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PRESENTATION

Brian Fenske

Hey, everyone. I'm not going to be on video today. We have a really professional-looking video today with Jason and our guest Gabrielle Rabinovitch, who's here from PayPal. We're very grateful to have her to do this with us. This is a little different format, a little different technology we're using, but many of you have logged in questions to Jason or I, so we think we have a great conversation lined up for you and I'll kick it off to Jason.

Jason Kupferberg

Well, great. Thank you, Brian. Appreciate it. One quick disclosure I need to read is that conflict disclosures relating to the individual companies or securities discussed on this call today can be found on the call invitation. I would echo Brian's sentiments, we're very excited to have Gabrielle Rabinovitch here from PayPal, Acting CFO, Head of Investor Relations. We have about 45 minutes with her, which we really appreciate, so we're going to cover as much ground as we can. We're going to jump right in. Gabrielle, again, thanks for being here today. I appreciate it.

Gabrielle Rabinovitch

You bet. Thank you both for having me. I appreciate it. I saw the list of companies that have participated and I was waiting for you to ask and you finally did.

Jason Kupferberg

Well, that's great. So let's kick it off with some recent data points. I know Dan spoke at a conference a couple of days ago. He suggested that revenue seems to be tracking in line with your guide for Q4, which calls for 9% constant currency [revenue] growth. [Non-GAAP] EPS seems to be running a little bit ahead of

plan. So talk about how that positions PayPal for next year. How should we be thinking about the framework for the 2023 P&L?

Gabrielle Rabinovitch

Yeah, you bet. So that's right. Dan presented at UBS on Wednesday [December 7th]. He did reiterate the revenue outlook for the fourth quarter and he also indicated to your point that we're [tracking] slightly ahead on EPS. Taking a step back, this is really the culmination of a lot of work this year as we're focused on profitable growth but continuing to invest in our high-conviction initiatives. In addition we're focused on disciplined capital allocation. Our view is that we should emerge from this macro a much stronger company based upon the things that are in our control and what we're executing [on].

Q4 is an important inflection point for us though, and I think Dan mentioned that [at a conference] on Wednesday, December 7th as well. We've seen our operating margin degrade each quarter this year. In the fourth quarter, our operating margin is going to expand for the first time [this year]. In addition, we'll grow our non-GAAP EPS for the first time this year on a year-over-year basis. We believe we will end the year in the fourth quarter with actually a decline in year-on-year non-transaction related [non-GAAP] operating expenses, and this is the first time non-transaction related [non-GAAP] operating expenses are going to decline. Dan mentioned in 2023, we also expect non-transaction related [non-GAAP] operating expenses to decline year-on-year. When we got to the [third] quarter [results], and we talked a little bit about that [preliminary] framework for next year, we talked about maybe flattish non-transaction related [non GAAP] operating expenses for next year. Now we've come out and provided a little more clarity, and so we do expect that [non-transaction related non-GAAP operating expense growth] to decline. That's as we're moving through our budget process and looking at how we want to run the business more efficiently. So we continue to see a lot of opportunity there.

So that really sets us up for the [preliminary 2023] framework that we had set out, which is to expand our operating margins next year by at least 100 basis points on a non-GAAP basis and then also to deliver at least 15% non-GAAP EPS growth. That's the framework that we talked about several weeks ago. But I think now that we've come out and said we do expect the non-transaction-related [non-GAAP] operating expenses to decline year on year, I think it provides a little more clarity to the market about how we expect to get there.

Jason Kupferberg

Right. Because you have a little bit more ammunition for the bottom line?

Gabrielle Rabinovitch

Exactly. As we're thinking about the macro and what growth looks like next year, I think it helps people connect the dots a little bit in terms of what the range of outcomes could be on top line, on TPV, and how we think about really delivering that non-GAAP EPS growth even in a slower growth environment. We didn't put anything out as it relates to [a preliminary 2023 framework for] TPV growth or revenue growth. We said based upon a range of outcomes, we'd expect to be able to deliver that [at least 15% non-GAAP] EPS [growth], but I think clarifying the decline in [year-on-year] non-transaction-related [non-GAAP] operating expense [growth] is helpful as we think about what the range of outcomes on the top line could be.

Jason Kupferberg

Right. And I think if I recall correctly, Dan indicated that even if the overall e-commerce market is down a little bit next year, hypothetically, you still feel comfortable with that 15% plus EPS growth target.

Gabrielle Rabinovitch

That's exactly right.

