**Square IPO Summary**

Yesterday evening, Square, a provider of payments and point-of-sale services, raised a total of $243 million after pricing its IPO at $9 per share ($2 below the low end of its indicated range), representing an initial fully diluted market cap of $3.2 billion. As was well publicized in the media, this market cap represents a significant discount to the $6 billion valuation achieved at their Series E round. Square closed its first day of trading up 45% at $13.07

**Company Overview**

- Provides payments and point-of-sale (POS) services, which include hardware and software to accept payments, streamline operations and analyze business information. Also provides related financial and marketing services
- In the 12 months ended September 30, 2015, sellers using Square processed $32.4 billion of Gross Payment Volume (GPV), which was generated by 638 million card payments from approximately 180 million payment cards
- Has advanced over $300 million across over 50,000 advances through Square Capital since launching it in May 2014
- Has over two million customers and, as of Q3 2015, 11% process >$500k in annualized GPV, 27% process $125-500k in annualized GPV, 62% process <$125k in annualized GPV
- Substantially all revenue is generated from the United States, although the company does have some sellers in Canada and Japan
- Signed agreement in 3Q12 to process all card payments for Starbucks-owned stores. Amended agreement in August 2015 to eliminate exclusivity and Starbucks announced that it will stop using Square entirely by 3Q16
- Payments and POS services:
  - **In Person:**
    - Enable in-person acceptance of payment cards through custom-designed hardware and Square Register software
    - Charge a flat rate of 2.75% per swipe, dip or tap and 3.5% plus $0.15 per transaction for manually-entered card-not-present transactions
    - Hardware for in-person payments includes the Square Reader for magnetic stripe cards, Square Reader for EMV chip, Square Reader for EMV chip cards and NFC (available fall of 2015) and Square Stand
    - Square Gift Cards enable sellers to offer, redeem and track gift cards through Square Register
  - **Online Payments:**
    - Square Invoices – allows sellers to create digital invoices and collect payments securely
- Square Store – allows sellers to create an online store or build more advanced websites through integrations with companies such as Bigcommerce or Weebly
- Charge a flat rate of 2.75% for payments made via Square Invoices or Square Store and 2.9% plus $0.30 per transaction for payments made via third-party websites
  - Square Cash – enables anyone to send and receive money electronically. Free for individuals sending peer-to-peer payments. Businesses processing payments for goods and services pay 1.9% per transaction
  - Square Register – basic POS software application for iOS and Android is free. Employee management is a paid upgrade that unlocks advanced features such as the ability to oversee multiple stores from one account, manage employee timecards and view and act on detailed sales reports that can be filtered by employee, device or location
  - Square Analytics – free software that helps sellers understand how their business is performing
  - Square Appointments – enables sellers to schedule and accept appointments, manage staff calendars, organize their clients’ information and view appointment history. Available via a web or iOS app for a monthly fee
  - Square App Marketplace – enables sellers to integrate third-party apps with Square
- Financial Services:
  - Square Capital – provides merchant cash advances to pre-qualified sellers
  - Square Payroll – payroll service for sellers, optimized for hourly employees (available as a limited release in California)
- Marketing Services
  - Square Customer Engagement – helps sellers better analyze and understand their businesses by engaging buyers in ongoing conversations and promoting offerings through email marketing to drive additional sales. A basic set of customer engagement services are free and advanced services are offered for a monthly fee
  - Caviar – offers a food delivery service to help restaurants reach new customers and increase sales. Charges a fixed fee per delivery plus a service fee. Also charge partner restaurants a service fee as a percentage of total food order value
- KPIs:
  - Reported Adjusted Revenue of $317.6 million for the nine months ended September 30, 2015 and $276.3 million for fiscal year 2014, representing year-over-year growth of 63% and 73% respectively (Adjusted revenue is total net revenue less transaction costs,
adjusted to eliminate the effect of activity under the payment
processing agreement with Starbucks)
  o Reported total net revenue of $892.8 million for the nine months
    ended September 30, 2015 and $850.2 million for fiscal year 2014,
    representing year-over-year growth of 49% and 54% respectively
  o Currently, 95% of revenue is derived from the payments and point-
of-sale services
  o The Company generated a adjusted EBITDA of $(35.0) million for
    the nine months ended September 30, 2015 and $(67.7) million for
    fiscal 2014
  o Over the past four quarters, retention of transaction revenue net of
    transaction costs for Square’s cohorts, has, on average, exceeded
    110% year over year
  o On average, Square’s payback period has been 4-5 quarters

IPO Overview
  • Priced 27 million shares at $9 per share ($2 below the low end of its
    indicated range), for an initial fully diluted market cap of approximately
    $3.2 billion
  • 25.65 million shares were offered by Square and 1.35 million shares were
    offered by the Start Small Foundation, a charitable fund created by Jack
    Dorsey
  • Recent private rounds:
    o Between September 14th and October 14th, 2015 raised $150 million
      in series E at a post money valuation of $6 billion
    o Raised an additional $30 million as part of the series E from one
      new investor and one existing investor
  • Primary valuation methodology is Enterprise Value / 2017 Adjusted
    Revenue. Secondary valuation methodologies include Enterprise Value /
    steady-state 2017 EBITDA and DCF
  • Trades on the NYSE under ticker symbol SQ
  • Goldman Sachs (lead left), Morgan Stanley and J.P. Morgan are lead joint
    bookrunners. Barclays, Deutsche Bank, Jefferies, RBC and Stifel are
    additional bookrunners

Key Investment Debates:
  • Biggest thematic investment debate is whether Square should get credit
    as a payments platform, which is the source of the vast majority of their
    revenue but would imply lower multiples, or as a disruptive software and
    data platform for businesses, which is the future of the business and
    would imply higher multiples
    o Traditional versus disruptive is a key debate for many disruptive
      technology IPOs and it is important to be able to evidence sufficient
      proof points to substantiate a valuation premium to the traditional
      companies that are being disrupted
• Other investment debates:
  o Co-founder and CEO Jack Dorsey’s split role as the CEO of Twitter
  o EBITDA margin profile
  o Ability for company to continue to move up-market with larger sellers
  o Timing of the IPO

* Data sourced from publicly filed company documents
** Excludes detailed comparable company analysis, valuation analysis and order book analysis