Q3 2020 Earnings Call

Company Participants

- Daniel H. Schulman, President, Chief Executive Officer
- Gabrielle Rabinovitch, Head of Investor Relations
- John D. Rainey, Chief Financial Officer

Other Participants

- Bryan Connell Keane, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Heath Patrick Terry, Analyst
- James Faucette, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good afternoon. My name is Gabriel, I will be your conference operator today. At this time, I would like to welcome everyone to PayPal's Third Quarter 2020 Earnings Conference Call. All lines have been placed on mute to prevent any background noise and after the speakers' remarks, there will be a question-and-answer session (Operator Instructions). Thank you. Ms. Gabrielle Rabinovitch, you may begin.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Gabriel. Good afternoon and thank you for joining us. Welcome to PayPal's earnings conference call for the third quarter of 2020. 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 on the Investor Relations Section of our website.

In discussing our Company's performance, we will refer to some non-GAAP measure. You can find the reconciliation of these non-GAAP measures to the most directly comparable GAAP measure in the presentation accompanying this conference call. 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, the impact of our acquisitions and our outlook for 2021. 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 report on Form 10-Q filed with the SEC and available on the Investor Relations section of our website. You should not place undue reliance on any forward-looking statements. All information in this presentation is as of today's date, November 2, 2020. We expressly disclaim any obligation to update this information.

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

Daniel H. Schulman {BIO 1895545 <GO>}

Thanks, Gabrielle. And thanks everyone for joining us on today's call. I hope that all of you are safe and well. I'm pleased to say that PayPal had a very strong quarter across all of our key operating and financial metrics. Our performance is particularly noteworthy given the macro environment. We are battling a pandemic that shows no signs of slowing down. Economies around the world are still quite fragile and the next 6 to 12 months will be defined by the timing and amount of additional fiscal stimulus and progress towards a widespread and effective vaccine. And obviously, we sit here on the eve of one of the most important elections in our country's history and I hope that all of you who are US citizens, have already voted or will tomorrow.

This is the landscape, we face as we go into the last quarter of 2020. At the same time, PayPal is at an exciting and meaningful inflection point in our history. Our mission has never been more important, the pandemic is brought focus to the stark reality that billions of people across the world are struggling to get by. In fact, in the past 9 months, over 100 million incremental adults moved into extreme poverty. The current financial system is just not working for most people. It's inefficient and expensive for the underserved.

Today's environment demands new ways of thinking about our economic system. Emerging technologies combined with mobile phones and financial platforms like PayPal can drive a future of inclusion and financial health. PayPal is in a strong position to help shape the future, where everyone, not just the affluent, can participate in the new digital economy. As use of cash continues to decline, new and innovative financial technologies are rising. For example, central banks around the world are seriously exploring or even trialing forms of retail digital currencies that they issue directly and it's also clear that digital wallets are a natural complement to all forms of digital currencies. These trends create an opportunity for us to work with central banks and regulators to shape a modern and inclusive financial system built and more efficient digital infrastructure design for the future.

The digitization of the global economy, combined with the rise of digital wallets will drive our growth over the next decade. Our scale, two-sided network, trusted brand, our strong relationships with the regulators around the world and our AI and data modeling capabilities can all be leverage to ensure our PayPal and Venmo apps are essential parts of our customers' daily life. We still have a lot to do to achieve that vision. But let me be clear, we are investing to create one of the most compelling and expansive digital wallets in the world and you can see this beginning to play out in our strong Q3 results.

In Q3, our total payment volume grew by a record 36% on an FX-neutral basis to $247 billion in annual run rate just shy of $1 trillion. Even more impressive is the growth of our volumes excluding eBay, which grew 38%, eclipsing any previous record and in early October, we hit our all-time highest TPV day, outperforming any previous day in our history. These record results are happening even as eBay moves their base to their managed payments platform. eBay is now just 7% of our total volumes and will likely be between 5% to 6% by the end of the year. Our transactions in the quarter were just over $4 billion, growing 30% year-over-year. This is the first time we have processed over $4 billion transactions in the quarter. And it's worth noting that our core PayPal daily active accounts increased 32% versus a year ago, consistent with last quarter.

We added 15.2 million net new actives in Q3, our second highest quarter for organic customer acquisitions after last quarter's 21.3 million NNAs. We added over 1.5 million new merchants in the quarter over two times our pre-COVID rate and we now have 28 million merchants on our platform. We ended Q3 with 361 million active accounts and we remain on track to end the year with a record 70 million NNAs.

This influx of new customers and record transactions drove strong financial results. Our revenues grew by 25.4% on an FXN basis to $5.46 billion. We grew our non-GAAP EPS by 41% to a $1.07, even with incremental investments into our sales, marketing, product, and engineering teams. In the quarter, our operating margin grew by 377 basis points from a year ago.

I'd like to detail some of our investments and how we see them shaping our future. And let me start with Venmo. Venmo had a very strong Q3 with 65 million users driving $44.3 billion in TPV, up 61% year-over-year. Venmo's growth continues to exceed our expectations and we are forecasting revenue for Venmo to approach $900 million in 2021, driven by investments in new capabilities. As Venmo's revenue base diversifies and scales, its transaction margin continues to improve and we now expect Venmo to also make a positive contribution to our transaction margin dollars in 2021.

