

Square[◻]

The Simplest Way to Make Money

Elizabeth Cheng | Jing-Jing Li | Irwin Liu | Jessica Lukrich

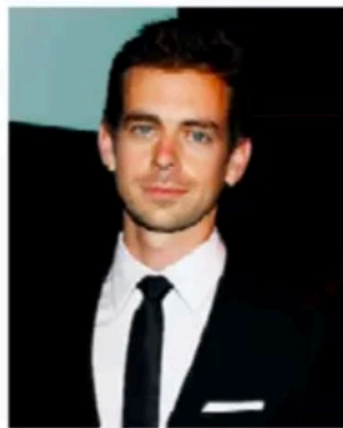
The Square Proposition



Management Team



▣ *The team has the background, proven track record and vision to succeed*



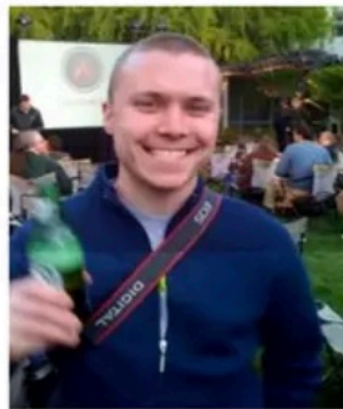
Jack Dorsey – Co-Founder, CEO

- Co-Founder, Chairman of Twitter
- Advisor at Ustream



Keith Rabois – COO

- VP of Strategy & Business Development for Slide
- VP of Business & Corporate Development at LinkedIn
- EVP of Business Development and Policy for PayPal



Bob Lee – CTO

- Founder at Twubble
- Software Engineer at Google



Jim McKelvey – Co-Founder

- Owner at Mira
- Co-founder at Third Degree Glass Factory

Successfully Managing

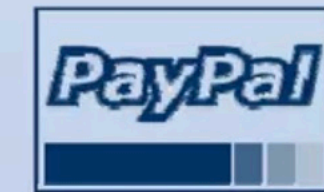


twitter



LinkedIn

MIRA



twubble

Google

slide

Other Key Advisors

Gideon Yu
Roelof Botha
Ryan Gilbert
Alyssa Milano
Greg Kidd
Andrew Rasiej

The Market



▣ *Mobile payments is a massive, rapidly growing but underpenetrated industry*



Dollar Amount of Mobile Payments In The U.S. (billions)*

Opportunity

- Traditional card readers are **unwieldy** & **expensive**
- **Difficult** for small business owners to use card services
- Alternative online services are **expensive**

Market Changes

- **Rapidly burgeoning** interest in mobile payments
- NFC tech adoption but **credit card usage prevails**
- Capturing **a loyal user base** has huge revenue potential

Square Positioning

- **First mover** advantage
- **Scalable** across multiple platforms
- **Low costs** address target customer needs

*Source: Aite Group

The Product



- *Square satisfies buyers and vendors through an easy-to-adopt platform*

Consumer Desires

- Use credit cards
- Swipe and go

Vendor Desires

- Accept credit cards
- Save on processing fees
- Simple and intuitive interface



Designate amount

Swipe credit card

Enter tip and sign with finger on-screen

Transaction completed

The Technology

Transaction

Magnetic reader that plugs into headphone jack of smartphone

Data Conversion

Once card is swiped, data is converted into an audio signal

Information Processing

Processors route signal to Square software application

Transmission

Encrypted data sent through Wi-Fi or 3G to back-end servers

Communication

No info stored on devices, auto-communication with payment network

Value to User



- *Square offers the simplest and most compelling way to accept credit cards*

	 Square	Traditional Card Processing Firms	Online Card Processing
Ease of Use	Scan and go; Intuitive interface	Requires some training; Problems require technician	Tied to computer; Manual input of card information
Costs	Free card reader; Flat 2.75% fee	Expensive reader; Up to 5% variable + 30¢ flat rate; Expensive update and maintenance fees	Up to 3.5% variable rate + 30¢ flat rate
Benefits	Saves money; Saves time; Accessible across multiple devices	Familiar to user; Technical support	Cheaper than traditional; Only requires computer and internet

