

HEDGEYE



# Hedgeye Financials

**Long:** Capital One (COF) & American Express (AXP)

**Short:** PayPal (PYPL)

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May 3, 2024

## Financial Institutions Group

Josh Steiner, CFA

Drago Malesevic, CFA

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# Long Capital One (COF)

# What Drove The Deterioration in Credit?

## The Twin Towers of Inflation & Adverse Selection

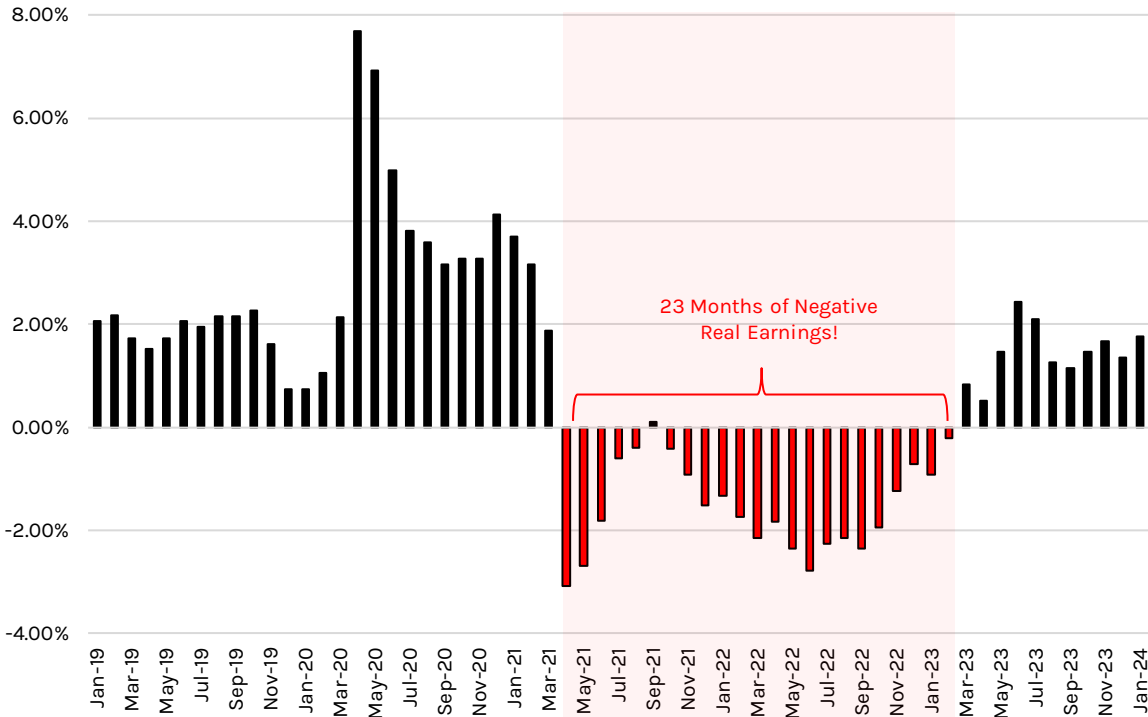
### The Inflation Effect

The inflation effect refers to the regressive and cumulative nature of inflation: it affects everyone, and its impact is gradual and cumulative as compared to the more acute nature of an employment shock.

Accordingly, lower income households have been most impacted by sticky-high inflation in core consumer cost centers like food and shelter.

Meanwhile, base effect driven disinflation on the back of elevated price levels has offered little relief.

Real Earnings Growth Y/Y %



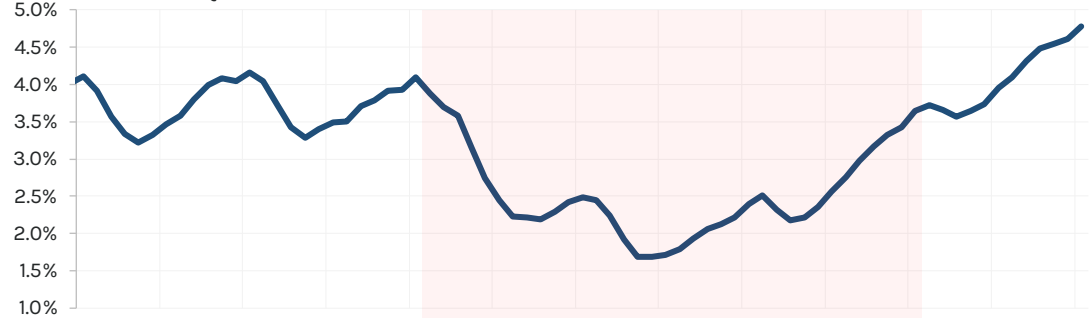
### The Catch-Up Effect

The catch-up effect refers to the tendency for periods of credit underperformance to be followed by credit outperformance and vice versa.

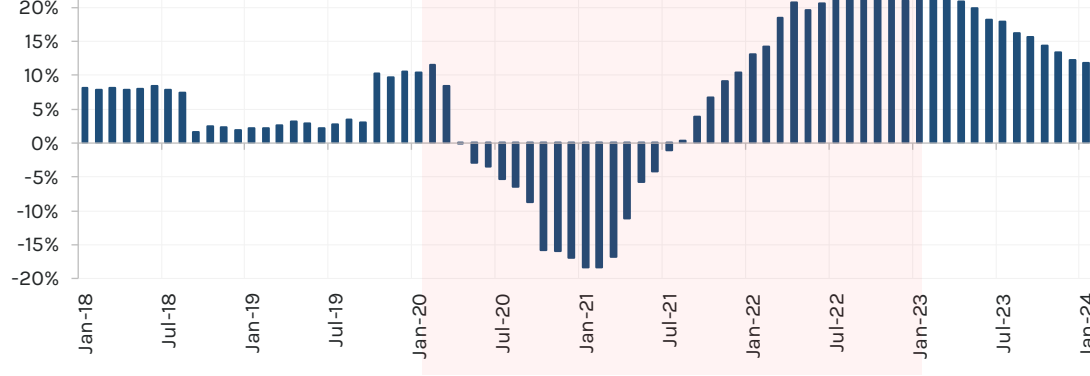
The aftermath of the GFC exemplifies this phenomenon, with net charge-offs and bad credit being pulled forward and washed out by a severe economic downturn and leading to credit outperformance in its wake.

The past few years have seen the inverse of this or a reverse survivorship type of effect as the pandemic acted as the mother of all bailouts for the most vulnerable of borrowers: paradoxically, the worse off you were, the better off you became. The card names, we expected, were going to get hit by the return leg of this credit boomerang.

COF +30DQs



COF Card Loan Growth



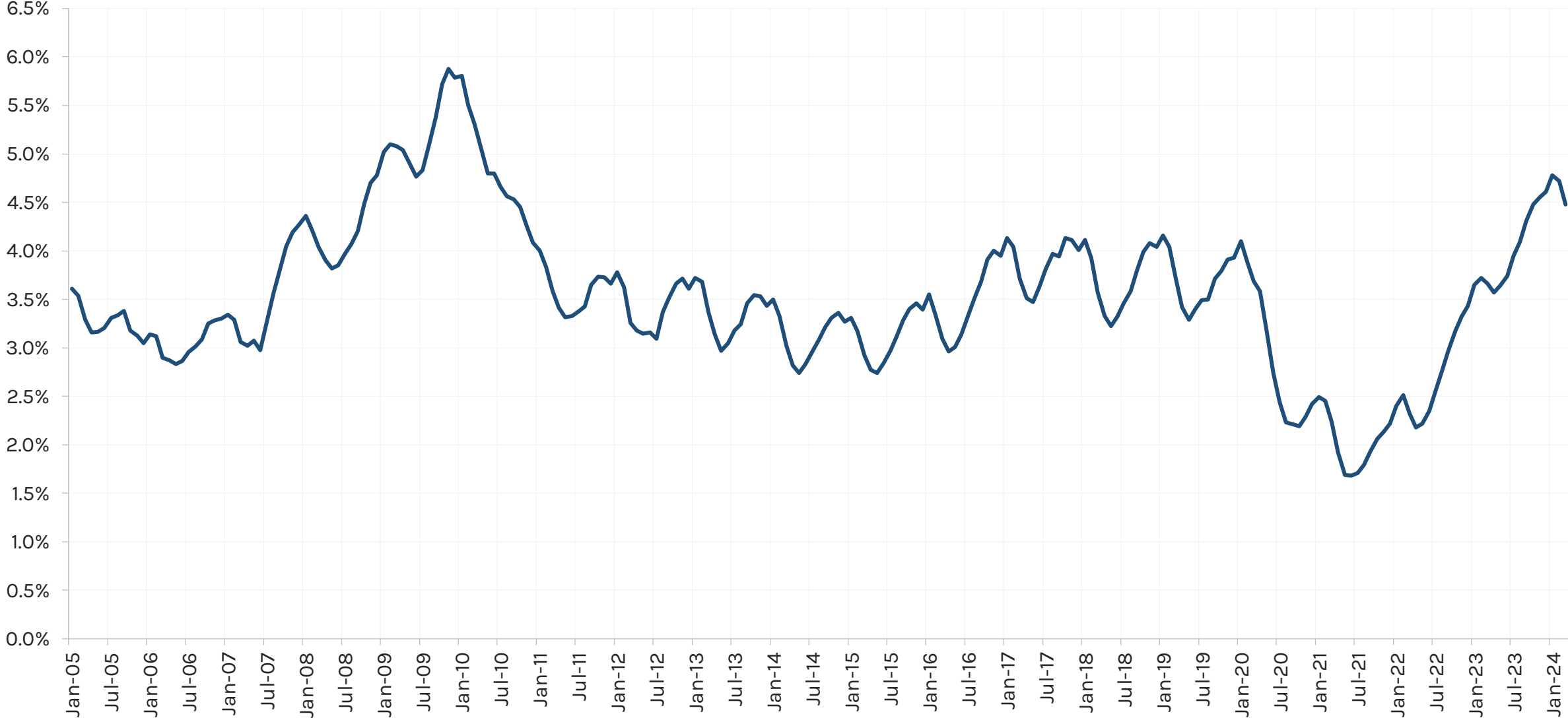
# Credit Card Asset Quality Summary

30+ Delinquencies	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
* Capital One	3.57%	3.64%	3.74%	3.95%	4.09%	4.31%	4.48%	4.55%	4.61%	4.78%	4.72%	4.48%
* Synchrony	3.70%	3.80%	3.80%	4.00%	4.10%	4.40%	4.60%	4.70%	4.70%	4.90%	5.00%	4.70%
* Discover	2.75%	2.77%	2.86%	3.00%	3.15%	3.41%	3.61%	3.76%	3.87%	4.02%	4.01%	3.83%
* American Express	1.10%	1.10%	1.10%	1.10%	1.20%	1.30%	1.30%	1.40%	1.40%	1.50%	1.50%	1.40%
JP Morgan	0.87%	0.85%	0.88%	0.89%	0.90%	0.95%	0.98%	0.99%	1.00%	1.07%	0.80%	0.79%
Bank of America	1.17%	1.15%	1.20%	1.24%	1.26%	1.30%	1.37%	1.41%	1.42%	1.35%	1.39%	1.41%
Citi	1.14%	1.15%	1.17%	1.21%	1.28%	1.33%	1.39%	1.47%	1.45%	1.51%	1.49%	1.47%
Average	2.04%	2.07%	2.11%	2.20%	2.28%	2.43%	2.53%	2.61%	2.64%	2.73%	2.70%	2.58%
Median	1.17%	1.15%	1.20%	1.24%	1.28%	1.33%	1.39%	1.47%	1.45%	1.51%	1.50%	1.47%

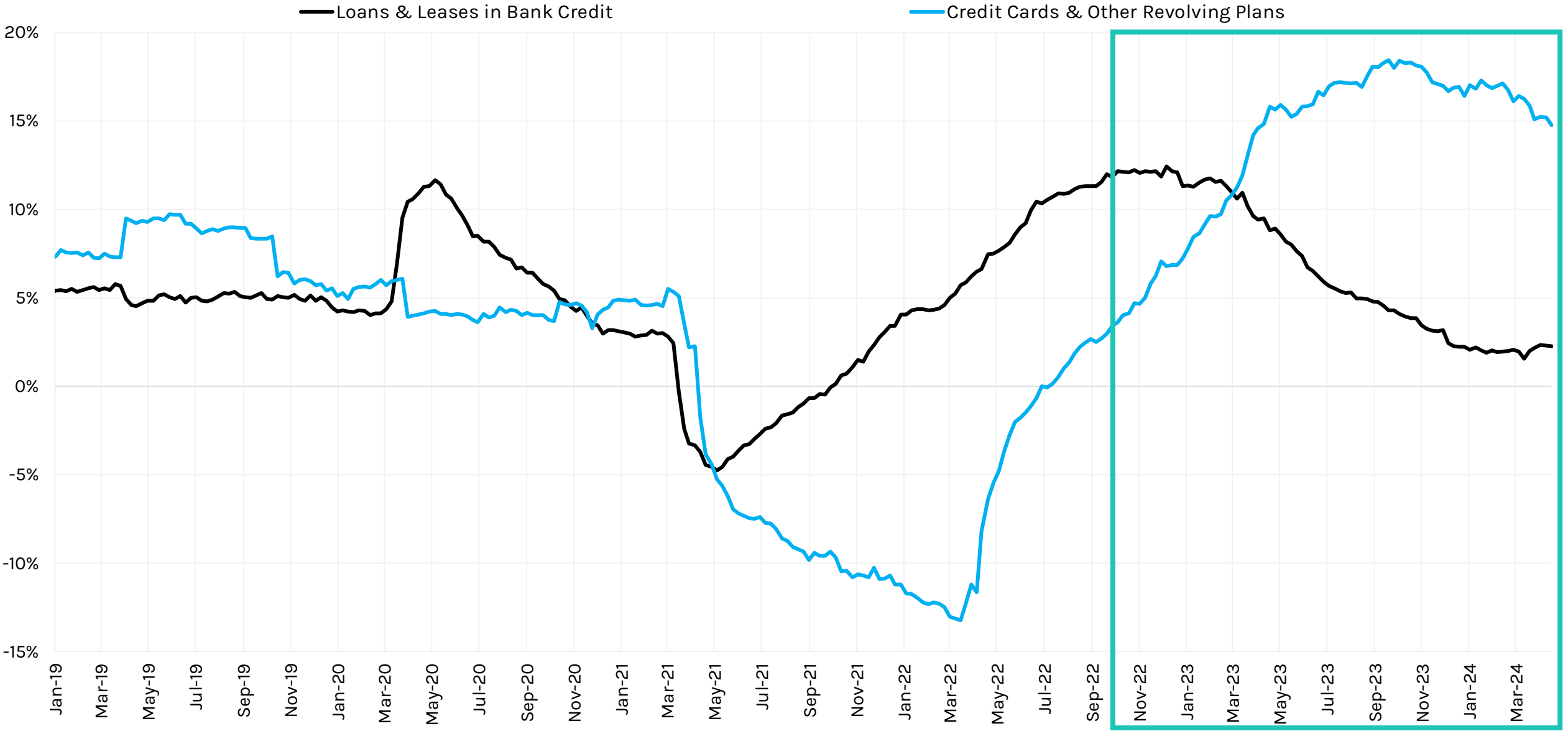
ΔY/Y												
Capital One	+1.39%	+1.42%	+1.39%	+1.39%	+1.33%	+1.34%	+1.31%	+1.23%	+1.18%	+1.13%	+1.00%	+0.82%
Synchrony	+1.00%	+1.10%	+1.10%	+1.10%	+1.00%	+1.10%	+1.20%	+1.10%	+1.00%	+1.10%	+1.10%	+0.90%
Discover	+1.02%	+1.06%	+1.10%	+1.16%	+1.19%	+1.30%	+1.38%	+1.40%	+1.34%	+1.35%	+1.27%	+1.07%
American Express	+0.40%	+0.40%	+0.40%	+0.40%	+0.40%	+0.50%	+0.40%	+0.50%	+0.40%	+0.50%	+0.40%	+0.30%
JP Morgan	+0.17%	+0.18%	+0.22%	+0.23%	+0.24%	+0.26%	+0.25%	+0.26%	+0.24%	+0.24%	-0.08%	-0.09%
Bank of America	+0.29%	+0.31%	+0.36%	+0.39%	+0.38%	+0.38%	+0.39%	+0.39%	+0.39%	+0.26%	+0.25%	+0.26%
Citi	+0.32%	+0.37%	+0.38%	+0.42%	+0.46%	+0.48%	+0.49%	+0.49%	+0.44%	+0.47%	+0.37%	+0.30%
Average	+0.66%	+0.69%	+0.71%	+0.73%	+0.71%	+0.77%	+0.77%	+0.77%	+0.71%	+0.72%	+0.62%	+0.51%
Median	+0.29%	+0.31%	+0.36%	+0.39%	+0.40%	+0.41%	+0.41%	+0.45%	+0.42%	+0.42%	+0.36%	+0.30%

\* Reported on a managed basis.

