

Company Name: PayPal
 Company Ticker: PYPL US
 Date: 2018-10-18
 Event Description: Q3 2018 Earnings Call

Market Cap: 91,271.44
 Current PX: 77.48
 YTD Change(\$): +3.86
 YTD Change(%): +5.243

Bloomberg Estimates - EPS
 Current Quarter: 0.650
 Current Year: 2.343
 Bloomberg Estimates - Sales
 Current Quarter: 4216.692
 Current Year: 15431.978

Q3 2018 Earnings Call

Company Participants

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

Other Participants

- Bryan C. Keane
- Paul Condra
- George Mihalos
- Tien-Tsin Huang
- James E. Faucette
- Lisa Ellis
- Darrin Peller
- Heath Terry

MANAGEMENT DISCUSSION SECTION

Gabrielle Scheibe Rabinovitch

GAAP and Non-GAAP Financial Measures

We will discuss some non-GAAP measures in talking about our company's performance

You can find the reconciliation of these non-GAAP measures to the most directly comparable GAAP measures in the presentation accompanying this conference call

Daniel H. Schulman

Business Highlights

Non-GAAP Operating Margin and EPS

- PayPal had another excellent quarter with \$3.68B of revenue growing at 14% on both the spot and currency-neutral basis
- Normalizing for the sale of our U.S. consumer credit receivables to Synchrony, revenues grew at 21%
- Our non-GAAP operating margin of 21.4% grew 142BPS from last year
- And we delivered \$0.58 of non-GAAP EPS, up 26% y-over-y
- In short, we continue to drive strong financial performance

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- As pleased as I am with our financials, the highlight of the quarter was our growth in net new actives and engagement
 - We drove a record 9.1mm net new active accounts, surpassing 254mm customer accounts by the end of the quarter
- We added 34mm net new actives to our platform in the past 12 months, averaging almost 3mm net new customers per month

One Touch

- During the quarter we drove \$2.5B transactions, growing 27%
- Our engagement per active user increased 9.5% to 36.5 times per year
- A major driver of engagement is the use of mobile devices across our platform, predominantly driven by our market-leading checkout conversion rates with One Touch
- One Touch continues to expand with 112mm consumers and 10.4mm merchants using One Touch
- In Q3, we saw mobile growth of 45% with approximately 57B of mobile volume processed in the quarter
- Mobile checkout now represents 40% of our total payment volume

Engagement Metrics

- Customer choice also continues to yield a meaningful lift in our engagement metrics
- Today nearly all of our customers have choice available to them and more than 55mm PayPal customers have actively used choice in some 200 markets
- Another very important outcome of choice was that it enabled PayPal to develop deep partnerships throughout our ecosystem
- In just over two years, we've signed over 35 partnerships with some of the world's largest and most influential brands in finance, technology and commerce

Agreement with American Express

- Today I'm very pleased to announce that we've signed a multifaceted partnership agreement with American Express
- As one of the leading brands in the world it always made sense that PayPal and American Express would become strategic partners
- Steve Squeri and his team have been great to work with
- And I'm very pleased with the comprehensive nature of our partnership going forward
- Over the next several quarters PayPal will have enhanced access to American Express as a payment option in our wallet
- The agreement will allow PayPal to access American Express tokens and enables a deep integration of our Venmo and PayPal P2P capabilities within the Amex platform

Strategic Relationship

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- Additionally PayPal and American Express consumers will be able to use their American Express reward points to pay for their purchases at millions of PayPal merchants around the world
- Over the next year we will roll out these capabilities to our mutual customers and we are pleased to begin what will be an important relationship for both companies
 - With this agreement, we now have strategic relationships in place with all of the major card networks
- Not only have these partnerships redefined our competitive landscape, they have also created new and unique commerce experiences for our mutual customers around the world

Partnership with Walmart

- Most of you on the call know that we also recently announced a significant and growing partnership with Walmart
- Working together, Walmart and PayPal have developed innovative new product experiences to create a more affordable and convenient way for the unbanked segment of customers to more efficiently manage and move their money and as a result empowering more people to gain access to the digital economy
- As part of this deep collaboration, PayPal money services will be available at all Walmart locations in the U.S. beginning in November
- Using the PayPal mobile app, customers can easily load cash into their PayPal balance and for the first time, customers can withdraw money from their PayPal balance at Walmart retail stores and Walmart MoneyCenters across the country

