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PRESENTATION

Operator

Good afternoon and welcome to PayPal's Q1 2021 Analyst Follow-up Q&A Call.

I would now like to turn the conference over to Mr. John Rainey. Sir, you may begin.

John Rainey

Thank you very much. Good evening everyone. We're looking forward to being able to address your questions. As usual, I am accompanied by Gabrielle, Head of IR and Corporate Finance, as well as Erica Gessert, our Senior Vice President of Finance.

With that, I'll just turn it back over to you, Operator, for the first question.

Operator

Thank you, sir.

For our first question we have Jason Kupferberg from Bank of America. Your line is open.

Jason Kupferberg

Okay, thanks. Good afternoon. Hi John, how's it going?

John Rainey

Hey Jason, it's going well. Thank you.

Jason Kupferberg

Good, good. Just a couple of quick things. First I wanted to just pick up on the commentary regarding transaction expense. I think coming out of last quarter the thought process was maybe we'd land around mid 80s [basis points] or so for the full year, but obviously you're starting the year right at 80, so is low 80s or low to mid 80s kind of a more realistic assumption based on how you see the business unfolding?

John Rainey

A lot of that is going to be influenced by travel and events, so that tends to be a little bit more card processing, which is going to carry a little bit higher transaction expense. As we see a resumption there, that's going to put some inflation in that number.

As a comparison, the decline in that vertical year-over-year in the first quarter was 24%, and that's an improvement from roughly two times that , a 50% decline that we were seeing last year [in 2020]. As that

resumes there will be some inflation there, but again, we're also on the other side of that seeing benefits from more bill payment volume which has a very low transaction expense, and just the overall sort of shift to debit mix.

To be very clear there, if I could use this opportunity, Jason, when I on the main call talked about the 82% funding mix, I was referring to Buy Now, Pay Later, not the entirety of our platform.

But as we think about how that unfolds for the year, look, I think 80 to 85 bps is probably a good range to think about. Again, with some of that being unpredictable based upon how volumes are shifting.

Erica, is there anything that you would add to that?

Erica Gessert

No, I think you covered it. I did say the things that are kind of counterbalancing are kind of the regrowth of travel and then the one thing that continues to surprise us is the persistence of debit usage in the core, which you covered on the call.

John Rainey

Yes, okay.

Jason Kupferberg

Just a follow-up, I'm curious just in the context of your second quarter revenue guidance, do you assume some softening in year-over-year growth in May and June versus April? Just based on how the year-over-year comps kind of lay out. Have you built that into the assumption for the full quarter?

Erica Gessert

This is Erica. I think like many organizations, what we observed last year was the biggest height in growth within Q2 was really in the kind of early May timeframe; call it last week of April and then early May where we were seeing huge surges in digital spend, kind of pantry packing. At the same time, we started to see early stimulus come out. And so we do expect to see a little bit of normalization as we hit the back half of Q2.

Jason Kupferberg

Yes, okay. No, it makes sense. I just was curious if you kind of built that into the forecast. It sounds like you did. Thank you, guys.

John Rainey

Yes.

Erica Gessert

Yes.

John Rainey

Thanks, Jason.

Operator

Our next question comes from the line of Ashwin Shirvaikar from Citi. Your line is open.

Ashwin Shirvaikar

Hey John, how are you?

John Rainey

Hey Ashwin, hope you're doing well.

Ashwin Shirvaikar

Yes, thank you. Thanks for asking.

I guess my first question was, very impressive cash flow performance in 1Q, and it continues at a pretty high level, but in terms of conversion tails off just a bit. Were there any one-time factors in 1Q?

John Rainey

You know, Ashwin, nothing that really jumps out to me. I can go back and look at that a little more closely, but as we think about our business, there were no sort of one-time items that I think affected that.

We do have a little bit of seasonality with our cash flows, but even that shouldn't really drive any outsized performance there. So, nothing that I can think of right now.

Ashwin Shirvaikar

Got it, okay.

Then in terms of just to clarify so we have the numbers straight on eBay trailing off, is it sort of ratable to 2Q, 3Q and then we are down to basically the competitor portion, or how should one think of that?

