



**PRENTISS
SMITH & CO**

Socially Responsible Investment Report for:

PayPal Holdings

San Jose, CA

Ticker: PYPL US Equity

Website: www.paypal.com

Last Updated: 03-09-2022

I. Exclusionary Screening

Does PayPal Holdings appear on any of the following lists? In our exclusionary screening, a single appearance disqualifies an investment.

Fossil Fuels & Precious Metals Mining

- ☒ BICS - Oil, Gas & Coal
- ☒ BICS - Precious Metals Mining
- ☒ Carbon Underground 200

Pornography, Gambling & Tobacco

- ☒ BICS - Casinos
- ☒ BICS - Tobacco
- ☒ Pornography

Agrochemicals & Animal Cruelty

- ☒ BICS - Crop Chemicals & Fertilizers
- ☒ Cruelty Free Investing 10 Worst

Defense & Retail Gun Sales

- ☒ BICS - Defense Primes
- ☒ SIPRI Top 100
- ☒ Gun Retailer
- ☒ NRA Top Industry Allies

Private Prisons

- ☒ BICS - Security Services

BICS = Bloomberg Industry Classification Systems

SIPRI = Stockholm International Peace Research Institute
NRA = National Rifle Association

I. Environmental, Social & Governance Data

What quantifiable environmental, social and governance data, policies or recognition does PayPal Holdings exhibit? Positive factors may help support a decision to invest.

General

Just Capital Overall (1-954)

6

MSCI ESG Rating

A

Climate Change & Fossil Fuels

°C Reduction Commitment (SBTi)

1.5°C

2021 CDP Climate Change Score

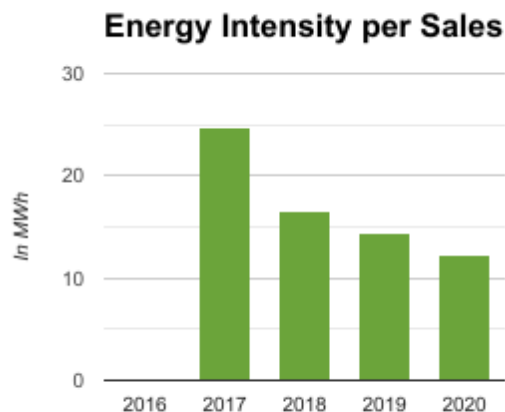
A-

Renewable Energy Used (1000s MWh)

200.7

Initiatives and Policies in Place:

- **Climate Change Policy**
- **Renewable Electricity Target Policy**



Environmental Stewardship

Just Capital - Environment (1-954)

7

Initiatives and Policies in Place:

- **Social Supply Chain Management**
- **Water Policy**
- **Waste Reduction**
- **Environmental Quality Management**
- **Environmental Supply Management**
- **Emission Reduction**
- **Energy Efficiency Policy**

Human Rights & Well-Being

As You Sow Racial Justice Score (-23 to 62)

37.0

Forbes World's Best Large Employers (1-500)

26

Just Capital - Workers (1-954)

25

WBA Social Transformation Index (0-20)

9

Just Capital - Communities (1-954)

216.0

WBA Digital Inclusion Rank (1-150)

18

Just Capital - Customers (1-954)

7

Initiatives and Policies in Place:

- **Anti-child Labor Policy**
- **Human Rights Policy**
- **Equal Opportunity Policy**

Diversity, Equity, Inclusion and Justice

Forbes Best Employers for Diversity (1-500)

13

CEO Action for Diversity Pledge

Signatory

HRC Equality Index (100 points)

100

Women Employees

43%

Women Executives

25%

Women on the Board

36%

Women Promoted of Total Promoted

44%

SSGA Gender Diversity Index ETF

Listed

Women in Management

22%

Number of Women Executives

2

Number of Women on the Board

4

Covers Gender Reassignment Services

Yes

Initiatives and Policies in Place:

- **Required Gender Diversity at the C-level and Management**
- **Has Women Recruiting Strategy**

Corporate Responsibility

Just Capital - Shareholders (1-954)

5

Size of the Board

11

CPA-Zicklin Political Disclosure and Accountability
Score (1-100)

90

Shareholder vote on management remuneration

89%

Employee CSR Training

Yes

Initiatives and Policies in Place:

- **Whistle Blower Employee Protection Policy**
- **Ethics Policy**

Community Spending (\$ USD millions)

30

Data sources may include:

