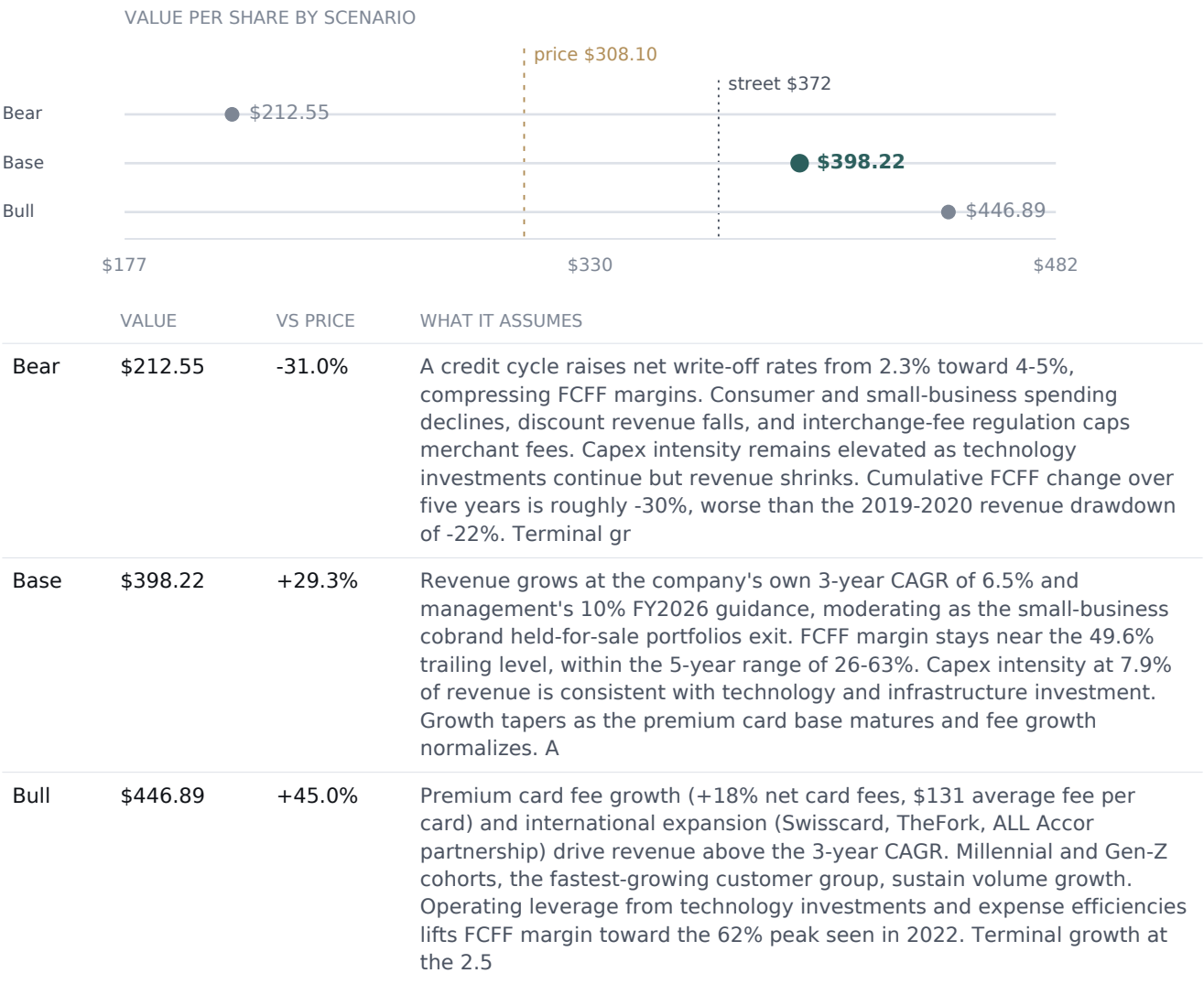


EQUITY RESEARCH / AXP

American Express Company

LONG CANDIDATE · historical study through 2026-10-08 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$308.10	\$398.22	+29.3%	\$363.97	\$208.06B	18.7x



STREET CHECK

Street target **\$372** (+20.6% vs price) · 15 buy / 14 hold / 0 sell · forward P/E 15.1x · EPS estimates \$17.71 this year, \$20.15 next

Our base case is **1.07x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

American Express generates \$21,372M of trailing FCFF at a 49.6% margin from an integrated premium card-issuing, merchant-acquiring, and network platform with recurring fee and interest income. The base-case DCF values the stock at \$398.22 vs. the \$308.10 price, a 29.2% gap, driven by mid-single-digit FCFF growth consistent with the company's own 6.4% revenue CAGR, 8.9% YTD growth, and management's 10% FY2026 guidance. The earnings multiple corroborates the direction at \$341.47 (10.8% upside) on 18.5x forecast EPS of \$18.46. The probability-weighted value of \$363.97 (18.1% upside) reflects a 50% base, 25% bear, 25% bull weighting. The core argument is that the market prices in a structural slowdown or credit deterioration that the filing's actual data - best-in-class 2.3% net write-off, 1.3% 30+ DPD, 18% net card fee growth, \$131 average fee per card, and a reserve release in Q2 2026 - does not support.

