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PayPal Holdings, Inc. (PYPL)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PayPal's Second Quarter 2024 Earnings Conference Call. My name is Sarah, and I'll be your conference operator today. As a reminder, this conference is being recorded.

I would now like to turn the program over to your host for today's conference, Steve Winoker, PayPal's Chief Investor Relations Officer. Please go ahead.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Thanks, Sarah. Welcome to PayPal's second quarter 2024 earnings call. I'm joined by President and CEO, Alex Chriss; and CFO, Jamie Miller.

Our remarks today include forward-looking statements that involve risks and uncertainties. Actual results may differ materially from these statements. Our commentary is based on our best view of the world and our businesses as we see them today. As described in our earnings press release, SEC filings and on our website, those elements may change as the world changes.

Now over to you, Alex.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

Thank you, Steve, and thanks to everyone for joining us this morning. PayPal delivered a strong second quarter and first half with encouraging operating and financial results. While change takes time and we still have much work ahead of us, we are well positioned today, have the right leadership in place and are moving full steam ahead. I'm confident we are on the right track in making meaningful progress on our transformation to position PayPal for long-term durable and profitable growth.

Looking at our results in the second quarter, total payment volume rose 11% to $417 billion, and we delivered 9% revenue growth on a currency-neutral basis. Transaction margin dollars grew 8% representing our best performance on that metric since 2021. Our non-GAAP earnings per share increased 36% year-over-year.

We're encouraged to see not only the strength and stability in PayPal's platform, but also early contributions from some of the initiatives we have underway. Branded checkout continues to grow profitably. Braintree is now meaningfully contributing to transaction margin dollar growth for the first time in over two years. Venmo momentum continues to build and monthly active accounts increased across both PayPal and Venmo.

Given the strength across PayPal, we are raising our full-year guidance for growth in transaction margin dollars and earnings per share and increasing our investment in strategic growth initiatives that we are driving. Overall, we remain on course with the strategy we set at the beginning of the year. Our teams are moving with urgency, excited about our innovation and focused on execution. We are still early in our transformation and while pleased with our progress in many areas, we know there is much more we can do and with greater speed.

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For example, mobile experiences, SMB and Venmo are places we are working hard to improve and we are continuing to identify ways to operate more effectively and efficiently. I want to spend a moment discussing how PayPal stands apart as a strategic commerce partner.

In the past two quarters, we have talked at length about the experience upgrades we are bringing to branded checkout. However, I do not want to lose sight of what makes PayPal truly differentiated, our two-sided network of hundreds of millions of consumers and merchants worldwide. We are building an end-to-end platform spanning the full commerce journey with superior customer experiences and sales conversion from start to finish.

PayPal is one of the only players with both sides of the network, consumer and merchant, at scale globally and with the infrastructure to support it. That is incredibly hard to replicate and a powerful foundation on which to launch new innovations including Fastlane and the ads platform that we are in the early stages of building. The data insights and compounding network effects give us an incredible advantage that we are now just beginning to harness fully.

Today we operate in a massive $6 trillion-plus global e-commerce market that benefits from the ongoing digitization of payments and commerce in new contexts. These tailwinds combined with the initiatives we are now executing, such as building more omni-channel capabilities and offering more value-added services for consumers and merchants will expand our addressable market and provide PayPal with significant opportunity for long-term growth.

Over the last year, we have been working to transform our global business from a series of products and services into a multifaceted omni-channel and open platform capable of generating value in multiple ways throughout the commerce ecosystem. We are building a platform that delivers far more value to our customers and partners than the individual products we offer. This is a key differentiator for PayPal and will expand our market opportunity over time.

The initial response to the innovations we are introducing gives us confidence that we will see more consumers and more engagement in more places across our growing network. That in turn will drive more merchants and higher levels of commitment into our ecosystem. These network effects will be mutually reinforcing, compounding and add value to the company.

Our peers are taking note and the value of our platform is being recognized by large tech companies that are seeking to partner with us in a variety of new ways. One great example of this is Meta, which we already partner with on multiple fronts. PayPal is a top payment method for advertisers and consumers globally across Meta's Family of Apps. Meta's donations and charitable giving campaigns now run on the PayPal Giving Fund platform. Meta pays out creators and developers using Hyperwallet and Meta uses Braintree for credit card processing. We are working closely with Meta to optimize the experiences and look forward to deepening our partnership with Meta in mutually beneficial ways in the months and years ahead. You will continue to hear about more partnerships with deepening commitments over the coming quarters.

Let me update you on our customer-backed business strategies. We continue to execute with high velocity to enhance customer experiences and value for our large enterprises, SMBs and consumers. We are building the foundation for our next phase of growth. For large enterprises, we continue to have a productive conversation to help merchants understand the additional value they can unlock by strengthening their relationship with us to take advantage of our full platform capabilities.