- Sustainability and other report(s) published by the company.
- Banktrack Human Rights Benchmark
- Barron's 100 Most Sustainable US Companies
- Bloomberg LP ESG Data (via Data License).
- CDP
- CEO Action for Diversity & Inclusion Pledge
- Climate Accountability Institute (CAI)
- Corporate Human Rights Benchmark
- Digital Rights Corporate Accountability Index
- Dow Jones Sustainability Indices (DJSI)
- EPA's Green Power Partnership
- Equileap's Top 100 Companies for Gender Equality
- Forbes World's Best Employers
- Fortune's 50 Best Workplaces for Charity and Volunteering
- Fossil Free Funds
- Global Reporting Initiative (GRI)
- Great Places to Work
- HRC's 2020 Corporate Equality Index
- Institute for Clinical and Economic Review (ICER)
- Just Capital Rankings
- KnowTheChain Benchmark
- MSCI ESG Ratings
- National Rifle Association (NRA)
- Newsweek Green Rankings
- PEOPLE's 50 Companies That Care
- Points of Light Civic 50 Honorees
- RobecoSAM Corporate Sustainability Assessment
- Roundtable on Sustainable Palm Oil (RSPO)
- Science-Based Targets initiative (SBTi)
- State Street Global Advisors' Gender Diversity Index
- Stockholm International Peace Research Institute (SIPRI)
- Task Force on Climate-related Financial Disclosures (TCFD)
- The 2019 Top 50 DiversityInc
- The Climate Group's RE100, EV100 and EP100

II. Research Narrative

What else has our research process told us about how PayPal Holdings conducts business, in terms of its products and services, its environmental impact, and its approach to governance?

Summary

PayPal Holdings is a global payment provider enabling merchants and consumers to send and receive payments to each other. PayPal evolved from startups begun by Peter Thiel, Elon Musk, and others, and split from parent company eBay in 2015. Today, PayPal's mission "is to democratize financial services to ensure that everyone, regardless of background or economic standing, has access to affordable, convenient and secure products and services to take control of their financial lives."¹ PayPal has pursued this mission by implementing a "customer choice" initiative, allowing customers to use any payment method regardless of cost to the company, by putting ongoing focus on the financial well-being of its own employees, and by becoming a large originator of small-business loans and platform for making charitable donations, among other initiatives. PayPal makes wide-ranging disclosures about workforce diversity and pay equity, and has achieved 100% pay equity for women and non-white US employees for multiple years. PayPal has given millions of dollars in grants to Black-owned businesses. The company also has a 1.5-degree celsius Science-Based Target, with a goal of net-zero GHG emissions by 2040.

While PayPal's workforce is more diverse than many companies, the gender and ethnic diversity of its leadership declined slightly from 2020 to 2021, despite reported increases in Black and LatinX hiring and US women of color in leadership since 2019. PayPal's Board of Directors also does not reflect the diversity of its employees, with just one non-white member and four women on a board of twelve.

¹ <https://about.pypl.com/who-we-are/mission-vision-and-values/default.aspx>

Products & Services

PayPal Holdings operates a global payment network allowing merchants and consumers to send and receive payments, with approximately 392 million active consumer accounts and 34 million active merchant services accounts as of the end of 2021. With customers in more than 200 countries and 25 supported currencies, approximately 54% of PayPal's 2021 revenue emanated from the US, 9% from the UK, and 37% from other countries.²

For merchants, the company markets its end-to-end payment solution that includes authorization and settlement services, as well as risk management and fraud prevention services, while for consumers, PayPal markets its ability to accommodate a variety of funding sources (e.g. bank account, credit card, cryptocurrencies) as well as to offer swift and seamless money transfers between friends and family. Approximately 7% of PayPal's 2021 revenue was derived from other value-added services such as partnerships, referral fees, subscription fees, and gateway fees.³

One of the most widely-used digital payment services worldwide, PayPal grew out of Confinity, a Silicon Valley start-up co-founded in 1998 by technology entrepreneur Max Levchin and venture capitalist Peter Thiel. Although their initial aim was to develop encryption software for Palm Pilots and other personal digital assistant devices, they departed from that vision in the following year, spurred by the realization that encryption technology could instead be used to develop an email-based digital wallet and peer-to-peer payment platform built upon the existing system of bank accounts and credit cards. PayPal was officially launched in 1999, backed by a merger with Elon Musk's online banking company, X.com. PayPal's goal was to significantly improve the ecommerce experience for both consumers and merchants alike by eliminating the delays inherent to payment by check or money order. In 2002, PayPal was acquired by eBay for \$1.5 billion.⁴