# Capital One: 30+ Delinquency Rates

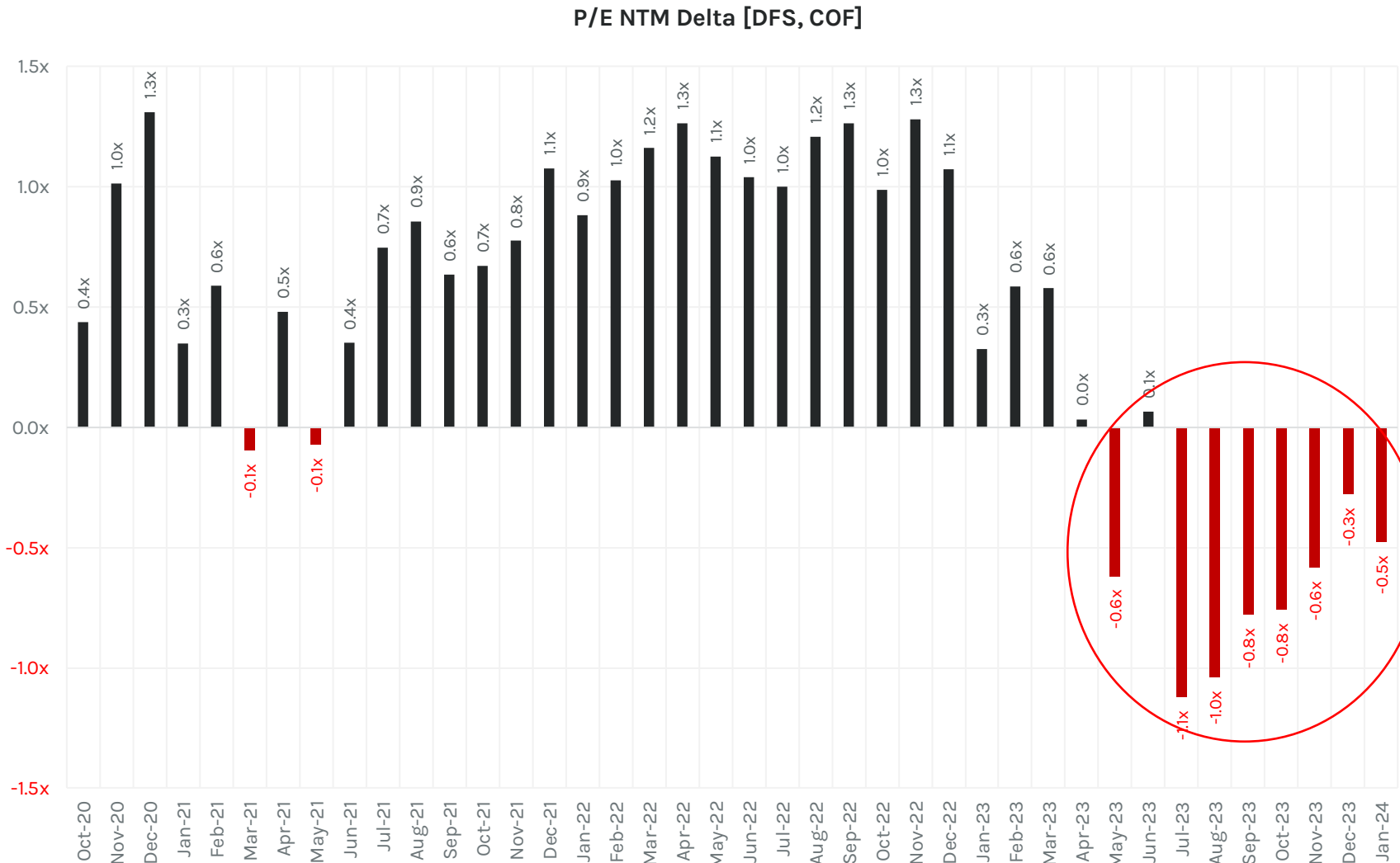
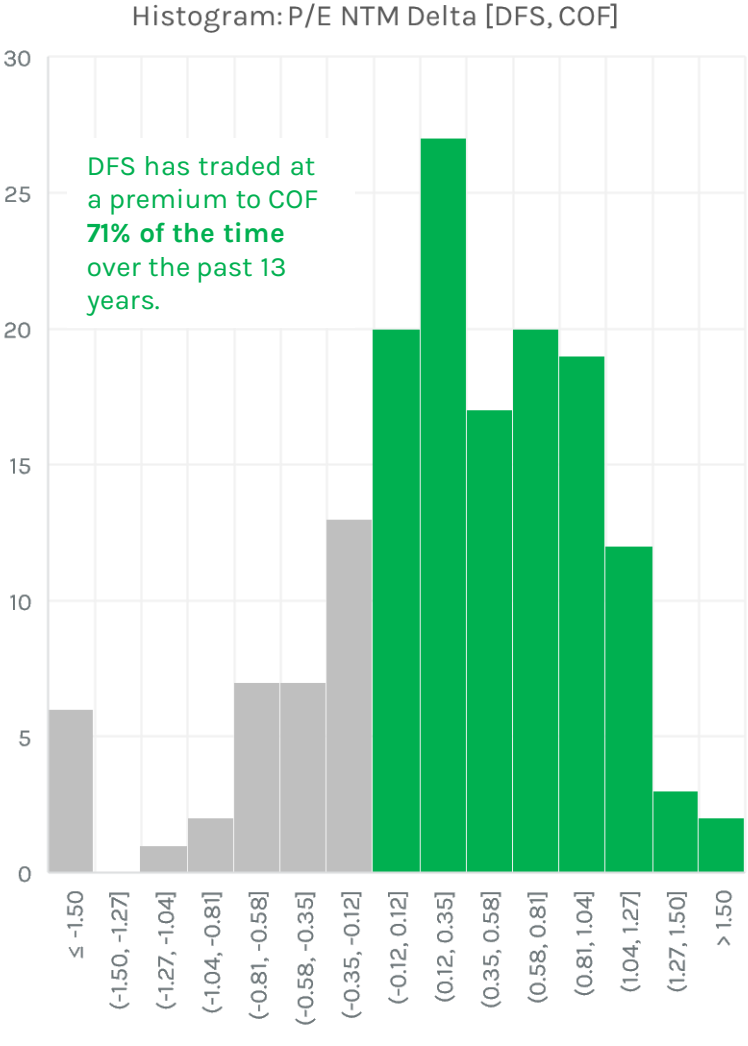


# Card Lending Is Where The Growth Is



# Capitalizing on a Rival's Struggles

With Discover's idiosyncratic troubles creating a historic discount, Capital struck while its iron was hot.





## What the DFS Deal Unlocks (beyond the obvious operating benefits) :

- 1** Scale In Card Lending
- 2** The Potential Catalyzation of Discover's Proprietary Network
- 3** Debit Interchange \$\$\$
- 4** Defensive Positioning vis-à-vis the Looming CFPB rule

# (1) Scale

As the #1 lender, COF & DFS will account for 19% of \$1.3T card loans outstanding, while closing the gap on credit card purchase volume with JPM and AXP.

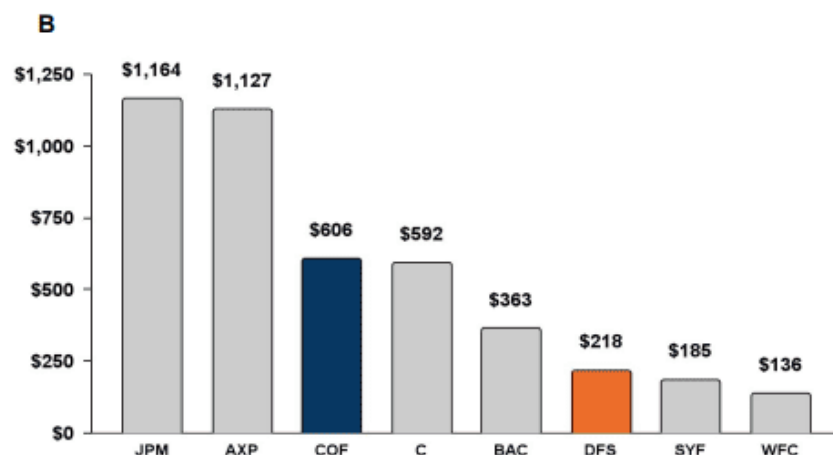
“I’ve always said and I mentioned it earlier, the Credit Card business is – and I think this really applies to consumer financial services businesses in general, but certainly to credit cards – are very scale-driven and I think in many ways more scale-driven than a lot of other parts of banking.”

- Richard Fairbank

February 20<sup>th</sup> Conference Call

## Together, Discover and Capital One will be well-positioned in credit cards

**Credit Card Purchase Volume<sup>1</sup>**  
2023



**Credit Card Loans<sup>2</sup>**  
2023



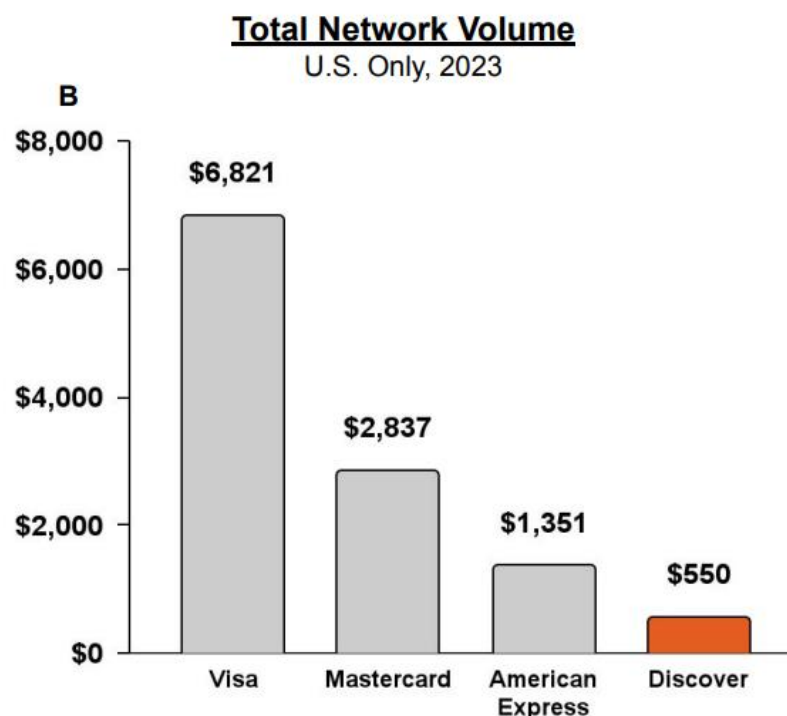
Note: 1) JPM- "Consumer & Community Banking" (includes SMB), "Card Services - Sales volume excluding commercial card"; AXP- "U.S. Consumer Services" and "Commercial Services" (includes US SME), "Billed Business"; COF- "Domestic Card", "Purchase volume"; C- "Branded Cards" and "Retail Services", "Credit card spend volume"; BAC- "Consumer Banking", "Total credit card - Purchase volumes"; DFS- "Discover Card Sales Volume"; SYF- "Purchase volume"; WFC- "Consumer Banking and Lending Segment", "Credit Card- Point of sale volume"; 2) End of period loans; JPM- "Consumer & Community Banking", "Loans - Card Services"; C- "Branded Cards" and "Retail Services", "EOP Loans"; AXP- "U.S. Consumer Services" and "Commercial Services", "Card Member loans - Total loans" and "Card Member receivables - Total receivables"; COF- "Credit card - Domestic credit card", "Loans Held for Investment (Period-End)"; Discover- "Credit Card Loans", "Ending Loans"; BAC- "Consumer Banking", "Total credit card - Ending credit card outstandings"; SYF- "Loans - Credit cards"; WFC- "Consumer Banking and Lending Segment", "Loans by Line of Business - Consumer lending, Credit Card"  
Source: Company Reports

## (2) The Potential Catalyzation of Discover's Proprietary Network

The deal brings revenue synergies (\$1.2B by 2027) from closed-loop economics and the prospect of achieving critical mass via Capital One's plan to port upwards of \$175B of its purchase volume.

- With the Discover network representing a poorly utilized, idle asset, the deal allows for Capital one to run its debit and select credit card purchase volume through the Discover network, capturing the capital light, credit risk free share of payment card economics for itself.
- The revenue synergies are focused on Discover's proprietary closed-loop debit and credit card network, specifically **Capital One's intention to transition its entire debit portfolio and "select" credit card products to Discover's network beginning in 2Q25.**

**This acquisition will strengthen the smallest of the four major payments networks**



**By 2027, we expect to add...**

**\$175B+**  
of Capital One purchase volume

**25M+**  
Capital One cardholders

Note: Visa- "Total Volume, All Visa Credit & Debit - US" For the 12 Months Ended December 31, 2023; Mastercard- "Gross Dollar Volume, 'GDV' for all Mastercard Credit, Charge, Debit, and Prepaid Programs - United States" for FY 2023; American Express- "Network Volumes", excluding "International Card Services", for the Year Ended December 31, 2023; Discover- "Network Volume - Total", excluding "Diners Club International" for the Twelve Months Ended December 31, 2023  
Source: Company Reports

## (2) The Potential Catalyzation of Discover's Proprietary Network

At a minimum, Capital One's bargaining power with Visa/Mastercard has increased.

- Currently, Capital One's credit card suite runs almost exclusively on Mastercard's rails, with the exception of its Visa-branded Venture and Venture X travel cards.
- Accordingly, Mastercard will be the most impacted, both through loss of volume and increased bargaining power from Capital One in future renewal discussions.

**Discover will be additive and complementary to Capital One's suite of credit card offerings**



Note: Not comprehensive of all product offerings for Capital One

## (3) Debit Interchange \$\$

### Look out neobanks...

Of the \$1.2B in network revenue synergies by 2027, a significant majority are on the debit side.

Three-party networks are not subject to Durbin debit interchange caps.

Besides Mastercard and the big card lending banks, neobanks like Chime, Square's Cash App, or the plethora of fintech born out of the small issuer Durbin exemption, will now face tougher competition given the Discover networks exempt status from Durbin debit rules and Capital One's strength and innovation in digital banking.

## Why Durbin May Prove To Be a Prepaid Blessing for AmEx And Discover

👤 Digital Transactions News staff 📅 March 13, 2012 📁 Competitive Strategies, News, Prepaid Cards, Pricing

With banks struggling to find their way in the new Durbin era that puts controls on their debit and prepaid card operations, the door is opening wider for American Express Co. and Discover Financial Services to win new prepaid card business, according to two attorneys familiar with payment card interchange issues.

The Durbin Amendment in 2010's Dodd-Frank financial-reform act is the hottest topic because its price controls on debit card interchange kicked in only last October, and its new transaction-routing freedoms for merchants and bans on exclusive network affiliations between card networks and debit card issuers will begin taking effect next month.

While the Federal Reserve's rule implementing the Durbin Amendment has its greatest effect on traditional debit cards, it affects prepaid cards too, especially its provision that banks' prepaid cards can avoid Durbin price controls only if cardholders can access the funds exclusively through the card itself. That provision thwarted banks' efforts to make prepaid cards more like demand-deposit accounts and led them to scale back or end bill payments through prepaid card accounts.

But American Express and Discover are not subject to Durbin's controversial provisions, Daniel and Brown noted. Both companies are so-called "three-party" payment systems that function both as merchant acquirer and card issuer. In contrast, Visa and MasterCard debit and prepaid cards are part of "four-party" systems in which the issuer and acquirer are usually different companies and rely on the Visa and MasterCard networks to route transactions among them. The Durbin Amendment exempts, or "carves out" in industry parlance, three-party networks from its provisions, including interchange regulation.

"There's no restriction on what AmEx can pay itself" for prepaid card transactions, said Brown. Thus, AmEx and Discover have a new opportunity to grow their prepaid businesses, the attorneys said.

