Second Quarter 2023 Analyst Call | August 2, 2023

CORPORATE PARTICIPANTS

Dan Schulman, President, Chief Executive Officer

Gabrielle Rabinovitch, Senior Vice President, Acting Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Dan Perlin, RBC

Sanjay Sakhrani, KBW

Colin Sebastian, Baird

Andrew Jeffrey, Truist Securities

Tim Chiodo, Credit Suisse

Bob Napoli, William Blair

Jamie Friedman, Susquehanna

Trevor Williams, Jefferies

Ken Suchoski, Autonomous Research

Dominick Gabriele, Oppenheimer & Co.

James Faucette, Morgan Stanley

PRESENTATION

Operator

Hello, welcome to PayPal's Q2 2023 Earnings Analyst Call. (Operator Instructions) I will now turn the call over to Gabrielle Rabinovitch, Senior Vice President and Acting CFO. Please go ahead.

Gabrielle Rabinovitch

Thanks, Sarah. Thanks, everyone, for joining us. Joining me today are Dan and the IR team. We've got about 45 minutes to answer additional questions. I know some of you have already queued up, and so I think we can just get started.

Operator

Thank you. Your first question comes from the line of Dan Perlin with RBC. Your line is open.

Dan Perlin

Thanks. Good evening. I just wanted to kind of get a sense of trajectory as we're thinking about ending the year and then moving on to next year a little bit. You alluded to the fact that, I think, Gabrielle, you mentioned that transaction margin degradation obviously was lessening a little bit in the quarter on a sequential basis, and that you thought you would end the year in kind of a much better place, I think is kind of maybe the way you phrased it.

But is it possible to assume that that can play out actually in '24 based on all the initiatives that you're seeing and the success that you're able to see kind of under the hood and we're not able to see maybe entirely?

And then, is there enough OpEx [operating expense] that can still be taken out such that [non-transaction related opex in] '24 is still going to be down year-on-year[?] [Can] non-transaction related volume expenses be [an] offset, again, [to] drive margin expansion? Thank you.

Gabrielle Rabinovitch

I think it's a little early to be guiding 2024 at this point. What I said on transaction profit is exactly right. We are very encouraged by what we're seeing in the business, and when you strip out all the one-time noise that we have, which, by the way, includes both benefits and drags, you see underlying strengths in the business. We expect that underlying strength to continue to build as we move through the year, and we do expect to end the year in a stronger position than where we are today, even on a reported basis, because some of these lapping items start to abate.

In Q3, we still have some headwinds, but as we move into Q4, we'll see less pressure. And we feel very good about the initiatives and how they're ramping. We also feel very good right now about overall e-commerce and the growth in the environment. So if we see a continued stable macro with growing e-commerce, with inflation under control and discretionary spend supported, we expect to see results continue to improve into next year.

Dan, anything you want to add?

Dan Schulman

I just have one thing to add. I think David [Togut] asked about cost savings on the [Q2 earnings] call, and there's a lot of room for continued productivity improvements. So I mentioned just one example of our software engineering, where we're seeing 20% to 40% productivity [increases], and we're using everybody. We're using Codey from Google, CodeWhisperer from Amazon, CodeAssist from Microsoft, comparing and contrasting each of them. But we're seeing tremendous productivity results on that.

If you think about things like PayPal [Assistant] I'm talking about, you can start to see us being able to answer in the app any question that people may have about it, whether it be about transactions, whether it be about their account, whether it be about offers, rewards, how do they apply them? So you could see a significant reduction in calls coming into servicing and improvements, continued improvements in NPS [Net Promoter Score] as a result of that.

So I think Gabz summarized it right. There's a lot that's very encouraging in the business as we look at our underlying trends. I know some of it has been obfuscated by the credit piece of that, which is frustrating for us because we know that that issue is behind us. We've tightened originations.

