Q2 2020 Earnings Call

Company Participants

- Daniel Schulman, President and Chief Executive Officer
- Gabrielle Rabinovitch, Vice President, Investor Relations
- John Rainey, Chief Financial Officer and Executive Vice President, Global Customer Operations

Other Participants

- Darrin Peller, Analyst
- David Togut, Analyst
- Heath Terry, Analyst
- James Faucette, Analyst
- Lisa Ellis, Analyst
- Robert Napoli, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good afternoon, my name is Gabriel and I will be your conference operator today. At this time, I'd like to welcome everyone to PayPal's Q2 2020 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Mr. Gabrielle Rabinovitch. Please go ahead.

Gabrielle Rabinovitch {BIO 19771464 <GO>}

Thank you, Gabriel. Good afternoon and thank you for joining us. Welcome to PayPal Holdings' Earnings Conference Call for the Second 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.

Please note that we are taking this call from separate locations. We appreciate your patience as we adjust to these new logistics. 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.

We will discuss some non-GAAP measures, in talking about our Company's performance. You can find a reconciliation of these non-GAAP measures to the most directly comparable GAAP measures in the presentation accompanying this conference call. 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 third quarter and full-year as well as the impact of our acquisitions. Our actual results may differ materially from these statements. You can find more information about risks, uncertainties and other factors that could affect our results, in our most recent annual report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC and available on the Investor Relations section of our website.

You should not place undue reliance on any forward-looking statements. All information in this presentation is as of today's date, July 29, 2020. We expressly disclaim any obligation to update this information.

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

Daniel Schulman {BIO 1895545 <GO>}

Thanks Gabrielle, and thanks everyone for joining us on today's call, and I hope that all of you are safe and well. I'm pleased to say that PayPal just had its strongest quarter since becoming an independent public company five years ago. Simply put, our business has never been more relevant and important than it is today. In the midst of the COVID pandemic, we have seen substantial macro changes that we believe will have a lasting and profoundly positive impact on our business. The world has accelerated from physical to digital across multiple industries, including retail.

Merchants are embracing a digital first strategy and these trends have fueled the rapid rise of digital payments. These are durable and meaningful tailwinds and we are fortunate to have the scale, scope of services and brand reputation to capture the benefits of these trends and extend them to our customers. Consumer behavior has shifted in a discontinuous manner and PayPal clearly has a unique opportunity to accelerate its path to becoming in every day essential service. The strength that we saw across our business in April continued to gain momentum throughout Q2. Our transactions grew by 26% to $3.7 billion, consistently rivaling the volumes that we usually experience during the five days between Thanksgiving and Cyber Monday. Transactions on our PayPal checkout experiences remain especially strong, growing almost 40% year-over-year.

TPV grew at 30% on an FX-neutral basis with a record $222 billion of processed volume in Q2. TPV accelerated throughout the quarter and June marked our highest growth rate since our separation from eBay. We added a record $21.3 million new customers in the quarter increasing nearly a 140% year-over-year. To put this in perspective, this quarter's net new actives were greater than our total net new actives in 2016. Nearly $1.7 million merchants signed up for PayPal in Q2, and Honey net new actives were nearly three times that of Q1. Importantly, we continue to see increased levels of engagement. Our 10-day adoption rate for our newest cohorts grew by 20% to 30% over last year. And across our PayPal base our daily active users have accelerated by almost 40% from last year.

We ended Q2 with 346 million active accounts and with over 26 million merchant accounts. Given our momentum, I believe that we will add approximately $70 million net new actives this year. These trends drove record financial performance in the quarter, revenues grew by 25% on an FX-neutral basis to $5.26 billion accelerating after our strong 20% revenue growth in April. This is the first time our quarterly revenues have exceeded $5 billion. Due to the strength of our PayPal branded transactions our non-GAAP operating margin increased by a record 500 basis points to 28% this quarter. As a result, our non-GAAP EPS grew by 49% year-over-year to $1.07. And all of this led to record free cash flow of $2.2 billion in the quarter, up 112%.

In the first half of 2020 the penetration of e-commerce as a percentage of retail sales outpaced prior external forecasts by an astonishing three to five years. In this environment the demand for our products and services has dramatically increased and unleashed multiple opportunities. We are focused on several key initiatives to fully leverage this unique moment in time. First and foremost is our push to accelerate in-store contactless payments, both consumers and merchants are rapidly moving towards digital payments across their online and offline experiences. This is an existential issue for merchants, who realize that reopening the retail stores depends on touchless forms of payments to keep both their employees and customers safe and healthy. There are numerous market research studies highlighting that consumers no longer want to handle cash or other forms of payments that require any physical touch at checkout.

We are significantly investing to accelerate our presence in all forms of omnichannel commerce. From point of sale in-store to buy online and pick-up in store, order ahead, pay at table and home delivery. In addition to iZettle contactless cards and integration with both Google Pay and Samsung Pay, we announced that our QR code functionality is now available across 28 countries for small and micro merchants. And we are working with leading retailers throughout the U.S. and Europe, to aggressively rollout in integrated point of sale, QR solution, beginning this quarter with expansion plan throughout the year.

