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PayPal Holdings, Inc. (PYPL)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Steven Winoker

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

James Alexander Chriss

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

Jamie S. Miller

Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.

OTHER PARTICIPANTS

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Dan Dolev

Analyst, Mizuho Securities USA LLC

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Darrin Peller

Analyst, Wolfe Research LLC

Jason Kupferberg

Analyst, BofA Securities, Inc.

Andrew G. Schmidt

Analyst, Citigroup Global Markets, Inc.

Harshita Rawat

Analyst, Bernstein Institutional Services LLC

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Timothy E. Chiodo

Analyst, UBS Securities LLC

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Will Nance

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PayPal's First Quarter 2025 Earnings Conference Call. My name is Pauly, 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, Pauly. Welcome to PayPal's first quarter earnings call. I'm joined by CEO Alex Chriss and Chief Financial and Operating Officer 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. We had a strong first quarter as we begin to execute on the strategy we laid out during our recent Investor Day. PayPal is transforming from a payments company to a commerce platform. This includes expanding to be available everywhere, whether it's online, in-store or agentic. This means moving from a one-size-fits-all experience to personalized experiences that leverage the vast data at our fingertips. We are developing a dynamic smart wallet that will allow consumers to make the smartest choice in how to pay and get rewarded. With this transformation, we are shifting from being purely a payments processor to an end-to-end strategic commerce partner for our merchants.

And underpinning this is our work to converge into a single PayPal platform that unlocks the full potential of PayPal's two-sided network, in support of both consumers and merchants. This strategy is durable and positions us to win in the months and years ahead.

Turning to Q1. We have so much to be proud of. Let me share just a few highlights. Our strategy is designed to improve PayPal's profitability over time. In Q1, we delivered our fifth consecutive quarter of profitable growth, with transaction margin dollars growing by 8%, excluding the impact from last year's leap day. That growth was driven by multiple sources across our strategic initiatives, including omnichannel commerce, both online branded checkout and offline branded payment methods, Venmo and PSP. As a result of this focus on profitability, non-GAAP earnings per share increased 23% year over year.

Additionally, PayPal and Venmo are being used by more people, more often. Both total active accounts and monthly active accounts grew a healthy 2% in the quarter. Transactions per active account ex-PSP grew 4%, reflecting improved engagement and transaction growth in online branded checkout and Venmo.

As we expand our offerings from online to everywhere, the best way to see the traction we're gaining is through branded experiences, TPV. Branded experiences comprises volume from PayPal and Venmo online checkout, as well as branded in-store payment methods like debit and tap to pay. In Q1, branded experiences TPV grew 8%, excluding last year's leap day. That's a full 2 points higher than branded experiences growth for the full year of 2024, highlighting the growing contribution of our omnichannel initiatives. It's still early days, but we are very proud of this progress.

Within branded experiences, we're continuing to accelerate the rollout of our upgraded online branded checkout flows. This includes our simplified and modernized pay sheet design, with streamlined login and reduced latency. Since the beginning of the year, we've driven a 25-point jump to more than 45% of US checkout traffic. This shows we can execute, and we anticipate an even faster rollout for Europe starting in the second quarter.

And finally, Venmo had another standout quarter. We hit an important inflection point for Venmo monetization with 20% revenue growth, driven by our push to make Venmo one of the best ways to pay online and in store.

These are only a few examples of the strength we're seeing in the execution of our strategy. We're feeling the excitement of our innovations in the market and the engagement from our consumers and merchant partners, and we're just getting started.

As you can hear, I'm encouraged by the momentum we are driving. We had a great start to the year and expect a solid second quarter, which would result in the first half coming in above our prior expectations. However, given it is early in the year and because of the current level of macro uncertainty, we are maintaining our guidance for the full year at this time. Jamie will provide more color on our results and guidance in her remarks.

Let me now go into the details of the progress we're making on our strategic growth drivers. Starting with Win checkout. Online branded checkout TPV, including PayPal and Pay with Venmo, grew nearly 6% this quarter, accounting for last year's leap day. We're proud of this growth and expect it to increase over time as more traffic flows through our upgraded experience.

One of the main benefits of our upgraded experience is the modernized paysheet, which improves the presentment of our full suite of payment options. This contributes to a personalized experience where consumers can more easily pay their own way, whether now with balance, cards, crypto or buy now, pay later.

What we're seeing is that as we improve the presentment of BNPL and checkout, it's being selected more often. In Q1, BNPL volume grew more than 20% and monthly active accounts grew 18% year-over-year, highlighting the effectiveness of the new design and the strength of our value proposition. As a reminder, BNPL users spend 33% more on average and conduct 17% more transactions.

BNPL is featured in our latest marketing efforts with Will Ferrell about PayPal's flexible online checkout, and we are focused on winning in key markets. We will continue to lean into BNPL throughout this year, with targeted consumer awareness campaigns in the UK and Germany, and continued investment in other priority global markets, including Australia, France, Italy and Spain.

Pay with Venmo is resonating well with consumers and merchants, and it's growing rapidly with TPV increasing more than 50%. Monthly active accounts grew 30% as we increased merchant availability. For example, in January, JetBlue became the first airline to accept Venmo for bookings. We're seeing strong selection from Venmo's valuable demographic at major brands such as Domino's, Instacart and TikTok Shop. I expect more demographic relevant merchants to offer Pay with Venmo over the coming quarters.

