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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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Michael Ng, *Goldman Sachs*

Sanjay Sakhrani, *KBW*

Jeff Cantwell, *Wells Fargo*

Ashwin Shirvaikar, *Citi*

Andrew Jeffrey, *Truist Securities*

Josh Beck, *KeyBanc*

Trevor Williams, *Jefferies*

Ken Suchoski, *Autonomous Research*

P R E S E N T A T I O N

Operator

Good afternoon and welcome to PayPal's Fourth Quarter 2022 Earnings Analyst Call. [Operator Instructions] I would now like to turn the call over to Gabrielle Rabinovitch to kick things off.

Gabrielle Rabinovitch

Thanks so much, Julianne. This is Gabrielle. I'm also here with Dan, Ryan, Lizzie, and Allison. We have about 45 minutes to take your questions, so thanks for listening to the main call, and

we hope to get through kind of as many questions as we possibly can over the next 45 minutes. And then, of course, our team will be available through the evening and obviously over the next few days to follow up on anything additional. But maybe, Julianne, we could get started with the first question.

Operator

Certainly. Our first question will come from Colin Sebastian from Baird. Please go ahead. Your line is open.

Colin Sebastian

Great, thanks. Good afternoon, Dan, Gabz, Ryan and the team. Dan, I think we first spoke when you were just starting at eBay, so it's been [...] a long road, but really appreciate all your perspective and all the work over the years. I wanted to ask on P2P because I know there's a lot of focus on branded checkout market share, but there's also a fair bit of focus on P2P and around competition and share.

But I guess my question is perhaps more on the impact on customer acquisition costs, just given the favorable funnel that that typically provides, flowing through it down in the checkout and how that might impact that, and then maybe more specific on Venmo usage or monetization, the plans there to perhaps accelerate that over the course of time, thanks.

Dan Schulman

Yes. I'll start off and then Gabz will chime in. Both P2P and Venmo are parts of our portfolio that have large potential but are not translating into full reality yet. I'll talk about that and each of them a little bit separately, with a lot of attention around each of them.

I'll just say this as sort of an overall. We have a really large portfolio of products and services. Some of them are firing on all cylinders right now, and others will always be firing less, and sometimes those that are firing less one year, the next year are firing, and others start to fade a little bit. It's one of the strengths of our business that we have such a wide portfolio of services at scale as well.

You're exactly right on P2P. It's important as it adds to the overall [customer lifetime value] of a customer like when somebody is using P2P, their checkout revenues go up by about 20% or so. And we've done some good things on the checkout side of it. On international remittances, we've added Alipay wallets directly, we've added MercadoPago wallets in Mexico.

Our P2P on giving, we are the largest giving platform in the world. We did about \$21 billion of giving through our platform, by the way, about \$1.2 billion to Ukraine in [2022].

But we are going to be fully revamping that P2P functionality, both search functionality, messaging capabilities within it, the emojis within it. We'll look at optimizing our pricing in a better way that encourages more usage.

We're going to be reducing the friction associated with onboarding and some of the declines. We're looking at better onboarding process. We are looking at P2P from end to end with a lot of attention.

There's a difference between U.S. [and the rest of the world]. U.S. still grew reasonably well, the rest of the world was a little more flat. But we've got a whole team on this because P2P, we want it to be growing as fast as it can because, although it puts pressure on some parts of our [financial statements] like our take rates, it's clearly the right thing to do.

By the way, in the beginning of [2022], the [proposed] 1099 [change for P2P tax reporting] had an impact both on Venmo and PayPal [P2P]. As you probably saw, we've been working quite closely with members of Congress on the Hill and with Treasury to actually take that from \$600 up to as much as \$10,000 to \$20,000, and there is a possibility of that becoming permanent. That changed this year as opposed to temporarily delayed. Now, I think we'll need to do some marketing around that, but I think that will be quite helpful.

On the Venmo side, Venmo is probably the most widely used consumer P2P app in the United States. We have \$0.25 trillion [in TPV] on that platform. It grew 7% [in 2022], but on top of 44% growth last year [in 2021]. It grew revenues by 40%-plus [in 2022]. Revenues are up four times since 2019.