It will play out, but we've already done the provisioning for losses in the numbers that we've done. Without that, our OM [operating margin] would have been pretty much exactly where we thought, transaction margin dollars would have increased by 2% to 3% in Q2, which, again, is not where we expect and want our transaction margin dollars to be, but a significant improvement from where we were in Q1.

We have hundreds of millions of dollars of headwinds that we're battling in Q2 and Q3. Even with that, we're seeing the acceleration in the core parts of the business.

And so inside the company, which is different than I guess what people are seeing from the outside, but inside the company, there's a tremendous amount of enthusiasm for what's happening right now. And so that will play its way through our results. We're really confident about that. But we understand that it's Q4 when there's not really explanations around some of it, but you just see it clearly in the results.

Dan Perlin

Thank you.

Operator

Your next question comes from the line of Sanjay Sakhrani with KBW. Your line is open.

Sanjay Sakhrani

Thanks. Sorry, I'm going to ask a similar question. But when we look at the transaction revenues, less transaction expense, that was down about 7% this quarter. I know you called out a number of headwinds. But should that start stabilizing or does that continue to be under pressure because of the mix?

And then Gabz, you talked about the OVAS [other value-added services revenue]. That's obviously seen very strong growth in the first half, but you've talked about a much lower growth for the year. Should we expect a meaningful step down in the growth from here?

Gabrielle Rabinovitch

Thanks, Sanjay. Maybe I'll start with OVAS. OVAS grew, call it 39%, 40% in the first half of the year. That, of course, benefited very meaningfully by interest rates. As we move into the back half [of 2023], we start to lap some of those benefits. We would expect that in Q3 and Q4, we see a lower growth rate overall. We'll see deceleration as we move towards the end of the year. And so I would expect that 2H overall, probably will grow in the mid-teens, and for the full year to see OVAS grow in the mid-20s. That's sort of how I would think about that trajectory.

Net transaction revenue, which is transaction revenue less transaction expense, strips out any kind of noise from credit or from interest income. I would expect to see continuing improvement there. That around 6.5% decline, which was increased pressure from Q1, was driven by several items. [On the Q2 earnings call,] I called out hedge gains being a $72 million headwind. We had a tailwind from hedge in the first quarter. When we look at the sequential pressure that we were seeing, the $72 million was real pressure in the quarter from the difference in hedge gains.

In addition to those contractual compensation benefits from merchants that we called out, that was about $25 million of benefit we saw in Q1 2022 that we lapped in Q1 2023. This past quarter, we were lapping $75 million of benefit from Q2 2022. Now, Q3 is going to be another quarter where we see these pressures, because in Q3 of last year, we had another $75 million of these contractual benefits from merchants.

In addition, in last year's Q3, we had about $156 million of hedge gain revenue. This year, of course, given the way our hedge book is positioned and what we've disclosed, we might have some hedge losses in Q3. That will be a massive headwind. I would expect to see the pressure on transaction revenue, less transaction expense to persist in Q3, and then I expect to see improvement in Q4 and going on from there.

Sanjay Sakhrani

Okay. Very clear. Thank you.

Operator

Your next question comes from the line of Colin Sebastian with Baird. Your line is open.

Colin Sebastian

Great. Thanks. Good afternoon. Not to beat the horse too much on this around market share, but I mean, clearly we're hearing concern over branded checkout market share from Q2. So, the commentary on the acceleration thus far in Q3, I guess how much of that is related to promotions around [Amazon] Prime Days versus sustained growth, even here, late July, early August, and what portion of, I guess, the improvement is maybe macro-related versus traction you're seeing in specific product initiatives? Thanks.

Dan Schulman

Yes, well, we think that the market grew in mid-single digits in Q2. We grew in mid-single digits in Q2 as well. And [PayPal branded checkout volume] accelerated to 6.5% in June and a little over 8% in July. But Prime is not even a factor in that.

As we look at the back half of the year, let's say e-commerce continues to accelerate, which I have a bias towards thinking that it probably will - if we stay at 8% and grow from there, I kind of feel like we're at a minimum holding or beginning to grow share.

