Company Name: PayPal
Company Ticker: PYPL US
Date: 2018-04-25
Event Description: Q1 2018 Earnings Call

Market Cap: 87,851.39
Current PX: 74.00
YTD Change($): +.38
YTD Change(%): +.516

Bloomberg Estimates - EPS
Current Quarter: 0.556
Current Year: 2.285
Bloomberg Estimates - Sales
Current Quarter: 3755.265
Current Year: 15253.850

Q1 2018 Earnings Call

Company Participants

- Gabrielle L. Rabinovitch
- Daniel H. Schulman
- John D. Rainey
- William J. Ready

Other Participants

- Tien-Tsin Huang
- Bryan C. Keane
- George Mihalos
- Ramsey El-Assal
- Jeff Cantwell
- Heath Terry

MANAGEMENT DISCUSSION SECTION

Gabrielle L. Rabinovitch

GAAP and Non-GAAP Financial Measures

We will discuss some non-GAAP measures in talking about our company's performance

You can find the reconciliation of these non-GAAP measures to the most directly comparable GAAP measures in the presentation accompanying this conference call

Daniel H. Schulman

Business Highlights

Revenue, Non-GAAP Operating Income and EPS

- I'm pleased to say that PayPal had another quarter of strong results and we are off to a great start for the year
- We generated $3.69B of revenue in Q1, growing at 24% on a spot basis and 22% on a currency-neutral basis
- We delivered $829mm in non-GAAP operating income
- That's up 29% y-over-y, driven by a 90-basis-point increase in our non-GAAP operating margin, which was 22.5% for the quarter
- As a result, we delivered $0.57 of non-GAAP EPS, up 29% y-over-y

Customer Choice Initiative

- We also had another quarter of strong customer growth and engagement
- We added 8.1mm net new actives, up 35% y-over-y, bringing our total active accounts to 237mm
    - This strong performance was driven by continued growth of core PayPal and Venmo users and our Customer Choice initiative
- Choice continues to produce strong customer acquisitions and a y-over-y reduction in our overall churn rate
- We expanded the global rollout of Choice by launching in China and nine additional countries across Southeast Asia and further expanding into Europe by launching in France, Germany, Italy and Spain

Customer Acquisition

- Following the addition of a record 29mm net new actives in 2017, we are pleased to see continued strength in our customer acquisition
- We remain confident that net new actives for this year will be in line with the record additions we experienced last year
- And as our consumer base expands, the growth of merchants signing up to our platform is also accelerating
- Our merchant base now totals 19mm accounts
    - This powerful network effect along with continued improvements to our technology platform and enhancements in our product experiences continues to drive increasing engagement
- PayPal ended Q1 with 34.7 transactions per active account, up once again by 8%

Global Footprint

- Our efforts to redefine our ecosystem with landmark partnerships, the introduction of new products and services and the continued expansion of our global footprint led to strong volume growth
- PayPal processed $132B in TPV in the quarter, up 32% on a spot basis and up 27% on a currency neutral basis
- On an FX-neutral basis, our Merchant Services TPV grew at five times the rate of our eBay Marketplaces TPV

Market Leadership

- There's no doubt that we are benefiting from the explosion of mobile and its corresponding impact on the digitization of commerce and all forms of currency
- We're executing against a focused and strategic plan intended to maximize the benefit of these trends and extend our market leadership
    - We are clearly transforming from a payments button to an open digital payments platform
- And by doing so, we are redefining our relationship with partners, retailers and consumers in a much more expansive manner

Technology Platform

- We continue to grow our relationships with technology platforms and companies across the globe as well as with card networks and issuing banks

- Through these partnerships, we are able to increase our addressable market as well as accelerate the introduction of innovative payment experiences
- For instance, our relationship with Visa continues to strengthen around the world as we collaborate on multiple initiatives, including tokenization and the increasing use of their services, like Visa OCT for instant cash out
- JPMorgan Chase added PayPal as a new category for its Freedom Rewards members, allowing them to earn up to 5% cash-back when making PayPal purchases funded by their Chase Freedom card

Bank of America

- We introduced two new experiences with Bank of America, one that enables PayPal as a way to disperse payments on behalf of their corporate clients and another that provides BofA customers a streamlined way to link their debit and credit cards to their PayPal accounts from their Bank of America mobile and online channels

Partnership Agreements with CaixaBank and Bankia

- We announced partnership agreements with CaixaBank and Bankia, two of the leading banks in Spain
- CaixaBank's business customers can now seamlessly offer PayPal as a way to pay on their websites, helping Spanish SMBs participate more fully in Spain's growing e-commerce market
- Bankia now enables its customers to seamlessly link their Bankia cards to their PayPal wallet and open a PayPal account from Bankia's online channels