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For example, we recently renewed our contract with DoorDash to expand how we work together. Beyond unbranded PSP processing and offering our branded marks, DoorDash also relies on our risk capabilities to mitigate losses. As part of our new agreement, DoorDash has committed as an initial launch partner for our latest branded checkout enhancements that we announced in January and they will be participating in our new ads platform. Combining our best-in-class payments platform with value-added services that are margin accretive is helping us create a more profitable dynamic.

Last quarter, I told you we expected to make Fastlane generally available in the US in the second half of the year. I'm pleased to announce that in August we are delivering on that commitment and making Fastlane generally available to merchants in the US. This includes merchants on Braintree and PPCP as well as through partners including Salesforce, Adobe and BigCommerce. While broad adoption will take time, we have heard from many merchants who are excited to add Fastlane and have a robust go to market strategy.

As I've shared before, data from our early adopters shows that returning Fastlane users convert at nearly 80% versus the industry average guest checkout conversion closer to 50%.

As our network builds with more merchants and consumers, we expect benefits to scale over time, because we will be able to recognize even more shoppers. The early feedback we've heard from our merchants and sales team gives us increasing confidence that Fastlane will accelerate PayPal's ability to capture the roughly 60% share of e-commerce purchases made without a branded mark.

As a reminder, a large part of that 60% is still manual card entry, has low conversion today and is generally a poor experience for consumers and merchants. Much of that is now changing with Fastlane.

For small- and medium-sized businesses, we are continuing to improve our value proposition through the rollout of PPCP. We continue to make progress migrating volume from legacy platforms onto this new solution as well as integrating with new partners and merchants. SMB volume on PPCP continues to trend positively, up more than 40% through the first half of the year. A large portion of that volume is coming from merchants using PayPal as their full-stack processor across both branded and unbranded payments.

Our efforts here are also important because PPCP ensures merchants have our latest branded checkout integration, which will include Fastlane. That will give consumers a best-in-class checkout experience wherever they shop and help merchants benefit from higher conversion. On average, merchants who adopt PPCP use more products, which deepens our relationship, reduces churn and drives higher average revenue per account. As I've said before, this is an area where we are focused and we have tremendous opportunity to better serve small businesses' end-to-end needs.

For consumers, we are focused on extending our leadership in consumer preference, increasing the share of checkout and driving more frequent engagement from our consumers. In the second quarter, we launched in-app offers with major brands, including Best Buy, Priceline, Lyft, Instacart, Ticketmaster, Walmart and Nordstrom.

We are seeing positive trends in consumer engagement with gross merchandise volume, driven by one of our offers, nearly tripling in June compared to March. And while still early days, the initial interest from advertisers is encouraging.

As we've shared before, you will see us invest in marketing in the back half of the year and beyond to further position PayPal and Venmo as rewarding ways to pay.

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I talked previously about our need to improve our branded checkout experiences on mobile devices. That improvement is now happening. In the first half, we started ramping several designs and technology innovations to our branded checkout flows to improve the experience for our customers.

For example, we are launching a new super simple vaulted experience for high repeat use merchants. In initial tests, the redesigned vaulting payment page alone shows a conversion lift of 75 to 110 basis points.

Experiences like this one are clearly resonating with consumers, and remember that every point of conversion lift drives significant value for our merchants who are fighting to win every sale. We will be ramping our redesigned branded checkout experiences to all eligible consumers in the US in the coming weeks and months.

As the number one branded mark with the largest network of merchant acceptance, we are a ubiquitous checkout solution. We are continuing to innovate and create high converting experiences on both desktop and mobile, and across platforms and devices.

We also continue engaging consumers post purchase with smart receipts, package tracking, push notifications and more, adding increased value and driving the PayPal engagement flywheel. In fact, we drove almost 20 million app logins from our post purchase experiences in June alone, growing more than 70% from a year ago.

P2P is an essential acquisition and engagement tool for us, and we are returning it to growth. We suffered declines through 2023, but over the past few quarters, we have seen an improvement driven by product enhancements, such as new global withdrawal capabilities, better risk decisioning and more cross-border activity. We will continue to invest in our experiences, pricing and marketing to drive enhanced awareness and engagement.

Turning to Venmo. We are building on the business' strong market position. In the second quarter, Venmo processed more than $73 billion in total payment volume, growing 8% year-over-year, with monthly actives increasing 5% year-over-year to nearly 62 million. Both a strong base of peer-to-peer users and adoption of our ecosystem of products are driving this growth.

For example, both Venmo debit card and Pay with Venmo monthly actives grew approximately 30%. In the second quarter, we launched Push Provisioning of the Venmo debit card to Apple and Google Wallets and continued to enable Pay with Venmo and more merchants and partners, including eBay and StubHub, which we expect will continue to fuel this growth.

Our recently launched Venmo Teen Accounts is showing encouraging early traction, expanding our addressable market and helping us build lifelong relationships with customers from an early age. What excites me most about Venmo is that we are only scratching the surface of its potential, starting to drive customer-led profitable innovation, and we see substantial headroom for growth. Said simply, Venmo is primed for growth.