Jason Kupferberg

So maybe that's a good segue to the next set of questions. We're sitting here in the middle of the holiday season, and lots of data points, lots of interest around what's happening with the consumer and e-commerce specifically as it relates to PayPal. So there's been different reports about some of those data points; sales results, competitor data. Is PayPal gaining a little share? Are they losing a little share? What does PayPal see as really the best method for measuring share of core checkout so that investors can get a better sense of whether or not there is some gain or there is some loss or things are steady, and just how you look at your share performance in branded checkout to assess whether or not you're gaining or losing any share to some of the other major competitors.

Gabrielle Rabinovitch

Absolutely. Our team does this work quarter in, quarter out. Month in, month out So I appreciate the question. If there's one question that's come up consistently over the past two weeks, this is certainly it. As a starting point, if there was one source of truth I think it'd be a whole lot less interesting and would be creating a lot less controversy. Even in the past two weeks, we've seen half a dozen sell-side reports come out saying a variety of things. Some more complimentary of our business and some clearly more negative. This is likely the single greatest area of concern when we speak with thoughtful, engaged, long-term investors related to the competitive dynamics and whether we can continue to extend our leadership position.

I think everyone recognizes we have this tremendous ubiquity and incumbency and global scale. But the question is does this continue to support our strong, sustainable growth over time? I also personally just think about it in terms of it's clear we can cut costs, it's clear we can return capital. As we think about the valuation multiple and how we start to really expand our multiple again and regain the value we think we deserve, I think this competitive dynamic is one that clearly is front and center for investors. I like to look at the data over a much longer term and so I think Apple didn't just decide to become competitive and the BNPL players have been aggressive for a while, and the competitive intensity in payments has been high - especially in digital payments - for a long time.

I was hoping last quarter when we disaggregated TPV and provided the growth rate by branded and unbranded, that it would shed some light on our performance and give people at least some grounding and some foundation how to think about our business. We were very clear that as of the end of the third quarter, on a year-to-date basis, our data indicates we've held share or done better in our markets. In some markets we've clearly done better and others we've seen a little more pressure. But overall year to date, as at the end of the third quarter, we feel very good about where we stand competitively.

Dan this week also spoke to Cyber 5 and how he thinks we performed. Dan talked about November, and that our global branded checkout in November grew ahead of our measurement for overall industry growth which we think was likely flattish. We used a few sources to get there in terms of thinking that overall global e-commerce growth in November was flat and we did better than that.

We continue to think we're growing as fast as the overall market. As it relates specifically to Cyber 5, I think it's really hard to put any undue influence or emphasis on data that represents one day of results, or two or five days of data. I recognize that they cut it in different ways. The Salesforce data skews very large merchants. Our view is that's not completely representative of our total merchant base, which of course includes a very long tail of SMBs in addition to the largest retailers.

We also look at Cyber 5 as representing less than 20% of overall holiday sales on a volume basis, and so I think it's hard to rely too heavily on any [one data point]. We of course look at the BofA data, we look at Adobe data, we look at the Salesforce data, we look at the other bank data, we look at the network data.

All of them say something slightly different. For us, we want to get through the holiday season and do the work that we do every quarter, which is really triangulating the data. You've heard us talk about this before. We have a market insights team and basically they're looking at all the data, and then they're looking at our data. When Braintree is processing the vast majority of volumes, 90% plus [of a merchant's volumes], we obviously have very good, clear data on our share of checkout, our tender share, and what else is growing in the space. When we have the public set of competitors, they typically will provide some idea of overall e-commerce growth in their businesses, so then we know exactly how we did. Then with our long-tail SMB, there's other work we do. There's survey work, there's triangulation we do based on the data we have, as well as our perceived share on their platform that also gives us a sense.

We put all of this data together and that's how we do our work. It does take some time; it can't be done overnight and so we don't put out a holiday sales release two days after Cyber Monday to say how we think we did. We also know that the holiday season is long. While I know people were hoping that we would come out with something more definitive, I think we really like to see the full season evolve. We feel very good about the competitive dynamic. We feel very good about how we compete in this environment. But I think we also want to wait till we get a few more weeks under our belt before we start coming out with any bold statements about how we think the holiday period went overall.

Jason Kupferberg

That makes sense. And maybe another holiday-related question. Pay with Venmo obviously just launched pretty recently on Amazon. I think it was early to mid-November. So maybe give us a sense of the traction so far relative to your expectations. Obviously, super early days, but it is an area investors have been asking about. Do you have any material contribution from Pay with Venmo on Amazon in your Q4 guidance?