# Long American Express (AXP)

# Top-Line Breakdown By Segment

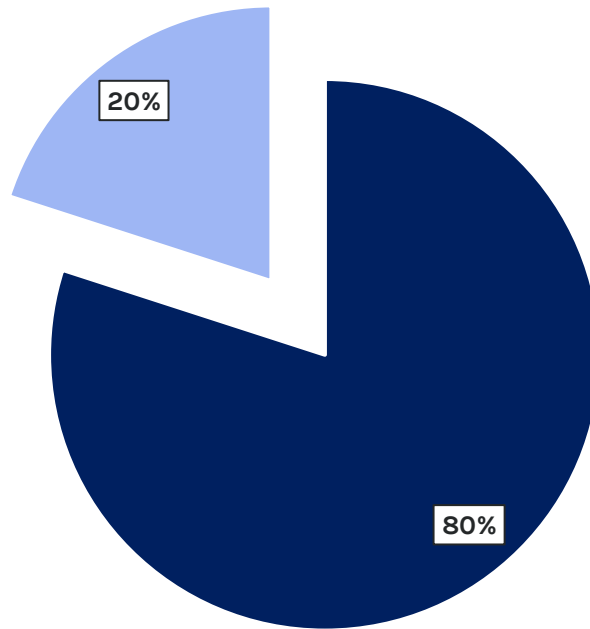
80% of revenue is driven by the company's spend business.

Between its four operating segments, U.S. consumer and U.S. commercial services account for 87% and 56% of non-interest revenue and net interest income, respectively.

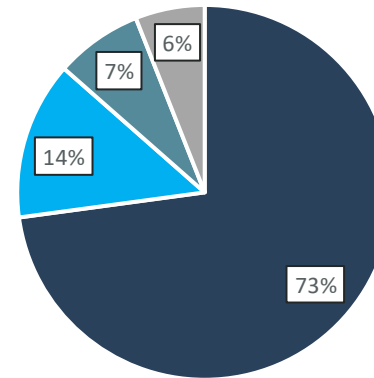
Note, U.S. commercial services is comprised of U.S. SME and U.S. Large & Global Corporate.

Revenue LTM

■ Non-Interest Revenue ■ Net Interest Income

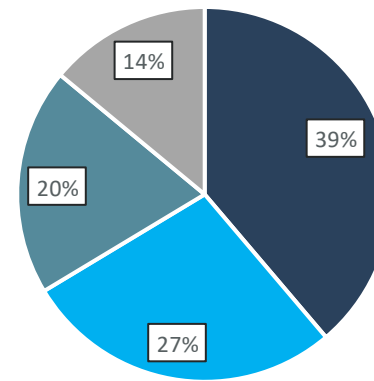


Net Interest Income



- U.S. Consumer Services (USCS)
- U.S. Commercial Services (CS)
- International Card Services (ICS)
- Global Merchant and Network Services (GMNS)

Non-Interest Revenue



- U.S. Consumer Services (USCS)
- U.S. Commercial Services (CS)
- International Card Services (ICS)
- Global Merchant and Network Services (GMNS)

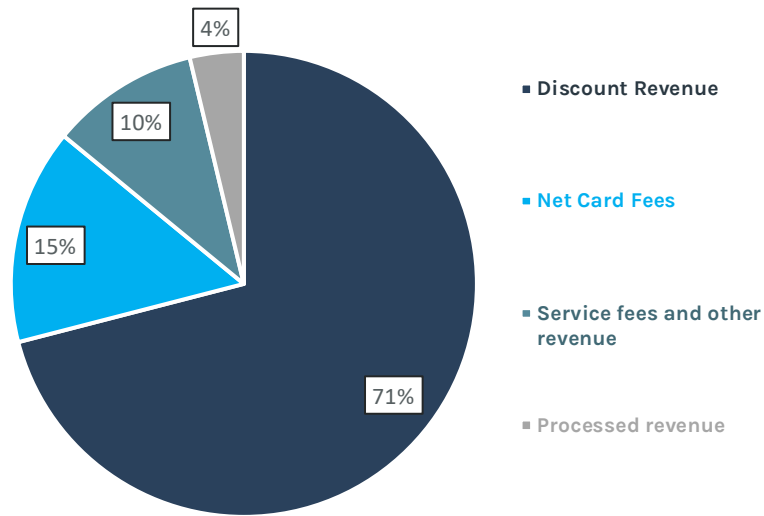
# Non-Interest Income Breakdown & Drivers

The lion's share of non-interest revenue is driven by discount revenue, which the company earns by serving as the closed-loop network connecting its cardholders and merchant base.

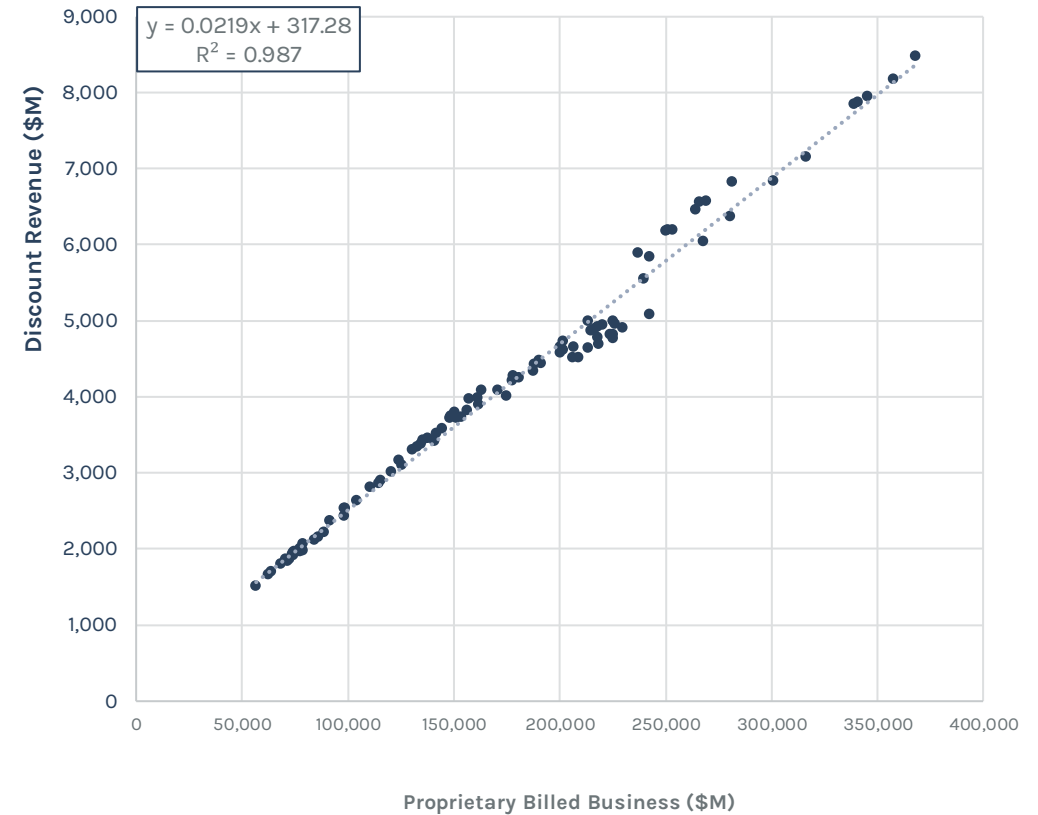
By virtue of serving as the card issuer, merchant acquirer, and payment network, American Express captures the full economics of the payments value chain, namely the Merchant Discount Rate (MDR).

Discount revenue is, therefore, a linear function of the average discount rate charged to merchants and the volume of proprietary billed business (the volume generated on its proprietary cards, thus excluding cards issued by third-parties).

Non-Interest Revenue 2Q23 (\$12B)

