PAYPAL HOLDINGS, INC.

Moderator: Craig Maurer
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Craig Maurer: This is Craig Maurer with Autonomous Research. Thanks again for everybody joining. And special thanks to John for agreeing to do this today and discuss PayPal's results and thank Gabrielle and Akila for arranging today's call. It's all very much appreciated. John, how are you doing after what was clearly a busy evening?

John Rainey: We're doing well, Craig. Thanks for asking. And I trust everyone on the line as well and I hope you are too.

Craig Maurer: Thank you. So, let's, let's jump right in. PayPal just reported what's likely its strongest quarter in recent history, if not, ever. So, my first question is, what do you think might need additional clarification following last night's call if you were to read what the questions were coming in?

John Rainey: Well, I guess I'd start with, if you step back, we just reported our highest volume and revenue growth in our history and our second highest EPS growth. And we're well on track to achieve over $5 billion in free cash flow this year. So, our business is performing exceedingly well.

It's certainly challenging times in terms of looking out into the future and being able to provide, I think, an estimate as we look over the next 14 months and perhaps there's – I certainly appreciate that everybody wants that transparency, but we, as I noted in my remarks yesterday, that's something that we've got to balance with reliability and certainty.

And we – I think we've always been a company that has tried to provide transparent information even going back to 2016 when that was the first time that we gave the next year's guidance on our third quarter call, and in part because there was asymmetric information at that point in time in terms of what our transaction expense was going to be related to choice.

And we've continued that trend and we'd hope to do that in the future, but as we've looked at the myriad options out there in terms of when stimulus could come in, what the magnitude of that would be, the uncertainty around the election, the holiday season, shopping, all of that, there was just too much variability to really provide a constructive guide to 2021.

But rest assured, we'll provide that information when we get to our next quarter's call. But I don't want that to take away from what's really happening in our business and that we are performing very well. And I think clearly, irrespective of kind of what's your thoughts on many of the things that I mentioned, as you look at our business over the longer term, it's on a higher growth profile than what it was prior to the pandemic.

Craig Maurer: Yes, thank you for that. So, I want to just quickly get to what's been, by far, the most popular topic with incoming questions, which is the take rate. So, you called out four equal contributors during the sell-side call last night – P2P growth, hedging losses, lower credit growth and merchant mix.

Can we unpack this commentary a bit and pay special attention to the impact of credit because I think there has been quite a bit of confusion there in terms of how to conceptualize, how that hits the take rate?

John Rainey: Sure. Let me address each of those but do credit last because I'll talk about the implications for 2021 because we could have been, I think, more articulate in the way that we responded to that yesterday. So, I want to clarify some of that.

Let's start with hedging. We had a $17 million hedge loss this quarter compared to a $70 million hedge gain of the prior year. So, that's an $87 million delta. And if you're looking at our total take rate, that's almost 5 bps of that – of that delta.

The second area is P2P, and again, as we've consistently noted, we'll happily take the effect of this because those P2P customers are our best customers and most engaged. And we saw 47 percent growth in our volume in this last quarter contributing to the record TPV growth that we had.

Then we get to mix in our business. And mix, I would include two primary things, both the travel and events verticals, which are down 40 percent year-over-year [TPV] [on a volume basis], as well as the effect of eBay. And again, that's – if we're using rough math, about 25 percent of the delta there and take rate.

And then the last piece is credit. And while we are still growing the consumer – international consumer credit portfolio, the merchant receivables portfolio contracted by 33 percent. And that has, obviously, an effect on our (total) take rate as well as our margin. And that was, actually, probably, the single largest contributor of anything that we've talked about.

As we look forward into next year, we certainly would hope that credit will rebound some, but given the macro outlook, I think the expectation right now is that it's not going to be performing at the overall growth rate of the company. And so when you think about whatever percentage rate of growth of revenue and earnings that one would estimate for us, credit is going to be something slightly less than that.

Now, related to that is also the reserve coverage that we have there. As we noted in the – in the quarter, our reserve coverage increased from 22 percent to 24 percent, and that's largely because of contraction in the portfolio versus additional reserves related to the macro adjustment.

