Company Name: Paypal Holdings Inc
Company Ticker: PYPL US
Date: 2017-04-26
Event Description: Q1 2017 Earnings Call

Market Cap: 62,345.32
Current PX: 51.90
YTD Change($): +12.43
YTD Change(%): +31.492

Bloomberg Estimates - EPS
Current Quarter: 0.426
Current Year: 1.783
Bloomberg Estimates - Sales
Current Quarter: 3092.229
Current Year: 12708.175

Q1 2017 Earnings Call

Company Participants

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

Other Participants

- Darrin Peller
- Tien-Tsin Huang
- Bryan C. Keane
- Paul Condra
- Sanjay Sakhrani
- Bill Carcache
- Ashwin Shirvaikar
- James Cakmak

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

In discussing certain historical y-over-y comparisons, we have chosen to present non-GAAP pro forma measures because we believe that these measures provide investors a consistent basis for viewing the company's performance across different periods

You can find a 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

Net Adds

- I'm pleased to report that PayPal began 2017 with an exceptional quarter
- This continued a string of consistently strong performance since our separation from eBay in July 2015
- We delivered solid operating and financial results this quarter
- PayPal gained 6mm net new active accounts, a 35% increase from the 4.5mm net adds in Q1 a year ago

  - This represents the largest organic quarterly increase in this important metric over the past three years
- We ended the quarter with 203mm active accounts
- We expect that our net adds will increase by more than 20mm in 2017
- And once again, our transactions per active account increased, growing in Q1 to 32, up from 28 a year ago

Revenue and FCF

- We reported $2.975B in revenues, an increase of 19% on an FX-neutral basis, above the high end of our guidance, driven predominantly by stronger core PayPal growth
- PayPal delivered $0.44 of non-GAAP EPS, which is $0.02 above the high end of our guidance, as we are beginning to realize the sustainable benefits of our scale
- And we generated $603mm in FCF
  - These strong customer results clearly demonstrate our progress towards becoming the world's leading open digital payments platform

Global Transition

- We continue to build on our strategies of re-imagining and democratizing the management and movement of money for our consumers, helping drive the global transition from cash to digital payments, and positioning our millions of merchants to benefit from the mobile revolution and the move to an all-digital cross-context retail environment
- Our powerful two-sided network engages both consumers and merchants, and the larger our scale, the stronger our network effect becomes
  - We made meaningful progress in advancing merchant adoption of PayPal in the quarter

Merchant Base

- At the end of March, the number of active merchant accounts on our platform increased to 16mm
- The size of our merchant base is a formidable competitive advantage and is extraordinarily difficult for others to replicate
- We are proud to have welcomed new brands to the PayPal platform, including online fashion retailer, [indiscernible] (5:30) in France, Papa John's and Groupon in the U.S., leading Mexican department store chains, Coppel and Liverpool, and we made meaningful strides in the travel and tourism vertical in India with the addition of [ph] Access Rooms (5:47), Vistarooms and MakeMyTrip

One Touch

- In addition, over 5mm merchants and 75% of the IR100 now offer our industry-leading One Touch checkout solution on their mobile and desktop shopping experiences
- We expect the number of merchants accepting One Touch to increase noticeably throughout the year
  - We finished the quarter with 53mm consumers opted into One Touch

- We couldn't be more pleased with this transformative product experience and the engagement it's driving with our customers
- One Touch provides a powerful connection between our merchants and our consumers in a mobile-first world

Volume

- In the quarter, 32% of our payment volume came through a mobile device, and mobile payment volumes increased 51% over the same period last year to approximately $32B.
- In the quarter, we also continued to innovate and transform how people send money to each other through our P2P and remittance services
- We continue to expand the functionality of our global remittance service, Xoom
- In the quarter, we launched the Xoom service within the PayPal mobile app in the U.S. and plan to increase sending limits to $10,000 per transaction in Q2
- We opened up a Japanese market in Q1, making Xoom now available in 56 different countries around the world

Venmo

- In the quarter, Venmo continued to transform how Millennials manage and engage with their money
- In addition to being named as one of Fast Company's Most Innovative Brands, the social P2P app processed $6.8B in payments in the quarter
- This more than doubled the volume processed a year ago
- Importantly, beginning in Q2, we plan to significantly enhance the social P2P payments experience that has made Venmo a viral phenomenon

Braintree Platform

- Since we made Venmo available as a payment option on the Braintree platform, we've had the opportunity to test and learn how to preserve the unique nature of Venmo as we move the experience into new context
- Today, we are announcing the opening of our beta for select U.S. PayPal merchants to accept Venmo as a mobile payment option
  - We anticipate the ability to pay with Venmo will be widely deployed across millions of our U.S. PayPal merchant base by the end of this year
- The investments we have made in our platform architecture now allow us to enable Venmo as a payment method for our PayPal merchants without any additional integration work on their end, mirroring the approach we used to successfully roll out One Touch

