Q1 2021 Earnings Call

Company Participants

- Daniel H. Schulman, Chief Executive Officer
- Gabrielle Rabinovitch, Investor Relations
- John D. Rainey, Chief Financial Officer

Other Participants

- Bryan Keane
- Colin Sebastian
- Darrin David Peller, Analyst
- David Togut, Analyst
- Lisa Ellis
- Sanjay Sakhrani
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good afternoon. My name is Gabriel, and I will be your conference operator today. At this time, I'd like to welcome everyone to PayPal Holdings earnings conference call (Operator instructions)

Gabrielle Rabinovitch {BIO 19771464 <GO>}

First Quarter 2021. Joining me turn 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 the Investor Relations section of our website. In discussing our company's performance, we will refer to some non-GAAP measures.

You can find a 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 second quarter and full year 2021. 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 place undue reliance on any forward-looking statements. All information in this presentation is as of today's date, May 5, 2021. We expressly disclaim any obligation to update this information. With that let me turn the call over to Dan.

Daniel H. Schulman {BIO 1895545 <GO>}

Thanks, Gabrielle, and thanks everyone for joining us today. I'm pleased to say that on the heels of the strongest year in PayPals' history, we just completed our strongest quarter ever with the record financial and operating results. Customers across the world have clearly embraced the digital economy and PayPal is becoming a central platform for both consumers and merchants. Consequently, I'm pleased to share that we are raising our annual targets for revenue, EPS TPV and net new active accounts. There it's much of the world begins to shift its attention towards a post pandemic recovery, we continued to see strong demand for a comprehensive set of services from both our merchants and consumers. Over the coming year, we will accelerate our customers' digital engagement through the rapid innovation of our digital wallet and merchant commerce platform.

Our addressable market continues to significantly expand. Driven by accelerating secular trends and the proactive steps we are taking to become a full commerce and payments platform. We believe that the shift in consumer digital behavior will remain essentially unchanged in a post-COVID world. Consumers have expanded their digital lives into a seamless online and offline experience. Our products are an essential enabler of the digital economy and our mission to shape a future where everyone can participate fully in this new digital paradigm has never been more important. Our Q1 trends are strong across the board and we're further accelerated by favorable comps from a year ago.

Our TPV grew by 50% on a spot basis or 46% on an FXN basis $285 billion. eBay now represents 5.5% of our volume and we expect there TPV to be approximately 3% of total volumes by year-end. Excluding eBay, our NF volumes grew by an all time high of 54% on a spot basis in 50% on an FXN basis. Our transactions in the quarter were approximately $4.4 billion, growing 34% year-over-year. We added $14.5 million net new active accounts, ending the quarter with $392 million active accounts, up 21% year-over-year. We added $1.4 million new merchants in the quarter continuing the heightened pace from prior quarters, and we now have $31 million merchant accounts on our platform.

By the end of Q2, we expect to exceed $400 million active accounts. And for the year, we now believe our NNAs will be between $52 to $55 million from our previous expectations of approximately $50 million last quarter. I'm particularly pleased to see our transactions per active account begin to accelerate due to increased engagement across our portfolio. Normalizing for Honey, our Q1 TPA grew by 8.3% year-over-year to 44.1. We generated $6.033 billion of revenue in Q1 growing a record 31% spot, and 29% on an FXN basis, eBay, revenues declined 12%. We expect they will substantially complete their migration to managed payments by year-end. On the back of the strong revenue growth we delivered non-GAAP EPS in Q1 of $1.22, up 84%.

Venmo continued to strong performance in Q1 with $51.4 billion in TPV up 63% year-over-year. We recently launched the ability for Venmo customers to buy-sell and hold cryptocurrencies we are heavily investing in Venmo commerce capabilities, which include rapidly upgrading the pay with Venmo customer experience with initial rollout beginning this quarter. The Venmo credit card is outpacing our expectations for both new accounts and transactions and we're also making it easier for small businesses in casual sellers to accept Venmo payments.

We now have over 300,000 small business profiles currently established, including 200,000 in Q1 alone. Our Venmo commerce TPV and revenue growth continued to accelerate and we remain confident in our $900 million revenue target. We expect to rollout our next generation digital wallet in Q3. It will be all in one personalized app that will empower users to make the most of their money and strengthen their financial lives every day. We will provide increasingly customized and unique shopping, financial services and payments experiences for our customers. Consumers are turning to brands that they trust when it comes to choosing a super app. That clearly plays into our strength.

