Q3 2021 Earnings Call

Company Participants

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

Other Participants

- Colin Sebastian
- Darrin Peller
- David Togut
- James Faucette
- Jason Kupferberg
- Lisa Ellis
- Tien-Tsin Huang

Presentation

Operator

Good afternoon. My name is Mel, and I will be your conference operator for today. At this time, I would like to welcome everyone to PayPal Holdings Earnings Conference Call for the Third Quarter 2021. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you.

I would now like to introduce your host for today's call, Ms.Gabrielle Rabinovitch, Senior Vice President, Corporate Finance and Investor Relations. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Mel. Good afternoon, and thank you for joining us. Welcome to PayPal's earnings conference call for the third quarter of 2021. 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 on our Investor Relations website.

In discussing our company's performance, we will refer to some non-GAAP measures. You can find the reconciliation of these non-GAAP measures to the most directly comparable

GAAP measures in the presentation accompanying this conference call. 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 fourth quarter and full year 2021 and our outlook for 2022. 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 our Investor Relations website. You should not place undue reliance on any forward-looking statements. All information in this presentation is as of today's date, November 8, 2021. We expressly disclaim any obligation to update this information.

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

Dan Schulman {BIO 1895545 <GO>}

Thanks, Gabrielle, and thanks, everyone, for joining us. Well, the big news today is that for the first time we are teaming up with Amazon to enable customers in the U.S. to pay with Venmo at checkout. Starting next year, customers will be able to make purchases on Amazon.com and the Amazon mobile shopping app using their Venmo accounts.

This is obviously a very significant moment in our Venmo monetization efforts and marks the beginning of an exciting journey with Amazon now that we are no longer constrained by the contractual obligations of the eBay operating agreement. The increasing scale and brand trust associated with our two-sided platform continues to set us apart from the rest of the market and enables us to expand our footprint with existing merchants and attract new partners. And now to our results, our overall Q3 results were generally in line with our expectations.

Our total payment volume grew 26% on a spot basis to $310 billion. This comes even as eBay's TPV declined by 45% in the quarter and is now approximately 3% of our overall TPV. Excluding eBay, our volumes grew by 31% on a spot basis, with an annualized run rate of $1.2 trillion. Our active accounts were up 15% year-over-year, reaching 416 million. We added 13.3 million net new active accounts in the quarter, including another 1.2 million merchant accounts, bringing our total merchant count to 33 million.

And we remain on track to deliver more than 52 million NNAs for the year. Importantly, our diverse suite of products and services drove double-digit growth in our transactions per active account up 10% to 44.2x. Revenues in the quarter grew to $6.182 billion, growing 13% on a spot basis. This was slightly below our expectations as back-to-school sales and travel were weaker than we expected.

But even so, excluding eBay, our revenues grew by 25% in Q3. EBay now represents less than 4% of our total revenues. And we delivered non-GAAP EPS of $1.11, even as we continue to invest heavily in our growth initiatives. Our platform continues to drive substantial value for our merchants. PayPal is the most accepted digital wallet, with more than 75% of the top 1,500 largest global merchants utilizing PayPal at checkout. And on average, our PayPal checkout conversion is 34% higher than other checkout options.

In addition to our Amazon news, we are very pleased to say that Walmart now presents PayPal as a checkout option for, both their grocery and marketplace business. And GoFundMe added PayPal to their checkout flow with Venmo to follow in the coming months. Valero and Phillips 66 are adding our QR codes to their thousands of gas stations across the U.S. and United Airlines recently launched PayPal QR payments in-flight.

As checkout evolves from pay now to pay on your own terms, we've seen rapid adoption of our buy now, pay later capabilities in the U.S., Germany, France, U.K., and Australia. In Q4, we will expand Buy Now, Pay Later to Italy and Spain. Also in this quarter, we eliminated consumer late fees to ensure we deliver the very best value proposition to our consumers while delivering on our mission to build an inclusive digital economy.

Since our buy now, pay later launch, we have processed approximately $5.4 billion in TPV with more than $2 billion of that TPV in Q3 alone. Approximately 950,000 merchants have customers who use our buy now, pay later capabilities and more than 65,000 have positioned, buy now, pay later upstream on their product pages. And over 9.5 million consumers have transacted more than 33 million times with our buy now, pay later products. We will expand our global pay later portfolio in the first half of 2022 to include longer-term installment plans, allowing consumers to spread higher price purchases over longer periods of time. This is already available in Germany, where we are seeing great initial success.

We completed our acquisition of Paidy, a fast-growing two-sided payments platform and provider of buy now, pay later solutions in Japan. This will accelerate our momentum in Japan, a strategically important market and one of the largest e-commerce markets in the world. We are seeing very positive trends on our new PayPal app, which has now ramped to 100% globally.