As we look forward into 2021, there are probably those on the call that are better prepared to estimate the effect there than I am, but it is – it's possible that we could actually see a reversal of some of the reserve coverage that we have there if the economy were to improve, if there were more stimulus measures. And so that could – that could vacillate as a positive or a negative in 2021.

Craig Maurer: Yes. And just to add some additional detail there, it should – it will take time as well even as credit starts to recover because you're driving revenue on average balances. So, it will take some time for that average effect to start to recover longer than it might for ending balances, correct?

John Rainey: That's precisely correct, yes.

Craig Maurer: OK. And ...

John Rainey: So, even – and just to add to that, so, even if we see a rebound in credit, there's a little bit of a lag there. So, as – and I only mentioned this because we were asked a question yesterday about some of the puts and takes in our business. And this, to me, is one of the areas that will still be a headwind to our overall growth that we have to manage with all the other tailwinds that we have.

Craig Maurer: Right, and just for those on – those listening, also, the RSA [Receivables Sale Agreement] with Synchrony, you're not affected by Synchrony's decisions on reserving but, in fact, only affected if losses begin to rise, correct?

John Rainey: That is correct.

Craig Maurer: OK, OK.

John Rainey: But I think that's an important callout. Just in general, the RSA with Synchrony is one of the elements that affect our financials next year that we've got to consider.

Craig Maurer: OK. If we could decompose the mix a little bit further, Paymentus and bill pay is an – is an exciting opportunity. So, if I remember you correctly, that's at about a 1 percent take rate coming on. So, how should we think about an organic growth rate for bill pay going forward and as we build the mix of TPV, which is changing a little bit?

John Rainey: So, bill pay is an important addition to our product portfolio. So, it's not just Paymentus. I mean that's certainly the big launch that we just completed this quarter and we're excited about that, it's progressing very well, and you're generally correct with respect to the take rate on that.

But bill pay more broadly is something that – is a capability we want to provide to the wallet. And you're right in that it carries a lower take rate, but let me – let me dissect that a little bit because I think sometimes, there's too much of a fixation on take rate and the implications for a business.

So, just as take rate has a low – or I'm sorry, just as bill pay has a lower take rate, it has a much, much lower transaction expense as well. And so, the thing that we focus on as a business is how do we grow those transaction margin dollars looking at the spread between those two.

And as you saw, we, in the quarter, expanded our transaction margin over 300 basis points and our operating margin almost 400 basis points. And that's what we're really focused on, growing our business and doing it at a . . . high incremental margin.

And so, bill pay provides capabilities that our consumer base desires and gives more utility to our wallet. So, we don't want to overly fixate on trying to maximize take rate when it might be at the expense of engagement and transaction expense as well.

Craig Maurer: OK, that makes sense. Continuing down the mix – the mix question, eBay, you discussed, will add an additional 150 basis points of drag in the fourth quarter. Help us think about the go-forward math on eBay's transition to manage payments assuming PayPal retains 50 percent or 60 percent checkout at a take rate of roughly 2 percent or about half of the prior take rate. It sounds like about 75 percent of the transition is still remaining for '21 but at a faster rate than originally expected.

John Rainey: So, let me – let me back up just a step on this because I think it's important. In January of 2018, when eBay announced this, you might remember that our stock declined, it's probably 10 percent, if I remember correctly, and there were a lot of concerns about the impact of – on our – on our business.

And what we've said at that point in time still holds true today. And in fact, what's happening is precisely consistent with our expectations back at that point, January of 2018. And that is such that we would expect by the end of 2021 for that migration to be largely complete.

And of the – of the merchants that have migrated over to their Managed Payments experience that we would expect to retain approximately 50 percent share checkout, which was our experience with others that had gone down that path. What we're seeing is they're basically on track for what that is.

Now, earlier this year when they had more difficulty ramping up in the U.S. and Germany, we metered our expectations for the back half of this year simply because we saw- we saw that they were ramping up more slowly.

