

## **PayPal Q2-20 Earnings Sellside Call Transcript**

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**Craig Maurer**, *Autonomous Research*

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**Operator**

At this time, I'd like to welcome everyone to PayPal's Q2 2020 Analyst Call.

All lines have been placed on mute to prevent any background noise, and after the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, followed by the one on your telephone keypad. If you would like to withdraw your question, simply press the pound key.

Mr. John Rainey, you may begin your conference.

**John Rainey**

Thanks, Gabriel. I appreciate it, and thank you all for joining this evening.

I'm joined on the call today by the Investor Relations Team; Gabrielle, Akila, and Lizzie, as well as Erica Gessert, who is our Senior Vice President in Finance, and with that, we'll just jump right into Q&A.

**Operator**

Okay, so again, if you'd like to ask a question, please press star, one on your telephone keypad, and again, we ask that participants please limit themselves to one question at a time and then queue up again for any further or follow-up questions.

Your first question will come from the line of Ashwin Shirvaikar of Citigroup. Please go ahead.

**Ashwin Shirvaikar**

Thanks. Hey, John. First of all, congratulations.

**John Rainey**

Thank you.

**Ashwin Shirvaikar**

I wanted to get a little bit into the component of margin and cash flow improvement. Obviously, there's scale, and I understand when that happens suddenly, you can't immediately invest returns, but then there's mix, maybe cost (inaudible), there's a funding component. Can you walk through the major pieces and sort of size it wherever you can?

**John Rainey**

Sure, Ashwin. It's good to speak with you, as well.

Fundamentally, the major thing that's happening in our business is just the growth of the—what we refer to internally as the PayPal core part of our platform, so think of it as the branded payments button.

Braintree is actually performing quite well and at an accelerated level of growth versus where we entered the year, with the exception of the travel and events vertical, so if not for that, then we'd be seeing higher overall growth rates than where we started the year, so—but the fact is, is that's a smaller part of our platform right now, and we're just seeing these elevated levels of e-commerce spend and the relevance of PayPal.

Along with that is you're seeing our funding mix change, and so the 11 basis point improvement in transaction expense versus last year drives a significant amount of P&L benefit, and the net of all of that is that you've got very high incremental margins on the business that are falling to the bottom line, and so even when you look at—you referenced the cash component of the business, like our free cash flow; that increase is primarily driven by a core earnings performance versus the typical working capital changes that happen from one period to the next.

**Ashwin Shirvaikar**

That's great. Glad to hear from you as well. Thanks.

**John Rainey**

You bet.

**Operator**

Your next question will come from the line of Jason Kupferberg of Bank of America. Please go ahead. Your line is open.

**Jason Kupferberg**

Okay, great. Hi, John. How's it going?

**John Rainey**

Hi, Jason. Doing well. How are you doing?

**Jason Kupferberg**

I'm doing okay. Thanks.

Maybe just a follow-up on margins. I just want to make sure I got some math right here. It looks like the second half, we're dropping off to maybe around 25% or so versus the 28% in the second quarter, so wanted to check if that's the right zip code, and I think the \$300 million of investment spend is pretty much the whole delta there, but I also just wanted to ask how we should be thinking about transaction expense in the back half, because like you just talked about, that's a major margin tailwind right now. I mean is this low 80s range sustainable?

**John Rainey**

Yes, so you're right, there are a couple of dynamics, so one, certainly, is the \$300 million of incremental investment also falls to the bottom line. We do have the impact of eBay though and their movement to their managed payments migration, so we called that out as one point of headwind to growth, but that obviously has an impact on the bottom line as well.

In terms of transaction expense, I'm going to let Erica jump in here, but I think the right way to think about that is generally what our performance was in the second quarter. Erica, anything that you'd add?

**Erica Gessert**

Yes. I mean we—on TE, we have a little bit of an assumption that our debit mix isn't quite as elevated as it was in Q2, but I think, overall, we're expecting generally in the same range with maybe a little bit of degradation if debit/credit mix changes.

