Q2 2019 Earnings Call

Company Participants

- Dan Schulman, President and Chief Executive Officer
- Gabrielle Rabinovitch, Senior Director, Investor Relations
- John Rainey, Chief Financial Officer and Executive Vice President, Global Customer Operations

Other Participants

- Bryan Keane, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- George Mihalos, Analyst
- Heath Terry, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to PayPal's Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's call Ms. Gabrielle Rabinovitch, Head of Investor Relations. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Sri. Good afternoon and thank you for joining us. Welcome to PayPal Holdings earnings conference call for the second quarter 2019. Joining me today on the call are Dan Schulman, our President and CEO; and John Rainey, our Chief Financial Officer and EVP Global Customer Operations. We're providing a slide presentation to accompany our commentary. This conference call is also being webcast and both the presentation and call are available through the Investor Relations section of our website.

We will discuss some non-GAAP measures in talking about our company's performance. You can find a reconciliation of these non-GAAP measures to the most directly comparable GAAP measures in the presentation accompanying this conference call.

In addition, management will make forward-looking statements that are based on our current expectations, forecasts and assumptions and involve risks and uncertainties. These statements include our guidance for third quarter and full-year 2019, our medium-term outlook, and the impact of our acquisitions. Our actual results may differ materially from these statements.

You can find more information about risks, uncertainties, and other factors that could affect our results in our most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC and available on the Investor Relations section of our website. You should not rely on any forward-looking statements. All information in this presentation is as of today's date, July 24, 2019. We expressly disclaim any obligation to update the information.

With that let me turn the call over to Dan.

Dan Schulman {BIO 1895545 <GO>}

Thank you, Gabrielle, and thanks everyone for joining us today. I'm pleased to report that PayPal had a solid quarter. In the second quarter, we generated $4.31 billion in revenue, growing 12% year-over-year on an FX-neutral and spot basis, or 19% adjusted for the sale of our consumer credit receivables to Synchrony.

For the second quarter, we delivered $0.86 of non-GAAP EPS, which included a $0.14 gain from our strategic investments, including MercadoLibre, Uber, and others. Non-GAAP EPS grew 47% and excluding strategic investments grew by 27%.

Our Q2 non-GAAP operating margin increased by approximately 200 basis points year-over-year to 23.2%. This represents the largest year-over-year increase in our non-GAAP OI margin since becoming an independent public company four years ago.

Another highlight of the quarter was our growth in both net new actives and engagement. We added 9 million net new actives in the quarter, up 17% year-over-year. We now have 286 million active accounts on our platform, including 23 million merchants, and we remain on pace to exceed 300 million active accounts by the end of the year. Over the past 12 months, we've added 41 million net new actives, a new record for us.

Engagement also continues to consistently improve, growing by 9.3% to 39 transactions per active account. Increasing use of our platform helped to drive $172 billion of TPV in the quarter, up 26% on an FX-neutral basis, an increase of approximately 100 basis points from last quarter.

Total payment volume, excluding eBay, grew 30% on an FX-neutral basis, up 70 basis points from last quarter and outpaced the overall payments market as we continue to gain share. eBay marketplaces TPV once again declined approximately 4% in the quarter and now represents just 9% of our overall TPV, down nearly 300 basis points from Q2 last year.

We processed approximately 1 billion transactions per month in Q2, up 28% year-over-year. Mobile TPV grew by 37% to more than $73 billion in Q2. One Touch with 149 million consumers and 13 million merchants remains the clear leader in mobile checkout, with nearly two times the conversion of competing wallets, helping merchants of all sizes increase sales in the competitive omni-channel retail environment. One Touch now enables over 80% of the Internet Retailer 100 in the US.

Venmo continues its significant momentum and is well on its way to becoming a daily part of our consumers' financial lives. Venmo total payment volume increased 70% year-over-year to $24 billion in Q2, and we continue to expect to drive nearly $100 billion in TPV by year-end. Venmo continues to significantly grow its revenues with approximately 15 million Venmo users having engaged in a monetizable transaction. With another quarter of outstanding net new active growth, Venmo continues to offer a significant opportunity for merchants to attract a valuable, engaged consumer base.

In addition to adding Fandango, Stitch Fix, 1-800-Flowers, TodayTix and TicketNetwork to our growing list of merchant partners offering Venmo as a way to pay, we continue to enrich the Venmo experience by making it even more engaging and personalized. In the second quarter, we added Bitmojis to the Venmo app allowing users to include their personalized Bitmoji along with the payment notes of their Venmo transactions.

