OVERVIEW:

Co. reported Q1 2019 revenue of $4.13b and non-GAAP EPS of $0.78. Expects 2019 non-GAAP EPS to be $2.94-3.01. Expects Q2 2019 revenue to be $4.30-4.34b and non-GAAP EPS to be $0.68-0.70.
On April 9, 2019, we furnished an 8-K to the SEC that details these reclassifications.

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 second quarter and full year 2019 and the impact and timing 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 Company's website under the Investor Relations section.
Over 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 strong start to the year. In the first quarter, we generated $4.13 billion in revenue, in line with our expectations. This represents year-over-year growth of 12% on an FX-neutral basis or approximately 19% revenue growth normalized for the sale of our U.S. consumer credit receivables.

For the first quarter, we delivered $0.78 of non-GAAP EPS, $0.08 of which came as a result of our recent MercadoLibre investment. Excluding that gain, we delivered $0.70 in Q1, up 23% year-over-year, outperforming our expectation.

Once again, a highlight of the quarter was our growth in both net new actives and engagement. We added 9.3 million net new actives in the quarter, up 15% year-over-year. We now have 277 million active accounts on our platform with approximately 255 million consumers shopping at 22 million merchants. We are on pace to exceed 300 million active accounts by year end. We added 40 million net new actives in the past 12 months, an all-time record. That is over 2x our trajectory from just 2 years ago. And even as we add record net new actives, our customer engagement continues to grow. Engagement grew by 9% to 38 transactions per active account. This increasing use of our platform help to drive $161 billion of TPV in the quarter, up 25% on a FX-neutral basis, consistent with the past 2 quarters.

Total payment volume, excluding eBay, grew 29% on an FX-neutral basis, outpacing the overall payments market as we continue to gain share. eBay had negative TPV growth of 4% this quarter and now represents just 9.7% of our overall TPV.

Our Merchant Services TPV growth rate has accelerated over the past 2 quarters, offsetting a 700 basis point decline in eBay’s TPV growth rate during that same period.

Mobile continues to fuel our growth with over 66 billion of mobile TPV in Q1 and One Touch with 136 million consumers and 12.1 million merchants remains the clear market leader in mobile checkout with almost 2x the conversion of competing wallets.

Venmo continues its significant momentum. At the end of Q1, over 40 million active Venmo customers drove significant increases in volume growth and monetizable transactions. Venmo total payment volume increased 73% year-over-year to $21 billion, and we remain on pace to drive nearly $100 billion in TPV through Venmo in 2019.

As user growth continues to accelerate, merchants are increasingly turning to Venmo as a way to attract a valuable and engaged consumer base.

For example, in the first quarter, we launched a customer engagement partnership with Chipotle, engaging customers through Venmo payouts to drive awareness for their new rewards program. In less than 1 week, they surpassed their launch campaign objective with 1 million sign-ups. And this is just the beginning of brands leveraging Venmo to drive engagement and conversation within the social feed.

In January, we reported that Venmo had an annualized revenue run rate going into 2019 that exceeded $200 million. I’m very pleased to report that our annual revenue run rate coming out of Q1 is now over $300 million. And with over 40 million active users growing substantially each and every quarter, we fully expect to see that annualized revenue number continue to grow.

In addition to Venmo, core peer-to-peer continues to experience strong growth. P2P is a large source of net new active users on our platform as well as a significant driver of lifetime value. Total P2P volume was 42 billion, growing 41% year-over-year.

Over the past several years, we’ve announced more than 40 partnerships with leaders across the tech and financial services industries. These partnerships have enabled new experiences for customers and have helped to connect business and consumers across new platforms and
marketplaces. Last month, we extended our partnership with Facebook to support the payments infrastructure for Instagram shopping, starting in the U.S., which will allow users on the platform to pay in context using their PayPal account or with other financial instruments. We are building deep platform integrations with Facebook, which also include product experiences within Facebook Messenger and donations. Instagram shopping is an important expansion of our strategic relationship as we work to create new experiences for our joint customers.

We continue to help consumers and businesses get faster access to their money. We are rolling out the ability to complete Instant Transfer to bank accounts for consumers and businesses in the U.S. with international expansion expected in the near future. For too long, digital payments offered a faster and better technology, but in many cases, it actually made getting access to money slower. We’ve launched multiple initiatives over the last few years to give people and businesses more ways to instantly move money using their PayPal account. Through our partnership with JPMorgan Chase, PayPal is one of the first companies to introduce real-time payments for both consumers and merchants as part of our ongoing effort to offer our customers faster and flexible access to their funds.

