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PayPal Holdings (NASDAQ: PYPL)

The profit pool has stopped growing. The price is underwriting a decline that has not started.

RATING	PRICE (2026-10-01)	FAIR VALUE	IMPLIED RETURN	FCF YIELD
BUY	\$53.06	\$73	+37.6%	13.2%

READ THIS FIRST · THE COMPANY IS IN PLAY. PayPal is the subject of an active takeover process. A reported \$53 billion bid from Stripe and Advent collapsed over price in late August 2026, and fresh takeover reports moved the shares again on September 25. A material part of today's price is deal probability rather than fundamentals. **This call may be settled by a transaction regardless of whether the analysis below turns out to be right**, and we would rather say so here than claim credit later for an outcome we did not forecast. The valuation that follows deliberately ignores any bid.

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We are initiating on PayPal with a **BUY** and a \$73 fair value.

We lead with the bear case, because it is real and the cheap multiple tends to stop people reading.

Total payment volume grew 10 percent. Revenue grew 5 percent. Transaction margin dollars, the actual profit pool, grew 1 percent. Non-GAAP earnings per share **fell 1 percent**.

That is a business moving an enormous amount of money and converting almost none of the increase into profit. It is not a growth company wearing a value multiple. Its profit pool has stopped growing.

We are buying anyway. At \$53.06 the shares yield **13.2 percent** in free cash flow, and the price implies that cash flow **declining 4.79 percent a year in perpetuity**. Stagnation and decline are different things, and the gap between them is the entire investment.

SNAPSHOT	
Market cap	\$45.4B
Shares out	855.5M
P/E, guided non-GAAP	9.9x
Adjusted FCF yield	13.2%
Buyback yield	13.2%
Total to holders	14.3%
Implied FCF growth	-4.79%
TPV growth	+10%
Revenue growth	+5%
Transaction margin \$	+1%
Non-GAAP EPS growth	-1%
Transaction margin	44.9%
Active accounts	439M
Cash & investments	\$15.3B
52-week range	\$38-\$79
From 52-wk high	-33%

1 · Volume is growing. Profit is not.

The gap that defines the company

Second quarter 2026, year over year	Growth
Total payment volume	+10%
Revenue	+5%
Transaction margin dollars	+1%
Transaction margin dollars ex. interest	+3%
Non-GAAP earnings per share	-1%

Volume grew 9 points faster than the profit pool. The earnings per share line is the one to sit with: it fell, in a quarter the company described as a beat, on a day the shares rose.

The cause is mix, and it is structural rather than cyclical

Branded checkout, the PayPal button, is the highest-margin flow in the company and grew volume 2 percent on a currency-neutral basis. Braintree, which processes payments for merchants at a fraction of that margin, grew in the mid-teens, as did Venmo at 14 percent.

Every point of growth arriving through Braintree rather than branded checkout dilutes the blended margin. That single sentence explains why a 10 percent increase in volume produced a 1 percent increase in profit.

Measure	Q2 2026	Q2 2025	Change
Transaction margin	44.9%	46.4%	-150 bps
Transaction take rate	1.61%	—	-7 bps
GAAP operating margin	16.4%	—	-171 bps
Non-GAAP operating margin	17.4%	—	-248 bps
Active accounts	439M	—	flat

Every line compressing, and the account base flat. Transactions per active account rose to 60.0, so the existing base is being used harder while the base itself is not growing. Read together, that is a company defending a franchise rather than expanding one. Any thesis here has to start there, and ours does.

2 · What the price assumes

Running the valuation backwards

At a 10 percent cost of equity and 1 percent terminal growth, today's market capitalization of \$45.4 billion implies adjusted free cash flow **declining 4.79 percent a year**.

Not flat. Not slowing. Shrinking by nearly five percent annually, forever.

Set that against what the company disclosed

- The profit pool grew 1 percent last quarter, or 3 percent excluding interest on customer balances.
- Branded checkout volume has stabilized at 2 percent currency-neutral for two consecutive quarters, and full-year guidance for it was raised to low single-digit growth.
- The company guides to \$6 billion or more of adjusted free cash flow and about \$6 billion of buybacks.
- Non-GAAP earnings per share guidance was raised to \$5.38 against \$5.31 the prior year.
- The balance sheet carries \$15.3 billion of cash and investments.

What our fair value assumes

Our \$73 fair value assumes the profit pool **never grows again**. Not that it recovers. Not that branded checkout reaccelerates. Not that management's diversification into Venmo, credit and financial services works. Simply that it stops shrinking.

We want to be precise about what that means, because it is the whole argument. We are not forecasting a turnaround. We are observing that the price pays for a decline, the disclosure shows stagnation, and those are different things.

Why we did not use a forward model

A forward discounted cash flow on this company would require forecasting branded checkout share against Apple Pay and Shop Pay a decade out, which nobody can do, and would put most of the answer in a terminal value we invented. Reversing the calculation removes the growth assumption. It does not remove the cost of equity or the terminal rate, and we flag both in the risks section rather than pretending the method is objective.

