Q4 2019 Earnings Call

Company Participants

- Dan Schulman, President and Chief Executive Officer, PayPal
- Gabrielle Rabinovitch, Investor Relations
- John Rainey, Chief Financial Officer and EVP, Global Customer Operations

Other Participants

- Bryan Keane
- Darrin Peller
- David Togut
- Heath Terry
- James Fossett
- Lisa Ellis
- Tien-tsin Huang

Presentation

Operator

Good day, ladies and gentlemen, and welcome to PayPal's Fourth Quarter and Full-Year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the presentation, there will be a question-and-answer session. (Operator Instructions).

I would now like to introduce your host for today's call, Ms.Gabrielle Rabinovitch, Head of Investor Relations. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Andrew. Good afternoon, and thank you for joining us. Welcome to PayPal Holdings' earnings conference call for the fourth quarter and full-year 2019. Joining me today on the call are Dan Schulman, our President and CEO; and John Rainey, our Chief Financial Officer and EVP, Global Customer Operations.

We're providing a slide presentation to accompany our commentary. This conference call is also being webcast and both the presentation and call are available through the Investor Relations section of our website.

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.

In addition, management will make forward-looking statements that are based on our current expectations, forecasts and assumptions, and involve risks and uncertainties. These statements include our guidance for the first quarter and full-year 2020, our medium-term guidance, and the impact of our acquisitions. Our actual results may differ materially from these statements.

You can find more information about risks, uncertainties and other factors that could affect our results, in our most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC, and available on the Investor Relations section of our website. You should not rely on any forward-looking statements.

All information in this presentation is as of today's date, January 29, 2020. We expressly disclaim any obligation to update the information.

With that, let me turn the call over to Dan.

Dan Schulman {BIO 1895545 <GO>}

Thank you, Gabrielle, and thanks everyone for taking the time to join us on today's call. I'm pleased to report that PayPal had a strong quarter, ending 2019 with record results across key customer and financial metrics.

Over the past year, we meaningfully improved and expanded the PayPal platform. We strengthened our value proposition for consumers and merchants, expanded our international scope and scale, and announced transformative, strategic acquisitions, investments, and commercial agreements.

For the year, we delivered $17.8 billion in revenue. That's up 19% on an FX-neutral basis, adjusted for our receivable sale to Synchrony. In the fourth quarter, we generated $4.96 billion of revenue, growing 18% on an FX-neutral basis.

Our strong revenue growth, combined with disciplined expense management, enabled a 28% year-over-year increase in our non-GAAP earnings per share to $3.10. Excluding net unrealized gains on our strategic investments, we delivered $2.96 of non-GAAP EPS, up 25% on a year-over-year basis.

On that same basis, in Q4, we delivered $0.84 of non-GAAP EPS, growing 28%.

For 2019, our overall payment volume grew 25% on an FX-neutral basis to $712 billion.

Excluding eBay, TPV grew 29% on an FX-neutral basis to $649 billion as we continue to grow market share. In Q4 alone, we processed just shy of $200 billion of TPV, a new record for us. We processed more than 12 billion transactions in the year, including nearly 3.5 billion transactions in Q4 alone.

eBay's TPV continues to decline, shrinking by 4% on an FX-neutral basis. Consequently, we anticipate that eBay will be approximately 6% of our total TPV by mid-year. We added 9.3 million net new actives in the quarter, ending the year with 305 million active accounts on our platform, up 14% year-over-year, including 24 million merchants.

In 2020, we expect to add approximately 35 million net new active accounts inclusive of our acquisitions, and this does not include any one-time impact on NNAs associated with the acquisition of Honey.

I'm pleased to report that engagement continues to consistently increase. For the first time this year, engagement grew by double-digits, increasing by 10% to 40.6 transactions per active account.

Mobile transactions are a major driver of our growth, representing 44% of TPV. One Touch adoption is now at 199 million consumers and 14 million merchants.

Venmo processed $29 billion in volume for the quarter, growing 56%, and for the year, volume increased to $102 billion. We ended the year with Venmo's customer base exceeding 52 million active accounts, driving its current revenue run rate of more than $450 million.

Last quarter, we announced that Venmo had signed a deal with Synchrony to provide a Venmo credit card, and I'm pleased to announce that Visa will be our exclusive network partner for this new product.

We also recently announced our first ever Venmo rewards program with select merchants for Venmo debit card holders. These merchant-funded rewards are deposited directly into a customer's account so that they can be used in-app with merchants or transferred to a bank account or debit card, providing consumers with ease and choice.

Last year, we saw brands like Netflix, Pepsi, and Chipotle, use Venmo payouts to reward their customers and pay them via Venmo. We are excited to introduce new, monetizable value-added services to our Venmo platform over the course of 2020.

We continue to see strong demand for our payouts capabilities enabled by our Hyperwallet acquisition. Digital payouts are attractive to multiple industries, including the insurance industry where consumers are demanding faster payments. In the quarter, we began delivering claims payments on behalf of insurance providers like Chubb Insurance, Asurion, and Combined Insurance.

