

Company Name: PayPal
 Company Ticker: PYPL US
 Date: 2019-01-30
 Event Description: Q4 2018 Earnings Call

Market Cap: 108,501.08
 Current PX: 92.42
 YTD Change(\$): +8.33
 YTD Change(%): +9.906

Bloomberg Estimates - EPS
 Current Quarter: 0.677
 Current Year: 2.882
 Bloomberg Estimates - Sales
 Current Quarter: 4147.065
 Current Year: 17999.093

Q4 2018 Earnings Call

Company Participants

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

Other Participants

- Tien-Tsin Huang
- Darrin Peller
- James E. Faucette
- Heath Terry
- Lisa Ellis
- George Mihalos

MANAGEMENT DISCUSSION SECTION

Gabrielle Scheibe Rabinovitch

GAAP and Non-GAAP Financial Measures

We will discuss some non-GAAP measures in talking about our company's performance

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

Daniel H. Schulman

Q4 Highlights

Growth and Transformation

- I'm pleased to report that PayPal had another strong quarter ending 2018 with a record-breaking growth across a number of key customer and financial metrics
- Our transformation into an open digital payments platform is clearly resonating with our customers
- PayPal continues to benefit from increasing tailwinds, as cash continues to digitize and more and more aspects of our lives move to mobile
 - Our ability to leverage these trends is reflected in both our current results and our forward-looking guidance for 2019

Revenue Growth and New Strategic Relationships

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- In 2018 we set new benchmarks in terms of spot revenue growth, net new active accounts and engagement across our platform
- We developed industry-defining products, acquired leading-edge capabilities, strengthened existing partnerships, and entered into new strategic relationships with some of the biggest and most influential global brands in technology, retail, and finance

Operating System

- We aspire to be the de facto operating system for mobile and digital commerce around the world, creating value for all of our partners and customers across the entire payments ecosystem and each year we make substantial progress towards that goal

Revenues, Sales and FX-Neutral Basis

- Let's start with our numbers
- In 2018, we delivered \$15.45B in revenue, up 18% on a spot basis and FX-neutral basis or 21% normalizing for the sale of our U.S. consumer credit receivables
 - That represents our highest annual spot revenue growth rate since separation
- Revenues in 2018 associated with eBay grew 4%, while Merchant Services grew 22%, more than five times that of eBay
- In Q4, we generated \$4.23B of revenue, growing 14% or 21% normalized
 - This is the first time in our history that we surpassed \$4B of revenue in a single quarter and we achieved this milestone despite strong headwinds from slower-than-expected eBay volume growth and greater-than-forecasted FX pressures

Payment Volume and TPV

- For 2018, our overall payment volume grew 26% on a currency-neutral basis to \$578B.
- We processed just shy of 10B transactions in the year
- For the quarter, our TPV, excluding eBay, grew 29% on an FX-neutral basis, significantly outpacing the market as we continue to gain share
 - In the quarter, eBay had zero growth in its volume and it exits 2018, representing just 10% of our overall TPV, down 300BPS y-over-y

OpEx and EPS

- Our strong revenue growth and disciplined OpEx spend combined to drive a 28% y-over-y increase in 2018 non-GAAP EPS of \$2.42
- In Q4, we delivered \$0.69 of non-GAAP EPS, up 26%
 - As we mentioned last quarter, we invested some of our below-the-line EPS benefits to drive customer acquisition and that clearly paid off

Net New Active Accounts and Customer Engagement

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- One of the clear highlights of Q4 is our net new active number
- We added a record 13.8mm net new active accounts to our platform, up 58% y-over-y
- Approximately 2.9mm of these net new actives came from our acquisitions, with almost 11mm net new actives driven organically, the best quarterly organic net new active number in PayPal's history
- We added 39mm net new actives for the year, another all-time record for us
- We now have 267mm active accounts on our platform, with approximately 246mm consumers shopping at more than 21mm merchants
 - We are targeting more than 300mm active accounts on our platform by the end of 2019
- Even with this acceleration in net new actives, we continue to grow our customer engagement
- Engagement grew by 9% to almost 37 transactions per active account
 - This drove \$164B in TPV in the quarter, up 25% on an FX-neutral basis and is our first quarter to ever exceed \$150B of TPV.

