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PayPal Holdings, Inc. (PYPL)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

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

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

Jamie S. Miller
Chief Financial & Operating Officer, PayPal Holdings, Inc.

OTHER PARTICIPANTS

Jason Kupferberg
Analyst, Wells Fargo Securities LLC

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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

Darrin Peller
Analyst, Wolfe Research LLC

Bryan Keane
Analyst, Citigroup Global Markets, Inc.

Timothy E. Chiodo
Analyst, UBS Securities LLC

Ramsey El-Assal
Analyst, Cantor Fitzgerald & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PayPal's Second 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 second 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. Good morning, everyone. I am encouraged by the progress we made over the past quarter. We moved quickly to simplify our organization, operate more efficiently, advance our strategies across our three businesses and improve our cost structure.

We are making steady, tangible progress in our transformation, and the actions we are taking are positioning us to accelerate and diversify growth across the company while improving profitability and cash flow over time.

In today's update, I will cover the highlights from the second quarter, our strategy across our three businesses and progress on our cost savings and technology modernization initiatives.

Let me begin with some highlights from our good second quarter. We delivered results that exceeded our expectations, reflecting disciplined execution across the business.

Revenue increased 5% and transaction margin dollars grew 1%. Excluding interest on customer balances, TM dollars grew 3% driven by continued strength in Venmo, credit, and Braintree, while at the same time increasing our growth investments this quarter.

Non-GAAP earnings per share exceeded our guidance, declining 1% year-over-year to $1.38. Branded checkout total payment volume continued to stabilize, increasing 2% on a currency-neutral basis consistent with last quarter. Venmo and Braintree once again delivered strong momentum with total payment volume growing in the mid-teens.

We also generated strong free cash flow, providing flexibility to continue investing in the business while returning capital to shareholders through our repurchase program and dividend.

Our performance in the quarter gives us confidence as we move into the second half of the year. As a result, we are raising our full-year guidance for transaction margin dollars and non-GAAP EPS. We're also raising our expectation for online branded checkout to the low single-digit range for the year.

We have embarked on a multiyear transformation. We are confident in our ability to create long-term shareholder value that builds on our trusted global brands with unmatched customer scale, unique data, and a two-sided open payments network.

At the heart of our plan are five important changes. We are diversifying our business model beyond checkout, with financial services across PayPal and Venmo becoming the largest driver of future transaction margin growth. Expanding into financial services meaningfully increases our addressable market and creates new opportunities for long-term growth.

We are accelerating the momentum of Venmo and our payment service provider businesses, both of which are already delivering strong growth. We are also rebuilding the consumer side of our network through investments in technology, data and local capabilities, allowing us to better serve our highest-value consumers while creating more value for merchants.

At the same time, we have simplified our operating model around three businesses with clear accountability and priorities to improve execution. And our investments in AI and technology modernization are focused on clear business priorities and measurable outcomes that will help us accelerate innovation.

Taken together, we believe these changes position PayPal for stronger execution, more diversified growth, and greater long-term shareholder value. So, while there is still important work ahead, we have established a strong foundation. Our priorities are clear, our investments are aligned with those priorities and we are executing with discipline to build a stronger, more competitive business.

Let me walk you through how we see our strategy unfolding over time. We have already begun strengthening the fundamentals across our business, focused on the changes I just outlined, and this work will continue into 2027.

At the same time, we're laying the groundwork for our next phase of growth by investing to deepen customer engagement and increase lifetime value. These investments are already underway, with momentum expecting to build in the second half of 2027 and continue throughout 2028, as new capabilities scale across the platform.

Looking to 2028 and beyond, we expect our next-generation innovations such as agentic payments and digital identity to become increasingly meaningful contributors to our business. We believe this are areas where the industry will be fundamentally reshaped and we're investing today to position PayPal to help define what comes next.

Let me now turn to the strategy for each business. Let me begin with Checkout Solutions & PayPal. We believe putting the consumer at the center of our strategy will strengthen our network, improve our merchant value proposition, and drive long-term growth. Over the past quarter, we have developed a much deeper understanding of how consumers engage across our platform. That work has given us greater conviction about where we can create the greatest value for consumers, merchants, and PayPal.

We are sharpening our focus on our highest-value consumer segments because they represent our greatest opportunity for long-term growth. This is a large and growing cohort of highly engaged consumers whose active accounts and average revenue per active account are growing faster than the rest of our customer base. They account for the majority of our payment volume, and improving how we serve them is our first priority.

