

November 30, 2021

Payments

BNPL Panel Recap: Model Evolving But Barely A Threat To "Legacy FinTech"

Analysts

Moshe Katri

212-938-9947

Moshe.Katri@wedbush.com

This week, we hosted a 2-panel advisor call (ex-AFRM + Laybuy executives) focusing on the BNPL space. In general, in-line with our thoughts, BNPL is far from being a credible threat to the traditional payments eco-system, given the symbiotic relationships between the networks/merchant processors and the BNPL vendors. Other takeaways: 1. as funding mechanisms are still heavily-weighted towards credit and debit (vs. ACH), most BNPL transaction volumes continue to be processed via the traditional network rails; 2. Competitive differentiation will become incrementally challenging considering the numerous BNPL vendors; and 3. Operational challenges: rising fraud and delinquency cases. Bottom line, the call should address dis-intermediation concerns related to the space. Having said that, we also peg the group's recent under-performance to multiple, real and perceived headwinds, anywhere from, recent muted Sept. Q earnings results, cautious guidance, reduced benefits from stimulus checks, potential supply chain challenges, an inconsistent travel recovery (we're not even discussing corporate travel recovery), regulatory overhang and dis-intermediation concerns (BNPL, Amazon's actions, etc.). Please contact Wedbush sales for call replay details.

BNPL Competition: AFRM has a competitive advantage with its experience in the core installment loans. The company tends to get higher ticket items with 3-6-12-month loans and even a 43-month loan with Peloton. AFRM has focused more on being a lender while Klarna and AfterPay have shifted more toward technology companies that get a user a product easier. There are minimal barriers to entry for the Pay in 4 product but more in core installments due to regulatory overhangs. A combination of BNPL names might be on a single merchant's checkout but exclusivity is the key to growth.

The Networks (V/MA): BNPL providers continue to partner with the card networks and can be considered frenemies. V/MA are so ingrained in the industry that having a partnership helps everyone involved. Our advisors believe there is an opportunity for ACH to gain more traction down the road, but the current friction involved with it discourages customer use. Adding bank account information, trusting the system, and getting real-time approvals elongates the purchase cycle and needs robust rewards to justify the up step in customer effort.

Payments Universe							21E/20A	P/E
Company Name	Symbol	Rating	Price Target	Price 11/29/2021	Mkt. Cap. (\$MM)	EPS Y/Y %	2022E	
MasterCard	MA	OP	\$400.00	\$323.01	\$317,376	25%	31.0	
PayPal	PYPL	OP	\$240.00	\$187.24	\$219,994	22%	32.3	
Visa	V	OP	\$270.00	\$196.29	\$413,887	11%	28.8	
Alliance Data Systems	ADS	N	\$116.00	\$70.72	\$3,521	49%	5.0	
Global Payments	GPN	OP	\$240.00	\$120.26	\$34,894	25%	12.9	
Square	SQ	N	\$250.00	\$212.87	\$97,072	71%	111.5	
FIS	FIS	OP	\$182.00	\$105.39	\$64,176	19%	14.0	
Fiserv	FISV	OP	\$138.00	\$97.47	\$64,353	24%	15.1	
Automatic Data Processing	ADP	N	\$215.00	\$235.90	\$99,404	1%	36.5	
Paychex	PAYX	N	\$125.00	\$123.73	\$44,616	-1%	38.5	
Coinbase	COIN	OP	\$380.00	\$319.39	\$68,734	538%	26.4	

Source: Company Data, Wedbush Securities estimates, Thomson Reuters

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see pages 4-8 of this report for analyst certification and important disclosure information.

BNPL Advisor Call Panel Recap

CONCLUSION

This week, we hosted a 2-panel advisor call (ex-AFRM + Laybuy executives) focusing on the BNPL space. In general, in-line with our thoughts, BNPL is far from being a credible threat to the traditional payments ecosystem, given the symbiotic relationships between the networks/merchant processors and the BNPL vendors. Other takeaways: 1. as funding mechanisms are still heavily-weighted towards credit and debit (vs. ACH), most BNPL transaction volumes continue to be processed via the traditional network rails; 2. Competitive differentiation will become incrementally challenging considering the numerous BNPL vendors; and 3. Operational challenges: rising fraud and delinquency cases. Bottom line, the call should address dis-intermediation concerns related to the space. Having said that, we also peg the group's recent under-performance to multiple, real and perceived headwinds, anywhere from, recent muted Sept. Q earnings results, cautious guidance, reduced benefits from stimulus checks, potential supply chain challenges, an inconsistent travel recovery (we're not even discussing corporate travel recovery), regulatory overhang and dis-intermediation concerns (BNPL, Amazon's actions, etc.).