But if you – if you step back and you look at the bigger picture, from the moment of the announcement to the end of next year, it's right on track with what we expected. The one pleasant, if I can call it a surprise, is that that 50 percent share of checkout that we talked about is actually less than what we're experiencing. We're experiencing a higher share of checkout, 59 percent to be precise, in the areas or the entities where they've launched their Managed Payments experience. And so, generally consistent with what we said but better.

And so, we'll provide more insight into this when we give our guidance for 2021, but the takeaway that I'd want everybody to have from this is this is very manageable for us. 2021, it was always going to be the year where we had the most significant impact, but it wasn't going to be some outsized impact that totally changes the growth trajectory that we're on or for that matter, the medium-term guidance . . . that we previously issued.

So, this is something that as they ramped through the year, we'll see the impact on our business, but we think that this is very manageable both from a growth rate perspective or more specifically, a revenue growth rate perspective as well as a margin perspective. We've been able to demonstrate four or five years now that as we've shifted volume away from eBay, we've still been able to expand our margins and we'll continue to do that.

Craig Maurer: OK, thank you. And the – and the way this transition is happening, you may – you said last night, you're seeing volume transition faster than merchants in terms of share. So, I assume that there will still be some that drags on beyond '21 but it just wouldn't be impactful. Is that a good way to think about that?

John Rainey: I think that's generally, a good way to think about that. And I do want to pause here for a second, Craig. Our Senior Vice President of Finance Erica Gessert is on the call and she might have something to add to this after I answer your question.

But what I pointed to last night was that I believe eBay's comment was that they've migrated 344,000 merchants. And I don't know off the top of my head their total number of merchants, but for argument's sake, let's say that that's 20 percent.

My point was that it would be reasonable to assume that the volume that's migrated is greater than 20 percent because they would likely focus on those merchants that have more volume initially and worry about that long tail at the end.

And it's precisely for that reason that we would expect getting to the question you just asked that by the end of next year, this is largely complete and it would not be unreasonable to assume that eBay could be 1 percent to 2 percent of our business by the end of next year if you look at what's happened historically. And so, my strong desire is that come 2022, we're not talking about this anymore.

Erica Gessert: John, thanks. This is Erica. Actually, I'll just add a couple points on that. I mean we've seen it. So, we certainly have seen that from a kind of overall size of merchants that the volume has – had moved up more rapidly than the number of merchants.

That's actually one reason why we're even more delighted with our share of checkout because our share of checkout will tend to be the highest with the very – with the smallest merchants. And what this shows is that consumers are choosing us no matter what size of merchant when they move – when the merchants move over to Managed Payments. So, it's actually – it just makes us even more pleased with what we're seeing as that transition happens.

The only other thing I would say just to reinforce one of John's points was, as he said and as we've been talking about, 2021 was always going to be this transition year for us but – and actually, at this point in time, if I look at the rest of our business across our business, our core business excluding eBay and credit is growing in the 30s right now. We added 35 million customers over the past two quarters. The rest of our business is really revving.

And so, yes, it's going to be a – it's going to be a lapping year for us, a transition year. We're going to lap the (great) strong growth we had this year, but in many ways, having to go through this transition now couldn't be a better time for us.

Craig Maurer: So, maybe that's a – this is a good point just to let you highlight some of the successes you might be having with other marketplaces because part of the transition off of eBay was all – it came with a promise that you would now be able to go after other marketplace businesses. So, maybe you can highlight a couple things that are – that have really begun to grow since the – since eBay has announced the transition.

John Rainey: Sure. Well, I think that the main point is, if you look at those other marketplaces that we've called out, and this is in the investor deck that we put out yesterday, they're growing 4x or 5x what eBay is growing, and this is clearly where we want to tie our balloon and this is the future versus a slower growing marketplace that faces stiff competition.

And we've done a number of things with Facebook, MercadoLibre, we're still working with others. And just because we haven't made some announcement with another marketplace yet doesn't mean that we're not in discussions with some of them.

