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PYPL - Q3 2019 PayPal Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 revenues of \$4.38b and non-GAAP EPS of \$0.61. Expects full-year 2019 revenues to be \$17.70-17.76b and non-GAAP EPS to be \$3.06-3.08. Expects 4Q19 revenues to be \$4.89-4.95b and non-GAAP EPS to be \$0.81-0.83.



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to PayPal's Third Quarter 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to introduce your host for today's call, Ms. Gabrielle Rabinovitch, Head of Investor Relations. Please go ahead.

Gabrielle Rabinovitch - PayPal Holdings, Inc. - VP, IR

Thank you, Andrew. Good afternoon and thank you for joining us. Welcome to PayPal Holdings' Earnings Conference Call for Third Quarter 2019.

Joining me today on the call are Dan Schulman, our President and CEO; and John Rainey, our Chief Financial Officer and EVP Global Customer Operations. We're providing a slide presentation to accompany our commentary. This conference call is also being webcast, and both the presentation and call are available through the Investor Relations section of our website.

We will discuss some non-GAAP measures in talking about our company's performance. You can find the reconciliation of these non-GAAP measures to the most directly comparable GAAP measures in the presentation accompanying this call.

In addition, management will make forward-looking statements that are based on our current expectations, forecasts and assumptions and involve risks and uncertainties. These statements include our guidance for the fourth quarter and full year 2019, our preliminary outlook for 2020, our medium-term outlook, and the impact of our acquisitions. Our actual results may differ materially from these statements.

You can find more information about risks, uncertainties and other factors that could affect our results in our most recent annual report on Form 10-K and quarterly reports on Form 10-Q filed with the SEC and available on the Investor Relations section of our website. You should not rely on any forward-looking statements.

All information in this presentation is as of today's date, October 23, 2019. We expressly disclaim any obligation to update the information.



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With that, let me turn the call over to Dan.

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

Thank you, Gabrielle, and thanks, everyone, for joining us on today's call. I'm pleased to report that PayPal had a very strong quarter across all of our key metrics.

Revenues grew by 19% on an FX-neutral and spot basis to \$4.38 billion. Our revenue growth was driven by strong transaction and TPV volumes. For the first time ever, we processed over 1 billion transactions per month in a quarter, up 25% year-over-year to 3.1 billion transactions. TPV growth accelerated 80 basis points from last quarter and was up 27% on an FX-neutral basis to \$179 billion. TPV, excluding eBay, grew by 31%, up 240 basis points from Q3 2018. eBay TPV declined by 3% and now represents just 8% of our total TPV, down approximately 300 basis points from Q3 last year.

As of now our best estimate is that eBay will be approximately 6% of our total TPV at the end of the operating agreement in July 2020. Excluding unrealized losses associated discreetly with our investments in MercadoLibre and Uber, we delivered a very strong \$0.79 of non-GAAP EPS as compared to our guidance on a similar basis of \$0.69 to \$0.71.

Excluding the mark-to-market changes in our strategic investment portfolio, our non-GAAP EPS grew 31% driven by a year-over-year expansion of more than 200 basis points in our non-GAAP operating margin to 23.4%. I'm very pleased with the leverage of our operating model and the continued expansion of our operating margins. This leverage drove our largest ever quarterly EPS overperformance versus our expectations and provides us with increased confidence in our medium-term guidance of 20% EPS growth compounded annually.

I'm also very pleased to report strong growth in both net new actives and engagement. We added 9.8 million net new actives in the quarter, a record number for any previous Q3. We now have 295 million active accounts on our platform, up 16% year-over-year, including over 23 million merchants. We anticipate ending the year at approximately 304 million active accounts, above our stated target of 300 million.

Engagement continues to consistently increase, growing by 9% to almost 40 transactions per active account. Mobile is a major driver of our growth, with One Touch at 172 million consumers and 13.8 million merchants. We're quite focused on growing our value proposition beyond checkout as our consumers look for more reasons to use PayPal as part of their everyday financial lives.

I'm quite pleased by the efforts of the PayPal team this quarter, and I'm encouraged by the strength of our business fundamentals. We are focused on executing against our strategic priorities. We've made significant progress in driving forward our pricing initiatives as well as our product integration with Paymentus, and we now anticipate live, full stack integration by year-end.

Venmo continues to be an incredibly powerful platform for engaging consumers. We processed more than 27 billion in volume for the quarter, growing 64%. That's almost \$300 million in payments per day and an annual run rate that now exceeds \$100 billion. The Venmo team has made tremendous strides in enhancing the use cases of Venmo, including a recently signed deal with Synchrony to provide a Venmo credit card. All of this is producing very strong monetization results. We ended Q3 with Venmo just shy of a \$400 million annual revenue run rate.