Consumers are engaging with the app and discovering the breadth of our new value proposition. Although it's still early, initial results show that the new app has driven a 25x lift in consumers exploring our deals and offer staff, a 15% increase in first-time users transacting with crypto, and it has also driven a 35% lift in our cash card enrollments. And the average revenue per account from digital wallet users is twice that of checkout-only users.

We expect to launch more features next year, including equity investing capabilities. It's quite exciting to see the initial positive reaction to our app, and we will continue to refine and expand its functionality to help consumers navigate an increasingly digital and connected lifestyle. Venmo continues to achieve milestones and break records and is on track to deliver $900 million in revenue this year. With more than 80 million customers and $240 billion in run rate TPV, Venmo's scale is on par with PayPal's entire U.S. franchise in 2016.

Venmo's customers are adopting more and more products, and we are seeing accelerating momentum with our new product introductions. Even with all this growth and these impressive accomplishments, we are just at the start of Venmo's commerce journey, and we could not be more pleased about joining forces with Amazon. We expect Venmo to be transaction margin positive this year, while still growing its P2P business at very healthy rates.

The back half of 2021 was always going to be the low point of our revenue growth this year, and we are appropriately cautious as we enter Q4 and as we think about 2022. We are seeing the impact of global supply chain shortages in our merchant base. Consumer confidence has weakened with the absence of stimulus payments. And with the economy reopening, more people may be likely to do their holiday shopping in-store as confidence in delivery logistics is depressed from last year. And of course, we still feel the impacts of eBay's managed payments migration over the next few quarters, although at a lessening rate.

Almost all of these issues are temporal. And consequently, we expect our revenues will accelerate throughout next year, and we remain confident in our medium-term guidance. I'd like to spend a few moments on the recent rumors that made their way through the news. We participate in a rapidly moving industry. And it's quite clear that consumers and merchants prefer a more connected digital lifestyle that encompasses financial services, shopping, payments, and commerce.

Our market research and that of others strongly supports the vision of a more connected economy. And PayPal clearly has the brand trust, regulatory relationships, and scale to be a meaningful leader in the digital economy. Exploring all potential opportunities to enhance shareholder value is our responsibility. But obviously, only a select few deals will meet our very strict financial, strategic, and capital allocation criteria.

We are fortunate to be a market leader in an environment with so many potential opportunities and operate in an industry with a number of favorable tailwinds. We will continue to execute against our game plan and responsibly explore the options in our rapidly evolving ecosystem, so that we remain the leader we are today in tomorrow's world.

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

John Rainey {BIO 17599063 <GO>}

Thanks, Dan. I'd like to start by thanking our customers, partners, and employees for helping us deliver a solid quarter. We're now reporting our results for the seventh quarter since the pandemic began, and it's remarkable to take a step back and reflect on everything that we've accomplished during this dynamic and unprecedented time.

There's been a profound and enduring shift in global commerce and consumer behavior, which has significantly expanded our addressable opportunity. The powerful and accelerating secular tailwinds of increasing e-commerce penetration and cash displacement have helped to advance our leadership position in payments. To give you a better sense of the scale of growth we've experienced, it took 20 years for PayPal to reach $600 billion in annual payment volume, which occurred in 2019.

Only two years later, we crossed $1.2 trillion. Relative to 2019, we've seen significant growth across our key performance indicators, including active accounts, engagement, TPV, revenue, EPS and free cash flow. At the same time, we're operating in a complex environment. The macroeconomic landscape is currently characterized by varying rates of reopening activity globally and influenced by short-term supply chain challenges, inflationary pressures, and concerns related to consumer sentiment. These factors contribute to a backdrop that continues to make forecasting more challenging.

Our third quarter performance demonstrates the strength of our diversified platform, our global reach and the scalability of our business. Notably, we delivered these results against tough year-over-year comparisons. And in the quarter, where we faced the most acute pressure from eBay's payments transition. For the quarter, we're reporting revenue of $6.2 billion, representing growth of 13% on both a spot and currency-neutral basis. EBay Marketplaces revenue declined 67% to $235 million and contributed less than 4% of total revenue versus approximately 13% last year.

Excluding eBay, revenue grew 25% year-over-year and 26% on average for the last two years. This two-year compound annual growth rate is particularly notable. Throughout 2021, this growth rate has been consistently strong at 25% and 26% in the first and second quarters, respectively.

I would also like to provide some context for our performance relative to our expectations when we provided third quarter guidance in late July. First, travel volumes strengthened in June and July. This trend then reversed in August and September due to concerns related to the Delta variant. Second, back-to-school spending was somewhat softer than we had expected. While our overall performance was well within our guidance, we saw moderation toward the tail end of the quarter and exited at a lower growth rate than we had predicted.

In third quarter, transaction revenue grew 10% to $5.6 billion. This growth rate reflects the steep decline in eBay revenue in the quarter. Excluding eBay, transaction revenue grew 23%. Other value-added services revenue grew 50% to $575 million. This performance was driven by increased revenue from Synchrony and accelerated recognition of loan servicing fees from the PPP program.

