Q1 2020 Earnings Call

Company Participants

- Dan Schulman, President and Chief Executive Officer
- Gabrielle Rabinovitch, Vice President, Investor Relations
- John Rainey, Chief Financial Officer and Executive Vice President

Other Participants

- Ashwin Shirvaikar, Analyst
- Bryan Connell Keane, Analyst
- David Mark Togut, Analyst
- George Mihalos, Analyst
- Harshita Rawat, Analyst
- Heath Patrick Terry, Analyst
- Jason Kupferberg, Analyst
- Lisa Ann Dejong Ellis, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to PayPal's First Quarter 2020 Earnings Conference Call. (Operator Instruction)

I would now like to hand the conference over to your speaker, Ms. Gabrielle Rabinovitch, Head of Investor Relations. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Sheree. Good afternoon and thank you for joining us. Welcome to PayPal Holdings' earnings conference call for the first quarter of 2020. 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. Due to the length of our prepared comments today, we plan to allow for additional time for questions. 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 on the Investor Relations section of our website.

We will discuss some non-GAAP measures when 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. We will also discuss April 2020 results, which are preliminary in nature, subject to change and may not be representative of second quarter 2020 results.

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 the second quarter 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, May 6, 2020. We expressly disclaim any obligation to update the information.

With that, let me turn the call over to Dan.

Dan Schulman {BIO 1895545 <GO>}

Thanks, Gabrielle. Thanks everyone for joining the call. Let me start off by expressing my hope that all of you and your loved ones are safe and healthy in these unprecedented times. I think we all would agree that COVID-19 has fundamentally changed the way we think about the future. One profound change will be a dramatic acceleration from physical to digital. It's clear that digital payments have evolved from a nice to have capability to an essential service. There has always been a distinct secular trend towards digital payments, but the current environment has rapidly accelerated that movement.

Our products and services have never been more needed and more relevant. We've worked hard in recent years to establish PayPal as one of the world's most trusted digital payments brands, with substantial reach and scale for both consumers and merchants, and those efforts are clearly paying off. In the past month, there has been unprecedented demand for our products and services. Our transactions are up 20% year-over-year, with branded transactions up over 43% more than double pre-COVID levels in January and February. On May 1st, we had our largest single day of transactions in our history, larger than last year's transactions on Black Friday or Cyber Monday. Our net new actives hit record highs in April, surging over a 140% from January and February levels, averaging approximately 250,000 net new active accounts per day. For the month of April, we added an all-time record of 7.4 million net new customers. I don't want to lose sight of the fact that we also had a record Q1 adding 10 million net new accounts, but that will pale in comparison to the 15 million to 20 million net new active accounts we anticipate adding in Q2. And last but certainly not least, in April, our revenues grew by 20% on an FX-neutral basis, including record revenue growth of 35% in our PayPal checkout experiences.

I'll expand on these trends in a moment, to say, clearly highlight the strength of our customer value proposition. Like many other companies, our first quarter was a study in contrast. We had a very strong January and February, with FX-neutral revenues growing by an average of 18% and TPV growing at 26%. We began to see some COVID-19 impacts in late February, but the strength of our overall business outweighed cross border weakness coming out of China. However, all that changed as we exited the first week of March. Shelter-in-place and social distancing became the norm across the globe, and as one economy after another effectively shut down, we saw a substantial revenue decline, predominantly in our travel and ticketing verticals. Some of our important customers, including Uber, Airbnb and Live Nation saw a rapid decreases in transaction volumes.

That said, the diversity of our business by merchant size and geography meaningfully offset margin pressures. In fact, excluding increased credit reserves driven by the macroeconomic environment, our Q1 non-GAAP EPS would have been $0.83, growing by 26% and well exceeding our prior guidance of $0.76 to $0.78. In addition, excluding those incremental reserves, our operating margin would have been 24.7%, more than 200 basis points better than Q1 last year.

Finally, our free cash flow in the quarter was $1.3 billion. Revenues in Q1 were up 13.5% on an FX-neutral basis to $4.168 billion. When we provided guidance in January, we had expected revenue growth to be between 17% to 18%. This gap in our growth relative to our previous expectations was predominantly due to the decreased revenues from our travel and ticketing verticals as well as from lower revenue related to our credit business.

As I mentioned earlier, we began to see a very noticable shift in our results towards the end of March and throughout April. We saw dramatic increases in our daily net new actives and overall engagement levels. Our daily number of transactions accelerated throughout the month growing from the beginning of April until month's end by 25% with 7.4 million net new actives, record engagement and transaction volumes and 20% revenue growth. I would characterize April is perhaps our strongest month since our IPO.

This rapid growth across our metrics is led by distinct preferences in consumer behavior. Our market research indicates in approximate 50% lift in consumer willingness to buy, when PayPal is present at checkout. On average, merchants who accept PayPal experience a 60% increase in purchase conversion. This is driving very strong revenue growth across almost all regions of the globe. Notably, it is our branded experiences that are gaining the most traction. As a result, we expect our Q2 OI margin to increase year-over-year, excluding the need for any potential additional macroeconomic related reserves. Consequently, we would expect strong EPS and free cash flow growth in Q2, and John will cover our guidance in his remarks.

I'm extraordinarily proud of the entire PayPal team for delivering these strong results. In the midst of considerable upheaval, they have reacted to the crisis with unprecedented speed, focus and passion. For instance, as soon as the impacts from the virus began to be felt, our team began discussions with government officials across the world to offer our support. Our global scale platform capabilities and brand reputation are all attractive assets for governments to quickly and efficiently distribute payments. In the U.S., we work closely with Treasury, the SBA, congressional leaders and multiple other agencies on many aspects of the Cares Act, including distributing loans to small businesses and stimulus checks to consumers.

