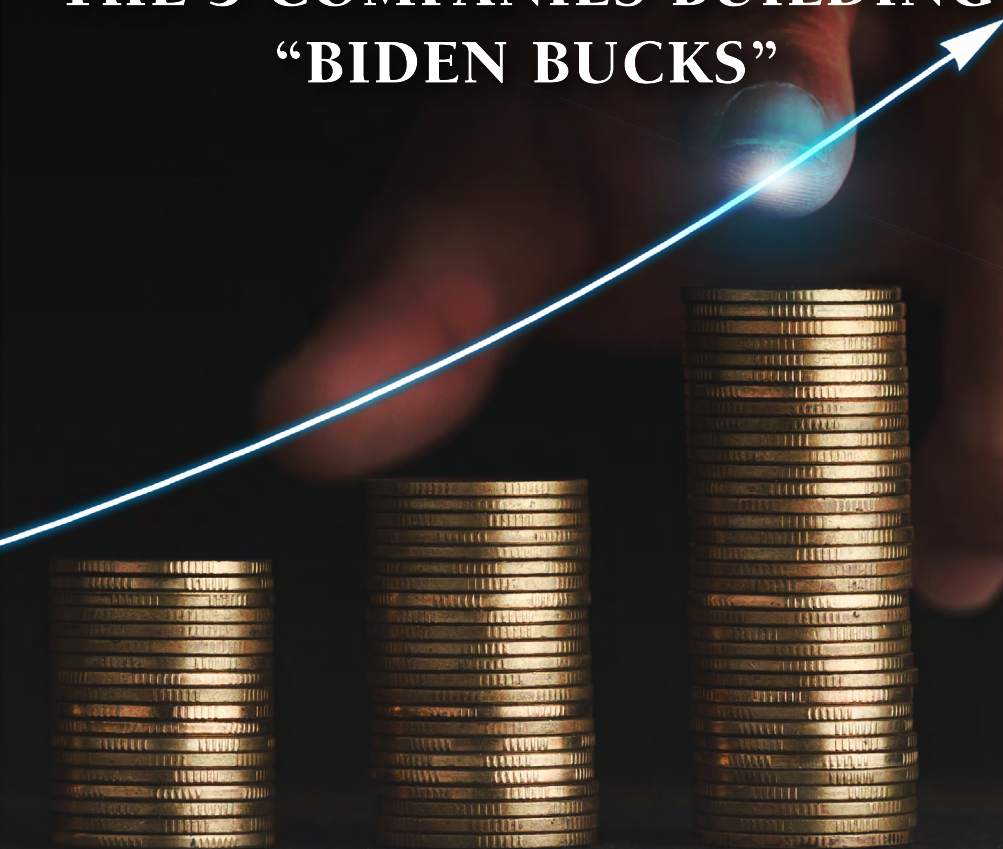


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— *Making the Complex Simple* —

# HOW TO PROFIT FROM CHAOS: THE 3 COMPANIES BUILDING “BIDEN BUCKS”

A hand holding a glowing blue arrow pointing upwards and to the right, passing over three stacks of gold coins. The background is dark and blurry, suggesting a financial or business context.

PARADIGM  
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## STRATEGIC INTELLIGENCE

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# How to Profit from Chaos: The 3 Companies Building “Biden Bucks”

Dear Reader,

As the central bankers “turn off” physical money flows around the world, someone will need to build the means to transfer and use the new digital currencies.

This switchover isn't going to be cheap. The infrastructure isn't all built yet.

There are 195 countries in the world. Moreover, huge parts of the world still rely on physical cash.

Many global corporations will be forced to pay through the nose to transact business.

This is already creating huge opportunities to make money...

In the special report below, I want to show you ways to profit from this “switchover” from physical currency to digital.

The best thing about the rockier market environment in early 2022 is that it's creating excellent buying opportunities in many high-quality stocks.

Each of the stocks below is embedded into the fabric of the financial technology, or “fintech” ecosystem. Each one has a proven business model that creates value for shareholders. And each one is on sale after substantial declines from peak prices.

I expect high returns in these stocks if you buy and hold on to them for several years. At today's prices, you are paying very little for the revenue growth opportunities each one has from the steady decline in demand for physical cash, as more and more payments are made with credit cards or through smartphone apps.

Let's get started...