By Q1, the Venmo checkout experience will mirror the ease and simplicity of a PayPal branded transactions. We anticipate a meaningful increase in merchant transactions with some of the world's largest retailers and marketplaces incorporating Venmo as a payment option at checkout, both online and offline, as our QR codes are integrated into physical retail. The Venmo credit card will be fully rolled out in Q1. I think it is the best credit card in the market. It is a true extension of the Venmo app and fully linked into its capabilities.

It is the first to have a personalized QR code embossed on the card as well as contactless chip, so the transactions can be split right at the table and reflected instantaneously on your Venmo feed. Our cash back rewards are amongst the most generous in the industry and automatically calculates your top spend categories every month to apply the appropriate cash back percentages. I would encourage all of you to try it as soon as you can, because it is truly a best-in-class experience.

Over the next year, both the Venmo and PayPal apps will undergo a fundamental transformation intended to dramatically increase their functionality and drive engagement. Our goal is to provide our customers with a comprehensive set of services and tools to manage their financial lives as well as enhance their ability to shop both online and offline. This expanded suite of services will include enhanced direct deposit and check cashing, budget and savings tools, bill pay, investment alternatives including crypto, subscription management, Buy Now Pay Later optionality, and all of Honey shopping tools from wishlist, price monitoring, deals, coupons and rewards.

An important enabler of engagement is our comprehensive push into the physical world. Our consumers, merchants, and regulators all believe that PayPal plays a crucial role in allowing safe, digital, and contactless payments. Our goal is to be the most ubiquitous payment capability in the offline market through a combination of QR codes, contactless cards, NFC inside our mobile apps as well as our embedded PayPal wallet experiences inside Google Pay and Samsung Pay among others.

As I mentioned, Honey shopping tools, coupons, and rewards will be integrated into our Omni checkout solutions, assuring the best deals for our consumers, wherever they shop and we will also enable merchants of all sizes to access anonymous demand data, so that they can drive incremental sales and increase customer engagement, across their multiple channels. Our move into the physical retail will no doubt be a multi-year journey, but we are already seeing strong early adoption of our QR Code solution.

We have 10 major retailer signed including CVS, Nike, TUMI, Bed Bath & Beyond, and Samsonite and we are in meaningful discussions with well over 100 large retailers. We have also signed 20 channel partners and point-of-sale providers from VeriFone to Odin, who are in the process of integrating our QR codes with an additional 70 channel partners in deep negotiations. Just the signed deals alone enabled our QR capabilities at millions of merchant locations. We anticipate ending the year with over 500,000 small and micro merchants accepting our QR codes.

Finally, I'd like to discuss our recent announcement to increase the utility of cryptocurrencies, as well as embrace new forms of Central Bank digital currencies. We are entering a new era of financial services, where our wallet and all the services around them are moving from physical to digital. These include identity management, new forms of commerce, and fully digital payments and financial services. As such, we recently announced that PayPal will allow account holders to buy, sell, and hold cryptocurrencies. First, in the US and then expanding to international markets and the Venmo platform in the first half of next year. Importantly, we are doing this in close partnership with regulators. As you saw, the New York Department of Financial Services granted PayPal, a first of its kind conditional BitLicense.

With this foundation in place, we will rapidly move at the beginning of next year and allow consumers to use cryptocurrencies as a funding instrument to shop across all $28 million of our merchants. The solution will not involve any additional integrations, volatility risk, or incremental transaction fees for either consumers or merchants and will fundamentally bolster the utility of cryptocurrencies. This is just the beginning of the opportunities we've seen, as we work hand-in-hand with regulators to accept new forms of digital currencies.

We are at a moment in our history, where all of our past efforts, our scale, brand reputation, and regulatory relationships position us to play an expansive role in our customers' lives. There is obviously plenty in the near term macro economic environment that makes us cautious, as we look ahead to Q4 and 2021. At the same time, we see multiple tailwinds from the permanent shift towards a digital economy. Our revenue and EPS forecast for the years ahead are substantially higher than those we had developed just a year ago and I've never been more enthusiastic about PayPal's role in shaping the new future.

I'd like to close by thanking our employees, who continue to give so much time and energy to supporting our customers, while doing their best to balance a blurring work and home life. Their dedication and commitment to PayPal and our customers is inspiring.

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

John D. Rainey {BIO 17599063 <GO>}

Thanks, Dan. I'd like to start by also thanking the entire PayPal team for their efforts to serve our customers and execute on our priorities. PayPal's third quarter was one of the strongest in our history. The sustained momentum in our business, allowed us to outperform.

Our results demonstrate the strength of our diversified platform, our global reach, the scalability of our business, and our sustainable earnings power. Notably, we delivered these outstanding results against the backdrop of eBay's managed payments transition, continued weakness in the travel and events verticals, and a decline in other value-added services revenue, relative to our expectations going into the third quarter, eBay payments intermediation proceeded faster than we had anticipated. In addition, the recovery and travel volumes were slower than our forecast. Travel and events volumes, which represented slightly more than 10% of our TPV last year were down 40% year-over-year. While this is an improvement from the decline in the second quarter, it makes our overall volume growth even more remarkable.

