



PayPal Q3 2019 Analyst Call

Wednesday, 23rd October 2019

Welcome

John Rainey

Chief Financial Officer and EVP, PayPal Holdings Inc.

Thank you all for joining us today, or later this evening, if you are on the east coast. With me today, similar to the last quarter, we have John Kunze, who heads our Consumer Product group and Erica Gessert, who works alongside me in Finance, handles our financial planning and analysis and analytics as well. We are happy to field any of your questions; we also, of course, have the IR team here as well.

Q&A

George Mihalos (Cowen): Hey guys, congrats on the quarter and thanks for doing this again. John, I wanted to start off: if we look at the strong growth that we have seen on new accounts coming on, is there a way to kind of ballpark how many of those accounts are coming on via a direct channel to PayPal, versus your partners, namely your bank channel?

Then, just quickly, as it relates to the 2020 guide, two quick items. One what tax rate should we be assuming in that guide? Is there any FX factored in? Thank you.

John Rainey: Sure. Let me take the second part of your question, George. Then I am going to ask John and Erica, maybe, to chime in because they are more familiar with the first part of your question.

So, on the [non-GAAP] tax rate for 2020, we have not specifically guided to that right now but you ought to think of it [non-GAAP tax rate] in terms of the 17–19% that we have guided to in the past. The benefit that we saw this quarter was really related to the mark-to-market loss that we recognized on the strategic investments that we have. Was there another part to 2020 in the question?

Erica Gessert: The FX.

John Rainey: FX, yes. So, FX, right now, it is about 200 basis points of headwind next year. That is net of our hedged position. So, as you will see when we release the Q soon, we have about \$170 million or \$175 million of hedge gains that we expect over the next 12 months. I will point out that, relative to previous years, we expect next year will be probably less protected or have less of a benefit from hedges. That has to do with the way that currencies have moved on this year relative to our mechanistic hedging program, so we will have to absorb more of the full blow of the changes, or the strength of the US dollar, next year versus this year and previous years. As a reminder, we hedge to protect the bottom line, operating income, not necessarily to protect revenue. Obviously, it has an impact on that but we take into account the expenses that are denominated in foreign currencies as well when we look at how we protect the bottom line.

I will now turn over to the others for the consumer piece.

Erica Gessert: I will start and then John can jump in.

On the question about direct versus bank partnerships, bank partnership activations are relatively small for us compared to the direct channel, so they have a meaningful but small impact on activations overall. The places where we are seeing strength continue to be P2P, Venmo, as well as some of our international activation areas. India continues to be a good activator for us, as well as even some of our other international countries as well.

John Rainey: Yeah, thank you.

Bill Carcache (Nomura): Good afternoon. I had a question relating to Venmo. I wanted to just follow up on the earlier Venmo comments on the call. Your two-sided network is a unique asset but we have yet to really see Pay with Venmo shine through as one of the primary sources of monetization. Can you talk about what you guys are doing to move Pay with Venmo higher on the list of monetization sources? Is the recent Venmo credit deal with Synchrony part of your strategy to do that? Maybe what is the breakdown of monetization sources today, in terms of relative significance?

John Rainey: Sure. Thanks for the question Bill. I will start and others can chime in. The composite of earnings, or revenue contribution, from Venmo in the quarter today is relatively similar to what we have seen in the past. The majority is related to instant cash withdrawal and relatively split equally between the Venmo card and Pay with Venmo for the balance of it.

I think it is important to note on Pay with Venmo obviously there are a lot of questions because of the growth profile of this business. When is it going to be profitable? It is important to understand how the unit economics work on Venmo. So, very simply, if you think about the take rate model for Venmo today, it is the same as it is with PayPal. We do not have a different user agreement with merchants for Venmo than we do with PayPal, so the take rate is the same.

Transaction expense is, as I think people recognize, modestly less than what it is with PayPal because of the funding mechanisms with Venmo, it being more balanced and more ACH. I think, very importantly and maybe even surprisingly, transaction loss on Venmo is at par with PayPal as well. That, I think, is important to note because when you are growing a platform, you can always grow it faster if you are willing to accept more losses on that platform. So even with 64% growth in the quarter, we are seeing a level of transaction losses that are commensurate with PayPal in total. So the unit economics work. What we are focused on is making the appropriate investments to be able to scale that over time.

