Payments, Processors & IT Services
What's "In-Store" For Mobile Wallets?

Key Takeaway
Conclusions from our latest deep dive on the in-store mobile wallet market: 1) merchant-branded mobile wallets are gaining momentum, while general purpose wallets still search for a compelling value proposition, 2) overall consumer uptake of mobile wallets will likely be gradual (no major tipping point), 3) V/MA remain very solidly positioned in the mobile wallet ecosystem, 4) we like PYPL’s in-store mobile payment pivot, but results will take time.

Don’t expect a major tipping point. At our recent Electronic Payments Summit, we asked our panelists how long it might take for mobile wallets to achieve 10% share of US in-store payments, and the average answer was about 5 years. Based on our field work, this seems like a reasonable estimate, in part because this is a demographic challenge. Meanwhile, we believe mobile wallet uptake will be gradual as merchants upgrade their POS infrastructure, and multiple parties in the ecosystem (handset makers, issuers, networks, merchants) more actively promote these products over time.

Consumers will likely use multiple mobile wallets. Merchant-branded mobile wallets (SBUX, DNKN, etc.) continue to enjoy success (repeat visits, loyalty), with adoption rates likely to increase with the recent launch of “order ahead and pay” functionality. Meanwhile, Apple/Android/Samsung Pay continue to struggle with a sufficient value proposition to drive broad-based consumer adoption, as evidenced by surveys from the Fed and others. Eventually, we think consumers will become comfortable using multiple mobile apps as in-store payment instruments. For habitual purchases (big-box retailers, QSRs, grocery), we believe a merchant-branded app will be preferred to get benefits such as loyalty and line-busting. For more episodic transactions at small-less-frequented merchants, a general purpose mobile wallet (one of the “Pays”) likely makes more sense.

Wal-Mart Pay - mid-year launch is worth watching. Wal-Mart Pay is already live on a limited basis, and is scheduled for national rollout by year-end. This could undermine the Merchant Customer Exchange (MCC) consortium (which was founded by Wal-Mart) and may lead more large merchants to add wallet/payment/loyalty functionality to their own apps, while de-emphasizing the CurrentC wallet currently being piloted by MCC.

Mobile is reinforcing V/MA’s competitive position; ADS/SYF could see a modest boost too. Innovative investments (i.e., tokenization) have ensured that V/MA remain firmly entrenched at the epicenter of the payments value chain, as more consumers adopt mobile payments in-store and continue to use familiar network-branded tender types in this channel. The importance of consumer payment preferences is evidenced by the fact that even Wal-Mart Pay is expected to support V/MA products. The sheer storage capacity of mobile wallets and potential steering within merchant apps could drive some increased usage of private-label cards, potentially benefitting ADS and SYF modestly.

PYPL - pivoting positively in-store, but results will take a long time. We think last year’s Paydiant acquisition helps position PYPL’s in-store strategy better than in the past, given its white-label/merchant-friendly approach. It will be a long, hard fight for PYPL to gain share in-store, but just a tiny slice could move the needle longer-term (Exhibit 4).

Maintain Buys on Starbucks, Panera Bread and Wingstop due to technology leadership. We remain constructive on QSRs/fast casuals leveraging digital engagement for convenience/growth. This includes: Hold-rated (mostly due to valuation) pizza players Domino’s Pizza, Papa John’s International, Pizza Hut (YUM! Brands), Dunkin’ Brands and Zoe’s Kitchen; and Buy-rated Papa Murphy’s Pizza. These brands have the opportunity to gain share and see better-than-industry SSS trends.

Call at 11am ET today to discuss key takeaways. Today at 11am ET, we will be hosting a call to discuss today’s report. Dial-in: 866-900-5944; ID#: 3820601.
What’s “In-Store” Next For Mobile Wallets?

This report is a compilation of our latest deep-dive research into the mobile wallet space. The scope of this piece is primarily focused on the US market, given this is where the bulk of media hype and investor interest has been focused. While the term “mobile wallet” can be interpreted in varying contexts, this report is centered specifically on the in-store mobile wallet market, as opposed to the online channel.

Key Thematic Takeaways

- **We don’t expect a big tipping point for in-store mobile wallet adoption.** At our recent Electronic Payments Summit, we asked our panelists how long it might take for mobile wallets to achieve 10% share of US in-store payments, and the average answer was about 5 years. Based on our field work, this seems like a reasonable estimate, in part because this is a demographic challenge. Meanwhile, we believe mobile wallet uptake will be gradual as merchants upgrade their POS infrastructure, and multiple parties in the ecosystem (handset makers, issuers, networks, merchants) more actively promote these products over time.

- **Single-merchant mobile wallets have much greater momentum than multi-merchant mobile wallets -- and here comes Wal-Mart Pay.** Starbucks (SBUX, $56.42, Buy) was the pioneer of incorporating payments and loyalty into a user-friendly app, and we have since seen others such as Dunkin’ Donuts (DNKN, $47.47, Hold), Domino’s (DPZ, $120.47, Hold), and Panera (PNRA, $212.58, Buy) experience significant success. Order Ahead And Pay is the latest technology enhancement for these quick-serve restaurants (QSRs), which further enhances the consumer value proposition. Wal-Mart Pay is expected to launch this summer, which could undermine the Merchant Customer Exchange (MCX) consortium (founded by Wal-Mart [WMT, $68.91, Hold]) and cause more large merchants to add wallet/payment/loyalty functionality to their own apps. Meanwhile, multi-merchant mobile wallets such as the “Pays” (from Apple, Google, Samsung) have struggled to define a sufficiently strong value proposition to drive widespread consumer adoption.

- **Think of the mobile phone as the “wallet,” with consumers using multiple apps as “cards.”** Over time, we think consumers will become comfortable using multiple mobile apps as in-store payment instruments. For habitual purchases (big-box retailers, QSRs, grocery), we believe consumers will more likely use a merchant-branded app, to get benefits such as loyalty and line-busting. For more episodic transactions at less-frequented merchants, or small merchants who don’t have the need or resources to develop their own app, consumers will more likely use a multi-merchant/general purpose mobile wallet/app, such as Apple Pay, Android Pay, or Samsung Pay.
Key Stock-Related Takeaways

- **V and MA – ready for the mobile future.** We believe Buy-rated V/MA have positioned themselves very well over the long term, given their ongoing investments in areas such as tokenization, which has been broadly adopted by many mobile wallet providers as their core security platform. In addition, V/MA and the other major networks (AXP/DFS) have been selected as the primary funding sources in these wallets, helping to ensure the networks’ place in the epicenter of the payments value chain, as the consumer form factor gradually shifts from plastic cards to mobile devices. Along these lines, we think it is particularly interesting that Wal-Mart Pay (scheduled to launch this summer) is expected to have a wide range of tender types, including traditional V/MA-branded products. This is despite the fact that Wal-Mart’s focus prior to Wal-Mart Pay was to promote the MCX consortium and its launch of the CurrentC wallet, which was originally intended to generally circumvent the networks. We believe the change is that Wal-Mart’s approach speaks to the entrenched position V/MA products enjoy among most consumers, who associate the products with convenience, trust, and rewards.