John Rainey

It is fairly linear as we move throughout the balance of the year. Effectively, our assumption right now is that by the end of the year they will have virtually all of their geographies, maybe save for one, that have transitioned to managed payments. We likely will exit the year at a place where we're not going to be talking about any additional transition to managed payments.

Now, obviously we'll have the lapping of some of this next year, but we think that they'll effectively be done by the end of the year.

Erica Gessert

Hey John, can I just add a couple of points on this, which is I think the other thing—the numbers on the call that we quoted, the kind of 6 percentage point headwind to growth rate, that's really the intermediation impact. We also obviously are lapping outsized growth of eBay's core business in Q2 in particular, which also is quite a large headwind, and so there's also that kind of factor right now in Q2 and actually even as we persist through the year that also has a little bit of a headwind on our growth rate.

Ashwin Shirvaikar

The additional 2 percentage point headwind includes what you just mentioned, right?

John Rainey

It does not, no.

Erica Gessert

No, it does not.

John Rainey

What we called out on the call was just the intermediation piece.

Ashwin Shirvaikar

Okay, I understand now. Thank you.

John Rainey

Yes.

Operator

Our next question comes from the line of Timothy Chiodo from Credit Suisse. Your line is open.

Timothy Chiodo

Thanks a lot. One a little bit more mechanical and then one modeling one.

On Pay with Venmo, realize the button is already out there, it's live. You have revenue from it, and it's in lots of major apps. But as the button rollout starts to progress in the back half of the year, how can we think about the approach there? It might be different for large merchants and platforms. How might it be different for small businesses? How are you rolling that out in terms of advertising or salesforce for the

large platforms? Anything around the mechanics or the approach of how it starts to happen and how we will start to see it.

John Rainey

Tim, good to speak with you.

We have a different go-to-market approach for SMB versus large enterprises. We're approaching this in sort of a different fashion for each of those like we would with any normal product rollout.

With Pay with Venmo, as you think about the SMB segment there's really so much more that we're offering that group right now when you consider business profiles or even QR code, and so it's a little bit more of a kind of a suite of products that we're throwing out there. With large enterprise, we're obviously focused on placement. That's very important to us. There's a concerted sales effort with each of them.

I think one of the things I want to emphasize here though is that one of the things that we're really focused on is the experience with Pay with Venmo and not just putting it out there but appreciably improving it from what it was. You'll see that in a couple of different forms as it's rolled out, but I think that's going to be one of the key drivers here as we roll that out.

Gabrielle, Erica, anything that you'd add to that?

Okay, all right.

Thanks, Tim.

Timothy Chiodo

All right, great.

That one quick modeling follow-up just because I'm sure—and I apologize if we missed it, but did you happen to give the revenue contribution from crypto trading in Q1? Not from the transactions but the trading fees and spread?

John Rainey

No, we didn't. Suffice to say that if we look at the entirety of 2021 given the size business that we are, in terms of total revenue, crypto is not going to be a material driver of our results. Not to suggest that we aren't very excited about it and the opportunity that presents going forward, but it is particularly, because of the way that we account for that, it's not going to be material to our results.

Timothy Chiodo

Great. Okay, thank you for both of those. I really appreciate it.

John Rainey

You bet, Tim. Good to speak with you.

Operator

Our next question comes from the line of James Faucette from Morgan Stanley. Your line is open.

James Faucette

Thank you very much. Thanks for all the color, you guys.

Just quickly, I think the comment was made by Dan during the call that the strength in activity that you're seeing right now you feel like goes beyond just what may be driven by stimulus, etc. Can you give some more detail there to like things that you're seeing that make you feel comfortable that it's not just the uplift in spending, or just uplift isn't driven just by stimulus? Especially if you are seeing increased debit activity, etc.

John Rainey

Sure, James. It's good to speak with you.

I want to answer this question in kind of two categories. One is what's happening from a macro perspective, and two is what we're doing internally. Before I even get there, look, it's worth acknowledging that just as there was unpredictability when we entered the pandemic in terms of what would happen, there's similar unpredictability in terms of the exit of that, right? What happens with a resumption of normal behavior from consumers?