One other thing I'd say, we look very consistently at our top 16 markets. Our top 16 markets has about 90% of our checkout, 90% of our margin in it. And we've been doing this since 2019, looking at the same methodology, same approach. And as we look at H1 versus H2 of last year, we feel that we grew market share in that timeframe. Again, this is just consistent methodology that we use. There's no one single source out there for market share. As I mentioned, I think in one of the answers that I gave [on the Q2 earnings call], the range [of external e-commerce industry estimates for 2023] right now is from 0% to 10%. We're in the middle of that range right now from what we see. And I think that'll move probably to mid-single digits, maybe to low-high single digits, maybe, 6%, 7%, maybe even as high as 8% [as we move through 2023].

So, I feel like we're doing a real good job. What I keep telling the team is, there's always going to be people that are trying to figure out market share because there's no one source. The thing that we need to focus on is, are we improving our branded checkout growth every single month going forward, and what are the things that are driving that? And I talked about a lot of those on the [Q2 earnings] call.

There's a whole host of other things we're introducing this quarter. But a lot of the things that are helping to drive [e-commerce share growth] that we've introduced are just beginning to compound on each other. So I would say we're cautiously optimistic as we look at our branded checkout right now. And I know that's not necessarily the prevailing view out there right now, but as we see it inside, like, let's just keep driving in high single digits, and we'll feel pretty good about our position.

Colin Sebastian

Okay. Thank you, Dan.

Dan Schulman

Yeah, you bet.

Operator

Your next question comes from the line of Andrew Jeffrey with Truist Securities. Your line is open.

Andrew Jeffrey

Hi. I appreciate you taking the question. Dan, along those lines, in terms of branded transaction growth, I know it's really early, but can you talk about any learnings or trends that you're seeing in terms of PPCP [PayPal Complete Payments] and data that's being generated in terms of how you may be able to use that to migrate some of those customers to become branded customers? And if that is indeed the case, what's the timing on that in your view?

Dan Schulman

PPCP is one of our major initiatives. It's extremely important, as I look at what we are trying to do, both in increasing margins in the PSP [payment service provider] business and fueling a whole set of more data. As I mentioned on the [Q2 earnings] call, the more data you have, the more scaled your data sets are, the more unique they are, the more you're able to take advantage of AI [artificial intelligence] modeling. And the AI modeling can be extraordinarily powerful as we think about the next generation of checkout and other things we can do in our value proposition.

So, PPCP, it started off with a bang in the marketplace. We've got most of our major channel partners on it. They'll almost all be on it by the end of the year. As I mentioned also, we're putting on channel partners in the EU as well.

The other thing that we're doing, and we'll do this as we continue to roll out PPCP into 30 markets across this quarter, is we'll also take small businesses in those markets, just like we've done in the U.S., where they can pass our credit and risk [requirements], and really do basically a one-click move for them to move into PPCP, which takes [their] checkout into our latest integrations of our native mobile in-app and latest experiences that we have. And we already moved $5 billion [on a full year run-rate basis] of legacy stack PSP business onto PPCP. So, you're really not going to get a much better introduction into the market than what we've seen right now on that.

One of the biggest reasons we're doing that, by the way, is, again, higher margin on PSP, but it is all around branded checkout, getting merchants onto our latest integrations. And when we do this with our channel partners, there's a rapid upgrade [of many merchants at the same time who move onto] our latest branded integrations.

We'll have more information and data on some of the other questions that you have as we get a little bit further into the year and certainly into next year. But I had high expectations for it based on consumer feedback, but it has exceeded all of our expectations so far and likely just continues to grow exponentially for us.

Andrew Jeffrey

Thanks.

Dan Schulman

You're welcome.

Operator

Your next question comes from the line of Tim Chiodo with Credit Suisse. Your line is open.

Tim Chiodo

Great. Thanks a lot. Two hopefully pretty quick ones; one on invoices, one on the bundled sales approach.