As a recent external survey of over 300,000 consumers across the globe, selected PayPal as the second most trusted brand, to PayPal in record numbers to enable their transition into the digital economy during the peak of the pandemic, saw their overall revenues grow by 25% versus a negative 9% for all other small businesses in the same time period. Small businesses, you used PayPal last year drove 75% of their online sales from outside their local neighborhood, clearly expanding their addressable market. And 65%, the small businesses in the U.S. who use PayPal have cross border sales versus less than 5% of all other small businesses. Across the shopping journey merchants who use PayPal CA substantial lift. According to market research reported by Nielsen, merchants with PayPal experienced 17% more repeat buyers. Their checkout completion goes up by 34%, and PayPal consumers spent an average of 12% more that PayPal merchants. And finally PayPal consumers are loyal to PayPal merchants buying 11% more often when PayPal is accepted. These are powerful facts that support our brand promise to retailers as we add more and more capabilities to our platform. For instance, our buy now pay later product continues to move from strength-to-strength. In the short time from our launch, we processed over $1 billion in TPV in the U.S. alone. Early results continue to show a significant percent 15% engagement lift in transactions and TPV.

In addition, nearly 30,000 merchants have implemented our buy now pay later capabilities upstream on their product pages with a corresponding lift in our overall share of check out. Demand for our PayPal and Venmo QR codes and in-store payments remains strong, with an additional merchant signing up every 28 seconds. We now have nearly 1 million merchants accepting our QR codes with continued momentum across our large enterprise merchants. Our early adopters of QRC or spending 19% more TPV on the PayPal platform. Our overall in-store efforts across QR and cards equaled $6.4 billion in Q1.

As I discussed during our Investor Day, we believe the current technological underpinnings of our financial system will be substantially upgraded over the coming years. Both crypto currencies and Central Bank issued digital currencies, can play a critical role in shaping a more inclusive recovery and a more equitable financial system. Our leadership in all forms of digital currency has been widely embraced enabling numerous positive conversations with central banks, regulators, and government officials around the world. I am also pleased to share that we closed our curve acquisition last month. In curves, talented team will bolster our existing technology resources and accelerate our efforts to shape a new financial infrastructure that is efficient, low cost, and inclusive.

We've an extensive road map ahead of us and our innovation will be pursued in partnership with government and in compliance with local, national, and global regulatory frameworks. The exploration of our operating agreement with eBay, as enabled us to launch an extensive partnership with Alibaba. This global agreement will enable hundreds and millions of consumers outside of China to shop across Alibaba sites in China. PayPal is now available as a payment method on Alibaba's wholesale marketplace as well as Ali Express, its global retail marketplace. We're excited at the pace of our current ramp in the ultimate potential for this new partnership.

Additionally, our commercial agreement with Flutterwave enables businesses across Africa have significantly more access to PayPal consumers in order to receive and make payments, online. And this quarter we also collaborated with Telr in the Middle East, allowing merchants in the UAE to accept PayPal for customer shopping online. These efforts serve to significantly broaden our reach and tap into rapidly growing marketplaces across the globe. We clearly have a lot of momentum as we exit Q1. We'll continue to accelerate new product innovation throughout the year. Our increased expectations for 2021, reflect our conviction that we will continued to grow share and increase our addressable market by capitalizing on the accelerating shift to digital.

I'd like to thank our employees who continue to work tirelessly on behalf of our customers their hard work drive our market leadership and positions us to continued to deliver value for all of our stakeholders. And with that let me turn the call over to John.

John D. Rainey {BIO 17599063 <GO>}

Thanks, Dan. I want to start by thanking our customers, partners and employees for helping us deliver an outstanding quarter. We've recently marked one year into the COVID-19 pandemic. Notwithstanding the challenges that our teams have faced, our focus on execution and culture of collaboration are allowing us to deliver very strong results. We're off to a great start to the year. In Q1, built on our operational and financial. And looking at the past from the comparison to a softer March last year, when we absorb the most meaningful negative COVID impact. That said, our business is growing at structurally faster rates than pre-pandemic. And as a result, we're raising our guidance for this year. Before discussing our updated outlook, I'd like to highlight our Q1 results. Total payment volume grew 50% at spot and 46% on a currency neutral basis, this is the strongest quarterly growth we've ever reported. Our Q1 TPV grew at a two-year compound annual growth rate of 33% accelerating from 30% in Q4, and reflecting our strong momentum and user growth. Notably, while we typically experience a sequential decline in volumes from Q4 to Q1. This year our volume grew 3% quarter-over-quarter, versus the first quarter last year merchant services volume grew 50% currency neutral, and volume contributed by eBay marketplaces declined 3% on the same basis.