Customer Acquisition



- ▣ *Through wide exposure, Square targets anyone that seeks easy payment*

Target Customer

- Small businesses, independent workers, individuals selling goods
- Market: anyone who accepts payments
- Square's Cost: gaining customer awareness + free card reader



Selling Points

- Easy convenient everyday usage
- No surprise fees
- Adaptable across multiple devices

Advertisement

- Social media and internet advertising
- Traditional mediums with max exposure/min cost

Retail

- Selling through online registration and Apple stores
- Follows razor blade retail model

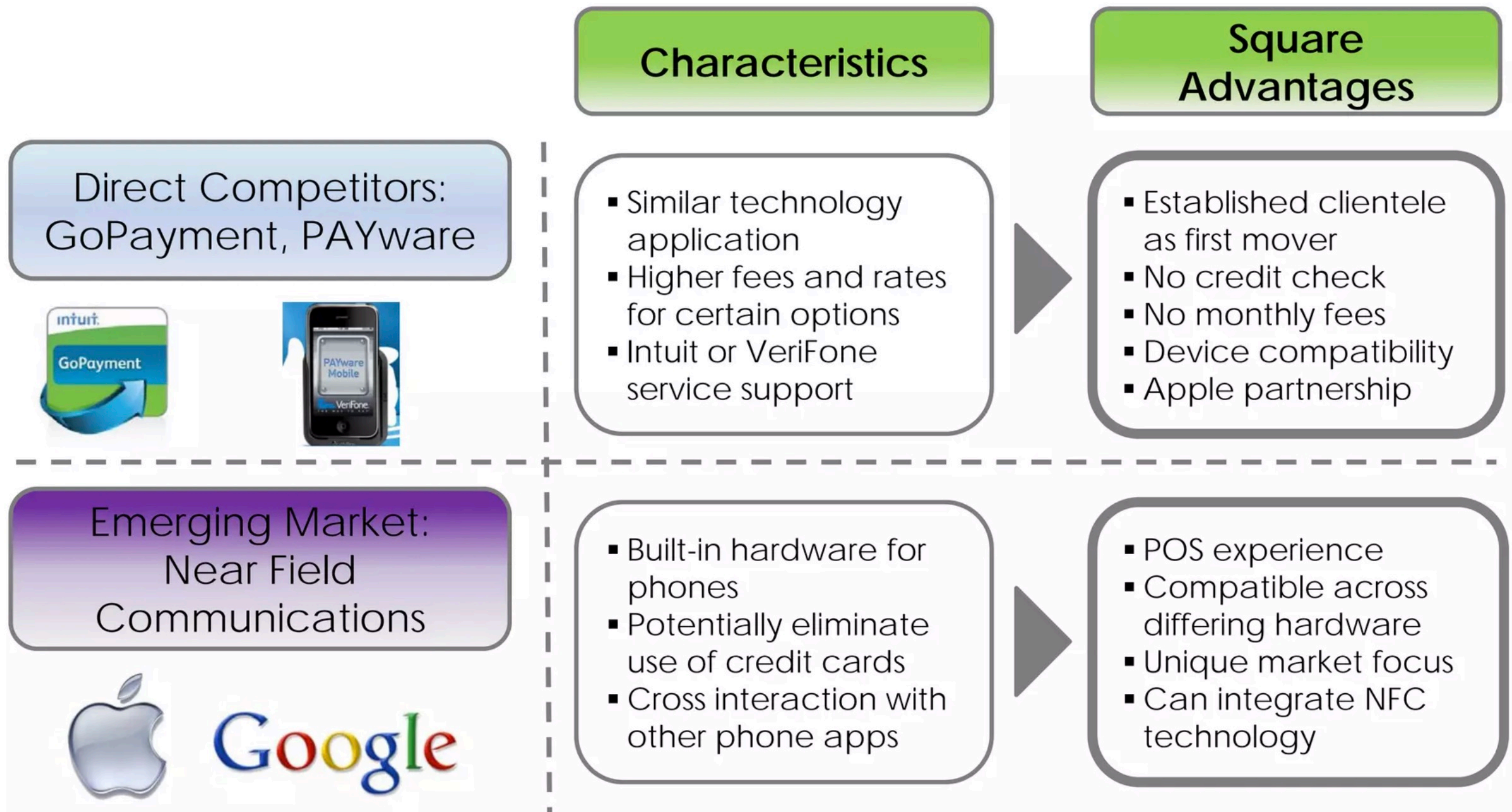
Acquiring 100,000+ customers per month



Competition and Defensibility



- *Its established presence and niche market give Square a competitive edge*

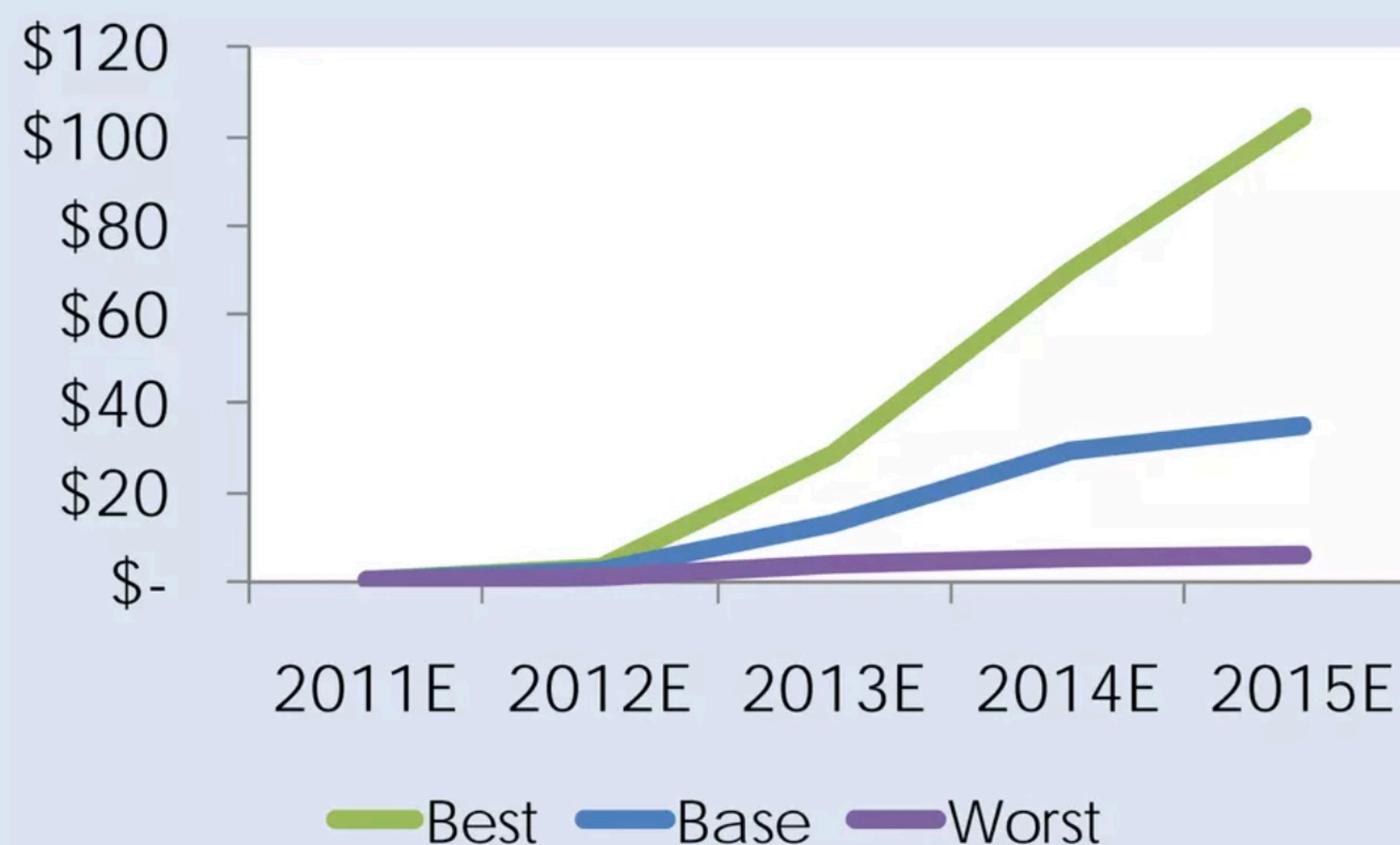


Financial Model and Projections



▣ Square will make for a lucrative investment even with conservative projections

By Year End	2011E	2012E	2012E	2014E	2015E
