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PayPal Holdings, Inc. (PYPL)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PayPal's First Quarter 2026 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 first quarter 2026 earnings call. I'm joined by CEO, Enrique Lores; 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.

Over to you, Enrique.

Enrique Lores

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

Thank you, Steve, and thank you to everybody for joining us this morning. I'm stepping into this role at an important moment for PayPal. I appreciate the opportunity to serve as CEO, and I'm confident we will accelerate the growth of the company while improving profitability and cash flow. That is why I'm here. At the same time, I'm also realistic that we need to make significant changes to improve the strategic and operational issues the company has faced.

Today I will share what I have observed since joining the company, how we're shaping our strategic direction and the actions we are taking to move forward with focus and discipline.

During my time on the board, I developed a good understanding of PayPal's strengths, opportunities, and areas for improvement. Over the past two months, I have listened to and learned from our customers, our teams, and our investors. This has helped to deepen my view of where we are, where we need to go, and how we get there.

I will begin with a few initial observations. First, our foundation is strong. The company has valuable assets in our brands, our risk and underwriting capabilities, our technology and most importantly, our team. Our scale and global reach set us apart and are difficult to replicate, and the hard-earned trust our customers place in us every day is a critical advantage.

Second, we operate in markets defined by growth and rapid change. It is during this period that leading companies find ways to differentiate themselves by innovating, delivering new and superior solutions, and driving durable growth. This is where PayPal needs to focus.

Third, one of our core strengths is our two-sided network serving both consumers and merchants. In recent years, PayPal has put more energy into the merchant side of the network. Strengthening the value we offer to the hundreds of millions of consumers who choose PayPal, and Venmo is a key priority. Doing that, we increase the value of our platform for merchants and create a stronger foundation for sustainable growth.

Fourth, due to years of underinvestment, we need to accelerate the modernization of our technology platform. Moving faster to become cloud-native and aggressively adopting AI in our development processes will help us significantly increase developer productivity and shorten time to market.

Fifth, we need to simplify how we operate, streamline decision-making, and clearly define accountability to strengthen execution.

Finally, there is potential to significantly reduce the company cost structure. Simplifying the organization and accelerating the adoption of AI across the company will generate significant saving that can be reinvested in growth and used to respond to business headwinds, improving our overall financial profile over time.

With this as a context, we need to recommit to the fundamentals. That includes, becoming a technology company again, sharpening our focus on consumers, aligning the company around three strong businesses, and simplifying how we work with clear accountability and a stronger emphasis on execution.

I expect that it will take a few months to completely define our new plan, but I think it is important to start sharing the direction we are taking and some of the actions we have underway.

Let me start by sharing the framework we're using to define our strategy. We see three distinct, attractive and, in many ways, complementary market opportunities where focused investment and sharper execution can meaningfully improve our growth trajectory: Checkout, Consumer Financial Services, and Payment Services. Each has clear near-term levers to improve the performance of our existing assets, as well as compelling medium-term growth opportunities. And in every case, we have a strong right to win. I will take each in turn.

Let me start with Checkout. This is a large and growing market where we deliver meaningful value to consumers and merchants. Within Checkout, we also see strong consumer demand for flexible payment options including buy now, pay later solutions. This is becoming an important driver of consumer acquisition while also delivering clear benefits to merchants through higher basket sizes.

The second opportunity is in Consumer Financial Services. Consumers are increasingly turning to digital platforms to handle everyday financial activities. This is also a large market opportunity worth more than \$200 billion annually in just our top 6 markets and it is growing at low-double digits. What is most attractive about this market is not only size and growth, but also the customer lifetime value opportunity we can tap into.

The third opportunity is in Payment Processing and Value-Added Services. The PSP space represent significant untapped value for us, driven by the continued shift to digital channels and the increasing complexity of global payments.

We're aligning the organization to unlock these growth opportunities. Previously, our teams were organized primarily around the customers we serve: consumers, small businesses, and large enterprises. That structure resulted in organizational complexity with multiple dependencies and handoffs that slowed decision-making and weakened execution. Checkout, for example, touched all customer groups and markets, creating a multi-dimensional matrix for roadmap prioritization.

The changes we announced last week will organize the company into three kinds of business, each with a single leader: Checkout Solutions & PayPal; Consumer Financial Services & Venmo; and Payment Services & Crypto. And importantly, we're bringing together the two sides of the network to maximize our competitive advantage.

Simplifying our operating model and clarifying accountability means that each leader will own clear outcomes, and our teams will be able to focus on our most important growth priorities. We're also using these changes to simplify and delay our organization, and we have formed a new AI transformation and simplification team that will help us work more effectively and drive our enterprise-wide AI agenda.