Gabrielle Rabinovitch
To answer the second question first, no, the contribution [from Pay with Venmo on Amazon] is very de minimis. We've taken a pretty conservative approach. That's in part because the Pay with Venmo experience on Amazon does require people to actually provision Venmo as a funding type in their Amazon wallet. So essentially when you go on to your Amazon account settings, you have to provision it, you have to select it, and opt into it. A lot of the work we're doing right now is building awareness amongst the Venmo user base to encourage the adoption and habituation of Venmo as a way to pay when you're on Amazon.

You're right. We fully ramped by the second week of November. It's really only been a few weeks and so it's pretty early to come out with any announcements about how the experience is doing. We're working very closely with the Amazon team. We're working on a lot of direct marketing and incentives to help people habituate to it and adopt it. But I think we're going to wait until we have a little more data before we provide any update as to how we think it's doing. When you start with zero growth rates, start [rates can be] quite high. We're focused on this not just for the Amazon experience, but also clearly one of these opportunities in Venmo for quite some time has been around Pay with Venmo and growing Venmo commerce initiatives. We think about this as really driving habituation and to the extent that someone habituates and uses Venmo on Amazon. We think it [could] really change the likelihood and change the dynamic for the use of Venmo as a way to pay across a broad set of retailers and in other commerce experiences.

With the installed base that we have, we think this is an incredible opportunity for Venmo and we're really excited to see how we can continue to move forward and grow our business both on Amazon, but also importantly in that long tail. In addition to that, as we think about Pay with Venmo, we're also working a lot on our card strategies which I think is another critical part of how we move forward with Pay with Venmo. That's both debit and credit.

Clearly, we don't have necessarily the adoption that we'd like to have. It's not just the Amazon experience, it's marrying that alongside some other strategies - around our card strategies, around everyday spend categories - that we're going to continue to see support Venmo growth over time.

Jason Kupferberg

That's helpful. Let's switch over to the OVAS [other value added services] revenue line that doesn't always get a ton of attention because it's obviously not nearly as big as transaction revenue, but there are some interesting dynamics playing out on that line. Now maybe you can talk through how you think about key drivers of OVAS performance, not just for Q4, but for 2023.

Gabrielle Rabinovitch

Starting the year, we had very conservative expectations around OVAS growth. Part of that was last year was a very strong year for our Synchrony gain share. In addition, last year we also had some benefits from PPP [Paycheck Protection Program] lending that went away this year entirely and so we were up against a tough comp from that standpoint. So we started the year with a pretty conservative estimate for overall [OVAS revenue] growth and we've really seen the OVAS revenue line outperform those expectations pretty meaningfully.

The initial thought on this year was we grow low single digits on OVAS growth and now our expectations are [OVAS revenue will] grow in the mid-teens. That's supported by the continued healthiness of the overall credit business. Our [previous] expectation was [for] a little more normalization in consumer credit this year. We've seen a very healthy consumer credit environment this year, and we've benefited from that on the Synchrony [gain share]. We've also seen good growth on our merchant lending portfolio. That too has helped us, and so that's our credit book. In addition to that we've had a benefit from the interest rate environment.

The two main drivers of OVAS are our credit business and the economics we get from that, and then interest income on customer stored balance. We earn interest income on [customer stored balances]. As [interest] rates have moved up all year, the interest income that we've earned has also increased and so this year, call it mid-teens is where we think will be [with respect to OVAS revenue]. Next year, we think OVAS revenue growth] will be mid-teens, if not better. Now that does consider the credit environment overall. If things worsened meaningfully on the consumer credit side, that obviously would put some pressure on [our OVAS revenue] performance.

That said, the way we earn our gain share economics on the Synchrony piece of the business is on actual charge-offs. The gain share economics drive off of a baseline level of profitability, on top of which we will share in profits. The way that profitability is calculated is off of actual charge offs, not provisioning. The consumer credit environment would have to turn pretty quickly early in the year for that to really manifest itself. We're watching it very closely. We [expect to] benefit again [in 2023] from interest income on stored customer balance and then we'll see how the credit environment materializes. We'll tighten originations as we see the environment change and so we're watching that.