In the third quarter, total take rate was 1.99%, consistent with the second quarter and a decline of 22 basis points from last year. The mix effect of eBay contributed to approximately 55% of this decline. The blended take rate on eBay volumes this quarter was 2.43%, compared to 4% in Q3 last year. The remainder of the decline was primarily driven by reduced currency volatility in the quarter, which resulted in a lower growth rate in foreign exchange fees as well as merchant mix and growth in bill payment volumes. The 25-basis-point decline in transaction take rate was driven by these same factors.

The third quarter was another strong quarter for volume-based expense performance. Transaction expense as a rate of TPV was 83 basis points, an increase of 1 basis point versus last year. Transaction losses improved 4 basis points and represented nine 9 points as a rate of TPV. This level of loss performance is consistent with last quarter, matching the lowest transaction loss rate in our history.

In the quarter, loan origination activity increased and we ended Q3 with $3.7 billion in net receivables, representing sequential growth of 13% and 43% growth relative to last year. Growth in our short-term installment pay portfolio was the primary driver of this increase. Strong performance of our loan portfolio, more stability in macroeconomic trends and the mix of shorter duration originations from our installment pay products resulted in our reserve coverage ratio declining to 11.6% from 14.9% at the end of the second quarter.

The net effect of credit provisioning on credit losses in the quarter, inclusive of originations and reserve releases resulted in a benefit of $25 million. And year-to-date, we've released $300 million in reserves. Overall, volume-based expenses grew 20% and represented 46% of revenue, resulting in a transaction margin of 54.2%.

I'd now like to cover our non-transaction-related operating expenses. These expenses increased 17%, representing 30% of revenue. In the third quarter, our rapid pace of innovation continued. We had an exciting cadence of product introductions, including our new digital wallet apps for both PayPal and Venmo, the launch of crypto buy, hold, sell in the U.K., our goods, and services P2P experience in Venmo and cash back to crypto with the Venmo credit card.

To support and advance our key initiatives we continue to invest aggressively in technology and development and sales and marketing, including increased spending on customer acquisition and engagement strategies. These expense buckets drove 70% of the increase and non-transaction-related operating expenses.

On a non-GAAP basis, operating income was essentially flat to last year and our operating margin was 23.8%. And on a two-year basis, the compound annual growth rate for operating income was 20%. For the quarter, non-GAAP EPS grew 4% to $1.11. This includes an approximate $0.29 per share headwind from the decline in eBay Marketplaces' transaction margin dollars. We ended the quarter with cash, cash equivalents and investments of $20 billion. In addition, free cash flow grew 20% to $1.3 billion, representing 21% of revenue.

I'd now like to discuss our outlook for the remainder of 2021, as well as our preliminary thoughts for 2022. For 2021, we now expect revenue to be in the range of $25.3 to $25.4 billion, an increase of approximately 18% from last year. This represents a two-year compound annual growth rate of 19%. And excluding eBay, we now expect 2021 revenue to grow 28%.

We expect our operating margin to be in line to last year, which was the highest in our history. This performance reflects our strategic investments spend throughout the year, as well as the negative transaction margin dynamics resulting from eBay, offset by the benefit from the release of reserves. We now expect non-GAAP EPS for the year to be approximately $4.60, a 19% increase on top of the 31% growth last year. And on a two-year basis, this is 25% growth.

In addition, we expect to generate approximately $5.2 billion in free cash flow, representing $0.21 of free cash flow for every dollar of revenue we earn. As a result of this update to our full-year guidance, we expect fourth quarter revenue to be in the range of $6.85 billion to $6.95 billion. This represents approximately 13% growth at the midpoint. We also expect $1.12 in non-GAAP EPS, representing 4% growth.

While the impact from eBay's payments migration came in consistent with our expectations for the quarter, relative to the beginning of the year, the headwind increased significantly. Until recently, we believe we could absorb this additional pressure and still deliver on our prior guidance. And while we came within our revenue expectations for the third quarter, the contributors to our revenue growth were somewhat different than what we had expected going into the quarter. Toward the end of the quarter, we also began to see growth rates come in a little lower than planned.

We're off to a solid start in the fourth quarter, but growth rates still remain slightly below our prior expectations. In addition, retail supply chain and labor market concerns, which may impact the important holiday season, have led us to adopt a more cautious stance for the fourth quarter. That said, in recent days, we've seen improvement. At this point in time, it's difficult to say definitively whether these stronger turns will persist throughout the quarter or if this improvement is a pull forward of consumer holiday activity.

Relative to the guidance provided at the start of 2021, we now expect revenue to be about 0.5% lower for the year, despite much more pressure from eBay than we had initially expected. Adjusting for the additional pressure to revenue growth from eBay, our revised 2021 guidance is actually ahead of the outlook we provided at the start of the year. In providing quarterly and annual guidance since July of last year, our goal has been to responsibly balance transparency with reliability and certainty. At the same time, we've also tried to emphasize the complexity of forecasting in this environment.