Last year, we acquired Hyperwallet, knowing that payouts are a powerful tool for fueling engagement as retailers and marketplaces look for new ways to interact with their customers. One year later, I'm pleased to report that our payouts capabilities are gaining strong traction among leading brands.

In the quarter, Travelers Insurance announced customers can now receive insurance-claimed payments via PayPal. PepsiCo launched its first-ever cashback loyalty program powered by Venmo and PayPal. Lime, the global scooter rental platform, selected PayPal to facilitate payouts through its network of freelancers. And Epic Games is now using our capabilities for competitive Fortnite players to expedite their prize payout process. This month, we added Venmo as a payout option, providing merchants with another powerful way to reach Venmo's highly engaged user base.

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Credit continues to be another strong driver of engagement on our platform. This quarter, we launched new consumer installment plans in the United States and Germany, which allow PayPal customers to pay for their purchases with easy to understand monthly payments. This capability is already leading to incremental sales for our merchants. And we signed a long-term strategic partnership agreement with Citi Australia to develop consumer credit products for PayPal's customers in Australia.

We continue to gain strong adoption among merchants around the world in daily spend categories. In the quarter, we further expanded our relationship with Walmart, launching PayPal Checkout as the sole payment solution for its online grocery business in Mexico. In Japan, PayPal is one of the official partners for the Japanese government's initiative to promote cashless payments throughout the country.

We made significant strides this quarter with multiple strategic partners to create better experiences for our shared customers. With American Express, we've launched a feature where Amex cardmembers can split a purchase in the Amex app via PayPal or Venmo. We now offer account linking on mobile devices with Capital One and PNC Bank in the United States. We launched instant transfer to bank accounts for Venmo customers through our partnership with JPMorgan Chase, and we launched cashback programs with both Chase and Discover.

I'm pleased that we are beginning to see increasing traction with the results of our pay-with-rewards initiative. To date, 6 million consumers are enabled to use eligible rewards points to pay for a purchase, and those customers who are using their rewards currency currently do so nearly 10% of the time, and we are seeing increased engagement and spend as a result.

In September, we announced that the People's Bank of China has approved our acquisition of a 70% equity interest in GoPay, a licensed provider of online payment services. We are honored to become the first non-Chinese payments company to be licensed to provide online payment services in China. This is a very significant development for us and has the potential to dramatically expand our total addressable market and our long-term growth prospects.

The license enables us to expand upon our relationships with existing partners like China UnionPay and AliExpress, and forge new partnerships with China's financial institutions and technology platforms, allowing us to provide a comprehensive set of differentiated payment solutions to businesses and consumers in China and globally.

Our initial focus will be on providing cross-border payment solutions to China's merchants and consumers, linking China's commerce ecosystem to PayPal's vast two-sided network. The transaction is expected to close in the fourth quarter of 2019 and is subject to customary closing conditions. We will share much more about our plans early next year, but suffice it to say, we are very excited about our growth opportunities as a result of this landmark agreement.

Q3 was an important quarter for us, and our results demonstrate the strength of our expanding two-sided network. More importantly, I am optimistic about the opportunities in front of us and our ability to shape the financial services landscape. I've been leading the PayPal team for the past 5 years, and I've never seen it more united, focused and excited about our future. We think the next 5 years will be as defining and value-creating as the past 5.

And with that, let me turn the call over to John.

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Thanks, Dan. I want to start off by thanking our customers, partners and global team for helping us deliver a great quarter. The strong results we're reporting today demonstrates the continued execution of our strategy to deliver long-term, sustainable growth.

Our volume growth accelerated to 27%. Our revenue grew 19%. We delivered more than 200 basis points of operating margin expansion on both the GAAP and the non-GAAP basis. And we realized operating leverage across each of our nontransaction-related expenses.

Excluding the effect of unrealized losses from our strategic investment portfolio, which I will discuss later, non-GAAP EPS grew 31%. Our Q3 performance shows the consistent strength of our platform and the scalability of our business. Revenue in the third quarter increased 19% on both

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the spot and currency-neutral basis to \$4.38 billion. Hyperwallet and iZettle contributed approximately 1.9 points to revenue growth. Versus the third quarter of 2018, U.S. revenue grew 19% and international revenue grew 20% on a currency-neutral basis. On a spot basis, transaction revenue grew 18%, accelerating 1 point from last year in the second quarter this year. Revenue from other value-added services grew 24%.

In the third quarter, transaction take rate was 2.21% and total take rate was 2.45%. Compared to Q3 2018, this was a decline of 12 basis points and 13 basis points, respectively. Continued strength in P2P contributed to approximately half of the decline for both transaction and total take rate.

The performance of eBay's Marketplaces business and the headwinds from the stronger dollar also contributed to the reduction in take rate. \$70 million of revenue from hedge gains benefited both transaction take rate and total take rate by approximately 3 basis points.