Let me now outline how we are thinking about the path forward across each of our businesses.

Checkout Solutions & PayPal is primarily a checkout-focused business and is the highest priority for the company and me. It brings together our consumer and merchant ecosystems under one unified strategy. This structure will enable us to fully leverage our two-sided network and accelerate innovation across both sides of the platform. Our intent is not to chase transitory share in any given quarter, but rather to focus on segments and verticals where we can deliver differentiated value to our customers.

I have also emphasized that strengthening the consumer side of the network is key to increasing the value we deliver to merchants. Driving habituation through the adoption of our financial services offerings is an important step toward enhancing the consumer value proposition and reinforcing the power of our two-sided network. And our PayPal+ loyalty program, which we introduced in the UK and will expand to additional market, is another important step.

Over the medium to long-term, we have a number of compelling innovative initiatives underway. We will take a disciplined approach to prioritization, focusing resources on areas with the greatest potential to drive durable growth and shareholder value.

Within this portfolio, we will be highly selective as we evaluate our broad set of initiatives, including digital wallet interoperability, biometric functionality, and additional programs under consideration.

Within Consumer Financial Services & Venmo, we have been making good progress in the last few years and have built a strong portfolio of related products, but awareness and adoption remain well below their full potential.

Our focus is on becoming more central to our customers' financial lives and our goal is to enable consumers to send, spend, save, invest, and borrow seamlessly. Venmo will be a key component of our growth plans moving forward, supported by its strong brand and younger demographic. We're in a strong position to expand in this space, deepen engagement, and increase customer lifetime value.

Payment Services & Crypto unifies our processing and platform capabilities into a single scalable offering for merchants. We will bring together the companies and branded processing capabilities, including Braintree, and Value-Added Services such as fraud management, authorization optimization, and global payment infrastructure. They are designed to support businesses of all sizes with flexible high-performance payment solutions. We are also well positioned to capture and monetize this growth.

Stablecoin is also a part of this, enabling faster lower-cost transactions. We have made good progress with PYUSD, which became the largest federally regulated stablecoin in December, and we recently expanded its

availability to 70 markets globally. At the same time, we have much more opportunity to scale our offerings and accelerate growth in this space.

Across the company, we need to modernize our technology platform to enable greater speed and interoperability across our offerings. As I said earlier, leveraging AI more extensively in our development processes will significantly help us with this effort.

Supporting our growth plans is the opportunity to realize cost savings. First, we will remove duplication and layers from our organizational structure. Second, we will accelerate our AI adoption and automation across our operations. Combined, the savings will be significant. We expect to see at least \$1.5 billion of gross run-rate savings over the next two to three years. Jamie will discuss more on this point later in the call.

Let me touch briefly on some highlights from the quarter before Jamie takes you through our results in more detail. Our first quarter results show some improvement in branded checkout. Branded checkout TPV growth was 2% on a currency-neutral basis, up from 1% last quarter. We continue to see strength in key parts of the business, with Venmo and PSP delivering mid-teens TPV growth.

Transaction margin dollars, excluding interest on customer balances, grew 3% with contributions from credit, Venmo, and PSP. Non-GAAP earnings per share grew 1%. We also continue to generate robust free cash flow, giving us ample room to invest and return capital to shareholders through buybacks and our dividend.

On the operational side, our team accomplished a lot in the first quarter, from securing upstream presentment on key merchants to enabling interoperability for peer-to-peer payments between PayPal and Venmo.

To close, I am confident in our ability to put this company on a more durable path to long-term growth and shareholder value creation. We have a strong foundation and we are now organized to move with greater urgency. We have a well-defined framework and we will continue to define our strategy and prioritize our plan in line with it. I look forward to sharing more progress as we move ahead.

And finally, I want to thank our teams for their continued focus and execution and our customers and shareholders for their trust.

I will now turn it over to Jamie.

Jamie S. Miller

Chief Financial & Operating Officer, PayPal Holdings, Inc.

Thanks, Enrique. The team and I are energized by the focus, clarity, and disciplined prioritization you are already bringing to PayPal. We have a strong market position and a solid foundation, and I'm confident we're set up to move faster from here.

Turning to the financials in more detail on slide 7, PayPal delivered a solid quarter with both transaction margin dollars and non-GAAP earnings per share coming in moderately better than our guide.

Total payment volume accelerated to 11% at spot and 8% currency neutral in the first quarter, reaching over \$460 billion. Online branded checkout volume growth improved slightly from the fourth quarter, while Enterprise Payments and Venmo both accelerated into the mid-teens.