Let's move to the progress we are making to become omnichannel, serving our customers everywhere they want to shop with PayPal and Venmo. As I noted earlier, branded experiences TPV grew 8% in the quarter, excluding last year's leap day. This growth reflects our strategy to deliver flexible and rewarding experiences that connects consumers to the things and experiences they want and love wherever they shop.

Today, our PayPal and Venmo debit cards are enabling our customers to use their balance to shop anywhere cards are accepted. Adoption is strong and growing with approximately 2 million first-time PayPal and Venmo debit card users in the quarter, an increase of nearly 90% from last year.

Debit card TPV grew approximately 64% in the first quarter. Venmo debit card monthly active accounts grew nearly 40% and penetration has increased to 6% of Venmo MAAs. We are focused on getting these products into the hands of even more of our customers because they allow them to choose PayPal and Venmo as their way to pay more often.

In the first quarter, users who adopted the PayPal debit card transacted nearly six times more and generated more than two times the average revenue per account, compared to those who used online branded checkout only. There is also a halo effect where debit card users choose PayPal more often in online branded checkout.

Our omnichannel strategy is showing early success in the US, and we are excited to replicate it internationally. We are on track to launch NFC capabilities in Germany later this quarter and bring PayPal Everywhere to the UK in Q3.

Moving to our PSP business, which remains a key driver of transaction margin dollar growth. We continue to build deeper relationships with the world's largest brands and sell our strong suite of value-added services. That is a massive untapped and margin-rich opportunity. I'll share two examples.

We recently scaled our optimized debit routing with Wayfair and Upwork. This service routes eligible debit cards through lower-cost debit networks, which helps merchants reduce their transaction fees.

Regal Cinemas has adopted our Fraud Protection Advanced service, which allows merchants to leverage PayPal's decades of fraud intelligence and advanced machine learning to improve their risk decisions and capture even more revenue.

Let me give you an example of how this focus on adoption of value-added services can improve the end-to-end relationship and margin profile of our largest customers. Recently, we expanded our relationship with a long-time Braintree merchant. By focusing on price to value and processing, attachment of advanced risk capabilities and leading-edge branded solutions, like payment-ready API, we were able to improve merchant performance and profitability. We took this merchant from unprofitable to profitable, improving their transaction margin nearly 20 percentage points over the course of a year.

These are the kinds of conversations we're having that drive value for our customers and for PayPal. Because of the quality of our value-added services, we expect these types of improvements to continue over the next few years.

For small businesses, we continue to migrate volume on to PayPal Complete Payments. Today, nearly half of SMB processing and checkout volume is on this platform, which is steady progress from last quarter. Bringing

more SMBs into the stack enables them to easily access our latest online branded checkout and new products like Fastlane, and we've seen incremental product adoption increase by 33% as a result.

Next, PayPal is leveraging our two-sided ecosystem in ways we've never seen before to innovate and build the future of commerce. Whether it's AI, personalization, ads or crypto we are providing our customers with the most advanced ways to engage in a shopping experience. These initiatives are in the early stages but unlock significant growth potential for us in the years ahead.

Take AI for instance. At Investor Day, I told you we were leaning into agentic commerce. I asked you to imagine what a future would look like, where AI agents could bring up the right products, at the right time and complete your purchase. Thanks to rapid developments, that future is here.

Just a few weeks ago, we launched the industry's first remote MCP server and enabled the leading AI agent frameworks to seamlessly integrate with PayPal APIs. Now any business can create agentic experiences that allow customers to pay, track shipments, manage invoices and more, all powered by PayPal and all within an AI client.

As we speak, developers are gathering in our San Jose headquarters for our annual Developer Days. Every major player in AI is represented, providing demos and engaging with our developer community. The future of commerce will have a strong Agentic presence, and we're excited about leading the charge.

PayPal Ads is continuing to lay the foundation for a robust and highly differentiated ads business that will create more personalized shopping experiences. We're leveraging our extensive cross-merchant transaction data and customer insights to develop a platform that improves discovery for consumers and helps merchants reach more shoppers.

We recently expanded PayPal Ads internationally with our launch in the UK. And today, we are launching offsite ads, which are ads informed by our insights placed outside of the PayPal platform. This will allow PayPal to help brands find the right user, at the right time, and it is built with the privacy in mind. We are working to rapidly accelerate advertiser onboarding as we continue to grow ads.

Crypto is another area we're making strides. We're moving quickly to bring the benefits of crypto and stable coins to our customers and the industry. Last week, we introduced the ability to earn rewards for holding PYUSD. This will increase the option and use of digital currencies for everyday commerce, from sending money internationally to making purchases and more. We've also strengthened our relations with major crypto players, like Coinbase, so people can more easily access and use PYUSD.

As I close my remarks, I want to again highlight how proud I am of our team and the focused execution and innovation we are driving. To reinforce this point, let me bring together Venmo's strength in the first quarter as an example.