It was an important and proud moment when we became one of the very first non-bank lenders approved to distribute the Paycheck Protection Program funds to the small businesses we serve. We have already funded tens of thousands of loans distributed well over $1 billion with an average loan size of 35,000 and PayPal and Venmo customers in the U.S. are eligible to receive their economic stimulus payment directly into their digital wallet.

Digital payments whether online or in-store will become an integral part of our daily lives, even when shelter-in-place restrictions lift. Governments, regulators and merchants of all sizes are now appealing to us to expand PayPal and Venmo into in-store checkout flows in order to help enable a safe checkout experience. Consequently, we intend to accelerate a rollout of our in-store digital payments in all markets that support our P2P payments. The need for contactless payments is more important than ever before as consumers and merchants move away from handling cash or touching keypads and adhere to strict social distancing requirements.

The steps we've taken over the last several years have positioned us to extend our market leadership in the digital payments industry, with services that are arguably more important than ever before. Our acquisitions of Xoom, iZettle, Hyperwallet, Go-pay and Honey had positioned us to lead in the era of digital commerce and payments. Each of our acquired capabilities take on heightened importance in a time where online and offline have blurred almost overnight for merchants of all sizes and where consumers have embraced e-commerce and digital forms of payment as a way of life.

The opportunities for Honey and PayPal to help consumers find the items they need at prices they can afford has never been more important for both merchants and consumers. To put that in perspective, in April, Honey's net new actives grew nearly 180% from pre-COVID levels. And for the month of April, revenues for Honey were up over 40% from January and February.

COVID-19 has presented all of us with a unique set of challenges that will very likely change our lives post pandemic, but in many ways, it's only reinforced the way we think about our business and our stakeholders. I've always felt that putting our employees first is the best way to build a great brand and an enduring financially strong company. We took significant steps to assure our employees financial health well before this crisis.

Our north star is always to do the right thing for our employees, ensuring their safety, security and financial health. We made a commitment that no employee would be laid off as a direct result of COVID-19. We also focus our attention on our customers, who need our products and services more than ever as well as our empathy and support. We took a series of important actions to help our merchants and consumers, everything from allowing small business customers to defer payments on their business loans, increasing protections with regards to refunds and charge backs, waiving instant funds transfer fees and doubling cash back rewards for the PayPal business debit card. These initiatives will impact our revenues and operating income in Q2 and that impact is contemplated in our Q2 guidance. These actions are consistent with our company's values and I'm absolutely convinced that the costs associated with supporting our employees and customers will be vastly exceeded by the benefits generated from these actions. This is a time when a financially strong company like PayPal needs to demonstrate that our purpose, mission and values guide our actions.

We're also supporting our consumers around the globe by directly funding NGOs and charities who are supporting those impacted by the pandemic. Our PayPal and Venmo platforms have exploded with friends, family and countless celebrities helping each other through this time. Venmo and PayPal users are leveraging our platform to virtually tip service providers, bartenders, musicians artists and small businesses as well as to send contributions to schools, places of worship and hospitals. And we are helping Facebook, Verizon, Google, Airbnb, Uber, Live Nation, Spotify and many other partners to raise money for those in need by enabling them to use our many platform capabilities.

This is an unprecedented time in our history. The COVID-19 pandemic has impacted almost everyone around the globe. It's demonstrated how connected our world is and it will change the way we live our daily lives. Digital platforms combined with real world solutions have enabled us to navigate many of the unique challenges of the pandemic, and I believe we will look back at this time as a tipping point, where digital payments both offline and online became an essential element of our lives. Facening [ph] the demise of cash, enforcing a reimagination of commerce, retailing and the payment system and we intend to be a driving force as those trends unfold. We've always committed to being a model corporate citizen. I'm inspired everyday by our employees and what they're doing to help our customers. Many are working seven days a week and late into the night because they know that PayPal has become a critical lifeline in the everyday lives of our customers. We will come out of this crisis much stronger and significantly more relevant than ever before.

This is our time to make a difference and we are determined to seize it, do our part and make a lasting and positive impact.

And with that, I'll hand it over to John.

John Rainey {BIO 17599063 <GO>}

Thanks, Dan. I want to start by thanking the entire PayPal team for how they've responded to these unprecedented events. Their tireless efforts to go above and beyond in order to help our customers and help each other has been amazing. COVID-19 has certainly taken a path that has left a tremendous amount of personal and economic destruction in its wake. It's moved from something that we hear about on the nightly news to something that is more personal, having a tangible effect on our lives. Our thoughts are with those of you who have been most impacted.

For all of the very real concern on a personal level as well as the economic damage from appropriate measures to combat the virus, our business is strong, resilient and performing very well. We have a very strong balance sheet, durable streams of earnings and cash flow and we're levered to parts of the economy that are benefiting from social distancing and shelter-in-place, namely e-commerce. We entered this environment from a position of strength coming off very strong results in 2019. We are successfully navigating this crisis and have confidence that we will emerge from this period even more strongly positioned.

Dan spent time discussing our volume trends and earnings results in the quarter. I would like to provide additional details on our revenue and expense performance as well as how our results compared to our expectations going into the first quarter. Our Q1 revenue guidance provided in January called for 17% to 18% growth on a currency neutral basis, and our Q1 non-GAAP earnings guidance was for $0.76 to $0.78 per share. As Dan noted, the first quarter was a study in contrast between March and the first two months of the quarter. Consistent with our expectations, we saw very strong volume trends in both January and February, with volumes growing 26% on a combined basis.

