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Josh Beck, *KeyBanc*

Timothy Chiodo, *Credit Suisse*

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Sanjay Sakhrani, *KBW*

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Dominick Gabriele, *Oppenheimer*

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PRESENTATION

Operator

Good evening and thank you for standing by. Welcome to the PayPal Q1 2022 Analyst call.

I would now like to hand the conference over to your speaker today, Mr. John Rainey, CFO and EVP of Global Customer Operations. Please go ahead.

John Rainey

Thank you very much, I appreciate it. Thanks everyone for joining us this evening. We're eager to address the questions that you have. As usual, I have Gabrielle and the rest of the IR team with me today, but we also have Dan joining us for the call today. So the three of us, or maybe I should say the five of us will be fielding any of the questions that you have.

So, Operator, we can go ahead and go to the first questions.

Operator

The first questions come from the line of James Faucette from Morgan Stanley. Your line is now open.

James Faucette

Thank you very much everybody, and I'll extend my thanks to you John and best wishes. Good luck.

John Rainey

Thank you.

James Faucette

I wanted to dig in a little bit on the underlying assumptions. I think last quarter, as you formulated your outlook for the year you had kind of anticipated that ecommerce growth would be around 10% for the year. Can you give us an idea of how you're thinking about that now as part of the revised outlook? Then I just have a follow-up question around margins.

Gabrielle Rabinovitch

Sure, James. We opened the year and our expectations were around 10% ecommerce growth [for the market as a whole] in the U.S. What we've actually seen in Q1 is actually a little bit lighter than that. So while we haven't seen a lot of third-party sources recalibrate their expectations, given that we're only one quarter in, we've actually done that kind of in our own forecast, and so that's what you see reflected in the guide. Our view is that the U.S. falls short of that 10% on the year; U.K. we think could even be sort of half that, so we're really seeing weaker U.K. trends. Probably early to call for the full year but we're definitely seeing that play out with an even weaker ecommerce growth in the U.K.

James Faucette

Got it. Then from a profitability standpoint and margins, I know you called out a few drivers there. It seemed like maybe the greater contribution from Braintree, you said mix. I don't know if that was revenue mix or funding mix, etc. Can you just deconstruct what the elements are there that have contributed to kind of the lower margin outlook for the year?

Gabrielle Rabinovitch

Yes. I think the revenue and the funding mix in some ways move together because we really did comment that Braintree was outperforming. We expect that to continue through the year, and so with Braintree outperformance the funding mix is higher [cost], more card-based funding. In conjunction with the slower ecommerce growth that we're seeing in the broader landscape, that affects our ecommerce growth on the core PayPal platform as well. It's a much bigger platform too, so we're just expecting to move alongside what we think is sort of the ecommerce growth trajectory on the year, so the funding cost

goes up. I think when we think about the operating margin contraction on the year, the biggest contributor of that contraction is, first, the transaction expense dynamics, followed by the lapping of the [credit] reserve release. You really see that all come through predominantly on the transaction margin side.

Then I did call out some additional costs. One is just sort of general additional investing in the business, and so while we do expect to see some savings in year from some of the strategies that we've talked about, we do expect to be reinvesting those savings, both in our people as well as in our platform.

And then maybe just to clarify, we called out Russia. In our earnings materials for Q1 we called out a $0.03 impact from suspending those transactional services in Russia. For the full year it is $0.08 and that contemplates the $0.03 in Q1 as well as an additional $0.05 throughout the year.

John Rainey

I can add some extra color on the $0.03 in the first quarter, some of the impact there was below the line [reflected in "Other Expense"] related to some currency dislocation we saw as we looked to [suspend transaction services in Russia in the first quarter]. That's not really reflective of the run rate of the Russia business by itself. A little bit of an anomaly in the first quarter.

James Faucette

Got it. Sorry, just last thing from me to tie those two pieces together. Look, I think we can all come up with our own assumptions around ecommerce growth and kind of how that recovers and what pacing and to what level, but on the mix, particularly on the extra contribution from Braintree, is that something that we should be anticipating as permanent? Or persistent at least? Or is that something to do with the mix and consumer behavior, and so we should expect normalization of the relative growth rates there that are impacting margins.