KEY POINTS

Economics: There are two segmentations of the AFRM product suite, including: 1. A Pay in 4 product charging zero interest to the customer and 2. Core Installment loans that with a length of 3 months or greater and can be 0% APR or interest bearing (10-30%, 2/3rds of AFRM's loans). The platforms earn a combination of APR and a merchant discount rate. There may also be some affiliate fees (cash back % with a premium tagged on) involved with last click attribution. Multiple costs included in the BNPL ecosystem, including: 1. Credit underwriting, from pulling the credit and storing the information on a customer. This also includes customers that are not approved and those that do not eventually take the loan; 2. Credit losses; 3. Cost of capital; 4. Funding of loans; and 5. Customer service costs and payment processing, which vary by process (credit, debit, ACH). Longer term loans also require a bank partnership, adding costs of origination. Operational challenges include regulatory scrutiny, fraud and identity and the acquiring costs for new customers, especially when shifting to new markets.

BNPL in the UK. One of our panelists pointed to past experience, where his company attempted to penetrate The UK market, facing challenges in getting traction, taking 6-18 months to get the inertia needed to gain scale. In terms of consumer acquisition, unlike The US market, which is heavily focused on conversion rates, increasing average ticket prices and customer acquisition, The UK market considers underwriting quality as a top priority. Our panelists also suggested is it critical to collaborate with large local retailers when entering new markets.

Partnerships: Typical partnerships have different structures, including revenue generation, vendor support, card issuing, and standard merchants. SHOP and AFRM is an example of revenue generation as BNPL was integrated and the two companies formed a revenue sharing agreement together and widely distribute the product. Vendor support utilizes an originating bank and falls under Regulation Z. This requires disclosers and a charter where platforms work with originating banks who will originate the loan/underwrite and the platform will purchase the loan after a certain number of days. The bank will have performance fee or servicing fees

added on. MQ and AFRM have a partnership where customers can apply for AFRM at any merchant outside of the network, receive a virtual card and use it online or in-store. For the merchant it is processed as a credit card and for the customer it is a loan. Standard merchant partnerships include AFRM and Peloton or Walmart.

BNPL Competition: AFRM has a competitive advantage with its experience in the core installment loans. The company tends to get higher ticket items with 3-6-12-month loans and even a 43-month loan with Peloton. AFRM has focused more on being a lender while Klarna and AfterPay have shifted more toward technology companies that get a user a product easier. There are minimal barriers to entry for the Pay in 4 product but more in core installments due to regulatory overhangs. A combination of BNPL names might be on a single merchant's checkout but exclusivity is the key to growth. Merchants may see it as a customer acquisition tool and each BNPL provider has a different user base, but this may confuse customers and result in cannibalization of spend.

The Networks (V/MA): BNPL providers continue to partner with the card networks and can be considered frenemies. There will always be debit and credit users on the acquiring side and V/MA may only get 10BPTS on each of these transactions, but are so ingrained in the industry that having a partnership helps everyone involved. Our advisors believe there is an opportunity for ACH to gain more traction down the road, but the current friction involved with it discourages customer use. Adding bank account information, trusting the system, and getting real-time approvals elongates the purchase cycle and needs robust rewards to justify the up step in customer effort.

Risks to the Attainment of Our Price Targets and Ratings: Payments

Payments Industry Risks

- The ability to generate revenue/cost synergies from acquisitions
- A potential economic slowdown could likely impact transaction volumes (mostly in credit card transactions)
- Pricing pressure due to renewals
- F/X volatility impacting reported revenue growth rates
- An acceleration in digital/mobile payments is supportive to growth in the Payments industry
- Increased competition, especially from large technology companies

WEDBUSH DATA ANALYTICS DISCLOSURES

Wedbush Data Analytics product and services are proprietary and confidential and are for information purposes only. All such materials and disclosure of contents within may not be shared for any reason, without prior express written consent from Wedbush Securities. Unauthorized use is strictly prohibited. Data is a single point in an investment decision, and the information may not contain all material information related to an investment thesis. Opinions may prove inaccurate, and are subject to significant risks and uncertainties and should be considered “as is” without representations or warranties of any kind whatsoever express or implied. Analyses, research, data and metrics express our opinions, and subject to change at any time. Wedbush Data Analytics has no authority in any way to give information or make representation or warranty on behalf of the applicable company or companies in connection therewith. The Wedbush Data Analytics platform does not collect data from password-protected and/or private sources. We operate in good faith and make every effort to comply with terms of use on the web so as not to violate terms of use on a given domain. Additional information is available upon request.

