PayPal Q3-19 Buyside Call Hosted by Goldman Sachs

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2 pm ET

OPERATOR: Good afternoon ladies and gentlemen and welcome to the PayPal call with CFO John Rainey hosted by Goldman Sachs. At this time, all participants have been placed on a listen-only mode. It is now my pleasure to turn the floor over to your host, Heath Terry. Sir, the floor is yours.

MR. TERRY: Great. Thank you. We're really excited to have John Rainey, CFO of PayPal, here with us today, especially after able to take the time after results yesterday. John, thanks for taking the time to join us.

MR. RAINEY: Thanks Heath for hosting the call. It's always good to be able to speak with this audience. With me today, I also have two coworkers of mine, so John Kunze, who I believe is very familiar to this audience, heads our consumer group, previously head of Xoom, still head of Xoom as well. And then, also Erica Gessert. Erica is a partner of mine in finance and runs our financial planning and also our data analytics group.

MR. TERRY: Great. Yeah, great to have both the Erica, John as well as the IR team with us here. So, just to set the stage on the quarter itself, TPV growth accelerated to its highest level in over a year on an FX neutral basis, revenue growth accelerated, you added 10 million net accounts and you still grew transaction per account and TPV per account. EBITDA margins were up 200 basis points year over year and you're on track to generate $3.5 billion dollars in free cash flow. I know you spent a lot of time on the call yesterday trying to cover everything. And so, before we get into everyone's questions, is there anything that you feel like didn't get the attention it deserved in the conversation yesterday and all the coverage since?

MR. RAINEY: Well sure, Heath. I was going to ask you to continue going because -- that's pretty good. But yeah, I think we're pleased with the quarter. We saw an acceleration in our payment volume, acceleration of revenue growth and you know, I think those are good indications of some of the trends we're seeing in our business heading into 2020. As we think about, you know, items maybe that did not get as much focus, maybe we'll talk about it later in this call, but we're really pleased with the leverage on the expense side in our business. That was some of the best performance that we've seen at any point in our history. And then I think, you know, as we look at opportunities out there, China is one that's pretty promising. Now, it's very early on and we can talk more about that, but you know, that's one that depending upon how it pans out and admittedly there's a higher standard deviation there, but depending upon how it pans out could be a pretty material to our medium and long-term growth prospects.

MR. TERRY: Great. I know we'll dig into that in a little bit more as we go through the conversation. So, just to cover it out of the gate, the question that we most frequently since yesterday's call was around eBay. And I know in our conversation with eBay over the last few months, there's been a change in the way that they've talked about the transition. You know, we've gone from Devin talking about a hard cutover at some point between managed payments through PayPal and through eBay's system to Scott talking about more of a gradual transition that could extend through 2021 and really letting the sellers sort of control the pace of the process. You talked about a one point drag in 2020 that applies about $200 million, a little over $200 million headwind. I think most people expected there to be a more severe drop-off after second quarter. So, I guess, first, why aren't you expecting that? And second, does that imply -- what does that imply about the drop-off that you could see in 2021?

MR. RAINEY: Well, so I'll give some color around that. You know, I think it's pretty early in giving an indication on 2020 guidance. I'm not sure that 2021 is something we're really prepared to talk about, but look we said going back to January of last year when this was first announced, we felt like we had a really good -- we do have a really good handle on the impact of this. There's obviously some variability depending upon how quickly eBay transitions away, but very comfortable that we can manage this transition and do it while achieving the medium-term guidance that we've laid out. But let me give some context to the one point and so that people better understand that. And so, remember that the business that we do with eBay today, that comes in two forms. The first is the unbranded credit card processing and the second is the branded PayPal checkout button. The vast majority of our business is the branded piece of the business. With eBay moving to their managed payments, they're transitioning some of the unbranded part of the business away from us. And that is also, I think, important to know a less profitable component of the two pieces that we have, because it's mostly card funding. But I think, you know, if you look at the two geographies where they have launched this today, US and Germany, and our estimates are that they are close to capacity in terms of what they're actually allowed to transition away - 10% of the volume in those entities. So, when we get to the back half of next year and they have the full ability to move to other entities, we would expect because they're live in these two jurisdictions of the US and Germany that to happen much more expeditiously there. With respect to the rest of the world, we think that there will be a ramp up just like any company that goes through a ramp up where you test new experiences with a subset of your consumer group and then roll that out more broadly when the experiences are good. But what I think people miss and sort of the incongruence of the impact of this and it only being one point is the amount of volume that we retain in the branded checkout button -- and so if we take the US today, we are close to 50% share of checkout on PayPal with their managed payments. So, to be clear, when someone uses the eBay managed payments experience, they're still checking out with PayPal about half the time. In Germany, it's appreciably higher than that. And so, we believe, and we said this back in January of last year that we will retain a significant share of checkout in the movement to their managed payments. And because that is the largest piece of our business and the most profitable piece of our business, it mutes some of the impact of this transition away from us. Anything that you'd want to add, Erica?