We've leaned into Venmo and the investment is starting to pay off. The Venmo user base continued to expand, and we're growing monthly active accounts mid-single digits. Pay with Venmo TPV grew more than 50% and MAAs grew 30%. Venmo debit card MAAs grew nearly 40% and penetration has increased to 6% of Venmo MAAs. That's up from 4% a year ago.

When you add it all up, the Venmo business grew revenue by 20%. That's sequential double-digit growth and the highest rate we've achieved in years. Our execution muscle is growing stronger by the day, and we're just getting started.

To recap, we had a great first quarter. We are confident in our ability to execute the strategy we laid out as we enter the year. With our clear strategy, strong balance sheet, high free cash flow conversion, and traction and execution, we have a solid foundation that allows us to navigate uncertain times and invest in our long-term growth.

With that, over to Jamie.

Jamie S. Miller

Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.

Thanks, Alex. Moving to slide 5. PayPal delivered a strong quarter to start the year. Our results reflect another positive step forward, with multiple drivers contributing to an acceleration in profitable growth. We are improving our speed and focus across the organization, working hard to transform the company, while improving our value proposition for consumers and merchants.

Excluding interest on customer balances, transaction margin dollars grew 7% or 8% ex-leap day accelerating from last quarter. We outperformed the TM dollars and EPS guidance we provided in February with upside driven by a combination of sources, including PSP profitability, Venmo, credit and transaction expense improvement and a more favorable tax rate.

Non-GAAP earnings per share were \$1.33 in the quarter, up 23%. And PayPal generated \$1 billion of free cash flow in the first quarter, bringing trailing 12-month free cash flow to \$6 billion. Adjusted free cash flow, which excludes the net timing impact between originating and selling European buy now, pay later receivables, was \$1.4 billion in the first quarter and \$6.2 billion over the past 12 months.

Turning to slide 6. Total active accounts increased by about 1.5 million from the fourth quarter and over 8 million versus the prior year's first quarter to 436 million. Monthly active accounts continue to show steady progress, up 2% year-over-year to 224 million, with contributions from PayPal consumer accounts and Venmo. Transaction per active account, excluding PSP processing, grew 4%.

Moving to slide 7. Total payment volume grew 3% at spot and 4% on a currency-neutral basis to \$417 billion. As we highlighted at our Investor Day in February, this slide now includes a simpler and more relevant TPV breakout. This view reflects how we think about our product portfolio today, the go-forward strategy and our customer needs.

Looking across these categories, we are encouraged to see signs that both consumers and merchants are expanding how and where they use PayPal. Winning checkout remains our most critical priority, and our teams remain laser-focused on advancing the many initiatives that reinforce our checkout business.

In the first quarter, online branded checkout volumes grew more than 4% on a currency-neutral basis. And excluding last year's leap day, which contributed over 1 point to growth, online branded checkout volumes increased nearly 6%. Branded experiences TPV, which includes online checkout, PayPal and Venmo debit, as well as tap to pay, grew 8% ex-leap day accelerating from the prior year.

We're excited about this momentum as we work to drive greater awareness that both PayPal and Venmo are ways to pay any time and any place. Ultimately, our goal is to form deeper consumer relationships, driving habituation across online and off-line channels.

Turning to PSP, which spans both large enterprise and SMB processing as well as parts of our VAS portfolio, like payout, invoicing and point-of-sale solutions, volume grew 2% compared to 6% in the fourth quarter.

As we've discussed throughout the past year, the shape of this growth is intentional. We are prioritizing healthy, quality growth within our Braintree business, and have made deliberate choices to shift away from unprofitable volume.

Shifting away from this volume pressures gross revenue but is accretive to transaction margin dollars and should result in more than 1 point of TM benefit this year. We continue to expect this benefit to build over time as we drive more value-added services.

Moving to more financial detail on slide 8. Transaction revenue was flat on a spot basis or up 1% on a currency-neutral basis to \$7 billion, driven primarily by branded checkout, Venmo and SMB processing. This growth was offset by the shift away from unprofitable Braintree volume that I just mentioned.

Importantly, other value-added services revenue grew 17% to \$775 million, driven primarily by healthy performance in consumer and merchant credits. We ended the quarter with \$6.5 billion in net loan receivables, up 1% sequentially, and we continue to be pleased with the quality, the diversification and the performance of our credit portfolio.

We take a prudent approach to managing the portfolio's exposure and our goal is to sustain a balance sheet-light business model, while providing our customers with more ways to manage their cash flow spending and borrowing needs.

Transaction take rate declined by 6 basis points to 1.68%, driven largely by product and merchant mix. The two largest drivers of this change were momentum in payouts, and shifting away from unprofitable volume on Braintree, some of which carries a higher gross take rate due to card funding.

There was also impact from faster growth of large enterprise volume within branded checkout, adoption of the PayPal debit card and growth of Venmo and PayPal P2P. These are positive trends for our business, demonstrating the relevance and importance of PayPal to consumers and merchants around the globe, as well as the process we are making to improve profitability.

Our focus on profitable growth and the progress we are making across our strategic growth drivers is most clearly demonstrated by the acceleration in transaction margin dollar growth that we have delivered over the past year. Branded checkout, PSP and value-added services, credit and Venmo were all meaningful contributors to transaction margin dollar growth in the quarter. These drivers also include improvement in transaction expense.