In March, we faced headwinds as the environment rapidly shifted and volumes grew 7%, which resulted in 19% TPV growth overall for the quarter. In Q1, on a foreign currency-neutral basis, total revenue grew 13.5%, transaction revenue grew 15% and other value-added services revenue grew 2%. Transaction revenue growth was primarily affected by weakness in the travel and events vertical and slower Asian cross border e-commerce. Growth in other value-added services revenue was much lower relative to our mid-teens growth expectations. We earned less credit income as a result of the proactive measures we took to help our customers, including relief from interest and late fee payments. To a lesser extent, this revenue was also affected by lower interest rates on customer balances. On a combined basis, these COVID related impacts resulted in approximately 5 points of pressure to revenue growth in the quarter.

On the expense side, we had another quarter of strong transaction expense and transaction loss performance. Transaction expense was 91 basis points as a rate of TPV, a decline of 5 basis points both sequentially and year-over-year and large part due to a shift in our volume mix related to COVID. Transaction loss was 13 basis points, an improvement of 5 basis points year-over-year and the fourth consecutive quarter in which we performed in this range. On an absolute basis, transaction loss dollars declined 14%. This is some of the best performance we've seen in our history for both of these expense line items, and together they provided nearly 150 basis points of leverage.

At the same time, given the unprecedented pace and scale of the decline in the broader economy and the macro related adjustments that the new CECL accounting standard mandates, we increased our reserves for expected credit losses. This flows directly to credit loss expense and resulted in $227 million macro related charge in the quarter, which after taxes equates to a $0.17 per share impact to earnings. At the beginning of the quarter, our reserve coverage covered 11% of our outstanding loan and interest receivables balance. In response to changed macroeconomic forecast, our reserve coverage increased 54% and now covers 17% of our portfolio.

Non-volume related expenses increased by 6%, entirely related to our recent acquisitions as compared to a year ago. On an organic basis, these expenses were flat. As we demonstrated consistently for several years now, we remain disciplined in our expense management. Much of our expense base is volume related and serves as a natural hedge as volumes come down. Further, we have many levers on the non-volume expenses to sustain our track record of strong earnings growth.

I want to emphasize, however, that we are focused on building a great company for the long term, and will continue to aggressively pursue growth opportunities, while acting prudently from an expense standpoint. We'll remain agile and responsive to how the economic environment is playing out and we'll continue to appropriately invest in our business in a manner that we believe maximizes shareholder value.

Operating margin for the quarter was 19.7%, adjusting for increased macro related reserves, our operating margin would have been 24.7%, improving more than 200 basis points year-over-year and more than 100 basis points sequentially. Overall, we're pleased with the durability of our earnings stream and believe that we are well positioned to continue delivering strong results even in the face of this exogenous shock. We grew revenue 13.5% on volume growth of 19%, while generating a 20% operating margin in the quarter and $1.3 billion of free cash flow.

In addition, excluding the $0.17 earnings impact from the macro related charge to our credit business, we would have outperformed our expectations and delivered $0.83 in EPS for Q1, which demonstrates the underlying strength of our business. This strength allows us to take actions that will have a short-term financial impact, but are absolutely the right thing for our customers, for our long-term competitive positioning and for the economy overall. And in fact, we believe these actions will make us even stronger going forward.

We're in a very strong position from a balance sheet and liquidity perspective. We ended the quarter with more than $10 billion of cash, cash equivalents and short-term investments. In March, we elected to draw down $3 billion on our credit facility or 50% of our available capacity to maximize our flexibility. In addition, in the first quarter, our free cash flow grew 60% year-over-year, and for the full year, we continue to expect to generate approximately $0.20 of free cash flow for every dollar of revenue. Our financial position will allow us to be opportunistic and successfully navigate this period as we assess ways that we might be able to capitalize on current market conditions.

During the quarter, we also repurchased $800 million of stock through a previously implemented 10b5-1 program. Overall, from a capital allocation standpoint, there is no change to our previously discussed strategy. We'll continue to prioritize organic investing to achieve our growth objectives and have rapidly shifted some of our efforts in response to this new operating environment, and the increased demand for our products and services. After investing organically, we will balance share buyback with acquisitions and investments.

I now want to shift to how we're thinking about things going forward. There are obviously many variables that are outside of our control that will impact our results for the rest of the year. Most notably the path of the virus, the duration of the measures put in place to combat it and the health of the global economy. Our business is strong and we expect to continue to show earnings strength and durability. At the same time, given the lack of visibility into the near-term economic effects of COVID-19 and the wider range of potential outcomes, we believe it is prudent to pull our previous guidance for the full year. To be very clear, there is a difference between our ability to accurately predict the impact of COVID-19 on our business in the back half of the year and our overall confidence in our business. We will continue to update you on our business trends as we move through the remainder of the year.

For the second quarter, we are guiding revenue growth of approximately 15% on a currency neutral basis, and non-GAAP EPS growth of 15% to 20%. I want to provide some context for this guidance. Our revenue and earnings guidance for Q2 is our best estimate at this time and incorporates our April results and the potentially wider range of outcomes that we may experience in May and June. Perhaps the biggest factor impacting our revenue performance for the second quarter is the extent to which behavioral changes associated with social distancing measures continue at the same pace.

Our branded payment experiences are clearly benefiting from the increase in e-commerce spend as a result of these measures. We are assuming that these measures are slowly relaxed over the next two months, but expect that we will exit the quarter at a more elevated level of e-commerce spend than what we were experiencing going into the crisis. We don't know the extent to which people will fully revert to previous behaviors, but we believe that this is not just about government mandates, it's about public health and taking reasonable precautions in adopting habits that reduce risk that on a relative basis involve minimal sacrifices.