What the market may be missing

At 18.7x trailing P/E, the market implies roughly -0.54% FCFF growth at the anchor WACC of 10.84%. The filing contradicts this: revenue grew 6.4% last year, YTD growth is 8.9%, management guides 10% for FY2026, net card fees grew 18%, and credit performance is best-in-class (2.3% net write-off, 1.3% 30+ DPD). The market appears to price a structural slowdown or credit deterioration that the filing does not support. The P/E sits within the company's own five-year range of 15.0-24.05x (median 16.71x), so the multiple is not extreme, but the implied growth is negative while the company's own trajectory is positive.

Why the opportunity exists

A narrative overshoot. The market prices AXP at 18.7x trailing P/E, implying roughly -0.54% FCFF growth at the anchor WACC. This implies a structural slowdown or credit deterioration that the filing's actual data contradicts: revenue grew 6.4% last year, YTD growth is 8.9%, management guides 10% for FY2026, net card fees grew 18%, credit performance is best-in-class (2.3% net write-off, 1.3% 30+ DPD), and Q2 2026 saw a \$190M reserve release vs. a prior-year build of \$198M. The market has adopted a pessimistic narrative about credit risk, interchange compression, or consumer-spending contraction that the filing does not support. The P/E is within the company's own five-year range (15.0-24.05x), so the multiple is not extreme, but the implied growth is negative while the company's own trajectory is positive. The narrative overshoot is not simply correct because the filing's credit metrics, fee growth, and management guidance all point to positive growth, not the negative growth the price implies. Evidence: Market implied FCFF growth of -0.54% at anchor WACC vs. actual revenue growth of 6.4% last year, 8.9% YTD, management's 10% FY2026 guidance, 18% net card fee growth, 2.3% net write-off rate, 1.3% 30+ DPD, and Q2 2026 reserve release of \$190M vs. prior-year build of \$198M.

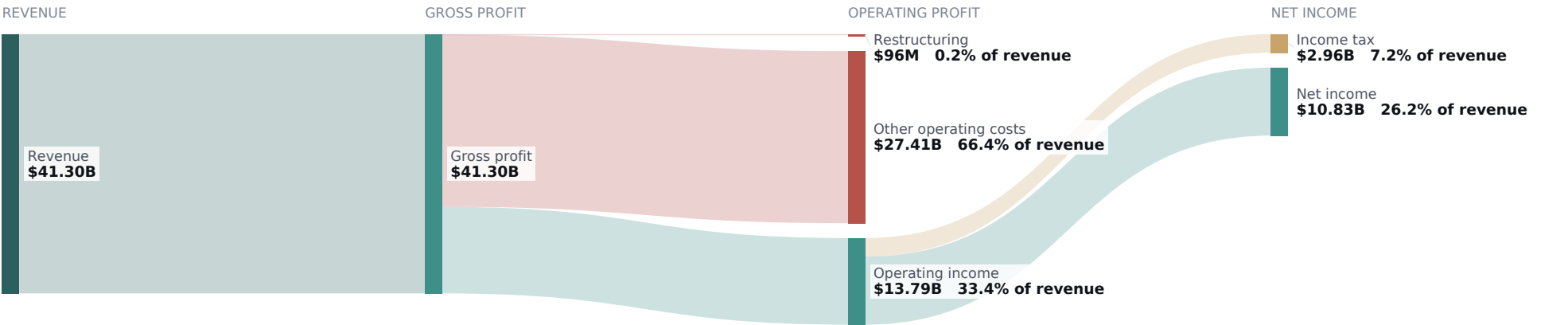
Since our last note

Thesis intact against our note of 2026-10-03 (investigate long). The shares have moved +1.8% since. No guidance-versus-delivery record is available in SINCE THEN. The prior memo noted management raised FY2026 revenue growth guidance to 10% and maintained EPS guidance of \$17.30-\$17.90. No delivery has been recorded yet. Management's track record of raising revenue guidance based on better-than-expected first-half performance and reinvesting outperformance in growth initiatives is consistent with the filing's language. The ~16% dividend increase beginning Q1 2026 and CET1 target of 10-11% are maintained. No credibility issue is identified, but the guidance has not yet been tested against delivery.