- **PYPL – Paydiant acquisition helps to pivot in-store strategy, but financial benefits are likely far off.** Since launching in 2012 with merchant partners such as Home Depot (HD, $132.73, Buy), Buy-rated PayPal’s (PYPL, $40.07) in-store efforts have generally floundered, with minimal traction among consumers. But we believe last year’s acquisition of Paydiant could help PYPL pivot its in-store strategy in a more favorable direction. The Paydiant solution represents a white-label approach that keeps the merchant’s brand front and center, rather than the PYPL brand. So to the extent PYPL/Paydiant can become an enabler of in-store mobile payments embedded within a merchant’s app, we believe this is a much more appealing value proposition for merchants as compared to PYPL’s legacy efforts within the in-store market. With that said, we believe PYPL faces a long uphill battle to capture in-store transactions, given numerous entrenched payment types at the physical POS. But we continue to applaud PYPL’s efforts in this space, as even a tiny slice of the in-store payments market (which is roughly 10x the size of online) would create a material benefit for PYPL (see Exhibit 4)

- **ADS and SYF – mobile wallets could help drive increased private-label card usage.** Panelists at our latest Electronic Payments Summit suggested that eventual in-store mobile wallet adoption could benefit private label issuers (such as Buy-rated ADS/SYF). It is plausible that the sheer storage capacity of a mobile wallet (as compared to a physical wallet) will make private-label cards more accessible to consumers. Also, merchants could increasingly try to steer consumers towards using the merchant’s private-label card on transactions being done from the merchant’s app. We also note that multi-merchant mobile wallets, including Apple Pay and Samsung Pay, have partnered with SYF to allow private-label cards to be used as funding options. While there could be incremental private-label card usage as mobile wallet usage proliferates, we also note that the relatively small size of this market (compared to open-loop cards) likely means a very limited competitive threat for V/MA.

- **SBUX, PNRA and WING - We remain constructive on QSRs/fast casuals leveraging digital engagement for convenience/growth.** This includes: Hold-rated (mostly due to valuation) pizza players Domino’s Pizza, Papa John’s International (PZZA, $56.49), Pizza Hut (YUM! Brands; YUM, $80.44), Dunkin’ Brands and Zoe’s Kitchen (ZOES, $37.28); and Buy-rated Papa Murphy’s Pizza (FRSH, $12.34). These brands have the opportunity to gain share and see better-than-industry SSS trends.
In-Store Mobile Wallets – The Paradigm Is Changing

The paradigm for “mobile wallets” is changing – we now think about the mobile device as the “wallet,” which will contain multiple apps that can be used for in-store payments, with multiple tender type options. This is analogous to the current state for most consumers, where their physical wallet contains multiple plastic credit and debit cards.

In general, we believe adoption rates of in-store mobile wallets have remained at uninspiring levels, due to a combination of limited merchant acceptance, and more importantly, a less than stellar consumer value proposition. Any new payment method requires an attractive value proposition for BOTH merchants and consumers, in order to achieve mainstream adoption. This is a two-sided market, and so regardless of how strong a provider’s brand may be, or how deep their pockets are, this mutual value proposition must be satisfied for any mobile wallet to be successful, in our view.

We would also highlight our view that the vast majority of in-store mobile wallet usage continues to be done with single-merchant wallets (i.e., Starbucks, Dunkin’ Donuts, Panera, Domino’s), rather than multi-merchant mobile wallets (i.e., Apple Pay, Android Pay, Samsung Pay). In our opinion, this trend is likely to continue for the foreseeable future, as consumers see the convenience and loyalty/rewards-based benefits of the single-merchant wallets, but have yet to be convinced as to why they should adopt the multi-merchant mobile wallets.

Expect Hybrid Consumer Usage Patterns; No One Wallet Will Dominate

We often get asked what the future of the mobile wallet landscape holds and how consumers will use these products. Our sense is that there will be hybrid usage patterns, favoring the use of single-merchant wallets but not to the exclusion of the multi-merchant platforms. We could envision a scenario whereby many consumers end up using a manageable number (perhaps 4-6) single-merchant wallets, which may represent 60-80% of their in-store transactions. These wallets would likely be from merchants such as big-box retailers, grocery chains, and quick-serve restaurants (QSRs), which consumers tend to shop at frequently, and therefore already have strong affinity for these merchant brands, which can be further enhanced by the loyalty/reward programs embedded in these wallets.

For the other 20-40% of in-store purchases, we believe multi-merchant mobile wallets may be a popular choice. These wallets would be for transactions that see more episodic and occasional patronage from consumers, and in many cases may be with smaller merchants who do not have the need or resources to supply their own mobile wallet.

The bottom-line is, we don’t foresee there being one mobile wallet that will dominate. While tech titans like Apple, Samsung, and Google struggle to gain adoption from both consumers and merchants (particularly the former), retailers seem to be gaining some momentum with their own offerings. The natural appeal of the single-merchant mobile wallet for the merchant is that they get to utilize their own app and brand, and keep the consumer engaged in their app throughout the in-store shopping experience, all the way through payment.

For example, a consumer enters the store, checks inventory, researches product information, receives targeted offers, and then uses the app to pay at checkout. Ideally, this strengthens the underlying relationship between the merchant and their consumer. In this scenario, savvy and sophisticated merchants can collect lots of data about their consumers’ shopping and payment habits and preferences, enabling the virtuous cycle of
targeted offers and increased wallet share to continue. For the QSR vertical, we believe “order ahead and pay” via the merchants’ app is seeing significant uptake, in use at merchants such as Starbucks, Dunkin’ Donuts, and Subway.

Some retailers have also put their private-label cards into multi-merchant mobile wallets, alongside traditional Visa/MasterCard payment types. For example, in June 2015, Apple announced an agreement with private-label card issuer Synchrony to enable Synchrony’s cards to be enrolled in the Apple Pay wallet, and Samsung Pay also has a partnership with Synchrony.