We are taking what we view to be a prudent step in adjusting our outlook. But let me be very clear. Our key strategic initiatives are on track and performing very well. The initial response to our new digital wallet experiences has been very strong, and the implementation of our new headline pricing in the U.S. has been successful with no discernible impact to merchant activity. The underlying strength, diversification and resilience of our business on an absolute level and relative to pre-pandemic are unassailable and position us to remain on offense regardless of short-term headwinds.

Our ability to sustainably deliver strong growth at our scale is indicative of the network effects of our business and our competitive positioning as a global leader in digital payments at the intersection of the powerful secular tailwinds of e-commerce penetration and cash displacement has never been stronger. As it relates to our expectations for 2022, we'd like to share some of our initial thoughts and the assumptions we're making for internal planning purposes.

We are currently in the midst of our budget resource and investment planning process for next year. In addition, how we exit the year, as well as the status of some of the exogenous factors that Dan and I have already discussed, are also important inputs for the year ahead. On a preliminary basis, for 2022, we expect revenue growth in the high teens. If we had to put a point on it today, we'd likely anchor it at about 18%.

It's also important to appreciate our expected trajectory of revenue growth. Due to the cadence of eBay's payments migration, as well as the stimulus measures earlier this year, we expect the first quarter next year to have more difficult comps and be our lowest growth quarter. Our plans are for revenue growth to then accelerate through the year, and to exit 2022 at a revenue growth rate in line with or ahead of our medium-term guidance. Similar to 2021, we expect that our growth rates will exceed industry growth rates by a healthy margin.

Given the ongoing planning that we're still doing, we will guide EPS growth when we report Q4 results early next year. That said, I'd like to provide some color on how we're thinking about it. We see significant investment opportunities across our key priorities. In the past two years, we've accelerated our pace of product innovation to better serve our growing network of more than 400 million consumer and merchant accounts. We are investing to advance our product roadmap, increase our relevance for customers, and drive daily engagement.

And to support these initiatives, we expect our non-transaction-related expenses to grow in the high single-digits in 2022 on a base that will grow 20% this year. It's also important to note two factors that will have an impact on our EPS growth next year. First, we will lap the benefit we realized from the release of the credit reserve this year. And second, we expect our effective tax rate to increase from the lapping of onetime favorable tax adjustments.

We expect these two items to result in an approximate 10-point headwind to non-GAAP earnings growth in 2022. That said, we remain very confident in the medium-term guidance we provided at our Investor Day earlier this year. We're witnessing the pull forward of e-commerce and displacement of cash continuing at an undiminished pace even as reopening the curves.

It's also true that the most difficult year in the transition away from eBay will be largely behind us as we move into 2022, and we expect our revenue and TPV growth rates to accelerate. We believe that investing in our business is more important than ever before given the opportunities we see in front of us. And while we certainly expect our margins to increase over the long-term, we don't want to be so overly focused on that from one quarter or one year to the next, then we don't invest appropriately.

We are playing in this space to win. We are well positioned to capture the immense opportunity ahead and see a clear path to achieving our financial and strategic objectives. Our powerful two-sided platform focused on execution and mission-driven culture backed by the tailwinds of digital commerce set us up for success now and in the years to come.

Before I turn it back over to the operator for Q&A, I would like to spend a moment discussing our approach to capital allocation. Our business is characterized by its very powerful cash flow generation. Since separation, we generated approximately $22 billion in free cash flow. We've returned nearly $10.5 billion in cash to shareholders in the form of share repurchases and allocated approximately $13 billion in cash to acquisitions and investments.

We remain committed to both disciplined capital allocation and to balancing organic and inorganic growth investing to drive shareholder value creation. Inorganic opportunities are accelerants to our growth plans and to achieving our long-term aspirations. It's important to note that our medium-term outlook does not rely on acquisitions. At the same time, we will continue to be opportunistic in executing our strategic priorities, shaping the future of payments, and advancing our leadership position.

With that, I will turn it back to the operator. Operator, please go ahead.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Your first question comes from the line of Tien-Tsin Huang with JPMorgan. Your line is now open. You may ask your question.

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

Hey, thanks so much. Really exciting to hear about the Amazon news. I know there's a lot to talk about here, but I wanted to ask on the market rumors on Pinterest, if you don't mind. And I know you're not pursuing a deal at this time, but just wanted to ask if your appetite to do a large deal is still there? And if your longer-term outlook and just on adding any assets like that with different revenue sources like advertising, I know, John, you just said you don't -- you're not counting on M&A for midterm, just thinking longer term here. Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. I'll start off on that and then John can chime in on this. Let me just take one step back, and start a little bit with the big picture because that may help put everything into context. Look, we're obviously focused on becoming an essential everyday app for consumers. And that's on the consumer side.

