



**Third Quarter 2021 Buyside Call | November 9, 2021**

## **CORPORATE PARTICIPANTS**

**John Rainey**, *Chief Financial Officer and Executive Vice President, Global Customer Operations*

**Erica Gessert**, *Senior Vice President, Finance and Analytics*

**Gabrielle Rabinovitch**, *Senior Vice President, Corporate Finance & Investor Relations*

## **CONFERENCE CALL HOST**

**Jason Kupferberg**, *BofA Securities*

## **PRESENTATION**

### **Operator**

This call is not for media representatives or BofA securities investment bankers or commercial bankers, including corporate and commercial FX. All such individuals are instructed to disconnect now. A replay will be available for BofA securities investment bankers and commercial bankers, including corporate and commercial FX. The replay is not available to the media. Good day and welcome to the PayPal 3Q21 post earnings buy-side call. Today's call is being recorded. I would now like to turn the call over to Jason Kupferberg. Please go ahead.

### **Jason Kupferberg**

Thanks Lauren. And thanks everyone for joining us for the quarterly buy-side callback. We have John Rainey, CFO. We also have Gabrielle, SVP Corporate Finance and Investor Relations and Erica Gessert, SVP Finance, Planning & Analytics. And thank you guys for taking time. I know there's a lot to discuss today. So maybe I'll just jump in with the first question I wanted to ask.

You know, clearly, eBay has created a fair amount of noise over the past few quarters, but actually ex-eBay, you laid out the numbers pretty clearly. There's momentum there. I think you were up 25% revenue-wise in Q3. So maybe just talk about the underlying trends that have been supporting those numbers and how those trends help inform the medium-term outlook, which obviously you guys reiterated last night.

**John Rainey**

Sure. Jason. Wanted to start by thanking everyone for joining the call and thanking you for hosting this. We look forward to the questions that you all have and being able to address those. You're right. It's one of the reasons that we have focused so much on the ex-eBay results, because I believe that that is the best indicator of what the future of PayPal looks like as we continue to rely less and less on eBay for our financial performance. And there's a slew of different metrics that I could point you to, but a couple that stand out to me that I think are really important as you think about what we're doing over the next few years. And I'll start with our engagement.

Engagement increased 10% for the quarter, but if you exclude the effect of eBay, it's actually almost 20% and that is precisely what we want to see with some of the new experiences that we're rolling out, because that also has a large impact on our active account numbers through reductions in churn. And so very excited about that, but whether you look at TPV that grew over 30% ex-eBay or revenue that was 25%. Even transaction revenue was roughly 23% y/y ex-eBay and shows that the core business is performing very well.

And while the margin performance for the quarter, or maybe said differently the year-over-year earnings growth was, maybe more tepid. I think it's important to note, and I talked about this in my prepared remarks yesterday, we had almost a 30-cent headwind from transaction margin dollars from eBay, and yet we're still showing earnings growth year over year. And so, you know, we look forward to getting past these time periods where we're focusing so much on eBay, but the core business is performing very well, which is why we're focused so much on that.

**Jason Kupferberg**

Okay. Okay. So maybe we can talk about Q4. I know that the revenue guidance was revised down about 6%, and I'm hoping you could maybe break that in terms of contribution to that downward revision among the various factors that you cited on the call, supply chain, stimulus, expiration, reopening. And maybe as part of that, can you just expand on your comment from the call last night that the business seemed to be trending better in recent days? And have you assumed that that trend line of improvement prevails during the balance of Q4?

**John Rainey**

Sure. Happy to address that. I'll start with the revised guidance that we provided yesterday. It's really on top of exactly what we provided for the beginning of the year, slightly less on it from a revenue perspective, but to be coming in that close to a number that we put out in the January timeframe. I think it shows the stability of our business and the core trends. It's difficult, Jason, to at least with any precision to be able to ascribe how much of this is due to supply chain versus stimulus versus reopening.

