

Company Name: Paypal Holdings Inc
 Company Ticker: PYPL US
 Date: 2017-01-26
 Event Description: Q4 2016 Earnings Call

Market Cap: 62,345.32
 Current PX: 51.90
 YTD Change(\$): +12.43
 YTD Change(%): +31.492

Bloomberg Estimates - EPS
 Current Quarter: 0.426
 Current Year: 1.783
 Bloomberg Estimates - Sales
 Current Quarter: 3092.229
 Current Year: 12708.175

Q4 2016 Earnings Call

Company Participants

- Gabrielle Rabinovitch
- Daniel H. Schulman
- John D. Rainey
- William J. Ready

Other Participants

- Tien-Tsin Huang
- Ashwin Shirvaikar
- Bryan C. Keane
- Lisa D. Ellis
- James Cakmak
- Scott Devitt
- Darrin Peller

MANAGEMENT DISCUSSION SECTION

Gabrielle Rabinovitch

Financial Measures

We will also discuss some non-GAAP measures in talking about our company's performance, including the non-GAAP pro forma metrics mentioned above

You can find a reconciliation of these non-GAAP metrics to the most directly comparable GAAP metrics in the presentation accompanying this conference call

Daniel H. Schulman

Business Highlights

I am pleased to report that PayPal ended 2016 with another solid quarter of financial results

I'm proud of all the accomplishments that the PayPal team delivered, yet in so many ways, we are just scratching the surface of the market opportunities in front of us

Business Transformation

- Payments are rapidly digitizing
- Mobile is redefining the face of retail
- And with the world-wide adoption of smartphones, consumers have all the power of a bank branch in the palm of their hand, which will, no doubt, transform the way they manage and move money

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- We believe all of these secular trends play into our strengths and leave us well-positioned to drive our future growth
- In the face of a noisy competitive market, we extended our industry leadership by growing our active account base by 18 million with greater engagement than ever before

New Innovations

- We introduced a host of new innovations across our merchant and consumer value propositions
- We took the clear lead in online conversion through One Touch
- We now offer a full suite of products and services to our merchants on an integrated platform that supports 100% share of processing contextual commerce API and toolsets, rewards integration, and credit
 - And we bring to our merchants an increasingly active and growing base of consumers who are ready to transact across online in-app and in-store environments

Strategic Partnerships

- In the past year, we significantly increased our market opportunity with a series of transformative strategic partnerships with the networks, financial institutions, tech companies, and mobile carriers
- We accomplished this by putting our customers first in everything we do
- We call this Being a Customer Champion, and this philosophy guides our every action
- At the end of a landmark year for PayPal, we feel well-positioned to deliver sustainable and profitable growth in 2017 and beyond

Financial Summary

- Let me start with a quick recap of our results
- To this, John will provide more details in his remarks
- As I mentioned, we delivered a solid fourth quarter
- We reported \$0.42 of non-GAAP EPS at the top-end of our non-GAAP guidance of \$0.40 to \$0.42
- We delivered \$2.981 billion in revenues, an increase of 19% on an FX-neutral basis
 - This is at the high-end of our guidance of 16% to 19% growth
- And we generated \$771 million in free cash flow
- For the full year, we delivered \$1.50 of non-GAAP EPS, which came in at the top of our initial full-year guidance of \$1.45 to \$1.50
- Our revenues grew 21% on a pro forma FX-neutral basis, above our initial 2016 guidance of 19%
 - And despite the increased size of our revenue base, we grew faster in 2016 than in 2015
- We ended the year at \$10.84 billion of revenue and we generated \$2.5 billion in free cash flow, well above the initial guidance we provided

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Customer Engagement

- Perhaps more importantly, the underlying drivers of our revenue growth saw a continued strong performance throughout 2016
- We ended the year with 197 million active customer accounts, adding 5.4 million new accounts in Q4, our highest organic total in two years
- Customer engagement in the fourth quarter increased to 31 transactions per active account, up from 27 transactions a year ago, and 30 transactions last quarter
- Our growth in Q4 came from across our global platform and we benefited from a notable shift in consumer behavior
- Holiday shoppers increasingly bought gifts online and with their mobile devices through convenient omni-channel shopping experiences
 - For PayPal, this helped drive a 25% increase in payment volume resulting in \$99.3 billion of payment volume in the quarter

Mobile Payments Growth

- According to Internet Retailer, Black Friday 2016 was the largest mobile shopping day in history
- Between Thanksgiving and Cyber Monday, PayPal processed more than \$2 billion in mobile payments, and mobile accounted for a third of our overall payment volume during the quarter
- Mobile is becoming an increasingly important competitive differentiator for PayPal
- More than half of our active account base transacted on the PayPal platform using their mobile device over the last 12 months
- The scale and reach of our platform clearly separates PayPal as one of the world's leading FinTech companies
- In 2016, we processed over 6 billion payments, an increase of 24%
 - This represented a total payment volume of \$354 billion flowing through the PayPal platform, of which more than \$100 billion was mobile payment volume, an increase of 55%
- We saw a strong growth in peer-to-peer payments, with P2P payment volume growing 57% to more than \$64 billion for the year

