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PayPal Holdings, Inc. (PYPL)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PayPal's Fourth Quarter and Full Year 2024 Earnings Conference Call. My name is Sarah, and I will be your conference operator today. As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Steve Winoker, PayPal's Chief Investor Relations Officer. Please go ahead.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Thanks, Sarah. Welcome to PayPal's fourth quarter and full year 2024 earnings call. I'm joined by CEO, Alex Chriss; and CFO, Jamie Miller.

Our remarks today include forward-looking statements that involve risks and uncertainties. Actual results may differ materially from these statements. Our commentary is based on our best view of the world and our businesses as we see them today. As described in our earnings press release, SEC filings and on our website, those elements may change as the world changes.

Now, over to you, Alex.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

Thanks, Steve, and thank you to everyone for joining us this morning. PayPal had a successful 2024 delivering strong operating and financial results. The improvements we've made to branded checkout, P2P and Venmo plus the progress we've made on our price to value strategy are beginning to show up in our results.

We set out at the beginning of 2024 to make it a transition year, to narrow our focus and to make sure we are executing the initiatives that matter the most to the growth of our business. One year later, I'm proud that we've laid a strong foundation for durable growth.

We drove branded checkout transaction margin dollar growth in each quarter. US branded checkout growth accelerated in the fourth quarter to exit the year at a high point, as our new checkout innovations are scaling to customers. Driven by a renewed focus on pricing-to-value, Braintree has meaningfully contributed to our transaction margin dollar growth over the last three quarters.

Venmo monetization is making great strides with over 20% growth in Venmo Debit Card and Pay with Venmo monthly active accounts. Put simply, the PayPal team executed well during our transition year and made strong progress on our transformation.

The investments we made throughout 2024 allowed us to perform well during the holiday shopping season and finish the year strongly. Total active accounts returned to growth in 2024 as we enhanced our value proposition and brought innovation to market.

Total payment volume grew 10% to nearly \$1.7 trillion. We delivered \$32 billion in revenue, up 7%. We reached an inflection point for transaction margin dollar growth, which increased 5% excluding the benefit of interest on customer balances.

Our non-GAAP earnings per share increased 21% year-over-year. We generated \$6.8 billion in free cash flow and completed \$6 billion in share buybacks. For 2025, we expect another solid year of transaction margin dollar growth and strong free cash flow, which Jamie will discuss.

As we look ahead to 2025, I want to share the areas we're most focused on. First is innovation. With the leadership team in place and the velocity with which we're executing, we've proven we can bring innovations to market. In 2024, we rolled out new branded checkout experiences, launched PayPal Everywhere, introduced Fastlane and expanded PayPal Complete Payments. We are not stopping there, and we'll continue to innovate to solve our customers' biggest challenges.

The second is product adoption. 2025 will be focused on scaling adoption of our innovations. We have world-class products and solutions, and we'll continue educating customers about all we have to offer. In 2024, we completely revamped our marketing and go-to-market playbook. We're just scratching the surface, so you can expect more ahead.

Third is partnerships. Last year, we formed significant partnerships to drive Fastlane adoption and bring more value to customers. We are building on our leadership position in payments and commerce and establishing ourselves as the platform that leading brands want to work with. We will strike even more partnerships throughout 2025.

Fourth is efficiency and effectiveness. In 2024, we reduced head count by 10%. We made deliberate investments in AI and automation, which are critical to our future. This year, we are prioritizing the use of AI to improve the customer experience and drive efficiency and effectiveness within PayPal. We expect to make meaningful progress on all four of these areas in 2025.

Let me walk you through how this focus will drive our results this year and beyond. In 2025, our key strategic initiatives will be to win checkout, scale Omni, grow Venmo and accelerate SMB. Our teams are organized around these priorities and tracking progress daily.

Starting with win checkout, our number one priority. With our upgraded experiences, we now have the leading checkout solution on desktop and mobile. When fully implemented, the upgraded experiences reduce latency by more than 40% and drive more than 100 basis points of conversion lift on average, consistent with the early results we've shared. These upgrades are now live for more than 25% of US checkout traffic, which is up from 5% last quarter. We have a lot of room to grow here as adoption increases in the US and then expands globally.

On top of the benefit of higher conversion, these new experiences improve the presentation of our branded marks and solutions like Buy Now, Pay Later, which can help to expand our share of wallet.

BNPL customers spend 30% more on average, and merchants see higher sales after adding BNPL messaging to their sites, which is critical when one more sale can make all the difference. In 2024, we drove approximately \$33 billion in BNPL total payment volume, growing 21% from the prior year. Consumers and merchants trust the PayPal brand and experience. We have a lot more we can do with BNPL in the next year.

Merchants continue to show strong interest in Fastlane. In the fourth quarter, we focused on selling Fastlane to large brands that can drive future volume. I'm excited to share that we have signed NBCUniversal, Roku and StockX and are working on implementation. We now have nearly 2,000 merchants up and running with Fastlane. We expect an inflection point in adoption when we expand our go-to-market efforts and bring Fastlane to even more merchants through Adyen, Global Payments and Fiserv this year.

