

PayPal (PYPL): Check This Out

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OVERVIEW

PayPal is a company whose worst business is the only one the market can see, but this “dying” business still prints cash that is used in effective capital allocation while it allows for other segments of the business to grow and increase profitability of the company as a whole. Branded checkout is roughly 39% of what the parts are worth and it is the piece everyone underwrites, because it is the piece PayPal reports on, while Venmo, buy now pay later, the debit and credit programmes, the value added services and a nascent advertising business are all averaged into one consolidated line and priced at the growth rate of the slowest thing in the box. The stock trades at 9.4x this year's earnings after a failed \$60.50 buyout, and at that price I am not paying for any of the growth coming from everything ex-checkout.

The thesis does not require branded checkout to reaccelerate, and it does not require takeover talks restarting. It requires the checkout profit pool to not collapse, which they've been losing market share but growing low single digits, the cost programme to land, which will allow for investment into other segments and a permanent boost in operating income, the other segments to keep performing well, especially value added services and venmo, and the company to keep retiring shares at the current pace.

The whole business trades at 7.6 times EBITDA, and that is a multiple that only makes sense for the checkout business, not for the growth stack sitting inside it, meaning that if I am wrong about the growth I have already paid for being wrong. The CEO has announced that PayPal will change the way they report different segments starting in 2027 (Checkout Solutions & PayPal, Consumer Financial Services & Venmo and Payment Services & Crypto, though in my SOTP I included advertisement and IOCB as standalone given that their specific growth story and multiple/history of being reported standalone, respectively) allowing investors to pay more attention to the growth engines and realize there is more to PayPal than their checkout business. On a sum of the parts valuation, different segments will be re-rated higher accordingly and will boost blended multiple to above its current one which is basically the dying checkout one.

Once the market changes their current view to a sum of the parts one, I see the stock trading at \$74.

PayPal Holdings (PYPL) — Sum-of-the-Parts DCF Valuation

Per-segment DCF: discounted FY2026E–FY2028E free cash flow plus an exit-multiple terminal value. All figures \$B unless noted.

Segment	FY2026E FCF	FY2027E FCF	FY2028E FCF	Exit FCF Multiple	Segment Value	% of EV	TV % of Value
Checkout Solutions & PayPal	\$2.66	\$2.75	\$2.88	7x	\$22.2	42.1%	68.9%
Payment Services & Crypto	\$0.59	\$0.80	\$1.03	11x	\$11.3	21.4%	82.3%
Consumer FS & Venmo	\$0.06	\$0.31	\$0.66	14x	\$8.8	16.6%	90.8%
Advertising	\$0.07	\$0.18	\$0.37	15x	\$5.7	10.9%	91.3%
Interest on Customer Balances	\$0.86	\$0.78	\$0.74	5x	\$4.7	9.0%	58.0%
Total Enterprise Value	\$4.24	\$4.83	\$5.67		\$52.7	100.0%	

Bridge to Value per Share

Total Enterprise Value (\$B)	\$52.7
Net Debt (\$B)	\$3.0
Equity Value (\$B)	\$55.7
Shares Outstanding, FY2028E (M)	749
Implied Value per Share (\$)	\$74.29
Current Share Price (\$)	\$54.67
Upside / (Downside)	35.9%
Implied P/E on FY2028E non-GAAP EPS	9.0x
Rejected Advent / Stripe bid (\$/sh)	\$60.50

Discount Rate & Key Assumptions

WACC	9.6%
Cost of Equity	10.0%
Beta (5Y)	1.29
Equity Risk Premium	4.5%
Risk-Free Rate	4.2%
Effective Tax Rate	21.7%
FY2025A Revenue (\$B) — reported	\$33.2
FY2028E Revenue (\$B) — model	\$42.3
FY2028F Total FCF (\$B) — model	\$5.7