Mobiles

Growth and Conversion Rates

- Mobile continues to drive our growth with \$67B of mobile TPV in Q4 alone, representing 41% of our total TPV.
- One Touch with its market-leading checkout conversion rates continues to grow with over 123mm consumers and 11mm merchants opted in

Venmo

Volume Growth

- Venmo continued its strong momentum this holiday season
- We are witnessing significant increases in monetized volume growth and monthly active users
 - This quarter, we drove \$19B in payment volume through Venmo, an increase of 80% y-over-y
- For the full year, Venmo's volume increased 79% with \$62B in payment volume processed
- And we are on pace for Venmo to drive almost \$100B in TPV in 2019
 - For the last two consecutive quarters, Venmo's TPV surpassed the volume of TPV we processed from eBay

New Partners

- Pay with Venmo continues to attract new partners, including Shopify, Hulu, BigCommerce and Jay-Z's TIDAL music service
- The total number of Venmo users who have made a monetizable transaction is now 29%, reflecting a steady month-over-month increase

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Cards, Revenues and Venmo Initiatives

- The Venmo card continues to gain significant traction
- Instant transfer revenues continue to increase
- And as a result, our Venmo initiatives have produced a revenue run rate going into 2019 that now exceeds \$200mm with revenues being equally split between Instant Cash Out and other monetizable services
- I couldn't be more pleased with our revenue trends and the numerous incremental growth opportunities we see for Venmo

Braintree and KFC

- Braintree continue to grow impressively, demonstrating its market leadership since our acquisition five years ago
- Last month, we announced the Braintree platform had processed over \$500B in authorized payment volume since 2014 with more than 6B transactions last year alone
- We added KFC Australia, Krispy Kreme, Deutsche Telekom, Deutsche Post, Live Nation Ticketmaster, Acer Computers and TripAdvisor Experiences to its platform, joining a powerful list of leading mobile apps using Braintree such as Uber, Wish, Boxed, Facebook and Airbnb

Tech and Merchant Partnerships

- PayPal's opportunities to expand internationally continue to grow, with our global FI, tech and merchant partnerships continuing to multiply
- Two countries I'd like to highlight are India and Japan

India

- In India, we benefited from strong consumer demand since we went live in late 2017
- In 2019, we will continue to invest in frictionless experiences for everyday payments by Indian consumers
 - We're expanding our merchant and financial institution partnerships throughout the country's ecosystem, bringing a truly global platform experience to India's consumers and merchants

Japan

- I'm also pleased with our progress in Japan
- We've launched a suite of services that unlocks the network effects of the PayPal platform for merchants and consumers there
- For the consumer, this includes One Touch payment, buyer protection and instant bank funding
 - Japanese merchants also benefit from instant settlement, as well as the increase in customer acquisition and conversion we see in other countries around the world from One Touch

ANA Airlines

- We have also added ANA airlines, the largest airline in Japan to our growing merchant base

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- We've now secured partnerships with over 20 top-tier global financial institutions, including 8 of the top 10 banks in the U.S.
- In 2018, we saw nearly 40 bank-led marketing campaigns that encouraged their customers to pay with PayPal

Credit Card Reward Points

- One of the most exciting features to come out of our financial institution relationship is enabling our mutual consumers to use their credit card reward points as a tender type in the PayPal Wallet
- I'm pleased to announce that we've launched this capability with Citi and Discover at the end of Q4 and plan to roll this out to multiple partners in 2019, including Chase, Amex and Barclaycard
- It's been estimated that nearly 10B of reward points go unused every year in the U.S. alone
- Helping to address that issue is a huge opportunity for consumers and is yet another way that our two-sided platform is connecting consumers and merchants in unique and powerful ways

William J. Ready

Operating Highlights

E-Commerce Platforms and eBay Marketplaces Business

- It's clear that PayPal is becoming the payment platform of choice for marketplaces and multi-seller e-commerce platforms
- Our top 20 partners' and marketplaces' total payment volume, excluding eBay, grew by over 40% in 2018, reaching nearly \$85B.
- This segment of our business is now much larger and faster-growing than our legacy eBay Marketplaces business
 - And we expect this growth to continue in 2019 as we expand our current partnerships and welcome new partners onto our platform

Touch Seller Sign Up

- We are working with some of the leading companies and their respective industries, including Etsy, Uber, Airbnb, Grubhub and Pinterest
- In Q4, we began piloting One Touch seller sign up with noteworthy partners, including Walmart
- One Touch seller sign up significantly reduces the friction of signing up to sell in a new marketplace for merchants and helps marketplaces connect with sellers that have a proven history with PayPal

Forums

- One of the most pronounced trends in e-commerce over the past several years has been the many new and rapidly growing forums for small businesses to sell to customers around the world
- PayPal is helping merchants to manage and grow their business across those new forms

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- And now with One Touch seller sign up, we are making it easier than ever for merchants to begin selling in a new marketplace with digital channel

Markets and Merchants to Customers

- In fact, those markets that are using PayPal to sell across multiple channels already grow at nearly three times the rate of those that sell on only one marketplace
- Through PayPal for Partners and Marketplaces and One Touch seller sign up, we are connecting small businesses and merchants of all sizes to all the best places to sell, giving them the opportunity to reach more buyers and drive greater sales
- Connecting our 21 million-plus merchants to customers wherever they shop is a core element of our efforts to democratize access to the digital economy
- We believe these partnerships and the increasing use of our PayPal for Partners and Marketplaces product will help to seamlessly connect buyers and sellers in the world's highest growth marketplaces and digital sales channels, ultimately making the digital economy more accessible for consumers and merchants around the world