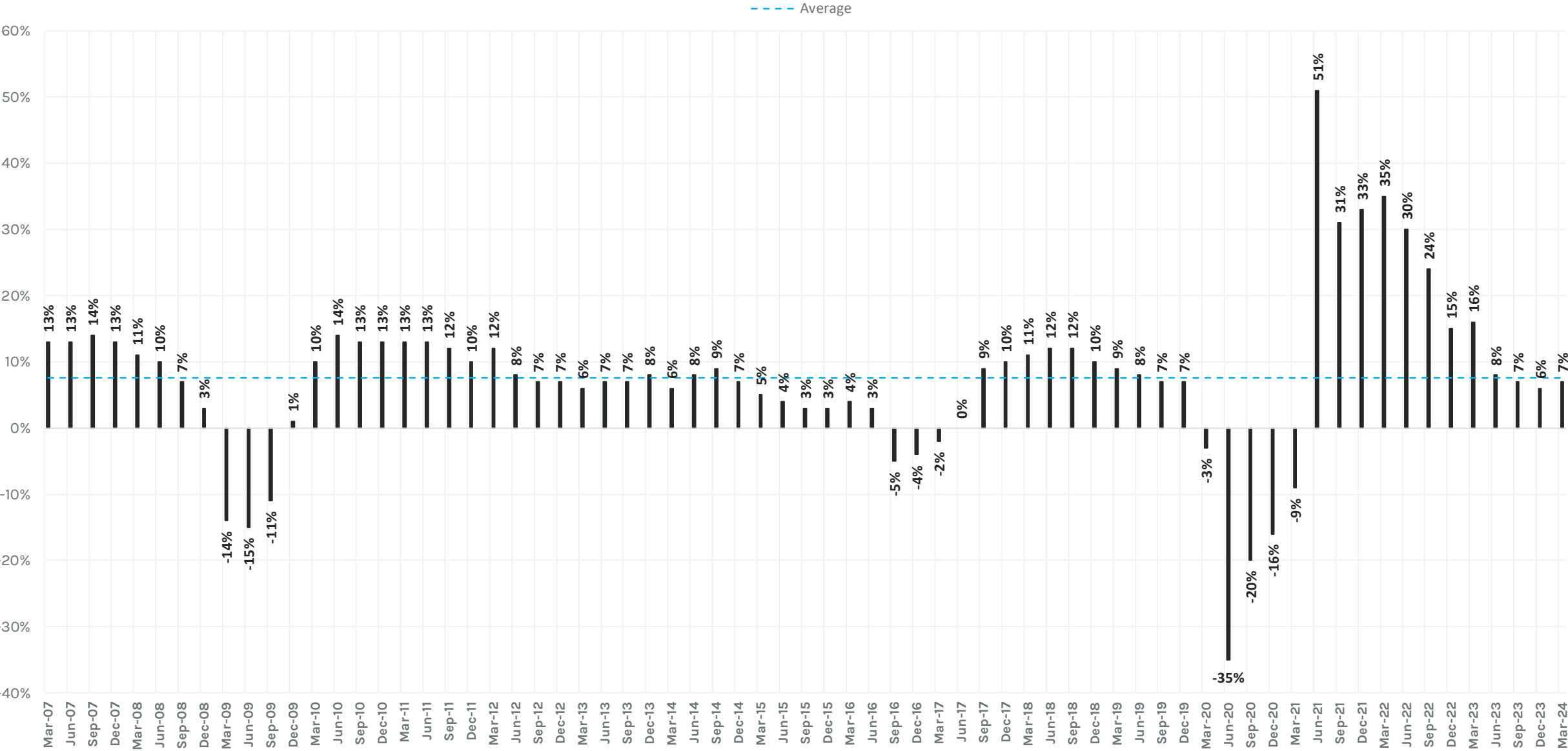


Discount Revenue vs. Proprietary Billed Business



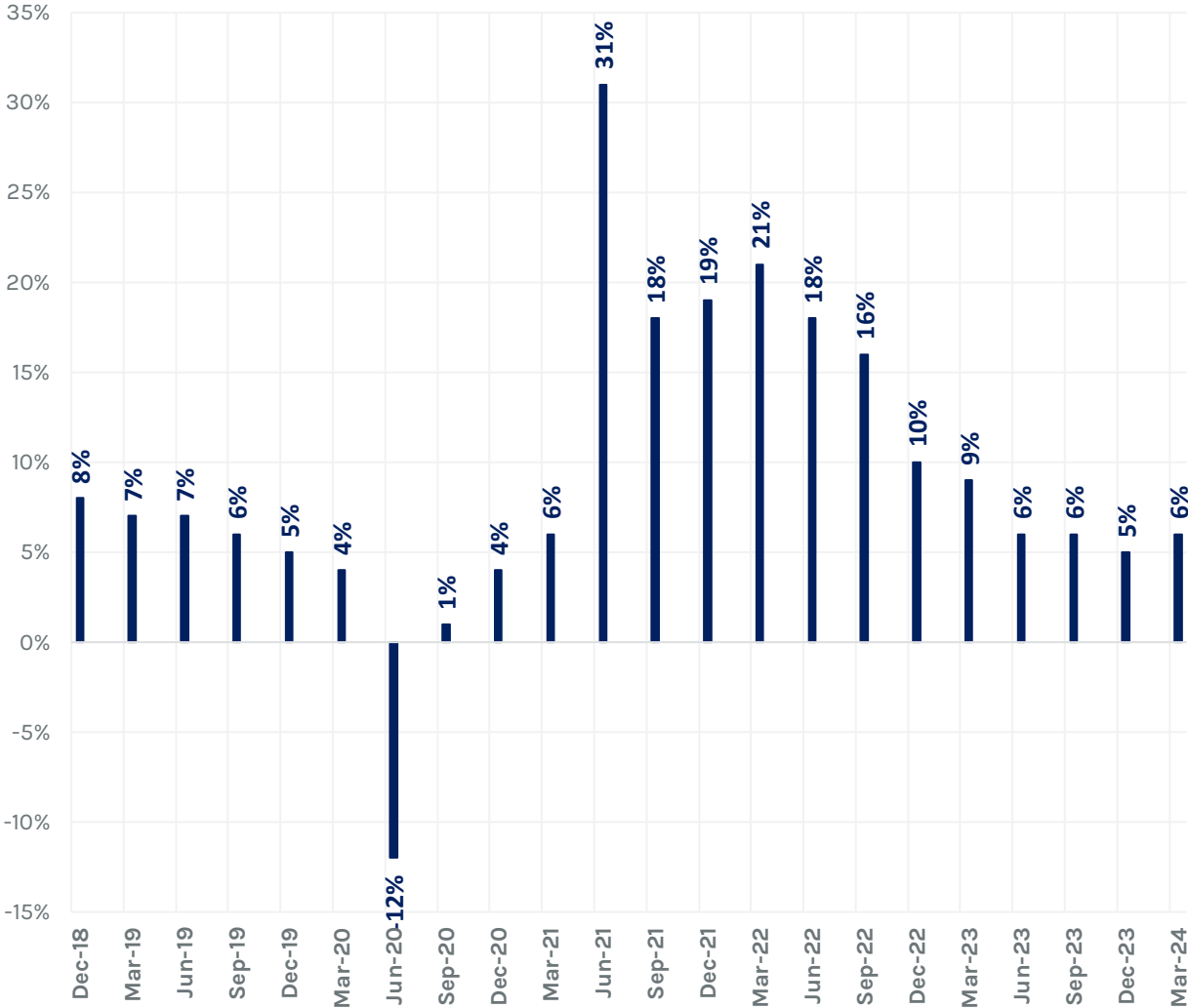


# Worldwide Billed Business Growth (FX-Neutral)

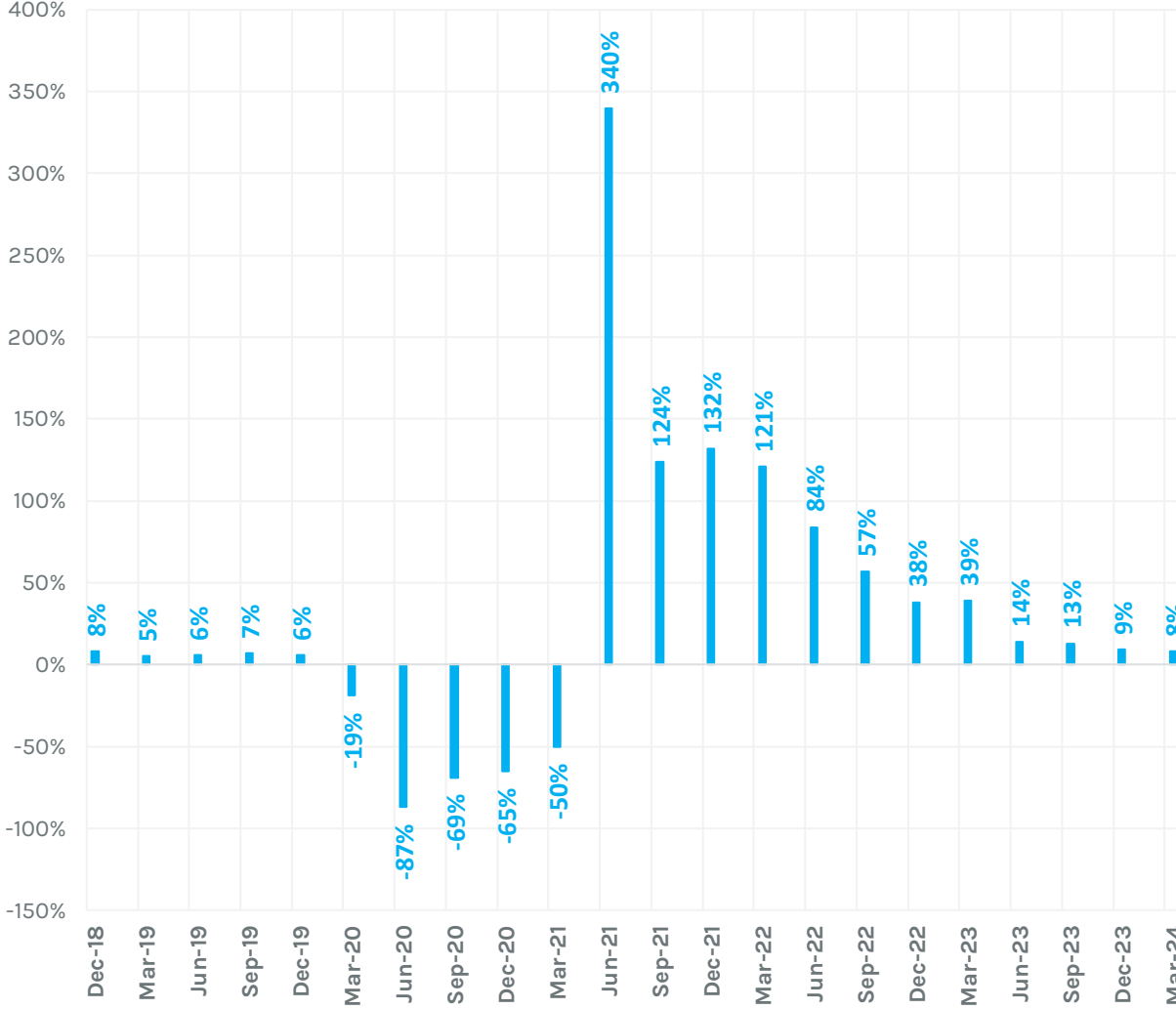


# Billed Business Growth by Merchant Industry

Goods & Services Spending



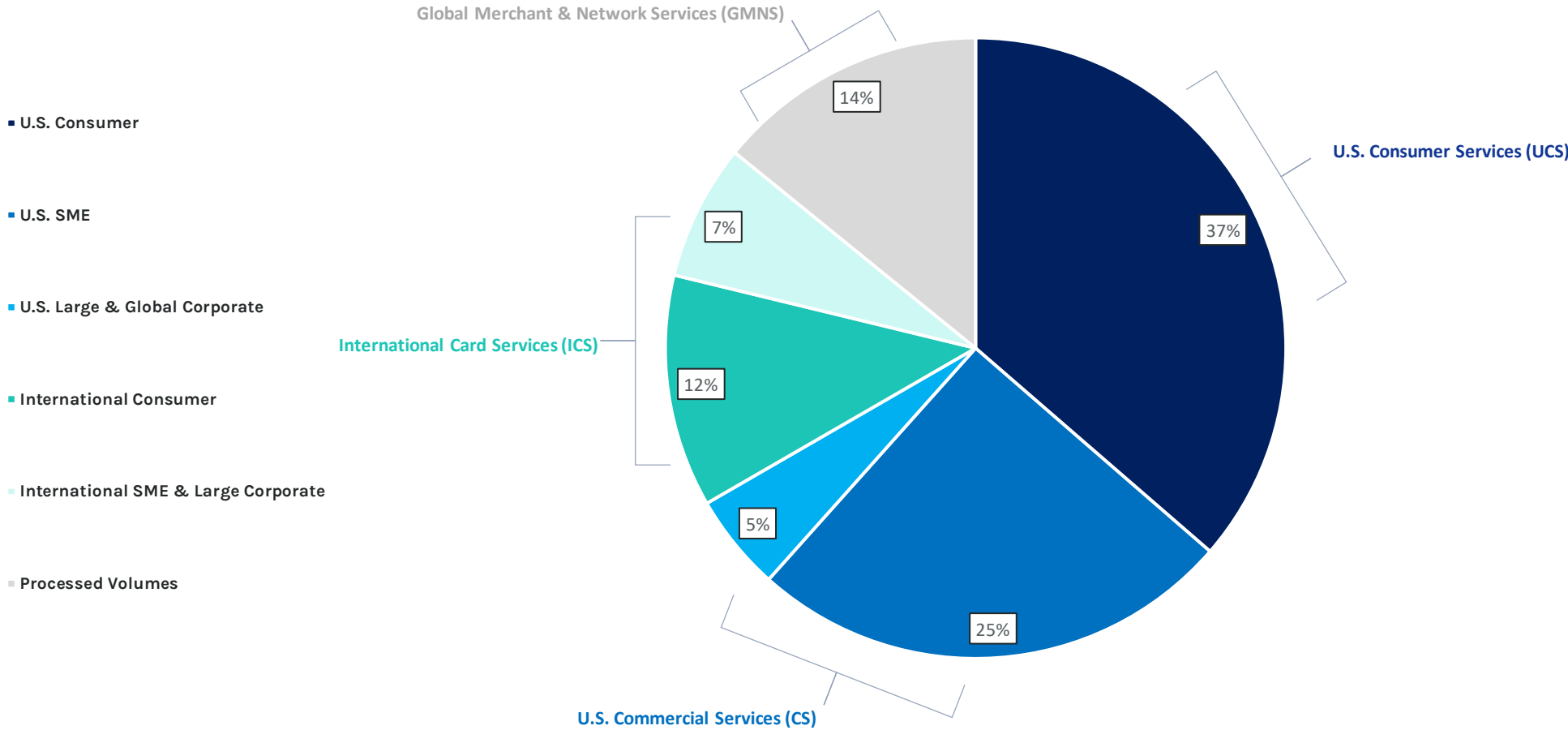
T&E Spending



# Network Volumes (\$427B) By Segment

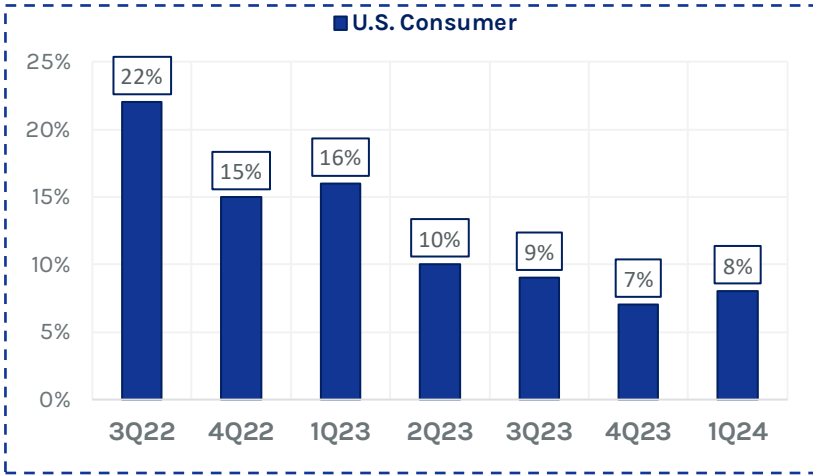
U.S. Consumer And U.S. SME Segments Account For 62% Of Spending.

Looking at network volumes, which feature both proprietary billed business and third-party volumes, we can see that the U.S. Consumer and U.S. SME segments account for 62% of spending.

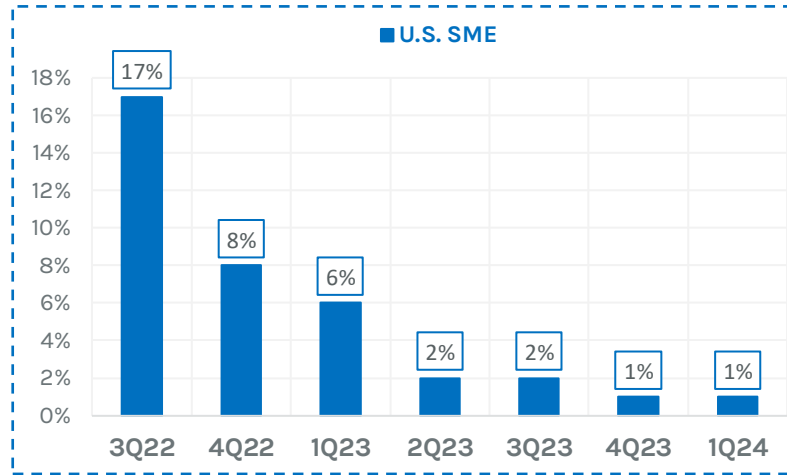


# Billings Growth by Customer Type

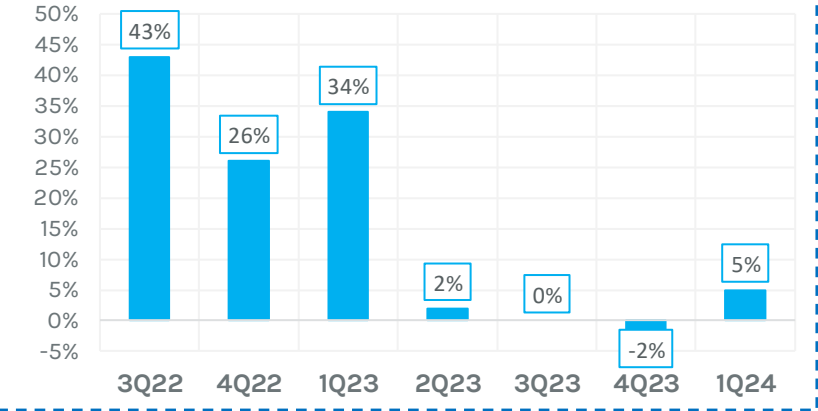
**U.S. Consumer Services (37% of Network Volumes)**



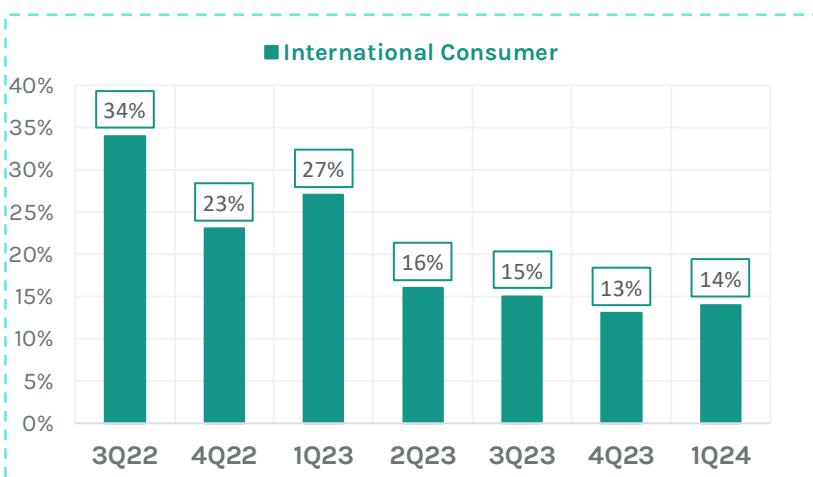
**U.S. Commercial Services (30% of Network Volumes)**



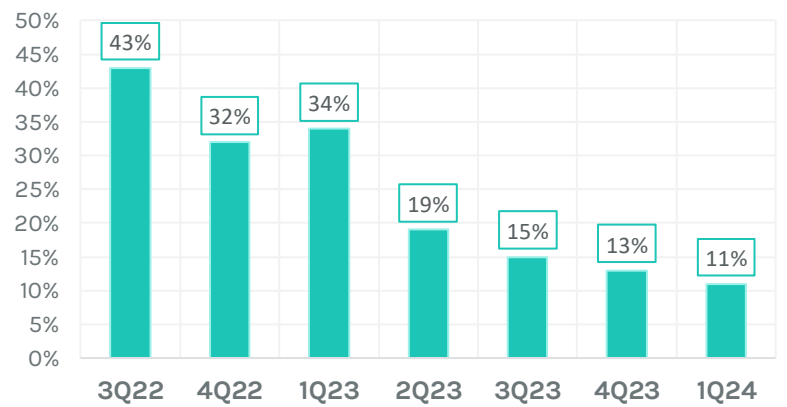
**U.S. Large & Global Corporate**



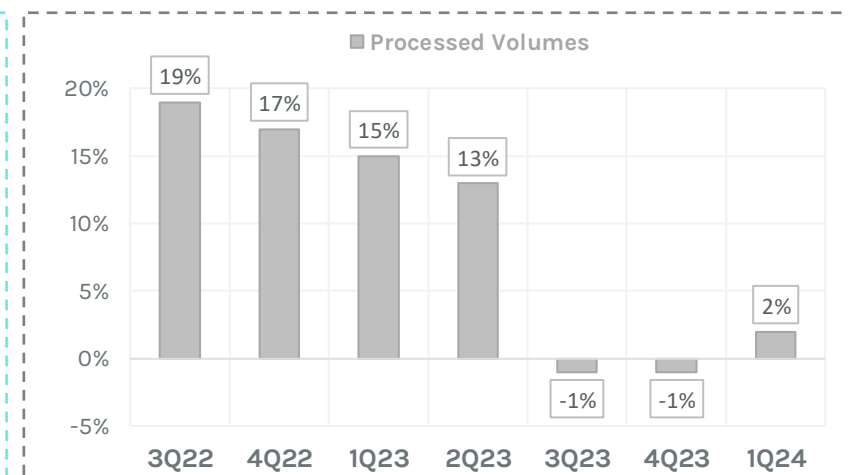
**International Card Services (19% of Network Volumes)**



**International SME & Large Corporate**

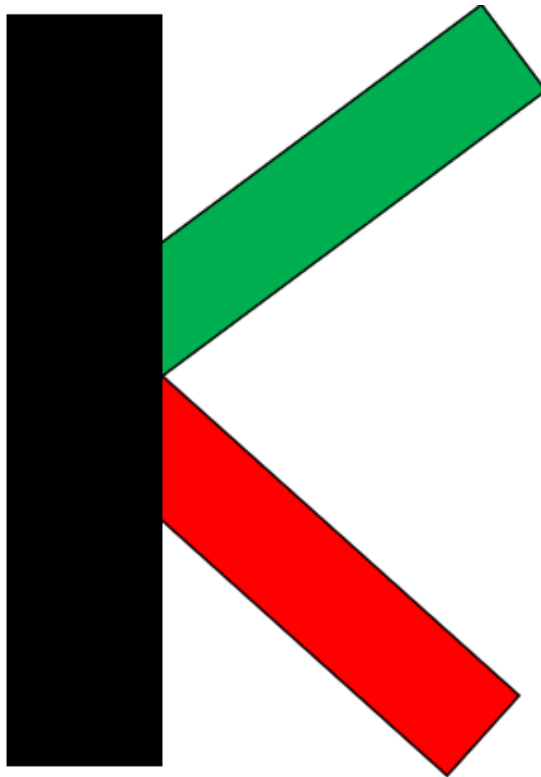


**Global Merchant & Network Services (14% of Network Volumes)**



# A Dramatic K-omeback!

We've now reached the transition/discontinuity point where the short-term treatment (pandemic related policy support) ultimately exacerbates the underlying (inequality) disease.



- **The Rich** disproportionately Benefit from Higher Rates as they get paid on their excess liquidity.
  - **The Rich** disproportionately Benefit from reflation in asset prices as they own a disproportionate share of financial assets.
  - **Big Banks** consolidate share amidst Banking Stress & Liquidity flight
  - **Large Cap** as a factor exposure outperforms amidst Quad 4 precarity
- 
- **Bottom Slant of the K** gets plugged with higher (cost of living) inflation while broadly missing out on the income upside associated with higher rates
  - **Bottom Slant of the K** loses discretionary consumption capacity as share of wallet goes to service higher debt costs
  - **Bottom Slant of the K** becomes increasingly vulnerable to income shocks (ie end of student loan moratoria) as any residual cash cushion is exhausted and the above play out in reflexive & compounding fashion.

# The Wealth Effect: 3 Potential Cases (Meta-Analysis)

We “Meta’d” 8 Wealth Effect Studies to Find Short-Term & Long-Term Marginal Propensity to Consume (MPC).

### 1. Weak Effect

Wealth shocks see little flow through to consumption in both the short & long-term

### 2. Base Case Effect

Wealth shocks see moderate flow through to consumption in both the short & long-term

### 3. Strong Effect

Wealth shocks see significant flow through to consumption in both the short & long-term

### Studies Assessed

We reviewed 8 separate studies on the wealth effect, distinguishing between Financial Wealth Effects (principally Equities) and Housing Wealth Effects. We further distinguished between Short-term and Long-term effects.