And so, this is all about really diversifying our portfolio by being an open digital payments platform. And that's what enables us to achieve the kind of growth that we've seen. I mean, again, if we step back, our merchant services TPV growth in the last quarter was 40 percent. And I was asked yesterday by someone like how we can accelerate that. I mean – well, you mean accelerate the 40 percent number.

I mean our business is humming, it's doing as well as it ever has, and I think it's very, very much a result of the strategy that we've employed over the last several years to make sure that we're not so beholden to one merchant that when that volume shifts that we're going to see an outsized effect on our financials.

And, in fact, if we get past this moment in time, as I've said, 2021, these things will largely be passing, where the pure math is we're going to see our growth rates accelerate because we're less reliant on eBay.

Craig Maurer: OK. I want to wrap this take rate discussion and move on. So, let me just – if we look at the guide for 4Q, it implies that the core take rate ex-eBay could bounce back above 2 percent for the quarter, maybe just some commentary there. And also, it's clear, the moving parts in 21, but as we think about your business beyond '21, is it fair to think that take rate in '22 can show reacceleration as many of these issues are effectively lapped?

John Rainey: So, as we move forward to the fourth quarter, if you think about those four issues that I called out as being a driver for total take rate, they're largely going to have an impact in 4Q as well.

While we haven't specified our hedge – our hedge position, it's reasonable to assume given the weakness of the dollar in the basket of currencies that we hedge against that, we would have a similar – be in a similar loss position there in the fourth quarter.

As a reminder, we hedge for the bottom-line for operating income, not necessarily to protect revenue growth because we have natural offsets elsewhere in the business. So, that said, you've got all of those things sort of working against us, but by the same token, we have a number of things that we're adding to our platform that can help with this, things like buy now, pay layer – pay later, the monetization of Venmo.

Venmo, by itself, as we noted, we would expect to be $900ish million, approaching $1 billion next year. This has largely been a drag on take rate. And as we continue to see more engagement there, more customers come into our platform and we're seeing 60 percent-plus growth in that business, this is something that could clearly be accretive to take rate as well as the bottom-line.

Craig Maurer: OK. So, since you brought up Venmo, I was hoping you could discuss a little bit what's changing with Venmo, in general, what's bringing new confidence to the idea that pay with Venmo can have success in a way that hasn't over the last few years and ultimately, gets profitability in 2022 as you suggested?

John Rainey: Sure. So, Venmo, if we step back, we did $44 billion of TPV just in the last quarter and we've got – it's one of the fastest areas of growth for us in terms of net-new actives. It's hard to open up a news publication without seeing that mentioned in some form, including this morning's Wall Street Journal, there's an article about it. So, this is a platform or a product that we truly covet because of the huge demand for this.

Now, we've talked about ways to monetize that. And all along, we've said, our focus has been on growth versus trying to make us be in the black because we think that's more important. And we've had a number of things, which I wouldn't get into because I think the audience is familiar with it in terms of how we monetize that.

But that the area that has proven to be more difficult is the pay with Venmo. And in some ways, the goal I was – was moved on us a little bit there as we looked at the environment and ecosystem and things like cookies being deleted in browser and so forth that that presented challenges for the integration approach that we were taking.

So, we've taken a step back in a way to provide that capability in this new operating or ecosystem and we've got a lot of confidence in that. So, we'll be starting to see that take hold a lot more prominently next year as well as we've got the addition of things like business profiles on Venmo.

And the new Venmo credit card, which I know Dan probably couldn't have been more effusive in his opinion about that yesterday, but it's truly a great product and complementary to many of the other things that we're doing with QR code and the Venmo debit card and so forth.

And so, I think we're clearly at this inflection point where the question has at least been answered at this point in terms of when it is going to be in the black as we've given – we gave that indication yesterday. And so, it's something that will be both accretive to transaction margin and operating margin and we think it's a – it's a huge opportunity for us going forward.

Craig Maurer: OK.

Erica Gessert: Hey, John, I would just add one quick point on this, which is . . . one of the areas of the .. . . business that's under my purview is pricing, and this includes kind of discussions across the board with large merchants and others.