First quarter revenue grew 7% on a spot and 5% on a currency-neutral basis. TM dollars, excluding interest on customer balance, grew 3% in the first quarter. The drivers of our TM dollar growth were broad-based, led by credit performance, Venmo monetization, PSP profitability, and loss improvement across multiple products. Growth in these areas more than offset the headwind from investments we are making to strengthen our branded checkout position and drive higher engagement, habituation, and incremental activity over time.

First quarter non-GAAP earnings per share increased 1% to \$1.34, and compared to our guidance, non-GAAP EPS benefited from stronger transaction margin dollar growth with some offset from higher non-transaction operating expense.

We expect the second quarter to reflect more pressure on a year-over-year basis driven by the non-recurrence of certain prior year items and the timing of anticipated cost savings and investment, both of which I'll walk through in more detail shortly.

Importantly, these are factors we anticipated and we remain confident in our full year 2026 guidance. Adjusted free cash flow, which excludes the timing impact from the origination and sale of pay later receivables, was \$1.7 billion, or nearly \$6.8 billion on a trailing 12-month basis.

Turning to slide 8, we continue to drive deeper, more active relationships with our customers. Monthly active accounts increased 1% to 225 million. Transactions per active account, excluding PSP, improved sequentially to 6% growth.

Moving to slide 9, total payment volume in the first quarter grew 11% at spot and 8% on a currency-neutral basis to \$464 billion. Working our way down the page, branded experiences TPV, which includes online checkout, PayPal and Venmo debit, as well as tap to pay, grew 5% compared to 4% in the fourth quarter. While debit card and tap to pay spend represent a small portion of branded experiences volume today, they continue to grow rapidly, up 60% year-over-year. Venmo TPV continues to reach new highs, accelerating sequentially to 14% growth year-over-year and marking the sixth consecutive quarter of double-digit growth.

Online branded checkout volume growth improved slightly compared to last quarter, up 2% on a currency-neutral basis. Compared to the fourth quarter, we saw a slight improvement in the US with softer performance continuing in Europe. Pay with Venmo and buy now, pay later continued to outpace the market, taking share from other payment methods and growing 34% and 23% respectively. P2P and other consumer volume growth remains healthy, up 10% in the first quarter and reflecting the debit card and Venmo momentum I just mentioned.

Turning to PSP, volume growth accelerated to 11% from 7% in the second half of 2025. Within PSP, Enterprise Payments again showed notable strength with volume growth accelerating to the mid-teens from a combination of growth in profitable front-book business, high retention, and growth alongside our existing merchant base. Driving higher attachment of Value-Added Services continues to be a key focus to improving yield and monetization as we move through 2026.

Moving to more financial detail on slide 10, transaction revenue grew 7% on a spot basis to \$7.5 billion. Other Value-Added Services revenue grew 10% to \$852 million, driven by strong contribution from consumer and merchant credits, partially offset by lower interest rates.

Transaction take rate declined by 6 basis points to 1.62%. Excluding the impact of foreign exchange hedges, transaction take rate declined about 4 basis points. This output was driven by a combination of factors including branded co-marketing investments and rewards as well as higher growth in Venmo and Enterprise Payments.

TM dollars, ex-interest on customer balances, grew 3%. Within volume-based expenses, transaction expense as a percentage of TPV was 90 basis points, increasing slightly year-over-year from mix shift to Enterprise Payments.

Transaction loss as a percentage of TPV improved slightly year-over-year to 6 basis points. This reflects our team's ongoing work to continue to improve and strengthen onboarding, fraud prevention, and risk management capabilities.

Non-transaction related OpEx increased 8%. This higher increase, relative to our guide, was driven by our decision to pull forward a combination of technology, marketing and product investments, which will continue into the second quarter, making our OpEx profile more first half weighted this year. As a result of higher investments, non-GAAP operating income was down 5% in the quarter to \$1.5 billion.

Moving to capital allocation. In the first quarter, we completed \$1.5 billion in share repurchases, bringing our trailing 12-month total to \$6 billion. We ended the quarter with \$13.5 billion in cash and cash equivalents and investments, and \$11.6 billion in debt.

Moving to guidance on slide 11 for the second quarter and for the full year 2026. While first quarter was a solid start to the year, it's early. The macro and geopolitical environment remain complex and we operate in a dynamic, highly competitive industry. The company is also in the midst of a significant multi-year transformation during which we are taking steps, including the business realignment discussed today, to better organize around our key market opportunities and drive stronger execution. With that as a backdrop, we are reiterating our guidance for the full year.