From early data, what's exciting is that 25% of Fastlane users have never had a PayPal account before, and more than half have a PayPal account, but haven't been active in the last 12 months. To say that simply, 75% of Fastlane consumers are new or dormant PayPal users. This means that Fastlane not only improves conversion for our merchants, but also introduces more shoppers to PayPal and enables us to reengage in active users.

We shared that one of our strategies is to build deeper relationships with our largest merchants, as we renegotiate deals to reflect the value we provide. A key part of that is adding value-added services that improve the experience for our mutual customers. We built a suite of world-class value-added services and continue to introduce new ones.

In the fourth quarter, we launched FX-as-a-Service, which is automated currency conversion, and it's already live for Meta. We also actively scaled the use of network tokens for automated billing capabilities, which is live with merchants including Instacart, Mint Mobile and Poshmark. The expansion of our value-added services is a key driver of the transaction margin dollar growth we are delivering.

Next, let's talk about our initiative to expand beyond e-commerce to become truly omni-channel. We launched PayPal Everywhere in September, which is driving significant increases in debit card adoption and opening new categories of spend. We added more than 1.5 million first-time PayPal debit card users in the fourth quarter, and debit card TPV was up nearly 100% in Q4.

Our most active rewarded categories are gas, groceries and restaurants. These new capabilities are driving deeper relationships with our users and more PayPal volume overall, offline and online. The average debit card actives generate five times the transaction activity and two times the average revenue per account compared to users who only use branded checkout. This is leading to habituation. Power users, which are PayPal consumer accounts transacting more than 100 times per year, grew more than 9% year-over-year in the fourth quarter.

So, we are seeing strong momentum today with our omni-channel push, but we're just getting started. We plan to expand our PayPal Everywhere value proposition to several European markets this year, including launching NFC capabilities in Germany.

Moving to our progress to grow Venmo. Our task is two-fold; first, continue to improve the social P2P payment experience that made Venmo a verb, increasing engagement and bringing on more users; second, drive adoption of our monetized products, including the Venmo Debit Card and Pay with Venmo.

In the fourth quarter, we continued improving the Venmo experience by giving our users more of the capabilities they've been asking for like scheduled send and improved search. With these steady improvements to the experience, we see engagement increasing. Our engaged Venmo user base grew 4% in the quarter, reaching more than 64 million monthly active accounts.

On monetization, we increased the average revenue per active Venmo account in 2024 and we plan to build on that growth in 2025. Monetized Venmo monthly active accounts beyond P2P and instant transfers grew more than

20% in the fourth quarter driven by the adoption of Venmo Debit Card and Pay with Venmo. Venmo Debit Card monthly actives grew more than 30% and Pay with Venmo monthly actives grew more than 20%.

We continue to expand Venmo's acceptance with major brands like Instacart and MoonPay adding Venmo in the fourth quarter. And as we recently announced, JetBlue became the first airline to accept Venmo for flight bookings. So, while we are still early in monetizing Venmo, we have a proven playbook that is resonating with customers. This gives us confidence as we move to 2025 and beyond.

Finally, I'd like to cover our efforts to accelerate growth for SMBs. We are moving from a disparate set of payment products to building an end-to-end suite of solutions that solve more small business needs.

PayPal Complete Payments was the first step towards an integrated suite of solutions and we continue to make progress driving adoption with 45% of SMB processing and checkout volume now on this platform. Merchants on PPCP benefit from our upgraded branded checkout experiences.

Key to our success in growing with small businesses on our platform is our expanding set of connected and value-added services, which move us beyond a payment provider to a growth partner and help us retain customers throughout their business life cycles.

Take for example our merchant financing solutions. Entrepreneurs come to us for payment services as they start their business. As their business grows, they need access to capital to buy inventory, invest in marketing, and hire. PayPal Working Capital is a financing solution purpose-built for early-stage companies.

As the business matures, PayPal Business Loan offers more traditional merchant financing to match the increasing complexity and multichannel nature of larger businesses.

Our business financing solutions increase loyalty and engagement, driving the PayPal flywheel. Merchants typically increase their PayPal volume by 36% after adopting PayPal Working Capital and 16% after taking a PayPal Business Loan.

Our merchant lending originations were \$3 billion in 2024, demonstrating our leadership and that there's plenty of room to grow to support our customers. This is just one example of the services we offer that help SMBs change the trajectory of their businesses. Expanding this ecosystem of value-added services is a focus in 2025 and beyond.

To close out, I want to thank the PayPal team for their focus on delivering for customers every day. I am proud of how far we have come in the last year. It was an important transition year for PayPal. We created strong momentum that sets up well for 2025 and beyond. We are now executing a game plan that we have confidence in, and I'm excited to share more at our Investor Day later this month.

With that, over to Jamie.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

Thanks Alex. Moving to slide 7, PayPal delivered another solid quarter of results to end the year. While there is still more work to be done, the team is making progress, building on the firm foundation that we have established.