Now, I'll discuss more details of our financial performance for the third quarter. Revenue in the third quarter increased 25% on a currency-neutral basis to $5.46 billion, transaction revenue grew 29% on a currency-neutral basis, representing 11 points of acceleration from the third quarter last year.

This growth was primarily driven by strength across our core PayPal business, including strong cross-border growth. Notably, transaction revenue excluding revenue from eBay grew 31% in the third quarter, accelerating approximately 4 points from Q2 and approximately 7 points from Q3 last year. Other value-added services revenue declined 10% on a currency-neutral basis. Reduced interest income on customer balances from lower interest rates and less credit revenue contributed to this decline.

Honey contributed approximately 1.5 points of growth to total revenue, which only partially offset the headwinds to other value-added services revenue. In the third quarter, transaction take rate was 2.06% and total take rate was 2.21%. The 15 basis point decline in transaction take rate was driven ratably by the impact of 47% growth in P2P volumes, merchant volume mix which includes incremental bill payment volumes, and a reduction of $87 million in international transaction revenue from foreign currency hedges. The 24 basis-point decline in total take rate resulted from each of these factors, as well as lower other value-added services revenue. Transaction expenses had a record low rate of 82 basis points, driven by both funding mix and volume mix in the quarter. Transaction losses were 13 basis points as a rate of TPV, 1 basis point better than Q3 last year.

We continue to improve our loss performance through the ongoing advancement of our risk mitigation strategies and enhancement of our risk models. Credit losses were 1 basis point as a rate of TPV. Fewer originations in conjunction with a consistent macro outlook and no meaningful change in credit quality, relative to the second quarter contributed to this lower rate. As you'll see in our 10-Q, our loan loss reserve coverage ratio increased from 22% to 24%, which is primarily driven by the contraction of our merchant receivables portfolio.

Moving to our non-transaction related expenses, consistent with our remarks, when we reported second-quarter results, we are increasing our organic investment spend in the back half of the year. This environment has created a unique opportunity for us to advance our leadership in payments and extend our competitive advantages and emerge from this period stronger and better positioned to increase our relevance. While this incremental investment is more heavily weighted to Q4, we began deploying these funds in Q3. Non-transaction related expenses increased by 23% from Q3 last year, reflecting this increased level of investment, while sales and marketing spend was higher as a percentage of revenue, this was more than offset by leverage across each of our other non-transaction related expense line items.

Overall, we realized leverage of 50 basis points on non-transaction related expenses. Operating margin for the quarter was 27.2%. This is the strongest performance we've reported for any third quarter and represents a 377 basis point improvement from last year. We continue to be focused on delivering operating efficiencies, while investing in our strategic priorities. Non-GAAP other income declined by $57 million relative to last year, driven by increased interest expense from a higher debt balance and reduced interest income on corporate cash from lower interest rates.

From a modeling standpoint, we expect this line item to continue to be a net expense in the near term. For the third quarter, non-GAAP EPS increased 41% to $1.07. The timing of our incremental investment spend, which is weighted more towards the fourth quarter, contributed to the strong performance. We ended the quarter with cash, cash equivalents, and investments of $17.6 billion. In addition, we generated $479 million in free cash flow. Lower free cash flow in the quarter resulted primarily from higher cash taxes. The core cash generation of the business remains extremely strong. On average, in 2020, we generated approximately $1.3 billion in free cash flow each quarter and for the full year, we continue to expect to generate more than $5 billion in free cash flow.

I now want to shift to our expectations for the rest of 2020 and 2021. In reinstating guidance in July, we were providing our best estimate of performance for the back half of the year. The degree of difficulty inherent in providing an outlook was and continues to be significant. We are an important part of the foundation of global commerce and do not operate in isolation. COVID rates, quarantine measures, stimulus programs, election outcomes, and the normalization of economic activity, all affect our estimates. What we do know is that our business is very strong, our core business continues to perform at an unprecedented level. We've seen a step change in e-commerce penetration this year.

We expect there to be a deep and permanent change to commerce and consumer behavior both in the US and internationally. While it's difficult to quantify the precise degree to which secular trends will be affected by the pandemic, our addressable opportunity has grown meaningfully. Our fourth quarter forecast contemplates sustained strength in our business, reflecting the powerful value proposition of our two-sided platform and the profound shift in consumer behavior we've seen this year towards e-commerce and increased digitization. Relative to a few months ago, we expect a greater impact on fourth quarter revenue growth from e-based payments intermediation, given the pace of merchant migration in the third quarter.

Heading into Q3, we anticipated this to be about a 2-point headwind to fourth quarter revenue growth. We now expect it to be about 3.5 points. Over the longer term, a more rapid transition of merchants to eBay's managed payments platform is better for us strategically, financially, and operationally. It will allow us to contain this impact, mostly to the back half of this year and next year, relative to a slower progression of merchants with a much longer tail. All of this is the same and this is a very important point that while headwinds to our revenue growth in transaction margin expansion will appear more pronounced over the next year from eBay, this impact will be largely contained to that period. Even more importantly, once we are beyond this transition, we expect our volume and revenue growth rates to re-accelerate given the drag the eBay has been for the past 5 years. During this period, on average, PayPal's revenue excluding eBay has grown about 23% annually. By comparison, revenue from eBay's Marketplaces business even including this year stronger growth profile has grown on average, only about 4% each year. On a volume basis, the divergence between these growth rates is even more stark.