Then on the interest income side, this year a meaningfully stronger year on interest income from customer store balances than last year. Next year, we'd expect it to be even incrementally stronger from an interest income standpoint. And at some point, when the [interest] rate environment stabilizes, that will be more steady state for us. But [we currently expect] 2023 will be a stronger year than 2022. Based on how the book is positioned right now, I'd expect 2024 again to be slightly stronger than 2023. So maybe not the same rate of growth of interest income on OVAS, but still a growing contribution. I know we don't disaggregate it and we don't give a lot of detail in terms of how the book is laid out, but happy to spend a little more time on that at a high level if that's helpful.

Jason Kupferberg

It is helpful. Clearly, there['s a] higher rate environment between the balances and probably even a little bit on your corporate cash will help a little bit as well, so higher rates support the EPS target for next year?

Gabrielle Rabinovitch

The corporate cash benefit comes on OI&E [other interest and expense], so it's below the line. It's not contributing to our operating margin performance in any way. It's a much smaller contribution overall than what we get from the OVAS piece, but certainly does contribute and does help support the [non-GAAP] EPS growth [preliminary framework we provided]. And then I think you're getting to other components of that EPS growth that help us get there.

Jason Kupferberg

Yeah, exactly. And maybe you can just talk a little bit about capital allocation. Clearly, you guys have been doing a lot more on the buyback front, but just clarify where you stand there and how we should be thinking about the buybacks for 2023 and any cadence considerations.

Gabrielle Rabinovitch

From a capital allocation standpoint, our priority has been capital return this year. This year we're returning about $4.2 billion to shareholders in the form of share repurchase. That's about 80% of our free cash flow and so that's about 20% free cash flow margins in terms of free cash flow as a percentage of revenue. We continue to generate a tremendous amount of free cash flow, which gives us some flexibility, but the priority has been capital return.

Historically, the framework that we laid out at the last Investor Day [in 2021] was for about 35% to 40% of free cash flow being returned to shareholders in the form of share repurchase. We [roughly] doubled that commitment this year. Our expectation is next year we'll do about the same. So I'd say we target about 75% of free cash flow being returned to shareholders in the form of share repurchase [in 2023]. From a cadence standpoint, I think about it as pretty much prorated right now. We'll take a rateable approach overall. Sometimes we'll be a little more aggressive in Q1 if we think it's appropriate, but we'll see how that goes. I expect to see share repurchase come through the whole year.

Jason Kupferberg

Okay. So about 75% of the free cash flow. That's helpful. Maybe just coming back to the top line a little bit, we can all sit here and debate the macro for hours and hours. It's going to be a wild card for everybody. We all understand PayPal has some sensitivity just in terms of discretionary spending in the TPV mix. But just as you think about some of the potential puts and takes in your revenue growth for 2023, which parts of the business, which newer initiatives, however you want to frame it, are likely to be the most meaningful tailwinds next year? In a year where obviously the core business will be a lot macro dependent really.

Gabrielle Rabinovitch

From a certain standpoint, our whole business is macro-dependent because of our size and scale. We're so large, even in a healthy environment, it's very hard to outgrow the overall rate of e-commerce growth. The fact that we've outgrown the rate of e-commerce growth for so long on a volume basis, I think stands to support this idea that we are doing a lot to help shape our outcome and that we're growing the business really responsibly. That said, you're right. Everyone is focused on the macro. We get more questions on macro than we ever have and while consumer spending has been resilient, I think everyone recognizes that inflation-adjusted consumer spending is something different and that [consumer] balance sheets are being depleted. Different companies, retailers and FIs [Financial Institutions] are talking about this in different ways. But people are clearly being mindful of the environment and that if something were to happen in the labor market, we could see a real contractionary environment, especially in the US.

That said our baseline view is, as Dan has pointed out, mild recession in the US next year, potentially coming towards the middle of the year. That's just a baseline thought and obviously we're watching the Fed like everyone else and we're watching the inflation numbers next week.

That said, you're right. There are some dynamics in our business around discretionary vs. non-discretionary that are always important and our business does skew more discretionary than non-discretionary. In addition our business overall skews more goods rather than services. We're watching those trends as well and clearly there are some online vs. offline dynamics as we see continued normalization post-COVID. In a more sluggish e-commerce growth environment, especially in the US, that's where things like Braintree and Venmo really make a difference.

Braintree has been growing faster than the rate of e-commerce for its entire history. We've talked about how strong that growth has been. While we do expect its growth to decelerate, [we] still [expect Braintree will] grow faster than e-commerce. We're doing a great job in the Braintree business. We continue to have important merchant wins. We've had some very chunky wins that have really contributed to that outsized growth - that 50% three-year CAGR on volume growth for Braintree which has held all year - that's been supported by some chunkier business like DoorDash, Uber is an important customer and Airbnb. But as we look at the year ahead, we would still expect to see Braintree contributing to support that growth.

