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PayPal Holdings, Inc.

(PYPL)

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1. Executive summary

Company: PayPal Holdings, Inc.

Ticker: PYPL

Recommendation: Strong Buy

Current price: US$41.03

Estimated value: US$88.79

Upside: 116.4%

Expected IRR: 16.2%

I believe PayPal is undervalued at $41.03. The market is pricing in a weak steady state, with revenue growth of about 2.7%, a stable net income margin of about 9.6%, and stable return on equity (ROE) of about 8.0%. I see a different picture because PayPal already operates at scale and is executing self-help that supports durable cash generation. In 2025 it delivered $33.2bn of net revenues, $1.79tn of total payment volume (TPV) with 7% growth, and about an 18% operating margin, which is much closer to my 18.0% stable net income margin than the market's implied level. I forecast 5.0% revenue growth and 15.0% ROE because PayPal Open rollout, branded checkout improvement, and ongoing buybacks should lift monetisation and capital efficiency without requiring a major share win. Compared with the low multiples implied by today's price and PayPal's own depressed ratios, I estimate fair value at about $89 per share, with a reasonable range of $55–$125. That implies 116% upside from today's price. Key events such as 2026 earnings and guidance updates and clearer disclosure of Q2 2025 plan savings through 2026–2027 will test this view, while the main risks are sustained pricing pressure, higher compliance and credit costs, and weaker capital returns. Taking all this together, I rate the shares a Strong Buy over the next 12–18 months.

2. Overview

Company	PayPal Holdings, Inc.
Ticker	PYPL
Analysis date	Feb 05, 2026
Expected IRR	16.2%
Latest filing	10-K, Feb 03, 2026
Industry	Financial – Credit Services
Sector	Financial Services
Recommendation	Strong Buy
Upside potential	116.4%
Exchange	NASDAQ
Market cap	$38.39bn
Current price	US$41.03
Estimated value	US$88.79

3. Investment summary

Recommendation: Strong Buy PYPL (PayPal Holdings, Inc.) shares at $41.

Thesis: The market is valuing PayPal as a low-growth payments utility with structurally lower profitability, but the platform still has scale, brand trust, and clear self-help levers. If PayPal sustains around 5.0% revenue growth and defends an 18.0% steady margin, buybacks and cash generation should support about 15.0% ROE and a major re-rating.

Catalysts: Quarterly results and guidance through 2026 should test whether revenue growth holds near 5.0% rather than 2.7%, while 2026–2027 disclosures on Q2 2025 plan savings should confirm whether steady margins can sit near 18.0% rather than 9.6%. If investors accept those drivers, I expect the shares to move towards my $89 base-case value.

Valuation: I estimate intrinsic value at $55–$125 per share with a base case of $89, which implies 34% to 204% upside versus $41.03. The current price also sits below the 5th percentile of simulated intrinsic values ($61), which supports a Strong Buy.

Risks: If competition and regulation keep revenue growth near 2.7% and hold sustainable net income margin closer to 9.6%, the shares can gravitate towards my bear value of about $55 and the rerating can take longer than 12–18 months. In a harsher downside case that combines weaker TPV, higher credit losses, and slower cost take-out, valuation could fall towards the 0th percentile of simulated intrinsic values (about $34), which implies about 17% downside from today.

4. Company background

Industry
Financial – Credit Services

Description
PayPal operates a global digital payments platform that enables consumers and merchants to transact online and offline. It earns most revenue from transaction fees and also from value added services such as credit products, gateways, and merchant tools across brands including PayPal, Braintree, Venmo, Xoom, Zettle, Hyperwallet, Honey, and Paidy.

Key products
PayPal wallet and branded checkout
Braintree unbranded processing
Venmo
PayPal Credit and buy now pay later
Xoom remittances
Zettle point of sale
Hyperwallet payouts
Honey and Paidy

Business model
Value proposition: Enable secure, low-friction consumer to merchant payments across channels using PayPal and Venmo.
Revenue engine: Fees on payment transactions plus value added services such as credit, cross-border, gateways, and merchant tools.
Cost drivers and investment focus: Technology and development, transaction and credit losses, compliance, and platform modernisation including cloud migration and PayPal

Open.