In addition, we expect that there will be a slower recovery in verticals with longer lead-time purchases like travel and events, and don't expect any material improvement in the second quarter from the depressed levels that we're seeing now.

We will continue to electrically help our customers by waiving certain fees, extending credit and offering additional forms of relief. These actions will have an impact on our earnings in the second quarter and are contemplated in the guidance we are providing. Our guidance also assumes no incremental macro adjustment to our reserves for credit losses beyond the increase in Q1. This is dependent upon several macroeconomic factors, which will continue to monitor and we'll just have to see how this plays out in the quarter. Given the impact too many businesses in the dramatic surge in unemployment, we do not expect that there will be a return to pre-crisis levels of economic growth anytime soon.

Overall, we expect underlying non-GAAP earnings growth to be a few points higher than revenue growth, given the dynamics that we're seeing in our business. The flow through on our current mix of volume and the trends in our non-transaction related expenses. At the same time, we're focused on investing in products and services to capitalize on the behavioral shifts we're seeing towards higher e-commerce penetration, the avoidance of cash and a greater desire for contactless payment experiences. The level and extent to which we accelerate investment in these areas will also impact earnings in the quarter.

I want to emphasize that trying to forecast at this time, when information and trends are changing rapidly, is exceedingly difficult and we're attempting to balance transparency with reliability. We have a very strong and durable business model, one that stands to benefit from some of the secular trends that may emerge from this crisis. I also want to acknowledge, however, that people are not going to live like this indefinitely, people don't want to live like this indefinitely. Shared experiences are critical to a healthy functioning society and people want to have dinner with friends, travel with family and attend concerts and sporting events.

Our April trends demonstrate how we're benefiting from an acceleration in e-commerce that has been brought on by much of the world being subject to shelter-in-place. As the world begins to normalize, the behavioral changes that we're seeing may also recede a bit, which will slow our growth in some areas. At the same time, other areas of our business would strengthen as we benefit from having a diversified portfolio of products and services. To be very clear though, we all look forward to moving beyond this moment and taking everything that we have learned to better serve our customers.

In closing, in the face of one of the most significant financial shocks that we've seen in our lifetime, our business is more relevant than ever before. If this situation continues for some time, then we're positioned very well. If, however, we can return to normalcy albeit with some notable changes in consumer behavior, then we're also positioned very well. We will continue to take a long-term view in managing our business and we will take actions that we believe will further increase shareholder value and allow us to emerge from this as an even better company with better growth opportunities and more durable earnings.

I'll now turn it over to the operator for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question will come from Heath Terry from Goldman Sachs. Please go ahead.

Q - Heath Patrick Terry {BIO 3406856 <GO>}

Great. Thank you, Dan, John. I appreciate all the additional disclosure. When you look at the profile of the new users that you've seen added to the platform in April, what kind of commonalities do you see? Why weren't these people already PayPal users? How do you see them engaging with the platform compared to your existing customers? Are they more peer-to-peer, more e-commerce, more frequent? And I realize this isn't a fair question, but how do you see them staying engaged on the platform beyond the current crisis?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. Hey, Heath, it's Dan. I'll take a stab at that and John may have some color commentary afterwards. I think it's a great question. We obviously are seeing a surge in net new actives and that continues on. Just as example, yesterday, we put on 295,000 net new actives. And so this is continuing to be quite sustainable over the past six weeks or so and we are really seeing the majority of these net new actives come out of what we would call are core markets. It's really Western Europe, the U.S., Australia, obviously all areas of the world are growing, but those are the ones that are growing the fastest where we have strong brand attributes. There is a real flight to quality, to trusted brands right now and we are seeing this not just on P2P but across really checkout services, really it's pretty broad based.

We're also seeing new segments of customers come in. We're seeing like older cohorts come in, calling it, silver tech, let's just say, those that are older or haven't used PayPal before and now are using it as their kids and family members are explaining to them how to use the service. When we look at engagement and this is a really important question you asked about cohorts in here. What we really look at and our best indicator of lifetime value as well as propensity to stay with us and not to churn is what we call our 10-day adoption rate, and that is within the first 10 days of somebody signing on that they do three or more transactions with PayPal, three or more. And so when we find when they do, that they're just a lifelong PayPal customer. And we've seen with these new cohorts and these new cohorts are pretty huge right now, it could be by the end of the quarter like 6% of our total base for instance, just in the quarter. And so these new cohorts are experiencing a 30% lift in adoption, three uses or more in the first 10 days. And so we feel really good about the cohorts that are coming on. But very importantly, and I think I mentioned this in my script, across our entire base, right now we are seeing our daily active users, daily, grow by 20%. And so this is leading to this explosion in transaction volume that I talked about where you're seeing transactions not just at these all-time levels right now, but if you look at the shape of that through the month of April from the beginning of April to the end of April, our number of daily transactions on a seven-day moving average has grown by 25%. And so you really get a sense of the momentum that's building, and look, I think John said, it's early, we've got six weeks of trends going right now. But our view is, we think we are hitting a tipping point across the world where people are seeing just how simple and easy it is to use digital payments to pay for services. This isn't a matter of when to shelter-in-place restrictions start to drop, because this is about health, this is about people not wanting to be in-stores, not wanting to shop. In fact, there is one survey after another that shows that people are more inclined now to do online than to go back in-store.

One last thing, we track transactions in TPV by country and by state. And so we see where countries have like Germany or Austria where they've released some of these restrictions over the past two to three weeks and we see no meaningful difference in the amount of usage further or might be ever significantly elevated levels 2 to 3 times that of pre-COVID. So I hope that's helpful and giving you color.

