Company Name: Paypal Holdings Inc
Company Ticker: PYPL US
Date: 2017-10-19
Event Description: Q3 2017 Earnings Call

Market Cap: 85,046.55
Current PX: 70.7542
YTD Change($): +31.2842
YTD Change(%): +79.261

Bloomberg Estimates - EPS
Current Quarter: 0.521
Current Year: 1.868
Bloomberg Estimates - Sales
Current Quarter: 3609.474
Current Year: 12946.390

Q3 2017 Earnings Call

Company Participants

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

Other Participants

- Jason Kupferberg
- James E. Faucette
- Heath Terry
- Sanjay Sakhrani
- Bryan C. Keane
- Robert Paul Napoli
- Tien-Tsin Huang
- Darrin Peller
- 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 a reconciliation of these non-GAAP measures to the most directly comparable GAAP measures in the presentation accompanying this conference call

Daniel H. Schulman

Q3 Highlights

Revenues

- I'm pleased to share that PayPal delivered what is perhaps our strongest quarter since our separation from eBay
- Our revenues were up 22% on a currency-neutral basis, coming in at $3.24B.
- Revenue growth accelerated for a second consecutive quarter, and was once again driven by strong PayPal core growth

Operating Leverage and Income

- We continue to drive operating leverage across multiple areas of our business
- As a result, our non-GAAP operating income grew by 32%, while our operating income margin increased approximately 160BPS from Q3 2016

EPS and FCF

- Consequently, we delivered $0.46 of non-GAAP EPS, up 31% vs. last year
- FCF grew by 36% to a record $841mm in the quarter, and it's worth noting that we now expect our FCF for the year to be greater than $3B.

Net New Active Accounts and Engagement

- Our customer metrics which include net new active accounts and engagement per active account were record-setting
- I pay particular attention to these measures as they represent a direct form of feedback on our value proposition, customer experiences and brand
- We acquired 8.2mm net new active accounts this quarter
  - That is up almost 90% y-over-y, and is a record number in our recent history
- We ended the period with 218mm active customer accounts, with over 200mm consumers now shopping at our more than 17mm merchants
  - We now expect we will acquire close to 30mm net new active accounts in 2017
- Even with this record-breaking net new active growth in our denominator, engagement per active account continues to improve, increasing to 32.8 times per year, up from approximately 30 in Q3 2016

Volume Growth

- The combination of our growing base and continued growth and engagement drove y-over-y total payment volume growth at spot rates of 30% in the period, sequentially accelerating 335BPS from Q2
- We generated $114B in payment volume
- Our Merchant Services volume outside of eBay grew by 34% as we continue to grow our market share
- Mobile payments led our growth again, growing approximately 54% to $40B in the quarter
  - These positive trends are the direct result of investments made across the business
- We have increased the availability of our platform and significantly improved our customer experience across an ever-growing suite of products and services

Business Model and Aspirations

- Putting our customers first in everything we do and opening our platform to partners across the ecosystem has redefined our business model and our aspirations
- Customer Choice is one of the most visible examples of this

- With approximately 20mm customers engaging with our Choice experience by actively choosing a funding option, we continue to see consistently positive results

- Customers who used Choice have much higher engagement levels and tend to spend more per transaction
  - They have an increased appreciation for our value proposition and as a result, increased satisfaction levels

Service Centers and Reduced Churn

- This naturally leads to a meaningful reduction of calls to our service centers and reduced churn levels
- Our streamlined signup process is generating more net new actives, and as is evidenced by our increasing OI margin, expenses are well within our expectations

PayPal Brand

- Another measurable result from the improvements we've made in our core product experiences is the increasing value of the PayPal brand
- Interbrand just named PayPal, for the third year in a row, as a top-100 global brand
- In our first year as an independent company, we came in at Number 97
- Last year, we improved to Number 90
  - This year, we were cited as one of the fastest rising brands, improving our brand rating by 10 spots to reach Number 80 in the world

Cohn & Wolfe

- Cohn & Wolfe in their influential annual index of global brands, ranked by consumer perception of authenticity, saw PayPal jump by 20 spots to join Amazon, Apple, Microsoft and Google as one of the top five, most authentic brands in the world