Our $750 million investment in MercadoLibre was a meaningful development in our drive to increase our international scope and scale. We expect to significantly expand our footprint with a strong global partnership. Our aspiration is to be the global digital payments platform of choice for merchants and consumers around the world. Our full suite of services and products are intended to bring everyone into the digital economy. MercadoLibre is one of the largest online commerce and payments ecosystems in Latin America. Our 2 companies share a common vision. We both want to help small businesses compete globally and offer innovative financial solutions to help people that may be underserved by the traditional financial system. By working closely together, we can jointly leverage our scale and platform capabilities to help drive inclusion and access to the global digital economy. As part of our investment, our teams are working hard to develop a robust commercial agreement that brings together our respective payments capabilities to unleash incremental value to our combined 500 million-plus customers around the world. We look forward to sharing more about our plans to work together as we finalize our agreement.

I’d like to end my remarks by reiterating our commitment to our values and to being a role model corporate citizen. I strongly believe that companies must stand up and take responsibility to address the issues that face every global citizen. In a few days, we will release our Annual Global Impact report, highlighting the progress we’ve made in driving social impact, managing our environmental footprint and supporting our employees and their communities. We had a strong start to 2019, and we remain confident in the annual targets we outlined during our last earnings call. We will continue operating in a disciplined manner, leveraging our wide range of unique assets, strategically investing both organically and inorganically with the goal of strengthening our two-sided platform. We look forward to delivering another strong set of results this coming year. And with that, I’ll turn the call over to John.

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

Thanks, Dan. We started the year with a great first quarter. Our financial and operational performance was a continuation of our trends exiting 2018. Our results demonstrate the increasing relevance, functionality and utility of our payments platform. We delivered solid volume and revenue growth with strong expense discipline and earnings growth. Importantly, similar to the fourth quarter of last year, we achieved these results in the face of declining eBay volumes, ongoing year-over-year pressure from the stronger dollar and a continued mixed macro environment.

Overall, our first quarter performance is consistent with the recent results that our business has been delivering in terms of growth, volume-based expense dynamics as well as operating leverage in our nontransactional related expenses. I will discuss our financial results and then I will spend some time on our investment in MercadoLibre, our restructuring charge and our updated guidance.

Revenue in the first quarter increased 12% on both the spot and a currency-neutral basis to $4.13 billion. Adjusting for the sale of receivables to Synchrony, revenue growth would have been approximately 19%. Acquisitions contributed approximately 1.5 points to revenue growth in the quarter. The translation effect from the stronger dollar negatively impacted revenue by $116 million. This impact was offset by $52 million in revenue from hedge gains. As a result, the net effect of the stronger dollar was a revenue headwind of $64 million in the quarter.

U.S. revenue grew 8% versus Q1 2018 and approximately 22%, adjusting for the credit receivable sale. International revenue grew 17% on a currency-neutral basis.
On a spot basis, transaction revenue grew 17% in the quarter. Revenue from other value-added services declined 19%. Normalizing for the receivables sale, this revenue would have grown approximately 35%.

In the quarter, we recognized $55 million of revenue from Synchrony related to transitional loan servicing and collections. In the first quarter, transaction take rate was 2.31%. Compared to Q1 2018, transaction take rate declined 11 basis points. Strong P2P growth contributed to 2/3 of the decline. Weakness in eBay’s Marketplace’s business as well as pressure on some of our key cross-border corridors from the stronger dollar were also drivers of the reduction in transaction take rate.

Total take rate in Q1 declined 22 basis points from the prior year. Approximately 2/3 of this decline was attributable to the credit receivable sale. The same factors that affected transaction take rate also contributed to the decline in our total take rate. Both transaction take rate and total take rate benefited from revenue related to our hedge gains.

Volume-based expenses increased 20% in the first quarter to $1.9 billion. Transaction expense represented 96 basis points as a rate of TPV, flat sequentially and versus last year. Transaction loss was 18 basis points as a rate of TPV, also flat sequentially and versus last year. Loan losses were 3 basis points as a rate of TPV.

Transaction margin dollars grew 6% to $2.2 billion in the first quarter. Transaction margin as a rate was 54%, a decline of approximately 290 basis points versus Q1 '18. The credit receivable sale was a meaningful driver of this decline. We expect to see transaction margin dollar growth reaccelerate in Q3.

Nontransaction-related expenses grew 2% versus last year. Growth in these expenses was affected by both the lapping of the held-for-sale accounting changes, which resulted in a lower rate of growth year-over-year, as well as an increase in expenses related to our 2018 acquisitions. Normalizing for both of these, nontransaction-related expenses grew 7%. On this adjusted basis, we delivered 280 basis points of operating leverage.

Operating income in the first quarter grew 13% to $934 million, and our operating margin modestly improved versus last year. Adjusting for 2018 acquisitions, operating income would have grown 16% and our operating margin would have expanded 110 basis points in the quarter.