And I would – I would just say, to me, it's notable, the number of merchants that are asking for Venmo and the number of merchants who are – who are wanting to see this included in the – in the packages that we're bringing them whether it's pay with Venmo through the Web or through QR code or other integration, the demand is extremely high.

So that's another thing that certainly gives me confidence as we go into next year.

John Rainey: Yes, definitely.

Craig Maurer: And I presume the increase in demand is being driven – and maybe you can help characterize some of this – by a combination of, obviously, the pandemic, the moved to e-commerce, but also desire to access the Venmo demographics, specifically, it's a demographic that general purpose credit cards might not find as easily.

John Rainey: That's precisely correct. And, in fact, going back to the very first conversations that we have with merchants around this, the reason that we were pulled into this is because as they look at their business and recognized the aging demographics and how do they tap into this next generation of shoppers, there perhaps is no other platform or technology application out there that really captures such a huge piece of that millennial demographic.

All that said though, Craig, we continued to see the fastest growing part of our net-new actives is being this “silver tech”, and that includes Venmo as well. And we – my generation or vintage seems to get pulled into this because if you’re paying a babysitter or a yoga instructor, whatever it is, that’s one of the ways that they want to be paid.

And I — I joke about it yesterday on the call, but I thought your comment in the Wall Street Journal yesterday was a very cogent point insofar as once you begin exchanging cash this way, you don’t tend to go back. There’s actually not a lot about cash other than the convenience factor that everyone uses it that makes it appealing. No one wants to carry around a wallet of cash to be able to pay people if you can do it electronically.

And so these things, we believe, are very sticky and permanent shifts in consumer behavior. And I think both very well for not only PayPal and Venmo, but just the digitization of money going forward.

Craig Maurer: Yes. And just building on Venmo for a minute, you discussed about – not discussed but you launched business accounts with Venmo. And what we’ve seen during the pandemic and actually have experienced personally is a huge number of local business and service providers have actually proactively started asking me to pay them with Zelle. And we’ve seen Zelle growth be pretty – accelerate pretty dramatically.

So I’m wondering how does business accounts with Venmo compare with what Zelle is trying to do. And are these competitors or are they attacking different parts of the market?

John Rainey: Well, to the extent that it replaces cash through some digital payment and that being something that we offer to our customers, yes, you can argue that it’s a competitor. But let me be very clear like we’ve seen no impact to our volumes from Zelle and – I mean, virtually zilch. And I – and I think you can look at this with 61 percent growth in our volume with Venmo. It's hard to say that there is like somebody is eating into our share of market.

One of the things about Zelle is it lacks interoperability. And so it's fine if it's among that network of banks, but that's what the magic of a Venmo or a PayPal where it is truly an open digital payments platform.

That said though like I think we all realize that there's not going to be a winner-take-all in this space. We don't – we're not so delusional as to think that five years from now everybody in the U.S. is using Venmo to exchange cash. I think there will be multiple ways of doing that.

Our focus is to make sure that we're one of the primary ways and that we're helping to shape some of these trends by adding functionality to the wallet, by improving frictionless experiences and giving people more ways to move and manage their money and additional capabilities like bill pay, like crypto. And so we're not standing still here, we're not flatfooted and we don't accept our leadership position right now. It's something that is a given going forward, which is why we're investing so much into the future right now.

Craig Maurer: OK. Because we have limited time I want to move on to Buy Now Pay Later, which is clearly taking a big bite. Well, we'll see if it'll take a big – it's really big bite long-term out of the consumer credit market. But I want to dig into the mechanics of paying for a little bit in terms of where credit risk will lie, how will Buy Now Pay Later impact the take rate. If you could dig in a little bit there, that'd be helpful.

John Rainey: Sure. So let me again step back. I think context is important as we provide a number of credit products for consumers in the past. And to your point, we've employed an asset-light type strategy with that.

But as we look across the marketplace today, one of the areas where we see our share of checkout diminish is when these Buy Now Pay Later type products are offered because it certainly appeals to certain individuals that they don't necessarily need to have a long-term relationship – credit relationship with a financial institution and they're fine with that point of sale credit offering.