For instance, we are working with CVS pharmacy to enable PayPal and Venmo QR codes for payment at their cash registers. And we expect a full national rollout to their 8,200 standalone store locations by the end of the year. Our merchants and our consumers want us to expand in-store, and we will not let this opportunity pass us by. The rollout of QR functionality will also accelerate our Venmo monetization efforts. Venmo also had a very strong Q2, with record NNAs and a active base that now exceeds 60 million consumers. In Q2 Venmo grew its TPV by 52% to almost $37 billion. Revenues continue to outperform our expectations with year-over-year growth rates of greater than 60% during the first three weeks of July.

We are seeing substantial increases in the use of Venmo as the pandemic continues on, as more consumers turn to Venmo to live their financial lives, including adoption of direct deposit functionality and later this year the Venmo credit card. We recently introduced business profiles, a unique new way for consumers and merchants to connect on Venmo, and exchange goods and services with the same protections enjoyed by PayPal customers. These initiatives will drive significant additional value to Venmo users and consequently drive new vectors of monetization. We are also expanding functionality beyond omni checkout in both our PayPal and Venmo digital wallets. We will roll-out additional services over the next several quarters including bill-pay, subscriptions and rewards management, shopping tools from Honey and new forms of credit and budgeting tools to name just a few.

Our goal is to meaningfully expand the range of services provided inside our wallets. We believe these and other actions will bring us closer to having a full set of capabilities for consumers to use on a daily basis. Our rapidly increasing scale makes us highly relevant to merchants of all sizes and provides us with large sets of data to offer customized services and solutions. Over the last few years, we have developed, acquired and grown a strong and diverse portfolio of capabilities that address many of the current needs of our merchants. These range from end-to-end digital payment processing to sophisticated risk management and shopping tools that ultimately help to drive increased sales and engagement. So that our merchants can thrive in the era of digital commerce.

And it's the combination of these assets together that provides unique competitive differentiation for our enterprise merchants, channel partners and small business customers. Providing merchants with a comprehensive, consistent simple and unified experience remains a guiding principle for us, as we continue to add new products and services. And as is evident by the number of merchants signing up for PayPal, our integrated platform is never been more relevant or needed. We continue to extend our platform capabilities around the world. We recently entered into an important commercial relationship with Gojek, a leader in mobile commerce in Southeast Asia with 170 million users.

In Brazil and Mexico PayPal is available as a payment option in the MercadoPago online checkout for shoppers. And PayPal is now available for cross-border transactions on MercadoLibre. And we continue to build our team and capabilities in China, as we integrate with our GoPay platform, partner with China UnionPay and other leading Chinese players.

COVID-19 was not the only set of issues we addressed this quarter. As all of you know, we are witnessing in outpouring of emotion and determination to address centuries of systemic racism. In June, we announced a comprehensive $530 million commitment to support Black and minority businesses and to fight economic inequality. We felt it was necessary to not just condemn racism but to commit to doing the necessary work over the long term, to help create a more socially just society. Even as we navigate these unprecedented times as a business, we have the ability to act in a way that clearly represents our values, especially around inclusion. We still have lots of work to do. But we are fully committed to a future where all people can live with dignity and respect. This is also a special quarter for PayPal because it marks our fifth anniversary as an independent publicly traded company. During that time, we've dramatically expanded our platform capabilities, value proposition, geographic footprint and our market leadership.

However, I believe the next five years will bring about even greater opportunities. We have an ambitious vision for PayPal to be a central player in the future of the digital economy. I'm confident we can drive towards that goal. We have a solid track record and an unwavering dedication to delivering essential differentiated and best-in-class services to merchants and consumers. This is our time and we intend to seize the moment. Our products and services have never been more important and we are ready and well positioned to capture the opportunities that lie ahead of us.

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

John Rainey {BIO 17599063 <GO>}

Thanks, Dan. I'd like to start by thanking the entire PayPal team for their efforts to serve our customers and execute on our priorities during these unprecedented times. Since our last earnings call, the encouraging business trends that we've called out have persisted and we're reporting the strongest quarterly results in our history.

As Dan discussed in the current operating environment, our business has inherent advantages. By many estimates the pace of e-commerce penetration has accelerated by several years in a single quarter. And there is greater demand for contactless payments than ever before. These shifts play directly to our strengths and will enable us to advance our competitive positioning. At the same time there is ongoing uncertainty as it relates to both the progression of the coronavirus as well as the state of the macroeconomic environment. We're carefully monitoring the pace of recovery and these interconnected dynamics. This overall level of macro-related uncertainty has resulted in increased complexity and building our forecasts.

It is with this backdrop that we're updating you today on our business and our outlook for the remainder of the year. Our second quarter performance highlights the benefits of PayPal's diversification and scale and our resulting earnings power. We delivered 25% revenue growth on a currency neutral basis, 49% growth in non-GAAP earnings per share and generated $2.2 billion in free cash flow. We did all of this while absorbing ongoing pressure from reduced travel and events spending, and lower revenue from our credit products.