Payments Processed Per Day (\$mm)	1.1	7.7	23.1	41.6	49.5
Growth Rate	1000%	600%	200%	80%	19%
Annual Revenue	\$ 10.59	\$ 74.11	\$ 222.34	\$ 400.21	\$ 476.25
EBITDA	0.53	4.45	20.01	44.02	52.39
EBITDA Margin	5%	6%	9%	11%	11%
EBIT	0.32	2.96	13.34	28.01	33.34
EBIT Margin	3%	4%	6%	7%	7%



Assumptions

- Investment: \$20m
- Stake: 20%
- Hurdle Rate: 15%

IRR of 55%

- Sale or IPO at 2.5x 2015 Revenue

Why Invest Now



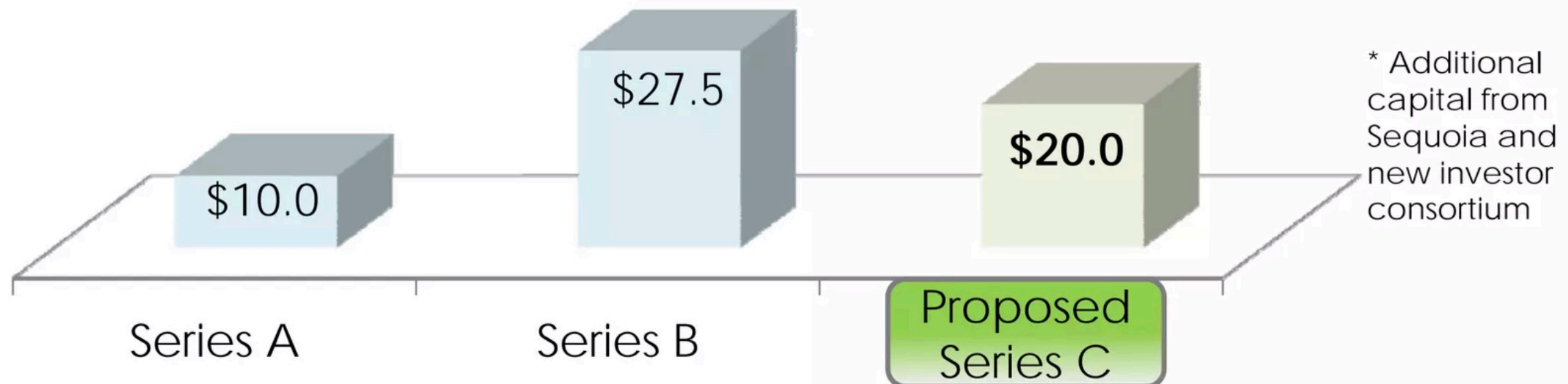
- ▣ *Additional investment will generate outside returns due to growth prospects*

Need for Additional Investment

- ▣ Additional resources needed to maintain first mover advantage
- ▣ Competitive pressures increasing
- ▣ Expected spend in advertising and customer acquisition

High Potential for Growth

- ▣ Potential for growth will allow new investors to see an outsized return
- ▣ Customer adoption will scale up exponentially
- ▣ The key to success will be in locking in a loyal customer base early



Exit Strategies



- ▣ *Square will have multiple exit opportunities that will result in a high ROI*

Highly Viable M&A Prospects

- Multiple buyers possible → competitive bidding
- Valuable user base with recurring revenue stream
- Clear fit into product portfolios

Large Companies
Competing in
Mobile Space



Service Providers
and Hardware
Manufacturers



Payment Processors



IPO Considerations

- Depends on user base expansion success and consideration of M&A
- High standalone potential

Potential Valuation



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Pay with



Financial Assumptions



- ▣ *Growth expected to scale exponentially and valuation will increase*

M O D E L D R I V E R S

Growth Assumptions

- Expected to process \$40 million in transactions in Q1 of 2011
- Currently signing up 100,000 merchants per month
- Compare to 30,000 monthly signups last Fall.
- \$1 million in payments per day
- Processing a few million in mobile transactions per week as of last fall