In and of itself, mobile wallet technology could theoretically boost overall consumer usage of private-label cards, we believe. In a single-merchant mobile wallet, merchants could look to steer consumers towards using their private-label account (saving the merchant on interchange fees), and in a multi-merchant mobile wallet, while there may not be the same incentive to steer towards private-label, it is much easier for a consumer to store and access multiple private-label cards in their mobile wallet than in their physical wallet. As a result, there may be fewer instances of private-label cards seeing “one and done” usage (for example as part of a store promotion to open a new private-label card account) and then being relegated to the bottom of a night-table drawer.

**Does The Birth Of Wal-Mart Pay Mean The Death Of MCX?**

In 2012, a group of large merchants (led by Wal-Mart) announced the formation of a consortium known as the Merchant Customer Exchange (MCX). The stated purpose of MCX was to provide merchants with a mobile wallet/platform that would be merchant-friendly, while also reducing transaction costs. The MCX wallet, dubbed CurrentC, focuses primarily on using “friendly” tenders as funding sources, such as private-label/store-branded cards, gift cards, and the Automated Clearing House (ACH) network, all of which carry much lower acceptance costs for merchants than traditional Visa/MasterCard/AMEX card products.

MCX has endured management team changes and slow technology development, but did finally begin a pilot rollout in Columbus, Ohio, in September 2015. Pilot participants included a diverse group of a dozen retailers operating 200 locations, including Target, Wal-Mart, Wendy’s, Shell, Giant Eagle, CVS, Sam’s Club, Exxon, Mobil, Sears, Kmart, and Market District.

We believe the primary technology behind the CurrentC wallet is familiar QR codes, which can either be displayed by the consumer’s smartphone and scanned by the merchant, or can be displayed by the payment terminal and scanned by the smartphone. CurrentC is offering integrated coupons (partnering with privately-held Inmar), loyalty (using retailers’ existing programs), and incentives (i.e., buy one get one free).

In October 2015, at the big Money2020 industry conference, MCX announced a partnership with Chase Pay, a new initiative which was also announced at Money2020 (and is expected to launch in market by mid-2016). Chase Pay is a mobile wallet which will be available to Chase’s ~93M credit and debit card holders, and will be accepted at all MCX merchant locations, of which there are an estimated 100,000, collectively representing $1.2 trillion of US retail spending.

At the time of the Chase Pay/MCX announcement, we thought MCX had been given a new lease on life, as this partnership would enable the MCX merchants to access a huge number of consumers who could use their traditional Chase credit or debit card, expanding the potential user base well beyond those who would have been interested in using one of the “friendly” tenders mentioned above. We believe Chase Pay will use QR codes, and will be operable as a stand-alone mobile wallet, or as an open-loop funding
option within CurrentC. Chase Pay also plans to offer merchants the ability to integrate their loyalty programs into the mobile wallet.

The introduction of Chase Pay arguably begs the question, should banks/financial institutions be the ones to have their brands on consumers’ mobile wallets? In some ways, one could argue yes, in that consumers already trust banks with their financial credentials and transaction security. In addition, usage of mobile banking apps has already gone mainstream, so it would seem to make logical sense to enhance the functionality of these apps (which are already very familiar to consumers) to include wallet functionality that could be used for in-store payments.

But with that said, a wallet branded by a specific financial institution would presumably include payment instruments issued solely by that bank, thereby restricting the consumer’s payment choices. For example, it seems unlikely that Chase Pay would allow a consumer to load their mobile wallet with card credentials issued by Bank of America. Perhaps the counterargument would be that most consumers do the vast majority of their spend on no more than 2-3 cards, so having 2-3 different issuer-branded mobile wallets/apps wouldn’t be too onerous.

Following the announcement of Chase Pay at Money2020 came the announcement of Wal-Mart Pay in December 2015. Seemingly out of the blue, the world’s largest retailer announced plans to roll-out its own in-store mobile wallet nationwide by the middle of 2016. While Wal-Mart has since publicly stated that they remain supportive of MCX/CurrentC, we believe the degree of support has likely waned considerably, as Wal-Mart pursues its own branded wallet initiative. And given that Wal-Mart had historically been the ringleader of MCX (as well as its biggest source of funding), we believe MCX/CurrentC’s prospects have withered considerably due to Wal-Mart Pay.

Interestingly, we believe Wal-Mart Pay will include a wide variety of tender types, including traditional, network-branded credit and debit cards, as well as the Wal-Mart store card. However, to the best of our knowledge, Wal-Mart Pay will not include (at least not initially) an ACH funding option (unlike MCX/CurrentC). We believe there are 22M+ Wal-Mart consumers who use the Wal-Mart app on a monthly basis.

We believe the initial launch of Wal-Mart Pay will use QR codes. As demonstrated in Exhibit 1, a consumer will open the Wal-Mart app at checkout and then choose Wal-Mart Pay as the payment type from the terminal. At this point a QR code appears on the POS terminal and is scanned by the consumer, which “connects” a consumer (and their payment credentials) to the transaction. Once the transaction is completed, the consumer receives a confirmation and a digital receipt. We believe that Wal-Mart Pay will originally be used for in-store checkout at the register (essentially replacing the current card swipe), but could potentially expand to ring up items as the consumer shops, saving time during checkout.
Exhibit 1: How A Wal-Mart Pay Transactions Works

Source: Jefferies

In our view, Wal-Mart Pay signals a material change in Wal-Mart’s approach to in-store mobile wallets/payments. Rather than making the focus on lower acceptance costs and fostering more an “us vs. them” sentiment towards the networks, Wal-Mart is instead focusing on maximizing consumer usage of Wal-Mart Pay, by creating an attractive consumer experience that uses Wal-Mart’s own app as a one-stop shop to provide shopping, payment, and loyalty functions, with the end goal of building stronger consumer relationships and enabling Wal-Mart to capture increased share of spend, but while utilizing mainstream V/MA/AXP payment instruments. Of note, in contract with many competitors (i.e., Target), Wal-Mart doesn’t currently have a loyalty program.

We believe Wal-Mart Pay is a win-win for Wal-Mart and the networks – Wal-Mart increases its chances of achieving broad-based consumer adoption of Wal-Mart Pay, while the networks maintain their central role as the funding mechanism in Wal-Mart Pay. Presumably, the unit economics for the networks will be quite thin on Wal-Mart Pay transactions, but that is already the case for traditional Wal-Mart transactions.

The Wal-Mart Pay wallet could also potentially be used as a broader financial services platform, in that a consumer could walk into a Wal-Mart store, get their paycheck cashed, and have the funds loaded into their Wal-Mart Pay wallet, to then be spent in-store or at Walmart.com.