I'll now provide the details of our financial performance for the quarter and then our expectations for the rest of the year. Revenue in the second quarter increased 25% on a currency neutral basis, to $5.26 billion. Transaction revenue grew 30% on a currency neutral basis, the strongest growth we've ever reported. Growth accelerated 13 points year-over-year and 15 points sequentially. Transaction revenue growth was primarily driven by strength across our PayPal checkout experiences, which more than offset the approximately 60% decline we saw within our travel and advanced volumes.

For contacts, travel and advanced represented slightly more than 10% of our TPV in the second quarter last year. In addition, cross border volumes increased 24% in the quarter, which also supported transaction revenue growth. Other value added services revenue declined 26%. Lower credit revenue in the quarter resulted from a number of factors.

These included customer relief actions, fewer merchant loan originations, the lapping of $58 million of interim servicing revenue from Synchrony recognized in Q2 last year, and an approximate $17 million impact from increased expected credit-loss provisions related to macroeconomic adjustments. Lower interest income due to lower interest rates globally also contributed to this decline.

Revenue from Honey also part of this line item only partially offset these headwinds in the quarter. In the second quarter transaction take rate was 2.23% and total take rate was 2.37%. Compared to the second quarter of last year this decline 2 basis points and 13 basis points respectively. Transaction take rate increased sequentially and excluding the effects of person to person volumes increased year-over-year as well, reflecting strong volume growth from PayPal checkout experiences.

Moving to our volume-based expenses. As a rate of TPV we are reporting record low transaction expense and transaction loss performance. Transaction expense was 83 basis points as a rate of TPV, a decline of 11 basis points versus Q2 last year, primarily due to the funding mix on our platform in the quarter. Transaction loss was 12 basis points, an improvement of 2 basis points year-over-year and the fifth consecutive quarter in which we report -- performed in this range. Risk mitigation strategies and risk model enhancements continue to drive this improved loss experience across our platform.

Together, transaction expense and transaction loss provided 335 basis points of leverage. At the same time, given current economic forecasts we increased our macro related reserves for expected credit losses by $117 million. This flows directly to our income statement, increasing credit losses by $100 million and reducing other value-added services revenue by $17 million. After taxes, this adjustment to our provision represented $0.07 per share impact to earnings. Entering the quarter, our reserve coverage was 17%. With this additional increase in our reserve we exited the quarter at 22% coverage. Overall, the combination of our strong revenue and volume-based expense performance resulted in transaction margin dollars, increasing 26% to approximately $3 billion. Our transaction margin expanded a 179 basis points to 56.6%, 335 basis points of margin expansion from transaction expense and transaction loss was partially offset by a 156 basis points of deleverage from loan losses. Non-transaction related expenses increased by 10% resulting in 326 basis points of leverage.

Customer support, and operations is a line item contributed more than 40% of this leverage. Excluding the impact of our recent acquisitions, non-transaction related expenses increased 3% or only $0.04 for every incremental dollar of revenue, once again demonstrating the scalability of our business and our operating discipline.

Operating margin for the quarter was 28.2% improving more than 500 basis points year-over-year. The highest level of operating margin expansion we reported in our history. Strength across all parts of our business contributed to this performance. Non-GAAP other income in the quarter declined by $60 million relative to last year, predominantly driven by increased interest expense from a higher debt balance and reduced interest income from lower interest rates.

For the second quarter non-GAAP EPS increased 49% to $1.07. Our earnings performance demonstrates our ability to successfully execute in the face of a more challenging operating environment, as well as the strength and resilience of our platform. Excluding the macro related charge for expected credit losses, non-GAAP EPS would have increased 59%. We ended the quarter with cash, cash equivalents and investments of $16.2 billion. In May, we raised $4 billion in long-term debt, with a weighted average effective interest rate of 2.26%. We ended the quarter with $9 billion in long-term debt.

In addition, we generated $2.2 billion in free cash flow in the quarter or approximately $0.42 of free cash flow for every dollar of revenue. And year-over-year free cash flow grew 112%. We're very well positioned from a balance sheet and liquidity perspective. This solid footing gives us the flexibility to successfully navigate this environment and emerge stronger. We've identified several opportunities to accelerate our long-term growth and advance our leadership position in digital payments. As a result in the back half of the year, we plan to invest heavily in support of these plans, which I will discuss in more detail shortly.

I now want to shift to our expectations for the rest of 2020, with more than half of the year behind us. Our strong results and ongoing momentum as well as the secular tailwinds have accelerated this year, we are reinstating our full year guidance. While the timing of the end of the pandemic and the eventual path of economic recovery remained unclear, we have more visibility and confidence in our trajectory for the remainder of 2020. Our updated full-year outlook is a significant rates relative to our prior guidance for revenue, earnings and free cash flow. For the back half of the year, our overall expectations or the TPV and revenue will perform in line with the second quarter with 30% volume growth and 25% revenue growth on a currency neutral basis.

We also believe non-GAAP EPS will grow approximately 25% on a spot basis in both Q3 and Q4. Based on the strong leverage we're seeing and our investment plans. As a result of these expectations for the full year, on a currency neutral basis, we now expect TPV to grow in the high '20s percentage range and revenue to grow approximately 22%.