In addition, we expect the slower recovery in travel to persist. While we saw travel volume strength in June and July, we've not seen these levels sustain. We believe this is likely due in part to continued high Corona virus infection rates and the impact of the virus on global mobility. Similar to eBay, the headwinds from travel volumes are transitory and exogenous. As a result of these dynamics, we expect our fourth quarter revenue growth to be in the range of 20% to 25% on both the spot and currency-neutral basis. For the full year, this will result in a range for revenue growth of 21% to 22% on a currency-neutral basis or 20% or 21% on a spot basis. This guidance is approximately 3 points higher than our expectations at the start of the year.

To put it in perspective, we expect to add more than $3.5 billion to our revenue base this year, which is more than 1.5 times the revenue we added in 2019. On our call last quarter, we stated that we expected to deliver 25% EPS growth for the back half of the year. We are raising that outlook to 29%. Incorporated into this outlook is 17% to 18% growth in EPS in the fourth quarter, which reflects the increased weighing of investment spend relative to the third.

For the year, we now expect this will result in approximately 27% to 28% growth in non-GAAP EPS, marking the fourth consecutive year, in which we've delivered at least 25% growth in EPS. Again to put this in context, relative to last year on an essentially flat share count, we'll be adding more than $0.80 in earnings for each share outstanding and relative to our medium-term outlook, which cost for approximately 20% EPS growth each year, we are now more than $0.30 per share, ahead of this plan.

I'd now like to discuss how we're thinking about our outlook beyond 2020. The strong acceleration we've experienced this year along with the pronounced shift in consumer behavior sets us up exceptionally well for the years ahead. I don't think we've ever been more excited or energized about our prospects. We are clearly on a trajectory to deliver stronger long-term growth than our previously guided medium-term outlook of 17% to 18% currency-neutral revenue growth and approximately 20% earnings growth on average annually.

That said, 2021 still presents a hurdle. Given the transition off of eBay, next year was always going to be a tougher comp for us. Our very strong performance this year adds to this dynamic. In providing guidance this year, our goal has been to responsibly balance transparency with reliability and certainty.

Looking at the range of outcomes for the entirety of 2021, it requires us to look out over the next 14 months. We are very confident in our opportunity set, positioning, and ability to drive increased engagement. However, there continues to be significant variability in macro related factors and we feel that providing guidance for that period right now would require a wider guidance range that we believe is constructive. Once we close out 2020, we'll be better positioned to provide our thoughts for 2021, which we will share in February, when we report our full year results.

In addition, at our Investor Day later that month, we look forward to providing more context for our longer-term outlook. Our ability to sustainably deliver strong growth at our scale is indicative of the network effect of our business. Our performance demonstrates our ability to successfully execute in the face of a more challenging operating environment as well as the strength, diversity, and resilience of our platform. This is really a year unlike any other. In many ways, our collective experience has demonstrated that we've never been more connected or more dependent on one another to help each other drive prosperity and development and realize the promise of globalization. PayPal stands at the center of this. In 2020, we will process more than $900 billion in payment volume and serve approximately 375 million customers.

We are the largest open digital platform for payments globally and the events of this year have served to strengthen our value proposition and relevance. We have an important role to play in facilitating commerce and payments and we're executing our plans with an urgency to meet the growing needs of our customers in this increasingly digital world.

With that, I'll turn it over to the operator for Q&A.

Questions And Answers

Operator

(Operator Instructions) Your first question will come from the line of Darrin Peller of Wolfe Research. Please go ahead.

Q - Darrin Peller {BIO 16385359 <GO>}

All right. Thanks guys. I know you're holding off at this point on guidance given the macro variability, but coming off the year with 70 million net new actives, which is at least 30 million more than you would have expected, and a lot of these are new demographics, rather than a pull forward as you guys are talking about, can you just talk -- maybe touch on the types of NNAs you'd expect for either '21 or even longer term, kind of additions you can add and really thinking about that in context to 32% growth in daily active users. What are we talking about in terms of opportunity there. And really what are the drivers of it, is it international, all the partnerships, it seems like there could be a long runway, but a lot of people, I think just want to hear what the sources are? Thanks, guys.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. Hey, Darrin. It's Dan. Thanks for your question. So we had another strong quarter for NNAs, our second highest organic quarter for net new actives, by the way, interestingly, the shape of that is very consistent, approximately 5 million net new actives each month coming in, no fall off, no pull forward, just consistent growth in that metric and as you know, we're still targeting and feel comfortable with the 70 million number that we gave last quarter for NNAs for the year.