Finally, consumers who love PayPal for online purchases are also telling merchants they want to use PayPal for their offline purchases. We continue to drive the adoption of our card products and we're making it easier to add PayPal and Venmo branded cards to Apple and Google Wallets on mobile devices. We are also looking forward to launching even more ways for consumers to use PayPal any time, any place with NFC technology starting in Europe. Expect to see more from us in the coming quarters to enable and incentivize our customers to use PayPal online and in person.

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Reflecting on the quarter and looking ahead, I want to thank the PayPal team for continuing to work tirelessly as we transform our company and give our customers the best possible experiences.

With that, over to Jamie.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

Thanks, Alex. Good morning, everyone. Moving to slide 6, PayPal delivered strong second quarter results and we are raising our full-year guidance. We're passing through the first half performance and increasing second half growth investments as we build confidence in initiatives across the company. Our goal for 2024 remains the same to set PayPal up for long-term success by prioritizing investments that will deliver durable profitable growth.

As Alex mentioned, while the second quarter produced another improving set of results, change takes time and can sometimes be uneven. The success of our transformation will be measured over quarters and years. We have a lot of work ahead, but the teams are making progress and building on a strong foundation visible in our first half results.

Looking at the high level financial results in the second quarter, revenue increased 8% at spot and 9% on a currency-neutral basis. Transaction margin dollars grew 8% year-over-year, a more than 300 basis point improvement from the first quarter.

Non-GAAP earnings per share were $1.19, representing 36% year-over-year growth and relative to our prior expectations higher earnings per share were driven by a combination of factors including stronger transaction margin dollar growth and interest income.

Turning to slide 7, our financial results are a function of the number of customers we have, how engaged they are across our platform and how frequently they transact with us. Our operating metrics reflect progress on this front.

We ended the second quarter with 429 million total active accounts and 222 million monthly active accounts. Total active accounts increased by nearly 2 million from the first quarter and included growth in PayPal merchant and consumer accounts in addition to other products. We were encouraged to see sustained total active account growth following a positive inflection in the first quarter.

Monthly active accounts continued to show steady progress up 3% year-over-year to 222 million with contributions from both PayPal consumer accounts and Venmo. Transactions per active account, which is a trailing 12-month number, was 60.9 in the second quarter up 11%. Excluding PSP processing, which is primarily Braintree, transactions per active account grew 6%.

Moving to slide 8, total payment volume grew 11% on a spot and currency-neutral basis to $417 billion. US TPV grew 11%, international TPV also grew 11% on a currency-neutral basis primarily driven by strength in continental Europe and Asia.

Looking at the breakdown by-product, global branded checkout volumes grew 6% on a currency-neutral basis in the second quarter. This was consistent with our first quarter performance which increased 6% excluding a 1-point benefit from the additional leap day. Within branded checkout, we continue to see strength across large enterprise platforms, marketplaces and international growth. We remain laser focused on driving deeper adoption of our best-in-class solutions with small and medium businesses and improving our mobile experiences, which are critical particularly in markets like the US and the UK.

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PSP processing volume grew 19% in the quarter compared to 26% in the first quarter. Importantly, we are beginning to see the benefit of our shift in strategy to drive profitable growth. Our focus on price to value is having an impact with Braintree now contributing positively to transaction margin dollar growth in a meaningful way.

Moving to more financial detail on slide 9, transaction revenue grew 9% on a spot basis to $7.2 billion driven primarily by Braintree, branded checkout, and Venmo. Other value-added services revenue in the quarter was close to flat at $732 million.

Interest on customer balances continued to be a meaningful tailwind to OVAS revenue and contributed approximately 3 points to transaction margin dollar growth in the quarter.

Revenue within our credit business declined year-over-year but performed in line with expectations. Part of the decline is due to proactive decisions made last year to manage risk and reduce on-balance sheet merchant receivables. We are also seeing ongoing normalization of loss rates within our off-balance sheet US consumer revolving portfolio. Overall, we have taken steps over the last year to actively manage the credit portfolio's exposure and are continuing to position the portfolio to move toward a less capital intensive business model.

Transaction take rate declined by 3 basis points to 1.72% compared to a 5 basis point decline last quarter. PSP volumes and Venmo benefited transaction take rate which was offset by faster large enterprise growth within our branded checkout business, foreign exchange fees and an acceleration in other merchant services including payouts.

Transaction margin dollars increased 8% in the second quarter compared to a 4% increase in the first quarter. Higher interest on customer balances, branded checkout, Braintree and Venmo were the largest contributors to year-over-year growth. Branded checkout and Venmo's strong transaction margin results benefited from ongoing efforts to improve and optimize transaction loss performance as well as some transaction expense favorability. While it's still early we are encouraged to see initial actions related to price value as well as product and ongoing risk enhancements make a positive impact.