In addition, United Airlines is now leveraging our platform to pay passengers all over the world for baggage claims. And Walmart is using our capabilities to pay merchants on its marketplace. I expect to see continued growth in our payouts products.

Earlier this month, we closed the acquisition of Honey. The addition of Honey and its complementary capabilities to the PayPal network, will significantly transform our relevance and drive engagement with our consumers and merchants at the earliest stages of their commerce journey.

Our integration activities are off to a strong start. Our early joint marketing activities have already produced nearly 100,000 downloads of the Honey browser extension, and on day one, our customers could use their PayPal credentials to log into Honey.

I continue to be impressed by the caliber of the Honey team and I couldn't be happier to welcome them to PayPal.

We are deepening our relationships with financial institution partners around the world. We recently announced the ability for Citibank institutional clients to make payments directly into their customers' PayPal wallets. In December, we finalized the deal with FIS which will enable us to scale our pay with rewards capabilities across thousands of financial institutions in the United States. And U.S. Bank has currently integrated functionality to support both account linking and pay with rewards capabilities.

We continue to expand our platform capabilities around the world. We recently expanded our relationship with Uber, and we'll be processing their payments in Europe, Brazil, India, and across the Middle-East.

In December, we also signed a commercial agreement with MercadoLibre that has the potential to drive a meaningful increase in our international scope and scale. As part of the agreement, PayPal will be made available as a payment option in the MercadoPago online checkout for people in Brazil and Mexico, which opens the door for PayPal consumers to shop at hundreds of thousands of new merchants. PayPal will also be accepted in the MercadoLibre marketplace for cross-border purchases.

In return, we will offer MercadoPago as a payment method at PayPal merchants around the world, allowing approximately $50 million MercadoPago users in Brazil and Mexico to pay with their preferred digital wallet. And we will expand Xoom's presence by allowing MercadoPago users to receive remittances directly into their MercadoPago wallet.

I'm pleased with our growing partnership and look forward to continued collaboration with Marcos and the MELI team.

In addition to the continued international expansion of Xoom, in Q4 we launched the ability for Xoom customers to send money to recipients in the U.S. through strategic alliances with Walmart and Euronet. Customers in the U.S. can now use Xoom to quickly send money for cash pick up, typically within minutes, in nearly 5,000 locations across the country. This is a positive step in our mission to make the movement and management of money quick, easy and affordable for everyone.

In December, we closed our acquisition of GoPay, becoming the first foreign payment platform to be licensed to provide online payment services in China. This transaction has the potential to dramatically increase our total addressable market opportunity.

Digital payments in China are expected to grow from $1.5 trillion to $3 trillion over the next four years, and the number of users is set to grow to well over 1 billion.

Last week, we announced a wide-reaching partnership with UnionPay International. UnionPay International has issued over 130 million cards outside of Mainland China, and as part of the China UnionPay Group, which has over 7.5 billion cards on their network.

As part of the agreement, our mutual customers will be able to add UnionPay cards to their PayPal wallet in more than 30 countries, allowing UnionPay customers to seamlessly shop at PayPal's 24 million merchants globally.

In addition, China UnionPay will enable Chinese merchants to accept PayPal in-person, where CUP cards are accepted. Our two companies will collaborate to accelerate both online and offline acceptance of PayPal for Chinese merchants. This is a landmark agreement and will have global impact for our joint customers.

We look forward to partnering with other Chinese financial institutions and technology platforms to expand both, cross-border and in-country, digital payments.

Our efforts to drive social impact and create value for all of our stakeholders continues to evolve and expand.

This past year saw a record volume of funds raised by the PayPal community for charity. For the full-year of 2019, the PayPal community donated more than $10 billion to charity, including over $1 billion in the month of December. On Giving Tuesday, we raised a record $106 million.

The world's secular trend towards digital payments and commerce continues to rapidly grow. Our total addresable market has significantly expanded with the acquisitions of Honey and GoPay and our commercial partnership with MercadoLibre.

In 2020, our growth investments are focused on our recent acquisitions, growing our infrastructure in China and other international markets, Venmo monetization, and our in-store point-of-sale initiatives. Our ability to drive and benefit from these trends and initiatives is reflected in our strong results and our expectations for 2020.

We are very excited about the year in front of us. Our brand reputation and trust are stronger than ever. We obviously need to execute, stay vigilant, and remain steadfast customer champions. But we have our sights set high, and we aim to aggressively expand our capabilities and geographic footprint. And I'm confident that our efforts will drive our market leadership and growth over the foreseeable future.

And with that, I'll turn the call over to John.

John Rainey {BIO 17599063 <GO>}

Thanks, Dan. I want to start-off by thanking our customers, partners and employees, for helping us deliver an outstanding year.

And 2019 was another great year for PayPal, and I'm pleased with our team's accomplishments.