3 · What a holder actually earns

The buyback, stated honestly

When a company returns essentially all its free cash flow and the multiple is unchanged, a holder's return is approximately the free cash flow yield plus the growth rate of that cash flow. PayPal is returning \$6 billion in buybacks and roughly half a billion in dividends against a \$45.4 billion market capitalization, which is 14.3 percent of the company a year.

If the profit pool	Growth	Annual return to a holder
transaction margin dollars decline 5% a year	-5%	8.2%
decline 2% a year	-2%	11.2%
flat forever	+0%	13.2%
the 1% the profit pool actually grew	+1%	14.2%
the 3% excluding interest on balances	+3%	16.2%

A holder earns 13.2 percent a year if the business never grows again, and still 11.2 percent if it shrinks two percent a year. You have to believe in a decline faster than five percent annually before this stops beating a reasonable equity hurdle.

One caution, because this is where sloppiness creeps in

That table assumes the multiple is unchanged. It is not a projection of the share count, and we have deliberately not published one.

An earlier version of this model did exactly that: it projected the buyback forward at a fixed share price and had PayPal retiring roughly two thirds of itself over five years while the stock never moved. That is incoherent. If the thesis works the price rises and each dollar retires fewer shares. Holding the price constant while free cash flow per share compounds is assuming the conclusion, which is the error this publication spends most of its time writing about. We discarded it.

The decomposition above requires no assumption about the price path and no projection of shares outstanding. It is weaker and it is honest.

What the buyback is actually doing today

Repurchasing roughly 33 million shares in the quarter for \$1.5 billion. That is why non-GAAP earnings per share fell only 1 percent while the underlying profit pool was roughly flat: the share count is doing the work the business is not. Whether that is value creation depends entirely on whether the shares are being bought below what they are worth, which is the question this report exists to answer.

4 · The bear case

And why we are buying anyway

The bear case is not the multiple. It is terminal decline.

If branded checkout is structurally losing share to Apple Pay, Shop Pay and the card networks' own wallets, then the high-margin flow erodes while low-margin processing volume grows, and the profit pool does not stagnate, it falls. At a fast enough rate, ten times earnings is not cheap. It is a reasonable price for a melting asset.

That is a serious argument, it is well supported by the margin figures on page 2, and it is roughly what the current price says. We disagree for three reasons.

- **Branded checkout has stabilized, on the company's own numbers.** Two consecutive quarters at 2 percent currency-neutral growth, with full-year guidance raised to low single digits. Stabilization is not recovery, but it is not collapse, and the price is paying for collapse.
- **The balance sheet removes the ruin case.** \$15.3 billion of cash and investments against a \$45.4 billion market capitalization. There is no financing event that forces anything.
- **The arithmetic does not need us to be right about the business.** Most theses require a company to do something. This one requires it to stop getting worse.

Why a buy rather than a hold

The gap to fair value is 37.6 percent. We have published holds at single-digit discounts and a sell at a far wider one. A gap of this size with a 13.2 percent cash yield underneath it is not a hold, and calling it one to appear cautious would be its own kind of dishonesty.

What would make us wrong

The single thing that breaks this thesis is branded checkout resuming its decline. Everything else is secondary. Two quarters of stability is not a trend, and if currency-neutral branded volume turns negative again, the terminal-decline case becomes the right one and our fair value is too high by a wide margin.

We would rather state that in one sentence than bury it in a risks list. It is the number we will be watching, and it is the number a reader who disagrees with us should point at.

5 · What would change our mind

Stated in advance, in both directions

What would move us to add	What would move us to sell
Branded checkout volume accelerating above low single digits	Branded checkout turning negative again on a currency-neutral basis
Transaction margin dollars growing faster than volume for a change	Transaction margin compressing another hundred basis points
Active accounts resuming growth from the flat 439 million	Active accounts falling, not merely flat
Venmo and credit monetizing at branded-checkout margins	Mix shifting further toward low-margin processing volume
The buyback continuing at roughly a seventh of the company a year	Capital return cut to fund a defensive acquisition

The deal, again

Stated on page one and repeated here because it is the largest single factor in the next twelve months. If a bid completes at a premium, this call scores well for reasons that have nothing to do with the analysis. If the process collapses publicly a second time, the shares likely fall below where we are initiating. Neither outcome would tell a reader whether the thesis was correct, and we will say exactly that when we score it.

We considered publishing this as an unscored note for that reason, and chose not to. A scoreboard that excludes the awkward cases is not a scoreboard.

Risks to our own reasoning

We use a 10 percent cost of equity against a reported beta of 1.29, which a capital asset pricing calculation would put slightly higher. At a higher discount rate the implied decline the price assumes is steeper, which cuts in our favour, but our own fair value falls too.

We have also valued the business on adjusted free cash flow, which excludes the timing impact of originating and selling buy-now-pay-later receivables. That is the company's own definition and we think it is reasonable for a lender whose receivables turn over. But as we argued at length in a recent note, free cash flow is not defined by any accounting standard, every such definition is a choice, and this one flatters slightly. A reader who prefers unadjusted free cash flow should mark our fair value down accordingly.