Strategic Partnership with Paymentus

- Additionally, we're announcing today that we have entered into a strategic partnership with Paymentus, an electronic billing service company that provides e-bill presentment, management and payment capabilities to large-scale merchants in the U.S., Canada and Mexico
- PayPal will enable payment processing for Paymentus transactions, including debit card, credit card and ACH through our Braintree platform, as well as PayPal Venmo and PayPal Credit payment option for existing and new merchants
- Additionally, we will leverage the Paymentus platform to enable a consumer bill payment experience within the PayPal app
- Not only will billers on the Paymentus platform be able to present bills to PayPal consumer directly, but this feature will also allow other billers and billing platforms to present bills to PayPal consumers, enable payment with PayPal
 - This opens up bill payment as a vertical for us
- And overall bill payment has the potential to generate tens of billions of dollars of payment volume

Daniel H. Schulman

Highlights

It's great to see deep relationships like those we have with Walmart and now Paymentus that utilize the full scope of PayPal's platform to drive mutual value for our joint customers

We expect to welcome additional partnerships throughout 2019

Nonprofits and Charities

- I'd like to end my remarks by recognizing the extraordinary generosity of our customers

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- We shattered our previous Giving Tuesday record this holiday season with nearly \$98mm donated to charitable causes in just one day
- And for the full year, more than \$9.5B was donated to nonprofit organizations across the world through the PayPal platform
 - It means a lot to all of us at PayPal that our platform can be used to make such a large difference to nonprofits and charities across the globe

Revenues, Net New Actives, Services and Products

- 2018 was a strong year for us with record revenue and net new actives and we are well positioned to continue that growth
 - The network effects of our scale continue to accelerate
- Our breadth of services and products go well beyond Checkout and we are increasingly seen as a must-have platform for retailers, who are battling for relevance in the era of digital commerce
- I'm encouraged by the progress we are demonstrating in monetizing Venmo, and I'm confident it will generate significant revenues and profits in the years ahead
- Our various international efforts are ramping and 2019 is shaping up to be another strong year
 - We'll need to execute against the backdrop of an unpredictable world economy, but we have the tools and capabilities to continue our growth and progress in the years to come

John D. Rainey

Financial Highlights

I'd also like to thank all of our customers, partners and employees for making 2018 a great year

We achieved notable milestones and are pleased with what we've accomplished

Innovation and Acquisitions

- In 2018, we delivered significant innovation across our platform, introducing new features and services for our consumers and merchants globally
- We also made four acquisitions that have expanded our offerings in addressable markets; completed the sale of our U.S. consumer credit portfolio, which resulted in approximately \$6.5B of cash proceeds; and announced key issuer technology and merchant partnerships

Revenue Growth

- Entering 2019, we are well positioned to build on our momentum and continue delivering strong revenue growth with margin expansion
- We remain focused on creating long-term sustainable shareholder value

Volumes and Acquisitions

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- I'd now like to discuss our fourth quarter results
- Total payment volume was \$164B, an increase of 23% in spot and 25% on a currency-neutral basis
- Our 2018 acquisitions contributed approximately 2 points of growth
- Merchant Services volume on a currency-neutral basis grew 29% to \$147B.
 - P2P volume, which is part of Merchant Services, grew 46% to \$39B, and represented approximately 24% of total payment volume vs. 20% in Q4 last year

Foreign Currency-Neutral Basis

- In comparison, on a foreign currency-neutral basis, we saw no growth in volume associated with eBay
 - And on a spot basis, this volume declined approximately \$300mm from Q4 2017

EBay Marketplaces, Revenues and Receivables

- EBay Marketplaces represented 10% of volume on our platform, down from 13% in Q4 last year
- Revenue in Q4 increased 14% on both the spot and the currency-neutral basis to \$4.23B.
- Adjusting for the sale of receivables to Synchrony, revenue growth would have been approximately 21%
- Acquisitions contributed approximately 1.5 points to revenue growth in the quarter
- The translation effect from the stronger dollar negatively impacted revenue by \$63mm
 - This impact was offset by \$39mm in revenue from our hedge program
- As a result, the net effect of the stronger dollar was a headwind of \$24mm in the quarter
- Exiting 2018 at current rates, we estimate that our hedge positions would result in the recognition of \$171mm in international transaction revenue in 2019
- U.S. revenue grew 9% vs Q4 2017 and approximately 20% adjusting for the credit receivable sale
- International revenue grew 19% on a currency-neutral basis
- On a spot basis, transaction revenue grew 19% in the quarter
- Revenue from other value added services declined 19%
 - Normalizing for the receivable sale, revenue from other value added services would have grown approximately 35%
- In the quarter, we recognized approximately \$55mm of revenue from Synchrony related to transitioning loan, servicing and collections
 - Revenue from our eBay Marketplaces was lower than expected in the quarter
- On average for the eight quarters preceding Q4 2018, volume related to eBay grew 6% currency-neutral
 - On the same basis, this growth rate dropped to zero in Q4

