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George Mihalos, *Cowen & Co.*

Ashwin Shirvaikar, *Citi*

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Ramsey El-Assal, *Barclays*

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PRESENTATION

Operator

Good evening and thank you for standing by. Welcome to the PayPal Sell-Side Earnings call hosted by John Rainey.

I would now like to hand the conference over to your speaker tonight, John Rainey. Please go ahead.

John Rainey

Thank you very much and thanks everyone for joining us this evening. As usual, on the call with me today is Gabrielle Rabinovitch along with the rest of the Investor Relations team, as well as Erica Gessert, our Senior Vice President of Finance and Analytics. We'll be fielding your questions. Operator, we'll turn it back over to you for the first question.

Operator

Your first question comes from the line of Bob Napoli from William Blair. Your line is now open.

Bob Napoli

Thank you. Good afternoon. Thank you for taking the question. John, two questions. One, just the buy now, pay later, your view on the profit model. It seems like for the industry that the real profit, long-term profit models are still in flux. What is your confidence on the revenue growth, the revenue you expect to have with buy now, pay later, your confidence in the profit model? And then just on the accounts again. It seems like you've pivoted during the fourth quarter. Why didn't you see this coming sooner? eBay, I think the trends there should have probably been seen a little bit sooner, the total effect and the pivot. The necessary pivot on the accounts. It happened during the quarter. What was the tipping point?

John Rainey

Sure, Bob. Thanks for the questions. I'll take buy now, pay later first. As a reminder, our model on that is different than many of the others that are out there and that we don't charge the merchants an incremental fee for that offering. Again, we think that that makes the value proposition very compelling when you consider that we've got 400 million accounts, 400-plus million accounts that can avail themselves to that offering. We bear the risk of that. For the merchant, there's no risk related to that and we offer that for free, which is, last I checked, the best pricing that's out there.

Frankly, we see the results of that in our business, whether it's consumer studies in terms of preference for our product versus others, or even the amount of volume, where for the year where we were ramping that over the year, we generated around $8 billion of total volume there. But where we monetize that, very importantly, is through what we sort of generally describe as a halo effect. What I mean by that is increased engagement or increased TPV [Total Payment Volume] of those customers that avail themselves of that product. Importantly, we see an over 20% uplift in both of those for customers that are using buy now pay later. Moreover, it's very good for the merchant because they see a much higher conversion when this product is offered.

So, we're very comfortable with that business model, for that product and we'll continue to do that and grow that going forward.

With respect to net new actives [NNAs], and you asked why now, I think it's very important to understand that, as I alluded to on the call, we're constantly learning and assessing the data that we have and when you undertake some type of initiative to try to influence consumer behavior, it takes sometimes many months to see if we're getting the desired effect of that. We've had this rather compressed period of time over the last couple of years where we've had 120 million customer [accounts] come to our platform, roughly 2x the historical average of what we see in any one year.

So we've been testing and learning and trying different things. Frankly, they [some initiatives] are successful at reducing churn or keeping them on our platform. But when we step back and we look at the cost to continue those initiatives, and importantly, the compounding effect that this has year after year to try to retain lower engaged cohorts on our platform, we determined that's not the best economic model for our business. It's not practical or really reasonable if any one of us were running a business to try to keep customers on our platform that are adding very little to revenue growth and to the bottom line.

So when we look at the suite of offerings and initiatives that we have, we think that our long-term goals are achievable by pivoting towards a higher ROI, or return on investment initiative, which is really around trying to retain high-quality users that largely come to us through organic channels and want to engage with us and increasing that engagement for those customers.

Bob Napoli

Thank you.

Operator

Thank you. Your next question comes from the line of James Faucette from Morgan Stanley. Your line is now open.

James Faucette

Thank you very much. John, I want to ask—I think the modification and strategy and all that kind of thing makes sense. I'm wondering though if you can walk through for us kind of the impact on P&L and plans for op ex [operating expenditures] for next year. I know that you highlighted that the change in tax rate is going to have a big impact on the year-over-year [non-GAAP] EPS growth. But I'm wondering if there are other impacts in the op ex or margin structure that we should be aware of.

