



**Third Quarter 2022 Analyst Call | November 3, 2022**

## **C O R P O R A T E P A R T I C I P A N T S**

**Dan Schulman**, *Chief Executive Officer and President*

**Gabrielle Rabinovitch**, *Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer*

## **C O N F E R E N C E C A L L P A R T I C I P A N T S**

**Sanjay Sakhrani**, *KBW*

**Dan Perlin**, *RBC*

**Ashwin Shirvaikar**, *Citi*

**Tim Chiodo**, *Credit Suisse*

**Ken Suchoski**, *Autonomous Research*

**Josh Beck**, *KeyBanc*

**Dominick Gabriele**, *Oppenheimer*

**Trevor Williams**, *Jefferies*

**Harshita Rawat**, *Bernstein*

## **P R E S E N T A T I O N**

**Operator**

Good day and welcome to PayPal's Q3 2022 Analyst Call. I'd now like to welcome Gabrielle Rabinovitch to begin the conference. Gabrielle over to you.

**Gabrielle Rabinovitch**

Super. Thanks, April. Hey, thanks everyone for joining us this afternoon. I'm here with Dan and the rest of the IR team. I know we've got a lot to cover. So, I think we can go right into questions. Can we start with the first question.

**Operator**

First question comes from the line of Sanjay Sakhrani from KBW. Sanjay, please go ahead.

**Sanjay Sakhrani**

Thank you. You guys have a pretty healthy deposit base. I'm just curious how we should think about the asset sensitivity going forward with [interest] rates going up so much. And then just a quick follow up, Dan mentioned the low-end consumer pulling back spending, is there any way to quantify what that exposure is as a percentage of TPV (Total Payment Volume)? Thanks.

**Gabrielle Rabinovitch**

I'll start with interest income on customer stored balance. OVAS (Other Value Added Services) revenue grew 6% in the quarter. That was based on both interest income and customer stored balance. We were [also] lapping some higher-than-normal [loan] servicing fees on our credit business from Q3 of last year. Our overall outlook for OVAS revenue growth [for FY'22] is now a little higher than it was just a quarter ago. When we started the year, we had more conservative estimates, in part because we were thinking that our overall credit business might grow at a slower rate than it did. Of course, we were only baking in what we currently knew in terms of the rate environment. I think [that] this year, other value added services revenue [will] probably growing mid-teens. Now we don't have one-for-one sensitivity with fed[eral] funds movements because of the way the customer balances are actually invested. We have customer balances that sit globally [across different] jurisdictions, and they're predominantly in our core markets and those funds get invested. There's some duration on those investments. They're not all overnight [duration]. That said, when [interest] rates increase, we do see a benefit from that. The low and negative rate environment in certain jurisdictions was a headwind for us the past few years. We do expect [interest rates] to continue to contribute to OVAS growth next year. But we haven't quantified what the benefit would be.

On the low-income consumer side, we have not disclosed the percentage of TPV that we would attribute specifically to low income. I think the way low income gets defined might be different in different markets. Our platform itself is very much tethered to discretionary retail. To the extent that we see crowding out [of discretionary spending] across the board and negative real wage growth across most people, that is having an impact on overall discretionary spend. And so, we're taking that into consideration.

**Dan Schulman**

We have 430 million plus active accounts. It pretty much mirrors the general population. As we look into 2023, it's so early. There are a wide range of outcomes that could happen. We talked about our 15% [non-GAAP] EPS growth and at least 100 basis points of [non-GAAP] operating margin expansion [based on our preliminary FY'23 framework]. We've taken what I would call a pessimistic look at what an economic cycle could be as we go into 2023. If it's better, and it could be because there's a lot of different scenarios around it, then we could see better performance from that. But I do think, despite being prudent, and I think appropriately conservative as we think about what the scenarios could be next year, that 15% EPS return as best I can tell puts us in the top quartile of S&P 500 companies in terms of expected EPS growth rate for next year. So even in a difficult economic environment, what we're doing from a cost perspective and the places where we're investing, as a starting point [would] get us to about \$4.70 [in non-GAAP EPS based on our preliminary FY'23 framework]. We think it's a really strong position to be in. I know that doesn't exactly answer what you were asking Sanjay, but it's but how we're thinking about things in general.

