Q4 2016 Earnings Call

Company Participants

- Bill Ready, CFO and Executive Vice President
- Dan Schulman, President and CEO
- Gabrielle Rabinovitch, Senior Director of IR
- John Rainey, EVP & CFO

Other Participants

- Ashwin Shirvaikar, Analyst
- Bryan Keane, Analyst
- Darrin Peller, Analyst
- James Cakmak, Analyst
- Lisa Ellis, Analyst
- Scott Devitt, Analyst
- Tien-tsin Huang, Analyst

Presentation

Operator

Good day ladies and gentlemen and welcome to the PayPal Fourth Quarter 2016 earnings conference call. At this time all participants are in a listen only mode.

(Operator Instructions)

As a reminder this conference call is being recorded, I would now like to hand the floor over to Gabrielle Rabinovitch Senior Director of Investor Relations. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Karen. Good afternoon. And thank you for joining us. Welcome to pay health holdings earnings conference call for the Fourth Quarter full-year 2016.

Joining me today on the call are Dan Schulman our President and CEO, John Rainey, our Chief Financial Officer and bill ready our Chief Operating Officer. We are providing a slide hesitation to complete our commentary. This conference call is also being broadcast on the Internet and both the presentation and call are available to the investor relations section of our website.

Discussing certain historical year over year comparisons, we have chosen to present non-GAAP Pro forma metrics. Because we believe that these metrics provide investors a consistent basis for viewing the Company's performance across different periods. We will also discuss some non-GAAP measures in talking about our Company's performance including the non-GAAP Pro forma metric mentioned above.

You can find a reconciliation of these non-GAAP metrics and the most directly comparable GAAP metrics and 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 Fourth Quarter and full-year 2017.

Our actual results may differ materially from those discussed in this call. You can find more information about risks, uncertainties. And other factors that could affect our operating results in our annual report on form 10K 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 26, 2017.

We 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.

I am pleased to report that PayPal ended 2016 with another solid quarter of financial results. I am proud of all the accomplishments of the PayPal team delivered. Yet it in so many ways, we are just scratching the surface of the market opportunities in front of us.

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

We believe all of these secular trends play into our strengths and leave us well-positioned to drive our future growth. In the face of a noisy, competitive market, we extended our industry leaderships by growing our active account base by $18 million with greater engagement than ever before. We introduced a host of new innovations across our merchant and consumer value propositions.

We took the clear lead in online conversion through one touch. We now offer a full suite of products and services to our merchants on an integrated platform that supports 100% share of processing contextual commerce API tool sets, rewards integration and credit. And we bring to our merchants an increasingly active and growing base of consumers who are ready to transact across online, in app. And in-store environments.

In the past year we significantly increased our market opportunity with a series of transformative strategic partnerships with the networks financial institutions, tech companies. And mobile carriers. We accomplished this by putting our customers first in everything we do. Recall this being a customer champion and this philosophy guides our every action.

At the end of fifth landmark year with PayPal, we feel well positioned to deliver sustainable and profitable growth in 2017 and beyond. Let me start with a quick recap of our results. Then John will provide more details in his remarks.

As I mentioned, we delivered a solid Fourth Quarter. We reported $0.42 of non-GAAP EPS at the top-end of our non-GAAP guidance of $0.42. We delivered 2.981 $2.981 billion in revenues an increase of 19% on an FX neutral basis.

This is at the high end of our guidance of 16 to 19% growth. And we generated $771 million in free cash flow. For the full year, we delivered $1.50 of non-GAAP EPS, which came in at the top of our initial full-year guidance of $1.45 $1.50.

Our revenues grew 21% on a pro forma FX-neutral basis above our initial 2016 guidance of 19%. And despite the increase size of our revenue base, we grew faster in 2016 than in 2015. We ended the year at $10.84 billion of revenue and we generated two and we generated $2.5 billion in free cash flow, well above the initial guidance we provided.

Perhaps more importantly, the underlying drivers of our revenue growth saw continued strong performance throughout Sunday 16. We ended the year with $197 million active customer accounts, adding 5.4 million new accounts in Q4, our highest organic total in two years.

Customer engagement in the Fourth Quarter increased to 31 transactions per active account up from 27 a year ago and 30 last quarter. Our growth in Q4 came from across our global platform and we benefited from a notable shift in consumer behavior.

Holiday shoppers increasingly bought gifts online and with their mobile devices through convenient omni-channel shopping experiences. For PayPal this helped drive a 25% increase in payment volume increasing in $99.3 billion of payment volume in the quarter. According to Internet retailer, Black Friday, 2016 was the largest mobile shopping day in history.