Revenue Declined vs. Prior Year's Quarter

- For the first time in two years revenue declined vs. the prior year's quarter

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- This decline was unrelated to the transition to Managed Payments, which had no material impact on our results
- Despite this, geographic and product diversification, including from our acquisitions, Venmo monetization and our growing APAC business allowed us to continue to deliver solid revenue growth

Transaction Take Rate and Growth

- In Q4, transaction take rate was 2.35%
- This is the first sequential increase in transaction take rate since separation. Vs Q4 2017, transaction take rate declined 9BPS, which is the lowest level of decline we've experienced on a y-over-y basis
- Growth in our P2P business, continued deceleration of eBay and lower cross-border volumes contributed to the reduction in transaction take rate
- Total take rate in Q4 was flat sequentially and down 20BPS from the prior year, primarily as a result of the receivable sale
 - Both transaction take rate and total take rate benefited from revenue related to our hedge gains

Volume-Based Expenses and Loan Loss

- Volume-based expenses increased 21% in Q4 to \$1.9B.
- Transaction expense represented 96BPS as a rate of TPV, flat sequentially and vs. last year
- We saw an increase in card-based funding, which was offset by P2P growth
- Transaction loss was 18BPS as a rate of TPV, flat sequentially and an improvement of 1 basis point vs Q4 2017
- An improvement in our Venmo loss rate contributed to the stronger performance vs. last year
- Loan loss was 3BPS as a rate of TPV.

Transaction Margins

- Transaction margin dollars grew 9% from Q4 last year to \$2.3B.
- Transaction margin as a rate was 55%, flat sequentially and a decline of approximately 250BPS from 2017
- The reduction in revenue from the receivable sale, which began to affect other value added services in Q3 2018 in conjunction with the related held-for-sale accounting treatment, which started in Q4 2017, affected both the growth in transaction margin dollars as well as the rate

Non-Transaction-Related Expenses

- Non-transaction-related expenses grew 7% vs. last year
- Growth in these expenses was affected by both the lapping of the held-for-sale accounting changes, which resulted in a lower rate of growth y-over-y as well as an increase in non-transaction-related expenses related to our acquisitions
 - Normalizing for both of these, non-transaction-related expenses grew 9%

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Plans and Strategic Investment

- When we reported Q3 results in October, we indicated that we expected to see higher-than-usual below-the-line benefits in Q4 and discussed our plans to opportunistically reinvest this upside
- Accordingly, in the quarter, we ramped our spend in several key strategic investment areas, including sales and marketing, which increased 21%

G&A Expenses

- General and administrative expenses grew 27% in Q4, predominantly driven by acquisition-related costs
- In the aggregate, our 2018 acquisitions added approximately 5.5 points of growth to the increase in non-transaction-related expenses in Q4

Operating Income, Acquisitions and Other Income

- Operating income grew 13% to \$913mm and operating margin declined 20BPS y-over-y in Q4
- Adjusting for acquisitions, operating margin was expanded 80BPS.
- Other income in the quarter increased by \$67mm, primarily due to net unrealized gains and minority investments
- Strong revenue growth and operating efficiencies resulted in non-GAAP EPS growth of 26% to \$0.69

Cash and FCF

- We ended the quarter with cash, cash equivalents and investments of \$10B and short-term borrowings of \$2B.
- FCF in the quarter was \$910mm, which equates to \$0.22 of FCF for every dollar of revenue generated

Guidance

TPV and Revenues

- I'd now like to discuss our guidance for the full year and Q1 2019
- The guidance we are providing today is in line with the preliminary outlook we provided in October when we reported our third quarter results
- For the full year 2019, we expect TPV to grow in the mid-20s percentage range
- We expect to generate revenue between \$17.85B and \$18.1B, representing currency-neutral growth of 16% to 17% or 21% to 21% adjusting for the sale to Synchrony

EPS

- We expect non-GAAP EPS of \$2.84 to \$2.91, representing growth of 17% to 20%
- Our guidance includes the expectation that our 2018 acquisitions will contribute approximately 1.5 points of growth to revenue in 2019 and \$0.08 to \$0.10 of dilution to EPS.
- In 2019, we plan to deliver operating margin expansion with continued operating leverage and efficiencies more than offsetting this dilutive effect

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- In 2020, we expect these acquisitions to be accretive to our earnings

eBay Growth

- The diversity of our business is allowing us to maintain our guidance ranges, while absorbing a number of headwinds as we enter 2019
- While the lack of eBay growth remains a challenge and geopolitical uncertainties affecting growth in places like China and Europe, we are confident in our ability to offset these headwinds through new sources of growth, including our expanding marketplace relationships, Venmo monetization, domestic India as well as the strong secular growth driving digital payments and mobile commerce