This is not a crystal ball type forecast, here. We're needing to make some assumptions about trends here, but when we look at that first point, the macro, we certainly see that these trends in consumer behavior are persisting and enduring, and it's why I mentioned on the call that our food and grocery vertical has still grown over 100% year-over-year, and in many markets where people are able to get out and go to restaurants and return to grocery stores in a more normal fashion, and that to me supports a lot of the comments that you've heard from like the CEO of Kroger and others where they've said about their own business that they expect these trends around buying groceries online to persist. We're continuing to see examples of that. Also supported by what consumers are saying around preferences to be able to shop at merchants that also have an online presence.

As we look at that and how that's playing out from a secular trend perspective, that gives us confidence in how we're thinking about not only 2021 but what that bodes for the next five years.

The second piece to this is really what we're driving internally with some of the experiences that we have launched, and I won't go into great detail but whether it's crypto or Buy Now, Pay Later or QR codes or all of the other things that we're rolling out, we're seeing increased levels of engagement and a stickiness to some of these experiences that really I think benefits our business, and again, is very consistent with what we talked about at Investor Day.

So, I think the net of all of that gives us the confidence to be talking about the outlook in the manner in which we did today that is, I think, quite optimistic.

James Faucette

Got it. That makes sense.

Erica Gessert

James, I'll just add a couple of points here. On the question of whether we conflate stimulus lift with kind of ongoing persistent life, we see very clear uplift when stimulus checks come out, so it's actually very clear in our results. We can see the uplift and we can see people -- the money hitting household balance sheets and uplift.

If you look at last year, for example, it took a while for the government to get the checks out and we saw sort of a longer uplift. This year, the checks came out all at once; we saw it kind of consolidated in kind of late March, early April. But what we see afterwards is ongoing kind of uplift in these verticals across the portfolio. As John said, even in places like Australia and the UK where things are opening up.

John Rainey

The other thing to add too is, it's obvious the consumer is relatively strong right now. With record amounts of stimulus injected into the economy, certainly there are verticals that are hit harder than others and so it's tough to generalize there, but I think it's -- when we look at the macro backdrop right now, save for the inflation concerns or things like that, I think that we're on a multi-quarter, if not multi-year period, where we should see some strength in personal consumption.

James Faucette

Got it. That's really helpful.

Then just quickly as a follow-up or dovetail to that, it sounds like then if I understand what you're saying, is that yeah, you're making some allowances for things like travel and some of that spending mix to impact your transaction costs, but it also feels like there are a lot of these other behaviors, whether it be spending at grocery or other things that are making you feel like they're going to be more durable and keep that transaction cost lower, even beyond the end of this year. Is that a fair characterization? Or what things should we be aware of when we're looking at that element?

John Rainey

It's 100% fair characterization. That's exactly how we're thinking about it, James.

James Faucette

Okay, thank you.

John Rainey

The odd thing here is that one could argue that the next three months is probably more difficult than forecasting the next three years because of when people start to get vaccines and to the extent that they start traveling again and things, and returning to offices, whatever. But the underlying trends in the business we believe are very durable and are only sort of resulting in a step-change of what was more

linear growth around digital payments and ecommerce before that. So, we're quite excited about what this means for us long term.

James Faucette

That's great. Thank you very much, guys.

Operator

Our next question comes from the line of Harshita Rawat from Bernstein. Your line is open.

Harshita Rawat

Hi John. Good afternoon. Can you benchmark your 46% constant currency TPV growth rate versus the overall ecomm growth rate that you're seeing in the market? Where are the areas where you are gaining share in ecomm?

Then within that, what are you intrinsically competing against? Is it digital wallet? . Thank you.

John Rainey

Sure, Harshita. It's good to speak with you and I'm sure as you all recognize it's sometimes difficult to get a really solid comp on ecommerce growth because there are many that play in that space, but we attempt to do it internally. Erica may have more precise numbers than me, but when we look at our rate of TPV growth relative to the overall rate of ecommerce growth, we are continuing to gain share. Erica, you can jump in if you know any—have any sort of precision to the numbers, but this has been consistent on a multi-year basis, and then I think even more pronounced in the last 12 months.

As we sort of look forward and we think about adding capabilities around the digital wallet, our belief is that there's going to be a gravitation towards digital wallets. You've seen that in other geographies around the world. You're beginning to see it now. Mastercard put out a survey this week I believe, or at least the results came out this week, where it said that 71% of consumers expect to use less cash going forward, and 9 out of 10 customers, 9 out of 10 consumers are open to emerging forms of payment, and these are things that I think are just, again, sort of inure to our benefit in the business that we're in, and one of the reasons that we continue to gain share.

