

# Q2 2024 WALLET™ Index Update

## Digital Payment News/Insights

- The total transaction value in the global digital payments market is expected to reach \$11.55 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 \$16.62 trillion USD by 2028. This growth is predicted to be spearheaded by the Digital Commerce market segment, with an expected contribution of \$7.63 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 USD<sup>1</sup>.
- In March 2024, retail e-commerce sales in the United States reached over \$289 billion USD, the highest quarterly revenue in history and up 15.9% from the previous quarter. 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 2029<sup>2</sup>.
- 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 product<sup>3</sup>.
- On February 19, 2024, Capital One announced it would acquire Discover (NASDAQ: DFS, WALLET Index weight: 4.97%) for \$35.3 billion in an all-stock transaction. The goal of this acquisition, as stated by Richard Fairbank, CEO of Capital One, was to create value for consumers, businesses and shareholders by building a payment network that can compete with the largest payment companies as technology is continuing to transform the payments and banking marketplace<sup>4</sup>.

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

<sup>2</sup> <https://www.statista.com/study/28028/e-commerce-in-the-united-states-statista-dossier/>

<sup>3</sup> <https://thefinancialbrand.com/news/payments-trends/digital-wallets-absorb-credit-cards-as-they-boom-worldwide-176418/>

<sup>4</sup> <https://investor.capitalone.com/news-releases/news-release-details/capital-one-acquire-discover>

## 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 businesses<sup>5</sup>.
- 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 methods<sup>6</sup>.
- 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 methods<sup>7</sup>.

### 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 threat<sup>8</sup>.
- APP fraud losses in the United States, the United Kingdom and India are expected to double by 2026, reaching \$5.25 billion USD<sup>9</sup>.
- 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 transactions<sup>10</sup>.

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<sup>5</sup> <https://www.forbes.com/advisor/money-transfer/peer-to-peer-fraud-statistics-in-year/>

<sup>6</sup> <https://www.statista.com/study/146515/a2a-account-to-account-payments/>

<sup>7</sup> <https://www.statista.com/study/146515/a2a-account-to-account-payments/>

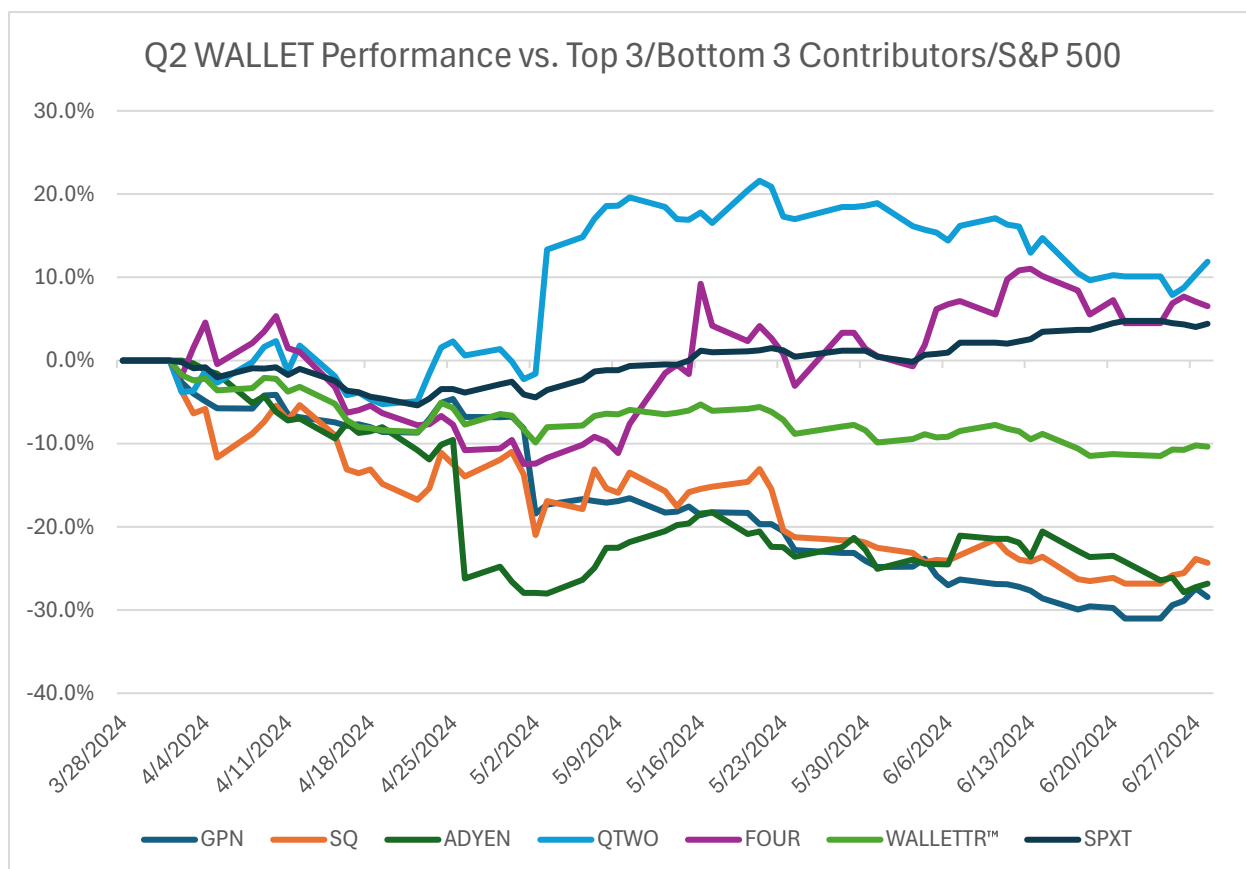
<sup>8</sup> <https://risk.lexisnexis.com/insights-resources/infographic/payments-trends>