As we work to improve the financial health of hundreds of millions of people across the globe, I'm thrilled that we recently expanded Xoom into 32 new send markets throughout Europe. Customers across Europe can now use Xoom to send money, pay bills, or reload phones to more than 130 markets internationally. Launching Xoom's full capabilities globally is an important development for us as our upgraded tech platform increasingly allows us to deploy capabilities across multiple countries as opposed to the country-by-country rollouts we previously deployed.

This quarter we announced the PayPal Commerce Platform, a new solution that will help our merchants drive their sales volumes in the digital commerce era. The PayPal Commerce Platform is designed to meet the specific needs of marketplaces, e-commerce platforms, and crowd funding sites by bringing together a comprehensive set of technologies, tools, services and financing solutions for businesses of all sizes. Powered by PayPal's unique two-sided network, the PayPal Commerce Platform gives nearly any business access to a flexible, customizable suite of services that enables global growth, simplifies compliance, provides risk protection, empowers their end-to-end payment capabilities.

Our business financing solutions are another way that we're helping businesses grow and achieve their ambitions. This quarter we began offering our PayPal Business Loan product to PayPal merchants in Canada, allowing them to access financing to build and sustain their businesses. This follows the expansion of our business financing solutions to Germany in Q4 of 2018 and Mexico earlier this year in partnership with Mexican lending platform, Konfio. Since launching our business lending solutions, we've provided access to more than $10 billion in funding through 650,000 loans and cash advances to more than a 0.25 million small businesses around the world.

In June, the UK Competition and Markets Authority provided final approval of our acquisition of iZettle. We are now beginning to integrate iZettle's products and teams around the globe, which we expect will significantly strengthen PayPal's in-store presence.

Finally, we continue to partner with leading technology platforms and financial institutions to reimagine financial services. We believe that the full potential of FinTech can only be realized through partnerships that leverage the best of our collective assets. In the quarter, we expanded our collaboration with Google to allow businesses to accept PayPal with Google Pay through their apps and websites. This feature is now available in all 24 countries where Google Pay supports PayPal as a payment method.

We both solidified and extended our global partnership with Uber and also announced that we intend to explore future commercial payment collaborations, including the development of Uber's digital wallet. As part of this agreement, we invested $500 million in a private placement, and we couldn't be more excited about deepening our relationship with this innovative partner.

And we are almost complete with our MercadoLibre commercial agreement. This will significantly deepen our strategic relationship and expand our international scope and scale. We expect this will include integration of PayPal into the MercadoLibre marketplace, open our merchant network through our Smart Payments button platform to Mercado Pago customers and link our respective consumers together for P2P and international remittances.

These developments represent significant milestones on our journey to be the worldwide payments platform of choice, helping to enable global commerce by connecting the world's leading marketplaces and payment networks. These are complex multi-faceted partnerships and they take multiple quarters to come to fruition.

As we've deepened these relationships, we are frequently seeing the opportunity to deploy capabilities well beyond our initial scoping. While the scope expansion has delayed some of our initially planned deployment dates, it bodes well for the ultimate scale of these initiatives. And while these delays have slightly affected our revenue guidance for the year, we remain quite confident that the majority of these will be implemented by year-end.

We are also raising our EPS guidance for the year and expanding our operating margin, and we are confident in the medium-term targets outlined at our Investor Day last May. We certainly have no shortage of opportunities in front of us, and we look forward to shaping an exciting future with our partners, customers, and employees.

And with that, I'll turn the call over to John.

John Rainey {BIO 17599063 <GO>}

Thanks, Dan. I want to start off by thanking our customers, partners, and global team for helping us deliver another solid quarter. We had strong performance, both financially and operationally. We grew non-GAAP operating income 22% to $998 million and are reporting records for both operating margin and operating margin expansion. We also generated more than $1 billion in free cash flow in the quarter, which grew 40% on a normalized basis.

Operationally, trends in our net new active accounts, engagement, and TPV remained strong. Our performance demonstrates the consistent strength of our platform and the scalability of our model. Revenue in the second quarter increased 12% on both the spot and currency-neutral basis to $4.31 billion. Adjusting for the sale of US receivables to Synchrony, revenue growth was approximately 19%. Acquisitions contributed approximately 1.8 points to revenue growth in the quarter. In addition, the effect of the stronger dollar net of hedging was a revenue headwind of $35 million.

US revenue grew 7% versus Q2 2018 and approximately 20% adjusting for the credit receivables sale. International revenue grew 18%. On a spot basis, transaction revenue grew 17% in the quarter. Revenue from other value-added services declined 21% as a result of the receivables sale. On a normalized basis, it grew approximately 30%.