**Sanjay Sakhrani**

No, I appreciate it. It's pretty fluid situation here. Thank you.

**Dan Schulman**

Yeah, it really is. Yep.

**Operator**

Our next question comes from the line of Dan Perlin from RBC. Dan, please go ahead.

**Dan Perlin**

Thanks. Good evening. You're speaking of some of those assumptions for '23, I just wanted to make sure we were clear on a few of the key points. One is, are there buybacks assumed in the 15%. Two, is the externalization of credit embedded in the at least 100 basis point margin assumption that you've put out there. And then three, any thoughts around the assumptions that you're using around what's embedded in the cyclical of the business, i.e., what you're expecting from e-commerce in '23 versus maybe this non-cyclical overlay that you're clearly benefiting from which would include things like share gains, client [go lives], Braintree, Apple, Amazon, and those kinds of things. Trying to think about that from a proportional standpoint. Thank you.

**Gabrielle Rabinovitch**

Yes, I'll start, and Dan can add in how to think about our volume opportunities in the cyclical versus non-cyclical. A baseline level of buyback has been incorporated into that [preliminary FY'23] view. But with 1.1 billion shares outstanding, what we're talking about from an earnings growth standpoint, baseline [non-GAAP] EPS growth rate of 15%, that's really coming from the productivity gains that we're making. The predominant driver is both our efficiency initiatives as well as our cost savings, with most coming from the non-transactional operating expense side but some benefit coming from the mitigation on the volume-based side.

From a [credit] externalization standpoint, I would not expect any meaningful impact on our operating margin profile. So, [our preliminary FY'23 framework of] at least 100 basis points of [non-GAAP] operating margin expansion is truly operational and from core business activities. As currently contemplated, the way we're thinking about [credit] externalization would be essentially on forward book business. While we would be looking to deconsolidate, so we would not have loan loss associated with that portion of our portfolio on a go forward basis, it really is not what will be driving the operating margin improvement.

From the standpoint of how we're thinking about volume growth and e-commerce growth to get to this initial framework, we've done a fair amount of sensitivity work around potential volume growth implications. Again, with \$1.4 trillion of [payment] volume on our platform [anticipated] this year, of course our initiatives count. The things that we're doing around growing our business, on increasing the merchant penetration across Braintree help, but the macro itself is going to be a big driver of what that addressable e-commerce growth is for next year.

**Dan Schulman**

I do think this is an environment as difficult as it is, where market leaders should be able to come out of it much stronger than when they went into it. Many of our competitors are really struggling to make money. And some of them will make it, some probably won't make it as well. We have the wherewithal to invest significantly in areas that we have high conviction around and that are really showing results. The reason we keep saying that we [expect] to grow at or above the rate of e-commerce is because of some of the unique advantages and assets that we have and the improvements that we're continuing to make in our value proposition. A rising interest rate environment benefits us, and it is difficult for some others who we compete with who need a low cost of capital to actually make their models work. We're making sure our

cost structure is in a place that we can deliver robust EPS growth for our investors and also invest. We are very focused on enhancing our value proposition and growing through this. So, it's hard to tell what is going to be incremental from initiatives just like any downward pressure from the macro environment. But we know our initiatives are making a big difference in the market.

**Dan Perlin**

Yep. Excellent. Transaction expense as a percentage of TPV was 0.89% [in Q3'22]. I'm just wondering, is that a good jumping off point? Understanding that Braintree is growing fast, but I suspect you guys are working very hard on trying to increase engagement with Venmo and PayPal inside of Braintree. So, thank you very much for that.

**Gabrielle Rabinovitch**

You're right, we're working very hard. At the same time, there is some seasonality overall in the way we see transaction expense [as a] rate [of TPV]. Typically, we see it inflate a touch in Q4. So, I'd expect that [seasonality] to occur this year given the mix of our volume. [I'd expect] Q4 to be slightly higher than where we actualized at in Q3.

**Dan Perlin**

Thank you.

**Gabrielle Rabinovitch**

Yes, you bet.

**Operator**

Next question comes from the line of Ashwin Shirvaikar from Citi. Ashwin, please go ahead.