Transaction margin rate increased by more than 270 basis points year-over-year, reflecting our focus on price to value and profitable growth. Non-transaction-related OpEx increased 2%, as we continue to actively manage our cost structure while reinvesting in key growth initiatives. This includes marketing to support the rollout of new products and initiatives.

Non-GAAP operating income grew 16% in the quarter to \$1.6 billion and non-GAAP operating margin increased about 260 basis points to 20.7%. In the quarter, we completed \$1.5 billion in share repurchases, bringing share repurchases over the past four quarters to \$6 billion. Finally, we ended the quarter with \$15.8 billion in cash, cash equivalents and investments and \$12.6 billion in debt.

Moving to guidance on slide 9 for the second quarter and the full year of 2025. Our teams are focused on execution and capturing the opportunity in front of us. We are confident that our scale, diversification and balance sheet enable us to keep advancing our strategic growth drivers through different operating environments.

As we continue making progress on PayPal's transformation, we have multiple growth levers, and are well positioned to help merchants and consumers navigate the environment. Importantly, with a strong first quarter behind us and a good start to the second, we believe we are on pace to outperform our original expectations for the first half of 2025.

At the same time, given uncertainty in the environment, and the potential for a wide range of outcomes, we are appropriately cautious. Consumer spending and the labor market have proven resilient, but it remains to be seen how tariffs and other trading friction will impact global economic activity, consumer spending and supply chains over time.

As Alex mentioned, despite our strong start to the year, we're maintaining our full year guidance. And this guidance now implicitly builds some incremental flexibility into the second half of the year for macroeconomic uncertainty. Throughout different macro environments, we will remain focused on making the right long-term decisions for the business, striking an appropriate balance between investment and productivity.

For the second quarter, we expect low- to mid-single-digit revenue growth on a currency-neutral basis, which is impacted by the Braintree renegotiation efforts I discussed earlier. We've seen a good start to April, and are watching trends closely. Tariff-related concerns and news flow have likely resulted in some spend being pulled forward for certain verticals in the US. We are not assuming that those higher activity levels persist for the entire quarter.

We expect second quarter transaction margin dollars to be between \$3.75 billion and \$3.8 billion, which represents 4.5% growth at the midpoint. Excluding interest on customer balances, we expect transaction margin dollars to increase by approximately 6.5% in the midpoint. We are planning for mid-single-digit non-transaction OpEx growth in the quarter due to the timing of initiatives and marketing spend. And we expect to deliver non-GAAP EPS in the range of \$1.29 to \$1.31, or 9% growth at the midpoint.

For the full year, we are maintaining our guidance, as I mentioned earlier, and I'll just highlight a couple of lines. Excluding interest on customer balances, we expect transaction margin dollars to grow by at least 5%, compared to 4.6% growth in 2024. And we expect to deliver full-year non-GAAP EPS in the range of \$4.95 to \$5.10, representing about 8% growth in the midpoint. This includes negative impact from lower interest rates and compared to our prior guidance, a smaller headwind from our expected non-GAAP effective tax rate.

Our guidance continues to assume approximately \$6 billion in share buyback for the full year, and we continue to 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. We have a solid foundation to build on as we execute on the second year of PayPal's transformation.

With that, back to you, Alex.

James Alexander Chriss

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

Thanks, Jamie. To summarize, we had a great start to the year and our strategy is taking hold. We've built a solid foundation and have multiple ways to win. A huge thank you to the PayPal team for their focus on delivering for our customers and our business.

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. Pauly, please open the line.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Tien-Tsin Huang from JPMorgan. Your line is open.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hi, thanks for the progress report here. Lots to talk about. Just wanted to maybe ask the obligatory macro question, if you don't mind. I'd love to hear a little bit more on how you characterize consumer and SMB health overall. And I know you touched upon it a little bit, but is the macro, the geopolitical stuff that's going on in the world, is that changing enough for you to reorder some of your priorities? It does sound like you're leaning harder into BNPL and Venmo, but yes, just a broader macro question. Thank you.

James Alexander Chriss

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

A

Hey, Tien-Tsin, thanks for the question. I wouldn't say we're reordering any priorities, and I don't think we – we're obviously watching it very closely to see what plays out. But things have been pretty consistent so far. Obviously, we think there's an opportunity. You mentioned buy now, pay later. We think with our strong position there and strong product, there's obviously an opportunity to continue to lean in.

I think from a consumer standpoint, we've been building over the last few quarters to really be the most rewarding way for consumers to pay. And we think that's an opportunity for us to continue to get our message out. Our rewards coming back on debit card, the rewards we just put out on crypto. These are things that put more money in the pockets of consumers, and that's a positive thing and an opportunity for us.

On small business, again, we know that cash flow is the most critical part for small businesses. We haven't seen a big impact yet. But as they think about money in, money out and access to capital, we know that we have tremendous strength when it comes to providing capital to our small business customers, and we think we can be a place for them to come in times of need. But I'd say we're still early and we haven't seen any big shifts yet, but we feel confident in our position if those things happen.

Jamie S. Miller*Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.*

A

Yes. And Tien-Tsin, I would just add, that when you look just at the core credit portfolios as a monitor of some of your question around consumer health or merchant health, we monitor that very closely. Charge-off rates are stable and in some cases improving. And in particular, with respect to the consumer portfolios, we've actually seen delinquencies over the last 30 days improve.