Between Thanksgiving and cyber Monday, PayPal processed more than $2 billion in mobile payments and mobile accounted for a third of our overall payment volume during the quarter. Mobile is becoming an increasingly important competitive differentiator for PayPal. More than half of our active account base transacted on the PayPal platform using their mobile device of the last 12 months.

The scale and reach of our platform clearly separates PayPal is one of the world's leading some tech companies. In 2016 we are processed over 6 billion payments an increase of

24%. This represented a total payment volume of 354 billion flowing through the PayPal platform, of which more than $100 billion was mobile payment volume an increase of 55%.

We saw strong growth in peer to peer payments with P to P payment volume growing 67%, more than $64 billion for the year. Braintree ended the quarter with 428 Braintree ended the quarter with 428 million cards on file and as well over 1 billion financial instruments on file. Venmo was named one of Time Magazine's best apps of the year and one of Fortune's ten breakthrough brands.

In Q4, Venmo processed $5.6 billion in payment volume an increase of 126%. In December, for the first time, Venmo passed the $2 billion mark in monthly payment volume, further demonstrating its rapid growth. As you may recall, Venmo processed $1 billion in monthly TTB for the first time just last January.

For the full year, Venmo processed $17.6 billion up 135%. It's been several years since we expanded our mission to be more than a button on a website. We have evolved to become the platform and payment partner of choice for merchants around the world as they move towards a multichannel retail experience, driven by the mobile phone.

For example, with Braintree commerce infrastructure tools, we are creating simpler ways for merchants to offer contextual commerce experiences that transform the way consumers shop and pay. Braintree's forward API let's merchants securely share payment data with other sites and apps allowing customers to purchase from multiple merchants in a single convenient and secure experience. This capability was initially deployed to support interest viable pins and is now being used by merchants across the world including global travel site, sky scanner and by Yelp for their new product Yelp cash back.

One touch has a redefined online checkout. Simply put, it produces by far and away the best conversion rates in the payments industry by making at the faster and simpler for customers to pay with a single task. It's adoption has well exceeded our projections.

We ended the year with over 5 million merchants offering one touch to more than 40 million consumers. PayPal has the unique distinction and the corresponding benefit of having a deep and trusted relationship with almost 200,000,000 merchants and consumer accounts through our two-sided network. This means we can deliver new payment experiences like one touch with the speed and impact that is truly differentiated.

EBay and PayPal have always enjoyed a close partnership. EBay CEO, Devin Wenig and I are committed to further strengthening what is already a strong relationship. We are working closely to create better payment experiences with her buyers and sellers.

For example, our teams collaborated this past year on new customized checkout experience that helped to reduce cart abandonment, increased loyalty. And help buyers seamlessly transact on the eBay's platform. As we look to 2017, receiving greater opportunities to work together. In the quarter, we were also glad to welcome several great brands to our platform.

These included auto, Dot DE, the second-largest retailer in Europe, Crate & Barrel which now offers PayPal as a payment option on its web and mobile sites. And on the CB2 and Land of Nod sites for their global customers. Square Space, an all in one websites publishing and commerce platform, now lets its more than 1 million paid subscribers seamlessly integrate PayPal into their online stores.

To give you an idea of the demand for PayPal, within the first 24 hours of launching, saw hundreds of Square Space merchants integrate into PayPal and that demand continues. Finally consumers can now create and campaign on GoFundMe on behalf of their favorite charity. By doing so to take advantage of the PayPal giving funds ability to receive and process donations and avoid the complexity of having to handle the funds themselves. Last year, highlighted our commitment to putting our customers front and center.

That led to our decision to offer greater customer choice in our payment experiences. This in turn has recast the competitive landscape from PayPal. And is able to landmark partnerships and alliances that continue to expand and extend our opportunity for growth.

These partnerships are focused on giving consumers the freedom and flexibility to use PayPal anywhere they want: in stores, in apps, online. And in new context with a consistent, convenient. And secure experience. Following the announcements of our strategic ownership with Visa on our Q2 earnings call and MasterCard in Q3, in the Fourth Quarter we announced our first partnership agreements with financial institutions. These include agreements with Citi, the largest global credit card issuer and Fidelity National information services known as FIS which represents thousands of financial institutions.

This is just the beginning. As our conversations with almost all leading financial service players are warm and welcoming. Earlier this month, we announced the strategic agreement with Discover financial services.