We see a significant opportunity to enhance customer lifetime value by driving consumer engagement through a combination of scaling new experiences, improving presentment, and increasing consumer selection with rewards and loyalty. We continue to expect our targeted growth investments to represent approximately a 3-point headwind to transaction margin dollars growth in 2026 while driving durable long-term benefits in the years ahead. We have conviction in the impact these initiatives can drive in the future, but it will take time to keep scaling our programs and experiences.

For online branded checkout specifically, our guidance continues to reflect slightly positive to low-single digit branded checkout TPV growth for the full year. Quarter-to-date, we are seeing trends at the low end of our full year guidance, and these are reflected in our second quarter guide. Compared to the first quarter, we have seen slower growth in the travel vertical, as well as more muted growth in Europe.

As Enrique discussed, we see significant opportunity to further improve productivity and reallocate resources to our highest returning initiatives. And while we've made real progress over the past few years, there is meaningfully more we can do. We are realigning the organization to sharpen strategic focus, eliminate duplication and remove layers, enabling faster decision-making and clearer accountability. In parallel, we will be accelerating efforts to deploy AI and automation across our operations and technology platform, which we expect will both improve the customer experience and drive meaningful internal efficiencies. These efficiencies will come from organizational realignment, process redesign through AI and automation, procurement and vendor rationalization, and optimizing our local footprint.

Together, these represent two distinct waves of savings: the first from structural realignment; and the second from accelerating AI adoption and automation to comprise the vast majority of the more than \$1.5 billion cost savings

program we will execute over the next two to three years. A portion of this opportunity was already contemplated in the 2026 guidance we provided last quarter.

Looking ahead, we expect to deploy these cost savings to reinvest in growth and respond to business headwinds, improving our overall financial profile over time. During 2026 and into 2027, we will be transitioning teams, establishing new ways of working, and building systems and processes to run the business aligned with the structure we have announced. In the coming months, as we launch the full scope of this program, we plan to share more details on the expected cadence of savings and our reinvestment framework for the years ahead. We intend to follow that up with external reporting, including segments, sometime next year.

Turning to more specifics for the second quarter, let me start by noting that the second quarter has the most demanding year-over-year comparison this year. You may recall that last year, second quarter had a 1.5-point of transaction margin dollar benefit from the renewal and expansion of a relationship with a key payment partner, as well as very strong credit performance. This year, our transaction margin dollar investments also ramped through the year and pressure will be more pronounced in the second quarter compared to the first.

In 2Q of last year, non-transaction OpEx also benefited from discrete items within general and administrative expense, including a non-recurring decline in indirect tax expense. The 2Q tax rate was below the full year average.

Pulling all this together for the second quarter, we expect: low-single digit revenue growth on a currency-neutral basis; a low-single digit or approximately 3% decline in transaction margin dollars; transaction margin dollars excluding interest to decline low-single digits or approximately 2%; mid-single digit growth in non-transaction operating expenses; and non-GAAP earnings per share to decline by high-single digits or approximately 9%.

For the full year, we are reiterating our guidance and we continue to expect transaction margin dollars to decline slightly or be roughly flat excluding interest on customer balances; approximately 3% growth in non-transaction operating expenses; and non-GAAP earnings per share ranging from down low-single digits to slightly positive. Our guidance continues to assume approximately \$6 billion in share repurchase and at least \$6 billion of adjusted free cash flow.

I'd like to wrap up by thanking the PayPal team for their continued focus and dedication. We have a solid foundation to keep building on as we drive value creation by executing on PayPal's transformation.

With that, Steve, let's go to Q&A.

Steven Winoker

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

Before we open the lines for Q&A, I'd like to ask everyone to limit themselves to one question so we can get to as many of your fellow analysts as possible. Sarah, please open the line.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first 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 ask about branded checkout. Enrique, Jamie, can you maybe talk about the market dynamics in Europe? And also over time what can we expect to see as execution improves and kind of like the realistic growth versus e-commerce we should expect? Thank you.

Jamie S. Miller

Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Good morning, Harshita. I'll talk a little bit about the market dynamics in Europe and then Enrique, perhaps you want to talk about the over time execution focus we have. When you look at branded checkout, I would say that we're operating in a dynamic environment. When you look at the consumer generally, while it's remained strong, we are seeing some skewing in the middle income which candidly in the US that was one of our bigger improvement points in that cohort. When you look internationally, what we were really seeing is a little bit more pressure from higher oil prices, certainly gas prices but more importantly travel in Europe was something that we saw slightly at the end of the quarter but really more this quarter.