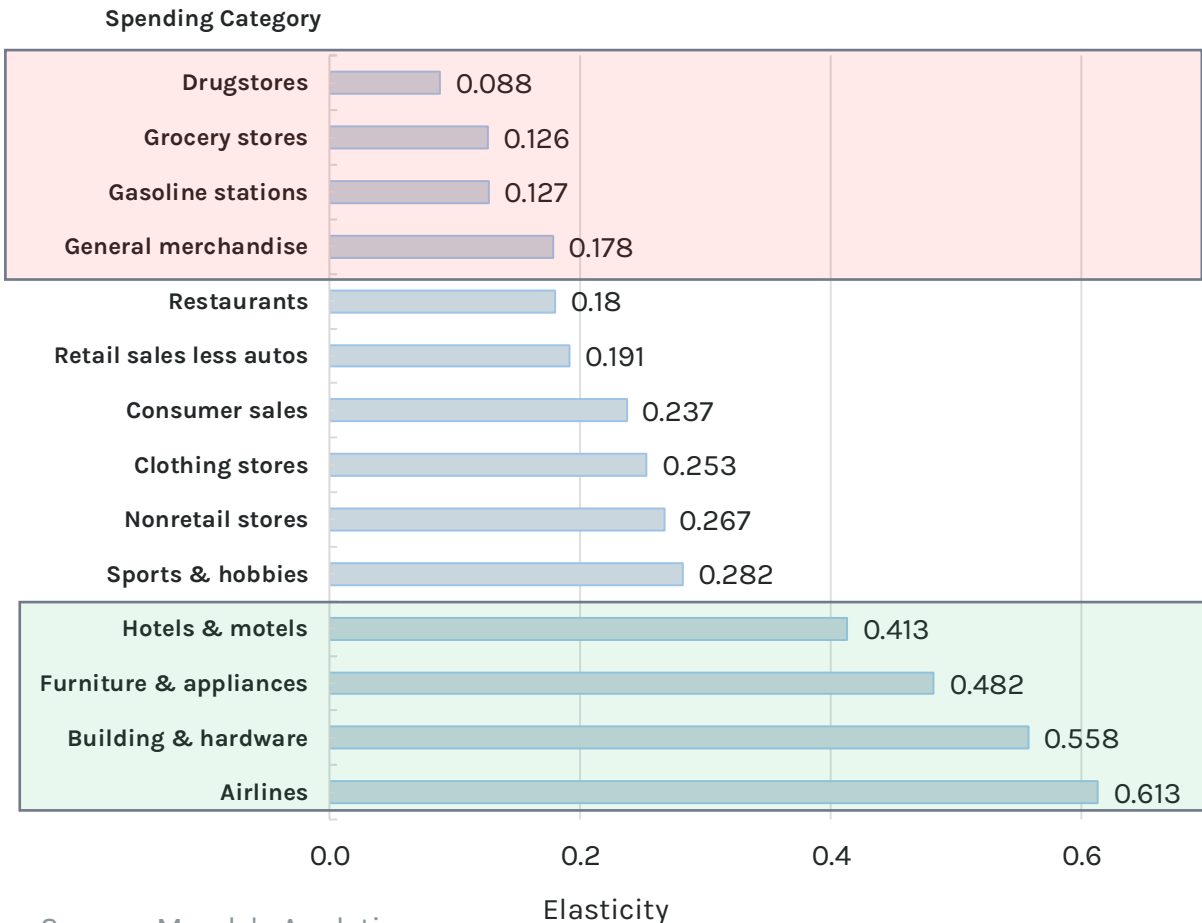
<b>Financial Wealth:</b> Short-Term MPC: 0.1% Long-Term MPC: 1.7%	<b>Financial Wealth:</b> Short-Term MPC: 0.7% Long-Term MPC: 4.2%	<b>Financial Wealth:</b> Short-Term MPC: 1.1% Long-Term MPC: 6.9%
<b>Housing Wealth:</b> Short-Term MPC: 0.4% Long-Term MPC: 1.3%	<b>Housing Wealth:</b> Short-Term MPC: 1.3% Long-Term MPC: 4.4%	<b>Housing Wealth:</b> Short-Term MPC: 1.7% Long-Term MPC: 7.5%

Period	Study	Stocks		Housing	
		ST	LT	ST	LT
	<a href="#">Case, Shiller (wealth declines)</a>	0.10%		0.40%	
	<a href="#">Carrol</a>	0.1%	6.0%	2.0%	9.0%
	<a href="#">Calomiris</a>	2.10%		0.20%	
	<a href="#">Ludvigson</a>	10.6%			
	<a href="#">Paiella, Pistaferri</a>	Zero to Neg		3.00%	
	<a href="#">Reich</a>	3.20%			
	<a href="#">Brayton, Tinsely</a>	3%		7.50%	
	<a href="#">Laurence Meyer &amp; Assoc.</a>	2%	4.20%	1.40%	6.10%

# Spending Category Sensitivities to Wealth Effects

Unsurprisingly, Wealth Effects skew towards Discretionary Consumption: Vacations, Home Improvement

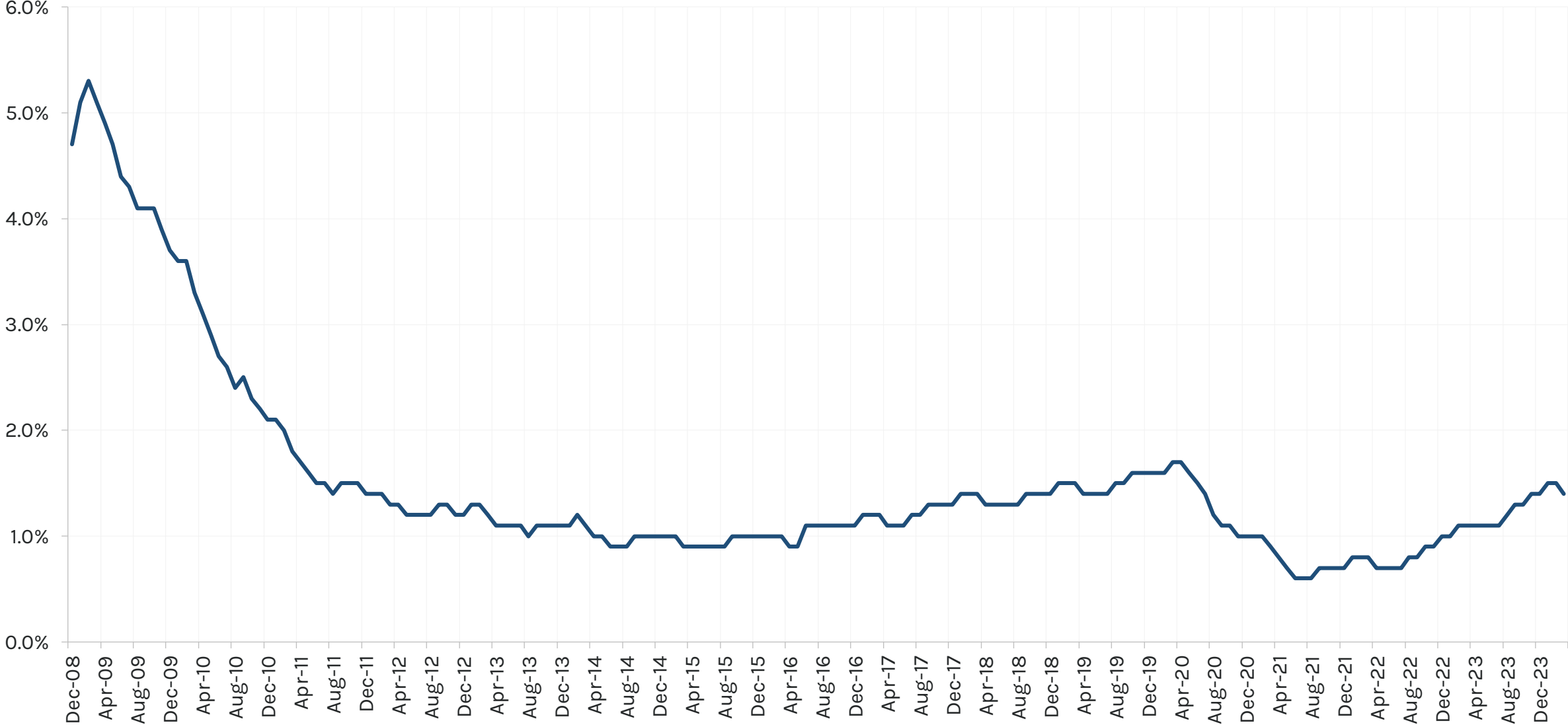
Spending Categories Sensitivities To Wealth Effect



Source: Moody's Analytics

Spending Category	Rising asset prices Coefficient	Falling asset prices Coefficient	Financial Wealth Coefficient	Housing Wealth Coefficient
Airlines	0.621	0.613	0.267	0.384
Building & hardware	0.339	0.558	0.089	0.433
Clothing stores	0.051	0.253	0.118	0.077
Consumer sales	0.143	0.237	0.133	0.082
Drugstores	0.001	0.088	-0.012	0.062
Furniture & appliances	0.254	0.482	0.200	0.227
Gasoline stations	0.127	0.127	0.026	0.089
General merchandise	0.155	0.178	0.084	0.076
Grocery stores	0.003	0.126	0.053	0.034
Hotels & motels	0.481	0.413	0.095	0.321
Nonretail stores	0.127	0.267	0.038	0.173
Restaurants	0.069	0.18	0.049	0.092
Retail sales less autos & gas	0.082	0.191	0.046	0.104
Sports & hobbies	0.017	0.282	-0.001	0.188

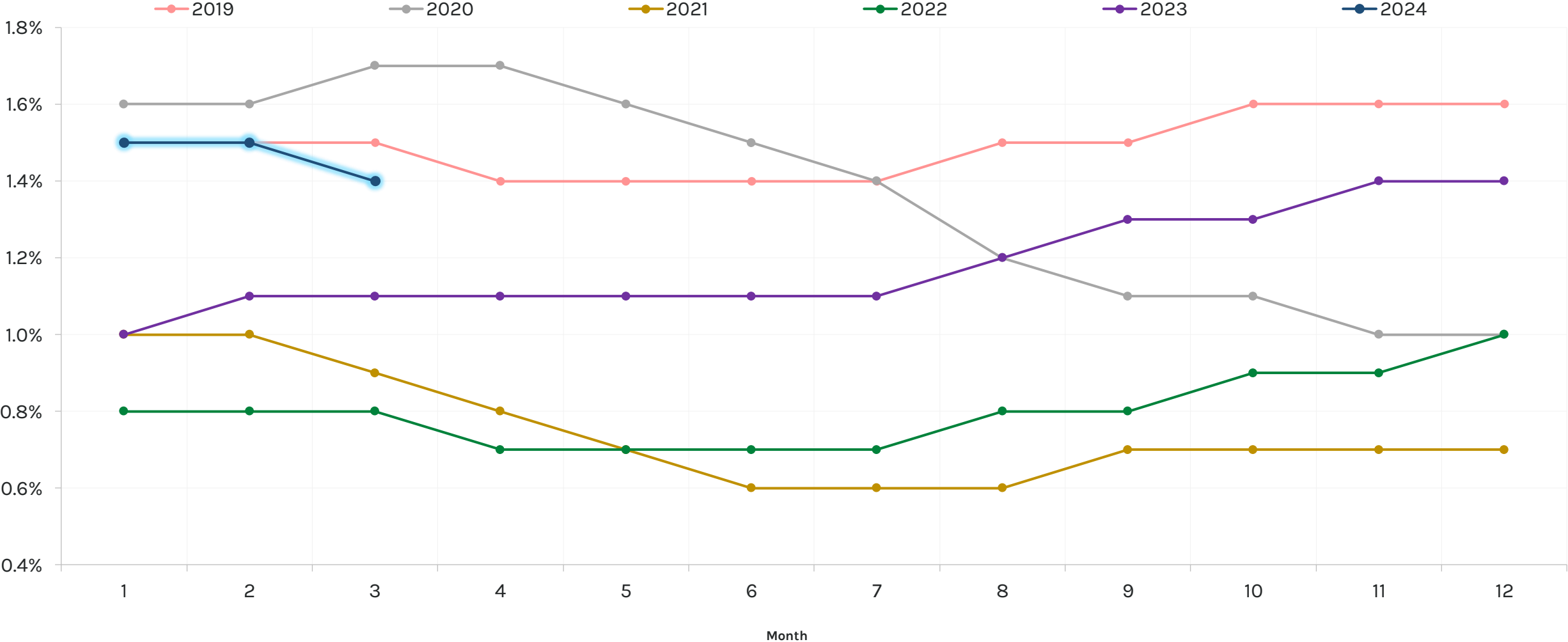
# American Express: 30+ Delinquency Rates





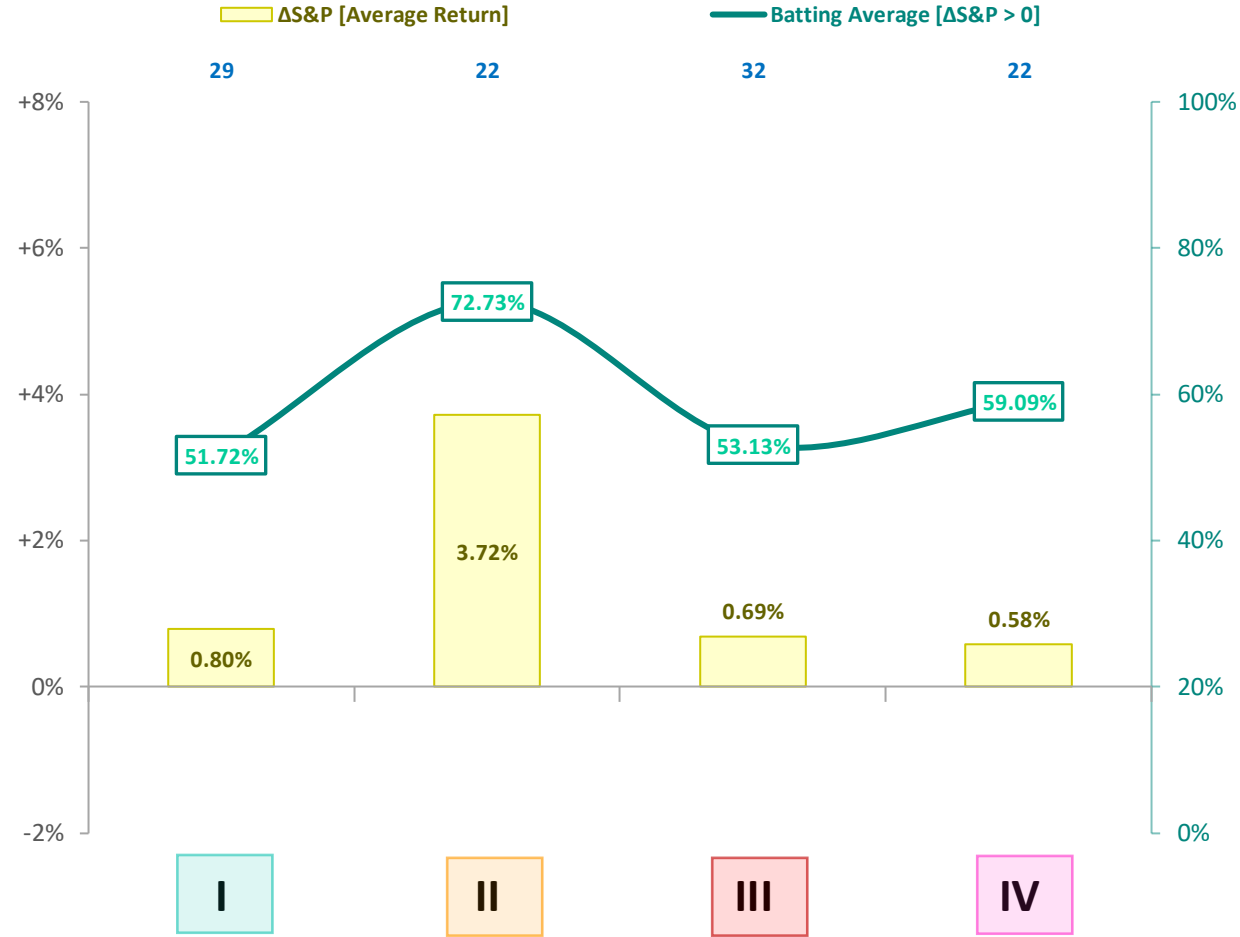
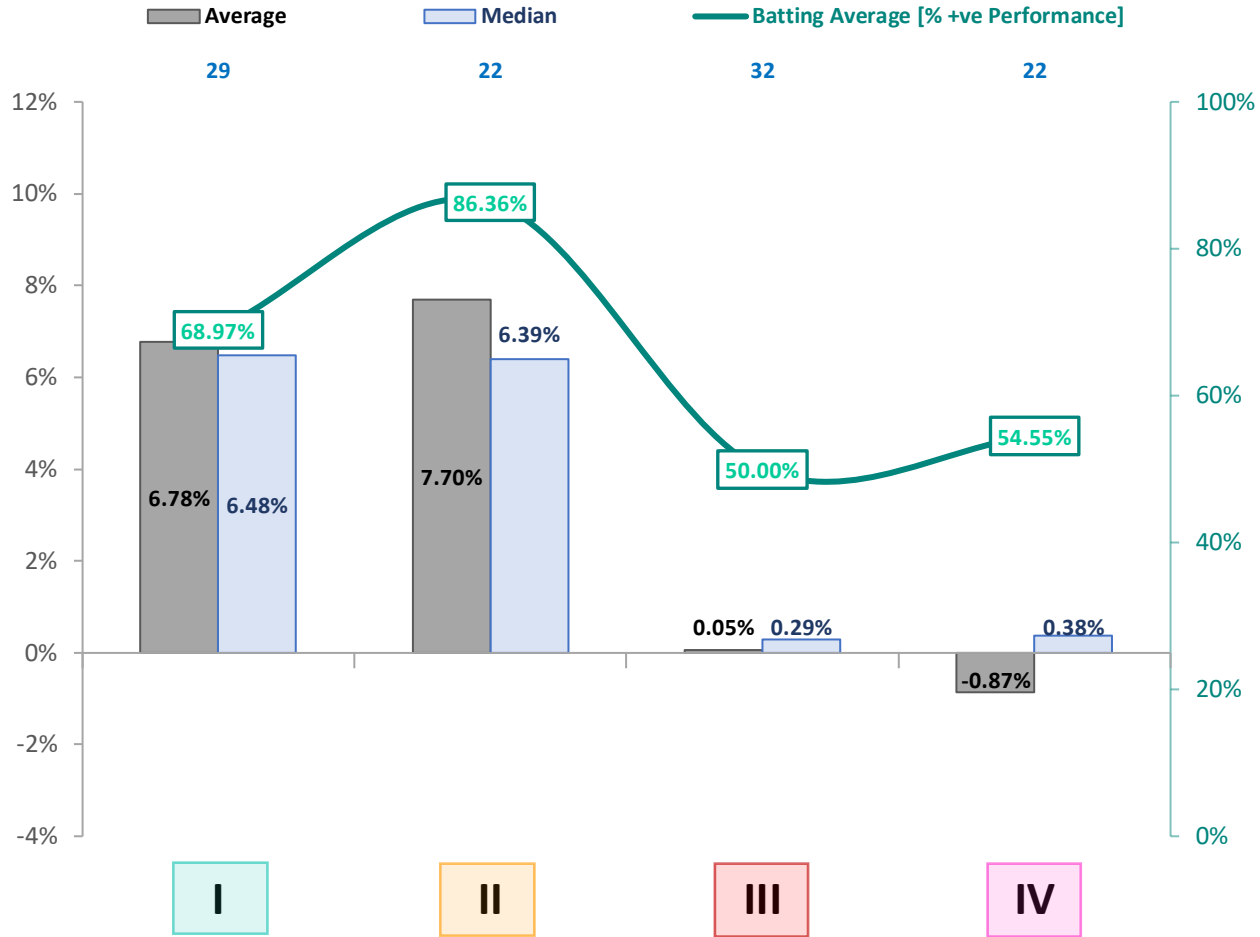
# American Express: 30+ Delinquency Rates