I think a couple of important things to point out here. First of all, the number of new merchants that are coming on the platform. It remains quite elevated, over 1.5 million merchant accounts this quarter. Our run rate pre-COVID was somewhere around 500,000 to 750,000. So now we've got 28 million merchants on the platform and on 361 million total active accounts. In many ways here, scale -- get scale as we grow as more and more merchants have PayPal, you probably have noticed as well, more and more merchants are putting PayPal front and center. We're creating new and more compelling ways to buy our Buy Now Pay Later has exploded into the marketplace, we've just rolled that out to the vast majority of our consumer base. We're seeing huge take up in that, and incremental halo as a result of it.

And so my view on net new actives is we're going to continue to see good growth on that for a couple of reasons, one our checkout experience and the number of products that we're putting out there is just increasing. You heard me say in my remarks, we are very focused on expanding our digital wallet capabilities, both on Venmo and PayPal. We are very serious about driving towards being an everyday use case, why is that so important, when somebody uses two or more of our products, say checkout and P2P, their churn reduces by 50% and think about as we approach 400 million customers on our platform, every basis point of churn reduction matters a ton in terms of our NNAs going forward. And so I think, you've got a continued drive every industry towards digitization, more and more merchants coming on, more products, more functionality, and reduced churn and I think as we look forward, I think NNAs will continue to remain elevated versus pre-COVID levels.

Q - Darrin Peller {BIO 16385359 <GO>}

All right. Thanks a lot, Dan.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. You bet.

Operator

Your next question comes from the line of Tien-Tsin Huang of JP Morgan. Please go ahead.

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

Hi. Thank you so much. Here -- I wanted to ask on some of the KPIs, I think they're related, if you don't mind me just putting them altogether. So TPV accelerated while transaction revenue growth held pretty constant. And I know you talked about to take rate here, John. But can you maybe unpack it for us a little bit more and help us on how it might trend in the fourth quarter and maybe even in 2021 with eBay and Paymentus and PayPal and everything else and then separately, but somewhat related. Just looking at the fourth quarter guide, I know you said some deceleration from the third quarter, I heard the eBay being 1.5 incrementally weaker here, any other call-outs beyond conservatism, I totally get why you're not giving '21, but I know a lot of moving pieces going into the end of the year here. Thank you.

A - John D. Rainey {BIO 17599063 <GO>}

Sure Tien-Tsin, it's good to speak with you. So we did see a strong acceleration in TPV in the quarter and aside from just growth overall in the business., there's a couple of things to call out, I think notably P2P volume was up almost 50%, 47% I believe is the exact number and then, we saw a lot more volume from Bill Pay with the 100% ramp of Paymentus in the quarter. So, good strong growth there, as it relates to revenue, we had a $70 million hedge loss in the quarter and that relates to a $70 million hedge gain in the prior year, so you've got the difference there that really put pressure on the revenue side relative to TPV.

On take rate, there is a couple of dynamics to think about too. You got while P2P and Bill Pay tend to have lower take rates, they also have lower transaction expenses and so, what we consistently focus on in our business is not necessarily take rate, but the incremental transaction margin dollars and a way to think about our business in the quarter Tien-Tsin, like for every dollar of revenue of incremental growth that we brought in the quarter, almost $0.70 of that fell to the transaction margin line. And so, it shows that there is a good balance between those items that maybe have a lower take rate, but also has a lower transaction expense. So we're very focused on the margin profile of those different elements of our business.

With respect to the fourth quarter, the only thing I'd call out in addition to eBay, which we talked about in our prepared remarks, the travel and event vertical, as I also mentioned has been slower to recover -- to recover than we anticipated. Again, we saw some green shoots back in June and July, and those haven't persisted to the extent that we mentioned, but you know, again, I'll point out both of those things are transitory and they really in terms of the long-term impact to our business, it's not going to matter for us. We're very excited about not only what next year holds by each year thereafter. The math of each of those is that, yes, it's a tougher comp for next year, but when we lap that, we'll be at a place where we actually have accelerated growth from that time period.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. And I'd just add to that, giving a wider range in Q4 just makes sense to go do, it's the prudent thing to do it in no way takes away from the underlying strength in our business, I mean, our core remains extremely strong, core PayPal growing at 30% plus in revenue, October was a good month for us. But you know you've got everything from the virus numbers lockdowns, which probably has a benefit of helping us as more people are at home spending online, but we balance that with what is consumer confidence is going to look like, what's the economy due to stimulus payments, what's the holiday shopping season going to look like. We've got an election coming up tomorrow, potential social unrest. When we put all that together, it just is prudent to give a wider range and so that wider range does nothing to take away from the strength we see in the business, but we felt it was the right thing to do.

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

Great. Makes sense. Thank you, all.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Your next question will come from the line of Jason Kupferberg of Bank of America.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey. Thanks. Good afternoon, guys. So I'm just wondering as we think about the puts and takes for 2021, I mean is it fair to assume that the eBay headwind of 3.5% in Q4 '20, is a decent proxy for next year and then how we should think about some of the other puts and takes, whether it be the ongoing travel headwind or obviously, you've got a whole host of new initiatives like paying for and in-store et cetera. So that's the first part of my question.

And then just on the second part, regarding this notion of acceleration in the core business, due to cover COVID, anyway to give us some rough idea of that, I mean if you just take eBay, out of the equation, how much do you think your revenue growth profile has structurally accelerated with a multi-year, again excluding eBay.