TIO Networks

- While we continue to drive innovation inside PayPal, we are also always looking to acquire innovative companies that can bring great product experiences and technology talent to PayPal, like we did with Braintree, Venmo, Paydiant and Xoom
- In Q1 we announced our agreement to acquire TIO Networks, which will expand our two-sided network by adding bill payment as another key service to drive engagement and value to our consumers

- On April 10, TIO shareholders approved our transaction
- And we expect to close the transaction in H2 2017

North America

- TIO is a leading multichannel bill payment processor in North America and processed more than $7B in bill payments in its FY2016
- The company's digital platform and physical network of agent locations make paying bills simpler, faster and more affordable, and importantly, gives consumers who may not have access to digital financial services, the ability to easily migrate cash into a digital network and as a result, benefit from the convenience and speed of digital bill payments
- With its network of 10,000 supported billers, TIO will meaningfully expand our ability to offer digital financial services to tens of millions of underserved consumers

Agreement with Wells Fargo

- Reinventing the management and movement of money for people across the globe creates opportunities for close partnerships with companies across our ecosystem
- We continue to strengthen and forge additional strategic alliances with leading brands around the world
- We just announced a partnership agreement with Wells Fargo, adding another strategic issuer to the growing list of companies working with PayPal to expand our services at the point of sale
- As a result of this partnership, Wells Fargo customers will be able to use their debit and credit cards to make contactless mobile payments at millions of in-store merchants
  - This expands our long-standing relationship with Wells Fargo and builds on the product capabilities Visa made available to PayPal as part of our strategic partnership

Asia-Pacific

- We also extended our partnership with Visa into the Asia-Pacific region
- And in January we finalized a comprehensive strategic partnership with Discover
- Along with Citi, Mastercard and FIS, these partnerships will make it easier for PayPal customers to find and choose their preferred financial instruments inside the PayPal Wallet and use their PayPal account in multiple contexts
- Our conversations with other leading issuers continue to be positive and constructive

Consumer Demand

- Over the past nine months, we have rolled out consumer choice across our onboarding, servicing and checkout experiences
- Multiple millions of our consumers have already opted into choice and have selected the payment option best suited for their particular checkout experience

- Consequently, we now have additional visibility into the early results of choice, and we are quite pleased by what we are seeing
  - First, choice is having a notable positive impact on our net active adds
  - Second, it is driving higher spend per customer
  - Third, we are – experience a reduction of calls into our customer service centers, leading to cost reductions in our global operations
  - And finally, the impact of choice on our transaction margins is well within our expectations

Summary

- In summary, we couldn't be happier with our strategic move to choice and the corresponding benefits we are seeing
- We plan to roll out choice in the United Kingdom, Canada and Australia, beginning in Q2

Google

- We also announced a meaningful expansion of our growing relationship with Google
- PayPal will be available within Android Pay in the United States and will be accepted as a way to pay both in-app and at the millions of retailers that accept Android Pay at the point of sale
- We are pleased to offer our customers another exciting way to pay with PayPal, further expanding the choices and contexts within which they can use their PayPal Wallet
- We expect that our relationships with technology companies like Google and Facebook will continue to grow and expand into additional contexts as we move through the next several quarters

Transformative Power

- 2017 continues the strong efforts we have undertaken to create strategic partnerships across multiple ecosystems
- We have seen the transformative power of these partnerships across our business
- It's hard to overstate the difference in the relationships we now have with companies across multiple sectors, who were previously viewed as potential competitors
  - We are now collaborating as strong and supportive allies to create value for our mutual customers

Accomplishments

- As this quarter's results clearly demonstrate, we are executing against our vision in a disciplined fashion
- We operate in one of the world's most exciting and dynamic industries, which energizes and inspires our entire team
- We still have much to accomplish, but I'd like to take a moment and thank the entire PayPal team for another quarter of dedication and hard work on behalf of our customers
- It is making a real difference in the value we can drive to consumers, merchants and to our shareholders

John D. Rainey

Financial Highlights

Performance

- I also want to thank all of PayPal's customers and our employees worldwide for making this another great quarter
- We outperformed in Q1 on both revenue and earnings, building on our momentum from 2016
- Solid growth across active accounts, payment volume and revenue demonstrates that our customer-first strategy, coupled with our strategic partnerships, are yielding results

Revenue and Non-GAAP EPS

- Before I go into the detailed financial results, a few highlights for the quarter
- Revenue was $2.98B, growing 17% on a spot basis and 19% on a currency-neutral basis
- Non-GAAP EPS grew 19% to $0.44
- We generated $751mm of operating cash flow and $603mm of FCF, and we returned $517mm to shareholders during the quarter