This partnership allows the PayPal wallet to be closely linked to discover cardholders, acquirers and merchants. That will allow PayPal customers to link their Discover cards to purchase online in app and in store at contact list enabled merchants in the US. And in a first for us, PayPal customers will be able to use their Discover cashback bonus to pay for purchases at the millions of online and mobile merchants that accept PayPal. We expect that reward points will become an easy, convenient. And alternative funding source for customers of PayPal and our financial institution partners to pay for online and mobile shopping through the PayPal platform.

As mobile and digital payments continue to provide new opportunities to bring consumers and companies closer together we are partnering with other market leaders across a variety of industries. In the Fourth Quarter we entered into and extended partnerships with cellular carrier software providers and leading consumer brands.

One prominent example of this is the global partnership agreement we announced with Intuit. Building on successful regional agreements, we are now deploying our express checkout in more than 1.5 million Quick Books small businesses and self-employed customers worldwide. The PayPal and Intuit partnership gives business owners simpler and faster ways to accept invoice payments and significantly accelerate the speed with which they can collect funds.

Based on our rollout in Australia, we found that merchants who offered PayPal payments in their Quick Book invoices were paid two times faster than it took to get paid without PayPal. This meaningful improvement in cash flow is crucial for the SMB market. We are proud to bring this benefit to its customers. Our partnerships with Facebook, Google, America mobile, (photo comp), Holiday Express and other financial institutions and major retailers continue to grow as our as our platform capabilities expand. 2016 was a transformative year for PayPal.

Our separation from eBay afforded us an opportunity to sign a unique, meaningful. And expansive mission for our Company. I believe our expanded focus and value proposition allowed us to widen the distance from our competitors. We upgraded our platform, invested significantly in our global compliance capabilities, improved our developer tool sets and drove our scale and engagement through a unique and enhanced value proposition. We are inspired and focused on the opportunities in front of us and we look forward to providing ever more value to our customers and our shareholders.

Before I conclude my remarks, I'd like to take this opportunity to publicly welcome the newest member of PayPal's board, Belinda Johnson. Belinda has built an impressive track record at Airbnb. She has been a key architect and their growth. And has helped to chart new business approaches and innovative customer experiences.

She has already proven to be a great addition to our board and we look forward to her valuable contributions. And with that, let me handed over to John.

John Rainey {BIO 17599063 <GO>}

Thanks, Dan. I also want to thank all of PayPal's customers and our employees worldwide for making 2016 a great year. Since our founding in 1998, this is the first full year that PayPal has done independent public Company and we achieved many significant milestones that set us up for success for many years to come.

We are strategically positioned to deliver sustainable and profitable growth. Our comprehensive ownership strategy and focus on MobileFirst product innovations puts our customers at the center of every thing we do, while giving us access to multiple developing channels across the digital payment system.

Before I go into details on the quarter, I'd like to provide a few highlights for the full year.

Revenue for the year was $10.84 billion growing 21% on a pro forma currency-neutral basis. Non-GAAP EPS grew 17% on a pro forma basis to $1.50. Free cash flow grew 36% to $2.5 billion and in the year we returned $1 billion to shareholders. For the Fourth Quarter total payment volume was $99 million, up 25% on a currency-neutral basis. Excluding the year over year impact of Xoom, currency-neutral TTP growth would have been similar to the Third Quarter. In Q4, US payment volume grew 23% and international volume grew 27%.

Our merchant services I am group 30% on a currency-neutral basis to $84 million. Margin services now represents approximately 84% of our total volume with our eBay volume representing approximately 16%. In the Fourth Quarter, we added more than 5 million active accounts, ending the year with 197 million active accounts and representing growth of 10% from Q4 last year.

Active account growth was driven by our PayPal core business as well as Venmo. The number of payment transactions per active account increased to 31, up 13%. Each quarter since separation we have seen double digit growth in both active accounts and engagement.

Growth in these two metrics resulted in a 23% year over year increase in payment transactions to 1.8 million. In the Fourth Quarter we generated revenue of approximately $3 billion, representing growth of 19% on a currency-neutral basis and 17% on a spot basis. Transaction revenue increased 18% on a currency-neutral basis in the quarter driven by our core PayPal and Braintree businesses, both of which continue to perform very well.

Included in transaction revenue, were hedge gains of $50 million in the quarter. In addition revenue from other value-added services group 26% on a currency-neutral basis, driven predominantly by credit. For Q4 our total take rate was 3% and our transaction take rate was 2.63%.

As we move through 2016, we saw diminishing pressure on transaction take rate. The decline in transaction take rate has improved for each of the last three quarters. And in Q4 the rate of decline on a year-over-year basis was the lowest since separation.

