

Q3 2024 WALLET™ Index Update

Digital Payments News/Insights

- The total transaction value in the global digital payments market is expected to reach \$11.53 trillion USD in 2024. During the period 2024-2028, the total transaction value is expected to show an annual growth (CAGR) of 9.52%, resulting in a projected total amount of \$16.59 trillion USD by 2028. This growth is predicted to be spearheaded by the Digital Commerce market segment, with an expected contribution of \$7.62 trillion USD in 2024. When looking at the industry through a global lens, the country with the largest market for digital payments as of March 2024 is China with a cumulative transaction value of \$3.7 trillion USD. The United States trails closely behind with a transaction value of \$3.1 trillion USD¹.
- In Q2 2024, retail e-commerce sales in the United States reached over \$291 billion USD, up 1.4% from the previous quarter. According to U.S Census data, by the end of 2023, e-commerce sales made up 15.6% of total retail sales in the country. That percentage is forecasted to rise to 16.6% in 2024 and up to 20.6% by 2027². The industry is on track to continue to dominate the digital payments landscape, estimated to generate \$1.2 trillion USD by the end of 2024 and \$1.8 trillion USD by the end of 2029³.
- In March 2024, a study conducted by WorldPay, The Global Payments Report 2024, estimated that digital wallets will account for 61% of e-commerce payments and 46% of point-of-sale payments worldwide by 2027. This increase is due to consumers' desire for convenience; however, there are some drawbacks in terms of increased amounts of fraud. To have continued success, digital wallet providers need to look to resolve these flaws for a more well-rounded product⁴.
- On September 24, 2024, the Department of Justice filed an antitrust lawsuit against Visa over its U.S. debit practices. It is arguing that Visa's contracts and pricing structures prevent other networks from competing fairly⁵.
- PayPal finished the third quarter of 2024 up 34%. This marks the greatest uptick in shares of the payment processor since Q2 2020. To compete with the mobile wallets of Apple and Google, PayPal recently introduced a new 5% cash back feature to customers that use their debit cards within the PayPal mobile app⁶.
- 2023 survey data published by the Federal Reserve Bank of Atlanta found that roughly three-quarters of Americans currently use digital payment platforms such as PayPal, Zelle, Venmo, and Cash App⁷.

¹ <https://www.statista.com/outlook/dmo/fintech/digital-payments/worldwide>

² <https://www.practicalecommerce.com/charts-u-s-retail-ecommerce-sales>

³ <https://www.statista.com/study/28028/e-commerce-in-the-united-states-statista-dossier/>

⁴ <https://thefinancialbrand.com/news/payments-trends/digital-wallets-absorb-credit-cards-as-they-boom-worldwide-176418/>

⁵ <https://www.justice.gov/opa/pr/justice-department-sues-visa-monopolizing-debit-markets>

⁶ <https://www.cnn.com/2024/10/01/paypal-ceo-alex-chriss-first-year-praised-by-wall-street-stock-pop-q3.html?qsearchterm=PAYPAL>

⁷ https://www.atlantafed.org/-/media/documents/banking/consumer-payments/survey-diary-consumer-payment-choice/2023/sdpc_2023_report.pdf

Industry Trends in 2024

Rise of Account-to-Account (A2A) Payments

- A2A Payment, facilitated by peer-to-peer (P2P) systems (e.g. PayPal (NASDAQ: PYPL, WALLET Index weight: 5.72%) refers to direct payments from one party to another, bypassing intermediaries like credit cards (e.g. Mastercard (NYSE: MA, WALLET Index weight: 6.09%), Visa (NYSE: V, WALLET Index weight: 5.96%)). A2A payment offers more convenience for customers, enhanced security through multi-factor authentication and reduced costs for businesses⁸.
- A2A Payments are set to become mainstream, with an estimated CAGR of 14% from 2024-2027 largely driven by consumer preference for direct and efficient payment methods⁹.
- Currently constituting nearly half of global e-commerce transactions, digital wallet usage is forecasted to increase to 54% by 2026, indicating significant growth and adoption of online payment methods¹⁰.

Increase in Authorized Push Payment (APP) Fraud

- The surge in P2P payments has led to a significant rise in Authorized Push Payment (APP) fraud, where individuals are coerced into authorizing payments to fraudulent accounts. This type of fraud has recently surpassed credit card fraud and identity theft as the top global fraud threat¹¹.
- APP fraud losses in the United States, the United Kingdom and India are expected to double by 2026, reaching \$5.25 billion USD¹².
- Effective June 7, 2024, the UK's Payment Systems Regulator (PSR) implemented mandatory Reimbursement Rules. This regulation requires payment service providers to fully reimburse customers who fall victim to APP fraud, improving customer protection in digital transactions¹³.