Gabrielle Rabinovitch

Yes, Harshita, I'd also point to the Merchant Services growth, which has been exceptionally strong. The sort of 46% FX-neutral growth in Q1 on top of more than 20% last year. So, when you back out that sort of eBay component and we look at whether we're taking share, I think the work that we do internally would suggest we are and that we continue to do so.

We've looked at it both on sort of a stacked comp basis or a two-year CAGR basis, but any way you look at it I think we are faring very well relative to the competitive set.

Harshita Rawat

Great. Just an unrelated follow up, John.

On take rates, the 11% year-over-year decline, I know there's P2P, there's eBay, there's Braintree, Bill Pay within that. Any color on like the like-for-like, the same-store sales take rates trends there would be very helpful. Thank you.

John Rainey

Sure. Depending upon whether you're talking about transaction take rate or total take rate, about 15 basis points of those declines are related to what I would refer to as kind of a mix shift in the business, and of that mix shift the single biggest piece is eBay. We saw more pronounced impact from eBay rolling off of our business, which should come as no surprise to anyone in this quarter. I'd say it's sort of the second biggest area that jumps out there is the change in our hedge position year-over-year, having a loss this quarter versus a gain a year ago, over $100 million, $101 million, and you can do the math, 4 or 5 basis points on that take rate decline.

Getting to the crux of your question, when you think of this on a same-store sales basis, it's the same answer as it has been for several years now; we're not seeing any degradation there. The things that are impacting our take rate are things like having more bill payment volume with Paymentus, or having the extreme growth that we've seen with P2P and Venmo. P2P volumes grew 50% in the quarter, and again, you can look at that narrowly and say that negatively impacts take rate, but at the same point in time, that's displacing cash and that's exactly what we want because we know that would benefit our business longer term.

Harshita Rawat

Fantastic. Thank you.

Erica Gessert

I would just add even, John, that—this is Erica again—that merchant demand is growing in fact, right? Right now and even in the past 12 months, and you can see it through the number of merchant net adds that we're bringing into the network. But with that kind of growth in demand, we don't see challenges from a same-store sales or pricing headwind at all.

John Rainey

Yes.

Harshita Rawat

Thanks.

Operator

Our next question comes from the line of Tim Willi from Wells Fargo. Your line is open.

Tim Willi

Thank you and good afternoon John and everybody.

John Rainey

Hey, Tim.

Tim Willi

Two questions. First, on Honey, and I know there's still some year-over-year noise, I guess maybe a little bit, but if there's any way you could just sort of talk about volume or engagement that you would really attribute to bringing Honey into the ecosystem. If you think about somebody you've had for a while and how do they act after Honey was brought in, just any way to sort of dimensionalize how this has benefited the TPV as part of the bigger ecosystem and the engagement versus just being a standalone addition to the franchise.

John Rainey

I'll start and Erica or Gabrielle may want to jump in.

It's a good question, Tim. It's probably a little bit early to start extrapolating trends that we're seeing, but we certainly—the Honey user, to the extent that they were using PayPal, tends to be a more engaged user. They're someone that obviously is very fixated on online commerce and so we certainly think as we build out some of these experiences, which we're quite excited about, particularly like right now we're launching some of the Honey experiences in the mobile wallet, which Honey was predominantly or virtually entirely desktop prior to our acquisition of them, and as we begin to start providing access to coupons and droplists and things like that through a mobile shopping experience, that's where we really expect to see this flywheel of engagement. And because those experiences we're so early on and that right now, it's probably a little early to extrapolate any trends.

Gabrielle or Erica, anything that you add to that?

Gabrielle Rabinovitch

I think we saw very good user growth on the Honey platform side last year and that continued through Q1. The testing that we're doing in terms of the integrated wallet, the features that John mentioned as well as integrated rewards program show a very strong attachment and engagement relative to the base of our business. It's still quite small so it's sort of hard to tease out, especially when you control for the overall change we're seeing in the way people are engaging. But I think we feel very strongly that the value proposition is quite strong and that the continued integration of their experiences into our shopping and commerce experiences are truly incremental to the business.