As we got into at the time of the first quarter where we increased our guidance for the year, we were seeing more pronounced effects from the virus and some of the measures that accompany that with people doing more e-commerce. We have to make some assumptions about the persistence of that, how much that continues. And frankly, we got it wrong. I mean, I've talked about the difficulty in forecasting in this environment, so we got a little ahead of ourselves, but as we look right now, certainly, if it weren't difficult enough to forecast with the reopening of the economy, we overlay eBay on top of

that supply chain issues and inflationary pressures and the impact that that can have on our business. And it makes it very complex to forecast.

As we sit here right now, trends are actually looking pretty good, but we also recognize that for the very reason that I just mentioned some of the concerns around supply chain, there's likely some pull forward of holiday shopping. And so, we don't want to get ahead of ourselves and assume that that happens for the duration of the quarter. We could find ourselves getting to the back half of December and that being softer than what we expect. So that caused us to adopt a more cautious stance on the balance of the quarter. But again, I think if you step back and you think about where we are as a business, it's right on where we started the year, which was importantly the basis for the first year of our medium-term plan. So, we feel really good about that and disappointed that we are where we are with bringing down the fourth quarter, but it doesn't cause us to have any less conviction about the opportunities that we have over the next four or five years and what we can do.

### **Jason Kupferberg**

Okay. Yeah, no, look, it's a good point. I think you're still ending up at 17% overall constant currency revenue growth, but the beginning of the year you thought you'd have a four-point headwind from eBay and now it's seven. So that's clearly a positive. So, I guess maybe we can talk about net new adds. I know the outlook now includes 3 million benefit from the NNAs acquisition [from Paidy]. So, it seems like the Q4 NNAs are coming in a little bit lower than you might have otherwise expected. Can you just talk about the drivers of that dynamic?

### **John Rainey**

Yeah. Well, this answer is going to be similar to my last one in so far as, as we sit here today, and we go back to the beginning and compare to the beginning of the year. Our net new actives are going to do better than what we originally expected on an organic basis. So, I'm excluding Paidy from that. So, we perform very well there. Again, we've seen strong correlation with shelter in place or locked down and net new active trends on the top of the funnel. And so that's driven some of the results over the last year and a half. And so, as we were sitting there in the first quarter with an expectation that some of that would persist longer than it actually has, that caused us to increase our guidance around that new actives.

[Low quality new actives] is not something that we want to chase as a company, and we can certainly go out and spend money on customer acquisition and get very low value net new actives to inflate or pump up that number, but that's not the right economic decision for us longer term. And I've got confidence in where we are longer term around net new actives. We consistently put out aggressive numbers. I think this is one that falls into that category, but historically we've done a pretty good job of achieving that performance. As we look forward over the next several years, more of that growth is going to come through retention of the bottom of the funnel, where we focus a lot on our churn metrics. And as we have experiences that improve engagement, that will certainly help there. And then international expansion is another one that, I think has a real opportunity for us to increase that number over the next few years.

**Jason Kupferberg**

Yeah. So that does bring me to a broader question that I was going to ask on the NNAs, which you may have just partially answered, but, you know, we look at the 2025 target from the analyst day, 750 million plus actives. So straight math, right? You'll need about 80 million per year on average over the next four years versus the 55 million that you're looking do this current year. So, is it just mostly, you know, reduced churn because of better experiences and then the international opportunity or anything else you would add on top of that?

**John Rainey**

I put it into three big categories, and Erica may want to jump in after I answer. It is what you mentioned, it's the reduction of churn. And then the increase in experiences, and those are certainly related. But as the digital wallet becomes more prominent over the next few years and there are more ways to engage with us, that has a direct effect on both the top and the bottom of the funnel. If people are engaged then, they're obviously not churning out, but at the same time, as we give them more ways to use the PayPal or Venmo wallet, it's more enticing for them to come to us in the first place.

And then the last category, and maybe this is sort of a category and a half here, but international expansion, we've talked a lot about some of the markets that are more appealing to us. Japan obviously is very close if not at the top of that list. And you can see that through our acquisition of Paidy. But we've also talked about adding another international market with Venmo. And I think that's a pretty important opportunity that's included in our five-year guide that will help us to get to those numbers. I will say, as you can tell from our [initial] guidance this year versus our medium-term plan, which, you know, those were weeks apart, so very connected. We had always contemplated that this would be--the net new active growth would be more back-end loaded.