And when you look across Europe I would say generally speaking, we've got areas growing quite well, but we're still under pressure in places like the UK. With respect to Germany, I would say the quarter, we continue to see moderation there like we had seen in the fourth quarter, still growing but at a slower rate. And generally pretty consistent, combination of macro softness, competitive intensity, some natural normalization as a longtime market leader.

But having said that, I think what's important, and this is where I'll maybe hand off to Enrique. We began investing, taking all of the things we were doing with respect to branded checkout over the past couple of years and really bringing those to Europe mid-year last year and leaning into those investments. And as Enrique's come in, I think his country-to-country level focus has been really important and I think will be a real acceleration for that. But Enrique, maybe you want to unpack that a little bit.

Enrique Lores

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

A

Yes, I think in Europe we have an opportunity to improve execution by improving our focus in the countries. During the last eight weeks, I have been twice in the UK, once in Germany to understand in depth what is the situation and to work with the team to see what improvements we need to make. And as Jamie was saying, there is a combination of macro effects but also local competition. But we have enough tools in our side to be able to compete and to be able to grow. And this is what we are going to be doing.

Overall, answering your other question about branded checkout, we are taking a lot of actions to change the trajectory of the business. Of course, we need to continue with investments we started a quarter ago to improve presentment, to improve selection. And we had especially focused on the top 50 customers. We are starting to see progress there. We also need to continue to improve the experience of our customers so they get a better

experience when they checkout with PayPal. And we have other opportunities that we started to mention in the prepared remarks that I think in the future are going to be very meaningful.

We have been more focused on the merchant side of the network than on the consumer side. And we need to rebalance that focus and rebalance that investment. For example, the loyalty program which was launched in the UK is going to be an element of that. There are other things that we need to do in that space. There are also specific verticals, high-value verticals where we can have a more differentiated value proposition, especially if we combine with financial services. And this combined with an improvement in execution that by really understanding what our priorities are and simplifying how we make decisions, we think the combination of all that will have a significant impact in the business going forward.

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

Timothy E. Chiodo

Analyst, UBS Securities LLC

Q

Great. Thank you. I want to see if we could talk a little bit more about the \$1.5 billion of gross run rate cost savings that you outlined today. And Jamie, I appreciate that you mentioned over the coming months you'll be giving more detail around the cadence and some reporting around the progress there.

But one area of the expense base that often comes up in investor discussions is the customer support line item. It's roughly \$1.7 billion or so. And I fully appreciate and I think investors do as well that there's many countries, there's lots of compliance. There's lots of support. There's people answering the phone in local language. There's a lot of complexity there. But I was hoping you could maybe bring to life a little bit more some of the tasks or roles or some of the activities within that bucket that might be more applicable to this cost savings initiative? And in general, any other broader thoughts around kind of areas of low-hanging fruit that you see for the \$1.5 billion? Thanks a lot.

Jamie S. Miller

Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Yeah, good morning, Tim. So maybe I'll talk a little bit about the cost, some of the components of how we're tackling it and a little bit around the AI benefit and then Enrique you might want to chime in as well. When we look at the at least \$1.5 billion in cost, we really see this coming in a couple of different phases. The first is really around structural realignment and you've heard us announce our reorganization last week. But this is about duplication. It is about layers. It is about org structure but really focusing and aligning our teams for top-to-bottom execution and improving our execution speed candidly. But with that also comes a lot of opportunity for cost and remixing there.

The second piece which I think is really a little bit more along the lines of your question on CS&O is aggressive deployment of AI. With respect to customer experience, how we touch customers in service and support and operation, is equally with respect to risk and the modernization of our risk platform and how we deploy AI as we do that. AI has really across-the-board opportunity, particularly in CS&O, but candidly across the company. I think we've made really good inroads. We're seeing good engineering productivity. We're seeing different elements of acceleration in different functions. But I think this full top-to-bottom acceleration is going to be really important.

And to your point, as we really lay this out I think there's two things to note. Number one, we do plan to reinvest savings for growth so a lot of what Enrique has talked about with respect to the company's strategy and not just branded checkout where we're leaning into the consumer value prop more, but really building out financial

services with Venmo, really leaning into PSP in deeper ways to grow, that reinvestment piece is an important element of this. But as you said, we'll lay out more of this in the coming weeks.

Enrique Lores

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

A

And then, I think the changes that AI will enable us to drive are going to be very significant. And this is why we created a group last week reporting to me that is going to be in charge of driving function by function, process by process, this is AI transformation. And this is not about adopting AI as a technology where we have done many pilots in the company and we have seen what is possible. It's really about understanding how can we redesign the key processes, once the redesign is done adopt AI. And this is what we have seen that really will drive significant savings, but not only savings it will help us to move faster and it will help us to bring and to deliver a better customer experience.