So, last quarter, and this quarter as well, you mentioned many of the headwinds that will either lap or are more one-time in nature, and things will start to look a little bit better in Q4 and beyond. One of them also mentioned was the invoices business, and it wasn't really specific around whether it was a migration or something competitive or product-wise. Just wondering if you could put a little bit more context on the invoices business. I understand it's small, but maybe slightly higher margin than some of the other businesses. That would be the first part.

The second one is just a brief one, accounting-wise. When you're doing the bundled sales approach with the branded business and the button, if there's ever any kind of an upfront incentive or anything along those lines, either in dollars or resources along those lines, is that accounted for as a contra revenue or transaction expense, or is that something that hits marketing, or maybe it's all of the above?

Gabrielle Rabinovitch

To start with your second question, then we'll go to the first, is contra revenue. And so if it's going directly to our merchant partner, then it's treated as contra.

Tim Chiodo

Perfect. Thank you.

Gabrielle Rabinovitch

On invoicing, I did call out [on the Q2 earnings call] when I talked about transaction revenue growth, that one of the headwinds to growth was the impact from migrating and consolidating legacy PayPal payment services. Inclusive in that was invoicing. We did list out different pieces. But that is a part of PayPal core that is being migrated and consolidated into the PPCP platform. As a result, we have not been continuing to support the legacy invoicing platform. We've seen some churn of volumes off that. You're right, it's a nice margin business, and so we will look to recapture that as we ramp PPCP. But it was an impact in the quarter that did affect revenue growth.

Tim Chiodo

Perfect. Thank you so much for both of those.

Gabrielle Rabinovitch

Sure.

Operator

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

Bob Napoli

Thank you, and good afternoon. I guess I was hoping to get maybe a little bit more color on your thoughts on the active accounts and the quality of the active accounts. There seems to be a very heavy focus on the actual number of active accounts versus the quality of those accounts. And I know that’s a bit of a strategic move you've made to upgrade the quality of accounts. But just any thoughts on the growth of accounts and your view of the active accounts and the quality of those accounts today versus historically?

Dan Schulman

Yeah, I think that's a great question, Bob.

Look, clearly, our strategic focus is to grow our monthly active users, our ARPU [average revenue per unique user], and our transactions. And the reason for that, as you well know, is that our monthly active users average between 70 and 90 transactions per year. They're 20 times more valuable than our other users. They have really low churn rates. They drive the overwhelming amount of our TPV [total payment volume] on our platform.

That grew year over year in Q2 slightly by probably about 1% or so. We're now over 190 million monthly active users. We expect that to continue to grow in H2 and we're also seeing increases in the transactions per user in those monthly active user accounts.

We did see negative NNA [net new active] growth in Q2. I would expect we continue to see negative NNA growth in Q3 and Q4. But I would expect, even with our focus on MAUs [monthly active users] and high quality, we are churning out the kind of one and dones predominantly in LATAM [Latin America], Southeast Asia, India. I would expect to see us return to growth in NNAs in 2024.

And I would also point out that our new NNA cohorts that are not driven by marketing dollars at all, that are driven by product and product quality, that ARPA [average revenue per active] was about 23% year-over-year in Q2. And things like second week engagement, that was up over 20% year over year. So even though the amount of NNAs coming in was lower, the revenues from those new cohorts was up 7% year over year. And that's with CPGA, our cost per gross add, going down tremendously because we're not spending the marketing dollars on that.

So hopefully that gives you a lot of color on how we're thinking about it, the trends in the business right now, and where that might be going next year too.

Bob Napoli

Thank you.

Operator

Your next question comes from the line of Jamie Friedman with Susquehanna. Your line is open.

Jamie Friedman

Thanks for doing this call. In the management meeting back in June, Dan, you had some call outs about the potential and capacity for the vault, remember that one? So the instruments on one side and the merchants on the other side. I was wondering if you could elaborate on that because you seem enthusiastic about the use cases for it and how you plan to bring it to market if you're not already?

