Company Name: PayPal
Company Ticker: PYPL US
Date: 2018-07-25
Event Description: Q2 2018 Earnings Call

Market Cap: 108,182.08
Current PX: 91.37
YTD Change($): +17.75
YTD Change(%): +24.110

Bloomberg Estimates - EPS
Current Quarter: 0.541
Current Year: 2.343
Bloomberg Estimates - Sales
Current Quarter: 3708.632
Current Year: 15411.268

Q2 2018 Earnings Call

Company Participants

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

Other Participants

- James E. Faucette
- George Mihalos
- Heath Terry
- Darrin Peller
- David Mark Togut
- Tien-Tsin Huang

MANAGEMENT DISCUSSION SECTION

Gabrielle Scheibe Rabinovitch

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

Q2 Review

Q2 Highlights

- I'm pleased to report that PayPal had another strong quarter
- As I said at our Investor Day, PayPal's greatest potential lies ahead of us
  - And I believe the moves we made this past quarter position us to win in multiple segments of our total addressable market
- At the same time, we also continue to produce consistent and strong quarterly financial results
- In Q2 we generated $3.86B of revenue, growing at 23% on a spot basis and 22% on a currency neutral basis
- We delivered $820mm in non-GAAP operating income, up 24% y-over-y, driven by our non-GAAP operating margin of 21.3%, which was up 25BPS from last year

    - And we delivered $0.58 of non-GAAP EPS, up 28% y-over-y
- These results set us up for a strong H2 the year, and consequently, we are raising our full-year revenue and EPS guidance

Customer Growth and Engagement

- We had another quarter of strong customer growth and engagement
- We added 7.7mm net new actives, with new user growth up 18% y-over-y
    - This brings our total active accounts to 244mm
- Engagement on our platform increased 9% to just under 36 times per year, up from 33 a year ago
- For H1, our net new actives equaled almost 16mm, and we anticipate adding over 30mm net new actives for the year
- Our continued customer growth and engagement is driven in part by the success of three important areas of focus: our customer choice initiatives; our partnership strategy; and our focus on always being a customer champion

Commitment to Customer Choice

- Our commitment to customer choice continues to yield strong results
- Today, almost 85% of our active customers have choice available to them
    - And more than 45mm PayPal customers have adopted choice
- We anticipate choice will be live in more than 200 countries by year end
- Since we implemented choice, calls per transaction into our contact centers are now at their lowest level since we began tracking this metric more than seven years ago
    - In addition, we see a meaningful lift in engagement when our customers use choice

Key Strategic Partners

- Choice has also unleashed productive relationships with key strategic partners across the globe
- PayPal increased our presence in the UK and India through partnerships with Santander, Clydesdale, and HDFC Bank
- Each of those financial institutions will now enable their customers to easily link their bank-issued cards to their PayPal wallets and open a PayPal account from their online channels
- We continue to build on our strategic partnership with South Korean credit card issuer Shinhan Card, where customers can now use an easy registration process to open a PayPal account through the Shinhan Card app and will receive a cash back reward from Shinhan Card for using PayPal

Relationship with Google

- Our relationship with Google continues to deliver more streamlined payment experiences

- We announced this quarter that users in the U.S. who add PayPal to any one of Google's services will soon be able to pay across the Google ecosystem anywhere that PayPal is offered as a payment method
  - For example, when a user adds PayPal to their Google Play account, it will automatically enable their linked PayPal account to be a payment option across popular Google services like Gmail, YouTube, Google Pay, and Google Store, including where Google offers peer-to-peer payments

Partnership with eBay

- We strengthened our partnership with eBay
- We signed an agreement to extend our longstanding consumer financing offer to eBay's marketplace
  - With this agreement, eBay will continue to accept and promote PayPal Credit through 2025
- We are fully committed to being the ultimate customer champion company

Customer Trust and Loyalty

- Our focus on putting customers first and delivering exceptional experiences has created meaningful customer trust and deep loyalty to the PayPal brand
- According to a recent comScore study, 52% of mobile consumers said they made more online purchases because PayPal was offered, and fully one-third of all PayPal Mobile customers surveyed said they will abandon a purchase if PayPal is not offered as a checkout option
  - This loyalty combined with our ability to offer experiences that drive checkout conversion rates of 89% is a truly differentiated value proposition for merchants around the world

Merchant Customers

- To further extend the value we deliver our merchant customers, we recently announced several new merchant products, including a brand new checkout experience with an exciting new tool called Smart Payment Buttons
- This new feature enables merchants to create personalized checkout experiences for their customers by dynamically presenting the most relevant payment methods at checkout
- In addition to being the only checkout solution to offer support for pay with Venmo and PayPal Credit, the new PayPal Checkout also includes the ability to enable local wallets and funding sources without additional integration work