In addition, we recognized $58 million in revenue from Synchrony related to loan servicing and collections. As planned, Synchrony took over these services at the end of June. Going forward, we will no longer benefit from the revenue related to these services.

In the second quarter, transaction take rate was 2.25%. Compared to Q2 2018, this was a decline of 13 basis points. Strong growth in P2P contributed to approximately half of the decline. Ongoing weakness in eBay's marketplaces business and pressure from the stronger dollar on a few key cross-border corridors were also responsible for the reduction.

Total take rate in Q2 declined 27 basis points from the prior year. Approximately 60% of this decline was attributable to the credit receivable sale. The same factors that affected transaction take rate also contributed to the decline in our total take rate. Both transaction take rate and total take rate benefited by approximately 5 basis points from revenue related to our hedge gains.

Volume-based expenses increased 15% in the second quarter to $1.9 billion. Transaction expense was 94 basis points as a rate of TPV, improving 4 basis points from Q2 2018 and 2 basis points sequentially. The reduction in transaction expense as a rate was primarily due to the timing of the realization of benefits from volume incentives, which were recognized in the third quarter last year. For the remainder of the year, we expect our transaction expense as a rate of TPV to be in the range of 95 basis points to 98 basis points.

Transaction loss was 14 basis points as a rate of TPV, a decline of 5 basis points from Q2 2018 and 4 basis points sequentially. This reduction in transaction loss was driven by improvements in our risk management capabilities. Loan losses were 4 basis points as a rate of TPV in line with recent performance.

Transaction margin dollars grew 9% to $2.4 billion in the second quarter. Transaction margin as a rate was 55%, a decline of approximately 120 basis points versus Q2 2018. Over the past four quarters the credit receivable sale has been a meaningful driver of the decline in transaction margin dollar growth. We expect growth to reaccelerate in the second half of 2019 and be in the range we reported prior to the Synchrony announcement.

Non-transaction related expenses grew 2% versus last year. Growth in these expenses was affected by both the lapping of held-for-sale accounting changes, which resulted in a lower rate of growth year-over-year, as well as an increase in expenses related to our 2018 acquisitions. Normalizing for both, non-transaction related expenses grew 6%. On this adjusted basis, we delivered 300 basis points of operating leverage with these expenses increasing only $0.11 for every $1 increase in revenue. This is indicative of our sustainability to grow at a low marginal cost.

Across our business, we're pleased with our operating discipline and cost performance. Our scale continues to afford us leverage opportunities. On a non-GAAP basis, operating income in the second quarter grew 22% to $998 million and our operating margin expanded approximately 200 basis points from Q2 2018. Adjusting for 2018 acquisitions, operating income grew 24% and our operating margin expanded 280 basis points in the quarter.

Other income in the quarter increased by $201 million, primarily due to $187 million increase in net unrealized gains on strategic investments. On a per share basis, unrealized gains contributed approximately $0.14 after-tax. $0.01 of this benefit was included in the EPS guidance we provided in April. The incremental $0.13 was not in our guidance and resulted predominantly from our investments in MercadoLibre and Uber.

Consistent with the plans we discussed on our last earnings call, we disclosed the expected effect of these unrealized gains on our second quarter earnings in our 8-K released on July 9th. Non-GAAP EPS for the second quarter grew 47% to $0.86. Adjusting for unrealized gains of $0.14 this year and $0.02 last year, non-GAAP EPS grew 27% in the quarter. Our strong EPS results reflect the operational outperformance with solid revenue growth, efficiencies, and cost discipline, all contributing in a meaningful way.

We ended the quarter with cash, cash equivalents, and investments of $10.7 billion. In addition, we generated more than $1 billion of free cash flow, or approximately $0.24 of free cash flow for every $1 of revenue.

Now I'd like to discuss our updated guidance for 2019 and our guidance for the third quarter. For the full year 2019, we are raising our earnings outlook and lowering our revenue guidance, which I will speak to in a moment.

We now expect non-GAAP earnings per share to grow 29% to 31% and be in the range of $3.12 to $3.17. Our raised earnings guidance reflects the outperformance of our business in the first half of 2019. It also incorporates the unrealized gains we have recognized from our strategic investment portfolio. As a reminder, these investments may create earnings volatility as we move through the year.

Subsequent to quarter end and prior to the release of our earnings, we plan to continue disclosing the effect of these investments on our results. We also expect to expand our non-GAAP operating margin by approximately 100 basis points this year, demonstrating our sustained ability to scale our business at (inaudible) incremental cost.