John Rainey

It's some of both, James, but I'll say that over the last several years we've been able to manage the mix changes in our business and still see our margins increase. We are a diversified portfolio of products when you consider Braintree and Venmo and the many other aspects that we have, and so we have to manage that. But what we're seeing right now is actually more acute to some fundamental shifts in consumer behavior related to pandemic trends that make the pressure in this quarter more acute.

James Faucette

Okay. Thank you very much, guys.

Operator

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

Ashwin Shirvaikar

Thank you. Hey Dan, John, Gabrielle. Good to hear from you all. John, thank you and wish you the best from me as well.

John Rainey

Thank you.

Ashwin Shirvaikar

Gabrielle, wish you the best also for staying and taking this on.

John Rainey

Me too.

Ashwin Shirvaikar

No, it's a tough job for everybody.

The question I had was with regards to getting to that mid-teens type of growth that I think, Dan, you had mentioned in your comments. If I was to break that down, does that sort of break down as mid single digit account growth and then call this 10%, 11%, 12% type transaction per account, which you can then nearly fully monetize? Is that how you're looking at it?

Then the TPA [Transactions per Active Account] part of it, if you could help understand sort of the major sources of engagement that have built up over the last four quarters where it's been pretty consistent double digits.

John Rainey

Ashwin, I'll start and the others can jump in.

Some of the acceleration that we're seeing in the trends really is just lapping the eBay pressure that we're seeing in the first half of the year. That has a pronounced impact on our trends as we go through the year. Also, lapping some of the pandemic trends.

We've got pretty modest expectations around account growth for the year, as we noted on the call, so most of the sort of core acceleration in the business is really coming from the increase in TPA or the engagement activity of our customers.

Gabrielle, Dan, anything?

Ashwin Shirvaikar

If I was to kind of figure out the—is that TPA monetizing and to what extent is that monetizing? How do we think of that?

John Rainey

Yes, the TPA is monetizing. One of the reasons that we continue to focus on the ex-eBay numbers is because of the strong growth that we're seeing there. I think both Gabrielle and Dan noted almost 20% [ex-eBay] growth in the quarter on TPA, and we're continuing to see good growth there across all aspects of the business. But as Dan noted, one of the things that we're really trying to do is kind of get down into that medium- and lower-engaged cohort and get them transacting more. This kind of goes to the point that we're making around the penetration of the digital wallet because we see that when we add or when we allow customers to avail themselves of additional experiences and products that we have, they're going to be much more engaged with us. So our strategy really is around that.

Ashwin Shirvaikar

Got it. Thank you.

Operator

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

Josh Beck

Thank you team, and my best wishes to you as well, John.

John Rainey

Thanks, Josh.

Josh Beck

I wanted to ask about the Venmo monetization. Obviously, parts of the forecast certainly contracted. It certainly seems like a lot of it is related to what's happening with discretionary spend in the U.S. and obviously the U.K. as well, but it certainly seems like the monetization story is still on track with respect to Venmo. Just curious as you think about maybe the growth this year and next in respect to Venmo, what are going to be some of the key levers that you all need to pull to kind of sustain this very high growth level?

Dan Schulman

I'll take a crack at it. I think first of all it's good to see that the revenue streams are much more diversified than they've been in the past. Pay with Venmo is beginning to pick up. Clearly at the end of the year we've got the launch with Amazon, which has the potential to be meaningful [over time]. First time we're doing something with them.

The team is working on a host of initiatives. I mentioned some of them on the call. Debit card refresh is going to be a big one for them. The revamping P2P, putting on business profiles and really turning that into more of a storefront than just a business profile. They are looking at new segments of the market, potentially including teen accounts and that kind of thing. They're clearly looking at how do they open the aperture as well as diversify on the revenue streams.

On the instant transfer, you probably saw that pricing is going up. That pricing just puts us at market rates, just to be clear. We have a strong value proposition. There's no reason why we need to be below on market rates.

We see a lot of new revenue streams coming in. Amazon could be a big deal [over time], and the potential expansion of kind of the aperture of Venmo in general.

Josh Beck

Okay. Great. Maybe I can squeeze in a quick follow-up, just on the pricing of BNPL [Buy Now Pay Later] as you think about the broader opportunity with Venmo. Do you think it would likely fall under the existing umbrella, or is there opportunity to maybe look at that differently as you roll up the product within Venmo?