DATA SIGNAL RATING SYSTEM

Positive (+): Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are better than consensus and/or better than management guidance.

Negative (-): Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are below consensus and/or lower than management guidance.

Non-Conclusive/No Call (NC): Proprietary data set does not have a strong enough correlation to be **Positive** or **Negative**.

Analyst Certification

I, Moshe Katri, certifies that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Mentioned Companies

Company	Rating	Price	Target
MasterCard	OUTPERFORM	\$323.01	\$400.00
Visa	OUTPERFORM	\$196.29	\$270.00
Shopify	OUTPERFORM	\$1,567.02	\$1,800.00
Amazon.com	OUTPERFORM	\$3,561.57	\$3,950.00

Investment Rating System:

OUTPERFORM: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

UNDERPERFORM: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating distribution	Investment Banking Relationships
---------------------	----------------------------------

(as of November 30, 2021)	(as of November 30, 2021)
OUTPERFORM: 68.65%	OUTPERFORM: 21.26%
NEUTRAL: 28.65%	NEUTRAL: 9.43%
UNDERPERFORM: 2.70%	UNDERPERFORM: 0.00%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Company Specific Disclosures

1. WS makes a market in the securities of Amazon.com, MasterCard, Shopify and Visa.

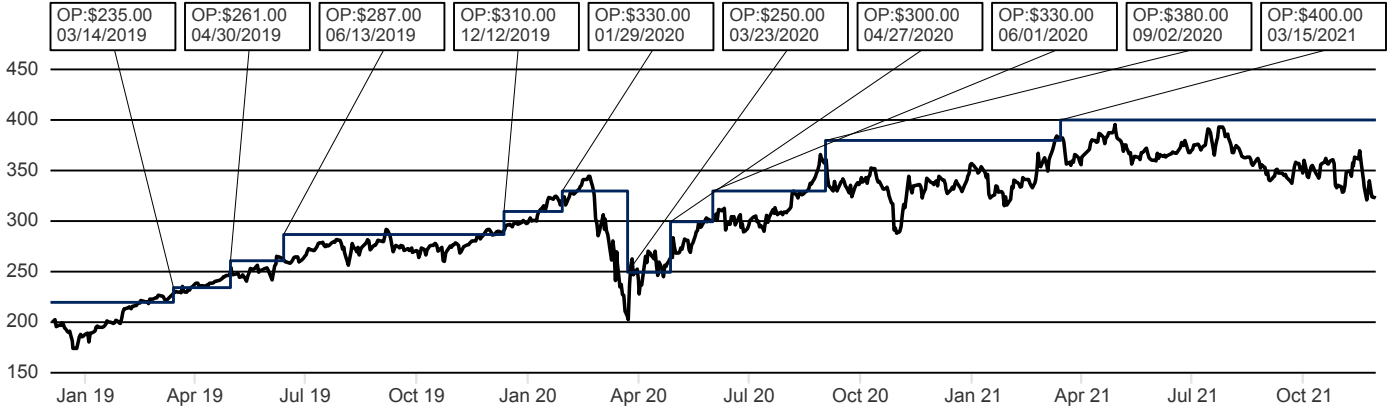
Price Charts



This report is intended for noauthentic@bluematrix.com. Unauthorized distribution is prohibited.