Dan Schulman

Yes. So when we talk about next generation checkout – John Kim mentioned a sort of AI checkout – and the idea behind that is that for many merchants, we do about – depends on the merchant obviously – call it 15% to 20% of their overall checkout [volume]. We do that predominantly in a one-click fashion. But there's still 80% of a merchant's checkout that does not go through PayPal.

And we have the ability to use our network vault, which is probably one of the largest vaults of financial information in the world, some 5 billion [funding instruments] cards and information in that, to be able to help a merchant be able to do a single click checkout on the rest of their transaction. And we think that we can significantly increase the authorization rate on those transactions, many of them card entry and that kind of thing, and by doing so, collect more information data, be extraordinarily strategically of value to the merchant and then take that information and start to upgrade those clients to PayPal accounts to the value added services that we can offer.

So we have a lot of enthusiasm from merchant customers to do that because of the advantages they could have. We will start very small in this, either later this quarter or fourth quarter, and then start to roll that out as we get into 2024.

Jamie Friedman

Perfect. Thanks for the color.

Dan Schulman

Yes.

Operator

Your next question comes from the line of Trevor Williams of Jefferies. Your line is open.

Trevor Williams

Great. Thanks very much. I had a two-parter on the transaction take rate. And Gabrielle, the walk on the [Q2 earnings] call is helpful in isolating a lot of the year over year decline [in transaction take rate]. But maybe looking at it a different way, excluding the hedges, it was down about four basis points quarter over quarter. Is that sequential decline mostly just a higher mix of unbranded? Because that should isolate for some of the noise around FX volatility, the contractual grow overs, but any other call outs there would be helpful.

And then the second part to that, I think last quarter you said for the full year, you'd expect transaction take rate to be down about mid-single digits year over year. Just wondering if there's an updated expectation there. Thanks.

Gabrielle Rabinovitch

Yes, I expect take rate to be down higher than that for the year. Some of this of course depends on the growth that we see in the business and the sources of that growth. We do expect branded checkout to continue to accelerate as we move into the back half. That said, as we've said, the mix in branded checkout has moved a little bit more in the direction of larger merchants, and so that's had an impact on the blended take rate within branded.

I'd also call out Braintree certainly has a role as well given the very strong growth that we see in that business relative to the growth of other parts. We've seen a little bit of take rate pressure within Braintree that's really coming from merchant mix. We've added some more European merchants. The take rate on that business is lower because the funding expense is lower, and so that too has had a bit of an impact and will continue to as we move through the year.

But overall, when you strip out some of the noisier items like the contractual benefits and the hedge gains which disproportionately negatively impact us this year, I actually think as we move into 2024 we should see more stabilization in the trend.

Trevor Williams

Perfect. Thank you.

Operator

Our next question comes from the line of Ken Suchoski with Autonomous Research. Your line is open.

Ken Suchoski

Hey. Good evening, everyone. Thanks for taking the question. I just wanted to follow up on some of the questions that we're asking and Sanjay's question. I mean, if we zero in on transaction revenue less transaction expense for a second and just put OVAS to the side, put transaction and credit losses to the side, and we kind of strip out all the noise, so the contractual compensation, the hedge gains, and we try to get the cleanest number for transaction profit, it looks like this metric declined about 2% year-over-year. So I guess we appreciate the volume growth of kind of mid-single digits unbranded, you know, 30% unbranded but it's not really translating to gross profit growth.

So why isn't the business growing faster, and I guess, what is the gross profit growth algorithm of the entire business when you look across the different business lines?

Gabrielle Rabinovitch

We don't guide gross profit. We've never guided gross profit. And certainly, as our business has grown over many years, given the varying pieces of business that have mixed in, we've seen transaction margin decline over time, not as much as it had in recent quarters, but we've been able to scale the business very efficiently and grow the business from a profitability standpoint. And so our expectation over the longer term is that we'll continue to be able to do that.

As it relates to like the transaction revenue-less transaction expense trends, it depends on what you're pulling out from last year versus what you're pulling out from this year and the adjustment that you're doing.