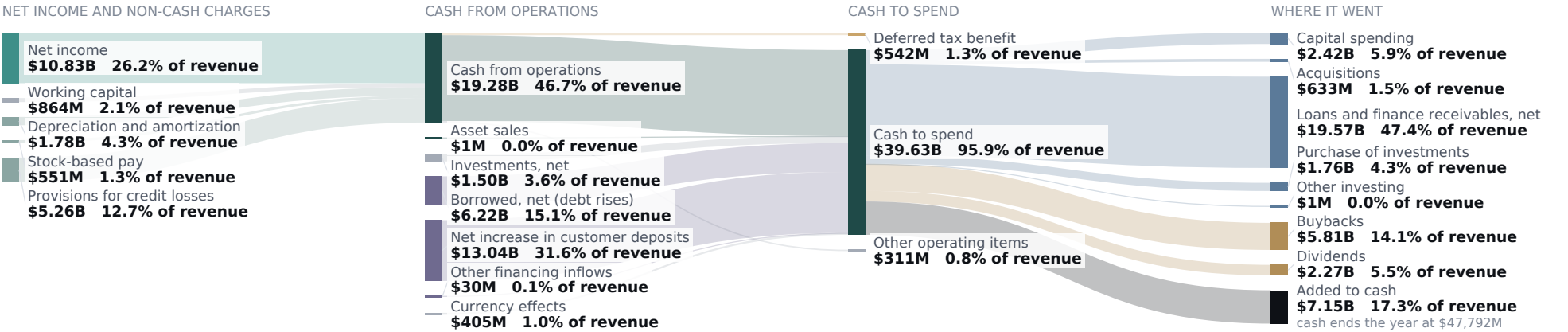
Follow the money: fiscal 2025

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$67 to operating costs and \$7.2 to interest and tax, and \$26 became net income. Operations turned that into \$45 of cash; \$5.9 went to capital spending and \$20 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0000004962-26-000080. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

American Express is a global payments and premium lifestyle brand powered by technology, operating an integrated card-issuing, merchant-acquiring, and card network platform serving consumers, small businesses, mid-sized companies, and large corporations worldwide.

What it sells

Credit and charge cards and complementary products (travel, dining, lifestyle, expense management); banking and payment/financing products (deposits, non-card lending, consumer installment loans, lines of credit, B2B payment products); merchant acquisition, processing, servicing, settlement, fraud prevention, and point-of-sale marketing/information services; network services (processing and settling transactions globally); Membership Rewards and Amex Offers loyalty programs; dining platform (Resy, Tock); expense management software (Center acquisition); travel-related services via Global Business Travel Group equity investment. Credit and charge cards and complementary products (travel, dining, lifestyle, expense management); banking and payment/financing products including deposits and non-card lending; merchant acquisition, processing, servicing, settlement, fraud prevention, and point-of-sale marketing/information products; network services. Revenue types: discount revenue (largest source, earned from merchant payable for facilitating transactions), interest income on loan balances, net card fees (annual membership fees varying by card type and number), and service fees/other revenue (network partnership royalties, alternative payment fees, FX-related fees, loyalty coalition fees, delinquency fees, travel commissions, equity-method investment income). Credit and charge cards and complementary travel, dining, lifestyle, and expense-management products; banking and other payment/financing products including deposits and non-card lending; merchant acquisition, processing, servicing, settlement, fraud prevention, and point-of-sale marketing and information products; network services. Products are delivered through mobile/online apps, affiliate marketing, customer referral programs, third-party service providers and business partners, in-house sales teams, direct mail, telephone, and direct response advertising.

Customers and channels

Customers: premium consumers, small businesses, mid-sized companies, large corporations. Channels: mobile and online applications, affiliate marketing, customer referral programs, third-party service providers and business partners, in-house sales teams, direct mail, telephone, direct response advertising. Network partners in approximately 110 countries and territories issue Amex-branded cards and/or serve as merchant acquirers. Cobrand partners include Delta, Marriott, British Airways, Hilton. OptBlue program lets third-party acquirers contract directly with small merchants. Premium consumer, small business, and corporate Card Members globally; merchants (acquired and processed through GMNS network); network partners (third-party card issuers, merchant acquirers, prepaid/gift card program manager); direct deposit program (~3.9 million accounts as of Dec 31, 2025); third-party distribution channels for deposits. Fastest-growing cohorts are Millennial and Gen-Z Card Members. Channels include proprietary card issuance, cobrand partnerships, network partnerships, and the dining platform for restaurants. Broad range of consumers, small businesses, mid-sized companies, and large corporations globally. Channels include mobile and online applications, affiliate marketing, customer referral programs, third-party service providers and business partners, in-house sales teams, direct mail, telephone, and direct response advertising. Millennial and Gen-Z cohorts are described as the largest and fastest-growing customer group.

Unit economics and costs

Revenue model: primarily driven by spending on cards (discount revenue from merchants), secondarily by finance charges and fees. Annual fees on many card products support value propositions. Costs include Card Member rewards and services expenses, marketing and payment solutions for merchants, investments in Membership Model, technology infrastructure, and compliance/regulatory costs. The company invests heavily in brand management, marketing, and customer care. Competitors' cost structures may differ (e.g., fintechs with lower costs, different revenue streams). No specific unit-level cost figures are disclosed in the excerpt. Premium, high credit-quality customer base drives best-in-class credit performance (net write-off rate 2.3% principal+interest+fees, 2.0% principal-only consumer/small business; 30+ DPD 1.3%). Discount revenue as % of billed business declined to 2.24% (from 2.27% prior year, 2.29% in 2023) due to geographic/merchant mix shifts. Total expenses grew 11% vs revenue growth of 10%, with Card Member rewards +11%, business development +10%, Card Member services +27%, marketing +4%, salaries +10%. Operating expense grew slower than revenue. Membership Rewards URR at 96% (rounded down). ROE 33.9% (down from 34.6%). Effective tax rate 21.5%. CET1 10.5%. Average diluted shares declined 2% to 696M. Capital returned \$7.6B (71% of net income available to common shareholders). Discount revenue as % of billed business: 2.23% (Q2 2026) vs 2.25% prior year. Average fee per card: \$131 (+12%). Net interest yield: 8.1% Q2, 8.3% YTD. Variable customer engagement expenses (Card Member rewards \$5,051M +9%, business development \$1,755M +10%, Card Member services \$1,949M +50%) driven by Card Member spending, U.S. Platinum refresh, and benefits usage. Marketing \$1,650M (+6%). Salaries and employee benefits \$2,344M (+9%). Membership Rewards Ultimate Redemption Rate: 96% as of June 30, 2026. Total expenses \$14,482M (+12%). Effective tax rate 23.6% Q2 (vs 18.7% prior year, reflecting prior-year discrete tax benefits).