Other income in the quarter increased by $185 million primarily from net unrealized gains on strategic investments. On a per share basis, unrealized gains contributed approximately $0.12 after tax. $0.04 of the benefit was included in the EPS guidance we provided in January. The incremental $0.08 was not in our guidance and resulted from our investment in MercadoLibre, which closed on March 15.

Going forward, our other income line item will be affected each quarter by movements in MercadoLibre’s stock price. I will discuss this more in a moment.

Non-GAAP EPS for the first quarter grew 37% to $0.78. We ended the quarter with cash, cash equivalents and investments of $9.5 billion. In addition, we generated $809 million of free cash flow and repurchased $750 million of stock.

Before discussing guidance for the second quarter and updated guidance for the full year, I'd like to provide more color on how we plan to disclose the effect of unrealized gains and losses from strategic investments on our income statement as well as context for the restructuring charge that we recorded in Q1.

Our strategic investments create earnings volatility given that unrealized gains and losses are recognized from observable price movements. As a reminder, as of January 2018, equity investments are required to be marked-to-market when a reportable event occurs. Given the difficulty in predicting public market valuation changes, when we provide quarterly guidance, we will not be able to estimate the overall EPS impact from our strategic investment portfolio. For the remainder of the year, as soon as practicable following quarter end, we will issue an 8-K providing the net gains or losses and related earnings impact on the entire strategic investment portfolio for the prior quarter. In addition, going forward, to the extent that our guidance includes an expectation of gains or losses related to these investments, we will quantify this estimated impact when we provide that guidance.
In the first quarter, we also recorded a $78 million GAAP-only restructuring charge. This charge relates to workforce actions that are intended to better align our teams in support of our key business priorities as well as actions related to the transitioning of our credit and collection operations to Synchrony. As we grow and evolve, we will continue to evaluate our structure, processes and resource allocation for improvement opportunities. We expect to reinvest the majority of the related savings back into our business to drive growth. This charge was previously contemplated by the GAAP guidance we provided in January for the first quarter and the full year 2019.

Now I’d like to discuss our updated guidance for 2019 and our guidance for the second quarter.

For the full year 2019, we are raising our earnings outlook and affirming the revenue guidance we previously provided in January. We now expect GAAP earnings per share to be in the range -- I’m sorry, non-GAAP earnings per share to be in the range of $2.94 to $3.01, representing 22% to 24% growth. Our raised earnings guidance incorporates both our core earnings outperformance in the first quarter as well as the unrealized gain we recognized from our investment in MercadoLibre. As a reminder, we expect this investment to create earnings volatility as we move through the year.

For the second quarter, we expect revenue in the range of $4.3 billion to $4.34 billion or 12% to 13% growth on a currency-neutral basis. Adjusted for the credit receivables sale, we expect our revenue growth rate to be 19% to 20%. In addition, we expect non-GAAP earnings per share of $0.68 to $0.70, representing 16% to 20% growth. Our second quarter EPS guidance includes an estimated benefit from unrealized gains we expect to recognize in the quarter of slightly less than $0.01.

To wrap up, our first quarter results set us up well for another year of strong financial performance. I’d like to thank all of our employees, our customers and our partners for a great quarter. And 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 Jason Kupferberg with Bank of America.

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

Well, thanks. I appreciate -- well, thanks for the updated Venmo disclosure. Pretty impressive growth there in a very short period of time, but actually I want to ask you about eBay. I know you were down 4% on the volume side there in Q1. So how does that affect your thought process on the full year outlook for eBay volume? And maybe if you can talk a little bit about the impact, quantifying the impact that eBay had on the cross-border number. And then we are starting to get some more questions about the potential shape of 2020 just given obviously the operating agreement expiring the middle of next year. And I know it’s clearly too early for actual guidance, but just directionally, should people be thinking about a noticeable deceleration in the P&L in the second half of next year? Or is that not a foregone conclusion because of certain offsets that you guys still have time to continue developing?

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

Thanks, Jason, for the question. We'll spend the next 45 minutes answering it. There's a lot in there. So let me start off and then maybe I'll turn it over to John to talk a little bit about some of your -- some parts of your question.

But first, I would just say is, look, I expect eBay and PayPal to be close strategic partners for a long time to come. eBay just added PayPal into their intermediated payments. Our mutual customers, whether they be consumers or merchants, basically demand that we work together and that PayPal be there. We've got 277 million people now on the platform, and consumers are 54% more likely to buy when a merchant accepts PayPal. And so the eBay sellers know that. They know people abandon if they don't use PayPal, and so I think we're going to be close partners on an ongoing...
basis, and eBay adding PayPal into their intermediated payments I think is a net incremental benefit for us as we look forward. On the OA, the operating agreement, it goes through July of 2020. And so today, our eBay TPV is at 9.7%. It's now under 10%. It's likely to be if you just extrapolate out by the end of the operating agreement, somewhere between like maybe 5% to 6% of our overall TPV. And by the end of 2020, as you probably heard Devin talk about, this ends at the end of July 2020, but very rapidly right after that, you're going into the holiday selling season. And so there aren't a lot of changes that merchants will do in that interim period to make any major changes. And so by the end of that 2020, you're going to see our TPV well under 5% at that point.