## Vintage Stack



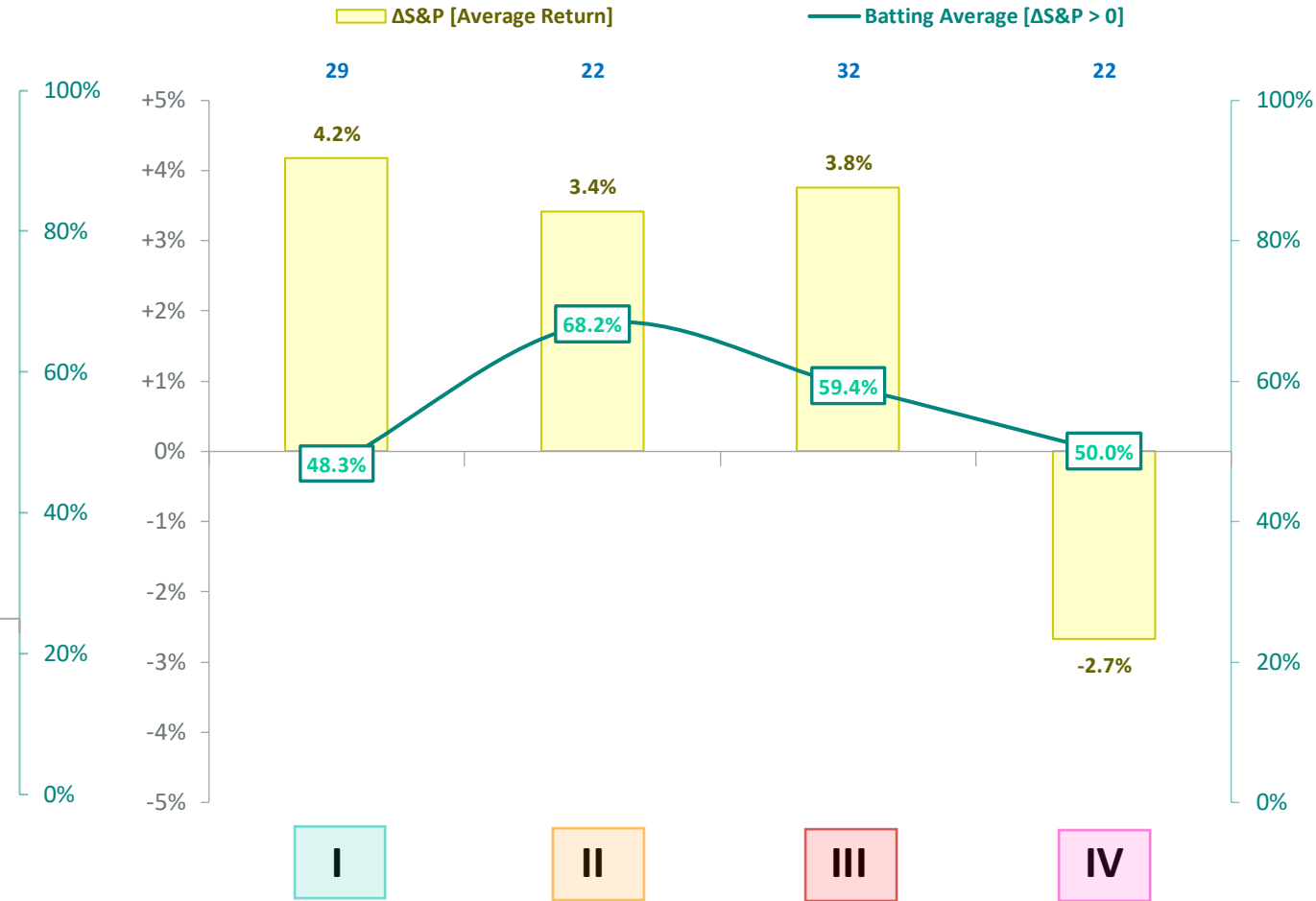
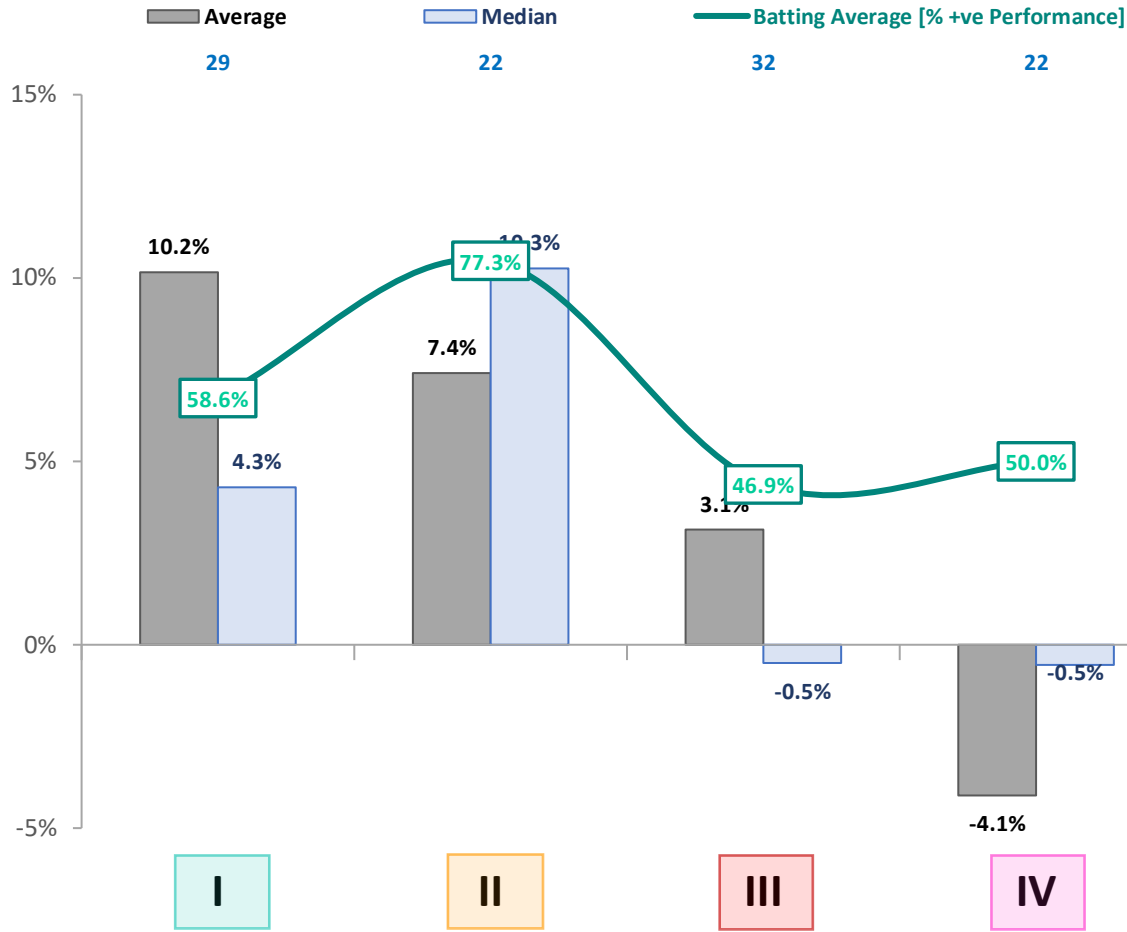
# Performance by Quad: **AXP**

## Quarterly Returns



# Performance by Quad: COF

## Quarterly Returns

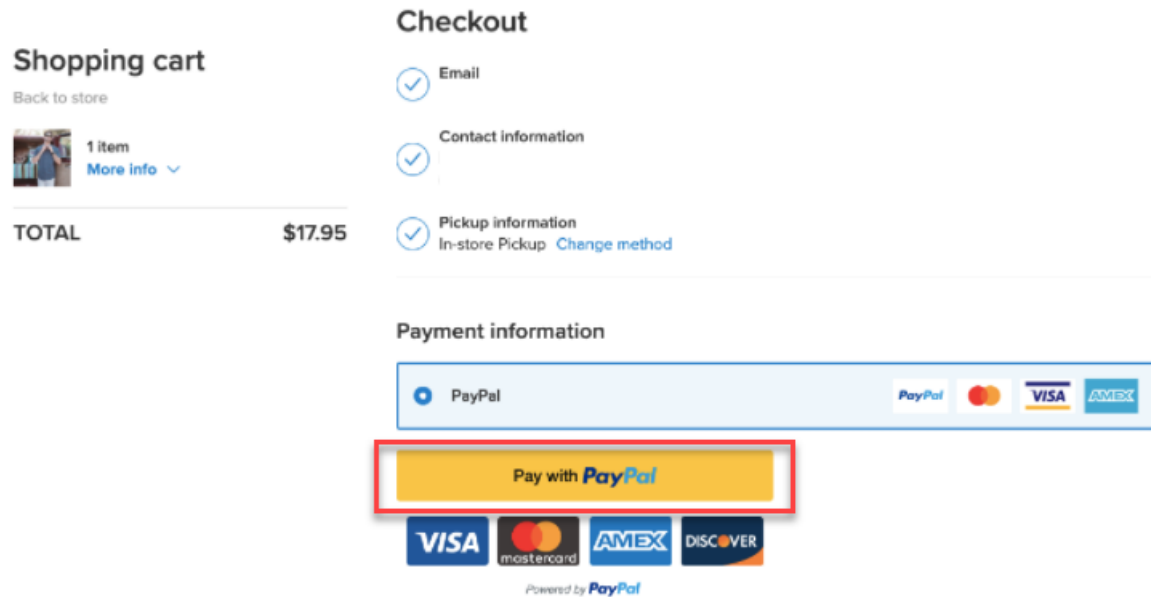


**Short** PayPal (PYPL)

# The Original / Core PayPal Value Prop

## Consumers

Transact online quicker and easier through a widely accepted digital wallet containing all of one's payment options.



## Merchants

Drive more transactions.

### Conversion



28%

Increase in checkout conversion when PayPal is selected.\*

Customers are 2.8x more likely to convert when PayPal is visible.\*\*

### Spend



19%

Increase in unplanned purchases when PayPal is an option.

Merchants who display PayPal can see a 13% increase in repeat purchases and higher average orders.\*\*

### NPS



+8 pts

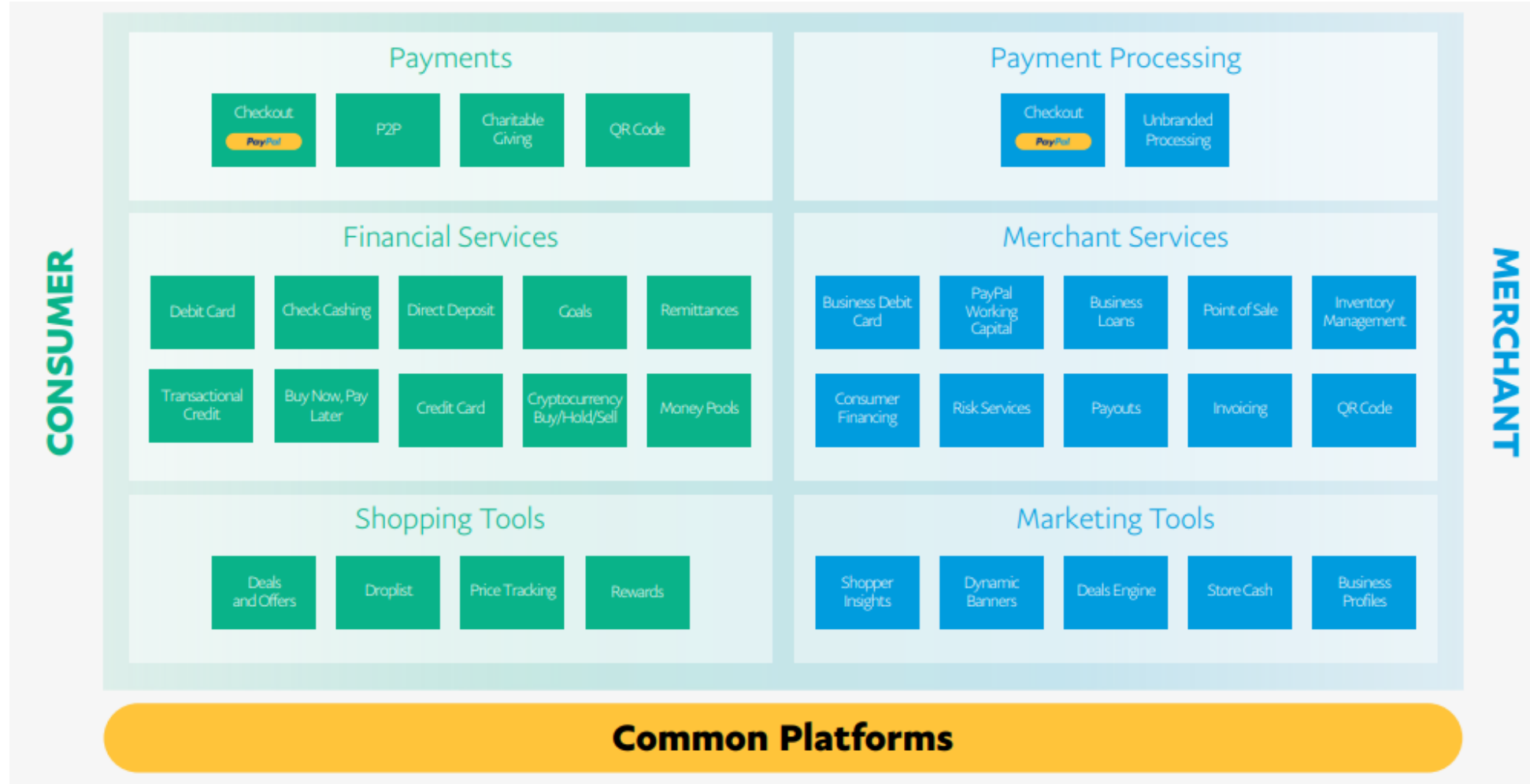
Increase in NPS (Net Promoter Score) when paying with PayPal.\*\*



# PayPal Today: Dual Consumer & Merchant Ecosystems

The consumer formula is to enable users to send, spend, give, save, and invest on the PayPal / Venmo platforms,

Merchants are served by payments acceptance and an array of value-added services including: business & working capital loans, vendor / gig work payout, invoicing & reporting, fraud & risk management, marketing & analytics, rewards solutions, shipping solutions, customer cart recovery, business debit cards, and crypto payment acceptance.