Segments

- **U.S. Consumer Services (USCS)** - Card-issuing business for premium U.S. consumers; Membership Model, rewards, travel/lifestyle benefits. Issues proprietary consumer cards, provides travel/lifestyle services, banking and non-card financing, and manages the dining platform for restaurants and reservation bookings. Issues proprietary consumer cards and provides travel, lifestyle, banking, and non-card financing services to U.S. consumers; manages the reservation and dining platform for restaurants, venues, and diners.
- **Commercial Services (CS)** - Card-issuing and expense management for small businesses, mid-sized companies, and large corporations. Issues proprietary corporate and small business cards, provides payment/expense management, banking, non-card financing to U.S. businesses, and select global corporate clients. Issues proprietary corporate and small business cards and provides payment, expense management, banking, and non-card financing services to U.S. businesses; also serves select global corporate clients.
- **International Card Services (ICS)** - Card-issuing business outside the U.S. Issues proprietary consumer, small business, and corporate cards outside the U.S.; provides travel/lifestyle services; manages international joint ventures and loyalty coalition business. Issues proprietary consumer, small business, and corporate cards outside the U.S.; provides travel and lifestyle services; manages international joint ventures and loyalty coalition business. Swisscard became wholly owned subsidiary on January 12, 2026.
- **Global Merchant and Network Services (GMNS)** - Merchant acquisition, processing, servicing, settlement, fraud prevention, marketing, data analytics, network services. Operates global payments network processing/settling transactions, acquires merchants, provides multi-channel marketing/data analytics, manages partnership relationships with third-party card issuers, merchant acquirers, and prepaid/gift card program manager. Operates global payments network processing and settling card transactions, acquires merchants, provides multi-channel marketing programs, services, and data analytics; manages partnerships with third-party card issuers, merchant acquirers, and prepaid/gift card program manager; licenses the American Express brand.
- **Corporate & Other** - Corporate functions and certain other businesses. Corporate functions and certain other businesses and operations.

Revenue drivers

- Worldwide billed business of \$1,670 billion (spending on Amex cards issued by the company) for year ended December 31, 2025
- Worldwide processed volume of \$227.2 billion (third-party cards and alternative payment solutions) for year ended December 31, 2025
- 86.6 million proprietary cards-in-force worldwide as of December 31, 2025
- 66.2 million cards-in-force issued by third parties worldwide as of December 31, 2025
- Discount revenue from merchants (fee charged to merchant for accepting Amex cards)
- Finance charges and fees (interest income from Card Member loans)
- Annual fees on many card products
- Fee revenue from cobrand partners (e.g., Delta cobrand portfolio ~13% of worldwide billed business, ~21% of worldwide Card Member loans)

Competitive position

Fourth largest general-purpose card network globally by purchase volume, behind Visa, China UnionPay, and Mastercard. Visa and Mastercard are believed to be larger in most countries. Key differentiator: integrated payments platform with direct relationships at both ends of the transaction (card issuer and merchant acquirer), providing data at both sides. Premium positioning with high-spending, creditworthy customers. Brand attributes: trust, security, service. Competes with networks, issuers, acquirers, fintechs, digital wallets, BNPL, stablecoins, agentic commerce platforms. Intense competition in premium space and for cobrand relationships. Management describes a 'differentiated business model' with 'premium, high credit-quality customer base' and 'greater scale and operating leverage achieved over the last several years.' Best-in-class credit performance supported by premium customer base, strong risk management, and disciplined growth strategy. Brand strength drives high card fees (\$117 average fee per card, up 14%). Global merchant network expansion added millions of new locations in 2025. Management acknowledges 'evolving competition' but expresses confidence in navigating it. Product refresh cycle (U.S. Consumer and Business Platinum Cards) drives engagement and fee growth. Millennial and Gen-Z cohorts are fastest-growing, indicating demographic advantage. Competes in global payments industry with networks, issuers, acquirers, and other payment service providers, including paper-based transactions (cash, checks) and electronic transfers (wire, ACH), as well as evolving alternative mechanisms, systems, and products leveraging new technologies, business models, and customer relationships. The payments industry continues to undergo changes in response to evolving technologies, business dynamics, and competition for premium customers. Ranked #1 in JD Power 2026 U.S. Credit Card Mobile App & Online Satisfaction Studies.

