PayPay Corporation

Second Quarter ended September 30, 2026 Earnings Call

Keita Oishi, Head of Investor Relations

Good morning and good evening everyone. Welcome to PayPay's investor briefing for the Q2 of fiscal 2026. I'm Keita Oishi, Head of Investor Relations. Joining me on this call are Kagechika-san, our CFO, and Motoda-san, Head of Finance Group. As a reminder, this call is being broadcast live, and a replay will be available on our website at a later date.
Before we begin, please note that today's discussion includes forward-looking statements, non-IFRS financial measures, and unaudited financial data. Actual results may differ materially from our expectations. For more details, including risk factors and non-IFRS reconciliations of non-IFRS measures to the most directly comparable IFRS measures, please carefully review the Disclaimer on page 2 of our presentation. We ask for your understanding of these terms as we proceed.

With that, I will now turn the call over to Kagechika-san.

Wataru Kagechika, Managing Corporate Officer, CFO

(P.1)
Thank you for joining us today. I'm Wataru Kagechika, CFO. In today’s session, I will explain our Q2 results and the key drivers behind them. Before we begin, I’d like to share an update on our investor relations activities. Since October 2026, we’ve established a New York-based team to accelerate our investor relations activities in the States. We aim to have more regular and open dialogue about our growth strategy, earnings potential, and long-term shareholder value.
With that, let me turn to our Q2 results.

(P.3)
There are three points I’d like to highlight today about our Q2 results. First, we continue to deliver robust growth. Total Revenue grew by 28 % year-on-year and our EBITDA margin reached 36%. In the Payment segment, revenue grew by 27% year-on-year. This outpaced GMV growth again. This was driven by three factors, the expansion of a higher margin online GMV mix, steady growth in credit card financing balances, and changes to our rewards program in June. Financial Service segment also continued to grow with revenue up 38%, driven by growth in deposits and loans as well as higher interest rates. Second, irregular weather slightly affected our performance. GMV growth slowed to 20% year-on-year in the Q2, from 23% in the Q1. Offline payments were affected by the prolonged rain, particularly in September. We also saw a pullback following temporary surge in demand in the prior fiscal year, ahead of the revision of "Hometown Tax Donation" system. Eliminating these factors, the GMV growth trend remained unchanged. Third, disciplined cost management has strengthened operating leverage effect. In addition to our efforts to manage rewards expenses, we remain committed to controlling costs including outsourcing and advertising expenses. This discipline, combined with top-line growth, drove stronger-than-expected operating leverage, with consolidated Adjusted EBITDA increasing by 55% year-on-year and its

margin expanding to 36%. Based on these strong first half results, we are upwardly revising our full-year guidance again. I will come back to this point later.

(P.4)
Now, let me explain the results in more detail.

(P.5)
From the top, our Total Revenue grew 27.7% to 118.1 billion yen, which exceeds the upper end of our Q2 guidance range shown in the top right. Total Transaction Cost, which includes costs associated with our revenue, increased by 35.3% to 28.1 billion yen, mainly due to higher interest expenses following policy rate hikes. As a result, these costs grew faster than revenue growth. Adjusted EBITDA grew by 54.8% to 42.1 billion yen. This also significantly exceeds our Q2 guidance, reflecting our cost management efforts. Profit for the period, or net income, was 18.4 billion yen, down year-on-year. This was due to the absence of a one-time tax benefit related to net operating losses in the same quarter last year. Excluding this effect, our profit for the period increased year-on-year.

(P.6)
This chart shows the drivers of year-on-year growth in Total Revenue for the three-month period, compared with the same period last year. Consolidated Total Revenue reached 118.1 billion yen. Revenue grew by 26.8% year-on-year in Payments and by 37.7% year-on-year in Financial Service, with both segments continuing to deliver strong growth. In the Payment segment, approximately 70% of the revenue increase came from the Transaction & service income represented by the second bar from the left. The remaining 30% came from higher Interest Income driven by growth in credit-related financing balances as APRs are capped by the regulation. In the Financial Service segment, Interest income grew by 70%, supported by growth in loan balances and higher policy interest rates. This accounted for nearly 80% of this segment's Total Revenue growth.

(P.7)
This chart compares Total Transaction Cost as a percentage of Total Revenue this quarter with those in the same quarter last fiscal year. The ratio increased from 22.5% to 23.8% year-on-year. In the Payment segment, changes to how third-party credit cards are used in PayPay shifted our funding mix toward lower-cost sources, reducing the settlement-related cost ratio shown by the second bar from the left. At PayPay Card, since December 2025, we have expanded credit availability to a broader range of users within defined limits, based on risk-return assessments. Through this initiative, we have increased our revenue base even though the credit costs have increased to some extent. What I want to emphasize here is this was an intentional approach. We believe the credit costs remain well controlled. In the Financial Service segment, the interest expense ratio, shown in the third bar from the left, increased largely as deposit rates rose. This was mainly due to a cumulative 50-basis-point increase in the policy rate, implemented in December 2025 and June 2026.

(P.8)
Our operating profit margin rose by 5.9 percentage points, from 22.2% in the same period last year to 28.1%. While Total

Revenue grew 28% year-on-year, the increase in operating expenses was limited to 18%. As I mentioned earlier, in addition to the benefits of changes to our rewards programs shown by the third red bar from the left, we continued our group-wide cost-saving efforts. These efforts contributed to reducing Other Expenses as a percentage of revenue in both segments by 2.3 percentage points in Payment segment and 1.4 percentage points in Financial Service segment, respectively.

