

## EQUITY RESEARCH

April 17, 2020

- Software
- Computer Services & IT Consulting: Business Services

**Bryan C. Bergin, CFA**  
646 562 1369  
bryan.bergin@cowen.com

**Jared Levine, CFA**  
646 562 1431  
jared.levine@cowen.com

## QUICK TAKE: INDUSTRY UPDATE

# DAILYPAY HCM CALL RECAP: ON-DEMAND PAY & US EMPLOYMENT INSIGHTS

### THE COWEN INSIGHT

Our call with Jeanniey Mullen, Global Chief Innovation & Marketing Officer of leading private On-Demand Pay provider DailyPay centered on intricacies of earned wage access and broader financial wellness trends, including drivers and the developing comp landscape. DailyPay provided insight on the impact of COVID-19 to its operations and US employment dynamics from its proprietary Workforce Index.

### Cowen Call with DailyPay

[Audio Replay Link](#)

#### What is On-Demand Pay? The Next Major Wave of HCM Disruption

As detailed in our Ahead of the Curve report: **On-Demand Pay: You've Already Earned It** ([LINK](#)), we believe this represents the next major wave of disruption in payroll & HCM. On-Demand Pay enables access to earned wages in advance of the traditional payday via tech platforms. It differs from payday and consumer loan products in several ways, but most critically, DailyPay's solution does not charge interest or penalties, and is based on accessing funds already earned rather than anticipated future wages. Versus other payroll solutions, DailyPay does not trigger a same-day payroll run for employers.

#### Big Opportunity Addresses Broad Need

The ultimate opportunity is the enablement of earned wage access to all employees. In an industry of relative infancy, DailyPay has experienced consistent y/y doubling of revenue. And, even as the On-Demand Pay opportunity itself is significant, it has natural extensions into broader financial wellness applications. DailyPay recently moved into this arena via its SAVE 3.0, offering a savings feature to support improved financial behavior. DailyPay sees broad usage regardless of income level, from those earning minimum wage to comfortable six-figure salaries, showing wide needs to access funds ahead of payday. Research points to a staggering amount of US workers living paycheck to paycheck (70%+) and many with bare savings (<\$400) often using predatory alternative means of funding.

#### DailyPay Background

DailyPay was founded in 2015 and has grown to service a few hundred employers and 2+ million users. Its offering integrates into employers' payroll or time & attendance system, with APIs across most major players. It does not charge employers to offer its functionality, a key advantage as this is increasingly viewed as a cost-less employee benefit. DailyPay monetizes its offering through transaction fees paid by users upon access: \$1.99 for next day transfer of funds (currently waived) and \$2.99 for instant access. However, it allows users for free to track net wages earned and the number of days until the next payday within its app. Further, its new SAVE 3.0 feature, which allows users to earmark funds for saving in advance of payday and is offered free.

#### DailyPay vs. Competitor Offerings

DailyPay differs from competition across several factors. First, it is solely responsible for funding the access to On-Demand Pay to users, while some competitors require the employer to provide full or partial funding. DailyPay was also built to give users access to 100% of net pay, while other providers limit the amount of net pay accessible (e.g., up to 50%). Its pricing model is based on transaction fees while some competitors monetize through subscription fees, via interchange or ATM fees on prepaid debit cards, or direct debit of users accounts. Versus public HCM providers with native On-Demand Pay development, DailyPay's HCM vendor-agnostic approach accommodates across platforms and can port if employers switch payroll/T&A systems. It expects ~5 years before this offering becomes the norm.



### Client Usage

DailyPay has found the greatest utilization of On-Demand Pay with users that make less than \$80k annually. However, it does see interest in the functionality from users making over six-figures too, evidencing the broad appeal. Interestingly, it sees 4 primary user categories:

- 1) Advantageous users, users with no financial challenges, but utilize On-Demand Pay to purposely drive behavior toward and end goal such as improving credit scores by paying bills early or to invest in career trainings, etc. Approx. 20% of users.
- 2) Users with unexpected expenses that have real short-term financial needs, such as a broken water heater or those in between jobs that need to access funds from the first paycheck often on a delay. Approx. 15% of users.
- 3) Users that who only utilize DailyPay's savings feature. Approx 5-10% of users.
- 4) Regular users who utilize its On-Demand Pay functionality to manage their lifestyle, including people that like to pay their bills weekly. These users typically access their pay 1-2x per week. Interestingly, it has found the vast majority of users withdraw odd \$ amounts (vs. ATM examples of even withdrawals like \$100), supporting its view that usage is primarily for bill payment. Majority of users at 55-60%.