A - John D. Rainey {BIO 17599063 <GO>}

Thanks for the question, Jason. I appreciate trying to kind of parse out what 2021 would look like. Let me just say this, there are -- there are a number of puts and takes for our business next year. On the sort of headwind side, obviously eBay will continue to be a headwind next year, as they ramp through the year, we've been pretty consistent though with our expectations around the pace of that and we've long thought that they would be largely complete by the end of next year and at the same time, we are still maintaining a share of checkout which is north of 50% and so this has been very consistent with our expectations from the onset. Travel and events is going to be largely tied to the path of the virus. It's an overused term I know, but that's largely outside of our control. And when the world regains mobility, I'm sure we will see a resurgence in that.

But the other area that I think people perhaps haven't quite taken into account yet is the ongoing headwind, the credit should be next year. And so those would be on the headwind category. In terms of things that we're excited about that can help mute that are completely offset that, there is a number of things that that we're doing, that we've called out, but the continued monetization of Venmo, the launch of Pay in 4, it's something that we're very excited about and then expanding the consumer wallet with things like Bill Pay and subscriptions and so forth. So it puts us in our pretty good position, as we -- as we look at the new products that we're rolling out, which I'll say is like our product and technology team has never ruled out more products at the rates that they at any time in my 5 years here.

So we're exceedingly pleased about the progress there.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. I mean I think we expect our core business to remain strong, maybe even get stronger throughout '21, as we add more and more capabilities. We're seeing really nice adoption very early obviously and what we're doing in the offline space, the crypto announcement and just the very early reactions to that are well beyond our expectations are, Buy Now Pay Later value proposition is a great one, I mean for merchants, it's no incremental cost, just increase sales to them and we get to leverage the large base that we have right now.

And as I mentioned, we've got a whole of new services, coming on board next year and as Darrin talked about, if 70 million net new actives that will right on increased transactions with each of them counterbalanced by what we always knew was eBay, which is, as John mentioned a transitory event, it will play itself out next year and will accelerate out from that.

So I think the really important thing to emphasize here is that when we come into our Investor Day in February, we will be raising our medium-term guidance. We feel quite confident about that given everything that we've seen, 2021 was always going to be the year that we would transition away from eBay, frankly I'm happy that that's going as well as it is right now and as fast as it is. So that as John mentioned, we take that part of our business that it's the slowest growing part of our business and we replace it with the faster growing parts of our core business and other marketplaces.

And so for us, this is really couldn't come at a better time, the transition from eBay and all the things that we're doing to build our business and shape the future. It gives us a lot of confidence, as we look out at over the next several years.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Okay. Thank you.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Your next question will come from the line of James Faucette of Morgan Stanley. Please go ahead.

Q - James Faucette {BIO 3580933 <GO>}

Great. Thank you very much. I wanted to just build on, on some of the questions, particularly around next quarter, and that cadence. It looks like -- it sounds like John from what you were saying is that there is going to -- going to be some incremental spend in the fourth quarter, maybe that got started late in the third quarter and that is going to impact margins.

Can you talk a little bit about I guess the contributors to the very strong margins in the third quarter, a little more color on how to think about the spending and impact on the fourth quarter and then how we should think about what that margin trajectory looks like beyond that and particularly as we head towards a normalized world.

A - John D. Rainey {BIO 17599063 <GO>}

Sure. Well first, James, you're exactly right. The balance of spend of that $300 million that we earmarked on the last call is going to happen in the fourth quarter and that's really gives you the different margin profile from the third to fourth. But looking out on a more sustainable level or run rate basis whether it's 2021 or beyond, there is a data point in our third quarter results, which I think really illustrates the potential that we have and that's the incremental operating margin that we had in the quarter. So what I mean by that is for -- for every dollar of growth that we had in revenue, how much of that fell to the bottom line.

And if you normalize for acquisitions, it was roughly $0.50 -- $0.48 fell to the bottom line and that demonstrates two things, which I think are relevant and hopefully answer your question, but one is just the trends that we're seeing around our core checkout and we have an expectation that those persist at a higher level than we entered this pandemic period and so certainly that has implications on our business.

But the second and equally as important is what it says about the scalability of our business. We in the past have not always done the best job of growing at a low marginal cost and for the past 2 or 3 years now, we've -- we very -- we've demonstrated very well our ability to do that and ours is a platform that performs very well in a growth environment, because we can do it at a very low marginal cost and so that's what you see in that operating margin performance.

So I would say that there is a natural tenancy as we grow that margins are going to want to increase. That said, we also recognize we have a tremendous opportunity in front of us with the change that's happening and we clearly want to invest into that, but it's the right thing to do in the fourth quarter and it will be the right thing to do going forward.

I think fortunately, given the financial profile of our business, we've been -- we've been able to demonstrate that we can both do that and expand our margins and we anticipate doing so going forward.

Q - James Faucette {BIO 3580933 <GO>}

Thank you very much.