In addition for the full year, we now expect to grow non-GAAP EPS in the range of 25%. I'd also like to note that included in this guidance for 25% EPS growth, is our expectation that the other income line item will reflects a net expense for the year, given lower interest rates on our corporate cash and the debt we recently raised. Relative to the guidance we provided in January, our updated guidance represents a raise of approximately 3.5 points of growth to revenue and 9 points of growth to earnings. In addition, we now expect to generate more than $5 billion of free cash flow this year, an increase of $1 billion relative to our prior guidance.

I'd like to give some context for this improved outlook. The revenue growth we expect reflects continued strong performance in transaction revenue, partially offset by ongoing pressure in our credit products. It also reflects a 1 point headwind to growth from the eBay managed payments migration. The rate of growth, we are expecting for the year represents a 7 point acceleration from 2019. And this is indicative of the elevated and sustained engagement we're seeing across our platform. In addition, we now expect our operating margin to expand by at least 100 basis points relative to our prior guidance that would've been flat versus last year.

Based on the mix of transaction volume and our strong business trends, we expect to continue to show transaction margin expansion throughout the rest of the year. At the same time included in this guidance and partially offsetting transaction margin expansion, are our plans to invest approximately $300 million in the back half of the year, to advance our key priorities and accelerate our growth initiatives. We believe that we have a unique opportunity to strengthen our competitive positioning and extend our leadership.

We've never been more relevant to our customers around the world and we're focused on doubling down in several areas to help ensure that we sustain and enhance our strategic advantages. This is quite possibly an inflection point in the growth of e-commerce and digital payments. And as a result we're electing to invest much of our margin improvement to help ensure our long-term success. We believe that the guidance we're providing today is consistent with the significant advantages from which our business is currently benefiting. Relative to when we last reported earnings nearly three months ago, we have more confidence in the sustainability of the elevated e-commerce trends we are seeing.

What it first like potentially short-lived phenomenon resulting from initial panic and pantry packing and even stimulus checks has become a much more durable and profound behavioral shift. We've seen the strongest and most encouraging new customer volume and engagement trends in our history. At the same time, given our exposure to travel in light of events, we've watched demand in these verticals essentially grind to a halt. Our business has demonstrated its ability to withstand exogenous shocks. And the diversity and scale of our platform is allowing us to outperform even while absorbing meaningful pressures.

Three months ago, the ideas that our PayPal branded experiences would enjoy TPV growth for an entire quarter, at a level consistent with and only previously seen during high velocity holiday selling days like Black Friday and Cyber Monday was bold and even somewhat inconceivable, especially in the midst of a global pandemic and the highest levels of unemployment in our lifetime. And while we know more today than we get a few months ago about both the virus and the economy, there continues to be palpable uncertainty.

As we sit here today, the concept of normalcy has being redefined, and at times, felt elusive. What we do know is that this is a pivotal moment in PayPal's history. We believe that we've never been better positioned to realize our ambition for greater relevance, ubiquity and impact as a global payments leader. We recognize that this is our time to capitalize on our strategic position and financial capacity to serve our customers better and to advance our platform. And we're committed to achieving our full potential. In addition, through this period, we've learned a lot about organization and its resiliency. And what we can accomplish when we're focused on delivering against a defined set of key objectives.

We're committed to continuing to support our employees, our customers and our communities through these challenging times and to create sustainable long-term value for all of our stakeholders.

I'll now turn it over to the operator for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Thank you. Your first question will come from the line of Tien-Tsin Huang of J.P. Morgan. Please go ahead.

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

Thanks so much. Really terrific results here. Just trying to think of how to ask upfront here. But you've got record new ads, volume, engagement numbers are great. So is there a way to maybe hone in on what changed since April? What's driving the performance if you had to rank the biggest factors? Enough to give you confidence to reinstate guidance and confidence sustainability in the third quarter, in relation to what we talked about last quarter. I'm just trying to maybe summarize that, if you don't mind.

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah, sure. I'll take a crack at that. So obviously our best quarter by far, both on the NNAs and engagement, particularly just to give you some color around, Tien-Tsin, 21.3 million, you knew what April was, but May and June were equally strong in our net new actives and these are high-quality LTV NNAs that come from our core markets around the world. Merchants were up about three times what we typically see. This is really a reflection of industries moving towards digital first strategies and we see that continuing.

Honey, I talked about being up three times Q1, its got the perfect value proposition for these economic times. Venmo obviously had a record NNA quarter. Xoom which we didn't talk about last time, Xoom which has a great value proposition, Xoom NNAs were up over 600% in Q2 versus Q1. And because of all of that, we're beginning --continuing to see substantial year-over-year growth and we believe we'll add about 70 million NNAs which is at least double what we typically do in a year.