Mobile

- Mobile is becoming the defining force in digital payments
- It is rapidly blurring the distinction between online and offline, and accelerating the adoption of digital payments
- PayPal's One Touch experience continues to set the standard in mobile checkout conversion with almost two times the conversion rate of the industry average

Consumers

- We now have 70mm consumers who benefit from the speed and convenience of a single touch checkout in over 6mm merchants around the world who now offer this transformative checkout experience
  - As I mentioned earlier, we processed $40B of mobile transactions, accounting for 35% of our TPV in the quarter

Venmo's Broad and Engaged Base

- Earlier this week, we announced that Venmo's broad and engaged base of millennial customers can now pay with Venmo at over 2mm PayPal merchants across the United States
    - This is an important milestone for us, as we both add differentiated functionality for Venmo consumers and begin to monetize Venmo

PayPal Merchants and Priority

- Our existing PayPal merchants are also excited to offer Venmo as a way to pay on their sites
- In fact, Venmo has prompted some of the largest and most influential merchants in the U.S. to come to PayPal for the first time
- In the quarter, we signed an agreement with the Williams-Sonoma, Inc. brands to bring both Venmo and PayPal to their web and mobile properties in early 2018
    - That includes West Elm, Pottery Barn, Pottery Barn Kids and Williams-Sonoma
- Our priority is to enrich and expand the Venmo experience, adding to the magic that has made Venmo a viral phenomenon
- We are pleased that in the quarter, Venmo reported $9.4B of payment volume, growing 93% y-over-y
    - In addition, Venmo had its strongest net new active quarter in its history, demonstrating its growing popularity and its corresponding network effect

Partnership Strategy

- Our partnership strategy is a key pillar in our efforts to broaden the availability of PayPal
- Combining the best of our platform capabilities and services with the best assets of some of the world's most popular brands enables us to offer our mutual consumers and merchants unparalleled value
    - We are very pleased to be building on these partnerships

Nintendo Gaming Systems and Skype Mobile App

- In the quarter, we announced that consumers can now use PayPal on Nintendo gaming systems in 34 countries across North America, Europe and Asia
- Microsoft announced that Skype users in 22 countries can use PayPal to send and receive money via the Skype mobile app
- Mastercard announced the extension of our strategic relationship into markets around the globe and we are very pleased to announce additional financial partnerships outside of the United States
    - We signed partnership agreements with Banorte in Mexico and Shinhan Card, the largest credit card issuer in South Korea that mirror our U.S. partner agreements
- Here in the U.S., more than 185 issuers are updating their PayPal experiences as part of our Choice initiative
    - We continue to deepen our ever-growing partnership with Facebook, with new capabilities constantly being introduced

Innovative Technology

- We firmly believe that great results come from doing the right things
- This is fundamental to our values
- We believe that access to innovative technology must be an engine of inclusion and opportunity around the world, and we are deeply committed to advancing that goal
    - When Hurricanes Irma, Harvey and Maria battered the United States and the Caribbean, earthquakes struck Mexico and fires swept through Northern California, PayPal was quick to respond
- Like many other generous organizations, we made direct donations to global and local agencies
- But the power and reach of our platform also allows us to do more in times of crisis
- We launched appeals to the PayPal community, agreed to cover the fees for donations, sponsored the Hand in Hand telethon and provided our fundraising platform to support many other appeals
    - In total, to date, we have helped to raise more than $55mm in donations to support the families and communities devastated by these natural disasters

Diversity and Inclusion Report

- Increasing inclusion and diversity inside our company is also a direct reflection of our values
- I'm proud to report that the PayPal Board of Directors has now reached 45% gender and ethnic diversity, up from 20% at the start of the year
- And our just released Diversity and Inclusion Report showed significant progress in our percentage of female leaders, including a 20% increase in our female VPs
    - We also announced 100% pay equity across gender on a global basis and 100% pay equity across ethnicity in the U.S.