John Rainey

Maybe to more succinctly summarize what I was trying to say, Tim, is I don't think we have built out experiences yet in the manner that we have the vision of to where you really see that flywheel effect. It's probably too early on at this point, but certainly really pleased with the progress that the team is making and some of the latest product additions that they're working on that I alluded to, I think we'll begin to see some of this a lot more pronounced.

Tim Willi

Great. I'll hop off and let somebody else get a shot. Thanks very much. Have a great evening.

John Rainey

You bet. You too.

Operator

Our next question comes from the line of Craig Maurer from Autonomous Research. Your line is open.

Craig Maurer

Hey John, hey everybody. Thanks.

Wanted to ask about Buy Now, Pay Later and just your vision for the product, right? PayPal's pricing is obviously highly compelling and because you retain the transaction economics it's still quite profitable for you. I was hoping you could talk about how you see the future of that product in terms of transaction size. Right now we see a market for much larger purchases being filled by other players, whether that's a Peloton bike or whatever, and whether your economic model in Buy Now, Pay Later is extendable to transactions that size.

John Rainey

Sure, I'll start and I think Gabrielle wants to chime in with a few comments.

One of the great things about Buy Now, Pay Later for us is because so many of the users of that product are existing PayPal customers, the risk metrics around that are so strong for us, meaning that we've got a history with a Craig Maurer. We know what his shopping patterns are, what his risk profile is and so underwriting becomes very easy. This first couple of quarters here really sort of just kind of wading into the pool and learning from these experiences, learning how customers use them. I think your point is a really good one, as we get more experience with this and we do more underwriting of customers that we're seeing for the first time and get comfortable with the risk appetite there, it allows us to kind of move up into a higher AOV [average order value] where we're not necessarily participating today. That is much more competitive with some of these others that may be buying fitness equipment or other things.

But I think this is kind of a first or second step for us and that's where we would move over time.

Gabrielle, anything you want to add? Or Erica?

Gabrielle Rabinovitch

I guess I would add to the extent that we move into higher average order size types of transactions, I think some of the characteristics of the product change too. Right now, the products themselves are quite short-term in terms of duration. The U.K. product is three months, the U.S. product is six weeks and we cap it at $600, so for our customers we feel like that's the right sort of value equation for payment over that short duration. To the extent that we introduce products with higher average order sizes, it would likely

be more extensive and they would likely have more traditional credit economics associated with them versus the no interest.

Craig Maurer

Okay, that's helpful.

Just one follow-up, separate topic. Could you talk about the partnership with MercadoLibre and how that's going? They just reported a huge quarter of GMV growth, so was curious if you had any commentary on that.

John Rainey

Yes. MercadoLibre is an important partner for us, I think it is just as important as the region of the world in which we operate with them. We have launched some experiences where customers in Brazil and Mexico can use PayPal to shop in their marketplace. It's not, I would say, any significant volume that is worth sort of calling out distinctly relative to the overall $280-plus billion of TPV that we had for the quarter, but I think very importantly when we look across the globe and we think about our strategies in each of the various regions, be it an Asia or like a Latin America—even I would distinguish Latin America like Brazil and Mexico somewhat differently—partnerships are a big part of that success. You know this, Craig. The markets—our core markets today are markets where eBay was really strong.

So, whether it's MercadoLibre or other players in Brazil, by virtue of us being an open digital payments platform, we very much look to partner down there where there's arguably more opportunity in digital payments than in some of the more established markets, like a China is an obvious example.

We certainly look forward to building on the partnership with them and expanding it with others.

Craig Maurer

Thanks, guys.

Operator

Our next question comes from the line of George Mihalos from Cowen. Your line is open.

George Mihalos

Thanks for taking my question, guys, and congrats on another very strong quarter.

John Rainey

Thanks, George.

George Mihalos

John, wanted to start off, the average transaction size, that's been coming up now for several quarters, but it was particularly strong this quarter; I think by my math it was up almost 4% sequentially. We usually

don't see that kind of an increase fourth quarter to first quarter. Just curious, what exactly is driving that? I know you've got Bill Pay and Paymentus, but that was sort of there last quarter as well. Is there anything else we need to be thinking about?