Business Wins

Braintree and Venmo

- Braintree ended the quarter with 428 million cards on file and PayPal has well over 1 billion financial instruments on file
- And Venmo was named one of Time Magazine's Best Apps of the Year and one of Fortune's 10 Breakthrough Brands
- In Q4, Venmo processed \$5.6 billion in payment volume, an increase of 126%
- In December, for the first time, Venmo passed the \$2 billion mark in monthly payment volume, further demonstrating its rapid growth

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- As you may recall, Venmo processed \$1 billion in monthly TPV for the first time just last January
- For the full year, Venmo processed \$17.6 billion, up 135%
- It's been several years since we expanded our mission to be more than a button on a website

Partner of Choice

- We have evolved to become the platform and payments partner of choice for merchants around the world as they move towards a multi-channel retail experience driven by the mobile phone
- For example, with Braintree's commerce infrastructure tools, we are creating simpler ways for merchants to offer contextual commerce experiences that transform the way consumers shop and pay
- Braintree's Forward API lets merchants securely share payment data with other sites and apps, allowing customers to purchase from multiple merchants in a single convenient and secure experience
- This capability was initially deployed to support's Pinterest Buyable Pins and is now being used by merchants across the world, including global travel site, Skyscanner and by Yelp for their new product Yelp Cash Back

One Touch

- One Touch has a redefined online checkout
- Simply put, it produces by far and away the best conversion rate in the payments industry by making it faster and simpler for customers to pay with a single tap
- Its adoption has well exceeded our projections
- We ended the year with over 5 million merchants offering One Touch to more than 40 million consumers
- PayPal has the unique distinction and the corresponding benefit of having a deep and trusted relationship with almost 200 million merchant and consumer accounts through our two-sided network
- This means, we can deliver new payment experiences like One Touch with the speed and impact that is truly differentiated

Partnership with eBay

- eBay and PayPal have always enjoyed a close partnership
- eBay's CEO, Devin Wenig, and I are committed to further strengthening what is already a strong relationship
- We are working closely to create better payment experiences for their buyers and sellers
 - For example, our team's collaborated this past year a new customized checkout experiences that helped to reduce cart abandonment, increased loyalty, and help buyers seamlessly transact on eBay's platform
- As we look to 2017, we see even greater opportunities to work together

Major Brands

- In the quarter, we were also proud to welcome several great brands to our platform
- These include otto.de, the second-largest retailer in Europe; Crate and Barrel, which now offers PayPal as a payment option on its web and mobile sites and on the CB2 and Land of Nod sites for their global customers

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- Squarespace, an all-in-one website publishing and commerce platform, now lets its more than one million paid subscribers seamlessly integrate PayPal into their online stores
- To give you an idea of the demand for PayPal, within the first 24 hours of launching, we saw hundreds of Squarespace merchants integrate into PayPal and that demand continues
- Finally consumers can now create a campaign on GoFundMe on behalf of their favorite charity
 - By doing so, they take advantage of the PayPal Giving Fund's ability to receive and process donations and avoid the complexity of having to handle the funds themselves

Strategic Partnership Agreements

- Last year highlighted our commitment to putting our customers front and center
- That led to our decision to offer greater customer choice in our payments experiences
 - This, in turn, has recast the competitive landscape for PayPal and enables landmark partnerships and alliances that continue to expand and extend our opportunity for growth
- These partnerships are focused on giving consumers the freedom and flexibility to use PayPal anywhere they want; in stores, in apps, online, in a new context with a consistent, convenient, and secure experience

Agreements with Citi and FIS

- Following the announcements of our strategic partnership with Visa on our Q2 earnings call and MasterCard in Q3, in the fourth quarter we announced our first partnership agreements with financial institutions
- These include agreements with Citi, the largest global credit card issuer, and Fidelity National Information Services known as FIS, which represents thousands of financial institutions
- This is just the beginning, as our conversations with almost all leading financial service players are warm and welcoming

Discover Financial Services

- Earlier this month, we announced the strategic agreement with Discover Financial Services
- This partnership allows the PayPal Wallet to be closely linked to Discover cardholders, acquirers, and merchants
 - It will allow PayPal customers who linked their Discover cards to purchase online, in app and in store at contactless-enabled merchants in the US
- And in a first for us, PayPal customers will be able to use their Discover Cashback Bonus to pay for purchases at the millions of online and mobile merchants that accept PayPal
- We expect that Reward Points will become an easy, convenient, and alternative funding source for customers of PayPal and our financial institution partners to pay for online and mobile shopping through the PayPal platform

Intuit Partnership

- As mobile and digital payments continue to provide new opportunities to bring consumers and companies closer together, we are partnering with other market leaders across a variety of industries