Industry direction

Payments industry undergoing rapid change: agentic commerce (AI agents initiating transactions), stablecoins, digital currencies, open banking, real-time settlement, BNPL, point-of-sale lending, tokenization, blockchain, distributed ledger technologies. Regulatory pressure on interchange fees, surcharging, and network operations. Open banking initiatives may disintermediate incumbents. Competitors integrating financial services and building integrated platforms. AI technologies increasingly integrated into payments. Regulatory frameworks for stablecoins established in the U.S. Potential for new competitors with different cost structures and regulatory advantages. Management notes 'uncertainty of the geopolitical and regulatory landscape' and 'volatility in the capital markets.' Credit performance remains stable but reserve models reflect 'deterioration in the macroeconomic outlook.' Lower interest rates benefit interest income growth but reduce deposit interest expense. Global minimum tax implementation affects effective tax rate. Regulatory environment includes Federal Reserve stress testing, Basel III capital requirements, and enhanced prudential standards as a Category III firm. Management focuses on long-term positioning, backing customers, disciplined expense management, and strategic investment. Payments industry undergoing changes in response to evolving technologies, business dynamics, and competition for premium customers. Alternative mechanisms, systems, and products leveraging new technologies, business models, and customer relationships create payment, financing, or banking solutions. Management notes uncertainty of geopolitical and regulatory landscape but manages for the long term.

Recent developments

- Presentation change effective Q1 2026: Card Member loans and Card Member receivables now presented on a combined basis as Card balances, reflecting expansion of lending features on charge card portfolio; no impact on recognition or measurement.
- Proposed acquisition of TheFork, a leading European restaurant booking platform with 50,000 restaurants across 11 countries.
- Acquired partner's interest in Switzerland joint venture (Swisscard AECS GmbH) on January 12, 2026, making it a wholly owned subsidiary; prior equity-method accounting replaced.
- Announced sale of approximately 30% equity interest in Global Business Travel Group, Inc. pursuant to its pending acquisition; expects sizable pre-tax gain reflected in Other expense.
- Exit of small business cobrand held-for-sale portfolios expected to moderate spend growth.
- Reserve release in Q2 2026 (\$190M) vs reserve build in prior year (\$198M), reflecting further strengthening of portfolio credit performance; delinquency declined to 1.2%.
- Legal reserves increased in Q2, driving higher Corporate & Other pretax loss (\$569M vs \$550M).
- Gains on Amex Ventures investments and gain on sale of small business cobrand portfolio previously classified as Card balances HFS.

Management outlook

Management raised FY 2026 revenue growth guidance to 10% based on better-than-expected first-half performance and plans to reinvest outperformance in growth initiatives. Full-year EPS guidance maintained at \$17.30 to \$17.90. Management expects moderation in spend growth as it exits small business cobrand held-for-sale portfolios. CET1 target range maintained at 10-11%. Management plans to continue returning excess capital to shareholders while managing CET1 within target range and supporting balance sheet growth. Management notes uncertainty of geopolitical and regulatory landscape but manages for the long term, focusing on backing customers and colleagues, strengthening risk management, and strategically investing in the business. Management expresses confidence in the 'resiliency of our differentiated business model' and 'strength and stability of our performance' to navigate evolving competition and economic environments. Focus areas: backing customers and colleagues, disciplined expense management, strategic investment in the business. Plans to continue returning excess capital to shareholders while managing CET1 within 10-11% target range and supporting balance sheet growth. Plans ~16% dividend increase beginning Q1 2026. Acknowledges uncertainty of geopolitical and regulatory landscape but manages for the long term. Funding plan for 2026 includes \$4-8B unsecured term debt and \$2-6B secured term debt issuance. Focus on driving marketing and operating expense efficiencies over time. Five strategic imperatives: (1) expand leadership in premium consumer space via membership benefits and partner roster; (2) build on commercial payments position via card value propositions, expense management, financing/banking solutions; (3) strengthen global integrated network via merchant acceptance, fraud protection, marketing insights; (4) leverage unique global position; (5) reimagine customer and colleague experiences for innovation, productivity, efficiency. Management expects to continue significant investments in Delta partnership. No specific numeric forward guidance is provided in the excerpt.

Accounting flags

- Presentation change effective Q1 2026: Card Member loans and Card Member receivables combined as Card balances; prior periods reclassified. No impact on recognition or measurement.
- Effective tax rate rose to 23.6% in Q2 2026 vs 18.7% prior year, primarily reflecting discrete tax benefits in prior periods related to resolution of certain prior-year tax items.
- Reserve release in Q2 2026 (\$190M) vs reserve build in prior year (\$198M); reserve releases driven by lower delinquencies partially offset by sequential increases in Card balances.
- Gain on remeasurement of ownership interest in Swisscard resulting from purchase of remaining share of joint venture.
- Gain on sale of small business cobrand portfolio previously classified as Card balances HFS.
- Reserve release related to allocation of revenue to a joint venture partner as a result of a final arbitration award.