The results we're reporting today, demonstrate the consistent execution of our strategy to realize long-term, sustainable value creation. We're entering 2020 ready to build on our momentum, focused on our key initiatives, and excited about the year ahead.

Now to our fourth quarter results.

Revenue in the fourth quarter increased 17% on a spot basis, and 18% on a currency neutral basis, to $4.96 billion. The translation effects from the stronger dollar negatively impacted revenue by $35 million. This impact was more than offset by $58 million in hedge gains.

Relative to the fourth quarter of 2018, U.S. revenue grew 19% and international revenue grew 17% on a currency neutral basis. Transaction revenue grew 18% and revenue from other value-added services grew 14%.

Strength across core PayPal, Braintree, and Venmo, all contributed to transaction revenue growth. Other value-added services revenue growth reflected solid performance of our credit business, offset by the lapping of interim servicing revenue from Synchrony. As a reminder, this headwind will continue through the second quarter of this year.

In the fourth quarter, transaction take rate was 2.27%, and total take rate was 2.49%. Compared to Q4 2018, this was a decline of 8 basis points and 9 basis points respectively, which is the lowest level of decline we've reported.

Strong P2P growth continues to be the largest driver of the year-over-year decline for both transaction and total take rate. In addition, on a sequential basis, both transaction and total take rate improved.

The diversification of our business and our pricing initiatives allowed us to deliver these results.

Volume based expenses increased 20% in the fourth quarter to $2.3 billion. Transaction expense was 96 basis points as a rate of TPV, consistent with the fourth quarter of 2018. Transaction loss was 15 basis points as a rate of TPV, an improvement of 3 basis points from Q4 2018.

Continued improvements on our risk management capabilities contributed to the strong performance in our loss rate.

Loan losses were 4 basis points as a rate of TPV, an increase of 1 basis point from Q4 last year. This increase primarily resulted from growth in both our merchant and international consumer loan portfolios.

Transaction margin dollars grew 16% to $2.7 billion in the fourth quarter. Transaction margin as a rate was 53.8%, a decline of approximately 90 basis points versus Q4 '18. Non-transaction related expenses grew 7% versus last year, and increased only $0.13 for every incremental dollar of revenue.

On a non-GAAP basis, operating income in the fourth quarter grew 28% to $1.2 billion. Our operating margin was 23.6%, expanding 204 basis points from last year, as we delivered leverage across all of our non-transaction related expenses. This represents our strongest performance ever, demonstrating our sustainability to scale at a low incremental cost.

Other income in the fourth quarter declined by $33 million relative to last year. Net interest expense resulting from our debt issuance in September as well as lower net unrealized gains from our strategic investments, contributed to this result.

As we disclosed in our 8-K issued on January 9, in the fourth quarter on a per share basis, net unrealized gains contributed $0.02 to EPS versus $0.04 last year.

Starting in 2020, we're updating our non-GAAP methodology to exclude the impact of gains and losses on our strategic investments. We believe this presentation will provide a better understanding of our operating performance and a more meaningful comparison of our results between periods.

With this change, we no longer will issue an 8-K following quarter-end disclosing the effect of net unrealized gains and losses on our results.

In the fourth quarter, our non-GAAP effective tax rate was 17.2% versus 17.7% last year. Non-GAAP EPS for the fourth quarter grew 24% to $0.86. Adjusting for net unrealized gains, non-GAAP EPS grew 28%.

We ended the quarter with cash, cash equivalents and investments of $13.6 billion. In addition, we generated more than $1 billion of free cash flow or approximately $0.22 of free cash flow for every dollar of revenue. During the quarter, we returned $305 million in capital to shareholders through share repurchases.

I'd now like to discuss our guidance for the full-year and the first quarter.

Relative to the preliminary outlook for 2020 that we provided in October, we are raising our revenue expectations. We are also raising our earnings outlook, excluding the dilutive effect of acquisitions announced in 2019.

The guidance we're providing has been updated to reflect the impact from our recent acquisitions of Honey and GoPay, the adoption of CECL, the new accounting standard for recognizing credit losses, and our expectations for currency movements.

For the full year, we expect TPV to grow in the mid-20s percentage range. We expect to generate revenue between $20.8 billion and $21 billion. This range represents currency neutral growth of 18% to 19%, an increase from our initial outlook of 17%. Our guidance includes about 1.5 points of growth from the acquisition of Honey at the midpoint of the range.

Consistent with our preliminary outlook, this revenue guidance includes an approximate one point headwind to growth from the lapping of our acquisitions of iZettle and Hyperwallet as well as an approximate one point headwind from eBay's managed payments transition.

In 2019, revenue from eBay's marketplaces business declined 4% and represented 14% of our revenue, an approximate 300 basis point decline from 2018. Since the end of 2015, eBay's annual contribution to our revenue has consistently declined from 26% of our total to 14% today, and has grown at a compound annual rate of 2%.

Over the same period, the rate of growth for the rest of our business has been 22%, or 10 times eBay's growth rate. As a result, we remain confident in our ability to successfully navigate eBay's continued transition to its managed payments program.