According to April 21, 2016 media reports, the latest update to Wal-Mart’s iOS mobile app included support for Wal-Mart Pay. In order to use Wal-Mart Pay, users must first create a Walmart.com account and link either a credit, debit or gift card. According to articles, payments are protected by a four-digit code and users can opt to have TouchID used to authenticate the user. To date, Wal-Mart Pay is still only available in certain stores, but is expected to roll out nationwide by year end 2016.

Paydiant Acquisition Should Help Pivot PYPL’s In-Store Strategy, But Results Will Take Time

In April 2015, PayPal acquired privately held Paydiant for $280M. In our view, the acquisition of Paydiant reflects a shift in PayPal’s in-store strategy. PayPal’s first in-store solution launched in 2012, with much fanfare, featured the likes of Home Depot as initial merchant partners. That in-store wallet made for a very clunky consumer experience,
requiring the user to either enter their 10-digit mobile number, followed by a 4-digit PIN, into the POS terminal, or to swipe a plastic PayPal card (see Exhibit 2). In addition, enabling the solution for the merchant required custom IT integration work, funded by PayPal. Needless to say, consumer adoption was minimal.

Exhibit 2: PayPal Physical POS Payments

Source: Jefferies

The next iteration of PayPal’s in-store solution was a cloud-based wallet, accessed via the PayPal app. To set up their account for in-store payments, consumers would upload a photo of themselves, and then they would use the app to “check-in” with merchants accepting PayPal, which were identified via geolocation.

Once the easy check-in process was complete, the consumer’s photo would show up on the merchant’s POS screen, and the consumer would verbally provide their name to the checkout clerk, who would then visually verify the consumer’s identity via the photo. With this solution, the consumer experience was quite seamless, as the consumer could keep their smartphone in their pocket during checkout, and the transaction would be verified in the cloud. However, this was still a PayPal-branded mobile wallet, and we believe many large retailers remained uneasy about consumers walking into their physical stores and engaging with the PayPal app, rather than the retailer’s app.

Enter Paydiant. Paydiant is a white-label provider of mobile app/wallet software to retailers. Paydiant’s notable customers include the Merchant Customer Exchange (MCX) and Subway. While Paydiant’s solution is technology agnostic, we believe most of its implementations to date have utilized QR codes, though it can also support NFC and cloud-based payments.

More importantly, in our view, the white-label nature of Paydiant’s mobile wallets means that the retailer’s app stays front and center, with payment functionality within that app powered by PayPal/Paydiant. In fact, Paydiant’s capabilities extend beyond just payment functionality, to also include offers, rewards, and social media integration, as well as the ability to order ahead, which is particularly relevant for quick serve restaurants (QSRs) such as Subway.
Exhibit 3: Subway Order Ahead And Pay

1. Consumer opens Subway app and chooses “Order”.
2. Consumer then chooses the Subway location they want to pick up their order at.
3. Once the location is chosen, consumer then places their order.
4. Consumer is given the approximate time until the order is ready, presses the Checkout button, and payment is made using the consumer’s stored card defaults.

Source: Jefferies

So with Paydiant, PayPal creates a much stronger value proposition for the merchant, who can now augment their existing app with payment and loyalty capability, thereby enabling them to strengthen their relationships with their consumers. In addition to collecting software licensing revenue, PayPal can offer retailers the opportunity to include PayPal (and/or Venmo, at some point) as a tender type option within the mobile wallet, thereby potentially driving some transaction revenues as well. Meanwhile, the consumer enjoys benefits such as targeted offers (seamlessly integrated with the retailer’s mobile app/wallet) and the ability to order ahead and skip traditional checkout lanes.

In September 2015, PayPal announced Macy’s (M, $40.60, Hold) as a brand new customer. Macy’s had not historically accepted PayPal at all, but has now rolled out PayPal acceptance in an omnichannel fashion, including in-browser, in-app, and in-store.

In an attempt to quantify the potential benefit to PYPL from broader in-store payment adoption, we ran a scenario analysis sensitizing PayPal’s penetration of total US retail POS spending (see Exhibit 4). We started with U.S. Census Retail Sales data for 2015 (ex. e-commerce volumes), modeled a range of potential penetration rates (between 20-100bps), and applied the 2017 corporate average take rate, operating margin, take rate, and share count to calculate the potential EPS benefit from in-store traction.
We remain supportive of PYPL’s in-store efforts, given that just a tiny slice (20-100bps) of the in-store payments market (which is roughly 10x the size of online) would move the needle for PYPL ($0.04-$0.18 EPS benefit based on our above assumptions). But given the significant tender type competition and entrenched in-store consumer payment habits, we believe any material financial benefit to PYPL from these initiatives is likely far off.

Order Ahead And Pay – Big Value Proposition For QSRs

Building on the success of their mobile apps (which in many cases also have payment capabilities), QSRs such as Starbucks (SBUX), Dunkin’ Donuts (DNKN), and Domino’s (DPZ) have been aggressively rolling out “order ahead and pay” capability. We believe this is an ideal solution for the QSR environment given the frequency of consumer visits (and associated loyalty), orders which are often repeatable visit by visit, and the value consumers place on line-busting, to get their order faster.

The Starbucks app has had payment capability for years, in the form of a reloadable prepaid account that can be funded with a credit/debit card, or a Starbucks gift card. Starbucks rolled out its Mobile Order and Pay (MOP) service in September 2015 (see Exhibit 5). We believe MOP is currently running at around 8M transactions /month (vs. 6M/month during the December quarter). More than 1 million customers used MOP in December alone and some stores at peak morning daypart are seeing 10-20% of orders thru MOP.

SBUX is already seeing about 4% of transactions via MOP, in the short time this feature has been available. In aggregate, about 24% of SBUX’s total transactions are now conducted using the Starbucks app/wallet which has ~19M users and uses QR code technology for payments. Of note, we believe the Starbucks mobile wallet can be reloaded with Apple Pay, PayPal and Visa Checkout, and according to a Feb-2016 announcement, Chase Pay will also be included once it is launched as a funding source (scheduled for mid-2016).
While Dunkin’ Donuts was not as early to market with their app or related payment functionality, the DNKN app has been downloaded 16M times, with 4-5M active Perks users in 2 years since launch in early 2014 (vs. 2.5M a year ago). Although we do not believe that DNKN has disclosed what percentage of transactions are completed using the mobile app, according to the company, visitation of “comp” members (those that have been in the program for more than a year) is up and weekly spend is 4.5-5% higher on average (vs. non-members). Like SBUX, the DNKN app uses QR technology, as well as a prepaid/reloadable account funded via credit/debit cards or a Dunkin’ gift card.