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$43.09B	\$41.30B	+6.4% y/y
Net income	\$11.45B	\$10.83B	
Diluted EPS	\$16.48	\$15.38	18.7x trailing P/E
Operating cash flow	\$18.48B	\$18.43B	+31.2% y/y
Capital spending	\$3.42B	\$2.42B	7.9% of revenue
Unlevered FCF	\$21.37B		10.3% yield
Cash and short-term investments	\$45.56B		
Net debt	\$13.48B		
Share repurchases	\$7.46B	\$5.81B	3.6% yield
Market capitalisation	\$208.06B		

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-07-24). No matching year-to-date fact, so these stay on fiscal-year figures: interest_expense. Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$2,032.0M (Short-term borrowings) falls due within twelve months of 2026-06-30; the price date is 100 days later, so check in the filing whether any of it matured or was refinanced before

The counter-case

The base case assumes FCFF growth of 5.2% average, which is well inside the anchors.growth band of -1.5% to 31.2%. However, the starting FCFF margin of 49.6% is below the five-year median of 52.3% and the 2022 peak of 62.6%. If the margin reverts toward the median, the base case value would be lower. The break-even discount rate is 13.22%, meaning the base case equals the price only if the WACC rises by 238 basis points or growth falls by 5.8 percentage points. The terminal value represents 67.2% of the base-case enterprise value, making the valuation highly sensitive to terminal assumptions. The earnings multiple base target of \$341.47 is only 10.8% above the price, a thinner margin than the DCF. If the market's implied -0.54% growth is correct - reflecting genuine structural compression from interchange regulation, agentic commerce, or stablecoin disintermediation - the thesis fails. A genuine bear case exists: if net write-off rates rise from 2.3% toward 4-5% in a credit cycle, the \$5,037M TTM provision embedded in FCFF would compress margins materially. The 2019-2020 drawdown saw revenue fall 22% and OCF fall 59%, demonstrating the severity of a downturn for this business. Interchange-fee caps, surcharging laws, and CFPB data rights rules could compress merchant discount revenue, which already declined from 2.29% to 2.24% of billed business. The Delta cobrand portfolio represents ~13% of worldwide billed business and ~21% of Card Member loans; a renegotiation or loss would be material. The bear DCF at \$212.55 (-31%) and the bear P/E target of \$258.41 (-16.1%) reflect this scenario. The market's implied -0.54% FCFF growth suggests it already prices some of this risk, but not the full severity of a credit cycle.

Valuation

AXP generates positive, reasonably predictable FCFF (\$21,372M TTM, 49.6% margin) from an integrated card-issuing, merchant-acquiring, and network platform with recurring fee and interest income. The earnings multiple is also informative because diluted EPS is positive (\$16.48 TTM) and sustainable, with management guiding \$17.30-\$17.90 for FY2026. Both methods are appropriate: DCF captures the cash-generative premium card and network business, while the P/E reflects the market's pricing of earnings quality, credit risk, and regulatory exposure. Credit risk matters to the case: the provision for credit losses (\$5,037M TTM) is already embedded in operating cash flow as a cost, and the captive_finance flag is null, so the loan book's funding is not separately excluded from net debt. The finance arm's credit risk is therefore reflected in FCFF and must be considered in the bear case.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -15%, -10%, -5%, +0%, +1%; WACC 10.8%; terminal growth 1.0%	\$212.55	-31.0%
Base	FCFF growth +6%, +6%, +5%, +5%, +4%; WACC 10.8%; terminal growth 2.0%	\$398.22	+29.3%
Bull	FCFF growth +8%, +8%, +7%, +6%, +5%; WACC 10.8%; terminal growth 2.5%	\$446.89	+45.0%
Bear (P/E)	14.0x forward EPS \$18.46 (reported diluted, growth +12.0%)	\$258.41	-16.1%
Base (P/E)	18.5x forward EPS \$18.46 (reported diluted, growth +12.0%)	\$341.47	+10.8%

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bull (P/E)	22.0x forward EPS \$18.46 (reported diluted, growth +12.0%)	\$406.07	+31.8%

- Discount rate: the model used 10.8% against an anchor of 10.8% (risk-free 5.28%, beta 1.12, equity risk premium 5.0%, cost of equity 10.9%, after-tax cost of debt 10.7%, debt 22% of capital). Departure rationale: Using the anchor WACC of 10.84% across all scenarios. No departure is warranted: the beta of 1.12, cost of debt of 10.7% after tax, and 22% debt weight reflect AXP's financial-services leverage and credit exposure. The anchor captures the risk adequately; bear and bull are expressed through cash flows, not the discount rate.
- The price implies constant five-year FCFF growth of -0.5% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -1.5% to +31.2% a year; worst revenue decline -22% (2019-2020); own trailing P/E 15.0-24.05x (median 16.71x) over the last five fiscal year ends.
- Sensitivity to discount rate: 8.8% gives \$523, 9.8% gives \$452, 10.8% gives \$398, 11.8% gives \$355, 12.8% gives \$320.
- Sensitivity to terminal growth: 1.0% gives \$367, 1.5% gives \$382, 2.0% gives \$398, 2.5% gives \$417, 3.0% gives \$437.
- Per-share values use 675,309,833 shares as of 2026-07-14; the fiscal-year diluted average differs by +3.1%.
- Probability-weighted value \$363.97 (+18.1% vs price) at 25%/50%/25% weights.