**Jason Kupferberg**

Okay. Understood. Understood. I wanted to come back just to the stimulus effects. I mean, some of the broader spending data that we track has shown a definite deceleration in debit growth, particularly among the lower income demographic, given the expiration of the stimulus, but at the same time, there's been improvement in credit volumes among higher income cohorts. So just wondering why perhaps that type of offset doesn't seem to be coming through in PayPal's numbers. Can you maybe touch on some of the verticals that you're seeing impacted the most by the expiration of the stimulus?

**John Rainey**

Well, so I would argue that it is coming through in our numbers a little bit. We are clearly structurally at a much higher debit level than we were pre-COVID and we expect to remain there. There has unquestionably been a pull forward in e-commerce. Stimulus did have an impact, no doubt about it. It was an added benefit in those periods where consumers were able to avail themselves of that, and you see that through P2P metrics. You certainly see it among the lower income demographic as you alluded to. And so, you know, we don't have an expectation that that's going to necessarily continue, but we are structurally much higher than where we were before.

From a vertical perspective, a couple of verticals that stand out to us as still some of our higher performing verticals are obviously food and grocery. It is still up 90% year on year, and then retail. We

continue to see a really strong performance there. I think some of the more kind of work from home verticals that were like home and garden and home improvement. We've seen some declines in those. I guess there's only so many times that one can refurbish the bathroom or add a garden or whatever, and so that's a decline from its peak. But overall, we are structurally at a much higher level than we were when we entered the pandemic.

**Jason Kupferberg**

Right. So maybe we can talk about the preliminary outlook for 2022 revenue growth. We talked about 18%. And so that's about the same that 2021 is tracking to despite a lessening headwind from eBay. So, can we just unpack some of the various moving parts that seem to be netting out to kind of a steady growth profile potentially for next year, rather than the kind of more meaningful acceleration that I think the market probably expected?

**John Rainey**

Sure. Well, again, apologies for sounding like a broken record, but I think the ex-eBay number is an important one and implied in that 18% indication around where we think revenue will come in next year. Implied in that is a 22% revenue growth ex-eBay. So that does show that the business is performing well. The first half of the year is going to be the most challenging from a year over year growth perspective. The first quarter will likely look something similar to the fourth quarter [of 2021]. And that's in part, because we are lapping a period where there was more stimulus and that probably applies actually to the first half of the year, but also the impact from eBay is more pronounced in the first and second quarter as they had not really moved the vast majority of their managed payments over yet.

So, we're going to have more pressure in the first half of next year. Then we expect revenue acceleration and then overall, even including eBay as we exit the year, we expect to be at or above our medium-term guidance, which is a great exit point as we go into the next three years of our medium-term guidance. And we feel really good about it. I also add that credit has a dynamic next year. We've seen just in the last few quarters, 50% growth and other value-added services, the predominant driver there being credit. We have an expectation, right or wrong that, that moderates substantially next year. And so, we're going to see a growth in the OVAS line that is probably less than the overall growth that we expect for PayPal for the year.

**Jason Kupferberg**

Okay that's good color. And I wanted to pick up on the comment you just made around potential exit rate coming out of 2022, because obviously one of the questions we've been getting today is, you know, if you come in at 18% portfolio year 2022, how do you make up the ground that you would need to over the three years to get to the 20% CAGR through 2025 from the analyst day. So, it sounds like you're basically saying it's going to be just, you know, abating of some of these transitory headwinds more than anything else, but I'm just wondering if there's anything else you would highlight as part of that. Is there any more intense competition that you guys feel like has emerged recently than may have been envisioned six to nine months ago?

**John Rainey**

I'll start with the last part of your question there, and the answer is no. We've always operated in a hyper competitive environment where there's a lot of new entrance coming in. There are some legacy players that have incumbent positions and we've demonstrated that when we go head-to-head with them at check out, we perform better than everyone else. And that's not to say that we don't have a lot of room for improvement there. We certainly recognize that, and we're very focused on that, but the competitive pressures have persisted for some time and we consistently demonstrate that we've been able to grow faster than the market. So, feel pretty good about where we are there.