**John Rainey**

Yes, and just to elaborate on that point, there's some hypothesis that some of that mix change could have been seen by stimulus checks being put into bank accounts, and so that may have contributed to some of that, but I would say, as a general rule, we feel that these are generally sustainable trends, with sort of the notable call-out that Erica made.

**Erica Gessert**

That assumption is more just a reflection of the kind of uncertainty of the environment than anything that we're seeing right now.

**Jason Kupferberg**

Okay, and that 25%, though, that I mentioned, that's the right neighborhood for the second half? I just want to make sure I'm not missing anything there?

**John Rainey**

On EPS, that's correct.

**Jason Kupferberg**

Sorry, I meant for Adjusted EBITDA.

**Erica Gessert**

For operating margins?

**Jason Kupferberg**

Yes.

**Erica Gessert**

For operating margin, yes, I think that's directionally good.

**Jason Kupferberg**

Okay. Okay. Thank you, guys.

**Operator**

Your next question will come from the line of Craig Maurer of Autonomous Research. Please go ahead. Your line is open.

**Craig Maurer**

Yes. Hi, John. Hi, Gabrielle, Akila. Glad to hear everybody as well.

**John Rainey**

I hope you are, as well.

**Craig Maurer**

Yes. Thanks. Getting by.

If you could comment on the revenue breakdown for Venmo; if there's been any shift there, and if we can also go into a little bit more on what you're assuming in that TPV guide for the rest of the year. Any improvement in T&E, or any fading in the core business? Just anything at all that could perhaps add a little color there. Thanks.

**John Rainey**

Sure. I'll start, and Erica may want to jump in, particularly on the TPV piece.

Venmo is, the composition is relatively similar to what we've described in the past with the instant cash withdrawal being the primary component of monetization today, and then we have the Venmo Debit and Pay with Venmo that make up the balance of that. We have launched some pilots around business profiles, but we have to have 28 markets, and we'll begin to monetize that, as well as the credit card will be coming on in the second half of the year, which will change that composition a little bit, but generally, pretty similar to what it's been historically.

On TPV, you're exactly right, Craig. We don't expect a quick rebound in travel and events, and Erica can provide some maybe more detail on this, but these are long lead-time type items. I guess if Taylor Swift is going to throw a concert, there is a lot that goes into that and there's a booking curve that goes into that. People are not just deciding to do that on a Friday and then going to it on a Saturday, so those items we actually think will—the rebound will be, hopefully, more into 2021 given everything that we see right now.

Erica, is there any other verticals that you think are worth noting there?

**Erica Gessert**

No, the only thing I would add is the Paymentus ramp is a contributor to TPV growth in Q3 and in Q4, versus Q2, so we are seeing their top billers come online now, so that's going to be a contributor as we enter into the back half more than the recovery of the travel and events vertical.

**John Rainey**

Craig, I said we launched the business profile. I was thinking the QR Code in the 28 markets. The business profile is obviously just in the U.S. for Venmo.

**Craig Maurer**

Okay. Thanks, and just one more, if I can. On OVAS, how should we be thinking about the growth rate in OVAS in Q3? Any call-outs?

**John Rainey**

The most notable thing that's going to change from Q2 to Q3 is the lapping of the \$58 million in servicing that Synchrony paid us, so that'll be a tailwind, if you will, in Q3 and Q4, and then the other thing is we've got an acceleration of Honey going throughout the year, and so we'll see some improvement in OVAS in the second half of the year versus the second quarter.

**Craig Maurer**

Okay. Thank you.

**Operator**

Your next question will come from the line of Colin Sebastian of Baird. Please go ahead.

**Colin Sebastian**

Thank you, and nice quarter, and good to talk to all of you.

**John Rainey**

Thanks, Colin.