Five years later, PayPal secured an EU banking license and transitioned its headquarters to Luxembourg. PayPal soon began a series of notable acquisitions that began in 2008 with Bill Me Later (now PayPal Credit), continued in 2013 with both Braintree (a merchant-facing payment processing service) and Venmo (a popular consumer-facing service), in 2015 with Xoom

²

https://www.sec.gov/Archives/edgar/data/0001633917/000163391722000027/pypl-20211231.htm#i09726fea9d9f449582277ae89ab03ce6_16

³

https://www.sec.gov/Archives/edgar/data/0001633917/000163391722000027/pypl-20211231.htm#i09726fea9d9f449582277ae89ab03ce6_16

⁴ <https://www.cnet.com/tech/tech-industry/ebay-picks-up-paypal-for-1-5-billion/>

Corporation (a cross-border remittance provider), in 2019 with Honey (an online coupon aggregator), and in 2021 with Paidy (a Japanese deferred payment service that could be used without a credit card).

In 2015, PayPal was spun off from eBay, becoming a separate publicly traded company (NASDAQ: PYPL). Today, PayPal has just over 50% market share in the online payments business.⁵ As of 2020, PayPal users could also buy and sell four cryptocurrencies: bitcoin, ethereum, litecoin, and bitcoin cash. Bitcoin was initially added as a payment option in 2014, but this feature was chiefly supported by partnerships with Coinbase, BitPay, and GoCoin. While cryptocurrencies stored on PayPal can be used for purchases, they are effectively converted to a fiat currency during the checkout process. As is the case with Robinhood, PayPal users cannot send cryptocurrencies to other wallets or platforms.

Environment

In 2020, PayPal set a 1.5-degree Science-Based Target, the most ambitious level available.⁶ In 2021, substantiating this target, PayPal pledged to achieve net-zero emissions by 2040, to reduce scope 1 GHG emissions 25% by 2025 (from a 2019 base year), and to power its data centers with 100% renewable energy by 2023.⁷ The company says it already matched 98% of its data center energy use with renewable procurement in 2020, and is on track to achieve the 100% goal for 2023.⁸ The company is also working towards 75% of its suppliers implementing a Science-Based Target by 2025.⁹

In addition to its climate commitments, PayPal has joined the “United for the Paris Agreement” and “We Mean Business” coalitions, groups of businesses committing to support the goals of the Paris Agreement. In offsetting its unavoidable Scope 1 and 2 emissions, the company is also focused on funding climate justice initiatives, including projects to protect the Amazon Rainforest, provide clean cookstoves for Mexican families, improve forests in historically black burial grounds in Virginia, and protect temperate forest in Canada.¹⁰

⁵ <https://fortunly.com/statistics/paypal-statistics/#gref>

⁶ <https://sciencebasedtargets.org/blog/leading-businesses-raise-the-bar-for-1-5-c-climate-ambition>

⁷ <https://thehill.com/regulation/technology/546893-paypal-pledges-to-achieve-net-zero-greenhouse-gas-emissions-by-2040/?rl=1>

⁸ <https://about.pypl.com/how-we-work/environmental-sustainability/default.aspx>

⁹ https://s26.q4cdn.com/519805829/files/doc_downloads/PayPal-2020-Global-Impact-Report-update.pdf

¹⁰ https://s26.q4cdn.com/519805829/files/doc_downloads/PayPal-2020-Global-Impact-Report-update.pdf

Management Integrity and Ethics

PayPal has been widely recognized for corporate sustainability, evidenced by an “A” ESG rating from MSCI and a #6 overall ranking from JUST Capital, which aggregates individual scores on customers, workers, shareholders, and the environment. PayPal also receives high marks from ratings agencies for gender diversity, disclosure of political spending and digital inclusion.

PayPal is led by CEO Dan Shulman, who was appointed in anticipation of the company’s spinoff from eBay in 2015. Shulman began his career at AT&T, advancing from an entry-level position to ultimately leading that company’s \$22 billion long-distance business by the time of his departure. Shulman later served as CEO of Priceline and as the founding CEO of Virgin Mobile, overseeing rapid growth at both companies, and was the group president of enterprise growth at American Express prior to joining PayPal.¹¹ Shulman is credited with initiating strategies at American Express and PayPal to help “democratize financial access,” making financial tools available for consumers of all economic backgrounds.¹² In October 2019, Schulman also instituted a financial-wellness program for PayPal employees, which many credit in part for PayPal’s rapid 2020 growth.

