Q4 2020 Earnings Call

Company Participants

- Daniel H. Schulman, President, Chief Executive Officer, Director
- Gabrielle Rabinovitch, Vice President, Corporate Finance and Investor Relations
- John D. Rainey, Chief Financial Officer, Executive Vice President, Global Customer Operations

Other Participants

- Colin Sebastian, Analyst
- Dan Dolev, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- James Faucette, Analyst
- Jason Kupferberg, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good afternoon. My name is Gabriel, and I will be your conference operator today. At this time, I would like to welcome everyone to the PayPal Holdings' Earnings Conference Call for the Fourth Quarter and Full Year 2020. 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, Vice President, Corporate Finance and Investor Relations. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Gabriel. Good afternoon, and thank you for joining us. Welcome to PayPal's earnings conference call for the fourth quarter and full year 2020. Joining me today on the call are Dan Schulman, our President and CEO; and John Rainey, our Chief Financial Officer and EVP, Global Customer Operations. We are 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 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 first 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, February 3, 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 report that PayPal just completed the strongest year in our history achieving record growth in net new active customers volume, revenue, operating income, earnings and free cash flow.

Consumers and businesses of all sizes have embraced a new digital era and racing the distinction between online and offline, but digital first world is no longer our future it's our current reality, and it will forever change the way we interact across almost all elements of our lives.

At the beginning of the pandemic consumers in lockdown had no choice but to do all of their shopping online. Today, the vast majority of consumers state that post pandemic they will continue to shop online at their current elevated levels because it is more convenient, easier and saves time. Retailers are rapidly adapting to a new landscape adjusting their strategy from encouraging consumers to visit their stores to optimizing for home delivery. The pandemic has accelerated a digital wave of change across almost every industry by three to five years, unleashing a profound and permanent structural transformation.

Our results in Q4 highlight these strengths. In the quarter, we added 16 million net new active customers including an incremental 1.4 million new merchants. For the year, we delivered a record 73 million net new actives ending the year with 377 million active accounts up 24%. We now have over 29 million merchants interacting with nearly 350 million consumers. In 2021, we expect to add another 50 million net new active accounts.

Equally important, our daily active users remain elevated versus a year ago up 29% from Q4 of 2019. Our expanding scale and increasing engagement drove a record 4.4 billion transactions in the quarter, up 27%. Our total payment volumes in Q4 were $277 billion, up 36% on an FXN basis. Our TPV excluding eBay was up a record 40% as we continue to gain market share, eBay TPV grew at 1% and exited the year at just under 6% of our total volume.

For the full year, our TPV was up 31% to $936 billion. In Q2 of 2020, our quarterly revenue surpassed $5 billion for the first time. In Q4 we surpassed $6 billion for the first time with our quarterly revenues growing by 23% to $6.116 billion. For the year our revenues grew by a record 22% on an FX neutral basis to $21.45 billion. Our non-GAAP EPS grew a record 31% to $3.88, and our free cash flow increased by 48% to $5 billion.

Venmo continued its strong performance with Q4 TPV of $47 billion, up 60% year-over-year. Venmo's customer base grew by 32% in 2020 ending just shy of 70 million active accounts. This continued momentum reinforces our conviction that revenues will approach $900 million in 2021. In early January eligible customers were able to cash their stimulus checks within the Venmo app for the first time. Later this month, our Venmo credit card will be available to 100% of our base, and in the coming months, we will launch the ability to buy, hold and sell crypto via the Venmo app.

And finally our revamped pay with Venmo experience will launch in Q2 offering a best-in-class checkout experience. Today's digital reality is rapidly accelerating the need for a digital wallet that encompasses payments, financial services and shopping. This year our digital wallet will change more than it has ever changed before significantly increasing its functionality within a single integrated and beautifully designed app, it should meaningfully increase consumer engagement. In 2020, we made significant progress in expanding the functionality of our PayPal and Venmo wallets. We added the ability to buy, sell and hold cryptocurrencies. The option to buy now and pay later, direct deposit, check cashing and bill payment capabilities.

We introduced Venmo and PayPal QR codes for in-store purchasing, as well as our Venmo credit card. This year we expect to work with our financial industry partners to introduce even more functionality including budget and savings tools, investment alternatives including but not limited to crypto and enhance bill pay options. We also intend to fully integrate the entire suite of Honey shopping tools, including wish list, price monitoring, deals, coupons and rewards for use in the physical and digital worlds.