Tax Rate, FCF and Cash

- We anticipate our non-GAAP effective tax rate will be between 17% and 19%
- For 2019, we anticipate FCF will exceed \$3B.
- With approximately \$10B in cash and in investment-grade debt rating, we're in a strong position to continue to invest with discipline in PayPal's growth
- In 2018, we returned more than \$3.5B in cash to shareholders through stock repurchases and spent approximately \$2.7B on acquisitions

Investment, Acquisition Pipeline

- In 2019, we will continue to balance investment with return of capital, while maintaining an efficient capital structure
- Our acquisition pipeline is healthy and our balance sheet gives us the flexibility to move quickly and be opportunistic
- We believe that we are uniquely positioned to be a consolidator
 - At the same time, we plan to continue to return cash to shareholders, consistent with our stated commitment for capital return

Revenues, Sales

- For Q1, we expect revenue in the range of \$4.08B to \$4.13B or 11% to 13% growth on a currency-neutral basis
- Adjusted for the sale to Synchrony, we expect that this growth rate would be 19% to 20%
- In Q1, we are currently forecasting the continuation of several of the trends that emerged in the back half of 2018
 - These include weak eBay performance as well as a more challenging macro in China and the UK.

Plans

- Our plans also anticipate a stronger dollar relative to the euro, pound and Canadian dollar to continue to be a headwind in Q1
- We expect non-GAAP EPS to be in the range of \$0.66 to \$0.68

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Summary

- In summary, we are pleased with our performance and the progress we've made growing our business and advancing our competitive positioning
- In 2018, we had many operational and financial accomplishments
- A few notable milestones include surpassing 250mm active accounts, Venmo surpassing eBay in total payment volume on our platform, processing more than \$50B of payment volume in a single month, and generating both \$4B in revenue and more than \$1B in profit before taxes for the first time in a quarter

Strategic Objectives

- We delivered a great year, and our 2018 results leave us on strong footing to pursue our strategic objectives in 2019 and beyond
- Our team is focused on disciplined execution against our priorities and moving our business forward

Growth, Portfolio and Financial Targets

- As 2019 begins, we find ourselves operating in a macro environment characterized by more variability
- From what we see, economic growth is stronger and more resilient than recent market volatility would indicate
- We have a well-diversified portfolio of products and markets in which we operate and are prepared to react should economic conditions change
- We remain committed to our long-term financial targets and are confident that the strength of our business, flexibility of our balance sheet and operational discipline will allow us to continue delivering value to our shareholders

QUESTION AND ANSWER SECTION

<Q - Tien-Tsin Huang>: I want to ask for the first time looking at Q4, you didn't exceed your revenue outlook, I think, for the first time in a while. So probably maybe you can comment on maybe what surprised you or can you rank maybe what was a little bit softer than expected?

<A - John D. Rainey>: Our revenue fell within the range that we provided, a little bit lower than the midpoint. But as we look at what transpired during the quarter, there are two things that stand out that, I think, are most notable. The first, as we discussed in our prepared remarks, is eBay. And I'll give you some context to that. Had eBay performed for us in Q4 like it did in Q3, that would have been an incremental \$32-ish million for the quarter.

The other headwind was currency, FX and we talked about that, was an impact of \$24mm to our quarter. So if just took those two, we would have been well above the guidance range that we provided. Other than that we were pleased with our performance in the quarter. And I think it also demonstrates the diversity of our portfolio given that we've got so many different geographies in which we operate as well as so many different product offerings that we have. But those are the two things that stand out.

<Q - Tien-Tsin Huang>: Maybe quick follow-up if you don't mind. Just I wanted to ask last year active user growth was a really nice surprise. It validated the growth and momentum in the business. I'm curious if we're looking at 2019, what metric might emerge this year for us to watch, kind of like what we saw with active user growth last year? Could be it engagement, Venmo monetization, Choice adoption? Just trying to think what we should hone in on? Thanks.

<Q - Daniel H. Schulman>: Clearly net new actives this year were big highlight for us. We drove 39mm in the year, 11mm organic in Q4 alone. Those are big records for us. And at the same time that we were driving that surge in net

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new actives, engagement was going up too. Went up 9%. Now at 37%. So you've got a whole host of net new actives coming on, engagement going up. And for us, those are the two key metrics that we look at.

I mean, those – everyone looks at financial metrics. But what drives our financial metrics are how many net new customers are we bringing on and what kind of engagement are we driving with them. And I think by the way 2019 was going to be another strong quarter, right. We ended with the 267mm net new actives. We said we're targeting more than 300mm actives on the platform by the end of 2019. So obviously, 2019, we think, going to be another strong quarter for that.