**Colin Sebastian**

John, sorry to kind of beat this horse more, but just wanted to reconcile again the comments on sustainability in the second half. I mean a couple of your reasonably large partners like Shopify and eBay specifically talked about deceleration in growth in June and July, and I'm wondering if that maybe more kind of on the discretionary side and maybe some of the newer-use cases that you and Dan outlined may—might explain some of that gap between what those partners are saying, and then on a separate, but related, note, do those new-use cases or the expanded range of services at PayPal, do they involve

your partners as much as sort of the core functionality, or does this kind of put you on a different competitive footing vis-à-vis the card networks or other financial institutions, if that makes sense? Thank you.

**John Rainey**

Yes, so I'll take the second part of that first. We are working with the networks and the point-of-sale, the launching of contactless payments, and so I think that's been a big benefit to both our business and theirs as we've partnered over the last couple of years, and the new offering contemplates continuing that partnership, and then with respect to comments that others have made around maybe some deceleration in their business, I just—it's worth noting that we're slightly different in that we have a much more global business. International stands out as one of the areas that was particularly strong for us on an FX-neutral basis. International revenue grew 36% in the last quarter, and so I think we benefit by having that diverse platform.

And then I'll reference something Erica said in the previous answer: we are bringing on new customers to our platform, like Paymentus being a great example, and then launching new product offerings as well, so all of that gives us some degree of confidence in why there might be some differences in the trajectory of our business in the second half versus the second quarter, but it's worth noting, too, Colin, these are not easy times to forecast in and provide guidance, and you probably noted even the very manner in which we provided guidance with sort of a pinpoint range is different than what we've done historically because, I think it's fair to say, with the macroeconomic backdrop, the kind of fits and starts that we go into in certain regions around social distancing, it's just—it's really, really tough to have a—the normal high degree of confidence that we do in our forecast, so we wanted to be transparent and give the best information that we had, and we felt good enough about that to reinstate the guidance for the back half of the year, but I'd say there's a higher degree of error there than normal.

**Colin Sebastian**

Okay. That's great. Appreciate it. Thank you.

**Operator**

Your next question will come from the line of Sanjay Sakhrani of KBW. Please go ahead.

**Sanjay Sakhrani**

Thanks. Congratulations on the quarter. I'm glad you guys are doing well.

I guess my question is on the QR code rollout. How significant of an investment do guys envision making because it's cost quite a bit of money for some of the players in other markets that have made that type of investment to get the engagement levels high, and I guess are you intending to take that investment on yourself, or do you expect to tie in other partners, and I'm just curious what the timeline is to get mass adoption, given stuff like contactless cards, as well?

**John Rainey**

Yes, Sanjay, it's good to speak with you.

A pretty material part of the \$300 million that we've earmarked for the back half of the year is related to QR codes. Certainly not all of it; I don't want to—you to think that, but it's the single largest investment that we're making in the back half of the year, and I think, initially, we are driving a lot of the investment there. Certainly, as we begin to see traction, we would hope to share some of that investment with some merchants, but very excited that we have a large, everyday type use case item like a CVS as a launch partner, and as we noted, by the end of the year, we hope to be in their 8,000-plus stores, so excited about that.

I think you raise a very good point. Success in this endeavor will not be measured in quarters. This is a—probably a multi-year effort to get ubiquity and adoption to where people are using this, and we're approaching it that way, and it's certainly not half-hearted. I mean we recognize that this is a fundamental shift in consumer behavior, and it's worth stating that we've had a checkered past with our efforts in this area, and we're going all-in on this because we believe the time is now, and so committing a significant amount of resources and investment to it.

**Sanjay Sakhrani**

Thanks.

**Operator**

Okay, and your next question will come from the line of Josh Beck of KeyBanc. Please go ahead.

**Josh Beck**

Thanks, John and team for doing this call. I really appreciate it, as always.