And so we looked across the industry and we thought, OK, well, should we go out and acquire some company that does this or should we do this ourselves? And this was one of the quickest launches of a product from the inception of this work to product launch that we had in our history. And we did it organically at a fraction of the cost of what it would take them to acquire this capability or functionality.

And we believe our value proposition is leading on this. And in many ways, we are working with merchants to have dynamic presentment, so it's right there even before you click what payment method you want to check out with. That's what others are doing. We're launching that with Uniqlo right now and there'll be more merchants that we do that with.

The other thing, which I think is really important, as we think about our competitive positioning here is there is no additional fee to a merchant for this product offering. So to be clear, let me – let me explain that. So if we charge 2.9 percent plus $0.30 to a merchant when someone checks out, we still get that take rate, but there's not an incremental fee because they use Buy Now Pay Later. And that's unlike what anyone else in the industry is doing. And so this is very much a pricing strategy that is driven more towards increasing volume or share checkout versus just a direct monetization effort.

Looking at the risk and the capital intensity of this, one of the things that's appealing about this is we're – we've launched this product. And typically, when you launch a credit product, we saw this in our international consumer portfolio. You tend to bear more losses initially. That's not been the case with Buy Now Pay Later because of some of our capabilities. And so it's – the risk profile is very attractive.

The other thing is that relative to its – the revenue that it provides for us, because of the short duration of the loans, it's actually not nearly as capital intensive as other parts of credit where you may have outstanding balances that reach out six to 12 months. And so this is something that, for now, we will keep on our balance sheet. But I would want to remind everyone that we have strong conviction around what the appropriate amount of credit in our overall portfolio, and we don't want to be in a position where it becomes too capital intensive to us. And so if in the future that – what I described were to change, we would – we would look at externalizing some of this.

Craig Maurer: OK. Buy now – your Buy Now Pay Later offering is positioned a little differently than some competitors, like we think of in Affirm where your checkout and some of those competitors are at the product level. Do you think that's a disadvantage?

John Rainey: Well, one of the things that we've seen irrespective of the product is the further up into the shopping experience that you're presented the greater the likelihood of you being selected in – when one goes to check out. So yes, it is an advantage, but it's not specific to those competitors. As I mentioned, this is precisely what we're doing with merchants like Uniqlo and hope to expand this to others.

The key thing for merchants is what is this doing to drive consumers to check out. And that's something that we're able to demonstrate with data and by having this presentment that there's a much more – much greater likelihood that someone is going to check out and complete that purchase when that presentment is further upstream.

Craig Maurer: OK, thanks for that. I want to move on to the in-store opportunity. It's amazing to see how many partners you have engaged so quickly, and it's clear that versus eight years ago or nine years ago when you tried – when PayPal tried this with Home Depot that the excitement for it is vastly different, so it feels like a now-or-never-moments for PayPal.

So one thing that I'm unclear on is how is PayPal and its partners going to – going to look to drive consumer awareness, engagement and present a value proposition? And who will foot the bill for a lot of that – a lot of that work?

John Rainey: Sure. Well, I'll start with – I agree that this is a seminal moment in time where now is the time where both merchants and consumers are ready to adopt this. It's tough to change consumer behavior when you're not solving a problem for them and, frankly, that was the case historically. That's dramatically changed because of the unfortunate circumstances that we have around the global pandemic. And there's a real concern about not handling cash or not touching the keypad on the point-of-sale device. And this is why we and many others are taking their contactless capabilities to market here and to not invest right now in this, I think it would be a huge missed opportunity.

That said, this is a – this is a long journey, and I don't want to mislead anyone to think that in the next quarter or two like we're going to be able to claim success on this. Success will be measured in a much longer period of time here, but we need to invest into it now, which gets to your question because we do need to drive awareness, both on merchants and consumers. And so a significant amount of . . . the sales and marketing spend that we've earmarked for this is just through that.