Digital Payments

- I'm pleased with our overall progress, but we obviously have so much more to accomplish
- In many ways, we're just at the beginning of our journey
- The world is rapidly accelerating to digital payments, and we know that we have a tremendous opportunity in front of us and we have the ability to make a real difference to all the constituencies we serve
    - I'd like to end my remarks by thanking the global PayPal team for their passion, focus, and commitment to our customers and our shareholders

John D. Rainey

Financial Highlights

Digital Payments Platform

- We're reporting another solid quarter with results ahead of our expectations
- Our operational metrics for the quarter, in addition to the financial results that we delivered, demonstrate the strength of our position as the world's largest open digital payments platform

- There is great momentum in our business as we approach the end of 2017

Revenues, Operating Income, Cash Flow and FCF

- First, I will walk you through the financial highlights for Q3, followed by a more detailed discussion of the drivers of our financial performance
- And then, I will provide a framework for how we're thinking about 2018
- For Q3, revenue was $3.24B, growing 21% on a spot basis and 22% on a currency neutral basis
- Non-GAAP operating income grew 32% to $646mm, and non-GAAP EPS grew 31% to $0.46
- We generated more than $1B in operating cash flow and FCF grew 36% to $841mm

Payment Volume

- For Q3, our total payment volume was $114B, up 30% on a spot basis and 29% on a currency neutral basis, consisting of U.S. payment volume growth of 31% and international volume growth of 27%
- Our Merchant Services volume grew 34% on a currency neutral basis to $98.6B.
  - This represented 86.5% of our total volume in the quarter
- Volume associated with eBay represented 13.5% of the total, compared to 16% for Q3 2016 and 20% two years ago
  - P2P volume, which is a component of Merchant Services, grew 47% to $24B and represented approximately 21% of Total Payment Volume

Growth

- During Q3, growth in active accounts was 14%, and we ended the quarter with 218mm customer accounts
- Account growth was driven by the strength of our core PayPal business, followed by growth in the Venmo platform
  - Improvements to our onboarding and checkout experiences in across our P2P flows enabled us to add 8.2mm new customer accounts, a record addition to our platform in the quarter

Payment Transactions

- The number of payment transactions per active account on a trailing 12-month basis reached 32.8, with 7.2B transactions occurring on our Payment Platform over that period
  - In Q3, transactions grew 26% to 1.9B.

Revenues and Hedging Program

- Revenue grew 21% on a spot basis in Q3
- U.S. revenue grew 21% vs Q3 2016, and international revenue grew 22% y-over-y on a currency neutral basis
- In Q3, we saw strong revenue growth across all key geographies

- At the same time, there was a partially offsetting impact from our hedging program, as we recognized $13mm in hedge losses vs. a gain of $28mm last year, resulting in a headwind of more than $40mm in the period

Transaction Revenues

- In Q3, transaction revenue grew 22%, and revenue from other value added services grew 15%
  - Transaction revenue growth was driven by our core PayPal and Braintree businesses, and revenue from other value added services was driven by credit
- For Q3, our transaction take rate was 2.48%, a decline of 16BPS from Q3 2016, and our total take rate was 2.84%, down 21BPS y-over-y
- In recent quarters, our take rate declines have compressed and the pressure on our take rate has been predominantly driven by growth in P2P.
  - While this was the largest single contributor to the take rate decline in Q3, we also saw increased pressure from our hedge loss, from lower growth in credit revenue, and from the inclusion of TIO Networks in our results

Volume-Based Expenses

- Volume-based expenses grew 33% in Q3
- Transaction expense was $1.1B, and represented 97BPS of TPV, consistent with our expectations that we would see less pressure in Q3 relative to the first and second quarters of 2017
  - Transaction loss in the quarter was $219mm, or 19BPS of TPV, an increase of 1 basis point vs. the same period a year ago

Loan Losses, Net Charge-off Rate and Receivables

- Loan losses across our consumer and merchant credit products were $144mm, representing 26% growth in line with the growth of our receivables portfolio
- Our consumer credit portfolio continues to perform in line with our expectations
- The net charge-off rate was 6.4% in Q3
- We ended the quarter with an aggregate gross receivables balance, including both principal and interest, of $6.7B in our consumer and merchant loan portfolios, and a total reserve of $424mm