And on the merchant side, we want to provide a comprehensive platform for merchants to participate in the digital economy. And that includes everything from consumers engaging at the beginning of their shopping journey to purchase and post purchase. And if you look at all of the acquisitions that we've done, over the past five years, they kind of play into that overall strategy, whether it be what we've done internally with the PayPal app or QR codes, acquisitions like Honey, which have been essential to our shopping and deals tab fully integrated now into the PayPal app, happy returns, charge down their part of our post purchase process that will integrate into our app and put into our platform for merchants: iZettle, Hyperwallet, now is our payouts product going forward.

So I'm very pleased with all the acquisitions we've done. They fit into our strategy. They are executing many of them well above what we initially thought. Some were delayed in terms of their integration for various reasons. But overall, really I'm pleased with the way our acquisition and acquisition strategy has gone and the integration into our strategy. The truth is we review hundreds of potential acquisitions every single year. And we put every single one of them through a very strict set of strategic financial integration filters. And we look at like, are we going to buy, build, or partner? And John and I have been here now for -- well, I've been here a little over seven years -- has been here closing in on that.

And we've never done a large acquisition so far. And the reason for that -- and by the way, we look at a couple of those every year. There are very few that we look at, but we look at a couple every year, and they have a much higher hurdle rate than our smaller acquisitions. I mean we want to look, is it going to be a distraction? How tough is the integration? We fully understand what it means to do a large acquisition versus a smaller acquisition.

And in seven years, we haven't done a single large acquisition because they haven't met any of our hurdles. So I'm not saying that we might never ever do that, but it's not a likely event as we look forward. In our M&A philosophy, it remains the same. We're going to focus on high-quality assets that will accelerate our growth in areas that are more efficient than us doing it inorganically.

And to your question specifically, we don't need to do something large to -- or small, frankly, to deliver on our medium-term guidance. All of our acquisitions are supplemental to our medium-term guidance. And clearly, we are going to be acquisitive going forward. I mean we've got an incredibly strong balance sheet, $20 billion of cash and cash-like investments on it.

We're generating between $5 billion and $6 billion a year of free cash flow. But we are going to maintain the same strict and disciplined manner that we look at acquisitions and have looked at acquisitions over the last couple of years. John, anything that you --

A - John Rainey {BIO 17599063 <GO>}

Yes. I mean I think you covered a lot of it, Dan. I just would add, Tien-Tsin, that we laid out what we believe to be a very compelling case at our Investor Day around value creation over the next five years. That was entirely an organic plan and remains so.

But that said, we don't want to sit here on our hands and think that that's good enough. If there are opportunities that are out there that create even more value creation, it's our responsibility to look at those. And so that's where deals of this size may come in sometimes, but that's what we take capital allocation with is a very serious activity for us and arguably one of the most important. And so as Dan said, we have a lot of rigor around that.

And thus far, nothing has met those rigorous hurdles for us. But I think -- and the management team shares a belief that we have the same opportunity over the next five years to create value that we just realized over the last five years. But if we can do more than that, then we should do more than that. And so that's why we explore every opportunity. But the growth plans that we laid out in the early part of this year at our Investor Day are entirely organic.

Operator

Thank you. Next question comes from the line of Colin Sebastian with Baird. Your line is now open. You may ask a question.

Q - Colin Sebastian {BIO 6373379 <GO>}

Great. Thanks. Good afternoon, everybody. So pretty big news here with Amazon and Venmo integration, especially given how protective Amazon is over their checkout flow. So congrats there. And it might be helpful to expand a bit on what you talked about, Dan, around the agreement such as are the economics with Amazon similar to other marketplace deals that you have in place? Or are there opportunities to expand the relationship to other PayPal brands and services? And maybe when in 2022, we can expect Venmo to show up on the site? Thanks very much.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. You bet. Thanks, Colin. Good question. First of all, I'd say one of the things we talked about early on is being free of the restrictions of the eBay operating agreement. We're going to have the possibility to open us up to working with a number of marketplaces that we were previously prohibited from doing so. And you're seeing some of that, you're seeing what we're doing with Ali and Ali Express that continues to expand in terms of the volumes there. We are getting closer and closer with Walmart.

And Amazon is the latest example of us being able to team up with obviously an extremely significant player in the e-commerce space. And what I really like about this is like eBay results are like a pig through the python right now. But these that we're talking about, right, are much more of a permanent nature. These are what will be with us going forward as eBay kind of is a temporal phenomenon working through our results.

We're still working through the launch time frames. We're both eager to get this out into the marketplace, but we're still working those to. We obviously have large teams, each of us on this. It is the beginning of a journey of our two companies teaming together.