HSBC

- HSBC announced a new integrated service to allow their corporate customers to make payments to beneficiaries with PayPal accounts in the U.K., and this partnership will be rolling out across Europe throughout 2018

Barclays Bank

- And Barclays Bank, one of the largest banks in the U.K. is announcing a strategic partnership with us that will enable their U.K. and U.S. customers to more easily link their accounts to their PayPal wallet
- U.S. Barclays credit cardholders will soon be able to use their reward points as a funding source in their PayPal Wallet
  - We are pleased to be working with all of our partners to roll out compelling and engaging experiences
- Our financial institution partners are now experiencing firsthand the benefits of our joint efforts
- It's exciting to see them actively encouraging their customers to link their accounts to PayPal in order to enrich the digital experiences available to our mutual customers

Technology Platform Partners

- And our relationships with some of the world's largest technology platform partners like Apple, Facebook, Google and Microsoft continue to expand and grow in the quarter
- These experiences allow for PayPal to be more present in the everyday lives of our customers, driving engagement as well as introducing millions of potential new customers to the PayPal brand and value proposition

- For instance, last year, we announced an expanded agreement with Samsung and I'm pleased to share that in the next few weeks users will be able to load PayPal into Samsung Pay, enabling our mutual customers to pay with their phone at millions of retailers in the U.S
  - We also continued to innovate around our core platform capabilities

P2P and Venmo

- For instance, P2P has increasingly become a powerful driver of customer acquisition and engagement on our platform
- We continue to see record levels of customer acquisition through P2P and Venmo as we continue to innovate and consequently differentiate the services we offer
- Venmo continues to gain increasing traction as the preferred way for millennials to manage and move their money
- Venmo acquired more net new actives in Q1 than in any previous quarter, and processed $12.3B in payment volume, up over 80% vs. last year
  - Venmo is now on a run rate to generate over $50B in TPV in 2018

U.S

- We are making strong progress in monetizing Venmo
- Pay with Venmo is deployed in more than 2mm merchants across the U.S., with major brands such as Grubhub, Seamless and Williams-Sonoma installing dedicated Pay with Venmo buttons
  - We expect the deployment of a distinct Venmo button with our leading brands will accelerate throughout the year, as will the deployment of dynamic buttons
- The use of convenient instant cash-out capabilities at a fee of $0.25 per transaction is dramatically accelerating across the Venmo consumer base
- Overall adoption of monetizable services is exceeding our original expectations

One Touch

- One Touch continues to set the standard for speed and simplicity for mobile checkout
- We concluded the quarter with 92mm consumers using One Touch at 8.6mm merchants
- We're proud that 78% of the IR100 now use One Touch, enabling mobile checkout conversions at almost two times the industry average
- In fact, the latest comScore study now states PayPal's conversion has further improved to 89%, by far and away the leader in mobile checkout
  - We processed $49B in mobile payment volume in the quarter, up 52% y-over-y
- And mobile payments now represent 37% of our total payment volume

Working Capital

- Credit is and will continue to be a strategic part of PayPal's offering to consumers and businesses

- It is an important way that we help small and midsized businesses compete, grow and thrive
- I'm pleased to announce that PayPal Working Capital has now extended more than $5B in working capital to more than 150,000 merchants since its launch in 2013

New Service Launches

- In the quarter, we also launched new services to give our customers more flexibility in how and where they can spend, manage and move their money on the PayPal platform
- As the world becomes increasingly digital, too many consumers are challenged by gaps in the current financial system to find convenient and affordable ways to manage their financial health

PayPal Cash Mastercard

- We recently introduced the PayPal Cash Mastercard aimed at giving greater financial flexibility to underserved and un-banked consumers in the United States
- It lets cardholders spend their PayPal balance at millions of physical store locations, access cash from ATMs and load their PayPal account with cash at over 20,000 retail locations
- Consumers can also add to their PayPal balance via direct deposit, as well as depositing checks via their mobile device

Digital Economy

- We are working closely with partners across the financial ecosystem to introduce what will be a comprehensive value proposition for the tens of millions of U.S. consumers that currently rely on shadow banking services like check cashers and payday lenders
- It is a central tenet of our mission to provide underserved consumers better access to the opportunities afforded by the digital economy, and I'm very pleased that we are taking the first steps on this journey

AliExpress

- Around the world, we continue to expand and grow our relationships and footprint
- We have introduced advanced capabilities to accelerate our ability to onboard new sellers on AliExpress in order to expand the selection of products available to shoppers around the globe
  - We now have approximately half of all AliExpress active sellers accepting PayPal as a way to pay

Partnership with Baidu

- In addition, we're excited to launch our partnership with Baidu in the coming months
- We've now successfully moved from pilot to general availability of PayPal for domestic customers in India
- We're now pleased to welcome merchants across India to offer PayPal to local consumers in India, as well as to our millions of consumers around the globe