On the engagement side, I think it's possibly even better news than the NNA side. We look at 10-day engagement for our new cohorts, like how many of our new cohorts are doing four or more engagements within the first 10 days. And that's up even further than what we saw in April that's now up 20% to 30% versus previous cohorts. Our daily active user versus last year is up and consistently so by about 40% versus last year. And our churn, which is a really important number as we think about NNAs going forward is also meaningfully declined as well. And so what -- why is all of that happening, I think you know obviously volumes I talked about very quickly, but I think what's important on the volumes is that April was our low, June was our high in terms of volume growth. And so you can see the acceleration throughout the quarter and that by the way is with travel and ticketing events, down 60% or so.

And outside that, Braintree is experiencing some of its best growth in a long, long time. So volume continues to accelerate. But the reason for all of this from my perspective is the following. First of all we see a tremendous amount of new cohorts coming in that have never used e-commerce before, that's mostly silver tech we talked about that, that continues to be the fastest growing segment of net new actives. We're also seeing a huge amount of new use cases, people are giving in different ways and they're basically doing P2M activities for like work-outs that are streaming. We're seeing new industries come onto digital -- because the digital economy is everything right now. And so you're seeing, healthcare, education, fitness, restaurants, entertainment all swinging dramatically to online. We're seeing brands, now for the first time sell directly to consumers online. And verticals that have been online, but people had been experimental with them like groceries and home and garden are booming, it close to triple-digit percentage growth.

And if you look at it from a PayPal specific basis, with the scale we have now and the corresponding network effects, it's a very hard for a merchant not to have PayPal on their -- when they have PayPal, they see their sales lift as a result of that sometimes up to 50% plus. And by the way our placement in merchants now is improving as well, as I see how critical PayPal is, for their sales. And then our brand reputation, the experience is that we're giving new products and services that we have right now, including QR codes coming out. All of that, kind of gives us this confidence and also that the results we're seeing will be quite resilient as we look forward, which is why we felt comfortable reinstating guidance for the year.

John, do you want to maybe add a little bit to that?

A - John Rainey {BIO 17599063 <GO>}

Yeah. So I just add one small comment Tien-Huang. I think for everyone, the sustainability of these elevated levels of e-commerce and digital payment trends is the big question. And I think one of the things that gives us a little more conviction as we're three months further along than we were on the last call is just seeing the elevated levels of these trends. And particularly and regions that have relaxed some of their shelter in place or social distancing measures. And even when consumers are going back to somewhat normal activities like eating out at restaurants or shopping in grocery stores, the level of e-commerce penetration is still much, much higher than what we saw pre-COVID-19. And so I think that's one of the things that we watch closely that I think is a fairly good indication of the trends going for the rest of the year.

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

Yeah. Sounds like it. Thank you, both.

A - Daniel Schulman {BIO 1895545 <GO>}

Okay. Thanks.

Operator

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

Q - Heath Terry {BIO 3406856 <GO>}

Great. Thanks, Dan and John, really appreciate the level of detail and all of that. To dig into one area with the eBay exploration, can you update us on the strategy and positioning in marketplaces. Particularly how you're servicing some of the faster growing ones like Shopify, given what's going on there today? What is the strategic roadmap look like and what does it mean for PayPal?

A - Daniel Schulman {BIO 1895545 <GO>}

It's a good question, Heath. I'll start-off with that. I'd say, first of all, eBay is going to remain a very important customer over the foreseeable future. Jamie and I have had good conversations about that, they've been quite positive. And I thought he saw that reflected in some of his comments yesterday about our partnership. It is what our mutual customers want and the impact of managed payments has been forecasted by us for quite some time. John mentioned, it's part of what we're putting into our guidance for the rest of this year.

And honestly, on that front, from what we see with a very high share of checkout with merchants who have moved to intermediated payments, our checkout share can be from 50% to 75% depending on the country. And when we do research and we do a lot of it, with merchants who use both PayPal and eBay, the difference in NPS, in terms of how they think about and intermediated approach and the PayPal approach is quite substantial in favor of PayPal.

And so we really have seen obviously some merchants move, but not a large number to date. And if anything we are feeling better about our projections, then we have -- but we're just beginning end of the operating agreement right now. So we feel comfortable that this is a very manageable transition going forward. I think your point is a really interesting one about other marketplaces. And if you look at the top 15 marketplaces that we serve today, Shopify being one of them, Etsy for instance being another. And you look at their growth rate, the growth rates of all 15 of those marketplaces were quite close partners with approached 100% in Q2.

Yeah, it's just amazing growth to go and see that. It was three times the growth of what we saw on eBay. If you look over the last year or so, it's something like seven times the growth of eBay. And we have spent a lot of time working with those marketplaces to be quite close partners with them. From Shopify, to some others that are just beginning but may have to potential as being meaningful marketplaces like Facebook and Google. Where Facebook or the underlying payments platform for Facebook marketplaces and in-store shopping. We just announced a comprehensive partnership with Google. And we are working with other major marketplaces as a result of the expiration of the operating agreement.

And so I think it's a huge growth vector for us. We are participating in that growth and our roadmap is quite focused on providing additional value added services for those marketplaces. But things like payouts, which we really have taken a good lead-in and other things are crucial as well as all of the regulatory elements around the world, that we can provide services and capabilities to those marketplaces, because we are a global player.