Power of One Touch

- As part of PayPal Checkout, we are also leveraging the power of One Touch to help merchants increase their customer acquisition efforts by reducing friction in their registration process
- When a customer who has opted into One Touch is creating or updating their user account with a merchant they can now choose to leverage their personal data securely stored within One Touch in order to auto populate most of the required account information
- Not only does this greatly simplify the registration process, but it also secures a funding source for their new account with the merchant enabling the consumer to start shopping immediately
- One Touch is the fastest adopted product in our history and has now crossed 100mm consumers with 102mm consumers opted in and 9.5mm merchants offering One Touch. 84% of the IR 100 now offer One Touch

- And the same comScore survey I referenced earlier reveals that 55% of PayPal customers say they made more online purchases because of One Touch
- These are game changing results for a product that was introduced only a few years ago and you can see that impact clearly in our mobile results

Mobile Checkout

- Our mobile growth in Q2 was 49% with almost 54B of mobile volume processed in the quarter
- Mobile checkout now represents 39% of our total payment volume
  - And it's important to remember that the power of our two sided network combined with our revamped tech stack enables PayPal to provide all of these new experiences to our merchant customers without them needing to do any costly or inconvenient integration work
- Not only do these products and partnerships strengthen our proposition to merchants, but they also further our mission to give our consumers more choice and flexibility in how they manage and move their money

Venmo Card

- A clear example of this is our recently launched Venmo card
- Developed in partnership with Mastercard, the card lets Venmo customers use their balance to pay everywhere Mastercard is accepted in the United States both online and in store, and the card can be used to withdraw funds from an ATM
  - This offers Venmo customers more flexibility in where and how they want to pay and will give merchants more access to the coveted millennial segment
- We are quite pleased with the surge of initial demand for the Venmo card and it's another great indicator of the tremendous brand affinity that the millennial generation feels towards Venmo
- We continued to make good progress with our pay with Venmo service
- In the quarter, we added Uber and Uber Eats to the list of major brands offering distinct Venmo buttons to their customers

Fund Transfer

- We have also seen considerable growth in our service that gives customer a faster way to transfer funds to their bank account for a small fee
- Since launch, 17% of Venmo users have engaged in a monetized experience
- In the quarter, Venmo continued its impressive growth by processing $14.2B in payment volume, an increase of 78% y-over-y
  - And Venmo net new actives hit another all time record high in Q2 as its network effect and value proposition continued to strongly resonate

Capital Allocation

- I'd now like to turn to capital allocation

- We laid out our general thoughts around capital allocation at our Investor Day in May, including returning cash to shareholders, acquisitions, and investing organically in our company
- The addition of almost $7B of capital from the close of the Synchrony transaction provides us with both enhanced strategic flexibility and the opportunity to further increase the momentum in our consumer and merchant credit offerings
- In the quarter, we announced four acquisitions and several strategic investments
- Each of these acquisitions is strategically focused around platform capabilities that will advance our merchant value proposition and geographic reach
    - Between our acquisitions and the continuing drumbeat of new products and services being introduced by our product and engineering teams, we have catapulted into a leading digital payments platform for our merchant, technology and financial institution partners around the world

iZettle Acquisition

- In May, we announced our intention to acquire iZettle, a leading small business on the e-commerce platform in Europe and Latin America
    - This acquisition which is expected to close in late Q3 will significantly expand our international and in store presence, and is strategically aligned with our desire to be a one-stop full service solutions provider
- We share a common mission with iZettle and, together we are committed to helping millions of small businesses around the world grow and thrive in an increasingly global and competitive omni-channel retail environment

Acquisition of Jetlore

- In May, we announced the acquisition of Jetlore, an AI-powered prediction platform which is used by some of the world's top retailers including Uniqlo and Nordstrom
- With Jetlore's talented team and their AI-powered technology, we plan to enhance and accelerate PayPal Marketing Solutions, adding new capabilities that will continue to expand our value proposition for merchants beyond the online checkout experience
    - This is an important area for us, as we increasingly become a full commerce solution for merchants focused on helping them grow their sales in a mobile first digital commerce world

Hyperwallet Acquisition

- In June, we announced our intention to acquire Hyperwallet and, earlier this month, we closed the acquisition of Simility, building on our integrated payment solutions for fast growing e-commerce platforms and marketplaces
- Hyperwallet is a leading global payouts platform that enables localized multicurrency payment distribution in more than 200 countries and territories
- Combining Hyperwallet's powerful payout solution with PayPal's scale and platform capabilities will bring increasing value to our customers particularly in the growing sharing economy
    - It immediately positions us as a leader in this increasingly important payments category

- Simility helps companies prevent fraud and manage risk in real time through advanced machine learning, big data analytics and data visualization capabilities
- While PayPal already provides leading edge fraud management to our merchants, this acquisition will provide PayPal merchants the ability to more actively manage and control their fraud exposure
    - We believe this will naturally lead to increased sales volumes for our merchants