Partnership with M-Pesa

- We recently announced a partnership with M-Pesa, the transformative mobile payment system in Kenya
- Through our relationship, Kenyans can now seamlessly move money between their M-Pesa and PayPal accounts, removing barriers that have prevented Kenyan consumers and businesses from fully participating in the global digital economy
- Kenyan consumers can now shop the millions of global businesses that accept PayPal and Kenyan businesses can sell to PayPal's consumers around the world
- With almost 28mm M-Pesa customers in Kenya, we see this as a meaningful step forward in working with partners to drive the democratization of financial services

Relationship with eBay

- Finally, we have formalized a signed contract with eBay through July 2023 to extend our branded relationship
- We are actively working with Devin Wenig and his team to deepen our relationship in ways that drive profitable growth for both companies
  - It's my belief that eBay and PayPal will continue to be close strategic partners for the foreseeable future, and we are committed to that outcome
- As we shared previously, this gradual transition in our relationship with eBay was anticipated by both parties and was outlined in the original operating agreement
- Consequently, it does not change either our short or medium-term financial guidance

Strategic Relationship

- We are pleased at the opportunity to extend our strategic relationship with eBay, while at the same time expand our ability to partner with some of the world's fastest-growing marketplaces
- Based on numerous direct conversations, we know that our rapidly expanding two-sided network and our increasing platform capabilities are very attractive to a host of next-generation marketplaces, and they are looking forward to deepening their strategic relationship with us

Strategy

- After a strong 2017, it's encouraging to enter 2018 with continued momentum and to see our strategy delivering results on multiple fronts
- Our merchants, consumers and partners will always remain at the heart of everything we do, and I'd like to extend my thanks to the entire PayPal team for their consistent dedication to our customers
- We still have much to accomplish, and as always a lot of hard work ahead, but the opportunity for us to make a real difference in the lives of so many of our customers has never been greater

John D. Rainey

Financial Highlights

Strategic Initiatives

- In Q1, we outperformed on both revenue and earnings, building on our momentum from 2017
- Solid growth across active accounts, payment volume and revenue demonstrates the strength of our two-sided platform and our ability to grow operating income while expanding operating margin highlights the sustainable scalability of our model
- During the quarter, we continued to invest in our strategic initiatives, and at the same time delivered strong earnings growth

Revenue and Non-GAAP EPS

- Before I go into detailed financial results, a few highlights for the quarter
- Revenue was $3.69B, growing 24% on a spot basis and 22% on a currency-neutral basis
- Non-GAAP EPS grew 29% to $0.57
- During the quarter, we also returned $1.8B to shareholders, repurchasing approximately 23.6mm shares as part of our buyback program

U.S. Consumer Credit Receivables Portfolio

- Consistent with Q4 2017, as a result of the sale of our U.S. consumer credit receivables portfolio to Synchrony Financial and the associated reclassification of the receivables to held-for-sale, there are changes to the presentation of our results
- These changes reduced comparability to prior periods
- Where relevant to the discussion, I'll provide normalized results to adjust for these changes

Income Statement

- Following the closing of the transaction, which we expect to occur in early Q3, the U.S. consumer credit portfolio will no longer sit on our balance sheet
- We will no longer incur any direct costs related to the charge-offs of principal or interest
- This reclassification affects three areas on our income statement
  - First, revenue from other value-added services benefited by approximately $38mm in the quarter as a result of no longer recognizing reserves on interest receivables
  - Second, transaction and loan losses benefited by approximately $111mm from no longer recognizing reserves on principal receivables
  - And third, non-transaction-related expenses were negatively impacted by approximately $128mm from the recognition of incurred charge-offs on principal and interest

Payment Volume

- Turning to our financial performance in Q1, our total payment volume was $132B, up 27% on a currency-neutral basis, including U.S. payment volume growth of 28% and international volume growth of 25%
- Our Merchant Services volume grew 30% on a currency-neutral basis to $116B
- Volume associated with eBay grew 6% on a currency-neutral basis to $17B

- P2P volume, which is a component of Merchant Services and includes volumes across core, Venmo and Xoom grew 50% to $30B, and represented approximately 23% of total payment volume vs. 20% in Q1 2017

Core PayPal and Venmo

- In Q1, we added 8.1mm net new active accounts ending with 237mm active accounts representing 15% growth over Q1 last year
- On the consumers' side, active account growth was predominantly driven by core PayPal and Venmo, and we added nearly 900,000 merchants to our platform
- The number of payment transactions per active account on a trailing 12-month basis reached 34.7B with 8.2B transactions occurring on our payment platform over that period
- In Q1, transactions once again grew 25% to 2.2B