Relative to last quarter, we saw Braintree return to profitable growth and improvements in the contribution from Venmo, branded checkout and P2P.

Non-transaction related operating expenses declined 1%, as we continue to actively manage our cost structure while reinvesting in key growth initiatives.

Non-GAAP operating income grew 24% in the quarter to $1.5 billion, non-GAAP operating margin expanded 230 basis points to 18.5% benefiting from expense leverage and improvement in transaction margin trends.

PayPal generated $1.4 billion in free cash flow in the second quarter and we completed $1.5 billion in share repurchases bringing share repurchases over the past 12 months to approximately $5 billion. Finally, we ended the quarter with cash, cash equivalents and investments of more than $18 billion and debt of just over $12 billion.

Moving to guidance on slide 10 for the third quarter and the full year in 2024. For the remainder of the year, we continue to guide assuming a relatively consistent macroeconomic and consumer spending environment.

For the third quarter, we expect revenue to grow by mid single-digits and non-GAAP EPS to grow by high single-digits. We are raising our guidance for the full year and now expect 2024 non-GAAP EPS to grow in the low- to

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mid-teens. This increase reflects outperformance in the second quarter as well as a slightly more positive view of the second half of the year with some strategic reinvestment into growth initiatives. Underpinning our guidance we now expect transaction margin dollars to increase by a low-to-mid single-digit percentage for the full year.

We have seen steady profitable growth from our branded checkout business and feel confident in the progress our teams are making. It is encouraging to see the initial impact of our initiatives related to price-to-value as well as ongoing product enhancements in areas like P2P. Some of our efforts particularly on the innovation side are still early and will take time to scale. But we're encouraged by the initial results and customer response as we begin moving from the test and pilot phases into launch.

As we move into the second half of the year, we expect to continue to make progress on these fronts but there are a few factors to keep in mind. Consistent with the strategy we laid out in prior quarters, our teams continue to prioritize high quality, profitable growth as we execute against our long-term roadmap. Related to this, we expect lower volume and revenue growth as we move through the second half of the year.

This is deliberate, and it shows good progress by strategically focusing on price-to-value in areas like large enterprise processing within Braintree, we are driving transaction margin dollar improvements even on a lower volume growth. Offsetting some of these improvements we expect a much smaller tailwind from growth and interest on customer balances, which represented an approximately 3-percentage point tailwind to transaction margin dollar growth in the first half. We were also planning prudently and forecasting less favorability with some normalization in transaction and credit losses.

We continue to expect non-transaction operating expenses to increase slightly with ongoing efficiency funding our strategic growth investments. Our investments spending will ramp as the year progresses to support our highest priority growth initiative, the go to market of new products, partnerships and innovation as well as reinvigorated marketing and brand campaigns for both PayPal and Venmo. These investments are all in support of reaccelerating durable profitable growth for the company. Given the strong start to the year, we are raising our 2024 free cash flow guidance to approximately $6 billion. We are also increasing our share buyback plan to $6 billion compared to our prior guidance for at least $5 billion.

In closing, we've been making good progress throughout the first half of 2024 as we drive significant change across the company. We have clear opportunities to lean in further and ensure we stay on offense in what remains a competitive and dynamic environment. We're excited about the path forward and look forward to updating you on our progress along the way.

With that, back to you, Alex.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

Thank you, Jamie. To summarize, PayPal grew profitably again with strength in multiple areas including branded, unbranded and Venmo. We are also starting to see traction in several initiatives. Taken together, these results highlight the strength of PayPal's global commerce platform.

I'll leave you with one last example. You've heard me talk about our Venmo customers looking for us to provide more money in and money out opportunities. As we are improving opportunities to spend Venmo balance with products like Venmo Debit Card or Pay with Venmo, we are seeing a corresponding improvement in funds being used within the Venmo ecosystem rather than transferred out. This is an example of meeting our customers where they are, solving their needs and driving monetization and margin improvement in the process. Overall, this

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was a strong quarter for PayPal and it gives us the confidence to both increase our growth investments and raise our full-year profit and free cash flow guide. I'm proud of our team and excited about the coming quarters and years for PayPal.

Steve, let's go to Q&A.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Thanks, Alex. Before we open the line, I'd ask everyone in the queue to consider your fellow analysts and that ask just one question so we can get to as many people as possible.

Sarah, please open the line.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Ramsey El-Assal with Barclays. Your line is open.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Hi. Thanks so much for taking my question and great to see all the progress that you're making. Branded volumes maintain the ex-leap year growth rate from last quarter. Can you drill down a bit more into your strategy to drive branded growth acceleration? You mentioned your focus on mobile, vault and user interface. What are the most important levers? And then maybe also to Jamie's comments on lower volume, right, there at the end of the prepared remarks in the second half apply to both branded and unbranded volumes? Thanks.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah. Thanks for the question, Ramsey. We're excited to see the progress that we've made on branded. As you can see, we've got a consistent loyal customer base that continues to use and love PayPal. What we've been focused on over the last six months is really some of the things I touched on before, the experiences, particularly around mobile. I touched on some of it in the comments, but the teams are working night and day now to improve everything from the vaulted experience, which is essential on mobile. This is think of high usage, high repeat usage checkout experience where you actually vault PayPal as your default. We've now improved that experience. And as I mentioned, we're seeing a 75 to 110 basis point lift with our new experience.