In addition, [we expect] Venmo revenue growth this year will be north of 40%. We do expect deceleration that's just the environment that we're in, but there are things we're doing in Venmo. Initiatives around the wallet, initiatives around spending, initiatives like the one with Amazon, other initiatives that we have in the pipeline that we would expect to continue to support that growth.

I think the third piece too, to a lesser extent, interest income moves are divergent from e-commerce growth. That's another factor that will continue to support revenue growth next year.

There are a number of initiatives. I would also hope that as our checkout initiatives start to really come through, that can also help us do better on a merchant-by-merchant basis. They have to scale pretty meaningfully for that to happen. But as we go through the process, and it is a multiyear process, things like that should help us if we're improving speed and reducing latency. If we're moving in the direction of passwordless across consumer experiences. All of these things in the aggregate do increase conversion, do benefit our merchants and then by definition benefit us [as well]. We would hope that we're controlling our destiny as we move forward on some of these initiatives and that also does support the [revenue] growth we'd expect to see. Which again, [we expect] would be ahead of the overall e-commerce market, but still clearly under pressure relative to prior years.

Jason Kupferberg

Right. And I guess another area would be BNPL. You guys have been talking about that a lot more for a period of time. The landscape there is changing quite a bit. Some of the pure play providers have been under pressure. Ones that are private obviously, funding has gotten tougher and pressures to become profitable, etc. So, do you feel like that's an area where PayPal is taking share and do you expect that to move the needle on top-line growth in 2023?

Gabrielle Rabinovitch

I don't know that we've quantified exactly what the contribution has been [on our top-line growth], but certainly Buy Now Pay Later has a very strong benefit to our overall branded share of checkout. We see that come through with all the merchants that are featuring it upstream, and we see it coming through with the strength of that overall business. It's been a true winner for us. We couldn't be more pleased with the way our Buy Now Pay Later business has performed.

Just as a reminder, we're in seven markets organically. We're also in Japan through Paidy. Our view is at this point, while we may have gotten a later start than some of the competitors in the space, we are now clearly a leader and that's by our work and that's by third party work as well. We're clearly one of the most preferred [BNPL providers] and that's really two and half years after launching it. We think the combination of both the ubiquity and the value proposition with no late fees [for consumers], no incremental fees for merchants, it being a really streamlined experience for merchants and for consumers is helping us gain share. We view it as a funding instrument, that's what it is. It creates choice for our customers. It creates more ways for customers to pay, stretch payments, and actually pay for things that have a higher average order size. In the third quarter, we processed about $5 billion in [Global] Pay Later volumes. That was up about 150% year on year. Program launch to date, we've issued more than 150 million loans to 25 million customers.

The repeat usage is very high. We see customers coming back and using it on multiple occasions. We have the ability to provision them each time and originate them each time. We can risk decision it very well. We have been in the consumer credit space for more than a decade and so we have a lot of data on our customers. About 90% of the customers that come to us with Buy Now Pay Later, they're existing PayPal customers and we have good data on them. Not just on credit experiences, but also more broadly on how they behaved on our platform - how much balance they use, what their funding mix is. So overall, the Buy Now Pay Later business has been great for us.

Dan mentioned [on December 7th] some pretty exciting data points for Cyber 5. Over the Cyber 5 period, our Buy Now Pay Later business was up 110% year on year. More than one million consumers used Buy Now Pay Later on Black Friday alone. At this point, we have nearly 300,000 merchants featuring us upstream, so great momentum there. It does support branded checkout. I would say we have a lot more to do in terms of growing that business. To your point of the competitive set and what's happening. I think we are going to be aggressive, and deals [between BNPL providers and merchants] are going to expire. I don't think they've really started to fully expire yet, though, because when we look at the space and how it's evolved, a lot of those deals are two, three, four, or five-year deals, depending on the competitor. So I think some of them will be expiring in 2023 and then some of them will be expiring in 2024.

We obviously are very excited to come to market and get an opportunity to RFP for those deals. We think we can be more aggressive than anyone, especially because we feel very strongly about how it supports our business. But that said, we're not going to do things that are irrational. We'd expect the overall dynamic around negotiations to be much more rational in 2023 than they were in 2020.