MS. GESSERT: No, I think you covered it. Like, I think Dan articulated it well, I think, when people are doing the math, piece of puzzle they're missing is the share of checkout that we have on managed payments.

MR. RAINEY: Yeah, yeah.

MS. GESSERT: It's been healthfully growing since they launched in the US. One correction, I think in Germany, they're at about 2%, but in the US, they hit their 10%. So, they won't -- you know, they won't be able to increase that. They won't try increasing that until late next year, but we have a healthy rise still assumed in those countries in the back half.

MR. TERRY: I guess alternatively, one of the ways that question has been asked is if the eBay roll-off does happen faster than you're modeling, how much cushion is there in your 2020 revenue guidance?

MR. RAINEY: Well, you know, again, the indication that we gave yesterday is our initial thinking about 2020. We will affirmatively give guidance on the next earnings call, but we'd like to give a little bit of a leading indicator in terms of what we see in our business. But with any business plan, and to be clear, we're going through that process with PayPal right now, with any business plan, there are a set of risks to the business and a set of opportunities to the business. You know, eBay could actually fall into both of those categories for us depending upon the pace of this transition. We think that, you know, within the parameters that we provide in terms of providing the guidance range that we can probably manage any risk related to that going into next year.

MR. TERRY: That's great. Is there a corresponding EPS or operating margin headwind to 2020 that is right for people to think about?

MR. RAINEY: Yeah. You're exactly correct, Heath, and it's significant as well. So, you know, I think most people understand about our business because the take rate on the eBay business is around 4%, which is higher than the average for PayPal. And so, if you think about sort of the components of volume, revenue and earnings that relate to eBay, eBay is about 8% of our volume today. They are a larger percentage of our revenue and an even larger percentage of our earnings. So, as we encounter that one point of headwind to revenue growth, there is actually more significant of an impact to earnings as well. But again, this is where given the scalability of our model and all of the other opportunities that we have on the revenue side to continue to grow and expand, it helps offset any of that pressure. And I think that that's something that again is probably not well -- is as appreciated as maybe what we see internally and that's the diversification of our platform. We continue to expand in other areas that make us not so reliant on one aspect of business. And so, you know, that can come through merchants like eBay and other merchants. It can also come in geographies where we see, you know, when there's often weakness in one corridor that can be offset by strength in another.

MR. TERRY: No, that's great. So, maybe just to close out the eBay side, you know, Dan's talked a lot about the opportunities that the end of this version of the eBay relationship creates for PayPal to do business with other marketplaces. Should we consider the Facebook marketplace and MercadoLibre relationships as those type of opportunities? And then what would it take for Amazon to accept PayPal in its checkout flow?

MR. RAINEY: Yeah. So, without being specific to the companies that we're prohibited from operating with in the operating agreement, those are types of companies that you listed that certainly we look forward to partnering with. MercadoLibre is a great example. Obviously, we made a commitment as a strategic partner there earlier this year and that's in a region of the world where we have less strength than other regions like Europe or Asia. And so, if you think about their several hundred million customers that they have being able to use Mercado Pago on our network of merchants through a smart payment type experience, that's really appealing and that's largely a cross-border transaction which tends to be more lucrative for us. By the same token, you could envision that PayPal could be a form of checkout on their marketplace. So, those are really interesting opportunities and one that we hope come to fruition through the commercial agreement that we expect to have with them. With respect to Amazon, you know, I think by our designation as an open digital payments platform, it shows that we want to partner with everyone in the world and we believe that we can bring a customer base and commerce experiences to those merchants which truly help with conversion and provide value to them as well. You know, oftentimes, what happens with particular merchants is we may see that there is a region of the world where they are less strong and that we can provide PayPal as a payment option, as a way to be introduced into their ecosystem. And once that happens, we actually have the opportunity to expand further. And so, without being specific to any merchant, you know, we can often take this in stages as well to get a bigger presence.