PayPal Cash Mastercard

- Additionally, customers can use the PayPal Cash Mastercard to shop in-store, on mobile and online at Walmart as well as withdraw cash at the register or from Walmart's ATM locations nationwide
- And this is just the beginning
 - We are currently working hand-in-hand with the Walmart team to introduce even more capabilities in the future
- Walmart and PayPal share the belief that managing and moving money should be affordable, accessible, efficient and secure for all segments of our population
- And while digital and mobile commerce continues to grow at remarkable rates, there are tens of millions of people that still do not have access to the benefits of the digital economy
 - This partnership which leverages and combines the unique strengths of both our companies is aimed at addressing that issue

Strategic Partnership with Itaú Unibanco

- We also continue to grow our partnerships around the globe
- For instance, we are pleased to announce that we have finalized a strategic partnership with Itaú Unibanco, one of the largest banks in Brazil
- With this agreement, we add another major issuing partner in Latin America to help drive digital spend and improve convenience for our joint customers

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U.S

- We continue to work closely with our large merchant partners
- We recently struck a comprehensive strategic agreement with Chevron to improve the payment experience at its gas stations in the U.S
- Together we plan to launch a new mobile payment app in early 2019 that will reduce the amount of time that a customer spends at the pump
 - This is yet another example of how we are using PayPal's extensive platform capabilities to help our partners create differentiated customer experiences
- Chevron joins the list of our existing partnerships in this industry, including Shell, BP and ExxonMobil

Venmo Monetization Efforts

- In addition to all the progress we've made in forging new partnerships, this was an extremely busy period for our product development teams, as we brought several new products to market and we saw significant advances across a wide array of Venmo monetization efforts
- I'm especially pleased with the strong overall momentum surrounding Venmo
- For Q3 in a row, Venmo posted yet again another record for net new actives
 - This is driving accelerating network effects as volume grew 78% to \$16.7B, with an annualized run rate now approaching \$70B.
- And while it is still early, our monetization efforts appear to be reaching a tipping point. 24% of Venmo users have now participated in a monetizable action
- This is up from 17% one quarter ago and 13% in May of this year

Uber and Uber Eats App

- Pay with Venmo monthly active users increased approximately 185% month-over-month in September vs August
- And across the Uber and Uber Eats apps we saw more than 300% month-over-month volume growth in September vs August
- Our Venmo card is also off to a strong start with approximately 320% month-over-month growth in monthly active users from August to September
- Notably, the two top purchase categories since launch for our card are supermarkets and restaurants
 - These daily use cases demonstrate how we are rapidly gaining omni-channel ubiquity and becoming a part of our Venmo customers' everyday spend
- Finally, last month alone, we processed over \$1B in instant transfer volume on the Venmo platform alone

Venmo Initiatives

- In summary, I couldn't be more pleased with the customer adoption across our Venmo initiatives
- This quarter we address one of the biggest issues facing small businesses: the amount of time it takes for them to access cash from their sales

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- The launch of Funds Now gives PayPal merchants who are in good standing access to their sales within minutes at no extra cost
- By eliminating holds, delays and reserves, we are providing our merchants immediate access to the funds they need to invest back into their business, pay their bills and service their customers
 - We aspire to set a new standard in payments, that immediate access to funds should be the norm rather than the exception for small businesses in good standing
- We are pleased to say that over 1mm merchants across the globe are already taking advantage of Funds Now

New PayPal Checkout

- Another way we are helping merchants to expand their sales opportunities is through the rollout of PayPal Checkout with Smart Payment Buttons
- The new PayPal Checkout improves the purchase experience by dynamically presenting the most relevant payment methods to each shopper, including PayPal, PayPal Credit, Venmo and a wide range of alternative payment methods around the world
 - This means businesses don't need to clutter their checkout pages and shoppers see the options they would be most likely to use, which is proven to increase conversion for our merchant customers
- And we're currently deploying this innovative checkout experience globally

Working Capital and PayPal Business Loan

- A little more than a year ago, we acquired Swift Financial to bolster the financing options for small and midsize businesses
- Our PayPal Business Financing Solutions, which includes PayPal Working Capital and PayPal Business Loans, provided our customers more than \$1B in funding last quarter
 - This more than doubles the \$480mm in funding in the same period last year
- We believe we are now one of the top five providers of working capital to small businesses in the U.S

Acquisition of iZettle

- We will continue to leverage acquisitions to strengthen our two-sided platform and maintain our position as the leading global open-platform for digital payments
- Last month, we closed our acquisition of iZettle strengthening our global platform capabilities and in-store presence
 - We believe this acquisition provides significant value for our small business merchants, as we expand our point-of-sale capabilities globally
- We expect to close the acquisition of Hyperwallet this quarter and we are excited to extend its enhanced global payout capabilities to our marketplace customers

Summary

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Before I turn the call over to John for more details on our financial results, I want to say how proud I am of the PayPal team and their efforts to provide ever increasing value for our customers