I wouldn't venture at this moment as to where we'll go together. We're both very focused on the substantial opportunity that there is with Venmo at checkout. And we couldn't be more pleased to be able to team with Amazon on this. Obviously, if you think about the amount of market share that Amazon has in the U.S., this quite substantially is -- increases the addressable market for Pay with Venmo.

And Pay with Venmo is one of the key revenue drivers for Venmo going forward. I just -- as I think about the journey that Venmo has been on, this obviously is a punctuation point for sure. But even this year, Venmo will be transaction margin positive. That is a major milestone for that team, right on track to deliver the $900 million and obviously exit the year at an accelerating growth rate. And this partnership with Amazon will no doubt take that to the next level.

A - John Rainey {BIO 17599063 <GO>}

Colin, I'd just add real quickly that -- look, Dan and I both appreciate that the investor community probably is getting tired of us talking about eBay and eBay results, but arguably not more so than we are, but this is the other side of that coin. It's as simple as that. I mean, this would not be allowed, had we not taken the steps that we had. And so we're quite excited about this and what it bodes for the future.

Operator

Thank you. Next question comes from the line of Lisa Ellis of MoffettNathanson. Your line is open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thanks. Good afternoon. I'm going to focus on the rollout of the new PayPal and Venmo app. Can you -- I know you made some comments in the prepared remarks, but can you elaborate a bit further and give a little more color on the early impact you're seeing maybe on user growth, engagement growth, et cetera, including maybe some aspects so far that has surprised you? Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. Thanks, Lisa. Good to hear your voice. So any time you put something substantial out into the market, and this is really the first giant revamp that we've done of our PayPal consumer app. And it's pretty massive, complete redesign. Typically on that, so what you find is you've got declines in engagement as people kind of like work their way through discovery of it. And then what you have is over time that, that really starts to accelerate at least that's your hope. This has been completely the opposite of that, which is, I guess, biggest delay, I'm not sure it's a surprise to me, but we are seeing really meaningful lifts in terms of discoverability of the breadth of our products and service line right now.

We talked about PayPal shopping, the full integration of Honey into the PayPal app. Honey now is completely mobile and not just desktop and that's powering our whole tab of that. We've seen a 25x lift in people exploring that tab and starting to put deals into their wallets and that kind of thing. It's pretty amazing actually.

And then on things like crypto, first-time user, once we did the app, went up by 15%. Our strongest week ever for first-time users was like last week. And we've had strong weeks for first-time user growth on that. But clearly, the new app is driving both discoverability and conversion on the crypto side.

And then I'm quite excited about what's happening with cash card because cash card is kind of like a debit card, right? It links into the balance, and it can be used offline and obviously online. And this is a big part of our omni-strategic thrust and to see that go up, those enrollments go up by 35%. And remember, this is really early days, right? We fully ramped in the middle of October globally. So this is early on.

And I usually think of early on as, okay, how do we start to claw back to where we were and then start to move forward as customers get it? This was a leap forward. Look, there are a lot of things that we're going to do to improve the customer experience. We are putting FIS now into our bill payment, expanding our bill payment quite dramatically, expanding the usability and kind of just the simplicity of it. But each and every one of the products and services, we are looking at the feedback we're getting and just making small little changes to keep increasing.

This is going to be -- I didn't think it was going to be a big bang. It actually has turned out to be a relatively big bang on introduction, but I really think of this as evolutionary quarter by quarter by quarter. We will launch high-yield savings in the next several months that will begin to ramp. We'll start to put on things like equity investing.

We anticipate doing that next year. And there'll be more and more products and services to help customers engage more and more. And that's why like that ARPA of wallet users versus checkout-only again, early, but to see that already leaping up to 2x that of checkout-only. That's why John and I are quite excited about the impact of the initiatives that we're putting into place. And they are clearly going to drive a lot of growth for us as we look forward.

Operator

Thank you. Next question comes from the line of David Togut of Evercore ISI. Your line is open.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much for taking my question. Looking at the third quarter KPIs, they're certainly strong and broadly in line with your five-year guide and you've called out some short-term factors and tough comparisons for taking guidance down for the fourth quarter and guiding 2022, at least your preliminary guide below the five-year model. But when you look at 2022 and some of the shorter-term factors you've called out like supply chain issues and return of consumers more to the physical POS. How confident are you that some of these issues are actually shorter term versus potentially longer-lasting that might stretch into 2023.

A - Dan Schulman {BIO 1895545 <GO>}

Okay. David, let me talk very quickly about Q3. And then I'm going to have John talk about our Q4 guidance and our confidence in 2022. So you're right, actually, if you look at Q3, and let me just talk about revenue, TPV and maybe engagement as three metrics on that.

Look, on -- the way that I think about our business right now is what's happening on our MS business, because eBay is a temporal thing. It's just going through the system right now. It's less than 3% of our TPV, it's less than 4% of our revenues and drop. And so really, our business is our MS business going forward.