When a lot of these deals were done, we didn't have a full [BNPL] solution. In some markets, we didn't have a solution at all. In others what we heard from merchants was that they wanted longer duration in addition to shorter duration. They didn't want just pay in four, they wanted pay in 12 or pay in 24. Over time, we've launched longer duration in the US. We have it in Germany. We have much more functionality. In Germany, we have a snooze feature, so if someone decides they actually don't want to pay in four or three they can actually snooze another month. They do pay us a fee for that, so it is a way that we generate additional yield on those transactions. But now that we have the more full-bodied solution set, we think we have a really great competitive dynamic.

I think to your point, the fintech space or some of these standalone players are going to come under pressure. I think that's just starting to happen. It's a great opportunity for us and we're going to be aggressive, but I think we'll have to see how it plays out over the next year or two.

Jason Kupferberg

Understood. Maybe we can go over to the cost side of things. PayPal has talked about $1.3 billion of targeted [cost] savings for 2023, probably close to half of that from transaction expense, depending on where your volumes come in next year. But let’s unpack the non-transaction expense bucket a bit. You talked about the aggregate of non-transaction expense being down in 2023. Where are the most significant

cost takeout opportunities and where is it more likely that you'll just really carefully meter the rate of growth rather than necessarily see negative growth?

Gabrielle Rabinovitch

Taking a step back and I know you've heard me say this before, so I apologize for my being redundant. We had a long history of scaling profitably and delivering margin expansion. We did that from 2015 to 2019, and we did it very well. We grew our non-transaction-related operating expense at a fraction of the growth of revenue growth. That served us very well and we were still able to grow our business. Embedded in that on an annual basis on average, our FTEs [full time employees], the headcount number that you see in the 10-K, was growing about 8.5% a year. That's really healthy headcount growth, but still very disciplined non-transaction-related operating expense growth. That allowed us to deliver the profitability that we wanted and we had very strong revenue growth at that time. Then we slipped into the pandemic period and we were growing our non-transaction related operating expense in line with revenue growth for two years in a row. We had almost 20% non-transaction related operating expense growth in each year and that was really matching our top-line growth. During that period we were growing our FTEs by about 15% per year. That's twice the rate of growth that we had prior to the pandemic on headcount.

Now we're in an environment that has some different growth dynamics, some different growth characteristics and our business is actually different. What's growing faster is actually different. We don't have the eBay volume on our platform anymore, which is heavy remediation cost, and cost to serve was higher. With Braintree and very strong growth in unbranded, how we stand up growth in this environment and how we support it internally is something different.

A lot of what we're doing is looking at how different areas of our [non-transaction related] operating expense have grown over time and what is the appropriate rate of growth. If the pandemic didn't happen and we just grew straight through, what would the size of that operating expense base be today? What is it today and what does that mean for how we think about growth in the future? It doesn't mean that every area is declining and certainly certain areas like sales are really important. Our sales force and the sales force that calls upon our merchants, that's a critical part of our business, and so that's probably an area where we want to take a lighter touch to your point.

At the same time, we had a lot of initiatives through the pandemic and some of them have been more successful than others. We stood up a lot of cost to support those things. We talked about building an invest business, which we've said we're not going to do. We had heavy investments in the QR space, which clearly has not materialized the way we would have hoped. There are certain areas that just because we allocated those funds in 2020 and 2021 doesn't mean that goes back into the base as we think about what the budget is in future years. All that to say, there's a lot to do on the cost side and we're trying to do it really thoughtfully. The overarching goal is really greater productivity, simplification, efficiency, and allowing us to scale more effectively. We [believe we] have meaningful savings that we can deliver across a lot of different line items.

Then there's the piece of we're sort of a teenager overall in terms of how old we are as a company. Through separation, there are things that we can just do more efficiently. Whether that's vendor rationalization, or making sure that across regions where our products are all in English - and a lot of our core markets are English-speaking markets whether it's Australia or the UK or the vast majority of Canada - we don't need to be using different vendor sets for things like content creation, marketing services. We haven't always been as disciplined as we could be in some of those areas and so this is about becoming more disciplined across a lot of different areas. There are also some location strategies that we're employing. I mentioned headcount, so there are some headcount actions that we've been taking through the year. We will end 2022 with lower full-time employees than we did end 2021 with. We're just really looking to do this in a thoughtful way, but in a way where we can deliver on our commitment and where we can ensure that we're going to be scaling efficiently and profitably over time.