Our objective is to make PayPal a more valuable part of our customers' everyday financial lives. The more value we create for consumers, the more value we create for merchants.

Checkout remains foundational, but financial services, including buy now, pay later, credit, and other capabilities allow us to deepen customer relationships well beyond the transaction.

By retaining these customers longer, increasing our share of wallet, and attracting more consumers like them, we can improve customer lifetime value, engagement, and durable volume growth.

Over time, we'll extend this approach to adjacent consumer segments that value payment flexibility, security, and savings, making PayPal an integral part of their everyday financial lives.

Executing this strategy requires a much deeper understanding of our customers. As we modernize our technology platform, improvements in our data and AI capabilities are enabling levels of segmentation and personalization that simply weren't possible before. Those capabilities help us deliver more relevant experiences, better match products to customer needs, and invest where we see the greatest opportunity to create value.

We are putting this strategy into action by improving the end-to-end customer experience and investing behind the products, capabilities and markets where we have the strongest competitive advantage. Buy now, pay later is one example where we are expanding both distribution and presentment.

This quarter Temu introduced BNPL in Canada, expanding availability to eight markets globally, and Home Depot Canada launched upstream presentment of our BNPL offerings.

PayPal Ads is another example of this strategy in action. By leveraging the depth of our consumer purchase data, we can help merchants reach consumers who are ready to buy while delivering more relevant and personalized experiences.

These are early examples of how we are making PayPal more relevant to consumers while delivering greater value for merchants. That's the virtuous cycle that strengthens our two-sided network over time.

Longer term, we'll unlock new sources of profitable growth through initiatives like agentic payments while creating stronger network effects by better monetizing the wallet, identity, and merchant infrastructure we have built over the past two decades.

Turning now to Consumer Financial Services & Venmo. We are evolving Venmo from a peer-to-peer payments app into a broader money management platform. As we expand the value we deliver to consumers, we expect to drive deeper engagement, increase monetization, and accelerate the growth of Venmo.

Our first priority is to strengthen Venmo's core peer-to-peer payments experience, which brings customers and fans into the ecosystem. This quarter, we rebuilt the Venmo app to create a more personalized peer-to-peer experience and improve product discovery and engagement.

Once we have engaged new users and grown their Venmo balances, our next priority will drive broader adoption of our financial services offerings to expand average revenue per account.

We know our customers value products like our Venmo Debit Card, and they are using them more frequently with monthly active accounts up more than 50% year-over-year. We also know that customers who use more products have significantly higher ARPA.

In the second quarter, customers using both the Venmo Debit and Pay with Venmo generated more than nine times higher ARPA than peer-to-peer only users. And this group has roughly doubled in size in the past year.

We recently launched a holistic marketing program to drive broader adoption of these monetized products and we believe there is much more room to grow. Over time, we will launch new products that enable consumers to send, spend, and borrow seamlessly. This is where PayPal's connected ecosystem gives us a differentiated right to win.

By bringing Venmo into the PayPal architecture, we can move faster, extend proven PayPal financial services capabilities to Venmo, and lean into shared capabilities across identity, technology, and risk to create an even better consumer value proposition. The momentum we are seeing today reinforces our confidence that this strategy will continue to deliver durable monetization.

Moving to Payment Services & Crypto. Braintree has delivered profitable growth for nine consecutive quarters. We have won new deals, deepened our relationship with existing merchants and improved overall margins with our suite of premium value-added services.

Now we must win as a modern payment services provider. Our immediate focus is on driving adoption of our existing value-added services across our large enterprise merchants in the US and Europe.

Payouts, Risk-as-a-Service, payment optimization, and embedded finance solutions help merchants access increasingly complex global payments and commerce challenges. These differentiated capabilities are difficult to replicate and we see substantial runway for further adoption.

Next, we will double down on underpenetrated customer segments and geographies where we see the greatest potential for durable, profitable growth. This includes marketplaces, platforms, and large e-commerce enterprises.

To better attract and serve merchants with increasingly sophisticated needs, we are expanding our technical sales capability and creating a team dedicated to selling value-added services.

We are also accelerating our platform modernization work to deliver a better merchant experience by unifying Braintree, PayPal Complete Payments and Hyperwallet into a single foundation. Our near-term priorities are improving interoperability and expanding self-processing capabilities, merchant lending and payouts. Over time, this work will make it faster and easier for merchants to adopt, integrate, and scale our full suite of capabilities.

Over the long term, as this work matures, we will unlock new flexibility and reach, enabling growth across all merchant types. At the same time, we will launch more commercial offerings supported by differentiators like PYUSD and agentic payments. These capabilities can support future growth by positioning PayPal to capture more transactions wherever they take place.