I think more broadly, Jason, as you mentioned in your question, sort of addressing accelerating growth rates, any of us that have ever modeled any company probably have assumed that there's declining growth rates over time, and that's generally true, right? As you get larger, it's harder to grow, but it's a little bit different for us because of this impact of eBay where, you know, eBay has been growing much slower than the rest of our business and has been a meaningful part of our business for several years. And so, as we rely less on them going forward, we're seeing all the other elements of our business, the merchant services specifically that are growing at a much faster rate. We've demonstrated that consistently for five years, and we hope to be able to prove to you that we will over the next five years.

So, our business has got a great opportunity in front of it. And we'll get in 2022, certainly towards the back end. We're going to get to a period where there is a more apples to apples comparison. And we don't have some of the noise from eBay, some of the noise, hopefully from the transitory and exogenous factors that are affecting us right now, and we can just focus on what's really happening in core e-commerce.

**Erica Gessert**

John, can I just add a couple of points on that too? We actually have a large number of new growth vectors too that are actually kind of already launched, like buy now, pay later. We've launched short-term installments. We're launching long-term installments next year. Venmo monetization, I think the Amazon deal shows that we're just at the beginning of that journey. Other things like our BCDC [Blockchain, Crypto and Digital Currencies] business unit, crypto buy, sell, hold, all of those things are actually relatively early on in their growth cycle. So, you know, we actually have a number of growth vectors. As one of the head modelers in the company, I certainly sympathize with people who are kind of looking at our trends and trying to figure it out, but that gives us a lot of confidence. These are actually already proven monetization trends that are just playing out.

**Jason Kupferberg**

Right, right. That's a good point. You've probably got more active, organic growth initiatives now than at any point in the company's history. So, thanks for adding that. Maybe we can just--and I do want to come back to some of that a little bit more later in the discussion, but we also did get a lot of questions from people around operating margins for 2022. And, you know, we've tried to run some rough math of our own on that, and it does seem like the operating margins could be down year over year in 2022, even though you're getting positive leverage from non-transaction expense, just because of the headwinds from provision and maybe some further normalization of transaction expense. But I'm wanting to see if that is a fair comment and anything you could share in terms of your thoughts next year, directionally on transaction expense, you know, transaction loss, loan loss.

**John Rainey**

Sure, sure. Happy to, Jason. So, with what we laid out yesterday, specifically highlighting the 10 points of impact from reserve and increase in tax expense, as well as the high single digits of operating expense growth, one could conclude that margins will be down. I'll add that if we were to normalize for just the reserve release, then we could actually see some margin expansion. Again, we're still in the throes of our budget process, so a little early to say that, but I also strongly believe that seeking to have margin expansion in every single period is not the right way to manage this company to increase or to maximize shareholder value over the long-term.

We have opportunities to invest and Erica just outlined a number of them, that are huge opportunities that do require some investment, but also have enormous ROI potential. And so, we're managing the company to actually have the type of stock price performance over the next five years that we have over the last five years. And so, I think that our margins are going to go up over time, but in any one period, that may not be the outcome. So, I would just emphasize that. In terms of some of the items that you mentioned, sort of more specifically on our expense base, you know, we've suggested that transaction expense, a good way to think about it over the next few years is probably that mid-eighties basis points, and we came in at 83 [basis points] for the quarter. We might see a little bit of inflation there, but there's also some offsetting impacts to that as we think about like the growth of Venmo.

Venmo tends to carry a lower transaction expense than other parts of our business. And so, depending upon the success of that, we can actually see that come down the other way. On transaction losses, this has been quite the journey there to see where we are today at nine basis points, which is an historical low for us. I've been a little guarded and almost discouraged investors from assuming that we can continue that forever, but we're doing it, and we're showing that we've continued to perform at that level of performance. So, I think that's probably a good way to think about our business over the longer term is maintaining that lower level of transaction losses relative to what we were doing historically.