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- In the fourth quarter, we entered into an extended partnerships with cellular carriers, software providers, and leading consumer brands
- One prominent example of this is the global partnership agreement we announced with Intuit
 - Building on successful regional agreements, we are now deploying our Express Checkout in more than 1.5 million QuickBooks small businesses and self-employed customers worldwide
- The PayPal and Intuit partnership gives business owners simpler and faster ways to accept invoice payments and significantly accelerate the speed with which they can collect funds
- Based on our rollout in Australia, we found that merchants who offered PayPal payments in their QuickBooks invoices were paid two-times faster than it took to get paid without PayPal
- This meaningful improvement in cash flow is crucial for the SMB market
- We are proud to bring this benefit to Intuit's customers

Other Partnerships

- Our partnerships with Facebook, Google, América Móvil, Vodafone, AliExpress and other financial institutions and major retailers continue to grow as our platform and capabilities expand

Business Summary

2016 was a transformative year for PayPal

Our separation from eBay afforded us an opportunity to define a unique, meaningful, and expansive mission for our company

I believe our expanded focus and value proposition allowed us to widen the distance from our competitors

- We upgraded our platform
- Invested significantly in our global compliance capabilities
- Improved our developer toolsets
- And drove our scale and engagement through a unique and enhanced value proposition

We are inspired and focused on the opportunities in front of us and we look forward to providing ever more value to our customers and our shareholders

New Management Appointment

- Before I conclude my remarks, I'd like to just take this opportunity to publicly welcome the newest member of PayPal's board, Belinda Johnson
- Belinda has built an impressive track record at Airbnb
- She has been a key architect in their growth and has helped to chart new business approaches and innovative customer experiences
- She has already proven to be a great addition to our board and we look forward to her valuable contributions

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John D. Rainey

Recognition

I also want to thank all of PayPal's customers and our employees worldwide for making 2016 a great year

Since our founding in 1998, this is the first full year that PayPal has been an independent public company and we achieved many significant milestones that set us up for success for many years to come

We are strategically positioned to deliver sustainable and profitable growth

Our comprehensive partnership strategy and focus on mobile-first product innovations puts our customers at the center of everything we do while giving us access to multiple developing channels across the digital payments ecosystem

FY2016 Financial Results

Revenue EPS and Cash Flow

- Before I go into details on the quarter, I'd like to provide a few highlights for the full year
- Revenue for the year was \$10.84 billion, growing 21% on a pro forma currency-neutral basis
- Non-GAAP EPS grew 17% on a pro forma basis to \$1.50
- Free cash flow grew 36% to \$2.5 billion and in the year we returned \$1 billion to shareholders

Payment Volume

- For the fourth quarter, total payment volume was \$99 billion, up 25% on a currency-neutral basis
 - Excluding the year-over-year impact of Xoom, currency-neutral TPV growth would have been similar to the third quarter
- In Q4, U.S. payment volume grew 23% and international volume grew 27%
- Our Merchant Services volume grew 30% on a currency-neutral basis to \$84 billion
 - Merchant Services now represents approximately 84% of our total volume with our eBay volume representing approximately 16%

Active Accounts Growth

- In the fourth quarter, we added more than 5 million active accounts, ending the year with 197 million active accounts and representing growth of 10% from Q4 last year
- Active account growth was driven by our PayPal core business as well as Venmo
- The number of payment transactions per active account increased to 31, up 13%
- Each quarter since separation, we have seen double-digit growth in both active accounts and engagement
 - Growth in these two metrics resulted in a 23% year-over-year increase in payment transactions to 1.8 billion

Revenue Contributors

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- In the fourth quarter, we generated revenue of approximately \$3 billion, representing growth of 19% on a currency neutral basis and 17% on a spot basis
- Transaction revenue increased 18% on a currency-neutral basis in the quarter, driven by our core PayPal and Braintree businesses, both of which continue to perform very well
 - Included in transaction revenue were hedge gains of \$50 million in the quarter
- In addition, revenue from other value-added services grew 26% on a currency neutral basis, driven predominantly by credit

Take Rate

- For Q4, our total take rate was 3% and our transaction take rate was 2.63%
- As we move through 2016, we saw diminishing pressure on transaction take rate
- The decline in transaction take rate has improved for each of the last three quarters
 - And in Q4, the rate of decline on a year-over-year basis was the lowest since separation
- The primary factor contributing to the year-over-year decline in take rate is the performance of our P2P business, a strong growth from Venmo and core P2P continue to impact the rate
 - While they contribute to the year-over-year change in take rate, they also strengthen our value proposition and support higher levels of engagement across our consumer base
- Our fourth quarter results demonstrate that we can invest in our long-term growth opportunities while managing the take rate decline