I want to close with an update on our cost savings and technology modernization initiatives. We are making good progress on our plan to deliver at least $1.5 billion of gross run-rate savings over the next two to three years. This work will power our next chapter of growth by creating a more focused organization, modernizing our technology platform, and improving our cost structure.

Over the last quarter, we have taken concrete steps to simplify our operations. We are on track to remove three organizational layers across the company and increase spans of control this year.

Our executive team has finalized the leadership structure in their organizations and teams are starting to operate with greater focus, clearer accountability and stronger alignment across our priorities.

At the same time, we are continuing to modernize our technology platform to create simpler, more unified customer experiences, accelerate innovation, and improve our cost structure. Our priorities are clear: converging into a single platform to reduce complexity, continuing our migration from owned data centers to the cloud, building a more modular and scalable architecture that strengthens our competitive advantage and enhancing the consistency, resiliency and quality of every customer experience through stronger controls and standardized capabilities.

We are managing this program tightly and as you can see, our technology modernization milestones are broadly on track. Combined, these efforts will make us faster, more efficient and better positioned to execute our strategy over the long term.

Before I conclude, I want to address the recent M&A speculation regarding the company. I'm sure you can understand as a matter of policy, we don't comment on market speculation or potential M&A discussion. As a board and management team, our responsibility is to maximize long-term shareholder value. We believe that executing the transformation strategy I have outlined will create significant value for our shareholders. That remains our focus.

While there is still significant work ahead, I have strong conviction in our direction and in our ability to execute. At the same time, we remain open and objective in evaluating opportunities. If we see levers or a path that we believe would create superior value for our shareholders than executing our current strategy, we would, of course, carefully consider them.

And to close, I want to thank the PayPal team for the good results this quarter and for all the work you are doing for our customers, the company, and our shareholders.

Jamie, over to you.

Jamie S. Miller

Chief Financial & Operating Officer, PayPal Holdings, Inc.

Thanks, Enrique. Over the last quarter, the team has focused on sharpening our strategy across each of our three core businesses while taking a rigorous approach to identifying the opportunities where we believe we can generate the highest and most durable return on our investments.

Based on the progress to date, we are confident that greater strategic clarity underpinned by sharper execution and a leaner cost structure will enable us to deliver durable results over time.

Turning to the financials in more detail on slide 9, PayPal delivered a good quarter with both transaction margin dollars and non-GAAP earnings per share coming in above our guide.

Total payment volume was $486 billion, accelerating to 9% currency-neutral growth. On a currency-neutral basis, online branded checkout volume growth stabilized at 2% for a second consecutive quarter, while Braintree and Venmo continued to grow in the mid-teens.

Second quarter revenue grew 5% on a spot and 3% on a currency-neutral basis. Our financial services portfolio, including credit and buy now, pay later is showing good momentum, on pace to grow revenue at least twice as fast as the total company this year.

Transaction margin dollars excluding interest on customer balances grew 3%. The drivers of our year-over-year transaction margin dollar growth were broad-based. From a product lens, drivers included Venmo monetization, continued strong credit performance, and Braintree improvement.

In addition, FX favorability and lower losses across PayPal and Venmo contributed to transaction margin dollar performance in the quarter. Growth in these areas more than offset investments to strengthen branded checkout and drive higher engagement over time.

Second quarter non-GAAP earnings per share came in better than our guidance, declining 1% to $1.38. We saw benefits from stronger transaction margin dollars growth and a lower effective tax rate with some offset from higher non-transaction operating expense, which I will discuss shortly.

Adjusted free cash flow, which excludes the timing impact from the origination and sale of pay later receivables, was $1.8 billion.

Turning to slide 10, we continue to drive deeper, more active relationships with our customers. Monthly active accounts increased 1% to 228 million. Transactions per active account, excluding PSP, grew 7%, accelerating for a second consecutive quarter.

Moving to slide 11, we continue to see more diversified sources of growth across our business. Branded experiences TPV, which includes online checkout, PayPal, and Venmo Debit, as well as tap to pay, grew 6% compared to 5% in the first quarter and 4% in the fourth quarter.

While debit card and tap to pay spend represent a small portion of branded experiences volume today, growth remains strong at greater than 60% year-over-year.

Venmo TPV continues to reach new highs, delivering 14% growth year-over-year and marking the seventh consecutive quarter of double-digit growth. Online branded checkout volume growth further stabilized, up 2% on a currency-neutral basis consistent with first quarter growth. This was slightly better than our expectations, primarily driven by accelerating buy now, pay later and Pay with Venmo performance as well as faster growth in the US.