Valuation Assumptions

- Valued at \$240m after last round of funding in January 2011 (\$27.5m)
- Valued at \$40m at first round of funding in December 2009 (\$10.0m)

Sources

- DealBook, TechCrunch, Wall Street Journal, VentureBeat, Capital IQ

Financial Model



By Year End	2011E	2012E	2012E	2014E	2015E
Payments Processed Per Day (\$mm)	1.1	7.7	23.1	41.6	49.5
<i>Growth Rate</i>	1000%	600%	200%	80%	19%
Annual Revenue	\$ 10.59	\$ 74.11	\$ 222.34	\$ 400.21	\$ 476.25
EBITDA	0.53	4.45	20.01	44.02	52.39
<i>EBITDA Margin</i>	5%	6%	9%	11%	11%
EBIT	0.32	2.96	13.34	28.01	33.34
<i>EBIT Margin</i>	3%	4%	6%	7%	7%
Growth Assumptions	2011E	2012E	2013E	2014E	2015E
Best Case	1000%	800%	400%	100%	50%
Base Case	1000%	600%	200%	80%	19%
Worst Case	1000%	200%	100%	20%	5%
EBIT	2011E	2012E	2013E	2014E	2015E
Best	\$ 0.32	\$ 3.34	\$ 28.59	\$ 69.56	\$ 104.34
Base	\$ 0.32	\$ 2.59	\$ 13.34	\$ 29.22	\$ 34.77
Worst	\$ 0.32	\$ 1.11	\$ 3.81	\$ 5.56	\$ 5.84

NPV & IRR Calculation	2011E		2012E		2013E		2014E		2015E		Sale
\$	(20.00)	\$ 0.06	\$ 0.52	\$ 2.67	\$ 5.84	\$ 6.95	\$ 238.12				
NPV @ 15%	\$ 79.95										
IRR	55%		*represents 20% stake								

Assumptions from Comparables



Margin projections derived from median of comparable companies

Company Name	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net Income Margin %	LTM Total Revenues, 1 Yr Growth %
Ebay Inc.	72.0%	31.0%	22.7%	19.7%	4.9%
Gerber Scientific Inc.	30.7%	4.5%	2.9%	(3.0%)	21.0%
Iltron Inc.	30.9%	14.0%	8.2%	4.6%	33.9%
Iteris Inc.	43.5%	8.3%	6.4%	(8.3%)	(1.2%)
Mastercard Incorporated	100.0%	53.3%	50.7%	33.3%	8.6%
PAR Technology Corp.	26.1%	2.7%	1.6%	1.3%	7.6%
Perceptron Inc.	37.3%	0.8%	(1.0%)	1.9%	30.4%
VeriFone Systems Inc.	37.7%	14.8%	11.3%	11.3%	24.3%
Veritec Inc.	60.8%	(64.2%)	(67.8%)	(86.5%)	108.0%
Visa Incorporated	84.4%	60.0%	56.8%	37.0%	17.0%
Summary Statistics	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net Income Margin %	LTM Total Revenues, 1 Yr Growth %
High	100.0%	60.0%	56.8%	37.0%	108.0%
Low	26.1%	(64.2%)	(67.8%)	(86.5%)	(1.2%)
Mean	52.3%	12.5%	9.2%	1.1%	25.5%
Median	40.6%	11.2%	7.3%	3.3%	19.0%