Transaction Margin

- Transaction margin in the fourth quarter was 57.7%
- Our volume-based expenses were up 27% in the quarter
- Transaction expense was \$954 million, up 27% driven by funding mix
 - To-date, the impact of our consumer choice initiatives has been well within the range of outcomes we previously contemplated
- Transaction loss in the quarter was \$184 million or 6% of revenue

Loan Losses

- Loan losses in the quarter were \$123 million
- The consumer net charge-off rate was 7% in Q4 and 6.4% for the full year
- The overall performance of our credit products in Q4 was consistent with our expectations entering the quarter

Gross Receivables Balance

- Across consumer and merchant credit, we ended the year with a gross receivables balance of \$5.7 billion and a total reserve of \$336 million

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- This year, we increased the reserve to reflect the growth in our loan portfolio as well as our loss experience and later-stage delinquency buckets

Other Operating Expenses

- Other operating expenses increased 7%, the lowest rate of growth since separation, driven by strong expense discipline
- Excluding Xoom, other operating expenses only increased 6%
- We completely offset the decline in transaction margin with leverage from other operating expenses
- Looking forward, we see disciplined cost performance across every area of our business
- We are in the early stages of a journey that we expect will transform our business into one that scales more efficiently and we are encouraged that we are already seeing results

Q4 Financial Accomplishments

In the fourth quarter, non-GAAP operating margin was 20.8%, consistent with last year

Non-GAAP operating income grew 16% year-over-year to \$619 million, resulting in non-GAAP EPS of \$0.42 in the quarter

Capital expenditures were \$152 million or 5% of revenue

In addition, we generated \$771 million of free cash flow in the quarter, up 37% year-over-year and representing \$0.26 of free cash flow for every \$1 of revenue

For the full year, we returned \$1 billion to shareholders and we ended the year with cash, cash equivalents, and investments of \$6.5 billion, including approximately \$1.5 billion in the U.S

FY2017 Guidance

Revenue

- Now I'd like to discuss our guidance for 2017 as well as provide context for our priorities and expectations for the year ahead
- For the full year 2017, we expect revenue between \$12.45 billion and \$12.65 billion, representing currency-neutral growth of 17% to 19%
 - We are pleased to be raising this outlook relative to the guide we provided in October because of the momentum we are seeing across our business and initiatives

FX Impact

- At the same time, since we last spoke with you, we've seen the currency markets move against us with the further strengthening of the U.S. dollar
- This November, we've seen pressure from several of the currencies to which we have exposure
- Notably, the euro and the Australian dollar have weakened by 5% and 7%, respectively
 - This is on top of the already sharp decline we saw in the pound last year

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- We are a global company operating in more than 200 markets with close to 50% of our revenue and a greater mix of our earnings coming from outside the U.S
- Our hedging program is designed to reduce earnings volatility and we hedge a select basket of currencies to which we have the greatest earnings exposure
- Given the timing of how we build our hedge positions, and recent movements across a broad range of currencies that affect our business, we expect FX headwinds throughout the year
 - We anticipate a greater impact in the first half and we'll continue to update you on our currency exposure as we move through the year
- At current exchange rates for the full year, we expect currency translation to impact revenue by approximately 200 basis points, resulting in spot growth of 15% to 17%

Operating Margin

- We expect our non-GAAP operating margin in 2017 to be flat to slightly up for approximately 20%
- Given that many of our initiatives ramped throughout the year, we expect to deliver greater operating income growth in the second half relative to the first

Tax Rate and EPS

- We anticipate our non-GAAP effective tax rate to be between 18% and 19%
 - And we expect non-GAAP EPS to be between \$1.69 and \$1.74

Cash Flow

- Our business continues to generate significant free cash flow
- For 2017, we anticipate free cash flow to exceed \$2.7 billion including CapEx of approximately 5% of revenue

Closing Remarks

Q1 Earnings Guidance

- For the first quarter, we expect revenue to be between \$2.9 billion and \$2.95 billion
 - And we expect non-GAAP EPS to be between \$0.40 and \$0.42

Capital Allocation Strategy

- Now I'd like to spend a moment talking about capital allocation
- We take a disciplined approach to how we deploy cash flow and continue to pursue a capital allocation strategy balancing organic investment, M&A, and returning capital to shareholders
- As we discussed last quarter, we are assessing a more asset light strategy for our credit business
 - While it's too early to provide additional detail, moving more of our credit receivables off balance sheet and potentially further partnering on the origination side, would free up cash and give us additional flexibility

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- In addition, our guidance includes an initial \$500 million in share repurchases for 2017 and we will continue to be opportunistic as it relates to our buyback program
- We will keep a close eye on the evolving landscape for taxes and repatriation, and evaluate how that may alter or enhance our capital allocation going forward
- We are committed to allocating capital in a manner to maximize returns and increase shareholder value

Outlook

- In closing, 2016 was a great first year for PayPal as a separate public company
- As we move through 2017, we are focused on delivering increased shareholder value with our growth strategies

QUESTION AND ANSWER SECTION

<Q - Tien-Tsin Huang>: Just – maybe can you be a little bit more specific to what’s driving the upside to your fiscal 2017 guidance versus the outlook you provided last quarter and is there any material contribution from customer choice, for example, in your guidance? Thanks.