Payment Volume

- For Q1, our total payment volume was $99B, up 25% on a currency-neutral basis, including U.S. payment volume growth of 27% and international volume growth of 23%
- Our merchant services volume grew 30% on a currency-neutral basis to $84B.
- Merchant services represented approximately 85% of our total volume in the quarter
- Volume associated with eBay represented approximately 15% of the total, compared to 16% in the prior quarter and 18% in Q1 2016

Core Business

- In Q1, we added 6mm net new active accounts, ending with 203mm active accounts, representing growth of 11% from Q1 last year
- Active account growth was predominantly driven by our PayPal core business
- The number of payment transactions per active account increased 12% y-over-y
- Continued solid growth of customer engagement in active accounts resulted in a 23% y-over-y increase in payment transactions to 1.7B.

Transaction Revenue

- In Q1, 17% revenue growth resulted from a 16% increase in transaction revenue and a 23% increase in revenue from other value-added services
- Transaction revenue was driven by our core PayPal and Braintree businesses, and revenue from other value-added services was predominantly driven by credit

Transaction Take Rate

- For Q1, our total take rate was 3% and our transaction take rate was 2.62%
- Both of these metrics were flat sequentially and down approximately 14BPS from a year ago
- Continuing a trend, our P2P businesses contributed meaningfully to the take rate decline in the quarter

Venmo

- Again, I want to point out that growth in our Venmo and our core P2P platforms increases our ubiquity, strengthens our value proposition, and supports higher levels of engagement and reduced levels of churn across our consumer base
- These businesses are important to our long-term success, and we remain committed to both investing in and monetizing these high growth opportunities

Core PayPal Platform

- Our volume-based expenses were up 28% y-over-y
- Transaction expense was $987mm, up 31% y-over-y, driven primarily by increased funding costs across our core PayPal platform as well as business mix from strong growth in Braintree
- On choice, we are in the process of rolling out this experience to all of our customers here in the U.S., and as Dan articulated, we are pleased with the early success of this initiative
- To-date, the increased card-based costs have been well within our expectations

Transaction Loss

- Transaction loss in the quarter was $171mm or 5.7% of revenue, representing 40BPS of leverage
- In the quarter, loan losses for both the consumer and merchant credit products were $129mm or 4.3% of revenue
- Our consumer credit portfolio continues to perform in line with our expectations
- The net charge-off rate was 6.9% in Q1
- We ended the quarter with an aggregate gross receivables balance, including both principal and interest, of $5.7B in our consumer and merchant loan portfolios and a total reserve of $360mm

Other Operating Expenses

- Other operating expenses increased 4.5% to $1.05B or 35% of total revenue, representing 420BPS of operating leverage y-over-y
- This marks the lowest rate of growth in other operating expenses that we have achieved as an independent company
    - We are very encouraged by the early progress of our initiatives to operate more efficiently

Cost Discipline

- Looking forward, we will continue to seek opportunities to drive sustainable efficiencies in cost discipline while at the same time fostering innovation, reducing complexity in our processes, and improving our service to our customers
- We are positioning PayPal to operate and scale more profitably over the long-term

Restructuring Charge

- Associated with these initiatives, we recognized $40mm restructuring charge in Q1, primarily related to strategic headcount reductions across our global organization
- Less than 3% of our global workforce will be affected, and based on current plans, we do not expect a net decrease in headcount for the year
- We expect to realize annualized savings of approximately $75mm, the vast majority of which will be reinvested in our growth initiatives
- We believe the changes we are making to how we are organized and how we run the business will allow us to deliver sustainably stronger results

Non-GAAP Operating Margin

- Non-GAAP operating margin in Q1 was 21.6%, an increase of 50BPS vs. the same period last year
- This is our best operating margin performance since separation
- In addition, non-GAAP operating income grew 20% y-over-y to $643mm, resulting in non-GAAP EPS of $0.44 in the quarter

U.S. Dollar

- I would now like to spend a moment discussing how changes in foreign currency impacted our results in the quarter
- While we recognized hedge gains of $40mm in Q1, these gains were more than offset by the translation effect of the strong U.S. dollar
- The effect of translation net of our hedge gains created revenue headwinds of approximately $16mm
- Our hedging program is designed to minimize the operating income effect from changes in the currencies to which we have the largest exposure
- On an operating income basis, fluctuations in foreign exchange rates were immaterial to our results in the quarter

Cash, Cash Equivalents and Short-Term Investments

- We ended Q1 with cash, cash equivalents and short-term investments of $6.3B
- We generated $751mm of operating cash flow in the quarter
- CapExs were $148mm or 5% of revenue, resulting in $603mm of FCF in the quarter, representing $0.20 of FCF for every dollar of revenue