As we enter the second year of the company's transformation, our teams are energized and moving quickly. We remain focused on better serving our customers as we seek to drive durable, profitable growth.

Looking at the high-level financial results in the fourth quarter. Revenue grew 4% on both a spot and currency-neutral basis. For the full year, revenue grew 7% on both a spot and currency-neutral basis.

Transaction margin dollars grew 7% in the fourth quarter, or 6% excluding the benefit of interest on customer balances. Outperformance compared to our guidance was driven by higher contribution from branded checkout and Venmo, credit performance, and interest earned on customer balances. For the full year, transaction margin dollars grew 7%, or 5% excluding the benefit of interest on customer balances.

Non-GAAP earnings per share were \$1.19 in the quarter, up 5%. We ended the full year with \$4.65 of non-GAAP earnings per share, up 21%. These full year results benefited from a return to transaction margin dollar growth, fueled by our transformation efforts, expense discipline, the higher interest rate environment and a strong capital return program.

Turning to slide 8. Our operating metrics reflect another quarter of steady progress. Total active accounts increased by nearly 3 million from the third quarter and nearly 9 million from last year to 434 million. Monthly active accounts also continued to show steady progress, up 2% year-over-year to 229 million with contributions from PayPal consumer accounts and Venmo. Transactions per active account excluding PSP processing grew 4%.

Moving to slide 9. Total payment volume grew 7% on a spot and currency-neutral basis to \$438 billion. For the full year, TPV grew to nearly \$1.7 trillion, up 10% on a spot and currency-neutral basis.

Looking at the TPV breakdown by product, we see strength starting to build in some key areas. PayPal P2P accelerated for the sixth consecutive quarter to 6% growth. Venmo also accelerated by 2-points to 10% growth. Steady incremental product improvements combined with reinvigorated marketing campaigns are starting to make an impact.

Global branded checkout volumes increased 6% on a currency-neutral basis in the fourth quarter. This was about a 50 basis point acceleration from the prior quarter. Underlying this growth, we were encouraged to see US branded checkout volume improve in the fourth quarter. Part of this increase can be attributed to a healthy spending environment and specific vertical exposure. In the US, we are focused on scaling our modern, best-in-class experiences.

From a merchant perspective, we continue to see the greatest strength across large enterprises, platforms and marketplaces. Winning checkout remains our most critical priority. Our goal is to drive more consumer engagement and a higher PayPal selection rate, which should accelerate TPV over time.

Turning to PSP. As discussed throughout the past year, we moved rapidly within our Braintree business to prioritize healthy, profitable growth and intentionally let go of unprofitable volume. In line with this strategy, PSP processing volume grew 2% in the fourth quarter compared to 11% in the third quarter.

Our conversations with merchants have become more holistic, moving beyond price and share of card processing to a deeper appreciation of our customers' needs and how we can add value through our full suite of solutions. We expect a handful of large Braintree merchant renegotiations to result in a headwind to revenue growth of about 5-points in 2025.

Shifting away from this volume pressures gross revenue but is accretive to transaction margin dollars and will result in more than 1-point benefit this year. We expect this benefit to build over time as we drive more value-added services. Over the next few quarters, we will continue to work through renegotiations, at which point we should reach a new baseline to drive faster volume and revenue growth.

Moving to more financial detail on slide 10. Transaction revenue grew 4% on a spot basis to \$7.6 billion, driven primarily by branded checkout and Venmo. Other value-added services revenue in the quarter grew 5% to \$778 million. This acceleration was driven largely by a return to growth in credit revenue.

We continue to see solid performance across our credit portfolio. As Alex shared, we have begun to modestly grow merchant originations and expect credit to be a positive revenue and profit driver in 2025.

Transaction take rate declined by 4 basis points to 1.73% driven largely by mix. Venmo monetization was a slight benefit, offset by merchant mix within branded checkout and Braintree, faster growth in payouts and foreign exchange.

Turning to transaction margin dollars. The largest contributors were branded checkout, Venmo, interest on customer balances, a return to growth in credit and Braintree. Transaction margin percent increased by more than 100 basis points for the second consecutive quarter, reflecting our focus on price to value and profitable growth.

As planned, we increased our level of strategic investment in the quarter, growing non-transaction operating expense by 10%. This growth included marketing spend deferred from the first half of the year and efforts to support the rollout of new products and initiatives.

Non-GAAP operating income grew 2% in the quarter to \$1.5 billion. Non-GAAP operating margin declined 34 basis points to 18%.

PayPal generated \$2.2 billion of free cash flow in the quarter, bringing full year free cash flow to \$6.8 billion. This is meaningfully ahead of the \$5 billion we planned for at the start of the year, and includes some benefit from lower cash taxes, which we expect to be a headwind in 2025.

In the quarter, we completed \$1.2 billion in share repurchases, bringing full year share repurchases to \$6 billion. Finally, we ended the quarter with \$15.4 billion in cash, cash equivalents and investments, and \$11.1 billion in debt.