In Q1, eBay represented 5.5% of our volume down 53 basis points sequentially and down 260 basis points from Q1 last year. Revenue increased a record 31% on spot basis and 29% currently neutral to $6 billion. Transaction revenue grew 33% to $5.6 billion representing 20 points of acceleration from last year on a spot basis and 8 points of acceleration sequentially. Strong performance across core PayPal, Braintree and Venmo drove these results. Excluding eBay transaction revenue grew 42% indicative of the ongoing strength of our diversified two-sided platform.

Other value-added services revenue grew 2% on a spot basis and 1% currency-neutral to $412 million. These results were driven by strengthening credit performance, which was partially offset by lower interest income on customer balances. In the first quarter, transaction take rate was 1.97%, and total take rate was 2.11% nearly one-third of the 24 basis point decline in transaction take rate resulted from the mix effect of eBay. A reduction of $101 million in international transaction revenue from foreign currency hedges growth in bill payment volumes and accelerating Venmo volumes also contributed to this decline.

The 31 basis point decline in total take rate resulted from these factors, as well as lower growth and other value-added services revenue. Volume-based expense performance was the strongest in our history. These expenses increased only 9% to $2.5 billion on 31% revenue growth. As a result, transaction margin dollars grew 52% in the first quarter and transaction margin reached 57.8%. Normalizing for the macroeconomic related credit loss provisioning last year, transaction margin dollars grew 38%. Going into the expense highlights, transaction expense improved 12 basis points as a rate of TPV to a record low of 80 basis points, driven by both volume and funding mix.

Continued improvements in our risk decisioning and mitigation strategies resulted in transaction losses improving three basis points to another record low rate of 10 basis points overall. In discussing our credit losses for the quarter, I want to provide additional context given the increased provisioning last year and the complexity in the year-over-year comparison. As a reminder in Q1 2020, we increased reserves by $227 million for expected credit losses due to the deterioration in the macroeconomic environment. After taxes,this represented a negative $0.17 per share impact. During 2020, we increased our reserve coverage ratio and ended the year at 23%. In addition, our gross receivables balance to $3.6 billion at the end of 2020 fully. This decline was partially offset by growth in our consumer portfolio. These trend continued in the first quarter of 2021, and we ended the quarter with $3.5 billion in receivables. More favorable economic conditions and portfolio performance resulted in a partial release of reserves in Q1. This reserve release benefiting credit losses by approximately $87 million and provided an approximate $0.06 benefit to EPS. As a result, at the end of the first quarter, our reserve coverage ratio declined to 21%. In the quarter, non-transaction related operating expenses increased 31%, and represented 30% of revenue remaining essentially flat to last year. We're prioritizing growth, and to advance our key initiatives, we're continuing to invest more in sales and marketing and technology and development. On a non-GAAP basis, operating income was $1.67 billion, and our operating margin was 27.7%, our strongest performance for any first quarter.

Normalizing only for the macro related provisioning last year, operating income grew 46% and operating margin expanded approximately 300 basis points. In Q1, on this normalized basis and inclusive of our elevated investment spend, we earned an incremental $0.38 of operating income for every additional dollar of revenue generated. Non-GAAP other income declined by $39 million relative to last year. This was driven by reduced interest income from lower interest rates and higher interest expense from our debt issuance last May. The negative impact on non-GAAP EPS from the decline in other income was largely offset by a lower effective tax rate.

For the first quarter, non-GAAP EPS grew 84% to $1.22, again normalizing for the $0.17 negative impact last year related to increased credit provisioning, non-GAAP EPS still grew 47%. We ended the quarter with cash, cash equivalents and investments of $19.1 billion. In addition, we generated $1.54 billion in free cash flow, representing 27% growth from the first quarter last year. For every dollar of revenue in the first quarter, we generated $0.25 of free cash flow.

Now I'd like to discuss our updated guidance for 2021 and our guidance for the second quarter. This updated outlook reflects our ability to accelerate growth at scale at increasing rates of profitability as well as the underlying strength of our core business. For the full year 2021, based on our record first quarter performance and sustained momentum, we're raising our net new active TPV revenue and earnings outlook. Relative to our prior expectations, eBays managed payments transition has accelerated. And we now expect a greater percentage of the migration to be complete by the end of the third quarter. This acceleration that's more near-term pressure on our revenue and earnings growth. At the same time this more compressed timing allows for a cleaner exit in 2021. Broad based strength in our Merchant Services business and improving credit performance allows us to more than offset this impact. We now expect revenue to be approximately $25.75 billion, or growth of approximately 20% on a spot basis for the year.