Dan Schulman

I do think that BNPL clearly can go across both PayPal and Venmo, and we're also expanding kind of the buy now pay later portfolio as well. For instance, we'll do installment loans, which will enable us to capture higher priced checkout points, but we really want to combine the back ends between Venmo and

PayPal so that both services can seamlessly access different capabilities, but do it in their unique UX [user experience] way.

Gabrielle Rabinovitch

Josh, I think we feel really good about the pricing. It's the same pricing that that merchant pays for the other volumes that they see through our platform; we think that's very competitive and it's appropriate. Last year we increased branded pricing for sort of the SMB [small to medium businesses] portfolio in the U.S. and that went very, very well. They're paying a little bit more and larger merchants obviously are paying less, but I think that's the right value prop given the range of products and services we offer our merchants. We think it's appropriately competitive.

Dan Schulman

That halo is 21% on TPV [BNPL users in the U.S. on average spend ~21% more in TPV overall than non-users], over 90% of it incremental. It's a pretty strong value proposition for us and it's one of the advantages we have to having such a robust portfolio. We can put the right value proposition in place, which we think is the leading value proposition, and really monetize it in ways that accrue to our benefit.

Josh Beck

Understood. Thanks Dan and team.

Operator

Thank you. Your next question comes from the line of Timothy Chiodo from Credit Suisse. Your line is now open.

Timothy Chiodo

All right, great. Thanks a lot.

The main one I wanted to clarify—and I apologize if we hit this already—was the normalized 15% growth of EPS exiting the year, the second half comment there. Clearly mathematically from the guide that's not the reported EPS or what you're guiding to. What was included in the normalized EPS second half comment?

Gabrielle Rabinovitch

A big component of that is just tax rate oriented. For the full year, I think just the increase in tax rate is about 12 points of [year-over-year growth] headwind to EPS, and then the rest is really some business mix that we have. But the biggest driver really is the tax rate.

John Rainey

If I can answer that too, because I think this is an important point. Of the ~7 percentage point increase in tax rate [that we expect this year], the single biggest piece of that is the mandatory capitalization of R&D in the U.S. There is some discussion that that could be overturned or reversed back to what it was previously, and if that were to happen, the way that that's accounted for is that reversal happens all in one quarter. So, it could create lumpiness if that does hold true, but I just wanted to point that out for the benefit of everyone.

Timothy Chiodo

Sure. That makes total sense. Thank you both, Gabrielle and John.

The next one is on OVAS [Other Value-Added Services]. Previously, I believe last quarter we had talked about low to mid single digits or so for OVAS for the year. Could you update us on what the expectations are for the OVAS revenue line guide? We're clearly understanding that there were some one-time benefits last year.

Gabrielle Rabinovitch

Sure. In Q1 we grew Other Value-Added Services revenue by 18%. We did open the year by saying our expectations were low single to mid single digit growth. We've sort of shifted up a bit so I would say right now we're thinking about mid single digit growth as what we're seeing on the performance of OVAS on the year, and that's in part without good performance on the Synchrony gain share in Q1. Then it's also clearly we're earning a little more interest income on our customer stored balances, and I'd say that the credit piece is the bigger contributor.

One other component is that our merchant lending business, which had contracted a bit through COVID, we're now starting to grow that again and that's also contributing on the credit side.

Timothy Chiodo

Perfect. Thank you for all of those. Very clear.

Operator

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

Jamie Friedman

Let me echo the congratulations, Gabz and John, on your new assignments.

I want to ask about the reserve assumptions that are contemplated in the '22 guidance. How should we be thinking about how reserves are going to trend for the year?

Gabrielle Rabinovitch

The big impact on the year really is just the lapping of the reserve release in 2021. Full year 2021 we released about $312 million in reserves. It's about a 125 basis point headwind to op margin in the year. It really is predominantly kind of front half loaded. Q1, we're lapping an $84 million release. In Q2, and part of what affects EPS growth in Q2 is we're actually lapping $156 million reserve release, which is about an $0.11 impact. Then we'll expect we're growing the book now, but honestly, the way we're growing the book, it is more weighted in the direction of shorter duration credit products, and so I'd say the big impact on the year is kind of just the lapping of last year and then we are seeing some normalization. I think in quarter credit losses as a percent of the TPV was about 1 basis point, and we did see that kind of grow maybe a basis point or two, but the big driver really being the release from last year.