And also as it relates to just broader consumer trend, the first part of April, we saw an uplift as well in terms of TPV, and a lot of folks have referenced that as pull-in. But when you look at just general consumer health coming into what could be a more uncertain time is looking pretty healthy and pretty good.

And then with respect to SMB, good continued consistent performance there, too. And on the merchant lending side, as we monitor that, honestly, pretty consistent with what I'd say about consumer charge-offs also improving. And obviously, we're monitoring the whole thing very, very carefully, but it looks pretty steady right now.

Operator: Your next question comes from the line of Dan Dolev from Mizuho. Your line is open.

Dan Dolev*Analyst, Mizuho Securities USA LLC*

Q

Hi guys, great results here. Really appreciate it. Can you give us like a sense of – it looks like the branded experiences TPV strategy is doing really well. Can you give us maybe a sense of like how much traction you're getting there and what you're doing to get those nice results and thanks again.

James Alexander Chriss*President, Chief Executive Officer & Director, PayPal Holdings, Inc.*

A

Yes, Dan, let me start. So good to hear from you. We've got – this is the strategy that we've laid out really coming to light. So first, we have a branded checkout strategy that is really about driving habituation everywhere that the customer wants to pay. We have such strong brands in both PayPal and Venmo.

And our customers are asking to be able to leverage that trust, the safety, the brand, the rewards in every purchase that they make. And so, we've been focused on not only improving that online experience that we've talked about, and I'm sure we'll talk about more, making it available for them exactly how they want to pay, whether that's immediately or with a pay later scenario, with buy now, pay later, but then also offline.

And you mentioned branded experiences. This really is enabling our PayPal debit card or our Venmo debit card to be accessible to our consumers. We saw PayPal debit card TPV growth over 100% in Q1. And that really is driving habituation. This is driving our consumers to actually start to come back, move online and start to pay with PayPal wherever they see it.

So, the strategy is working, TPV, up 8% overall in branded experiences. And this really is the metric that we are focused on and we hope you're focused on as well, because, again, it is really all about the strategy that we've laid out.

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

Ramsey El-Assal*Analyst, Barclays Capital, Inc.*

Q

Hi. Thank you very much for taking my questions this morning. I wanted to ask about the de minimis tariff exemption for China, I think that's scheduled to be eliminated on May 2. Do you expect an impact from that, I guess? And if so, if you could help us dimensionalize the impact, I would appreciate it.

Jamie S. Miller*Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.*

A

Yes. Good morning. So obviously, the whole situation around tariffs is really changing daily and there's multiple scenarios that could unfold. And maybe I'd first start by saying I think we come into this from a position of strength. We are globally diversified. Our merchant base, our region base, it's just very, very global and diverse. And we're well positioned to capture shifts in spending as they happen. And the other thing I would just add is, in particular, in the US, we are about 50-50 between retail and services, so diversification there as well.

But when you talk about de minimis, the way I'd size that for you are Chinese merchants selling into the US is less than 2% of our branded checkout TPV. And this includes both direct China to US cross-border transactions and volume from Chinese merchants with US entities, but where they're shipping from China. So from that perspective, that's probably how I'd size it there.

Operator: Your next question comes from the line of Darrin Peller from Wolfe Research. Your line is open

Darrin Peller*Analyst, Wolfe Research LLC*

Q

Hey guys, thanks. Maybe just go a little further, if you don't mind, into what's embedded in your outlook around KPIs and modeling assumptions. Totally understand not changing guidance in spite the beat. But if you could help us with assumptions on the macro front and what you're embedding in your outlook, especially around cross-border in China and just what we should think about being included? As well as even just give us a little more color on branded growth expectations. What are you seeing specifically in April right now from a branded growth rate standpoint? And then branded versus unbranded growth as the year progresses would be really helpful. Thanks guys.

Jamie S. Miller*Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.*

A

Sorry, Darrin. I'm just writing down all your questions here. Let me start with the macro question. I think Alex was alluding to this before. But I would start by saying, as we look at this year, we are laser-focused on what we can control, staying focused on delivering for customers and really executing around our core initiatives and our investments.

And when we look at the macro and forecasting, it's really difficult to predict kind of which way all these scenarios could land. I would just say maybe that we're prudently guiding. So despite a strong first quarter and second quarter guide, we're maintaining our full year guide, just given the macro uncertainty. And it builds in room for a range of consumer activity softening in the second half. Overall, I'd say it covers about 2 to 3 points of deceleration in overall e-comm trends in the second half, which is not what we see as run rate. Current performance is really trending well.

But when you think about 2 to 3 points of e-comm, I think about that as 2 to 3 points of TPV, plus some level of lower credit originations, maybe a little bit of credit losses, maybe some FBO impact or interest rate impact from some rate shifting. So that's roughly how I package it from that perspective.

When you ask about April and branded trends, branded has had pretty consistent trending as what we saw in the fourth quarter. And April, in particular, we saw some US consumer activity accelerating. I mentioned before, it's likely a pull forward. We're not assuming that continues. But all in, we're on track for a mid-single-digit branded checkout TPV guide, what we gave earlier this year.