The two key areas where we see the biggest opportunity in the short term: one is technology development. And as I mentioned before, this is going to really help us to accelerate some of the improvements and modernization we need to do in our platform and the second is customer support, as you were saying Tim, this is a large cost for us today. And with AI, we believe we can both reduce cost but also improve the experience that we will provide to customers. And the fact that we have multiple – that we need to support multiple languages, multiple businesses, just highlights the opportunity of really reducing the cost by automating and driving it and doing it in an even better way for our customers.

Operator: Your next question comes from James Faucette with Morgan Stanley. Your line is open.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Thank you very much. I wanted to follow up on that question and not only how we should think about reinvestment and the other side of it, capital return and how you're going to decide how to apportion savings to one or the other. And in particular, what are the proof points that you're going to be looking at, whether it be ongoing engagement, growth in customers. Just help us think through the KPIs and how you're going to make sure that you're allocating capital most efficiently. I know you have some big ambitions for both but nuance there is I think important this morning.

Enrique Lores

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

A

Yes, I think this is a great question and you will see us doing much more work and reviewing that with all of you in the coming quarters. What we have defined so far is what is the strategic framework that we see for the company. We have outlined that we see three big growth opportunities where we think we can both grow revenue and operating profit, and we are aligning the company and the strategies of the company to make that happen.

As we do that we will identify what are the best opportunities, opportunities that will drive the best return and also we are going to be very rigorous, I would even say ruthless in the prioritization we are going to apply because the company has today multiple attractive initiatives. We have also several more small businesses and in the coming quarters we need to decide in which ones we double down and we increase investment to increase our ability to execute and our chances to be successful, and in which ones we are going to be de-investing, stopping or doing something different.

And this is a process that between now and the next quarter we will be doing and we will be – as we do that we also – we'll identify what are the key KPIs per business. So you can track the progress that we are making. We are just starting the – what we call the transformation process. This is going to take some time. So it's not something that immediately will happen. But the combination of the assets that we have, the ability that we have to invest and the rigor we are going to apply make us confident that we will be able to really improve the performance of the company over time.

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

Darrin Peller

Analyst, Wolfe Research LLC

Q

Hey, thanks guys. Enrique, can you just walk through your thought-process on your review of your assets in the company in the sense of which assets you actually absolutely feel like you must keep as part of the go forward entity. If there are assets you've identified that you would consider selling, where you stand on Venmo. Is that potentially something that we should consider, that the company would consider wanting to sell for the right price?

And then your thought-process on synergies or dis-synergies of keeping assets together, whether it's Venmo with the rest of the business or Braintree with the rest of the business. If you could just walk through your thought-process on that, that'd be great. Thanks.

Enrique Lores

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

A

Sure. Thank you. So, let me start by saying that our number one priority, my number one priority is to maximize shareholder value. And at this point, I believe that the best approach is to invest in our three core businesses, PayPal, Venmo and Braintree, to drive profitable growth because in each of them, we see the opportunity of making it happen.

To do that, we explained before, we are going to be simplifying the priorities for each of them, identifying what are the core areas where we need to invest. At the same time, we know we need to modernize the technology platform that will be helping the three of them, and we need to simplify how we work and drive cost reductions to drive these investments.

I think what is important is that we believe that there are significant synergies across the three businesses that make them stronger together. For example, we see customer synergies in driving cross-selling and helping each business to penetrate and to grow with different customers. We also see synergies in the technology and offering space. And as we develop some of the financial services options that we have been discussing before, they will be benefiting, for example, PayPal and Venmo.

And we also see strong synergies in key capabilities as risk management and identity. So at this point, our play is to grow profitably the three businesses because this is what we think will create the maximum value for shareholders.

On top of these three business, I guess, I just mentioned before, there are many other initiatives in the company that we are going to be rigorously prioritizing to make sure that we leave those in the plan where we see we have the highest opportunities to success, and that we use this to fund those activities that we will stay focused on.

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

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.



Thank you. Good morning. Enrique, thank you for all your commentary. Obviously, you've had a very unique window as the new CEO, having been on the board. I'm just wondering if you could just drill down specifically on how you intend to do things differently from sort of the previous administration to effect the change.

And then, Jamie, just one question, because I'm getting a lot of these questions on the trend line that you saw – that you mentioned trending at the low end of the range and some of the choppiness. I guess, if the higher fuel prices persist, do you feel like there's risk to the second half relative to what you've incorporated in the second quarter? Thank you.