Costs and Acquisitions

- We continue to see excellent results in managing the cost of our business
- In Q3, other operating expenses increased only 4.8% to $1.1B, growing at less than a 0.25% of the rate of growth of revenue
- The slower rate of growth in non-volume-based expenses drove 550BPS of operating leverage vs Q3 2016 and represented 35% of total revenue
- Normalizing for the acquisitions of TIO Networks and Swift Financial, other operating expenses increased only 3.5%

- Considering we grew revenue by more than 20%, this is exceptional performance
  - We are managing costs very efficiently, allowing us to deliver better cost performance relative to our expectations, while at the same time, investing in our growth initiatives

Other Operating Expenses, Operating Income and EPS

- Consistent with H1, other operating expenses increased $0.09 for every incremental dollar of revenue, demonstrating the scalability of our platform
- YTD, we have consistently demonstrated our ability to scale with minimal incremental cost
- Strong revenue growth and cost discipline resulted in record non-GAAP operating income and EPS growth
- Non-GAAP operating income grew 32% to $646mm, and operating margin expanded approximately 160BPS to 20% compared to Q3 2016
  - GAAP operating income grew 22% in Q3 to $423mm with an operating margin of 13%, flat to last year
- Non-GAAP EPS grew 31% in Q3 to $0.46, and GAAP EPS grew 17% to $0.31

Hurricanes, Cash and Investments

- The hurricanes in the Southeast also affected our performance in the quarter
- Waiving late fees and increasing reserves for our credit customers had an approximate $0.01 per share impact on our results
- We ended Q3 with cash, cash equivalents and investments of $7B.
- Strong cash earnings generation resulted in 36% growth in FCF y-over-y
- Our FCF for Q3 was $841mm, representing $0.26 of FCF for every dollar of revenue

CapEx, Capital and Stock Buying Back

- Third quarter CapExs were $165mm or approximately 5% of revenue
- We also funded two acquisitions in Q3 as the TIO Networks and Swift Financial transactions closed in July and September, respectively
- Capital return continues to be a core component of our overall capital allocation strategy
  - And YTD, we have returned more than $700mm to shareholders in the form of stock repurchases
- We now have approximately $300mm remaining on our original $2B authorization
  - After which time, we will begin buying back stock under the $5B authorization that was approved earlier this year
- Our business generates significant cash flow, and we will continue to take a long-term view of capital allocation to maximize value creation, while optimizing our capital structure and investing for growth

Guidance

Revenues and Earnings

- I would now like to discuss our updated guidance for Q4 2017 and the full year, as well as our initial thoughts on 2018
- For Q4, we expect revenue in the range of $3.57B to $3.63B, or 20% to 22% growth on a currency neutral basis
- We also expect non-GAAP earnings of $0.50 to $0.52 per share

Operating Expense Growth

- I'd also like to give you some detail on how we're thinking about other operating expense growth in Q4
- Our current plans contemplate discretionary investments in product development and sales and marketing in Q4 that are over and above our current trend, and will result in elevated growth in other OpEx relative to the first three quarters of 2017
- Importantly, these investments will benefit our results in 2018
- For the full year, we expect other operating expenses to grow in the mid-single-digits

Currency Neutral Basis, EPS, FCF and Tax Rate

- We now expect revenue for 2017 to be in the range of $12.92B to $12.98B, or 20% to 21% growth on a currency neutral basis
- We expect non-GAAP EPS in the range of $1.86 to $1.88
- In addition, given the strong FCF that we have generated all year, we now expect FCF for the full year to exceed $3B.
- We're also reaffirming our prior full year 2017 guidance on CapEx of approximately 5% of revenue, and a non-GAAP effective tax rate of 17.5% to 18.5%

Payment Volume and Operating Income

- We are still in our planning process for 2018, but I'd like to provide you with an initial framework for how we're thinking about our business next year
- We are planning for payment volume, on a spot basis, to grow at a rate in the range of mid- to high-20%
- Also, on a spot basis, we expect approximately 20% growth in both revenue and non-GAAP operating income, with our GAAP operating margin expanding in line with non-GAAP operating margin