Operator

Your next question will come from the line of David Togut of Evercore ISI. Please go ahead.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much. Could you -- could you dimension the impact on PayPal ecosystem from introducing cryptocurrencies, both to buy, sell, and hold and to use as a funding mechanism in the PayPal wallet and if it's used as a funding source, can you help us think through the impact on transaction expense, would that be similar, let's say to ACA or debit funding.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. Hey, David, I'll take that question. So I'll just take a step back, you know, clearly the world is rapidly moving from physical to digital and that's so true for payments and and financial services. My conversations with central banks with the regulators with a number of folks in the crypto field, there is no question that digital currencies are going to be rising an importance, having increasing functionality, and increasing prominence CBDCs from my perspective and all my conversations, are a matter of when and how they're done, not if, and I think that our platform with its digital wallets and the scale that we have right now can help shape the utility of those currencies that can range from interoperability between wallets, between the currencies themselves and importantly, into our network of merchants for commerce and I do think that our platform and all the new digital infrastructure that we're putting in place right now can help make that management and movement of money more efficient and less expensive and faster.

Just in terms of what we've introduced with buy, hold, sell, we did a lot of research on that. Our base is very eager for us to offer these capabilities. It really came up very high on their wishlist and we are seeing that come in to fruition very quickly. Now we've only rolled this out to 10% of our base. We did that a couple of days ago, but are waiting lists was 2 to 3 times what our expectations were. We're going to take up our $10,000 limit per day to $15,000 per day. Based on the demand that we're seeing and will roll out to 100% in the US in the next 2 to 3 weeks. We're then going to expand internationally and we will expand into Venmo in the first half of next year.

So that's what we're starting off with what, we're seeing people who have already bought crypto open their wallet several times a day to check on what's happening with their crypto investments, we're beginning to already see some halo effects that go on with that. But what I'm really excited about is what we're going to introduce next year, which is I think going to dramatically increase the utility of cryptocurrencies by enabling somebody who holds a cryptocurrency in a PayPal account to instantaneously transfer that crypto into fiat currency at a set rate, so volatility is taken out of the equation. No incremental fee is charged for them to do that transaction from crypto into a fiat and then immediately settle in fiat with all 28 million of our merchants at our current take rates and so you have no additional integration needed at any of our merchants and this is just an elegant way of using cryptocurrencies as a funding mechanism.

And yes, it is a lower cost funding mechanism for us in terms of those transactions but that's just the start of things that we want to go and do with crypto capabilities. Over the course of next year, you'll see us move into a couple of different areas, those are the only two we're talking about right now, but I see a lot interesting things we can do with crypto currencies with functionality, increasing functionality and again, working hand-in-hand with regulators every step of the way, which is so important and what they expect from us in order to be a market leader in the digital currency space.

Q - David Togut {BIO 1496355 <GO>}

Thanks so much.

A - Daniel H. Schulman {BIO 1895545 <GO>}

You bet.

Operator

Your next question will come from the line of Heath Terry of Goldman Sachs. Please go ahead.

Q - Heath Patrick Terry {BIO 3406856 <GO>}

Great. Dan, you've done a lot over the last year in terms of product development between crypto and Pay Later. So I realize it's a bit of a greedy ask, but when you look at the size of the point-of-sale opportunity and the success that some start-ups are having and taking share against the incumbents. I'm curious where your in-person payment strategy stands at this point and how much of a priority it is for you?

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. So I think the best way of thinking about the seeds is that every five to seven years, there is a replacement cycle for point-of-sale, and we are really entering a period of change right now, where the operating models for POS have kind of literally changed overnight, payments clearly need to now reside in the cloud, not at the physical or retail location. They need to be fully omni, they need to reside on a full platform experience across channels and I would say that being an incumbent, this space is not at any advantage. In fact, they will need to change fundamentally the way that they think about point-of-sale and clearly the tailwinds are moving towards mobile-oriented point-of-sale and we want to capture what is a huge in-store opportunity, be one of the first movers to move to an online full omni-solution and then set that up to take advantage of our two-sided network and we have a number of plans underway with our iZettle and PayPal here teams really to try and become a market leader over the longer term and it could be five to seven years, but you'll start to see us make moves in that. I think that really complements all the things we're doing, as we move in-store with our consumer base, our QR codes, our contactless payments, NFC inside our app, as well as embedding ourselves and other star pays, but we're beginning to see as I mentioned a lot of early traction in our move in the off-line space and I think there is a really huge opportunity and we are, as I mentioned last quarter -- we are being pulled into that space by retailers and by consumers and the faster we move, the more opportunity, I think we can gain there.

Q - Heath Patrick Terry {BIO 3406856 <GO>}

Great. Thanks, Dan. Really appreciate it.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah.

Operator

Your next question will come from the line of Bryan Keane of Deutsche Bank. Please go ahead.

Q - Bryan Connell Keane {BIO 1889860 <GO>}

Hi guys, just wanted to ask about the new products, in particular the BNPL, just trying to get a sense of how much incremental volume opportunity is there versus replacing other PayPal payment options, just thinking about, are you going to be able to gain share or checkout at the merchant side. And then secondly, on the Venmo monetization, I heard the $900 million revenue number. Any sense of how that breaks out next year with growth rates for Venmo credit card, is that a big percentage of that versus Pay with Venmo, etc. Thanks so much.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. So starting out with Buy Now Pay Later and then quickly go into Venmo, I'm extraordinarily pleased with the success that we're having with Buy Now Pay Later. We rolled this out in France, several months before we introduced this into the US and then into the UK and the uptake that we are seeing in the French market is well beyond any of our expectations and we just rolled out in the US and the demand is tremendous. And you probably if you've opened up your PayPal app very recently in the last couple of days to pay for something on a merchant location, you're probably seeing Pay in 4 pop-up as a option.