## PayPal Holdings (NASDAQ: PYPL)

**PayPal (NASDAQ: [PYPL](#))** is one of the most successful brands in the online payments market. Its mission is to enable consumers and merchants to move money anywhere in the world, anytime, on any platform, using any device.

PayPal is accepted at 76% of the 1,500 largest online retailers across North America and Europe. That compares to only 27% for the runner-up, Apple Pay. PayPal also owns Venmo, a separate fintech app that's very popular with younger consumers.

In 2022, management expects the total payment volume running over its network to exceed \$1.4 trillion. That's trillion with a "t." The fees PayPal collects from this traffic should deliver \$22 billion in 2022 revenue. That represents 12% growth over 2021.

With 429 million active user accounts, including more than 34 million merchants that accept PayPal, it has a valuable two-sided network. Long experience with online payments, plus loads of data, enable PayPal to quickly detect fraud. And by minimizing fraud, PayPal offers merchants an unusually high payment acceptance rate of nearly 90%. Merchants want to work with payment processors that have high acceptance rates because an unaccepted transaction means a lost sale.

PayPal has low fixed costs. As a software-centric business, a high percentage of its revenue gets converted into free cash flow (FCF). PayPal can generate fees on transfers with almost zero incremental capital investment required.

PYPL stock is down significantly from all-time highs because the market is unhappy about management's guidance for 2022. It's not as big a deal as

the market thinks. Now PYPL is available at an attractive price.

At \$85 per share, down from a 52-week high of \$310, PayPal's market cap is only \$100 billion. It's on track to generate more than \$5 billion in 2022 FCF.

That means PayPal is trading at a FCF yield of 5% (\$5 billion divided by \$100 billion).

An FCF yield measures the amount that a company could, in theory, pay out to shareholders as a dividend without neglecting its asset base or its future business prospects.

In practice, most growth-oriented companies reinvest their FCF back into the business. High reinvestment in the business means growth goals are more achievable, and therefore future revenue can surprise on the upside.

PayPal is spending most of its FCF on stock buybacks. In the first quarter of 2022, the company returned \$1.5 billion in capital to stockholders by repurchasing roughly 11 million shares at an average price of \$133.93 per share.

The lower the valuation a company pays for its own stock in a buyback, the better it is for long-term shareholders. Since its separation from eBay, the company has invested \$13.4 billion in buybacks at an average price of \$94 per share.

If you can buy a high-quality, low-capital-intensity business like PayPal at a 5% free cash flow yield, you are getting a good deal.

In classic Wall Street fashion, the analysts who loved it above \$300 now pan the stock below \$100. Sure, management was too optimistic in its revenue growth guidance through the mid-2020s. However, it's still a growth company with a sticky business model.

And one last thing to consider is that if governments and central banks around the world respond to the next recession with another epic blast of fiscal and monetary stimulus, the absolute dollar amount of payments flowing through PayPal's network will surge. Since this is an asset-light business with strong indications of pricing power, you can think of it as the type of "inflation hedge" stock that Warren Buffett would love to own.



**ACTION TO TAKE:** Buy PayPal (NASDAQ: PYPL) up to \$100 per share.

## Automatic Data Processing (NASDAQ: ADP)

**Automatic Data Processing (NASDAQ: [ADP](#))** is a superb business that is an earnings and free cash flow machine. It's a great stock to buy on dips to hold for the long-term because it is embedded as the payroll provider for so many companies.

ADP provides payroll and human capital management (HCM) solutions for businesses of all shapes and sizes, from small businesses to global enterprises. ADP has been in business since 1949 and serves over 920,000 clients, primarily in the U.S.

ADP's employer services segment offers payroll, HCM solutions, HR outsourcing, insurance and retirement services.

It has a smaller but faster-growing segment called professional employer organization, or PEO. PEO provides HR outsourcing services to small and midsize businesses through a “co-employment” model.

Renewal rates for ADP's services are extremely high.

ADP is an unexpected play on Fed rate hikes. It manages the “float” of cash that exists for brief periods of time between when client businesses fund their payrolls, and the checks are actually sent out. ADP earns interest on the float during this time period.

So, its earnings will get a tailwind as the Fed raises policy rates, which will eventually raise interest rates earned by bank depositors from zero to perhaps a few percent.

ADP is a fintech stock because it's constantly improving the speed and efficiency of its services. New fintech products include Wisely, described [here](#).