Q - Heath Patrick Terry {BIO 3406856 <GO>}

No, it is. Thank you, Dan. Really appreciate it.

Operator

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

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

Hi, thanks. Lots of really interesting data here. Thanks for sharing it all. I just wanted to ask on the guidance for the second quarter, it looks like as you said April running plus 20% on revenues, your second quarter guide implies quite a bit of deceleration in May and June. So how much of that is just conservatism as opposed to, the way to ask it, I assume the acceleration April includes boarding new clients as well as perhaps the temporary surge from existing clients that you suggested John might revert now, so just trying to be clear on what the assumption what's conservatism versus what you actually see? Thanks.

A - John Rainey {BIO 17599063 <GO>}

You bet, Tianjin. It's good to speak with you. I can't underscore enough how difficult it's been to forecast during this time period. As we got into March and we saw the trends, they were almost cross currents, where parts of our business around travel and events were going one way while we saw the beginning stages of a sharp acceleration and the growth or the increase in going in a positive direction. And some of that went into April and we -- obviously April was a really good month and let me underscore this point, like the 20% revenue growth that's against the backdrop where we have a vertical like travel and events, which is a high-single digit percentage of our overall portfolio, that is down 80% to 90% year-over-year.

So that tells you how strong the rest of the business is. But what we don't know is how long these measures stay in place, right. And what is the consumer behavior, the stickiness to that. I think we've seen Dan talked about some of the customer surveys. We've seen that as many as a third of customers now say that they will continue to buy groceries online, as an example, and I think once you go through that experience and you realize that you don't get the wilted letters that it's actually quite good, then you continue that. And so there is some expectation around that, but as I noted in my remarks, people want to socialize, they want to go out and do things. And so I think there is a balance between that demand with the concern that people have around health and safety.

And so when we look at the rest of the quarter, we expect that there could be some decline. It might be more on the conservative side, obviously if these trends continued, will be it 20% percent for the quarter, but that's not what we're assuming. I think as it relates to that to Tianjin, one of the things we didn't comment on was our medium-term guidance and we're not changing that at this point. There is again a lot of uncertainty. We don't know what the macroeconomic backdrop is going to look like six months from now, much less two years from now. And so there is I guess cause for concern there. At the same point in time, a lot of the things that we're seeing in our business are positives that are perhaps secular shifts that, as Dan noted, could fast forward where we are by a matter of years. And so I think there are some pluses and minuses to that and we've got no change to that at this point in time.

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

Got it. Makes a lot of sense. I wish you could tell me my kids are going to have summer school or not. So I wish you...

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. They're not.

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

I know. Don't remind me. Thanks.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Thank you. Our next question comes from Harshita Rawat with Bernstein.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good afternoon. Thank you for taking my question. John, can you expand upon your comment around your exposure to different verticals, you already gave a little bit of indications on exposure to travel and events vertical. But I was also thinking about different areas within e-retails, discretionary versus non-discretionary e-commerce. And then just as a follow up, obviously the current situation is very fluid but as you look to your internal scenario then on a downturn, what could that look like to PayPal given the splits and takes around our e-commerce accelerating but then you also have exposure to discretionary spend credit? Thank you.

A - John Rainey {BIO 17599063 <GO>}

Sure, Harshita. So there is a lot to that. I'll try to be as succinct as possible here. So let me first address the verticals and then talk about the discretionary nature of this. March was interesting in terms of how that unfolded and it mirrored society, right. So the first thing that people did was stop traveling internationally and then domestically and they stopped going to large social events, and that had a negative impact on our business. And then when -- the compulsory shelter-in-place measures were put in place, that's when we started to see more of the trends that around elevated levels of e-commerce. And as we look at how that continued through the back half of March and into April, it's quite interesting when you look at it on a vertical analysis. So groceries, for example, which is a relatively small part of our overall portfolio, but that has consistently been up 100% plus year-over-year. Other things like electronics and fashion, home and garden all verticals that somewhere between 50% to 80% up year-over-year.

The areas where we've seen pressure obviously travel and events. Services is another one as one would I think easily understand given the impacts of COVID. And as we move forward and we think about how that unfolds, well obviously as these measures are relaxed like it's going to take some time to book a trip to go on vacation. So there is going to be a slower recovery with some of those verticals where we've seen greater drop-offs in volume. But we also -- and as consistent in the previous answer, Heath, we are clearly seeing some stickiness to some of these behaviors. One of the things that we've looked at very closely as like Germany and Austria, that were earlier than some of the other areas or regions of the world in relaxing their shelter-in-place or social distancing measures and we're seeing the same trends continue. And Dan mentioned this, literally at 2 to 3 times the growth rate that we were seeing pre-crisis.

