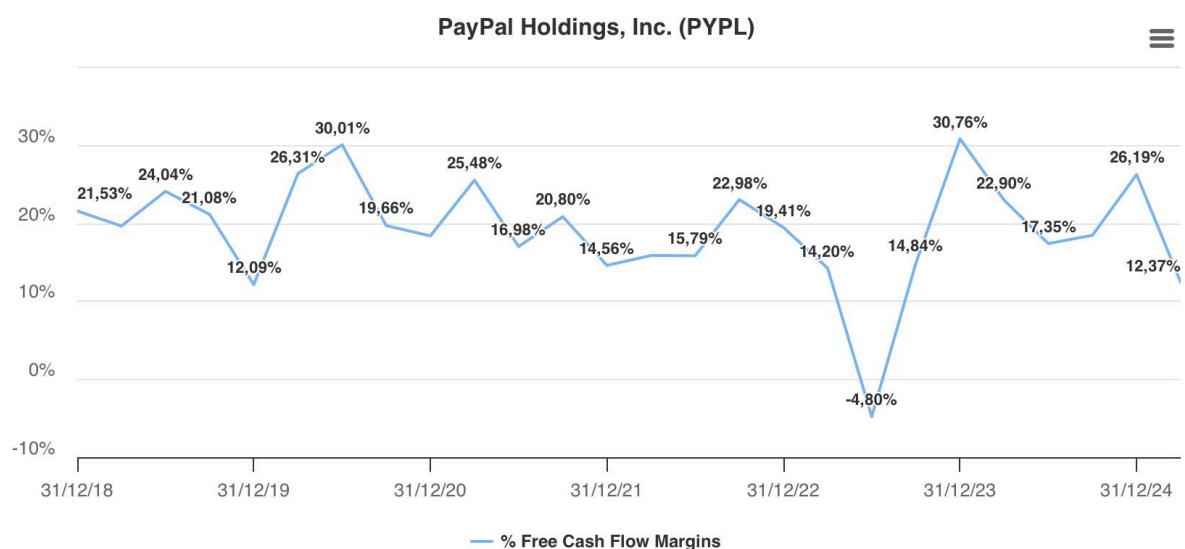


PayPal stock is expected to release their 2Q2025 results later this week and I thought this was a great opportunity to revisit my thesis on the stock. The thesis hinges on basically these things:

- Excellent capital allocation
- Great moat, expanding business
- Risks
- Valuation

Excellent capital allocation:

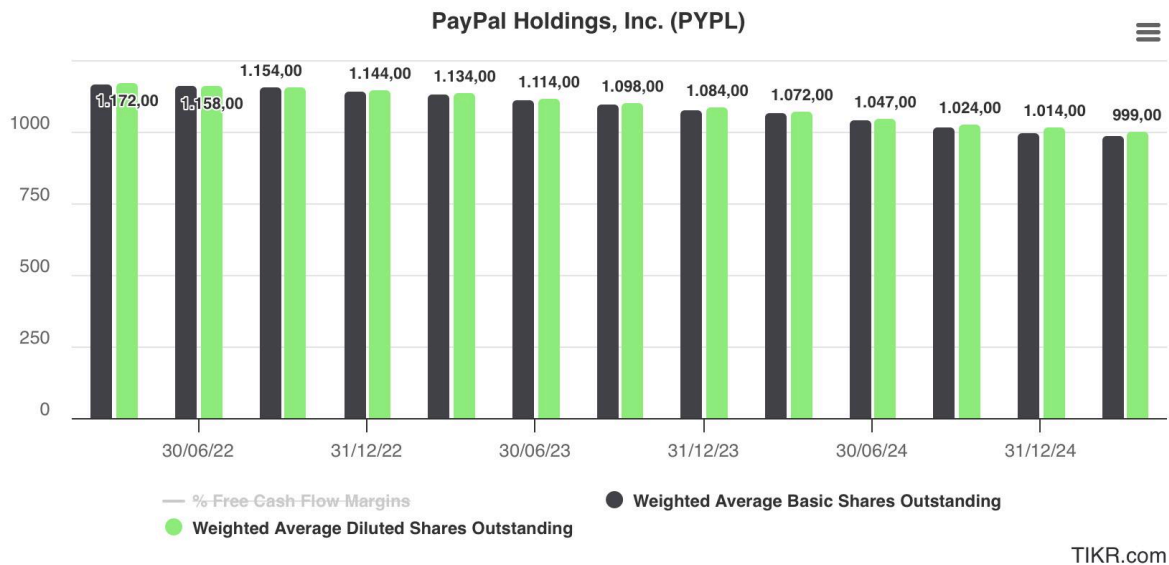
PayPal has been having positive free cash flow margins for every single quarter, except for one, since 2018 and now that they have a controlled debt situation, with debt accounting for 0.33% of EBITDA.