I will let John chime in there.

John Kunze: Yeah, thanks John. I think the important thing to remember is that what we are doing with Venmo is focusing on bringing value to these customers and if we can monetize while we do that, we are happy with that.

So we brought value to them with the instant withdrawal feature; that is being monetized. We brought value with the Venmo debit card so people could spend their balances offline and that, of course, is offering monetization opportunities with us. Pay with Venmo has always been part of the strategy and as we have always said, it is something that we are carefully implementing with our merchant partners. The experience has to be perfect and so that is happening on a case-by-case basis for the most part.

We do have an impressive list of large brands, like Uber and Poshmark, who are supporting Pay with Venmo. Where we see Pay with Venmo showing up as an option, we are seeing really nice take up on share of checkout.

I will just finish by saying we did end the quarter with 35% of the base being monetized since we started to monetize the base. That is up from almost 24% a year ago, so I think we are really pleased with the rate of monetization.

Bill Carcache: That is great. Just very quickly: so it is not crazy to think that, with the passage of time, as you guys, on a case-by-case basis are emphasizing that, that we could see Pay with Venmo migrate higher on the list and potentially become the primary monetization source over time?

John Rainey: Yeah, I think it depends on a number of factors. However, we have something that is so coveted among its customer, the virality of that, when you look at case studies like a college campus or something like that, it is a must-have app. As that demographic grows and matures in their financial lifecycle, it is possible that, as our experience has evolved with that, it could be a very significant, if not the most significant, contributor to our earnings profile over time.

Bill Carcache: Thank you.

John Rainey: However, as John noted, I think we are fortunate as a company that we have the margin profile that we do, so that we can be measured around the rollout of this and we are not just trying to rush this to market to make it profitable. Rather, we are focusing and prioritizing on the experience first.

Thanks Bill.

Bill Carcache: Thank you.

Sanjay Sakhrani: Thanks for doing this. Maybe just a follow-up on the commentary on the conference call related to the eBay revenue headwind. I understand it is going to become a smaller part of the total but just when we dimensionalize that 1% that you talked about in 2020, how significant is it as a percentage of the total headwind as we move to the 50% of volume you expect to retain?

Then secondly, I guess, when do you expect that we get there, in terms of totality? Then, finally, just in terms of commercial agreements, any updates on the commercial agreements with MercadoLibre and maybe even Uber? Is that factored into 2020? Thanks.

John Rainey: Sanjay, you managed to get in a lot there so I will try to hit this quickly. Let me take the commercial agreement piece first because that is a quicker answer. We do have a commercial agreement with Uber and we are excited to be able to process some of their volume in some of the faster-growing international entities, like in Brazil, like in India. So that is in place and there will be some impact in 2020 related to that. We do not have a commercial agreement with MercadoLibre yet. We are hopeful that that is right around the corner. Depending upon what that agreement is, what form it takes, we will have some amount of product innovation that is not insignificant. So if you were to imagine PayPal being accepted on their marketplace, or their customers having the option to have Mercado Pago presented in a smart payment type of experience with our network of over 23 million

merchants, there is some amount of integration. Even to take a step further, if there is interoperability on P2P between the two wallets, that requires some work.

So even if we were to announce something tomorrow, I would expect that the financial impact in 2020 would be relatively small around that.

On eBay, I believe eBay has said that they expect the end of 2021 to be the time period where they have the majority of their merchants on the eBay managed payments. So even they have suggested that this is a measured rollout on their part.

I think you can use even the example that we did in the last quarter with Paymentus as an analogue because each of these integrations takes some time, takes some experience. You do not want to do a knife-edge cutover and risk a bad experience with that customer group. So what typically happens is you will test new experiences with a small subset of customers, learn from those, make improvements in the product innovation and then roll it out to a larger set of consumers, or customers, until you get that exactly right.