For the full year, we are lowering our revenue outlook to a range of $17.6 billion to $17.8 billion from our prior range of $17.85 billion to $18.1 billion. This new range reflects growth of 14% to 15% for the year and adjusting for the sale of receivables 18% to 19% growth.

Since we last provided guidance in April, a few key factors have contributed to revisions to our forecast. First, as Dan mentioned, we have a few big product integrations with partners that are experiencing delays, in part because of their expanded scope. Second, our previous guidance contemplated the implementation of certain price changes that we are now delaying. While the timing has shifted out a few quarters, we still expect to realize the full benefits of our partnership and pricing initiatives.

And finally, approximately 20% of our volume is cross-border and affected by changes in foreign exchange rates. We now anticipate that continued strength in the US dollar will have a greater impact on our revenue in the second half of the year than we previously expected. These changes to our 2019 revenue expectations are primarily related to the timing of initiatives. Our medium-term outlook for revenue and earnings as provided in May 2018 has not changed.

For the third quarter, we expect revenue in the range of $4.33 billion to $4.38 billion, or 18% to 19% growth on a currency neutral basis. In addition, we expect non-GAAP earnings per share to be in the range of $0.69 to $0.71, representing 20% to 23% growth. Our third quarter EPS guidance includes an estimated $0.03 benefit from unrealized gains we expect to recognize in the quarter.

In closing, we are pleased with the progress we are making across many fronts. We are advancing our strategic priorities and at the same time sustainably improving our cost structure. The cash flow generating power of our business continues to give us great flexibility as we allocate capital with discipline. We are focused on creating value for our shareholders and strengthening our position as the world's leading digital payments platform for our customers.

With that, I'll turn it over to the operator for questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) And our first question comes from Jason Kupferberg with Bank of America.

A - Dan Schulman {BIO 1895545 <GO>}

Hey, Jason.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey. Good afternoon, guys. Hey, how are you? How is it going?

A - Dan Schulman {BIO 1895545 <GO>}

Good.

Q - Jason Kupferberg {BIO 6867809 <GO>}

So just wanted to start with a question on the revised revenue outlook. So we're taking I guess about $300 million out and, John, you walked us through three factors driving that. Any way you can kind of give us the relative sizing on those factors? And then if you could also just elaborate on some of the comments you alluded to about these revenues actually being delayed, not lost. Are we interpreting that properly? And should we assume that the lion's share of this essentially ends up getting recognized in 2020 or does some of it bleed into '21? We'd love some more color on that. Thank you.

A - John Rainey {BIO 17599063 <GO>}

Sure, Jason. So without being specific on any one of the three items I mentioned, I would say that the magnitude of them are in the order that I laid them out: product integration, first; pricing, second; and then macro FX being third. I think to address your last point, we expect to realize the full 100% of the benefit from all of these. This is simply a delay in the realization of those benefits until 2020.

And I'll emphasize that, when you're a company our size that is growing at the rate that we are, oftentimes we have to make educated guesses about the time frame of a lot of these launches taking place. Sometimes we do better than what we expected. Sometimes you get into something and you see scope expansion because of good opportunities or more complexity. And that results in a delay, such as the case that we're seeing right now, but we still have a lot of excitement about what these opportunities present for us and do expect to realize the full benefit on a run rate basis.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. If I can just jump in on this, Jason, appreciate the question, yeah, this is a matter of when, not if. And when we talk about when, we're talking about the next several quarters. And so for us, we feel like we had strong operational performance in the quarter. If you look at our net new actives, those were up by 17%. If you look at our engagement, again up by 9% plus.

If you look at just little things that actually matter a lot, like our risk improvements that we've put into place, part of that is a result of acquisitions that we've done with Simility that's lowering our risks and helping our losses. These are all very sustainable types of things and that, while the revenue is delayed, but certainly not lost, in fact, we're confident all of that revenue will come in, the margin improvements are more permanent.

And because we're just seeing those this isn't taking away expenses from one thing to improve margins. These are sustainable margin improvements based on either better experiences that we're putting out or just better capabilities that we now have in the business.

So I would say, we feel really good as we look forward on this. It's unfortunate that some of these are slightly delayed, but I'll give you an example. One of these that were delayed was Paymentus. Paymentus is an extremely large strategic partner of ours. It is a brand new vertical that we're putting into our stack. It involves integrating all of their multiple pillars into our platform, involves integrating them into our app and this is a massive partnership for us. It's going to take a little bit longer than we thought, but everything we hoped for is there and actually more. So it's just a good example.

We probably underestimated the amount of work it would take to go and do that. And there was also, as John mentioned, a lot of scope expansion that occurred. But it's a great partnership and we'll have other bill payment players that will join as well. And so this is a matter of revenues being delayed, not lost, and we're trying to do this in a way that assures that when we do implement, whether it's partnerships or pricing changes, they're done in a world-class manner.