<A - Daniel H. Schulman>: You’re talking about the increase in our revenue guide?

<Q - Tien-Tsin Huang>: Correct. Versus what you gave last quarter for fiscal 2017.

<A - Daniel H. Schulman>: Yeah, yeah. So, we’re taking up our revenue guide on an FX-neutral basis, and the reason we’re doing that is there is a tremendous amount of secular tailwinds that we’re seeing right now. As I mentioned in my remarks, seeing money digitizing there’s a big move to mobile, there’s a big move to really online payments and then pickup in stores or commerce is really just becoming commerce.

I mean, a great example of that is this was the best retail holiday season in five years that you saw, so in-store sales actually drop and online move up to almost 17%, 18% or so. And so, as we look at these secular tailwinds behind us and look at the performance of things like One Touch and it’s clear advantage that we have now in mobile and the scale we have, the increased engagement we’re seeing, new market opportunities, frankly, internationally that we’re beginning to see and have a platform now that we can extend to many more markets.

Venmo, we see the beginning of monetization as we come into this year, and we’ll see in the back half of the year the beginnings of some in-store volumes based on tokenization and our partnerships with both the networks and financial institutions, and then we’ve got a tremendous number of new partnerships whether it be with Facebook or Intuit or FIs, really around the world right now and that is growing exponentially since we’ve announced our network agreements.

So there are a host of reasons right now that our confidence has improved in terms of our top-line growth rate. And by the way, that’s also lapping \$200 million of Xoom. So think about that as well as you should think about kind of the revenue guide that we gave. So we think there are good growth prospects ahead of us. We’re very focused on those opportunities and felt comfortable with that guide. John or Bill, anything?

<Q - Ashwin Shirvaikar>: So a question on transaction loan – transaction and loss expense growth, can you disaggregate that into transaction growth, to the loan loss growth I might have missed that? In view of the other expense leverage you’re getting, can you provide details on what sort of actions that are leading to this and the sustainability of those actions?

<A - John D. Rainey>: Yeah. Ashwin, you cut out a little bit on the first part of your question. I’ll answer what I think you asked are related to the transaction and loan losses. But I think I wanted to take the second part first, because that’s I think the big story.

I think the context probably worth repeating that we completely offset the transaction margin decline with the operating leverage that we have in the business. And it’s not just one area of the business; it’s really across the board.

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It's probably hard to parse through our P&L and identify that because there is noise related to the year-over-year comparisons from separation. But this really covers every aspect of what we do.

And what I would encourage you to think about this is, it's not a one-time cost take-out opportunity. We are rewiring the way that we work and we do business in a manner so that we can grow and scale at the rate that we've identified, but do it in a very efficient way. And so whether it's where our real estate footprint is or where we – how we buy things, how we market to customers even getting down to the very product development aspects of our business, we do it in a way where we can rollout products in a much grander fashion rather than doing it in sort of a spoke product rollout one country at a time.

It's changing the way that we operate. And this is not easy work to be clear. This is requiring us to really step back and re-examine ourselves. But I think you probably quickly see that that cost performance is expected to continue when you look at our guidance in 2017. That enables us to keep our operating margin flat to growing.

With respect to the transaction expense and transaction loan losses growing, we did see an uptick in transaction expense on a unit basis by four basis points or five basis points during the quarter and that's really related to the mix of our business. It's a continuation of what you have seen in other quarters as some parts of our business are growing faster than others that may carry higher transaction expense.

<Q - Bryan C. Keane>: Just want to ask on the move to an asset-light strategy, how could you guys potentially limit the EPS dilution hit from a move like that?

And then secondly, John, just on the hedge gains, just curious if there's a number we can get for the quarter and what's in the expectation for hedge gains in fiscal year 2017? Thanks so much.

<A - Daniel H. Schulman>: Bryan, its Dan. I'll take the first part of that and then I'll wisely let John take the next part of it. So, let me just back up a little bit. As you know and everyone on the call knows, credit is and will continue to be an important flywheel for us.

Credit gives a flexible payment option to both our merchants and our consumers. It reduces cart abandonment. It increases basket size for our merchants and our consumers. When somebody uses credit, they do two times the spend on our PayPal network than somebody who doesn't. When we do PayPal working capital, on average those that we lend to, they see their sales go up 20%-plus. And so it's a tremendous flywheel for us. It's a small part of our business. And it's likely to remain so as well. We don't need to chase growth here. We can be very responsible in who we lend to and how much we lend to them. And we have great amounts of data and really I think world-class modeling around this.

That said, there is no reason really to use our balance sheet for the receivables and there are, as we've mentioned before, a lot of benefits of asset-light. Obviously, we tie up a lot of our free cash flow in the receivables with free cash flow for other capital allocation that we might do. We have reduced exposure. We still have a differentiated proposition we would use our data and our modeling with a partner to bring back a differentiated proposition into our base and there are very attractive economics to share.