And I feel like what we're seeing right now is not really an impact from intermediated payments, but really more of an impact from the decline in GMV in the marketplaces of eBay. And so even with that decline, they've declined from a TPV perspective 700 basis points in the last couple of quarters with us, even with that, you're seeing on an adjusted basis, our margins would have been up 110 basis points this quarter. You're seeing us reaffirm our guidance for revenues. And by the way, our revenue guidance for the year is between 19.5% revenue growth and 20.5% revenue growth, and we just upped our EPS guidance for the year.

And so I would say they are just becoming a much smaller part of PayPal at a more rapid pace, which by the way, is great because it's just a more even decline than we might have expected, and I think we can easily contain that within our guidance.

I'd also just say there is nothing we see in eBay's intermediated payments that gives us any pause for concern right now. I might even say the opposite of that. I think we feel very well positioned as we go forward.

Bill talked about this on a previous call, but I'd just reiterate it because the trends are still valid. Merchants who use PayPal to list in multiple markets see a 3x lift in sales and often pay less in total expenses than they would on eBay when you look at commissions and payments in total. And we're helping small businesses to list in multiple marketplaces with our One Touch activation, and that -- so that's helping small businesses and we feel like that's a big part of our responsibility. The other thing I'd point out is our top 20 marketplaces, excluding eBay, drove $90 billion of TPV in the last 12 months, growing at 39%. So you can see that we are really integrated into these marketplaces. They're growing substantially. We have a big opportunity once the OA expires to work much more closely with a couple of major marketplaces around the world that we were prohibited from working with before. And so we're feeling pretty good about where we sit right now and nothing in the eBay results would change that perspective.

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

I'd just add a couple of things, Jason, to address your question on cross-border as well as the outlook for the back half of the year. First, on cross-border. Like a lot of companies that have the global breadth that we do, we are affected by the stronger dollar, and eBay is part of that cross-border activity. I wouldn’t say that they’re an outsized portion of that cross-border activity though, so that does affect our numbers.

Secondly, with respect to the outlook for the year, certainly, to a certain extent, we have to rely on the guidance that eBay provides, and that influences our expectations around our business and we're certainly seeing slowing growth there and they're becoming a declining percentage of our business. But at the same point in time, we're demonstrating that we can expand operating margins and grow our revenue on an adjusted basis 20% while absorbing this decline and, in fact, absorbing the dilutive effect from some of the acquisitions that we had in 2018. And we’re able to do that through all the other portfolio of products that we have like we've talked about the new experience with Instagram, what we're doing with Venmo, and we’re excited about the relationship with MercadoLibre. All of these things and others that we're working on enable us to achieve those kind of financial results while we absorb the declining percentage of the eBay business.

**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

I wanted to ask about Venmo. The 40 million Venmo users, that’s an impressive number. I think that’s ahead of most people’s estimates, but even the Q1 exit revenue run rate now $300 million is above our expectations. So just trying to get a feel where the excess growth is coming from or just give us a sense of the magnitude of the growth. Is it pay with Venmo debit? Instant Transfer? And then secondly, hearing plans to come out with a Venmo credit, maybe you could just talk about that as well.

William J. Ready - PayPal Holdings, Inc. - Executive VP & COO

Bryan, this is Bill. Yes, we’re certainly pleased with the monetization of Venmo and the rate at which that is progressing. And as we’ve talked about before, it’s not really concentrated on any one thing. We’ve got multiple initiatives that are monetizing for Venmo. We’ve got the Venmo debit card. We’ve got Pay with Venmo, we’ve got Instant Transfer. And Instant Transfer is where we’re getting a lot of the discussion if you go back sort of 6 months ago. And we talked about on the last call that approximately half of the monetization is coming from our initiatives in commerce outside of Instant Transfer. So we feel like there’s a really good balance between the multiple initiatives we have there going from the $200 million annual run rate a quarter ago to -- or over $200 million a quarter ago to over $300 million now. We feel like it’s in great progress, but it’s not really concentrated in any one of those things. And what we’re really seeing across the user basis is those Venmo users, while still growing in number quite rapidly are also deepening their engagement with us and are looking for more and more products from us. And so to your second question on a Venmo credit card, there’s nothing we’ve announced on cards beyond the Venmo debit card, but we’re certainly seeing great demand for that and we see great demand across our user base for more and more products from Venmo. And we’re engaging with the banking ecosystem in a very broad way across PayPal and Venmo. And so we’re always looking for new ways that we can go deepening engagement with our users as well as work with our bank partners to deliver great services to our users. But to be very clear, there’s nothing beyond the Venmo debit card that we’re announcing at this moment in time.