And so I don't want to jam something in, in the quarter. I want to make sure that we're building the right sustainable long-term things for this business. And if we've got to delay something a quarter or two, so be it to make sure that we do this the right way.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Okay, understood. Thank you.

Operator

Thank you. Our next question comes from Tien-Tsin Huang with JPMorgan.

Q - Tien-Tsin Huang {BIO 6065319 <GO>}

Hey, thanks. Good afternoon. I wanted to ask on margin again. Looks like you were able to take the bottom line here but still had a little more operating leverage against the lower revenue outlook. So what levers exactly are you pulling to make this happen? Are you sacrificing growth investments to do it? And I guess very importantly here for a lot of us, do you have more margin levers available to you in the event revenue continues to face delays? Thanks.

A - John Rainey {BIO 17599063 <GO>}

Hey, Tien-Tsin. Thanks for the questions. I'll start and Dan may want to add a couple of things, but let me start with the headline that we are not turning away growth opportunities to achieve the leverage and the operating margin expansion that we have in business. We believe that we've got significant opportunities. And we've talked a lot about these in the past, things like what we're doing around customer service, for example, how we're driving the contact rate down, how we're actually lowering the cost of that service. Even the very way that we develop product, we're becoming more efficient at.

And then you have to also remember over the last four years, we were propping up an independent public company, and that requires investment in things like compliance and a lot of the back-office functions. And so those are largely behind us. And so what you're beginning to see right now is the realization of those economies of scale. And that's I think fundamentally the main point here. But there's also an added point that I would point to this quarter, which is slightly different than what you've seen in some of the more recent quarters, and that's what we've done in our volume-based expenses. So if you look at both transaction expense and transaction losses, they appreciably declined as a rate of TPV from the prior quarters.

Now, I called out the reasoning for the transaction expense decline and that's certainly more of a transitory nature and sort of a timing impact on that, but transaction losses is one that has the potential to become more permanent. Now one quarter does not make a trend, so I don't want to call this out as what we should expect going forward, but this was truly based upon improved modeling and capabilities that we have in our fraud detection and risk management. And so we're very encouraged about that. And as we begin to -- or we continue to refine those models over time, hopefully, that type of decrease in the rate of losses for TPV is something that can become more sustainable for us.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. I'd just add on top of that. When I look at like, for instance, our Q2 revenues, we're right in the range that we predicted. And we would have been at the high-end of the range were it not for some of these FX headwinds. And as everyone on the call knows, FX headwinds can be against you one quarter and with you another quarter and that's why we give a range on that.

Even with that, we still grew our revenues by 19% on a normalized basis. EPS was up 27%, and we generated more than $1 billion of free cash flow. But most important to me, the operational metrics that we really look at, whether it be net new actives, whether it be engagement, whether it be TPV were all close to records for us.

Like MS, TPV excluding marketplaces or eBay, was up 30.2%. I think that's like in the last six quarters is like at a high (inaudible) tied for high in the last six quarters. So when I think about our revenues, I think about our operating metrics what the drivers of those are, they're all really quite strong. Yes, there are delays in some of these key partnerships and these key partnerships will drive a lot of revenue, but those key partnerships will happen.

We're well underway. We understand exactly what the critical path is going forward on that, and the pricing as well. We have pricing. It's both up and down, but when we put pricing out there, I want to make sure that it's transparent, that it's easy to be understood, and we have all of our processes in place to support any pricing changes that we might make and just be sure we execute in a world-class manner.

So I think not only do I think the margin improvements are sustainable, and as John mentioned, potentially there are quite a bit more to be found, but the drivers of our revenue are quite strong and I anticipate they'll stay that way.

Q - Tien-Tsin Huang {BIO 6065319 <GO>}

Understood. Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

A - John Rainey {BIO 17599063 <GO>}

Thanks, Tien-Tsin.

Operator

Thank you. Our next question comes from Darrin Peller with Wolfe Research.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey. Thanks, guys. Look, when considering the medium-term outlook, it obviously looks like from at least sort of the revenue side, it does sound like it's short-term in nature from what you're saying, but the drivers as you just mentioned, Dan, are very strong. In fact, I think they're better than what your medium-term typical guide suggests around, whether it's TPV or net active growth or even engagement levels. I guess first of all, just -- can you just reiterate if you can still see the same sustainability to that -- those drivers you've been seeing? What gives you the confidence you can see that in the next year or two?