I'm very pleased with the early reception of our PayPal and Venmo QR codes, which are now accepted at over 600,000 retail locations. In 2020 we signed 29 large enterprises, including CVS, Foot Locker, Nike, Five Below, Levi, Bloomingdale's Macy's and Uniqlo and our early in-store results are encouraging.

Merchants are experiencing double-digit increases in average basket sizes with consumers who frequently use our QR codes. And we are seeing a 19% increase in TPV from consumers who used our QR code. Across all of our in-store efforts including QR, chat and pay and cards. We processed over $20 billion of TPV with almost 10 million consumers using PayPal in-store.

We also saw an exceptional response from our crypto launch. Even with high initial expectations the volume of crypto traded on our platform greatly exceeded our projections. We are excited to build upon this early success by allowing customers to use their crypto balance as a funding source whenever they shop at our 29 million merchants.

We anticipate the rollout of that capability to begin late this quarter, and we hope to launch our first international market in the next several months. These initial steps are just the beginning of an extensive roadmap around crypto, blockchain and digital currencies. We are already working with the regulators in Central Banks to reimagine and shape the next generation of the financial system as consumers no longer want to handle cash.

We all know, the current financial system is antiquated, and we can envision a future where transactions are completed in seconds not days, a future where transaction should be less expensive to complete and a future that enables all people to be part of the digital economy, not just the affluent.

We are significantly investing in our new crypto, blockchain and digital currencies business unit in order to help shape this more inclusive future. I would also highlight the rapid growth of our Buy Now, Pay Later functionality. We saw tremendous and growing demand throughout the quarter and witness the fastest start to any product we have ever launched. Millions of consumers transacted at hundreds of thousands of merchants in Q4 alone as with QR codes we are seeing a meaningful halo effect on overall transactions and TPV including over $750 million of TPV in our first quarter out of the gate.

It's exciting to see that each new service we launch drives incremental increases in our overall consumer lifetime value. Consequently, I would expect that our engagement levels will increase beyond our historic run rates. I'm proud to see that the PayPal platform was especially leveraged during the pandemic for philanthropic giving and community support enabling over $17 billion for charities and those in need.

And we also put our $535 million commitment to black and minority owned businesses and communities into action. We have already invested over 50% of those committed dollars, and we plan to report on their impact as results come in. We have entered the next chapter in PayPal's history. The efforts of our employees along with the investments we've made over the past five years have transform our technical and compliance infrastructure enabling rapid product development.

We released more products and services in 2020 than in any previous year, and we will step up that pace in 2021. Merchants and consumers are turning to PayPal in record numbers as we accelerate into the digital age. Our opportunities over the next five years, has never been greater. We remain focused on democratizing financial services assuring that everyone has access and can thrive in the new digital paradigm. We intend to shape that future, and in doing so become one of the world's leading digital payments, financial services and commerce platforms.

I look forward to expanding on this vision during our Investor Day next week. With that I will turn the call over to John.

John D. Rainey {BIO 17599063 <GO>}

Thanks, Dan. I want to start off by thanking our customers, partners and employees for helping us deliver a record-breaking year. 2020 was pivotal for PayPal in the broader payments industry marked by rapid acceleration and digitization, cash displacement and e-commerce adoption. These secular trends have been shaping our sector for some time. That said, the rate of change we experienced last year, resulting from the widespread implications of the COVID pandemic was profound and transformative.

Crisis, which has led to hardship and suffering for so many increase the urgency across our organization to serve our customers in new and innovative ways. Notably the isolation defined by lockdowns and working from home actually resulted in greater collaboration and brought our teams closer together. We've entered 2021 energized by a greater sense of purpose and responsibility and ready to build on our strong momentum.

Now to our fourth quarter results. Total payment volume grew 36% on a currency neutral basis. This is the strongest quarterly growth we've reported in history and represents 14 points of acceleration from 2019. Our Merchant Services volume grew 40%, another record for PayPal accelerating each quarter in 2020. Volume contribution from eBay marketplaces continue to decline. We exited December with eBay representing less than 6% of our overall volume.