As proof of that, Interbrand recently announced that PayPal had increased its brand value by 22% in the last year making us one of the top six fastest-growing brands in the world

- These kinds of results are what create sustainable and long-term value for our shareholders

John D. Rainey

Financial Highlights

Performance

- PayPal had another solid quarter in Q3 both financially and operationally
- Our targeted growth strategies and investments to strengthen both the merchant and consumer sides of our platform continue to drive strong financial results
- Our consistent growth in active accounts, payment volume, engagement and revenue demonstrate the power and resiliency of our business
 - In addition, our growth in operating income, while at the same time delivering operating margin expansion highlights the scalability of our model
- In Q3, we not only expanded our operating margin but also reinvested to grow users, volume and revenue

Acquisition of iZettle

- Before I go into our financial results, I'd like to provide a few highlights from the quarter
- As a reminder, the sale of our U.S. consumer credit receivables to Synchrony closed in early July
- Where relevant, I will provide normalized results for comparability
- In addition, our acquisition of iZettle closed in late September
- Our Q3 operating metrics and financial results include no impact from this transaction

Revenue, Operating Income and Non-GAAP EPS

- Revenue grew approximately 21% in Q3 adjusting for the sale of our U.S. consumer credit portfolio
- Operating income grew 22%, with 142BPS of operating margin expansion
- Non-GAAP EPS grew 26% and on a normalized basis we generated \$0.21 of FCF for every dollar of revenue

Volume Growth

- Turning to our financial performance for the quarter
- Total payment volume was \$143B, an increase of 24% at spot and 25% on a currency-neutral basis
- In comparison to Q3 2017, on a spot basis, we experienced more than 5 points of pressure from the lapping of TIO Networks and as a result of a stronger dollar

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- U.S. payment volume growth was 27% and international payment volume growth was 22% on a currency-neutral basis
- Merchant services volume was \$127B, growing 28% on a currency-neutral basis and volume associated with eBay grew 3%
- For the quarter, eBay-related volume represented 11% of volume on our platform, down from 20% three years ago
 - This is a continuation of a multiyear trend
- And in this quarter, our merchant services volume grew more than 8 times faster than our eBay Marketplaces volume

Customer-Centric Model

- P2P volume which is part of merchant services grew 50% to \$36B and represented approximately 25% of total payment volume vs. 21% last year
- We ended the quarter with 254mm active customer accounts, adding 9.1mm net new customer accounts
- Q3 represents the fourth consecutive quarter with 15% growth in total active accounts, demonstrating the success of our customer-centric model and the continued demand for our industry-leading payment solutions
- Account growth in Q3 was driven by core PayPal followed by Venmo

Transactions Growth

- In Q3, we continued to see strong momentum in engagement on our platform
- Payment transactions per active account increased 9.5% to 36.5B vs. 33.3B in Q3 last year
- And transactions grew 27% to 2.5B
- Over the last 12 months, we have processed more than 9.2B transactions
- Revenue in Q3 increased 14% on both a spot and currency-neutral basis to \$3.7B
 - However this growth was affected by the sale of our U.S. consumer credit receivables to Synchrony, which had about a 7-point impact
- Adjusting for the sale, revenue growth would've been approximately 21% in line with Q3 last year
- On a spot basis, transaction revenue grew 17% in the quarter and revenue from other value-added services declined 11%

Trends and Transaction Revenue Growth

- I'd like to give additional color on the trends and transaction revenue growth
- In comparison to Q3 2017, the stronger U.S. dollar, softness in our eBay business and the lapping of TIO Networks affected our y-over-y revenue comparisons
 - While the stronger dollar and ongoing pressure on our eBay Marketplaces business had an impact on our quarterly results

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- Our diversified portfolio both from a geographic and a product perspective allowed us to continue to deliver solid revenue growth

Synchrony

- The 11% y-over-y decline in revenue from other value-added services was a result of the sale of the U.S. consumer credit receivables portfolio to Synchrony
- This overall decline was partially offset by solid growth in both our merchant working capital and international consumer credit businesses
- For Q3 our transaction take rate was 2.34%, a decline of 14BPS from last year
- Approximately two-thirds of the change in transaction take rate was related to growth in P2P

U.S. Consumer Credit Portfolio

- The remainder was related to slower growth in eBay and lower cross-border volume
- In Q3, total take rate was 2.58% vs. 2.81% in Q3 2017
- The sale of the U.S. consumer credit portfolio resulted in 16 basis point reduction in total take rate
 - This was the largest single driver of the overall decline and reduces comparability to prior periods
- We expect this impact to continue for the next three quarters