Integration and Investment Assumptions

- This view incorporates our initial integration and investment assumptions for the acquisitions of TIO Networks and Swift Financial, offset by modest operating margin expansion in the rest of our business
- As we have not yet announced our plans for consumer credit, as they relate to pursuing a more asset-light approach, our initial framework for 2018 does not incorporate the financial impact of this initiative
- Our process is on track and we are in ongoing negotiations
- And at the current pace, we expect to announce the deal towards the end of the year
- We are committed to structuring the best partnership for PayPal that will create the most shareholder value over the long-term

- We'll provide additional detail on our outlook for 2018 when we announce our plans for consumer credit

Revenues & Earnings Growth, Venmo and PayPal Working Capital

- As we reflected on the first three quarters of 2017, we're very encouraged by our performance and the opportunities ahead
- This year, we have accelerated our revenue growth and earnings growth, and generated record FCF.
- We're building superior experiences for our consumers and merchants
- The sustained momentum we see in the business gives us the confidence to invest in high potential areas such as Venmo and PayPal Working Capital
  - We're extremely pleased with our progress, and I also want to thank all of PayPal's customers and our colleagues worldwide for making this another outstanding quarter

QUESTION AND ANSWER SECTION

<Q - Jason Kupferberg>: Just wanted to ask a question, if we go back to the Analyst Day in 2016, you guys had indicated at that point that the credit business was about almost 10% of revenue and a little bit more than that as a percentage of operating profit. So, I wanted to see if those numbers are still valid today. And then, just related, can you give us an idea of what percent of your operating profit currently comes from eBay?

<A - John D. Rainey>: The way to think about credit is, it has more or less grown in line with the rest of our business since we gave that guidance at that point in time. Credit represents, depending upon the quarter, about 2% to 2.5% of our TPV and that was the case when we gave that guidance on revenue and profit at that Analyst Day. So, it's fair to conclude that it represents a similar portion today.

To be clear on asset-light, what we'd like to do is continue to very much be in the credit business for our merchants and our consumers, and provide all of the benefits that they derive from that. But we can do that in a much more asset-light way, where we can free up that capital to utilize for other maybe seemingly higher returning alternatives. At the same point in time, we would continue to share the economics of that business if we were to elect to pursue a partnership type of arrangement there.

<A - John D. Rainey>: eBay, we haven't disclosed what percentage of our business that represents in terms of profits. As I said in my prepared remarks, that's about 13.5% of our volume today. That's come down from 20% just a couple years ago. And whether it's TPV or revenue, what you've seen is that declined 300BPS to 400BPS each year in terms of the percentage of our overall volume in the business – and revenue in the business as the case may be.

<Q - James E. Faucette>: I just had a question on account adds. Those have been very strong – 30mm vs. our 25mm expectation. What's driving that strength and how much benefit are you getting from recent partnerships? And I guess, a little color on how many accounts does Venmo have and how is that growth vs. the core PayPal? Thanks.

<A - Daniel H. Schulman>: Good news is not any one thing that's driving our growth, it's multiple initiatives that we've launched. In general, as we get bigger, we're seeing a network effect start to take hold. We have over 17mm merchants on the network now and over 200mm of consumers, and there is distinctly a network effect.

We've also seen all the core experiences that Bill and his team and others in the company have worked on, whether that be availability, latency, One Touch, Choice, our new mobile app out there, that are all kind of bending multi-year curves now with all of our product curves bending upwards, reversing a many year trend line that we had before. That's reducing churn and also attracting a lot of new customers.

We've got a bunch of new products out there right now from bill pay to international remittances to new services on P2P, new flows on P2P, and so those are driving a ton of net new adds as well. The really interesting thing right now is, obviously, Choice has streamlined the signup process and we're seeing good benefit from that. But I would say on the partnership front, we are at the very beginning of that, there is much more ahead of us than behind us. We've had some marketing campaigns launched within financial institutions to drive card linking to PayPal, but the vast majority of that is still ahead of us.

In terms of the ratios of Venmo to the core, we never really announce those specifically. What I would say, again, as I said in my remarks, is Venmo had a record net new active quarter, but the core had an even stronger of record net new active. So, you see more than the majority coming from core PayPal as opposed to Venmo on this.