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

I’d just say, Bryan, if I can add a little bit to what Bill said. One of the reasons why we announced the 40 million is there was a lot of numbers that we saw flying out there that were inaccurate, and we thought it was important to set the record straight. There are a lot of people who talk about downloads and different things. To us, what’s really important is how many active customers do you have? How many engaged customers do you have? And we’ve seen a tremendous number of new customers coming onboard, but we actually have an increasing engagement curve. In other words, you actually -- these engagement of Venmo users increase over time, not churn over time. And so to us, that really demonstrates some of what Bill was just saying that our base truly does want to engage in the service, is looking for more and more functionality from us and brands are also increasingly seeing the value of that.

I think the Chipotle example is a really powerful one. Within a week, they hit their campaign objective with over 1 million sign-ups. Those are pretty impressive numbers, and we see a lot more opportunities to work with brands to engage with their consumers inside the social feed.

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

I would also add that one of the reasons that we’re providing as much information as we are right now on Venmo is because of some of the questions that were out there about our ability to monetize that, which we’ve never questioned. But giving you these nuggets of information around revenue growth and active accounts, it’s not something we’re going to do every quarter. That’s -- we don’t report different aspects of our business that way, but given the importance of Venmo and the focus on that, we thought that early on, we will give a couple data points, some markers out there to better understand the trajectory of Venmo.

Operator

And our next question comes from the line of Tien-Tsin Huang with JPMorgan.
Tien-Tsin Huang - JP Morgan Chase & Co, Research Division - Senior Analyst

I wanted to build actually on both Jason and Bryan's question with the margin clarification. So you beat our forecast in this quarter, but with eBay slowing again and cross borders slowing a bit and then you just described Venmo and the opportunity there to invest and monetize, et cetera. I'm curious how confident are you in delivering on the margin expansion this year? What kind of levers do you have to drive that confidence? And maybe just a bigger picture question, does it make sense to expand margins when there's a lot of potential sounds like to really shape consumer behavior on to your consumer platforms like Venmo, et cetera, by upping marketing or promotions or what have you? So big picture question on margins there, if that makes sense.

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

Sure, Tien-Tsin. I'll start and others can jump in. Certainly, as we look at this quarter that we're reporting today, we were able to modestly expand operating margins even with absorbing some of the headwinds that were discussed as well as the acquisitions that we brought on last year. But we're constantly looking at our ability to invest in the business as well expand margins, and we believe that we can do both. We've got significant growth opportunities, but we've also been beginning to really demonstrate the scalability of our platform at a low marginal costs. And we've demonstrated that by about 280 basis points of operating leverage this quarter, but at the same point in time, investing in things like Venmo, investing in other things that we're doing organically and still using our free cash flow to go out and augment that with inorganic investments.

So I guess to summarize my answer to your question is yes, we do believe that we can do both, but at the same time, we are not going to be a prisoner to trying to show operating margin expansion each individual quarter. We're managing this business for the long term, and we will periodically make investments that might cause us to, in 1 quarter, see a decline in operating margin but maybe there's a better growth opportunity. Other quarters, it may be the opposite of that, but we believe over the long term, we can invest in our business to grow it at the rates that we've talked about with mid-20% TPV and revenue growth that's in the high teens and also expand our operating margins.

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

Yes. And also remember, I think it's important to point out that operating margin expansion doesn't just come with, for instance, expense reduction. As we grow revenues on Venmo, you see that improvement in our margin structure there, and that will continue going forward. And that's really -- that's a great way to grow your margins because you're growing your revenues, and we see that in other parts of the business as well. And so we think there is a lot of areas where we can still be more efficient. We're continuing to see that as a company, but there are also a lot of areas where we'll grow margins by growing our top line in certain parts of the business as well and filling holes that we had in the income statement.

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

One more thing I would add too, Tien-Tsin, is that when we look at some of these below-the-line benefits that we've had, and not MercadoLibre but the $0.04 [in investment gains] that were contemplated as we gave our guidance and went into the quarter as well as some of the benefit that we had in our fourth quarter results, we very deliberately talked about it reinvesting in the business. These are -- this is earnings growth. And while one could argue that it's a lesser quality because it's below the line, it gives us an opportunity to grow earnings and pour some of that reinvesting back into the business so that we can grow our core platform in some of the better parts of our business like Venmo.

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

Yes.
And our next question comes from the line of David Togut with Evercore.