### Barriers to Adoption and Misconceptions

- **Pre COVID-19:** Prior to COVID-19, potential employers' biggest pushback from offering On-Demand Pay to their employees was centered on compliance risks and a view of perceived unintended consequences for employees. Compliance concerns were primarily related to taxes, in that there was broad misconception of increased burden for employers from potential requirement to run payroll daily. However, since DailyPay is the sole party advancing the funds, employers are not required to run payroll daily. Employers have also been concerned about granting employees 100% of net pay prior to the normally scheduled payday due to a perception that employees may spend it all prior to payday on non-essential items and then receive a paycheck for \$0 and be in worse financial shape. DailyPay, through various user surveys, real-time user feedback and other data points, has been able to largely allay these fears and misconceptions.
- **Post COVID-19:** DailyPay has seen ramping adoption and a notable decline in pushback from employers. In fact, employers have been better able to grasp the positive benefit of On-Demand Pay for employees as a result of the pandemic. This includes numerous client stories of employees who were now able to afford to purchase essential supplies to be able to keep working (and safely), which might not have been available if these employees had to wait until payday to purchase. DailyPay has waived fees on next day access to On-Demand Pay funds as a result of the pandemic as well to support users in a challenging time for most workers.

### DailyPay Workforce Index: New Insights on a Subset of US Employment

The company recently created the DailyPay Workforce Index, using its proprietary data (Link [HERE](#)). The index has two datasets, one that tracks average hours worked by employees and the other the number of active working employees as a % of all employees. Data is currently offered among employers that comprise a significant portion of hourly workers, across 4 major industry sub-verticals: Hospitals, Call Centers, Supermarkets and Quick Service Restaurants (QSR).

- During March 26th, it found that 16% of DailyPay usage was tied to specified reason related to COVID-19. Since then, it has tracked 13% of usage on each of April 3rd and April 15th.
- According to DailyPay, all 4 industries are showing declines in working employees, due to reasons likely to be caused by direct and indirect impact of coronavirus (layoffs, restructuring, quarantine, sickness and anxiety).

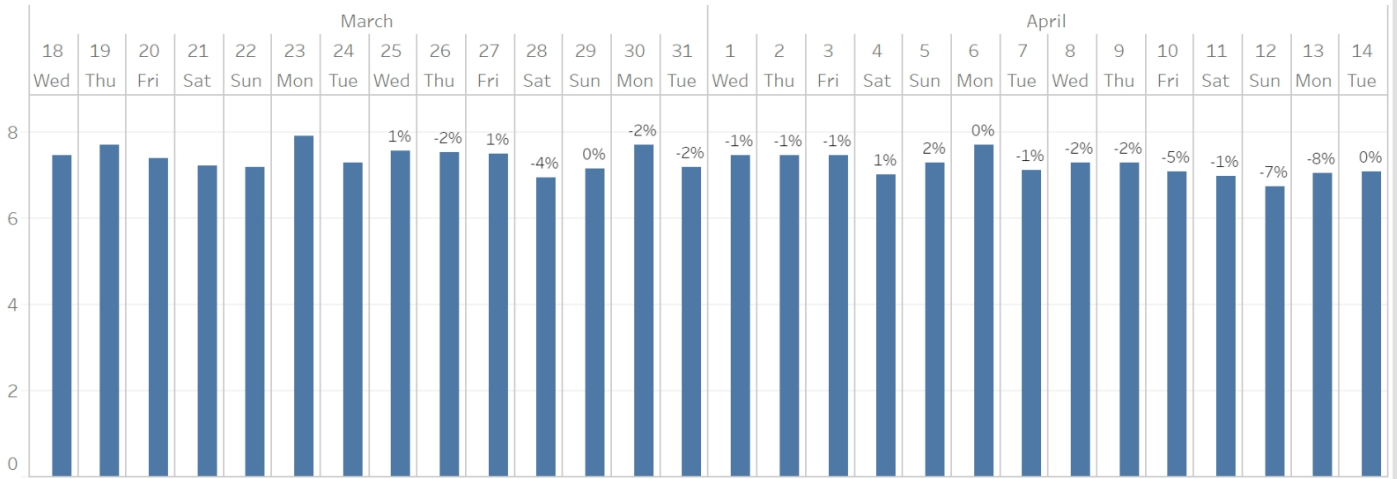
- Aside from these verticals, it has found that Retail clients have mostly been furloughing workers (a positive development for HCM vendors on a PEPM model), while Hospitality has been fairly mixed between furloughs and layoffs. It is also now starting to monitor the impacts of stimulus checks to its users.