John Rainey

It's a great question, James. There are two areas that jump out to me. Erica may want to jump in if there's something she wants to add. But both relate to credit. Starting with our other value-added services, we've seen outsized growth in that part of our P&L this year [in 2021], in part because of what we were lapping. With our Synchrony gain share agreement, the way that works is, think of it as like a profit-sharing arrangement, where we take some portion of the revenues less the losses related to that portfolio, and with all the stimulus that we've seen over the last year, losses have not really been occurring at a normalized rate. So, we've benefited in 2021 because of lower loss rates than normal.

Our assumption for this year is that returns to something that is more like normal years, and so loss rates go up, which, in turn, causes the amount that we take from profit sharing to go down. So, OVAS, or other value added services, we anticipate will probably grow in, let's just call it the low to mid single-digits for the year. Again, we're sitting here in February now, early on in the year, but that's our initial plans.

Related to our credit portfolio also is that we've benefited last year from the credit reserve release, and with sort of normal growth in our portfolio, we would expect to see the reserve coverage increase as we go through the year.

So both of those really put some outsized pressure on our P&L.

The other thing that I'd want to say, just one last point is, we're very focused on setting ourselves up to invest and grow for the long term. Being able to do that means that we need to have a very disciplined approach to all the other costs in our business and make sure that we are operating in a very efficient way and a very productive way and growing at a low marginal cost.

So, I think we've done a reasonably good job of that over the last five to six years, as you've likely seen in our results, but it doesn't mean that we can't double-down on those efforts. And we're doing that this year to make sure that we are instituting that discipline that's needed to have a healthy business going forward.

James Faucette

Got it. And then, back on kind of the buy now, pay later topic—and I understand the value prop to merchants from not [providing] any extra MDR [Merchant Discount Rate], etc., at least in the framework and the duration that you're doing those buy now, pay later loans at. But as near term or short-term interest rates rise, how does that impact the economics of that business? Does it make it less profitable? Do you have to increase the credit valuation and tighten that up a little bit? Just wondering what, if any, the rise in near term interest rates would have or where that could start to impact how you approach that business?

John Rainey

Yes. Because of the fee structure around that business, interest rates going up are really not going to have any outsized impact on that product. But I will say as you think about the rest of our business, there is some impact there. So, taking a step back even before we go to interest rates. If you just think about the effect of inflation, because we're a take rate model and our fee is some percentage of the product or service that is sold, an inflationary environment, everything else being equal, generally should benefit our top line. Now that's only to the extent that we don't see some corresponding pressure around consumer behavior, which is exactly what we pointed to around the low-income cohort.

So, there's a give and a take there. Other areas of our business where we're seeing the inflationary pressure is related to labor. We've got the largest increase in our year-over-year labor rates related to sort of merit and inflation than we've ever had since I've been here. So that certainly has put some pressure on the P&L.

But as you think about interest rates and sort of the response of higher inflation, where we benefit from higher interest rates is on the interest that we earn on our customer balances. And that continues to grow year-on-year as we become larger, scale more and more relevant with our customers.

And so, we've had a headwind to the tune of several hundred million dollars over the last few years as interest rates have gone down. If we get into an environment where we see several rate increases and, of course, this is assuming kind of everything else being equal, that could stand to benefit. And again, that's other value-added services in our P&L where we recognize that interest income.

James Faucette

That's great color. Thanks a lot, John.

John Rainey

You bet.

Operator

Thank you. Your next question comes from the line of Colin Sebastian from Baird. Your line is now open.

Colin Sebastian

Thanks guys. Good afternoon. A couple of, I guess, more clarification questions. First off, in terms of the change in approach to net active users, when do you anticipate that net active number will normalize for the less valuable one-time users and how long does that take to kind of shake that out? And then, have you talked about the rate at which users are downloading, using the app? I think, John, you mentioned maybe a 50% penetration rate. But given the ARPU [Average Revenue Per User] benefits there, how fast is that penetration rate increasing? How do you get the message out to those other PayPal customers to give the app a try? Obviously, you have a ton of services to offer, but would be curious on the road map there to drive that engagement. Thank you.

John Rainey

Sure. It's a pleasure speaking with you, Colin. First on the normalization of net new actives. If we're to assume that if you look at the guidance that we provided this year, 15 million to 20 million net new actives that we are seeing, we are going to experience a churn level that is tens of millions of customers. Probably the right way to think about our business is that gets to a more normalized rate in 2023. By normalized, I would simply point you to kind of pre-pandemic trends, which were in the, let's call it, range of 35 million a year. That's probably a good way to think about our business. But, I think, very importantly, when we look at the trajectory of those net new adds in the year, the first quarter is going to be by far our most challenging quarter, where we see the bulk of a lot of those customers churn.