I would say though the one thing that we're looking at and we're quite pleased with is really the rapid adoption of monetizable services on Venmo. We exit 2018 north of \$200mm revenue run rate on Venmo. That's from literally almost nothing months and months ago from when we first started, I remember, beginning of the year. So you're seeing a lot of people question, can we monetize Venmo.

And what we've always said about monetizing Venmo is it's not monetizing so much. It's adding value added services that actually increase the value that a Venmo user gets by being part of that Venmo platform. And so, we're seeing accelerating growth on that. And we don't want to get again too far ahead of ourselves on that. But I would say, we're pretty pleased with what we're seeing on Venmo. It's really going from strength to strength.

<Q - Darrin Peller>: I do want to hone in on that net new user growth. It was much bigger than we saw in the past couple of quarters. I mean, again, if you back out even [ph] highs (00:38:52) 11mm new users was I think a record, as you said, on a quarterly basis.

<Q - Darrin Peller>: Just give us a little more color, if you don't mind, on the breakdown of that. How much of it is Venmo? And then, I mean, you talked about I think 30mm. You exceeded that, as you mentioned, quite a bit for the year, almost 39mm I think it was.

<Q - Darrin Peller>: Is there a number we can look to 2019 on that front? And then, just what kinds of engagement plans do you have to really enhance that? But we thought that was a standout number. Thanks.

<A - Daniel H. Schulman>: I'll just do a quick math with you for this year. We wound up at 267mm actives on the platform. We're targeting more than 300mm at the end of this year. You do the math there. We're saying at least another 33mm coming in the year. And so, I think that's probably a reasonable number to be thinking about.

So what's happening with that now? How is that driving? What's some color around that? Really, the majority is core PayPal. And then you've got Venmo continuing quarter after quarter after quarter to have incredibly strong net new actives. I mean, the virality of Venmo and the network effects on core PayPal are clearly coming into play. I think you've got 21 million-plus merchants accepting PayPal. Consumers see that, want to be a part of it. You've got 246 million-plus consumers using PayPal. Every merchant now wants to be a part of that. So you've got a good network effect, both on core PayPal and on Venmo.

And then I think what's really important, a lot of people think about the top of the funnel, but really net new actives is a combination of top of the funnel and bottom. So our churn rate is improving as well. Why is the churn rate improving? It's improving because the customer experiences and the breadth of services that consumers are utilizing with us and their engagement is increasing. I give a ton of credit to Bill and his team for creating those experiences, because I really think we're moving towards best-in-class, whether that's Checkout, whether that be P2P experiences, whether that be our mobile app, whether it be Choice as well. These are all driving increased engagement and helping at the bottom part of the funnel.

One other thing that I mentioned in my remarks, that should be emphasized, is we're finally beginning to see, as we said we would, the impact of all these partnerships beginning to drive a noticeable amount of net new actives on to the typical platform. We saw over 40 bank-led marketing campaigns that encouraged their customers to come on to the platform. Why are they doing that? Doing that because we have a great partnership together. It drives ton of incremental value and volume to our FI partners and it's clearly a win-win for both of us.

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And then, I talked a little bit about it, our architecture now and our software stack is now more able to be deployed in a more wholesome manner across the world. And so, we're able to deliver more and more experiences and products to multiple countries. I pointed out India and Japan, but that would be true in countries like France and others as well where we're beginning to see an uptick in net new actives globally as well. And so, I think we've got still a lot of runway when it comes to net new actives. And I believe you'll see another good number posted from us this year.

<Q - James E. Faucette>: I just want to ask a quick follow-up question on eBay and whether the – I guess a little bit slower transaction volume now was the result of their experimentation with other payment methods or if you just think that it was overall slower than what you thought transaction volumes on the platform overall. Hopefully that question makes sense.

And then the second, I guess, part of my question is related to Venmo monetization. You gave a target for 2019. How should we think about the contribution of that from merchants vs. things like Instant Transfer, et cetera? Thank you very much.

<A - Daniel H. Schulman>: I'll take the first one around eBay and Bill will take the second part around Venmo. So on the eBay side, we saw this on their conference call as well. Clearly, Marketplaces is slowing down for them. As John mentioned in his remarks, we saw zero growth in TPV on that. And if you look at what they announced on their call for intermediated payments, it's well less than 1% of the GMV that we see presented to us. So it really was not the impact. They clearly are slowing in their marketplace growth.

And as John said, part of this for us is we're able to absorb that because of the breadth of our portfolio and our capabilities. I think that's a really important thing to highlight, because volume was going to be leaving eBay, leaving now in a much more straight line, unfortunately, because they're not having the growth that I'm sure they hope to drive as well in marketplace. So at the end of our operating agreement, which is 18 months from now, when they finally move into intermediated payments, which could be 24 months, 36 months from now, eBay is going to be a much smaller part of our business than even any of us initially thought when we were talking about this originally.