Unit economics

Key unit: Active account.
Revenue per unit: About $75.6 per active account per year ($33.2bn / 439m accounts in 2025).
Cost per unit: About $61.7 per active account per year ($27.1bn operating expenses / 439m accounts in 2025).
Contribution margin: About $13.9 per account per year, or about 18% of revenue per account.

Competitive landscape

Direct competitors: Direct competitors: Block, Adyen, Stripe, Apple Pay, Google Pay, card networks, banks, Affirm and Klarna.
Relative positioning: Relative positioning: Scaled two-sided network with strong consumer brand, broad merchant acceptance, and Venmo reach.
Key threat/trend: Ongoing price competition in unbranded processing alongside rising regulatory and compliance demands.

Operating segments

Net revenues (100%): One integrated payments platform spanning branded checkout, unbranded processing, wallets, and value added services

Geographic segments

United States (57%): Largest base of branded checkout and merchant volumes
Other countries (43%): Material cross-border exposure across ~200 markets

5. Financial summary

All financial figures in $ millions

Fiscal year	2025	2024	2023	2022	2021
Revenue	33,338	31,797	29,771	27,518	25,371
YoY growth	4.9%	6.8%	8.2%	8.5%	18.3%
Adjusted net profit	5,596	4,319	4,260	3,479	5,995
Margin	16.8%	13.6%	14.3%	12.6%	23.6%
Reinvestment	(469)	(1,633)	(615)	(577)	2,784
FCFE	6,065	5,952	4,875	4,056	3,211
Adjusted equity	32,341	32,139	32,601	31,810	32,203
Return on equity (ROE)	17.3%	13.4%	13.1%	10.9%	18.6%
Sales to equity ratio	1.03	0.99	0.91	0.87	0.79

6. Investment thesis

The market is valuing PayPal as a low-growth payments utility with structurally lower profitability, but the platform still has scale, brand trust, and clear self-help levers. If PayPal sustains around 5.0% revenue growth and defends an 18.0% steady margin, buybacks and cash generation should support about 15.0% ROE and a major re-rating.

PayPal can sustain mid-single-digit growth even in maturity: The market is pricing PayPal as if it cannot grow much beyond 2.7%, but I forecast 5.0% because recent volume and revenue trends support steady monetisation on a scaled network. In 2025 PayPal generated $1.79tn of TPV with 7% growth and $33.2bn of net revenues, which fits a mature platform that can still compound. With 439m active accounts and 57.7 transactions per active account, small improvements in conversion, mix, and engagement can sustain mid-single-digit growth. PayPal Open rollout, branded checkout upgrades, and cross-border mix (12% of TPV) support this outcome without assuming a dramatic market share shift.

Self-help and operating leverage can keep steady margins near 18%: The market's implied stable net income margin of 9.6% looks too low because PayPal already runs near this profitability level on an operating basis, with about an 18% operating margin in 2025. The cost base has large fixed components in technology, risk, and compliance, so incremental revenue should carry better margins when PayPal controls expense growth. The Q2 2025 plan targets about $280m of annualised savings, which supports margin durability even if unbranded processing pricing stays tight. A mix shift towards value added services and disciplined credit risk can further support an 18.0% steady margin versus the market's 9.6%.

Scale and capital returns can sustain mid-teens ROE: The market is pricing in an 8.0% stable ROE, but I forecast 15.0% because PayPal's network model and capital discipline should keep returns above its cost of equity. PayPal's brand trust and broad merchant acceptance support resilient unit economics in branded checkout and higher-fee cross-border use cases. Ongoing buybacks and the start of a dividend should reduce the equity base over time and lift ROE if net income stays stable. Competitive pressure can cap peak returns, but the current market view assumes a lasting collapse in economic quality that recent profitability does not support.