And some of that is borne by PayPal, but at the same point in time, Dan used a comment yesterday or used a phrase yesterday that we're being pulled into this by merchants. We have merchants that are asking us to come do this. So they will, in some cases, bear some of the cost of these sales and marketing expenses.

Craig Maurer: OK. But ultimately, consumers need to see a value proposition. And typically that means rewards, and it would seem that you're competing against a low bar because if this is a – with the increasing debit spend, I would think that this is largely would mimic a debit card transaction. So what type of value can you bring to the transaction from a consumer perspective? Is it cash back? Is it utilizing Honey to drive merchant-specific rewards? How should we think about that?

John Rainey: So you are correct in that we can utilize things like Honey not only in e-commerce or online, but in point-of-sale offline as well. But I think more broadly as you think about the overall portfolio of products that we have, one of the things that is a real opportunity for us is the ability to not just earn rewards, but also burn those rewards. So you got an earn element and a burn element, so the actual redemption of those.

And we're already doing this with issuers today, but plan to expand this to other loyalty programs. So think of airline miles or hotel points or things like that. And we often – many of us are members of programs where we'll earn points, but maybe not enough points or miles, whatever the currency is to actually make a redemption with that merchant.

But what you can do with the PayPal wallet is take those points and convert them into fiat and shop at any of our 25 plus million merchants around the world. And this can be done in an offline setting or point-of-sale just as easily as it can be in offline. And so as we think about the utility of the wallet, it's not just the earning of points, but it's also the utility of spending those going forward.

Craig Maurer: OK. Look, you have so many new initiatives next year, including crypto which we – which I thought you did a good job of talking about last night, so I'm not going to go into detail there. But what investments get you the most excited in terms of what is coming new next year and in the years to follow?

John Rainey: So it's hard to pick like your favorite children on this. We've got so many things that we're excited about. And I would say one of the reasons for the renewed excitement is the ability that we've demonstrated over the last several months to launch a product quickly. So there have been points in time in the past we've talked about product, and it's taking forever to get out. And that has simply not been the case this year. We've launched more products this year than probably over the last several years. So that really contributes to that excitement.

There are a number of things, Craig, and again I hesitate to pick just one. But I think something that has been lacking at PayPal and Venmo is the improved functionality of the wallet. You could argue that the PayPal wallet is probably a little tired and in need of a refresh. And refresh just isn't the way that it – that it looks, but it's also like how convenient is it, what is the amount of friction or lack thereof in there, what does it enable you to do. And so we're doing a number of things this year around that that are – that are quite exciting, and I think will absolutely help the level of engagement.

And as we think about engagement, engagement is measured strictly sort of on a – on a transaction level today. But one of the things that we're really driving towards is a broader definition of engagement where people are just going to the wallet to look at it each day.

And so if you have crypto today and Coinbase, you may go in there and look and say, "Hey, what is the price of whatever cryptocurrency I had? What's my balance?" Things like that gets you to the wallet and actually sort of lure you in to being engaged in other ways that actually result in us monetizing that in some way. So quite excited about the level of investment here.

Craig Maurer: OK. With that, it sounds like the bulk of the $300 million in incremental investment spend announced earlier in the year is still to come in the fourth quarter. Could you perhaps characterize what you're prioritizing with that spend?

John Rainey: Sure, there are a few things, but they really fall mostly into two buckets. And in order, I would say QR code or more broadly contactless payments is the first bucket. And the second bucket is what I just described in my previous answer, the build-out of the functionality of the wallet.

Craig Maurer: OK. I know we only have a few minutes left here, so I wanted to quickly just get some modeling questions out of the way. So these are – I'll get through this pretty quickly. What's a good tax rate going forward? We've seen the tax rate come in well below what has been discussed, so just trying to understand the puts and takes there.

John Rainey: Yes. Well, I think that, in part, determines upon what happens at the end of the day today. But just setting that aside for a second, we – because of the geo mix of our income, as well as the credit being off a little bit, it's reasonable to assume that taxes could be a little bit less than what our historical 17 percent to 18 percent guidance [on non-GAAP effective tax rate] has been.