The last piece I'll mention there, Jason is around credit losses and that's certainly been overall a benefit to us this year. I would expect that to normalize next year and in the years thereafter something more similar to what we've seen historically, but I'll put an asterisk on that because, you know, depending upon how much of that comes from our installment pay product, that has a very low loss rate because of the short duration nature of that. And so that could actually cause that to be a little bit lower than what we've seen sort of historically, and by historically, I'm referring to kind of pre-2020. We've had a lot of noise because of the reserve build and then the reserve release in the last two years.

**Jason Kupferberg**

Right, right. Okay. Yeah, no, that's a good point. I mean, I guess if you look at credit pre-pandemic, I think the loan losses were running, I'll call it, around five [basis points] of TPV. So, it sounds like that's kind of the benchmark. And then, like you said, depending on BNPL mix, you know, maybe you can do a little bit better, but probably not too much because obviously you're continuing to expand the loan book here as the macro is improving.

**John Rainey**

Yeah. That's absolutely the right way to think about that.



**Jason Kupferberg**

Okay. Okay. Let's talk about transaction take rate, and how would you encourage us to think about that for Q4 and for 2022? I know there's a bunch of puts and takes in that.

**John Rainey**

Sure. So, starting with the bigger picture, when we guided our medium-term guidance, we talked about revenue growth of 20% and TPV growth of mid-twenties. And so implied in that is a somewhat of a decline in take rate over time. And that's just the natural result of some of the mix changes in our business. And so that still holds true. We've seen more acute pressure in the first half of this year because of the dynamics from eBay and also a little bit because of the expansion into bill pay, which carries a lower transaction rate, but also carries a much lower transaction expense as well. We saw that effect moderate in the third quarter.

And I think it's most represented by us basically being flat quarter over quarter in our take rate. But if you decompose what actually happened in the third quarter around take rates, over half of that was related to eBay. And again, we will get past that, and so you can kind of, from a long-term perspective, throw that out of the equation. Another factor, probably the second biggest factor this quarter for us was a decline in foreign currency fees. And for the benefit of everyone on the call, when a customer does a cross-border cross-currency transaction, we are able to monetize that by taking the difference between the high and the low on those currency spreads. So, what that means is that in a more volatile currency environment, we're able to monetize that more.

And so, this quarter or the third quarter that we just reported was comparing to the third quarter last year, where we had more of that currency volatility. And so, the effect of that year over year was a five [basis point] decline in our take rate. That is going to swing one way to the other, depending upon what happens in the currency market over time. But certainly, that's not something that I think is a permanent drag in any way on our business.

And then the last piece that I would mention, Jason, is our hedge positions as the dollar strengthened relative to the major currencies that we hedge against in the quarter. We had a \$44 million hedge loss and that was about a \$30 million delta year over year, and so that has an impact as well. But if you take all those aside, you know, what's left in the business is just kind of the normal changes that we see from a mixed perspective as certain parts of our business grow faster than others and probably pretty representative of what we expect going forward.

**Jason Kupferberg**

Okay. Okay. Got it. Got it. And I guess pricing will play a role as well. You had the August price increase and I think perhaps you were building some other potential pricing actions into the initial revenue forecast for next year.

**John Rainey**

Yes. We always have some assumption around price optimization in our plan, and that's true for next year as well. I will say and I think I talked about this on the analyst call yesterday, but the pricing change



that we implemented at the beginning of August is arguably the most successful that we've had in our history. And not that we've changed our headline pricing a lot, but we've tweaked things here and there over time. And in part I'm making that assessment because of the feedback that we received or more specifically the lack of feedback that we've received from merchants.

So, I keep in mind that I have customer support that reports up through me. And when we typically upset a merchant, we hear about it. They contact us, they let us know. And I think in part that one of the reasons that this pricing change was so well received among the customer base that was impacted is because they truly see the value that's being created by PayPal, and we're simply pricing to that value. And so, a good example, I think Erica mentioned this yesterday, but is buy now, pay later. We effectively offer that product for free [it is included in the merchant take rate].

And so, we decided that when we look at the suite of services that we provide for our merchants around fraud protection and installment pay products and things like that, that we can price higher to that value. And that's exactly what we've done. Merchants appreciate the value that we bring. And that actually emboldens our thinking a little bit as we think about the future and other price changes that we can make or other entities that we can apply those price changes to.