Volume-based expenses increased 23% in the third quarter to \$2 billion. Transaction expense was 95 basis points as the rate of TPV, improving 1 basis point from Q3 2018. Transaction loss was 14 basis points as a rate of TPV, an improvement of 4 basis points from Q3 2018 and flat to last quarter.

This level of transaction loss as a rate of TPV matched the lowest we've ever achieved, and we realized this result while accelerating TPV growth. This reduction in transaction loss was driven by continued improvements in our risk management capabilities.

Loan losses were 5 basis points as a rate of TPV, which represents an increase of 2 basis points from Q3 last year. This increase was due primarily to growth in both our merchant and international consumer loan portfolios. Transaction margin dollars grew 16% to \$2.3 billion in the third quarter. Transaction margin as a rate was 53.4%, a decline of approximately 150 basis points versus Q3 '18.

Non transaction-related expenses grew 6% versus last year. Normalizing for costs related to our 2018 acquisitions, these expenses grew 1.9% or \$0.04 for every dollar increase in revenue. This performance highlights the scalability of our model, our operating discipline and our ability to grow at a low marginal cost.

On a non-GAAP basis, operating income in the third quarter grew 30% and exceeded \$1 billion for the first time. In addition, our operating margin expanded more than 200 basis points from Q3 2018. We delivered leverage across each of our non transaction-related expenses.

Adjusting for 2018 acquisitions, operating income grew 31%, and our operating margin expanded 250 basis points in the quarter. Other income in the quarter declined by \$256 million relative to Q3 2018, primarily due to a \$228 million net unrealized loss on our strategic investment portfolio. On a per share basis, these unrealized losses negatively affected our results by approximately \$0.15 after tax.

When we guided Q3 '19 EPS in July, we included an expected benefit of \$0.03 related to a funding round for Toss, a privately-held company in which we have an equity investment. A few weeks later, this funding round closed, and as expected, we recognized a \$0.03 per share benefit to GAAP and non-GAAP EPS.

In addition, in the quarter, our strategic equity investments in Uber and MercadoLibre resulted in an unrealized loss of approximately \$0.18 per share. Consistent with the plans we discussed in April on our first quarter earnings call, we disclosed the expected effect of these net unrealized losses for the third quarter in our 8-K released on October 8.

Since January 2018, certain equity investments are required to be revalued based on observable price movements. This new standard had a relatively minor impact on our results in 2018. This year, however, our strategic investments in MercadoLibre and Uber have created more earnings volatility.

Starting in 2020, we will update our non-GAAP methodology to exclude the impact of these gains and losses on our strategic investments, as we believe this will provide a better understanding of our operating performance and a more meaningful comparison of our results between periods.

In the third quarter, our non-GAAP effective tax rate was 11.1% versus 16.4% last year. Excluding the impact of unrealized losses from our strategic investment portfolio, our tax rate would have been 13.5%. Our non-GAAP effective tax rate also benefited from a favorable geographic mix of



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pretax income. Non-GAAP EPS for the third quarter grew 5% to \$0.61. Adjusting for unrealized losses of \$0.15 this year, non-GAAP EPS grew 31% in the quarter.

We ended the quarter with cash, cash equivalents and investments of \$13.2 billion. In addition, we generated \$923 million of free cash flow or approximately \$0.21 of free cash flow for every dollar of revenue. Normalizing for the proceeds we received from selling our U.S. consumer credit receivables portfolio last year, free cash flow grew 20%.

During the quarter, we returned \$350 million to shareholders through share repurchases. In addition, in Q3, we also accessed the public debt markets for the first time, raising \$5 billion in gross proceeds. The senior fixed rate notes are tranching in 3-, 5-, 7- and 10-year terms. The average life of this debt is 6.6 years, with a weighted average interest rate of 2.56%. We used a portion of the proceeds to repay our outstanding borrowings on our 364-day credit facility and plan to use the remainder of the proceeds consistent with our capital allocation priorities.

I'd now like to discuss our guidance for the fourth quarter of 2019 and the full year as well as our preliminary thoughts for 2020. For the fourth quarter, we expect revenue in the range of \$4.89 billion to \$4.95 billion or 17% to 18% growth on a currency-neutral basis. In the fourth quarter for the first time, we're lapping the acquisitions of both iZettle and Hyperwallet. Last year, as we disclosed when we reported Q4 '18 results, these acquisitions contributed approximately 1.5 points of growth. Relative to when we provided guidance in July, the U.S. dollar strengthened. We estimate this headwind to be approximately \$30 million in the fourth quarter.