Jason Kupferberg

Jumping back to the transaction expense for a second, even though you're negotiating some savings with the networks, I think you have said that if you look at transaction expense as a percent of TPV, you do expect it to go up a little bit next year. Maybe just talk about some of those dynamics and if you can quantify that increase, what your base case looks like for 2023.

Gabrielle Rabinovitch

The work that we've done to mitigate cost increase on the TE [transaction expense] side is really in our core. Taking a step back, what drives transaction expense rate is the volume mix in our business. Card fund transactions are higher-cost transactions for us, so they inflate our TE rate [as a percentage of TPV] and ACH-funded and stored balance-funded transactions on our platform release pressure on our overall TE rate. Through the pandemic there was a meaningful shift in terms of funding and funding mix. Everyone saw it as sort of a move away from credit given all the stimulus in the environment. We were a strong beneficiary of that funding mix benefit. We also saw Braintree, which is our most card-funded piece of our business, volumes come under pressure during the pandemic. Through the pandemic, our TE rate [as a percentage of TPV] came down very meaningfully.

Starting in Q2 of last year, we started to see real normalization in Braintree growth and so that has come back. And then, funding mix between credit and debit has also shifted back to a more normalized rate. Between those two dynamics, both the volume mix coming from Braintree as well as the funding mix, that has brought our TE rate back up. In the third quarter you saw our TE rate come in around 89 basis points as a rate of TPV. We've said in Q4 we'd expect that to inflate a bit and typically there's some seasonality around our funding mix. In Q4, [during the] holiday selling season, we do see more credit funding come into our mix. So we'd expect to see Q4 [TE rate] come up a little bit from Q3. We'd expect to actualize [transaction expense] for the year around 90 basis points as a rate of TPV. When we think about next year, I'd expect a little bit of inflation from there. So maybe a [basis] point of inflation from this year.

Again, this is volume mix driven. The work we're doing with the FIs and the networks on cost containment certainly helps with our core, but to the extent that we're seeing e-commerce overall under pressure, that affects how we think about our core growth, The benefit from that TE rate will come through but the volume mix shift will have an effect. I'd expect TE as a rate of TPV to go up a little bit next year from where it is this year, maybe a [basis] point. But we're very pleased with what we can do with our scale and how that can benefit us over the longer term in terms of how we think about our TE rate.

In addition, Venmo and Pay with Venmo it's very predominantly non-credit card funded. That mix of business today is very heavily weighted towards debit, ACH, and stored balance. To the extent that business continues to grow, that also will help support some cost containment on TE rate. So we'll just have to see how things go over time. But there are elements that push it up and then there are things we do to try to mitigate it and keep it contained.

Jason Kupferberg

Right. It sounds like you'll still be a bit below where you were pre-pandemic.

Gabrielle Rabinovitch

That was on a much smaller base, and so now we're much larger. It's amazing to me to think when we separated from eBay, our overall global TPV was ~$288 billion. Trailing 12-month volume on Venmo was ~$240 billion as of last quarter. We think about the scale of the business. We love to see Braintree grow and when it grows, it does have an overall impact on just the overall funding mix and the TE rate and so we'll manage it as best we can.

Jason Kupferberg

Let me ask you a follow-up on Braintree. You had a bunch of wins. Like you said, Live Nation seems pretty interesting. Talk about the pipeline for 2023 for Braintree. And then maybe a little more color on you've mentioned that a few Braintree go-lives are moving from Q4 to Q1. Do you have good visibility on that, was that just merchants not wanting to mess with the holiday season?

Gabrielle Rabinovitch

Braintree has been a very strong grower for us over time. We think we're very well positioned in the market. We believe our authorization rates are best in class, our loss rates are best in class. We offer multiple currencies, multiple APMs [alternative payment methods]. We also think our payout capabilities are very strong. That came in initially through the Hyperwallet acquisition in 2018, but something that we scaled very nicely and truly integrated into that Braintree experience and so we've been doing [that] well.

We've talked a lot about Live Nation externally, we featured them in our investor update last quarter when we reported earnings. What we're doing with Live Nation we think will really help us advance, not just on the Braintree side but also on the branded checkout side as well. Something that's unique about us relative to how we compete with other players in the space is that we have this very large consumer platform and so we touch both sides. We touch the consumer side as well as the merchant side, and we put those together to really provide a holistic approach to how we serve our merchants. And so with Live Nation, it's not just about the processing capabilities - it's also about some of the marketing initiatives that we're working with them on so that they can really address the consumers that are core PayPal consumers and help them drive their business forward. We've seen good success with those initiatives.