Jamie Friedman

If I could just sneak in one more, how should we be thinking about the relative growth of international versus U.S. for the year?

Gabrielle Rabinovitch

It's a great question. The full year guidance update, that full year growth rate of 11% to 13% does contemplate what we expect to see. Based upon what we're seeing in Q1, which is sort of some of the unbranded processing volumes growing much more rapidly, that is much more weighted towards the U.S., and so that divergence where you see stronger U.S. growth on a relative basis and slightly more pressured international growth, I think as a trajectory we expect to see—where we sit right now, I think it's hard to know when international inflects and part of it is based upon the macro. Q1 was worse than Q4, and I don't think right now we have a view as to whether we'll start to see improvement until the back part of the year. So, obviously, we'll keep updating you, but we did call out some of those international pressures on the main call and they're quite real and they're macro related. We still have a lot of the year to see in terms of how things clear up in Europe and in China.

Jamie Friedman

Got it. Thanks for the detailed answer. I'll drop back in the queue.

Gabrielle Rabinovitch

Okay.

John Rainey

Thanks, Jamie.

Dan Schulman

Thank you.

Operator

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

Dan Perlin

Thanks. Good evening. I had a quick question for Dan.

You called out in the prepared remarks—or maybe in reference to a question in the earlier call—that you're going to be focused on fewer things and doing those things really well, as opposed to maybe a broader array of services and kind of doing those, I guess just okay, or maybe not to the level of standards that you're expecting.

The question I have around that is, one, are those services that you might look to de-emphasize, are those being embedded in this kind of revenue guide? Is there an implication for that, or is that just a broader statement about how you want to steer the organization towards checkout, and as you said, doubling down on digital wallets?

Dan Schulman

No, that's just kind of—I mean everything is included, including where we're de-emphasizing other initiatives, to be sure that we advance our position in checkout and continue to drive incremental engagement opportunities in the digital wallet and really focus on cross-selling and moving people into the digital wallet.

As you saw from kind of the stats, that's an opportunity to move the business significantly, the more people that can move into the wallet and the better our checkout flows are. Our initiatives have certain assumptions in them; those are included in our guidance, and those that we've deprioritized, we've taken that out of our guidance.

Dan Perlin

Got it. Then just a quick follow-up. Clearly Braintree is a success story and it's clearly growing much faster than everything else. I guess the question is, what's the message that you want to leave with us around unbranded transactions growing just that much faster than branded transactions? Structurally, I know it's maybe a part of what's happening in terms of maybe the post-pandemic consumer mix shift, but it would seem to suggest that there's parts of the business that you really need to, I guess focus on paring or maybe even shifting materially. Thank you.

Gabrielle Rabinovitch

Yes. Dan, maybe I'll start and then John or Dan, please add.

I'd say first off, you called out Braintree; I'd also call out Venmo. I know people are a little focused on the Venmo TPV growth, but Venmo revenue growth was 60% too. Braintree and Venmo clearly are growing very rapidly. Our core business accelerated at an unprecedented rate in 2020 to 2021 period and now we're seeing more normalized, in-line with ecommerce growth. Some of this I think is likely transitory, and so we'd expect that as ecommerce begins to accelerate again, we're doing all the things that we're going to enjoy that acceleration as well.

On the Braintree side, we are adding new merchants, new customers, and that helps sort of give us bump ups in different quarters based upon the cadence of when they ramp, but I don't think we'd call a structural change in our business overall. This is sort of in a reaction—we're thinking about this over the three-year period from '19 to '22 in terms of the things that have happened in our business and what that means for the trends right now.

John Rainey

I would just add that we like that we're not a one-trick pony, that we have a diversified portfolio of products, and that if some of those products are lower growth and higher margin, others are higher growth and lower margin, and it's as if we're almost incubating some small businesses within the PayPal portfolio.

We've historically done a pretty good job of managing that portfolio and the margin performance overall with what we've done. So, we certainly don't want to shy away from outsized growth in one aspect of our business because we think that bodes well for PayPal longer term.

We're going to continue to focus on this portfolio of products and manage the margin over time.