**Jason Kupferberg**

Okay. Okay. And so just to put a finer point on Q4, I guess we're kind of shaking out with a transaction take rate, pretty similar to Q3 in terms of the absolute number, once you net out these moving parts, does that seem reasonable?

**John Rainey**

Yeah, that's pretty reasonable.

**Jason Kupferberg**

Okay. Okay. So, let's maybe talk a little bit about the balance sheet and cashflow obviously continues to be a bright spot, and maybe you can just walk us through really the near and the medium-term capital allocation priorities. And has there been any shifts in the priorities this year? It kind of sounded from Dan's comments last night that particularly large M&A seems relatively unlikely. So, we just appreciate your thoughts on all that.

**John Rainey**

Sure. Happy to address that. Well, I'll start with- I think one of the most appealing things about our business is the strong cash generation that we have. In the quarter, we had \$1.3 billion of free cash flow, and again, that's north of a 20% free cash flow margin for our business. And that allows us to allocate capital in a lot of ways to try to create shareholder value. One of those is through merger and acquisition type activity. And to just be very clear and cut to the chase on here, nothing has changed in terms of our capital allocation [priorities] or the types of companies that we're looking to acquire.

I know there's been a lot of speculation and concern around the room, but one has to appreciate that for every deal that we announced there are 99 that we look at that we don't announce. And we do have pretty stringent return requirements around the deals that we do. But simply because we think that the

right strategy for us is to look at smaller tuck-in acquisitions, that does not preclude looking at more transformative deals. We will do that from time to time, and we'll continue to do that because if we find a deal like that, that we think is an accelerant to shareholder value creation, then it's our duty to do that.

And so, we're always going to look at deals like that, but those are rare. Those are anomalous. That is not how we're thinking about our business going forward. I want to be very clear, like we don't have cash that is burning a hole in our pocket, we feel the need to go spend it simply because there's a deal to be done. First and foremost, the lens by which we look through all of these deals is what will it do to shareholder value? The other thing I'll say is that, and I emphasize this on the call yesterday, we don't need to go do a deal like that to achieve our medium-term guidance. Let me be very clear. Now, we'll do some smaller deals like Paidy and so forth like that, that will be accelerants to the achievement of that, but it is not as if we need to go do a deal like the one that has been speculated. I'll also say just one last point on this, Jason, like one can read in a lot of rumors that are out there and they have a tendency to get ahead of themselves.

And so, you know, as a sort of hypothetical example, like even rumors like that can happen when maybe we haven't even begun due diligence and to do a deal with a public company like that, you actually have to go through the diligence process to understand what that core business is doing. What are the synergistic opportunities that you have? And so, there are certain requirements to actually determine whether you want to do a deal like that or not.[]

#### **Jason Kupferberg**

That's great color, really appreciate that. So, let's move on to Amazon. That was an exciting announcement. Obviously, a big highlight from the earnings report. And I guess our initial assumption is that Amazon will move the needle more on TPV than on revenue, just given that it's Amazon. So maybe you can just kind of comment on that assumption. And to what extent do you perhaps expect some kind of favorable halo effect for Venmo engagement, just more broadly from the Amazon acceptance?

#### **John Rainey**

Sure. So, you are correct. You can expect that the Amazon deal will drive more TPV growth than revenue growth with any large merchant like that. Even we experienced this ourselves. There is more pricing power, the larger that you are. And so, it's reasonable to assume that in this deal as well. That said it's a good deal for us if we just look at the direct economics of that. But I think the bigger story there is around the breadth of presentment that provides for our Venmo customers to have that as an option to shop at one of, if not the largest e-commerce player in the world. We're quite excited about that. And look hopeful that maybe we can even expand upon that in the future, but that's not in the works at this moment and we'll take this step-by-step. We've got pretty-measured expectations around this.

In fact, we shouldn't even assume that there's a full run rate benefit of that next year, because there's going to take some time to actually work through the details of what the experience is on the Amazon website. And so, you know, it'll be sometime next year when our customers begin to see this as an option, but really excited about what this does for our business. And look, as I said yesterday, this is the other side of the eBay coin. This is not something that we could have done if we were still tethered to eBay in the way that we were before. And I know that investors have been patiently waiting for

something like this. And so, we're quite excited to announce it and then hopefully build upon it in the future.