So there is a product integration element of this. There is also a licensing requirement that they need to obtain in each of the entities in which they operate. Certainly, when you look at the pace at which they rolled out Germany being slower than what they were actually allowed to do by the letter of the contract, that is probably some indication of some of the difficulty of this aspect in terms of getting licensing in these various entities around the world. So that is not an insignificant effort as well.

In terms of dissecting the 1%, related to my previous answer on eBay, when we look at 2020 we would expect that with Germany and the United States, where they have their managed payments live today, they will be able to obtain, or achieve, a faster ramp in the back half of next year. So we do expect that they will have the ability to achieve that. However, with respect to the other entities, it will take more time. I think it is important to note that, as we approach the holiday season, I think any merchant would be slightly loathe to have significant changes in their product experience during such an important time of the season, so that could have some impact there as well.

However, as we also noted on the call, when we look at the share of checkout that we have today in both of the areas where they have managed payments, it is very consistent with our expectations going back to January of last year, when this was first announced. That was what we said we expected, based on our experience with others that had moved into managed payments. So all of that together, we think that the impact next year is about 1% of revenue growth for us and that will ramp through 2021 after that.

Sanjay Sakhrani: Thank you.

Brad Berning (Craig-Hallum): Good evening guys. I was just wondering if you could go a little bit deeper into the engagement levers that you have? Just help us understand where you see the real impetus behind the continued 9% engagement growth, as far as whether it is products, whether it is networking effect from merchants versus direct deposits that you are seeing, or just even contribution from mix shift, whether you are picking up small-medium business-type consumers around the world versus a retail consumer? I was just wondering if you could dive into that a little bit deeper?

John Rainey: Sure, Brad. I think sometimes network effect, that term, gets overused in businesses but we truly are seeing some of that on our platform. So there is not one area that, I think, is performing significantly better than the others. We are just seeing an overall level of engagement that speaks to the increasing relevance we have as not only a payments button but a payments platform, for both our consumers and our merchants. As we become more relevant on the merchant side, we have become more relevant on the consumer side and vice versa, so there is an element of that.

We are also pretty pleased with the new cohorts that we have on our net new actives. They are actually much more engaged than previous cohorts. Erica can talk more about that in a second. So we are really pleased with what we are seeing across the board there.

However, one of the things that we are doing differently, very importantly, is we recognize that when a PayPal customer engages in multiple products that we offer, whether that is on the consumer side or whether that is on the merchant side, there is kind of a flywheel effect where they become much more engaged overall.

If we go back to the previous question around Venmo, even with PayPal and Venmo, there is some cannibalization there. You have customers that are both a PayPal customer and a Venmo customer but those customers, for the most part, are the most engaged customers on our platform. They are much more engaged than someone that is just using one of those products.

So that is an example of where we see this network effect in our business.

Erica Gessert: Yeah, I would just add a couple of things. One is that when we add new products to our network, we see meaningful improvement in the engagement of customers who activate with these products. An example is the PayPal Anywhere card: activations on that card. It is not a meaningful contributor to our total engagement metric today because it is relatively low volume but customers who activate with this card have a multiple of the engagement of our average customer, for example.

In other places there are things that we are working on which is bringing forward the PayPal value proposition through the checkout experience; we see much, much higher conversion. It is all of these small factors that are adding up to changes in our engagement.

Brad Berning: One quick follow-up –

John Rainey: I am going to also say –

Brad Berning: I am sorry, go ahead.

John Rainey: Go for it, Brad.

Brad Berning: Sorry. I was just going to say one quick follow-up is are you seeing increased direct deposit with your user base inputting their pay checks and using you guys as more of a primary-type account?

John Kunze: The direct deposit enrollees are a small part of the file.

Brad Berning: Got it.

John Kunze: However, that part of the file, that would be interested in that feature, is enrolling in the feature at a pretty good rate. Maybe I will just help answer the question by

saying that the better our product gets, the more engaged our customers are and we are maniacally going after all the problems in every experience. This is probably top priority for every product team. So, as John mentioned on the call, what we have been able to do with customer service contact rates versus volume is a direct result of us providing better experiences to our customers, giving them fewer reasons to contact us, which means they are happier customers and use us more. I think this engagement lift is directly correlated to that work.

John Rainey: Thanks Brad.