Moving to guidance on slide 11 for the first quarter and full year 2025. For the first quarter, we expect flat to low single-digit revenue growth on a currency-neutral basis, which is heavily impacted by the Braintree renegotiation efforts I discussed earlier. This also includes about a 1-point headwind from lapping last year's leap day.

We expect transaction margin dollars to be between \$3.6 billion and \$3.65 billion, which represents 5% growth at the midpoint. We are planning for low single-digit non-transaction OpEx growth in the quarter, and we expect to deliver non-GAAP EPS in the range of \$1.15 to \$1.17, or approximately 7% growth at the midpoint.

Moving to the full year. We plan to continue guiding revenue one quarter at a time. We believe this approach has served the company well during our transformation, enabling healthy long-term decision-making that prioritizes driving faster transaction margin dollar growth. Over time, we are focused on accelerating both revenue and profitability.

For the full year, we expect transaction margin dollars of approximately \$15.2 billion to \$15.4 billion, representing approximately 4.5% growth at the midpoint. In 2024, we had a 2-point benefit from interest on customer balances. For 2025, our guidance includes about a \$150 million, or about a 1-point headwind due to interest rate cuts.

Excluding interest on customer balances, we expect transaction margin dollars to grow by at least 5% compared to 4.6% growth in 2024. In the first quarter, we expect minimal benefit from growth of interest on customer balances and then a headwind for the remainder of the year.

One other factor to keep in mind is that in 2024, we saw a 1-point benefit from transaction loss improvements. We are planning for some normalization in transaction loss during 2025 as we roll out new products.

Our focus in 2025 is to strike the right balance between investment and productivity, seeking to fund long-term investments largely through savings generated from better tech and automation deployment. We expect full year non-transaction operating expenses to increase in the low single-digit range.

There will likely be some unevenness quarter-to-quarter due to the timing of initiatives, marketing spend and comparisons to the prior year. As a result, we expect second quarter OpEx growth to be higher than in other periods.

We expect to deliver full year non-GAAP EPS in the range of \$4.95 to \$5.10, representing about 8% growth at the midpoint. This includes negative impact from lower interest rates and just over a 2-point increase in our expected non-GAAP effective tax rate.

Our guidance also includes approximately \$6 billion in share buyback, and we expect full year free cash flow of approximately \$6 billion to \$7 billion.

I'd like to wrap up by thanking the PayPal team for their continued focus and dedication. The progress we made in 2024 gives us a strong foundation to build on as we move into the second year of PayPal's transformation. One of our primary focuses this year will be driving adoption of recent innovation and scaling better customer experiences.

It will take time for some of our efforts to build and drive financial impact, but we are confident in our roadmap and in our execution plans, and we're excited to share more with you at our Investor Day on February 25.

With that, back to you, Alex.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

Thanks, Jamie. To summarize, in 2024, we executed the transition plan we laid out. We have positioned PayPal to compete and win, and delivered strong results along the way. I'm very proud of our team and the impact they made during a year of intense change. The momentum we have created sets us up well for 2025, which is about scaling adoption.

It is still early in our transformation, but our objective is clear. We are evolving PayPal from a payments company to a commerce platform that helps merchants win every sale and helps consumers shop smarter.

Steve, let's go to Q&A.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Before we open the line, I'd ask everyone in the queue to consider your fellow analysts and ask just one question so we can get to as many people as possible. Sarah, please open the line.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Andrew Schmidt with Citi. Your line is open.

Andrew G. Schmidt

Analyst, Citigroup Global Markets, Inc.

Q

Hi, Alex and Jamie, good to see the next stage of the transformation here. I wanted to dig – just dig in on branded volume growth. Maybe you can just unpack the fourth quarter performance, particularly in the US. How did it sort of trend relative to your expectation in terms of share of checkout?

And then as we think about 2025, what are the right expectations to set for branded volume growth? And I know you mentioned a few things that are drivers there, your checkout integrations, reinvigorating the consumer side. Maybe just remind us what are the biggest unlocks in the timeframe to see those come into play? Thanks so much.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yes. Thank you, Andrew. Let me kick off and then hand it over to Jamie. So first, let me just remind us of the context of what we walked into at 2024 on branded checkout. I talked about it throughout the course of the year as our number one priority. And most of it was focused on how do we improve the customer experience.

We felt good about the desktop experience, but clearly, gaps in mobile. And that was innovation that the team really executed on throughout 2024, tested a number of different pay sheets, a number of different vaulted experiences. And then by the time we got to 2024, felt really good about the innovation we were rolling out.

And as we start to roll out, just as a reminder, our one-time checkout improvements is 400 basis points on conversion, our vaulted improvement is 100 basis points on conversion. And so – and the biggest impact is really on our mobile and our small business base. So, really excited about the innovation that's now rolling out.

As we talked about in Q3, we had just started to roll out. We'd ramp that to about 5% throughout Q4. We continue to execute on our rollout and got that up to 25% by the end of the year. So, as we exit 2024, I'm feeling really good about the quality of the innovation, our ability to roll it out and impact customers.