I just have a bigger picture question, so obviously the world has changed a lot in the last 90 days, and arguably, the importance of e-commerce and omni-channel has certainly risen, so I'm just wondering did it make you reorder or maybe re-rank some of your strategic initiatives, or was it more a matter of you had all these things in place with the Honey integration, QR code, and maybe it's accelerating the path? I'm just kind of curious if it drove any strategic changes because it was such a large industry change.

**John Rainey**

It's a great question, Josh, and it's good to speak with you.

There's nothing that we're doing now in terms of where our priorities are that wasn't already being contemplated. What it changed was the prioritization of that, and the single best example is contactless payments, QR code, so there were efforts going on around QR code, but we've put those on the front burner, if you will, because of the obvious need to address that right now. Along with that, I would say that the digital wallet enhances to that. The importance of that, I think, increased, and we re-prioritized that, so no brand new initiatives; really more a shuffling of the prioritization of those initiatives.

**Josh Beck**

Okay. That makes a ton of sense. Thanks, John.

**John Rainey**

You bet.

**Operator**

Your next question will come from the line of Chris Donat of Piper Sandler. Please go ahead.

**Christopher Donat**

Hi. Good afternoon. Thanks for including me in the questions. I feel like someone who just walked into a party that's been going on pretty well and I'm brand new to it.

**John Rainey**

Welcome, Chris.

**Christopher Donat**

Thanks.

One simple question and one that's a—maybe a little complicated. Just on the 70 million net new active accounts you expect to add in the year, does—I assume that includes Honey, and then the more complicated question is two things I did not think I heard in the call were any mention of July trends and any mention of the extended partnership with Visa that Visa mentioned on their earnings call last night, but anyway, any comment on the trends in July and 70 million net new accounts.

**John Rainey**

Sure, so 70 million does include the entirety of our portfolio, which includes Honey, and again, I'll put the sort of the normal caution on that. That's our best guess. I mean some of these trends are different than what we've seen on our platform historically; obviously much more elevated levels, but like just yesterday we had 234,000 net new actives that came to our platform, so still seeing elevated levels on a daily basis, and as Dan referenced on the call, we don't really think this is—we don't think the bulk of it is a pull forward. There's a lot of new customers, the silver tech that we've referenced that are coming to our platform, and so [we're] encouraged about this, but our best guess right now is that it's 70 million for the year.

We didn't provide any updates at July because I don't think it was so appreciably different from the rest of the quarter as—like April was versus the first quarter last time, and remember, last time we were basically about five weeks into this pandemic really hitting our core markets, and there were some very different trends by the time that we released our earnings versus what we saw, quite frankly, even—the first week of April, and so we felt the need to really talk about that more then, and then the other part of your question was...

**Gabrielle Scheibe Rabinovitch**

It was on Visa Direct.

**John Rainey**

Yes, Visa Direct. You want to take that, Gabrielle?

**Gabrielle Scheibe Rabinovitch**

Yes, so our relationship with Visa, which really started - the partnership started in July of 2016 - at the time contemplated Visa Direct and use of those rails, so really since the middle of 2016 we've been working with Visa and specifically using those debit rails for different kinds of functionality. For the most part, that's been really limited to PayPal core and to Venmo.

We've now expanded our Visa Direct relationship across our properties. They called it out yesterday in their earnings. We did include it in our press release, but it really is more about extended use of those rails for different types of services. We also will be able to white label those Visa Direct rails in both Braintree and Hyperwallet for different types of functionality. They also do allow us to participate a little more in direct deposit using different instruments that could be provisioned into our wallet.

It is really just a more—a continuation of our existing relationship with Visa and just a broadening of that partnership globally.

**Christopher Donat**

Got it. Thanks very much for that.

**John Rainey**

You bet.

**Operator**

Your next question will come from the line of Brett Huff of Stephens. Please go ahead.

**Brett Huff**

Good evening, and thanks for taking my question. I hope you're all doing well.

**John Rainey**

Thanks, Brett.