Brad Berning: Thank you.

Craig Maurer (Autonomous Research): Hi John, thanks for doing this call again, I appreciate it.

John Rainey: Thanks Craig. Good speaking with you.

Craig Maurer: Yeah, I wanted to clarify a comment on the call. I believe Dan said that Venmo was, I forget how he exactly put it so that is why I am looking for clarification, positive margin or accretive to margin at this point. I wonder if you are saying that Venmo is just profitable, to a degree, or that it is actually accretive to the overall company margin at this point.

John Rainey: Thanks for the question, Craig and I appreciate the opportunity to clarify that. As I stated earlier in the call, the unit economics work on PayPal but we still have a significant amount of overhead and investment that we are making to get this to where we want it to be. That level of investment was increasing each year and in fact there was a point where the unit economics were not working on Venmo, before we launched Pay with Venmo. We are at a point now and I believe this is what Dan was attempting to describe: the level of losses are improving on Venmo in total versus where we were even a couple of quarters ago, certainly a year ago. However, to be clear, Venmo still loses money today.

Craig Maurer: Okay, thank you because I was surprised by that comment.

John Rainey: Yeah, you bet. Glad to help.

Craig Maurer: Okay, thanks.

Dan Perlin (RBC Capital Markets): Good evening guys.

John Rainey: Hi Dan.

Dan Perlin: Just a question on eBay again. I am trying to understand the flow through of the 1% impact on revenues to the operating margin comment; you were talking about 50 basis points of expansion. I just want to make sure I am level-setting it right: that 50 basis point expansion is kind of growing off your 23% operating margin base.

Then I also just want to clarify that your base number for EPS is roughly \$2.96, that we are going to grow from 17–18% off of.

John Rainey: So, yes, the 17–18% growth is excluding any mark-to-market gains in 2019. As we said on the call, we do not expect to recognize those in non-GAAP earnings in 2020, so that is a clean comparison year over year.

With respect to eBay, as we noted on the call, they are 8% of our volume today. They represent a larger percentage than that in terms of revenue and an even larger percentage in terms of profit. So, on a relative basis, as you think about the impact that we noted, the one percentage point of growth impact next year related to eBay, it is a larger percentage in terms of earnings for us. However, again, given the scalability of our platform, all of the other things that we are doing, the initiatives that we are undertaking, we believe that we can offset that and still expand margins by at least 50 basis points next year.

Dan Perlin: Can I just ask a quick follow-up on that? In the past you have talked about the cost and the expense associated with branded versus non-branded transactions. In the second half it would seem like you were able to reduce that cost pretty significantly. I am just trying to make sure that, as we think through this reconciling item, that we can get back to 20% plus EPS growth as we go through the longer, mid-term, horizon period, that we are appropriately calibrating for that cost differential. I am just trying to make sure that is implied in the 50 basis point expansion. Thanks.

John Rainey: Yeah. So let me add some color there. The part of the business that we are retaining with eBay is the branded payment button. That is the vast majority of the business that we have today and we will retain a significant part of that going forward, as we have got an extension to the operating agreement that we have today.

Their managed payments is the unbranded piece. It is a smaller piece relative to the branded piece today, for us and it is also less profitable because that is mostly card-funded. So that is the cost breakdown in terms of branded versus unbranded.

As the unbranded volume comes out, though, we do expect certain costs to come out fairly ratably with that. Two examples would be transaction losses and the other would be customer service. On customer service today, when we look at the percentage of calls that we get are related to eBay, they skew disproportionately to that relative to their volume. So as some of that volume shifts off of us, we would expect both losses and customer service contacts to shift as well. Fortunately for us, there are many other things that we are doing that mute that impact. We just talked about Venmo. As we begin to change the profitability of that business and make that towards a contributor to the bottom line, that can mute that impact. As we expand in markets internationally, we expand with additional consumer value propositions, we believe that those things can mute that impact. All of this is a portfolio of products that work together and we are very comfortable, given what we see around these products, that over this five-year timeframe we have provided for medium-term guidance, we can continue to grow earnings, on average, of 20% each year.

Dan Perlin: That is great, thank you.