**Jason Kupferberg**

Right, right, right. So just as a rough frame of reference, I mean, would you be encouraging people to think about the go-live more in the earlier part of the year, the middle part of the year, the latter part of the year? I know you can't be precise, but just, you know, to manage people's expectations.

**John Rainey**

Well, I'm fortunate in that I don't have the burden of knowledge here because I actually don't know what the teams have discussed, but I would say an integration like this typically I would hope that we could do it in the first half of next year.

**Jason Kupferberg**

Okay. Okay. That's helpful. And I assume when you mentioned, you know, potentially who knows-expanding this relationship in theory, who knows maybe even including core PayPal acceptance.

**John Rainey**

We would certainly hope for that, but I'll also share with you that we work with Amazon in other ways. So, as an example, they're one of Paidy's largest customers. We work with them there. We also work with Amazon through our Hyperwallet product that does payouts. Now, you know, it's a much smaller part of our overall business, but I think we're excited about the direction of travel here, deepening our relationship with Amazon. And if we were in the future able to expand and build upon this even more to include PayPal, that would be great.

**Jason Kupferberg**

Right. Right. And so, I guess, just in terms of sort of framing, timing and materiality, perhaps it doesn't move the needle that much on Venmo revenue growth until 2023.

**John Rainey**

Hopefully, there's some impact next year. But I was asked the question yesterday in some of our calls after the earnings call and some people were saying, well, if I start with Amazon's total GMV, and that's like the wrong way to start. The numbers are too big at that point. So, we've got pretty modest expectations around this. We do have something included in the revenue guidance that we provided yesterday. We do have an assumption around this, but it'll be more meaningful in 2023, but there'll be some impact next year.

**Jason Kupferberg**

Yes, yes. It always takes time to ramp. So, PayPal is already one of the most accepted digital wallets online and just wondering what can you continue to do to expand, present even further and increase share, you know, other ways you can maybe work with large merchants because we do always get the

question from time to time, particularly in markets like the US, you know, is PayPal getting close to full penetration from a merchant acceptance standpoint?

**John Rainey**

So, I would summarize my answer here by saying, this is a huge opportunity for us. And so, appreciate Jason that, you know, we see our checkout experiences across a range of merchants. So, we've got over 30 million merchants that we see this. And with some of those merchants, we have a very high share of checkout and others much less. And as I've noted in the past, when we look at our customer base and their usage of PayPal on our merchants, we could double the size of our business without ever adding another customer if people just used us when they could. And so, they're not even using PayPal all the time that they can.

And so, our takeaway from that is we have a huge opportunity to improve those experiences where we don't have a high share of checkout to make it more similar to the experiences where we do have a high share of checkout. And so, one of the things that Dan talked about yesterday was Walmart. Walmart is a great example. PayPal is a form of payment on Walmart today, and until recently you had to go to like the third page of checkout options to actually get to us. And so, no one wants to do that. You're not going to use PayPal if you have to do three more clicks. [Today we have much better presentment on Walmart, showing on the first payment screen.] And so, it's those types of things that we can tweak that as a huge opportunity for us.

And so, you know, winning checkout is arguably one of, if not the single greatest opportunities for us as we look over the next few years. And we've got a huge effort on that internally, where we would go through every one of our top merchants and we assess where are we deficient? What can we do better? Where can we bring more value to that merchant in a way that helps that merchant, but also helps PayPal and gets us to have a larger share of checkout.

**Jason Kupferberg**

Okay. Yes. Understood. Want to make sure we have time to talk about paying for- obviously you guys have accomplished a lot in BNPL in a relatively short period of time. I guess, how would you assess your progress there? I guess it's been a year plus since you entered the market. And then just talk about the BNPL roadmap going forward. I know there were some comments last night about pushing into some longer duration loans and higher limits. What could that do for the growth here off of the--I guess you're at about an \$8 billion annualized run rate already.