TIKR.com

With a great balance sheet, the company has been directing their excess cash generation into share repurchase programs. Through Q1 2025 alone, PayPal deployed **\$1.5 billion** in buybacks, and management plans to repurchase roughly **\$6 billion** of shares over the trailing 12 months, pushing for EPS growth while signaling confidence in the business. For reference, accounting for the company's average market cap throughout the last 12 months, this repurchase amount in the TTM reduced share count by 7%.

The company shows no signs of slowing down, with PayPal's board has authorized a **\$15 billion** buyback program in February 2025, on top of the **\$4.8 billion** still available from its June 2022 authorization, giving it nearly **\$19.8 billion** of repurchase firepower even after their successful Q1 buybacks. These programs have no expiration dates, meaning that the company has total freedom to deploy capital whenever they see opportunities, but assuming the rate they've been deploying it, we can expect a share count reduction of around -7% per year, -5% if accounting for shares issued in share based compensation programs.



This strong repurchase program means that if margins stay the same, revenue doesn't grow at all and multiples don't inflate the stock can return around 8% per year. Pretty solid given such bad predictions of zero company improvement.

Great moat, expanding business:

The bulk of PayPal's top line comes from fees on payments processed across its platform (peer-to-peer, merchant checkouts, cross-border transfers). Because these fees are a small percentage of each transaction (typically 1–3%), they recur every time consumers spend, making PayPal's revenues very recurring and predictable. More than 45% of the world's [checkout traffic](#) comes through PayPal's checkout, making their service the single most popular in the world and their transaction volume is strong given this dominance.

Some firms [report](#) that about 60% of the world's leading online retailers offer PayPal as a payment option at checkout, more than any other digital wallet payment service provider. Additionally, another [survey](#) showed that roughly 39% of online shoppers choose PayPal when given multiple payment options, both for its convenience and perceived security. These data points show that PayPal's dominance in the payment service provider world is not only quantitative but also qualitative, with embedded competitive advantages for the company.

In Q1 2025, PayPal reported 3% increase in transaction revenues year-over-year on roughly \$417 billion of TPV while overall consumer spending grew in line with that, at around 2.7%. If PayPal's competitive advantage allows them to grow 10% faster than the consumer spending market, the company can still accumulate great returns over the long run.

Beyond basic transaction fees, PayPal earns "value-added" revenues from services like payment gateway fees, fraud-protection subscriptions, and financing products. In Q1 2025, these non-transaction revenues grew 17% YoY, buoyed by expanded adoption of PayPal Credit and early traction in its new physical PayPal Credit Mastercard. The ability to provide short term loans to their merchant base also provides room for growth at relatively higher margins, with this segment still being young, representing only \$1.6 billion in volume but

representing a 32% increase YoY. This segment also is relatively low risk as much of the loan is given with a merchant's future earnings, that pass through PayPal, as collateral.

Their consumer loans also grew significantly, reporting a 21% increase and reaching \$5.4 billion in financing value. PayPal is successfully leveraging its incredibly large ecosystem of users to cross-sell products and services, both to merchants and customers. This can be a great opportunity for margin and total addressable market expansion for the company, which can soon have a great revenue stream coming from non-PSP sources.

Additionally, they've been expanding their offerings of cryptocurrency wallets inside PayPal or Venmo, further attracting customers interested in crypto. These services tend to deliver superior margins compared to raw processing, though it has its own risks of default and loan analysis.

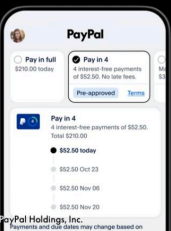
Advancing strategic growth drivers

Win checkout

Scaling highest-converting checkout experiences

>45% of US branded checkout traffic on new experience

>50% Pay with Venmo TPV growth in 1Q



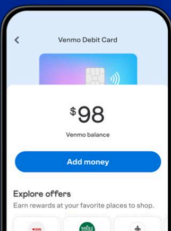
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Payments and all other marks may change based on circumstances, terms, or conditions to your jurisdiction.