**Ashwin Shirvaikar**

Hey, thank you guys for doing this call. I want to go back to, a lot of confidence that was exhibited about the 15% [non-GAAP] EPS growth. What combination of factors might lead you to not do that? Do you have infinite flexibility on the cost side to take cost and investment out? It just seems to be a very strong line in the sand given the level of macro uncertainty. And then I have one other question about Net New Actives (NNAs), which seem to be turning a corner. Is that sort of your read as well? And what should we expect for next year?

**Gabrielle Rabinovitch**

Yes, I'll start on the on the EPS growth and then Dan can cover the active account piece. We've done a good amount of sensitivity work around that 15% baseline level of non-GAAP EPS growth. We think relative to what we've already called out in terms of the cost savings we've identified, as well as additional opportunities that we're in the process of working through, that we have room to get there. And that would be with a range of TPV and revenue growth scenarios that we think are sufficiently conservative and provide a sufficiently wide range of outcomes.

We have a tremendous amount of opportunity here, in part because of how much we invested in the business through the pandemic period. If you look at what our trends were pre-pandemic in terms of the growth in our non-transaction operating expense relative to our top line growth, on average, we were growing our non-transaction operating expense at about 50% of the rate of growth of revenue. And that very meaningfully changed through the pandemic. We are now at a point where there are opportunities to take some costs out and be more productive. The other piece of this too, is we're becoming more

disciplined and more focused on certain key priorities. We are not spending on all of the same things. We're being very, very focused and disciplined around the things that we're prioritizing and [certain other lower priority initiatives] we are just either slowing down or stopping. That's allowing us to be a lot more prudent around those cost savings. We're very committed to the 15% [preliminary FY'23 non-GAAP EPS growth framework]. We'll continue to update you on where the savings are coming from and what those productivity initiatives are doing for us.

**Dan Schulman**

Just an addition to that. The initiatives that we're driving right now, and they're starting to take a hold, are also leading to cost reductions. For instance as we put out more and more passwordless experiences, not only do you have incremental conversion, but you have way less costs coming into customer service as well. This is one small example of all of these things linked together. The more beautiful your experience is, the less costs that come into the business. And that's really what the team is focused on.

I can talk to your Net New Active [NNA] question. The real place that we are focused on driving net new actives is the bottom of the funnel. When you have 430 million plus active accounts, churn and how many people you lose out of the bottom of the funnel is the predominant driver of whether or not you grow your accounts going forward. The places that we're investing, especially around checkout around our digital wallet, if we can continue to scale those that will begin to impact our churn rate. If our churn rate goes down, engagement goes up. NNAs will go up as well, because the top of our funnel is relatively robust and has been consistently. But as we also said, we're not going to be spending marketing dollars on chasing NNAs or lower quality NNAs. Everything we do right now, we look at an NNA that comes in and we look at what's its engagement level, what it's ARPA [Average Revenue Per Account], and we make sure that we calibrate our marketing dollars to that. We can be much more efficient there both in top of funnel, but really just in driving bottom of funnel improvements. I'm hopeful that we'll begin to see that play out over time as well.

**Ashwin Shirvaikar**

Makes sense. Thank you.

**Dan Schulman**

Yep.

**Operator**

Our next question comes from the line of Tim Chiodo from Credit Suisse. Tim, your line is open.

**Tim Chiodo**

Great. Thanks, mine are just three very quick numbers that I'm hoping we could run through. The first one, you said Braintree growth was about 38% year-over-year, was wondering if you could give the three-year CAGR or the 2019-based CAGR for that number.

**Gabrielle Rabinovitch**

Still 50%.

**Tim Chiodo**

Okay, great. So, 50-50-50 for the first three quarters. That's great.

**Gabrielle Rabinovitch**

That's correct.

**Tim Chiodo**

Very nice. Okay, awesome. Great. Next one, is Venmo [revenue growth] for the year. So originally, or at least most recently, I think it was roughly 50% revenue growth for Venmo coming off of a base of \$900 million last year. How is that shaping up for the full year? Are we in that ballpark for the full-year Venmo revenue growth?