And then you also asked about branded and unbranded and how to think about, I think, the revenue side of that. And maybe I'll just anchor there around the unbranded side of that, you saw that pull back this quarter that was expected. That deceleration really began in the second half of last year. The one thing I would say about unbranded or PSP and VAS is that it's been a very strong and growing contributor to transaction margin dollars.

So while revenue is shifting down, we're seeing a nice contribution to TM as we really just sort of shift that margin profile of the business over time. Second quarter on revenue, we expect a pretty similar profile to the first quarter and then a second half ramp. And overall, continuing to contribute to that transaction margin growth for 2025.

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

Jason Kupferberg

Analyst, BofA Securities, Inc.

Q

Good morning guys. Thank you. So, it looks like online branded, you were stable on an underlying basis here in Q1 at up 6%. But now we've got almost half of the US on the new checkout experience. Sounds like Europe is untapped to start pretty soon. So could we start to see some initial acceleration in online branded volume growth by the end of this year if the macro stays stable? And can you just give us a word on what the US versus international branded split looked like in terms of Q1 growth rates? Thank you.

James Alexander Chriss

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

A

Hey Jason, thanks. So again, just to unpack our branded strategy, I'd really think about it as 3 parts. One is the improved branded checkout experience. And as you mentioned, we've moved very quickly, up now over 45% in the US. Again, that still is – think of that as sort of low double-digits of our global transactions. And so we're really excited. We think we've got a really strong playbook now. And we think, as we start to roll this out into Europe, we'll actually accelerate even faster.

But our paysheet redesign is holding, the improvement is holding and now this is just about scaling. Second lever is really accelerating Pay with Venmo, and you've seen the results there. So very, very fast flywheel starting to happen from a Pay with Venmo perspective, TPV up over 50% and MAA is up over 30%. And then the third lever is buy now, pay later and our pay later products. And again, TPV up over 20%.

So you add all 3 of those together, and as we continue to see us leaning into those three levers, I don't know the exact timing of when we'll start to see branded checkout, but we put pretty strong growth numbers of 8% to 10% by 2027. And I think those three levers continue to give us confidence that we're executing well and heading in that direction.

Jamie S. Miller*Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.*

A

Good. And then, Jason, what I would just add to that. When you look at the paysheet redesign, I would say we think about that as ramping over time. I mean this is something that as things come on, transactions start flowing, it's not something that is an immediate translation. And we do see impact coming through the numbers, but it's very small so far. So maybe that's how I would position that piece of it.

When you look at the US and international, I guess I'd start with the with the US and saying, performance was relatively consistent with the fourth quarter. And we are beginning to see good traction across US MAAs, across TPA, across shifting to more upstream to more power users. And Alex mentioned Pay with Venmo, which has really had good traction there.

It is early, but we talked in the fourth quarter about seeing some shifting in our US branded checkout levels. We saw that hold again this quarter, watching it very closely, but cautiously optimistic about that.

And then on the outside the US side, relatively consistent as well, a little bit of macro volatility across the markets. But in Europe, we continue to take share in Continental Europe, including in Germany. Really strong brand presence, as you know, across merchants, across consumers. And I think what we're really excited about is that we're bringing our new product innovation to the market in Europe starting this quarter. So we'll start with Germany and the UK. And this is the checkout redesign, it is buy now, pay later. It is omni and NFC launches. And brand marketing to accompany all of that, with a fast follow to other countries after that. So I think the overall look right now, we feel put about branded checkout and just laser-focused on our execution.

Operator: Your next question comes from the line of Andrew Schmidt from Citi. Your line is open.

Andrew G. Schmidt*Analyst, Citigroup Global Markets, Inc.*

Q

Hi Alex, hey Jamie, good morning. Thank you for taking the questions. Maybe if we can just switch gears to the consumer side. I was wondering if you could just talk a little bit about the PayPal Everywhere program. Obviously, some rich rewards across categories there. But could you talk a little bit about the halo effect, if any, that you're seeing outside of those categories? I'm curious if – just about adoption and spend trends with that program now that it's been in place for some time. Thank you so much.

Jamie S. Miller*Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.*

A

Yes. Thank you, Andrew. And again, what you mentioned is exactly what we're starting to see. So just as a reminder, rolled out PayPal Everywhere. We really launched it in sort of August, September of last year. Since then, 4 million new debit card active. So really starting to see strong demand from our consumer base that loves the brand and wants to be able to use PayPal everywhere that they shop. TPV growth, again, up over 100% in Q1, with attractive economics in off-line as well. And so, it's not just delivering the habituation that we want for every purchase but the off-line spend is actually quite attractive.

What's exciting is though that halo effect. So we're starting to see that debit card users have a 5.5% to 6% lift in transaction activity and over 2x increase in average revenue per active user versus just a checkout only. So this is the strategy starting to take hold. This is a user that's now becoming habituated with PayPal. They're enjoying the rewards in the category of their choice.

And we're also starting to see the spend and the category demand actually extend to other categories outside. So we started with things I mentioned in the past, gas, groceries, restaurants, things that consumers have never used PayPal for before. Now we're starting to add new everyday spend categories, like ride share and transit. So demand is really strong from these consumers. We're starting to see the halo effect of not just offline, but now moving into online.