Investment in Pine Labs

- Additionally, we announced our participation in $125mm round of investment in Pine Labs, one of India's leading point-of-sale solutions providers
- Pine Labs offers POS devices that accept credit and debit cards, mobile wallets and services that run on India's Unified Payments Interface which is a government-backed system that allows for instant bank to bank transfers
    - This investment comes on the heels of PayPal launching our domestic operations in India and will further our focus in one of the most important markets in the world

Strategic Investment in PPRO

- And finally last week, we announced a strategic investment in PPRO
- This investment combined with a comprehensive commercial agreement provides us with the ability to extend over 100 alternate payment methods to our merchant and marketplace customers
- The combination of these acquisitions and investments significantly enhances the breadth of services we can offer to consumers, merchants and online marketplaces

Summary

PayPal is committed to being a comprehensive digital payments platform, offering complete solutions to our customers, as the world rapidly digitizes across both retail and financial services

- This was truly a remarkable quarter for us with teams across the globe delivering meaningful results and intensifying our focus on our customers

We successfully completed our transaction with Synchrony to free up cash for strategic and high value opportunities

We brought innovative and differentiated products and services to our customers

We expanded our relationships with key strategic partners; and we continue discussions with many others around the world

- I'd like to thank the PayPal team for their tremendous commitment to our customers and shareholders

John D. Rainey

Financial Performance

Q2 Milestones

- Q2 was another good quarter for PayPal

- We delivered strong results financially and operationally, demonstrating our continued momentum and the scalability of our model
- As Dan just highlighted, we announced four acquisitions during the quarter, strengthening our two-sided platform and further solidifying our position as a leading open digital platform for payments globally
- At our Investor Day in May, we laid out our longer term strategic vision, raised our medium term guidance, and outlined our capital allocation priorities
  - And in the quarter, we returned $500mm to shareholders through share repurchases
- In addition, earlier this month we announced the closing of our sale of consumer credit receivables to Synchrony for approximately $6.9B in total consideration
- With the completion of this transaction, PayPal and Synchrony have extended their existing co-brand consumer credit card program
  - And Synchrony is now the exclusive issuer of the PayPal Credit consumer financing program in the U.S. through 2028
- The interim accounting reclassification of the credit portfolio to held-for-sale from held-for-investment affected the presentation of our results in the quarter
- These changes, in addition to the cost to transition the portfolio, reduced comparability to prior periods
  - Where relevant to the discussion, I'll provide normalized results to adjust for these changes

Payment Volume

- Now for our financial performance in Q2, our total payment volume was $139B, up 27% on a currency neutral basis
- Our Merchant Services volume grew 30% on a currency neutral basis to $123B
- Volume associated with eBay grew 6% on a currency neutral basis to $17B. eBay-related volumes represented less than 12% of total payment volume for the quarter vs. more than 14% in Q2 2017
- P2P volume, which is a component of merchant services and includes volumes across core PayPal, Venmo, and Xoom, grew 50% to $33B, and represented approximately 24% of total payment volume vs. 21% in Q2 2017

Account Growth

- In Q2, we added 7.7mm net new active accounts
- We ended the quarter with 244mm active accounts, which represents 15% growth over Q2 last year
  - This is the third consecutive quarter of 15% growth in active accounts
- On the consumer side, active account growth was predominantly driven by core PayPal and Venmo
- We also added more than 600,000 merchants to our platform, ending the quarter with more than 19.5mm merchants
- The number of payment transactions per active account on a trailing 12-month basis reached 35.7B, with 8.7B transactions occurring on our Payment Platform over that period
  - In Q2, transactions grew 28% to 2.3B

Revenue

- Revenue in the quarter increased 23% on a spot basis and 22% on a currency neutral basis to $3.86B
- Transaction revenue grew 20% on a spot basis from strength in core PayPal and Braintree
- Revenue from other value-added services grew 49%, driven by the acquisition of Swift and from held-for-sale accounting
- Revenue also benefited from foreign exchange
- Overall, our total revenue increased $52mm from a weaker U.S. dollar, with $75mm of translation benefits partially offset by $23mm of hedging losses
  - This $23mm hedge loss compares to $19mm hedge gain last year
- For Q2, our transaction take rate was 2.38%, a decline of 19BPS from Q2 2017
  - And our total take rate was 2.77%, down 14BPS y-over-y

Expenses

- More than 70% of the decline in total take rate is related to the growth in our P2P payment volumes and the $42mm headwind from hedging losses relative to last year
- Volume-based expenses grew 24% in Q2 to $1.7B
- Transaction expense was $1.4B and represented 98BPS of TPV, a 1 basis point improvement over Q2 last year
- Lower funding costs from growth in P2P as well as the effect of foreign exchange more than offset funding mix pressure and growth in Braintree
- Transaction loss in the quarter was $262mm or 19BPS of TPV
- Loan losses were $72mm or 5BPS as a rate of TPV, down more than 40% from Q2 2017 as a result of held-for-sale accounting
  - For modeling purposes, we continue to expect loan losses to be in the range of 5BPS as a rate of TPV for 2018