And so, the fact that we're affirming our annual guidance that we gave three months ago, we feel very comfortable with that, both on the top and the bottom line. I think really just highlights just how diversified our platform is. We're welcoming new partners like Paymentus. I mean, Paymentus could be one of our top-10 customers with the volumes that they're driving. You've got Venmo monetization really accelerating. And I'll let Bill talk about that right now. But I think we're just seeing slower eBay growth. And I think we're seeing strength through our platform to offset that, which all in, as we look over the medium and long term, actually is probably a positive.

<A - William J. Ready>: And on Venmo monetization, your question there, asking about the composition. If you'd have asked us a few months ago, I think the perception was that most of the monetization happening there was around Instant Cash Out. And one of the things that we feel really great about that \$200 million-plus annual revenue run rate that we exited the year at is that that actually split about evenly between Instant Cash Out and the commerce-related items and other items where we monetize, be they Venmo card, Pay with Venmo and the related services around that.

So, we see each of those, Instant Cash Out, Venmo card and Pay with Venmo, all growing really, really nicely. Dan talked about in his comments some of the fantastic brands that have come on to Venmo. We launched with Uber in August and September of 2018. We've really seen that ramp nicely as well as other great services like Hulu and others that have come on to Venmo. So, we're really seeing the commerce side of Venmo gain traction, food ordering services, like Grubhub and Seamless, Uber Eats. Many of these are daily high-frequency type transactions. We see the same with the card, was really getting into everyday spend. So, we really feel great about the broad base set of monetization initiatives across Venmo. It is far more than just Instant Cash Out.

<A - Daniel H. Schulman>: And you're seeing more and more of the user base of Venmo understand that we have these new value-added services. I think the number of users went from 24% to 29%, so a nice increase q-over-q.

One other thing I forgot to say is, on the eBay side, one thing Bill mentioned in his remarks, and I think is very important is that we are now working with marketplaces around the world that last year alone did \$85B in TPV, significantly larger than eBay, growing at 41% overall. We expect more partnerships like that to come on to those

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marketplace solutions. And what we're doing there is helping sellers sell in multiple marketplaces using PayPal.

This One Touch seller activation allows a seller, say an eBay seller, to sign up for a marketplace, literally take all of their information, sign up and start making transactions with almost one touch, one click. And when sellers do that, their sales increase, at least with PayPal, on average about 3 times. So, we think we can help small businesses through these new capabilities and certainly drive a ton of marketplace growth overall, both with eBay and outside of eBay, especially with these kinds of capabilities.

<Q - Heath Terry>: There's obviously been a lot of discussion around the net new actives added in the quarter and over the course of the year. But just wanted to dig into that a little bit deeper. Assuming – and feel free to correct me if this is the wrong assumption, but assuming that these net new actives start off at a lower level of activity, is there any way to quantify the increase in activity among the existing base of users, kind of like a same-store sales number or something? Or alternatively, what TPV will look like when these users reach the level of activity that you see among your average user?

<A - William J. Ready>: A related element, which I think will maybe get to some of what you're asking is as we look at each of those cohorts that comes on and how those cohorts mature, a related question we often get is that as we have accelerated the number of net new actives, do we see any deterioration in the quality of those cohorts? Do they mature more slowly? Are they less active? And one of the great things is that even as we have significantly increased the number of net new actives coming on to the platform each quarter, each new cohort we see stronger than the last in terms of how they engage and how they mature over time.

So while we don't break out the maturation to the level of detail you're asking about, even as we've gotten to larger and larger cohorts, we see each new cohort being stronger than the cohorts from years past, which is part of why you also see engagement oftentimes a large influx of net new actives have a dilutive effect on engagement. You still see us having really strong engagement growth even as we bring those on, largely because the quality of the cohorts, rather than diminishing as you get to larger cohorts, is actually improving, because we're getting those larger cohorts through an expanded set of products and user engagement with more and more products over time.

<A - Daniel H. Schulman>: We won't do the math for you. But obviously, when you bring on almost 14mm net new actives in the quarter, the number of transactions that they've done is very small, right, because you brought them on throughout the quarter. So, it's a dilutive effect to the growth of your overall base engagement scores. So, it's obviously higher than the numbers that we report, just because of that math around that.

And so, that's why we're so pleased to show kind of a steady increase in engagement. So we had 9% last quarter I believe, 9% this quarter. And so, even as you're seeing that substantial increase, you're seeing a steady amount. As that normalizes, you'll start to see that creep up, that percent engagement.

<Q - Lisa Ellis>: I'll direct this one to Bill, because you commented in your prepared remarks around the role that PayPal is playing with these other marketplaces. I wanted to ask specifically about some of the e-com enablement players, players like Shopify and Wix that are starting to make some noise around creeping into payments. How do you think about the role of PayPal vis-à-vis those players? I mean, would those be potential acquisition candidates, or are they more like – it would make more sense to partner, or are they actually more like frenemies? How do you think about that group?