I'd now like to turn to our EPS guidance.

On our third quarter call, we indicated that our preliminary outlook for EPS growth in 2020 was 17% to 18%. Since then, our expectations for core earnings growth have improved.

Before incorporating the impact of the two acquisitions we recently closed, we now expect our EPS to grow between 18% and 20%. This growth rate of 18% to 20%, incorporates a one point headwind to earnings growth from CECL, while reflecting our underlying business strength.

In addition, we expect $0.08 to $0.10 in dilution or about a three point headwind to earnings growth from our acquisitions of Honey and GoPay. As a result, we now expect non-GAAP earnings per share to grow 15% to 17%, and be in the range of $3.39 to $3.46.

While we expect the acquisition of Honey to be dilutive this year, we expect this transaction to be accretive to earnings of 2021.

Honey is an exciting addition to our platform. And this year, we will be accelerating investments to develop a truly integrated and differentiated wallet experience for our customers. We are also realizing dilution in 2020 from funding this acquisition with cash.

In addition, in 2020, following our acquisition of GoPay, we're investing in our local Chinese infrastructure and capabilities, and building upon our new partnership with China UnionPay to strengthen the foundation of our cross-border platform for small and medium-sized Chinese businesses, and develop a cross-border shopping experience for Chinese consumers. We will also be investing to enable in-store shopping experiences for non-Chinese consumers visiting China.

I'd also like to provide some context for our expectations related to our operating margin performance. In 2019, we expanded our operating margin by approximately 160 basis points, or nearly three times the average annual rate of expansion contemplated by our medium-term guidance.

In 2020, we expect our operating margin to remain essentially flat as a result of absorbing acquisition-related dilution while continuing to invest in our other key strategic initiatives.

This year, as Dan just discussed, in addition to prioritizing spending on our recent acquisitions, we're also investing in Venmo, our new partnerships, international expansion, and our in-store point-of-sale strategies. We expect to deliver operating margin performance consistent with the highest in our history, while investing in these significant growth opportunities.

We anticipate our non-GAAP effective tax rate will be between 16% and 18%. For 2020, we expect free cash flow to exceed $4 billion, as we continue to generate approximately $0.20 of free cash flow for every dollar of revenue.

In 2019, we returned more than $1.4 billion in cash to shareholders through stock repurchases and announced approximately $4.1 billion of acquisitions. In 2020, we will continue to balance return of capital with growth investments, while maintaining an efficient capital structure.

Our acquisition pipeline is healthy and our balance sheet gives us the flexibility to be opportunistic. At the same time, we plan to continue to return cash to shareholders, consistent with our stated commitment for long-term capital return.

For the first quarter, we expect revenue in the range of $4.78 billion to $4.84 billion, or 17% to 18% growth on a currency-neutral basis. We expect non-GAAP earnings per share to be in the range of $0.76 to $0.78, representing growth of 15% to 18%.

Excluding the impact of acquisitions, our earnings guidance represents 19% to 22% growth.

We expect our acquisitions announced in 2019 to have a more dilutive impact on earnings in the first half of 2020 than in the back half of the year. As a result, the $0.08 to $0.10 per share of expected non-GAAP earnings dilution is more heavily-weighted to the first and second quarters of 2020.

In summary, we're pleased with our performance in 2019. We delivered strong revenue growth, our highest operating margin, and record operating margin expansion and free cash flow generation. At the same time, we advanced our strategic priorities in our core and developing markets, strengthened our consumer and merchant value propositions, and launched new partnerships that are expanding our total addressable market.

We're committed to our medium-term financial targets and are confident that the strength of our diversified platform, flexibility of our balance sheet, and execution capabilities, will allow us to continue delivering value to our stakeholders.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Our first question comes from the line of Tien-tsin Huang with JP Morgan.

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

Thanks. Good afternoon. Lot of good information here. So, I'll ask on the outlook, if you don't mind. Just your guidance this year versus last year. Aside from Honey, how would you characterize overall visibility this year versus this time a year ago? It seems like you have more in your control, but still lots of moving pieces. So, would love your thoughts on visibility.

A - Dan Schulman {BIO 1895545 <GO>}

Yeah. Thanks, Tien-tsin. It's Dan. I'll start on that and then maybe John will fill in on it. First of all, we had a strong Q4, and actually a even stronger back half of Q4, an holiday season was strong for us. December was strong. And frankly, we're seeing a strong January, as well. And that comes from a couple of things that we actually really didn't have the year before.

First of all, I think we're executing a lot better than we have for quite some time. Second and really important, because we have the visibility in this. we've seen the pricing that we talked about start to get implemented, it's implemented in a number of countries, we still have more countries to even roll that out into, but that's going exactly according to plan, we signed a number of very large deals at the end of the year, we implemented many of those in December, and we're seeing that those growth rates begin to kick-in those are deals like Paymentus that we've talked about, but other very large multi-billion dollar deals as well. And so, we entering this year really a fundamentally different place than we are entered the year in before, a lot of momentum.