Bear (\$212.55, -31%): A credit cycle raises net write-off rates from 2.3% toward 4-5%, consumer and small-business spending declines, discount revenue falls, and interchange-fee regulation caps merchant fees. FCFF declines cumulatively by roughly 30% over five years, worse than the 2019-2020 revenue drawdown of 22%. Terminal growth at 1% reflects a shrinking premium-card market under regulatory pressure. Base (\$398.22, +29.2%): Revenue grows at the company's own 6.4% CAGR, moderating as held-for-sale cobrand portfolios exit. FCFF margin stays near 49.6%. Net card fees grow but at a normalizing pace. Capex intensity at 7.9% of revenue is consistent with technology investment. Terminal growth at 2% reflects a structurally growing premium-payments market. Bull (\$446.89, +45.0%): Premium card fee growth (+18% net card fees, \$131 average fee per card) and international expansion (Swisscard, TheFork, ALL Accor) drive revenue above the 3-year CAGR. Millennial and Gen-Z cohorts sustain volume growth. Operating leverage lifts FCFF margin toward the 62% peak seen in 2022. Terminal growth at 2.5% reflects a structurally growing premium-payments market.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$398.22	+29.3%
WACC 100bp higher	\$355.04	+15.2%
Pre-tax cost of debt 200bp higher	\$382.07	+24.0%
Every year's FCFF growth 5 points lower	\$319.79	+3.8%
Every year's FCFF growth 5 points higher	\$491.67	+59.6%
Starting FCFF 10% lower	\$356.40	+15.7%
Starting FCFF 10% higher	\$440.04	+42.8%

The base case equals the price at a 13.2% WACC or if every annual FCFF growth rate were -5.8% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. No peer comparables are available for this quarter (anchors.peers status is 'unavailable'; no frozen peer tree). Without peer data, the P/E comparison relies solely on AXP's own five-year trailing P/E range of 15.0-24.05x (median 16.71x) and the trailing P/E of 18.7x. AXP's FCFF margin of 49.6% and net margin of 26.6% reflect a premium, fee-driven business model with integrated card-issuing and merchant-acquiring operations. No fiscal-year differences or one-off items distort the comparison because no peers are listed.

What would change the view

Key debates

- Credit performance and provision for credit losses: The \$5,037M TTM provision is embedded in FCFF as a cost. A shift from 2.3% net write-off to 4-5% would compress FCFF margins by several points and swing the bear case. Reserve models already reflect 'deterioration in the macroeconomic outlook,' making this the single most decisive variable. (Fact sheet: finance_credit_loss_provision \$5,037M TTM; business read: net write-off rate 2.3%, 30+ DPD 1.3%; Q2 2026 reserve release \$190M vs prior-year build \$198M.)
- Premium card fee growth vs merchant discount rate compression: Net card fees grew 18% and average fee per card rose 12% to \$131, but discount revenue as a percentage of billed business declined from 2.29% to 2.24% due to geographic and merchant mix shifts. The balance between fee growth and discount-rate compression determines FCFF margin trajectory. (Fact sheet: revenue growth 6.4% last year, YTD 8.9%; business read: discount revenue as % of billed business 2.24% (2025), 2.23% (Q2 2026); net card fees +18%.)
- Regulatory and interchange-fee risk: Interchange fee caps, surcharging laws, and CFPB data rights rules could compress merchant fees or force network changes. AXP is a Category III firm subject to stress testing, and potential reclassification to Category II (cross-jurisdictional activity \$76B) adds capital requirements. (Business read key_risks: 'Regulatory and compliance risk: CFPB, Federal Reserve, OCC, FDIC, CFPB data rights rule, interchange fee caps, surcharging laws, EU/UK/Canada consumer protection'; potential reclassification to Category II.)

Catalysts

- FY 2026 earnings confirming revenue growth near the 10% guidance and EPS within \$17.30-\$17.90.
- Quarterly credit metrics: net write-off rate, 30+ DPD, and provision trajectory confirming the Q2 2026 reserve release is not a one-off.

- U.S. Platinum card renewal rates and spend velocity post-refresh, which drive net card fee growth.
- Regulatory developments on interchange fees, surcharging, or CFPB data rights that could either compress or validate the fee model.
- Integration milestones for TheFork, Swisscard, and the expense management platform, which support international and commercial growth.
- Share repurchase pace and the ~16% dividend increase beginning Q1 2026, confirming capital return discipline.

Invalidation

- Net write-off rates breaking above 2.5% for two consecutive quarters, signaling a credit cycle that compresses FCFF margins.
- Revenue growth falling below 8% for FY2026, contradicting management's 10% guidance and the 8.9% YTD trajectory.
- Broad federal interchange fee caps or surcharging mandates reducing net revenue per transaction, compressing the 2.24% discount rate.
- Loss or material renegotiation of the Delta cobrand relationship (~13% of billed business, ~21% of Card Member loans).
- FCFF margin falling below the five-year minimum of 26.3% for two consecutive quarters, indicating structural cost or credit deterioration.
- Delinquency rising above 1.5% and the provision for credit losses exceeding \$6,000M on a trailing basis.