**Brett Huff**

My question's a little bit about—thanks. Question about the announcement of working with Google a bit more on their commission free buying sort of effort. It has occurred to me over—and I think others, over a long period of time that they've struggled with payments, and that it seems a fairly obvious

partnership opportunity with PayPal given your very broad kind of reach both in merchants and in consumers, and I'm wondering, how do you guys view that partnership? Is there more there than just meets the eye, or any thoughts on how that could evolve to both help them in terms of frictionless payments and your expertise in that? Thank you.

**John Rainey**

Sure. I'll start, and Gabrielle may want to add something.

We're pretty excited about the extended partnership with Google, and I think, importantly, allowing their new sellers that come to their marketplace and to be able to basically use whoever they want to process payments, of which PayPal is one, it really speaks to a very similar strategy that we have that is very customer-first, customer-centric, allowing them to conduct business in the way that is the easiest and frictionless for them without forcing them into any experience.

And so it's exactly consistent with what we've done with other platforms, and look, they're a great company. We're excited to be able to partner with them, and we look for additional steps to deepen that partnership going forward.

Gabrielle, is there anything else that you'd want to add?

**Gabrielle Scheibe Rabinovitch**

No, I think that covers it. This is really a continuation of the work we've been doing with Google for some time. We're in their Google, their GPAY wallet, so we're a funding instrument there. Our wallet can be loaded within that wallet experience.

They're, of course, quite focused on sort of anchoring more search and discovery on the Google platform, and so we're pleased to help on the payment side to create the frictionless experiences, to create a range of funding instruments that their users can use, but this is really about supporting their marketplaces business.

**Brett Huff**

Great. Thank you.

**Operator**

Your next question will come from the line of Timothy Chiodo of Credit Suisse. Please go ahead.

**Timothy E. Chiodo**

Thanks a lot. Good afternoon, everybody.

**John Rainey**

Hi, Tim.

**Timothy E. Chiodo**

Hi. Question's on the Pay with Venmo button coming out, the Dynamic button. I know that there were some cookie-related issues last year, and those seem to be worked out and there's a new solution, and I understand that that was to be rolled out at some point this fall, or perhaps into late Q3, Q4, and I wanted to see if you could provide a status around that rollout and what we should expect to see?

**John Rainey**

Certainly, so we did say that we'd have a more concentrated rollout in the fall, and Pay with Venmo's still very much a big part of the key monetization efforts in the long-term strategy there, but similar to what we've done on PayPal, there are some other things that we—we're really focusing on right now related to business profiles as well as QR code. I mentioned CVS earlier. That would include Venmo as well; the ability to use a QR code in the Venmo app to pay there, and so there's a—I would say sort of a juggling of our efforts there to be responsive to the current environment that we're in, but Pay with Venmo is certainly a big part of the strategy going forward.

**Timothy E. Chiodo**

Okay. Thank you. All right, so does that suggest that, perhaps, that might just be pushed out a tad, timing-wise?

**John Rainey**

Yes, I think that's an accurate read into that.

**Timothy E. Chiodo**

Okay. All right. No problem, and then one last one just clarifying on July. I know that you mentioned it was not so different than the rest of the quarter and it wasn't worthy of a call-out, which I fully appreciate, but just to clarify, when you say not so different, do you mean relative to May and June trends, or do you mean relative to the full quarterly number of 30?

**John Rainey**

More May and June trends, and you can interpolate what that is based upon the guidance that we gave for April.

**Timothy E. Chiodo**

Right. Right on. Okay. Thank you so much.

**John Rainey**

You bet.

**Operator**

Your next question will come from the line of Jamie Friedman of Susquehanna. Please go ahead.

**Jamie Friedman**

Hi. Thank you guys for doing this call.