We're raising our expectations for revenue growth by 1 point, while at the same time absorbing an additional 2 points of pressure to revenue growth from eBay. In addition, we expect to generate approximately 100 basis points of operating margin expansion this year, relative to the more modest margin expansion we had guided at the start of the year. As a result, we now expect non-GAAP earnings per share to be approximately $4.70, representing growth of approximately 21%. Relative to the guidance we provided at the start of the year, this is an additional 4 points of non-GAAP earnings growth in 2021. We're executing from a position of strength and seeing strong adoption of our new products and services.

Our updated guidance includes increased investments in our digital wallet initiatives to drive further innovation, adoption and engagement. The strong underlying trends in our business in Q1 outperformance are allowing headwinds to deliver stronger earnings growth than we previously expected. $4.25 billion, representing approximately 19% growth at spot. In addition, we expect non-GAAP earnings per share for Q2 to be approximately $1.12, representing growth of approximately 5%. As a reminder, last year, operating margin expanded more than 500 basis points in the second quarter. Favorable volume and funding mix dynamics combined with COVID-related understand and non-transaction related expenses contributed to the strong margin performance and resulted in 49% growth in non-GAAP EPS. This record growth last year create a tougher comparison on a two-year compound annual basis. Our earnings guidance reflects 25% growth. I'd also like to discuss our updated net new active outlook. We're raising our guidance for 2021 net new active accounts. Based on the $14.5 million additional accounts in Q1 in our current trends, we now expect to add in the range of $52 million to $55 million net new users this year. This is an increase from the 50 million net new actives that we guided to start the year. On top of the approximately 73 million users, added last year, at our current pace, we'll add more new -- users between last year and this year than we did in 2016, 2017, 2018 and 2019 combined.

As a reminder in Q2 last year we had a 21.3 million accounts and are now lapping this growth. Given this tougher comp in the ramp of our initiatives throughout the year, we expect Q2 net new actives to be lower than Q1 and for Q3 and Q4 adds to be sequentially stronger. It's worth noting, a couple of points related to our guidance and our business overall. First, the environment in which we are operating, while more stable than a year ago continues to be very dynamic and more challenging to predict than in normal times. In many of our core markets, we're on the threshold of some degree of a return to normalcy. People are getting vaccinated. There is a return to physical experiences, travel is resuming. Some of this is certainly pent-up demand from the void that resulted from COVID-19 over the last year. For some perhaps, it may be a reversion to the way things were prior to 2020. The pace and degree of this change and its impact on the trends in our business is challenging to predict from one quarter to the next with the same level of certainty that we have a normal times.

This brings me to my second point, which is unassailable. Our business has and will continue to benefit from the changes in consumer behavior that have resulted from this pandemic, namely the acceleration of the continuing trend of the growth in e-commerce penetration and importantly the growing ubiquity of digital payment experiences. We continue to see elevated e-commerce spending, well above pre-pandemic levels, even in countries and markets that have begun to reopen. We're positioned to be a long-term beneficiary of these secular trends. And as we've repeatedly said are investing heavily to help shape this outcome. That said, our short-term forecasting is susceptible to more durability than normal. To wrap up, our first quarter results underscore the ongoing strength diversification and relevance of our skilled two-sided global platform. We extended our leadership position in digital payments and delivered some of the best performance in our history on both an absolute and relative basis. And our strong trends across the business reflect enduring secular trends and continued business momentum. We're continuing to invest aggressively to drive accelerated growth in a post-pandemic world and capture the significant opportunity ahead. At the same time, our meaningful scale enables us to realize additional efficiencies, expand our operating margin and support significant free cash flow generation.

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

Questions And Answers

Operator

(Operator Instructions). We ask that you please limit yourself to one question, then return to the queue for any following, thank you.

Your first question comes from Darrin Peller, Wolfe Research. Please go ahead.

Q - Darrin David Peller {BIO 16385359 <GO>}

Hey, thanks guys. And great results here. When we look at coming out of last year's record NNAs we thought $50 million was a good number in that you're raising that, if you could just touch on the dynamics you're seeing around the net new actives, what's driving the upside, even after these kinds of record rates and especially as we go into reopening in the market. Can you just talk through the activity in the churn levels and then maybe on the other side of the funnel, if you could touch on the incremental users reopens as it partnerships like baba, you mentioned today or other kinds of international or just really, what's the big driving force for that confidence? Thanks guys.