And as we look to 2025, we now have, I believe, the best-in-class experience on desktop, on mobile and starting to see knock-on effects of things like our Buy Now, Pay Later attach, which is up 20% with this new pay sheet. So, from an innovation perspective and a customer impact perspective, feeling really good as we go into 2025.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yes. And Andrew, good morning. Just to add on there with respect to the US, we did see sequential improvement in branded checkout in the US in the fourth quarter, and that was about 3-points of growth quarter-over-quarter really due to market dynamics, but also specific key vertical exposure around travel, crypto, gaming, et cetera. Alex mentioned we're still early in the ramp of our modern checkout experience, and that is certainly something that as we get into 2025, we are very, very focused on.

Our biggest priorities are really around innovation, driving those improvements in checkout experience. And you mentioned also giving consumers more reasons to choose. So, some of the things we've done throughout the year around really improving the app experience, adding rewards, adding different elements to how people can find contacts and things like that, all of that is around engaging the consumer in a different way. And as we talk about internally, really getting the flywheel continuing to move between our consumers and our merchant experience.

So, from a 2025 guide perspective, we still expect branded checkout TPV to grow about mid-single-digits and to have consistent growth from last year into this year with some acceleration with our initiatives on top of that.

Operator: The next question comes from Ramsey El-Assal with Barclays. Your line is open.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Hi. Thank you for taking my question this morning. As expected, unbranded volumes decelerated again as you pursue the price to value strategy. Can you give us your updated thoughts on your sort of confidence level, timing and toolkit to reaccelerate unbranded volume growth at the higher baseline profitability levels as we move forward here?

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah. Let me just touch on – thanks for the question, Ramsey. And let me touch on just how we're – how these conversations are evolving. So first, again, this has been our strategy throughout the year. I'm encouraged to see just another quarter of branded – unbranded Braintree contribution to TM dollar growth.

The conversations are continuing to be strategic in nature, which is exciting for us. We're having not just processing conversations, but now they're sort of evolving into two steps. One is the value-added services that we're bringing to market. I mentioned some of these FX-as-a-Service, Risk-as-a-Service, chargeback automation, orchestration, all of these are things that we're now able to price to value and monetize as part of a best-in-class unbranded offering.

In addition, though, we're really starting to differentiate ourselves in these conversations by being able to bring customers to the conversation. And so again, as I sit down with CEOs of some of our largest customers and really talk about what are their greatest needs, it goes well beyond just processing. It really goes to how do we bring more customers to bear.

And this is really the first time that we're leveraging the two-sided network that PayPal has and being able to say, hey, we have hundreds of millions of consumers around the world. We now have an ads platform. We have reward platforms. We have the ability to enable our unbranded processing customers to create rewards and offers inside of our PayPal app to be able to drive additional growth for them.

And so, these become really fun conversations, to be honest, because we're now having holistic, not just processing but end-to-end, how do we leverage their marketing dollars, how do we leverage their ability to acquire customers in our two-sided network.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. And with respect to forward trends on this, we do expect similar dynamics the next few quarters, some volatility. I mean, this is not something that just happens in a perfect line. And we still do have some large agreements over the next couple of years that we will work our way through. But the revenue growth should build as we lap some of the larger agreements sloughing off over time.

For 2025, we expect the renegotiations to be about a 5-point revenue growth headwind. But the other important point here is that it's a 1-point accretive on the TM dollars growth in 2025. So, I think an important dynamic there that, as you mentioned, we're very intentionally driving.

Operator: The next question comes from Jason Kupferberg with Bank of America. Your line is open.

Jason Kupferberg

Analyst, BofA Securities, Inc.

Q

Good morning, guys. I just wanted to come back to the branded TPV topic. I think you mentioned US accelerated 3-points in the quarter, if I caught that right. I guess that would imply international slowed. So perhaps you can quantify that, and then maybe give us a sense of how that mid-single-digit global branded volume outlook for 2025 splits between US and non-US. And just a little bit of color on how the transaction margin profile differs between US and international branded? Thanks guys.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Good morning Jason. With respect to International, we are still in a very strong market position there and we continue to take share internationally. We had less than a full point of international pullback. Just some softness in Europe is what I would say. And when you look at the split, international to US, both in the TPV line and in the TM line, it's really 50-50. And from a margin perspective, it's slightly healthier outside the US, but it's very much in line.

Operator: The next question comes from Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks for the update. Just on grow Venmo. Can you just – I know you talked a lot about it on February 25, but is it more about user growth, new products or ARPU from existing products expanding? Just curious what the algorithm is there. If you don't mind, a quick clarification. The step-up in CapEx in 2025, is that more of a onetime issue? Is it a sustainable level for you to consider? Thanks.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Hey, Tien-Tsin, let me hit Venmo and then hand it over to Jamie. So on Venmo – and again, we will – it will be exciting to see you all at Investor Day and we'll certainly dive deep on Venmo. But really, it is both customer

growth as well as monetization growth. Again, we are excited. Venmo is the number one P2P platform in the US. We saw MAAs continue to grow to \$63 million by the end of this year. We're seeing TPV continue to grow up 10%, hitting double-digits really for the first time in, I think, seven, eight quarters, up to \$76 billion. So really exciting to see the continuation of growth and active users.