And then I guess just to follow-up on the partnerships, I mean it sounds like some of these are pretty material in terms of opportunities. So not only net new active growth and the drivers, is that -- in terms of the revenue flow-through, could that cause a pretty big reacceleration in 2020?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. So I do believe that the drivers of the business are not just sustainable, but we've got the potential to do better. I mean, we've got continued strong growth in our net new actives, 41 million over the last 12 months, 9 million this quarter, up 17%. The 286 million active we have, that's up 17% year-over-year. And 23 million merchants on the platform, adding almost 1 million merchants a quarter right now.

So -- and you're seeing both PayPal and Venmo accelerate versus last year. I'm going to talk a little bit about them on a second to your might be revenue point. But look you've got, obviously, a network effect that's really kicking in right now. If you're a merchant, we have so many consumers that want to use PayPal or Venmo now as a way to pay. You almost have to be a part of the network and the same thing from a consumer perspective. We've got merchants everywhere that are accepting us. And so that network effect is continuing to kick in.

Very importantly though most people think about net new actives as the top of the funnel, but when you have a base as large as ours, the churn rate is just as important, and all the improved customer experiences that we've done from choice [ph] to additional Venmo monetization efforts to P2P flows to our new revised app, those are all reducing our churns and making a big difference in the number of net new actives.

We've got global expansion that's happening. We're at the tip of that iceberg in global expansion for us. Obviously, we're getting more net new actives from Brazil, from India, from Japan, but we're just beginning in those markets. And partnerships like the one that we're going to do with MercadoLibre, ones that we're going to do with Uber are yet to kick in. We're still -- we just rolled out Xoom expansion into 32 new send markets. We've got other international markets that we're planning to enter into. And so, I see net new actives as sustainable and maybe even being better than where we are.

And engagement, same thing is happening. It's just improving. I'll give an example of that. And this is a really -- it's quite a positive thing in numerous ways. The new net actives that are coming in on Venmo are -- have more engagement than previous net new actives, and that new engagement is around the monetizable services because those -- because that's what they're coming into. They're coming into a value proposition that has all of that. So they're aware of it and they're using it more and more.

And so you've got increased engagement, increased monetization efforts, and increased revenue. I mean, on the Venmo side, we're seeing really nice quarter-over-quarter revenue growth. We are well exceeding not just our budget on Venmo but our most recent forecast on Venmo revenues, and I really couldn't be more pleased with the efforts that that team is doing, with incremental monetization efforts still to come later this year.

A - John Rainey {BIO 17599063 <GO>}

Yeah. Darrin, I would just add a couple points, I think, to emphasize some of the items that Dan spoke to, but when you ask, like, what gives us confidence in our medium-term outlook, I'd put it in three categories. The first is that our business is performing very well. If you take our quarterly results, growing revenue 19%, another quarter of 9 million net new actives, expanding operating margin to 200 basis points, the type of cost performance that our core business is performing well.

The second, as Dan mentioned, is that one of the best indicators about the future of our businesses is the new cohorts of customers that we're bringing on. And we are seeing those cohorts be more engaged than the previous cohorts.

And the third category I would put broadly into just the opportunity set that we have. So when you look at things like the partnership with Paymentus or Facebook, or what we're doing in Venmo, what we're doing from a product development standpoint around reward points and card recovery, all these opportunities and more that we haven't listed give us a lot of conviction about our ability to continue to deliver on that medium-term guidance.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. And to your point, Darrin, when you think about something like Paymentus and what the revenue opportunity is there, it is quite significant because we're entering into a brand-new vertical. And when we're entering into a brand-new vertical, it's a lot of work to get it done, but the reward is quite large and commensurate with that work as well.

Q - Darrin Peller {BIO 16385359 <GO>}

All right. That's really helpful. Thanks, guys.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. Thank you, Darrin.

Operator

Thank you. Our next question comes from Bryan Keane with Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, guys. Just want to follow up on the pricing changes that are now delayed. I guess, where were the pricing changes delayed and why? And then, when does it get implemented now?

A - John Rainey {BIO 17599063 <GO>}

Hi, Bryan, I'll start with that. This is John. We made some changes to our user agreement that allowed us the ability to make certain pricing changes. And I would emphasize that, I think, sometimes the knee-jerk reaction is to assume that all price changes are up. Sometimes we can decrease prices to go after more volume.

So we haven't been real specific about what those are, but when we implement a price change, we always want to have that associated with a value proposition to the customer. And when we took a step back and we looked at the effort to improve some of those customer experiences around those price changes, it was more complex than what we imagined, and we want to be measured as we roll this out.