STOCK PERFORMANCE: LAST 12 MONTHS

1. **Twelve months ago:** wallet share was already eroding toward today's roughly 40%, guest checkout was sliding from its 44% peak, and three CEOs in three years had left guidance with no credibility. The multiple had been compressing for years, from 60x EBITDA in 2022 toward single digits.
2. **Q1 2026:** the February announcement that board chair Enrique Lores would become CEO landed as an outsider pick to the market, and with checkout share loss unresolved and no buyer in sight, shares slid into the \$38 to \$45 range over roughly five months, printing the 52 week low of \$38.46.
3. **Takeover speculation:** an Advent and Stripe led consortium emerged with acquisition interest, and shares rallied out of the \$38 to \$45 range toward the \$60.50 offer price as deal odds got priced in.
4. **Q2 2026 print, up:** earnings of \$1.38 against \$1.28 expected and revenue of \$8.68B against \$8.47B expected, with full year guidance raised, reinforced that the higher valuation the deal was priced at was not fantasy. Confidence in the CEO also increased.
5. **August 2026, down (takeover collapses):** the consortium walked away from the \$60.50 bid and the deal premium came out of the stock immediately. In the three trading days that followed, Truist cut its target to \$53, Clear Street to \$55, Mizuho to \$51, and Loop to \$50, all still above the earlier \$38 to \$45 range.
6. **Today:** shares sit at around \$54 now that there's no takeover upside. But the recent price drop after takeover talks ended created a great buying opportunity at even lower prices. The thesis never relied on the takeover happening and now we can invest without the acquisition premium.



Calendar Years	CY 2023A	CY 2024A	CY 2025A	CY 2026E	CY 2027E	CY 2028E
Period Ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
Report Date	Feb-07-2024	Feb-04-2025	Feb-03-2026	-	-	-
Cash Flow Statement						
Free Cash Flow ⓘ	4,220M	6,767M	6,411M	6,028M	6,334M	6,638M
YoY % Chg	(17.37)%	60.36%	(5.26)%	(5.98)%	5.08%	4.80%
Price / Free Cash Flow	15.7x	12.6x	8.5x	7.8x	7.4x	7.1x

WHAT IS THE MARKET NARRATIVE

PayPal's share of United States digital wallets has gone from roughly 90% in 2017 to about 50% in 2023 to about 40% now, while Apple Pay sits near 20%, and Shop Pay is in the high teens and compounding at roughly 30% a year. Guest checkout, which was the original reason anyone clicked the PayPal button, has collapsed from 44% to 16% of e-commerce transactions among Visa's largest sellers.

That story is true, and it's why the stock went from 60x EBITDA in 2022 to 7.6x EBITDA. This is the price of a stock that provides no growth and is losing market share, with stagnating margins and a declining business model. However, the market fails to realize how PYPL has growing segments to help support the declining checkout business. They see an ice cube being torched into water, but I see a melting, not torched, ice cube attached to three segments growing mid teens or better at rising margins.

HOW MY THESIS IS DIFFERENT

Branded checkout transaction margin dollars should compound at roughly inflation plus 0.5 points of net account growth, which is enough on its own, since the segment is valued at just 7 times exit free cash flow with no terminal growth assumed anyway. That floor holds on switching costs and two decades of buyer trust and protection, plus money transmission licensing across roughly 200 markets, assets that erode by cohort over a decade rather than by defection over a quarter. This is more than enough to keep the dividends and buybacks flowing for the foreseeable future.

I consider checkout to be a lost battle in this thesis, but there is some interesting news on it. PYUSD can settle some flows by routing around traditional card and bank rails, cutting settlement costs as it scales, while a new agentic commerce suite should allow PayPal to be the default way AI purchasing agents complete a purchase on a shopper's behalf. Even a modest reacceleration from any of their bad numbers would be upside nobody is paying for at today's price.