The primary factor contributing to the year over year decline in intake rate is the performance of our P and E business, as strong growth from Venmo and core continue to impact the rate. While they contribute to the year over year change in take rate, they also strengthen our value proposition and support higher levels of engagement across our consumer base. Our Fourth Quarter results demonstrate that we can invest in our long-term growth opportunities, while managing the take rate decline.

Transaction margin in the Fourth Quarter was 57.7%. Our volume-based expenses were up 27% in the quarter. Transaction expense was $954 million. Up 27% driven by funding mix.

To date the impact of our consumer choice initiatives has been well within the range of outcomes we previously contemplated. Transaction loss in the quarter was $184 million, or 6% of revenue. Loan losses in the quarter were $123 million.

The consumer net charge-off rate was 7% in Q4 and 6.4% for the full year. The overall performance of our credit topics in Q4 was consistent with our expectations entering the quarter. Across consumer and margin credit, we ended the year with a gross receivables balance of $5.7 billion and a total reserve of $336 million.

This year we increased the reserves to reflect the growth in our loan portfolio, as well as our loss experience and later stage doing buckets. Other operating expenses increased 7%. The lowest rate of growth since separation, driven by strong expense discipline. Excluding Xoom other operating expenses only increased 6%. We completely offset the decline in transaction margin with leverage from other operating expenses.

Looking forward, we see disciplined cost performance across every area of our business. We're in the early stages of a journey that we expect will transform our business into one that scales more efficiently and we are encouraged that we are already seeing results. In the Fourth Quarter, non-GAAP operating margin was 20.8% consistent with last year.

Non-GAAP operating income grew 16% year over year to $619 million resulting in non-GAAP EPS of $0.42 in the quarter. Capital expenditures were $152 million, or 5% of revenue. In addition, we generated $771 million of free cash flow in the quarter, up 30% in % year over year and representing $0.26 free cash flow for every dollar of revenue. For the full year, we returned $1 billion to shareholders and we ended the year with cash, cash equivalents. And investments of $6.7 billion, including approximately $1.5 billion in (QS).

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

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

We are a global Company operating in more than 200 markets with close to 50% of our revenue and a greater mix of our earnings coming from outside the US. Our hedging program is designed to reduce earnings volatility and we hedge a select basket of currencies to which we of the greatest earnings exposure.

Given the timing and how we build our hedge positions. And recent movements across a broad range of currencies that affect our business, we expect FX headwinds throughout the year. We anticipate a greater impact in the first half and will continue to update you on currency exposure as we move through the year. At current exchange rates for the full year, we expect currency translation to impact revenue by approximately 200 basis points, resulting in spot growth of 15% to 17%.

We expect our non-GAAP operating margin in 2017 to be flat to slightly up for approximately 20%. Given that many of our initiatives ramped throughout the year, we expect to deliver greater operating income growth in the second-half relative to the first. We anticipate our non-GAAP effective tax rate to be between 18% to 19% and we expect non-GAAP EPS to be between $1.69 and $1.74.

Our business continues to generate significant free cash flow. For 20 2017 we anticipate free cash flow to exceed $2.7 billion, including CapEx of approximately 5% of revenue. For the First Quarter, we expect revenue to be between 2.9% and 2.9 2.9% and $2.9 billion in we expect non-GAAP EPS to be between $0.42.

Now I'd like to spend a moment talking about capital allocation. We take a disciplined approach to how we deploy cash flow and continue to pursue the capital allocation strategy balancing organic investment M& A and returning capital to shareholders.

As we discussed last quarter, we are assessing more asset light strategy for our credit business. While that's too early to provide additional detail, moving more of our credit receivables up balance sheet and potentially further partnering on the origination side to free up cash and give us additional flexibility. In addition, our guidance includes an initial $500 million in share repurchases for 2017 and we will continue to be opportunistic as it relates to our buyback program.

We will keep a close eye on the evolving landscape for taxes and repatriation and evaluate how that may alter or enhance our capital allocation going forward. We are committed to allocating capital in a manner to maximize returns and increase shareholder value. In closing, 2016 was a great first year for PayPal as a separate public Company.

As we move through 2017, we are focused on delivering increased shareholder value with our growth strategies. With that, let me turn it back over to the operator for questions. Thank you.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from the line of Tien-tsin Huang from JPMorgan

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

Great. Thank you. Good afternoon. Could you be a little more specific to what is driving the upside to your FY17 guidance versus the look you provided last quarter and is there any material contribution from customer choice for example in your guidance? Thanks.

A - Dan Schulman {BIO 1895545 <GO>}

You were talking about the increase in our revenue guide?

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

Correct versus what you gave last quarter. For FY17.