MR. TERRY: Yeah, great. And then just --

MR. KUNZE: Maybe just to add in one other comment that off PayPal acceptance is something that we're very committed to via our card strategies and various in-store strategies and where we have issued debit cards to either consumers or merchants or Venmo customers because we have debit card offerings for all three of those segments, we're seeing massively improved engagement because they can now use their balances at places where they could not use them before, namely offline and merchants that don't accept PayPal today. And you will see the usual suspects where we see these card swipes or a card on file being used, including the names you mentioned.

MR. TERRY: Great. Thanks for that John. And I guess, John, just to follow up on one component that we've gotten a couple of questions about on the eBay retained branded side, can you help us understand sort of the impact of pricing as you go from Q2 to Q3? I guess, you know, there is a sense out there that with that transition, the branded volume is going to be repriced lower. How does that impact pricing on that part of the business?

MR. RAINEY: Yeah. So, with the extension, we have with eBay on the branded part of the business, they do enjoy lower pricing than what we have today. Keep in mind that the operating agreement was put in place to provide a nice metered transition away from each other over a period of time. And one of the elements of that that helped was to retain that pricing. And so, eBay will have pricing that is commensurate with the volumes that they -- in terms of the volume of their platform, so more arm's-length or market-based pricing than what they have today, but that also sort of ratchets or happens in a metered approach over time as well.

MR. TERRY: And that's factored into that one point drag you're talking about?

MR. RAINEY: Yes, it is.

MR. TERRY: Great. So, if you look at the composition of the TPV ex-eBay growth that you've seen that 31% year over year, accelerated three points relative to last year, what are the main drivers of that acceleration and any specific verticals to point to or particular standout geographies that that we should be aware of?

MR. RAINEY: Sure. Well, one of the big things that affected our numbers in the quarter was just the impact of acquisitions of Hyperwallet and iZettle and that's -- just on overall TPV, that was about three points of impact. And candidly, Heath, that's one of our focuses as we go into next year is to really try to continue to invest in these acquisitions that we've made and sort of integrate them into the overall PayPal platform. And so, that's a key driver. And of course, as we look into next year, right now, we don't have any acquisitions that will have that impact. But that's right now. We're always looking at the competitive landscape but just, you know, broadly as we look at the merchant services growth, we're really pleased with the growth that we've seen there, the acceleration. And you know, I think a lot gets made of big named marketplaces or technology platforms and our relationships with them. But we have to remember, there's a slew of other very large marketplaces that, you know, maybe don't fall into the same category but still provide a ton of volume for us. And we've got partnerships going live with many of them this quarter that we will see some significant impact into next year as well. So, that's why we're pleased with what we've seen and the merchant services growth and believe that we can continue that.

MR. TERRY: So, you know, at some level, this quarter has to be a bit of a relief for you because you finally get the opportunity to report without the Synchrony compare weighing on reported growth. A year later, what's the verdict on the Synchrony relationship and what is it and credit in general contributing to your growth rate?

MR. RAINEY: Sure. So, you are correct in your characterization of how I feel about not having to talk about -- accounting anymore and so it's nice to have a pure compare. But our relationship with Synchrony is great. In fact, just this morning, I was speaking with their president, Brian Doubles. They could not be better partners to us and I hope that they would say the same thing about us. We have mutual interest in being able to grow that portfolio both with PayPal and Venmo, excited about the new co-brand card that we've announced with them. But to credit more generally without being specific to Synchrony, you know, we saw strong growth and you can see that in our numbers that we presented yesterday and credit remains a great opportunity for us to provide this offering to our customers and we see huge demand for both internationally on the consumer side as well as well as the merchant side. But as you'll see, when we release our Q, the overall book right now of assets, of receivables is about $3.5 billion dollars and that's appreciably less, roughly half the size of what our US consumer book was when we sold that to Synchrony. And so, we're very conscious about how we allocate capital and to make sure that, you know, every dollar of capital is competing for those opportunities with the highest returns. And we don't want to get into a position where to fund credit, it's taking away from other opportunities that we have. And so, as credit grows, as these other portfolios in our credit grow, we will eventually get to a point like we did with the US consumer book where we will explore asset, light like opportunities as well. But I think we're a few years away from that at this point.