I would say that from a transaction revenue-less transaction expense standpoint, when you make a series of adjustments to eliminate some of the noise this year and last year, you actually get to low-single digit growth.

We know that we can improve from there. And some of this is that our branded checkout business grew in the mid-singles in Q2. We're seeing that accelerate in Q3. We expect it to accelerate further into the back part of the year. We expect the macro to continue to be stable and cooperative to our ability to grow this over time. So some of this is going to be coming as we move through the year.

But we don't think our business has structurally shifted, and that our growth profit profile has structurally shifted to a place that's much lower than what we've historically been able to deliver.

Ken Suchoski

All right. Thanks, guys.

Operator

Your next question comes from the line of Dominick Gabriele with Oppenheimer & Company. Your line is open.

Dominick Gabriele

Hey, thank you so much for doing the call and taking my question.

I was just curious the Venmo revenue for the quarter, but more importantly, if you talk about, Dan, the mid-teen to low double digit, I think EPS growth was the kind of more longer-term expectation if I caught that right on the call. Given the structural growth of the revenue in this business, for me, I feel like you can get there with even declining margins. So with a buyback and revenue. And so I was just wondering, does that guidance include stable to improving margin? Thanks so much for everything.

Dan Schulman

Specifically, on the [Q2 earnings] call, what I was talking about was how I was thinking about the back half of 2023, which is we're beginning to lap the increases we enjoyed in our interest expense, and that's been pointed out. We're seeing our revenue begin to accelerate into double digits, is where we clearly think we will end the year.

We're seeing our branded part of our business accelerate, which has higher margins associated with it. And we're seeing the parts of our PSP business that we know will drive incremental margins on it also start to take hold. We also are buying back our shares to the clip of $5 billion worth this year, which takes out a number of shares, and obviously helps on EPS growth. And we also have a firm grasp of our expenses.

What I was trying to point out is that over the medium term, I expect our transaction margin dollar growth to make up an increasing part of sustainable EPS growth going forward. But in the interim, as that ramps over time, between those other things, we feel very comfortable seeing our EPS in that low to mid-teens range. We have a lot of levers, a lot of things that these one-time events are obfuscating a little bit. But when you put all of that together, you can easily see the business model driving sustainable and good earnings growth going forward.

Dominick Gabriele

Absolutely. And then just maybe the Venmo revenue, if you don't mind?

Dan Schulman

Oh, I'm sorry. Well, we don't break out Venmo revenue. What I will say on Venmo is, you know, TPV growth, you know, accelerated from last year, is roughly the same, slightly less. I think it's just shy of 8.5% in the quarter versus I think it was 9% last quarter. We expect that TPV to accelerate in the back half of the year.

The new team there is doing a really good job fixing the basics. They're improving P2P search functionality, the user interface. They like looked at the entire base. They raised the limit for like the ability to add funds. We saw a 13% increase in funds coming in. The teen account is now ramped to 40% of the base. That'll be 100%, hopefully by the end of this month.

And pay with Venmo is really continuing to expand and get some traction. We added 27 new merchants in the quarter from Xbox, to Mercari, to GoFundMe, to McDonald's, Starbucks either came in at the end of Q1 or in the beginning of Q2. We got a strong pipeline. All of those are increasing pipeline as you see PPCP as well as upper entry continue to expand.

We saw 70% plus year over year growth in [Pay with Venmo] TPV. The Amazon partnership is continuing to strengthen. They've put us now on Prime and on Turbo Checkout. Once that happened, we saw

another 21% lift in first-time users. During Prime Day, we saw like seven times leap in first-time users. And by the way, our TPV is still running well above pre-Prime Day averages.

There's a lot to like about what's happening in the Venmo business. The credit cards are up around 60% year over year in terms of growth and actives. A lot of work yet to do there, but it is one of the places where I feel we still have more potential than we have actual in that business. But I am pleased with what I am seeing right now in that business.

Dominick Gabriele

Thank you very much. I really appreciate it.

Dan Schulman

Yes, you're welcome.