A - Dan Schulman {BIO 1895545 <GO>}

So we are taking up our revenue guide on an FX neutral basis and the reason we are doing that is there is a tremendous amount of secular tailwinds we are seeing right now. As I mentioned in my remarks, saying money digitizing there is a big move to mobile, there is a big move to really online payments and then pickup in stores commerce as really just becoming commerce I mean a great example of that is if this was the best retail holiday season in five years that you saw in store sales actually drop and online move up to almost 17% to 18% or so. As we look at these secular tailwinds behind us and we look at the performance of things like One Touch and its clear advantage that we have now in mobile and the scale we have the increased engagement we are seeing new market opportunities frankly internationally that we are beginning to see and to have a platform now that we can extend to many more markets.

Venmo we see the beginning of monetization as we come into this year. And we will see in the back half of the year the beginnings of some in-store volumes based on tokenization and our partnerships with but the networks and financial institutions. And then we've got a tremendous number of new partnerships whether it be with Facebook, Intuit, FIS, really around the world right now that is growing exponentially since we have announced our network agreements. There are a host of reasons right now that our confidence has improved in terms of our topline growth rate. And by the way, that's also lapping 200 million of Xoom.

Think about that as well as you think about the revenue guide that we gave. We think they are good growth prospects ahead of us.

We're very focused on those opportunities and feel comfortable with that guide. John or no?

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

Thank you.

Operator

Our next question comes from the line of Ashwin Shirvaikar from Citi.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thanks. Good afternoon. Question on transaction and loss expense growth.

Can you aggregate that into transaction growth might have missed that. And the other expense leverage of getting details on certain actions are leading to this and these sustainable transactions?

A - John Rainey {BIO 17599063 <GO>}

You cut out a little on the first part of your question. I will answer what I think you asked. Related to the transaction and loan losses.

I wanted to take the second part first because that is the big story. I think the context probably worth repeating that we completely offset transaction margin decline with the operating leverage that we have in the business. It's not just one area of that business, it's really across the board.

It's hard to parse through our PnL that because there's no is related to the year over year comparisons from separation. But this really covers every aspect of what we do. What I would encourage you to think about this.

It's not a one-time costs takeout opportunity. We're rewiring the way that we work. That way we do business in a manner we can grow and scale at the rate we have identified but do it in a very efficient way.

And so whether it's where real estate foot print is or how we market to customers even getting down to the very product development aspects of our business. We do it in there with that we can rollout product in a much grander fashion rather than doing it in a spoke product rollout one country at a time. It's changing the way we operate.

This is not easy work to be clear. This is requiring us to step back and re-examine ourselves. But I think you probably quickly see that cost performance is expected to continue when you look at our guidance in 2017 that enables us to keep our operating margin flat to growing.

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

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Got it. Thank you.

Operator

Our next question comes from the line of Bryan Keane from Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Good afternoon. Just want to ask on the move asset light strategy, how could you guys potentially limit that EPS dilution hit from a move like that? Then secondly, John, just unhedged gains, just curious if there's a number we could get for the quarter and what in the expectation for hedge gains in FY17. Thanks much.

A - Dan Schulman {BIO 1895545 <GO>}

It's Dan. I'll take the first part of that and then I'll wisely let John take the next part of that. Let me just back up a little bit.

Additional and everyone on the call knows, credit is and will continue to be an important flywheel for us, credit gives flexible payment option to both our merchants and our consumers. It reduces card abandonment. It increases basket size for our merchants and our consumers.

When somebody uses credit, they do two times the spend on our PayPal network than somebody who doesn't. When we do PayPal working capital on average those that we lend to basically their sales go up 20% plus. It's a tremendous flywheel for us.

It's a small part of our business. And it's likely to remain so as well. We don't need to Chase growth here we can be very responsible in who we lend to and how much we lend to them.

And we have great amounts of data and really I think world-class modeling around this. You know, that said, there is no reason really to use our balance sheet for the receivables and there are as we mentioned before a lo t of benefits of asset light. Obviously, we type of a lot of our free cash flow in receivables free at free cash flow capital allocation that we might do.

We have reduced exposure still have a differentiated proposition we would use our data and our modeling with a partner to bring that and differentiate proposition into our base and there are very attractive economics to share. And as we have seen right now from people who are very interested in partnering with us, our portfolio is very attractive. The size of our base that doesn't have credit and the ability to expand that is very attractive and the risk in modeling capability we have are also very attractive.

There are a lot of economics here to share and we believe that we can significantly reduce our risk exposure. But maintain strong economics for our business. That is our working hypothesis. As we are going through this.