Now, to be clear, we always expect to be adding customers, not reducing net new actives, but there's going to be much more pressure on the first quarter, and in some ways it will kind of track along what we've talked about with revenue.

In terms of what we're doing to increase that level of engagement or get more people to use our app - today, roughly half of our user base, half of our accounts have downloaded and are using the app. That's an increase over the last couple of years, because we've had a concerted effort there. I don't want to necessarily disclose numbers right now, but obviously, we want to be at 100% because of the ARPA [Average Revenue Per Account] effects of what we see with that. We're not going to get there in the next year, frankly, even maybe in the next two years. But we do have a pretty sizable increase for 2022 that we're targeting that is somewhat aspirational but we want to push the team hard because of what we see in terms of the effects around consumer engagement when they have that app.

Again, part of this too is, sort of this mindset, if you build it they will come. The more that we add features that add utility to the wallet, things like investing, things like savings, things like bill pay, the more likely that customers are going to want to download that app. Even the way that we service a customer when they have some issue, if we can allow them to service that themselves through the digital wallet or through the app itself rather than having to call in to one of our teammates, that's positive for them.

So, we take a very holistic approach with respect to trying to increase our penetration among our customer base, of those that have the digital wallet.

Colin Sebastian

If I could just tag on to that. Since I assume the penetration rate of Venmo is near 100%...

John Rainey

Correct.

Colin Sebastian

... in terms of the app downloads. Does that encourage you to accelerate the expansion of super app features into the Venmo app?

John Rainey

It absolutely does. And you're right. When I talk about 50%, I'm talking about PayPal. Venmo is 100%. But you're exactly right. This very much informs our strategy broadly and partly why we're making the pivot that we are today is just a much better ROI [Return on Investment] for our business to focus on this versus low value customers that aren't really benefitting us in any material way.

Colin Sebastian

All right. Thank you.

Operator

Thank you. Your next question comes from the line of George Mihalos from Cowen. Your line is now open.

George Mihalos

Hey guys. Thanks for taking my questions and for doing this tonight. I guess I have two questions and I'll just ask them upfront. I guess, going back to one of the prior questions around higher rates and the like. John, can you just help us think through modeling the OVAS line for 2022? I'm just curious, are you forecasting or do you embed in there higher rates and the benefit that that could provide to you within that line? And then the second question, just a little bit more strategic. You talked about still achieving your long-term targets and obviously looking at some newer geographies and the like. Does M&A move up now in terms of importance, say, maybe relative to other capital deployment strategies? And maybe, what are you thinking about that could be added in here to the PayPal model? Thank you.

John Rainey

Sure, George. It's good to speak with you. In our projections for the guidance that we have for 2022, we've got an estimate of a couple of rate increases. So, if we were to have four or five, maybe that's a little bit upside, but you also have to ask yourself, why are you having four or five and are there other consequences that are affecting us in the economy. But simply looking at sort of the interest rate environment in isolation, we've only got a couple of rate increases there.

In terms of the achievement of our medium-term targets and if M&A is incrementally more important, I wouldn't characterize it that way. I would say it's very similar to the approach that we've taken up to this point, where certainly we're going to look at acquisitions as an opportunity for growth, just like we will with partnerships and organic investment, but I wouldn't think on the margin that it's any more important right now.

In terms of the type of things that we're looking at, generally speaking, George, one of the first things we look at is the ease with which we can integrate it into our existing platform. We don't want to do any major integration that is a huge lift that is distracting from the other opportunities that we have in this business. So I'd say that's certainly very important.

Culture is another one that, quite frankly, probably doesn't get talked about enough but is very important to us. We want to make sure that the types of companies that we would be working with in an acquisition are ones like PayPal that have a similar vision, similar culture, similar ethos.

And so, I think it's fair to assume, generally we would be looking at some of these small tuck-ins where we're adding an appendage to something that we're already doing, or it's an accelerant in a market like Paidy [was in Japan]. Those are very much in line with the types of acquisitions that we typically consider.

That said, I mean, I'm certainly conscious, as are all of you, of the rumors about a larger deal last year. That's not really something that I think is typical for us, but we're always going to look at deals if we think that they are an accelerant to our business and help us expand our leadership position in digital payments.