<Q - Heath Terry>: Wondering if you can kind of give us a bit of a sense as you've signed more and more merchants up to the platform, kind of where you are both from a partnership and a technology standpoint on in-store transactions?

And then, one just sort of quick follow-up on the comments that were made around transactional margins, you called out several things that are sort of driving the modest pressure that we're seeing there. Unless I missed it, funding mix wasn't one of them, given what you're seeing in Choice, I'm assuming that's intentional, but just wanted to confirm.

<A - Daniel H. Schulman>: Couple of questions there, Heath, as usual, which we respect. So, let me talk a little bit about some of our purchase, turn it over to Bill, and then John will address the last part of your question.

So, we are increasingly turning from being a product company into a platform company and what we mean by that is we're moving well beyond just checkout as a button to really offering a full suite of capabilities and services that enable merchants to move into digital commerce, to take advantage of mobile, which is something every single one of our retailers from small merchants to the very largest are thinking about right now. Because the face of commerce is rapidly changing driven by mobile; and mobile, as I mentioned, is blurring that distinction between online and offline. And because it's blurring that distinction, our platform capabilities are increasingly omni in nature.

Now, one of the things that it's still ahead of us and one of the things that accrued to us as part of our network agreement that we had with Mastercard and Visa and Discover, as well as all of our relationships with financial institutions is access to tokens. We're not going to do bespoke customization coming into the offline world, but we can use industry-standard tokenization and add that capability into our app, which we expect to do next year to start to move into the offline marketplace. Again, we think that a lot of what's going to happen in offline will be value proposition driven, not form factor driven, but our PayPal digital wallet will have the ability to somebody to use their mobile phone eventually at a point-of-sale that accept NFC solutions.

<A - William J. Ready>: I would just say on in-store, one of the fantastic things that's happening on top of what Dan was describing where we have great partnerships, both with networks as well as Google and Android Pay and Vodafone and others that allow us to do in-store point-of-sale, we're also seeing just amazing momentum on e-commerce style experiences coming into the store, which really plays to our strength. So, things like buy online pick-up in store, you can witness in most major retailers around the country. They're starting to carve out sections of the store that's specifically devoted to buy online pick-up in store.

As you see more and more of that happening, that's really a home-field advantage for us that we are becoming the primary way that consumers think about accessing great new digital experiences like that. So, we certainly see growth across the board in mobile, but this is a really interesting area for us where we see mobile starting to really come into the store through buy online pick-up in store and those types of things, in addition to the ways that folks thought about traditionally of using the mobile device at point-of-sale, where we've got great partnerships as Dan described that helped get us into those.

<A - John D. Rainey>: Just on the last part of your question with respect to transaction expense, you're right. While it's a small y-over-y increase, this is down on a unit basis in terms of TPV from what we saw in H1, and we indicated that would be the case. At 97BPS this quarter, it's down from the high-water mark of 100BPS in Q2. It's the result of a couple things, but – one, we talked about before, as our customers are opting into Choice, there is much more balance across the various funding instruments that they choose than what our initial expectations were.

At the same point in time, with great growth on platforms like Venmo, which come at a very low expense rate, that actually helps suppress the rate of growth in that unit level. A good way to think about this, even going to Q4 and into 2018 is, this is more or less for that period of time the level that we expect. I did note again that the 100BPS was the – at least the high-water mark for the foreseeable future for us in this area, so we expect to contain the inflation in this area going forward.

<Q - Sanjay Sakhrani>: During the quarter, there were some press articles implying you guys were on the lookout for acquisitions. I know you've made a bunch already, but I assume you might have been talking about something larger or more transformative, could you just talk about where you guys might feel like you lack and some areas that you're looking at inside? Thanks.

<A - Daniel H. Schulman>: I did read some of those articles that were out there. Look, I'd start-off by saying that I'm really pleased and I'm happy with the set of assets and capabilities we have today. We've got a leading market position in those. I feel really good about where we stand. We have a very robust product pipeline and roadmap. And we're ready with the assets we have to compete as a leader in the market today. I think we're playing from a position of strength as we go into the market and look at what's available.