And as we've seen right now from people who are very interested in partnering with us, our portfolio is very attractive. The size of our base that doesn't have credit and the ability to expand that is very attractive and the risk in modeling capabilities we have are also very attractive.

And so, there are a lot of economics here to share and we believe that we can significantly reduce our risk exposure, but maintain strong economics for our business. That is our working hypothesis as we're going through this.

We're in the early process of looking through this right now. It is a very competitive process out there as people look to potentially partner with us. We'll look to make a decision as we digest and sort through all of the different proposals that we're seeing.

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That said, it's very much likely to be, if we go and how we do this exactly would be a back half of 2017 event. But clearly, there's a lot of demand. There are a lot of benefits for us moving towards asset-light and we think, as I mentioned, you reduce risk and maintain strong economics for the business.

<A - John D. Rainey>: And, Bryan, with respect to hedges, I had said in my prepared remarks that we expect about 200 basis points of headwind in 2017 from foreign currency. That's actually net of the hedge position that we have. So, just a little more detail on that. In the quarter, fourth quarter, we had a \$50 million hedge gain and you'll see in our K that's released here in the next couple of weeks that we had about \$120 million of hedge gains for the year. And based upon the current position today that's about – and where markets are today, that's about where we're expecting for 2017.

I think maybe [ph] if there's just been (41:25) a moment to talk about our exposure because, as you know, more of our customers are international than here in the U.S., so a significant portion of our business is outside of the U.S. Just to use round numbers, as we have said before, half of our revenue is outside of the U.S. and on a 12-ish billion dollar base, that's \$6 billion.

Of that \$6 billion, about three quarters of it is denominated in currencies other than the U.S. dollar or that aren't tied to the U.S. dollar. And so, that gives us about \$4 billion of the basket that we're exposed to. So you can do quick math and recognize that a 1% change in the U.S. dollar relative to the basket of currencies on a revenue basis for us is about \$40 million annually.

So we're pretty sensitive to those movements, which is why we hedge the way that we do. We do hedge, though, to mitigate earnings volatility, not necessarily revenue. So if you work your way down from that \$40 million for of a 1% change and you take the transaction margin on that, and then you overlay the operating expenses that we have, that are denominated in other currencies as well as the hedge, than the impact to operating income is much less than that. And then as you'll see when we release our K, we were able to mute a lot of the impact of the currency movements in 2016 with that hedge position.

<Q - Lisa D. Ellis>: You did not, I don't think, call out in your prepared remarks any metrics around Braintree. I think historically you've said that Braintree was running at more than 100% volume growth year-on-year. Is that somewhat of what you're seeing now? And then also just can you comment on the transaction expense uptick you've seen in 2016, which I think is also been driven a bit by Braintree and just what the outlook is for both of those looking out into 2017?

<A - John D. Rainey>: Sure. I'll start and allow Bill to jump in if he chooses. We continue to see great performance out of the Braintree part of our platform. And in particular it's probably worth noting as we look at sequentially the year-over-year change in the third quarter compared to the year-over-year change in the fourth quarter, I highlighted in my prepared remarks that some of that was a result of Xoom lapping that.

But at the same point in time, in the fourth quarter of last year – of 2015 rather, it was a quarter where we had exceptionally large growth for Braintree, which presented a more difficult comp. All that said, Braintree is still growing very much in line with our expectations, it continues to be a great and complementary part of our platform.

And as I cited in my earlier response to Ashwin, part of the uptick in transaction expense is related to the mix of our portfolios, specifically Braintree tends to be more card-based and as we've seen that growth, that affected the transaction expense for the fourth quarter.

<A - William J. Ready>: Yeah. And this is Bill. I would just add to that that not only the Braintree business itself is doing well, the v.zero API that really brings together the 100% share of checkout of the Braintree processes as well as PayPal's best experience including PayPal One Touch and PayPal Credit, all those things, we're seeing that really become the preferred way that merchants integrate to PayPal and get access to the full breadth of our experiences. It's a big part of our mobile-first strategy and a big part of what's driving PayPal's presence in many of the most interesting new commerce experiences out there.

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So, you heard us talk about what we're doing [ph] with our (45:27) Pinterest buy buttons, Facebook Messenger having commerce experiences for companies like Uber and others. Those things are all running through our Braintree platforms.

So we are seeing the strategy of Braintree and 100% share of checkout not only driving great growth for our business but getting our best experiences out there to more merchants, the really interesting merchants really just a commerce experiences and available to our consumers as they encounter those new commerce experiences. So we've been quite pleased with that and see that momentum continue to build in terms of Braintree are the key enabler for many of the most interesting commerce experiences out there.