But it's got substantial runway to grow monetization. We have an incredibly strong, loyal user base of 60 million [monthly active accounts], 90 million active accounts [as of December 31st]. It's the highest customer satisfaction in outside surveys, the scale of the network is clearly reinforcing.

We've got a lot of things that we're focused on. We're bringing in teen accounts – that will open up maybe 25 million more people that we can bring onto the platform. Pay with Venmo on Amazon [was off to] a good start in the fourth quarter. We linked millions of accounts in that. It's still really early, but with Pay with Venmo on Amazon, Pay with Venmo went from having about 1% addressable commerce market in the U.S. to, like, 35% in a quarter.

So, off to a good start, but still early. You probably saw we added Starbucks [as another app where you can use Venmo to pay] now and we're getting more and more large merchants that are more of a daily habit of people signing up with Venmo. Hopefully, that will start to play out over the year. We'll continue to give you updates.

We're updating the debit card. We're behind Cash App there. We really need to do better on the debit card. We are really looking fully at that rewards piece of it. Business profiles with Apple Tap to Pay, I think, to be meaningful. It's in pilot. It'll really start to ramp at the end of Q1 into Q2. So, a lot there. And we're doing a lot of redesign on the app itself.

All that said, there's a lot going on there, but we have a lot more work to do, as I mentioned, to turn potential into reality. I think there are a lot of green shoots, but they need to grow and I'm not as happy with our performance on Venmo as I would like to be. It's obviously a key part of our portfolio growing nicely, but there's more we can do with it.

Colin Sebastian

All right, thank you, guys.

Operator

Our next question comes from Michael Ng from Goldman Sachs. Please go ahead. Your line is open.

Michael Ng

Hey, thank you very much for the question. Dan, I also want to wish you the best of luck in your retirement. I just had two. I guess, first for Gabrielle. I was just wondering if you could just walk through some of the typical modeling line items that you, guys, usually help us with in terms of how we should think about OVAS [other value-added services revenue] growth and perhaps some of the transaction margin items, please.

Gabrielle Rabinovitch

Yes, you bet. So, I'd say we haven't guided revenue for the year, but I would think as sort of a framework when you think about how we're thinking the year will play out overall. On the OVAS side, a strong [fourth] quarter, with 26% growth in other value-add services revenue in the quarter.

I'd say for this year, for 2023, right now, we're thinking high teens [OVAS revenue growth], and we're sort of starting with that outlook. Part of this will be dependent on how the credit business performs in the year. Obviously, we have a nice tailwind in the first half of the year from interest rates benefiting other value-added services revenue. That incremental benefit, as I mentioned on the main call, sort of tails off a bit, so I'd expect right now high teens and then we'll go from there.

From a TE rate [transaction expense as a rate of TPV] standpoint, I'd expect maybe an increase of a basis point or two based upon where we're thinking mix may come from, could be closer to a basis point, but I think about a little bit of inflation on our transaction expense rate.

From a loan loss standpoint, we've got some counterbalancing trends. One, our [credit] book is performing nicely, and so that's kind of keeping the overall provisioning very much in line. You saw our coverage rate was flat sequentially and it was actually down 180 basis points year-on-year.

In terms of a loan loss standpoint, you might see kind of a point potentially or increase in terms of a rate of TPV. That said, with the [planned] externalization of our credit book, it will benefit the provisioning. And so, at that point, we'd take into consideration both an increase just coming from growth in the overall portfolio as well as the release of reserves that would come from any kind of externalization.

You've seen our transaction loss be stable, and so, I would think kind of overall, you're getting to a slight increase on your volume-based expenses as a result of the TE side and a little bit of loan loss.

And then of course, you've heard us say that we're sort of opening the year with a thought of about 125 basis points [non-GAAP] margin expansion and that contemplates up to high single-digit decline on non-transaction-related operating expense growth. The different line items [within non-transaction operating expense] clearly will be different, will perform differently, but overall, we'd expect that kind of up to high single-digit decline.