Now again it's early on, and I think quite probably too early to declare these as trends that are definitely sustainable, but they are truly some cross currents in our business that we think that are pretty positive. With respect to -- maybe I kind of take the last two parts of your question together, like the discretionary versus non-discretionary nature of PayPal and how that may impact or be impacted in a recession. Look, the PayPal up 15 years ago when someone was using us to buy baseball cards on eBay is very different today. We're not necessarily just discretionary services. People use us, use our platform to pay rent. They use us to do bill pay. They use us for subscriptions for regular monthly services. And so obviously we're tied to personal consumption and would expect some impact on our business in a recession, but these are not just discretionary items, these are must haves for many people.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah, I just add to that. So I'll give you one example. Just one of our services Xoom, which is our international remittance service, people aren't going into physical locations anymore to give money and to -- and somebody in the receiving end going to specific co-location to get money. So we have seen a 400% increase in people using Xoom, net new actives coming on the Xoom since the January, February time frame. And here's the thing about using Xoom, first of all, it is a critical service, people send money home every single month sometimes twice a month, once you use Xoom versus a traditional method, you are never going back, it is half as expensive, it is faster, it is easier to go and do. And so -- and the same thing with Honey -- Honey is experiencing the same sort of dramatic increases up 180% in net new actives, revenues growing substantially and that wasn't year-over-year, when I said 40%, that was 40% more than in January and February in terms of their revenues. And I think the products and services and capabilities that we've put together are crucial now for both merchants and for consumers, and we are seeing merchants of all sizes come to us now with strategic conversations we've never seen before. These are now merchants that are reassessed -- reassessing how they are going to do commerce thinking now about digital and online first physical locations. Second, you've never really seen that in any kind of scale at the retail level. It's a fundamental rethink and we're with the scale and scope and scale of consumers and merchants and scope of services I think we're more relevant and more important than we've ever been before.

Q - Harshita Rawat {BIO 18652811 <GO>}

Very helpful. Thank you very much

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Thank you. Our next question will come from Bryan Keane with Deutsche Bank. Please go ahead.

Q - Bryan Connell Keane {BIO 1889860 <GO>}

Hi, guys. Just wanted to get a clarification April TPV is up 22% revenues, 20%, so it's pretty tightly correlated. So I just want to make sure I understand that the stronger yields are probably due to PayPal branding and lower Braintree and P2P volumes? And then secondly, John, a, help you can give us on credit provisions on how to think about that going forward, what might cause further write-downs? Thanks so much.

A - Dan Schulman {BIO 1895545 <GO>}

Sure, Bryan. And you're correct. I think it is partly the mix in our business. It's also that we've seen a rebound in cross-border, which tends to have higher take rates as well. On CECL or the new accounting standard for credit losses, let me just explain a little bit there for the benefit of everyone what's changed versus the previous accounting method. So under the prior and current loss model, we would recognize losses as we begin to see those in our book. The new standard now requires companies to recognize those losses on the entirety of those losses, their expected losses when things such as macroeconomic events change that they think will give rise to those losses. And so the charge that we took in the first quarter was our best guess at that point in time of the entirety of those losses, and so it's not as if we were saving any to recognize at a later period. Now things could obviously changed and we would take that information into account and need to recognize something higher or lower as the case may be related to that, if we had that information, but there is I think also a little bit of subjectivity that goes into that as well.

I will say that if you look at our coverage ratio. So the percentage of reserves that we have related to the gross amount on our balance sheet, we're at 17%, which for those of you who follow some of the other issuers, that puts us at the higher or more conservative range that exist out there. But I think just to put this in context though, we have consistently said that we don't want to be too levered, too credit to where we go through a business cycle like what we're seeing now. And that's disrupt the durability of our earnings and so in the quarter, we took a $237 million charge related to this. To put that into context, we had $1.3 billion in free cash flow and we're still reporting a 20% operating margin even with that charge. And so we think that this is something that is being managed appropriately well in terms of the risk mitigation here, and we'll obviously keep an eye on that as we go through the balance of the year, but the first quarter charge included our best estimate at that point in time.

Q - Bryan Connell Keane {BIO 1889860 <GO>}

Okay, helpful. Everybody stay safe and healthy. Thanks.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. You too. Bryan,

A - John Rainey {BIO 17599063 <GO>}

You too. Bryan. Thank you.

Operator

Thank you. Our next question will come from Ashwin Shirvaikar with Citi. Please go ahead.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you. Hi, Dan. Hi, John. Good to hear your voices. I appreciate the good work you're doing as an organization. My question -- sure my question is on PayPal sorry on Venmo. Can you quantitatively parse the Venmo performance, it looks as though there is a combination of new use cases and also looks like the use of Venmo for may be direct purchases might have risen sharply while maybe the traditional use case of post-purchase sharing has waned in the current shelter-in-place. So any parsing that you can provide?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. Maybe I'll take a start at and then John can -- I mean first of all, Venmo is participating in those record net new actives that we're seeing and at an incredible month, in the month of April. And when I talked about highest transactions ever on May 1st for the company, it is also the highest transactions ever for Venmo as well, just to give you an idea of Venmo. Venmo TPV in Q1, it grew at 48%. By the way, January and February is well over 50%, what happened in March, it's interesting to your point about new use cases. Venmo is a very much of a social payments service, you go out to dinner or to bar with friends and you split the bill and do that kind of thing. Well, all of that dropped away obviously as everybody went to shelter-in-place. But basically Venmo incredibly rapidly morphed into additional use cases because P2P now is very much at the core of what people are doing. Bryan, you asked before how much of this change is coming from P2P or Braintree, it's really predominantly Braintree in terms of the mix. P2P is actually growing in many different use cases. We're now seeing entire families using Venmo, because the kids are on it. They've got a sense while their parents are back and forth and so it's becoming a cross-generational platform and it is being used to pay for goods and services right now. We are seeing a real significant increase in Pay with Venmo. It's going to be one of these things that accelerates Pay with Venmo quite substantially. We're seeing it's QR code for instance being used to pick up goods at curb side, at Farmers Markets. It's being used now by artists, by musicians, by yoga instructors and many others to pay for online classes that are going on. We're seeing a real explosion from people donating directly to charities to doing things now over Venmo.