Finally, the reverse DCF assumes the business is a going concern with a terminal value. If branded checkout is genuinely in structural decline, a perpetuity is the wrong shape for the model and the right answer is lower than any figure in this report.

6 · The numbers

Second quarter 2026, as reported

\$ millions unless stated	Q2 2026	Q2 2025	Change
Net revenues	8,682	8,269	+5%
Total payment volume (\$B)	486.4	442.2	+10%
Payment transactions (B)	6.8	6.3	+8%
Active accounts (M)	439	438	flat
Transaction margin dollars	3,900	3,844	+1%
TM\$ ex. interest on balances	3,619	3,526	+3%
Transaction margin	44.9%	46.4%	-150 bps
GAAP operating income	1,427	—	-171 bps margin
GAAP diluted EPS	\$1.25	—	—
Non-GAAP diluted EPS	\$1.38	\$1.39	-1%
Operating cash flow	1,983	898	+121%
Free cash flow	1,775	692	+157%
Adjusted free cash flow	1,832	656	+179%
Cash and investments	15,300	—	—
Share repurchases	1,500	—	~33M shares

Dashes indicate figures not disclosed on a comparable basis in the release we read. We have left them blank rather than estimate them.

Full year 2026 guidance, raised at the second quarter

Measure	Guidance
Transaction margin dollars	about \$15.6B
TM\$ excluding interest on balances	about \$14.5B
Non-GAAP EPS	about \$5.38 (from \$5.31)
GAAP EPS	mid-single-digit decline
Non-transaction opex growth	7% to 8%
Adjusted free cash flow	at least \$6B
Share repurchases	about \$6B
Branded checkout TPV	low single-digit growth

7 · Valuation summary

The call on one page

Measure	Value
Reference price	\$53.06
Market capitalization	\$45.39B
P/E on guided non-GAAP EPS	9.86x
Adjusted free cash flow yield	13.2%
Buyback yield	13.2%
Total returned to holders	14.3%
Cost of equity used	10%
Implied FCF growth, from the price	-4.79%
Our growth assumption	0%
Fair value	\$73
Implied return	+37.6%

The two rows to read together are the implied growth and our own. The price requires free cash flow to fall 4.79 percent a year forever. We assume it never grows again. The distance between those two statements is the whole report.

8 · Method, sources, and conflicts

How this report was built

The reference price

The \$53.06 reference price is the close on Thursday, October 1, 2026, verified before any modeling against four sources: CNBC explicitly, and stockanalysis, Yahoo Finance and CNN each reporting it as the previous close. The October 2 close of \$52.80 was carried by only one source at the time of writing and was therefore not used, consistent with our practice of preferring a slightly older close that verifies strongly over a newer one that does not.

The takeover process

PayPal is the subject of an active takeover process. A reported \$53 billion bid from Stripe and Advent collapsed over price in late August 2026, and fresh takeover reports moved the shares on September 25. A material part of the current price is deal probability rather than fundamentals. Our valuation ignores any bid entirely and values the business on its own cash flows, which means a transaction could settle this call in either direction independently of whether the analysis was sound. We publish it on the scoreboard anyway, and we will note this when it is scored.

Sources

Second quarter 2026 results, segment commentary and full-year guidance read directly from the company's own filings and investor materials rather than through an aggregator: the Second Quarter 2026 Earnings Release and Investor Newsletter, both dated July 28, 2026, and the Form 10-Q filings on EDGAR for the revenue-by-source detail and the discussion of mix and hedging effects on transaction revenue.

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Method

Every figure is computed by a model script rather than typed, and the script checks that the reverse solve reconciles to the observed market capitalization. Valuation is a reverse discounted cash flow on adjusted free cash flow. The return decomposition on page 4 deliberately contains no share-count projection, for the reason stated there.

Conflicts

The author holds no position in PYPL, has no plans to initiate one, and received no compensation from any party in connection with this report. 2 Comma Investor accepts no payment for coverage, has no banking, advisory or consulting relationships, and does not accept sponsored research of any kind. If that ever changes it will be disclosed on the page and in this section before publication.

Scoring

This call is dated and public. It joins the scoreboard as an open position at \$53.06 and will be scored against the S&P; 500 on October 3, 2027, on the same terms as every other call we have made, whether it works or not. We publish misses with the same prominence as hits. A record this short proves nothing in either direction, which applies to us before it applies to anyone else.

Nature of this publication

2 Comma Investor is an independent publication. It is not a registered investment adviser, broker-dealer, or research firm, and nothing here is personalized investment advice. This report is opinion published for educational purposes. Fair-value estimates are opinions about a range of outcomes, not predictions, and they are frequently wrong. Forward estimates rest on assumptions that will not fully hold. Past performance does not indicate future results. Investing in equities involves risk of loss including total loss of principal. Readers should conduct their own due diligence and consult a qualified professional before making any financial decision.

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