Revenue in the fourth quarter increased 23% on both the spot and currency-neutral basis to $6.1 billion. Relative to the fourth quarter of 2019, US revenue grew 18%, and international revenue grew 29% as the US has a greater proportion of revenue from credit and the travel and events verticals.

Transaction revenue grew 25% representing 8 points of acceleration from last year on a spot basis. This growth was primarily driven by strength across our core PayPal business, including strong cross border activity. Our core payments platform continues to deliver exceptional growth with transaction revenue excluding revenue from eBay growing 30% in the fourth quarter, also an acceleration of 8 basis points from 2019.

Other value-added services revenue increased 1% on a currency neutral basis, reflecting incremental Honey revenue offset by lower interest income on customer balances, and less credit revenue. Honey contributed approximately 1.7 points of growth to total revenue, and approximately 20 points of growth to other value-added services revenue. In the fourth quarter transaction take rate was 2.05% and total take rate was 2.21%.

The 22 basis point decline in transaction take rate resulted primarily from changes in volume mix with eBay's contribution continuing to decline, bill payment and P2P volumes accelerating and a reduction of $97 million in international transaction revenue from foreign currency hedges. The 28 basis point decline in total take rate resulted from these factors as well as lower value-added services revenue. In the fourth quarter our volume-based expense performance was exceptional. These expenses delivered 216 basis points of leverage in the quarter increasing 18% to $2.7 billion. Transaction expense improved 12 basis points as a rate of TPV to 84 basis points driven by both volume mix and funding mix.

Transaction losses improved 5 basis points to a record low rate of 10 basis points. Credit losses were 3 basis points as a rate of TPV. Our credit loss reserve coverage ratio at the end of the quarter was approximately 23% decreasing slightly from the third quarter. The combination of strong revenue and volume-based expense performance resulted in transaction margin dollars, increasing 28% to $3.4 billion. In the fourth quarter, we generated incremental transaction margin dollars of $753 million more than two times the incremental contribution last year.

Non-transaction related expenses grew 28%, reflecting increased investments in our key strategic priorities as well as growth related to our acquisitions. This higher level of investment contributed to a 56% increase in sales and marketing expenses, and a 27% increase in technology and development spending in the quarter.

Leverage across customer support and operations and general and administrative expenses, partially offset this increased level of investment. On a non-GAAP basis, operating income in the fourth quarter grew 29% to $1.5 billion. Our operating margin was 24.7% expanding more than a 100 basis points and representing our strongest performance for any fourth quarter.

We continue to demonstrate our ability to deliver operating efficiencies and scale our platform at low incremental cost, while investing in our strategic growth priorities. Non-GAAP other income declined by $62 million relative to last year, 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 offset by a lower effective tax rate. For the fourth quarter, non-GAAP EPS grew 29% to $1.08. We ended the quarter with cash, cash equivalents and investments of $19.2 billion. In addition, we generated $1.1 billion in free cash flow, representing 50% growth from fourth quarter last year.

I'd now like to discuss our guidance for the full year and the first quarter. We've just completed the strongest year in our history achieving record growth in net new accounts, volume, revenue, operating income, earnings and free cash flow. We delivered these results while absorbing meaningful macroeconomic headwinds affecting our credit business, the revenue and income effects of lower interest rates, idiosyncratic pressure on the travel and events verticals and the initial step down of volumes from eBay post operating agreement.

These headwinds persist as we move into 2021, and yet our core business continues to perform at unprecedented levels. Our addressable opportunity has never been more expensive and we're confident we've never been better positioned to capture the benefits of this accelerated secular growth. We believe the effects of the pandemic on consumer behavior and business transformation are enduring and sustainable.

We also expect e-commerce to drive continued strong payment volume and transaction growth globally. While it appears that additional stimulus measures will support the path toward a more sustained economic recovery, the backdrop continues to evolve, and much remains uncertain. And as we've commented on several occasions over the past nine months, we're focused on balancing transparency with certainty as we develop our outlook. It with these considerations that we're providing our full year guidance, which is our best estimate at this time.

For the full year, our plans contemplate TPV growth in the high 20% range. We expect to generate revenue of approximately $25.5 billion, representing growth of approximately 19% based on current spot rates. Included in our guidance is a headwind to revenue growth of approximately 400 basis points from eBay's managed payments transition. In addition, our current forecast contemplates an approximate 200 basis point impact from foreign currency translation as the US dollar has weakened relative to 2020.