I just wanted to ask about the provisions, John. You had talked about increased coverage on the prior call going from 17% to 22%. I may be misunderstanding, so I apologize, how the day one logic works, but is the—is 22% now what's contemplated in your earnings guidance for the year? Is that how that works? If things got worse or better, would that come back? Just some clarification on how we should think about the 22% would be helpful.

**John Rainey**

Sure.

**Erica Gessert**

Hi, John. Oh, sorry, I...

**John Rainey**

Go ahead, Erica.

**Erica Gessert**

Sorry, I was having a little trouble with connectivity. I just wanted to add some perspective on the last question on Venmo.

We're still executing on the Pay with Venmo strategy very much so, and in fact what we're seeing is, as we're going into conversations on QR code and other things like that, we're seeing merchants that we're integrating with really, really interested in Venmo, as well as PayPal in that context as well, and so we're just expanding the relevance of that Pay with Venmo strategy.

And then the other thing is, I mean the reason we've shifted a little bit in terms of focus is just the pure demand on the individual merchant/small seller QR code strategy, as well as business profile. The business profiles—the demand is there. Those are growing without any push from us, and so that's why we've really started to focus and shift a little bit more on executing on that strategy and that monetization in parallel with Pay with Venmo.

Just wanted to add that perspective, and I'll hand it back to you on provisions.

**John Rainey**

Sure. Thanks for that additional color, Erica.

Jamie, on the provisions, you're right. At the end of the second quarter, our coverage ratio was at 22%, which basically makes a statement at a point in time. As of the end of the second quarter, that's what

we believed was the—is the right amount of reserve to have. If things were to get better or worse in either direction, that obviously changes that.

Now, what we called out each of the last two quarters is the macro-related changes to this reserve. There will always be changes unrelated to macro just based upon how the portfolio is growing. That's not really fair to exclude, like when we talk about normalized EPS growth of 59%. That only includes the macro basis, and so if unemployment and other macroeconomic indicators were to get far worse, then that would likely cause us to increase the reserve, and the reverse of that is true as well.

**Gabrielle Scheibe Rabinovitch**

Jamie, the only thing I'd add is you asked about the day one; just to be clear, the day one adjustment, which was the—a January 1 adjustment, really took us to 11%. By the end of Q1, we went up to 17% to reflect the change in the macroeconomic environment during that period, and now, of course, we're up to 22%, but that day one took us essentially what was, call it, a 5% coverage rate as of December 31 to 11% as a result of the changes that we made as a result of CECL.

**Jamie Friedman**

Got it. Thanks, guys. Appreciate it.

**Operator**

Your next question will come from the line of Mike Del Grosso of Compass Point. Please go ahead.

**Michael Del Grosso**

Thanks for taking my question.

You've done a great job outlining Venmo and user growth, but I'm interested on the merchant side; any call-outs on either attrition or the net new ads on that side, either as far as the industry verticals or categories?

**Erica Gessert**

Hi, this is Erica. I'll take this one, John, and then maybe you can contribute anything else.

We're seeing a big influx of small sellers into the base, and I think this is reflective of just merchants trying to get online, and then it's a combination of sort of small sellers, or even come casual sellers coming onto the—onto our network, and so, again, I mean some of probably smaller investment dollars and some of the bigger pushes that we're focusing on in the back half of the year is also enabling some of these—this transition from offline to online for merchants who are trying to stay in business, and getting kind of starter kits out to them and other things like that as well, so that's how to think about it, and—but it's really been in—probably focused in our core markets more than in other markets, but that's where we're seeing the growth.

**John Rainey**

Nothing else to add.

**Michael Del Grosso**

Great. Thank you.

**John Rainey**

You bet, Mike.

**Operator**

Your next question will come from Reggie Smith of JPMorgan. Please go ahead.

**Reggie Smith**

Two quick questions; so one, I guess, John, you mentioned that you don't feel like this is necessarily a ton of pull forward in terms of new active growth. Just curious, I'm just wondering, if the pandemic hasn't brought you onto PayPal or Venmo, nothing will. Who is your incremental customer today? Do you have a sense of demographic data? What do you say about the people that are joining today versus a year ago? Where are you finding these new people?