Dan Schulman

I'll just add to it. If you look at the merchants that we're partnering with, these are the most sophisticated apps, really around, and when you do all of that unbranded that relationship gets very tight between us and those merchants. And our ability to cross-sell a number of our other services, whether it be payouts, whether it be working capital loans to their gig workers, whatever it may be there's that relationship. The more we have with a customer, the stronger that relationship gets.

I'll work hand-in-hand with all of those apps any day. To John's point, we have a whole portfolio of services that we provide to them, some higher margin, some lower margin, but being tight with those guys is really important.

Dan Perlin

Great. Any shot we can get a framework about how big Braintree is, in any context?

Gabrielle Rabinovitch

We haven't provided Braintree volumes to date. We are, of course, aware that others recently have provided more insights in the size of their unbranded processing business. We've talked a little bit about increasing some of the disclosures through the year and providing a little more clarity, and so we're absolutely taking a look at that and we'll continue to update you, but we're not going to give Braintree volumes [at this time].

John Rainey

Maybe we should share the growth rate last year.

Gabrielle Rabinovitch

Yes. Braintree volumes last year, what contributed to TPV grew about 79% year-over-year, and then in Q1 it was 61%.

John Rainey

Yes, so already a sizable business growing at a much higher growth rate.

Dan Perlin

That's super helpful.

Dan Schulman

If you compare that to our large peers, you'll see we're really holding our own on that.

Dan Perlin

Without a doubt. Thank you so much.

Dan Schulman

Yes.

Operator

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

George Mihalos

Great. Thank you for taking my questions. And again, John, thank you for your help over the last several years and best of luck in your endeavors going forward.

I guess first question from me, if we could just talk a little bit about sort of take rate cadence throughout the year, of transaction take rates. Did that hold somewhat steady relative to what we saw in the first quarter given Venmo monetization maybe a little bit less, sort of volume growth coming from Venmo?

John Rainey

Sure. I'll start, George, and maybe Gabrielle wants to chime in.

We've been pretty pleased with the performance of take rate over the last couple of quarters. I know we tend to focus a lot on year-over-year, but sequentially you can see that it was down a few basis points quarter-over-quarter and it was I think flat the period before that.

If you did look year-over-year, of the 11-ish basis point decline, basically about 7 points of that was related to eBay. That, again, as we've talked about, effectively washes out of the system after the first half of the year, and so to your point we should see pretty consistent performance in take rate throughout the year. Particularly when you're thinking about things like the monetization of Venmo continuing to perform, we've talked about the revenue growth this year, so enough puts and takes there that we believe that we'll see pretty consistent performance for the year.

Anything you'd add, Gabrielle?

Gabrielle Rabinovitch

Yes, I might expect the take rate performance, the decline at least, to get a little better as we move through the year. eBay having the biggest impact on our business in the first half means that as we move to the back half you should see less pressure from that eBay component. Probably somewhere in the neighborhood of high single digit decline in take rate on the year is where I think we're thinking we'll shake out.

George Mihalos

Okay. That's very helpful. Appreciate that.

Then, Dan, maybe just a point of clarification? In your prepared comments I think you talked about not looking to do something transformational from an M&A perspective. Should we interpret that as applying to doing something, obviously getting into potentially a new area or anything like that? But does it also apply to not wanting to do anything sizeable on the M&A front, even though it might be sort of tangential to your current business?

Dan Schulman

We look at all of the different startups as well as larger companies all the time. I think really we've got our work pretty well cut out for us. We know exactly what we want to get done. There are acquisitions, like Paidy would be a great example of an acquisition that is straight down the middle of the fairway for us, enables us to move into the Japanese market—that's a huge market—with not just buy now pay later capabilities but infrastructure into convenience stores that really drive the payment structure in Japan. That would be a good example of something that would be middle of the fairway. Previous ones like a Hyperwallet or something, again, payouts, right in the middle of the fairway for us.

But, obviously, the bigger the size of an acquisition the more due diligence we would do on it and we really have to be quite careful about any integration risks with that, kind of lack of focus. We know exactly what we want to get done this year. We're quite focused on it. There is a lot of dislocation in the market right now and there's some assets that are a lot less expensive. We're looking at everything right now.