FCF

- In addition to an already strong balance sheet, our business generates substantial FCF
- Effective capital allocation is an additional lever to drive long-term value creation
- We take a comprehensive view of our sources and uses of cash to ensure that we allocate resources and capital to what we consider to be the highest returning alternatives
  - We are fortunate and that we have many great options for the use of our FCF.
- Part of that is how we deploy the capital on our balance sheet to the highest returning investments
- We currently have $5.1B of consumer credit receivables on our balance sheet, and are exploring different options including asset sales and partnership opportunities to free up cash for higher returning investments

Stock Repurchasing

- In Q1, we returned $517mm to shareholders in the form of stock repurchases
- We now have approximately $500mm remaining on our buyback authorization
- Further reinforcing our ongoing commitment to capital return and disciplined capital allocation, today we are announcing a new buyback authorization in the amount of $5B.
- We are confident that the cash generating potential of our business will continue to allow us to invest organically, be inquisitive and return cash to shareholders

Capital Allocation

- We are pleased to be in a position to increase the repurchase authorization and view this as the next step in providing a more comprehensive, longer range plan for capital allocation
- Consistent with the execution of our existing authorization, we plan to repurchase shares to offset the dilution from stock-based compensation and use the remainder for opportunistic repurchases

Guidance

Revenue

- I would now like to discuss our guidance for Q2 and updated guidance for the full year 2017
- For the full year, we are raising our revenue guidance and now expect revenue between $12.52B and $12.72B, representing currency-neutral growth of 17% to 19%
- We are pleased to be raising this outlook relative to the guide we provided in January, because of the momentum we are seeing across our business and initiatives

EPS

- At current exchange rates for the full year, we expect currency translation to impact revenue by approximately 200BPS, resulting in spot growth of 15% to 17%
- We are also raising our full year EPS outlook and now expect non-GAAP EPS to be in the range of $1.74 to $1.79
- We expect the sequential trends in our quarterly revenues and earnings to be very similar to 2016

- For Q2, we expect revenues to be between $3.05B and $3.1B, and we expect non-GAAP EPS to be between $0.41 and $0.43

Market Leadership

- In closing, we have started 2017 from a position of strength
- We delivered strong results in Q1, executed successfully across our plans, and achieved important goals both operationally and financially
  - We see substantial opportunity in the markets we are currently serving and those that are part of our longer-term addressable market
- We will continue to expand and build on our market leadership position and remain focused on balancing investments in growth with profitability and disciplined capital management, creating shareholder value for the long-term

QUESTION AND ANSWER SECTION

<Q - Darrin Peller>: Just it's great to see more operating leverage in the model. Just want to be clear first, John, that the $40mm in restructuring is more one-time in nature. And then perhaps if you can give us a bit more detail on the moves you're making to improve that operating expense growth rate. I think you mentioned and you said 5% in other expenses. Where can that get to? You're clearly showing more of the pass-through in operating leverage this quarter than in the past. Thanks.

<A - John D. Rainey>: Yes. Thanks, Darrin. Good questions both. The $40mm restructuring charge is a result of a fairly targeted initiative here which actually goes into your second question that it's really designed to help us move forward in a very efficient manner as we scale our business. It is not what I would describe as your typical headcount reduction. It's a targeted reduction that really drives towards the efficiency of the business and doing so is in a very customer-centric fashion. So we don't expect that in the future necessarily. That's a one-time event.

With respect to operating leverage, you're right. You could go back and look at the last several quarters, and you've seen sequential declines in our operating expense growth rate each of those quarters. And to your point, we grew 4.5% this quarter. And even if you look at that on kind of an incremental margin basis, for every dollar of revenue that we brought in this quarter, our operating expenses increased $0.10. And that's the best performance that we have ever seen as a company.

You can go back to prior years, and that number would have been as high as $0.50 in some cases. So this is a demonstration of how we are going to operate moving forward, and it really is across all aspects of our business. It's not specific to what you may think of generally as overhead. It's how Bill runs his group with product development, how we build our product, how we sell to our customers. So it's a muscle that we're developing. And we certainly hope that we can show more of these results going forward.

<Q - Tien-Tsin Huang>: Just wanted to ask on the acceleration in active accounts and also in the U.S. payment volume metric, looks like that accelerated as well. Is that the result of customer choice? Or are there other factors to consider? Just trying to disaggregate customer choice from the rest of the business, if possible.

<A - Daniel H. Schulman>: Yes, Tien-Tsin, thanks for the question. I think there are a couple of things that drove overall results. And I think one of the things is there never is a silver bullet around these things. It is the result of the cumulative effect of lots of actions that we have been taking.

Certainly customer choice is being very helpful. We are seeing not only an increase in onboarding because onboarding is more streamlined, but a reduction in churn, which to me is a great checkmark for what we were trying to do with choice. But that's still early days on that.