And so -- and by way as a result of that as you probably saw, we raised the limits on Venmo up to 5,000 a week. Now, we were able to do that because as John pointed out in his remarks, our fraud and risk modeling is at all-time best capabilities, the entire Venmo platform from a fraud and risk perspective is now on the PayPal platform. And so we were able to take up limits, because we had to -- because people were bumping up against those limits because of there is no new use cases. We put on things like direct deposit, so people can put their paycheck directly onto Venmo because they're using it now in all these different ways and so that they could receive their stimulus check right into their Venmo wallet as well. So it's been really interesting to watch the evolution of Venmo become much more central to people's management and movement of money instead of just being a social payment.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Got it. Thank you. Yeah, I use the higher spend limit also. Thanks.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. You're welcome.

Operator

Thank you. Our next question will come from Jason Kupferberg with Bank of America. Please go ahead.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, how are you guys? Hope you're doing well. I just wanted to start with -- I just wanted to start out with kind of a longer-term question and Dan you touched on this a little bit, but just as we think about the structural lift in a post-COVID world to your business and how do we actually cross reference that with that medium-term guidance, which John, I know you spoke to briefly mid 20%s TPV growth I think is where we've kind of left off on that, and even in an environment where the significant categories are down tremendously, you ran at the low 20%s in the month of April. So it kind of sounds like you think structurally mid 20%s is may be too low, but just any thoughts on that without putting specific numbers on it? Would love some perspective. And then can you just make a quick comment on net adds for the year, because I think you were forecasting 35 million and it looks like you'll be upwards of 30 million at the halfway point?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. Okay, there's a lot of questions. So let me take a staff at some of them and then of course, John will come in as well. I think John put it well in his opening remarks as well as his answers to some of the questions. There are clearly secular shifts that have accelerated. There is no question about it. E-commerce has accelerated by two, three years. And people may not be at these incredibly elevated levels, but they are going to be at elevated levels coming out of it. You're going to see people doing digital payments truly omni. It's going to happen online than offline. The digital wallet is going to become much more important. We'll be adding more and more services to that as rapidly as we can, because people are now -- want to use PayPal much more frequently. We're seeing a lot more daily usage of it. That's always been our aspiration to be a daily use case. And so I would say we are structurally much more bullish on our growth profile going forward, and I think there are more tailwinds than we've seen before.

To John's point though, we live in an uncertain environment right now. There is a lot of economic unknowns and so we -- though expect us to be thoughtful about guides that we're giving and how we're thinking about it. Clearly we prefer to be on the more conservative side than not. And so let's wait a little bit to see how these trends play out, but you could see some really nice trends, and by the way, we're not just going to -- we're going to double down on those trends too. I think we're going to help drive those trends and we are investing as John said to make those things happen. In terms of net new actives, yeah, I mean we're all going to really need to rethink all of that. I talked about we're going to do 15 million to 20 million this quarter. I think that's a good reasonable estimate on that and we did 10 million organic in the first quarter. And so likely going to be higher than what we had initially been thinking, but again let us get through this quarter and then we'll update you on that. John, anything else you would...

A - John Rainey {BIO 17599063 <GO>}

Yeah. Maybe I'd just emphasize a point that you made, Dan. Certainly I don't think any of us can predict what's going to happen in the economy in the near term and that happens -- that has obviously an impact on our annual numbers. But you asked a question, Jason, are we structurally more bullish on PayPal. With the emphasis on structurally, I would say we are unequivocally more structurally bullish on PayPal. The time frame that happens...

A - Dan Schulman {BIO 1895545 <GO>}

John to say that it's something -- I just would point out...

Q - Jason Kupferberg {BIO 6867809 <GO>}

Maybe this is going to be conservative ones or?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah, sorry. That's supposed by me... But you know I think the other point I mentioned is, we're not just going to sit back and let this happen to us. This is our moment we recognize that we have an opportunity to shape the outcome here. And so we're pivoting strategies to help influence what that looks like. But -- and I also don't want to, I think we should be cognizant of what's happening in the world in the severe stress that people are under and are going through and people losing their jobs. And so we should not lose sight of that, but there are some fundamental shifts and how people are behaving that we think in order to our benefit longer term

Q - Jason Kupferberg {BIO 6867809 <GO>}

Appreciate all the thoughts. Stay healthy, guys

A - Dan Schulman {BIO 1895545 <GO>}

Thank you. You too, Jason.

Operator

Thank you. Our next question will come from George Mihalos with Cowen. Please go ahead.

Q - George Mihalos {BIO 5891367 <GO>}

Thanks for taking my question guys and hope you're all doing well. Just want to go back to this point around more sort of non-discretionary spend that I'm just curious, since the COVID presented itself, are you have more conversations or are you seeing more merchants in sort of this non-discretionary category, grocery, pharmacy, bill pay, reaching out to PayPal wanting now to partner with you guys. And then somewhat related to that the ramp of payment and how is that going and should we expect again to see additional bill pay partners going forward?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. So George, I'll begin the answer at least. Clearly, we are seeing merchants across the world reach out to us to help them think about moving more aggressively digitally and also importantly omni. We're seeing I think some largest supermarket in France reach out to us around groceries to really do much more contactless payment and seamless kind of offline, online this merger of those, but we're seeing merchants everywhere going to do that.

In terms of Bill Pay, we have a very aggressive plan and partnership with Paymentus that's going quite well. But there are a host of other bill pay providers who want to partner with us and will partner with us as we integrate all of those into Bill pay components in our wallet. I do think our wallet is going to expand in terms of the services it provides. Honey will be integrated into that we are seeing really nice progress on this. I just would say this whole work from home -- we're seeing actually an increase in the velocity of releases -- software releases that we've been able to do, I'm really impressed with what George and Ryan and the team at Honey have been able to go and do to react so quickly to the need of the time right now. And as John said, we want to shape this. We certainly have no shortage of people who are looking at PayPal in a whole different way right now and want to much more deeply partner with us. I mentioned some of those in my remarks, so I think we're at this interesting point in time where our relevance and our importance as a company is at this inflection point, and we really want to do everything we can to double down on that. John, anything you would like to add.