As we've discussed previously, in 2021 we will absorb the greatest revenue impact from the loss of volumes from eBay. In the face of this pressure we're pleased to be guiding spot revenue growth at 19%. Equally important once we are beyond the eBay transition we expect our rates of growth for total payment volume, revenue and earnings to accelerate.

In 2021 we also expect to deliver approximately 17% growth in non-GAAP earnings per share. This earnings guidance contemplates ongoing elevated levels of organic investment. We believe the structural tailwinds for PayPal have never been stronger to fully realize these opportunities, strengthen our competitive positioning and advance our leadership in digital payments sustained investment in our business is critical.

Cost discipline together with our ability to efficiently scale our payments platform will allow us to generate modest operating margin expansion in 2021. In addition, we anticipate that below the line factors, namely higher interest expense and a higher tax rate in 2021 relative to 2020 will offset much of this margin expansion. For the full year, we expect to generate approximately $6 billion in free cash flow.

Before I discuss our Q1 guidance, I would like to contextualize how to think about the trajectory of our revenue and earnings performance for the year.

This year, there are several dynamics that we believe will contribute to more variability in our year-over-year growth rates from quarter-to-quarter than our historic trends. These include lapping our 2020 performance. This year's cadence of planned investments in product introductions. The roll off of eBay volumes and our timing expectations related to the recovery of travel and events volumes and have a more normalized growth in our credit portfolio.

Underlying our guidance for 19% revenue growth on a spot basis is our expectation that we will report our highest rate of revenue growth for the year in the first quarter followed by relatively stable, but more moderate growth in the second, third and fourth quarters of 2021.

Our full year earnings guidance of 17% growth also contemplates delivering the highest rate of growth in Q1. In the second quarter we anticipate non-GAAP earnings to be relatively flat year-over-year primarily due to the outsized EPS growth we experienced in

Q2 last year which exceeded 49% as well as the expected timing of our investment spend.

Then in the back half of 2021, we expect a meaningful and sequential reacceleration in earnings growth. Importantly, throughout the year, we expect the absolute dollar performance of our business to be very strong. As we move through the year we'll keep you updated on how we're tracking relative to this expected cadence. Consistent with my earlier comments in the first quarter, we expect revenue growth of approximately 28% on a spot basis with non-GAAP earnings growth of approximately 50%.

In summary, last year was a year like no other, but in all of the turmoil and difficulty that people encountered one thing was clear in our business. PayPal has never been more relevant and needed than we are right now. Our industry, our company is moving forward. The next five years will be very different than the last five and we're striving to shape that outcome, that future. A future where e-commerce and digital payments are not just a fallback when one can't make it to a physical store or don't want to handle cash, but instead a necessity. A necessity that sought out as the preferred way for people to transact every single day.

It's a future where I expect that our scale, our brand of trust and security and our leading solutions for merchants and consumers alike will allow us to continue to create immense value for all of our stakeholders.

With that, I'll turn the call back over to the operator for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question will come from the line of Jason Kupferberg of Bank of America. Please go ahead.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Good afternoon, guys. Congrats on the results. I wanted to ask about the new growth initiatives. And two part question here maybe one for John and one for Dan. First part is, does your guidance assume that the aggregate revenue contribution of these new growth initiatives will be enough to offset the 4% eBay headwind in 2021? And in the second part is among the various new growth initiatives, which have surprised you the most to the upside so far? And which did you perhaps think would be seeing a little bit more adoption to-date than they have been to-date?

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

Jason, I'll start with the first part of your question and turn it to Dan, if that's okay. With respect to offsetting the headwind from eBay, the fact that we're expanding or better said that our projected our guidance suggest that we're expanding our operating margins would certainly indicate that we think between the momentum in the business and the additional initiatives combined that we can offset the pressure related to eBay. Certainly the initiatives -- all initiatives taking a while to ramp up the bulk of our new initiatives are really, we would expect the financial impact to be in the second half of the year, but when you combine that with the momentum in the business it's certainly allows us to offset that headwind.

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

Yeah, and Jason, I'll try and answer your second question there. So that's like you ask me to choose which of these are my favorite kids. And product managers that are hanging on (Multiple Speakers). So look we put out a couple of big initiatives into the markets. Our in-store to our Crypto, to our Buy Now, Pay Later. And honestly, all of them surpassed our internal projections, and they all are creating a halo impact that is really pleasing to see.