Supermarkets

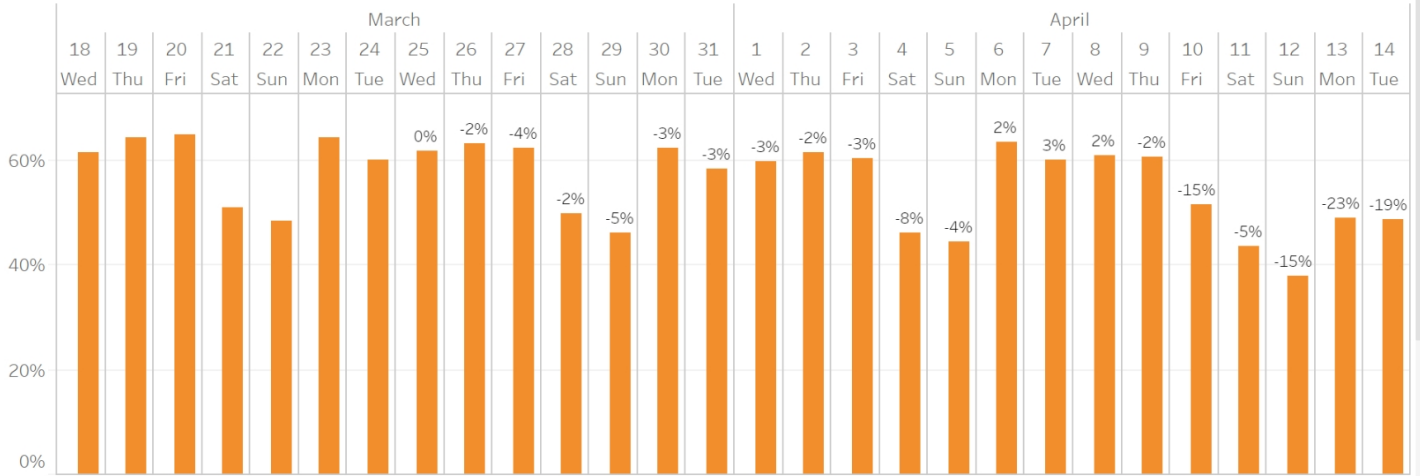


- Industry
- Call Centers
  - Hospitals
  - QSR
  - Supermarkets

Average hours worked by one employee



Number of working employees as % of all employees



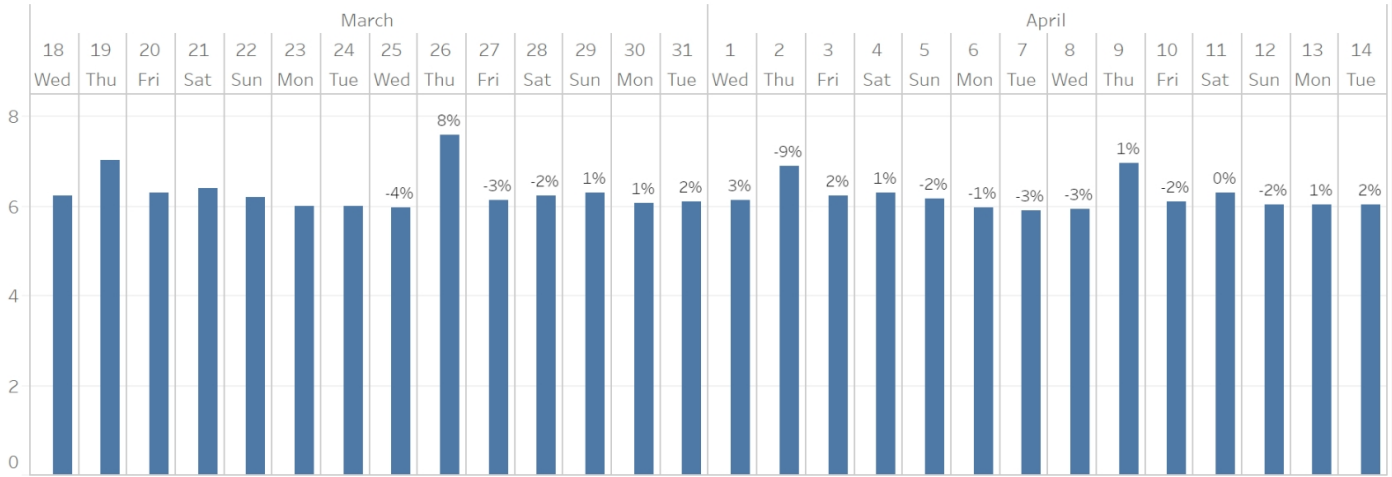
Source: DailyPay Workforce Index  
QSR

This report is intended for world-cowen-morningnotesdistribution@cowen.com. Unauthorized redistribution of this report is prohibited.

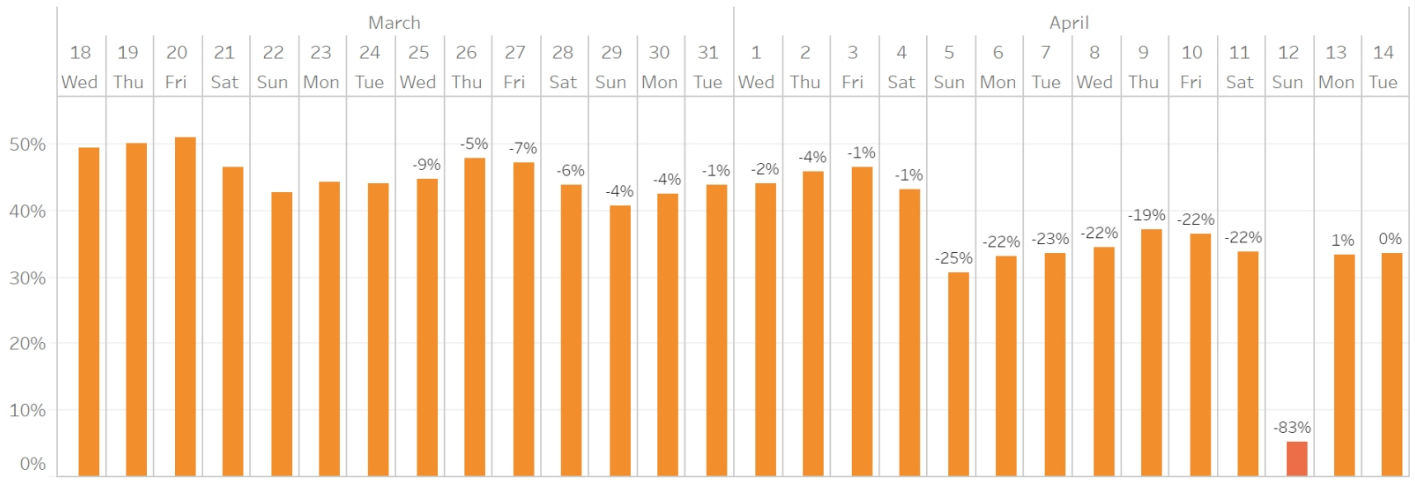


- Industry
- Call Centers
  - Hospitals
  - QSR
  - Supermarkets

Average hours worked by one employee



Number of working employees as % of all employees



Source: DailyPay Workforce Index

This report is intended for world-cowen-morningnotesdistribution@cowen.com. Unauthorized redistribution of this report is prohibited.

## VALUATION METHODOLOGY AND RISKS

---

### Valuation Methodology

---

#### Software:

Our valuation methodology is primarily based on Enterprise Value to Free Cash Flow (EV/FCF), followed by Price-to-Earnings (P/E). However, this varies by company; for instance, we will often use Enterprise Value to Revenue (EV/Revs) or a discounted cash flow (DCF) analysis for software companies that are primarily subscriptions-based, or for growth companies that have recently entered the public equity markets.

#### Business Services:

We use forward P/E and EV/EBITDA multiples to value the companies in the Business Services industry. We support our valuation with FCF yield and cash per share analysis.

### Investment Risks

---

#### Software:

The global economy or specific end markets significantly worsen, contracting IT spending and impairing software growth. The rate of SaaS/Cloud adoption slows, resulting in prolonged sales cycles and higher-than-anticipated quarterly volatility across much of our coverage universe. Competition increases materially, driving deflationary pricing pressure and compressing margins. In particular, innovation by new entrants in the software sector often produces solutions with similar or better functionality at materially lower prices than incumbents' legacy offerings.