MR. TERRY: If we were to head into a more difficult credit environment and if it were to impact Synchrony's appetite for credit or even your appetite for credit, how would you see it impacting your growth rate?

MR. RAINEY: Sure. Well, you know, we always look at not only the revenue opportunities but also the impact on losses and those are very much tied together. And the partnership that we have with Synchrony is a bit of a joint underwriting process. They ultimately control the outcome it's a kind of a partnership that's set up there. So, you know, we have influence there, but one of the things that we did when we agreed on the financial metrics and the return on assets threshold with Synchrony is we went back and back tested the portfolio to the last financial crisis. And so, we're very comfortable that, you know, these are pretty durable earnings, so you know, who knows the extent or the depth of, you know, the next recession and the impact and what that can be. But given what we've seen historically, we believe that the durability of this earning stream is strong.

MR. TERRY: That's great. Venmo monetization is now at $400 million and annual run rate doubling, more than doubling year over year, while you're still growing TPV at 64%. Where do we stand today in terms of merchants enabled and what additional initiatives are going to be needed to get that to double again, just to set a low bar?

MR. RAINEY: When you say it to double again, what are you referring to?

MR. TERRY: Thinking about the run rate and monetization there.

MR. RAINEY: Okay. So, just to remind everyone that we have currently three ways of monetizing the Venmo base of at last noted 40 million active users (as of Q1-19) and they include the pay with Venmo commerce initiative, the Venmo debit card and the instant withdrawal functionality that our customers can use to gain access to their funds instantly into their bank account 24/7, and really brings a lot of value to the consumer. And I think that's the key thing here is we don't ever want to deliver an experience to these customers that is inadequate or somehow not relevant to them because we never want to jeopardize this phenomenon, we all call Venmo. And therefore, we work really hard on making sure every experience that's delivered first brings value, allows a customer to become either more loyal to the platform, more habituated, more engaged, more fun, more delighted and I think the debit card has achieved this and the numbers really show it. We give people access to spend their balance offline or anywhere online that's not supported typically. And we see the use when people get a debit card from Venmo, they're using it at astonishingly high rates. So, it's great. And the instant withdrawal feature -- there is by the way a non-monetized withdrawal feature. You can gain access to your funds over a couple of days period, but because you can get your money right away, the enrollment rate (within Instant Withdrawal) has been very good. Pay with Venmo, we've made generally available to merchants, but we've been super careful because of the complexities of these integrations and the consequential impact on experience because we're talking about Venmo being an app-based purchase, could require in-app switching, it could require other complexities. And so, we've just gone very slow on this and fortunately we have the benefit of a growing revenue run rate, as you referenced Heath, that allows us to go slow and careful on pay with Venmo. And obviously, I can't be direct in answering the question of when will you double the number, but you can bet that we're going to continue to work on bringing out functionality. Some of that functionality will be monetizable. We're already at a 35% monetized rate, which is up from about 24% a year ago and we should expect that number to continue to grow.

MR. TERRY: That's great John and really helpful. As you have gotten further and further into Venmo in your experience with Venmo, how have you thought about the international opportunity for Venmo?

MR. KUNZE: Yeah, I think that's really a question of where best to apply branding and where does branding -- where is branding required based on the segments we're approaching. And I think maybe more importantly it might be worth noting that the lesson that Venmo teaches us and our customers is that if you take the awkwardness out of the process of sharing value then you can create by virality. And if you can make an awkward situation fun, then you get to these compounding growth rates that we're seeing with Venmo. So, maybe the lesson learned for global scale more importantly is to harness that lesson learned across all of our brands, including PayPal, and to make PayPal P2P more fun, less robotic, less transactional and to use the PayPal brand, which has huge strengths in non-US markets, Australia, the UK, Germany, France and it might be an asset worth using as we're making awkward exchange of value more fun around the world.