I talked about kind of QR having a 19% halo effect, crypto started off with a bang and just keep going and it's continuing to go, but in a surprise winner if I had the envelope, I would talk about Buy Now, Pay Later honestly as surprisingly, most to the upside. I-- since I've been here, I've never seen a product launch with that kind of scale so quickly. I mean, we talked about moving into the US, in October, we announced and we had almost 3 million customers using Buy Now, Pay Later at hundreds of thousands of merchants.

By the way, that's not the total number of transaction. We already saw in the quarter a 40% repeat rate on that as well. And so it's not just that you had customers in a line, they're just voting with their feet in and moving forward. And we think that we have a value proposition that is second to none out there.

First of all, we've got 350 million customers that we can bring that trust PayPal. We know that, and so our approval rates are higher and we think than anybody else out there when people sign up for Buy Now, Pay Later.

Second, it is no incremental cost to the merchant. I mean all of the other competitors charge a pretty significant incremental cost and for us we are just charging the thing take rate that the merchant have. It's very, very light integration, which is why we saw well, over 10,000 merchants integrate Buy Now, Pay Later up the funnel really on the product pages and not at checkout. We're beginning to see more and more of that as we come into the year.

Another thing that is really interesting to me. Here the halo effect by the way, very early days, as the halo effect it's about 15% increase in TPV and we think all of that TPV so far is incremental TPV for us. But the other thing is we're seeing a meaningful double-digit reduction in the cost of those transactions as well. And so when you look at kind of the scale, if we look at the value proposition, the take up of merchants and that's continuing on into the first quarter this is clearly a home run for us, and a winner and that is not to dismiss any of my other favorite kids to be.

They all had great years, but Buy Now, Pay Later was probably the biggest surprise.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Okay, well thanks for all the commentary.

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

Yes. You bet.

Operator

Our next question will come from the line of Tien-Tsin Huang of JP Morgan. Please go ahead.

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

Hi, thank you (inaudible) willing to the presentation here. I wanted to ask on M&A, if that's okay. Just wanted to check your appetite on acquisitions and especially at this point in the cycle given that so many of these digital assets that have been inflated in terms of valuation during the pandemic year. Any change in your thinking around M&A I saw on the slide, you had some great detail on your strategic investments, but how about M&A?

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

Tien-Tsin, I'll start and maybe Dan will jump in. But I think there is two really important points to consider when we think about acquisitions for PayPal. The first is that we are somewhat unique in the FinTech ecosystem and so far as we enjoy outsized growth rates, but we also are extremely profitable and that results in the type of free cash flow generation with 20% plus free cash flow margins.

And that -- if that uniqueness that allows us the ability to have this effectively an asset where we can go out and look at inorganic opportunities to complement what we're doing organically. So I think that's one important point to think about.

The second, and it really gets to your point around some valuations are but we exercise a tremendous amount of discipline in the way that we look at this and from an overall capital allocation perspective, our view is every dollar of capital has to compete with the other alternatives out there whether that'd be organic, whether that be returning cash to shareholders or going out and acquiring a company.

And so we will remain disciplined and really view our acquisitive strategy over a multi-year longer-term time frame.

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

Yeah, I'd just add to that just generally[ph]. If you think about our need for acquisition that is again it's like what is our pace of organic innovation. And in 2020 we put out more products and services than we've ever put out before. I said in my remarks that we're going to step up that pace in 2021 and we're going to go do that.

When I look at all the investment we've made over the past five plus years in our tech infrastructure, in our compliance and risk management what that's enabled us to do now is pretty radically accelerate the amount of software releases that we have. We put out last year between config releases and software releases, some 60,000 releases, that was up 30% year-over-year, at a time where we are all working from home.

So our productivity has gone way up. Our developer tool kits are much improved by using modern programming language as a service-oriented architecture and by the way all of that's happening while the number of bugs has gone down 25% in all of our releases from 2019 levels. And so I'm really happy with the pace of organic innovation and our ability to deliver products and that takes away, lot of our need to do acquisition.

