

## ONEPAY – WALMART – SYNCHRONY: PERSPECTIVE ON THE PENDING CREDIT CARD LAUNCH

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This Fall, OnePay will add a credit card to its product suite as the Walmart-backed fintech continues its journey. The credit card will be issued by Synchrony and in partnership with Walmart. Having Synchrony as the issuing partner associated with Walmart has always seemed to be a logical path, aside from the fact that Walmart and Synchrony parted ways on the original Walmart credit program in 2018. However, Synchrony has been the issuing partner for Sam's Club for 30+ years and recently extended the relationship in January 2025. In any case, it has been a long and winding road – considering the termination of Walmart's relationship with Capital One in 2024 in a manner that did not involve a portfolio sale or transition process. As background, Walmart and Ribbit Capital originally invested in the fintech venture under the 'Hazel' brand, which then acquired ONE in January 2022.

While there may have been discussion of potential fintech pure-plays as card issuing partners for OnePay, that prospect pool is limited considering the scale of Walmart and the peace of mind that comes with having a \$120+ billion bank as a partner. Additionally, OnePay is building a customer-facing brand with a stand-alone app embedded with other financial products/services making it a rather unique credit card partner. It would be a stretch for a traditional bank with its own consumer franchise to co-exist with OnePay given its seemingly broad ambitions – not to mention the specialized capabilities that retail-centric relationships of this nature require.

While we await more details, the product suite will include a general-purpose Mastercard serving as the program's signature card as well as a private label card. The credit cards will be embedded in the OnePay app, which includes the OnePay™ Wallet for use in Walmart channels. Seeing how (and where) the parties enable and drive new account acquisition is a key area of interest. For most retailers, in-store account acquisition has historically been the workhorse for new card accounts mainly

at the point-of-sale. Banks and retailers have no shortage of capabilities to digitize account acquisition in the store, but there have been fits and starts with adoption and the customer-store associate interaction remains powerful and difficult to replicate.

Of course, a robust customer data set for Walmart shoppers across a range of assets such as the Walmart app, Walmart Pay, and Walmart+, coupled with the use of pre-qualification and other functionality can allow direct targeting to help scale the program in a targeted, disciplined manner.

The partnership with Synchrony comes on the heels of OnePay's announcement of a relationship with Klarna to power OnePay Later, a BNPL offering. Credit, whether open- or closed-end, is fundamental to any challenger "bank" although Walmart has seeded OnePay with significant advantages given its established set of money services such as money transfer, check cashing, and prepaid cards. Based on how the Synchrony partnership was characterized in the announcement, we suspect the underlying financial structure is weighted toward a performance-based construct: "gain sharing" to use terminology Synchrony conveys to the investment community in the ordinary course.

There are a host of other areas to be mindful of when the program is launched and in-market later this year. What will the value proposition be and how will it differ from the prior programs especially with OnePay as Synchrony's partner? As mentioned above, what type of presence in Walmart channels (passive or active) will the program have? How will the cards be branded in light of OnePay's positioning and long-term ambitions? How can the parties capitalize on the scale and reach of Walmart, including any integration with other financial services such as OnePay's debit Mastercard and Walmart's massive MoneyCard business? How will the credit cards co-exist with Klarna-powered OnePay in Walmart's channels and the OnePay app? Could the relationship between Synchrony and OnePay expand beyond the Walmart ecosystem and card product suite? For that matter, what is the end game for OnePay given Ribbit Capital is an investor and the executive leadership team joined OnePay from Marcus (Goldman Sachs)?

Questions aside, we believe this partnership makes a lot of sense for all parties. The relationship between Walmart and Synchrony dates back to legacy GE where the parties launched the original program and weathered numerous credit cycles together. That history, including the prior divorce, should create alignment on scaling the program in the right way with a financial and governance structure that is resilient. One would be hard pressed to find partners who could enter a relationship with their eyes more "wide open" although OnePay is a new entity in the partnership. The

embedded nature of the product in the OnePay app has similarities to the longstanding Synchrony-PayPal partnership and ironically Apple, but that is another story. The law of large numbers associated with Walmart is unmatched and central to the launch of OnePay – the Walmart credit card program had approximately \$8.5 billion in receivables when Capital One disclosed the termination in its 8-K filing in May 2024. Therefore, it is not a matter of whether there is an addressable opportunity, but rather how best to penetrate it and optimize profitability. On that note, we expect the program to draw on Walmart assets such as Walmart+, the mega retailer's paid membership option offering special savings and benefits including those that extend to third parties in the entertainment and lifestyle categories. As we await details on the value proposition for the credit card, note that the OnePay debit card offers 3% cash back (in OnePay Points) on up to \$150 in Walmart purchases each month subject to meeting specific deposit and/or balance requirements associated with the account. Time will tell, but we expect lessons learned from the past to guide the future though it may require more patience this time around.