The just-released latest version of DNKN’s app now includes “on-the-go” ordering, allowing a consumer to place (and pay for) their order up to 24 hours in advance, pick up the order at a designated time, and skip the traditional checkout line. Dunkin’ initially launched On-the-Go ordering in Portland, Maine, at the end of 2015, before expanding to Boston in March, and as of 4/28, On-the-Go Ordering will be available at 1,650 locations in the Metro New York area. Consumers can also save their favorite order and re-order with a single tap, while also applying DD Perks rewards to these transactions.
Another merchant which has been very active in the mobile space is Domino’s Pizza. The company has been a pioneer in deploying mobile technology to its core millennial-centric user base, and for years has provided consumers the ability to order pizza for delivery via dominos.com or the Domino’s app, as well as through Twitter, text, emoji, Samsung TV, and the Amazon Echo. We believe that 50% of DPZ’s U.S. sales have come from digital channels since the end of 2014, and a slightly lower percentage for international markets (~$4 billion annually in global digital sales).

Domino’s “Anywhere” platform manages their digital ordering offers. The online ordering ‘profiles’ platform saves customer information (including payment credentials, address, ordering preferences) and allows customers the ability to reorder their favorite order via a number of quick methods including 5 click-order (launched in 2013, which refined the ordering experience down to five clicks) and most recently Zero-Click ordering (discussed in more detail below).

Because most of Domino’s business is delivery, the line-busting benefits of traditional order ahead and pay are not as applicable. In April 2016, Domino’s launched its Zero-Click app, which enables consumers to order a pizza by just opening the app – no clicks or taps required (see Exhibit 7). To use Zero-Click, customers must pre-select menu choices using Domino’s Easy Order system. And then once the Zero-Click app is simply opened, the pre-selected order is placed, after a 10-second “grace period” in which the consumer can cancel the order if it was made in error.
Panera (along with Starbucks) now has arguably the highest digital utilization of any public restaurant company, with digital transactions (both ordered and paid for digitally) now representing 17% of total company sales (up from about 8% at the end of 2014). We believe PNRA digital orders will represent 26% of domestic sales by 2017 (from 17% today). We think getting to 35% mix is a very realistic goal, and if small-order delivery becomes as big of an opportunity as the company thinks, 45%+ over the longer-term is not out of the question, in our view. Top-performing markets already have over one-third of sales coming from digital orders.

PNRA has not specifically isolated the exact SSS lift seen in digital transactions vs. non-digital, but early results are partially reflected in reported 2.0 conversion test metrics (among the other drivers improving throughput and experience) and we’d note that other restaurant brands have indicated seeing upwards of 25% check lift and indications of better frequency after launching digital ordering platforms (via suggestive sell, add-ons, convenience, and propensity for credit card sales to yield higher check averages than cash sales).

**Adoption of Multi-Merchant Mobile Wallets Has Been Tepid to Date**

In October 2014, Apple Pay launched in the United States with much fanfare. Given the strength of Apple’s brand and balance sheet, as well as the company’s reputation for creating superior consumer experiences, expectations were high for adoption. Issuing banks felt they couldn’t afford to be left out, agreeing to pay Apple 15 basis points per credit transaction and $0.005 per debit transaction. While some retailers (such as Walgreen’s, Macy’s, Bloomingdale’s, Duane Reade, Staples, Whole Foods, Subway and McDonalds) were eager to be launch partners for Apple Pay, many others were less enthusiastic given the need to upgrade their payment terminals to NFC technology, while others had contractual commitments to the Merchant Customer Exchange (MCX) consortium which precluded their participation in Apple Pay, at least initially.

Meanwhile, consumers who bought the iPhone 6 (which was new at the time Apple Pay was introduced) now had the opportunity to add their traditional payment cards to the Apple Pay “wallet.” While some early technology adopters enthusiastically loaded their
cards and started to actively seek out merchants where they could try Apple Pay, most iPhone 6 owners remained unaware or uninterested, we believe.

Regarding unawareness, while Apple Pay partners Visa, MasterCard, American Express, Bank of America, Wells Fargo, and others did engage in some advertising and marketing efforts to get Apple Pay off the ground, we were surprised from the time of the initial launch that our checks have consistently found a lack of in-store promotion for Apple Pay among participating merchants. We believe consumers who have been uninterested in using Apple Pay are generally unclear regarding the underlying value proposition as to why they should use it. Physical cards work very well in-store and are generally not a big pain point for consumers. While we would agree that the learning curve and hassle associated with EMV card payments may strengthen the relative value proposition for using a mobile wallet such as Apple Pay, the hurdle to change consumers’ payment habits remains high. In addition, V and MA have recently made software updates available which promise to significantly speed up EMV transaction times.

A recent study by First Annapolis supports our general thesis regarding Apple Pay adoption (or lack thereof). According to the survey conducted by First Annapolis, and published in January 2016, only 20% of iPhone 6 owners have made an Apple Pay purchase (see Exhibit 8 and Exhibit 9). Surprisingly, this figure slipped slightly from 22% in the prior version of the survey (spring 2015). These percentages are far less than the 84% of iPhone 6 owners who say they have heard of Apple Pay. In our opinion, these relatively low usage rates are likely due to a combination of limited POS acceptance and lack of a compelling consumer value proposition. Apple disclosed in early February that in-store Apple Pay acceptance has reached 2M locations (a figure which was updated to 2.5M on the 4/26/16 earnings call), but this is still a relatively small percentage of the total US point-of-sale terminal market, which we believe is approximately 13M. On the same earnings call, Apple disclosed that Apple Pay is adding 1M users per week, and that transaction volume has grown 5x vs. a year ago, but the company did not disclose absolute numbers for either metric.