I would just bill on John's point, we obviously have a strong balance sheet, strong cash flow. We will be acquisitive going forward, but we're going to look at that as John said, a very disciplined manner. We're going to look at talent, type of acquisitions, where can we do make a smaller acquisition to bring in great talent in a particular area. We'll look at geographic types of acquisitions, where we may want to go after geography and there may be a player too there, that could help us leapfrog into that market and we'll look at that carefully. And if there is a real capability that, not that we can't develop and do, but it's going to take us too long to get there because what we're trying to do on our roadmap then we would take a look at that as well.

Those are kind of the basic areas, I would say so. I think we've got a good one-two punch between what we can do internally and what we can do from an inorganic perspective.

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

Yeah, no, it's very clear. It's going to be fun to track the organic products for sure. Thanks a lot guys.

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

Yeah. Thank you.

Operator

Your next question come from the line of James Faucette of Morgan Stanley. Please go ahead.

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

James, are you there? I won't be the first one to say this, but are you of mute. Tell you why is James there? Why don't we go to the next question. And we can put James back in the queue a little bit later, Gabriel.

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

All right. So your next question will come from Darrin Peller of Wolfe Research. Please go ahead.

Q - Darrin Peller {BIO 16385359 <GO>}

All right. Hey guys, thanks. Congrats on the year also. You know what's your expectation for adding 50 million net new accurate in 2021 was clearly an impressive number one looking at 72 million, you guys just added and then the pre-pandemic normalized levels around 35 million, I think per year right. Does that -- I guess, first is that underscore the incremental adds, you're confidence that the incremental adds in 2020 were really not pull forward but they're just new demographics? And so looking off of last year, if you could walk us through the different drivers, whether it's geography or products giving you the confidence in adding 50 million net new actives in 2021 versus another pre-pandemic 35 million or so levels? Would be great. Thanks, guys.

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

Yeah, Darren. I think when we look at the cohort of net new actives from last year, it's clearly incremental people coming on. You know the over 50 demographic -- 50 years old demographic, it's one of our strongest growth vectors that we had. So you're really seen new demographics come onto the platform though, it's really interesting to me is the engagement metrics of that cohort are also up substantially. We have double-digit increases in a value per net new actives. Our 90-day engagement rates are up 13% plus over traditional cohorts.

If you look at our normalized transactions per active spent gets this kind of gets a little bit lost because we were including Honey net new actives in the denominator and we also, as you said we put on 72.7 million net new actives last year. If you normalize that to 37 million that we would put on a typical year, because when you put somebody onto the platform they don't have all the transactions, because they all didn't come in on January 1, they come in throughout the year. And so that puts pressure on it, but our TPA which is a real measure of engagement, on normalized basis would have grown 11.5% like that's above any trend line that we have up to about 45.1 times a year.

And so our churn rates in general, because of that is coming down. And we have a base is big as ours right now it is as much, maybe even more about the churn rate than it is the new adds coming in. There is plenty of demand to come onto our platform, but when we see churn reduction like we're seeing right now because of increased engagement and that increased engagement coming, I guess people are just moving online and because we have these new products that are out right now that people are just using a ton more like crypto is a great example.

Everyone is sign-on for crypto, is opening up their wallet have two times the level of what they did previous. And so I think that 50 million is a real good guide right now, well obviously updated as we go on, but we're seeing a lot of really encouraging trends in the underlying cohorts that we're bringing on which gives a lot of confidence to that 50 million number.

Q - Darrin Peller {BIO 16385359 <GO>}

That makes sense. Really helpful, Dan. Thanks.

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

Yeah.

Operator

Your next question comes from the line of David Togut of Evercore ISI. Please go ahead.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good afternoon, Dan and John. Could you discuss the drivers of operating leverage both at the transaction expense and the other OpEx level? And in particular, are you seeing the sustained volume mix shift toward the branded PayPal wallet versus Braintree and P2P benefiting transaction margin as well as it continued funding mix shift toward debit?

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

Sure, David. You pack in a lot in that question. So let me just -- I'll take them in a reverse order. We still are seeing elevated levels of debit and that's consistent with what others have shared across the ecosystem, although not as levels that we saw in 2Q, and likely driven by the impact of stimulus measures at that point in time.

Braintree continues to perform very well for us, but it really suffers the brunt of the impact from the travel and events verticals, which was down 50% for us and so that's a -- it's a pretty meaningful impact when you consider that's in excess of 10% of our volume.