Both our integration with Paymentus and the pricing initiatives that we discussed last quarter are on track, and we expect to be substantially complete by the early part of next year. For Q4, we expect non-GAAP earnings per share to be in the range of \$0.81 to \$0.83, representing 18% to 21% growth. Our guidance includes no expectation of any gains or losses on our strategic investment portfolio. As a result, for the full year, we now expect revenue to be in the range of \$17.70 billion to \$17.76 billion or approximately 15% growth on a currency-neutral basis.

Normalizing for the sale of the U.S. consumer credit receivables portfolio, the implied revenue growth rate would be approximately 18.5% for the full year. We now expect our non-GAAP earnings per share to be in the range of \$3.06 to \$3.08, representing 26% to 27% growth. Excluding the net unrealized gains year-to-date of \$0.11 from our strategic investment portfolio, this guidance implies non-GAAP earnings growth of 25% to 26% for the year, which represents a raise in our EPS outlook. In addition, given the strong free cash flow we generated year-to-date, we now expect free cash flow for the full year to be approximately \$3.5 billion.

I'd now like to provide an initial framework for how we're thinking about 2020. As a reminder, our medium-term outlook calls for 17% to 18% revenue growth on a currency-neutral basis compounded annually, which includes approximately 1.5 points of revenue growth each year on average from acquisitions. We're very pleased with the strength of our business and expect our core trends to continue.

Our current expectation is that revenue will grow 17% organically on a currency-neutral basis next year, without the effect of any acquisitions. 2020 also has 2 dynamics I'd like to discuss. First, our operating agreement with eBay expires in July, and we estimate that this transition will impact revenue growth by approximately 1 point next year.

Second, we will be lapping the contributions to revenue in 2019 from our acquisitions of Hyperwallet and iZettle, which we expect to be an additional point of headwind. Together, these factors pressure revenue growth by approximately 2 points in 2020. Even with this, the strength of our core business provides us with the ability to grow revenue in the range contemplated in our medium-term guidance.

Our initial 2020 framework also calls for at least 50 basis points of operating margin expansion. Next year, we're accelerating our investment in several key initiatives to drive long-term growth and strengthen our platform. At the same time, our ongoing focus on efficiency and natural leverage opportunities will allow us to sustainably deliver operating margin expansion.

We expect a portion of this operating leverage to be offset by below-the-line items, including additional interest expense on a recent debt issuance and lower interest income earned on corporate cash. As a result, our initial outlook is for approximately 17% to 18% growth on non-GAAP EPS in 2020.

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It is important to note we are confident that we will grow non-GAAP EPS by approximately 20% compounded annually over the medium term, consistent with our previous guidance. The strength, diversification and durability of our business give us confidence in our medium-term outlook.

In conclusion, our third quarter results demonstrate our ability to deliver strong revenue and earnings growth and generate significant free cash flow, while advancing our strategic priorities. Our scale affords us continued leverage opportunities. We are focused on creating value for our customers and shareholders and strengthening our position as the world's leading digital payments platform.

With that, I'll turn it over to the operator for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang - JP Morgan Chase & Co, Research Division - Senior Analyst

Nice acceleration here, especially in the U.S. Looks like revenue up 19%. So I was curious, I know that you have eBay drag. You have some pricing that's coming up here in the fourth quarter. So maybe can you help us unpack the drivers this quarter for the 19% or overall with the acceleration? Just curious how sustainable this is, given some of the puts and takes that we're all expecting here.

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

Maybe I'll start off with that, and then turn it over to John. We're quite pleased with the revenue growth that we had in the third quarter and really what we expect in fourth quarter and going into 2020. Say there are a couple of things, and you're right, these are before pricing initiatives really come to play as well as our full integration with Paymentus.

Our net new actives and our engagement are really beginning to kick in and start to drive incremental growth in our revenues. We had records in net new actives for the third quarter, almost 10 million. You've got engagement going up again by another 9% to 40x a year. Just those couple of things are really starting to put more and more acceleration in.

And what we're beginning to see right now is that sales into our back book and a lot of sales into the front book are coming in much more strongly than we've ever had before. We're just winning more business right now. There's a bit of a network effect going on. We have almost 300 million active accounts now. Merchants understand the scale we have. They want to be a part of that.

We do start to see right now the beginnings of our capabilities of selling as a platform provider and not just a product. So as I mentioned with payouts in my earnings script, we're seeing that really start to take hold. We're really starting to see a lot more full stack processing start to take hold.

And so we're having a lot more incremental products sales, both in the back book as well as in the front book, including just basic things like presentment of the PayPal button where it's presented. Given the scale we have now, merchants are putting as into more and more prime positions of presentment.

Partnerships are beginning to kick in right now. We now have 9 out of the top 10 U.S. banks working with us. The marketplaces outside of eBay, they have over \$100 billion of TPV right now growing at 36% with us. And so we're really beginning to see a bend in the curve in our core organic PayPal growth, and that is really encouraging for us.