We are really seeing momentum across all regions right now. And I think a lot of that is because over the past 18 months to 24 months, Bill and his team, the risk teams, others around the company, have really looked at our core value proposition.

Things that you may not think about, like availability and performance of our network, our up time. We've spent a tremendous amount of energy and resource to make sure that our platforms perform the way that our customers expect for us.

We've obviously put in things like One Touch. One Touch is driving more engagement. More engagement typically means less churn, which is helpful on our net adds. I think you look at our mobile performance, and it's arguable that we are owning that mobile checkout experience right now. I look at things like our consumer app we put out, the merchant app we put out, new invoicing things, smaller things, have the ability to recover passwords more easily.

All of these things are starting to hit in the marketplace in quite an impactful way. And I would say we are just beginning on this as well. I mean if you think about choice, for the first time you're actually beginning to see banks that we haven't even mentioned in our remarks or our press announcements, that are marketing PayPal to their consumers. Because if they can put their debit or credit into the PayPal Wallet, they know they're going to drive additional digital spend by doing that.

We have a lot more that we've got planned in the funnel, whether that's additional functionality for Venmo users, whether that's international expansion, upticks in our consumer value proposition, or all of the things we're doing with multiple partners across the world, that's also helping to drive our net adds.

So as I mentioned in my remarks, we now expect more than 20mm net adds for the year. That's a substantial step-up from where we are. And hopefully we'll continue to see that momentum move forward. We're certainly encouraged by what we're seeing.

<Q - Bryan C. Keane>: Just kind of a two-part question, I guess. What came in better than previous guidance that caused the revenue and EPS guidance raise for FY2017?

And then just secondly on the Android Pay partnership announcement, that seems like a unique deal. My understanding is PayPal will generate a fee on all transactions at the point of sale regardless of tender type, so even if it's a credit card. So maybe you can help us understand the economics that PayPal earns on those transactions. Thanks so much and congrats on the quarter.

<A - John D. Rainey>: Thanks, Bryan. I'll take the first part of the question and then turn it over to Bill for Android. Honestly, Bryan, this is one of these quarters where we just hit on all cylinders. If you start at the top of the funnel and you see the 6mm net new adds, which is the highest we've had in several years. And then you work your way down, revenue came in, and really across all regions, came in better than what we expected in core PayPal.

And then as I alluded to in my prepared remarks, we're really pleased with what we're seeing around discipline on the cost side of the business. We're changing the way that we operate as a company, and this has been an evolution, but we're pretty excited. And we're beginning to see the results of what we're capable of here.

<A - William J. Ready>: Yes, on the Android Pay side is, the thing that we're doing there – and maybe it's good to sort of take a step back a little bit and talk about some of the broader partnerships that we're doing. Then I'll be more specific to your question on Android Pay, Bryan, is, what you're seeing happen on mobile is that our two-sided platform is allowing us to connect consumers and merchants very efficiently across many different contexts. And so you're seeing people in the ecosystem partner with us because we can help light up new experiences that they want to create for their customers, and so that's across a number of the partnerships that we have.

With Android Pay and PayPal becoming a payment option inside of Android Pay, number one, we're going to give the consumer a great ability to access mobile tap-to-pay transactions by being able to sign up with One Touch to be able to have a frictionless onboarding into that experience, and have a great customer journey into mobile tap-to-pay. And then as you get into that, the economics of that, we're starting out with PayPal balance only. And for those, we'll make money on those transactions much like we would on any other transaction.

As we work through other payment methods, we'll use Visa and Mastercard token, tokens from others, and this is one of the interesting things about the deals we did there, that the tokens that we employ from Visa and Mastercard, when we tokenize the instrument of an issuer, we'll pass that through a card-present rate to the merchants, the merchant gets card-present rate, and we avoid costs on those things. It also means that we're not going to necessarily have revenue on all those transactions, but we don't have costs either, and that lets us have some of our transactions where we'll make good margin on those.

Others basically are zero revenue and zero cost for us, and the benefit of that is that we can drive engagement across our consumer base, and you see this across other parts of our business where, take P2P as a good example, we do tremendous volume on P2P, and in many situations those are free transactions, but those consumers that engage with us on P2P are more engaged overall, and we find are some of our most profitable customers because we have higher engagement with them overall across other transactions where we monetize, and we think about in-store in a very similar way and what we're doing with Android Pay in a similar way, that we'll have some of those transactions that we monetize directly, others that are a pass-through for us. But we expect that we'll drive overall engagement higher as we have more and more opportunities to engage with our PayPal users.

<A - Daniel H. Schulman>: Yes, just to build on that response, Bill, one of the long-term aspirations we have with consumers is that when we first started this, that they were transacting with us one-time to two times a month. We're now approaching almost three times a month. That's well within sight for us. But our long-term aspiration is that a PayPal consumer engages with us one-time to two times a week. And as Bill mentioned, the way to do that is to be much more involved in the everyday management and movement of money of a consumer.