Pay with Venmo and buy now, pay later continued to outpace the market, taking share from other payment methods and growing 44% and 26%. P2P and other consumer volume growth remains healthy, up 10% in the second quarter and reflecting the debit card and Venmo momentum I just mentioned.

Turning to PSP, volume growth accelerated to 13% from 11% in the first quarter and from 7% in the second half of 2025.

Braintree TPV continued to grow in the mid-teens from a combination of growth in profitable front-book business, high retention and growth alongside our existing merchant base. We are driving higher attachment of value-added services, supporting margin expansion over time.

Moving to more financial detail on slide 12, transaction revenue grew 5% on a spot basis to $7.8 billion. Other value-added services revenue was approximately flat at $850 million driven by strong contribution from consumer and merchant credit, offset primarily by lower interest rates on customer balances.

Transaction take rate declined by 7 basis points to 1.61%. Operationally, this was driven by a combination of factors, including branded co-marketing investments and mix dynamics, including faster Venmo growth.

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 Braintree.

Transaction loss as a percentage of TPV improved slightly year-over-year to 7 basis points. This reflects our team's ongoing work and OpEx investments to improve and strengthen onboarding, fraud prevention, and risk management capabilities.

During the second quarter, we made meaningful progress on our reorganization and sharpened our view of the highest impact actions needed to accelerate our growth strategy. At the same time, we saw stronger-than-expected underlying business performance, including transaction margin trends, and against that backdrop, we have invested more heavily in a number of high-priority areas which helped drive higher non-transaction related operating expense in the quarter and will continue into third quarter.

These investments reflect our prioritization of operating spend in the areas where we see the greatest long-term value creation and position us to capitalize on the momentum we're seeing while advancing our transformation. It's important to note that part of the increase is timing, we're investing ahead of cost savings that we expect to become more material in the fourth quarter. These investments include platform and cloud modernization, risk capabilities that improve loss performance, and targeted investments to support our highest priority growth initiatives.

As a result of higher operating expenses, as well as the lapping of the non-recurring partner benefit previously discussed, non-GAAP operating income was down 8% in the quarter to $1.5 billion.

Moving to capital allocation, in the second quarter, we completed $1.5 billion in share repurchases, bringing the trailing 12-month total to $6 billion. We ended the quarter with $15.3 billion in cash, cash equivalents, and investments and $13.4 billion in debt.

Moving to guidance on slide 13 for the third quarter and full year 2026, we are pleased with our first-half performance, reflecting continued stabilization and the resilience of our business while driving significant organizational change.

As Enrique highlighted, 2026 is a year where PayPal is strengthening its fundamentals and its execution muscle to position for greater momentum in the years ahead. The progress we've made to date gives us greater clarity on the path forward for each of our three main businesses.

With that as a backdrop, we are raising guidance for the full year. We now expect transaction margin dollars to increase to approximately $15.6 billion, or $14.5 billion excluding interest on customer balances. Approximately 7% to 8% growth in non-transaction operating expenses and non-GAAP EPS to increase to $5.38.

Our guidance continues to assume at least $6 billion of adjusted free cash flow and approximately $6 billion in share repurchases.

For online branded checkout, we now expect low-single-digit TPV growth on a currency-neutral basis for the full year, reflecting a modest improvement from our prior expectations.

We are encouraged by the early progress of our targeted growth investments and remain disciplined in evaluating their performance, balancing near and longer-term value creation. We now expect these investments to represent a modestly lower headwind to transaction margin dollars in 2026 than the 3 points we previously anticipated. This primarily reflects the timing of investment activity during the year rather than any change to our conviction around these initiatives. Consistent with the investments we've already discussed, a portion of that benefit is offset by higher non-transaction OpEx as we continue investing in our transformation and other high-priority opportunities.

On savings initiatives, we have simplified our operating model and are on track to remove three organizational layers. We have decreased end-to-end production time, embedding AI within the full software delivery cycle, and we have prioritized geographies for investment and identified specific rationalization opportunities.

We are on track to achieve at least $1.5 billion in gross run-rate cost savings over the next two to three years. We have already identified actions to unlock approximately $400 million of new run-rate gross savings by the end of this year, with a portion to be realized in the fourth quarter. While we are still finalizing our plans, this first phase of actions could result in a transformation-related charge of approximately $120 million to $140 million during the second half of 2026.