Jonathan Rainey

It's an insightful observation on your part because the increase was much more pronounced this quarter than what we've seen in prior quarters. I would say two things, and I'll say it probably in order of magnitude.

One is less eBay volume, and so far—actually, there's probably three things as I think about it, George. But eBay tends to have a lot of small transaction sizes and so as we have less volume coming from them, you're seeing the effect of that.

Second item is Bill Pay. Those tend to be higher average transaction sizes and as we continue to ramp some of our bill payment experiences, you're seeing the effect of that.

The last thing is actually Venmo. Venmo has a higher average transaction size than PayPal in total and as we continue to see growth there that has influenced those numbers.

I would say the combination of all three of those things kind of coming together resulted in us getting to, I think the number was $65. I don't have it in front of me, which was double-digit growth for the quarter year-over-year, which is somewhat notable considering that for the last 36 quarters that basically hasn't really moved more than a dollar or two here or there.

George Mihalos

Yeah, I know. That really stood out. I thought that was pretty remarkable.

Just as a quick follow-up, I know you guys talked about sort of the 6-point headwind from eBay [to total revenue] for the year, but what was that in the first quarter? I don't recall if you guys had called that out from a revenue perspective.

John Rainey

What was the headwind from eBay in the first quarter?

George Mihalos

Yes, just from that—from the migration. Is it pretty linear?

John Rainey

It was 200 basis points. Is that correct, Erica?

Erica Gessert

Sorry, I'm just taking a look here. The headwind from eBay intermediation? No, in Q1 it's about [4.5] points, actually. [Clarification: the ~4.5 points represents additional incremental headwinds from eBay's management payment transition in Q1'21 with respect to expected total revenue growth for FY-21.]

George Mihalos

Okay, great. Thanks guys, and congrats again on a remarkable quarter.

John Rainey

Thanks, George.

Operator

Our next question comes from the line of Josh Beck from KeyBanc. Your line is open.

Josh Beck

Thanks, John and team, for doing this call as usual.

John Rainey

Hey Josh.

Josh Beck

John, I wanted to ask about the next gen wallet launch in 3Q. I'm curious, do you have to spend differently maybe to advertise these new features so that consumers understand they're going to be able to do a lot more in the app, or is this something maybe you just handle through education and guidance as they open the app? Should we be looking for externally an engagement boost at that time? Just curious on how you're approaching that.

John Rainey

Sure. The digital wallet, in terms of the marketing around that, I think is slightly different than what one might think of with the QR code, where clearly with QR code there's a lot of go-to-market spend to raise awareness about the ability to use this in new avenues where you can't today.

With a digital wallet, those experiences I don't think are going to require that same level of investment spend around go-to-market. Some of these will—many of these are just, it won't necessarily be like one big splash when we unveil this all at the same time. Some of these experiences will be metered out over the coming months and quarters and will be additional functionality that is right there front and center for you to use it, and so as you go to the wallet you'll be able to see some of these.

It's still entirely likely that we will have some marketing awareness spend around this but I wouldn't think of this in the same category as like a QR code.

Josh Beck

Okay. That makes sense. Maybe I'll follow-up with a QR code question.

Like you said, certainly more education and it seems like it feels externally, at least, from my point of view, like more of a hockey stick; you have to really grow the merchant base before you start to see really strong adoption. Maybe just help us think through that adoption curve and what timeframe we should be thinking about with QR code adoption.

John Rainey

Well, that's actually probably a pretty good way to characterize it. As we look at QR code right now, it's in the most recent months a relatively small part of our overall volume, and the reason is exactly what you said. You've got to build both sides of that network, and we don't have that today. Not physically, not in-store. I think it's the same reason why it's difficult for others to compete with someone like a PayPal online where we have that two-sided network at scale globally.

We are effectively organically doing that and I think we're in a position where we can be successful because we have the merchant base and we do have the consumer base, but it's habituated into new use cases and new experiences.

I do think we've got to work hard to get a lot of large merchants everyday use case items to where that's something that you think about when you go to a Nike store or a Lululemon or CDS or what have you, and then I believe you begin to see a bit of a network effect or hockey stick effect like you described.