**John Rainey**

Yeah, well, I think that's a good starting point to address the question is to be at \$8 billion already, I think is a strong indicator of the success of this program already. And as Dan noted on his call- on the call yesterday in his remarks, we're rolling this out to Italy and Spain in the next quarter. We're really, really excited about this. It has been arguably one of the more successful product launches that we've had and pleased that we were able to do this organically at a fraction of the cost of what others have had to go do. And so, we've got great experiences.

We're continuing to focus on upstream presentment with merchants because we see the strong value there. But, you know, one of the things that I look at, Jason, that is sort of an indicator for future success

is what is the experience or how are consumers using this? And does it have the halo effect that we anticipated when we first rolled this out? And the answer to that is an absolute yes. And so, one of the things that we look at is like the engagement lifts and that can be measured in transactions or TPV. Those customers that are using our installment paid product, our buy now pay later product, have a 21% increase in engagement, relative to other customers.

And so that is like precisely what we want to see and fits exactly to the thesis that we laid out around adding all these experiences to increase the level of engagement of our customers. And again, you see that even from a more macro perspective, as I started the call saying that ex-eBay, our engagement was up 18% in the quarter. So really excited about this. The \$8 billion in run rate, I think, compares very favorably to others that have been in this business for a while. And I think there's an important takeaway from that because when we roll out products like this, given the scale that we have, the reach that we have with over 400 million customers around the world, we're able to really accelerate the impact of that. And so, it's things like that that get us quite excited as we talk about other products that we want to roll out savings account or whatever the example may be, because we can do that at scale very quickly.

**Jason Kupferberg**

Right. Right. So, when you move into the longer duration loans next year, you're going to continue to keep all those on your balance sheet.

**John Rainey**

You know, TBD is the answer to that. The thinking right now is that we'd likely keep the installment pay product on our balance sheet. There may be some appetite to externalize that. Obviously with the shorter duration loans, that's not as appealing to an issue or to come by because you don't have the revolving nature of that relationship. So, I think the areas that I would focus investors on, if we were to look at externalizing something would probably be the UK consumer book or some of our merchant lending programs. But again, you know, our overall credit right now or the balance that we have is \$3.7 billion. That's a fraction of where we were when we sold the US consumer book. That was a \$6 billion portfolio. And in that period of time, we probably have doubled or tripled in the size of our company.

And so, I think we've got a little bit of runway before we need to really focus on externalizing that, but mind you, we have a very clear guardrails around our credit business, and we don't ever want to get to the point where we are too dependent on credit, or it is too much of a draw on free cash flow that it's taken away from other things. So, as we've demonstrated in the past, we will avail ourselves of opportunities to sell that portfolio and partner with companies like Synchrony, which has been a fantastic partnership if we get to that point.

**Jason Kupferberg**

Okay. And just last one, because I know we're running out of time, but your comment on the BNPL upstream presentment, still seems like there's a lot of opportunity there. I think it's less than 10% of the merchants that are using paying for, you know, have actually embedded upstream presentment. I guess, where can that figure ultimately go? How big of a lift is it to get it there? I guess it's just a lot of blocking and tackling.

**John Rainey**

I'm going to hand this answer over to Erica.

**Erica Gessert**

I mean like with merchants adoption of upstream I think you'll see that continue to grow next year, it's also just the improved accessibility of BNPL in the wallet for consumers. Our numbers, as John said, compare really favorably to some of the companies that have been in this for awhile, but only ~9 million of our consumers have adopted it up to now. And so, there's a tremendous amount of penetration there as well to go. And some of the new digital wallet experiences, where it's really in context like deals and offers and other things like that, I think are going to also show the growth of this there too. So, it's really kind of attacking both sides of the network, but we do see really strong growth next year there.

**John Rainey**

Well, Jason, thanks for hosting the call today. We appreciate the questions and the opportunity to address some of the concerns and questions that the investor community has. So, thank you.

**Jason Kupferberg**

Yes, absolutely. Thanks for the time. Thanks everyone for dialing in. Have a good day.

**Operator**

That does conclude today's conference. We thank you for your participation. You may now disconnect.