Consolidation of Digital Wallets

- The share of consumers maintaining 3 or more digital wallets (for e.g., Samsung Pay, Google Pay) have declined from 30% of consumers in 2021 to 20% in 2023. On the flip side, the share of consumers expecting to rely on a single wallet has risen from 21% to 31%¹⁴.

Rise of AI¹⁵

- Using generative AI, machine learning and pay-by-palm, certain Amazon consumers can now speed through in-store checkout with more accurate fraud detection capabilities. AI-powered technology is authenticating the customer's identity and processing payments, providing a frictionless experience for customers.

⁸ <https://www.forbes.com/advisor/money-transfer/peer-to-peer-fraud-statistics-in-year/>

⁹ <https://www.statista.com/study/146515/a2a-account-to-account-payments/>

¹⁰ <https://www.statista.com/study/146515/a2a-account-to-account-payments/>

¹¹ <https://risk.lexisnexis.com/insights-resources/infographic/payments-trends>

¹² <https://risk.lexisnexis.com/insights-resources/infographic/payments-trends>

¹³ <https://www.skadden.com/insights/publications/2024/04/new-rules-to-tackle-authorized-push-payment-fraud>

¹⁴ <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/one-year-in-lessons-learned-in-scaling-up-generative-ai-for-financial-services>

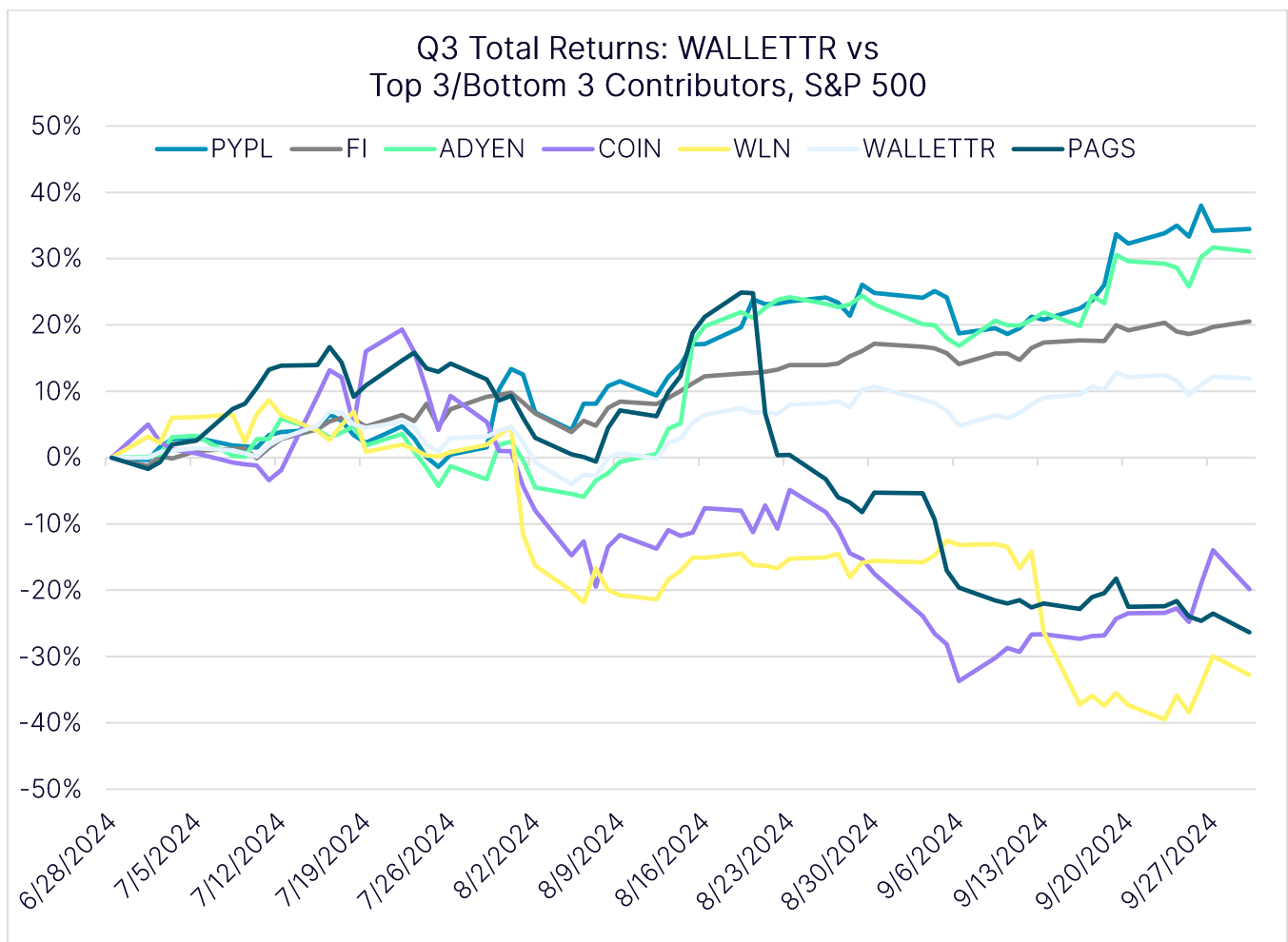
¹⁵ <https://www.globalpayments.com/insights/2023/10/04/ais-vital-role-in-payments-and-commerce>