Enrique Lores

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



Sure. Let me start with the first part of your question, and then Jamie will take the second part. I think what we're going to do, start from the development and the analysis that we have done on where the company is today, what is working, and what areas need to be changed.

From a strength perspective, I would say that the company has very unique and high-quality assets. The combination of the scale that we have, the technology that we have, some of the key capabilities around risk management, underwriting, the value of the brands and the global presence are very unique assets that are difficult to replicate.

At the same time, we operate in markets with high growth and we have very relevant presence in these markets. But we also have seen that there are some areas where we need to make some changes. We need to accelerate the modernization of our technology stack so we can continue to deliver compelling solutions to our customers.

We need to rebalance the focus we have in the two-sided network between merchants and consumers. During the last year, we have paid much more attention to merchants, and we need to rebalance that and increase our investment in consumers. We also need to simplify how the company works and reduce the complexity that the current model brings. And on top of that, we clearly have an opportunity to reduce our cost structure, and this is what we're doing.

So based on that, we have built a transformation plan that we are going to be executing; and the plan starts by identifying what are the highest opportunities in the three markets where we operate and investing behind them and aligning the priorities towards that.

Second is, as we identify these priorities, they are going to be different for each of the market opportunities. In the PayPal side is by continuing to grow and improve the performance of the Checkout business. And I mentioned before the combination of continuing some of the work that we have done until now by also rebalancing the focus on consumer, combining with some of the financial services that have shown us that we can improve the value proposition and identifying the vertical categories where we can offer a more differentiated solution. This will help us to grow.

In the case of Venmo, it's about growing our attach rate to financial services and improving ARPU. And in the case of our processing business, it's all about maintaining the growth that we have and continuing to add value-added services.

Third point is really the process to simplify the priorities and define in what areas we're going to focus, in what areas we're going to reduce our focus, which I mentioned before, we will be doing in the coming quarters.

Fourth is about accelerating the process to modernize our technology stack module-by-module to make sure that in the coming quarters, we really address some of the gaps that we have identified from a technology perspective.

Fifth is to complete the reorganization of the company that we have started, simplifying how we work, and aligning the work and aligning the priorities to the segments that we have identified. And finally is to complete the execution of the cost program that we have announced today.

So it's a very aggressive transformation plan. We think that by executing that we will be able to improve significantly the performance of the company, and we have started the process now as we have been mentioning in the call today.

Jamie S. Miller

Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Great. And then, Sanjay, with respect to your question on what we're seeing with consumer and some of the impact on growth. I guess, first, what I would say is we are reiterating our full year guidance. And so, we continue to expect slightly positive to low-single digit branded Checkout TPV growth, and that's what we've seen so far this year. Compared to first quarter, as I mentioned, we are seeing some impacts on the travel vertical, but we are very focused on execution. As we get deeper into the second quarter, comps get easier and, candidly, in the second half as well. But also, we're laser-focused on our initiatives and really driving improvement there. And we've been prudent I think in how we've set our branded checkout guide and our expectation for lower growth this year than last year and we're confident with where we are today.

Operator: Your next question comes from Jason Kupferberg with Wells Fargo. Your line is open.

Jason Kupferberg

Analyst, Wells Fargo Securities LLC

Q

Thank you guys. Enrique, I wanted to talk about just current product strategy in Checkout. I mean, you guys have the fully optimized button now. Wondering if you are planning on any big changes there. Do you just feel like there's room to improve execution of the rollout of the current product? And if we can get an update on the progress of the rollout, that would be great.

And we just love your take on how long it might take to actually fully roll out that fully optimized version of the new checkout button because it seems like that's key to ultimately getting some structural reacceleration in branded volume. Thanks.

Enrique Lores

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

A

Thank you. In the short term it's all about continuing the execution of the plans that we had until now, and we have continued to make progress using the same metrics we reported in the last couple of quarters. Today we have – the customers – 45% of the non-vaulted customers are already experiencing the new simplified version.

So we have continued to make progress quarter-over-quarter and the plan is to continue that in the coming quarter. But it's not only about that, it's also what we have learned is this, this is one element of the many that we

need to do. We need to – when we combine our new checkout process with financial services and BNPL we see also significant improvement and significant acceleration of growth.

When we see better marketing and more – and the customers are more attracted to use our button, we see also improvement. So, we need to continue to build end-to-end plans to make sure that we improve across the board and this is what you're going to see us doing and this is why execution is going to be so critical for us. It's not only about what we bring to market, is about how do we maximize the value from it by having all the different functions and groups of the company focused on it.