This is—as we've consistently said, this is going to be a long slog. This is not something where I think we can judge success in the next quarter or maybe even year or two.

Josh Beck

Really helpful. Thanks, John.

Operator

Our next question comes from the line of Bob Napoli from William Blair. Your line is open.

Bob Napoli

Great. Thank you. Thank you very much for taking my question.

John Rainey

Hey Bob.

Bob Napoli

Just internationally, you had nice acceleration in growth. It's become a bigger piece of the business. I was just looking for maybe a little more color on your thoughts about the growth of the business internationally.

Then just on India, I think your strategy has changed there, maybe materially. Just any thoughts you would have on India, on that market and maybe what you've learned from competing there.

John Rainey

Sure. I'd like to make three points on this question, Bob.

The first is internationally in our quarterly results that we just announced you saw the really good strength there. Some of that is related to certain countries in Europe that are probably feeling more of an effect from lockdowns than what we see in the U.S. So, U.K. is an example where a lot of strength there that is very related to what those people are going through over there.

The second point on India, India is a huge market, one where we've had a cross-border presence for years and we launched a domestic effort there in a very competitive space where the unit economics actually aren't quite that attractive. As we look at, as we sort of canvas the globe and look at our opportunities to be successful, we really want to play to win versus just be sort of a play to participate type of venture. India is really not a market where we felt like we could win in the same magnitude that other markets that we're focused on. So, we've reprioritized to focus on some markets that we talked about at Investor Day that we think really our strengths are much more relevant for what's needed in those markets.

That's effectively the third point that I was going to make is as we look at the real opportunities around the globe, like a Japan, a Brazil, a Mexico, there are some markets in southeast Asia where I think that what we bring to bear in those markets really addresses the opportunity there much better than what is already a very crowded market with low unit economics in India.

Bob Napoli

Thank you. Then just a follow-up. AliExpress, Alibaba partnerships, can you give any color on what you expect out of those over the medium to long term?

John Rainey

Yes. I'm kind of surprised that this is the first question we've been asked about that because this was not something we could have done under our operating agreement with eBay. We talked about other marketplaces and we've been kind of dangling that out there for a while, but Alibaba is a perfect example in terms of what we're doing with them that we couldn't have done before. Look, it's very early on but you can't help but be excited about what is, if not the largest marketplace in the world, one of the largest marketplaces in the world, and gaining access to that Chinese marketplace.

But it also—this plays or dovetails into our payments license there. Still today we are the only foreign company that has a domestic payments license there. We're investing heavily around that to bring those experiences to bear later this year and next year, but all of this is I think important facts as we think about where we're making our footprint around the globe and China is going to be one of those markets.

Bob Napoli

Thanks. Were you prohibited—just to be clear—from those types of relationships under the prior eBay agreement?

John Rainey

The nature, the specific nature of the agreement that we struck with Alibaba, which I can't provide details on that, but the specific agreement that we have with Alibaba, we were prohibited from doing under the operating agreement with eBay.

Bob Napoli

Great. Thank you, John. Thanks.

John Rainey

Mm-hmm.

Operator

Our last question comes from the line of Dan Perlin from RBC Capital Markets. Your line is open.

Dan Perlin

Hey John and team, thanks so much for sneaking me in tonight and I hope everyone is well.

John Rainey

You bet, Dan. I'm looking forward to you bringing it home here.

Dan Perlin

Let's swing for it, but I do have a smaller question to start with, which is the OVAS line, I'm just looking for some guidance as we think about the cadence for the year. It kind of almost has this opposite kind of approach to what the net transaction revenue line is going to look like on a quarterly cadence basis. It looked like it could very much influence us getting to that 20% or better net revenue growth, so…

John Rainey

Yes. That's a line where—a couple of things happening there. First of all, Honey is in that line and of course we've been—for the last four quarters, we've been lapping a period where Honey was not in there. We're going to start having apples-to-apples growth comparisons there with Honey, so that's going to increase the rate of growth there. [Clarifying statement: In 2020, OVAS benefitted from the addition of revenue from Honey, an acquisition that closed in early January 2020. In 2021, we begin lapping the inclusion of Honey in our revenue base.]