Transaction Expenses

- Volume based expenses increased 13% in Q3 to \$1.7B
- Transaction expense was \$1.4B and represented 96BPS as a rate of TPV, which was flat to last year and a 2 basis point improvement sequentially
- Transaction loss was \$259mm or 18BPS as a rate of TPV vs. 19BPS in Q3 2017 and Q2 2018
- Improvements in both core and Venmo helped to drive these results

Acquisitions and Cost

- Loan loss was \$36mm or 3BPS as a rate of TPV, down 75% y-over-y, again due to the sale of the U.S. consumer credit portfolio
- Transaction margin dollars grew 14% to \$2B with a transaction margin rate of 55%
- Non-transaction related expenses grew 9% in Q3 to \$1.2B
- As a percentage of total revenue these expenses leveraged 130BPS vs Q3 last year
- Normalizing for acquisitions and cost directly related to the sale to Synchrony, non-transaction-related expenses grew approximately 6% y-over-y
- Again, this demonstrates our sustained ability to scale our platform at a low marginal cost
 - This performance drove 22% growth in operating income and 142BPS of operating margin expansion

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Operating Margin Expansion

- We continue to balance delivering operating margin expansion with reinvesting back into the business to further strengthen our platform and competitive positioning
- Solid top line growth in conjunction with OpEx discipline resulted in 26% growth in non-GAAP EPS to \$0.58
- We ended the quarter with cash, cash equivalents and investments of \$10.5B and short-term borrowings of \$2B.

FCF

- On a reported basis, our FCF was \$4.4B
- Adjusting for the Synchrony proceeds, our FCF in Q3 was \$772mm
 - This equates to \$0.21 of FCF for every dollar of revenue
- Our business delivered strong growth, robust profitability and consistent FCF
- This enables us to make significant organic and inorganic investments for our future growth, while at the same time returning cash to our shareholders
- In May, we announced our plans to return approximately 40% to 50% of FCF to shareholders over the next five years

YTD

- In Q3, we returned \$600mm
- And YTD, we've returned nearly \$3B
- I would now like to discuss our updated guidance for Q4 2018 and the full year as well as our initial thoughts on 2019
- For Q4, we expect revenue in the range of \$4.195B to \$4.275B, or 13% to 15% growth on a currency-neutral basis
- Normalizing for the U.S. credit receivables sale, the implied revenue growth rate would be 20% to 22% for Q4
- This guidance incorporates approximately \$30mm of impact from changes in foreign currency and a later close in Q4 than we previously expected for the Hyperwallet acquisition as well as anticipated softness in our eBay Marketplaces business

Non-GAAP EPS

- We are raising our non-GAAP EPS to be in the range of \$0.65 to \$0.67
- Our EPS expectations include a higher-than-normal below-the-line benefit
- We are electing to opportunistically reinvest some of this benefit back into the business which will offset some of the natural leverage we realize from efficiencies of scale
 - We believe this is the right decision to drive long-term value for PayPal

Revenue Guidance

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- For full year revenue guidance, we are raising the low-end and maintaining the high-end of our previous range, which absorbs the \$30mm headwind from U.S. dollar strength and the Hyperwallet timing
- We now expect 2018 revenue to be in the range of \$15.42B to \$15.5B or 17% to 18% growth on a currency-neutral basis
- Normalizing for the sale to Synchrony, the implied revenue growth rate would be approximately 21% for the full year
 - We are raising our non-GAAP EPS guidance to \$2.38 to \$2.40

FCF

- In addition given the strong FCF we have generated all year as well as the Synchrony proceeds, we now expect FCF for the full year to exceed \$4.5B
- We are still in our planning process for 2019, but I'd like to provide you with an initial framework for how we're thinking about our business next year
- We expect revenue to grow approximately 17% on a currency-neutral basis
 - This growth rate reflects the reduction in other value-added services revenue in H1 2019, as a result of the sale of the U.S. consumer credit portfolio
- Normalizing for this, our expectation is that revenue would be growing in the range of 20% to 21%

Integration Plan

- In addition, we expect non-GAAP EPS to grow approximately 20%
- This outlook incorporates our integration plans for the four acquisitions we have announced this year
- Normalizing for this, we would expect our EPS to grow approximately 23%
- Next year, we expect our 2018 acquisitions to contribute approximately 1.5 points of growth to revenue and \$0.08 to \$0.10 of dilution to EPS
- And in 2020, we expect these acquisitions to be accretive to our earnings