Revenue Growth

- Revenue increased 24% on a spot basis and 22% on a currency-neutral basis to $3.69B
- U.S. revenue increased 26% vs Q1 2017, and international revenue increased 18% y-over-y on a currency-neutral basis
- Revenue growth on a currency-neutral basis accelerated nearly 3.5% from strength in our U.S. and APAC businesses including our acquisition of Swift Financial
- Overall, our total revenue benefited from the weaker dollar by $91mm with $141mm of translation benefits partially offset by $50mm of hedging losses
  - This $50mm hedging loss compares to $40mm gain last year

Transaction Revenue

- In Q1, transaction revenue grew 22% and revenue from other value-added services grew 39%
- Transaction revenue growth was driven by our core PayPal and Braintree businesses, while revenue from other value-added services benefited from the acquisition of Swift and from the reclassifications related to held-for-sale accounting
- Adjusting for these events, other value-added services revenue grew at approximately the same rate as transaction revenues

Hedging

- For Q1 our transaction take rate was 2.42%, a decline of 19BPS from Q1 2017 and our total take rate was 2.78%, down 17BPS y-over-y
- Almost half of the decline in take rate is related to the $90mm headwind from hedging losses
- This, combined with the growth in our P2P businesses led by Venmo contributed to more than 75% of the transaction take rate decline with the remainder being driven by business mix

Volume-Based Expenses

- Volume-based expenses grew 23% in Q1
- Transaction expense was $1.3B and represented 96BPS of TPV, a decrease of two basis points y-over-y
- Funding mix pressure was offset by lower funding costs from growth in P2P.
- Transaction loss in the quarter was $243mm, or 18BPS of TPV, an increase of one basis point vs. the same period a year ago
    - This one basis point increase relates to the introduction of new products and services where we look to balance our risk tolerance with our growth plans

Loan Loss

- Loan losses were $62mm or 5BPS as a rate of TPV, down more than 50% from Q1 2017 as a result of the effect of held-for-sale accounting
- For modeling purposes, we expect loan losses to be in the range of 5BPS as a rate of TPV for the year

Transaction Margin

- Transaction margin dollars grew 25% to $2.1B
- Adjusted for the impact of held-for-sale accounting, transaction margin dollars were $2B, representing 16% growth vs. last year
- For the quarter, transaction margin as a rate was 57.1%
- Adjusting for held-for-sale accounting, transaction margin was 53.6%

Operating Leverage

- Non-transaction-related expenses grew 22% in the quarter
- Normalizing for the held-for-sale accounting adjustments, these expenses would have grown approximately 10% resulting in 365BPS of operating leverage
- Further adjusting for our 2017 acquisitions, we would have seen non-transaction-related expenses grow at 6.9% for the quarter, which is in line with our target of mid-single digit growth

Acquisitions

- After adjusting for held-for-sale accounting treatment and backing out incremental revenue and cost associated with our acquisitions from last year, these expenses increased only $0.11 for every incremental dollar of revenue
- We believe that we can sustainably grow our business with this level of investment in our non-transaction-related expenses allowing us to continue to deliver operating margin expansion

Operating Income

- In Q1, operating income grew 29% to $829mm on 24% top line growth
- This resulted in an operating margin of 22.5% or 90BPS of operating leverage
- It's worth noting this is the highest operating margin we've reported as an independent company

- Adjusting for held-for-sale accounting and acquisitions, operating income grew 29% to $833mm, delivering organic margin expansion of approximately 140BPS

Non-GAAP EPS

- Non-GAAP EPS grew 29% in Q1 to $0.57
- CapExs were $178mm, or approximately 5% of revenue
- As a result of changes from the designation of our U.S. consumer credit receivables portfolio, net new loans of $1.26B reduced cash flow from operations in the quarter
- Prior to this change in designation, this amount would have been recognized in cash flows from investing activities

Cash Flow Items

FCF

- As a result, cash flow from operations in Q1 was negative $349mm with FCF of negative $527mm
- But on a normalized basis, we would have recognized $733mm in FCF, generating approximately $0.20 of FCF for every dollar of revenue

Cash, Cash Equivalents and Investments

- We ended the quarter with cash, cash equivalents and investments of $7.8B
- In addition, we ended the quarter with short-term borrowings of $3B, drawing down on our unsecured credit facility
- During Q1, we returned $1.8B to shareholders in the form of stock repurchases

Outlook

Revenue and Non-GAAP EPS

- I would now like to discuss our outlook for Q2 2018 and our updated guidance for the full year
- For Q2, we expect revenue in the range of $3.78B to $3.83B or 19% to 20% growth on a currency neutral basis
  - We also expect non-GAAP EPS of $0.54 to $0.56, representing 18% to 23% growth