We haven't talked a lot about the individual merchants for Braintree in terms of naming names on our pipeline, but we have a good pipeline for next year. Dan did mention [at our Q3 earnings] that we did have some merchants who we have executed contracts with, we had expected them to do the integration in Q4 and we'd start to benefit from those volumes in 2022. As it turns out, those integrations have been delayed. I don't have an update on that right now. My expectation is at some point, probably in the first half, we'll start to see those volumes come on. I think some of this is just merchants have a lot that they're trying to get through during the holiday period, so changing payment processing providers potentially moves further down the list in terms of their overall core holiday initiatives.

A lot of them also do some moratoriums, where if they get to just a certain day in the year they actually are not doing changes to their stack at that point in time. Some of this was timing. But again these are signed, executed agreements that are ready to go. I'd expect first half and if they come earlier, we'll certainly give you an update. But Braintree is doing very well. We are really pleased with the performance this year and it continues to support our business.

I would also say PayPal Commerce Platform, [which offers] Braintree-like services. It's the unbranded side of the business for the longer tail, for a lot of marketplaces. That too is really coming through, just like Braintree, not just in the US but also globally. Braintree is seeing some growth in South America, it's seeing growth in Europe.

Similarly, PayPal Commerce Platform we had mentioned the quarter before last [Q2'22], Shopify France was moving over to PayPal Commerce Platform. That was business that we took from a competitor. We continue to be really pleased with what we can do on the PayPal Commerce Platform, which is very complementary to Braintree. Some merchants because of their size and scale, it makes sense for them to be on the Braintree integration and be Braintree customers. [For] others, it makes sense for them to benefit from being on PayPal Commerce Platform, which marries the best of what the old PayPal Pro processing was doing. PayPal Pro was the processor for eBay with some of the Braintree functionality and capabilities around things like pay out and loss rates and APMs.

Jason Kupferberg

Do you want to finish up with just a couple of comments around the Apple partnership? Obviously, they are [a] competitor, but they are a partner there.

Gabrielle Rabinovitch

We're delighted to be moving forward with an agreement with Apple. I think there's still more work to do. We don't get access to the NFC chip through these developments, so that continues to [be] something that we think is important. That said, we think how we're moving forward is very exciting and we're really happy to be able to be moving forward in this way. And you're right. They're a competitor, but they're also a partner. We've been part of iTunes and the App Store for a very long time. That said, our cards have not been able to be provisioned into the Apple Pay wallet, so part of this [expanded] relationship is that piece.

As a starting point, the first piece of the relationship is tap-to-pay access for our Venmo merchants and our PayPal merchants. We're starting with Venmo merchants in the US, [and] we'd expect over time that this will become global. Essentially, Venmo SMBs that right now have business profiles and are selling using Venmo as the back end, [with tap-to-pay they] will be able to use their Apple devices, for point of sale. We think this is really an exciting way to move into more of the omni-channel space. It's complementary to what we do with Zettle, but we think tap-to-pay and casual sellers, small sellers using their devices [as a POS] is a very important piece to penetrate offline. Then we'll move to PayPal businesses in the US and then our expectation is that we would be able to extend that globally. That's the first step.

The second step is we will be making Apple Pay available as a funding instrument for part of our long tail of merchants. Today on Braintree, Apple Pay is available. Apple Pay launched in 2014 and since the day Apple Pay launched, Braintree offered that as a way to pay for merchants that use Braintree for processing. Now this is something that we're going to [enable] for part of our long tail of SMBs so that they too can offer Apple Pay as a way to pay.

And then the third leg of this, as I mentioned, is the card provisioning piece. We're delighted that we'll be able to have our cards [in the U.S.] provisioned in the [Apple Pay] wallet. That's something that has not been an option for us. As we think about offline driving ubiquity, driving habituation, our customers, being able to use our cards in all different contexts is critical. The fact that our [co-Branded] Visa and Mastercards were not available for provisioning into the Apple Pay wallet is something that we viewed as a competitive disadvantage and we're happy to have some access. But clearly more to do on that front.

Jason Kupferberg

Well, we'll stay tuned and really appreciate all your time, your thoughts, your insights. Thank you for taking the time with us today. Appreciate everyone joining and have a great weekend.

Gabrielle Rabinovitch

You bet. If there's anything that would help from some clarification, don't hesitate to reach out. If I don't speak with you. Have a great holiday season.

Jason Kupferberg

Thanks. You, too. Take care, guys.