We -- I think a theme that you'll continue to hear from us is like we are trying to build a great company over the long-term, and we're not going to be so rigid and pushing products out to market, or otherwise that we do something that is not to the standard that we hold ourselves to. And so generally that's -- that's how we're thinking about some of these pricing changes. We would expect, though, to go forward with these price changes and perhaps others, either at the tail end of this year or early 2020 and realize the benefit from them.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. I'll just add on to John's comments just so I think we're right on. Look, pricing is a -- it's like an ongoing journey for us. We're always assessing better, maybe more transparent ways to serve our customers. We are always looking at the market dynamics out there, evolving practices of our competitors, and then we look at the value we provide and we try to price appropriately based on those factors.

And as John said, we're absolutely determined to be sure that anything we put out into the market that the experience is a great one. So understand while it's transparent, we've got all the support necessary for it, and we'll make sure that happens. But as John said, we do anticipate all of these go into effect over the next several quarters.

Q - Bryan Keane {BIO 1889860 <GO>}

Got it. Thanks for taking the question.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Thank you. And our next question will come from David Togut with Evercore ISI.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much. You highlighted that Venmo was exceeding your revenue growth forecast. Can you give us some color on where you stand with the biggest drivers in terms of monetizable experiences whether it be instant withdrawal, Venmo debit card, or a Pay with Venmo with merchants?

A - John Rainey {BIO 17599063 <GO>}

Sure, David. I'll take that. There's a -- if you look at the composition of the various ways that we can monetize Venmo, it hasn't changed that much from previous quarters. To date still instant withdrawal is the largest contributor of monetization for us, and then the other half roughly is split between Venmo card and Pay with Venmo. We do expect those to change over time as we've said previously to where ultimately Pay with Venmo will be the largest contributor of how we monetize Venmo.

So in terms of the progress there, I would say that, when we look at all of the initiatives that we've implemented this year, or have made progress on this year, this is one probably that stands out as performing better than what we initially expected going into the year. I don't want you to misread my comments. I don't think it's appreciably different from what we talked about, but certainly better than what our initial expectations are. So we're still very pleased about the progress that we're making there and it's well on track with our expectations.

Q - David Togut {BIO 1496355 <GO>}

Thank you.

A - John Rainey {BIO 17599063 <GO>}

You bet.

Operator

Thank you. Our next question comes from Heath Terry with Goldman Sachs.

Q - Heath Terry {BIO 3406856 <GO>}

Great. Thank you. As we think about the string of deals that you announced back in the spring with Uber, MercadoLibre, Facebook, even iZettle's clearance, is there a benefit to the '19 revenue expectations or guidance from those deals? Or maybe just more broadly when and to what degree do you expect to begin to see an impact from that string of deals?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. So I'll start off and then maybe John will talk. I think we'll talk a little bit more about next year on our next call. But overall, those are two relationships that we would do time and time again. MercadoLibre is going to significantly enhance our international scale and scope. We see a tremendous amount of opportunity as we integrate our two networks together.

If you think about it just in big generic terms, we'll have some 500 million people on our combined network together. Mercado Pago customers will now be able to access PayPal merchants around the world. PayPal consumers will be able to buy from MercadoLibre marketplaces' merchants. And we're very excited about the potential of linking wallet to wallet on international remittances as well. And so we see a tremendous amount of learning we'll get from each other and a tremendous amount of incremental opportunity as a result of that.

Uber, we already had a very strong relationship, but this not only solidifies that relationship, but we're in deep conversations with them on how to expand the extent of our partnership and help them drive the growth and experiences that they want for their customers and our mutual subscribers. And so that is really quite a bit of an everyday use case for us. We think that will help on both engagement metrics for us both on the Venmo and the PayPal side.

These other partnerships that we have are certainly going to add to our volumes and our capabilities. We have a lot of high hopes for what bill pay can do. It's obviously a huge vertical. We've had numerous people talk to us about it. Our customers are clamoring for it. We'll do full-step processing around that as well. So it will drive quite a bit of incremental volume and revenues for us.

As John has mentioned numerous times, partnerships like Facebook take time to develop and to move forward. Facebook like us wants to ensure that they have the right experience, but when you look at the volumes that can be driven there, we'll be measured in how we think about it as we look at next year, but we're excited about that potential.

A - John Rainey {BIO 17599063 <GO>}

Heath, let me add just one thing as it relates to capital allocation, some of the acquisitions that we've already made. And so I think sometimes what is overlooked is the opportunity for a compounding effect with multiple of these acquisitions.