**Erica Gessert**

John, I'll take this, too.

I think we highlighted on the call, our fastest growing demographic is this silver tech, kind of over 50 demographic, and again, it's in kind of our core markets primarily, but we estimate—I agree, it's surprising to me too in some ways, but we still estimate that our digital buyer penetration in our core markets is probably around 50%, kind of 45%, 50% coming up on, so we do have more customers to go.

Another phenomenon that we're also seeing is that we're seeing our reactivation rates go up, so these are customers who have previously turned off the platform, quite often, we see these customers that they actually transact with us (inaudible) every 13 to 16 months, so they turn back off and then they reactivate, and we're seeing that rate of reactivation also increase, so this just means that customers who used us infrequently are now starting to use us more frequently as well.

**Reggie Smith**

All right. If I can add one more question just about funding mix; obviously a pretty dramatic shift in the last 90 days or so. Just curious, was that something that you guys instigated? Are people just naturally redirecting their payment preference? Are they using that choice? What are you seeing, or what have you seen in the last 90 days as it relates to that, or is it just people had money in their business' balance and that happened to be used?

**John Rainey**

Yes, Reggie, so that's actually being done with our kind of hands off the steering wheel. That's not something that we're doing. I think it's probably two things that are happening.

One is just a mix change in our overall business, so we talked about travel and events flattening more than 10%. That's down 60%. A lot of that is like Braintree card processing, which is—tends to obviously skew to debit and credit, whereas a lot of the funding instruments for just a PayPal-branded transaction may be ACH, may be more debit, may even be balance, and so you've got that funding mix happen.

And then something that perhaps broadly you're seeing across many companies is maybe more of a shift away from credit, which could have been triggered by some of the stimulus checks, or just consumer behaviors during times when people are concerned about the economy.

You've got those two things that are really impacting our business, but nothing that we're necessarily doing.

**Reggie Smith**

Got it, and I guess just to be poignant here, did you see an actual increase in people redirecting their funding from previously a credit card to a debit card, or not, or you did see that necessarily?

**John Rainey**

I don't know that we've seen that trend, or, quite frankly, even really tried to go look at that. I'm sure we could pick apart some demographics where, perhaps, that's happening, but the reverse of that could be true as well where some people may be going the other direction, but it's—it was—I think some of this was unanticipated.

**Reggie Smith**

Thank you.

**Akila Moorthy**

In some of our core markets, Reggie, we have seen a shift—a shift towards debit card usage, I think pretty much in line with the other banks calling that trend out as well, so in our core market we have seen a little bit of a shift.

**Reggie Smith**

Got it.

**Erica Gessert**

The other thing we saw was an increase in credit payment rates with the kind of stimulus checks coming through in various markets, so it's sort of a kind of across-the-board phenomenon where I think people were trying to kind of reserve—particularly in this quarter, people were trying to reserve their kind of credit availability, perhaps to just kind of in a way reserve capacity—household balance sheet capacity for the future.

**Reggie Smith**

Yes, okay, no. Looking at that number, that was a huge shock and a pretty big, sharp change, and so just curious what—if there was any other color you could provide there. Sounds like you guys were somewhat surprised by it as well.

**Gabrielle Scheibe Rabinovitch**

Reggie, I would also call out the travel and event space and the decline in volumes that we've seen there, which are predominantly coming through on the Braintree side, do have a real impact on that transaction expense rate, and so I think the transaction count was down close to 50% in the quarter and volume was down about 60% in those verticals, and that contributes to—in a meaningful way, to that transaction expense rate.

**Reggie Smith**

Okay. Thank you. Appreciate the color.

**Operator**

Thank you. Our next question will come from the line of Julie Chariell of Bloomberg Intelligence. Please go ahead.

**Julie Chariell**

Hi. Thanks for taking my question.