Growth Profile

- As we reflect on the first three quarters of 2018, we're very encouraged by our performance and the opportunities ahead
- Already this year, we have announced approximately \$2.7B in acquisitions, returned approximately \$3B in cash to shareholders, delivered operating margin expansion and significantly improved the overall growth profile of our business
 - We are innovating at scale and introducing great payment experiences to our consumers and merchants
- The sustained momentum we see in the business gives us confidence to invest in high-potential areas, such as Venmo, global expansion, in-store strategies and PayPal Business Loans
- We are extremely pleased with our progress
- I want to close by thanking all of PayPal's customers and our colleagues worldwide for making this another strong quarter

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QUESTION AND ANSWER SECTION

<Q - Bryan C. Keane>: Wanted to ask about eBay. I know they announced the Managed Payments initiative. And it doesn't look like PayPal is featured as a payment option. So trying to figure out what's the impact to PayPal's model? I guess what we're trying to get at is figure out how much the weakness in eBay is due to the run rate of core eBay volumes vs. volumes coming off of PayPal in payments to other providers?

<A - Daniel H. Schulman>: Yeah. Thanks Bryan, it's Dan. I'll take a crack at that and then turn it over to John and Bill, if they've got anything else to add to it. So, first of all, eBay's performance on our platform had nothing to do with intermediated payments. They announced publicly, I think they had \$20mm of TPV that moved to intermediated payments. We don't even see that as a rounding on our results. So intermediated payments has just started off for them, no impact on their performance on our platform.

So let me take a step back and talk to you a little bit about what I see going forward. So I think that PayPal and eBay are going to continue to be close strategic partners for the foreseeable future. And so why do I say that? I say that, because it's not just that we have signed a five-year term with them to display PayPal branded services on their intermediated payments, or that we just signed a while ago a comprehensive seven-year deal to provide eBay shoppers with PayPal Credit offers. Those things are just deals that we've done with eBay.

The most important thing is that our mutual sellers and merchants demand it. The consumers that we have, the sellers that eBay and PayPal share demand to have PayPal. Their sales actually depend on it. And we just put out, Bill, I think just published a market research that was done with Ipsos that was a comprehensive study. And that study showed what we've been talking about for quite some time. And in the study, it said that consumers on average are 54% more willing to buy when a merchant accepts PayPal. And by the way, that's at the low end of that. That goes up when it's a cross-border transaction, when it's mobile, when it's unfamiliar brands and if you think about the long tail of eBay merchants. So that 54% is a low number for those. And so you also have 59% of PayPal users who have abandoned a transaction, because PayPal wasn't a checkout option. And so, we've got 254mm customers on our platform right now. Imagine if almost 60% of them would abandon a sale because PayPal Checkout wasn't available.

And by the way, we've been talking about this for quite some time. And if you look at the seller feedback on the eBay seller form and look at what those sellers are saying, those that have moved over to intermediated payments, you'll see comments from them that their sales have dropped 40% to 60% and they're clamoring to come back to PayPal. So both eBay and PayPal want to serve our mutual customers extremely well. It's a major integration for eBay to put PayPal on. We're committed both of us to having PayPal on intermediated payments beginning next year. But we feel really great about the growing value proposition that we have. And we feel great about the partnership that we'll have with eBay going forward as well. Anything you would add Bill?

<A - William J. Ready>: Yeah. And I would just add to that that eBay has responded to those comments saying that sellers have issues with the drop in sale. They can revert back to PayPal in the near term. And in the long-term they're working hard to make PayPal available as a payment option. And we're working hand-in-hand with eBay to try to make sure that's available to those customers given the strong demand from customers, as Dan was describing.

<Q - Paul Condra>: I just wanted to follow up on Venmo. Could you give us some good updates there? Just could you help us think through the contribution? You mentioned the \$1B instant transfer volume in September, should we think of that as \$1B monthly run rate? And then would you say there any other monetization activities that are starting to scale? Just kind of want to make sure I'm thinking about the contribution correctly.

<A - John D. Rainey>: Sure yes. The \$1B in instant transfer volume was for the month of September and that's been growing nicely. We don't see anything to disturb that trend. And instant transfer is one of the monetization initiatives that we see scaling well. As Dan mentioned in his remarks, Pay with Venmo is growing very nicely. Uber, Uber Eats, Grubhub, Eat24, Seamless have all integrated Pay with Venmo that's been growing quite remarkably. I mentioned 185% month-over-month growth on Pay with Venmo and the card seeing 320% month-over-month growth. Those are early. But those are the kinds of rapid growth results that we've seen with other initiatives on Venmo. And so across all

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three of our major monetization initiatives instant transfer, Pay with Venmo and other apps like Uber and Grubhub and the card, we see all of those starting to really scale in a meaningful way.