Transaction Margin

- Transaction margin dollars grew 23% to $2.2B
- Adjusted for held-for-sale accounting, transaction margin dollars were $2B, representing 14% growth vs. last year
- For the quarter, transaction margin as a rate was 56%
- Again, adjusting for held-for-sale accounting, transaction margin was 53%
- Non-transaction related expenses grew 21% in the quarter to $1.3B
- Normalizing for the Synchrony transaction, these expenses would have grown approximately 10%, resulting in 345BPS of operating leverage
- Further adjusting for acquisitions, we would have seen non-transaction related expenses grow only 7% for the quarter or $0.125 for every incremental dollar of revenue

G&A Expenses

- Relative to our recent trend, we experienced higher growth in G&A expenses in Q2
  - These expenses increased 33% or $73mm
- The primary drivers of this increase were costs associated with our acquisitions and costs associated with the transitioning of the credit portfolio to Synchrony
- In addition, we continue to see strong scalability in our customer support and operations organization

Customer Support and Operations Expenses

- In Q2, we experienced a record low customer contact rate
  - As a result, customer support and operations expenses as a percentage of revenue leveraged 135BPS in Q2 in comparison to the same period last year
- In Q2, operating income grew 24% to $820mm on 23% top line growth
  - This resulted in an operating margin of 21.3%
- Adjusting for the sale to Synchrony and acquisitions, operating income grew 22% to $804mm
- We continue to balance delivering operating margin expansion with reinvesting back into the business to further strengthen our platform and competitive positioning
- In Q2, other non-operating income increased $20mm y-over-y to $37mm
  - This increase was due primarily to an unrealized gain we recognized on an equity investment which was offset by net interest expense

Tax Rate

- Our effective tax rate was flat to Q2 last year
  - And on a diluted basis, our weighted average share count was down 1% in Q2 vs. Q2 2017 as a result of share repurchases
- Solid top line growth, in conjunction with operating discipline resulted in 28% growth in non-GAAP EPS to $0.58

Cash Flow

- We ended the quarter with cash, cash equivalents and investments of $6.3B and short-term borrowings of $2B
- Our cash balance does not include the proceeds from our Synchrony transaction, as it closed on July 2
- On a reported basis, our FCF was negative $170mm
- Net new loans, included in cash flow from operations as a result of held for sale accounting reduced our FCF by $907mm
  - However, on a normalized basis, adjusting for this accounting designation, our FCF in Q2 was $737mm
- This equates to approximately $0.19 of FCF for every dollar of revenue

- Second quarter FCF also included $161mm increase in cash taxes vs. last year, primarily related to our first annual U.S. transition tax payment of $125mm

Shareholders Returns

- During the quarter, we returned $500mm to shareholders in the form of stock repurchases, and YTD, we have completed $2.3B of buybacks
- We are pleased with the results of our previously announced capital allocation policy
  - It has so far achieved our goal of balancing organic and inorganic growth investments with the return of a significant portion of our FCF to shareholders
- Since separation in July 2015, we have announced $4.5B in acquisitions; and since our first repurchase authorization in early 2016, we have executed $4.3B in share repurchases

Capital Allocation

- In May, at our Investor Day, we updated our guidance related to capital allocation and our plans for the next three to five years
- On average, we are targeting $1B to $3B of M&A per year and returning 40% to 50% of our FCF to shareholders over that period
- We are also committed to optimizing our capital structure, while maintaining an investment grade rating, balancing inorganic and organic investing with margin expansion and continuing our strategy to diversify funding sources for our credit business to reduce capital intensity
- In support of the capital allocation framework that we articulated at Investor Day, today we are also announcing a new $10B share repurchase authorization
  - This new authorization further reinforces our ongoing commitment to capital return and disciplined capital allocation to support shareholder value creation
- Given the evolving and highly competitive payments landscape, maintaining flexibility as it relates to our balance sheet is a priority
- Even with the capital allocation framework we have outlined, our cash position and borrowing capacity will allow us to move aggressively where we see opportunities to bolster our position as a leading open digital payments platform
  - It is also worth noting that meeting our customers' requirements to access their cash while meeting our commitments to global regulators are important aspects of our cash management activities

Cash Balances

- Our cash balances are required not only to provide operational liquidity to our business but also to support these regulatory requirements
  - As such, not all of our corporate cash is available for general corporate purposes
- At our Investor Day, we also provided an updated three to five year outlook to reflect the acceleration of our financial performance
  - This raised guidance incorporates our capital allocation priorities among acquisitions, share repurchase and CapExs