Craig Maurer: OK, OK. And could you help us understand the moving parts that drive the difference between GAAP and adjusted [non-GAAP] EPS in fourth quarter?

John Rainey: In the fourth quarter or the third quarter?

Craig Maurer: No, in the guidance.

John Rainey: In the guidance. Share-based compensation is probably still the single biggest item there. We probably have some amortization of some intangibles. But to the extent it's something other than that, we can – we can follow-up with you on that. I don't have the – all of the information in front of me.

Craig Maurer: OK. One question came in that, I think, is important just to ask you, which is it goes back to the discussion of eBay. So for you and Erica, the commentary – do you think that by the end of '21 it sounds like 6 to 7 percent of TPV, do you think that could be down to 1 percent or less by the end of '21?

John Rainey: I do, I think that that's the ballpark that we're talking about.

Erica, anything to add to that? You have an opinion?

Erica Gessert: I mean, yes, look, I think it all depends on how quickly eBay launches the transition of other markets. So I mean, it's really more of a question for eBay. We're anticipating with what we've seen that the speed so far in Q3 that they're going to be – they're going to be accelerating quickly in 2021, and so that we should be through the majority of it by the end of next year. But it's – they're the ones who are executing on it, right? So ultimately, you have to ask them.

Craig Maurer: OK. And I have a feeling Gabrielle is probably going to tell me I'm almost at the end of my time, so I wanted to ask you a wrap-up question. We feel that your business is heading into '21 with the best momentum in its history. So how should we use this to inform our view of upcoming '21 guidance and more importantly, new medium – the new medium-term discussion?

I mean, there's just been an enormous groundswell of momentum in primarily the areas that PayPal makes frankly the most money in. So when we think about that 17 percent to 18 percent top line [revenue] guide that's been provided medium-term, it just seems like there's a lot more momentum than what was present when you provided that.

John Rainey: Well, I'll start with the last point you made. I agree with that. And that, in part, gives us the conviction around what an improved longer-term outlook would be.

But I would say this, Craig, we had – the second quarter was, in many ways, the best quarter that we've ever had. The third quarter was just about as good. We had 41 percent growth on [non-GAAP] EPS, an all-time record revenue and volume. And as we look out into the future, whether it's the next few quarters or the next few years, there's just a tremendous secular tailwind right now to our business with this movement to the digitization of money. And that gives us a lot of conviction around what the future holds for us from a financial perspective.

We've also demonstrated the scalability of our platform, the ability to expand margins that we're not so reliant on one merchant that maybe has an outsized impact to margins. And I think it's always challenging like when we take a moment like yesterday and we don't provide 2021 guidance, people sometimes conclude, well, gosh in the absence of information that must mean something is bad.

Let me be clear, that's not the case. That is absolutely not the case. We definitely have our arms around the impacts to our business, be it credit, eBay, otherwise. But we also believe that it would be borderline irresponsible to provide such a wide range that really could be fodder for anybody with some opinion about our business. And as we get closer to that point in time, as we get to our next call, we'll provide more granularity on what that is.

But there's nothing about next year that is any different than what we've described all along with respect to the impact from eBay and things like that. And just as we've got these headwinds to our business, we've got some fast-moving tailwinds.

We, as Erica noted, you take all of the other parts of our business growing at 30 percent plus. You've got merchant services growing to 40 percent plus. You've got 15.2 million net-new actives come into our platform in the quarter and we're seeing higher level of engagement of these cohorts that are going to bode well for us next year. So there's a lot of positive things about our business that get us really excited as we look into the future.

Craig Maurer: OK. With that, I wanted to take a minute and thank you for setting aside this time today, and wish you and your team continued health and the best for the holiday season that's coming up. I'm sure you guys are going to be remarkably busy during that time.

John Rainey: Yes. Well definitely, Craig. We appreciate you hosting the call and the questions and for everyone participating, and certainly wish everyone the best during this holiday period.

Craig Maurer: OK. Thank you. Take care.

John Rainey: All right. Bye.

Erica Gessert: Thanks a lot. Bye.

END