Stock Based Compensation

- Before I discuss full year 2018 guidance, I'd like to discuss a change to our GAAP EPS outlook for the year
- We now expect GAAP EPS to be within the range of $1.73 to $1.76
  - This updated outlook reflects $90mm increase in our estimate for non-GAAP adjustments
- Approximately two thirds of this increase is attributable to additional stock based compensation based on our financial outperformance

Global Workforce

- The remaining third is from a restructuring charge that we recognized in the quarter related to reductions of our global workforce and the decision to wind down TIO Networks operations which was not in our original guidance
- For the full year 2018, based on current trends, we are raising our revenue outlook by $175mm at the midpoint of our prior range
  - We now expect revenue between $15.2B and $15.4B, representing currency neutral growth of 15% to 16%

U.S. Consumer Credit Receivables

- We expect our sale to Synchrony of approximately $6B of U.S. consumer credit receivables to close early in Q3
- Following the completion of the sale, we will no longer recognize revenue from interest and late fees related to this portfolio
- Overall, we continue to estimate a 3.5 percentage point impact to 2018 revenue growth from this transaction
  - We expect revenue from other value-added services to decline in the back half of 2018 relative to 2017
- At the same time, transaction revenue is on track to continue growing at approximately 20%

Operating Margin Expansion

- Our full year 2018 guidance contemplates modest expansion in our non-GAAP operating margin
- We continue to balance delivering operating margin expansion with reinvesting back into the business to further strengthen our platform and competitive positioning
- Given our growth opportunities, we have a bias toward investing
  - We're also narrowing our range for non-GAAP effective tax rate and now estimate it to be between 17% and 19%
- And we are raising non-GAAP EPS to $2.31 to $2.34, representing 22% to 23% growth

Summary

To wrap up, our first quarter results position us well for another year of strong financial performance

I'd like to thank all of our employees, customers and partners for a great quarter

QUESTION AND ANSWER SECTION

<Q - Tien-Tsin Huang>: So that to me was the level of buyback that you guys executed in Q1. Looks like it was almost 80% more than what you bought in all of 2017. So I'm curious, is this PayPal just being more opportunistic? Or is this sort of a signal of your capital allocation priorities maybe shifting to buyback? Or you're not seeing the adequate returns on potential M&A? Any kind of comment there would be great. Thanks.

<A - John D. Rainey>: Sure, Tien-Tsin. This is John. Our priorities have not changed. We still prioritize capital allocation first as investing for growth, and that can be either organically, or through M&A activity, but we also believe in returning cash to shareholders. It so happens that in Q1 we had clarity on a couple of important issues, one is tax reform. The other is the transaction that we announced with Synchrony, and that allowed us to do more than what we've done in the past.

But very importantly a strong balance sheet for us is a strong competitive advantage. It's an asset that a lot of our peers don't have, and we believe as a management team in putting that cash to use to create shareholders value. And you'll continue to see us allocate capital in that manner, whether it's returning cash to shareholders or going out and looking at the M&A landscape.

I would not read anything into the amount of the share buyback as to suggest that they are not opportunities for us to go acquire companies. As you can appreciate, those take time to complete a deal, it's not as if you can just start something and close the transaction in a quarter. And so we'll be measured and do what's right for PayPal and allocate capital in a manner that creates shareholder value.

<Q - Tien-Tsin Huang>: Got it. No, thanks for that. Just my quick follow-up then, maybe just on the – Dan listed a bunch of bank promotions. Just curious, are you funding some of these initiatives with the banks? And I'm curious what kind of early returns you might be seeing that maybe hasn't shown up in the P&L so far in Q1?

<A - William J. Ready>: Yeah. This is Bill. Hi, Tien-Tsin. So we don't disclose the details of any one of those partnerships specifically. However, what we're seeing is tremendous receptivity from our banking partners to really drive their customers into PayPal, because it's a great source of digital transaction growth, which is sort of the primary place where issuers are growing right now. And we've seen really good response from the programs that are out there, and they've been tremendous both for us, as well as for our issuing partners.

And so we're not committing any kind of unnatural acts to get those things to happen. In fact, our banking partners have found it very much to be in their interest to promote their customers to use PayPal. So we see that as something that is certainly indicative of a partnership, but also something where you're not committing unnatural acts to make those things happen.

<Q - Bryan C. Keane>: Just wanted to ask about the moves to the underserved or to go after the unbanked. What are some of the puts and takes on revenue and cost resulting from offering more comprehensive financial services?

<A - Daniel H. Schulman>: Yeah. Maybe I'll start off, Bryan, with the answer on that, and thanks for the question. And then, turn it over to Bill on that. So first of all, we firmly believe as a company that everyone should have access to affordable, convenient, secure, and low-cost financial services. I mean, that is our vision of democratizing financial services, and we are working closely with the rest of the financial services ecosystem to do that.