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And then, of course, you have Venmo rapidly growing its monetization efforts right now. We're really pleased with that. I think what we're equally as pleased with is we see a lot of good runway in front of Venmo as well.

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

I would just add, as Dan suggested, we're seeing good trends across many aspects of our business. I think it's important to remember, for the first part of this year, at least the first 3 quarters, we've had some more difficult comps with things like cross-border with some currency effects and things like that. And so we are sort of lapping some of the beginning impacts of that, not that I think the currency environment seems to be getting much improved from where it was.

But with respect to the couple of things that you alluded to around Paymentus and pricing, we are live with both of those. There is a needed ramp on each of them. So we launched in 3 countries on the pricing initiative that we've referred to previously, not to overly fixate on that because we make pricing changes all the time, but I know there was some questions about that given our last call.

In Paymentus, we're excited about the progress that we're making there. We're ramping up in the fourth quarter. And as I noted in my remarks, we expect to be complete with each of those by the early part of next year.

Operator

And our next question comes from the line of Bryan Keane with Deutsche Bank.

Bryan Connell Keane - Deutsche Bank AG, Research Division - Research Analyst

Solid results here. I wanted to ask about the purpose of the additional debt issuance back in September. Can we see more aggressive stock buybacks or more M&A? I see the GoPay acquisition, and I'm also wondering if we'll see more acquisitions in Asia or elsewhere.

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Thanks, Bryan. Good to speak with you. I'd say the debt issuance was perhaps twofold. One, it was opportunistic. And two, it gives us more flexibility. Opportunistic in the sense that it's just it was a good time to tap into the debt markets.

I talked about the various tranches of our debt, and we literally secured 10-year debt at less than 3%. And so that's a very attractive rate for us, and we've got ample opportunities to allocate that capital. And it does give us more flexibility given our strategic initiatives. But there's not -- don't read into that, that there's a change in how we're thinking about capital allocation. So as a reminder, we said when we provided our medium-term guidance, that we expect over that time frame of approximately 5 years, that we would spend 40% to 45% of our free cash flow to buy back stock, and that we would spend between \$1 billion and \$3 billion in M&A activity.

Now that's not necessarily each year, but that's on average over that period of time. This allows us the flexibility to do that. And importantly, as you think about the cash-generating ability of our business, we'll generate \$3.5 billion of free cash flow this year, but that comes sort of ratably throughout the year. Going and tapping into the debt markets at this point in time gives us the opportunity to access that cash on our timing versus when we're earning that cash throughout the year.

So no change to our plans. We still believe that effective capital allocation supports and contributes to long-term value creation, and this was really just an opportunity to tap into the debt markets to get to a more optimal capital structure as we've suggested for some time. That gives us more flexibility.



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Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

Maybe I can just quick add on to John's great answer there. I think on the M&A front, we obviously have quite a strong balance sheet right now, some \$13 billion of cash, and as John mentioned, generating about \$3.5 billion of free cash flow this year.

We have stated that we will be acquisitive. We look at some 200 to 300 companies every quarter. We will, over time and on average, as John mentioned, spend somewhere between \$1 billion and \$3 billion. We anticipate on acquisitions. Last year was a light year, but you should expect us to be acquisitive. Those acquisitions would, obviously, any revenues that come from it would be additive to our 2020 plans. We're at 17% organic [revenue growth]. Anything we would do would be on top of that.

And we will continue to look at capabilities that would improve things like consumer engagement. We would look at geographic expansion opportunities. GoPay would be a good example of that. Scale and scope with different partners. MELI and Uber would be good examples of that. And so no change in our capital allocation, but you should expect us to use our balance sheet in areas that would complement our internal development efforts and allow us to continue to seize growth opportunities where we see them.

Operator

And our next question comes from the line of Jason Kupferberg with Bank of America Merrill Lynch.

Jason Alan Kupferberg - BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst

Good numbers here. I just had a question and a clarification on 2020. The question is on the eBay front. So only a 1% revenue headwind for next year, certainly less than the investment community had feared. So I'm just wondering, is this largely a timing issue in terms of how much of the eBay take rate comes down in 2020 specifically as well as the pace at which you expect unbranded volume to roll off?

And then just a quick clarification is on the EPS growth for next year, the 17% to 18%. Is that off the new \$3.06 to \$3.08 number in '19? Or is the base \$2.95 to \$2.97, excluding the \$0.11 of year-to-date mark-to-market gain?

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Hey, Jason. So on eBay, there's a couple of dynamics going on there. Our expectation right now is that eBay is about fully ramped through the 10% that they're allowed in each of the 2 entities that were -- they're doing managed payments, which are Germany and the U.S. So going to the back half of next year, we would expect that those would ramp much more appreciably as they're already live in those markets.