**Gabrielle Rabinovitch**

[We're] thinking about 40%. We've seen a little bit more deceleration in Venmo than we expected, that affects the revenue that we generate. [We are] thinking about 40% [revenue growth for FY'22] right now, relative to the 50% [revenue growth forecast] that we opened the year with.

**Tim Chiodo**

Okay, excellent, thank you. And the third one, again, I promise to keep this quick. You mentioned that the US core PayPal button [TPV] was up 4% in Q3, are you willing to disclose here the actual number for core PayPal International, or maybe just directionally how much different was then the US?

**Gabrielle Rabinovitch**

We haven't disclosed that. Part of it is just the benchmarking on international is much less good in terms of third-party data that we get and otherwise, so we haven't provided it. We haven't provided that number.

**Tim Chiodo**

More than fair, I mean, safe to assume it's slightly slower, but at least directionally, could you say slower, faster, or about the same?

**Dan Schulman**

I mean, if you look at UK, for instance, which is the second largest market, e-commerce rates there are negative high single-digit. So even at holding or gaining, you still got less volume.

**Gabrielle Rabinovitch:**

There's an FX dynamic as well. We really look at the markets on an individual basis, because there's some really distinguishing characteristics happening in different parts of our international markets. As Dan just mentioned, UK, China continues to be under pressure for all the reasons that we all appreciate. Still COVID lockdown activities, still some supply chain activity pressures. We continue to see both volume and revenue pressure in our core business in China. That said, Germany has continued to perform quite well and so there's a little bit of divergence in terms of our market experience. And so, I hesitate to call it out as a bucket only because there's some different trends when you start to look at them on a market-by-market basis.

**Tim Chiodo**

Perfect. That's more than fair. And it's a great point on the FX as well. But thank you for giving the US number and thanks for the other two.

**Dan Schulman**

Yeah, you bet.

**Operator**

Next question comes from Ken Suchoski from Autonomous Research. Ken, your line is open.

**Ken Suchoski**

Hi, good evening everyone. Thanks for taking the question. Appreciate all the details this quarter. I want to follow up on Sanjay's questions on float income. Can you talk about what percentage of your customer balances are held in interest-bearing assets so we can model that correctly? And I guess the follow up to that is the higher float income incorporated into your preliminary \$4.70 [non-GAAP] EPS guidance for next year.

**Gabrielle Rabinovitch**

We haven't disclosed much more detail beyond what you see in our filings. Typically, what you'll see in our filings is about 20% of the customer balance at any given time is in settlement. The rest is invested across a set of assets. Those would all be interest bearing to a certain extent, but they have different yields depending on when the investment was made and what the investment is. We invest our customer funds in very, very liquid securities. It's very high-quality corporate debt, sovereigns. There's some commercial paper as well. Depending on the duration, there are different yields. From the standpoint of what has been included in the 15% baseline level of [non-GAAP] EPS growth, yes, we have incorporated our view of what we think additional interest income would generate for us next year based upon the current [interest] rate environment and the way our book is positioned.

**Ken Suchoski**

Okay, that's really helpful. I appreciate all the detail on slide 6 [in the investor deck]. I know there's been a lot of guesswork out there. But how much of the unbranded processing on slide 6 of the slide deck comes from Braintree because I think unbranded is at least 24% of TPV. But that bucket also includes unbranded credit and debit card processing on the PayPal platform. So, any help there would be great.

**Gabrielle Rabinovitch**

The vast majority of the unbranded processing is Braintree. It's predominantly Braintree. There's PayPal unbranded processing in there as well.

**Dan Schulman**

That PayPal unbranded processing [volume] could [have the potential to] grow quite quickly as PayPal Commerce Platform comes into the market etc. But in these numbers [on slide 6 of our investor deck], it is mostly Braintree.

**Gabrielle Rabinovitch**

The other thing I would point out is when you think about the margin profile within unbranded processing, it very much reflects the merchant size. The Braintree component of unbranded comes to us at a lower margin, the PayPal unbranded business comes at a higher margin. I also [want to] point out that the other merchant services bucket, which was about 10% of our global [TPV] mix in both 2018 and 2021, is the orchestration layer that supports our unbranded business. So, our payouts capabilities, some of our risk capabilities, some of the other services that we build in [like] our invoicing as an example. It's all the



merchant services that support our merchant business. We actually think about it as a joint business, but we've broken it out separately for purposes of disclosure. [Other] merchant services is a higher margin part of our business as well. When you put it together in the aggregate, it actually very much supports how we think about that business longer term and what the opportunity is.