I wanted to ask a little bit more on investments, and I know the big story this year is going to be on QR codes, but you did allude to other investments that are in the works and being planned, and it sounds like they're going to be around more formal maybe financial services, and so wanted to kind of think through or talk through what some of those might be? What makes sense? What doesn't make sense? Taking deposits, adding investments, adding crypto trading, those kinds of things; are those in the works right now? Do they make sense for PayPal? What you are figuring out right now, does a banking license begin to make sense? We see Square and others starting to get some traction there. Thanks.

**John Rainey**

Sure, Julie. I'm going to give a little bit of a preface to my answer, but I'm also going to get to the point that you're asking about.

I would say, first, our investments really fall into four or five major categories, and maybe a sixth or seventh of something that I'm forgetting, but we want to invest in Honey and getting that integration right; we're investing in Venmo; we're investing in our net new actives to make sure that they have the best experience possible when they come to our platform; and then we're investing in the, I'll call it, in-person payments, of which QR code is part of that; and then, lastly, which gets to your question, is digital wallet.

Certainly we think that there are additional—there is additional functionality and complementary functions that we can add to that digital wallet, some of which you mentioned, that provide more utility, and in a period of time when people are likely moving from their physical wallet in their back pocket to their digital wallet on their mobile device, we think that's an important time to invest in all of that.

You asked about specifically like a banking license. That's not in the cards for us. We are able to do everything that we need to do with money transmitter license in most of our markets. Now, it is worth noting, we do have a banking license that is passported across the European states at Luxembourg, and so we use that over there, but there's no plans to get a banking license in the U.S.

**Julie Chariell**

All right. Thank you.

**John Rainey**

All right. Thanks, Julie.

Gabriel, we'll probably have time for one more question.

**Operator**

Okay, so your last question will come from the line of Joseph Vafi of Canaccord. Please go ahead.

**Joseph Vafi**

Hi. Good afternoon. Thanks for taking my question.

I was just wondering if you could provide a little more color on what Dan talked about last quarter on Venmo and direct deposit, and I think there's a Plaid integration going on there and how that's working versus—and the strategy there versus how others may be doing direct deposit? Thanks.

**John Rainey**

Sure, so I'll start, and let Gabrielle talk a little bit more about the Plaid integration.

Direct deposit is something that we've seen in the pilot, reasonable good uptick and interest in, and it's, again, just building out that functionality in the wallet, and when people have the ability to use that digital wallet in any type of setting, be it offline or online, they're a lot more likely, or a lot more willing, I should say, to have their paycheck deposited in there, and then for us, that obviously increases the overall level of engagement, and so it's one of many things that we're doing that we think is important to increase the utility of the wallet.

Gabrielle, do you want to talk about the Plaid integration?

**Gabrielle Scheibe Rabinovitch**

Yes, I would say we don't use Plaid for direct deposit, so the Plaid relationship in Venmo is used for other direct integrations to banks. We use Plaid for that in Venmo.

In core PayPal, we do a lot of direct integrations on our own and we use other partners for that. The direct deposit functionality that's enabled through Venmo today is actually enabled through the Venmo debit card itself, so if you have that Venmo debit card and you provision it into your Venmo account, you can just set up direct deposit through that, so it's very separate from that Plaid relationship.

**Joseph Vafi**

Okay, and is that—and then is there a bank behind the Venmo debit card then, Gabrielle?

**Gabrielle Scheibe Rabinovitch**

Yes, so our rails are MasterCard on the Venmo debit. Bancorp is the issuer.

**Joseph Vafi**

Great. Okay. Thanks so much. Appreciate it.

**John Rainey**

All right. Well, thanks everyone for joining the call today. We appreciate it. We're now at the end of the allotted time, but we'll obviously talk with many of you as you have additional questions. Hope everyone stays safe and be well. Good talking with you.

**Operator**

This concludes today's conference call.