7. Catalysts

2026 earnings can force a reset of growth expectations: Watch quarterly earnings and guidance updates through 2026 for evidence that revenue growth holds near 5.0% rather than 2.7%. Exact reporting dates are unconfirmed, but they should follow the normal cadence after February 5th 2026. If PayPal reports sustained mid-single-digit net revenue growth and gives clearer PayPal Open adoption metrics, investors should revise implied growth up from 2.7% towards 5.0%. That change alone can support a material rerating towards my $89 base-case value, which implies 116% upside from $41.03.

Q2 2025 plan delivery can close the margin perception gap: Track disclosures during 2026 and 2027 on realised savings from the Q2 2025 modernisation plan, including cloud migration and data-centre exits. Management indicated about $280m of annualised savings, but the precise timing of full run-rate benefits remains unconfirmed. If PayPal shows that operating costs grow slower than revenue, the market should move away from a 9.6% steady margin view towards my 18.0% assumption. That margin reset should push the share price towards my $89 base-case value.

Buyback execution can re-anchor ROE expectations: Track buyback execution and changes in the equity base in quarterly disclosures through 2026, because they directly affect sustainable ROE. The timing is unconfirmed, but continued repurchases and dividend continuation should show up after February 5th 2026. If net income stays robust and PayPal keeps shrinking equity, investors should revise steady-state ROE from about 8.0% towards 15.0%. A credible ROE rerating supports higher fair multiples and a move towards my $89 valuation over 12–18 months.

8. Valuation

Current price: US$41.03

Base case value: US$88.79

Upside potential: 116.4%

Expected IRR: 16.2%

Currency: USD

Report date: Feb 05, 2026

Latest annual financials: Dec 31, 2025

Base case assumptions DCF model Bull/Bear scenarios

Story:

PayPal operates a large global digital payments platform with strong brand reach and a deep merchant network. I place it in a mature platform stage where growth comes from product upgrades, wider merchant adoption, and a measured expansion of credit and value-added services, rather than from rapid market creation. Competition stays intense in unbranded processing and wallets, so PayPal wins mainly through better checkout, data-driven risk tools, and ecosystem bundling. Margins improve gradually as scale and cost discipline offset ongoing investment, funding costs, and regulatory friction.

Multiples snapshot

Comparable payments and fintech firms typically trade on higher mid-cycle multiples than PayPal, and PayPal itself screens very cheap at 1.2x price to sales, 6.9x price to earnings, and 1.2x price to book, which sit at the 17th percentile, 10th percentile, and 20th percentile versus its own history. This discount matches the market's pessimistic reverse-DCF assumptions of 2.7% growth, 9.6% net income margin, and 8.0% ROE, but it clashes with evidence of ongoing scale and profitability, including 2025 operating margin near 18%. If PayPal simply executes to my base case and the market moves the stock towards even the 50th percentile implied prices across ratios, it points to about $73–$89 per share, which aligns with my $89 DCF fair value and supports a Strong Buy. Even a partial rerating towards the 25th percentile implied prices ($45–$54) still implies upside, which limits the need for perfect execution to earn a positive return.

Price-to-sales: 1.2x (17th percentile vs. peers) with implied share prices from US$29 to US$253 across the revenue-weighted peer set.

Price-to-earnings: 6.9x ("d10th percentile vs. peers) with implied share prices from US$42 to US$193 across the revenue-weighted peer set.

Price-to-book: 1.2x (20th percentile vs. peers) with implied share prices from US$31 to US$183 across the revenue-weighted peer set.

9. Risks

Competition and weaker spending can keep growth near 2.7%: Growth can disappoint if unbranded processing faces tougher price competition and branded checkout fails to improve, which would keep revenue growth closer to the market's 2.7% rather than my 5.0%. A macro slowdown can also hit TPV, especially cross-border volumes that carry higher fees. If growth stays at 2.7%, I would expect the share price to trend towards my bear value of about $55 rather than my $89 base case. That outcome cuts upside and likely delays the rerating beyond 12–18 months.