MR. TERRY: That's really helpful. You know, one of the questions that we got from several investors coming out of last night is how they should be thinking about Venmo profitability. Have we seen the peak drag on earnings or margins from Venmo? Is that now in the rear-view mirror? And as we're thinking longer term, how will Venmo's profitability compared to the rest of the business as it scales and gets closer to maturity?

MR. RAINEY: Sure, Heath. I'll jump back in on that one. I know it's a million-dollar question that everyone has about, you know, when will Venmo breakeven or begin contributing to the bottom-line. What we alluded to or referenced yesterday on the call was the fact that we have seen the trough in terms of Venmo losses. We're actually at a point right now where it's less of a drag on our overall earnings because as we continue to scale Venmo, it is approaching a level, still ways to go but approaching a level where we're closer to break even. And I think it's important to note because even with some investors, if there is a question of can it be profitable versus when will it be profitable? And I want to address that head on because if you take the unit economics of Venmo, right, then the take rate is the same take rate that it is on PayPal. And so, we have, you know, a common user agreement with all of our merchants around that. The transaction expense is less than what it is on PayPal because more funding on Venmo is done through balance or ACH. So, it has a lower transaction expense. And perhaps, maybe even counterintuitively, the transaction loss is at a comparable level as to what it is on PayPal. And I say counterintuitively because when you're going after a lot of growth, you can get growth by accepting more losses. And so, to have a loss level on a unit basis that is very commensurate with what we see with PayPal gives us strong conviction that this model works. And so, it's not the old car salesman adage where you sell every car at a loss and make up for it in volume. The unit economics are profitable, in fact more profitable than what they are on PayPal. And so, as we begin to scale that at a level to where we're able to overcome some of the overhead and investment cost around this, with that scale will come profitability.

MR. TERRY: Great. Thanks John. That's really helpful. You know, in terms of M&A, you've been very focused on, you know, I think what most people would consider kind of tuck in product and geographic capabilities. Where's your appetite these days for larger scale M&A?

MR. RAINEY: So, you know, larger scale can mean a lot of things. But for us, everything fits into the parameters of what we provided at Investor Day where we said that over the five-ish year term of our medium-term guidance, you can expect that we will spend on average $1 to $3 billion a year on M&A. And so, you know, if you take those bookends over that period could be between $5 and $15 billion. And everything we look at sort of fits into that category. Obviously, M&A or acquisitions kind of comes in fits and starts sometimes. For every deal that you announce, there are several that you get close to and walk away from for whatever reason. And so, as we look at the landscape of opportunity for us and certainly, you know, compare it to what we've already done, I think a lot of our investments in the last couple of years had been very focused on the merchant side of our platform. We think it's important to be balanced in the investment, the inorganic investment in both sides of our platform, so also the consumer side. And so, there are some interesting opportunities that we're focused on that really help advance commerce with PayPal on the consumer side. So, you know, things like that, I think, are really important to us as we continue to expand this value proposition equally.

MR. KUNZE: And maybe I'll just add that the con -- the phrase of a tuck-in is always hard for me because when we acquire companies, we're doing it based on a gap list in our overall solutions. So, every time we acquire a company, we're filling in one of those gaps which could be functional or geographic, like iZettle for example, was acquired because they were so strong, they are so strong in Europe and Latin America where our own card business was strong in the US primarily. So, that was a very good complementary move for us. The same is true with the Hyperwallet. We think about functionality to our merchant customers, payment processing sort of funds -- Hyperwallet gives us funds out. And so, now we have the best of both funds in and funds out based on this one acquisition and can be a much broader, more effective solution for our merchant customers. And I can keep going, but I won't. But that's the whole idea here.

MR. TERRY: Great. Thanks. Thanks John. So, John, last night you pointed people to a 17% growth rate as sort of an initial guidance for next year. Over the course of this year, you signed three -- earlier this year, you signed three, you know, partnerships with really big partners, Uber, Facebook Marketplace and MercadoLibre all of which seemed like they could potentially be big contributors to growth. What kind of contribution are you expecting from that trio in that 17%?