Rise of Embedded Payments¹⁶

- The global market for embedded payments is expected to surpass \$138 billion in the five-year period ending 2026, a more than threefold increase. Consumers can make a purchase without leaving their website, social media channel or mobile app.
- Embedded payments are expected to gain more momentum in 2024 and beyond. It is expected to drive repeat sales, promote better cash management and enable seamless reconciliation and reduce payment error.
- Embedded payments also foster greater brand loyalty. Companies can create better brand experiences and deeper connections.

WALLET Index Q3 Performance (Total Returns)

- In Q3, WALLET was up 11.9%, reversing its loss from the previous quarter.
- Year-to-date through September 30, 2024, WALLET generated total returns of 11.8%. This compares to a year-to-date gain of 22.5% for the MSCI World Financials Index.



¹⁶ <https://www.globalpayments.com/commerce-payment-trends>

Top 3 Contributors to WALLET Index Performance in Q3 2024

Company	Symbol	Wallet Contribution Percentage	Average Wallet Weight (%)	Q3 Total Returns (6/28-9/30)	Year-to-Date Total Returns
Paypal Holdings	PYPL	1.93%	6.55%	34.46%	27.06%
Adyen	ADYEN	1.31%	4.69%	26.00%*	20.23%*
Fiserv	FI	1.26%	6.13%	20.54%	35.24%

*In local currency terms. In USD terms, up 31.08% in Q3'24 and 21.14% YTD.

Top 3 Contributor Q3 2024 Reported Earnings Insights

Paypal Holdings (PYPL)¹⁷

- Revenue of \$7.9 billion beat consensus and Street expectations, up 9% y/y. TPV (Total Payment Volume) growth of 11%. Transaction and OVAS (other value-added services) revenue were 1% ahead of Street estimates. Transaction margin dollars were up 8%, accelerating from 4% last quarter, driven by improvements in Braintree contribution as well as improvement in Branded and Venmo. Total active accounts were ahead of consensus while monthly actives were up 3% y/y.
- The company now expects low to mid-single digit transactions margin dollar (TMD) growth in 2024, implying deceleration from 1H 2024. 2H TMD growth relatively de-risked given 1H trends. It also expects adjusted EPS to grow low to mid-teens. It raised its FCF guidance to \$6 billion (from \$5 billion prior).
- Investments to improve Branded Checkout experience have begun to pay dividends. Apple Pay worries appear overblown. The total e-commerce checkout TAM is massive, with the TAM for Fastlane at more than \$1.5 trillion given that more than half of e-commerce purchases are made via guest check-out.

Adyen (ADYEN)¹⁸

- Adyen reported higher net profit and strong revenue growth for the first half, driven by sustained growth across its core regions and customer wins. Its net profit rose to 409.6 million euros (\$451.1 million) from 282.2 million euros a year ago. Total revenues rose to 1.03 billion euros from 853.5 million euros, below consensus.
- It kept its guidance of annual revenue growth in the low-to-high twenties through 2026. It expects to continue its capital expenditure budget of up to 5% of net revenue. It aims to improve EBIDTA margins to levels above 50% in 2026 and expects to benefit from operating leverage.

¹⁷ https://s201.q4cdn.com/231198771/files/doc_financials/2024/q2/PYPL-2Q-24-Earnings-Release.pdf

¹⁸ <https://investors.adyen.com/financials>

- It reported strong commercial momentum, committing to >20% growth in H2. Fears of deterioration in the take rate were assuaged. eBay TPV contribution saw an unexpected uptick.