We're still a really strong free cash flow generator, very different than a lot of companies out there, but we're going to maintain the strong disciplines we've had around this and we really don't want to get distracted from the things that we need to get done this year to make sure that we position ourselves the right way coming out of the year.

George Mihalos

Okay, great. Appreciate that color. John, again, thanks for all your help and best of luck.

John Rainey

Thank you very much, George. I appreciate it.

Operator

Thank you. Your next question comes from the line of Sanjay Sakhrani from KBW. Your line is now open.

Sanjay Sakhrani

Thanks. Good luck to John.

I wanted to dig in a little bit on the eBay impact. Obviously it's been a challenge to forecast. I'm just curious if you guys feel like you might have underestimated anything as it relates to the longer term impacts to the business outside of simply the volume loss. I'm just curious there.

Then secondly, just on the investments that haven't panned out, that you're just going to move away from, could you just talk about some of those? Thanks.

Gabrielle Rabinovitch

Yes. Maybe we'll start on eBay. The revenue pressure from eBay this year is slightly greater than what we had expected going into the year. It is still predominantly front half loaded and so as we move through the back half it really does abate and sequentially, sort of, the compares get easier. So, we do expect to be sort of past this as we move into next year. That incremental pressure that we've called out really just relates to the fact that we're seeing eBay get a little more aggressive in some of the markets where they have done their migration, and so we are seeing some lower share of checkout overall in some of those markets.

That said, clearly our future is not tied to eBay. eBay will probably wind up being somewhere in the neighborhood of 2% to 3% of revenue this year, 2% to 3% of volume, and everything else is continuing to grow much more rapidly. When you think about the revenue growth that we guided to this year ex- eBay at the midpoint at about 16% revenue growth ex- eBay, and on top of 29% last year. So, we're really focused on growing all those other important relationships, and I don't think we view this as being something sort of structurally impacting the business in a greater way, but there is, call it another $125 million of [incremental] revenue pressure in year that we did call out today.

Dan Schulman

Maybe I'll take the next part of the question. I think one of the places that we are de-emphasizing now are some of the international markets that we were looking at before. We are trying to focus on customer engagement. For customer engagement really to maximize, we need multiplicity of services and capabilities. You can't just have one thing and hope to be able to have increased engagement, and doing that in some market is just going to take a real long time and a lot of money for us to go and do that. And just the juice does not seem worth the squeeze to go and do that.

It also ties in to kind of our NNAs as well. Those are typically lower ARPA [average revenue per active] markets, higher churn markets. Our view is let's concentrate on our engagement in basically our core markets where we have a multiplicity of services, where we have our digital wallet, and not spend a ton of money on higher beta opportunities internationally.

Sanjay Sakhrani

Thank you.

Dan Schulman

Yes.

Operator

Thank you. Your next question comes from the line of Ken Suchoski from Autonomous Research. Your line is now open.

Ken Suchoski

Good evening everyone. Thanks for taking the question.

Dan, I think you mentioned investing back into the business. I just wanted to ask where are you prioritizing that investment and can you provide us more detail on how you plan to drive that engagement, and across which users do you see the lowest hanging fruit? Thank you.

Dan Schulman

Sure. Investment are going to go at checkout. We've talked about that. They're going to go at the digital wallet. They'll come into marketing around engagement, and also we continue to upgrade our core infrastructure as well. That's going to be a constant investment there. Obviously you've got not just more and more scale and therefore, you know, more complexity in it, but we want to unify all of the things that we've bought as well into one common platform, one set of common reports, one set of common servicing as well, and then obviously cyber never rests, never rests. We have to constantly invest in that.

We are spending a lot of time kind of assuring that we have all the right accountability in place on an end-to-end basis, that people own these initiatives and they own them across the company, like full P&L ownership for that so that we are driving both accountability and clear ownership of what we expect the impact will be on our key metrics.

I hope that answers your question.

Ken Suchoski

Yes, that was great. Thank you very much.

Dan Schulman

You bet.

Operator

Your next question comes from the line of Dominick Gabriele from Oppenheimer. Your line is now open.

Dominick Gabriele

Great. Thanks so much for taking my question.