In terms of our focus on monetization, again, we've been consistent. This is about proven levers of debit card MAA growth which was up 32%; and Pay with Venmo MAA growth which was up 22%. The reason this is important is we've seen that debit card MAA delivers average revenue per account 4x when they adopt our debit card, and Pay with Venmo average revenue per account is up 3x.

And just as a reminder, we are in single-digit penetration across both of those products across the base. And so as we continue to grow customers, we're growing active customers and we're starting to grow penetration of monetizable elements.

So this is exciting for us. We also will just continue to focus on innovation. I think we're just scratching the surface of a very engaged, highly valuable demographic. We've rolled out new innovations like scheduled send and gifting and groups and direct deposits to bring more money into the ecosystem. But the team has a really, really exciting road map for 2025 as we start to really think about what are the other needs once this money is in the ecosystem of Venmo.

What are the other needs that our customers have to be able to enable them to be able to spend in an omnichannel way and obviously move money across each other. So exciting about what Venmo will have, and we've built a very good baseline of monetization throughout 2024, which sets us up well for 2025.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Good. And then with respect to CapEx, we're seeing over the next two years an increase in the program to about \$200 million to \$300 million. And it relates to tech infra build-out and data center build-out in connection with both platform consolidation and a few other things. But after the two years, it should come down.

Operator: The next question comes from Darrin Peller with Wolfe Research. Your line is open.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Yeah. Thanks, guys. Jamie, I think you said you'd expect stable branded growth through 2025 based on what you're – what's built into your outlook. You guys have initiatives now where 25% of your checkout experience is on the more modern checkout, which I know has kind of ramped through the end of last year and we're there now, and so it should impact, I think.

The debit card is more further out. Marketing has been more substantial. I guess I'm just curious when those initiatives you think would have a more material impact. Or are they embedded in your outlook that they could have an impact on branded acceleration as the year progresses? Are you just building in uncertainty around things like international, maybe Germany or any other softness?

And then just my one quick follow-on would be the exit rate of transaction margin growth ex floats, I think 6%, in the context of this 6% branded. So I'm just curious, when you think of your forecast. Is there anything about this

fourth quarter growth rate that was unsustainable other than maybe leap year? Otherwise, you're 5% and I think you guided 5% plus, so we may capture that. Thanks, guys.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. So first, let's talk about the branded checkout growth in 2025. You were specifically asking about initiatives. And as Alex mentioned, we've got 25% of our US TPV flowing through the most modern checkout experiences at this point. That is something that we expect to scale as we get into 2025. And in addition, we're going global with that as well. So to your point, we do expect some impact from that to start to flow through. And we have embedded some of that in our guide, and we expect it to build over time.

Having said that, we also think we've prudently planned here. And I wouldn't say we've explicitly put an overlay for European softness in there. Having said that, we've left ourselves room to navigate different things because as we roll this out, the impact of how this will flow through may be uneven as we see it.

And then, Darrin, remind me of your second question. It was on TM, but I didn't pick up the exact question you were asking.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Growth rate, you're at 6% already without any acceleration in the underlying KPI despite all the initiatives you've done. And you're guiding 5% plus – I guess, 5% plus, right, from a non-float impacted. So just making sure there's nothing unsustainable in Q4's exit rate that should inform you on 2025's growth?

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. When you look at 2025, from a TM perspective, there's probably two things to think about that are headwinds to 2025 TM. The first is we expect transaction loss to normalize as we get into the year. We had a full point benefit of that in 2024 or a full basis point benefit. And when we get into 2025, we expect about 0.5 basis point headwind. And really, we are growing products that just carry with it higher transaction loss rate.

And then you mentioned the 6%. I would talk a little bit, even though around interest rates. When you look at total all-in TM, we're expecting about \$150 million of interest rate headwind on all-in TM there, too. But when you look at the underlying profile of TM, which really revolved around branded checkout, Braintree, Venmo, credits, I mean, all of those things are things that we believe are durable, it's clearly diverse and things that we fully expect to continue as we get into 2025 and beyond.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

And Darrin, I just – I want to pile on to Jamie's comments as well, because I think it's really important to set our branded checkout strategy in context. First, as Jamie said, and I think we've been consistent throughout the year, we're excited about the innovations. I think we've been pretty prudent in the way that we have looked at a forward guide. We want to see the results before we tell you they're coming.

But if I just step back and think about the strategy, think about what we did in 2024, we really worked on innovation and what I would call just fixing the basics of branded checkout. As I described earlier, an improved

product now in the hands of customers on both desktop and mobile, and we're now starting to see that scale, as you mentioned, up to 25%. And we'll continue to scale that throughout the quarter and the rest of 2025.

We've expanded to check out – to guest checkout, which we weren't playing in before. And now we're starting to bring in new users through our Fastlane product, which again needs to continue to scale and will scale over the next few years. But we now have innovation in market that is best-in-class to go after the guest checkout experience. We expanded to off-line. So now we're playing in an omnichannel world where it's not just branded, but we're seeing off-line commerce that we didn't see before. And it's driving habituation.