MasterCard Rating History as of 11-29-2021

powered by: BlueMatrix

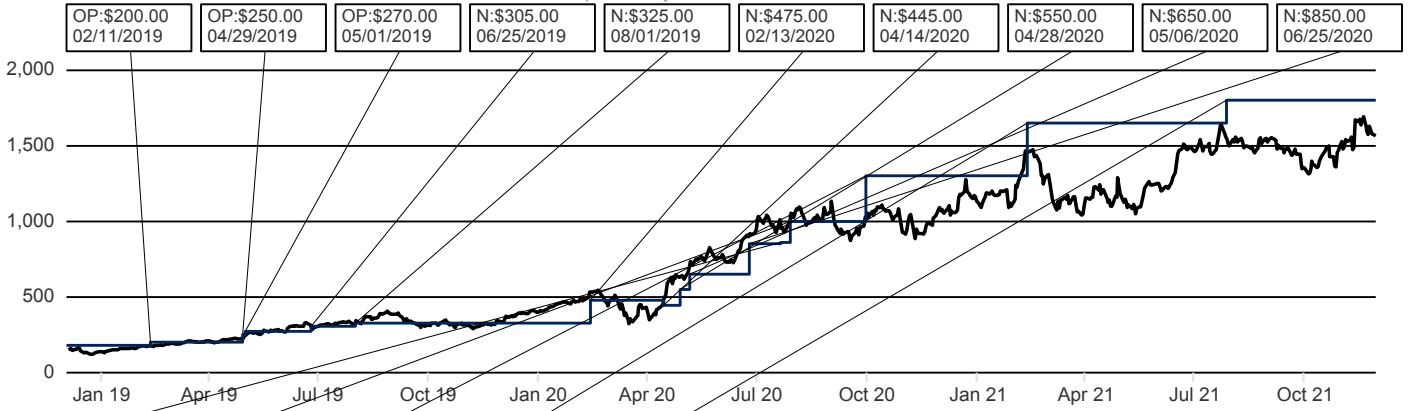


— Closing Price — Price Target

Outperform (OP); Neutral (N); Underperform (UP); Not Rated (NR)

Shopify Rating History as of 11-29-2021

powered by: BlueMatrix



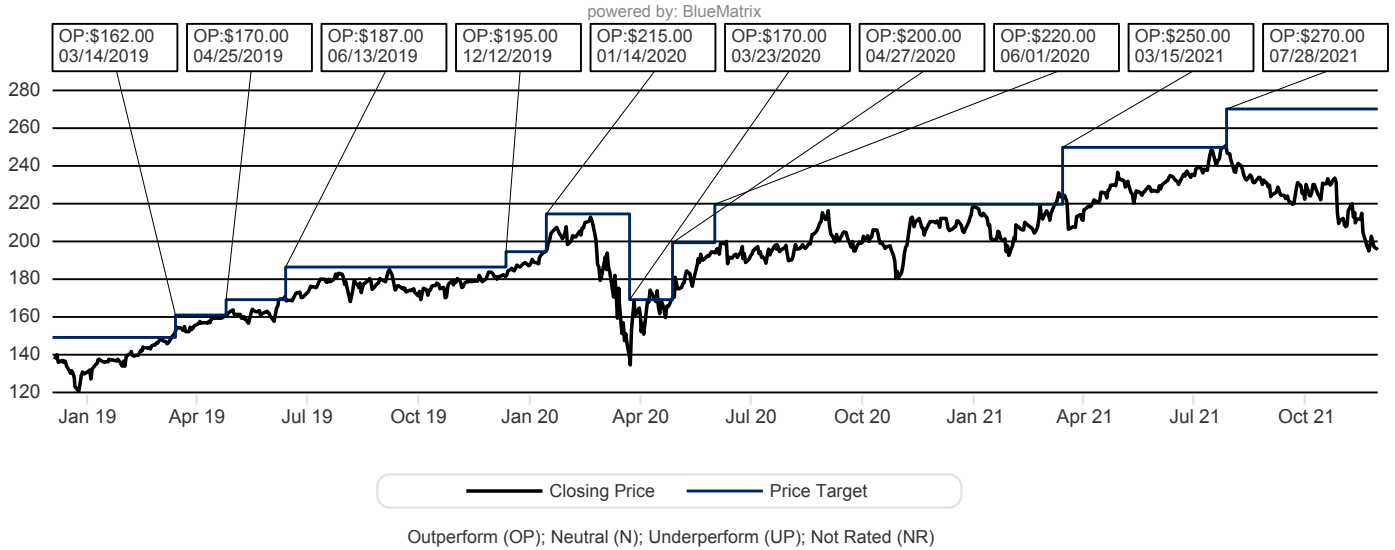
N:\$860.00 07/21/2020	N:\$998.00 07/29/2020	OP:\$1,300.00 09/30/2020	OP:\$1,650.00 02/12/2021	OP:\$1,800.00 07/28/2021
--------------------------	--------------------------	-----------------------------	-----------------------------	-----------------------------

— Closing Price — Price Target

Outperform (OP); Neutral (N); Underperform (UP); Not Rated (NR)

This report is intended for noauthentic@bluematrix.com. Unauthorized distribution is prohibited.