And if I look at revenue growth. I think this is really interesting because I've examined this quite carefully. If I go back five years, if you look at our MS revenue growth, in Q3 of 2017, it was 24%; in 2018, in Q3, it was 17%; 2019, it was 23%, then it jumps up to 26%. And in the middle of the pandemic, Q3 2020 and Q3 2021, this quarter, it's 25%. And so like people talk about like reopening stocks and all like that isn't us. Our MS business is going from strength to strength. We've seen a leap forward in digital, and that is continuing, if you look at it in our MS. And, John, will talk about it in Q4 and as we look next year.

Same thing on TPV. TPV in Q3 of 2018, MS, now I'm talking about MS was 27%. It jumped up to 29%. Then in Q3 2020 jumped to 40%. And over that 40%, we're growing this quarter at 31%. And so like these are all really, really strong numbers. And if I look at -- even like transactions, which I think is a really, really interesting, we did 4.9 billion transactions in Q3, this last quarter. If you go back a year ago, we did about 4 billion.

We're almost up 1 billion transactions in a year in the quarter, and our transactions ex-eBay, ex-eBay are up 31% year over year. Our TPA transactions for active double-digit growth for the second quarter in a row. Again, ex-eBay in the third quarter, our TPA was up 18%. And so these are -- yes, of course, we get hit by some of these exogenous things that go on.

But if I look at the strength of the core business, every single metric is way above -- even our forecast is way above our medium-term guidance. And that's kind of like what gives us just a ton of confidence. And we're obviously being, I think, appropriately cautious and conservative as we look forward at this time. But I feel like if I look at what the real part of our business is, every metric is trending pretty strongly right now.

A - John Rainey {BIO 17599063 <GO>}

David, let me hit a couple of points here regarding some of the assumptions about our outlook. So first, with respect to the reopening of the economy, our basic assumption is that, that's sort of a slow and steady pace similar to what we've seen here more recently. With respect to supply chain or labor shortages, look, I don't see a quick fix to that, so that could be with us for some period of time. And I think the pressure there is probably more acute on some of the SMB segment versus large enterprises.

And so that is baked into our assumptions as well. We're also not going to have the benefit of stimulus next year or likely not based upon what we see today. And then the last point I'd make is around eBay. EBay, if you think about the high teens of 18% mark that we put out there for revenue growth, the impact of eBay year-over-year in terms of a headwind is about 200 basis points.

If you just take what eBay represents in our business in 2021 compared to 2022. Said differently, though, if you were to exclude eBay in both years, the revenue growth is 22%. And so that's exceedingly strong. And I think the best proxy for how to think about our business going forward.

And so wrapping all of that together and sort of tying it to where we stand right now with the guidance that we just gave today. If you go back to the beginning of the year and the guidance that we provided, 50 million net new actives, roughly $25.5 billion of revenue, we're effectively right there. And I think very, very importantly, that was the basis for the five-year plan, the medium-term guidance that we laid out just a few weeks after that. And so that's a way of saying that we are right on track with what we laid out at the beginning of the year with our medium-term guidance.

Operator

Thank you. Next question comes from the line of Darrin Peller with Wolfe Research. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks, guys. I just want to touch on the organic trends of the business, mainly the KPI, net new actives. And just maybe if you can give a little more color on the organic dynamics you're seeing now a year-and-a-half into COVID in terms of gross adds versus the churn levels. We're also getting more questions on '22 guidance and some of the inputs there.

I know you just touched on that, John, so thanks. But thinking about the underlying sort of user growth potential there, engagement potential? And then really just reminding us of your conviction and the drivers getting to 750 million of NNAs long-term. Thanks, guys.

A - Dan Schulman {BIO 1895545 <GO>}

Sure. Well, let me talk a little bit about NNAs. So 13.3 million in the quarter, up about 2 million from last quarter, growing 15% year-over-year, unlike a lot of companies that experienced growth during the COVID time and then are unwinding. Our growth remains incredibly strong on the M&A side. I mean think about it in the minute that we've been talking so far, Darren, we've got -- we put on about 100 consumers and nine new merchants, right.

We are putting on one-and-a-half consumers every second of the quarter, every six seconds we put on another merchant. It's really unbelievable. And if I look five years ago, and you remember this, five years ago, we put on 13 million net new actives for the year. This quarter alone, and we put on 110 million net new actives since January of 2020.

And as we said, I think, in our press release, we expect to end the year north of 430 million actives on the platform. So obviously, continued strong growth. But as we look forward to that 750 million, Darren, there are two places that our net new actives come from. One is top of the funnel. And top of the funnel is actually pretty strong right now and remain so. It's a kind of a Mussat platform for merchants and consumers and scale begets scale in this business. But as you get bigger and bigger, the bottom of the funnel becomes equally -- it's not even more important.