And again, this is why this all comes back to this habituation and this branded experiences journey that we think is going to work, first in the US and then as Jamie just mentioned, really excited to see this roll out in Germany and in the UK. With Germany, as an example, coming this quarter, we've got some really exciting buy now, pay later opportunities, which are, I think, going to be very, very powerful in a market that has traditionally not been a credit market, but one that's been connected to bank that we think we can come in with our already connected bank product and actually give consumers the ability to make the purchases they need on a buy now, pay later product. So again, lots of exciting innovation coming and the flywheel starting to spin.

Operator: Your next question comes from the line of Harshita Rawat from Bernstein. Your line is open.

Harshita Rawat

Analyst, Bernstein Institutional Services LLC

Q

Good morning Alex and Jamie. I have a clarification question about the conversion uptake you're seeing as you're rolling out this new checkout to merchants. I think you talked about 100 bps [indiscernible] (00:46:17) checkout. Are these numbers holding, as you as you roll out the experiences to merchants? And then how quickly can you roll out the new checkout in Europe? Thank you.

James Alexander Chriss

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

A

You broke up a bit, Harshita. But you got it Jamie?

Jamie S. Miller

Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.

A

I think so, yes. I think the first part of the question was talk about conversion uplift as we roll out the new checkout redesign. We talked about 100 bps of conversion uplift, is that holding? And I'd say, yes, that is what we're seeing continue to come through in the results that we have.

And then your second part of your question was how quickly can we roll this out in Europe. And what I would say is a really important point here is that a much higher proportion of our European merchants are already on our latest integration. So this makes a much faster and easier rollout process for them as we tackle Europe.

Operator: Your next question...

Steven Winoker

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

A

If we didn't get that whole question, Harshita, we can follow up later.

Operator: Your next question comes from the line of Sanjay Sakhrani from KBW. Your line is open.

Sanjay Sakhrani*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thank you. Good morning. OVAS revenue growth was quite strong. I was wondering, Jamie, if you could just walk through sort of where the strength was and if it outperformed relative to your expectations, and if you expect that strength to continue over the course of the year? Thanks.

Jamie S. Miller*Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.*

A

Yes, good morning. So when we look at OVAS, there's one thing I would just call out before I talk about what the actual quarter, which is that in the first quarter of 2024, we did have lower credit revenue with a lower gain share on our consumer credit partner. Coming through COVID, we had some loss normalization happening there. Last year's first quarter was slightly lower in that regard. And if you remember, we had also pulled back on our merchant lending portfolio, so revenue was lower there as well.

So as we come into this year, I mentioned on our fourth quarter call that we're really back in the market with a rebuilt credit team and just really good capability, and we saw that growth come through. And again, OVAS growth this quarter was primarily credit driven, both consumer and merchant, small contribution from interest.

But I mentioned the portfolio is performing well. We feel really good about it. We're very actively managing it. And as we look at the year, we continue to expect mid-single-digit OVAS growth. So credit will continue to be a primary driver this year. But you might remember that we also have baked into our forecast about \$150 million of impact of interest rate headwinds, which also runs through OVAS as well.

Operator: Your next question comes from the line of Timothy Chiodo from UBS. Your line is open.

Timothy E. Chiodo*Analyst, UBS Securities LLC*

Q

Great. Thanks for taking the question. I want to dig in a little bit more to Germany and the UK. I believe they're the 2 largest branded markets outside of the US. Particularly from a gross profit standpoint, I believe they are two of the largest markets for branded. Two topics I was hoping we could touch on. One is a little bit about the competitive landscape in those two markets specifically. And then on UK, I know there were some efforts to roll out biometrics to help with two-factor authentication. And I was hoping you could talk a little bit about the progress and the phasing of that initiative.

James Alexander Chriss*President, Chief Executive Officer & Director, PayPal Holdings, Inc.*

A

Yes. Let me get started, Tim. So, as you said, two very important markets for us and strong markets outside of the US. Competitive dynamics is a little bit different, so let me unpack them. Germany, we are really the market leader there. I think we're the number one brand in Germany for the last 3 years. So very, very strong consumer presence, very strong merchant presence.

It's also a different type of market. As I just mentioned, it's not a credit-heavy market. So the way PayPal is used is we're connected to bank and then PayPal is used as really the way to make an online purchase. And so our transactions in e-commerce in Germany are extremely high. That's what gives us a lot of confidence as we now move into off-line, is we're really going to be really one of the first at-scale, bank connected off-line wallets, that we think we'll be able to drive significant penetration into the market.

So we're really excited about that, as well as bringing some new innovations to market with not only our rewards program, but also the buy now, pay later connected element as well. So with the brand presence we've got in Germany, with the banks already connected and the onboarding experience that's just really delightful. I mean it's literally one click from your bank to be able to set up your off-line wallet. And with the innovations of rewards and buy now, pay later, we're really excited to get into the market there.

UK, much more competitive dynamic there. We've really suffered in the last few years with what I would consider to be one of our poorest app experiences for consumers. We're rolling out a new app experience in the UK shortly. But we've already started with, as you mentioned, the biometrics. So we actually got a favorable connection with the regulator there to enable us to enable our biometrics to be considered 2-factor authentication. That's rolling out quickly and enabling a much better experience, whereas before, it really was choppy and created a lot of friction and a lot of latency in the experience.