There's a more -- or our expectation, anyway, is that there is a more metered ramp for when they launch in some of these other geographies, which is consistent with kind of what we've seen in the first 2 geographies where they've launched.

I think also related to that is our expectation about what share of checkout we retain. And based upon what we've seen in both Germany and the U.S., it's consistent to what we said back in January of 2018 around our expectations there. So each of those elements influences our expectation around eBay. But obviously, that's an estimate at this point in time, and that can change. We will certainly let you know if something does.

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

John, before you get to that part, let me, maybe, expand a little bit on eBay. So Jason, I think obviously, there's going to be an important strategic partner with us for a long time to come but it's obviously shrinking in terms of its overall volumes and its impact on our financials. It's been 3 quarters in a row where they've had negative TPV growth. They're negative 3%. Outside of that, we're growing at 31% in our TPV, and we think at the end of the OA, they're going to be down to about 6% of our overall TPV volumes.

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And if you think about it, like when we initially split from eBay, TPV -- their percentage of TPV was around 20%. Now it's dropped down to about 8%. If you look at their revenues, revenues have dropped in half as a percent overall. And so I think it's really worth noting that while all of that has been happening, our revenues have been growing on average, call it 18% to 20%. During that time frame, our margins have been going up. And so they're obviously a much smaller part of PayPal than we expected when we were first thinking about the OA. And therefore, the transition at the end of the OA is going to be much less of an impact, much more manageable. And we think that 1% of revenue growth impact is probably a pretty reasonable expectation.

I'd say nothing in their intermediated payouts right now gives me any incremental cause for concern. I mean, maybe even the opposite, they need regulatory approvals in all of the countries that they're going to roll out into. There's going to be a long tail, that that's going to be hard to get to. China's obviously going to be an interesting discussion item on that. Merchants are increasingly beginning to sell on multiple platforms right now, and they're using PayPal One Touch activation to do that and so they're quite tied into PayPal. And we are seeing the PayPal's share of checkout on intermediated payments rising significantly.

And so you put all those into place along with the growth that we're seeing in other marketplaces and our ability to start to work with some marketplaces that we weren't able to work with before, and we think this is going to be a very manageable transition, and we hope to be close partners with eBay as we go through that.

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Jason, and to address your second question, which I probably should have anticipated given the noise that we've had in some of these mark-to-market adjustments. But the earnings growth that we talked about of 17% to 18% in 2020 is on a similar base in 2019. So it excludes the mark-to-market adjustments in 2019. Does that answer your question?

Operator

And our next question comes from the line of Darrin Peller with Wolfe Research.

Darrin David Peller - Wolfe Research, LLC - MD & Senior Analyst

Your margin came in materially above our estimate. It looks like operating leverage on sales and marketing in G&A and I guess better losses, I know, I think, John, you mentioned, were a lot more pronounced. What are your thoughts on what's allowing that kind of margin uptick now versus before? And just when considering, I guess, the pricing changes, the partial offset of eBay mid-year in our integrations? Can you just touch on sustainability, and maybe how the 50 bps expected in 2020 would have looked if not for eBay?

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Sure, Darrin. So a couple of things. One, as we look at the outperformance in the quarter, we provide a range of estimates around revenue and earnings, and we came in at the higher end of that range that we expected. So the revenue outperformance is one of the bigger drivers within the quarter for how we performed.

But as you noted, we also performed very well on the expense side. I think it's -- I'll caution you about assuming that, that level of sales and marketing is a run rate basis. There are a number of initiatives going on there as we go to market in a different way that have affected not quarter. And so that's just kind of a side point.

But the general point around operating margin leverage and what we can do there, this is a very sustainable initiative for us. And you'll remember, Darrin, a couple of years ago when we first started this -- the work in this area, there was some question about was this a onetime cost takeout? Or



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was this really sustainable? I hope that we're beginning to relay the concerns around people about the sustainability of that. This is perhaps the best performance that we've ever seen in any particular quarter, growing our organic costs, non transaction-related costs at 1.9%.

And this is really just -- well, if you remember, I described it at the time as we were replumbing our business or rewiring our business to be able to grow at a very low marginal cost. And it's literally in every aspect of the business. But I'll give you one example that maybe will really give you a flavor of how these are coming about.

So we obviously have a significant number of calls that come in each month in our call center, 5 million on average per month. And we aspire to be able to address each of those issues that our customers have and to be on the phone with or not have them have to wait on the phone. But we're not perfect. And if you go back to last December, we had 33,000 calls that a customer had to wait over 45 minutes.