- Importantly, it also contemplates the Synchrony transaction as well as the evolution of our relationship with eBay following the expiration of the operating agreement
- We raised our outlook on currency neutral compound annual revenue growth to 17% to 18% from 16% to 17%, reflecting the strength of our business
- While we did not explicitly guide payment volume growth, we expect it to remain in the range of our previous guidance of mid 20% growth
  - In addition, we indicated that we expect to realize operating margin expansion each year and approximately 20% compound annual growth in non-GAAP EPS

Impact of Acquisitions

- Before I discuss our guidance for the remainder of 2018, I would like to discuss the impacts we expect in 2019 from our recently announced acquisitions
- We currently anticipate $0.08 to $0.10 of EPS dilution on a non-GAAP basis from these transactions and we expect these acquisitions to be accretive to our earnings in 2020
  - We plan to provide additional commentary on our expectations for 2019 when we report Q3

Financial Outlook

Revenue Growth

- I'd now like to discuss our updated guidance for the full year as well as our outlook for Q3 2018
- Our strong performance in H1 2018 has resulted in 23% revenue growth and 29% non-GAAP EPS growth
- Incorporating both our performance YTD as well as our expectations for the back half of 2018, we are raising our full year 2018 revenue guidance to be in the range of $15.3B to $15.5B and raising non-GAAP EPS to be in the range of $2.32 to $2.35
- At the midpoint of our ranges this represents 18% revenue growth and 23% earnings growth
- Excluding the revenue impact from the sale of our U.S. consumer credit receivables top line growth at the midpoint of our range will be 21% on a currency neutral basis
  - We are pleased to be providing this outlook today

Foreign Exchange Headwinds

- We are raising our revenue and EPS guidance on meaningful momentum while absorbing the foreign exchange headwinds from the strengthening U.S. dollar and near-term earnings dilution from our acquisitions
- Relative to our expectations, when we last provided guidance, the U.S. dollar has strengthened vs. our main international currencies by approximately 5%
- At current exchange rates, revenue is negatively impacted by approximately $80mm in the back half of the year
- Our earnings for the full year are largely protected from currency movements but revenue will continue to be partially exposed if the dollar continues to strengthen

- In addition, as it relates to our earnings for the full year, we expect the iZettle acquisition to close late in Q3 and the Hyperwallet acquisition to close in Q4

EPS

- We expect non-GAAP EPS dilution for 2018 to be approximately $0.02 from the combined impact of our acquisitions this year
- For the year, we are raising revenue by $100mm
  - This raise includes approximately $100mm of incremental revenue from momentum approximately $50mm of incremental revenue from acquisitions and our outperformance in Q2, partially offset by approximately $80mm of FX headwinds
- On EPS for the year, we have raised our outlook by $0.01
- Again this raise is meaningful given our expectation of $0.02 of dilution from acquisitions
- Offsetting the dilutive effect from our acquisitions is our outperformance in Q2 in addition to $0.01 raise on momentum
- For Q3, we expect our revenue to be in the range of $3.6B to $3.67B
- We expect EPS in Q3 to be in the range of $0.53 to $0.55
- In Q3 at the midpoint of our ranges we expect non-GAAP EPS to grow approximately 500BPS ahead of revenue growth and more than 50BPS of operating margin expansion

Conclusion

In summary, we continue to make progress against our key strategic initiatives and we have good momentum across our business heading into the back half of the year

- I would like to thank our customers and partners as well as our global team for delivering a strong quarter

QUESTION AND ANSWER SECTION

<Q - James E. Faucette>: I wanted to just ask quickly about the engagement and certainly impressive statistics there. But wondering if you're doing anything specifically to drive that engagement or how you can continue to move that forward.

And I guess as a follow-up, one place where we noticed that things were varied vs. our model is that the y-over-y decline in take rate seems to have picked up pace again in H1. Can you breakout kind of what the key drivers are in take rate right now? And what our expectations should be going forward? Thank you.

<A - Daniel H. Schulman>: So John will take the take rate James and I'll take the engagement question. I'll start off with it given the order of your questions. So first of all on net new actives and engagement, we're obviously pleased with both the growth and the engagement.

Q2 is a seasonally low quarter for us and we did 7.7mm net new actives, 16mm in H1 and we're on track to do over 30mm in 2018, which is above our 2017 full year results. And as you know, that was by far and away our best year by a long shot. So to your point specifically though, engagement actually accelerated to 9%. It had been growing by about 8% for the previous two or three quarters and it went up to 9% and to almost now three times a month. And our view on that is we expect that to continue. We've got a number of tailwinds around engagement.

First of all, I think our customer experiences are better than they've ever been before. You look at One Touch, its conversion rate as you saw from some of those comScore studies and the surveys that have been done, people want to use the service more. As a result of that, we've done a tremendous amount of enhancements around P2P. Choice is leading to more engagement. We've got a new app. And we have a whole new suite of services. The Venmo card is going to lead to more engagement. We have the PayPal Cash Card, that's going to lead to more engagement.