We're also rolling out a new pay sheet experience overall, which simplifies, gives customers still the choice of whether they're using PayPal Balance or any instrument they want as well as Buy Now Pay Later, but just simplifying the experience, and we're seeing a nice lift in conversion rate there as well.

So big focus on the end-to-end customer experience. We feel like that combined with the ubiquity that we have just in marks across both mobile and web gives us the ability to continue to not only maintain but where we want to be, which is taking share in the branded experience.

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Jamie S. Miller
Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Great. And Ramsey, on the second part of your question about lower volumes in the second half, that primarily relates to Braintree. We are seeing both lapping of larger wins this year, particularly in the second half, and some shifting and normalization in the Braintree revenue profile, just as we enter into and really get into the process of working with our customers around our mission around profitable growth. But on the branded checkout side of things, we expect the second half to be consistent with the first. July is off to a good start. What we've seen in July is very consistent with the first half so far. So we feel pretty good about that.

Ramsey El-Assal
Analyst, Barclays Capital, Inc.

Q

Thanks so much.

Operator: Your next question comes from the line of Darrin Peller with Wolfe Research. Your line is open.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks, and nice results. Especially on the transaction margin side, so to just start there and touch on the dynamics around what's contributing to it from mix versus you talked a lot about pricing per value, which we've heard more and more about in the industry also. So it's good to see. But maybe more direction and color on the contributing forces.

And adding on to that, the sustainability of the strength you saw this quarter in growing transaction margin dollars at these rates. Help us understand your expectations there going forward now? Obviously, you updated guidance, but really beyond just the next few months. Thanks, guys.

Jamie S. Miller
Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. So good morning, Darrin. Thank you. So maybe I'll start with the biggest contributors to transaction margin dollar growth and talk a little bit about the second half there as well. So we were really excited to see the broad-based strength and the acceleration. There's a lot the team has underway, and there are several significant contributors to the growth.

First, we talked about, in my prepared remarks, interest income on customer balances. That was about 3 points in the first half. But second and really very strong was branded checkout. It continues to grow profitably as a healthy contributor to transaction margin dollar growth.

Braintree, which you mentioned, it is back to contributing to transaction margin dollar growth, which we're really excited about. And it's really great to see some progress from our shift in focus there.

Venmo continues to benefit not only from the strong consumer but we're doing a nice job in Venmo, too, driving continued growth in monthly actives. And then lastly, transaction loss favorability continued to be favorable in the second quarter as well, which was nice to see.

When we think about the second half, there's really a couple of things to think about there. I'd say, first, is that our first half tailwinds around interest income will begin to decline. We've just got higher comps in the second half of

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2023 as rates were coming up in the second half of last year. So that impact on transaction margin dollar growth, the percentage, that'll start to come down.

The second is that we saw transaction loss favorability in both the first quarter and the second quarter. It is feeling more durable than we expected even in the first quarter.

Having said that, we're planning for some normalization in the second half. As we get better in transaction loss prevention and detection, so do bad actors and they continue to work hard to do different things. And the second is we're launching a number of products in the second half. And any time you launch products, we're just being prudent around how we think about transaction loss to make sure that if we have a few bugs in the process we're working the kinks out as we go. But the core business is solid. We are more positive than we were three months ago on Braintree profitability, P2P on transaction loss. It's still early in our progress but we're driving significant change.

Operator: Your next question comes from the line of Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks. Good results here. Want to ask about the second half growth investments. It looks like in your guidance you're implying a fourth quarter step-down in EPS performance there. So does that – should we assume that that's heavy marketing around the holiday? Can you maybe give little bit more specifics on what you're marketing exactly and what kind of return you're expecting? Thanks.

Jamie S. Miller
Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Hi, Tien-Tsin. Good morning. I'll take the first part and then maybe Alex will want to comment on the marketing pieces of it. So in the first half, we've done I think a really nice job with expense discipline. We've taken a number of actions to reduce our OpEx profile while at the same time remixing our prioritizing investment back into engineering product and some marketing. Now we intentionally deferred in the first half some marketing dollars to the second half.

So, when you look at the second half profile, you're seeing the same underlying core reinvestment in engineering and go to market and things like that. But you're also seeing a much bigger ramp in our marketing spend around marketing and brand campaigns for both PayPal and Venmo. But really also around these product launches really making sure we put our marketing dollars to work to have that hit the ground running the way we need to. So in the second half when you think about the EPS guide side of it, more than half of that 4Q pressure is the ramping of those growth investments.