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

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Good morning. Thank you. I want to ask about modernizing the tech platform and becoming a tech company again. Does this include platform consolidation specifically? I'm asking because modernizing the tech stack brings with it obviously a lot of risks, and I know you appreciate that, Enrique, given where you're coming from. So what's your assessment on the risk of modernizing, why it hasn't been done already, and how integrated or distinct are the technology stacks across the three businesses? If you can detail that as well, that'd be great. Thank you.

Enrique Lores

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

A

Thank you. So, the process we have started is to go and modernize the tech platform module-by-module and as we do that drive integration or complete integration in some cases across the three businesses. As you said, all these changes have some risk but on the other side we have a very competent team and this is a process that has already started.

I think one of the key differences will be that we are going to invest in making that happen and this is why the cost structure savings that we have announced today are going to be so critical. They will be helping us to make these investments possible because we think it's critical for us to do that for the company to continue to succeed and for the company to continue to grow.

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

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Thanks. Enrique, I wanted to just kind of turn back a minute to the commentary around the consumer side. Kind of in multiple parts of the prepared remarks, then even through kind of answering some questions, it sounds like there was a deficiency relative to the merchant side of the network to being focused on this consumer side.

And what I'm wondering is as you were on your listening tour really talking with merchants, do you feel like they were telling you that they didn't have the conviction that maybe you had that level of engagement with the consumer and therefore you feel like you need to make bigger investments there or is there another angle to that? Thank you.

Enrique Lores

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

A

Thank you. I think it is a combination of what I heard from merchants but also what I saw happening in the countries and what I saw happening in the front line. And I think it's not so much that we will focus less on merchants, it's about how do we improve the value proposition we have we offer to consumers and how we improve, how we communicate that, and how do we make it more visible.

And I saw that as we – because if I think about what has happened during the last few quarters we have launched a lot of great innovation to market but we haven't had enough effort, enough investment in the countries to make it real, and we have moved to launch the next version before really maximizing the value that we got from what we were launching.

And let me use an example, in Germany a few months ago, we launched a fantastic solution leveraging NFC. We launched the solution, it had great initial reception and then we didn't invest enough to – for it to be adopted broadly by consumers. And by consumers adopting us, the impact on merchants would have been very positive but we just didn't have the effort, the focus, the team, the investment to make it happen.

So this is an example of the type of things you will see us doing, and this is what we mean by rebalancing the focus we put on the two-sided network because if consumers perceive a stronger value proposition, they will transact with PayPal when they do – when they buy something from a merchant.

Steven Winoker

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

A

Hey Sarah, we have time for one last question.

Operator: Thank you. Our last question will come from Bryan Keane with Citi. Your line is open.

Bryan Keane

Analyst, Citigroup Global Markets, Inc.

Q

Good morning, guys, and thanks for fitting it in. Enrique, when you think about the merchant specifically in your conversations, do you think – how aggressive will you guys be in sunseting platforms and forcing them onto the new technology in order to help reduce friction? Kind of that's question one.

And then the second part of that is, what about – a lot of investors are asking about the price. Is the price too high? Can you lower price for PayPal in order to drive faster branded volumes? Thanks.

Enrique Lores

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

A

Yes. So, in the last two months I have had many, many conversations with merchants and one of the key things I have learned is with all of them we have opportunities to improve our solution and to complete our solution addressing specific needs. And whether this is a merchant in the travel space that needs help in cross-border selling and cross-border activities or a merchant in the retail side that needs help with customers that buy and return, and that we can help to reduce the returns because of the data that we have.

We have a lot of opportunities to improve the value of our products and do it in a way that we can replicate it across multiple merchants. So then the opportunity is clearly there and again in every conversation I have seen it. To do that we need to complete the modernization of our technology platform as we have been saying and to do that merchants will have to move to the new platforms and we will do that in a way that we minimize the work and the effort that it will take with them – from them whenever will be possible.

But to continue to improve the solution we will have to drive and move to the new platforms. But I think the key message is really the opportunity that we see, the opportunity that merchants are telling us we have and the fact that we really – by doing that we will have an opportunity to also offering additional services that will help us from a margin perspective and to compensate potential price pressure that we will have in the more commoditized business. The answer is about adding these incremental value-added services, which is what we are going to be doing during the coming quarters.

Steven Winoker

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

Enrique, any final thoughts?

Enrique Lores

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

Well, first of all thank you everybody for your questions, and as we have today – discussed today we have both strong assets, a clear opportunity and a path forward that is grounded in improving our execution. Our focus now is to deliver and I really look forward to continue to update all of you in the coming quarters, especially as we report our second quarter results in late July. Thank you.

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

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