And so reduction in churn becomes a really important element of our ability to get to the 750 million. That's why we're so excited about what we're seeing in terms of our TPA numbers, again, normalize it ex-eBay, up 18%. Last quarter, I think it was up 17%, double-digit growth even with eBay and at two quarters in a row, some of the things I was talking to Lisa about in terms of the engagement on the app. Those are things that the more people engaged, the more people get cash cards and start utilizing that service offline.

We see halo effects inside the business, buy now, pay later, all of that that actually affects churn rate. And if we can keep a consistent top of the funnel, maybe even improve that a little bit, but reduce our churn rate, you'll start to see net new actives actually accelerate going forward. And so we remain still quite confident in the 750 million, but that's what the drivers are of that, Darren.

Operator

Thank you. Next question comes from the line of James Faucette of Morgan Stanley. Your line is open.

Q - James Faucette {BIO 3580933 <GO>}

Thank you very much, and thanks for all the color and detail, things that you are going through. John, I know you kind of touched around this in your commentary. But if we think about all the irons and initiatives that you have in the fire right now, how should we think about kind of the medium-term progression of your operating margins? I know you also highlighted that you want to make investments, but just trying to make sure that we try to align our own expectations with how you're thinking about your planning purposes kind of going forward? Thanks.

A - John Rainey {BIO 17599063 <GO>}

Sure, James. It's good to speak with you. Well, I'll start by saying that, and I would hope that people appreciate and agree with this, but I don't think there's ever been a more important time to invest in our business than right now. This is a precious opportunity that we have with some of the secular tailwinds.

We're fortunate in that the margins in our business want to go up. We've demonstrated that we can scale at a very low marginal cost. We've got tremendous opportunities, some of which we talked about today, that give us confidence that over our planning horizon, our margins will go up. That's not something that I think we lose a ton of sleep about.

Quite frankly, I think it's -- the more challenging dynamic is where to invest, where we can get that that return that's expected. And if you think about the last couple of years being 2020 and this year 2021, our operating expenses have grown about 20% in each of those years. And that's not -- I would discourage you from thinking about that as sort of like one-time spend related to customer acquisition or something like that. There's a lot of like engineering costs around people that are punching a keyboard to write code, and that's still with us today.

So even as we talk about the high single-digit growth next year, that's on top of two years of 20% growth. But for us, it's also important not to spread ourselves too thin and to make sure that we are prioritizing appropriately and some of prioritizing involves say no to certain things as well. And so I think we've laid out a pretty clear plan over the next few years with our focus on things like the digital wallet, building out commerce capabilities, continue to monetize Venmo that give us ample opportunity to invest. But as I noted in my remarks, we don't manage the business to have margin expansion for the next quarter or frankly, even for the next year.

We're looking at how we create a company over the next five years that can have the same type of market value appreciation that we've experienced over the last five. And the decisions that we make really just line up with that much more so than trying to maximize for any particular time period. And so maybe not directly answering your question, but our margins are going to go up over the long-term, and we're not going to be handcuffed to doing that from one period to the next at the expense of like creating shareholder value.

Operator

Thank you. We have time for one last question comes from Jason Kupferberg of Bank of America. Your line is now open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, how are you? I guess, they're now tracking to more of the lower end of the $52 million to $55 million target for the year, previously thought to be closer to the higher end. So I'm just wondering, is this some incremental softness in gross adds? Is it higher churn? A decline in new activations? And it seems like we may be down a little bit quarter-over-quarter in Q4. But normally, there's some positive seasonality. So I just wanted to get your take on what's going on with the NNAs? Thanks.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. Great question, Jason. Thank you for that. If you remember, we started the year at $50 million, then we raised it $52 million to $55 million. And then we thought we'd be towards the higher end of the $52 million to $55 million. At this point, we're just being consistent with kind of our revenue guide as well. We're going into the heart of the holiday, you're exactly right. If holiday season shapes up like it did last year, then we'll have more than $52 million organic because there'll be a lot more shopping.

And if it doesn't, then we'll have a little bit less. So it's very consistent with kind of just being, I think, prudent and cautious given some of the trends that we're seeing and others are talking about, again, supply chain shortages, people can't shop in it. If consumer confidence is down, people do more in-store, we'll get less M&As than we typically might. If holiday season goes as it did last year, we'll get more than we're talking about right now.

So I just think it's just very consistent with the guide that we gave. And again, as John mentioned, we've had a good start to the quarter. We've had a pretty strong last week with 4Q and -- but we're early on right now. And so we don't like it when we are at the midpoint of our guidance, it is or any of that kind of thing. We are used to being a company that puts out things and then beats what it puts out. And we want to assure that what we say is appropriate and appropriately conservative on it. So that's how I think I would answer that question, Jason.

All right. Operator, thank you very much. Jason, thank you for that last question. Really look forward to talking to all of you over the course of the next couple of days and weeks and had a number of different conferences. And thank you for all your support and your time today.

Operator

Thank you. This concludes today's conference call. You may now disconnect.