![Exhibit 8: Consumer Awareness of Apple Pay](image)

### Exhibit 8: Consumer Awareness of Apple Pay

- **Spring 2015**
  - No: 12.0%
  - Yes: 88.0%

- **December 2015**
  - No: 16.0%
  - Yes: 84.0%

**Source:** First Annapolis Consulting

![Exhibit 9: Consumer Usage of Apple Pay (for Consumers Who Are Aware of Apple Pay)](image)

### Exhibit 9: Consumer Usage of Apple Pay (for Consumers Who Are Aware of Apple Pay)

- **Spring 2015**
  - Have Not Used: 66.0%
  - Loaded a Card and Made a Purchase: 18.0%
  - Loaded a Card and Used Regularly: 4.0%

- **December 2015**
  - Have Not Used: 64.0%
  - Loaded a Card and Made a Purchase: 18.0%
  - Loaded a Card and Used Regularly: 3.0%

**Source:** First Annapolis Consulting

Among those saying they have used Apple Pay, only 15% have used it regularly or frequently (defined as more than once per month), and this figure also declined from 19% in last spring’s survey. While we don’t view the number of Apple Pay users as terribly impressive, the First Annapolis survey did note that 60% of users indicated they were “very satisfied” with the experience, and 94% were at least “somewhat satisfied,” up from 87% in the spring survey (see Exhibit 10).
Another recent Apple Pay survey, conducted by Phoenix Marketing International, sheds light on which merchants have seen the most in-store Apple Pay usage (as determined by Apple Pay users with a credit card loaded in their Apple Pay mobile wallet). Among Apple Pay users, 42% used it at an Apple store, while 41% did so at McDonald’s, 36% at Macy’s, and 32% at Subway (see Exhibit 11).

In our Apple Pay 2.0 report (published 5/4/15), we expected in-app to become a more significant driver of Apple Pay adoption than in-store, citing the expanded merchant base accepting Apple Pay in-app and bullish commentary from presenters at our 2015 Electronic Payments Summit. Since then, despite the continued ramp of merchants accepting Apple Pay in-app (to 52% of all merchants accepting Apple Pay vs. 42% in Spring 2015 – see Exhibit 12), transactions (in this case credit) continue to remain heavily skewed towards in-store purchases (see Exhibit 13).
Apple has also been launching Apple Pay in select international markets. The service went live in the UK in July 2015, followed by Australia in November 2015 (albeit with only American Express as a funding option), and China in February 2016. Within 72 hours of the China launch, an estimated 3 million cards were added (as compared to the ~1M cards added in the first 3 days following the US launch).

Beyond Apple Pay – Competition Remains Fierce For Android Users

Samsung Pay

Samsung Pay launched in South Korea in August 2015, and in September 2015 rolled out in the United States. Samsung has leveraged partnerships with the likes of Synchro and Blackhawk to add private-label and gift cards to the Samsung Pay wallet, in addition to network-branded products. Consumers can also buy gift cards from participating retailers (of which we believe there are roughly 50) that can be gifted to recipients.

Major US networks including Visa, MasterCard and American Express are all live on Samsung Pay. Large issuers participating in Samsung Pay include Chase, Citi, Bank of America, US Bank, Wells Fargo, and PNC, with many smaller issuers (such as SunTrust and KeyBank) also part of the program. In August 2015, Discover announced plans to participate in Samsung Pay at some point in 2016. We believe Samsung’s current issuer roster covers about 75% of the US card market.

Samsung Pay is available in the Google Play store and works on major U.S. carriers including Verizon, AT&T, Sprint, T-Mobile and US Cellular. We believe that Samsung Pay will become available in Australia, Brazil, Canada, Singapore, Spain and the United Kingdom later in 2016.

In mid-December 2015, Samsung announced a deal with China’s UnionPay to bring Samsung Pay to the country in early 2016. The Samsung Pay service officially launched in China on 3/29/16, in partnership with the Chinese domestic network monopoly, China UnionPay. In China, Samsung Pay currently supports select credit and debit cards from nine banks: China CITIC Bank, China Construction Bank, China Everbright Bank, China Guangfa Bank, China Minsheng Banking Corp. Ltd, China Merchants Bank, Hua Xia Bank, Industrial and Commercial Bank of China and Ping An Bank. Samsung has indicated that Samsung Pay will eventually include future support for select credit and debit cards from six additional banks including Bank of China, Bank of Beijing, Bank of Communications, China Bohai Bank, Industrial Bank and Shanghai Pudong Development Bank.
Exhibit 14 shows the process flow for a Samsung Pay transaction. To use Samsung Pay, the consumer swipes up from the small Samsung Pay bar on their screen (just above the home button), and then uses his/her fingerprint to authenticate the transaction (similarly to Apple Pay), before holding the mobile device near the magstripe or NFC reader of the payment terminal.

**Exhibit 14: Samsung Pay Transaction Flow**

1. Consumers add their credit or debit cards to the app using OCR technology and relevant data fields are automatically filled (or manually entered). Consumers are also given the option to make Samsung Pay their default payments method (as opposed to Android Pay).

2. At the time of the transaction, the consumer loads their card by swiping up on the phone (the phone does not need to be unlocked), and chooses which card they want to use. The consumer then uses their thumb print to verify their identity.

3. The customer then waves the phone over a POS terminal (either using MST or NFC technology) and the transaction is completed. A transaction is complete when a blue circle emanates from the card iron.

The key differentiator for the Samsung Pay mobile wallet is its use of magnetic secure transmission (MST), which Samsung bought as part of the LoopPay acquisition in February 2015. MST uses a magnetic coil in the Samsung smartphone to communicate with the magnetic stripe reader that is part of traditional payment terminals. Therefore, merchants do not need to upgrade their terminals to NFC technology to accept Samsung Pay, though Samsung Pay is compatible with NFC as well as MST.

Samsung has claimed that MST enables roughly 80% of US merchants to accept Samsung Pay, though in practice this figure could be somewhat exaggerated given that some payment terminals are located behind the counter, making them out of reach for a consumer to hold their phone close to the terminals. Samsung Pay can accommodate up to 12 payment cards and an unlimited number of gift cards. Like Apple Pay, Samsung Pay does not store payment credentials on the device, and utilizes tokenization technology to securely process mobile payments. Of note, we do not believe that Samsung Pay’s MST technology works for “push-pull” card readers (i.e., where you dip your card into a mag-stripe terminal), meaning acceptance is likely limited at gas stations.

Regardless of Samsung Pay’s acceptance footprint, the solution still faces the consumer adoption/value proposition hurdle of the other multi-merchant/general purpose mobile wallets. In addition, Samsung faces the challenge of working with operating system providers such as Google. In the case of Apple, they control both the hardware and software technology for their smartphones; Samsung does not. And at the same time, Google is promoting its competing Android Pay service, making the mobile wallet landscape even more confusing for non-Apple smartphone users.
Android Pay

Exhibit 15 illustrates the process flows for an Android Pay transaction.

**Exhibit 15: Android Pay Transaction Flow**

1. Consumers add their credit or debit cards to the app using OCR technology and relevant data fields are automatically filled (or manually enter). In addition, consumers can go on the web and input their credentials at payments.google.com

2. Unlike a number of the other mobile wallets, we believe that the consumer must unlock their Android device before using Android Pay, using either the pattern lock or their thumb print.