And so I'll give you two examples. The first are the acquisitions of Hyperwallet and Simility which provide capabilities like payouts and risk-as-a-service. That enables us to provide a more comprehensive suite of services and a new product rollout like PayPal Commerce Platform, very important to that.

Second example would be something like iZettle. So, I think, it's generally acknowledged that Latin America is an area that we are less strong. Certainly, that influenced our strategic investment in MELI, but iZettle has a presence in Latin America. And so we can build upon these complementary capabilities from either the partnerships or acquisitions that we've taken to strengthen our presence in some of these geographies where we are less strong today.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

Q - Heath Terry {BIO 3406856 <GO>}

Great, Dan and John, really appreciate that.

A - John Rainey {BIO 17599063 <GO>}

Yeah. Thanks, Heath.

Operator

Thank you. And our next question comes from Lisa Ellis with MoffettNathanson

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good evening guys.

A - John Rainey {BIO 17599063 <GO>}

Hey, Lisa.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi. Good evening, guys. Maybe bridging from that last question actually, can you give an update on your M&A plans given it has now been over a year since Simility and Hyperwallet? Should we be thinking that additional acquisitions are imminent? Or is this -- is that part of your strategy, sort of, back-burnered given the number of and the scope of these partnerships that you're working on?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

Q - Lisa Ellis {BIO 18884048 <GO>}

Also, I guess, I'll tuck-in there, given the three mega mergers elsewhere in the ecosystem, are you still exclusively focused on tuck-ins? Or are you sort of rethinking the possibility of potentially larger-scale deals? Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Any other questions you want to ask? Those are all good questions. So, look, I'll just say that from an M&A perspective, I think, in general we're pretty well positioned. We've got a ton of internal innovation rate that is going on. Our toolsets for our engineers, the productivity improvements are dramatic there. And so, we're seeing more and more releases, more and more experiences that we can put out. We obviously have a lot of strong partnerships and a lot of capabilities that we can digest from those partnerships as well.

John mentioned it, but obviously our balance sheet is only getting stronger with $10.7 billion of cash-like assets on that. We generated over $1 billion of free cash flow. We still are consistent in that we're looking to do anywhere between $1 billion and $3 billion of a tuck-in type of acquisitions that help us either from a time-to-market perspective or geographic expansion or things that get scale and scope through things like partnerships.

So, we look at hundreds of potential acquisitions every single quarter. I think you can expect us to be acquisitive going forward. That will be a part of who we are on an ongoing basis. I don't -- as I think about these -- consolidation in the merchant-acquiring space, we're partners with all of those combined entities. I think there is a rationale why they needed to do that as online and offline started to blur [ph], as some needed feet on the streets, others needed online acquiring capabilities.

I would say those mergers in and of themselves don't make me feel like there's a need to do a larger acquisition, but we've never ruled out larger acquisitions. They just need a clear, a very high strategic fit and hurdle for us, but we look at the potential for acquisitions from smaller to larger, and we'll continue to do so.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah, you bet.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thanks, guys.

Operator

Thank you. And we have time for one final question from George Mihalos with Cowen.

Q - George Mihalos {BIO 5891367 <GO>}

Hey, thanks. Thanks for squeezing me in, guys. Maybe just building on that capital allocation theme. I think, John, you guys didn't buyback any stock this quarter. How are you thinking about the buyback going forward relative to some of the other capital allocation priorities, M&A and the like?

A - John Rainey {BIO 17599063 <GO>}

Sure, George. It's good to speak with you. So if you go back to May of last year when we laid out our capital allocation priorities, they still remain the same. And that's over that medium-term time frame over the next call it three to five years, we expect that approximately 40% to 50% of our free cash flow will be used to return to shareholders and that we will spend on average about $1 billion to $3 billion a year with acquisitions and strategic investments.

Now, as I'm sure you appreciate that -- we're going to be opportunistic from one quarter to the next. And sometimes, there are competing priorities in a quarter. And also at times it's worth noting that because of things we may be working on, we may be subject to blackout dates as well in terms of when we can go buy back stocks.

So I would discourage you from reading too much into the fact that we didn't buy back stock. We still intend to buy back the amount that we've talked about. But again, we -- I think we have the sort of the fortunate position to be opportunistic given the opportunity set that's out there in the industry, and so we'll kind of bounce around from one quarter to the next with how we allocate capital, but over that medium term, we'll stick to those tenets that we've provided.

A - Dan Schulman {BIO 1895545 <GO>}

Thanks very much, George, for that question. And thank you everybody for joining us today. We really appreciate your time. And we look forward to speaking with all of you soon. Thanks.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. Thank you for participating in today's conference call. This concludes the program. You may now all disconnect. And everyone have a great afternoon.