John, anything you'd add on that? No?

A - John Rainey {BIO 17599063 <GO>}

Nothing to add, Dan.

A - Daniel Schulman {BIO 1895545 <GO>}

Okay.

Q - Heath Terry {BIO 3406856 <GO>}

Great. Thanks, Dan. Thank you, John.

Operator

Your next question comes from the line of Lisa Ellis of MoffettNathanson. Please go ahead.

Q - Lisa Ellis {BIO 18884048 <GO>}

Good afternoon. Thank you for taking my question. Dan and John, can you elaborate a little bit on the QR code strategy, specifically what types of merchants are you targeting? What steps are you taking that are going to drive consumer adoption of actually whipping out that the PayPal or Venmo wallet at the physical point of sale? And then what's the monetization strategy for QR, meaning in which case is it monetizable for PayPal versus being a pass-through? Thank you.

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah. I think I'll take the first crack at that. Look, obviously when you heard this in my remarks upfront, this is a key strategic priority for us. I think it's critical in driving daily use and we will make the investments we need to do in order to be successful here. This can be an ongoing process, you see this doesn't happen overnight, in the next quarter or two. But we have the patience and we have the conviction that this can be a meaningful part of our business as we look over the medium term.

Part of the reason for this, this is really demand driven. In other words, consumers and merchants are reaching out to us. They are asking us, working with us to implement this, and I'll talk about why that is. But look, 70% of people have health concerns about shopping in person. And of course they want to use touchless payments, in-store retailers realize that consumers want it. And we are not only rolling out to small and micro merchants across 28 countries. And by the way seeing very expected but very encouraging growth and expected because we know that the demand is there. But we are actively working right now, Lisa, with more than 100 large enterprise merchants across the U.S. and Europe. That doesn't mean that all 100 happened this year, but over 100 large merchants, as well as quite a number of channel partners. And those range from terminal providers to point of sale providers to acquirers, the networks to distribute our QR codes, all of that across Venmo and PayPal. And of course here we announced today our partnership with CVS. And those are the kinds of merchants that we want. Merchants where people shop there every day, they're highly known merchants or use cases that people who can use touchless every day.

So why do I think it will be successful, first of all, as I said, it's demand versus push. And by the way, we are going to put aggressive marketing dollars behind this, to make sure that consumers know they can use QR codes, promotions around it. And as John said, it's a large part of the investment that we'll do in the back half of this year. Second, merchants love the scale and the brand that we have. In the U.S. alone we've got between Venmo and PayPal, call a 150 million to 175 million people who are using our digital wallets. They can go after the Venmo demographic. And by implementing this QR code, unlike some of the other touchless, tap and pay options that have much less customers associated. Here you have the scale and that is something that they are eager to tap into right away.

Third, this isn't just about touchless payment -- just scanning a QR code. This is about the value proposition around that. This is about being able to use rewards, being able to have the integration of some of our Honey capabilities into that. So merchants can do proximity messaging in it, offers inside of that. You can use your wallet and do full funding of any of the funding instruments including your rewards points in that QR code. And so that's the functionality that will rollout over the next six months. So this value proposition works well. That goes beyond just be safe and healthy when tapping or scanning your phone. And of course QR codes, our platform and OS agnostic, any handset, any operating system. And in terms of the most part, it's a certain -- a little bit like what we have in online, not necessarily, exactly the same percentage, but even at LEs, larger merchants, it will be a similar rates to other in-person rates that you have. So we think the economics over the medium-term are quite positive for us. Some will be pass through, but most will be incremental economics. John, anything?

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

A - John Rainey {BIO 17599063 <GO>}

Yeah, Lisa, I would just add one other thing. As we think about what this offering provides for our consumers, but also the economic benefits, PayPal, it's not just in the direct unit economics that come to a point of sale transaction. Very importantly to us is what this will do to the overall level of engagement or (Technical Difficulty) setting, you're much more likely to use us when you have the opportunity online. So there is a halo benefit that comes along with this usage, that it's very important to us as well.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. Thank you. Congrats guys.

A - Daniel Schulman {BIO 1895545 <GO>}

Thanks, Lisa.

Operator

Your next question will come from the line of Darrin Peller of Wolfe Research. Please go ahead.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks guys. Nice results. Just look -- just given these substantial incremental margins, we're seeing margins overall, up over 500 basis points. What -- can you just touch on your strategy on the balance between the investments you want to make in the business versus margin expansion? Just, it's great to see the higher base, but when we think about, we're hearing from clients that you guys really should be stepping (inaudible) in terms of the opportunities, you could have. So just love to hear more in terms of where you're going to be putting those dollars and the balance? Thanks guys.

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah. Thanks for that Darrin. I'll start off and John can come in. Look, first of all, just in general we invest where we see opportunity, that's been what we've done over the years. I think it's why we've had the results that we have. We can always have higher margins without investing in the business, but that's not what I think all of you and our shareholders want from us. There is huge opportunity, I think more opportunity than we've ever seen before. And we have the opportunity to invest in new areas of the business, that we think can be meaningful contributors to our growth as we look forward. But even more importantly meaningful to our customers, merchants and consumers in terms of the capabilities that they are asking for us. And so as John said, plus or minus in just in the back half of the year we're investing an incremental $300 million or so.