3. When the NFC capable Android device picks up the NFC signal emanating from a terminal, the appropriate card image pops up. At this point the consumer then waves the Android device near the terminal to complete the transaction.

Source: Jefferies

To use Android Pay, a consumer must first unlock their smartphone before holding the device near the NFC terminal to execute a payment transaction. This creates a little bit more friction than with Apple Pay, where the app jumps to the top of the lock screen as soon as the smartphone gets close enough to the NFC terminal. Android Pay comes pre-loaded on AT&T, T-Mobile, and Verizon devices, while other users must download the app from Google Play, because Google does not control its whole mobile device ecosystem (unlike Apple). Given its use of NFC, Android Pay is accepted at any merchant which has enabled this technology on its terminals (just like Apple Pay, see Exhibit 16 for a sample list of participating merchants).

**Exhibit 16: In Store Merchants Accepting Android Pay**

<table>
<thead>
<tr>
<th>Acme</th>
<th>Chevron</th>
<th>Fuddruckers</th>
<th>Macy's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aeropostale</td>
<td>Coca Cola</td>
<td>GameStop</td>
<td>McDonalds</td>
</tr>
<tr>
<td>American Eagle</td>
<td>Davis</td>
<td>House of Hoops</td>
<td>Meijer</td>
</tr>
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<td>AT&amp;T</td>
<td>Disney</td>
<td>Jamba Juice</td>
<td>Nike</td>
</tr>
<tr>
<td>Babies R Us</td>
<td>Duane Read</td>
<td>jetBlue</td>
<td>Office Depot</td>
</tr>
<tr>
<td>Bashas</td>
<td>Express</td>
<td>Jewel-Osco</td>
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<tr>
<td>BJ's</td>
<td>FoodMaxx</td>
<td>Lego</td>
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<td>Bloomingdales</td>
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<td>Lin's</td>
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<tr>
<td>Champs</td>
<td>Foot Locker</td>
<td>Lucky</td>
<td></td>
</tr>
</tbody>
</table>

Source: Google

Android Pay is also available in the in-app channel, accepted in popular apps such as Lyft, OpenTable, Hotel Tonight, and Instacart. Similarly to Apple Pay, Android Pay uses tokenization technology to secure transactions, those these tokens are generated in the cloud (using Host Card Emulation, or HCE, technology) rather than being generated on
the secure element within the device, as is the case with Apple Pay. Exhibit 17 shows merchants currently or in the future accepting Android Pay in-app.

### Exhibit 17: In-App Merchants Accepting Android Pay

<table>
<thead>
<tr>
<th>Available Now</th>
<th>Coming Soon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealflicks</td>
<td>Airbnb</td>
</tr>
<tr>
<td>DoorDash</td>
<td>Expedia</td>
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<tr>
<td>Fancy</td>
<td>Domino's</td>
</tr>
<tr>
<td>Handy</td>
<td>Dunkin' Donuts</td>
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<tr>
<td>Hotel Tonight</td>
<td>Ebay</td>
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<tr>
<td>Houzz</td>
<td>Etsy</td>
</tr>
<tr>
<td>Instacart</td>
<td>Eventbrite</td>
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<tr>
<td>JackThreads</td>
<td>Fancy</td>
</tr>
<tr>
<td>Jet</td>
<td>OpenTable</td>
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<td></td>
<td>ParkMe</td>
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<td>Parkwhiz</td>
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<td></td>
<td>Yelp</td>
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<tr>
<td></td>
<td>Zumper</td>
</tr>
</tbody>
</table>

Source: Google

All of the major payment networks (Visa, MasterCard, American Express, Discover) participate in Android Pay, as do a growing list of banks, including major issuers such as Bank of America, Capital One, Citi, Wells Fargo, US Bank, and USAA. But conspicuous in its absence from this list is the largest US card issuer, Chase, though we believe Chase plans to support Android Pay at some point this year. To load a card into the Android Pay wallet, users can either utilize an existing card on file with Google Play, or take a picture of a different credit/debit card. Android Pay works with all NFC-enabled Android devices running KitKat 4.4+

We believe Android Pay will be launched in the UK during the summer of 2016. UK banks expected to participate in the Android Pay launch include Bank of Scotland, First Direct, Halifax, HSBC, Lloyds Bank, M&S Bank, MBNA and Nationwide Building Society. We believe Google also plans to launch Android Pay in Australia by the middle of this year.

### Latest Fed Study Finds Consumer Adoption Of In-Store Mobile Wallets Remains Quite Limited

In March 2016, the Federal Reserve published a report entitled “Consumers and Mobile Financial Services 2016,” representing the latest edition of ongoing consumer survey work performed by the Fed to assess overall adoption levels of mobile banking and mobile payment services.

As part of the report, the Fed defines “mobile payments” as “purchases, bill payments, charitable donations, payments to another person, or any other payments made using a mobile phone. This includes using your phone to pay for something in a store as well as payments made through an app, a mobile web browser or a text message.”

While the use of mobile banking (i.e., balance inquiry, transferring funds) continues to rise, the use of mobile payments continues to be much less common, according to the Fed’s data. In fact, while 43% of mobile phone owners with a bank account had used mobile banking in the 12 months prior to the survey, just 24% had used mobile payments (see Exhibit 18).
The Fed’s data suggests no increase in mobile payment adoption among smartphone owners over the past year, though usage had upticked over the past four years. In 2011, 23% of smartphone users reported using mobile payments, and by 2014, that figure had increased to 28%. But in 2015, this metric remained flat at 28% (see Exhibit 19), suggesting that an uphill battle continues for mobile payments to achieve mainstream consumer adoption.

And among those using mobile payments, in-store transactions were the third-most common activity cited. While 65% of mobile payment users have paid bills using their mobile device, and 42% have purchased a physical item or digital content remotely using their mobile phone, only 33% had used their phone to make an in-store purchase (see Exhibit 20). Interestingly, that figure declined from the 39% level of two years prior, as documented in our report dated 5/1/14, entitled “Everything You Wanted To Know About Mobile Wallets (But Were Afraid To Ask)”.

The reasons for using mobile payments cited by consumers in the Fed survey aren’t too surprising. For example, the most common reason cited (by 45% of mobile payment users) is convenience. Getting a smartphone was the second most commonly cited
reason for adoption, at 20%, while 14% said the mere ability to make mobile payments was enough to get them to adopt (see Exhibit 21).

Exhibit 21: What was the main reason why you started using mobile payments when you did?