Scale omni and grow Venmo

Building momentum beyond ecommerce

Added ~2M first-time PayPal and Venmo debit card users in 1Q

~40% Venmo debit card monthly active account (MAA) growth in 1Q

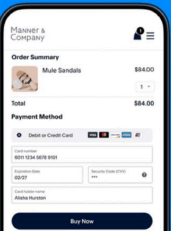


Drive PSP profitability

Selling our strong suite of value-added services

Meaningfully increased TM \$ growth contribution from PSP in 1Q

Launched optimized debit routing with Wayfair and Upwork & Fraud Protection Advanced with Regal Cinemas

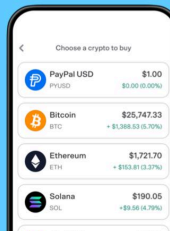


Scale next-gen growth vectors

Leveraging the strength of our platform in new ways

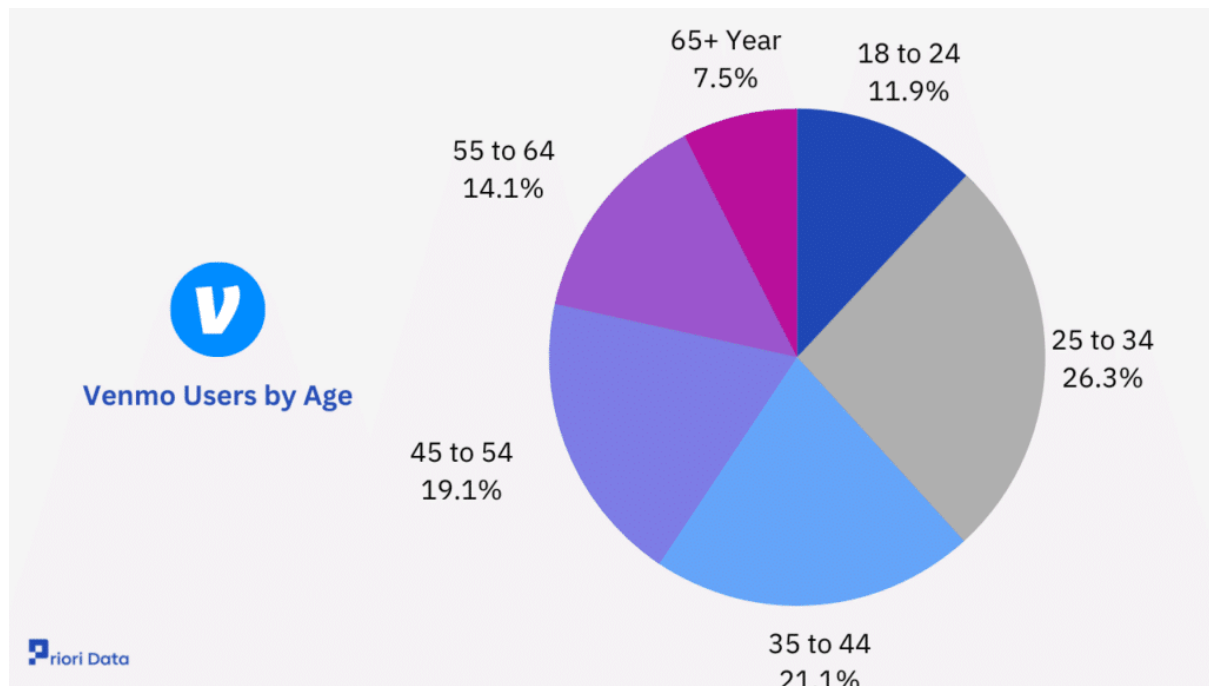
Added Solana and Chainlink to PayPal and Venmo wallets & enabled rewards for PYUSD holders

Launched first remote Model Context Protocol (MCP) server for agentic commerce



4

Venmo now expected to process \$340 billion annually through its peer-to-peer payments feed into both transaction fees and card-based spending (via its Venmo debit card), with card-volume up 50% in Q1 2025 and active cardholders growing 40% YoY. Venmo's TPV is expected to grow faster than PayPal's in 2025, [expecting](#) 17% YoY growth in 2025. Venmo's popularity and high user count, especially among young Americans and leveraging its new debit card, creates a powerful economic moat through network effects and switching costs, further limiting revenue decreases in the short term.



PayPal's growth hinges on them being able to use their exceptional ecosystem and user base to 1) keep engaging in transactions using their platforms and 2) cross-sell products and services. Initiatives such as creating a debit and credit card option for Venmo and PayPal users is a great way to achieve number 1 as it incentivizes more TPV and transaction fees while finding ways to incorporate loans into their platform (or even cards, for that matter) offers an opportunity for cross-selling.

Risks:

There is a pertinent risk with PayPal and that has to do with their competitive advantage, their economic moat, shrinking as competitors increase their market share and offer better products. This is a very valid concern and I think this is properly reflected in the stock price.