A - Daniel H. Schulman {BIO 1895545 <GO>}

I think, maybe I'll start with the answer to that, and then see if John wants to supplement anything. So, we had a strong Q1 is up 46% ex the one time Honey adds that we had last year ended the quarter with 31 million merchants, 392 million active accounts, we're really getting to a scale right now there that has a huge network effect on it. We brought on in Q1, two new customers every second throughout the quarter, we brought on a new merchants every five seconds throughout the quarter. Somewhere between 1.4 million, 1.5 million new merchants that was up over (inaudible). I think the drivers, it's predominantly PayPal, it's predominantly still in our corpus from Venmo. But my view on net new actives is I said is that to --, look, I think I give a lot of opportunity, yet here. We've a lot of expansion into international markets. I think our marketing programs are really beginning to deliver excellent results. I think we're just scratching the surface there and when I think about what's going on inside the base, our engagement levels are going up substantially. I mean you saw kind of our TPA grow by 7%, if you normalize for Honey, our TPA went up 8% in the quarter. But if you normalize for the huge amount of NNAs that John, just talked about, because when you put on huge amounts of NNAs and they don't have the full year to do the full TPA maybe of bunch came on this quarter and they had one and half months to do transactions and we count them in that TPA. But if you normalize that, to say the 37 million, we used to be doing, then to that TPA grew by 14% in the quarter and in that is really a -- result of our daily active users coming on or daily active users were up 33% in Q1 across the base, but our new products and services right now are driving huge engagement levels. I just give you a couple of examples, buy now, pay later, I'm sure somebody will talk about it later, because we have a lot of fun things to talk about. But 50% of the customers who have used buy now, pay later have repeated within three months and 70% have repeated within six months.

If you look at our in-store cohort now driving an incremental 60 to 120 incremental transactions, we talked about this last call, it's holding true about half of our crypto users open their app every single day. It's so, we're clearly beginning to see those at the top of the funnel the potential for increases into the top of the funnel. And really narrowing the bottom of the funnel, which is why I'm with bullish on NNA trends. The one thing I'd point out Darrin, that I think is really important is the cadence of those NNAs Q1 was a good a good solid quarter for us, Q2 is always going to be the lowest quarter of the year because we did 21.4 million net new actives last year even though our churn rates are down and that was one of the best cohorts we ever activated it puts incremental pressure at this bottom of the funnel for Q2. Then we see really increasing amounts of NNAs as we go through the year or so. In general, really strong on the NNA front really strong on the engagement front and hopefully more of that to come.

A - John D. Rainey {BIO 17599063 <GO>}

Yeah, I'll just add real quickly, Darrin, like if you go back to a year ago or maybe three quarters ago, when you saw the record amount of net new actives that came in the second quarter. I think that, I mean, can probably surprise everybody right, that was an enormous number. And then you think about it sort of like, okay, we'll now what because we've got to make sure that we're engaging these customers and they're using us in all the ways that they can and we even going back to that point in time a year ago. We knew that the second quarter of this year was going to be our toughest comp from a net new active perspective. Even, as Dan said, despite the improvements we've made in reducing churn, there's still a lot of pressure there. And so, Q2 is going to be sort of the low point for the year for us and then we expect 3Q and 4Q to see strengthening in acceleration there but that's the thing that I would say that sort of gives us confidence in this and we've talked about this for a period time but we've consistently said that these are been our most engaged cohorts that we've ever seen. And then we're continuing to see those trends. They haven't waned like what you might expect related to people returning to the physical world and so, that gives us the the conviction around raising this and and really what it both for the rest of our business as well.

Q - Darrin David Peller {BIO 16385359 <GO>}

Okay, that's great. Thanks again, guys. Congrats again.

A - John D. Rainey {BIO 17599063 <GO>}

Yeah. Thanks, Darrin.

Operator

Your next question comes from Tien-Tsin Huang of JP Morgan. Please go ahead.

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

Thank you. Thank you. Really impressive results on many fronts, I wanted to ask -- on the first quarter revenue. So you'll be your revenue guidance, it looks like by three percentage points. I think that's the widest margin of upside we've seen in a few quarters. So I'm curious what surprised you, can you rank first, what surprised you what drove the upside and how does the change your revenue outlook for the year. It sounds like it's enough to offset the bigger eBay traffic, but would love it if you could rank it for us, maybe? Thanks.