MR. RAINEY: Well, with Facebook and MercadoLibre, you know, there's not an outside impact to our estimates in our financials next year. Uber, we're further along with as we have a commercial partnership with them and now have the opportunity to process more of their volume in some of the faster growing regions of the world internationally, like in India, like in Brazil. So, more of an impact there. But you know, it's really -- again, kind of getting back to my earlier comment, there's a lot of focus on some of the bigger names and platforms, but there's a whole slew of merchants and technology platforms that fall in that category right below that, where we can drive a tremendous amount of volume. And so, it's not as if we are dependent upon any one of the three that you mentioned or any others for that matter in an outside way next year. It's the combination of all of those in our portfolio, which again goes back to that diversification. And I think it's really important as we transition away from the Bay and we don't want to be solely dependent or too dependent upon one big marketplace for our volume.

MR. TERRY: Is there a notable -- is there a notable contribution in that number from iZettle that we should be thinking about? I guess, when we're thinking about sort of the operational roadmap for iZettle, what does that look like now that you've finally been able to fully close that deal?

MR. KUNZE: Yeah, we're really excited about, you know, having the handcuffs off and being able to run a proper integration process for iZettle like we do for all of our acquired companies. And we've just launched lightweight integration between PayPal and iZettle in three markets and soon four, the UK, France, Germany, and soon the Netherlands, as a foreshadowing of covering all their markets in a reasonable timeframe. And I think this is probably the fastest that we've ever come to a lightweight integration with any acquired company. And really happy about that and also that tells us that our ability to begin to create synergies through integration, our ability to do that is improving. And as far as the revenue contribution of iZettle, I think, you know, based on when we made the announcement how big they are and they're performing as expected.

MR. TERRY: Great. Thanks John. Dan spent some time yesterday on the call talking about the work that went into securing the GoPay investment. How are you thinking and how should your investors be thinking about modeling the financial impact from that business? And I guess, structurally, what's the incentive for a Chinese consumer business to use GoPay, PayPal in a transaction versus a domestic payment processor?

MR. RAINEY: Sure. So, China, we hope is -- well, it certainly has the possibility of being very material in our medium to long-term guidance, but it also requires a significant level of investment or how we'll operate that business there. And so, this is not anything that will likely move the dial appreciably in 2020. This is -- I would encourage people to think of it as a 2021 and beyond type of initiative. But when you take our two-sided network of merchants and consumers and you think about the opportunity with the addressable market in China, it's very-very material. So, a couple of stats. You know, the estimate that I've seen is that China will be 40% of all cross-border commerce in 2021. And when you -- getting to your question, when you think about a Chinese consumer being able to shop at our network of merchants, 23 million merchants around the world, and to be able to use PayPal or you know perhaps we provide one of the other payment buttons that they like to use in a smart button type presentment in what is a cross-border transaction, that's a pretty promising opportunity. You know, even today they've got -- I don't know the exact number, but half a billion digital users. And so, you know, I don't -- we don't have these delusions to where we think that we're ever going to supplant an Ali or a Tencent there, but if we can get a small piece of that addressable market, then that can be very-very material to us. And so, you know, it's something that we're excited about. We have put a lot of work and I can't underscore that enough, a lot of work to get to this point and we've worked very closely with the regulatory authorities there and we'll take an approach that's similar to what we've done in other geographies, really leans into partnership. You know, we have partnerships today with Ali and CUP and we hope to expand upon those and others to be able to really enhance the commerce opportunities there.

MR. TERRY: Great. Thanks John. So, how should investors think about the sustainability of the 1.9% non-volume-based opex growth? You mentioned on the call that it was 4 cents normalized and previously it had been framed in the long-term range between 10 and 15 cents.