I mean, think about the partners we have in there right now, Mastercard, Wells Fargo, Bancorp, just to name some of them. And I think what we're trying to do is not try to compete or replace what's going on with banks, but work with the financial system to fill in the gaps in the current system so that everyone can afford the opportunities that the digital economy is extending.

If you think about the way that we're putting services into place, we're trying to be a consumer champion, provide, for instance, our PayPal Cash Mastercard with no monthly fee, no minimum, because that is being differentiated in the marketplace. And the money we make from that is on transactions that occur at merchants, just like we do typically. So we think that we can use technology, re-imagine financial services for sort of a mobile-first customer and provide not only a great consumer value proposition but also a great proposition for merchants and the rest of the ecosystem as we bring people into the digital economy.

Bill, did you want to...?

<A - William J. Ready>: Yeah. And I would just add to that – your two question on what it means for us on economic, we've had some products in markets for a while that give us exposure to how these products are, one, used by customers; and two, what those mean to us financially, both prepaid cards we've had in the market for a while, merchant debit cards, things like that. And so there is no material difference in the way we would look to go monetize those customers, and we've also had things for the underserved, such as being able to walk in to a retail location, like a Rite Aid, for example, and load cash onto a PayPal account. So somebody in the underserved or unbanked community can participate in the digital economy. We've had exposure to those things, and we don't see this as being any material difference in the way we would monetize on those customers vs. how we monetize across the rest of our business.

<Q - Bryan C. Keane>: Okay. Helpful. And then just as a follow-up, the increase in the merchant count, is there something you guys are doing recently that's driving up merchant acceptance up to 19mm? Or is this just more a function of Venmo getting out more, PayPal getting out more and being kind of a separate payment entity has caught the attention of numerous additional merchants?

<A - Daniel H. Schulman>: Yeah. I think, look, probably the number one thing there is really a tipping point that we've reached from kind of a network effect perspective. We now have 237mm people on the platforms, and as John mentioned, some 900,000 merchants this quarter signed up. We've been seeing that run rate as you've been hearing us talk about the number of merchants. And so there's a great flywheel effect that happens.

The other thing that I would point out is that more and more consumers are using mobile as their primary device to shop. And the real big issue for merchants with mobile is that mobile conversion with a mobile phone is typically low. These people have to add in a ton of information on that small form factor. But with our One Touch and our conversion rate now at 89% for mobile checkout, One Touch is two times, maybe two times plus the industry average. And that obviously is a great thing for consumers, but it's an essential thing for merchants. And I think that combination of those things, plus we're obviously adding more and more capabilities for small, midsized merchants, Working Capital being one of them, I've talked about that, but we have a whole host of services that we're expanding through our platform as being just – as opposed to being just a payment button that is attracting not just consumers but an acceleration of merchants as well.

<A - William J. Ready>: Hey, George.

<Q - George Mihalos>: Hey, guys. Let me add my congrats on the strong results. Dan, just wanted to start off. There's obviously been a lot of innuendo in the market around the networks, Visa and Mastercard perhaps embracing sort of their own universal checkout button, if you will. Maybe you can kind of address that as it relates to PayPal's positioning?

<A - Daniel H. Schulman>: Yeah. Well, let me first start off at high level, and then I'll maybe let Bill comment on this. Our relationships with the networks could not be stronger. We – just every single quarter we find more and more places where we can work together, combine their services and capabilities with our platform and offer incremental value to both merchants and consumers, and very importantly to their issuing partners and financial institutions. And you're seeing that through all of the partnerships. I was just reflecting as I was writing my script on just this one quarter, you've seen all of those banking partners working, as Bill said, very closely with us, observing firsthand the benefits that come from working hand-in-hand together for our mutual customers. And so that's – it's been a great partnership, a strong partnership and a growing partnership.

In terms of the button specifically, I think Bill can talk a little bit about that, and then maybe I'll have a couple comments on that.

<A - William J. Ready>: Sure. Yeah. On the specific new news there, it was really about sort of interoperability between the payment buttons offered by the networks. And we have for quite a while now talked about how we want to go help our – the complete move to digital buy-button experiences. Not only do we have PayPal's and Venmo as one of those widely used, trusted digital payment forms in the world, we also are one of the largest providers to other digital wallet forms of payment, whether that's Visa Checkout, or Masterpass, or Apple Pay and Google Pay. So we work with those others. Even as we work with those others, we've seen that our own buy buttons continue to accelerate. And so we really want to power the entire movement towards seamless digital wallet buying experience, happy to partner with those to do that. And this new news around interoperability is sort of a new technical specification, but interoperability between Visa Checkout and Masterpass in some ways existed previously that you could put a Mastercard into Visa Checkout or Visa card into Masterpass. So there's a new technical specification there, but interoperability between those checkout forms is not meaningfully different than how we've seen those previously. And we're excited to continue working with our network partners to help them with those efforts as well as the many ways we're partnering on how we each advance digital payments.