Then the other thing is the resurgence of credit. Credit, we're seeing improving trends there and when you look at delinquency rates or charge-off rates, everything is certainly trending in the right direction and we've really tightened originations last year, as I talked about in my prepared remarks on the call

where you can just look at our receivables balance. We are turning on the spigot a little bit more there right now. I mean I don't want to lead you to think we're getting carried away, I mean we're going to be very metered in our approach, but I think those two things combined will begin to see a higher level of growth versus the low single digits that you saw in this most recent print.

Dan Perlin

Okay.

Gabrielle Rabinovitch

I also think we're beginning to lap the lower interest rate environment, and so to the extent that this started last year and had a really disproportionate impact on the kind of OVAS growth trajectory, the stored balances have grown nicely but they're much more rate impacted and so I think kind of lapping some of that also benefits the growth rate.

Erica?

Erica Gessert

I was just going to add one other point which is in Q2 we're also lapping when we gave quite a significant kind of swath of payment holidays to our base last year, and that was right when everything was hitting and we wanted to make sure that our—especially on the merchant side, on the small business side, that our merchant lending portfolio was supported and so we gave a large swath of payment holidays; that' really pushed out some of the payments, and so we're lapping that in Q2 in particular, so you'll see a little bit higher growth rate in OVAS in this quarter compared to others.

Dan Perlin

Got it, okay.

John Rainey

Who knew that there was so much pent-up demand to talk about OVAS?

Erica Gessert

A very exciting line.

Dan Perlin

Well I looked at it and I just realized I better ask the question because my OVAS line is kind of all over the place.
Just one bigger picture question in following up on this Buy Now, Pay Later opportunity, which you guys are obviously having some fantastic results. As you move potentially to higher AOV and you maybe push out higher—excuse me, longer duration, John, you worked really hard to move to this asset-light model that you've achieved at this point, and I understand that these things very quickly and so you can course-correct and the underwriting is good, but there probably will be a time when the opportunity is going to

be for you guys to make that a much bigger business, at your discretion. I'm just wondering how are you going to handle that as we start to get some of those questions from investors.

Jonathan Rainey

It's a really good question and we'll think about that as sort of one pillar of our overall credit strategy. The other two, if I can just sort of simplify it, being consumer and merchant, or international consumer and merchant, and both of those lend themselves to externalizing or doing something asset light like much better than the Buy Now, Pay Later. The reason a Synchrony or someone like that is willing to buy that portfolio is because of the relational aspect with the customer and if we're doing short-duration type stuff, installment loans, then you don't have that same type of relationship and that revolving credit that is so appealing to them.

So, if you were to fast-forward a few years or without being too specific on timing and think about the growth in that portfolio, Buy Now, Pay Later is something we would likely keep on our balance sheet and we would in return externalize either the merchant lending portfolio or international consumer.

Dan Perlin

Got it.

Gabrielle Rabinovitch

I think one other thing to add that would also be relative to how we ended 2019, our overall gross receivables balance is lower, and so we had strong repayment activity last year with much lower originations, so we—relative to sort of the size of the book, when you think about when we externalized it prior, we can grow the book pretty nicely and given the also rapid turnover on the sort of shorter duration installment paid stuff, we can take on a little bit more and it's not going to have a meaningful impact on the overall sort of percentage of assets related to credit or percentage of free cash flow that we're allocating towards credit.

John Rainey

Yes, I think we're in just a different spot today with respect to credit than we were in 2015 or 2016 when there were some very legitimate concerns that investors had about what credit represented to our business and question marks about the durability of our earnings through a credit cycle. I feel like we've appropriately addressed a lot of those questions and those same concerns aren't there today. To be very clear, we don't want to become over-levered to credit again, but I think there's probably a little bit more latitude when you think about the size of our business, and the rest of the growth that we've had in our business over that period of time.

Dan Perlin

Yes, completely agree. Thank you all for sneaking me in. I appreciate it. Good to talk to you.

John Rainey

Okay.

Thank you, Dan, and thanks everyone for your questions. I apologize if we weren't able to get to all of them but we will certainly try to accommodate your requests over the coming weeks, and look forward to speaking with many of you on individual calls.

I hope everyone is staying well and healthy, and we'll talk soon. Thank you.

Operator

This concludes today's conference. Thank you again for participating. You may now disconnect.