For instance, we feel very comfortable with our forecast around TPV, we're talking about TPV being in the mid-20s that was 22% in Q4, but of that 22% to actually 200 basis points I guess, was because of the lapping of iZettle. So, if you normalize for that, you're at 24%. A little weakness in eBay, and then we've got these big deals that are already implemented accelerating others like Uber to come and we feel very comfortable with our TPV accelerating into the mid-20s.

So, I'd say overall, we're pretty excited about where we're starting-off the year. Things that we already have in place, and we have a ton of initiatives that we're excited about as well. So, I don't know John, would you add to that?

A - John Rainey {BIO 17599063 <GO>}

Yes. I may underscore a couple of points that Dan mentioned. I think what's notable Tien-tsin about this year versus last year is in particular, how we're starting-off the year. There's always a certain amount of trepidation that exists about the macro-economy. But I think the macro-economy was maybe a little wobblier last year, and we certainly enjoyed I think a better holiday season this period as we looked at the month of December even going into January.

And so, we're starting-off on the right start, but also, I'd underscore the point he mentioned around execution, we recognize that we have a pretty precious opportunity here at PayPal, when you combine the secular tailwinds of our business with the incredible assets that we have when you look at our portfolio of products. And it's incumbent upon us to execute, and I think the team is executing as well now as they ever have. So, I think that gives us more confidence than the on a relative basis versus last year.

Operator

Thank you. And our next question comes from the line of James Fossett with Morgan Stanley.

Q - James Fossett {BIO 1748514 <GO>}

Great. Thank you very much. I wanted to touch on -- you touched on a lot of different incremental market opportunities, but I want to touch on Venmo and the efforts to continue to develop that as a separate brand. Can you talk a little bit about kind of what the objectives are for growing Venmo monetization during 2020 and beyond? And how we should be measuring those? And I guess, kind of dovetailed with that, now that Visa owns Plaid, it seems like -- just wondering, how that may impact the ability to grow Venmo and some of these other ancillary services whether it be internationally et cetera. Thanks a lot.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. James, thanks for the question. We continued to be pleased every quarter with the performance of Venmo. Even as it's gotten larger, we've seen strong net new actives we have got 52 million now at year-end. We said, we thought Venmo would wind up with over 100 billion of TPV, and it wound up at 102 billion It's up about 60% for the year, exited I think at about a 56% growth rate. Revenue run rate right now is over $450 million. And as we're getting that scale on the revenue side, we're beginning to see losses reduce as well each year. So we kind of have a line of sight to when breakeven is and when this starts to actually turn profitable, as well we don't want to slow down its growth at all. We want to keep enabling Venmo to grow as rapidly as possible. But we're really pleased with this trajectory and I expect to see good revenue growth continued strong strong revenue growth on the Venmo side.

We are adding new capabilities, all the time debit is continuing to expand. We are going to put a big emphasis on pay with Venmo. There's a lot of work going on around that right now, because we think that's a very big opportunity that, we did not take as much advantage of last year as we probably could have. As I mentioned, we are going to be developing a credit card that was a very competitive process with a number of issuers looking to work with us on that, it's very competitive on the network side too. So, we're really pleased with the economics around that.

You'll see us add things like just like goods and services. Goods and services is one of the biggest money makers on the PayPal P2P side, we're going to add that into the Venmo side and there are a number of other monetizable services that you'll see come out, that we will reveal in good time as they are introduced.

In terms of Plaid, we've worked quite closely with Plaid, in terms of using Plaid to integrate into bank accounts of different banks, we are working sometimes with some of the larger banks to integrate directly, and with Plaid really for quite a number of the banks and really for that long tail. We were really happy with the acquisition of Plaid by Visa. We've worked obviously, very, very closely with Visa and MasterCard and the other networks, we're an very closely with Visa. but investor in Plaid, so we know them quite well. And I think the security enhancements that Visa will do on top of the Plaid network will have the banks, more comfortable in utilizing Plaid, Visa obviously has a tremendous global scale.

And as you saw on the Plaid announcement from Visa, I was one of the folks quoted on that, because we really look forward to working with Visa to see how we can take advantage of this joint platform now that they own Plaid, and there could be a lot of different opportunities as a result of that. I hope that, answers your question, anything else John?

A - John Rainey {BIO 17599063 <GO>}

Nope.

A - Dan Schulman {BIO 1895545 <GO>}

Thanks for the question James.

Operator

Thank you. And our next question comes from the line of Bryan Keane with Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, guys. Good afternoon. John, I was just hoping to get a clarification on the TPV. The FX-neutral growth dropped from 27% in 3Q to 22% in 4Q. So, I just want to understand that delta, but probably even more importantly is the walk or reacceleration to the mid-20% going into this year. So, I know, I'm not sure, how much Honey is a factor there or the Uber, UnionPay, MELI deals maybe you could give us a walk on how to get back to that mid-20s TPV. Thanks.