<Q - George Mihalos>: Great. Appreciate that. And then, John, maybe just a quick follow-up. I think margins expanded a little about 90BPS y-over-y in Q1. Should we expect that to come down a little bit just looking at the $0.56 high end of the EPS guide for Q2?

<A - John D. Rainey>: With any one period there's going to be seasonality or things in the business that move around. I would really point you to the full year results. We do make discretionary investments from one period to the next, but if you look at the implied guidance for our full year, it still shows us expanding margins at a nice rate. I think it's reflective of the overall progress in the business. This is, as I noted in my prepared remarks, we had a record operating margin in the quarter. We've had four consecutive quarters of accelerating revenue growth. For the last three quarters, we've averaged 30% EPS growth and 25% growth in transactions. So I'm really pleased with how the business is doing.

<Q - Ramsey El-Assal>: Could you give us a little more color or granularity on Venmo? You've mentioned a couple of times including on this earnings call that it's tracking sort of above your expectations. Have you had to adjust the input in your full year guidance? Is that any type of a driver in the near term? Or any incremental color you can give us around Venmo monetization would be appreciated.

<A - William J. Ready>: Sure, this is Bill. So as was mentioned, we saw continued strong growth in Venmo up 80% on the quarter to $12.3B in volume and our biggest new user quarter ever for Venmo. In addition to that, as you were calling out, we're quite pleased with our monetization efforts there, and those really are along multiple fronts. One, in adding new merchants that accept Venmo, we saw some great brands come into the fold with Grubhub, Seamless, Eat24, Williams-Sonoma, Pottery Barn and many others in addition to the 2 million-plus retailers that we had already brought in through linking Venmo into the broader PayPal network. So we're really feeling great about what we're seeing in terms of merchants' receptivity and desire to connect to that millennial demographic that loves Venmo so much. As well as the other aspects of how we're monetizing through things like instant cash-out where we earn $0.25 fee for giving instant access to funds out to a participating Visa or Mastercard debit card. So those things are tracking better than our expectations, quite pleased overall. I defer to John in terms of the guidance question, but very much tracking at or better than our prior expectations.

<A - John D. Rainey>: Yes. And with respect to the increase in both our revenue and our earnings guidance, that is not directly attributable to Venmo. It's simply too early on at this point to get out ahead of ourselves. And as Bill and Dan, and I have talked about many times we believe that what's important here is the long game. This is a tremendous opportunity to connect with this demographic and monetize it, but we don't want to be so impatient about that that we spoil the experience long-term. And so we have the luxury of being able to invest in this and get the experience right given our overall financial performance. The increase in guidance for earnings and revenue was really a reflection of the overall strength in the core business.

<A - Daniel H. Schulman>: Yeah. And I'd just to add to it. I mean, we've talked a lot about this, but I think the best metaphor for Venmo is PayPal. PayPal started off as a P2P service, then expanded into eBay merchants, and then into merchants around the world. I think what we're seeing is adoption by merchants and by consumers that's ahead of what we were expecting. But as John said, we think there's a lot of room here on Venmo and we'll be cautious with our expectations around it. But so far, I have to say, we're all pretty pleased with what we're seeing.

<Q - Ramsey El-Assal>: Okay. A quick follow-up. And maybe this one is for John. In the context of the changes to your GAAP earnings guidance, can you just comment on your sort of go-forward trends with stock-based compensation? Are you expecting any changes of cadence or any changes to your prior thinking around that level going forward?

<A - John D. Rainey>: Sure, Ramsey. Appreciate the question. We don't other than what we've already noted and just as a reminder, we made some changes when we separated from eBay to have our own compensation program, not eBay's compensation program. The effect of those changes were mostly realized in last year with the exception of the change in the vesting cycle related to that. So that is – you do see that a little bit in our results.

But if you take – if you just look at the guidance range we've provided for share-based compensation this year, I think it's assuming around 18% growth. By the same token, if you look at our GAAP operating income growth, and I'm adjusting for held-for-sale, because that just creates noise, that's closer to 26% growth for the year. So some of the bigger impacts were seen last year. And directly to answer your question, we are not anticipating further changes going forward.

<Q - Jeff Cantwell>: Good results and momentum. I just wanted to ask you about your bank partnership strategy that you called out this quarter and over the past few quarters or so. Could you just remind us is the purpose of that strategy to lower your customer acquisition costs or your funding costs? Or maybe just talk to us a little bit about what the pieces are of that bank partnership strategy that you find most important. Thanks.