And then of course, we've got rewards coming on in the later part of this year with some of our key financial institution partners. And so, I think we're going to continue to see engagement grow at a nice clip going forward. And I think it bodes well obviously to have both more customers coming on than ever before, using this service more than they ever have. And if you look at new cohorts vs. older cohorts, our new cohorts are more engaged than our older cohorts.

Most of the time, you'd expect as you grow your net new actives, you get more and more that maybe the quality of those net new actives aren't the same as what they were before. It's actually the opposite here. The new net new actives are more engaged than our previous cohorts, which, by the way, means we have a potential opportunity to educate our older customers on all the new services that we have as well. So we're feeling pretty good about both net new actives and engagement. I'll turn it over to John to talk about take rate.

<A - John D. Rainey>: Sure. It's good to speak with you, James. If you look at the composition of the decline in our take rate, just take our total take rate of 2.77% for the quarter, the 14 basis point decline. Approximately 70% of that was due to two things. First is P2P, the growth in P2P, which has been a familiar story for several quarters right now, but maybe more pronounced this quarter. The second thing was the y-over-y swing in hedges. That's $42mm delta y-over-y. So that accounts for that. So I believe those were about 10BPS of the 14 basis point decline. Beyond that, it's just the normal changes related to mix in our business.

<Q - George Mihalos>: Congrats on another strong quarter. Dan, just again as you think of the competitive environment now with some newer participants going public and the like, can you maybe talk a little bit about differentiating the PayPal value proposition? And just maybe more specifically, is the big differentiator really the conversion rate of the PayPal Wallet and your ability to deliver that seamlessly with Venmo, one integration, if you will, into the merchant base?

<A - Daniel H. Schulman>: First off, thanks for the question, George. So I think a couple of things on competition. First of all, obviously we respect all of our competitors. We learn from them, but we are really focused on our customers and what their needs are, and that's what we pay a tremendous amount of attention to. And we feel if we can solve their pain points better than anybody else, we'll continue to win and be a leading platform in the digital payment space.

Secondly, I'd say it's obviously not a zero sum game. We're operating in what we think is $100 trillion total addressable market, which is rapidly digitizing as online and offline is blurring. And we have a very small share of that total TAM. So it's very early innings and it's why we said at our Investor Day that we think our greatest potential lies ahead.

In terms of differentiation from the competitive set, I think we have quite a number of different things that we've done. First of all, with the advent of Choice and becoming an open platform, it did redefine the competitive landscape. We are now working with financial institutions, networks, and technology companies as partners. I mean before, it was much more characterized as frenemies. Many people questioned whether these allies of us now were going to move into the payment space. And really they're taking the best of our digital platform and the best of their assets, and we're working together to create unique value propositions that neither of us could do alone.

So in many ways, a lot of the competitive intensity is more benign than it was several years ago. But again, there's much more to it than that because this is all we do. We are a digital payments platform. We control the full end-to-end value proposition, which is unlike many of our competitors. We actually are trying to redefine the game.

Many of the players in this space when they come to customers come with point solutions or point products, and we're coming with an overall solution set that goes beyond just either checkout. We're helping customers now to grow their sales, and we're really trying to provide a differentiated, not a commoditized service for our customers. When you look at a scale that we have and the network effect and the loyalty to this sort of two-sided platform, it's very, very different than a lot of our competitors. A lot of our competitors offer one side of that network or try to offer the other side. Only we can offer this two-sided platform.

And if you remember from that comScore study, having a consumer base that one-third of the mobile customers that were surveyed would abandon a purchase if it didn't have PayPal, that's an incredibly compelling thing for our merchant partners to want to always have a branded PayPal presence on their platform. And honestly our products and our services, they just perform better. You mentioned conversion rate, and I think that is one of the biggest things advantages that we have, almost two times that of the general marketplace in terms of conversion at 89%. And so I think there are a host of differentiated features that we have.

But I don't know if you want to add to any of this. But we feel really good about our competitive position. And honestly, with all the acquisitions that we've just done, the new products we're putting into the market that actually our differentiation is expanding as we look forward. John, is there anything you'd add to that?

<A - John D. Rainey>: No, you covered it well. The point Dan was making about the breadth of the platform I think that is most enhanced by the two sided nature of what we do and our ability to control the experience end-to-end.

So that conversion rate that Dan was alluding to at the end of the day when customers are buying payment, I think today they're looking more towards how do you help acquire customers vs. how do you give better access to sort of legacy dial tone or as Dan said, point solutions.

That two sided platform is what allows us to deliver that conversion rate. It's nearly double what you see from everything else out there and that that is extraordinarily difficult to replicate. Many have tried and it's very difficult to do and I think we are quite distinct in that regard and that stands out as one of our biggest differentiators and is a key part of all those elements of our platform as we compare those up against others. And it's a big part of why you see us taking market share tremendously.