<A - Daniel H. Schulman>: And you also saw the number of Venmo customers who have now been in the monetizable act go to 24%, up from 17% just one quarter ago. So as I mentioned in my remarks, it's still early obviously, but it looks like we've achieved some kind of tipping point right now. And I think both Bill and I are extremely pleased with the results of Venmo. One other thing that I would just point out is, as I mentioned, it seems repetitive, but we don't take it for granted. For three quarters in a row right now, we've each quarter seen record net new active signing up to Venmo. So not only are you seeing Venmo expand quite rapidly, but the percent of people using a monetizable event is going up quite rapidly as well. So you combine all of those things together, you can see why we're quite pleased with the momentum as of now.

<Q - George Mihalos>: Just wanted to ask John, as we look at the initial guide for 2019, how are you thinking about pricing broadly across the company from 2018 and 2019? I know you're anniversarying some pricing on the cross-border side. And then maybe related to that the shift in Venmo going from operating in the red to going into the black, how should we think about or ballparking that kind of contribution in the guide? Thank you.

<A - John D. Rainey>: Sure. So starting with pricing, pricing is something that as we said before George, it's not a one-time thing for us where I've described it in the past as a sugar high where you're trying to monetize something for the next quarter. We take a very long-term perspective to that. And there are opportunities every year to look at pricing. And pricing sometimes can mean going out and taking advantage of where you provide significant value in the market and pricing higher. In other cases given the enormous addressable market that we have, it can be about capturing market share and being more aggressive on pricing. So that goes both ways. And certainly we have assumptions built into our plans about optimizing pricing in various areas going into 2019. One example of that is the recent announcement that we made about increasing our pricing to be more in line with where the market is on instant transfer. And so that's just one example that we have there related to pricing.

On Venmo, as we said, it's hard not to be excited about some of the growth numbers that we're talking about today and the fact that each of the last three quarters we've seen a record number of net new customers come to the platform. But this is a long game. And we're going to be measured in terms of our approach to this, make sure that we optimize for the experience and profitability will certainly come. We've got good history here in terms of what happened with PayPal as that moved from P2P to being able to monetize that in ways where one can shop at a merchant. And so that is a transition that will take place in a couple of years, not a couple of quarters. And so, we expect to see improvement in our Venmo economics next year and each year thereafter.

<Q - Tien-Tsin Huang>: And thanks for the 2019 framework, it's encouraging. Just maybe on that, just a fairly steady EPS growth for 2019 adjusting for the acquisitions, despite some eBay degradation that you talked and perhaps in cross-border too, I'm not sure if maybe you want to comment on your outlook for cross-border specifically. But I'm curious just in the aggregate what's maybe getting better? What are some of the key offsets that have given you confidence to achieve that steady EPS growth in 2019?

<A - John D. Rainey>: Sure. I'll start and Dan or Bill can jump in as well. 2019 there's a lot of things in store as we sort of enter this next chapter post our previous relationship with eBay, and so excited about the partnership opportunities that are out there. We're excited about integrating some of the acquisitions that we've had and potential ones in the future and what that can mean to make our platform even better than it is today. As we look at parts of the P&L and the effect on sort of achieving that guidance into next year, we certainly expect to continue to realize operating leverage in our business. And Tien-Tsin, I didn't talk about this in my prepared remarks but we often talk about the marginal economics of our business. In this most recent quarter for every incremental dollar of revenue that we brought in our non-volume related cost only went up \$0.10. That is a model for scaling a platform. And as we've said before, we think that we can continue to do that.

With respect to cross-border that's an area that if you look at it in terms of the percentage of total volume for PayPal it's down slightly from where it was in the previous quarter. That's in part because of mix in our business. As we see things like Venmo growing more, Braintree growing more. But I think the takeaway from this is that if you were to go

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back three or four years ago when we were more of just a button on a marketplace, we were very dependent – or I should say our profitability was very concentrated in certain areas. And what you're seeing us evolve into as a platform is we have a much more diversified portfolio both regionally as well as product wise. We're monetizing a lot of other aspects of our business that we haven't before. And so despite the fact that cross-border which is the lucrative part of our business is a smaller overall piece of our portfolio. And eBay you can say the same thing about, you're seeing us expand our operating margin and continuing to grow earnings at a mid-20% growth rate, so we're very excited about that and that gives us confidence going into 2019.

<A - Daniel H. Schulman>: And I'll just add one or two things on top of that. You saw this quarter us adding for the first time ever over 9mm net new active accounts and interestingly at the same time engagement growing by 9.5%. For those of you who look carefully at our engagement numbers, which I know many of you do, that's the highest percentage gain we've had in probably two years or so. And three years ago, we guided like 3mm to 5mm net new actives per quarter. We took that up last year to 6mm to 8mm. We're clearly at the very high end of that and we see that continuing as we look forward as well.