Our debit card users are transacting twice as much as just a branded user and driving 20% higher average revenue per active. So we're just starting to put together a holistic strategy here that's beyond just a single button experience, but really starting to engage our growing customer base – our growing monthly active customer base in a holistic way, where we really can be their commerce partner going forward.

Operator: The next question comes from Timothy Chiodo with UBS. Your line is open.

Timothy E. Chiodo

Analyst, UBS Securities LLC

Q

Great. Thank you for taking the question. So in the past, and when we talked about the mix within the branded checkout, we typically talked about it being very skewed to discretionary and to goods. And in prior periods of strong discretionary growth during 2020-2021, the branded checkout button grew in line, if not faster, depending on the metric or the industry data that you're looking at. The growth was better than the industry.

Could you maybe talk a little bit about how that mix might have evolved, if at all? And if we were to expect a better period of discretionary spend, should we see another period of the branded checkout button growing in line, if not faster, than the industry?

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Good morning, Tim. So when you look at the composition of our verticals now, I would say that one of the things we've done a really nice job of in the last couple of years is really expanding to services. And when you look at some of the dynamics that you might have seen three or four years ago, when you shift to now, we're just more balanced across different verticals. And I mentioned some of the growth in a few of the areas, but services in particular is one that has been a larger space. So I expect the dynamic to be more muted with respect to that discretionary side of it and the good side of it.

Operator: The next question comes from Sanjay Sakhrani with KBW. Your line is open.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you. Good morning. Just a follow-up question on the US branded volume. I think, Alex, you mentioned that it exited the quarter at the high point. I mean, is there any color on sort of what that growth rate was and how it trended into this New Year quarter-to-date?

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. So really the way I think about the branded US is that we have been moving along, and we're obviously very focused on continuing to shift, continuing to impact our US market position. And Alex talked about a lot of the innovation, specifically around mobile and around a couple of other areas that is really focused on driving shifting there. We saw some lapping in the first part of the year. But as we hit third quarter and into fourth quarter in particular, that was pure growth off a base. And that 3 points was reflective of that.

Operator: The next question comes from Colin Sebastian with Baird. Your line is open.

Colin Alan Sebastian

Analyst, Robert W. Baird & Co., Inc.

Q

Thanks and good morning. Maybe turning to the non-transaction expenses for the year. I was just hoping you can maybe expand on, first, I guess, the ability to use AI for more operating efficiency. And are those initiatives that are requiring some incremental investment near-term? Or are you already seeing sort of a positive ROI from that?

And relatedly, with the focus on scaling innovations and educating consumers, I guess what does that mean specifically in terms of the investments in customer acquisition and rewards that might be impacting operating margins through the year? Thank you.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah. Thank you, Colin. Let me start with AI and then maybe hand it over to Jamie. AI is opening up a huge opportunity for us. First, at our scale, we saw 26 billion transactions on our platform last year. We have a massive data set that we are actively working and investing in to be able to drive our effectiveness and efficiency.

Let me break it into a couple of different pieces. First, on the customer-facing side, we're leveraging AI to really become more efficient in our support cases and how we interact with our customers. We see tens of millions of support cases every year, and we've rolled out our PayPal Assistant, which is now really cutting down phone calls and active events that we have.

We also are leveraging AI to personalize the commerce journey, and so working with our merchants to be able to understand and create this really magical experience for consumers. When they show up at checkout, it's not just a static button anymore.

This really can become a dynamic, personalized button that starts to understand the profile of the consumer, the journey that they've been on perhaps across merchants and be able to enable a reward or a cash-back offer in the moment or even a Buy Now, Pay Later offer in a dynamic experience.

And so this is all AI-enabled and all things that will generate both efficiency for us from the consumer standpoint, but also drive more branded checkout and more sales for our merchants.

In addition, we also are looking at our back office and ensuring that not just on the engineering and employee productivity side, but also in things like our risk decisions. We see billions and billions of risk decisions that often, to be honest, were very manual in the past.

We're now leveraging AI to be able to understand globally what are the nature of these risk decisions and how do we automate these across both risk models as well as even just ensuring that customers get the right response at the right time in an automated fashion.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. And then with respect to scaling consumer and non-transaction OpEx, we increased our marketing spend in 2024 by about \$250 million. And we were very focused around really reinvigorating the brand and then really reinforcing the consumer value prop as we did it.

And as we get into 2025, we will be increasing marketing slightly. Our total OpEx guide is up low single-digits. I would say marketing is up low single-digits plus in terms of how we look at it, heavily weighted towards the second quarter as we really look at the profile throughout the year.

But it's been very targeted. And we've seen the results of that starting to come true with consumer MAAs up sequentially. We saw debit card MAAs up sequentially. We're seeing P2P improvement. So there's been a nice kind of flow through of what we've seen.

We've got some CAC, or customer acquisition cost, budgeted for this year, but we really haven't started deploying that yet. We've been testing that, but the full suite will be things that we'll be looking to deploy as we get into 2025.