A - John Rainey {BIO 17599063 <GO>}

Sure, Bryan. So it's good to speak with you. So, if you look at our TPV, whether you look at overall or international, the biggest single driver of the decline is related to the lapping of the iZettle acquisition. In fact, if you just looked at International TPV the entirety of that four point decline is attributable to iZettle. But looking at TPV in total, there are some other factors, but one is obviously eBay. We saw about point declined related to eBay, and if you sort of decompose that a little bit even look at our transactions, and you look at the various parts of our business, the transactions related to eBay decline 6% for us in the quarter.

And so this has been something that we talked about the next year will begin that period where we will transition away from that, but we're still seeing the rest of our business grow quite well. And so, as we look into 2020, there are a number of things that will bridge that back to the mid-20s, part of it is just the acceleration, we're seeing in the business right now as Dan alluded to in the December, January timeframe. But we've got International expansion going on next year.

We've got some work being done with large merchants. You know that we're ramping up with Paymentus and then other parts of our business that we're emphasizing more like recurring payments, subscriptions, bill pay that give us confidence that we'll be able to achieve that mid-20s TPV number, even in a period where we are transitioning away from eBay, and I think it's worth mentioning. And doing it while expanding operating margins in 2019, and giving us the latitude to make the investments that we need in 2020 to continue this trend of mid-20s TPV growth into the future.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. I'd just add a little bit onto what John said. What probably pleased me the most about Q4 is to see coming out of it the reacceleration of a lot of our core trends our core business started to accelerate Braintree, even though it's gotten larger and larger, I'll bet its growth rate will be larger than it was this year going forward. We know what deals we have in place and we know we've got -- I would say quite good visibility into what our TPV looks like. So, we're very comfortable with that, projection on that and we're seeing it in our trend lines.

Operator

Thank you. And our next question comes from the line of Lisa Ellis with MoffettNathanson.

Q - Lisa Ellis {BIO 18884048 <GO>}

Good afternoon, guys. Question on China. Now that you've successfully acquired the majority stake of GoPay and then signed the more recent expanded agreement with CUP could you just provide a bit of color on your overall market entry strategy to the domestic market there? Meaning, are you more focused on say building out the presence of the PayPal wallet, as a competitor to some of the local digital wallets? or are you more focused on Braintree and building out broader payment processing, could you give us a little bit of color there? Thank you.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. Sure. I'll take that and then John can do that. Lisa the first idea that we had working with the PBOC is, people now need to have a legal basis to have a payments license inside China, to provide both cross-border and domestic payments capability. We worked over the last several years closely with PBOC, and we invested a lot of dollars and resources into our compliance and risk management efforts across the business.

So, not only do we have a close relationship with PBOC, but now with the regulators around the world, that legal basis allows us to look at cross-border and work very closely with multinational that have established shop in China, we are one of the few now platforms where that international payments traffic can go over. We also now have the ability to work inside of China, with either folks like CUP, other tech platforms, financial institutions inside China, to link their cards into our wallet so Chinese consumers, can use our platform to do purchases at our 24 million merchants outside of China.

One of the most exciting things that we have though going on because as -- is the agreement that we have with UnionPay international and China UnionPay is really, a landmark arrangement. I mean inside China, China UnionPay is the network it's the equivalent of deals that we might have struck with Visa MasterCard discover and Amex all-in-one. It's that significant in terms of a player, and obviously we have very close relationships with the banks. And we believe that we can start linking their payment instruments into our wallet in China UnionPay and PayPal will be looking to expand acceptance of the PayPal wallet with Chinese merchants and that will enable, also Travelers coming into China to be able to use PayPal wallet to purchase and as you know Lisa, probably better than anybody on this call.

If you're going to be buying things inside China it is with your mobile phone. It is with QR codes and if you're a visitor coming in, it's difficult to start to do those purchases, and you'll now be able to use your PayPal account to go and do that, again, this will take some time to develop and implement but that is our vision and I would also say in our conversations with some of the key players inside of China, other capabilities on our platform like full-stack processing. They are interested in utilizing those capabilities and working with merchants as well.

So, it's a relatively comprehensive set of opportunities we have. I know some folks believe, because obviously the strong positions that Ali and WeChat have inside the company, wondering how much opportunity this is an explosive market, we are going to be working hand in hand with key Chinese players inside the market give strength in cross-border and we think the combination of that, offers a significant opportunity for us again this will play out over time. But I have to say we're pretty excited in investing against this opportunity.

A - John Rainey {BIO 17599063 <GO>}

Lissa, I'd add I think a couple of points. It is a significant investment that, we are managing in 2020 and it will carry into 2021, but it's also a significant opportunity. Just the estimates that I see is, by next year, China will be 40% of worldwide cross-border TPV, and this is a market where we have roughly 1% penetration into their 0.5 billion digital users and you compare that to our core markets where we are significantly penetrated.