<A - Daniel H. Schulman>: I think the whole thing we're trying to do is be sort of the operating system for digital commerce. If you think about merchants that are creating now apps to value add to their customers, one of the big issues they run into is friction in terms of getting people to sign up for those apps.

One of the things I talked about in my remarks is the ability for us when a customer opts in to seamlessly populate a merchant app and then not just populate with customer information but with a funding instrument, so immediately that customer can shop. Those little types of things are incredibly valuable for merchant partners in general.

<Q - Heath Terry>: Dan, I guess one thing on the decision to allocate as much as you have to share buybacks. Given the track record that you've got generally with your acquisitions, is that reflective of the opportunity set that you see out there in potential acquisitions post the four that you've done? What's the right way to read the tradeoff there particularly given the kind of growth acceleration you've been able to get out of some of the acquisitions that you've made in the past?

And then I guess just one area I want to make sure that we understand the right way, the deceleration in growth particularly on the TPV side that we saw in the international business on an FX neutral basis, any real distinction that you'd want to call out for the gap between that and the acceleration that you saw in the U.S.?

<A - Daniel H. Schulman>: Yeah. I'll start with the first one and then John will talk about the second one. So we're just trying to be consistent with the medium term guidance that we gave at our Investor Day.

We said we were going to return somewhere around 40% to 50% of our FCF over the next three to five years, which was our medium-term guidance. In order to assure shareholders that that would be the case, the board authorized the $10B share buyback and so that's just consistent with that.

We firmly believe that there are a lot of opportunities for us to continue to acquire best-in-class capabilities, to acquire positions in different geographies around the world through either investments or acquisitions. And as we said at the Investor Day, we are targeting $1B to $3B a year to go and do that.

Now we look at hundreds of different opportunities every single quarter. And also remember that obviously our internal innovation is accelerating. I think Bill and his team have done an incredible job over the last several years in just transforming how much product we can put out into the marketplace. Our partnerships are allowing us to do things that we might have had to acquire before or develop internally like a rewards program. Now that'll happen in partnership with the financial institutions who are now our partners.

But there are always capabilities out there like a Hyperwallet or an iZettle where it would take us either a lot of time or a lot of resource to develop. They are solely focused on that capability as a best-in-class and a good customer list and a modern platform to go and do that. And where we see that we're going to obviously be disciplined and I would think about it financially, but we will continue to be quite acquisitive going forward.

We do think we have a chance both on the merchant side from a platform perspective, but also from the consumer side as we look to be much more in the middle of how consumers manage and move their money that there are opportunities for us to continue to be acquisitive. And we're not ruling out the ability for us to do a larger acquisition if that comes around. But we're going to be much more – have a lot more scrutiny around that kind of thing. Larger acquisitions are inherently more risky and they prevent us from doing other things.

So we're not ruling that out. But in our guidance that we've done in our medium-term outlook, there's that cash return to shareholders, then $1B to $3B a year on average that we'll do on acquisitions. So, no change really from Investor Day.

<A - John D. Rainey>: Heath, this is John. As it pertains to what we're seeing internationally as it relates to TPV and revenue, there's two things maybe to call out. But the first is that anytime that – and this is – what I'm about to say is very consistent with what we've seen historically, but when there are sharp changes in currencies not only is there an effect on our the translation of those revenues into our financial statements, but we see the effect on consumer behavior as well.

And so you're seeing a little bit of that with the movements in currency. There's also – we see a little bit of weakness on the eBay part of the business. But I'll tell you that the fact that we are raising our guidance for the year despite that is I think a strong indication of the diversification of our portfolio, the fact that we are much less reliant on them than we have been historically and we expect that trend to continue. So pretty excited about the trends in the business notwithstanding those couple issues.

<Q - Darrin Peller>: Listen, you're trending at around 22% constant currency on revenues. But if we were to add back the 7 points of annualized from Synchrony in H2, it still implies a bit of a decel, couple of hundred bps for H2. And I guess I just wanted to hear if there's anything specific on that or if it's just conservatism. And then just a quick follow-up for I guess either Dan or Bill, and it really has to do with monetization of Venmo which looks like you guys are calling out just so many more opportunities than just pay with Venmo now with instant deposit and with a card. Can you give us more idea about what inning are we on each of those? And it seems like a bigger opportunity than we initially thought it could be.

<A - Daniel H. Schulman>: I'll start with revenue and then turn it over to the others. The trends in our business are strong. I want to very clearly call that out as we talked about with the guide, about $100mm of our increase is related to momentum. We certainly do see an impact being a multinational company from FX headwinds and that's pretty significant in the back half of the year so that has an impact.

And then Darrin there are always things that can affect one quarter to the next. One example is that we're lapping TIO from last year. That was $20mm of revenue for us in Q3, so not an insignificant amount. And then there are other things that we put in place last year, product changes that we monetized that we're lapping. So there are tougher comps from one period to the next. But the trends in our business are still very strong and we're actually quite excited as we get ready to step off into 2019.