PayPal reports that its overall workforce is made up of 44% women and 55% non-whites, although leadership roles are made up of 33% women and 41% non-whites. The company also reports that women at PayPal globally make 100% of the base pay of men, while ethnically diverse US-based employees make 100% of the base pay of white employees.¹³ PayPal covers gender reassignment services for its employees. Of the 79% of employees who participated in the company’s 2021 employee engagement survey, 80% said they intend to still be working at PayPal in 2 years.¹⁴ This commitment may be explained in part by CEO Shulman’s goal, established as part of the employee financial wellness initiatives of 2019, to ensure all employees have net disposable income of at least 20%. In pursuit of the goal, employee healthcare costs were cut by an average of 58%, and compensation raised by an average of 7%, along with a wider distribution of company stock.¹⁵

PayPal’s attention to its employees may also help explain, in part, the social recognition the company has received, including a high ranking on Forbes’ list of Best Employers for Diversity, a

¹¹ <https://www.businessinsider.com/dan-schulman-interview-paypal-ceo-success-how-i-did-it-podcast-2017-8>

¹² <https://www.fastcompany.com/90490899/how-paypal-ceo-dan-schulman-is-leading-a-more-inclusive-way-forward>

¹³ https://s26.q4cdn.com/519805829/files/doc_downloads/PayPal-2021-Global-Impact-Report.pdf

¹⁴ https://s26.q4cdn.com/519805829/files/doc_downloads/PayPal-2021-Global-Impact-Report.pdf

¹⁵ <https://www.shrm.org/executive/resources/articles/pages/paypal-ceo-helps-workers-with-finances.aspx>

high ranking from JUST Capital for PayPal's dealings with workers (as well as customers and shareholders), a perfect score from the Human Rights Campaign's Corporate Equality Index, inclusion in State Street's Gender Diversity Index, and relatively high marks on As You Sow's Racial Justice Scorecard and the World Benchmarking Alliance's Digital Inclusion Index.

As part of the company's mission to democratize financial services and e-commerce, it says its PayPal Working Capital product has become one of the top 5 lenders to small businesses in the US, with 70% of the program's loans going to regions of the country where banks have departed.¹⁶ The company has implemented initiatives including "customer choice" (allowing customers to pay with any payment method, regardless of fees to the company),¹⁷ a "Buy Now, Pay Later" program with no additional fees for making short-term installment payments to cover purchases (used by 3 million customers in just its first 3 months after launch), Direct Deposit on Venmo, allowing customers to access paycheck funds up to 2 days sooner than with traditional banks, and the expansion of its Xoom international money-transfer service to 12 countries in Africa.¹⁸ PayPal says it also has the largest donation platform in the world, with \$17 billion donated through PayPal in 2020 at an average gift size of under \$100.¹⁹

In 2020, PayPal deployed \$20 million in direct and non-profit grants to black-owned small businesses (of which 62% were women-owned), along with over \$300 million to an economic opportunity fund focused on high-impact treasury and venture capital investments. Charitable donations of over \$30 million were made through employee donations, matching gifts, grants and in-kind donations, with more than 50,000 volunteer hours also contributed by PayPal employees.²⁰

In 2021, PayPal received a "Trendsetter" score of 90 from the CPA-Zicklin Index, which tracks corporate political disclosure and accountability.²¹ While PayPal is involved in ongoing legal proceedings, our research did not find evidence of legal disputes that suggest significant, material environmental, social or governance issues for the company.

¹⁶

<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/emphasizing-the-s-in-esg>

¹⁷

<https://www.mckinsey.com/~media/McKinsey/Industries/Financial%20Services/Our%20Insights/Democratizing%20digital%20finance%20An%20interview%20with%20PayPal%20CEO%20Dan%20Schulman/Democratizing-digital-finance-An-interview-with-PayPal-CEO-Dan-Schulman.pdf>

¹⁸ https://s26.q4cdn.com/519805829/files/doc_downloads/PayPal-2020-Global-Impact-Report-update.pdf

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<https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/emphasizing-the-s-in-esg>

²⁰ https://s26.q4cdn.com/519805829/files/doc_downloads/PayPal-2020-Global-Impact-Report-update.pdf

²¹ <https://www.politicalaccountability.net/wp-content/uploads/2021/11/2021-CPA-Zicklin-Index.pdf>

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