And when you have your net new actives growing by 30mm, 35mm a year and your engagement growing by 8% to 10%, that bodes well, as we look forward. And I would say some of the new products and services that Bill and the team are introducing or have introduced into the market, some of the new partnerships that are just coming underway right now, we feel pretty good about our position in the digital payments ecosystem right now.

<Q - James E. Faucette>: I wanted to circle back to the Venmo commentary, particularly Dan your comments to have feeling like you're at a tipping point there. I'm just wondering if you can give us a little color on how we should think about efforts to drive increased acceptance of Venmo and where we may see some evidence of that. And I guess dovetailing with that is that with kind of the new instant transfer fee structure like what should we be anticipating in terms of contribution to moving the monetization of Venmo forward from that particular initiative? Thank you.

<A - Daniel H. Schulman>: Yeah. You bet. I'll just say, first of all, again it's early. But substantial progress and the numbers we gave are month-over-month numbers, not y-over-y but month-over-month growth numbers. So you can see the acceleration that's happening. We have a very strong pipeline of large merchants, the merchants you might expect who are lining up to integrate Pay with Venmo buttons. We also obviously are rolling out these Smart Payment Buttons capabilities into PayPal Checkout, where if it is a Venmo customer we will dynamically present a Pay with Venmo button. And so you'll start to see that also accelerating quite a bit.

And then, if you look across the monetizable services that we're offering, all of those services are benefits to the Venmo consumer. And I think that's a really important point. A Venmo consumer doesn't think about engaging in a monetizable app. They think about how can I use my Venmo card to spend offline, have that come right back into my Venmo feed, share, split those purchases and its value-add for them. Being able to take your Venmo balance and be able to spend on online merchants or on Uber that's a value add for them. Just as it is to be able to instantly gain access to their balances is a value-add to them as well.

And so the more services we put out there and we've been careful to be sure that the services we put out are real value-added services. But the more we put out, the more Venmo customers use and start to engage with that. I mentioned that you're seeing Venmo customers engage in groceries and restaurants. These are everyday types of activities and we're really just becoming an embedded part of our Venmo customers' digital financial services life. There are other things that we're looking at going forward, but we're really pleased with the efforts, we have so far and very pleased with the momentum. Bill, anything you'd add on that?

<A - William J. Ready>: I would just add to that that in addition to Dan's points there around how simple we're making it for merchants to add a dedicated Pay with Venmo through things like Smart Payment Buttons. The integrations we've done like with Uber for example, we're seeing tremendous growth that we're quite pleased with, but they're quite pleased with it as well. They're seeing us really driving engagement on the platform and the usage of Venmo is outpacing their own expectations, which are certainly quite high given how rapidly they grow. And so, as we continue to make merchants happy with the engagement we're driving to them, as Dan said, we're seeing a lot of merchants really line up for that. But we're providing multiple ways for users to get great new experiences and to make

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money by providing them great new experience whether it's Pay with Venmo, the card or things like instant cash out, so all of those together are really bringing great value to the user and great growth in the monetization for us.

<Q - Lisa Ellis>: Dan, this one's for you on the topic of partnerships, so just one of the topics of the day. You have a history of converting would-be enemies into friends or at least frenemies. And I'm wondering if you can comment on two groups out there that are sort of in that category, the large global merchant acquirers and then also the Chinese digital wallets. As you think about partnerships, is there a path to converting those players? Do you see a partnership path with PayPal?

<A - Daniel H. Schulman>: Yes. Lisa, I also consider you to be one of those partners that also turned into a friend as well. So obviously as we move towards customer choice and as we move to being an open platform, our ability to now partner, it's just night and day difference from where we were two years ago. I talked about 35 – I think we've done 37 major partnerships in the last two years. And as you know we started to work with and partner with some of the leading Chinese players today whether that be Ali with their international merchants, I think PayPal is now on over 50,000 of their merchants being accepted allowing PayPal consumers outside of China to purchase from Chinese merchants. We support some 300,000 Chinese merchants who have the PayPal mark on them today enabling consumers outside of China to purchase from those merchants.

And we're looking at doing the opposite with people like Baidu and others where Chinese consumers can seamlessly pay and buy at PayPal merchants outside of China. So we think that we can facilitate cross-border for all of those players in China and in other countries. In terms of merchant acquirers, we have a long history actually of partnering with merchant acquirers, very close partners with First Data, again, number of years ago there is First Data against PayPal. That is not the case anymore. We work hand-in-hand together. And so Bill, do you want to add to that?

<A - William J. Ready>: Wells Fargo, Chase, I mean there's a number of major merchant acquirers that we work with. We bring in tremendous amounts of volume. And it's another example as Dan was describing of how we're able to partner with others in the ecosystem as we've made our platform more open and have really gotten focused on how we can provide value to customers and partnership with others and acquirers are certainly one of those constituents that we work closely with.