(P.9)
As you can see, Adjusted EBITDA and its margin have continued to rise. The items added back to profit for the period, along with other adjustments, are shown on the right.

(P.10)
From here, I'd like to explain the Payment segment's business performance. GMV grew by 20% year-on-year to 5.56 trillion yen, despite the headwinds I mentioned earlier. Again, we believe that the underlying GMV growth trend remains unchanged.

(P.11)
This slide breaks down GMV growth into two main drivers. The year-on-year growth rate for each component was 1 to 2 percentage points lower than in Q1.

(P.12)
As shown by the red line on the left, our Net Take Rate, which includes payment-related revenue, increased by 0.1 percentage point year-on-year, from 1.64% to 1.74%. The grey line shows our Gross Take Rate, which also rose to 2.32%. For a breakdown of this increase, please refer to the bars on the right. There are three main drivers: First, the payment fee rate increased, mainly due to a shift in GMV mix. The online GMV share rose by three percentage points to 19%. Second, as shown in more detail on the next slide, balances from credit card financing, including revolving credit, installment payments, and cash advances, grew 26%, faster than GMV. Third, revenue from merchant services, including services for municipalities, also increased.

(P.13)
The number of Active PayPay Cards Issued increased by 23% year-on-year to 18.7 million. Our customer base continues to expand particularly among younger customers. This was supported in part by higher approval rates enabled by our proprietary credit model, which leverages PayPay payment data. New cards have also been strong following the changes to the benefits offered under SoftBank's new mobile plans which took effect in June. The credit card financing balance reached 600 billion yen, up 26% year-on-year. Revolving and installment balances continued to grow solidly, at 25% year-on-year. "Pay in Installment Later" which we launched last October has been well received by our users. Another growth driver is the cash advance. Growth in cash advance balances accelerated further to 62% year-on-year, supported by our efforts to promote uptake.

(P.14)
At PayPay Card, we've been managing credit risk using a proprietary credit risk model that leverages our payment data and other information. Based on this model, we approve credit card applications that we would previously have declined and increase credit limits. Although our allowance for credit losses increased this quarter, we've confirmed that these measures remain profitable even after taking that increase into account. Our Delinquency Transition Rate on the left remains controlled at 2.7%, and the ratio of Stage 3 receivables on the right is 5.6%. We will continue to expand our credit offerings while further strengthening our credit management practices, with a focus on ensuring profitability after credit costs.

(P.15)
Moving to our Financial Service segment. PayPay Bank accounts increased by 11% year-on-year to 10.4 million, while PayPay Securities accounts increased by 28% year-on-year to 1.88 million. PayPay Securities, in particular, has seen rapid growth in its account base, supported by its seamless integration with the PayPay app. We will drive further growth in Financial Service, building on our strength in engaging with customers through frequent payment interactions in their daily lives. We will promote cross-selling of our banking and brokerage services, while encouraging greater use of deposits, lending, and asset management services.

(P.16)
At PayPay Bank, deposits increased by 16% year-on-year to 2.43 trillion yen, while loans grew by 37% year-on-year to 1.4 trillion yen. Mortgage loans reached 1.02 trillion yen. Relatively higher-yielding consumer and business loans also expanded steadily. As shown in the upper-left chart, deposit funding costs increased as the policy rate rose. However, our loan yield increased to 2.32% and the loan-deposit spread shown by the thick blue line improved quarter-on-quarter, partly due to a better loan mix. Going forward, as we grow our asset base, we will place greater emphasis on profitability. We will take a disciplined approach to residential mortgages, while expanding our loan portfolio by shifting the mix toward higher-yielding products. We will also seek to improve the overall yield on our assets and further enhance the profitability of our banking business.

(P.17)
This slide shows our consolidated balance sheet. Total assets increased from 5.2 trillion yen at the end of the previous fiscal year to 5.7 trillion yen as of the end of Q2. This was mainly due to growth in card receivables and loans as our payments and financial service businesses expanded. The increase in securities following our acquisition of shares in Seven & i Holdings in August also contributed. Adjusted ROE increased to 18.5%, from 14.9% in Q4 last year, driven by growth in net income. We will continue to maintain the balance between financial soundness and capital efficiency.

(P.18)
Finally, let me turn to our financial guidance. Based on our strong H1 performance, which exceeded our initial expectations, we are upwardly revising our full-year guidance. First, let me explain our Q3 outlook.
We expect the underlying business growth trend to remain largely unchanged. While we expect GMV in the Payment

segment to continue growing, we are strengthening controls on online payments to enhance security. As a result, we have factored in temporary downward pressure on Take Rate due to a change in the mix of payment fees. In the Financial Service segment, we expect deposit growth to remain solid. However, given the high comparison base following the sharp increase in corporate deposits in Q3 last year, we expect the year-on-year growth rate of interest income to normalize. At the same time, we will remain committed to disciplined cost management across the group. Next, let me turn to our full-year outlook. We expect the underlying business trends I just described for Q3 to continue. However, we anticipate the Adjusted EBITDA margin in Q4 to be lower than in Q3, partly due to seasonal increases in expenses. Specifically, we expect higher funding costs in our credit card and banking businesses, assuming additional policy rate hikes. We also anticipate seasonal increases in expenses, including taxes and charges, and promotional costs. Going forward, we will continue to focus on sustainable revenue growth and disciplined cost management, while further improving our profitability.

This concludes my presentation. Thank you very much.