Which means that we want to give them this optionality of not only what instrument they want to use and how they want to spend but where they want to spend. So, whether that be an international remittance, whether that be a bill pay, whether that be a tap-to-pay in-app or in-store, we're trying to open up the PayPal Wallet through these partnerships in multiple contexts and multiple different functions for our consumers to be much more engaged with the PayPal Wallet. And we're beginning to see the early payoffs of that.

<Q - Paul Condra>: John, I guess just on the guidance, does that include any contribution from Venmo or TIO? And just on TIO, can you talk a little bit about margin profile growth rate or anything just to help understand that the way that business looks a little more? Thanks.

<A - John D. Rainey>: Sure. As Dan alluded to in his remarks, we are beginning to expand pay with Venmo, and we have got some improvement on the contribution assumed there, but I wouldn't by any stretch of the imagination suggest it's aggressive or that we're dependent upon that for our results this year. We're going to be measured in this. As Bill has said, many times before, this is something where we – it's too precious to get wrong, and we want to get the experience just right. So if that requires us taking a more measured approach, that's absolutely fine with us. And so we do expect to have steadily improving economics with Venmo as we go forward, but there's not – I wouldn't describe our 2017 guidance as betting on the come with what's going to happen with Venmo.

<A - Daniel H. Schulman>: Yes. As I mentioned in my opening remarks on the Venmo side, we are really trying to take the same approach with One Touch. We have now been able to engineer our platforms just like with One Touch. The reason we got such quick merchant acceptance is that merchant had to do no work on their part to be able to accept a One Touch transaction. We had that initially on Braintree with our Venmo customers. And we tested and we learned to see how you take that experience, that sort of social experience of payments, and move it into a social experience for purchases as well. And we now have the platform to be able to turn on PayPal merchants, which obviously is the vast majority of our base, here in the U.S., to accept payment from Venmo as an option. And so that will roll out over the year, but that will roll out more towards the back half of the year. And so, little of Venmo this year. And as John said, we'll start to see that improve as we look forward in our medium-term guidance.

On TIO, TIO is a publicly traded company right now. You can see their results. They did about $80mm or so last year. Their most profitable quarter was this last quarter that they just reported. Obviously we'll look at what the synergies are there. We're quite excited about having TIO come in. Bill payment is a very sticky solution. We are really trying to build out how we can help underserved consumers manage and move their money, because that can be done in a very profitable way for us and a very consumer-friendly way for consumers as well. So we're really excited to close that acquisition. Again, we expect that to close in H2 this year. But in our overall results, it's a pretty small number in general.

<Q - Sanjay Sakhrani>: Dan, you mentioned, like, discussions with other banks continue, and you've had some good experiences. I guess what's holding some other announcements up when you have your discussions with banks? And then just one for John, as far as the asset light strategy, is there any sense of timing? Thanks.

<A - Daniel H. Schulman>: Yes. So, Sanjay, just we actually aren't announcing all of the different issuers and banks that we're working with because we don't ask them. We don't – they don't necessarily need the announcement and we don't need an announcement. And so there are a lot that we're just implementing. Some of the very big ones take time to work through. That's really it. They just take time to work through. I don't think there's a single conversation that we're having right now that I don't feel both optimistic about that isn't being done with an eye from both parties to get a deal done. But these are big banks. They have unique – some of them have very unique situations, and we just need to work through large different documents with each of them.

And we want to make sure that when we sign up with a bank, that the product flows are right, that we exactly have the experience right to make it as I mentioned in my remarks, mutually advantageous for our mutual customers. So, nothing really to read on that. It just takes some time to work through these things.

<A - John D. Rainey>: Sanjay, on asset light, I want to start by reminding everyone that we have no intention to stop offering a credit product. Credit today complements a holistic suite of payment offerings that we provide for our merchants and consumers, and they find great value in that. What we do want to do, though, is provide that credit offering in a less capital-intensive manner than what we do today so that we can free up that cash, potentially as much as $5B, for higher return on investments. We've got various options there. Some are more partnership-like opportunities. Others are just a pure asset sale or some combination of the two. Our preference, to your question on timing, is to do something sooner. But we're not going to err on the side of expediency if it means getting a suboptimal deal for PayPal.

So we're not under any self-imposed timeframe. We're going to take our time and be measured and do what is best for creating long-term shareholder value for PayPal.

<Q - Bill Carcache>: Dan, I know you said that you're pleased with the consumer choice results that you've seen so far, but can you give us a little bit more detail around what's driving your confidence level over being able to continue to offset the increase in transaction margin compression with TPV growth and operating leverage?