The other side I'll just mention this quickly while we're on the topic is that we've got a higher tax rate in the second half than we had in the first half. And so that particularly on a comparative basis to last year is what's impacting some of the EPS profile.

James Alexander Chriss
President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah, and just to pile on and dig a little bit deeper, this is very deliberate. The first half of the year we needed to invest in innovation and invest in the customer experiences. And put to market experiences on both PayPal and Venmo from a consumer standpoint that we can be proud of. I feel like we're at that place now. The experience on

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the PayPal app, what we're putting out on branded experiences, and even just the engagements, just the new designs, the shopping and rewards that now exist inside of the PayPal app is completely rebuilt and new.

On the Venmo side, you've seen the improvement as we started to create real onboarding ramps for our debit card and we're seeing the improvement there. So feeling really good about the experiences on both of the apps and it's time to tell the world about it. And we're excited to ramp up some of our go to market spend in sort of exciting and engaging ways.

Operator: Your next question comes from the line of Harshita Rawat with Bernstein. Your line is open.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. Good morning. Alex, I want to ask about Europe – historically PayPal has grown in the region despite not investing enough. How are you thinking about Europe among PayPal's international markets? Looks like the company has a very strong local presence and the regulatory environment is now more favorable with respect to NFC access in iPhones. Thank you.

James Alexander Chriss
President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah, I think it's a great question, and it's one of the things that we may overlook sometimes when we just think about PayPal. We are a global company, and the way customers use us whether it be cross-border, whether it be access to merchants all over the world, is truly a global phenomenon. And we've invested heavily over the years in ensuring that we are compliant in everywhere that we want to be in over 200 different markets. As we think about our strategy as I've laid out in the past to make sure that PayPal is available everywhere for every purchase every time, that includes being able to be available in an omni-channel solution whether it's e-commerce or whether it's in-person.

And with some of the changes coming particularly in Europe around NFC, that opens up the opportunity for us and we will be prepared shortly to be able to play in that space. So it's exciting to see our growth. I'll hit one more example. Our Buy Now Pay Later growth that we continue to see, 60% of that volume comes from outside of the US. So we're bringing the entire ecosystem of what PayPal brings to the global stage and excited to continue to invest there.

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

Colin Alan Sebastian
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks and good morning to everybody. Was curious on the SMB initiatives, in particular the strategy to drive more adoption of branded checkout. How important Fastlane is to that initiative. And then also if you think advertising can be ultimately a lever for that side of the business as well on both sides of the network? Thank you.

James Alexander Chriss
President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah, it's a great question. And SMB, as I've said, since I've got here I think is an untapped opportunity for us. So let's just pull back and talk about what SMBs really need, right. Small businesses are – they're fighting for every customer. They need to be able to find customers. They need to be able to engage with customers, convert them,

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and then reengage with them. And really what they're looking for is an end-to-end platform and an end-to-end solution to help them. It is very difficult for a small business to piece together 17 different solutions. They just don't have the bandwidth, the people and the time to be able to make that happen.

With PPCP we now have put together the most powerful single platform for them to be able to run their business in a full stack manner. So with PPCP you now get branded experiences with the best branded experiences. You get access to the best guest checkout conversion with Fastlane. You get unbranded processing so that you can ensure that you can process anywhere around the world.

You get every mark. You get Buy Now Pay Later, you get access to our working capital, and then as you mentioned now that we start to roll out our ads platform, you get the ability to drive new customers. You also get the ability to reengage with customers in a delightful way. So package tracking, smart receipts, the ability to be able to remarket to customers even after they've purchased. All of this is in one place with one partner.

And so we're in early days right now. PPCP really is just rolling out. We're excited about the progress and the growth, but there's a lot more to play here. Live in 30 markets and through 40 partner channels, but I think we're just getting started. This is going to play out over the next few years.

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

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning. It's nice to hear about the accelerated general availability of Fastlane. Maybe you can talk about what it means from a revenue contribution standpoint. And if not this year, maybe we can just talk about how we should think about the revenue contribution. Would it be through more engagement?

And then maybe just secondly if you could just talk about the volume trends. It seemed like US was pretty stable. International dropped off. Maybe a little bit more color there would be helpful? Thanks.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Let me start with Fastlane. So just as a reminder for everyone, Fastlane is really tackling the 60% of checkout that is guest checkout. We've got a unique experience because of the volume of our two-sided network and the consumers that we see coming in where we're able to dramatically change the conversion rate for repeat users. So 80% conversion rate versus a traditional roughly 50% on a repeat user.

Our goal is to capture and help all merchants for all guest checkouts. So the way we built Fastlane is this really is a platform that can be processor agnostic and we want to be able to help every consumer come through and have a delightful guest checkout experience as well as enable actually our ability to capture them through a Fastlane by PayPal experience and bring them into our branded experience as well. So there's a flywheel effect.