Credit, funding, and compliance costs can trap margins near 9.6%: Margins can undershoot if Q2 2025 plan savings arrive late, or if PayPal must reinvest heavily to defend volumes and product position. Higher funding costs or a credit loss cycle can also raise transaction and credit losses and depress net income. If the stable net income margin stays near the market-implied 9.6% rather than 18.0%, intrinsic value would fall towards the low end of my range, close to $55. That would weaken the Strong Buy case and keep multiples compressed.

Platform disintermediation and dilution can cap ROE near 8%: ROE can remain near 8.0% if large platforms and wallets disintermediate PayPal at checkout, which would weaken pricing power and increase acquisition costs. Higher stock-based compensation or slower buybacks can also keep the equity base too high and dilute returns. If ROE does not move towards 15.0%, investors may keep valuing PayPal on depressed multiples, even if earnings stay stable. In that case, the share price may remain closer to $41 than my $89 base-case value.

10. Appendix

10.1 Base case assumptions

Valuation story

PayPal operates a large global digital payments platform with strong brand reach and a deep merchant network. I place it in a mature platform stage where growth comes from product upgrades, wider merchant adoption, and a measured expansion of credit and value-added services, rather than from rapid market creation. Competition stays intense in unbranded processing and wallets, so PayPal wins mainly through better checkout, data-driven risk tools, and ecosystem bundling. Margins improve gradually as scale and cost discipline offset ongoing investment, funding costs, and regulatory friction.

Revenue growth rate

Value: 5.0%
Explanation: PayPal sits in a mature platform phase, so I expect steady but not rapid growth. Recent adjusted revenue growth has already slowed to mid single digits, and analysts' revenue path implies roughly mid single-digit growth over the next several years. I set 5% to match that trajectory and to reflect ongoing product roll-outs and credit-led fee growth without assuming a big share gain in a competitive payments market.

Stable growth rate

Value: 3.5%
Explanation: In maturity, PayPal should not outgrow the wider economy for long. I set terminal growth slightly below the risk-free rate to reflect a large, saturated payments platform with ongoing pricing pressure and some regulatory drag. This keeps the long-run assumption conservative and still consistent with modest nominal economic growth.

Years to stability

Value: 10.0
Explanation: I treat PayPal as a mature compounder with some self-help and product catalysts, not a high-growth disruptor. A 10-year glide path lets growth fade from a mid single-digit pace to a stable rate as branded checkout stabilises and unbranded processing remains competitive. With Y = 10, the 5% initial rate reads as a plausible 5-year CAGR and stays close to the analysts' medium-term revenue slope.

Sales-to-equity ratio

Value: 1.0
Explanation: PayPal looks moderately capital-light but not asset-free because credit products, risk buffers, and platform investment still tie up capital. The adjusted history sits near 0.9 to 1.0 and industry medians cluster below 1.0, so I keep the ratio around 1. This fits a base case where PayPal funds growth mainly through operating cash flow and balance sheet efficiency rather than heavy equity build.

Stable net profit margin

Value: 18.0%
Explanation: Adjusted margins have recovered from the post-peak dip and now sit in the mid-teens, with room for operating leverage if credit losses stay controlled. I set a stable margin at 18%, modestly above the industry median but below top-decile levels, to reflect scale and product breadth tempered by pricing pressure in unbranded volumes and higher compliance costs. This also allows for the fact that our adjusted fundamentals capitalise intangibles, which can lift the sustainable margin versus consensus net income margins.

FY+1 net profit margin

Value: 16.0%
Explanation: I expect a small step down from the latest adjusted margin because management signals near-term investment headwinds and execution risk from platform and product changes. At the same time, PayPal's cost discipline and low reported loss rates should stop a sharp fall. A 16% margin bridges to the longer-run improvement without assuming a quick rebound.