Fiserv (FI)¹⁹

- The company's stock rose due to strong results that were at the high end of guidance, helped by stable recurring revenue growth, non-recurring upside and solid Worldpay EMI contribution.
- Total revenue grew 3% y/y to \$2.5 billion, at the high end of guidance. Adjusted EPS was \$1.36, ahead of guidance. Bottom-line beat was driven partially by higher contribution from Worldpay. Adjusted FCF was \$504 million, implying 85% conversion, well ahead of 75% conversion guidance.
- A refocus on its banking technology business and a shift to recurring revenue, up 7% versus total growth of 0% in the previous quarter, will help meet its guidance for adjusted revenue growth of 4-4.5%. Its plans to cut costs by \$1 billion this year by streamlining operations and wrapping up capital-intensive projects should help EBITDA margin. It announced plans to increase 2024 buybacks to \$3.5 billion.

Bottom 3 Contributors to WALLET Index Performance in Q3 2024

Bottom 3 Contributors	Symbol	Wallet Contribution Percentage	Average Wallet Weight (%)	Q3 Total Returns (6/28-9/30)	Year-to-Date Total Returns
Coinbase	COIN	-1.04%	3.71%	-19.83%	2.44%
Worldline	WLN	-0.41%	0.83%	-35.40%*	-58.28%*
PageSeguro Digital Limited	PAGS	-0.24%	0.72%	-26.35%	-30.95%

*In local currency terms. In USD terms, down 32.79% in Q3'24 and 57.96% YTD.

Coinbase (COIN)²⁰

- The company's stock declined due to some pressure from earnings. In the recent quarter, the company beat revenue estimates, but opex was higher than expected and adjusted EBITDA missed by 3%. Retail take rate rose quarter over quarter, offsetting a miss in trading volumes.
- It highlighted the expansion of several of its strategic growth initiatives (e.g., expanding derivative offerings on Coinbase Financial Markets) and an improving political environment. Guidance was in-line for SaaS revenues, which are facing some headwinds.

¹⁹ https://d1io3yog0oux5.cloudfront.net/_8b32d9226502155a8bcf9c2346b22483/fiserv/news/2024-07-24_Fiserv_Reports_Second_Quarter_2024_71.pdf

²⁰ <https://investor.coinbase.com/financials/quarterly-results/default.aspx>

- Other highlights from the quarter include reducing transaction costs in Base, which drove a 300% quarter on quarter increase in the number of transactions processed. Hiring expected to increase in 2H 2024, with investments made in the consumer and international businesses.

Worldline (WLN)²¹

- The company's stock came under pressure due to several headwinds including weakness in the Australian market. Additionally, it has had trouble integrating its many acquisitions.
- In 1H 2024, it reported revenue of €2,289m, +2.1% organic growth, including +3.2% organic growth in MSV (merchant sales volume) (+6.2% underlying) €514m adjusted EBITDA, i.e. 22.5% of Group revenue. It also reported €82m free cash flow, i.e. 16.0% conversion (24.1% excluding Power24 costs).
- After positive momentum in MSV development in Q1'24, the company has observed a softer macroeconomic and consumption environment in Q2'24 with a progressive slowdown of MSV growth across all its markets in Europe.
- It has lowered its guidance the second consecutive time and now expects current year revenues to grow 1% year-over-year as compared to prior expectations of 2-3% growth. The growth in 2H is expected to see headwinds from performance issues in businesses including online travel.
- The company was adversely impacted by merchant terminations from 2H 2023 to 1H 2024.
- Its CEO Gilles Grapinet departed, with a search ongoing for a new CEO.

Pageseguro Digital Limited (PAGS)²²

- The company's stock came under pressure due to profitability trend concerns. While the company beat estimates, the EPS beat was of poor quality. Its EPS came in at \$1.56 versus an estimate of \$1.55. Its revenue came in at \$4.56 billion, beating estimates of \$4.41 billion.
- While the company continues to gain share, its advance into less profitable segments has raised concerns regarding profitability.
- Weaker quality and mixed operating trends as well as profit taking following recent strong performance weighed on the stock.
- The market has not rewarded the company for outperformance versus Street estimates.

Sources: Nasdaq Global Indexes, Bloomberg, FactSet

The Nasdaq CTA Global Digital Payments™ Index (WALLET™) is tracked by the Amplify – Mobile Payments ETF (IPAY).

²¹ <https://investors.worldline.com/>

²² <https://www.annualreports.com/Company/pageseguro-digital-ltd>

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