MR. RAINEY: Well, I'd characterize this kind of like I have transaction losses over the last couple of quarters. We've seen a significant improvement in transaction losses, but we've only seen that for two quarters. And so, you know, we're seeing some very promising signs about the sustainability of that, but it's still early on before we really call that a trend if you will. And I think our opex or non-volume related expenses, I put into a similar category. This is the best performance that we've ever seen but it also is on the heels of last quarter where we had really good performance. I do think, Heath, this is at the lower end of the type of cost performance you should expect us to have and -- but you know, that 10 to 15 cents range or maybe slightly lower than that is a good way to model our business. What's encouraging is the manner in which this is coming in terms of it really being a result of discipline and prioritization in the business and a change in the way that we do things. I used the example yesterday on the (earnings) call around customer service. I won't repeat the example, but you know, it's an indication that we're just running the business in a smarter way rather than just throwing heads at issues that pop-up. How do we get better, how do we develop products better, what are the -- what's the tool set that we give to our developers and engineers to develop that product? And that's the appeal of a platform like ours is to be able to grow and scale and do it at a very-very low marginal cost. We continue to demonstrate that and we're excited about the performance we had in the quarter.

MR. TERRY: Right. Of all the new initiatives, can you rank by importance the top two or three for the next couple of years? Venmo, Pay with Points, Paymentus, Facebook, Instagram and any key assumptions for these that investors should use to track progress?

MR. RAINEY: Sure. So, I'll list a handful here in no particular order, but some that I think rise to the top for me and I welcome thoughts from my colleagues, but certainly improving upon the consumer value prop, I put right up there. And that would include moving more into the offline world. That's something that we think is really important. Venmo is kind of a subset of that, but it's -- it's just its own category for obvious reasons. That's another one I would put in there. And I would also say continuing to invest in the acquired companies that we've had. That's a big opportunity. John talked about iZettle and Hyperwallet. These are complementary assets to the services that we provide today and making them seamless in a platform is something that our merchant can -- our merchant base really desires and so we'll do that. You know, beyond that a couple of things that are really important but probably have less of a 2020 impact. I mentioned China and that's -- that's, you know, I think an obvious opportunity, but international expansion in general is something that's pretty important to us. And again, this is one of these categories, I'll just use a couple of examples here. We have a great share of wallet in Germany. Will we ever have that same share of wallet in a market like India? You know, probably not. It's a pretty fragmented market, but even if we get remotely close to that, because again, it's another market with 400 or 500 million digital users that can drive significant share and volume for us. And so, that's something that we're continuing to invest in because when you look around the globe, when you look at the white space that exists for us, that white space exists in some enormous addressable markets that we believe that we can have a prominent place in.

MR. TERRY: Great. Thanks, I appreciate that. One of the more sort of modeling questions that we got was how to think about the tax rate for 2020, is any part of the 280 basis point benefit that you saw in Q3 from that sustainable or favorable geographic mix of pre-tax income sustainable into next year?

MR. RAINEY: I wouldn't model next year differently than what the way we've thought about this year. We'll give specific guidance next quarter that that 17% to 19% range is the right run rate to think about us. Some of the factors in this quarter were more specific to the quarter and even the geographic mix can move around from one quarter to the next.

MR. TERRY: Got you. And then any view on common secure remote -- sorry, common secure remote commerce checkout buttons being rolled out by the networks, could that potentially be a threat to one click checkout over time?

MR. RAINEY: Yeah, we've seen this in other forms from the same players in the past. You know, the combination of all of it together I don't think represents a very different type of threat to us. I would expect that the consumers that are using this are probably those that use guest checkout today and so they're already using or paying with a credit card. You know, the PayPal value proposition still shines. And when we look at our customer base and their willingness to use PayPal and the lack of friction that is presented in checkout, and again, we see a little bit of this happening right now with this transition to eBay. That's a good data point is to the stickiness of payments. And so, you know, it's a competitive landscape. It's something we've seen before. I don't think that it will materially change anything for us.

MR. TERRY: Great. John, I think we could probably keep going for another hour or so, but I know we only have so much time with you. I want to thank you and Erica and John Kunze as well for -- as well as the IR team for taking the time to join us. I think everyone, you know, certainly found a lot of value in the time that you spent with us and certainly look forward to catching up again soon.

MR. RAINEY: Well, Health, I'd like to thank you as well for agreeing to host the call. It's always a good opportunity to be able to provide a little bit more color and we get feedback too on things maybe where there are additional questions from the call. So, this is a two-way benefit, and so we really appreciate this opportunity and hope it was a value to all those that are listening.

MR. TERRY: Great. Thanks again, John.

MR. RAINEY: Thanks Heath.

OPERATOR: Thank you. Ladies and gentlemen, this does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.

END