Visa Rating History as of 11-29-2021



Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

Disclosure information regarding historical ratings and price targets is available: [Research Disclosures](#)

*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.

Applicable disclosure information is also available upon request by contacting the Research Department at (212) 833-1375, by email to leslie.lippai@wedbush.com. You may also submit a written request to the following: Wedbush Securities, Attn: Research Department, 142 W 57th Street, New York, NY 10019.

OTHER DISCLOSURES

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis: neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see pages 3–7 of this report for analyst certification and important disclosure information.

Equity Research

CONSUMER AND RETAIL	TMT
Footware & Apparel Tom Nikic (212) 938-9932 tom.nikic@wedbush.com	Digital Media Michael Pachter (213) 688-4474 michael.pachter@wedbush.com
Hardlines Retail Seth Basham (212) 938-9954 seth.basham@wedbush.com	Digital Media Nick McKay (213) 688-4343 nick.mckay@wedbush.com
Home Builders/Building Products Jay McCanless (212) 833-1381 jay.mccanless@wedbush.com	Enterprise Software Dan Ives (212) 344-2073 dan.ives@wedbush.com
Restaurants Nick Setyan (213) 688-4519 nick.setyan@wedbush.com	Hardware Matt Bryson (617) 695-6302 matthew.bryson@wedbush.com
	Payments/IT Services Moshe Katri (212) 938-9947 moshe.katri@wedbush.com
	SMID Internet Ygal Arounian (212) 938-9929 ygal.arounian@wedbush.com

HEALTHCARE	FINANCIAL INSTITUTIONS GROUP
Biotechnology David Nierengarten, Ph.D. (415) 274-6862 david.nierengarten@wedbush.com	Mid-Cap Banks David Chiaverini (212) 938-9934 david.chiaverini@wedbush.com
Biotechnology Robert Driscoll, Ph.D. (415) 274-6863 robert.driscoll@wedbush.com	Regional Banks Peter Winter (212) 938-9941 peter.winter@wedbush.com
Emerging Pharmaceuticals Liana Moussatos, Ph.D. (415) 263-6626 liana.moussatos@wedbush.com	Specialty Finance Henry Coffey (212) 833-1382 henry.coffey@wedbush.com
Biotechnology Laura Chico, Ph.D. (212) 668-9868 laura.chico@wedbush.com	

RESEARCH MANAGEMENT	
Kevin Merritt, CFA Director of Research kevin.merritt@wedbush.com (212) 938-9949	Kirsten Fraunces EVP, Head of Capital Markets kirsten.fraunces@wedbush.com (213) 688-4404

COMMODITY AGRICULTURE RESEARCH
Al Kluis Kluis Commodity Advisors info@kluiscommodityadvisors.com (888) 345-2855

FIXED INCOME FUTURE & RATES RESEARCH
Arthur Bass Managing Director Arthur.Bass@Wedbush.com (212) 259-6582

CORPORATE ACCESS	
Equity Corporate Access equitycorporateaccess@wedbush.com	Sophia Dao Associate, Corporate Access Sophia.Dao@wedbush.com (213) 688-4380

TRADING	
Consumer/Financials Bryan Lonsinger (212) 938-9925 bryan.lonsinger@wedbush.com	TMT Joel Kulina (212) 938-2056 joel.kulina@wedbush.com
Healthcare Sahak Manualian (213) 688-4533 sahak.manuelian@wedbush.com	

WEDBUSH OFFICES		
LOS ANGELES 1000 Wilshire Boulevard Los Angeles, CA 90017 (213) 688-8000	NEW YORK 142 W 57th Street New York, NY 10019 (212) 938-9920	SAN FRANCISCO 2 Embarcadero Center, Suite 600 San Francisco, CA 94111 (415) 273-7300
BOSTON 265 Franklin Street Boston, MA 02110 (617) 832-3700	CHICAGO 141 W. Jackson Boulevard, Suite 1710A Chicago, IL 60604 (312) 786-1930	

This report is intended for noauthentic@bluematrix.com. Unauthorized distribution is prohibited.