A - John D. Rainey {BIO 17599063 <GO>}

Yeah. Tien-Tsin, I mean, -- so I think starting with the full year, you're right, the momentum that we're seeing in the business really has allowed us to overcome the headwinds that we're seeing some more accelerated migration for eBay to its managed payments. To specifically address your question on Q1, there is actually a handful of things that I think perform differently than what we expected, starting with January. So there was an extended holiday shopping period like the first couple of weeks of January, we saw much stronger e-commerce activity than normal.

And so, the other booking and getting to March, we saw a resumption in travel that quicker and more quickly than what we had estimated. And then sort of in between that you've got a stimulus and I don't want to overstate the effect of stimulus because we had assumed some of that in our forecast. I think it was pretty clear at that point in time if that was going to happen. But I think fundamentally, if you step back and you think about these things described that maybe are more transitory what has been I think a more permanent shift is what we're seeing around, collective displacement of cash, -- and you're just seeing more and more digital experiences that are replacing cash.

I'll give you one sort of silly example Tien-Tsin, last time I went out to dinner and a restaurant had reopened and sitting inside and gets time for me to get my check. I'm not hanging off of my credit card to the waiter for them to run and put it through the machine, they're printing a receipt with a QR code on it right there. Let's say physical world experience that is happening digitally and this is the transformation that is happening right in front of our eyes Right now. We are on the threshold of this and that's fundamentally I think it's a small anecdote but it's, I think it's a good example of kind of what we're seeing in our business whether this convergence of online and offline, that is really benefiting our business.

A - Daniel H. Schulman {BIO 1895545 <GO>}

I'd just add on to that John, because I think that is the strength that we're seeing even in markets that are opening, if you think about, we did 100 point raising guidance for revenues, yet 200 incremental points of pressure from eBay, that's really, in effect, a 300 point raise on our core business, -- and that's because we are now seeing people living a digital life. And what we're used to be for us as well, like a year, year and a half ago is services separate distinction between in store for the physical world and e-commerce in the online world. And now, what we're seeing is that it's just a digital world. Even as economies open more and more of those payments are moving to digital. I think about it like Uber would be a good example is more and more ride start there, they're moving a physical environment, but it's all done through digital platform and digital payments. And so clearly that is something that we see as a sustaining and growing trend going forward. And I think John mentioned, cash is definitely being replaced. Now there is just a study done a week or two ago by one of the major networks that said anywhere between 60% to 70% of consumers are going to use cash less frequently, and that's moving to digital, it is moving to digital forms of payment and it's moving the P2P and by the way when it moves to digital, it's moving predominantly to debit, which obviously is also great from a funding perspective on that.

And so I think we have this portfolio of services right now, whether it'd be Zettle or Braintree or QR codes or just what's happening in the physical world that complements now which is happening in the online world with our more traditional products and that's kind of a one, two punch that I don't think any of us really understood the extent of or the depth of the transition to a digital economy.

A - John D. Rainey {BIO 17599063 <GO>}

And just if I can add one more thing and that for those reasons that Dan mentioned, it's also why we are investing, as heavily as we're. At no point in time in our six years as a public company, have we invested as heavily as we are right now because we want to capitalize on these secular tailwinds. And we think it's really important and and that's why you see not rolling through the entirety of that in terms of our EPS guidance because we think it's more important to invest right now and that is clearly our bias. And fortunately for us, we're able to do that, while still expanding our operating margin in terms of our guidance, 100 basis points for the year.

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

That's very clear. Thank you, both.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. Thank you.

Operator

Your next question comes from Lisa Ellis with MoffettNathanson. Please go ahead.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hey, good afternoon guys. Thanks for taking my question. I had a follow-up on your comment, Dan, on digital currencies and their ability to potentially drive financial inclusion globally as you're engaging with governments around the world that are experimenting with CDBC how are they thinking about the role of the private sector and specifically what role or goals could you be PayPal playing and meaning more broadly, how should we think about how CDBC could impact your business? Thank you.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. So we have had quite a number of conversations here in the U.S., and really across the world with the leaders of those regulatory bodies and some of the key players in government. I won't obviously talk about the specifics of any of our conversations that we've had with them. What I would say is, it is conversation it's very much point of learning from each other, understanding the capabilities that each of us have with some of the concerns that some of the central banks might have or governments, with some of the benefits of a platform like PayPal could do in various forms of how CDBCs could be issued, and I believe is on all my conversations that each country is going to go at different speeds. We are going to have different regulatory oversight in it but, there isn't one country around the world in which we've engaged in, where I don't think that there are envisioning a future that isn't one of a digitized fiat currency. I think obviously there is a lot of synergy with digital wallets, there is a lot of interesting things, if you think about next generation technology that can add utility to payments, that can take down perhaps costs through the elimination of of unnecessary intermediaries and certainly can speed the time in which somebody can access their money. So, we've got a tremendous amount of really great results going on tactically with our cryptocurrency efforts right now. And we're excited about those, we're investing those, but this whole idea around establishing a digital currency and blockchain business unit inside the PayPal, which could think about what is the financial system going to start to move towards and how can we be a shaper of that a leader within that and not a reactor to how that's happening in that those conversations have been, have gone well beyond my expectations in terms of the openness of governments and central banks to think about new ways of managing and moving money through the system.

