the 'Cash App'
- Operate in five markets currently: US, Canada, Australia, UK, and Japan
- Founded in 2009, IPO in Nov 2015 with initial valuation of \$2.9B. Current market cap \$86B, 30x from IPO

Tailwinds

- Widespread adoption of e-payments globally due to convenience. Provide financial services to the under-banked, and create more efficient markets, giving governments the ability to apply negative interest rates and more effectively manage the supply of money
- Square benefit when people shop from home using digital payments and also when people venture back into physical stores and use their credit card at a Square POS terminal
- Square have supported Bitcoin trading in the Cash App since 2018, and will benefit if cryptocurrency becomes more widely adopted.

Leadership

- High insider ownership, Chairman and CEO Jack Dorsey owns 15% of the shares (and has 45% of the voting power). **The June board meeting is due take a decision on removing Dorsey as chair, but it is unlikely that this decision will be carried**
- Glassdoor rating of 4.3 out of 5, and CEO approval rating of 93% for Dorsey

Total Addressable Market

- The seller ecosystem represents a \$85B+ opportunity in the US, and the Cash App creates a \$60B revenue opportunity, primarily driven by \$2T of potential e-commerce spend
- The global online payment market size was valued at \$3.3 trillion in 2019, and is projected to reach \$17.6 trillion by 2027

Customers

- Sellers represent a range of industries but primarily services, food-related, and retail
- Net Promoter Score of 65, which is double that of most banking providers
- Cash App has 36M monthly transacting active customers (up from 24M in 2019). The Cash App is the #1 finance app in the Google Play and Apple app stores

Optionality

- In Q4 of 2020, Square acquired **Credit Karma Tax**, adding a tax filing product for individuals to the Cash App ecosystem, and providing a seamless, mobile-first solution for individuals to file their taxes for free. This may create a powerful network effect
- Recently launched Square Kitchen Display System (KDS) - subscription business allowing restaurants to manage and fulfil orders efficiently
- Acquired **Tidal** in 2021, and have aspirations of being a music service biased more towards strengthening musicians - could Square+Tidal become the Shopify of the music industry?

Competitors

- **Have a wide range of competitors, including fintechs such as PayPal with their Venmo digital wallet, and traditional payment providers such as Visa and Mastercard**
- Most e-commerce companies have their own payment ecosystem, including Shopify (Shop Pay), MercadoLibre (Mercado Pago), and Sea (Shopee Pay)
- Also face competition from deferred payment platforms such as Klarna

Financials

- Cash and cash equivalents of \$3B, allowing flexibility in the business for key acquisitions and investment in wider geographic rollout
- **Square purchased \$50M of bitcoin in October 2020 and a further \$170M in Feb 2021. Today, approx. 5% of the company's cash holdings are in Bitcoin. This represents a light exposure to cryptocurrency volatility, but it could create complexity for the stock, particularly as Square reports its bitcoin trading volume as revenue, which may distort future results**
- Cash App revenue increased 666% in Q1 2021 including Bitcoin sales, excluding Bitcoin sales, revenues increased 139%
- P/S 6.5 is misleading, given accounting treatment of Bitcoin transactions