And, John, separately for you, could we see the growth rate in other expenses turn negative for a time, or is the goal just to keep other expenses growing more slowly than revenues? Thanks.

<A - Daniel H. Schulman>: Yes. Thanks for your question, Bill. So I'll just take one step back on choice. We went to choice because we really felt that if our long-term state is to be the ultimate customer champion company focused on customers and what their pain points are, what they need, that offering them optionality of how and where they want to pay, giving them flexibility and transparency, empowering them, was essential for us to remain the market leader in digital payments. And it also had the benefit, which was great, of enabling us to team with networks, financial institutions, carriers, tech companies, to drive digital payments. We're all aligned in wanting to do that.

And then remember, the partnership arrangements that we had enabled us to get certain things that we didn't have before like cost certainty, elimination of the digital wallet fees was something that was hanging out in the market. We got access, as Bill mentioned, to industry standard tokens, card-present rates. We got network volume discounts that came back to us because we obviously drive a ton of volume over the various networks. And we had instant access to funds coming off of the platform, which was a competitive weakness we had in our P2P product, and we filled all of those gaps with this deal.

What we are seeing right now is that we are now rolled out basically in total across our onboarding, our servicing and our checkout experiences. And we're not now looking at tens of thousands of beta tests and alpha tests or hundreds of thousands of early adopters. We're looking at multiple, multiple millions of consumers that have opted into choice. And the results we are seeing are frankly very pleasing as we see them. As I mentioned, we're going to see an increase in net adds and a notable part of that is going to be driven through choice, and we are just beginning on that piece of it.

Order sizes are up as people can figure out for this order, we wanted to use a debit or a credit card, for this transaction, they wanted to use their ACH or debit card. And so people can now toggle back and forth. And in fact, really it's those who use PayPal less who are finding the most value in choice right now. And that is driving engagement and higher order sizes. And we see our costs coming down as we expected, because people were confused about funding choices, and we expected a reduction of calls coming into the call center. And that's exactly what we're seeing. And that's sustainable cost reductions for us.

And then the transaction costs are well within the expectations that we had, well within that. And so we had modeled all of these reasonably conservatively when we looked at our guidance and our medium-term guidance and all of them. We're quite pleased by what we're seeing.

And we're just getting started. The marketing for the banks, the fact that we get additional funding options coming in like rewards points, that will start to come in early next year as another funding mechanism. All of these things are sort of, again, early days on choice. But we were always sure that over the long-term, this would make sense for us. We're frankly seeing it playing out much earlier than we expected.

<A - John D. Rainey>: And, Bill, on the second part of your question, in terms of whether we would expect to see OpEx turn negative. I would reemphasize that this is not a one-time cost takeout approach that – on cost. We are re-engineering the way that we work, and so from one quarter to the next, we certainly have seasonality in our business. We may invest more in certain quarters vs. other quarters.

But at the end of the day, we're a growth company. And we're going to continue to add costs where we think it generates value for us. And we don't overly rotate towards one metric like other operating expense or like transaction margin. The thing that drives us is being a customer champion and creating shareholder value. And so we're going to make decisions, whether it be around revenue or cost that we think results in strong performance in both of those metrics.

<A - Daniel H. Schulman>: I would say, as a senior leadership team though, there has been a tremendous amount of focus kind of how do we do that in a way that enables us to make decisions quickly, to innovate more rapidly, but do so in a much more efficient way.

And so when you think about costs, this is not necessarily taking costs out, but it's eliminating costs. So for instance in global ops, saw our global ops grow the least amount that it has going forward. The reason for that is predominantly call abatement. That means calls are not coming in to our customer care because our product experience is better, because we have choice.

And so those are sustainable benefits that we have as a result of actions we're taking that – and we are very focused on being both focused on what customer pain points are, how we solve it, how we keep our lead in the marketplace, but operating in a very efficient and effective way.

<A - John D. Rainey>: Yes, and, Bill, I would add, too, that maybe a better way to think about the cost trajectory going forward for other operating expense is mid-single digits growth.

<Q - Ashwin Shirvaikar>: Solid quarter. Congratulations on that. My question is up until now we've had obviously a number of initiatives: One Touch, consumer choice, you acquired Xoom, it's contextual commerce. All of them sort of are kind of designed to increase the size of the funnel. You draw more transactions and accounts onto the PayPal platform. You're adding bill payment now, bank and other relationships.

I guess the question becomes, are you done building what you could be building in terms of pulling transactions in? And it becomes an execution story from now on? What else could you be adding to the platform here strategically?

<A - William J. Ready>: Hi, Ashwin. It's Bill. One of the things that we really think a lot about is how rapidly the consumer is moving into new contexts where they may transact. And the interesting thing about PayPal, we've talked about this a bit previously, that what really makes PayPal unique is that we're one of the only players that operates on both the consumer and merchant side of the payment ecosystem, is able to do so globally and controls the experience end to end. And so what that means is that every time consumers and merchants start to meet one another in a new context, or consumers want to transact in a new context, we are able to light those up oftentimes in far better ways than what others could.