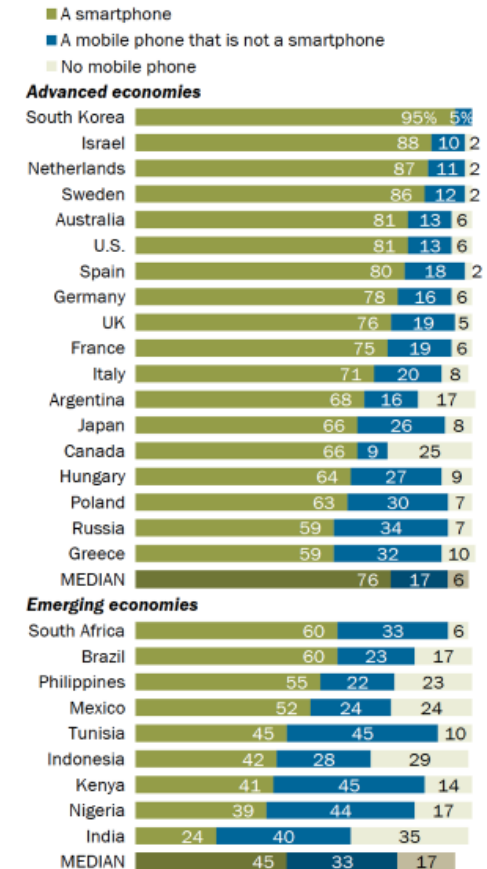


# Smartphone Penetration is Global

## People All Around the World Want to be Plugged in “On the Go”

### Smartphone ownership in advanced economies higher than in emerging

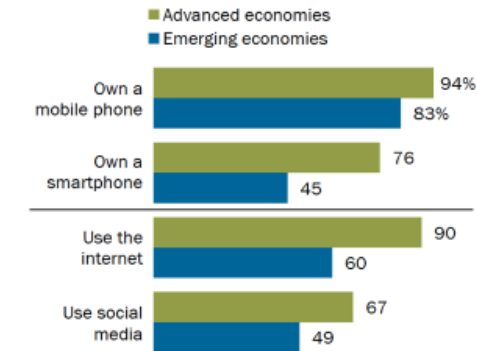
% of adults who report owning ...



Source: Spring 2018 Global Attitudes Survey, Q45 & Q46.

### Mobile technology, internet and social media use more common in advanced economies

% of adults who ...



Note: Internet users are defined as people who say they use the internet at least occasionally, own a smartphone, or use social media websites like Facebook or Twitter. Percentages are medians based on 18 advanced economies and nine emerging economies. See Appendix A for economic categorization. Source: Spring 2018 Global Attitudes Survey, Q44, Q45, Q46, Q47.

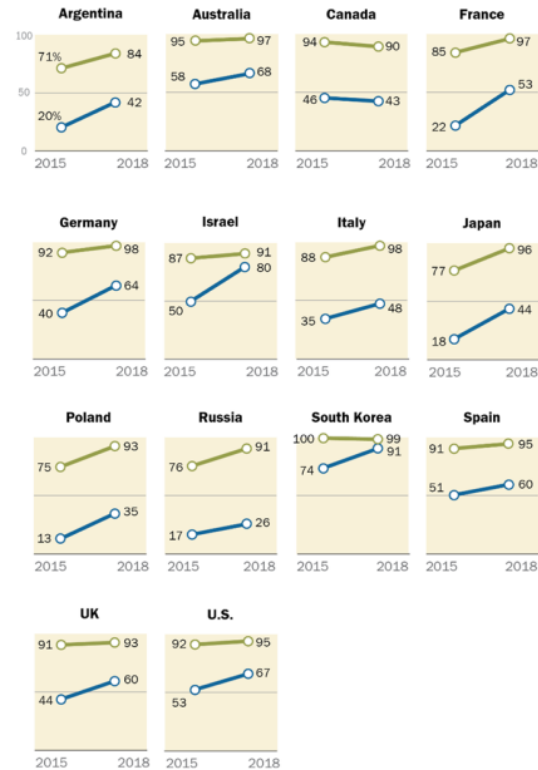
PEW RESEARCH CENTER

### In most advanced economies, smartphones have been ubiquitous among young adults for years, but older cohorts are catching up

% of adults who own a smartphone

Advanced economies

18-34 50+



Note: Data for 35- to 49-year-olds not shown. Greece, Hungary, Sweden and the Netherlands not surveyed in 2015.

Source: Spring 2018 Global Attitudes Survey, Q46.

PEW RESEARCH CENTER

### In many emerging economies, younger people lead the way in smartphone ownership

% of adults who own a smartphone

Emerging economies

18-34 50+



Note: Data for 35- to 49-year-olds not shown. Tunisia not surveyed in 2015.

Source: Spring 2018 Global Attitudes Survey, Q46.

PEW RESEARCH CENTER

# Competition at Checkout

## With Increasing Ways to Pay, Why Use PayPal?

allbirds  
Information > Delivery method > Payment

Express checkout

shop Pay PayPal amazon pay

OR CONTINUE BELOW TO PAY WITH A CREDIT CARD

VISA Mastercard American Express

Contact information Already have an account? [Log in](#)

Email

Keep me up to date on news and exclusive offers from Allbirds.  
Note: You can opt-out at any time. See our [Privacy & Cookies Policy](#).

As low as \$61/month or 0% APR. [Learn more](#)

Check out faster with express payments

PayPal Checkout

pay use your Amazon account

Or use secure checkout

Secure Checkout →

VISA Mastercard American Express affirm PayPal amazon pay Apple Pay

Use a Gift Card

Pay with

VISA Mastercard maestro AMERICAN EXPRESS

Credit/Debit Card

PayPal NEW LOOK CARD Klarna

SHADY RAYS®

Cart > Information > Shipping > Payment

Express checkout

shop Pay G Pay PayPal amazon pay

OR

Contact information Already have an account? [Log in](#)

Email

Keep me up to date on news and exclusive offers

Your order qualifies for free shipping!

Subtotal \$ 99.00  
Total Savings \$ 35.00  
Orders will be processed in USD.

Discount code

Discount codes applied in the next step in the checkout process

ORDER NOTES:

CHECKOUT

shop Pay

G Pay

PayPal

amazon pay

Shipping, taxes, and discounts calculated at checkout.

Apple Pay PayPal amazon pay

G Pay

Update cart Check out

Payment EDIT

Saved payment methods ▶

More ways to pay     ▼

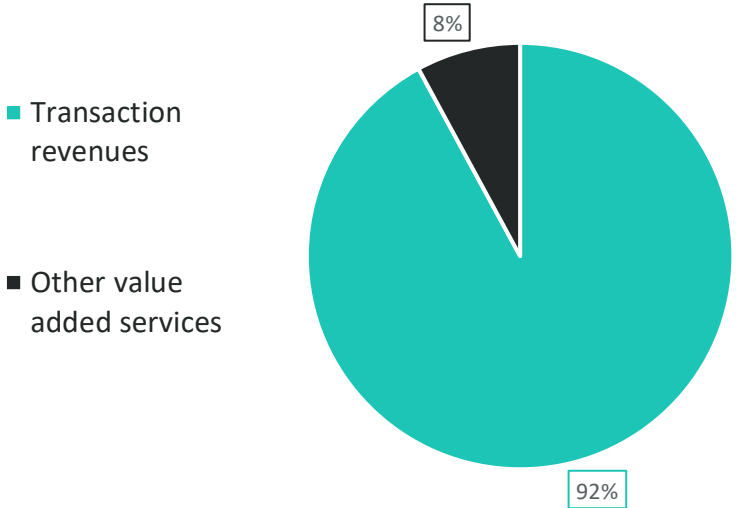
- PayPal
- Klarna. Shop now. Pay over time with Klarna.
- afterpay. Installments by Afterpay ⓘ
- Amazon Pay



# A Look at the Top-Line

## 92% of Revenues are Transaction-Based with 54% Domestic Exposure

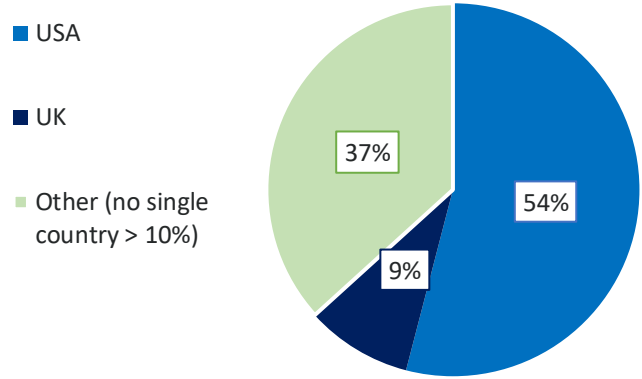
Revenue by Category



Transaction Revenues

- **Mostly consist of fees charged to merchants as a % of Total Purchase Volume (TPV) completed through the company's payments platform**
  - Core Payment Processing Solutions (PayPal)
  - Gateway Services to accept all card types/wallets for large & small merchants aka unbranded processing (Braintree)
- Currency conversion and cross-border fees charged to merchants and consumers on payment transactions
- Cross-border remittance fees (PayPal, XOOM)
- Instant transfer fees (Venmo & PayPal)
- Debit card interchange (Venmo & PayPal)
- Credit card interchange (Venmo & PayPal)
- Fees charged to consumers for the purchase and sale of cryptocurrencies

Revenue by Geography

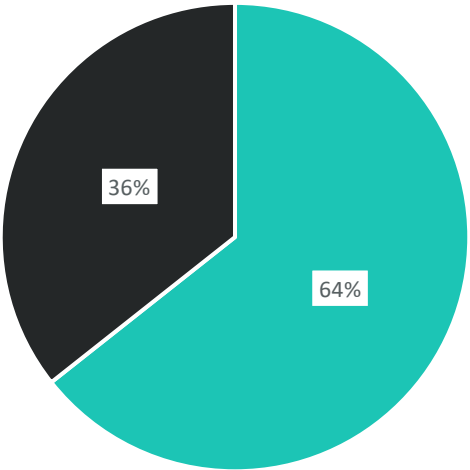


# Total Payment Volume Snapshot

Payment volume is 64% domestic, 14% cross-border, and 27% P2P (PayPal, Venmo, Xoom)