Operator: The next question comes from Harshita Rawat with Bernstein. Your line is open.

Harshita Rawat

Analyst, Bernstein Institutional Services LLC

Q

Hi. Good morning. I want to follow up on Fastlane. You talked about the new merchant wins. Now that the holiday season is over, and the merchants are more open to integrating new solutions, how are those conversations going with large merchants, especially, because there's also some competitive dynamics there? And then, Alex, you also talked about 75% of Fastlane consumers kind of being new or dormant PayPal users. Can you just remind us about how you're converting those into PayPal users? Thank you.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah. Thanks, Harshita. So you're exactly right. Our – so guest checkout, just as a reminder, for Fastlane, this is really six months in the market. So it's still brand new. There are other guest checkout experiences that have been in the market for – some for many years, one almost up to a decade. And so we're the new entrant, but we're delivering the best converting experience for our merchants. And that's what gets us really excited.

As we start to scale our Fastlane experience, we are still continuing to deliver double-digit lift in conversion for our merchants. And so our focus – our go-to-market focus has been really on those enterprise merchants, on the largest ones. I mentioned a few on the call, NBCUniversal, Roku, StockX. And this has been obviously set up conversations throughout the holiday season as many of them weren't ready to actually do the integration. But now as we get into 2025, it's full steam ahead.

Now just as a reminder, as we have these conversations, they are very excited about the conversion uplift. Guest checkout is also not something that they've spent a lot of time playing around with. So it's not like these merchants have a scrum team sitting there ready to play around with guest checkout. So they're working on their roadmaps. So the conversations have been great. It's now about getting implementation done. And I do think this will take a number of quarters for us to really scale this out across the merchant base. But the conversations are exciting, merchants are onboard, and I think we'll continue to see this scale.

To your question on what we're seeing from a customer perspective, again, we – 25% of Fastlane users that are coming in are new to PayPal. 50% were dormant in the last 12 months. And again, these are customers that are opting into Fastlane at 45% clip. So we're continuing to see customers choosing to – once they go into that guest checkout experience, actually opt into the Fastlane experience.

To us, this is just scratching the surface of being able to now reinvigorate them. So we started to really ramp up our marketing efforts. It's still early, and it's through both off-line channels, things like e-mail, testing notifications as well as online through the app to find incentives and reasons for these consumers to be able to reengage in the PayPal experience.

The good news is it's sort of a second bite at the apple, right? They've gone past the branded experience. They've gone through a guest checkout experience. We've accelerated it for them and for merchants. We've created that conversion. And now we can go and remind those consumers what a great experience a cash-back offer, a package tracking offer, a full end-to-end experience they could have gotten through a branded checkout. And we're going to continue to lean into that to reignite those users into being more consistent active users on PayPal.

The last thing just that I'd say as context is our PayPal users that are online don't use PayPal for every single one of their purchases. This is why the omnichannel habituation and just continuing to drive up not just our MAAs but those power users that I talked about that are really using us for all of their purchases, is so important to us.

Because we still have users that love PayPal, have an active app, use us but still use us for just a fraction. And so our ability, even through the Fastlane experience to gather those users up and remind them of the benefits of actually going through the branded experience of PayPal is so important and will ultimately drive to our branded checkout growth.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Hey, Sarah, we have time for one more question?

A

Operator: Thank you. Our last question comes from the line of Trevor Williams with Jefferies. Your line is open.

Trevor Williams

Analyst, Jefferies LLC

Great. Thanks a lot. I wanted to go back to Venmo. Jamie, it sounded like next to branded, it was one of the biggest contributors to TM dollar growth in Q4. You guys have given some good stats on attach rate and user growth across the different buckets. But it'd be helpful if we could get an updated transaction margin dollar number for Venmo.

And then anything more just on the current mix of revenue across the different buckets, debit card, Pay with Venmo, instant transfer? And then just how you're thinking about Venmo's contribution to transaction margin dollar growth in 2025? Thanks.

Q

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

Yeah. So Venmo has been a growing contributor to transaction margin dollar growth. Certainly in 2024, it was behind interest, branded checkout, Braintree, et cetera. As we get into 2025, it continues to grow in terms of its impact on TM, which is really great to see.

A

When you look at – our Venmo TPV was up 10% in the fourth quarter. Our debit card TPV was up 40%. Pay with Venmo was up 50%. P2P was up 8%. So we're really excited about not only the core P2P continued strength but also just the beginnings of the investments we're making in debit and Pay with Venmo which, when we really dig into this, which is really our new Venmo leaders' target in 2025, we're excited about the growth we can drive.

When we get to Investor Day at the end of February, we'll unpack this with a lot more detail, and we're looking forward to talking to you all there.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Alex, any final thoughts?

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

No, just a huge thank you to all of you, and thanks, Steve. I look forward to seeing many of you later this month at our Investor Day on February 25, where we will share our vision for the future and dive into our strategies for medium and long-term growth and what it's going to take to get us there. So take care, everyone.

Operator: This concludes today's conference. Thank you for participating. You may now disconnect.

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