While I looked right before I came in here today, and in the month of October, we have 526 calls. Now that's a dramatic improvement, but what's noteworthy about that is we achieved that without adding a single human being to address that problem. Those were always used around schedule efficiency, better routing when someone goes into the IVR, things like that, that just enables us to provide a better customer experience, but the same time, lower our cost. And in the scheme of 5 million calls a month, 33,000 is maybe not a lot, but each of those customers has an experience, and that impacts whether they use us again, whether they churn in the future. And so it's things like that, that drive dramatic improvements in our business, both on the cost line, but also what it can do for the customer experience as well.

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

I'll add a couple of things to that, Darrin, that I think are really important. First of all, things that you don't see that are really important to us are things like what are we doing with developer tool sets, our development platform, which makes our engineers so much more productive before we would have to hire a lot, with people that just couldn't get their code through. And now we have tool sets in an environment that is much more efficient, maybe 2x the efficiency that we had before.

Things like losses. As we grow bigger and our transaction volume becomes larger, our ability to do machine learning on that, combined with the acquisition we did of Simility, those losses now are at a lower level that we think continues as well and probably may even improve as we get larger.

And finally, I would just say Venmo. Venmo used to have more and more money than we would have to put into Venmo each year as a group. And it is now, instead of a drain on our margin structure, a help on our margin structure as we go forward, and I would expect that to continue to happen. And so all in, I think we feel pretty good about the leverage of the model, and that's why we have such strong confidence around that 20% compounding annually EPS number.

Operator

Our next question comes from the line of David Togut with Evercore.

David Mark Togut - Evercore ISI Institutional Equities, Research Division - Senior MD

Could you give us sort of a deeper dive or status update on some of the delayed new pricing initiatives and new product integrations with partners that you called out on the second quarter earnings call? And to the extent any of those impacts were embedded in the 2020 guidance, it would be helpful to have insight.

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Sure, David. This is John. I'll address that. So when we announced the delay in those initiatives initially on the last call, I think it's fair to say that we probably aired on the side of conservatism as we thought about the back half of the year, and that they are both, specifically the Paymentus initiative



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as well as the pricing initiative, they are both performing moderately better than what we expected at that point in time in terms of the pace of the integration of each of those. And we do expect to have a benefit as we have a full -- as those are rolled in at the beginning of next year when we get the -- for the vast majority of the year, get the full run rate benefit of each of those.

With respect to pricing, that's been rolled out in 3 countries in Q4, and we'll expand that further into next year. And as a reminder, this is -- with respect to refund pricing and in line with industry practice, we don't charge fees to process refunds, but also in line with industry practice, we are retaining the fix and the variable piece of that. And certain margins are excluded if you have negotiated pricing and so forth. But those are performing as expected.

But as we look at 2020, we'll go live with additional merchants, and we will have additional price changes, always looking to price to the value that we create for our customer base. As we offer expanded capabilities and experiences for them, we want to be able to price to that as well.

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

Yes. I'll just say, David, that pricing is an ongoing process for us. We had certain things baked into our plans, and we were late on those. We had certain expectations on integration, especially into Paymentus, and we were late on those. It's one of the reasons why I'm really happy with the performance of so many people on the PayPal team. They were really laser-focused on getting those implemented in the right way. And these are complicated integrations, and we want to make sure that we're fully transparent in the way we roll these things out. And so I'm pretty pleased with the way the teams stepped up and addressed all of that.

As John mentioned, I think, on the Paymentus side, we'll have full-stack integration live by the end of the year. And then we start to roll in. Paymentus has almost 1,500 billers. We want to role in all of those billers into a Bill Pay app right on the PayPal app, and that will take into the first and second quarter before we have that completed. But the full stack integration onto our Braintree platform will happen by the end of the year.

Pricing, just to reiterate what John said, pricing's an ongoing process for us. We're going to have pricing initiatives this year, next year, the year after and the year after that. I mean, we continually assess market dynamics. We look at the evolving practices of our competitors. We take a hard look at the value we provide, and then we try to price appropriately based on all those factors. And we price sometimes up. Sometimes we take prices down. It depends on product. It depends on corridors. It depends on regions in the world, but we're very considerate about it. We do have some degree of latitude in all those things. And right now, I think John and I are both pretty pleased where we are.

Operator

Your next question comes from the line of Lisa Ellis with MoffettNathanson.

Lisa Ann Dejong Ellis - MoffettNathanson LLC - Partner

It looked like other value-added services beats pretty handily in the quarter. I'm looking at it, it looks like loan growth was up about 65% year-on-year and also sequentially. So now that we're kind of clear of the Synchrony transition, can you just give -- can you give us an update on how you're thinking about the role of credit in your strategy going forward? And specifically, like how much of this vast growth is going on balance sheet versus off balance sheet? And can OVAS continue to grow like this well, well above TPV and revenue growth going forward?