<A - Daniel H. Schulman>: Yeah.

<Q - Darrin Peller>: Hey. Let me just start off. I mean first you have 9.1mm active accounts net new this quarter annualizing 36mm I guess per year. First of all, is there any reason why this quarter was unusual in terms of seasonality? Or is that now obviously better than 30mm run rate you had call it a year ago? And then just a follow-up is, just on the OVAS line, it was much higher than I know we and The Street were. And if you can give us a little more color if that's either – whether it's Synchrony revenue share or it's all the great stuff in Venmo we're seeing that would be great. Thanks guys.

<A - Daniel H. Schulman>: Yeah. So first on the net new actives, nothing unusual in the quarter. As John mentioned in his remarks, nothing from the iZettle acquisition that came in there. That was 9.1mm accounts that came in naturally. I'd be remiss to say we also have over 20mm merchants now on the platform too and that's growing quite nicely. So we projected being about 30mm we thought this year, we'll clearly be over that. And we see no reason for these types of numbers to be our new run rate going forward.

<A - John D. Rainey>: Yeah. And I would just add to that that we started seeing increased consumer adoption going back a couple of years and we started getting for the last two years you've seen us continue to drive significant improvements in net new actives. And part of that is that there's not been any one silver bullet to what's bringing those new users to the platform. It's a combination of great checkout experience with things like PayPal, One Touch, P2P, choice all these things together are bringing more and more users on to the platform deepening engagement them through being a great digital engagement channel with card issuers and others. It's the composite effect of all these things together. And so as Dan said, there's nothing that we see slowing that down. It's something that we think is a new normal for us in terms of the way that we're driving increased engagement and increased new users to the platform.

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<A - William J. Ready>: And Darrin on other value-added services, there's two – three things probably that are influencing that in rough order of significance. First would be we're seeing great growth in our merchant working capital business. Recall we've got the acquisition of Swift and we're just really pleased with how that's performing really good growth there. Second thing that I would call out is, while we sold the U.S. consumer credit portfolio, we still have an international consumer credit portfolio. And that is performing very well in the entities where we've launched that. And then lastly, I would say that the profit-sharing arrangement we have with Synchrony, we still receive economic benefit depending upon the performance of that U.S. consumer credit portfolio and we're very pleased with that. And I would eventually say Synchrony is very pleased with how it's performing as well.

<Q - Heath Terry>: Dan as just been pointed out earlier, you guys had a lot of success over the last couple of years in signing partnerships and bringing a lot of partners on to the platform. I guess it's probably too much to ask to try and kind of quantify the impact of those partnerships or how much of an impact you've seen on TPV or revenue as it relates to those. But curious, if just qualitatively you can try and give us a sense of the impact that you've seen there. And then as it relates to the Walmart and Amex deals that have been signed, how you would sort of scale those deals relative to what we've seen from partnerships thus far, what kind of potential do you think those two deals have?

<A - Daniel H. Schulman>: Yes. So let's say just in general, we've announced quite a number of partnerships over the past couple of years. These partnerships take multiple quarters before they start to come up to speed, some of them a year plus. And so I would say we are still quite early in the impact that we are seeing from all of those partnerships. And so just from a qualitative perspective, we're beginning to see some nice momentum. But I would say, it's very, very early days. One example of that would be rewards points. We've got maybe four or so issuers now, major issuers who are going to be putting their rewards points onto the PayPal platform.

We're going to be a platform that aggregates all of those that users of our mutual customers can take those reward points, turn them into fiat currency, use their rewards points and a combination of any other financial instrument they have on board to make purchases at basically 20mm merchants across the world. It's the first time that we're giving that kind of utility. And the American Express announcement they're one of the, if not, the leader in rewards points and having their rewards points come on to the platform and their customers being able to use them at PayPal merchants and the only place where they can use them at all of those different merchants right. Amex is only integrated into a couple of merchants right now to be able to use reward points. Those are all things that are coming in the future.

And I would say Walmart has a tremendous amount of potential for us. It's the largest retailer, one of the largest marketplaces and with a lot of aspirations and we have a quite good relationship with them and a growing relationship with them. And as you see almost every quarter, we announce new partnerships and some of them can be quite large. And my anticipation as we look out over the next several quarter is that you will see more of those come onto play as well. This is an ongoing part of our strategy is to be a great partner and to be the underlying platform and the largest digital distribution channel for a lot of our partners. And so, we're seeing a good deal of success right now, but still I would say very early innings for us in terms of what they could be and will become for us.

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