<A - Daniel H. Schulman>: Yeah. I'll start off. And then, Bill, you can fill in the color. I mean first, remember, Jeff, this started with Choice where we are giving consumers full optionality to choose on every transaction how they want to pay. And as a result of that, it really opened up the opportunity to work very closely with all the financial networks and the financial institutions issuing partners. Everybody is rallied around Choice. It's the right thing for consumers, and everybody agrees that's the right strategy.

As a result of that, as you can see in our TPV growth of let's call it 30%, that's very, very attractive to the issuing partners. There's no reason – as many of them have said directly to Bill and I when we're in conversations at the very highest levels of management within those institutions, there's no reason why we shouldn't be their largest digital distribution partner on that because we can drive incremental growth for them. Our mobile checkout statistics are two times the industry average, and our growth is multiple times that of the industry average.

And as a result of that, they are actively linking their customers and encouraging them to get PayPal Wallet, to go either establish a PayPal account or link their cards into an existing PayPal account. So obviously that drives acquisition for us, very low cost acquisition.

At the same time, though, remember they're starting to add additional capabilities to us as well. Most of those deals, not all of those deals include access to tokens as well, so that we can start to move offline. We have network tokens and the issuing tokens for their instruments so that we can start to embed tokenization and an offline capability within our application. And as we've mentioned before, you can assume that that's going to be something that we will do as we look forward.

They are also doing things that I think are really powerful for our mutual ecosystem like putting rewards points into their PayPal balance. What does that do for their consumers? Allows them to spend their rewards points at our 19mm merchants. For consumers, it's a simple easy way to utilize those reward points where maybe there are other ways it was less easy for them. And for us, it's a low-cost funding mechanism and a real value-add for a consumer.

And so there are multiple different ways that this partnership works, and it really – it's moved from being kind of an uneasy frenemy environment two years ago to really being one in which we are all, I would say, very close allies in more the war on cash and the advancement of digitalization together. Do you want to add anything to that, Bill?

<Q - Jeff Cantwell>: Great. And then can you just talk to us a little bit about PayPal and Bitcoin functionality in the Wallet? I'm trying to understand what the big picture thinking is with Bitcoin and blockchain? [ph] So you filed (56:31) some blockchain related patents recently. Maybe you could just give us a sense of your blockchain strategy, and what the longer-term thinking is there. Thanks.

<A - Daniel H. Schulman>: Yes, of course. Thanks for the question. Obviously, a hot topic that everybody talks about. Here's what I would say on that. I would say we're excited about the long-term potential of blockchain, and what it might be able to do in terms of distributed trust applications. And when I say that I don't just mean crypto, I mean things like identity and how to protect identity in different and new ways using things like blockchain.

So as you saw from our patent filing, we have a number of initiatives underway. We're exploring from a long-term perspective, how we might utilize blockchain in innovative ways to create value propositions that may be even better than what we have today. But I will tell you, blockchain is still in the very first innings. I mean you just realize that for many of these things there are limitations, not just in sort of the crypto-currencies on top that are quite still volatile, which doesn't make for a good currency when things are volatile. And there are also limitations in things like transactions processed per second in terms of blockchain and how fast you can process those transactions; how long it takes to wait for the completion of that transaction.

And so we've experimented with coin-base and others in terms of direct connection to crypto-currencies. Right now, we do not support directly crypto-currencies. We don't see the demand for it from our merchants or our consumers, but that should not be any indication that we don't see, nor are we excited about the potential of blockchain in the long run. Bill, anything you'd add to that?

<Q - Heath Terry>: Looking at the growth that you saw, the outsize growth that you saw in P2P this quarter, I'm wondering if you can give us a sense to sort of how this is impacting your funding mix. What kind of benefits that you're seeing from that? And when we look at the relatively stable cost of funding over the – on a y-over-y basis in the financials, how we should think about what's going on with mix there and the individual costs of the different funding channels that you have?

<A - John D. Rainey>: Sure. Heath, this is John. So you frame the question, I think, in the appropriate way in that we are seeing there's a lot of puts and takes to funding mix. But very importantly where there's inflation in the wallet, that's being offset by more P2P usage. That said, if we were to look at this even stripping out P2P, just looking at the rest of PayPal, there is not big swings like it – we're talking about a basis point or two here or there. So even adjusting for the growth in P2P, we're still pretty comfortable with this level of transaction expense on the TPV basis. And you'll probably remember I noted, I believe, it was Q2 last year where we hit a high point of about 100BPS, and I said that I expected it to come down to this range. And really, given everything that we have going on in the business, we would expect it to kind of stay in this range for certainly the next year to two, sort of as far out as we have a good line of sight into and not change appreciably.