George Mihalos

Great. Thank you.

Operator

Thank you. Your next question comes from the line of Ashwin Shirvaikar from Citi. Your line is now open.

Ashwin Shirvaikar

Hey John. How are you?

John Rainey

Hey Ashwin. I'm doing well. Thank you.

Ashwin Shirvaikar

Hey, just some help on modeling questions. As I look at the $312 million of reserve releases in FY21, I size it up to a $0.25 to $0.30 impact [Note: PYPL management estimated the impact at ~$0.21 as detailed in the Q4'21 earnings press release]. Is there more left to do from a reserve release perspective? And then what is your credit assumption as you maybe turn on that spigot in terms of just kind of incorporating the CECL [Current Expected Credit Losses accounting standard] impact and things like that, if you could size it? I know you qualitatively, but if we could size it?

John Rainey

Sure. Fair to say, Ashwin, that I think we're largely done with the reversal of the credit reserve. A good way to look at that is our overall coverage ratio is about 9%, which is pretty close to where it was when we entered the pandemic. So, I think for all practical purposes, for modeling purposes, assume that there's no more reserve release there.

As we think about 2022 and what we're doing in the credit business, obviously, the demand for our buy now, pay later products is—maybe to say it's insatiable is too strong a word, but it's very strong. Certainly, the risk characteristics around that are something that we're very comfortable with. So, we're going to grow that portfolio this year, and that's going to add—we're going to have to add reserves for that and capital for that as well. As you know very well from your coverage in the space, the revenue benefit associated with credit, broadly, there's a little bit of lag there, particularly as it relates to revolving credit.

So, the impact more near term is going to be more of a capital outlay, more of an increase in reserves, and then we'll see some of the earnings impact [benefit] of that tail, or lag that just a little bit.

Ashwin Shirvaikar

Okay. And then as I think about the other operating lines, one thing you have not necessarily talked about but is an important factor is the cost of talent going up by a lot that can affect the R&D line or something like that. Are you going to spend—I'm not quite sure where you come out on marketing, because on the one hand you're saying you're to step away obviously from or even optimize marketing. So how should we think of that? Thank you.

Gabrielle Rabinovitch

Yes. I would just bucket the non transaction related op ex group together for purposes of this, which is that in 2022 I'd expect you to see pretty good leverage across that set of non transaction related operating expenses. In John's script he did mention about 23% [non-GAAP] op margin for the year. If you build in [or exclude impact from] the release of reserves you get basically 50 basis points of pressure on op margin. That really does come predominantly from growing our credit business and from seeing sort of provisions build on the originations. So that's kind of the way I would think about it. So, yes, there could be pressure just on a headcount standpoint, but we'll leverage the other operating expenses pretty nicely through the year.

Erica Gessert

Hey guys. This is Erica. Maybe I can jump in here too and just give a little bit more color. Just to remind everyone, we've invested over the last couple of years pretty significantly both in marketing and in our engineering ranks and that includes looking at salaries and looking at other things like that. So, we've been investing heavily in these areas to support growth and I think we're in a position where we're going to continue to invest, we're going to continue to grow our engineering ranks, some other things, but at a more moderated rate in 2022.

John Rainey

Ashwin, I'd make one last comment, which you referenced in your question just around the cost of talent. Look, I don't think there's any executive sitting at a company our size right now that's not worried about that. And by worried, I mean both in terms of the cost of that going up as well as losing key talent. I think we've been pretty good and proactive in addressing some of these areas to make sure that we're retaining our top talent and making them know that we've got a great future here and people see that. But certainly from a pure year-over-year cost perspective, this is an area of our business that is seeing more pressure.

Ashwin Shirvaikar

Got it. Thank you.

Operator

Thank you. Your next question comes from the line of Dan Perlin from RBC. Your line is now open.

Dan Perlin

Thanks. I had a question—John, I think you mentioned on the prepared remarks a few times that about a third of your customers are driving the vast majority of your volume. My question is simply what are some of the characteristics and/or demographics of that cohort? Are the ones that you're trying to let into the funnel now that you're capturing or even that you brought in thus far, do those characteristics map something that's similar to the third that's actually utilizing the platform? And then what are the types of

solutions that you are finding that are driving the most engagement, both for the legacy cohort and also the new cohort that kind of gives us some confidence that this growth trajectory can continue going forward? And then I have a follow-up.