<A - William J. Ready>: We partner with a wide range of these e-commerce enablement players. And even as they're bundling payments into their offerings, oftentimes we are working closely with them to help make that happen and PayPal-branded payments would be a very meaningful part of that for many of those players, given that they cater to small businesses and small businesses really rely upon the trust that PayPal brings for the buyer where our conversion differences that already outshine competitors across the industry in a small business context, particularly on these types of platforms, the relative conversion rate of PayPal vs. something else stands even farther apart. So we tend to have really strong partnerships there. And I think that really ties into what we were talking about with our efforts to get small businesses to all the best forums to sell.

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I think we've been talking a lot about the deceleration of eBay. One of the things that has happened is that over the last decade small businesses that would had only one or a couple of places to sell a decade ago, now have many, many places to sell. And PayPal is connecting those small businesses to the many places they sell. Some of those might be e-commerce enablement platforms like some of the ones you mentioned. Some of that maybe other marketplaces. Some of that maybe more vertical-specific offerings.

But across each of those, we are helping to connect those small businesses to all the very best places to sell, which is why when we talk about our marketplace and partners business outside of eBay, that's already \$85 billion-plus in volume, much larger than eBay overall and growing at 40%-plus year-on-year. So as these small businesses are finding lots of other great places to sell, like e-commerce enablement platforms or rapid growth marketplaces, we tend to be a preferred provider to connect those small businesses to those platforms.

<Q - Lisa Ellis>: And do they leverage like PayPal's services like working capital services or the invoicing capabilities? Like do you sort of like deliver those directly to the merchants, or does that actually also work through those platforms? Would they look to enable those capabilities on their platforms?

<A - William J. Ready>: It really can be both. One of the things you see often times those merchants are coming to us directly for those because the trend that you see is that merchants are not choosing one platform to sell in. They are choosing many to sell in and then PayPal becomes the aggregation point for them to connect each of those platforms, so like with One Touch seller sign up as they're discovering more and more new platforms out there, one of the most difficult things for that small business is the sign up and vetting process. The marketplace has to figure out is that business trustworthy or not, are they fraudulent.

And we're able to alleviate those pain points not only for the seller to sign up but also for the marketplace to know that they're bringing on a trustworthy seller to their platform. So we become an aggregation point for that small business. And some of those services we're able to partner with other marketplaces or e-commerce enablement platforms. Some of those we provide directly to the merchant since we're an aggregation point for them across many of those marketplaces and digital channels.

<Q - George Mihalos>: Just wanted to ask as a point of clarification. John, if we look at the guide for next year on the surface, you're sort of reiterating it, but it appears you are absorbing, say, another point or so hit from lower eBay growth and then added to that the FX. I'm just curious is that the right way to think about it that the core business outside of that is accelerating, and if there's anything else in there?

And then just secondly, as we think of Venmo at the sort of \$200 million-plus run rate, is there anything you can say about the profitability of the business of the segment here? Is that if the black right now with this run rate? Thank you.

<A - John D. Rainey>: Venmo is not in the black yet. And I don't want to be specific with profitability of any one part of our business. That's not something we do. But I can give you some color in terms of how we think about this internally. Prior to some of the great progress that we've made in monetizing Venmo this year, we effectively were providing a service that we weren't monetizing in any way. And so, the losses were growing as volume growth.

And the first priority for us was to stop that rate of loss from growing and we've done that. The next phase for us is to get Venmo to breakeven. And that's not something that's going to happen in the next quarter or two, but it's – there's line of sight to that with what we're doing. And then, the third phase is to really put our foot on the pedal and see the same type of profitability in this platform or more perhaps that we do with PayPal and some of our other services. So that's where we are with that right now. But, no, it's not in the black today.

With respect to 2019 and the guide, you're right. We are seeing really strong performance with the core business. We've launched new products that are pretty early on and...

<Q - George Mihalos>: Partnerships.

<A - John D. Rainey>: In partnerships and we're pretty excited about the promise that those hold. And so, just from a revenue side and the volume growth side, there's a lot of opportunity there. Also because I'm the CFO, I'd be remiss not to mention what's being done on the expense side.

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The teams across the board, our commercial teams, Bill's teams, even the more staff group functions are doing a really good job of growing, but not having our cost grow in line with our volume.

And again, that goes back to an effort that the broad team did began 18 to 24 months ago, where we talked about rewiring our business to allow us to grow at a very low marginal cost and this is a complete team effort. There's not necessarily one area that I can point to. This is across every aspect of our company. And so, with that, we hope to have another year like we did in 2018 where you're seeing significant EPS growth and significant revenue growth and continuing to create a lot of shareholder value for our investors.

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