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations

Sure, Lisa. It's good to speak with you. So as we think about our credit strategy, obviously, you're very familiar with what we did with the U.S. consumer loan portfolio when we sold that \$6 billion portfolio, and now we have a partnership with Synchrony going forward. That's a strategy that we like because it's very much asset-light.



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When we look at the opportunities for credit in our business, both on the merchant side as well as international consumer, they are significant growth opportunities. And we think that, particularly, like when we look at the merchant lending, that's where our value proposition shines when we can provide working capital loans, understanding the seasonality and the cyclical nature of a merchant's business in a way that others can't with access to some of their payment flows. And so we want to continue to grow that.

But what we don't want, and again, we've demonstrated this with our past experience, we don't want credit to become too capital-intensive to where it takes away from other opportunities that we have. And so I do think that OVAS revenue, and specifically credit revenue, can continue to grow at a rate higher than overall TPV for PayPal. So I think that's definitely true.

But if you look at our total credit receivables today, they're about \$3.5 billion, inclusive of both merchant and international consumer, far less, roughly half of what the U.S. consumer credit receivables were for us when we sold those and we were a much smaller company then as well. And so we will get to a point, seemingly, given the opportunity that's in front of us on credit, where we will likely go asset-light with someone or both of those portfolios as well. I think that's further down the road, but we want to be very mindful around how we allocate capital in this business to both drive value for our shareholders, but also provide good offerings like credit for our customers.

Operator

And we have time for one last question from the line of...

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

We're going to do, actually, 2 more questions, I think.

Operator

Okay. Our next question comes from the line of Heath Terry with Goldman Sachs.

Heath Patrick Terry - Goldman Sachs Group Inc., Research Division - MD

Dan, I realize it hasn't closed yet, but can you give us a sense, maybe a little bit of the history of how it came about that PayPal was chosen to do the GoPay deal? I would imagine there was a lot of competition particularly to be the first of its kind.

And then what the road map could look like for the rollout of those services and the integration that you want to see there? And then, when could we see a material cross-border offering in China? And how would that compare to what you're currently able to offer through your Alipay relationship?

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director

Yes. Those are all good questions, Heath. And I think, actually, Heath, given the extent of that question, we'll probably end after this.

So first of all, obviously, it's incredibly meaningful event to be the first non-Chinese company to obtain a payments license to process domestic online payments in China. It's a tangible example of China opening its financial market. We have been working this diligently for years. When I say diligent, I mean, literally, almost every single day. We've had calls and have been working this.

And we worked quite closely with the PBOC, with other authorities inside of China. We worked with the administration here to enable all this to happen. And I think what we've demonstrated across the globe, and I think was appreciated by various entities within China, is our ability to work closely with regulators. We've invested quite heavily in compliance and risk management, and we're a strong collaborator with the financial



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ecosystem. We're much more partners with the financial ecosystem than go around the financial ecosystem and be a disruptor. We're innovative, but we're partners with the existing structure.

And so I think all of that combined, and a very good working relationship and many years of that enabled this event to happen. It's obviously pretty significant for us. It obviously increases our total addressable market quite substantially. China is the world's largest e-commerce market. I think there's something like 500 million online shoppers, and they're going to drive something like \$2 trillion of online sales this year, just more than 50% of global online retail.

And China is obviously an advanced and sophisticated digital marketplace. But we believe that we can offer a quite differentiated value proposition to both Chinese merchants and consumers by working closely with Chinese financial institutions, the various tech platforms inside of China to connect sort of their vast commerce ecosystem with sort of our vast network of consumers and merchants outside of China. And so this is actually a substantial -- substantially more than what we can do right now.

So for instance, think of, before, we could not work with companies and allow Chinese consumers to purchase from PayPal merchants outside of China. And now we can start to facilitate that, working, again, in partnership with Chinese tech platforms and/or Chinese financial institutions. We could take Chinese merchants who may want -- maybe want to sell on other platforms and do payouts back into China through cross-border. We'll be able to enable that through our platform. Multinationals that are doing business in China can use our platform to enable their transactions and for us to process those digital payments coming across there.

So a lot of people are focusing just on the domestic consumer part of China. There's obviously opportunities there working in connection with partners inside of China, but there's a tremendous amount that we leverage kind of the strength of our network and the strength of the vast commerce ecosystem inside China, which is significantly digital, and that we think affords us some pretty significant opportunities over at least the medium to long term. So we're quite excited about the opportunity. We'll give a lot more details as we go into next year as the transaction closes, and we'll make sure that we continue to update everybody on this.

So again, Heath, thank you for that question. Operator, that will be the last question. I want to thank everybody for joining us today. We appreciate your time, and we look forward to speaking with all of you soon. Thank you.

Operator

This concludes today's question-and-answer session. Ladies and gentlemen, thank you for participating in today's conference call. This concludes the program, and you may now disconnect. Everyone, have a great afternoon.

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