If we can turn that 1% into 2%, 3%, 4%, 5% that's a big opportunity for us, but I think one thing I'd want to emphasize around this investment is the things that we're doing in China and the way that we're investing there it's a scalable solution for other markets.

So we're approaching this as if there will be other opportunities where we can have a much more prominent presence in those markets versus kind of dabbling in some of these markets like we do today without our full product. And so we're taking a very long-term perspective and investing appropriately given the significance of the opportunity.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Darrin Peller with Wolf Research.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. Look it's good to see your confidence in TPV growth being mid-20s again for the year. I assume a part of that is engagement. Engagement obviously did well this quarter. It was up 10% accelerated. Just I'd love to hear more about the drivers of that. how sustainable that is. Do you expect that 10% growth rate to either stay the same or get better. And then when we think about, Honey, a big part of our thesis on Honey's that the flywheel effect could help that even more. Can you just touch on the opportunity there as well? Thanks guys.

A - Dan Schulman {BIO 1895545 <GO>}

Yes. Darrin, it's Dan. Thanks for that question. I think you know from talking to us that engagement is one of the most important drivers for us and we are very focused on it. When I started -- some almost six years ago now, we were at 17 times a year, we're at 41 right now, But look our goal and we realize that this is aspirational, is for somebody to use

PayPal or Venmo every single day that is our goal is to have daily engagement with that. We have a long ways to go before we get there.

Honey, we think significantly increases our engagement with consumers. It allows us to be more towards the beginning of the shopping journey, more towards the intent piece of this. The great thing is that one third of all Commerce transactions start with some sort of trigger based event, whether that be a promotion or some kind of deal, and Honey enables us to take full advantage of those trigger based type of capabilities and, Honey is not just, coupons. It's far from it. It's a mobile shopping assistant, it's an offers platform, it provides rewards It's price tracking tools and alerts They are droplist and wish list that kind of thing. And so we think and by the way, the Honey team had already saved last year alone its customers $1 billion dollars of opportunity on products and services. And so we think there's a lot of opportunity for engagement and scaling of that Honey app as we integrate it into the PayPal and Venmo apps.

But that's only one part of what we're thinking about in terms of engagement. We talked about Paymentus and a lot of what we people think about Paymentus as the full stack integration that we're doing with them. And -- but we're also going to be implementing bill pay capabilities into our consumer apps. Bill pay is obviously another form of engagement. John mentioned recurring payments, whether it be your Spotify, Hulu, Disney any of a number of recurring payment streams where we can make it simple and easy for you to pay that if your credit card expires we will automatically update it. You don't have to keep pulling that out. And so we're going to do a ton around that, and one of the big areas of opportunity for us is starting to move into the offline space. 10%-12% of commerce is done online and mobile. That's obviously growing rapidly.

But, if you look at the tremendous opportunity around the world and even here in the United States beginning to move into offline through things like whether it be iZettle capabilities on the merchant side, whether it be through all the cards and we're a major issuer of cards right now, tied into your PayPal account or through QR codes, which we are already experimenting with and if you look inside your PayPal app or your Venmo app, you'll see prominently displayed a scan capability or the ability to show your own QR code to be scanned by a merchant, and we have the wherewithal in all Android phones, but not Apple phones yet to be able to use the NFC chip to be able to do -- tap to pay capabilities.

And so that will be another big thing that we'll be investing in this year all around driving engagement. And the big thing about engagement, If you think about net new actives, when you get to be the scale that we are now with 305 million people on our platform. Every time you start to improve that engagement churn comes down as well and lifetime value starts to go up. And so this can be a real flywheel for us and we are investing heavily in our engagement activities and I would expect to see good engagement growth.

Operator

Thank you. And we have time for one last question from David Togut with Evercore.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good afternoon. Bridging to Darrin's question. If you could perhaps expand upon integration plans and priorities for Honey science. And then, just as a quick follow-up, now that you own Honey for a few weeks, any updated thoughts on capital allocation priorities between share repurchase and further acquisitions?

A - John Rainey {BIO 17599063 <GO>}

David, I'll start with the last part of your question. And let's Dan, talk a little bit about some of the integration plans. What we are -- we don't anticipate changing our capital allocation priorities going forward and as a reminder that spending about 40% to 50% of our free cash flow towards returning buying back stock -- returning cash to shareholders. And then $1 billion to $3 billion per year in acquisitions.

Again, I'd point to the cash generation of our business and I think that gives us in some ways a competitive advantage versus the other players in the landscape that we compete with because, we have the opportunity to go out and acquire companies and acquire capabilities, as well as invest internally, as well as return cash to shareholders. And many times, things that we want to go after inorganically allow us to be faster to market or to provide capabilities that we maybe think are better than others. And so, we'll continue to be acquisitive. We'll continue to return cash to shareholders and we'll continue to invest in ourselves.

A - Dan Schulman {BIO 1895545 <GO>}

And David, let me go and -- but before I answer that, operator, I think we have time for one more question after this. So maybe we'll just keep the line open for one more additional question.