Consistent with what we shared last quarter, we intend to reinvest a significant portion of these savings into our highest priority growth initiatives while improving operating leverage and our overall financial profile over time. With that said, we are raising our full-year guidance for non-GAAP transaction margin dollars and earnings per share, while also expecting higher non-transaction-related operating expense growth, reflecting the stronger business performance we're seeing and investments aligned with our strategy. We expect our cost savings initiatives to become more meaningful in the fourth quarter, which will benefit operating expense as the year progresses.

Now, turning to more specifics for the third quarter, we expect low-single-digit revenue growth on a currency-neutral basis, slightly positive growth in transaction margin dollars, transaction margin dollars excluding interest on customer balances to be slightly positive to growing low-single digits, high-single-digit growth in non-transaction operating expenses and non-GAAP earnings per share to decline within a low-single-digit range. As implied from our guidance for the third quarter and the full year, we also expect fourth quarter transaction margin dollar growth to be slightly positive.

I'd like to wrap up by thanking the PayPal team for everything they've accomplished this quarter. Our path to realizing the next phase of PayPal's growth is becoming clearer with substantive progress, and we remain focused on building our momentum to drive durable long-term value creation.

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 Jason Kupferberg with Wells Fargo. Your line is open.

Jason Kupferberg
Analyst, Wells Fargo Securities LLC

Q

Good morning, guys. Thank you. I wanted to start on the topic of the savings and the reinvestment. I know you're reinvesting most, if not all, of the $1.5 billion-plus. How much of that reinvestment, I guess, over the next two to three years, is expected to be above the transaction profit line? And what's your sense as to how long these planned reinvestments will take to actually move the needle on transaction margin dollar growth? Thanks.

Jamie S. Miller
Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Good morning, Jason. And maybe I'll answer the first part of that. And Enrique, you might want to talk a little bit more about the strategy as we go forward. As you mentioned, we are well underway with our at least $1.5 billion cost-out program. We're in the first phase of it, really focused right now on structure and alignment, removing duplication, spans and layers, really improving our execution speed, and we'll move into the later phases over the next 12 to 18 months. We're seeing really good progress.

And in connection with that, we do expect to reinvest much of those savings over the next few years back into the areas that support our strategy. And some of that is around technology and risk, but a big portion of it is around really building out product in a deeper way: financial services, buy now, pay later, the integration of that back into PayPal and into Venmo, and really making sure that we've got the right consumer platforms around that and the marketing dollars to really shift and deepen our consumer value prop over time. And have that come through in the way of stronger operating leverage as we do it. But Enrique, you may want to talk a little bit more about the strategy piece of that.

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

A

Yeah. Thank you. Our investments are going to be fully aligned to the areas that we described during the prepared remarks as the changes we are driving in the strategy. First of all, we see a big opportunity in changing and expanding into financial services. And we are going to be investing to expand our portfolio, to expand our geographical coverage, and also to increase – to expand from a distribution perspective, and we're working with multiple partners and companies to make that happen.

For example, PayPal will be soon launching an integrated consumer lending partnership with Amazon for Germany and Austria. And this is a good example of the type of investments we are going to be making.

Second, we also mentioned that we are going to be accelerating our growth both in Venmo and in PSP in Braintree. And we are going to do that by investing both on the product side and on the go-to-market side. We said we are going to be reenergizing our consumer side of the PayPal network. And this means we will be investing in marketing, data capabilities, data processing capabilities to really reinforce our position in that side of the network.

And we mentioned already last quarter that we have embarked in a big project to modernize our technology, to improve our risk management capabilities. This will deserve investments as well. And we are going to continue to invest in long-term innovation related to agentic commerce, related to ads, related to PayPal World. So we have a very clear definition of what the investment areas are going to be. And this is why the saving program is so important because the majority of these investments will be self-funded with the savings that Jamie described.

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

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks so much. Hi. Can you hear me?

Jamie S. Miller
Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Yeah, we can hear you.

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

A

We do. We got you.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Thanks about that. My phone's a little whacky today. Just if you don't mind, there was just one question, Steve. I appreciate that. Just one quickly for Enrique. I'm just curious, can you just give us an update on what you see in terms of maybe your conviction on the synergies between PayPal, Braintree, and Venmo? Has that changed over the last 90 days or so? Any examples of what you're excited about here as you try to execute against those synergies?

And I know the deal, you probably can't comment too, too much, but maybe just a little bit more color on what's happening on the ground. Does the risk of a potential change in control create any tension with merchants and marketplaces and their willingness to work with PayPal and to promote PayPal and some of the plans that you have, especially on the new product side? Just trying to understand how you're balancing the deal activity with executing the turnaround. Thank you.