#### Business Services:

##### Risks

Global economic growth could impact consumers' and clients' discretionary spending

The Business Services industry is sensitive to global economic growth. During a downturn or a recession, both consumers and clients tend to reduce discretionary spending, which would have a direct negative impact on revenue growth at Business Services companies.

##### Regulation

Future regulation initiatives could have a negative impact on revenue growth prospects. Changing federal and government laws in the U.S. and internationally could have a negative impact on operations and financial results.

##### Foreign exchange risk

While the companies' consolidated financial statements are reported in U.S. dollars, portions of the revenues (varies by company) are generated in other currencies (euros, British pounds, Asian currencies, etc.). This creates currency and hedging risk.

## ADDENDUM

### Analyst Certification

Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers, and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

### Important Disclosures

Cowen and Company, LLC compensates research analysts for activities and services intended to benefit the firm's investor clients. Individual compensation determinations for research analysts, including the author(s) of this report, are based on a variety of factors, including the overall profitability of the firm and the total revenue derived from all sources, including revenues from investment banking, sales and trading or principal trading revenues. Cowen and Company, LLC does not compensate research analysts based on specific investment banking transactions or specific sales and trading or principal trading revenues.

### Disclaimer

Our research reports are simultaneously available to all clients are on our client website. Research reports are for our clients only. Not all research reports are disseminated, e-mailed or made available to third-party aggregators. Cowen and Company, LLC is not responsible for the redistribution of research by third party aggregators. Selected research reports are available in printed form in addition to an electronic form. All published research reports can be obtained on the firm's client website, <https://cowenlibrary.bluematrix.com/client/library.jsp>.

The information, opinions, estimates and forecasts are as of the date of this report and subject to change without prior notification. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Research reports are published at irregular intervals as appropriate in the analyst's judgement.

Further information on subject securities may be obtained from our offices. This research report is published solely for information purposes, and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Other than disclosures relating to Cowen and Company, LLC, the information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. The opinions and recommendations herein do not take into account individual client circumstances, objectives or needs and are not intended as recommendations of investment strategy. The recipients of this report must make their own independent decisions regarding any securities subject to this research report. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. To the extent that this report discusses any legal proceedings or issues, it has not been prepared to express or intended to express any legal conclusion, opinion or advice. Our salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in our research. Our principal trading area and investing businesses may make investment decisions that are inconsistent with recommendations or views expressed in our research. Cowen and Company, LLC maintains physical, electronic and procedural information barriers to address the flow of information between and among departments within Cowen and Company, LLC in order to prevent and avoid conflicts of interest with respect to analyst recommendations.

For important disclosures regarding the companies that are the subject of this research report, please contact Compliance Department, Cowen and Company, LLC, 599 Lexington Avenue, 20th Floor, New York, NY 10022. In addition, the same important disclosures, with the exception of the valuation methods and risks, are available on the Firm's disclosure website at <https://cowen.bluematrix.com/sellside/Disclosures.action>.

**Equity Research Price Targets:** Cowen and Company, LLC assigns price targets on all companies covered in equity research unless noted otherwise. The equity research price target for an issuer's stock represents the value that the analyst reasonably expects the stock to reach over a performance period of twelve months. Any price targets in equity securities in this report should be considered in the context of all prior published Cowen and Company, LLC equity research reports (including the disclosures in any such equity report or on the Firm's disclosure website), which may or may not include equity research price targets, as well as developments relating to the issuer, its industry and the financial markets. For equity research price target valuation methodology and risks associated with the achievement of any given equity research price target, please see the analyst's equity research report publishing such targets.

**Cowen Cross-Asset Research:** Due to the nature of the fixed income market, the issuers or debt securities of the issuers discussed in "Cowen Cross-Asset Research" reports do not assign ratings and price targets and may not be continuously followed. Accordingly, investors must regard such branded reports as providing stand-alone analysis and reflecting the analyst's opinion as of the date of the report and should not expect continuing analysis or additional reports relating to such issuers or debt securities of the issuers.

From time to time "Cowen Cross-Asset Research" analysts provide investment recommendations on securities that are the subject of this report. These recommendations are intended only as of the time and date of publication and only within the parameters specified in each individual report. "Cowen Cross-Asset Research" investment recommendations are made strictly on a case-by-case basis, and no recommendation is provided as part of an overarching rating system or other set of consistently applied benchmarks. The views expressed in "Cross-Asset Research" report may differ from the views offered in the firm's equity research reports prepared for our clients.