And so on the one hand, we are constantly looking at how we evolve the platform to make sure that, as those new contexts emerge, that we can serve customers there. However, we have a structural difference in our company that naturally allows us to be a primary player in enabling those transactions, because of the way that we operate on both the consumer and merchant side of the payment ecosystem. And the fact that we can do so globally and control end-to-end experiences.

And I think you see that happening in what's going on in the ecosystem that you see, in terms of mobile commerce, at $32B in volume this quarter, more than $100B last year. And what we're doing with the One Touch rollout and with 5 million-plus merchants and 75% of the IR100, you're seeing that increasingly our consumers, our merchants, and partners in the ecosystem are looking at us as the preferred partner to light up these types of experiences for them.

So your question was around, how much are we building? We continue to think about building for those new contexts, but we also have – our platform is really set up to be a great way to connect consumers and merchants whenever they meet one another in a new context. And then there's some of those specifically where on the consumer side, Dan talks a lot about things that we want to do to become a part of the way people manage and move their money every day.

Those are places where we are just beginning our endeavors, and you look at the kind of growth that we have, when Dan talked about we're approaching three transactions a month, while we have had great growth overall, we think there's so much more of the consumers' overall experience that we can help them with. And the industry is moving toward us that you see more and more transactions moving toward e-commerce and to mobile, and we're increasingly a preferred partner to our consumers, our merchants, and others in the ecosystem as that happens.

<A - Daniel H. Schulman>: And just I'd add to that, if you think about the merchant side and you think about our strategy around the merchant side, it is we've moved fundamentally over the last three years or four years from predominantly being a button on a website to really now being a fundamental underlying platform provider to merchants as they think about how do they take advantage of mobile. And that means that we are offering a host of services across a common platform that we never did before, full checkout type of capabilities, credit capabilities, contextual commerce tool sets, rewards integration through API sets and the list goes on and on, invoicing capabilities.

And so if you think about the mission of PayPal, of both on the consumer side as Bill just articulated and on the merchant side, it is a much more expansive mission and vision than we've ever had before. And so I think that we obviously can grow in a couple of different ways going forward. And this is fully what we expect. One is we're going to cross-sell more products and services to existing customers.

We have a whole suite both on the consumer side and on the merchant side, and we can tremendously expand the amount of services we provide to each and every customer. Second thing, though, is we're just beginning on this journey here. We're beginning to see an acceleration of our net adds coming in, consumers are beginning to recognize sort of the network effect that we have, merchants are beginning to see that and we have huge international expansion opportunities and just better performance that we can do on that side. So it's not just a matter of new coming in. It's a matter of taking what we have and be able to cross-sell into existing as well. And so that sort of combination of those two things kind of gives us a lot of excitement about our growth prospects as we look forward.

<Q - James Cakmak>: Just one quick one. Does your guidance contemplate any kind of incremental marketing expense build awareness on the pay with Venmo side as we progress with the – or I guess as we look towards the end of the year? Thanks a lot.

<A - Daniel H. Schulman>: Hey, James. Thanks for the question. First of all, I think one of the areas that we've seen a bunch of fundamental really efficiency and improvement is in our whole marketing spend. We took what were previously very disparate marketing functions in each of our regions here in headquarters. We put them all together, and that group now's both regions and central looking at our spend figuring out how do we spend that in the most efficient manner. We have a ton of data and analytics around and we look at things through an ROI perspective, and we are not just more efficient, but way more effective on our marketing spend. I can't say enough good things about what that team has done. And by being more efficient, we are actually getting more spend out of the existing dollars that we have.

And we pay with Venmo for all of our growth initiatives. You heard John talk about how we're going to take the money that we're saving and reinvest it back into our growth initiatives. Pay with Venmo will be a part of that that gets additional investment for us.

<A - John D. Rainey>: And I would just add to that. While as Dan mentioned we have great efficiency around marketing and the ability to assist pay with Venmo with marketing, the $6.8B in volume we did in the quarter and the 114% y-over-y growth came with almost no marketing for Venmo. It's a product that is inherently viral, and so, we certainly think about how we'll support the product going forward, but it's a great place to be when you have a product that customers truly love and is inherently viral and grows without having to go throw tons of marketing dollars at it.

And so that is something that we think about with Venmo that as we built pay with Venmo, the social aspect of that we have kept very much at the core of what we're doing, and we think that can really help to build upon the virality of the core product so that it's not a product that we have to go support with massive amounts of marketing. It's a product that's inherently viral and that we can complement with thoughtful marketing. It's great.