<Q - James Cakmak>: Just two quick ones. Just on the regulatory environment, anything you can provide on how you're thinking about it this year look as you look at Durbin, CFPB, so forth. And then just on mobile, I know it's up 53% this quarter and we saw the step-up in 2016 versus 2015. I guess as we anniversary One Touch and I guess Xoom next year, what's the magnitude of the step-down that we should expect? Thanks a lot

<A - Daniel H. Schulman>: Let me try and jump on those, so two questions in that and they are both good questions. So let me start with the mobile and then I'll go into the impact of some regulatory and change of administrations.

Mobile. Mobile is driving growth in the industry right now. I mean, more than half of the sales that are going online are being driven by mobile. Mobile is blurring lines of distinction between in-store environment and online environment, it's really commerce is just becoming commerce. And truthfully, mobile is the biggest competitive differentiator for us.

If you think about mobile, the real problem that merchants have with mobile is that when a browser begins the shopping experience on mobile between 65% and 74% of the time there's cart abandonment, because it's such a small screen, it's difficult to put all the payment information in there, et cetera.

But with One Touch, we have 87% conversion on mobile. 87%. The next closest is 51%. The industry average is like 44%. So we're like almost double the industry average in terms of the mobile experience that we see and mobile is exploding across the world as well as I mentioned in terms of why didn't we take up our revenue guidance, pick it up, because we see opportunity across the world and that's predominantly driven by mobile. So I expect mobile to continue to fuel our growth.

Remember one other thing I said in my remarks, with over half of our active base is on mobile payment transactions via the PayPal platform in the last 12 months. Over \$100 billion in volume, up 55% for the year. So, expect that – not particular what the growth rate will be one way or another, but mobile is going to be a strong driver of growth and it's a big differentiator for us.

<A - William J. Ready>: Only thing I would add to that is just – because you were talking a little bit about the lapping effect on some of that. What we've done with PayPal One Touch we've demonstrated that we can roll that out to millions of merchants and millions of consumers without them having to make changes.

And so, PayPal One Touch is the first in many iterations and that's a real competitive advantage for us that as others in the industry are out there trying to convince merchants to integrate a new experience and things like that, we're just showing up and solving the problem for them without them having to do work.

So, as you think about playing that forward, we expect as many iterations of us continuing to improve mobile experience and, uniquely, we can do that without merchants having to do work on their end, because we control the frontend experience.

So as Dan was commenting that we expect that to continue forward because of the secular trends. We also think we have a better ability than just about anybody else in the industry to continue to iterate and improve on those experiences because we can push out multiple releases a day that upgrade those experiences, whereas others have cycles that would be many, many months long because merchants have to make changes on their end.

<A - Daniel H. Schulman>: Good point. Let me talk a little bit about the change in administration and how we think about it in terms of impacting our business. I'll start off, of course, it's incredibly early days and there's a lot of talk

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about different things, but we've yet to see specifics around that. So, let's just talk about a couple of them because I know they're on your mind.

From a regulatory perspective, obviously, people are talking about changes in Dodd-Frank, changes in potentially how the CFPB is managed. Look, the first and most important thing is we are completely focused on being compliant with any and all regulatory environments that are out there. We believe that what regulators want, what we want are completely aligned and we are investing a tremendous amount of resource. But from a development of platform, human resource perspective, to assure that we are as compliant as we possibly can be regardless about the regulatory environment shifts. That's not just here in the US. It's obviously across the world.

Second, within Dodd-Frank, a lot of people talk about Durbin. We feel Durbin is very unlikely to be overturned. First of all, it's bad for merchants, it's bad for small business, not good for consumers. The only people who benefit are big banks from that and there's a big lobby of people that we think fight very hard for Durbin. It needs 60 votes in the Senate to be overturned. This is not a lightning rod issue for Democrats or Republicans and so we think it is very unlikely given everything else that's going on that Durbin is overturned.

We also point out, as John mentioned, the great deal of our business is overseas not impacted by Durbin at all. The impact, even if it was overturned, is probably a lot smaller than you might imagine and we work our way through that. So, again, I think it's very unlikely to be overturned.

Tax is something people talk about. We obviously have a lot of our business that is overseas. I think, net-net, it's still very early days. We probably see a small net benefit in some of the [ph] Brady (52:44) or other things that have been going around in terms of tax changes but maybe a little bit less than others might see given our current tax environment.

If we're allowed to repatriate funds from offshore in a more tax efficient manner, that might make a big difference in the way we think about capital allocation. And so we think that would be a big net positive.

There's a lot of talk about protectionism, a large percentage of our cross-border trade happens outside the U.S. It's not impacted by any of this at all. Our average selling price is \$60. Think about that.

Tariffs only apply to goods and services over \$800. So most of this is not going to apply to what we do on a day in and day out basis. And in a rising interest rate environment, that's a net benefit to our revenue and our net income if we see that happen.

So all-in, there's likely a good net positive impact to our business based on the change in the administration. But again, very early days. We'll see how it plays out and then we'll report out to you as we learn more.