Operator

We will take a final question from the line of James Faucette with Morgan Stanley. Your line is open.

James Faucette

Thank you. Just a couple of quick follow-ups to the recent questions. On the pricing, I mean, Gabrielle, I think you mentioned that there had been some merchant mix that had had an adverse impact. Can you talk a little bit about that and the contractual drag and how you're anticipating if there will be stabilization there or ongoing shift?

And then just quickly, Dan, you talked about Venmo and that kind of thing. You're not disclosing revenue. But are the incremental merchants that you're bringing on, are they moving the needle on Venmo monetization and revenue yet? Thanks.

Gabrielle Rabinovitch

In terms of the like-for-like merchant take rate, we are not seeing pressure on a like-for-like basis. There are mix dynamics in both Braintree as well as core PayPal that do affect the take rate. And so in core PayPal, we've actually seen a mix towards larger merchants on the branded side, and those come to us at slightly lower take rates than the SMB [small- and medium-sized businesses] long tail.

On the Braintree side, as we continue to build out the geographic footprint of that business and bring on European merchants, those take rates are lower. There's capped interchange in those markets, and so the take rate structure is lower. That said, the overall incrementality of those transactions are quite attractive, and those relationships are very, very important.

As you know, we launched with Booking.com, and that's been a business that we were very happy to add to our portfolio. And we're very pleased with how it's ramped. But those types of volumes will also have an impact on our overall blended take rate.

And you mentioned something about the contractual…were you referring also to the lapping impacts from contractual merchant benefits that we called out, or did I cover the question that you were asking?

James Faucette

Yes, no, I did want to understand if you could provide any color on the lapping of those contractual benefits, at least relatively, how relatively important that is to the drag.

Gabrielle Rabinovitch

Yes, so for the year last year, and we disclosed this in our Q and our K, I believe the benefit we had from these contractual benefits from merchants was in the neighborhood of $190 million for the year. $75 million of that is in each of Q2 and Q3, so you've got $150 million between those quarters. You've got about $25 million in Q1 of last year, and then that ramped down to about $10 million in Q4 of last year. And so it is a pressure that we're facing through the year. It does abate in Q4. And essentially, these are really directly related to our efforts to protect customers on our platform and minimize illicit activity.

The overwhelming majority of these fees relate to merchants that were engaging in fraud and the sale of counterfeit items, and we collect contractual compensation from these merchants and really in connection with our remediation costs, because we actually have to go ahead and make customers whole. And so these are fees that we are contractually enabled to assess.

Last year was essentially a catch-up year. There was work that we could not do in terms of assessing these fees in some years during COVID. And so last year's activity was primarily related to kind of historical activity on our site, and it was really 90% plus driven by markets outside of the U.S.

And so that's the nature of it. It really is sort of one time in terms of its impact on a go-forward basis. We're always doing this work. But the dollar amount really is de minimis from one quarter for the next. Last year, very anomalous in terms of the very meaningful benefit we got from it that we're now lapping.

James Faucette

Thank you. And then on the Venmo, Dan?

Dan Schulman

Yes. So each of those merchants that we bring on, obviously, it takes time to ramp up, but you may have seen or not - when we bring on somebody like a Starbucks or a McDonald's, they start to do immediate marketing with us to drive Pay with Venmo. So those build over time, that's why I mentioned kind of you're seeing [Pay with Venmo] TPV grow at an increasing rate now. 70% is what we saw last quarter, but it's an increasing rate of growth. And so, the more merchants we can put on to that, the better monetization we'll do in Venmo. And those are all very high margin checkout transactions for us.

Especially so given the funding sources inside Venmo, which is predominantly debit and balance as opposed to credit.

James Faucette

Yes. Makes sense. Thank you.

Dan Schulman

All right. Well, thanks, everybody. Gabz and I appreciate you taking the time, and hopefully our answers were helpful for you, and we look forward to more time together. Thanks.

Operator

This concludes today's conference call. Thank you for joining. You may now disconnect your lines.