I think our value proposition there is second to none. And the reason I say that is, it is a beautiful experience in terms of the ability to simply easily from a consumer to take a larger purchase and divide it in 4 payments interest-free. We know our consumers. We have a very high acceptance rate, as a result of that and for merchants, unlike any of the competitors that are offering Buy Now Pay Later functionality, we are offering this as part of our service, there are no incremental fees, except for the basic transaction fees that we charge merchants today.

And so what we are seeing is -- just use of it that's well beyond our expectations, I think it's going to be one of our big growth drivers, as we go into next year and into 2022. I'm quite high on the potential of what we'll see with Buy Now Pay Later. And by the way, there is a ton more we can do on that too and we have got of large roadmap around that.

On Venmo, look, we put out a couple of things here that are new. We do expect Venmo to approach about $900 million in revenues next year. By the way, we expect Venmo to reach profitability in 2022 and that's another big thing to think about. Venmo is clearly turning the corner right now. These are just like these incremental steps that people have been waiting for, but we are seeing that come to play, then Venmo has a host of new things coming out, they've got the Venmo credit card, which is one and by the way, I said it best in the market like I've been using the Venmo credit card for the last month or so. It is an incredible experience. I really cannot wait for all of you to use it and see just what I mean.

Second, we are really revamping our Pay with Venmo experience. It's been a little clunky, more clunky than I would have liked, but by first quarter, that will be as seamless as a PayPal transaction and we have a ton of extremely large merchants and marketplaces that are anxious to integrate Venmo as a payment mark. And then, we obviously have business profiles, crypto capabilities, more basic financial tools, shopping tools coming into that, all of those will add to the Venmo revenue. There isn't one thing that's dominant in that, they're all adding to that and so, really pleased with Venmo's growth and trajectory. And you know to see an acceleration in its TPV growth now two quarters in a row, at the scale that it has, is pretty impressive.

Q - Bryan Connell Keane {BIO 1889860 <GO>}

Great. Thanks so much.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Okay. You bet.

Operator

We have time for one last question from Lisa Ellis of MoffettNathanson. Please go ahead.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. Thanks guys. Thanks for squeezing me in. Hey, Dan, so you've highlighted a number of times on the call the transformation underway with the PayPal and Venmo consumer apps to add all these new used cases like Bill Payment, Pay in 4, crypto, Honey, et cetera. Can you just talk a bit more about how we should think about the operational and financial rollout of this transformation, meaning what's sort of the roadmap or timing of when this functionality will be rolled out, how are you going to be driving adoption, how should we think about monetization et cetera. Just as we look out over the next 12 to 18 months?

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. Hi, Lisa. Good to hear your voice. Happy to do so. This is probably one of our, not probably, this is one of our top focus areas, this building out a comprehensive and compelling digital wallet for our consumers. I don't think there is any question, as we move into the digital economy that apps that provide a comprehensive suite of interlinked functionality around financial services, payments, shopping, identity management will be an essential part of our customers' lives, I mean a daily part of their lives.

Now with the wallet, the capabilities that we're talking about are both online and in-store. So that's sort of online, offline shopping capabilities, rewards management being able to use rewards points, translate those to fiat to pay at any one of our merchants and also incorporate that in in-store as well. All sorts of financial services, you mentioned a couple of them, Bill Pay, Increasing focus on direct deposit, check cashing, savings, goals, investments, PFM, and then integrating all of our Honey shopping tools, crypto capabilities, Buy Now Pay Later and by the way, Lisa Importantly, not just putting all of that functionality out into our digital wallet but creating a UX, a user experience that enables somebody to simply and easily move from one experience to another and have each of those experiences build on each other.

And so, we will start to roll out Bill Pay, this month -- we will towards the end of the month, we'll start to roll that out. I think you can expect kind of at the end of the first half of this year for us to have a pretty large UX completion design in our customers' hands with a lot of functionality coming out in my view in the second quarter in the back half of the year. But I expect to have the predominance of what I just talked about in place by the end of next year. And as John said, we are investing behind this, I'm really pleased, as John mentioned, with the delivery and the on-time delivery and the excellence of the applications that are coming out into our market. And so, expect to see a step functionality in the back half of Q2 of this year and then to build on that as we go into the rest of the year.

Q - Lisa Ellis {BIO 18884048 <GO>}

Very exciting. Thank you.

A - Daniel H. Schulman {BIO 1895545 <GO>}

Yeah. It is exciting. Okay. I want to thank everybody for all of your great questions -- really I'm glad, we had a chance to talk about all of those things and look forward to talking to each of you more in the weeks and months ahead. So thank you very much everybody, have a good day. And we'll talk to you soon. Bye-bye.

Operator

This concludes today's conference call. You may now disconnect.