<Q - Scott Devitt>: A question first on One Touch. And I was just wondering if you could provide any more detail about adoption within the 40 million consumer accounts in terms of maybe the penetration of addressable TPV that are actually using that product that have adopted into – opted into One Touch?

And then secondly, what the friction points are of growing that penetration rate from here against the other 150 accounts that haven't yet adopted the product? Thank you.

<A - William J. Ready>: Yeah, so we have 40 million of our approximately 200 million users that are on One Touch already. And that's happened really in the course of just over a year. So the adoption there is more rapid than anything PayPal has ever put out. And we see that adoption continuing. So, we think there's a lot more left there in terms of the 40 million that have opted into it versus the nearly 200 million total users that we have.

Same on the merchant side where we have more than half of the Internet Retailer 500 accepting One Touch and approximately five million of our 15 million merchants accepting it. But we have more growth left in that as well and we're working through those pretty rapidly, so all of that to say we think there's great momentum with One Touch, but we think that continues as we make that available to more of our merchants and as more consumers get exposed to it.

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As Dan mentioned in his remarks, more than half of our active users have engaged in a mobile transaction with us. And so we know there is going to be good demand for that as more and more users get exposed to it.

<Q - **Scott Devitt**>: And if I could follow-up just on – I'm sorry, Dan, did you have a comment on that?

<A - **Daniel H. Schulman**>: No, I'll listen to your thing and then [indiscernible] (55:48).

<Q - **Scott Devitt**>: Okay. It was just on a different topic, so feel free to expand on that. But we're just wondering, John, if there is some indication in the market in terms of that you didn't reiterate the three-year guide and my assumption is it's not something you're going to be doing every quarter, you raised 2017. If you could just kind of address that, that would be great. Thanks.

<A - **John D. Rainey**>: Sure. And you're exactly correct, Scott, we're not going to get in the habit of updating three-year guide every quarter. We have no change to the guidance that we provided previously last quarter.

<Q - **Darrin Peller**>: Can you just touch on what's included in your guidance with regard to Venmo monetization or pricing from it? And then just also on the margin side, it seems your guidance were flat to improving margins is actually despite the headwinds on FX hedges you called in Xoom. So what would that have been if you were to back those items out? And then maybe also stock comp, I mean, it's also impacted margins. Can you give us some more color on the driving force behind the increase there? Thanks a lot guys. Nice job.

<A - **Daniel H. Schulman**>: Yeah. So I'll start off a little bit and then maybe you can jump in. So I'd say in terms of Venmo monetization, pricing, very little actually built into our guidance for 2017. We fully intend to rollout Venmo – Pay with Venmo in a much broader basis in 2017 and we'll see some impact in that. But really the big impact on that happens in 2018 and 2019. And so, just so you had in it – and that's – when we talk about feeling well-positioned for profitable growth in 2017 and beyond, it's because what we're seeing right now are things that we clearly see here and now, and we've got a ton of things that we think we can monetize and fully intend to go do. But let's model them in more – in the 2018 timeframe than here and so not much is built into that.

Nor as much built into the customer choice piece of it. Although I will say we're pretty encouraged by the initial results that we're seeing on Choice. We rolled out Choice through all of North America right now on the servicing piece of Choice as well as the onboarding of that. We are just beginning in checkout right now.

But as John mentioned in his remarks, from a cost perspective, it's well within our expectations in terms of transaction expense and in engagement, it's better than we expected in terms of engagement, which by the way it's not really surprising.

If you give somebody the choice to pay, they become more engaged. The average price that they pay or the basket size that they have goes up as well. These are not surprising.

We anticipate it, but it's nice to see those things starting to really happen in the market. But I have a ton of that built into our guidance as well that to me is more of a 2018, 2019 phenomenon.

<A - **John D. Rainey**>: And just a couple points on hedge and stock comp. If we look at hedge and currency impact in total in the fourth quarter, it had a rather immaterial impact on our overall results. When you consider the offset that we had from other operating – or from operating expenses denominated in foreign currency as well. So it wasn't a big driver.

With respect to stock comp, we had \$127 million of share-based compensation in the quarter and that was relative to \$90 million last year. I think it's important to point out that a couple things related to that.

One, when we separated from eBay, we basically did a lift and shift with respect to our compensation programs. And we changed that in 2016 to make those compensation programs appropriate for PayPal.

And as part of that, we change the vesting period related to our long-term compensation from four years previously to now three years. That element combined with just the natural increase in employees, resulted in almost the entirety of that change year-over-year.

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I will say that we're a big believer in share-based compensation for our employees. We think it aligns their motivations with that of our shareholders, which we would all agree is a very good thing. And if you look broadly across the industry set and our comparables, and you look at virtually any measure take share-based compensation as a percent of revenue, for example, we are in the lower quartile. The better quartile related to our peer group. And there's various other ways you can look at that. We compare very favorably in all of them.

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