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

A

Sure. And I will count this as two different questions. So, let me start on the first one. We continue to believe that there are significant synergies across the three businesses. During the last three months, we have developed specific growth plans for the three areas: for Venmo, for Braintree and for the core PayPal business. And as we developed them, we see – continue to see synergies at the customer level in terms of leveraging commerce and customer presence.

And as we have developed, for example, integrated plans for some of our large merchants, we have seen the opportunity and the drive and the expansion of growth that this creates for each of our businesses. As we modernize our technology, we see clearly that we can leverage investments to support all businesses that make this more efficient.

And finally, there are key capabilities the company has, for example, in the areas of risk and identity that we manage across the full company that provide synergies across all of them. So, where we are today is we are very confident in our ability to grow and expand each of our businesses. We have clear goals for each of them. But at the same time, as a public company, we're open to consider other ways to create and maximize shareholder value, which is really the key goal that we have.

So, let me now go to the second part of your question about the latest rumors of – and market speculations. And as I said in the prepared remarks, we don't comment on any of the specifics. What I can say is that our board and management team are open and have a clear responsibility to objectively evaluate every opportunity that is presented to us, compare it with our own plan and choose the options that creates more value. Today, because of all the work that we have done over the last three months and because of the status of the business, we have a very clear view of the value that we can create in the coming years. And at this point, while we remain open, our focus is on executing our own strategic plan given the confidence that we have in creating value for shareholders.

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. Good morning. I wanted to ask about branded checkout dynamics that you're seeing. Clearly the stabilization at the 2% level, but it also sounds like a lot of that benefit is potentially coming from what's happening in the United States. So, I'm more interested in kind of the dynamics outside of the US, and I'm just wondering are there tensions associated which is geopolitical? Is it structural? Is it a difference in terms of the competitive landscape? So, just any distinction between those two would be helpful. Thank you.

Jamie S. Miller
Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Yeah, good morning, Dan. When you look at branded checkout, we were really encouraged to see just further stabilization in the business as we move through second quarter. And we do expect that to continue when we get into the second half. And to your point, we saw nice sequential growth in the US in the second quarter with just continued strong buy now, pay later momentum. Pay with Venmo was very strong. We saw some early success with our investments and some benefit in June from the World Cup as well.

When you look across our core European markets, those also improved to a slightly lesser extent than the US, but they were still very stable. We saw some pressure in the travel vertical. That was earlier in the quarter and that tended to moderate as we went through the quarter.

I guess when I look across all of this, we had grown across in particular Europe at very, very high rates for a long time. And so a lot of what we've seen in the last year really is a more normalization of that growth, but also as we look across the landscape, certainly there's more competitive intensity as well. What we've been very focused on, starting about 12 or 18 months ago, is bringing our latest innovation and integrations to Europe, making sure that we're not only investing in loyalty, we're investing in upgrading the experience, we're investing in bringing buy now, pay later and other elements of the consumer value prop that Enrique talked about to the European market. And those are well underway.

And I would say one other piece of this that has been really important as Enrique has come in is he has spent a lot of time on the country-by-country focus on execution, really reinforcing our local teams and in particular around the consumer side of the network to improve execution.

Enrique Lores
President, Chief Executive Officer & Director, PayPal Holdings, Inc.
A

I think just to complement Jamie's answer, when we look at our performance relative to market, in the US our performance has been stable compared to Q1. We have seen a slight improvement in Europe as a consequence of all the work that Jamie was commenting. So that's also encouraging in terms of how are we performing in the market, and this is one of the reasons that gives us confidence for the second half and one of the reasons why we decided to raise guidance based on what we see today happening in the market.

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

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

Thank you. Good morning, Enrique. I appreciate all the disclosures on the plan and how you're thinking about the path forward in the slides. Obviously, there's been strategies and investments before that haven't necessarily materialized. But maybe you could just talk about what gives you the confidence these investments will pan out and how this plan you're outlining will be different. Thank you.

Enrique Lores
President, Chief Executive Officer & Director, PayPal Holdings, Inc.
A

Yeah, I think there are five big differences in the plan and they are really supported by trends that we see happening in the market today and the opportunities that they open. The first big change is that we are really going to be focused on financial services and expanding into that market opportunity. Today financial services is already a significant part of the transaction margin of the company, close to 20%, and is growing double-digit. And what our strategy is going to do is to accelerate that growth, but this is already a real business for which we have – we see significant demand in the market.