<sup>9</sup> <https://risk.lexisnexis.com/insights-resources/infographic/payments-trends>

<sup>10</sup> <https://www.skadden.com/insights/publications/2024/04/new-rules-to-tackle-authorised-push-payment-fraud>

## WALLET Index Q2 Performance (Total Returns)

- In Q2, WALLET was down 10.82%. This is a reversal of how the index performed in Q1, finishing the quarter up 11.96%.
- Year-to-date through June 28, 2024, WALLET is nearly unchanged, down 0.16% on a total return basis. This compares to a year-to-date gain of 10.50% for the MSCI World Financials Index.



### Top 3 Contributors to WALLET Index Performance in Q2 2024

Company	Symbol	WALLET Contribution Percentage	Average WALLET (%) Weight	Q2 Total Returns (03/28-06/28)	Year-to-Date Total Returns
ACI Worldwide	ACIW	0.29%	1.59%	19.21%	38.95%
Shift 4 Payments	FOUR	0.21%	1.91%	11.02%	-4.79%
Q2 Holdings	QTWO	0.17%	1.31%	14.78%	58.17%

## Top 3 Contributor Q1 2024 Reported Earnings Insights

### ACI Worldwide (ACIW)<sup>11</sup>

- Earned \$316 million USD in total revenue, up 9% from Q1 2023, and generated cash flow from operating activities of \$123 million USD up 208% from Q1 2023.
- Banking revenue grew 20% versus Q1 2023. ACI Worldwide saw an increase in new banking customers from firms smaller than ones they historically work with, such as mega banks and Tier 1 banks. These smaller firms are seeking the highest level of scalability and reliability, something ACI Worldwide is known for, which is why it is an incremental market that resources are continuously being allocated to, accounting for this growth.
- ACI Worldwide has seen incremental growth in their payment hub, largely driven by the application of Artificial Intelligence to their products and services. This success has led to AI enhancements being applied across the company, with the goal of continued success. Additionally, the fraud prevention detection business, also powered by AI, is largely gaining traction and is becoming more and more prevalent in the digital payments space.

### Shift 4 Payments (FOUR)<sup>12</sup>

- Generated \$122 million USD of adjusted EBITDA reflecting 36% y/y growth and \$78.2 million USD of adjusted free cash flow, up 34% y/y.
- Achieved significant growth with about 9,400 SkyTab system installations in Q1, marking a 38% increase quarter-over-quarter. Additionally, in April, SkyTab Business Intelligence was launched, a reporting and analytics platform free to SkyTab POS customers.
- Expanded into new international markets including Albania, Mongolia, Fiji and the Maldives. Additionally, the acquisition of Revel was announced, enhancing Shift 4's market presence and service offerings.

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<sup>11</sup> <https://investor.aciworldwide.com/financial-information/quarterly-results>

<sup>12</sup> <https://investors.shift4.com/>

## Q2 Holdings (QTWO)<sup>13</sup>

- Q1 2024 was the first quarter with positive free cash flow, a total of \$6 million USD. Revenue generated during Q1 was \$165.5 million USD, up 8% y/y.
- The company signed four Tier 1 digital banking contracts, including expansions with existing customers, and achieved a record number of Tier 2 and Tier 3 digital banking contract signings.
- Q2 reported an 18% y/y increase in Subscription Annualized Recurring Revenue (ARR), reaching \$616.1 million USD. This is largely due to their integrated single-platform that serves retail, small business and commercial customers with one solution. This platform has driven operational efficiency and provides significant expansion opportunities having an estimated \$3 billion in ARR potential.

## Bottom 3 Contributors to WALLET Index Performance in Q2 2024

Company	Symbol	WALLET Contribution Percentage	Average WALLET (%) Weight	Q2 Total Returns (03/28-06/28)	Year-to-Date Total Returns
<b>Adyen</b>	ADYEN	-1.35%	3.91%	-29.56%	-3.95%
<b>Block</b>	SQ	-1.28%	4.72%	-23.75%	-7.11%
<b>Global Payments</b>	GPN	-1.12%	3.80%	-27.46%	-18.12%

Sources: Nasdaq Global Indexes, Bloomberg, FactSet

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

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<sup>13</sup> <https://investors.q2.com/investor-relations/financials/quarterly-earnings/default.aspx>