Apple pay is a serious competitor in the checkout space, especially in the mobile and “tap to pay” markets. PayPal is still the digital wallet with the most amount of user penetration, with a [survey](#) from Capital One saying that 69% of interviewed people use their services (one customer can use more than one digital wallet so the number doesn’t add up to 100%). However, in terms of market share, Apple Pay has already surpassed PayPal, with 38% and 28% of market share respectively.

Importantly, PayPal’s management [says](#) that it has **not lost share** in desktop or web-based checkouts even as Apple Pay’s mobile-wallet usage grows, meaning most of Apple’s gains are coming from in-store tap to pay and in-app spending rather than competing for PayPal’s core merchant-checkout volumes. In short, while Apple Pay is capturing a growing slice of the mobile-wallet pie, it has yet to meaningfully dent PayPal’s leadership in online checkout.

Additionally, PayPal is trying to outmaneuver this problem by, successfully, increasing the Venmo and PayPal credit and debit card, which are also present in digital wallets. This move allows for PayPal to continue to be relevant in day-to-day and mobile transactions even if Apple Pay gains market share. Nonetheless, Apple is a great competitor and needs to be put in check by PayPal’s management, but as the company manages to grow its revenue and TPV regardless of this, I have confidence that PayPal will manage to maneuver the problem.

Another major risk for PayPal is Zelle, which is taking market share in the peer-to-peer transaction market that was previously Venmo’s. Reports [shows](#) that Zelle handles more than +\$1T in transactions per year and has been growing fast, at around 25% YoY. Zelle’s ability to be embedded into most checkings accounts in most banks makes it easier for customers to choose them over downloading and creating another account in another app.

This is a clear problem for PayPal, since now they have to compete, in the PSP space, against a competitor who offers free to use services and is already linked to a high percentage of people's bank accounts automatically.

The only advantage PayPal has is their established ecosystem and used base which like using PayPal and Venmo. Habit is a strong and often underappreciated competitive advantage, meaning there could be a few years until PayPal's revenue actually starts to decline as people swap Venmo for Zelle. The other advantage PayPal may have is its push to becoming a more diversified platform, offering credit and debit cards to consumers and offering loans to merchants with their future payments as collateral. Their ecosystem is their biggest asset and could lead the company to become closer and closer to a virtual bank in the coming years, which would not be, inherently, a bad thing at all.

PayPal will also, most likely, maintain its lead in the online purchasing space, as Zelle is not commonly used for e-commerce purchases and PayPal's software is already embedded and easily integrated with many merchants' websites. The revenue coming from e-commerce is the least likely to be touched by either Apple Pay or Zelle and will become even more of a cornerstone of their revenue in the coming years, alongside their value add business.

Valuation:

Assuming PayPal's revenue will grow mostly in line with consumer spending, with some alpha given their competitive advantage and their value-add business, which could really be a proponent for growth in the future, a 4% growth is reasonable.

Assuming their asset allocation strategy keeps the way it is and they continue to repurchase shares to boost shareholder value, I expect -5% to -3% share decline per year for the next few years. This is a very conservative projection, since it is very likely that management starts a new buyback program once the current one runs out.

Assuming that their margins will stay relatively the same but increase in the future as the value add business, which has the potential to have higher margins, grows, I will project a net income margin of 15%-18%

Finally, assuming that their multiples will grow modestly as the risk of losing market share, which is very much priced into the stock, fades out in turn for their strong capital allocation and ability to still generate revenue and margins regardless of competition, I project a 21x P/E ratio.

	Revenue (M)	Revenue Growth	NI margin	Share count (M)	share change		
Y0	\$31.889,00	4%	15%	1039	-5%	Company	PYPL
Y1	\$33.164,56	4%	16%	987,05	-4%		
y2	\$34.491,14	4%	17%	947,568	-3%		
y3	\$35.870,79	4%	18%	919,14096	-3%		
y4	\$37.305,62	4%	18%	891,5667312	-3%	market cap (M)	75.838,11
y5	\$38.797,84	4%	18%	864,8197293	-3%	Future MKT Cap(M)	146.655,85
						Multiple	21
Y5 Net Income	\$6.983,61			current share price	\$77,98	per share	169,5796787
						return (CAGR)	16,81%

This yields a CAGR of almost 17% growth for the next 5 years. A satisfactory growth for a strong company with a great product and market positioning.

I aim to keep PayPal in my portfolio but wouldn't be surprised if I were to trim it down to high single digit or low double digits percentages of my portfolio as new, higher return opportunities arise. But on the other hand, if their new earnings reports show that I've been conservative in my assumptions of growth and market share dominance, I'm happy to revisit and increase my position even more.