Q - Lisa Ellis {BIO 18884048 <GO>}

Very exciting. Thank you.

A - Daniel H. Schulman {BIO 1895545 <GO>}

It is actually. Yep. Thanks.

Operator

Your next question comes from Sanjay Sakhrani of KBW. Please go ahead.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. I had a question on the reopening trends seen thus far this year. And any discernible trends that you might have observed like how it's affecting volume mix, funding mix and its overall engagement with the PayPal ecosystem? Thanks.

A - John D. Rainey {BIO 17599063 <GO>}

Sure, Sanjay. I'll start, Dan may want to add out a little bit. I think there's a number of things there that we're observing, I think building on your question around debit, that's certainly something that stands out. We see a shift in funding towards more debit versus credit and that's across our broad portfolio of products, but a good examples even might take buy now, pay later, where in the previous quarter that's 78% and that was funded with debit that moved up 82% in the most recent quarter. And so, clearly we're seeing a shift there and again, going back to an earlier answer, we believe some of that is the displacement of cash.

In terms of overall kind of trends that we're seeing around reopening, certainly travel has picked back up and that happened a little bit earlier than what we had anticipated. Among the verticals that sort of stand out fashion still is one of the single largest growth verticals in terms of overall volume for us. But in terms of the highest year-over-year growth rates still food and groceries. And incidentally, even in markets, where you've seen some reopening. So again it just, it really supports what consumers have been telling the world in surveys for 12 months now. Now we're seeing it in behaviors. And so, again this sort of plays into a lot of the things that we're talking about here in terms of this convergence of the physical world on online and the need to have these omni experiences for your customers. But those would be a couple of things that I would call out that we're seeing.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you.

Operator

Your next question comes from Colin Sebastian of Baird. Please go ahead.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Colin.

Q - Colin Sebastian {BIO 6373379 <GO>}

Hey, Dan and John. How are you doing? How you're feeling at this point about the original full-year revenue target for that business and related to that, if you have any feedback on how crypto integration and business profiles are impacting? How people are using Venmo and if you could just remind us how the pipeline of other enhancements to the app will sequence oveR the course of the year. Thank you.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah, sure. So first of all, Venmo had another really strong quarter TPV up 63%, it's off to a great start in Q2 as well. One really interesting income that John and I were remarking, on the other day, if you look at the annualized TPV of Venmo right now, the call it about $205 billion and $210 billion of TPV. Think back when we went public PayPal, our TPV for the year was $285 billion, so you basically have another PayPal inside of PayPal, but when we went public a year ago. And there is such huge monetization opportunity on that. I think obviously, we feel very confident in the $900 million, but that is scratching the surface of what Venmo can be. This is a huge base that's growing and the great thing is that the team there is executing on all of their initiatives. Credit card we knew it is a great experience but it's performing beyond our expectations, new sign-ups transactions that's what happens when you have a great value proposition consumer experience. Crypto launched 1% ramp it just went to 5% ramp they will be 100% ramped by the end of this month, at the end of May. And obviously, if you look at again surveys that have come out recently and you look at millennials something like 74% of them anticipate that you're going to use crypto in the next year or two in some way.

Business profiles grown above plan. We're going to be introducing things like goods and services by our protection that's a huge revenue generator on the PayPal P2P side, that same thing will be happening on the Venmo side, pay with Venmo which by the way is very little of this year's $900 million. But, that pay with Venmo is going to be the majority of revenues as you look out several years from now and so we're really excited about that rolling out. And eventually, Venmo is going to move down the same path that the PayPal super app digital wallet is going down, it's going to become a super app itself putting in more and more capabilities and services around again shopping and basic consumer financial services, and payments, it has international expansion in front of it and there's just so much opportunity. I think we've all been, you know, bullish on the potential of them, we are now beginning to see realized and we just think that, just want to keep investing in that because the opportunity is quite large.