But when you look at you know the areas of leverage for our business, so I think we'll continue to see strong core PayPal trends, PayPal volume and those tend to come in at a higher transaction margin by the same time we've seen record performance in transaction expense and transaction losses and those transaction expense will be impacted more by the mixes in our business, but we expect those will be below the levels that we entered this pandemic with, and we expect transaction losses to stay at these levels, though we're performing very well there.

But as you think about the remainder of our income statement, if you will, and all of the other sort of non-volume related expenses, we've invested a lot, obviously in the back half of last year and our guidance assumes that as well, but we also demonstrate the ability for our business to scale very efficiently.

So if you just -- we don't give expense guidance for the year, but you can back into it based upon our revenue and earnings growth and that expense growth that we're assuming in 2021 about 75% of that is related to investments we're making in the business, discretionary go-to-market initiatives, all of the things we're doing to help accelerate or continue these trends.

And so that leaves the remainder 25%, which is really just demonstrating the scalability of our model. And I'll end my question with one data point that I think is reflective of how successful that model is, and so, you know, David I often talked about the incremental margins in our business and meaningful for every dollar of revenue that we brought in the quarter, what was the profitability related to that. And in the fourth quarter, the organic incremental operating margin was 32% for PayPal.

So for every new dollar of revenue we're bringing in, it's got a higher margin on it than what's the rest of the business does. That's a model that we find very appealing, and one that we want to continue to keep our foot on the gas, and that's why that even in the year like 2021 when we have meaningful investment in our business, we can still at least guide to a point, where we're expecting modest operating margin expansion.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much. And congrats, John and Dan.

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

Thank you.

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

Thank you.

Operator

Your next question comes from the line of James Faucette of Morgan Stanley. Please go ahead.

Q - James Faucette {BIO 3580933 <GO>}

Hey, thank you very much and I'm really sorry I'm so clumsy with my phone. I wanted to ask John and Dan obviously time and where appropriate but you alluded and then mentioned specifically, John kind of your guidance and that kind of thing for this year. If we think back and just over the last few months even of the fourth quarter there has been just a huge amount of volatility and closures, and what consumers are doing, or could do or couldn't do et cetera. So, how are you trying to think about like all those puts and takes as you formulate your full year 2021 outlook today? And what are the things maybe that you've seen as we've gone through, particularly later few months of 2020 that kind of give you confidence in all right or forecasting methodology is pretty sound at least from where we stand right now?

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

Sure. James. Yeah, look, the revenue guide of 19% growth for the year, you know we sit here in February of 2021 and there is still uncertainty. There is uncertainty with the level of stimulus measures, the pace of the vaccine rollout. There are some things that we've seen that certainly give us a lot more confidence than where we stood nine months ago, sort of at the peak of the concern and trepidation that people had around what could happen to the economy and the impact on everyone's respective company.

Some of the trends that we're seeing and Dan talked about in his prepared remarks. They're definitely sustainable and there is this movement to digitization and the pull forward of e-commerce that certainly stands to benefit us and others in this space, but we provided a sort of an approximate number, right. We said approximately 19%. There is not a range around it like we normally do, because quite frankly that range would be somewhat artificial, or arbitrary. It's -- you know there are a wide range of outcomes that could happen, but we feel pretty good about what we see in the business, and I think it's important to note that we are a pretty diversified portfolio of products. And so we are not just reliant on one thing.

And I'll give one example, before I close my answer, but the travel and events were full. So I mentioned that in an earlier answer like our baseline assumption on that 19% revenue growth is that as people begin receiving vaccines there is pent-up demand for travel, people who want to take that summer vacation in 2020 that they missed.

And so we're assuming that we start to see a rebound in travel and events in the second quarter, and that certainly stands to benefit the Braintree side of our business, but other things aren't if that's not the case then likely there has been other concerns that result in people sort of lacking mobility that still stands to benefit us on the core PayPal business.

So you know it's -- and now it's 11 months out as that we're projecting here, but as we've move through this, we've gotten more confident with some of the trends that we're seeing, and feel really good about that.

Operator

Your next question will come from the line of Colin Sebastian of Baird. Please go ahead.

Q - Colin Sebastian {BIO 6373379 <GO>}

Great, thanks guys. Good afternoon, everyone. A lot of good stuff here, but hoping you could provide a little more color on the strategy to build out the presence in China? How you see the combination of GoPay and PayPal position from a competitive standpoint, both within the country as well as a cross-border perspective? Thanks very much.