Obviously, we have a very strong balance sheet and it's a potential weapon for us as we think about competing going forward. We've got some $7B on our balance sheet, as John mentioned, over $3B of FCF that we'll have this year. And our intention is to stay acquisitive and be a consolidator in the industry. We look at hundreds of opportunities every single quarter from small investments we make and some interesting startups to much larger and we look at the whole gamut of that.

The criteria we look at is it's got to fit into the vision and mission that we have set out for ourselves, it needs to accelerate our progress – I'll talk about that in a second – across like a key vertical, like bill pay would be an example of that, a geography or some technology that could be a security bolt-on, something like that, that helps our platform overall. And we look at all of that through the lens of build, partner, and buy. And on the build side, as I've mentioned before, and Bill has talked about, we are so much more productive and innovative internally than we've ever been before. You know, we have something like 300% increase in releases that we're doing now and what used to be a necessity for us to buy several years ago to innovate, is now quite well covered by what we can build internally.

The other thing, obviously, is we've created a fundamentally different technological architecture and open platform that allows us to partner in ways that we've never been able to go do before. And so there used to be capabilities we need that now we can merge the assets of a partner into our platform and vice versa without needing to acquire and then obviously, there's buying.

And as I mentioned, we look at that across the world and at all levels of different investment that we might make on that. But we're very disciplined in the way we look at that. Honestly, we don't mind if it's small or a large acquisition, but it's got to make sense to us on the criteria that I aligned above, and it's got to make sense to us from a cost basis. And so you can expect us to be acquisitive, but in a disciplined and a thoughtful manner.

<Q - Bryan C. Keane>: Just wanted to ask on the 2018 guidance. Does that include any Venmo monetization and if not, how are you thinking about that, the size and timing of the Venmo monetization opportunity? And then just a quick one on 2018, the 2018 numbers, does it include, and how much FX and acquisitions? Thanks.

<A - John D. Rainey>: We do have some modest assumptions about monetizing Venmo going into next year. We're encouraged by the launch of Pay with Venmo with 2mm merchants right now. We'll continue to expand that. But as we said before, this has been an area of investment for us. We're looking forward to being able to monetize this. But we've got pretty measured expectations around this, so we don't want to get too far out in front of ourselves.

This is a pretty precious experience, so we will make sure that we get it right. And so, in the guidance that we gave, approximately 20% revenue growth and 20% earnings growth, that does include some assumptions about Venmo. But this is a leg of growth for us, profitable growth into the future and we've got a multiyear outlook on what this will be.

In terms of the guidance that we gave with respect to FX, that basically assumes the currency environment that we're in right now, if that answers your question.

<Q - Bryan C. Keane>: And then just acquisitions, is there any acquisitions in that?

<A - John D. Rainey>: That's an organic assumption, save for the two acquisitions that we've already acquired in Q3 this year.

<Q - Robert Paul Napoli>: And the actives, want to dig into that a little bit more. Dan, when you – John, Bill, when you guys spun off, you were targeting 3mm to 5mm net new adds per quarter, and obviously, you haven't updated that guidance and that guidance is old. The 8mm, the substantial ramp-up, how much of that is from Customer Choice? I think, John, you had said, at one point there were a million customers a month that were signing up but not activating because you thought because they didn't – you didn't have Customer Choice. How much of that is coming from Customer Choice, and what is – going into next year, was there some low-hanging fruit this year that we should see a big decel in active account growth going into next year?

<A - Daniel H. Schulman>: We hit a different level in terms of acquisition and that 3mm to 5mm it is outdated. We did talk about this year that we expect to acquire close to 30mm net new actives. A part of that is driven by Choice, and a part of it is driven by new experiences, our P2P flows, reduction in churn that's going on. So there's really not one thing that I would point to.

You are right, Bob, we were losing out on a million or so activations a month that had put in a funding instrument, but did not do a transaction with us because we also ask for a lot of additional information post that and that's not correct occurring right now. So I think we're at a different level in terms of the net new actives going forward. We'll update that as we look at updating our overall 2018 guidance for you. So stay tuned on that, but, obviously, 3mm to 5mm is an old number now.