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

Congrats on the strong customer metrics especially. Looking at the 15% growth in net adds in the quarter and the 9% increase in customer engagement, can you talk about what you're seeing in some of these newer cohorts overall in terms of engagement? You touched on that with respect to Venmo, but I'd be curious in terms of what you're seeing for PayPal overall in terms of the new cohorts.

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

Yes. Thanks for the question. I'll start off, and I'm sure Bill will add in, to put pressure on Bill. So I'd just start off by reiterating a little bit what I said on the call. This was a very strong quarter for us in net new actives. It was our, I think our second best quarter ever in net new actives. The majority driven by core PayPal, but a good amount through Venmo as well, and both PayPal and Venmo increased year-over-year as we look at net new actives.

And the reason I think both our engagement is up and our net new actives are up are a couple of reasons. One obviously we've got a network effect going on right now. That is clearly helpful, clearly helpful on the Venmo side with 40 million with a social feed that connects people together, but also when you look at 22 million merchants and 255 million consumers. It's a little bit of a must-have for both sides of the two-sided platform.

I think the product teams have done a great job improving customer experiences. Whether it be One Touch P2P enhancements choice that we put into place, new things that we're just beginning to see some nice impact from like rewards being on the platform, not only are we seeing increasing engagement as a result of that, but we're seeing less churn as a result, too. So net new actives are a combination of top of the funnel and bottom of the funnel, and we're seeing improvements on both sides.

Obviously, partnerships are helping us. We got a lot of partnerships. They are driving a lot of marketing dollars towards us. We think we're at the very beginning. We've met with senior leaders of a ton of the FIs -- financial institutions recently. They're all looking at driving incremental volume to us because we drive so much incremental transaction volume to them.

Obviously, Venmo is -- we talked about that. That's gone from strength to strength. And I am pretty pleased with our global expansion right now, whether it be in India, Japan. We've just done some things with the eKYC. Brazil, our partnership with Itaú is really starting to take off. And so I'm feeling pretty good about a wide range of activities here that are helping to drive both the engagement and the net new actives. Bill, are there other things you can think of?

William J. Ready - PayPal Holdings, Inc. - Executive VP & COO

Yes. And I would just say with regard to how the cohorts are performing, we've talked about this in prior calls. For the last 3 years or so, you've seen us have a steady trend line up on increasing the number of net new actives each quarter, and we closely watch the quality of those cohorts. And we've seen that each cohort has gotten better and better and better over time, and that really just speaks to everything Dan was describing in terms of how well rounded our offerings are.

We've expanded the range of services we can provide to consumers, the different places that a consumer can engage with us. And so engagement's up overall and the quality of our cohorts even as we've really widened the top of the funnel, so to speak, in terms of getting new users onto the platform, the quality of the cohorts has not only remained strong, but we see each successive cohort being stronger and stronger than the prior cohorts. There's nothing we've seen that has really changed in that overall trend.
And our next question comes from the line of Heath Terry with Goldman Sachs.

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

Just to dig into the acceleration in merchant services growth a little bit now that we've seen it for a few quarters. Dan, you've talked in the past about the leverage that you're seeing processing payments for companies like Uber and Airbnb and Apple Pay, and now you're adding Instagram, Shopping. How much are these named partners impacting the acceleration in Merchant Services growth? And particularly, something that's relatively early stage like Instagram Shopping, how do you think about the impact that it or maybe other partners that we haven't talked about yet are meaningfully contributing to future growth?

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

Yes. Well, I think some of those, as you mentioned, are just starting. So we're going to see quite a bit of future growth. Instagram Shopping would be a good example of that. Another good example that you didn't mention but we think is a really meaningful vertical that we're just moving into would be Bill Pay like our partnership with Paymentus. We think that there are, at a minimum, tens and tens of billions of dollars of incremental TPV through just that vertical alone, maybe significantly more. And so these partnerships are obviously growing rapidly. We talked about the top 20 generating $90 billion of TPV growing at 39%. And also remember, there are other big marketplaces out there that we're prohibited from working with because of the operating agreement, and we honor that operating agreement completely to the letter of it and the spirit of it. And so -- but those marketplaces are ready to start partnering with us, and we're ready to start partnering with them in a much deeper basis.

I think -- you look at partners like Uber and Airbnb and others, we think they've got tremendous growth opportunities yet. You know we've been partnering with them for quite some time going forward, and we think being deep strategic partners with some of them has -- is a really important element for both -- for our mutual customers. Bill, you probably could add?