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

Yeah, I'll take this. Thanks for the question, Colin. So obviously, we're really pleased that we now own 100% of GoPay and we're the first and so far the only foreign payments company to operate a full domestic payments business in China, and that obviously gives us a very strong legal foundation for the business we have there, and for the business that we intend to drive.

Very recently Deputy Governor, Pan from the PBOC an article in the Financial Times that was really kind of, it's clear statement of China's commitment to trying to strike the right balance between innovation along with prudent regulation. And that plays right into what we want to do inside the market. We really want to work with the regulators there on both of those objectives and assure that we've got both safe and secure digital commerce.

And we really have three goals over the next couple of years in China. So first, obviously is to make sure we invest to have the right compliant infrastructure inside China. The second is to really leverage all of our cross-border expertise, and that goes in two directions. First we want to significantly increase the amount of cross-border that Chinese merchants can get from the 350 million consumers we have outside of China, and we also want to work inside that Chinese consumers purchase from the 29 million merchants that we have outside of China. Both of those are already growing elements and we think that those can grow quite nicely in the years to come and it really plays into our strengths.

The third thing, though, is that we do want to work within the ecosystem inside of China with companies like China UnionPay, with the banks there with the tech platform companies there as well. To drive new types of payment services or incremental payment services inside the domestic market like that could be payouts, could be, you know, some unbranded full stack processing, it could be QR codes.

For instance, I'll just give you an example China is holding the Olympics in the next couple of years. There going to be a tremendous amount of visitors going into China, and we want our QR codes to be deployed, so that people coming into China, don't necessarily have to download WeChat Pay or Ant can use their PayPal wallet inside China to make purchases at merchants.

And I think there's a lot of ways that we can leverage our strength, the strength of our partners inside China and our strong regulatory relationship that we have right now to both grow cross border and then to start to slowly, but surely add incremental services into the domestic market as well.

Q - Colin Sebastian {BIO 6373379 <GO>}

Very helpful. Thanks again.

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

Yeah, you bet.

Operator

Your next question will come from the line of Dan Dolev of Mizuho. Please go ahead.

Q - Dan Dolev {BIO 16010277 <GO>}

Hey, thank you for -- a great quarter. A question for Dan really kind of looking into the long-term, it looks like PayPal is increasingly becoming sort of -- in my view the world's best super app, especially now that you're offering Bitcoin, QR, Buy Now, Pay Later and counting. Can you maybe talk a little bit, what you're seeing in terms of engagement that brings PayPal closer to becoming in everyday super app? Maybe touch on your broader engagement strategy given the 73 million account that you added in 2020? And what are your long-term digital wallet as you introduced tradition conditional functionality and services? Thank you.

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

Yeah. Dan, that's great question. It kind of goes at the heart of a lot of our strategy. And we're going to be talking a lot about that at our Investor Day next week as well. So, let me just very quickly say that we are seeing engagement levels already. I talked about it. If you normalize for Honey and all of the incremental net new actives that we brought in, that are bending our traditional curves. We've never really been above 9% or 10%, normalized at about 11.5% of growth. Our churn rates are down all of the new functionality that we've put into place whether that be crypto, whether that be Buy Now, Pay Later, the Venmo card, QR codes are adding to usage. They're adding incremental TPV. They're adding incremental transactions.

Ones that I didn't mention is that people who use the PayPal product in-store, and again these are early days on this, but those that are using it in-store we're seeing them 54 incremental transactions that are just in-store that don't displace the online, it's just -- it's basically doubling the number of transactions we have. And so as we start to build out our digital wallet really into the super app that transcends across payments, commerce and financial services, all of that on a common platform, all of that leveraging common data elements and machine learning on top of that to give next best recommendations.

I think we are going to see, as I mentioned in my opening remarks a real bend in the historic rate of engagement, and it's going to be all around that seem perhaps functionality and that digital wallet moving well beyond just payments.

So I think, Dan thank you for that, a great kind of closing question. And I want to thank everybody for your time today. And I really hope that all of you and your families are safe and healthy. And we are looking forward to speaking with all of you again next week at our Investor Day. So, thank you for your time, and everybody take care. Bye-bye.

Operator

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