Square Inc.  
(SQ, Neutral)

Flash Note: Square Capital Receives Approval to Distribute SBA’s Payroll Protection Program Loans to Small Businesses, Joining PYPL and INTU

WHAT YOU SHOULD KNOW: Jackie Reses, head of Square Capital (SQ, Neutral), in a tweet this morning announced that the unit had received approval from the U.S. Treasury and the Small Business Administration (SBA) to be a lender under the $349bn Payroll Protection Program (PPP). As we stated in a note published yesterday, PayPal (PYPL, Buy, $130 PT) and Intuit (INTU, Not Rated) on Friday had announced that they had received approval to facilitate PPP loans.

■ Reses stated that SQ will work on PPP loans with its partner, Celtic Bank, which has experience as an SBA lender. She stated that SQ would notify sellers when their PPP application was available, starting with those whose application data it could verify automatically. Reses added that the company would expand access to more small businesses “soon.”

■ While the PPP program was launched on April 3 with an emphasis on keeping employees on payroll, it was opened on Friday to independent contractors and self-employed individuals. While the U.S. has about 30mm small businesses according to the SBA, about 25.7mm of these are mostly one-person businesses with no W-2 employees and an average annual revenue of $47,978. It is within this segment that SQ, as well as PYPL and INTU, will be able to have the most impact as these contractors and individuals are much less likely to have a bank credit relationship than small businesses with a payroll, in our view.

■ As we noted yesterday, the U.S. Treasury on March 31 released an information sheet for PPP lenders that included both the economics and underwriting requirements associated with participation in the program, through which small businesses with less than 500 employees can access loans of up to the lesser of $10mm or 2.5x their average monthly payroll. The SBA will compensate lenders with processing fees based on the size of the disbursement: 5% for loans of up to $350K, 3% for loans of more than $350K and less than $2mm, and 1% for loans of at least $2mm.

■ PPP program participants need to comply with know-your-customer (KYC) rules under the Bank Secrecy Act (BSA) and to verify applicants’ information including average monthly payroll costs and documentation of employees to whom they had paid salaries and payroll taxes on or around February 15. While some banks have said it could take two hours to collect this information and sometimes weeks to verify the information of applicants who were not existing lending customers. The fintech firms through automation and technology believe they will be able to process applications much more quickly.

■ The interest rate on PPP loans, which are 100% guaranteed by the SBA and the U.S. Government, is 1% and the loans have a maturity of two years. The loans would be forgiven if the small business uses them to retain or re-hire employees.
BTIG Covered Companies Mentioned in this Report

Square Inc. (SQ, Neutral, Closing Price: $59.21; Analyst: Mark Palmer)
PayPal Holdings, Inc. (PYPL, Buy, $130 PT; Closing Price: $105.84; Analyst: Mark Palmer)
Appendix: Analyst Certification and Other Important Disclosures

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Square Inc. (SQ, Neutral)

Valuation: Based on our comparable analysis, we believe SQ’s shares will remain within +/- 15% of current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.

Risks: The primary Upside risks include, better-than-anticipated performance by the company, rapid growth, continued multiple expansion, Square's ability to launch new lines of business, the company's ability to expand into additional countries
to continue their rapid growth and an acquisition of the company. Downside risks include a deceleration in gross payment volume and a greater-than-expected impact from COVID-19.

Other Disclosures
Additional Information Available Upon Request

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