Second big change is doubling down on our growth – growing businesses, Venmo and PSP. In both cases, we see opportunities to capture more value. In the case of Venmo by expanding ARPA, capturing more value per customer, and in the case of PSP by expanding the portfolio of value-added services and increasing the attach rate, and we are making specific investments in both areas to make it happen.

The third big change is the incremental focus on the consumer side of the network, especially in what we consider our high-value customers. We have a significant portion of customers that drive the majority of the TPV, the majority of the value, and by understanding what they need, offering what they are demanding from us, we not only capture – offer more value to them but also to merchants, because the more value we offer to those customers, we have more value to offer to merchants, and we see opportunities there to continue to improve the experience as we have been doing during the last month, accelerating the deployment of the new pay sheets, increasing the portfolio of offerings we offer them, especially around BNPL and over time making our loyalty programs more relevant. That's another big change in the strategy.

Third is the change that we are driving in how we run the company: improving execution, improving accountability. And I know that this may sound a bit theoretical, but I have seen how important having a clear operating model, having a clear decision-making process and the impact this can have in execution and improving the performance of the company.

And finally, the last big change is related to the changes in technology that we are making. We are modernizing our technology platform and this will help us to accelerate innovation over time. We are embracing AI in technology development and in other parts of the company that will make us a faster company and a more efficient company. So these are all the changes we are doing and again, the savings program that we have will help us to self-fund these investments to continue to position the company in a stronger way going forward.

Jamie S. Miller
Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Yeah, and Sanjay, what I would add as well is that the detailed work we've done, particularly over the last two to three months with Enrique, has really given us a clear view that our plan will drive faster transaction margin dollar growth over time from diversified growth streams. So, continuing with Venmo and PSP, a real emphasis on credit, and with branded checkout having a more modest contribution. So deeper focus on credit and financial services, significant cost-out, reinvesting those savings back into growth initiatives really to self-fund, and all of that will drive an attractive double-digit earnings growth profile 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, guys, thanks. A little bit of a two-part question combined. But for Enrique first, look, I understand you don't comment on potential M&A, but if you could just revisit with us the key strategic initiatives that you really want to see to inform you that your vision is succeeding. And just as importantly, what's the timeframe that we should be seeing tangible success, assuming that would mean growth inflection across the business?

And then, Jamie, just thinking about branded on that note, in terms of success on growth inflection, what are you expecting for the next couple of quarters specifically, if you don't mind, just looking at your incremental guidance? I know you said for the full year, but fourth quarter I think has easier comps. Thanks, guys.

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

A

Yeah, thank you. So let me do two parts of your question. First of all, in terms of how are we structuring the transformation, I said in the prepared remarks that we see this as a multiyear change. Our focus this year is in what I call strengthening the fundamentals, sharpening our portfolio, prioritizing clearly what products and markets we're going after, improving our operating model, simplifying our organization, increasing accountability, and starting the cost-saving programs.

In 2028, we will be building momentum, accelerating BNPL and financial services, accelerating Venmo and Braintree or PSP. And then beyond that, we will continue the acceleration of those businesses, but we also see opportunities coming from investments we are doing today in new areas, new areas like agentic, PayPal World, Ads, that we think can become significant businesses over time and where we are investing today to make it happen.

In terms of what are the key metrics to track, I think the key thing is to really understand – they need to be related to the businesses and where we are investing. For example, as we invest in financial services, increasing the growth of BNPL, increasing the attach of credit cards and debit cards to our offering will be key metrics that we need to track. When we talk about checkout and the focus that we're going to have in high-value customers, understanding and measuring the customer lifetime value, the growth and share of these customers, our share of wallet will become key metrics to track, as well as the growth that we will have in the most relevant merchants.

In the case of Venmo, clearly, growth in ARPA, what is the revenue per account will become key metrics to track. And in the case of PSP, will be both growth and what is the attach of value-added services that, as I mentioned before, is going to be the way we will be differentiating but also the way we will be improving the business profile of the business.

So I think we are excited about the opportunities we have. We have a clear plan for each of the segments. And during the next months, we will be refining that for fiscal year 2027 and really continue the execution of the plan across the board.

Jamie S. Miller
Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Yes. And then, Darrin, with respect to the second part of your question, we expect branded checkout growth to be low-single digits in the second half. As you've looked at our growth investments, they begin to ramp more in the second half. We are really starting to see some encouraging signs as we work with some of our largest merchants across whether it's presentment, whether it's integrated buy now, pay later, exclusive partnerships, all the way over to co-marketing, starting to see encouraging signs there.