In terms of rollout, we're rolling this out now. We've got a developer day situated in a few weeks from this time in August. We're going GA now in August as well, and so we'll be ramping up as many customers as we can. We've not talked about and disclosed pricing on this, so I'm not going to get into that at this point. But know that this is our ability to monetize, not just guest checkout that we process through Braintree, but really for us the total addressable market is the entire guest checkout experience across the board.

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Jamie S. Miller
Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. And on the second part of your question around the US and international environments, as I mentioned before we see the US environment being very consistent right now with what we've seen over the first half. International is a real strength for us and we did have a shift down a bit in the international area on TPV this quarter. But when you look at that, what that really is, it's almost solely related to lapping some large Braintree wins last year. Otherwise, very healthy.

Operator: Your next question comes from the line of Dan Dolev with Mizuho. Your line is open.

Dan Dolev
Analyst, Mizuho Securities USA LLC

Q

Hey, guys. Good morning. Thank you for letting me ask a question. Great results. Wanted to ask you, Alex, a little bit about the competitive positioning regarding Apple Pay. Obviously really strong branded checkout. There has been some worries in the past. Can you maybe contextualize a little bit where we are and what you're doing to beat them? Thank you.

James Alexander Chriss
President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah, thanks, Dan. Great question. So let me set some context. So first we play in a massive multitrillion dollar market and it's not a zero-sum game. So we expect competitors come in since we launched over a decade ago. We went from one button to now there's lots of different buttons and branded experiences and we'll expect that to continue.

Let me set the context of the reality of today and then how we think about the future. So the reality today, we are the number one branded experience across all platforms and devices. If we narrow down into desktop web, which is still 40% to 50% of all checkout, we see no degradation in our share over the past four years. So let me say that again. We've held share despite competition.

Second, if we look across browsers, there's actually no difference in our selection rate across different browsers. So certain buttons moving from one platform to the other just isn't material to us. So that's where we are today.

So let's focus around our ability to continue to improve and make this a better experience for our consumers going forward. So, for merchants, they're looking for an end-to-end solution. They want to get customers, they want to convert customers and they want to engage and have a return experience with customers.

As we talked about, we now have the best branded experience. We're continuing to improve that. We have Fastlane, so we have the best checkout experience. And we've rolled out ads and continuing to invest in our profile. So we're helping merchants end-to-end.

On the consumer side, they're looking for ubiquity, flexibility and a rewarding experience. We are the most ubiquitous. We have 80% acceptance rate in the developed world with a large and growing customer base. And from a flexibility standpoint, they want to be able to pay everywhere with any way that they can – that they want to pay and we're able to provide that.

So if you pull back, I'm just excited that we are in a strong position of being the most complete platform and two-sided global network driving the highest value and benefit to our consumers and our merchants.

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Operator: Your next question comes from the line of Timothy Chiodo with UBS Financial. Your line is open.

Timothy E. Chiodo
Analyst, UBS Securities LLC

Q

Great. Thanks a lot for taking the question. I wanted to drill into branded checkout a little bit with the 6% growth. Maybe you could talk a little bit about the relative levels of growth, US versus international, granted you did call out the strength in international with Continental Europe and Asia? And then also on the relative levels of transaction margin, given that there are some differences in transaction expense levels and also potentially merchant size mix? I would appreciate those. Thanks.

Jamie S. Miller
Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah. So on a relative level of growth, US and international, both continue to be strong contributors for us. There's obviously different market mixes and different merchant mixes as you look at those growth profiles. In the US, large enterprises continues to be an area of strength for us. And I would say in the small business area, we continue to remix that portfolio as we move to PPCP and off of legacy platforms, and really move to both a direct and a partner strategy there.

When you look at the international side of things, branded checkout is very, very strong in several European both countries and corridors. UK continues to be pressured. But I would say, outside of that, we've got real strength in other countries, such as Germany, and just real bright spots in Europe as well. So I'd say it's fairly balanced across the globe when you look at it.

I'm trying to look at the second part of your question here, transaction expense. When you look at transaction expense, it is impacted by funding mix, product mix, geo mix, all of that stuff. Funding mix relatively stable. The biggest driver of our shift in TE right now has been Braintree and that continues to be what is happening there.

We're always looking at ways to continuously improve our transaction expense profile and work with different partners to move the needle on that, and we continue to have different benefits in different quarters just in terms of how that rolls through, none of which was particularly material, but we had a little bit of that, too.

Operator: Your next question comes from the line of Jason Kupferberg with Bank of America. Your line is open.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Good morning, guys. Thanks. I just wanted to ask a follow-up question on the full-year guide for the transaction profit dollar growth. Obviously, you're ticking that up here. It does imply the deceleration in the second half that you've mentioned around flow comps, et cetera. What I'm trying to get a sense of, has your full-year outlook for transaction profit dollar growth from the core branded and Braintree businesses changed? Just to kind of isolate the delta here in the guidance.

Jamie S. Miller
Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

Yeah, I would say, generally, we're seeing a stronger branded baseline and we're having increasing confidence in the slope of our Braintree profitability efforts. That's what I would say on those two.