Biometrics is now really creating a seamless experience. You add on top of that the new app that's going to be rolling out and then our rewards program and all the other innovation that we brought to bear. And we think we're going to be competing quite well in the UK. And you'll see us leaning in from a go-to-market perspective as well to really remind consumers that we now have the best product in the market.

The last thing I'd say is I was actually just there a few weeks ago, and I think there's a big opportunity for us in buy now, pay later. Actually, I sat down with a lot of merchants in the market, and they're really looking for PayPal to come in. There's a lot of different options that are available now. And I think we're hearing from merchants that PayPal is a beloved, trusted brand that they would love to be able to have their consumers have a single onetime checkout or buy now, pay later option from a single brand. And so we're going to lean in heavily in buy now, pay later in the UK as well.

Operator: Your next question comes from the line of Dan Perlin from RBC Capital Markets. Your line is open.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning. I just wanted to revisit cross-border for a moment, and kind of maybe the puts and takes in terms of dynamics that we need to be thinking about. But one of those is just kind of now that we have a situation where we have this weak dollar, how does the like purchasing power parity associated with a weaker dollar typically play out for you guys in terms of cross-border behavior? And then, if you could just also give any color, as a reminder, kind of discretionary versus nondiscretionary spending events that tend to fall heavy in cross-border. Thank you.

Jamie S. Miller

Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.

A

Yes. So, good morning, Dan. How are you? I'll start with the discretionary side of it. So when you look at PayPal today, I would say discretionary spend, we are a lot more diversified today than we were a few years ago. Now we're about 50-50 split in our US TPV between goods and services. And even in those categories, we are diverse as well.

I mean when you look at that – just breaking down retail as an example, about 10% of that is fashion, but then it's really split across a lot of different things between variety and discount, beauty, sports, pets, toys, like lots of

different things. And so when you look at those, I mentioned before, I think we're really positioned well to capture spend as it may shift amongst categories, and we're well positioned around that.

When you look at the cross-border side of it, what I would really say there, again, is it's really diversified. I talked before about the China to US direct, a large portion of our cross-border is intra-European corridors. And so when you start to look at how this looks over the globe, it's just very well diversified. And it's really hard to say how a shifting dollar is going to impact that. And honestly, what will actually happen there. But I would just say, if we take a step back and think about our guidance here, our process, we're just planning prudently and preparing for some level of uncertainty.

Steven Winoker

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

A

Hey, Pauly, we'll make time for one more question.

Operator: Your last question comes from the line of Will Nance from Goldman Sachs. Your line is open.

Will Nance

Analyst, Goldman Sachs & Co. LLC

Q

Hey. I appreciate you taking the question. I just wanted – you said several times on the merchant lending portfolio that you guys are actively managing standards in the current environment. I'm just wondering, if you've made any changes to underwriting or how you would think about changes to underwriting in the face of merchant-facing kind of cash flow strains on the back of sort of supply chain dynamics, tariffs specifically? And if you guys have any way of sort of dimensionalizing, like what sort of cash flow strains your merchants may experience if tariffs do go into effect in terms of things like importing inventory and things of that nature? Thank you.

Jamie S. Miller

Executive Vice President, Chief Financial and Operating Officer, PayPal Holdings, Inc.

A

Yes, I think it's difficult to answer the latter part of your question. But if we go back to the merchant lending part of it, this is a portfolio that is actively managed. And it's something that, a year ago when Michelle Gill came in and really reconstituted the team, they're very focused on how we can help our small businesses really navigate growth.

And so the portfolio has a couple of different things in it. One is just really helping small businesses with working capital and inventory buy. And we monitor that and underwrite it with an eye towards credit, towards cash flow. And when you look at this, these are things where we've got cash sweeps with sales as sales come in, it's just a very well-constructed portfolio from both an underwriting and from a risk management perspective.

And the other side of it is PayPal business loans, which are cash flow based. They're typically personally guaranteed. And again, these are things that we monitor all the different indicators of the portfolio. And we adjust as we go. I mean we did make some adjustments in March to tweak and fine-tune and make our underwriting slightly more conservative, but it's something the team is all over. And I think we can react very quickly in a changing environment.

Steven Winoker

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

Thanks, Jamie. Alex, any final thoughts?

James Alexander Chriss

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

Yes. Thanks, everyone, for the call this morning. I'm very proud of the quarter that the team delivered, not only great results, but also just the innovation and the pace that the teams are moving. We didn't get a chance to talk a lot about Venmo, but I know I mentioned it on the call, we've leaned in there and the innovation is really starting to take hold. We talked about moving into monetization and debit card. Just to give you another data point, 10% of the new cohort of users are now adopting the debit card, right? This is showing our innovation come to life.

And funds in, Venmo users that are using and keeping funds in, we're seeing funds beyond P2P up over 100%. And add funds and auto reload, really, as we've innovated, they're starting to become the habituation for our consumers. So just goes to show that as we are executing and leaning into our strategy, our innovation is really taking hold. So we're focused. We'll continue to scale our innovation. And look forward to updating you along the way. Take care, everyone.

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

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