Erica Gessert

Hey John. Do you want to—maybe I'll jump in here. This is Erica.

John Rainey

Sure.

Erica Gessert

Just maybe a couple of details. I'm going to take the last question on engagement characteristics and the areas we're seeing return on investment. This actually goes back to Bob Napoli's question right at the beginning around the decisioning around engagement investment versus NNAs. These things are very interrelated. We've been seeing, particularly over the past, call it six to nine months, very persistent and as we're starting to see quite predictable yields in terms of halo effect of customers' engagement in certain products, buy now, pay later is definitely one of them. We have very strong analytics on it and we continue to see that halo effect, in fact, be double or more of just the baseline value of that product is.

Crypto is another one. Some of the reuse characteristics. Customers who buy a crypto position and then sell it, their reuse of that balance into a commerce transaction is well above double what we see with a normal balance holder.

We have a lot of very persistent and convincing trends in terms of the engagement benefits that we get from a lot of these products. The reality is they're still very nascent in our base and this is one of the reasons we're really seeing the ROIs shifting our strategies to base engagement. That also in the long term will enable the bottom of the funnel from an NNA perspective because the more engaged customers you have in your base the fewer that churn. We've been really successful, certainly in the past couple of years, but even before that on consistently moving people up from kind of—we have engagement cohorts within the base, low engagement, medium engaged, high engaged and we've been able to consistently move those percentages up and see people graduate to the higher engagement and that's by far our most profitable investment is when we get people to move up the funnel.

So that's a lot of what's going on underneath the covers.

In terms of the demographic question that you asked, certainly, there are demographic characteristics, and some of these are certain merchants, certain high activation merchants that we see that have an attractive demographic profile that matches some of the characteristics of our higher engaged base. We also just have certain channels within our efforts that tend to yield higher quality activations than others and we're refocusing on those. Quite often those are lower volume [channels for adding NNAs]. Higher quality [activations] tend to [] [come onto the platform] in lower volume. But one of the things that we do know, and this is conventional wisdom across the incentive marketing business, generally speaking, incentive marketing has a lower yield. It still has a yield but has a lower yield than other efforts. So that's what you're going to see us moving away from.

Dan Perlin

Okay. And then, I guess, the corollary to that question is, the lower income consumers that are on your platform, which sounds like it's actually quite sizable, and you can certainly correct me if I'm wrong there but that was kind of my read from what you guys were saying on the first call. They're suffering, I think is what you said. So, are you—in this pivot, are you pivoting up to more affluent consumers? Because buy

now, pay later certainly attracts a lot of less than prime consumers. I think we all know that. Crypto, I'm not really sure. So I'm wondering when I asked the question about demographics and characteristics, I'm trying to gauge how the lower income cohort is either going to be a larger or a smaller piece of your book as we think about the coming two years.

Erica Gessert

Yes, just to be clear, I mean, when you're at the size and scale of PayPal, right, our demographics are going to match the demographics of our core markets. We're so big in the U.S. and U.K. and Germany that by and large, yes, our lower income base is a lot bigger than our middle income and higher income base, but that's because we match the demographics of the countries where we're highly penetrated.

So, I wouldn't say we're going to move away from necessarily low. We have very, very good high value, low-income customers. There's no doubt about that. So it's not really a demographic shift in that way. What we are going to shift away from is—I would call this more a channel characteristic where like I say we're going to shift away from certain areas in incentive-based marketing that we're finding is lower yield and it just takes a lot more effort to engage these customers in the base, versus efforts to build awareness to that customer base, perhaps incent people in the base to engage in our products. Because we've come—we've had a tremendous number of new products come down the pipeline in the past few years and there's just a lot of outside potential and working to engage the base.

Dan Perlin

Yes. Excellent. Thank you.

Operator

Thank you. Your next question comes from the line of Ramsey El-Assal from Barclays. Your line is now open.

Ramsey El-Assal

Hi, John, Gabrielle, Erica and team. I appreciate you guys making yourselves available tonight, as usual. I wanted to ask a question about your sort of most updated view on the addressable market and maybe also competition. I'm sort of asking this question in the context of the pivot in your strategy. Is there any sign in the market that higher quality customers has become more penetrated or more contested? Are there any other drivers to the way these customers have been performing and the pivot in your strategy?