<Q - Tien-Tsin Huang>: Just want to ask Bill just on Braintree performance and maybe give us an update on win share there, anything new on PayPal share at checkout or on the merchant add side? Is that still primarily driven by Braintree or core PayPal? Has that mix changed? Thanks.

<A - William J. Ready>: We continue to see great performance across our Merchant segment. Braintree continues to perform really well in line with what we've discussed previously and share of Checkout, driven by One Touch and industry-leading conversion rates, in addition to us having strong consumer growth, our share of checkout continues to increase. When you look at our Merchant Services volume growth, that is significantly beyond the growth of the e-commerce industry, which means that we continue to take share. And that taking of share is both in new-merchant signups that are really across small businesses, mid-market, as well as large enterprise. So across every segment, we continue to add merchants, and then within each of those merchants we continue to see expansion of our share of checkout as consumers more and more gravitate towards PayPal, given that we have a conversion rate that is nearly twice that of entering a card in online. So it's broad based across those, but we see each of those segments performing well, inclusive of the Braintree segment.

<Q - Darrin Peller>: Just if we could follow up quickly on the outlook for 2018; maybe, John, if you could touch on pricing and how that's going, some of the updates you're doing now, and then what's included in that in your outlook. And then really just on top of that, your guidance on margins, I just want to make sure we're clear on it. I know you're talking about it being in line with GAAP operating income growth, which it sounded like was also 20%, I think, in line with revenue growth. I mean, is that call – what is the margin expectation in your expansion or anything impacting it next year vs. this year? Thanks.

<A - John D. Rainey>: First on pricing, as you're aware, we've made a few different price changes this year, positive and negative, to try to optimize for certain corridors where we operate. But the main thing to take away from pricing is that we want to price in areas to where we can clearly attribute that price to value that's being added to the customer experience.

And so, to your question about whether that assumes anything in 2018, yes, it does. I think pricing in any business is an ongoing driver of value that you need to be responsive to the broader market and competitive set in which you operate. So we've seen some benefit from that in 2017, and we would expect that to continue not only in 2018, but into further years.

<A - John D. Rainey>: On the second part of your question, with respect to margin expectations in 2018, we do still expect to have the same guidance that we said before, stable to growing operating margins, and that's whether you're talking about 2018 or the next few years after that.

As I noted in my prepared remarks, we are integrating two acquisitions next year, and so there's always integration and investment around that. If you were to normalize for that, you would certainly see that organically there's margin expansion in the business. Importantly, as I noted in my remarks and has been quite a focus this year, the GAAP operating margin is also expanding in line with non-GAAP operating margin next year. Again, some of the changes that we made with respect to share-based compensation this year, we said were specific to this year. We do not expect that to continue at that level in the future.

<Q - George Mihalos>: If I could just ask a question around Pay with Venmo from a margin perspective; if we think about the funding sources there and I know you guys are encouraging people linking credit cards to the Venmo wallet, but a substantial portion of that is still going to be funded through cash on hand. Is there any reason why we shouldn't think that Pay with Venmo won't be accretive to your overall transaction margin? And I'm not sure if you're willing to provide any color as to how much of an uplift that might provide for 2018. Thank you.

<A - William J. Ready>: I'll describe Pay with Venmo with a little more detail. You know, one of the beautiful things about what we've done with the Pay with Venmo deployment is that we're making that automatically available to PayPal merchants over the same distribution rail that we used to have such a rapid deployment of PayPal One Touch.

And so while that makes it really easy for the merchant to adopt and really easy for the consumer to have more places to use it, it means that those merchants are accepting Venmo on the exact same terms that they would accept PayPal. So, our revenue on those transactions, when somebody uses Venmo to pay one of those PayPal merchants, our revenue on that transaction would be exactly the same as if that user had paid with PayPal.

As you rightly noted, Venmo tends toward predominantly lower cost funding instruments, so the cost of those transactions, it would be reasonable to assume is going to be less than the average across the PayPal base. And so I think your assumptions there are directionally correct. We're not providing guidance on how much of that or any of those types of things, but at a unit level, you're exactly right that it's the same revenue per transaction for us, but with a wallet that is loaded with, on average, lower cost funding instruments for us.