Q - Colin Sebastian {BIO 6373379 <GO>}

Thanks, Dan.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Our next question comes from David Togut of Evercore ISI. Please go ahead.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much and good to see the strong growth and engagement from buy now, pay later customers. Can you talk about your expectations for buy now, pay later for the balance of this year. More broadly, how you expect the most engaged buy now, pay later customers to engage in the PayPal ecosystem overall?

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah, sure. I'll start and then maybe John, can go in. First of all it's a great value proposition in the market. I think everybody clearly understands that and sees that, no incremental cost for a merchant to have buy now, pay later, it's just part of their take easy integration. And by the way, PayPal is a trusted brand, so, consumer see it, they recognize it and they have no problems taking part in that value proposition and because we have now 392 million customers on the platform, we know them, we know their behaviors. We have higher approval rates and less defaults than what we're seeing out in the buy now, pay later space.

Just to give you a sense even of the results, we've over $2 billion of TPV globally since launch over $1 billion in the U.S. over $14 million loans have been done over 5 million unique customers. We have over 500,000 unique merchants, more hundreds of LTE customers. But as I mentioned 30,000 upstream and that's growing every single day. And one of the great things we're seeing with customers that are engaged in buy now pay, later is there is a 15%, pay role left in TPV on the platform. And because of funding it with debit's increasing, it's like a 16% reduction in our cost per transaction. So it's a great proposition for merchants, tons of conversations going on with all the leading merchants. Big uptake with consumers and we're going to expand into Australia by the end of Q2 and the much more of Europe by the end of the year.

Q - David Togut {BIO 1496355 <GO>}

Thanks for all those great metrics. Just a quick follow-up on bottom of the final impact from the growth of buy now, pay later?

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah, well, again, it's a little bit early because, we've launched all of these things like last six or eight months or so. So given we look at 12-month active. So, but if you look at the repeat behavior and the increased engagement that probably bodes pretty well for both TPA and churn reduction, especially given that this is now scaling quite this is meaningful scale even for a company of our size.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much. Congratulations.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Thank you.

Operator

Your next question comes from Bryan Keane with Deutsche Bank. Please go ahead.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys. I wanted to ask John, on the impressive operating leverage and we saw the raise of non-GAAP operating margins to, I think it's about 100 basis points, so just thinking about what caused the increase in confidence there. And even though eBays a bigger headwind and you're investing more you're still increasing operating margins. So, there is a lot of things going in the positive direction there. So I'd just like to get the details from you. Thanks.

A - John D. Rainey {BIO 17599063 <GO>}

Happy to address that, Brian. So again, I want to repeat the number because it's a whopping numbers, 38% incremental operating margins in the quarter. That's really demonstrates the scalability of our platform, particularly, when you think about the level of investment that we've had internally and you can look at some of the year-over-year comps in our expense item, line items, and get an idea of that, but I think there is a number of different areas, but a couple of that obviously stand out or the transaction related operating expenses of transaction expense and transaction loss. To have record lows in both those again, like, the improvements that we've made in our risk capabilities to drive down transaction losses is just been tremendous and we start talking about this probably five or six quarters ago and and look, I don't know if we're going to come in 10 basis points, every quarter, and I certainly would hope so, but that is performance that was really hard to imagine a couple of years ago. But the improvements there that we've made in terms of the capabilities are definitely sustainable. On transaction expense, look, I think you can pick it any one part of our P&L, and I'd like to take rate as an example. We saw declines there. Some of that's related to mix like we're obviously doing as an example, more bill payment right now, which carries a lower take rate well same time it carries a lower transaction expense. And so, we've always focused on that, on that margin between the two, and again, to have a margin a transaction margin approaching 60% this quarter. We're really pleased about it.

And so the obvious question is where does that level out over time, does it go down from 80 basis points as it go up from 80 basis point, it's tough to tell, but I certainly don't think that we're going to see levels that we saw pre-pandemic. There may be some inflation, but I think all the mix changes in our business and what we're seeing around the pull forward of e-commerce, we would expect transaction expense to remain at lower levels pre-pandemic, which again gives us the just amazing leverage that we have on this platform.

Q - Bryan Keane {BIO 1889860 <GO>}

Got it. Congrats on the quarter.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Thank you.

Operator

That was the last question for the call today. I will now pass the call back to Dan, for closing remarks.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. Thanks so much. Thanks everybody for all of your questions and thank you for the time you spent with us today. I hope that all of you and your families are safe and healthy. We look forward to not just speaking to all of you soon but hopefully seeing all of you soon as well. So again, thank you for your time. Take care and goodbye.