**Ken Suchoski**

Alright, that's really helpful. Thanks, Gabz and thanks, Dan. Appreciate it.

**Dan Schulman**

Yeah, you bet. Of course.

**Operator**

Next question comes from the line of Josh Beck from KeyBanc. Josh, your line is open.

**Josh Beck**

Thank you so much for taking the questions. I wanted to ask about the core PayPal share gains in the quarter. As you say that it's tough to find reliable third-party data, probably a bit easier in the US. But is that the magnitude of share gains we should be contemplating in future years and the related question to this is, as you optimize more checkout, experiences, accelerated checkout, do you feel like you could widen the amount of core PayPal share gains that you produce?

**Dan Schulman**

First of all, you are right, there is no really good proxy. And even those reasonable proxies that come out, are often quite wrong. When we look at for instance actual Q4 last year e-commerce rates and the predictions of those from a lot of these proxies, they were off by 30% to 80%. They predicted higher, and it was a lower rate. That's why we're quite cautious in what we say in terms of how we're gaining [share], and it looks like we gained [share]. But these proxies, they're difficult. We take an aggregate and we look at our own data as well to try and triangulate. We do feel comfortable with the statement that we [expect to] grow at or above the rate of e-commerce overall. The places where we are investing are to increase our competitive differentiation or narrow gaps where there may be gaps in our proposition, so that we increase our share of the market and our share gain. I think there are real reasons to believe that. I think some of the early indicators of what we're doing are quite positive. I also think that many of our competitors as we've talked about over the last quarter or two are quite dramatically retrenching and figuring out what their business model will look like going forward. It is comforting to have the assets that we have, the capabilities that we have, and the extremely strong free cash flow that we have to be able to deploy in the market during this time. I hate having a difficult macroeconomic time, but it is a big opportunity for us and we're investing against it.

**Josh Beck**

Very helpful. A little bit of a related, but kind of subjective, so I apologize for that. E-commerce was just very steadily gaining about 75 basis points within overall retail sales every year pre-COVID, and we had this incredible surge and now normalization. But in future years, do you feel like it can go back to that type of regular cadence or whatever it may be, 50-75-100 basis points gain of e-commerce within broader sales? And if it is true, what do you see as the drivers? Are there certain verticals, grocery, others, that you feel like could be higher or the consumer segment that you think could be additive? What's, what's the framework that you apply for future economic growth?

**Dan Schulman**



I think it's a fair question. I think it's a bit more of a difficult question to answer. I do think if you've looked over time it's been a very steady penetration of e-commerce as a percent of overall sales. Very steady. That got dramatically fast forwarded during the pandemic. Pretty much all of us in e-commerce and digital payments thought that it would normalize, but from those levels that we were at. That there was actually a three year step forward in this. What's happened is actually the line has reverted back to the long-term trend and there's no reason not to think that long term trend will continue and digitization of payments will also be a tailwind as well. It just is a very convenient experience for everybody. The better delivery gets, the better reordering capability gets, recurring payments get. I see no reason why e-commerce as a percent of overall retail doesn't continue to grow. The best you could do is look back in history and say it continues on at that rate. Could it inflect a little bit higher? Maybe. But our assumption is that it continues to grow at a historical rate and payments continue to digitize.

**Josh Beck**

Super helpful. Thank you, Dan.

**Operator**

Our next question comes from the line of Dominick Gabriele Oppenheimer & Co Inc. Dominick, please go ahead.

**Dominick Gabriel**

Hi, thanks so much for taking my question. I was wondering if we could just break apart TPV expectation in terms of in '23, if you can talk to FX grow overs for the reported number, what you're thinking for inflation, eBay headwinds relaxing. All those things play into what the reported TPV growth is. I was wondering if you could help deconstruct some of that, that'd be really great. Thank you.