Eric Wasserstrom (UBS): Thanks for taking my questions. John, just a couple of things I wanted to clarify. The first is: when you were walking through on the initial 2020 guidance, the factors that lead from the revenue component down to the bottom line, you indicated the items below the line that will be influencing the 17–18% on EPS growth. However, did I understand correctly that there is also a bit of an accelerated investment cycle that will be evident in the operating margin performance for next year?

John Rainey: Yes, you did. We did specifically note in the prepared remarks. We have a number of initiatives that we are undertaking next year. Some are, like John suggested, kind

of improvements to what we do today. Others are new initiatives that require investments. Even with those, we believe that we can expand margin 50 basis points with a significant amount of investment next year.

A very public example that I can give you is our investment in GoPay in China. That requires a significant amount of investment that will take place over time but in order to really seize the opportunity and capture some of that addressable market, it is going to require some investment.

Eric Wasserstrom: Sure. So it seems like the implication is that the benefit of that investment is one of the things that then propels the outperformance on earnings growth in future years. Is that directionally correct?

John Rainey: That is correct.

Eric Wasserstrom: Then if I can just follow up on one question the debt raise, you were very clear about the uses but I guess my question is you had a very significant amount of cash on balance sheet and of course you generate a lot of free cash flow. Now it seems as is your war chest for M&A is very, very big. Should we read anything into that, in terms of the kinds of opportunities that you are contemplating? Maybe as a corollary, why not, given that even with this \$5 billion, your balance sheet is still potentially very unlevered, pursue a much more programmatic share repurchase program?

John Rainey: Sure. It is a good question. As I noted on the call, the capital markets are extremely attractive right now. They have been for some period of time but I think this is unprecedented. Given the suite of opportunities that we have for investment on the horizon, we felt that it was appropriate to tap into that. We could certainly tap in further if needed but our capital allocation priorities have not changed.

I think, though, sometimes people want to sort of force us into doing what we have described, like for example \$1–3 billion of acquisition, each year and every year. As we all know, M&A does not happen in a linear fashion in that way, it happens in fits and starts and every deal has a life of its own.

However, as we talked about, \$1–3 billion of acquisition over a five-year time period, could be \$5–15 billion. We do think that there are opportunities out there that fit into those guard rails but this does not change our capital allocation priorities. While we have been a little opportunistic with our share buyback, on average we have really stuck to the parameters we have put out there, which is about 40–50% of our free cash flow being returned to shareholders each year, on average.

So, again, though, as we see displacements in our stock price and maybe better opportunities to go do something larger, we will look at that as well. However, this is not in any way a shift in our capital allocation strategy. This is a way to take advantage of the debt markets to give us a little more flexibility to address that going forward.

Eric Wasserstrom: Thanks very much for the clarification.

John Rainey: Okay.

Ashwin Shirvaikar (Citi): Hey, I guess the first question is I wanted to clarify the impact of hedge gains in your outlook. They will come in over the next few quarters, \$172 million, I think it was, beneficial impact. How does that factor into your outlook?

John Rainey: Sure. So, Ashwin, it is good to speak with you. Over the next four quarters I think, if you mark to market our hedges as of the end of the quarter, it is about \$170 million-ish. That is more front-loaded. Our program is we tend to protect more of the near-term earnings and then build on that position over time. So you could think of it as the vast majority being in the first quarter, a little bit less than that in the second quarter and tapering throughout the year. However, we will add to that, as we always do, is we have balance out the year and get into the first part of next year. The net impact of that is included in the guidance that we provided of 17–18% earnings growth.

Ashwin Shirvaikar: Okay, so it is included and that does then, provide, I guess, another [inaudible] obviously affecting this over time, understood.

The other question I had was really a clarification with regards to some of the partnership-related revenue that got pushed out into next year. Paymentus seems to be sort of a resolved kind of thing but there is an event associated with it, as you mentioned. Then I believe that was not the only partner, so if you could provide some kind of a guide post on what portion of the revenue that got pushed out actually comes into next year?

John Rainey: Sure. So, Paymentus, we are rapidly ramping the billers there but there is a process to that. Our hope is that by the early part of next year, we will be substantially complete with that. So maybe think of it as the last three quarters of next year, or the back half of next year, somewhere in that timeframe, we will be closer to a run rate basis there.