Maybe the one other item I would call out, which is a little different than what you've seen from us in prior years, is that historically, OI&E [operating income and expense] has been a bit of a headwind for us. And so, it's been negative in part from the low interest rate environment, not generating a tremendous amount of interest income on our own corporate cash, but also just because of our debt service obligations.

I'd say in 2023, we're expecting that to be a tailwind for us. And so, again, sort of early in the year and there's a big part of the year to go, but just from a modeling standpoint, you could expect it potentially to be \$75 million of income on the year and then we did call out a higher tax rate and our intention around share buyback.

From a modeling standpoint, anything else that you were sort of thinking about that I didn't get to?

Michael Ng

No, that's very comprehensive. Thank you for that. And then just for Dan, I was just wondering if you could talk a little bit about competitive intensity both for online branded checkout, but also for mobile wallets. And then, how do you think consumer adoption of things like Apple Pay as mobile wallet affects the core checkout business, if at all? Thank you.

Dan Schulman

Yes, there are different dynamics around those. As I mentioned on the call, clear slowdown in the classic Buy Now Pay Later players. They are absolutely shifting their emphasis to try and make money.

And so, we are gaining good share against those wallets, but importantly also good share in the number of merchants that are using our Buy Now Pay Later services. And now over 300,000 merchants that have embedded Buy Now Pay Later upstream in the product pages. And there, you can see a 10% to 20% lift in share of checkout when that happens. So that's clearly a positive.

And then digital wallets, as I mentioned as well, we're all taking share from manual [credit card] entry and that will continue to happen. Our share of checkout is probably four to five times that of Apple. And so, Apple may be growing their share quicker but from a much lower base. But as I mentioned, with a 5% [global FX-neutral] growth rate for branded checkout [TPV in 2022] and in the fourth quarter, with U.S. being roughly in-line with that as well [in 2022], we feel clearly that we held overall.

But again, when it comes to mobile, as I mentioned on the call as well, Apple has some inherent advantages around authentication. We also are not able to access the NFC chip, -- but we also know that where we put in our latest checkout integrations, we gain share.

And so, we're actually quite encouraged by what we're seeing and the progress we're making in the market right now. I also think that it's probably more likely than not that e-commerce will start to accelerate as we go probably into the back half of the year and clearly into 2024. And we expect when e-commerce turns that it will grow in double digits as well. And when that happens, that's not really part of our plan right now, but we will be in the position to generate a lot of growth at much higher margins as well.

And one other thing I would just say, which is a long response to a very simple question, is Q1 is off to a really strong start for us, and that includes branded checkout. Branded checkout is accelerating. And we thought we had a pretty good Q4 overall worldwide on branded checkout. Whether that's the fact that the economy is turning slightly or whether it's our initiatives are really starting to take hold, we're clearly seeing it in our results right now.

Michael Ng

Excellent. Thank you, Dan. Thank you, Gabrielle.

Dan Schulman

You're welcome.

Operator

Our next question comes from Sanjay Sakhrani from KBW. Please go ahead. Your line is open.

Sanjay Sakhrani

Thanks. Dan, I wanted to follow up on a question on the type of profile the board and yourself would be looking for a successor for you. You mentioned all the various parties this person would have to be comfortable working with. Could you just give us some sense of, would it be a payments person or something else? I know you are a master of many trades. Thanks.

Dan Schulman

Thank you for that. I think we're just getting started here. And so, we'll obviously look at leaders across a number of different industries. It could be payments, it could be tech, it could be a combination. It may come from outside. So, just getting started. The reason I gave the board the time on this was so that we could do a real thorough search and also do an appropriate transition.

This will take at least a couple of months to do that the right way. I want to make sure we have enough time to do it the right way, but there isn't too long a time because these transitions can also go too long as well, and I'm very sensitive to both sides of that.

I just wanted the board to be sure they had enough time and that I was flexible either way on this. But let's let it play out a little bit more and then we could probably give a little more color.

Sanjay Sakhrani

Okay. Congratulations.

Dan Schulman

Thank you. I appreciate it.

Operator

Our next question comes from Jeff Cantwell from Wells Fargo. Please go ahead. Your line is open.