The market is also pattern matching to the wrong CEO archetype, and execution here should be strong. Enrique Lores sat on PayPal's board for nearly five years before becoming CEO, and at HP he built a record of strong shareholder returns through aggressive share repurchases and a \$1.6B cost cutting program that mirrors what he's now running at PayPal, a \$1.5B program designed to fund reinvestment into the company's most profitable segments while lifting earnings per share over the long run.

As that focus shifts from propping up a shrinking checkout business toward strengthening Venmo, BNPL, advertising, and the rest of the growth stack, the market should start seeing PayPal less as a dying company and more as a resilient one with segments that are actually growing and getting stronger. This is especially true as reporting changes in 2027 and gives more light into these underappreciated segments.

GROWTH STACK

Venmo: Total payment volume grew 14% in Q2, the seventh straight quarter of double-digit growth, and the driver is product attachment, not just more users. Venmo debit card monthly actives are up over 50%, Pay with Venmo actives are up roughly 30%, and debit card growth specifically was 40% in 2025. Venmo pulls in only about \$1.7B of revenue on 100 million users, well under Cash App's \$1.97B of gross profit in a single quarter on 59 million users, and closing that gap in ARPU is the growth thesis and its working.

Buy now pay later: BNPL lets the company capture volume that used to happen outside its rails, on terms that earn better margins than checkout does. The service already has over 20 million monthly active accounts and revenue growth is accelerating to 26%. BNPL earns through interchange and instant-transfer fees so as BNPL takes a larger share of PayPal's total payment mix, the blended margin rises instead of falls. PayPal is positioned to take share in an ARPU rich and proven category, using its vast and trusting customer base to grow quickly.

Value Added Services is a business that grows by acquiring merchants who don't touch checkout at all, getting new revenue at higher margins from customers it never had before. These include products like Zettle, which competes with Square or Toast in in-person retail payments; Hyperwallet, which sells global payouts to platforms paying contractors and vendors; and Fraud Protection Advanced is PayPal's anti-fraud software that checks transactions in real time to catch and stop chargebacks before they happen sold as a standalone product to merchants that don't checkout with PYPL. Each is a wedge into a new logo, sold on a fee or software basis rather than a checkout take rate, so the incremental merchant is higher margin and additional revenue that they were missing out through checkout.

Advertisement is PayPal's newest segment, the one least priced into the stock while having great upside. This uses PayPal's proprietary purchase data to place ads on behalf of consumers into the web, not on the paypal app. Think of it as a marketing agency with top tier data on how to place ads. Mark Grether took Amazon's ads business from \$11.6B to \$26B in two years, then built Uber's from scratch to a \$1B run rate in three. Now he's building PayPal's from zero, with 25 billion transactions across 400 million accounts to work with, real purchases proving what ads actually sold and having better data than anyone else telling the story of how consumers make purchases. Early results show success, with Adorama saw a 7.3x ROAS and Best Buy hit 6.25x. If his Uber timeline repeats, year two lands near \$1B in revenue, \$400M in cash flow, hiding inside a stock the market has already left for dead.

PYUSD, PayPal's own dollar-backed stablecoin, is a newer piece of the growth stack, sitting inside Payment Services and Crypto. Circulation grew over 600% in 2025, and as it scales it can cut settlement costs by routing some flows around traditional card and bank rails entirely. If PYUSD scales, PYPL can significantly improve margins or use a lower take-rate to expand revenue in the dead segment of checkout, which would flip the narrative around the stock on its head.

CONCLUSION

PayPal's checkout business is dying exactly slowly enough to keep funding everything the market can't see: the buybacks, the \$1.5B cost programme, and the growth stack quietly compounding inside one reported line. The market is pricing the whole company at 7.6x EBITDA, a multiple that only makes sense if PayPal really is just checkout, and that mismatch is the entire trade, because if checkout merely survives while everything keep growing at their current pace, the blended multiple has nowhere to go but up once 2027's segment reporting forces the market to see the parts instead of the average. The takeover falling apart didn't break the thesis, it just handed me the same company without the premium anyone would have paid to skip the wait.