Risks

- Credit cycle: write-off rates rising from 2.3% toward 4-5% would compress FCFF margins by several points.
- Interchange-fee regulation and surcharging laws compressing merchant discount revenue.
- Consumer and small-business spending contraction reducing billed business and discount revenue.
- Customer concentration: Delta cobrand ~13% of billed business, ~21% of Card Member loans.
- Open banking, agentic commerce, stablecoins, and BNPL disintermediating the premium card model.
- Regulatory reclassification to Category II firm (cross-jurisdictional activity \$76B) increasing capital requirements.
- Geopolitical instability, trade wars, and tariffs affecting international card services.
- Terminal value represents 67.2% of base-case enterprise value, making the DCF highly sensitive to terminal growth assumptions.

Short side

A short is not the primary view here because the base-case value (\$398.22) is well above the price (\$308.10). However, the bear case at \$212.55 (-31%) is genuine and would require a credit cycle with write-off rates at 4-5%, consumer-spending contraction, and interchange-fee compression. If a short were pursued, borrow availability for AXP is typically adequate given its large market cap (\$208,063M) and high liquidity, but squeeze risk is low for a mega-cap financial. Timing would depend on a credit-cycle inflection or regulatory action. The unbounded loss concern is mitigated by the fact that AXP is not a distressed or low-liquidity name; the downside is bounded by the bear DCF at \$212.55, which is 31% below the price. A short would be a bet against the credit cycle and regulatory compression, not against the business model itself.

Open questions

Will the Q2 2026 reserve release of \$190M continue or reverse in subsequent quarters, given that reserve models reflect 'deterioration in the macroeconomic outlook'? (forecast uncertainty)

Monitor quarterly provision for credit losses and net write-off rates. A reversal to a build would signal credit deterioration and support the bear case. Watch: Provision for credit losses exceeding \$5,500M on a trailing basis or net write-off rate above 2.5%.

How much of the 2.24% discount revenue as a percentage of billed business decline is structural (geographic/merchant mix) versus cyclical, and can fee growth offset it? (forecast uncertainty)

Track discount revenue as a percentage of billed business quarterly. If it falls below 2.20% without offsetting fee growth, FCFF margins compress. Watch: Discount revenue as % of billed business below 2.20% for two consecutive quarters.

What is the quantified after-tax impact of the prior-period discrete tax benefits that inflated the prior-year effective tax rate to 18.7% vs. 23.6% in Q2 2026? (missing fact)

The dollar amount is not separately disclosed as a discrete item in the excerpts. The effective tax rate of 22.47% on a trailing basis is within the statutory 21% range, so the distortion is modest. No normalization adjustment was made. Watch: A future filing disclosing the discrete tax benefit amount.

Has any of the \$2,032M in short-term borrowings maturing within twelve months of 2026-06-30 been refinanced or repaid before the 2026-10-08 price date? (missing fact)

The fact sheet notes this as a check item. The WACC cost of debt is based on observed rates, so refinancing at a different rate could shift the discount rate. The impact on the base case is small given the 22% debt weight. Watch: Next quarterly filing showing short-term borrowings balance.

Limitations

The base-case DCF value of \$398.22 depends on a starting FCFF margin of 49.6%, which is below the five-year median of 52.3% and the 2022 peak of 62.6%. The terminal value represents 67.2% of the base-case enterprise value, making the valuation highly sensitive to the 2% terminal growth assumption. The earnings multiple base target of \$341.47 is only 10.8% above the price, a thinner margin than the DCF's 29.2%. No peer comparables are available for cross-checking the P/E. The starting FCFF includes a \$190M reserve release and prior-period discrete tax benefits that are not separately quantified as non-recurring items; if these are truly non-recurring, the starting FCFF would be lower. The break-even discount rate of 13.22% and break-even growth shift of -5.83 percentage points show the base case is not robust to modest assumption changes. The prior memo's base value of \$437.94 was higher than the current \$398.22; the moderation reflects a more conservative growth path (5.2% average vs. the prior memo's implied higher growth) and the same starting FCFF. No assumption in the prior memo is identified as wrong; the difference is in the growth path and terminal assumptions. Per-share values use point-in-time shares outstanding; the fiscal-year diluted weighted average differs by +3.1%. This historical count difference also reflects timing and share repurchases; it is not an estimate of future dilution. Outstanding options, RSUs or convertibles require a separate analysis. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: core line items missing:operating income; exposure quote unverified:consumer demand; exposure quote unverified:credit; exposure quote unverified:customer concentration; exposure quote unverified:regulation.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-06 (accession 0000004962-26-000080).

10-Q for the quarter ended 2026-06-30, filed 2026-07-24 (accession 0000004962-26-000322).

8-K for the earnings release dated 2026-07-24, filed 2026-07-24 (accession 0000004962-26-000318).

- Price: historical close of \$308.10 on 2026-10-08.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 605 · memo SHA-256 83e4b2dbdef291d5... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.