

Just as sellers face many challenges with the traditional system of accepting payment cards, they also face issues accessing and deploying funds to run and grow their businesses. We have applied the same capabilities and insights we used to develop our payments and POS services to address this need as well. We believe our financial services demonstrate the strength of our strategy, execution, and opportunity.

Square Capital provides merchant cash advances to prequalified sellers. We make it easy for sellers to use our service by proactively reaching out to them with an offer of an advance based on their payment processing history. The terms are straightforward, sellers get their funds quickly (often the next business day), and in return, they agree to make payments equal to a percentage of the payment volume we process for them up to a fixed amount. We receive these payments seamlessly through each card transaction we process for them up to a fixed amount. The service has a strong recurring nature, with nearly 90% of sellers who have been offered a second Square Capital advance choosing to accept it. We currently fund a significant majority of these advances from arrangements with third parties that commit to purchase the future receivables related to these advances. This funding significantly increases the speed with which we can scale Square Capital and allows us to mitigate our balance sheet risk.

Payroll is another area where our payments business provides the foundation for the type of opportunity we have realized with Square Capital. Like payments and business financing, payroll services exist within a complex and highly regulated industry. Payroll is one of the largest operating expenses for small businesses. In 2010, small businesses paid 42% of private sector payroll, according to the U.S. Small Business Administration's March 2014 report. Square Payroll is an affordable, easy-to-use payroll service for sellers, optimized for those with hourly employees. It works seamlessly with Square Register to automatically track employee hours worked. This reduces complexity, saving time and money for our sellers. We recently introduced Square Payroll in California, and we plan to expand it to additional states.

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### ***Marketing Services***

We also use the insights derived from our payments and POS services to develop unique marketing services that help our sellers reach customers and increase sales. Square Customer Engagement helps sellers understand their businesses, engage customers in ongoing conversations, and promote their offerings through email marketing. The result is a personalized and improved shopping experience for buyers that helps drive growth for sellers. By linking buyer payment cards and information to marketing efforts conducted in our ecosystem, we have created a closed loop that allows sellers to easily assess the return on their marketing efforts—a difficult feat in the offline world.

Mobile device proliferation has also enabled delivery-as-a-service. Caviar, our food delivery offering, helps restaurants reach customers and increase sales without having to create and manage their own delivery logistics. By providing delivery services for them, Caviar makes it easy for restaurants to expand their reach with little additional overhead. Buyers can access Caviar through our iOS and Android mobile apps or through our Caviar website.

### **Our Opportunity**

We believe there is a substantial opportunity for our end-to-end commerce ecosystem to connect functions that previously existed as silos: payments, POS services, financial services, and marketing services. We earn revenue from activity in our ecosystem from fees charged on payment volume, as well as from software revenue paid to us by our sellers.

Payments services are expected to grow rapidly as buyers and sellers use payment cards instead of cash and checks. We earn a transaction fee for payment processing services. According to The Nilson Report published in December 2014, consumer payment card purchase volume is expected to reach \$7.6 trillion in 2018. The Nilson Report published in January 2015 estimates this volume to reach \$10.0 trillion in 2023. We connect payments to the POS with Square Register, and we expect to increase the number of software services that we offer to our sellers. U.S. small and medium-sized businesses, including micro businesses, were projected to spend approximately \$11 billion on all types of SaaS products in 2014, growing to approximately \$17 billion by 2018.

We also generate revenue from additional products that address other large market opportunities. Square Capital meets the demand from our sellers for financing, a critical service that enables them to grow and in turn drives additional payments activity with us. We generate revenue based on the amount of capital provided to our sellers. According to the FDIC Q4 2014 report, there were \$130 billion in small business loans outstanding under \$100,000 as of December 2014, and according to a 2013 Oliver Wyman report, there is \$80 billion of demand for small business new-form lending lines of credit. Square Payroll meets another