With respect to the other integrations, everything else is as we announced on the last call. They were pushed back from our original expectations but we are progressing as we expected or, in the case of Paymentus, even better.

Ashwin Shirvaikar: Understood. Okay, got it. Thank you very much for those things. Thanks.

John Rainey: You bet, Ashwin. Good to talk to you.

Joseph Foresi (Cantor Fitzgerald): Hi. I thought I would take a shot at this one but what is built in for FY2020 from a Venmo revenue run rate perspective?

John Rainey: Yeah, I appreciate the shot but we do not really give specific guidance on parts of our business. I think you could look at our trajectory this year in terms of TPV growth and how that is kind of calibrated through the year. We are at 64% TPV growth in the quarter. There are obviously a lot of large numbers there. It would be tough to accelerate that, given the growth that we are seeing there.

We are seeing, with each quarter, more and more Venmo customers being added to our platform, though. It is still, today, that the single greatest contributor to net new actives is PayPal Core but Venmo is getting closer to where it could be the largest contributor, maybe at some point next year.

So, as you think about modeling that, you would probably look at what we have done this year to form an opinion around volumes but then in the volumes next year, at some point, Pay with Venmo will begin to take hold. That could change that dynamic.

Joseph Foresi: Got it. Do you think we will see an uptick in overall take rate next year?

John Rainey: We are not projecting that in our financials. There are a number of things we do to mute the decline, if I can describe it that way but the single largest contributor to take rate decline in the current quarter is free P2P. P2P is our single largest activation channel for new actives. We also see that when someone uses us in a P2P application, the lifetime value of that customer is much greater, roughly 2X than someone that does not. So we are happy to accept that decline in take rate related to that for what it means for our overall business, long term.

Maybe one other thing to note on take rate is, even as you think about the most recent quarter, there were about 3bps of benefit related to hedge gains. As I noted in some of my previous comments, we expect there to be a lesser benefit next year related to hedge gains.

Joseph Foresi: Got it. Then I just will squeeze one last one in on the investment strategy. Would you lean more towards acquisitions and away from, sort of, taking a stake in investments, given the present volatility that it is presenting to EPS or are you still agnostic? Thanks.

John Rainey: Well, the investments that we made in MercadoLibre and Uber are less about financial returns related to what happens to the performance of their stock and more about the partnerships that we expect to have with each of those companies. So I would not suggest that we are not going to do any of those investments like that ever again but those were pretty unique and perhaps anomalous.

We certainly, when we look at the investment opportunities, are very attracted to companies that provide complementary assets to what we do today. As we look out at the horizon, I think one thing that really stands out for us is around the consumer side.

A lot of the investments that we have made in the past couple of years have been, I think, more oriented to the merchant side of the business and providing capabilities to our merchants there. We recognize that to have a powerful two-sided network like we do, we need to appropriately invest in both sides and so we are very interested in continuing to invest both organically as well as inorganically in that consumer side as well.

Joseph Foresi: Thank you.

James Faucette (Morgan Stanley): John, I just wanted to follow up on that last point. I appreciate you are saying that those are kind of anomalous, particularly going forward but can you explain a little bit more and get a little bit more color about why you felt like an equity investment was necessary to get the benefits of a partnership, etcetera. It is just that is typically not something that we see but you clearly had a reason, so just a little more color there would be helpful.

John Rainey: Sure. So each investment is unique and so it is hard to sort of make a one-size-fits-all example. However, let us take MercadoLibre as an example. The characteristics of MercadoLibre, with Mercado Pago, are very similar to what they were with eBay and PayPal years ago. We recognize that that is pretty attractive. Also, when we look

around the globe and we see like where our strengths are and where we are less strong, Latin America, I think very obviously, is an area that we are less strong. So making an investment in that company, getting board observer rights, where we are front and center with what they are trying to do. Importantly, we also understand what they are thinking about in terms of strategic opportunities. It gives us a seat at that table that we otherwise could not have had if we just decided to do a commercial partnership.