**William J. Ready** - PayPal Holdings, Inc. - Executive VP & COO

Yes. I would just say, as Dan described, these partnerships are in varying stages of maturity. Some like Uber and Airbnb that we worked with from almost inception to newer things like Instagram. But across each of these, you're seeing PayPal, both as a [payment mark] as well as our broader platform to connect a number of commerce experiences, really becoming the preferred platform for the best commerce experiences out there. And so Dan cited earlier that our top 20 marketplaces and partners outside of eBay were $90 billion plus in volume over the last 12 months, growing at 39% plus year-on-year. I think this is one of the most important trends in e-commerce right now is that if you were a small- to mid-sized seller or a small seller, a decade ago, there was sort of one place you could go to sell, and there's been explosion of those places and some of those are newer and more nascent. Others of those are more mature, but across those, PayPal is a partner of choice both for those marketplace and partner providers as well as the small- and mid-sized businesses that sell in those places that are using PayPal to connect into those many forums. And so that's been a great area of growth for us, and it's -- there's partners of varying stages of maturity and I think it's great that there's no one of those partners that dominates for us. At the same time, it's -- this trend is well along its path, and we have become a primary partner to the ecosystem both in terms of those marketplaces as well as the people that want to sell within those marketplaces.

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

Yes, just having 22 million merchants, we talked about our overall 277 million, but 22 million merchants that are growing quite nicely every single quarter as well, being able to take those predominantly small merchants and be able to with One Touch authentication get them into all these marketplaces that Bill just talked about helps the marketplaces and helps us to deliver incremental sales to those small business partners.
APRIL 24, 2019 / 9:00PM, PYPL - Q1 2019 PayPal Holdings Inc Earnings Call

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

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

Look, I mean net new active numbers continue to clearly outperform the 300 million year-end expectations, and I know I touched on this last quarter, but I kind of want to hone in again on just to make sure these kinds of trends can be sustainable around. You talked about Venmo and core. The international side still seems to be some -- an area we think is a big opportunity. And I'd love to hear more about how India is going and then maybe the MELI deal. I mean the commercial agreement to us seems like it could be a big opportunity for something kind of like what you went after with Baidu with enabling cross-border transactions from maybe all of those tens of millions of Latin American users to use international where PayPal is accepted. Are we thinking about that right and other international opportunities? And then just maybe also update us on the pipeline of incremental marketplaces beyond like we saw with Instagram would be great.

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

Let me start off a little bit maybe with how we thought about MercadoLibre, and Bill can talk about maybe the sustainability of the net new actives going forward.

So Darrin, you're exactly right. I mean, we see international as a tremendous opportunity space for us. And if I take a step back, we're willing to invest in companies or acquire companies that we believe advance our strategic agenda. And we -- I said this in my remarks, we do want to be the leading global digital payments platform, and that means looking across the world at who are the leading players there and how might we partner together in some way to take our respective platforms, the respective number of customers we each have. MercadoLibre, between their marketplace and MercadoPago, their payments infrastructure, they have 200 million-plus customers themselves. And so you put that together with ours, you have almost 500 million customers. And there, to your point, you can see that combination being quite powerful for driving growth for both companies. And so there are companies like MercadoLibre where a strategic partnership may make sense for us, and they allow us to expand our presence into a geography or a set of capabilities. And by the way, there may be other companies around the world that offer similar strategic options for us and we'd be willing to explore partnerships, very akin to what we did with MercadoLibre. None of our investments, whether it be a MercadoLibre or others, prevent us from working with anybody else. We are an open platform. We intend to work with everyone in driving this agenda of helping consumers and businesses have access to the digital economy. And so we're pretty pleased with the overall partnership and relationship we're developing with MercadoLibre. We do have a board observer seat. I think it's going to allow for deep collaboration and committing our platforms into a commercial relationship I think will drive a lot of value for us. But again, there are others like this that we see around the world as well.

William J. Ready - PayPal Holdings, Inc. - Executive VP & COO

And on the sustainability of the net new actives, it's really about 3 years now, if you go back to mid-2016 when we started to bend the curve on accelerating net new actives and we've gotten this question on sustainability consistently since, and I think 3 years in I think we're demonstrating that sustainability and the thing that we've talked about throughout that has been that it's not about any one particular product experience, it's not about any one particular geography, it's that we revamped all of our product experiences and broadened the set of services that consumer can engage in across many geographies and so the fact that acceleration in net new actives is not tied to any one particular product experience, it's not tied to any one particular geography and is well diversified across product experiences and across geographies. I think just speaks to the ongoing sustainability that I think we've demonstrated over the last 3 years. I think further on the marketplace, the point you were asking about the pipeline there, Dan alluded to this earlier, but what we can deliver for those marketplaces, and we talk a lot about what we drive in terms of much better conversion for consumers on the front end. If you're a marketplace, the fuel that feeds the marketplace often times attracting sellers on the other side of the marketplace, and those 22 million sellers that we have that can sign up via a One Touch activation as Dan was describing earlier, that's quite significant for those marketplaces because it's not just that you're taking friction out of the sign-up in terms of having to go provide information. Those marketplaces are looking for vetted sellers with proven selling history wanting to understand what verticals those
sellers engage in. And all those things that we can do to really bring sellers into this explosion of new marketplaces out there really makes us a partner of choice for them not only on the consumer buying side, but in terms of fueling those marketplaces with vetted, proven sellers is just a tremendous benefit, so we see a really rich pipeline of marketplaces there, both for the infrastructure that we provide with our PayPal for Partners platform as well as what we're able to do to go bring customers and push those marketplaces both on the consumer side as well as on the merchant side.