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

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

A - John Rainey {BIO 17599063 <GO>}

And Bryan with respect to the hedges, I said in my prepared remarks that we expect about 200 basis points with headwind in 2017 from foreign currency. That's actually not at the hedge we have. It's a little more detail in that Fourth Quarter we had a $50 million hedge gain and you will see in our 10-K that we release here we had about $120 million of hedge gains for the year.

And based upon the current decision today that's about where markets are to date that's about what we're expecting for 2017. I think maybe we should spend a moment to talk about our exposure because as you know more of our customers are international than here in the US. A significant portion of our business is outside of the US.

Just to use round numbers as we have said before half of our revenue is outside of the US and on a 12-ish US dollar based that's $6 billion. Of that $6 billion about this denominated in currencies other than the US dollar with that are tied to the US dollar. And so that gives us about four $4 billion of the basket we're exposed to.

You can do quick math and recognize that a 1% change in the US dollar. Relative to the basket of currencies on a revenue leases for us. About $40 million annually.

We are pretty sensitive to those movements which is why we hedge the way that we do. We do hedge though to mitigate earnings volatility.

Not necessarily revenue. Issue work your way down from that $40 million for a 1% change in you take a transaction margin on the new overlay the operating expenses that we have that are denominated in other currencies as well as the hedge, than the impact to operating income is much less than that and as you will see as we release our we are able to mute a lot of the impact of that currency movements in 2016 with that hedge position.

Q - Bryan Keane {BIO 1889860 <GO>}

Okay. Very helpful. Thanks for the details.

Operator

Our next question comes from the line of Lisa Ellis from Bernstein

Q - Lisa Ellis {BIO 18884048 <GO>}

Good afternoon, guys. You did not I don't think. In your prepared remarks any metrics around Braintree.

I think historically you have said that Braintree was running at more than 100% volume growth year on year. Is that somewhat that what you're seeing now? Then also just can you comment on the transaction expense uptick you've seen in 2016 which I think is also been driven a bit by trained to them with the outlook is for both of those looking out into 2017?

A - Dan Schulman {BIO 1895545 <GO>}

Sure, I will start and allow Bill to jump in if he chooses. We continue to see great performance at about Raintree part of our platform. In particular is probably worth noting as we look at sequentially the year over year change in that Third Quarter compared to the year over year change in the Fourth Quarter, I highlighted in my prepared remarks.

Some of that as a result of Xoom lapping that. But at the same time, the Fourth Quarter of last year of 2015 rather that was a quarter where we had exceptionally large growth for Braintree which percentage of more difficult comp.

With all that said Braintree is still growing very much in line with our expectations and continues to be a great and complementary part of our platform. And as I cited in my earlier response to part of the uptick in transaction expenses related to the mix of our portfolios specifically Braintree tends to be more card-based and as we've seen that growth, that affected the transaction expense for the Fourth Quarter.

A - Bill Ready {BIO 16847604 <GO>}

And this is Bill. I would add to that not only is the Braintree business itself is doing well. But the zero API that brings together the 100% share of the Braintree as well as PayPal's best experience including PayPal one touch and PayPal credit, all those things, we are seeing that become the preferred way that merchants integrate Pay Pal and get access to the full breadth of our experiences as the big heart of our MobileFirst strategy and a big part of what's driving PayPal's presence in many of the most interesting new commerce experiences out there. You heard us talk about what we're doing with our interest by Facebook messenger having commerce experience for Is like the Bill and others.

Those things are running through our Braintree platforms. We are saying the strategy of it Braintree and 100% % share of not only driving great growth for our business but getting our best experiences out there to more merchants the really interesting margins just, experiences and available to our consumers as they encounter the newcomers experiences. We have been quite least with that and see that momentum continue to build in terms of Braintree as it enabler as those commerce experiences out there.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. Thanks,

Operator

Our next question comes from the line of James Cakmak from Monness, Crespi, Hardt.

Q - James Cakmak {BIO 16028250 <GO>}

Thanks. Just two quick ones. Just on the regulatory environment, anything you can provide on how you're thinking about at this year to look at go forth.

Just on mobile, I know it's it 53% this quarter and we saw the step up in onto 16 versus Hunter 15. I guess as we anniversary One Touch and Xoom next year, what's the magnitude of the step down that we should expect. Thanks a lot.

A - Dan Schulman {BIO 1895545 <GO>}

A try and jump on those. Two questions in there. And their questions.

Let me start with a mobile and then I will go into the impact of some regulatory and change of administration; mobile is driving growth in the industry right now more than half the sales are going online are being driven by mobile. Mobile is blurring lines of distinction between in-store environment and online environment. It's really commerce becoming commerce.