Wisely could grow very rapidly as cash is replaced by electronic payments. This product allows businesses to pay their un-banked employees through a feature-rich, reloadable paycard. ADP defines a paycard as “a convenient way for employees to be paid. Instead of a traditional bank account, pay is deposited into the paycard account. Employees can then

store or spend their money using their paycard. Paycard accounts have many of the features of a traditional bank account but also may have fewer fees."

However, the world of electronic payments evolves, ADP will be at the center of it. It has a multi-decade track record of investing to meet clients' needs, while also delivering value back to shareholders through dividends and stock buybacks.

ADP is a member of the S&P 500 Dividend Aristocrats Index. This is an index of high-quality companies that have boosted dividends for at least 25 consecutive years.

ADP is rarely cheap because it has one of the best dividend growth track records in the entire stock market. It has raised its dividend for more than 43 consecutive years.

At a forward dividend yield of roughly 2%, ADP is a good value for long-term shareholders near \$218 per share. If you can buy it even cheaper in a more distressed market environment, your long-term return will be even higher.



**ACTION TO TAKE:** Buy Automatic Data Processing (NASDAQ: ADP) up to \$235 per share.

## Global Payments (NYSE: GPN)

**Global Payments (NYSE: [GPN](#))** offers payment technology and software for small and medium-sized businesses to accept electronic payments at physical stores and online.

Global Payments was spun out of National Data Corporation more than 20 years ago as a public company. Since 1967, GPN has provided payment processing and merchant acquiring services for merchants around the world. It operates in three geographic segments: North America, Europe, and Asia Pacific.

Merchant acquirers play an important role in the electronic payments space. They sell systems and software that allow merchants to accept

credit cards either in physical stores, online, or both.

When a consumer uses a credit card to pay for a good or service, GPN's readers verify card numbers, check that the charged amount is within the consumer's credit limit, and processes the payment. Processing involves taking electronic cash from the credit card's issuing bank (say, Bank of America) and sending it to the merchant's bank.

In a typical \$100 credit card transaction, the merchant collects only \$98. The \$2 "merchant discount" is the merchant's tradeoff for the benefit of accepting credit cards as payment. GPN will keep \$0.50 (0.5%). The issuing bank and the network operator (Mastercard or Visa) split \$1.50.

By the way, this \$2 helps to fund the cash back and airline miles rewards offered by credit cards. Another source of funding for credit card rewards is the interest that issuing banks like Bank of America or Capital One earn from card holders who don't pay off their balance each month, and accrue interest.

As you can see with this example, GPN is like a toll-road operator that collects roughly 0.5% of every dollar that flows through its network.

Looking at the business this way, you can imagine that GPN will be a great performer in an inflationary environment. That's because its revenue base, inflated by higher consumer prices, would grow faster than the cost of maintaining its existing network.

Market shares among merchant acquirers rarely change. The inevitable shift toward electronic payments has created enough growth opportunities for all the competing merchant acquirers to grow without trying to grab market share from each other. Also, the fears of disruption from upstarts like Block (formerly known as Square) are overblown.

Global Payments merged with Total System Services in 2019. This all-stock deal granted Total System Services shareholders 48% of the combined company's shares. This deal has turned out well, leading to cost savings and efficiency gains.

The steady shift from cash to electronic payments benefits GPN. This shift is global, not just in the U.S. and Europe.

GPN stock is far below its all-time high on fears it might lose market

share to upstart competitors. However, Global Payments' size and existing business relationships make up a very defensible moat.

Management has an achievable free cash flow target of \$4 billion for 2025. With a market cap of \$35 billion, GPN trades at less than 9 times its achievable free cash flow, which is very cheap for a company of this quality. That is an 11% free cash flow yield.



**ACTION TO TAKE:** Buy Global Payments (NYSE: GPN) up to \$140 per share.

That's it for now.

**Please note that these three stocks are NOT official recommendations, so we will not be tracking them in our monthly portfolio updates.** These stock picks are a bonus benefit for subscribing to *Strategic Intelligence*.

I think all three stocks are good investments over a multi-year time horizon. Jim and I may add them to the official portfolio in the future if they become especially attractive for a multi-month trade.

Jim and I will continue to publish investment ideas and analysis you can't find anywhere else. We'll send you a flash alert if any of our open positions require immediate action.

As always, thanks for subscribing to *Strategic Intelligence*.

Regards,

Dan Amoss, CFA  
Senior Analyst



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