<A - William J. Ready>: Yes. And on the Venmo monetization side, we're certainly still in the early innings there for sure. We put out a great set of products that we see users really engaging with strongly. As you called out, you have pay with Venmo that is seeing really nice demand from merchants, some of the best merchants and apps out there putting dedicated Venmo buy buttons like Uber and Uber Eats and Grubhub, Eat24, Seamless and many others and we think we'll see a steady drumbeat of those coming on.

There's a great pipeline of those adding in dedicated Venmo buttons. In addition to the 2mm plus merchants that are already accepting pay with Venmo via PayPal, instant cash out has seen really great pick up. The Venmo card as Dan remarked earlier on has seen really really strong interest from our customer base. And so we see a real composite effect of those, things like Smart Payment Buttons that will allow more people to easily have a dedicated Venmo buy button.

We think there's a lot left in front of us there. It'll be a multiyear journey. We're really following the path that PayPal took, PayPal started out as P2P only. It was a multiyear journey as PayPal then became a broad merchant services platform with a broad set of commerce, but we see Venmo trending along that nicely, really positive response of 17% of users engaging in a monetized experience so far this year. And that's with us just getting these products out to market. And so we think we're very much in the early innings. There's a lot left ahead of us. And to be clear, it's a multiyear journey. We think these things will play out over multiple years, but we're off to a great start.

<Q - David Mark Togut>: With the announcement by the UK payment system regulator this week that they're reviewing merchant acquiring practices in the UK, could you comment on whether you expect to be included or exempt from that? Clearly you have a unique two sided payment platform, but I'd be curious to your thoughts.

<A - William J. Ready>: I think I would just say, it's evolving, we're watching it closely, too early to comment on that. But we work closely with regulators. And generally, we have been a great partner to the ecosystem delivering a lot of value to our customers. And so any of these kinds of regulatory movements, we're hand-in-hand with regulators on those things. Still playing out, too early to comment, but we think that there's not a particular exposure that we will call out at this time.

<Q - Tien-Tsin Huang>: I wanted to ask, maybe for Bill, just the new PayPal Checkout with smart buttons, I mean it feels like a pretty big enhancement especially overseas. I know you took a question on international earlier. How would you rank the importance of this upgrade in relation to enhancements like say One Touch? I mean, how can we gauge success? And just as my follow-up I'll ask it together on Venmo monetization. Could we see a step up in your marketing budget or a spend going into the holidays on both the card and the commerce opportunity around Venmo? Thanks.

<A - William J. Ready>: So I'll start with Venmo and come back to smart buttons. The really interesting thing on Venmo is that there's always been such great virality and just inherent interest from the consumers on it that we historically have spent very little marketing dollars to get to the growth that we have. We just had our biggest quarter ever of new users on Venmo and great growth, $14B in volume, up 78% year-on-year. And we're basically spending next to nothing on marketing because our users do our marketing for us. Really Venmo users tell other users about the products and the platform. And so that has allowed us to not really have to spend a lot on marketing. Certainly though, as we see good traction with these things, we will absolutely think about how we can augment that. But it's a great win. You don't have to artificially conflate demand. There's really strong demand from customers organically and then we can augment that as we need to, but we really have fantastic organic demand without us having to go do a bunch of marketing.

<A - John D. Rainey>: And I'd point out some of our partners will do marketing around it because they're excited about it.

<A - William J. Ready>: Exactly right. And then on Smart Payment Buttons, as we've talked about before, our ability to go distribute new experiences to merchants without merchants having to do work is a key structural advantage that we have vs. legacy payment platforms. And it's why we're able to deliver a greater conversion and rollout products like One Touch to 9.5mm plus merchants in 200 markets without them doing work. Smart Payment Buttons is an advancement of that. So we see that as really quite important and the fact that it's going to handle not only our own payment methods like PayPal, PayPal Credit, Venmo dynamically presenting those when they are most relevant so that merchants don't have to worry about the confusion of too many buttons at checkout.

We're also adding in alternative payment methods. And we think it's quite meaningful in that it democratizes access to this long-tail of alternative payment methods as you go country-by-country. There's been some other providers out there that have done that, but those have been big heavy enterprise type solutions, so it's really only a handful of merchants that could get access to those things. We think we can take that to many millions of merchants, which is a game changer in terms of merchants having access to the most relevant payment methods to offer to consumer at any moment in time.

And I think this further distances us from competition in terms of how we deliver better conversion and better customer acquisition, which is really the game that we play quite differently than others where we think of ourselves is in the business of driving conversion and customer acquisition vs. much of the legacy payments industry or traditional players are providing access to dial tone access to piece of the payment ecosystem vs. we're driving customer acquisition and Smart Payment Buttons is a great examples of that.