So quick update on Honey. First of all, I said this in my opening remarks, I want to emphasize that the caliber of that Honey team is extraordinary they are great product engineers. They react extraordinarily quickly, when we acquired Xoom admittedly that was a number of years ago and our tech stack did not have the whole of the service oriented architecture that we have today. But we were able with Xoom it took us something like six to nine months to integrate login with PayPal onto the Xoom app with Honey day number one PayPal customers could login with their credentials right onto the Honey app.

Day number one, we were doing cross-marketing together. We have a full plan over the course of the year by quarter on exactly functionality that we are integrating together. The big thing for us is to integrate Honey into our mobile apps, we have significant scale on those mobile apps, and it's a relatively heavy engineering lift, but we are looking at that in the back half of this year, but there are a host of payment capabilities that we will integrate into the Honey app, going forward that are payment capabilities, credit type capabilities and so we've got a full integration plan in place I'm pretty pleased with the execution against that as John mentioned, our execution capabilities are humming along pretty well right now.

And I do think the combination of Honey and PayPal is a very, very strong one. I think we can enhance the ways we serve both consumers and merchants. Looks Merchants who are looking to us for full solutions right now, are looking to our products to basically increase their sales, in a world of digital commerce and Honey is a big tool set for that and we are excited about working with not just the 30,000 merchants they have today but pretty dramatically, accelerating that.

And obviously, it drives engagement and savings for consumers. It enables us to move beyond check out, we can enable personalized, timely relevant offers for consumers and become a highly value added partner to our merchants. So we're quite excited about it, pleased with the integration so far, a lot to do but we're very focused on it. One more question offer.

Operator

Thank you. And our last question comes from the line of Heath Terry with Goldman Sachs.

Q - Heath Terry {BIO 3406856 <GO>}

Great. Thank you. I know you've talk a lot about China and some of the other bigger initiatives in 2020 already, but can we step back and just talked about and maybe even prioritize sort of where those investment priorities in 2020 fall and the incremental cost that you see associated with them, where those fall in the guidance? And then as we look out over time sort of the ability that you see to sustain operating margin expansion over time as you take on those incremental costs?

A - John Rainey {BIO 17599063 <GO>}

Sure, Heath. This is John. If this is John, I'll tackle that.

Q - Heath Terry {BIO 3406856 <GO>}

Thanks John.

A - John Rainey {BIO 17599063 <GO>}

Well It's not a comprehensive list. I would say a couple of things that stand out in terms of our investment priorities for 2020: one would be the consumer value proposition. And a sub-bullet or sub-bullets underneath that Honey, as well as what we're doing with expanding our offline point of sale offerings. So that's a big investment priority. Also Venmo is a big investment priority and I'd also throw in there international expansion all of those and international expansion includes China.

So all of those things are significant cost and really are of a significant magnitude that absent that we'd be expanding operating margins again next year. But I'll point you to a number that I think maybe can help direct you to, how to think about our long-term capability to expand operating margin.

So in the quarter, if you looked at our incremental operating margin. So the incremental growth in operating income divided by the incremental revenue was roughly 35% and I think that's a fantastic number and one that has really been pretty consistent throughout the year, but at a much higher level than what it's been in previous years.

And this is the point that I continue to go back to about our ability to grow our platform at a low incremental cost. And if we can continue to generate the type of revenue growth that we have and do it at a low marginal cost, that results in incremental operating margins, north of 30%. Then I'm confident, we're going to create a lot of shareholder value here and I think that's a good way to think about our business long term.

Q - Heath Terry {BIO 3406856 <GO>}

Yes.

A - Dan Schulman {BIO 1895545 <GO>}

Yes, and I'd just add to that. I mean, I think about our guidance for 2020. This is the beginning of the eBay transition. We're ending the year closing in on $18 billion and we are talking about FX neutral revenue growth of 18% to 19%. We're looking at, excluding acquisitions something like 19% to 21% EPS growth, especially absorbing the CECL impact on that, if you look over the last three years our EPS CAGR has grown at 27%.

And so we have really strong conviction in our ability to execute against our medium-term guidance. And I think John's right, we want to invest, we want to seize the growth opportunities that are ahead of us and do that in a way that's consistent with the medium-term guidance that we've put out as well as execute year-over-year.

So, I think we're feeling like we're entering into 2020 in a strong position and it gives us more confidence than we had when we have entered into last year, and a lot of conviction around our medium-term guidance.

Q - Heath Terry {BIO 3406856 <GO>}

Thanks, John, really appreciate it.

A - John Rainey {BIO 17599063 <GO>}

You bet. So, I want to thank you Heath for that question, and thank all of you for joining us today. We really appreciate your time, and we look forward to speaking with all of these soon. Thanks a lot.

Operator

This concludes today's Q&A session. Ladies and gentlemen, thank you for participating in today's conference call. This concludes the program. And you may now disconnect. Everyone have a great afternoon.