And the places we're investing in, is in-store, I just talked about that and why that's so important. But also we want to invest in our digital wallet capabilities. We have an aspiration to be an every day use case and to be a essential part of a customer's life in the digital economy. And so in the next several quarters, we plan to roll out quite a number of additional capabilities, not just in store from QR to tap to pay, to cards, but rewards capabilities. By the way rewards are begin to use much more, because people aren't being able to use their rewards for travel. And we're seeing an uptick in people using their rewards points to checkout using PayPal.

Well obviously, pretty much now, almost 100% complete with our Paymentus integration, the next step is Bill pay into our apps. And that we intend to have probably towards the end of this year, we're going to integrate Honey shopping tools around wish lists, coupons, rewards into our PayPal apps, eventually into our Venmo apps as well. Subscription management and other capabilities, other financial services that I won't really go into any detail around today. But, yeah, I think you can think about like a substantial change in the amount of capabilities that we offer through our digital wallets across PayPal and Venmo.

And then finally, there are a couple of international markets where we think investment makes a ton of sense, whether that be China which we're obviously investing in through GoPay. We're seeing explosive growth in Mexico, Japan, Brazil really frankly across Western Europe, it's been amazing to see what's happened there. So we will invest continually in this business. And we invest what we think is the right amount to drive results. And if we need to invest more we will invest more. And if we don't have things to invest in we'll will return that back to shareholders. But we've given guidance that we believe enables us to do the proper amount of investment, to take advantage of the opportunities in front of us, because this is a moment in time for us.

A - John Rainey {BIO 17599063 <GO>}

Darrin, if I can just add quickly. Your referenced our margin profile in your question. And I think that's pretty important to this discussion, because what we're demonstrating right now is the real scalability of our operating model. And you know Darrin, like I frequently focused on the incremental margins in our business. How much profit that we bring in for every incremental dollar of revenue. And in the quarter those incremental margins were the highest they've been for us ever at 50%. But I actually -- I think that there is a better way of looking at that is more apples-to-apples. And that's if you exclude the losses related to the credit reserve, and you exclude acquisitions. That incremental margin was actually 70%, seven-zero. And what's that does is result in free cash flow like you saw us generate in the quarter at over $2 billion. And so as we get to how we spend that, we've always been balanced between M&A organic investment, and returning cash to shareholders. And we've also been opportunistic. And to the points that Dan was making, this is a time where we think it's very important to invest in a lot of these initiatives, because as I said on the last call, while these trends are -- seemingly changing right in front of us, we don't want to just want to be on receiving end of that. We want to help shape the outcome here and so we want to invest into that.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks guys.

A - Daniel Schulman {BIO 1895545 <GO>}

Thanks.

Operator

Your next question will come from the line of Bob Napoli of William Blair. Please go ahead.

Q - Robert Napoli {BIO 1526298 <GO>}

Hi, thank you and congratulations on everything on the trends. On Venmo, wanted to follow up on Venmo, 60 million customers now. I think the last revenue number we've gotten was $450 million revenue run rate exiting 2019. There is a lot going on the direct deposit strategy commercial strategy, obviously the QR codes integrating Honey. Can you give an update on the month -- the revenue run rate and then maybe a little color on the direct deposit strategy which of these strategies are going to be the biggest movers? And

I think direct deposit can be a game changer, but I'm not sure your customer, is it Venmo, is going to be easy to crack on to that deposit? So some color on Venmo and the different strategies and revenue trends would be really helpful.

A - John Rainey {BIO 17599063 <GO>}

Sure, Bob. It's good to speak with you. We don't provide an update on Venmo's revenue each quarter and we don't have one this quarter. But want to say that, I think across the Board, this was one of Venmo's best quarters ever. We saw growth on their platform reaccelerate from the depth [ph] in Q1, to where it was over 50% growth in volume. And I think what's notable about that is, we all recognized that much of the Venmo usage, historically it's been around social experiences. And as those have by and large gone away for the most part, we're seeing new use cases develop with Venmo, which really demonstrates its relevance and importance to our customer base. I think it is good as anything.

And so with respect to the monetization strategy, it is not just one strategy, it's a multifaceted approach that include things like direct deposit to increase usage, include things like business profiles, include things like QR code. And then of course you know we were eventually launching the Venmo credit card later this year. And we'll continue our efforts as well around the Pay with Venmo in e-commerce site.

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah, just that, one quick addition to that. Bob, I would not underestimate how zealous the customers at Venmo are, about living their financial life on the platform. I think each of these capabilities, whether it would be direct deposit, whether it would be business profiles, the credit card and a number of other things that we'll be adding. You are being rapidly adopted to the new use cases as John said. So interesting to see, as millennials instead of going to the restaurant, are now eating at home or outside or at the table instead of going into a gym or doing fitness classes through streaming, instead of going to concerts or other entertainment are now doing things online. And we're seeing all of that reflected in the usage of Venmo.