I was just curious about the TPV that would not be counted in retail sales. I think in previous calls, right when COVID hit you talked about travel and events being roughly 9% to 10% of TPV. Can you just discuss that number and any volumes that could be captured in service spend versus retail trade? Thanks so much.

John Rainey

I'll start and welcome comments from the others.

But you are right. The travel and event vertical has generally been around 10% for us and that declined dramatically, certainly at the peak of the pandemic, and then of course all you need to do is go into an airport today to recognize that that has returned in full force. So, we do benefit from that.

But generally, we also—our TPV composition is much more goods versus services as well. That's having some impact on our numbers as well, but aside from events, concerts, travel—I'm struggling to think of anything else that really falls out of what we normally think of as retail sales. I guess the exception being we do a lot of person-to-person transactions that sometimes are quite difficult to determine what that was actually for when it's just one person exchanging a payment with someone else. But we also monetize that in many cases as well, depending upon the funding instrument or the market or currency that it's used in.

But generally, if you just look at our commerce volumes—and correct me if I'm wrong here, Gabrielle, but last year's [commerce TPV] was $800 billion?

Gabrielle Rabinovitch

Yes.

John Rainey

And most of that, Dominick, skews towards retail.

Gabrielle Rabinovitch

We do obviously work with Uber and Airbnb and DoorDash and so those ride share food delivery verticals are important for Braintree. Then I'd also probably call out payment just on the Braintree side with bill payments which is an entirely different vertical from a goods and services vertical.

Dominick Gabriele

Great. Just maybe quickly if you don't mind, I guess if you just think about the year-over-year change in the margin expectation, you called out roughly that 125 [basis points] from just the credit normalization just from the releases last year. Then you said scale and then investment. I know we've talked about the various pieces somewhat, but there's roughly another 3% there that is split between those two, and I'm just trying to think about as the business scales back what kind of scaled benefits the company could see over the long term. Thanks so much.

John Rainey

Maybe I'll start and others can jump in, but just to put a finer point on some of that investment, which is incremental to our last guidance, some of this is really just continuing to manage the business appropriately for the long term. An example of that, we see that the war for talent is challenging as it has ever been, so there are additional retention measures that we've taken from our last guidance update to retain employees. We also have expectations around some actions we may take in terms of managing the balance sheet. All of these things that are what normal, healthy businesses do to manage over the long term, which we include into this investment bucket, that is more typically thought about as product and technology and things like that that we're doing to make sure that we continue to grow the business.

Dan Schulman

I'll just say that as we look forward, clearly our scale dramatically increased during the pandemic. We did $1.25 trillion of volume. It gives us a lot of leverage as we look at our suppliers and partners. We're clearly in the middle of looking at how do we improve unit cost economics across the business with a number of our different suppliers, and that's just what happens when you get much bigger, and we will appropriately leverage that.

We also are looking obviously at driving the right operating leverage inside the Company. We're investing in technology and in our engineering, but we're streamlining in other places as well. And so we feel like we're going to continue over the long run to have operating leverage.

John Rainey

I think, Operator, we have time for one more question.

Operator

Thank you. Your next question comes from the line of Chris Donat from Piper Sandler. Your line is open.

Chris Donat

Thanks for tucking me in here, and John, best wishes in Arkansas.

John Rainey

Thank you.

Chris Donat

I wanted to ask one question on how we should expect sort of net new accounts and attrition to unfold in coming quarters. I got that 10 million net new accounts expected in 2022. Should we expect the bulk of attrition related to the strong net new account adds in 2020 and 2021, would that attrition, should we be through it this year or will it have a bit of a tail that extends into 2023 and beyond?

John Rainey

The bulk of it we're through this year, but you are correct that it does have a tail. There is some impact next year, but the most pronounced pressure is going to be this year, and Dan kind of talked about the trajectory of that over the balance of the year.

Chris Donat

Yes. Okay, got it. Just wanted to make sure that it's more of a this year thing than having much going on into the future. Thank you.

John Rainey

You got it. Okay.

Thank you all for joining the call. This will be my last one of these calls and I want to thank all of you individually and collectively. You've been a pleasure to work with over the last several years. I learned from you. You push us and help us make PayPal a better company and so we certainly appreciate that and I've appreciated that opportunity. We'll look forward to following up with all of you in the coming days and weeks with additional questions. Thank you very much.

Operator

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