Margin convergence
Value: 5.0
Explanation: I expect margin repair to come through over a medium horizon as PayPal scales new checkout and merchant tools and spreads fixed costs. Competition and funding costs should slow the pace of improvement, so I do not force a fast snap-back. Five years gives a realistic runway for benefits from AI-led features, merchant platform simplification, and credit scaling to show up in adjusted profitability.

Stable ROE
Value: 15.0%
Explanation: PayPal has produced adjusted ROE in the low-to-high teens and sits around the upper half of industry outcomes. I assume a stable 15% ROE, which stays comfortably above the stable cost of equity and reflects a durable network business with ongoing buybacks and solid cash generation. I do not assume a return to peak ROE because competitive intensity should cap excess returns over time.

Credit rating
Value: A3/A-
Explanation: PayPal has meaningful scale, strong free cash flow, and good access to liquidity, while keeping debt at a manageable level for the business model. The firm also relies on capital markets for flexibility, which argues against the very top ratings. An A-area rating fits a base case of stable cash generation, continued buybacks, and disciplined credit risk.

Recovery ratio
Value: 55.0%
Explanation: PayPal's value sits largely in intangibles, customer relationships, and platform capability rather than hard assets, which usually lowers recovery. Still, it holds substantial cash and investment balances and runs a diversified payments franchise with saleable operations. I set a mid-range recovery to reflect that mix of limited hard collateral and meaningful going-concern value.

10.2 DCF model

All financial data in US$ millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	33,338	35,005	36,755	38,593	40,523	42,549	44,548
YoY growth, %	4.9%	5.0%	5.0%	5.0%	5.0%	5.0%	4.7%
All expenses	27,742	29,404	30,727	32,109	33,553	35,060	36,530
Net profit	5,596	5,601	6,028	6,484	6,970	7,489	8,019
Net margin, %	16.8%	16.0%	16.4%	16.8%	17.2%	17.6%	18.0%
Reinvestment	-469	1,667	1,750	1,838	1,930	2,026	2,000
Invested equity	32,341	34,008	35,758	37,596	39,525	41,551	43,551
ROE, %	17.3%	16.5%	16.9%	17.2%	17.6%	18.0%	18.4%
S/E ratio, x	1.0	1.0	1.0	1.0	1.0	1.0	1.0
FCFE	6,065	3,934	4,278	4,646	5,040	5,462	6,019
Stable value							
FCFs to discount		3,934	4,278	4,646	5,040	5,462	6,019
Discount factor		0.9	0.8	0.8	0.7	0.6	0.6
Cost of equity, %	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%	9.6%
PV of FCFE		3,624	3,597	3,566	3,531	3,493	3,513

	...		FY+7	FY+8	FY+9	FY+10	Stability
Revenue			46,509	48,415	50,255	52,014	53,835
YoY growth, %			4.4%	4.1%	3.8%	3.5%	3.5%
All expenses			38,137	39,701	41,209	42,652	44,144
Net profit			8,372	8,715	9,046	9,363	9,690
Net margin, %			18.0%	18.0%	18.0%	18.0%	18.0%
Reinvestment			1,960	1,907	1,840	1,759	2,261
Invested equity			45,511	47,418	49,258	51,017	
ROE, %			18.4%	18.4%	18.4%	18.4%	15.0%
S/E ratio, x			1.0	1.0	1.0	1.0	1.0
FCFE			6,411	6,808	7,206	7,604	7,429
Stable value							122,621
FCFs to discount			6,411	6,808	7,206	7,604	122,621
Discount factor			0.5	0.5	0.4	0.4	0.4
Cost of equity, %			9.6%	9.6%	9.6%	9.6%	9.6%
PV of FCFE			3,415	3,310	3,198	3,080	49,672

Sum of PV of FCFE	83,999.6
Less: Distress adjustments	927.0
Distress likelihood, %	1.4%
Recovery ratio, %	55.0%
Value of common equity	83,072.6
Less: Employee options	0.0
Less: Unfunded liabilities	0.0
Value of common shareholders' equity	83,072.6
Divide: Share count	935.7
Equity value per share	US$88.79