And so, I think as John said this was obviously its best quarter. But I think you know Venmo as -- where it continue to invest in Venmo because it's got a really bright future and is really a crown jewel of ours.

Q - Robert Napoli {BIO 1526298 <GO>}

Great. Thanks, Dan. Thanks, John.

Operator

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

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good afternoon, Dan and John. Could you drill down into the sequential tripling of the drivers of the sequential tripling in net new accounts for Honey? And any pull through benefits you see on the -- for the PayPal ecosystem as a whole?

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah, I think, in this economic environment, frankly and even before this because you had so many people struggling to make ends meet at the end of the month and that's just been -- made even worse by the economic ramifications from the pandemic. But Honey's capabilities are a perfect fit for consumers and merchants at this time. And increasingly, I see the possibility to establish Honey, as one of the most efficient market making platforms for both shoppers and merchants. I mean consumers get the best price on the merchandise that they want and then they receive rewards based on that, which incents them to do additional activities, build out their demand curves. And then merchants can customize offers, right into that demand curve. So they know exactly what to do to get X amount of demand off of that. And it's really interesting when you think about, we've always known the identity of people and we've always known that they've made purchases.

What we haven't seen is intent upfront, and you really have this perfect set of data that helps both sides of our two-sided network when you put all of that together. And it wasn't just that Honey's NNAs grew three times, by the way the revenues were up, basically a triple digits or so, almost double as well. And I'd just say a couple of quick things on that. One, the integration is fully on track. There has been no delays in any of our initiatives. We will start to export through APIs, the Honey tool sets into our PayPal wallets and within QR codes. And this to your point about part of the PayPal ecosystem, we hope to have a seamless one-click PayPal checkout experience when shopping at Honey merchant. So I would just say, all-in, I'm really pleased with the integration so far, it's right on track and I think we've got a real powerful set of capabilities ahead of us.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Congratulations.

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah. Thank you.

Operator

We have time for one last question from James Faucette of Morgan Stanley. Please go ahead.

Q - James Faucette {BIO 3580933 <GO>}

Hi, thanks a lot for taking my question. Dan, John, you guys have highlighted a lot of the strong trends and your increased confidence that those can sustain. If you look at your second half guidance and the strength you're anticipating there. How should we think about extrapolating that into the future in terms of what makes sense to think about, from a growth and margin expansion and perspective going forward? And kind of what are the key things that we should be looking for in (Technical Difficulty)?

A - John Rainey {BIO 17599063 <GO>}

Sure, James, this is John, I'll take that. There is still some uncertainty out there. I think macroeconomic uncertainty as well as how the overall path of the virus plays out. And so it's still a difficulty environment to forecast in. We feel comfortable enough about the things that we're seeing in our business right now, though to provide second half guidance. But I think the broader question is, like what if this do to our medium-term guidance? And I think (Technical Difficulty) argue that there are not structural benefits to what's happening to our business. I mean, there are definite secular tailwinds, that I think are going to have us really rethink what that growth trajectory is over the longer term. We're obviously not prepared to provide that today, we're just updating or reinstating our guidance for the year. But there are definitely compounding benefits, that are accompanying to our platform. And some of the things that we've all talked about as being trends that would eventually (inaudible) in-store. (Technical Difficulty) talked about the depth of cash for years. So maybe this is that inflection point, that seminal moment. And so we believe that, PayPal given our acquisition is a structural winner in that scenario. And certainly, I think it's -- it gives cause to rethink that medium-term guidance. But it's definitely premature to do that at this point in time.

A - Daniel Schulman {BIO 1895545 <GO>}

Yeah, if I can just add into John's comments. I think it's clear that we've tipped into a digital first economy. Look at the number of merchants that are coming on to our platform, 1.7 million in just one quarter. We have conversations with merchants around the world, large and small, all of them, trying to figure out their digital strategies in an accelerated fashion. If you look at market research that just came out from -- for instance the business round table, that what consumers say, they're going to shop online more frequently and expect to continue to do so, because it's easy and convenient.

And so yeah, I look at all the different industries we are clearly becoming a digital everything world and that acceleration has happened, and it's going to continue to happen going forward. And there is sort of one market research study after another.

And as John said earlier, when we look across the world, we look at countries that have opened. We're now 80% of retail is open, before there is maybe only 30% of retail open. We're still at very, very high levels, and still high levels of daily active users compared to last year. So my view on our medium-term, is there a way more opportunities than there are challenges around that. We need to see another quarter or two, but it's likely that goes up, I mean that's probable, and we are investing into our growth as well. I mean, we invest we expect to return on that investment. And so I would say, we feel good enough right now that we've reinstated 2020. We feel great about the opportunities, we're investing in them and give us another quarter or two and we'll provide updated guidance on medium term as well.

Okay, well listen, I just want to thank everybody for your time today. I just want to say again that I hope all of you and your families are safe and healthy. And we should look forward to being able to see all of you in person again. And so thank you for your time. Take care. Have a good rest of the evening. Bye-bye.

Operator

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