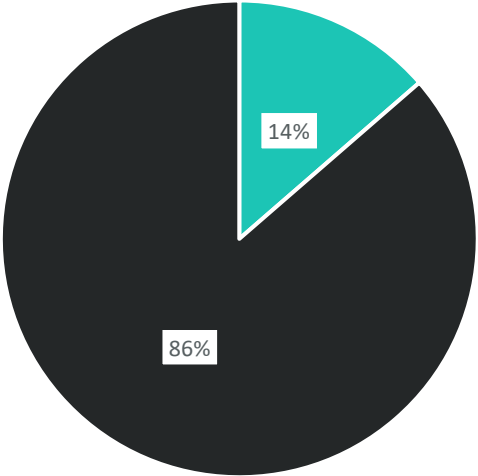
TPV, by Geography

- U.S. TPV
- International TPV



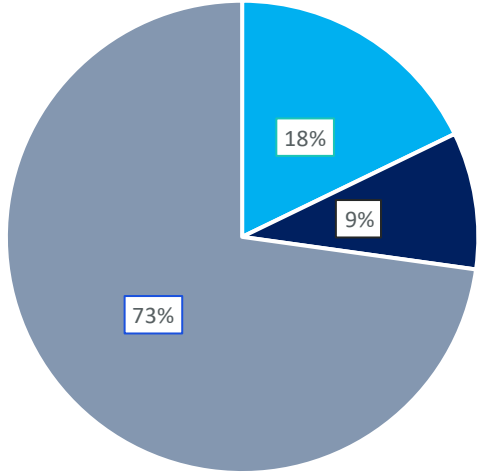
TPV, Local & Foreign

- TPV, Cross-Border
- TPV, Ex. Cross-Border



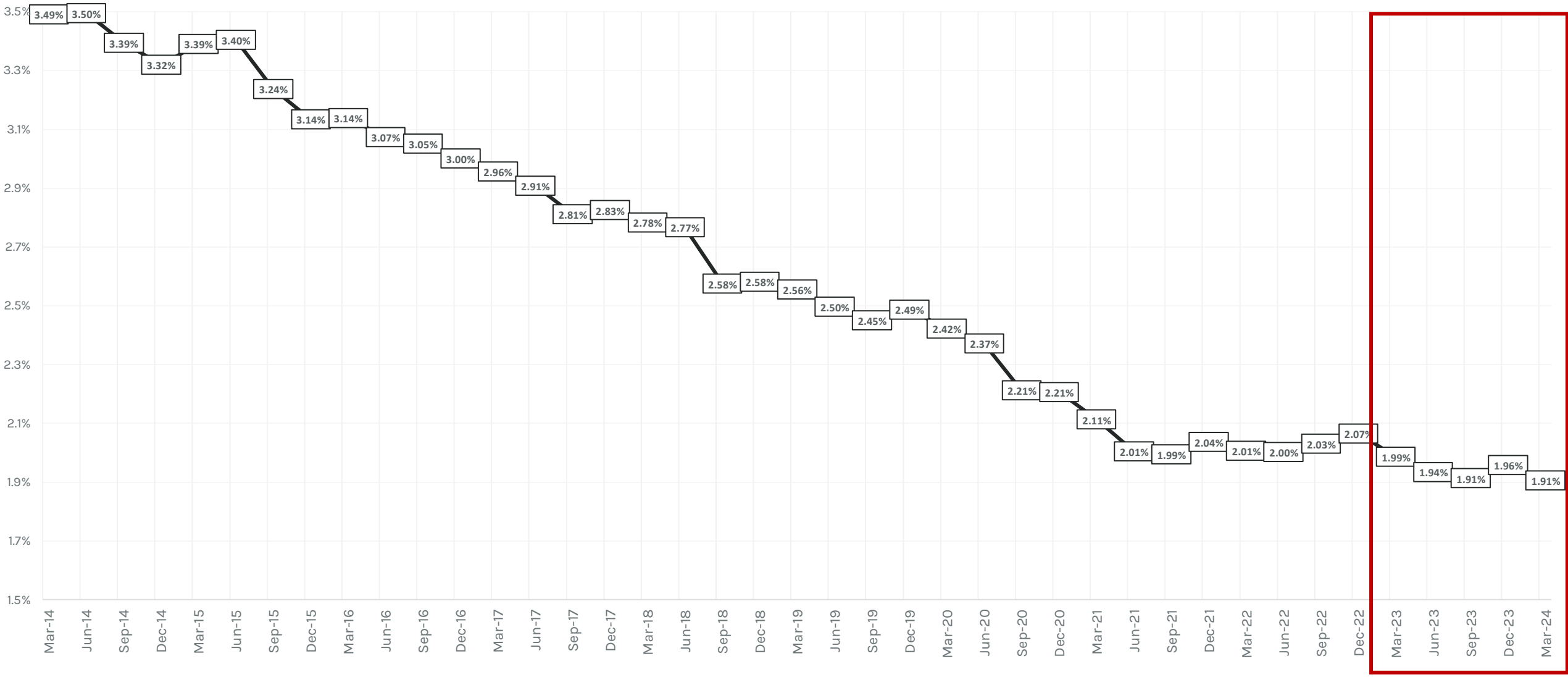
TPV, P2P & C2B

- TPV, Venmo
- TPV, P2P ex. Venmo
- TPV, ex. P2P

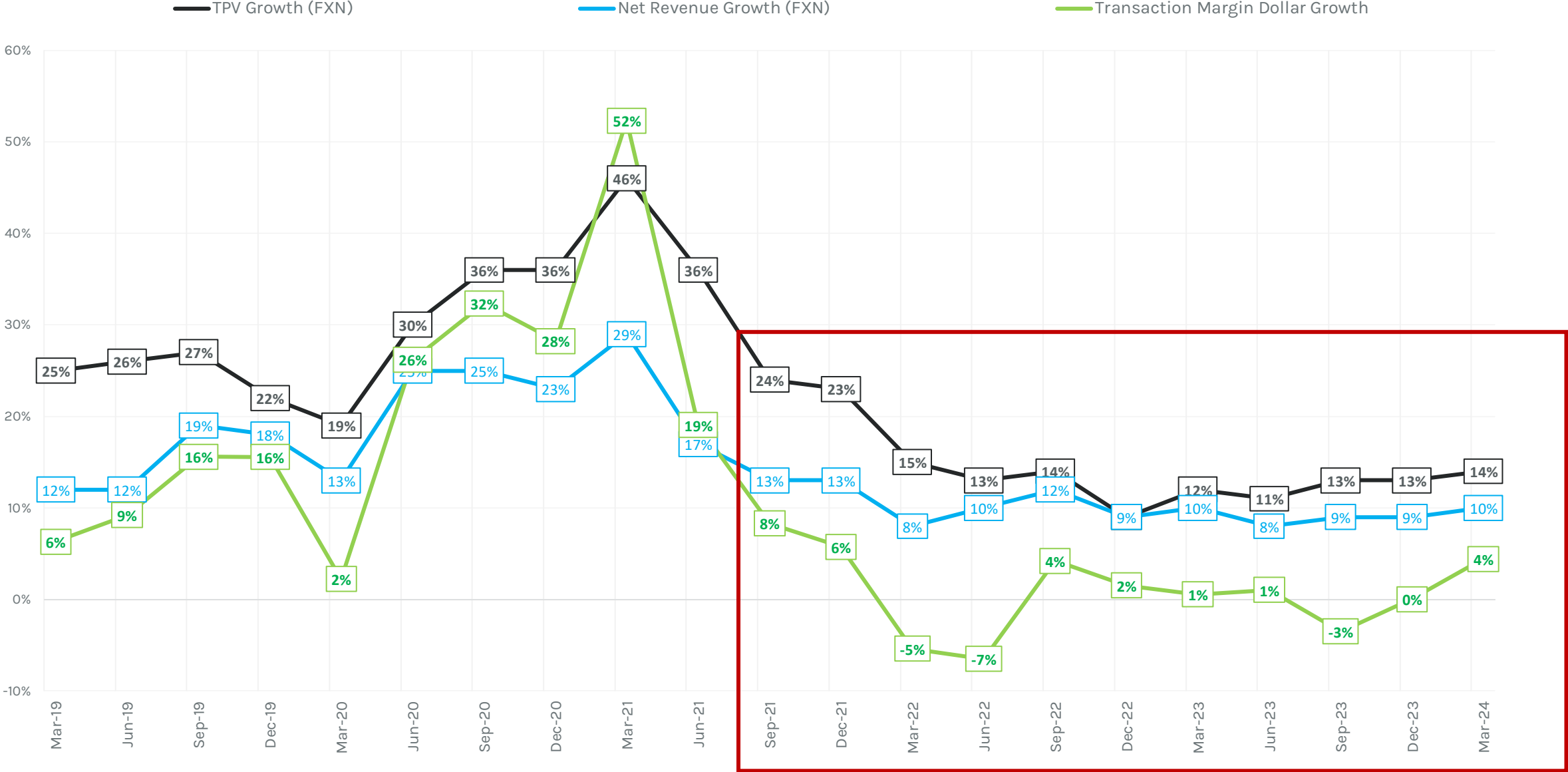


# A History of Take Rate Compression

— Total Take Rate, %



# Transaction Margin Dollar Growth Has Decoupled From Revenue Growth

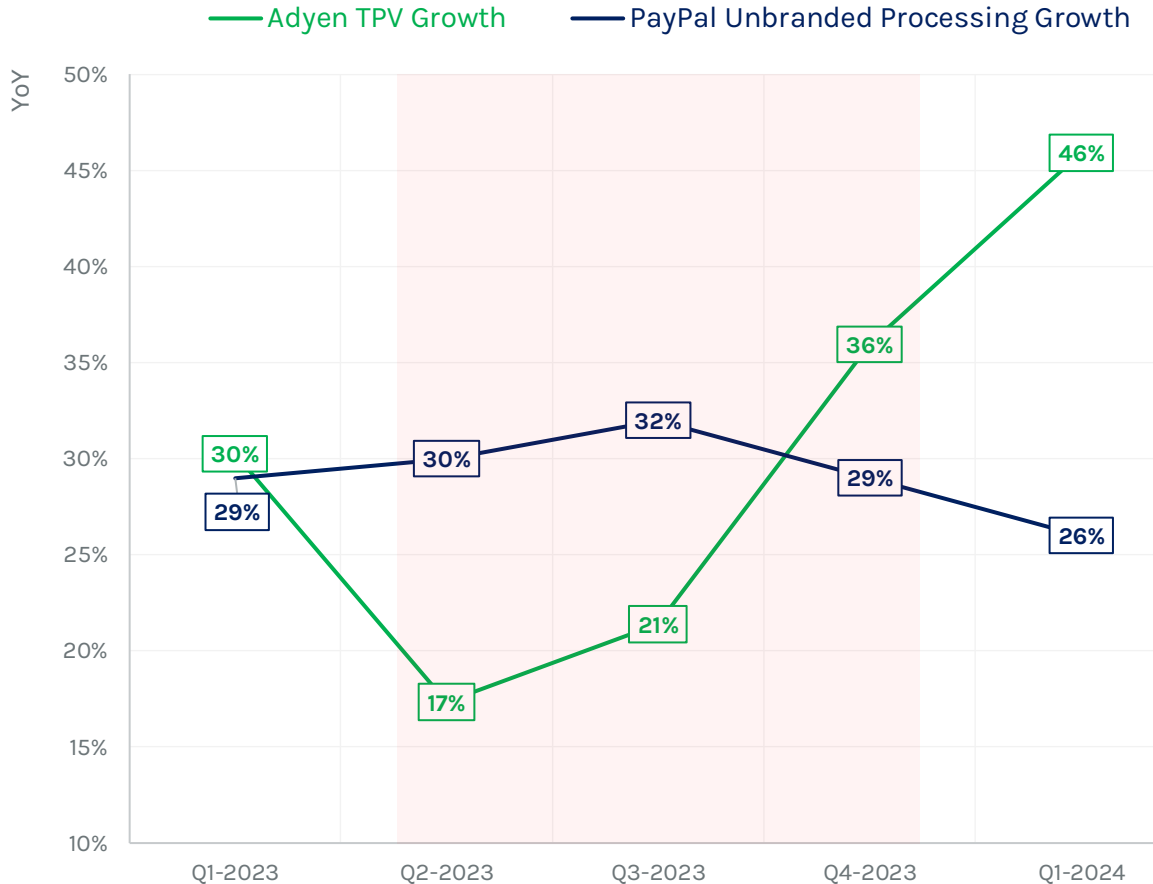


# PayPal's Branded Checkout Hail-Mary Disguised As A Price War

In an attempt to reignite growth in its higher-yielding branded checkout, PayPal managed to score some large merchant wins by bundling Braintree services, which it offered to merchants for free or at breakeven take rates, with the far more profitable PayPal checkout button, which it also provided favorable pricing on if the merchant committed to the use of Braintree.

## TPV mix across PayPal's payments platform

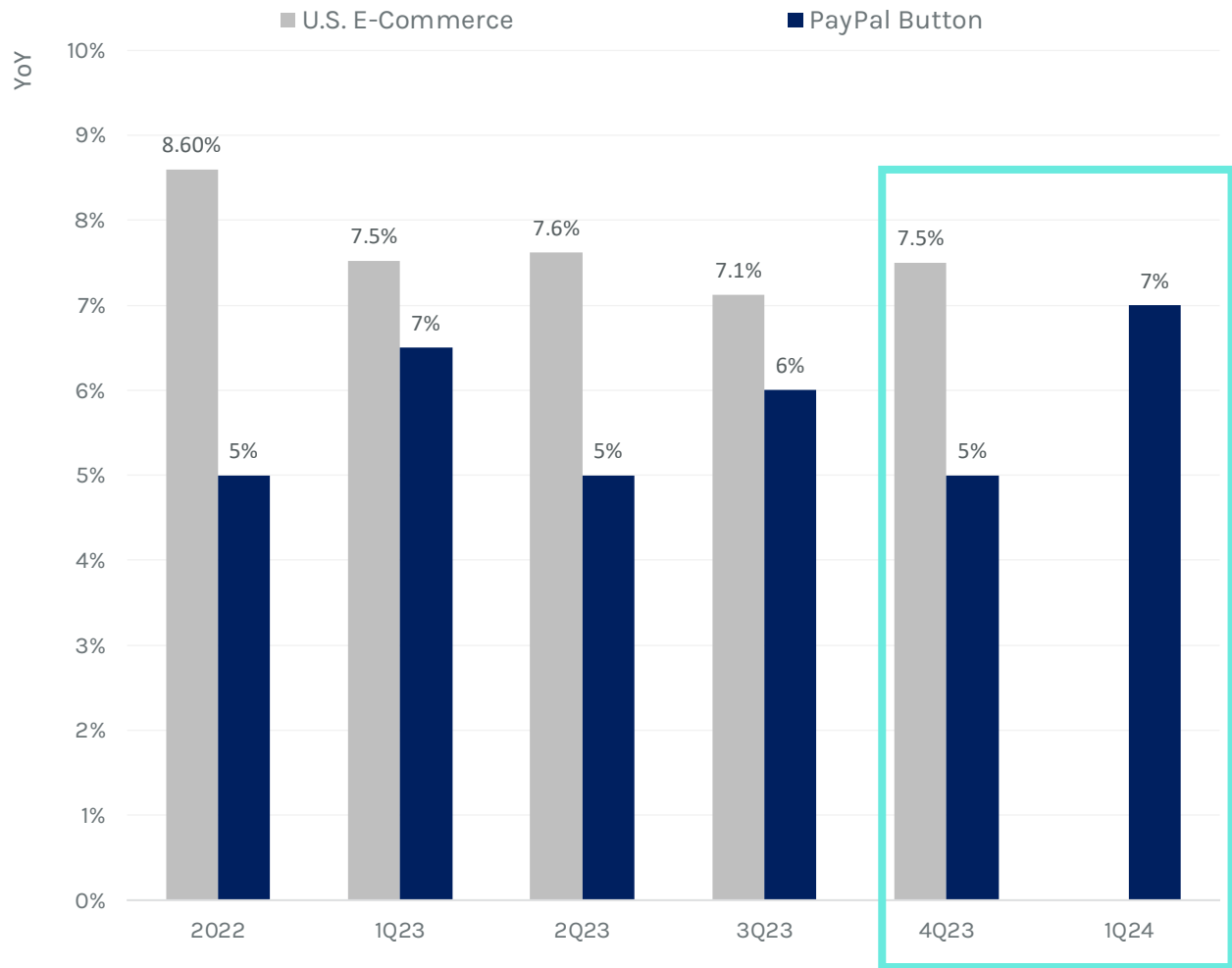
		Q1'23	Q4'23	Q1'24
		Prior year period	Prior quarter	Current quarter
PayPal branded checkout <sup>1</sup>	FXN GROWTH	6%	5%	7%
	% OF TOTAL	29%	30%	27%
PSP (unbranded card processing) <sup>2</sup>	FXN GROWTH	29%	29%	26%
	% OF TOTAL	33%	35%	37%
Venmo	FXN GROWTH	9%	8%	8%
	% OF TOTAL	18%	17%	17%
P2P ex-Venmo <sup>3</sup>	FXN GROWTH	(6%)	1%	3%
	% OF TOTAL	9%	8%	8%
Other merchant services <sup>4</sup>	FXN GROWTH	6%	12%	13%
	% OF TOTAL	9%	9%	9%
eBay	FXN GROWTH	(8%)	(9%)	(7%)
	% OF TOTAL	2%	2%	2%
Total TPV	FXN GROWTH	12%	13%	14%



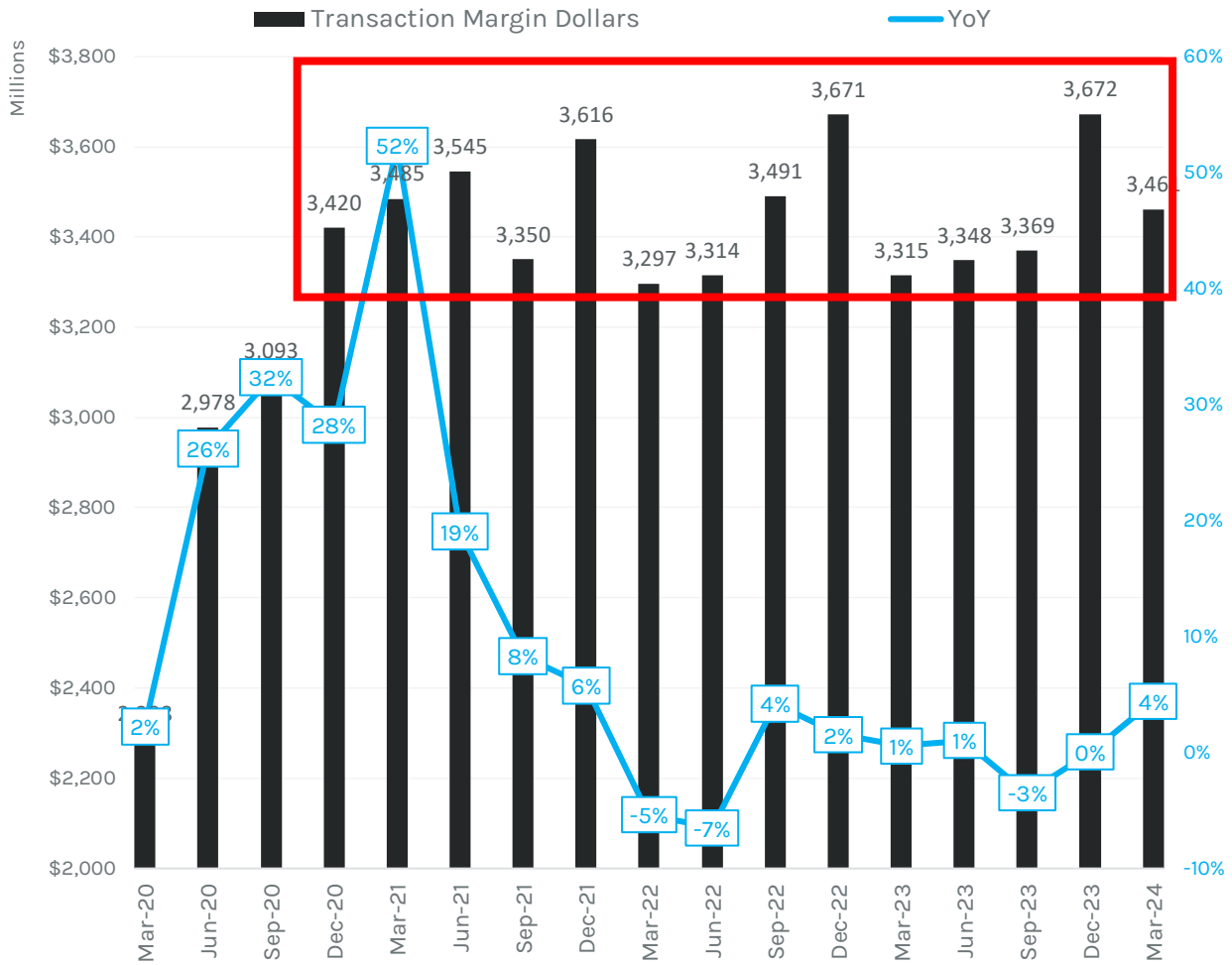
# The Bundling Strategy Is Not Sustainable

The loss of market share in branded checkout and anemic transaction gross profit left little breathing room for a price war in enterprise payments

PayPal Button TPV Growth vs. U.S. E-Commerce Growth



Transaction Margin = Net Revenue - Transaction Expense - Transaction Losses



# Performance by Quad: PYPL

## Quarterly Returns