Jeff Cantwell

Hey, thanks so much. First of all, Dan, congratulations for all you did for PayPal. And for managing to stay 65 years young despite having market-neutral investors surrounding you quarter-to-quarter for all these years.

Dan Schulman

Thank you. I'm thanking my martial arts for that.

Jeff Cantwell

I want to ask you, on the longer-term thinking side, and I would say this is probably the number one question we get, and it's on your brand new checkout and mobile, and you sort of have been talking about even bringing Apple into this call. You've been discussing some unique advantages.

Can we just stay on that? My question to you is, how do you jump ahead of Apple? And maybe from another angle, do you think PayPal even needs to because it does strike me that you're talking about 30% open runway for PayPal is a better option for manual entry and you're PayPal, which means you operate not only on iOS but on Android and Google devices.

So, you have the kind of breadth, but maybe just talk about that to us a little bit longer term. Does Apple sort of create this imperative within PayPal to go out there and adapt, evolve, etc.? Thanks.

Dan Schulman

Well, I think there are a lot of places where we want to improve regardless of competitor[s] out there, right? We want to have the most advanced modern checkout of anyone, and we want that across channel, across mobile, across mobile web, and we want it on desktop as well.

We clearly have a lot of competitive advantages against anybody out there right now. We have the highest brand trust and consumer preference for online checkout. A consumer is twice as likely to make an online purchase if the PayPal button is there. 60% prefer to use PayPal.

The next highest wallet is at about 8% or so. So, it's a gigantic consumer preference advantage. Our [authorization] rates for merchants, as I mentioned, are about 590 bps better than the typical checkout.

We have huge merchant scale, and nobody's even close to the 80% [penetration of the top 1,500 online merchants across North America and Europe], growing every single quarter in not only the top 1,500, but the long tail of 35 million merchants. We have a full digital wallet. So, it means it's not just you're checking out [with] this, but you can use Buy Now Pay Later. You can use coupons and rewards, we're putting tracking into the wallet as well for, like, pre-purchase and post-purchase as well as flexibility in payment. And so, we have a lot of competitive advantages out there, but we know we have a lot of places that we still need to improve. We have a lot of legacy out there.

But I will say what's very encouraging is on the third of our top 100 where we have our latest checkout integrations. We gained share and we gained share against everybody, including Apple on those. And so, one thing is when we get to these integrations and as we do more and more of it, we will start to bring in more and more of even mobile share into us.

The last thing I would say on this is we talked a little bit about this, but that's all kind of making the current generation of checkout as friction-free, passwordless, native in-app. But we're moving to the next generation of this, which we call advanced checkout, in which we actually leverage all of the unique data we have. We have more data on customers and [financial institutions] than anybody else out there where we can help the merchant in their entire checkout experience, not just with PayPal Checkout but actually any checkout so that the performance you get when you click on a checkout with PayPal, which can be one-click, passwordless, you can do with almost anybody coming into the checkout experience. And we can do that because we can identify the people and we have the largest scale to go and do that.

The merchants we're talking about this, their eyes are wide open. Now, we're just beginning to do pilots to work with merchants on this. But I think that next generation, there's nobody that I can see that could match that if we can scale that out. And so, we're not just thinking about today and making things better and more friction-free. We're actually thinking about what is that whole next generation of checkout that we can do with merchants and how do we leverage what we uniquely have and nobody else does, which is the scale of our customer base.

As I mentioned, we probably have seen every single customer come through at one point into our PayPal ecosystem. We have records on it and our ability to use that information and data and our machine learning capabilities, more and more advanced forms of [artificial intelligence] can really transform checkout. So, I think there are a lot of things we can do tactically. I think there are some things we're working on strategically that give me a lot of hope.

Jeff Cantwell

Great. Thanks so much. I appreciate all that, and congratulations again.

Dan Schulman

Thank you. I appreciate it.

Operator

Our next question will come from Ashwin Shirvaikar from Citi. Please go ahead. Your line is open.

Ashwin Shirvaikar

Thank you. Dan, let me start with also congratulating you on the decision and I hope you get to actually enjoy the year.