John Rainey

It's always good to speak with you and appreciate the question. The short answer is no. Certainly it's a competitive environment. We've always operated in one of those from the []spin-off of eBay, but nothing to speak to today that is appreciably different than what we saw a year, two, even three years ago that has influence in our strategy there. We do think that we've got still a tremendous opportunity. So, if you just take net new actives as an example, we've got some pretty significant efforts internationally over the next couple of years in markets like Japan, markets like China, where we just renewed our license there, that have the opportunity to be pretty big dial turners around what we can do around net new actives. Now, some of that is going to be—we've got to make sure that we've got brand awareness and are creating a compelling value proposition there. But those are markets that are just as much an opportunity today as they were before.

Related to that, we also, as we've talked about a little bit in the past, have a focus on a younger demographic, a cohort of teen accounts and things of that nature, that is an untapped opportunity for us today.

So, no real shift related to the competition. In fact, I would argue, and I think third party data supports this, that in many ways we're actually expanding the gap between us and the competition when you look at all the various ways that people use us, whether that's buy now, pay later, checkout or other ways.

So, we want to continue to keep our foot on the accelerator there, but nothing really changes in our strategy related to the competition.

Ramsey El-Assal

All right. That's super helpful. Thanks.

Operator

Thank you. Your next question comes from the line of Josh Beck from KeyBanc. Your line is now open.

Josh Beck

Thank you John, Gabrielle, Erica. Always appreciate the time. I wanted to go back to the variables influencing the guidance. Obviously, last year was particularly fluid, this one not so different. So, when you bake those range of scenarios did you try to take into account maybe a greater degree of uncertainty and are there certain ones that could maybe be more influential and swinging to the high end or low end? It certainly seems like the lower income cohort got a lot of discussion. I'm just curious if there's any other context on that point.

John Rainey

It's a great question and I appreciate the way that you framed it. Look, before I answer, I think context is important. We started the year last year really strongly and we knew we had some eBay pressure. We thought that given the strength in the business that we could offset even that incremental eBay pressure and that's kind of where we found ourselves in the April timeframe. But it's hard to anticipate things like the pace of stimulus, or the next variant that is coming at us, or what that does to travel and the persistence of that. So, you know, we got it wrong if you look at sort of how we progressed through the year. Overall, it came in very close to what we started the year with, but we got the progression wrong.

So, you're right, Josh. That absolutely informs us right now. We don't want to get that wrong again. So, that's why we provided the range that we did and we talked about what would influence those various outcomes. I would say, big picture, the single biggest contributor to our performance this year is going to be what's happening in the e-commerce market overall. You see some of that. You've heard others talk about sort of a weaker holiday period around e-commerce. Obviously, you saw the print on consumer spending and retail sales in December. Those are big influencers in our business. If that persists, then I think those will be the—have a much more outsized contribution to our overall results versus maybe any little thing around, like initiatives that we're doing or anything like that.

So, that's what I would say to kind of keep your eye on as you think about our progression through the year and the range of outcomes.

Fortunately, for us, eBay is no longer really this thing that we can—we can predict that. They are 100% transitioned. So, we're simply lapping the comp. It's not really us forecasting how quickly they're going to transition to managed payments. That's happened. So, I'd remove that as a variable that I think could have more of an outsized influence for. It's really e-commerce overall.

Erica Gessert

Hey John. Can I just add one more thing here, which is, the questions on low income, the low-income group is getting a lot of air time right now. That's really just because they have a lot higher beta when it comes to impact to disposable income, right? And so, that's really what we're seeing right now. If you'll remember, when you're in an environment of stimulus or lack thereof, last Q1 was the release of the biggest stimulus in the U.S. that occurred during the pandemic. This year, there's no stimulus and the child tax credit has expired. It's sort of this very enormous lapping effect with this particular group in terms of what they have got to spend.

So that's why we're pointing it out here and that's what—we've certainly seen that in the base. To the extent things start to normalize, the Great Resignation starts to normalize a little bit and people are kind of back to work, some of that should normalize a little bit. To the extent it really does continue and persist, we may be at the lower end of our guidance. But that's kind of how to think about it.

Josh Beck

Okay. Super helpful. If I could just squeeze in a follow-up on Venmo revenue as we think about the progression. Any appreciable difference that you're contemplating in the mix as we go into '22 and beyond? Obviously, you have a number of initiatives taking hold. Just curious if there's anything really notable that we should be mindful of.