**Gabrielle Rabinovitch**

We really haven't guided our TPV expectations for next year yet, just like we haven't put guidance around our revenue growth. What we talked about in terms of the initial 2023 framework, with [non-GAAP] operating margin [expansion] of at least 100 basis points and non-GAAP EPS growth of at least 15% contemplates a range of scenarios. You're right, in terms of inflation and FX having an impact. It'd be hard to imagine inflation to persist at the levels that it currently is at. I think we were all saying that nine months ago, though and the environment has deteriorated from there. The strong dollar has been a very persistent trend over a persistent period. There's not a lot of track record to see the dollar sustain this level of strength for multiple years. I'd be hard pressed to call an inflection point at this time in terms of the strength of the dollar relative to other currencies. We still see a flight to quality even with other central banks, raising rates. The way we think about the environment next year, is that it'll be a continuation of the trends that we're seeing in Q4. We're operating in an environment where we think we're going to continue to have inflationary pressures, where real wage growth is going to continue to be negative for a period of time, where discretionary spend will be under pressure. We're navigating that environment as best we can and we've taken into consideration that range of outcomes on volume growth and on revenue growth as it relates to what we think we can deliver from an operating margin and EPS standpoint.

**Dominick Gabriele**

Great, thank you, that's really helpful. And maybe if you could talk in the same manner, even regarding US versus International, and how you're thinking about the divergence, potentially, of those two markets, and their effect on your business in general would be really helpful. Thank you.

**Dan Schulman**

You really have to break it down country by country. All of this plays in a fluid macroeconomic environment. We faced pressures from China from COVID lockdowns, supply chain issues, some geopolitical tensions there. We still have confidence that China bounces back from where it is today. I think we're going to see additional pressure in Europe. I think inflation is going to be quite stubborn there. I think as long as the war in Ukraine is continuing that will affect energy, affect food. I think Europe is in for a very difficult time and you need to look country by country there. The US is a little bit of a different story. I think there are a lot of different scenarios, the most prevailing one is that we go into a recession but it's shallow and we move out of it more quickly than not. I'm a little more pessimistic on that front and I think that it's quite possible that inflation is much more entangled in the economy than we imagined and that the Fed needs to continue to raise rates to tackle inflation and that could make for a bit of a hard landing. I think Gabz' last question answered it perfectly, in terms of our thinking about things. It's always great if things go better than you planned for because then there are a lot of things that go right. It's when you don't plan for potential outcomes and then all of a sudden they hit you. You've seen a lot of companies announcing big layoffs even today. We've been taking action over the past several quarters to get into a place where we feel very comfortable with the leverage that we have, with the operating margin expansion, with the ability to deliver what is actually really quite strong EPS growth even in a very conservative economic outlook. As Gabz also mentioned, we still have room in all of this. We are not scraping the bottom of the barrel in terms of efficiency or productivity. There's a lot more we can do and a lot more we will do as we look forward. And that's why we say, at least 15% [non-GAAP EPS growth], or at least 100 basis points in [non-GAAP] operating margin [expansion is contemplated in our preliminary FY'23 framework].

**Dominick Gabriele**

Thank you very much. Really appreciate that.

**Dan Schulman**

Yep, you're welcome.

**Operator**

Next question comes from the line of Trevor Williams from Jefferies. Trevor, please go ahead.

**Trevor Williams**

Great, thanks. Good afternoon, I just want to ask a few quick ones on credit. I think losses were up sequentially by about a basis point, anything to call out there on the increase. Two, within the margin outlook for next year just curious what you guys are using for the base assumption for credit losses within the transaction credit loss line. And then the last one is just a clarification on the externalization. Would that just be for the pay in four receivables? So, you'd be keeping the merchant lending and UK consumer receivables on the balance sheet? Or did I mishear that on the call? Thanks? Yes,

**Gabrielle Rabinovitch**

I'm going to start in reverse order. What we said on the call is that right now in terms of credit externalization, our first wave of externalization will relate to a portion of the Global Pay Later portfolio. You're right, that would not contemplate UK revolve and it would not contemplate the merchant lending books. Longer term, we're continuing to look at other ways to externalize because we don't necessarily think that we need to fund our credit on balance sheet. There's nothing specific to our balance sheet that makes us better able to fund these types of consumer experiences. We're in credit because we think it's

important for our customers and merchants to have that as part of our value proposition. But longer term, we see opportunities to externalize other parts of the book, with this initial externalization that you should expect to see next year being a component of the Global Pay Later portfolio. Global Pay Later has been the largest driver of the growth in our [loan receivable] balances overall, really since launch. That business has ramped very nicely. We like a lot of the attributes of it. Short duration. Our loss experience has been very good, best in industry loss experience in part because we're actually lending to our customers so we have a good amount of data on them in advance of making those initial loans. But again, we don't see any strategic reason why we need to be funding it so we would start with that.