Source: Fed 2016 Consumers and Mobile Financial Services Survey

For those not using mobile payments, the Fed survey also asked respondents to indicate reasons why. Interestingly, 80% reported that they feel it is easier to pay with cash or a credit/debit card, while 67% cited security concerns, and 65% simply said they don’t see any benefit of using mobile payments (see Exhibit 22). We think these responses collectively represent data points supporting our view that some mobile wallets continue to be a solution in search of a problem.

Exhibit 22: Please tell us if any of the reasons below are why you do not use mobile payments

Source: Fed 2016 Consumers and Mobile Financial Services Survey

With that said, the survey results do seem to bear out the fact that merchant acceptance of mobile wallets has increased, which is not surprising especially as the US EMV terminal rollout has progressed, and these EMV terminals generally have NFC payment capabilities as well. In 2013, 27% of those not using mobile payments cited lack of merchant acceptance as a reason, and this figure declined to 23% in 2014 and 22% in 2015.

Delving deeper into the views of non-users of mobile payments suggests that future adoption could face some meaningful hurdles. For example, 74% of these non-users said they had no interest in using mobile payments, even if their concerns were addressed.
However, among non-users saying they would actually consider future usage of mobile payments, the most common potential use case cited was in-store mobile payments, cited by 17% of these respondents (see Exhibit 23).

Exhibit 23: Assuming that the reason(s) why you do not currently use mobile payments was addressed, would you be interested in doing any of the following activities with your mobile phone?

Source: Fed 2016 Consumers and Mobile Financial Services Survey

The Fed survey also sought to assess the future intentions of those who have not made an in-store mobile payment (see Exhibit 24). When those with a smartphone who did not report making in-store mobile payments were asked about their plans to do so in the next 12 months, 5% said they “definitely will,” and 15% said they “probably will.” These figures haven’t changed much from two years ago, when 2% said “definitely,” and 15% said “probably.” In addition, we note that 50% said “probably will not” in the latest survey (up from 44% two years ago), while 30% said “definitely will not” (down from 38% two years ago).

Exhibit 24: Percentage of Smartphone Owners Expecting to Make a Mobile Payment at the POS in NTM Who Have Not Previously Done So

Source: Fed Consumers and Mobile Financial Services Survey

As we alluded to earlier, safety and security of in-store mobile payments remains a significant concern for many consumers, despite the fact that in reality, an in-store mobile wallet transaction is generally safer than a traditional card-based transaction, though the
security of the latter is certainly improving as more cards continue to be re-issued with EMV chips, thereby making these cards very difficult to counterfeit.

When mobile phone users were asked how safe they believe their personal financial information is when making an in-store mobile payment, 27% said “somewhat unsafe,” and another 19% said “very unsafe.” As seen in Exhibit 25, these responses are very consistent with the past two surveys. There has however been a slight uptick in those feeling more comfortable with the security of in-store mobile payments, as evidenced by the fact that 38% said they felt these transactions were “very safe” or “somewhat safe” in the latest survey, up from 34% two years ago.

Exhibit 25: How safe do you believe people’s personal information is when they use a mobile phone to pay for a purchase at a store?

Source: Fed 2016 Consumers and Mobile Financial Services Survey
**Analyst Certification:**

I, Jason Kupferberg, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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I, Andy Barish, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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I, Ryan Cary, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

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Other Companies Mentioned in This Report

- Alliance Data Systems Corporation (ADS: $201.20, BUY)
- Alphabet, Inc. (GOOGL: $705.06, BUY)
- Amazon.com, Inc (AMZN: $602.00, BUY)
- American Express Co. (AXP: $65.84, HOLD)
- AT&T Inc. (T: $38.64, BUY)
- Bank of America Corp. (BAC: $14.79, BUY)
- Blackhawk Network Holdings (HAWK: $32.15, BUY)
- Capital One Financial Corporation (COF: $73.37, HOLD)
- CVS Health (CVS: $101.21, BUY)
- Discover Financial Services (DFS: $56.68, BUY)
- Domino’s Pizza, Inc. (DPZ: $120.47, HOLD)
- Dunkin’ Brands Group, Inc. (DNKN: $47.47, HOLD)
- ExxonMobil (XOM: $88.03, HOLD)
- JPMorgan Chase & Co. (JPM: $63.60, BUY)
- Macy’s (M: $40.60, HOLD)
- MasterCard, Inc. (MA: $97.18, BUY)
- McDonald's Corp (MCD: $127.92, HOLD)
- Panera Bread Co. (PNRA: $212.58, BUY)
- Papa John's International, Inc. (PZZA: $56.49, HOLD)
- Papa Murphy's Holdings, Inc. (FRSH: $12.34, BUY)
- PayPal Holdings Inc. (PYPL: $40.07, BUY)
- Sprint Corporation (S: $3.58, UNDERPERFORM)
- Staples, Inc. (SPLS: $10.38, BUY)
- Starbucks Corp. (SBUX: $56.42, BUY)
- SunTrust Banks, Inc. (STI: $42.07, HOLD)
- Synchrony Financial (SYF: $30.97, BUY)
- Target Corp. (TGT: $81.33, HOLD)
- The Home Depot, Inc. (HD: $132.73, HOLD)
- The PNC Financial Services Group, Inc. (PNC: $88.19, HOLD)
- T-Mobile US (TMUS: $39.76, BUY)
- Twitter, Inc. (TWTR: $14.64, BUY)
- Verizon Communications Inc. (VZ: $51.02, HOLD)
Visa, Inc. (V: $77.68, BUY)
Walgreens Boots Alliance (WBA: $80.35, HOLD)
Wal-Mart Stores, Inc. (WMT: $88.91, HOLD)
Wells Fargo & Company (WFC: $50.41, BUY)
Whole Foods Market (WFM: $29.79, HOLD)
Wingstop Inc. (WING: $24.33, BUY)
YUM! Brands Inc. (YUM: $80.44, HOLD)
Zoe’s Kitchen, Inc. (ZOES: $37.28, HOLD)

Distribution of Ratings

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<thead>
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<th>Rating</th>
<th>Count</th>
<th>Percent</th>
<th>IB Serv./Past 12 Mos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUY</td>
<td>1173</td>
<td>53.88%</td>
<td>325</td>
</tr>
<tr>
<td>HOLD</td>
<td>841</td>
<td>38.63%</td>
<td>162</td>
</tr>
<tr>
<td>UNDERPERFORM</td>
<td>163</td>
<td>7.49%</td>
<td>19</td>
</tr>
</tbody>
</table>
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