And I would also say that we've become even more focused with Enrique on redeployment of those funds if we're not hitting ROI hurdles. So I'd say that execution is going, I think, really well. Fourth quarter, the holidays are always competitive, but I would say, I think we've been prudent in our guide and that's reflected in our expectations.

Operator: Your next question comes from Bryan Keane with Citi. Your line is open.

Bryan Keane
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Wanted to ask my one question on BNPL. Obviously, that's a major driver in fintech these days. What caused the 3 points of growth acceleration to 26% this quarter? And maybe what are you guys kind of specifically doing in BNPL to drive faster growth there in the future? Thanks.

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

A

Yes, let me start and maybe Jamie wants to complement. I think this is a combination of the work that we have been doing across the board. We have been expanding our portfolio of offerings across expanding the geographical coverage that we have, and for example in Europe, we expanded during the last months to multiple countries. And we are also expanding distribution and working with partners that will integrate that in their platforms.

And we clearly see these results in specific customer cases. For example, in a leading fashion retailer where we signed an exclusive BNPL agreement during the last months, we went from a TPV decline in business to close to 10% growth in Q2. So we clearly see the positive impact that this offering has in our portfolio. And going forward, we will continue to drive that, expanding the portfolio, put more emphasis from a marketing and go-to-market perspective, and continue to expand the capabilities. This is a very real business today that is creating significant contributions, and we expect that to only expand in the coming years.

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 for taking the question. So, investment in branded checkout and also BNPL are definitely core themes of the call today. Part of that is conversations that you have with merchants and platforms and you've covered some of this, but some of the areas there are the positioning of the button in general, the placement, there's the upfront placement on product pages and there's also the continued track towards getting PayPal having more of those modern integrations over time and more upgrades to the most modern versions of PayPal.

I was hoping you could talk a little bit about how the conversations with large merchants and platforms are going, and if there are other examples of large platforms or merchants that we could look to, to see what this looks like once it's fully implemented. You mentioned Home Depot in Canada and a few others, but if there are any large US merchants that we could check, that would be appreciated. Thank you.

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

A

Yeah. Let me give a few examples as I would say that where we have seen that the chances to succeed grow is when we have an end-to-end integrated plan from the company. So when we have the product teams working with the marketing teams, working with the service teams and really putting the whole company together at the service of our customers, and we have many examples when we see it is really bringing great results.

For example, we saw a large global leading social commerce platform, we follow the approach that I just described and we saw 50% growth in volume and transaction margin which has a very positive impact in the performance of the company. We have expanded for example our offering to BNPL into – with another leading global marketplace to additional seven markets and we have seen TPV growth in Q2 of 9% and an addition of 500 customers' new monthly active. So we see the opportunities both in TPV but also in adding new customers to the platform.

In terms of the modernization of our solution, this is something that we continue to do. And for non-vaulted customers, we are now at 60% of merchants that have the new payment pages. So we'll continue executing the plan that was explained a few quarters ago and we'll continue to make very solid progress.

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

A

Hey, Sarah, we have time for just one last question.

Operator: Thank you. Our last question comes from the line of Ramsey El-Assal with Cantor Fitzgerald. Your line is open.

Ramsey El-Assal
Analyst, Cantor Fitzgerald & Co.

Q

Hi. Thank you so much for taking my question. Your prior full-year guidance assumed two rate cuts I think in June and September. June obviously came and went without a change in rates, which I guess presumably flowed back into guidance. What is now assumed for – in terms of rate movement and guidance?

And also really quickly if you could just comment on branded checkout volume and how that's trending in July versus the June exit rate. I think you're implying that you're at least seeing stability but was just curious how July is trending versus June. Thanks.

Jamie S. Miller

Chief Financial & Operating Officer, PayPal Holdings, Inc.

A

Yeah, good morning, Ramsey. With respect to interest rates, we're not expecting or not planning, I should say, any more rate changes this year. We did have headwinds coming into this year with respect to the rate cuts that had happened late last year. That continues to be pretty consistent in terms of how it impacts our guidance. And then with respect to third quarter, we expect third quarter to be relatively consistent branded checkout growth at about 2%. Pretty consistent with the first half, absent some monthly movement up or down.

Steven Winoker

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

Enrique, any final thoughts before we sign off?

Enrique Lores

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

Well, yeah, I want to first of all thank everybody for joining us today and thank you for all the questions. And I really look forward to updating you on our progress and upcoming events, when we – especially when we report third quarter results in October. Thank you.

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