Dan Schulman

Thank you.

Ashwin Shirvaikar

I hope that's not a tall order. I guess a couple of questions. One is if you could talk about merchant health and merchant engagement. And then, well, Gabrielle, the question is cadence of OpEx [operating expense] pattern, how should we think of that through the year?

Gabrielle Rabinovitch

We'll start on OpEx cadence. There's nothing that I would call out that would make one quarter sort of a higher level of reduction than others. I really expect it to be relatively ratable as you're thinking across those four-line items. Was there something in particular you had in mind?

Ashwin Shirvaikar

You announced obviously -- last year you announced the sort of the focusing on three things. This year, you announced the layoffs. So, I guess I was just kind of wondering about the timing of how that plays through the system and what else is there to come.

Gabrielle Rabinovitch

Yes. So, look, the headcount actions are really across the organization. So, when you think about the four major categories of non-transaction-related OpEx, it does hit all of those areas.

I'd say technology and development might hit to a little greater extent. That's also an area, though, where we've been investing more over time. And so I would say overall, there's not really anything I would call out in terms of the cadence there.

You have seen us pullback on sales and marketing as well. That said, I think Dan alluded to it on the main call, which is if you look at our investment in those areas over a multi-year period, you

actually get to sort of a mid-single-digit, if not, slightly higher overall compound annual rate of growth on those line items even when you take into consideration the reductions we have planned in this year.

And so, we've continued to invest sort of in those buckets such that we think that the level that we have overall is relatively healthy. That said, we had almost a 25% reduction overall in sales and marketing [in Q4].

Ashwin Shirvaikar

Got it. And on the merchant health and engagement?

Dan Schulman

Well, in general, I'll wait and see if there's specifics, but merchant churn is quite low for us, and as a result, kind of engagement grows over time with them. But we're continuing to add more and more value-added services to them as well. They have ways of cashing out, they have ways of doing risk as a service where kind of we can tell them what our risk signals are and if they know the customer, they can opt to override.

There are all sorts of value-added services from invoicing, etc., that we're selling into merchants. And as we do more and more of the unbranded checkout, the strategic partnership grows quite dramatically as well.

And so, overall, I have to say I'm quite pleased with the progress of our merchant team and our sales team. They are working hand in hand. They are delivering product on a consistent basis now.

And things like PPCP [PayPal Complete Payments] that will start to roll out should enable us to put on more and more services like BNPL, [our] most advanced checkout, add higher margins and really tap into an addressable market that we've never had the ability to go after before.

Ashwin Shirvaikar

Got it, thank you.

Dan Schulman

You're welcome, Ashwin, and thank you.

Operator

Our next question comes from Andrew Jeffrey from Truist Securities. Please go ahead. Your line is open.

Andrew Jeffrey

Hi, good afternoon. Dan, I'll add my congratulations to the chorus.

Dan Schulman

Thank you, I appreciate it.

Andrew Jeffrey

I'm really intrigued by PPCP [PayPal Complete Payments]. Can you talk a little bit about the go to market motion. And this whole SMB [small- and medium-sized business] e-commerce space is obviously kind of the Holy Grail, right? It was the first mover and Adyen has obviously tried to come down market and you've got FIS trying to play catch up with Payrix. I just wonder if you could talk a little bit about the competitive environment, how PayPal slots in, how you go-to-market also in the context of keeping your costs down broadly? I just wonder how we should think about this rolling out and monetizing.

Dan Schulman

Yes. Well, think of PPCP as kind of a payments platform for channel partners and SMBs. And so, for midsized businesses and above, we either have inside sales forces or face to face that have been clamoring to sell unbranded for quite some time.

Braintree is really not suited to go down market. It's more of a customized platform. It is oriented and targeted at large enterprise. But PPCP is really mass customization. It's kind of a more generic, at scale type of platform.

It's got all of our latest branded checkout experiences in it. It is fully omni as well. It's fully integrated now into our Zettle acquisition so that we can do both online and offline as well.