**Notice to UK Investors:** This publication is produced by Cowen and Company, LLC which is regulated in the United States by FINRA. It is to be communicated only to persons of a kind described in Articles 19 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It must not be further transmitted to any other person without our consent.

**Notice to European Union Investors:** Individuals producing recommendations are required to obtain certain licenses by the Financial Regulatory Authority (FINRA). You can review the author's current licensing status and history, employment history and, if any, reported regulatory, customer dispute, criminal and other matters via "Brokercheck by FINRA" at <http://brokercheck.finra.org/>. An individual's licensing status with FINRA should not be construed as an endorsement by FINRA. General biographical information is also available for each Research Analyst at [www.cowen.com](http://www.cowen.com).

Additionally, the complete preceding 12-month recommendations history related to recommendation in this research report is available at <https://cowen.bluematrix.com/sellside/Disclosures.action>

The recommendation contained in this report was produced at April 16, 2020, 23:31 ET. and disseminated at April 17, 2020, 00:00 ET.

### Copyright, User Agreement and other general information related to this report

© 2020 Cowen and Company, LLC. All rights reserved. Member NYSE, FINRA and SIPC. This research report is prepared for the exclusive use of Cowen clients and may not be reproduced, displayed, modified, distributed, transmitted or disclosed, in whole or in part, or in any form or manner, to others outside your organization without the express prior written consent of Cowen. Cowen research reports are distributed simultaneously to all clients eligible to receive such research reports. Any unauthorized use or disclosure is prohibited. Receipt and/or review of this research constitutes your agreement not to reproduce, display, modify, distribute, transmit, or disclose to others outside your organization. All Cowen trademarks displayed in this report are owned by Cowen and may not be used without its prior written consent.

**Cowen and Company, LLC.** New York 646 562 1010 **Boston** 617 946 3700 **San Francisco** 415 646 7200 **Chicago** 312 577 2240 **Cleveland** 440 331 3531 **Atlanta** 866 544 7009 **Stamford** 646 616 3000 **Washington, D.C.** 202 868 5300 **London** (affiliate) 44 207 071 7500

**COWEN AND COMPANY EQUITY RESEARCH RATING DEFINITIONS**

**Outperform (1):** The stock is expected to achieve a total positive return of at least 15% over the next 12 months

**Market Perform (2):** The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

**Underperform (3):** Stock is expected to achieve a total negative return of at least 10% over the next 12 months

**Assumption:** The expected total return calculation includes anticipated dividend yield

**Cowen and Company Equity Research Rating Distribution**

**Distribution of Ratings/Investment Banking Services (IB) as of 03/31/20**

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	486	63.04%	127	26.13%
Hold (b)	276	35.80%	17	6.16%
Sell (c)	9	1.17%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's equity research rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's equity research ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's equity research ratings definitions. Cowen and Company Equity Research Rating Distribution Table does not include any company for which the equity research rating is currently suspended or any debt security followed by Cowen Credit Research and Trading.

Note: "Buy", "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with FINRA regulation.

This report is intended for world-cowen-morningnotesdistribution@cowen.com. Unauthorized redistribution of this report is prohibited.

## POINTS OF CONTACT

### Reaching Cowen

#### Main U.S. Locations

##### New York

599 Lexington Avenue  
New York, NY 10022  
646 562 1010  
800 221 5616

##### Boston

Two International Place  
Boston, MA 02110  
617 946 3700  
800 343 7068

##### Cleveland

20006 Detroit Road  
Suite 100  
Rocky River, OH 44116  
440 331 3531

##### San Francisco

One Maritime Plaza, 9th Floor  
San Francisco, CA 94111  
415 646 7200  
800 858 9316

##### Atlanta

3424 Peachtree Road NE  
Suite 2200  
Atlanta, GA 30326  
866 544 7009

##### Chicago

181 West Madison Street  
Suite 3135  
Chicago, IL 60602  
312 577 2240

##### Stamford

262 Harbor Drive  
Stamford, CT 06902  
646 616 3000

##### Washington, D.C.

2900 K Street, NW  
Suite 520  
Washington, DC 20007  
202 868 5300

#### International Location

##### Cowen International Limited

##### London

1 Snowden Street - 11th Floor  
London EC2A 2DQ  
United Kingdom  
44 20 7071 7500