John Rainey

Josh, I don't really think so. Nothing that I would call out.

Josh Beck

Okay. Great. Well I'll hop back in the queue. Thanks.

John Rainey

Okay.

Operator

Thank you. Your next question comes from the line of Jamie Friedman from Susquehanna. Your line is now open.

Jamie Friedman

I just had two upfront if I may. On the international TPV it grew 12% but international revenue declined 1%. I know you had some callouts, John, in your prepared remarks, but the transcript's not up yet, so if you could that parse out a little bit. And then the second one, with regards to inflation, the average ticket only increased 2%. You just were commenting that it's a take rate driven business, so we thought price would help. But then your engagement was good, up 11%. So, we're just trying to reconcile where inflation would show up in the business at a high level. Thank you.

Gabrielle Rabinovitch

Yes, absolutely, Jamie. We could always follow-up more about this. But on the average transaction size or average order value, whichever you want to call it, that really is mix driven, and so we had very strong Braintree mix in the quarter. Braintree actually mixed in at a lower average order size, and that actually sort of drove that dynamic. And so we are a rate-based business but the Braintree volume mix does play a role there. I'd say on the international revenue growth, down 1% year-on-year. Ex-eBay, that was up 11% year-on-year. We also did see some pressure both in China and in the U.K. specifically, really

because of some of the supply chain and logistics issues. So, our China business, of course, is exclusively sort of a Chinese seller business into other markets, so by definition it's all cross border. We did see some pressure there that we attribute to this sort of slowing e-commerce in the back-end of the quarter. Some of the kind of demographic discussion that we've already had as well as just the supply chain, logistics having an impact on people on the cross-border purchases, especially for SMBs.

Operator

Thank you. Your next question comes from the line of John Davis from Raymond James. Your line is now open.

John Davis

Hey, good afternoon and thanks for doing this. John, just a quick question on transaction expense. If you go back to '19, about 95 basis points. Obviously, with mix to debit. There's been a kind of—that's come down significantly and ticked back up this quarter. How should we think about that for '22, kind of what's baked in the guide or how should we think about it?

John Rainey

Sure, John. I continue to believe that that mid 80s level for transaction expenses' probably the best way to think about our business over the near term. The fourth quarter always tends to be a little bit more of a credit mix, which influences that. And then you're also seeing the effect of a pretty massive swing in the percentage of our TPV year-over-year from Braintree. If you'll remember last year, there was still a lot of concerns around travel, events weren't happening, Braintree had a lot less volume, I'd say last year—fourth quarter 2020, I'm referring to. And then Braintree actually accounted for a lot more of our volume this period. It's an oddity, but truly every one of these major products saw their transaction expense decline, but it was the mix change in that business that really influenced the overall increase in the rate. I think as we get into sort of a more normal steady state operating environment, we continue to see strong e-commerce growth with our branded payment button, that transaction expense will—it could vacillate a few basis points on either side, but that mid 80s is probably still the right way to think about our business.

John Davis

Okay, great. And then just a quick follow-up on capital allocation. I think you guys have alluded that while you're looking at big M&A that that's likely or unlikely to happen unless something great comes across the table. But as you think about buybacks, you guys are under $6 billion of free cash flow, have a very healthy balance sheet, is that something that—with where the stock is now that there's a little more emphasis? So maybe just talk a little bit about how you guys evaluate buybacks versus some more of the tuck-in M&A. Obviously you have the ability to do both.

John Rainey

So we're pretty balanced this year, I think spent exactly $3.4 billion on both acquisitions as well as buybacks. Fair to say that when we look at the amount of cash or the percentage of cash that we return to shareholders, we look at it over a multiyear period. Certainly, I believe that relative to our intrinsic value, we're trading at quite a bit of a discount right now. So, fair to say that what you saw in the fourth quarter was probably a little bit more aggressive than what a run rate level is and will be very influenced by what our stock price is in terms of what we do there.

John Davis

Okay. Appreciate all the color. Thanks.

John Rainey

All right, Operator, I think that was our last question. I appreciate the questions today from everyone. We look forward to following up with many of you over the coming days and weeks. So, thank you very much, and everyone have a good evening.

Operator

This concludes tonight's conference call. You may now disconnect.