So, given the evolving landscape and payments in general, that, at times makes things to do. I also say each characteristic, or each aspect of an agreement, every side has got what is important to them. As companies are going public, like if you take Uber as an example, certainly having the endorsement of a company like PayPal, that is willing to invest a lot of money says something about their own stock. That is something that they want, we want other things and those trades take place.

So each one is unique. I would not suggest that I feel that that is a model where we have to invest in a company to be able to partner with them. That simply was specific to those agreements.

James Faucette: Got it. Then my same question is, obviously, with PayPal and Venmo you have incredible brands but when we look at the shopping world increasingly being omnichannel, acceptance offline for both of those is quite small, if not non-existent. So I am just wondering how we should think about the importance of growing an omnichannel payment brand? How we should think about, really, the implications for margin expansion, pace of margin expansion, etcetera, even beyond the framework you gave for 2020?

John Rainey: Yeah. On offline, you are exactly right and when we look on a relative basis with other wallets, we recognize this is an opportunity for improvement for us and it is one of our key priorities going forward. Certainly, when we look at the competitive landscape and where others are gaining traction, they are very much in everyday use case items that are taking place in the offline world. We have seen this taking place in China and you see it with certain competitors here in the United States. So we want to have more of an omnipresence with the products that we provide and it is a key priority, going forward.

James Faucette: How should we think about the impact on how much you are going to have to spend to drive that? Is that a key inhibitor of margin expansion or does that make it gradual? I was just wondering how we should be thinking about what you are thinking about in terms of what needs to be spent to make that happen.

John Rainey: Yeah, we are thinking about that within the financial architecture that we have laid out. It is an investment, but we believe that we can handle that investment and still be able to expand margins in the way that we have described because of the scalability of our model in other parts of our business.

James Faucette: Okay, great John. Thank you very much.

John Rainey: You bet, James.

Brett Huff (Stephens): Thanks, and good evening, or good afternoon, guys. Two questions from me: one, an update on iZettle, speaking of omnichannel. I am wondering, now that that is sort of closer to the fold, what the near and medium-term plans are for that? Then I have a follow up too.

John Rainey: On iZettle, as you suggested, we have been a little handcuffed there, given the regulatory approvals that were needed and the process that we had to go through there. iZettle: for the most part, so far, the way to think about that is how have they performed on a standalone basis relative to our expectations when we purchased them. They have outperformed there. This is, I think, one of the areas that we are pretty excited about but we are behind in terms of what we expected with integration.

Very importantly, we want to be able to go out and cross-sell to both the iZettle and the PayPal merchant base to have more of an omni experience for those customers. That is the next stage and then, as we do that, we can begin explore moving into additional geographies. However, we are really excited about the product. Everything that we expected when we bought that company is coming true. The team is just rock solid there, they do a great job and I am excited to be able to integrate that into PayPal.

Brett Huff: Great. Just a quick follow-up: any early reads or thoughts on the SRC button. We are finally kind of getting some insight into that thing is rolling out, your value prop relative to that and kind of how you see the competitive dynamic evolving on that. Thank you.

John Rainey: Sure. We have base competition in the form of a button like that for some period of time. Visa and MasterCard have both attempted that on their own. So we are familiar with that competition. They are also great partners of ours. Our expectation is that does not do anything to change the value proposition for PayPal that gives us the opportunity to provide better conversion rates than anyone else in the industry. We see increasing levels of engagement.

There is still a chicken and egg problem around consumer-merchant adoption that, history has shown, takes years to solve. Our expectation is the impact, if any, to us would be really with guest checkout, where customers are using a card today and this is just a different form of that type of checkout. So it does not change the PayPal value proposition but again digital payments is an exciting space but for that reason it is also a competitive space. Competition is something that we are very familiar with and we feel very equipped to deal with the changing competition in front of us.

Brett Huff: Great, thanks for your thoughts. I appreciate it.

John Rainey: You bet. Thanks Brett. I want to thank everybody for listening in on the call and participating in this. I am sure we will be having additional conversations with you over the coming days. I appreciate your time and as always, reach out to us if there is anything else that we can answer. Thank you.

[END OF TRANSCRIPT]