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Operator: Your next question comes from the line of James Faucette with Morgan Stanley. Your line is open.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. Want to circle back to Fastlane, and obviously, a lot of interest and excitement in terms of its launch timing, et cetera. And I think you've made it pretty clear that this will be kind of a gradual opportunity that'll build on it in addressing a big market. How should we think about, like, what your key to-dos are as we go through the rest of this year and into next year?

And I'm wondering, if any of Fastlane with the launch timing is now built into the guidance as well as any other new initiatives that may have been added into guidance for the rest of the year. Thanks.

James Alexander Chriss
President, Chief Executive Officer & Director, PayPal Holdings, Inc.

A

Yeah. Let me start with the last part. We've really not built any Fastlane upside into guidance. And part of that is because of our go-to-market, is going to be very focused on just getting adoption, not around monetizing in this half of the year.

Now, to be clear, we're pricing in the contracts that we're signing with customers, and so pricing is built in. And as I said before, the TAM is every guest checkout. That's what our focus is. But it's not built into the second half of the year.

In terms of key to-dos, we've really created and worked hard during this beta period to create a seamless experience so that developers and merchants can get on board as fast as possible. And so for someone using us now, it's really a two to four-week experience to get on to the Fastlane code and enable that to roll out. So we need to get it on as many platforms as we can so that small businesses in particular can just one click a button and turn it on for the holidays. We're working with many of our large enterprises who want access to this before the holidays as well.

But again, look the reality is we've got a lot of merchants around the world and it's going to take time for them to be able to put this into their roadmap. So that's why we want to set expectations that that is going to take quarters and years to get everyone on board. But the beauty of Fastlane is it's a network effect. More customers coming through it. We're already seeing best-in-class conversion rates. The more customers that come through it the more profiles that we start to capture and the better the conversion rates should become. So we want to get started as fast as possible and get as many merchants through this holiday season as we can. And then build from there.

Steven Winoker
Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

A

Sarah, let's make time for one last question, please.

Operator: Thank you. Our last question comes from the line of Andrew Schmidt with Citi. Your line is open.

Andrew G. Schmidt
Analyst, Citigroup Global Markets, Inc.

Q

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Hey, Alex and Jamie. Thanks for squeezing me in here. I want to double click just on the Braintree trends. Obviously good progress in terms of transaction margin dollar growth. Maybe you can talk a little bit more about what's driving that. Clearly more discipline, lapping of large contracts, and then as we look to the back half and beyond, I hear you on the slope that's kind of built into the outlook. But from what you've seen so far, how does it inform your confidence in terms of building on the progress that you've seen so far in transaction margin dollar growth as we go into the back half and subsequent years? Thanks a lot.

Jamie S. Miller

Chief Financial Officer & Executive Vice President, PayPal Holdings, Inc.

A

So good morning, Andrew. Thank you. So first let's just talk through the Braintree growth and what's really driving that. We set out this year to really reorient the team with Braintree around profitable growth. And as we've done that, we've had just a number of conversations with customers both around contract renewal but also just around our holistic relationship. And really getting into understanding how we partner, what the margin structure is, how we provide value-added services, just the overall value-to-value exchange that we've got. And honestly they've been really positive conversations. As just on a total relationship basis sort of thing.

As we looked at that, there are certain situations where as we've gotten into the discussion, we're willing to accept a lower share of revenue in exchange for a higher margin contract. There's other situations where as we work with our customers, we're able to sell in value-added services in ways that we just haven't done before. So it's lots of different levers in that process. But what we're excited about is we're really starting to see good traction on that. It's intentional. We've set out to do this. And it's a really good thing for the business.

And I think as you look at the second half, what we saw play out in the second quarter, I expect to continue. We saw some of the volume growth normalize a bit, but we saw more positive transaction margin dollar growth, and it's really good to see that tangible progress play out. And I think it will continue to play out over time. It may be a little bit uneven and not linear but that trend of a little bit more normalization into the business but improving margin profiles is something we fully expect to continue.

Steven Winoker

Chief Investor Relations Officer & Senior Vice President, PayPal Holdings, Inc.

Alex, I think we have time for any final comments you might have.

James Alexander Chriss

President, Chief Executive Officer & Director, PayPal Holdings, Inc.

Yeah, thank you all today and thanks, Steve. Just to close the call, the company is energized. We're proud of what we've accomplished. Just to, again, sort of set the context of where we are, we're really six months in. We've got a new leadership team. We're getting stronger every day. We've returned the company to transaction margin growth. We've returned the company to consumer user growth. We've significantly improved profitability of Braintree and we're accelerating Venmo.

And so I just feel really proud that we are stronger today than we were six months ago. And we will be stronger six months from now than we are today. And we're executing against our game plan. This will be measured in quarters and years. It will be a long game but six months in we are on the right trajectory. So thank you all for today, and see you next quarter.

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

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