Truthfully, mobile as the biggest competitive differentiator for us. If you think about mobile, the real problem that merchants have with mobile is that when a browser begins the shopping experience on mobile between 65% and 74% of the time there is card abandonment because that is such a small screen. It's difficult to but the payment information in there etc.

But with One Touch, if 87% conversion on mobile. The next closest is 81% the industry averages like 44% your like almost double the industry average in terms of the mobile experience that we see. Mobile is exploding across the world and I mentioned the terms of why didn't we pick up our revenue guidance.

Because we see opportunities across the world and that's predominantly driven by mobile work I expect mobile to continue to fuel our growth. Remember one other thing asset in my remarks was over half of our active base mobile payment transaction played PayPal platform for the last 12 months.

Over $100 billion in volume of 55% for the year. Expect that in particular, with the growth rate will be one way or another, mobile is going to be a strong driver of growth and its eight big differentiator for us.

A - John Rainey {BIO 17599063 <GO>}

Only thing I want to add to that is you were talking about lapping affect on some of that. What we have done with PayPal one touch is we have demonstrated that we can roll that out to millions of merchants and millions of consumers without them having to make changes. PayPal one touch is the first of many iterations and that's a real competitive advantage press that has other in the industry out there turn the conference margins to integrate experience and things like that.

Which is showing up in solving the problem for them without them having to do work. If you think about that playing that forward dirt we expect the many iterations of this expecting to improve mobile experience and uniquely we can do that without actions having to do work on their end because we control the front and experience.

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

A - Dan Schulman {BIO 1895545 <GO>}

Good point

A - Bill Ready {BIO 16847604 <GO>}

Let me talk a little bit of the change in administration and how we think about it in terms of impacting our business. Of course it's incredibly early days and there's a lot of talk about different things but we have yet to see specifics around that. Let's just talk about a couple of them because I know they are on your mind.

From a regulatory perspective, obviously people are talking about changes in Frank, potentially how the CFPD is managed. The first in most important thing is we are completely focused on being compliant with any and all regulatory compliance that are out there. We believe that what regulators want, what we want are completely aligned and we are investing a tremendous amount of resource but from a development platform a human resource perspective to assure that we are as compliant as we possibly can be regardless of regulatory environment shifts.

That's not just here in the US. It's obviously across the world. Second, within Dodd Frank a lot of people talk about Durbin.

We feel Durbin is very unlikely. To be overturned. Over first of all it's bad for merchants.

It's bad for small business. Not good for consumers. The only people who benefit our big banks in that.

There's a big lobby of people that we think fight very hard for Durbin. It needs 16 votes in the Senate to be overturned. This is not a lightning rod issue for Democrats or Republicans and a so we think it is very unlikely given everything else that's going on that Durbin is overturned.

Also to point out as John mentioned a great deal of our business is overseas and not impacted by Durbin at all. The impact even if it was overturned is probably a lot smaller than you might imagine. We work our way through that.

Again, I think it's very unlikely to be overturned. Tax is something people talk about. We obviously have a lot of our business that is overseas.

I think net, it's still very early days. Probably see a small net benefit in some of the or other things that have been thrown around in terms of tax changes. But maybe a little less than others.

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

There's a lot of talk about protectionism of large percentage of our cross-border trade happened outside the US. It's not impacted by any of this at all. Our average selling prices $60.

Think about that. Tariffs only apply to goods and services over $800. So most of this is not going to apply to what we do on a day in and day out basis.

And in a rising at interest rate of environment that the net benefit to our revenue and net income if we see that happen. All in there is likely a good net positive impact to our business based on the change in the administration.

Again, very early days. We'll see how it plays out and then we will report out you as we learn more.

Q - James Cakmak {BIO 16028250 <GO>}

Thank you very much.

Operator

Our next question comes from the line of Scott Devitt from Stifel.

Q - Scott Devitt {BIO 4757000 <GO>}

Yes, Hi. Question on one touch.

Wondering if you could provide any more detail on adoption within the 40 million consumer accounts in terms of maybe the penetration of addressable TPV better using that product to have adopted into, opted into one touch and then secondly with the friction points are of going that penetration rate from here against the other 150 accounts that haven't yet adopted the product. Thank you.

A - John Rainey {BIO 17599063 <GO>}

Yes. So we have 40 million of our approximate 200 million users that are on one touch already. And that happened really in the course of just over a year. So the adoption there is more rapid than anything PayPal has ever put out.