From the standpoint of loan losses next year. Generally speaking we think about a little bit of inflation, a basis point or two as a starting point in terms of what the assumptions are for the framework. That's based upon how we think about the origination growth in the business and the mix of the book and that's what we get to. We have launched some longer-term installments. We launched in Germany late last year, we launched in the US this year. Then, our merchant book is continuing to grow nicely. Now all that said, if we were to see any changes in the broader macro [environment] we would start to tighten originations. That's something that we have a fair amount of flexibility around. For the quarter [Q3'22], we were at three basis points [of loan loss] as a rate [of TPV]. I think about next year probably being something a few basis points higher than that as a baseline. From the loss performance standpoint, we continue to be really pleased with the overall performance of the book. Coverage ratio came in at 7.4% [in Q3'22]. That was a basis point higher than last quarter but four [percentage] points lower than a year ago. We continue to see very good loss performance there. Very pleased overall with the performance of that book. It's driven more revenue this year than what we anticipated going into the year.

**Trevor Williams**

Perfect. Okay. Thanks so much for the help.

**Gabrielle Rabinovitch**

Yeah, you bet. I think we have time for one more question.

**Operator**

Our next question comes from the line of Harshita Rawat from Bernstein. Harshita Rawat, please go ahead.

**Harshita Rawat**

Hi, thanks for taking my question. Good evening. Dan, can you talk about the competitive dynamics of checkout with respect to alternative buttons, for example, Apple Pay, among others? Do you feel like the competition is intensifying? And just as an unrelated follow up, Dan, you've made quite a few additions and departures from the management team this year, do you feel like you have what you need to position PayPal for future growth? Thanks.

**Dan Schulman**

We brought in a number of new people. Like everybody in the industry, attrition is up year over year because we're coming off of a pandemic where attrition was extremely low. Although, our attrition levels are meaningfully lower than our technology peers. I'm really pleased with the caliber of people we've been able to attract. We are a really safe harbor in a storm for a lot of people here. We've got a brand that is extremely well-known and trusted. We've got a great set of values inside the company. We're attracting good talent and we've attracted really good talent to the senior team. It's pretty much where I expect it to be over at least the medium term.

Checkout competition in general, we have a lot of very positive assets that we leverage from our scale and ubiquity to some of our superior conversion rates, our brand. Interbrand just came out with the top 100 [Best Global Brands]. We're number 38 in the world right now. One after Visa and a couple in front of Mastercard, just to give you a sense of the brand strength. We have a portfolio of services from Buy Now, Pay Later which is extremely important in checkout, to shopping tool sets making sure that we can provide consumers the most rewarding way to buy and pay. You also have a flight to quality in the market. That said, to your point, competition, I think is tougher than ever. And it will remain so. It's why we're putting all of our efforts into one improving the merchant experience because that's one side of the network, both innovating on checkout but improving just basic hygiene and latency and friction. But on the other side, improving the experience for the consumer as well. Because if those two things start working together, you get a real flywheel effect. That can be quite powerful. I think [working with Apple] is actually a real positive step forward. I think passkeys is probably more impactful than most people realize because it does embed our authentication straight into the OS and straight into biometrics across Apple, Google, Microsoft. There are a lot of things to execute against, a lot of things that we are optimistic about, and there are a lot of things that were just heads down trying to make sure that we get to scale in terms of our new experiences into a legacy base.

**Harshita Rawat**

Thank you.

**Dan Schulman**

Thank you for the question. And thank you, everybody for your time today. I hope some of the answers were helpful in your modeling and we're always available. Thank you very much. Have a good rest of your day.