Future Valuation Perspective



▣ *Square's valuation would price at premium to multiples due to early stage*

Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	NTM TEV/Forward Total Revenue	NTM TEV/Forward EBITDA	NTM Forward P/E
Ebay Inc.	3.83x	12.34x	16.88x	3.3x	9.4x	15.9x
Gerber Scientific Inc.	0.49x	10.95x	16.80x	0.5x	7.9x	21.9x
Iltron Inc.	0.71x	8.55x	11.10x	0.7x	6.3x	16.5x
Iteris Inc.	1.18x	8.47x	14.51x	1.2x	7.7x	13.0x
Mastercard Incorporated	5.46x	10.23x	10.77x	4.9x	9.0x	15.8x
PAR Technology Corp.	0.29x	10.73x	17.98x	0.3x	7.9x	23.7x
Perceptron Inc.	0.53x	67.04x	NM	0.5x	9.7x	37.3x
VeriFone Systems Inc.	4.49x	30.27x	39.89x	4.0x	19.3x	29.6x
Veritec Inc.	4.03x	NM	NM	-	-	-
Visa Incorporated	6.12x	10.21x	10.80x	5.5x	8.6x	15.3x
Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	NTM TEV/Forward Total Revenue	NTM TEV/Forward EBITDA	NTM Forward P/E
High	6.12x	67.04x	39.89x	5.5x	19.3x	37.3x
Low	0.29x	8.47x	10.77x	0.3x	6.3x	13.0x
Mean	2.71x	18.75x	17.34x	2.3x	9.5x	21.0x
Median	2.51x	10.73x	15.66x	1.2x	8.6x	16.5x

Concerns and Responses



Concern

NFC will overtake credit card use

Large companies will leverage ability to provide at lower prices

Consumer concerns over security on a newly introduced platform

Square will face execution risks

No defining industry standard

Response

Credit cards too engrained in daily life to become outdated in the near future

Square has a different target audience and has the first mover advantage

Partner bank verifies service and secure server makes security claims unfounded

Square has a successfully run and experienced management team

Flexibility of the industry promotes innovation; a standard will soon be reached

Partnerships



- ▣ *There are a multitude of partnership opportunities for Square*

Present

Future



VIVIENNE TAM

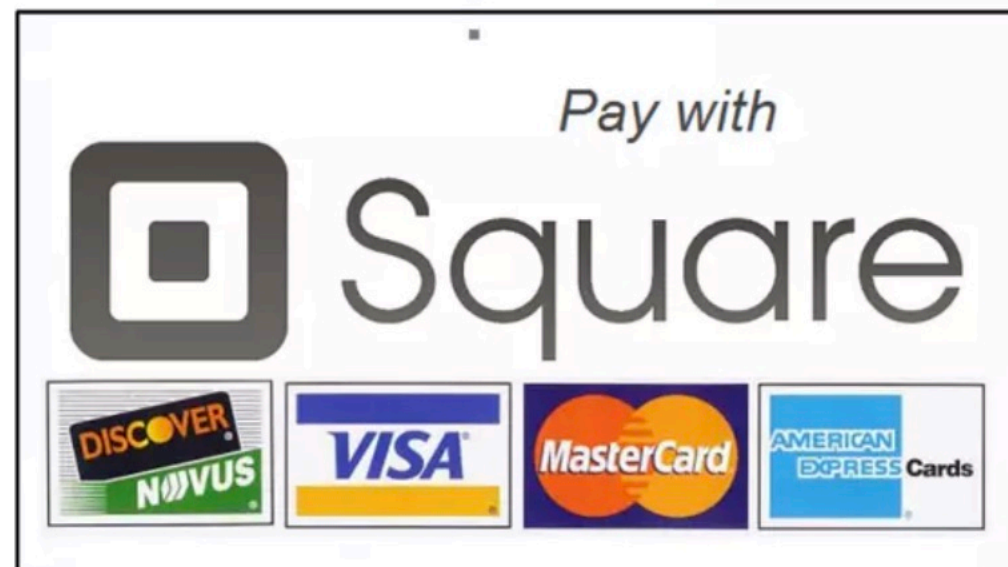


Company Vision



- ▣ *Square: 0 to \$60 in under 10 seconds*

Target consumers are
small business



- ▣ *Vision is to create **zero friction** and complexity around payments*
- ▣ *Emphasis on **simplicity** & **efficiency***

Free app for iPhone,
iPad & Android

Daily deposit to your
bank account

Simple pricing, free
shipping

*The simplest way to
make money*

Market Analysis



- ▣ *Strong market growth and advantageous company position*

Market

Expanding &
unsaturated
marketplace

Position

First Mover Advantage
Few comparable
competitors
Currently underfunded

***High growth
potential***

Competitors

Large Competitors

- ▣ Ie. Google, Apple
- ▣ Not focused enough to drive Square out of its niche market

Small Competitors

- ▣ Ie. VeriFone, Intuit
- ▣ Lack first mover advantage