We see that adoption continuing. We think there's a lot more left there in terms of the 40 million that have opted into it versus the nearly 200 million total users we have, same on the margin side where we have more than half the Internet retailer 500 accepting one touch and 5 million of our 15 million merchants accepting it. We have more growth left in that as well.

We're working through those pretty rapidly so all of that to say we think there's great momentum with one touch but we think that continues as we make that available to more of our merchants. And is more consumers get exposed to it.

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

Q - Scott Devitt {BIO 4757000 <GO>}

I'm sorry, Dan did you have a comment on that?

A - Dan Schulman {BIO 1895545 <GO>}

I'll see if I do.

Q - Scott Devitt {BIO 4757000 <GO>}

Was on a different topic so feel free to expand on that. I was just wondering, John, there's some indication in the market in terms you didn't reiterate the three-year guidance and my assumption is it's not something you're going to do every quarter.

You raised 2017. If you could just address that, that would be great.

A - John Rainey {BIO 17599063 <GO>}

Sure. And you are exactly correct, Scott, we are going to get in the habit of updating the three-year guide every quarter. We have no change to the guidance we provided previously last order.

Q - Scott Devitt {BIO 4757000 <GO>}

Thank you.

Operator

our next question comes from the line of Darrin Peller from Barclays.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks, guys. Can you just touch what's included in your grandson regard to the Venmo for a minute and then just on the margin side it seems your guidance flat to improving margins is actually despite the headwinds and FX recall that in Xoom with that have been a few it back to those items out and then maybe also start comments also impacting margins can you give us some more color on the driving force behind the increase there.

Thanks a lot guys. Nice job

A - Dan Schulman {BIO 1895545 <GO>}

I'll start off and then you can jump in. So I'd say in terms of Venmo modernization pricing very little is built into our guidance for 2017. We fully intend to rollout Venmo pay with Venmo and a much broader basis in 2017.

And we will see some impact in that. But really the big impact in the happens in 2018 and 2019 and so just so you have that in. When we talk about feeling well-positioned for profitable growth in 2017 and beyond it's because what we are seeing now are things that we clearly see here and now and we've got a ton of things that we think we can monetize and fully intend to go do.

That's modeled in more 2018 timeframe than here and so not much is built into that. Not as much built into the customer choice pace of fed although I will say we are pretty encouraged by the initial results that we are seeing on choice. We rolled out choice through all of North America work right now servicing piece of choice as well as the onboarding of that.

We are just beginning to check out right now. But as John mentioned in his remarks, from a cost perspective, it's well within our expectations in terms of transaction expense and engagement. Is better than we expected in terms of engagement.

Which by the way it's not really surprising. If you give somebody the choice to pay, they become more engaged the average price that they pay or the basket size that they have goes up as well.

These are not surprising. We anticipate it but it's nice to see those things starting to really happen in the market work but I have a ton of that built into our guidance as well that to me is a 2018, 2019 phenomenon.

A - John Rainey {BIO 17599063 <GO>}

Just a couple points on hedge and stock comp. If we look at hedge and currency impact and total in the Fourth Quarter, it had a rather immaterial impact on our overall results. When you consider the offset that we had from other operating expenses denominated foreign currency as well, it wasn't a big driver.

With respect to stock comp we had $127 million a share-based compensation in the quarter and that was relative to $90 million last year. I think it's important to point out a couple things related to that. One when we separated from eBay, we basically did a lift and shift with respect to our compensation programs.

We changed that in 2016 to make those comp edition programs appropriate for PayPal. And as part of that, we change the vesting period related to our long-term compensation from four years previously to now three years. That element combined with just the natural increase in employees resulted in almost the entirety of the change year over year.

I will say that we are a big believer in share-based compensation for our employees. We think that the lines their motivations with that of our shareholders. Which we but all agreed is a very good thing.

And if you look broadly across the industry and our comparables and you look at virtually any measure take share-based compensation as a % of revenue for example, we are in the lower quartile. The better quartile fitted to our peer group.

Various other ways you can look at that. We compare very favorably and all of them.

Q - Darrin Peller {BIO 16385359 <GO>}

That's helpful. Thanks.

Operator

That concludes our question-and-answer session for today. I would like to turn the conference back over to PayPal Management for any additional comments.

A - Dan Schulman {BIO 1895545 <GO>}

It's Dan I just want to thank everybody for joining us on the call. We know how busy all of you our and we look forward to seeing you at investor conferences and talking to you at our next earnings call as well. So thank you very much for your time.

Operator

Thank you. Ladies and gentlemen thank you for your participation in today's conference.

This does conclude the program and you may now disconnect. Everyone have a good evening.