A - John Rainey {BIO 17599063 <GO>}

Nothing more to add.

A - Dan Schulman {BIO 1895545 <GO>}

Thank you, George. Be well.

Operator

Thank you. Our next question comes from David Togut with Evercore ISI. Please go ahead

Q - David Mark Togut {BIO 1496355 <GO>}

Thank you. Good to hear your voices, Dan and John. As you look at the acceleration in the net new actives for Honey in April. To what extent is that acceleration in Honey KPIs driven by the benefit from being in the PayPal ecosystem versus this broader search for value with Honey perhaps driving a pickup in net new actives for PayPal ecosystem as a whole?

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. So I can't give you a exact, but like if I had to give you sort of the general gist of that. I would say, the majority is due to the utility of Honey in this environment. It -- look Honey is a mission though it's been about making money fair. It is finding the best price point understanding demand curves via consumer helping merchants to reach those consumers. And when George and I talked about this early on date, our missions align, but there we said that they thought they were counter cyclical, in a down economy there services would be even more important. And John said this, I fully agree with him, even before this crisis, there was a crisis of underserved communities in our country and around the world. Honey targeted right after that and that's just become more acute. Our cross-selling have been incredibly effective in working with --in fact when we cross sell into Honey, we see a much higher LTV customer as well coming out of both for PayPal and Honey and we are at like the beginnings of that integration. But all the integration we have right now is fully on track, Honey is coming out and number of new features and services, quite excited about the early test results on them are pretty impressive. So more to come on it, but we are more excited than ever about what we can do with Honey and the capabilities that they provide to consumers and merchants.

Q - David Mark Togut {BIO 1496355 <GO>}

Okay, thanks for that. Just as a quick follow-up, what's your expectation for the growth trajectory of Honey going forward?

A - John Rainey {BIO 17599063 <GO>}

It's -- we're not going to parse out elements of our platform and give the full year guidance on that. But I will tell you that, year-to-date. It is performing according to the plan that we had.

Q - David Mark Togut {BIO 1496355 <GO>}

Understood. Thanks so much Dan and John,

A - Dan Schulman {BIO 1895545 <GO>}

You bet.

Operator

Thank you. Our next question comes from Lisa Ellis with MoffettNathanson. Please go ahead.

Q - Lisa Ann Dejong Ellis {BIO 18884048 <GO>}

Hi. Good afternoon, guys. Good to hear your voices. Both of you have mentioned that you're pivoting your strategy to shape the evolution of consumer and merchant behavior through this situation, so that PayPal emerge as strong than ever. Can you elaborate on that a bit like specifically how you adjusted your investment priorities, given this dramatic shift we're seeing in consumer behavior, like what initiatives are you pulling forward? What things have you may be pushed out or de-prioritized? Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. sure. Good to hear your voice too, Lisa. So there are obviously I think are number of different trends that are happening as a result of COVID physical to digital and that blurring of that and that's across retail services, entertainment, education, medicine.

That's a trend that is occurring hyper-speed. There is obviously this whole thing that John talked about. This isn't just about relaxing shelter-in-place, this is about health, hygiene, social distancing, people who don't want to touch cash, something like 60% of our people want to handle cash a lot lesser $18 trillion of cash transactions last year at retail. And so they don't want to touch cash, they don't want to touch screens. And I don't think we go back to the normal of what was -- just going to be a new normal that emerges from that. And then obviously, because of the economic environment, we were in before the crisis that's been just exaggerated by the crisis even more is there is a lot of price sensitivity and worries about financial health. And so we think that there are capabilities that we can put into -- by the way, Lisa, these things, these trends, we've always said aspirationally we want to have 1 billion people on our platform using it every day. And we think that these trends are incredibly or things that we really need to take double down on and make sure that we shape them because we think that they're very helpful to those aspirations that we have. And so the things that we are doubling down on and accelerating, one is clearly in-store. We have a very large team focused around that. We meet on that every single week. We are looking at that and we have just a across -- the company team, we're calling it one of our moon shots because it's that important to us and we want to -- we've always -- we're going to go into in-store, we are now accelerating that and much more globally.

We want to go into every day use cases in the digital wallet. We'll try to accelerate. I don't want to talk specifically to give away any competitive information, but obviously we're running a great things like Bill Pay other types of budgeting tools in that kind of thing into our wallet. We want to integrate Honey as rapidly as possible, because this entire thought about being much more part of the shopping journey is important for our consumers and increasingly so for our merchants. And so these are just a couple of the things. We're also focusing in on P2P services in general. P2P is becoming much more central to people's lives and so we are really looking at a number of ways to increase the utility of P2P. And so I would say those are a couple of the big things that we're looking at. We basically now are roweling around five things as a company that we want to get done and get done in a big way to take advantage of this moment in time where consumers and merchants most need our services and products.

Q - Lisa Ann Dejong Ellis {BIO 18884048 <GO>}

Wonderful. Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Ladies and gentlemen, thank you for participating in today's question-and-answer session. That is all the time we had for today's question-and-answer session. I would now like to turn the call back over to Dan for any closing remarks.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. Thanks so much. I'd just close up by one thanking everybody for your time and again reiterating that we hope that you and your families are safe and healthy. We really look forward to being able to see all of you in person again. We may have masks on. But we look forward to seeing all of you again. Thank you for your time. Take care, bye-bye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.