Operator
And our next question comes from the line of Ashwin Shirvaikar with Citi.

Ashwin Vasant Shirvaikar - Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst
I appreciate the insight so far. My question is on Synchrony and the Synchrony relationship, and I was hoping you could update us on how to think of the ongoing growth of the revenue share for the consumer lending business and also if you can clarify maybe the magnitude and timing of the servicing part of it. That agreement, is that sort of -- does that end intra-quarter in 2Q? Or does it end at the end of the quarter? How should we think about that?

John D. Rainey - PayPal Holdings, Inc. - CFO & Executive VP of Global Customer Operations
Sure, Ashwin, I'll take that. With respect to the agreement, the transition of that, it's at the end of the -- it's June of this quarter. And we will -- as we noted in the prepared remarks, we receive a payment from Synchrony related to some of the servicing of that. But we'll also -- as part of the charge that we announced, we will have a reduction of workforce related to employees that currently serve that business today. So there will be sort of an offsetting benefit there going forward.

In terms of the growth, I think that it's more in line with the overall business that we're doing, credit in general and then including merchant credit here as well as well as the international credit. They tend to be growing a little bit faster than the rest of our business because of some of the opportunities that we have there. But all of those numbers are built into our full year guidance, so I think fortunately for us, we'll be happy to get past this next quarter where we have to quit making -- where we can quit making adjustments for things like held-for-sale accounting and the revenue impact to other value-add services and so forth, but the second half of the year will be more of an ongoing -- more representative of what the ongoing business will look like.

Daniel H. Schulman - PayPal Holdings, Inc. - President, CEO & Director
Yes. And let me maybe add to John's comment. We just had our credit operations review yesterday, and I'm really pleased with what I'm seeing from that team right now. They have -- they're really embracing the partnership. Synchrony is unleashing our ability to look at all forms of growth on the credit side. There is a ton of new, innovative incremental things that they're looking at. Our merchant lending business, we've lent now over $10 billion since we started. We think we're one of the top lenders of working capital to small businesses. So on every front, I have to say I'm quite pleased with what I'm seeing and what the future holds as a result of what we've done in our partnership with Synchrony. So I think we'll continue to see good growth on that side. And as John said, we'll be glad to get through second quarter, so we don't have to keep adjusting results, and you'll be able to see that clearly in our revenues.

Operator
And our last question comes from the line of George Mihalos with Cowen.
Georgios Mihalos - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Just a quick one maybe going back to Jason’s question around cross-border. I mean obviously, the volume there of TPV has been under some pressure for the myriad of reasons that you’ve talked about. But now going into Q2 and through the rest of the year, the comparisons ease, FX should be less of a headwind than what we had before and obviously sort of international opportunities are sort of front and center. Do you think that the volume growth or the TPV growth decel has slowed there, has bottomed? And is there a reason why that shouldn’t really start to accelerate over the back half of the year?

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

George, it’s John. I’ll take this. So the back half of the year, we do expect an acceleration in cross-border. Q2 will look probably pretty similar to Q1, but there are 2 things going on there. One is that we simply have sort of the translation effect, and that corrects itself as we lap the previous periods where we saw changes in the relative value of the currencies, but the second thing is there’s a behavioral aspect to cross-border activity that if you live in a country where the currency there has depreciated appreciably versus, say, the U.S. dollar, it doesn’t -- when you lap that 4 quarters later, it doesn’t all of sudden make it less expensive to buy something. So that’s sort of an ongoing pressure, but I’ll remind you that certainly works both ways. We’re in 200 markets across the world, and these things ebb and flow. There will be periods where we have headwinds related to this, and there will be periods where there are tailwinds. I think very fortunately for us, given the diversity of our portfolio in the various regions that we operate in around the world, there’s sort of a natural hedge that goes on. And relative to, I believe, Darrin’s question earlier around some of the other opportunities, when we think about our growth opportunities and investment opportunities around the globe, this is something that we certainly keep in mind. And as you -- if you think about the MercadoLibre investment, Latin America is an area where we’re less strong than we are in other entities, and we’ll continue to focus our investments around building up our presence in some of these areas where there’s more opportunity to grow where we don’t have the footprint that we do today. And that enables us to have sort of this natural hedge, if you will, to currency pressures that are going to happen from one period to the next.

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

Thanks so much for that, and thanks, everybody, for joining us today. We really 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.