10.3 Scenarios

Bear case

Value: US$55.07
Upside: 34.2%
Story: PayPal sits in a mature platform stage, but the bear case assumes the moat

weakens. Competition intensifies in both branded checkout and unbranded processing, so take rates fall and PayPal must spend more to defend merchants and consumers. Credit growth slows because funding stays less available and losses rise, which also brings tougher regulatory scrutiny and higher compliance cost. This mix keeps revenue growth low and makes margin recovery slow and incomplete, even though the platform remains large and cash generative.
Revenue growth rate: 3.0%
Stable growth rate: 3.0%
FY+1 net margin: 12.0%
Stable net margin: 14.0%
Sales-to-equity ratio: 0.9
Years to stability: 10.0
Stable ROE: 11.0%

Bull case

Value: US$124.64
Upside: 203.8%
Story: PayPal stays in a mature platform stage, but it re-accelerates growth through better execution and product focus. PayPal Open, Fastlane, and AI-enabled checkout improve conversion and deepen merchant adoption, while Venmo and value-added services lift monetisation per user. Credit expands mainly through off-balance-sheet funding and disciplined risk models, so fee income grows without a large rise in balance-sheet strain. PayPal protects pricing through better product value, and it lifts margins through operating leverage and mix, even as competition stays intense.
Revenue growth rate: 7.5%
Stable growth rate: 3.8%
FY+1 net margin: 17.2%
Stable net margin: 21.0%
Sales-to-equity ratio: 1.2
Years to stability: 10.0
Stable ROE: 18.0%

10.4 Other claims

(in US$ millions unless stated)

Employee stock options

Number of stock options: 0.0
Weighted avg. strike price: 0.00
Weighted avg. maturity: 0.0
Assumed volatility: 0.0%
Assumed dividend yield: 0.0%
Value of options: 0.0

Unfunded liabilities

Pension obligations: 0.0
Post-retirement benefits: 0.0
Healthcare liabilities: 0.0
Deferred compensation: 0.0
Lawsuit contingencies: 0.0
Environmental liabilities: 0.0
Other: 0.0
Total liabilities: 0.0

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	4.2%
Bond yield country	United States of America
Default spread, %	0.3%
Risk-free rate, %	3.9%

Beta calculation

Operating segment	Sales	MC/Sales	Weight, %	Equity beta
Financial - Credit Services	29,798	2.3	89.8%	1.0
Financial - Credit Services	3,374	2.3	10.2%	1.1

Equity beta	1.02

Beta selection notes

Financial – Credit Services (50th percentile of the industry, 1.0): Transaction revenue is driven by broad-based payment volumes across many merchants and consumers, which is cyclical but relatively diversified and repeat-usage in nature. With mixed forces (economic sensitivity versus essential payment rails and scale), the middle of the industry range fits best.

Financial – Credit Services (60th percentile of the industry, 1.1): Other value added services are typically more discretionary add-ons (such as marketing, rewards, instalments and ancillary tools), so demand can soften faster in a downturn than core payment processing. This area also tends to have higher product and execution risk than plain transactions, pushing it above the median but not into the highest-risk tail.

Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
Global (ex United States)	14,304	43.1%	6.9%	25.6%
United States of America	18,868	56.9%	4.5%	21.0%

Company ERP, %	5.6%

Cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	5.6%
Equity beta	1.0
Equity risk premium, %	5.6%
Cost of equity, %	9.6%

Stable cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	5.6%
Stable beta (clamped)	1.0
Equity risk premium, %	5.6%
Stable cost of equity, %	9.6%

10.6 Reverse DCF

Expected IRR	16.2%

Reverse DCF (continued)

Driver	Base value	Market-implied value	Difference
Stable net profit margin, %	18.0%	9.6%	-8.4
Revenue growth rate, %	5.0%	2.7%	-2.3
Stable ROE, %	15.0%	8.0%	-7.0