It's also future-proofed, in that it's all server side, so any upgrades that we do into that checkout experience will automatically be driven through the platform. As I mentioned, it does have a higher margin structure associated with it [compared to unbranded processing for Large Enterprises].

It's a very big incremental TAM [total addressable market]. And we're already beginning to migrate about 20% of our legacy TPV through partnerships that we signed with Shopify, with TikTok, with Adobe. And so, there's a lot to like about it. We have very good relationships with channel partners, it's because small businesses really always want PayPal. And this really enables us to very quickly and rapidly upgrade those experiences of some of that longer tail [of smaller merchants].

So, and as I mentioned before, when we get those latest checkout experiences in place, it enables us to gain share against everybody. So, it's just somewhat of a big deal. Again, we have been ramping with some of these channel partners already, and we're going into full launch both here in Q1 and Q2.

Andrew Jeffrey

I appreciate that. Thanks.

Operator

Our next question comes from Josh Beck from KeyBanc. Please go ahead. Your line is open.

Josh Beck

Thanks for taking the question and, yes, Dan, a huge congrats on probably one of the record spins in tech. It's not easy to spin out a company that ends up being three to four times as large as the original business. So, just awesome work and wish you the best in retirement.

Dan Schulman

Thank you.

Josh Beck

And, Gabrielle, thank you so much for disclosures as well. We've obviously all been keen to see the detail and, yes, you give us some detail and we ask for more. That's a little bit of an unfair question.

But, yes, any color you can share on how we should think about take rate as we really separate maybe unbranded and peer-to-peer from the branded business? And then any comments on just how to think about Venmo? It seems like this is kind of a building year for pay with Venmo. Just any comments on those revenues and how we should be thinking about them?

Gabrielle Rabinovitch

Yes. So, I know we haven't made it easy on take rate for the full year in part because we haven't provided a revenue guide or TPV guide. So, from that standpoint, we can talk a little bit about our expectation, which when we think about some of the drivers of benefit to take rate in 2022, you really can't ignore the benefit we got from hedge gain, first off, or the benefit we got from interest income. Hedge gain benefits both total take rate as well as transaction take rate. Interest income, of course, only benefit[s] total take rate, not transaction take rate.

From that standpoint, hedge gains will be less this year than in 2022, so that wouldn't be the same kind of tailwind. We will, of course, have benefit from interest income in 2023. But as I mentioned on the main call, sort of the shape of that might be a little different with more benefit in the first half of the year than the back half of the year.

Then in addition to that, of course, you have to consider sort of what is the business mix and the volume mix in our business. So, putting kind of all that together based upon the range of expectations, I would probably expect a few [basis] points of pressure on take rate in 2023.

Now, part of this will be sort of determined by mix over time, but just given our expectation around Braintree continuing to grow at a very healthy clip, we, of course, would expect our branded business to at least hold share, but there is a divergence between those growth rates.

And so, I might expect just given some of the other factors I mentioned to see a few basis points of pressure overall on take rate.

Dan, you want to cover Venmo -- you covered it sort of with Colin's question.

Dan Schulman

Yes. I mean Venmo will still continue to grow this year. It will be at a more muted rate than where it was. I mean it will still be double digits but lower. And we'll see what that accelerates to as we continue through the year. Just give us some time on that. I'd like to see how Amazon plays out, I'd like to see how a couple of other things play out. A lot of things we are working on, a lot of potential there, but still too early for me to make a call on that.

Gabrielle Rabinovitch

Maybe just one other, as I'm sort of thinking through some of the take rate dynamics as well, I think it's really important to recognize that we're not seeing any sort of like-for-like pressure on the merchant base. And so, from the standpoint of what is the overall Braintree take rate or what is the overall core PayPal take rate, we're really seeing strong performance there.

I'd also say we're coming off of at least a year, potentially more than a year, of some pressure on cross-border in part because of a stronger dollar. When we see cross-border mix pick up, that, of course, it does very much support take rate performance.

It's early in the year, but I think our expectation is if we continue to see the current FX environment, we will see a little bit stronger performance overall cross-border, which would benefit the take rate.

Dan Schulman

I think it's a good point. I mean I think we have a reasonable size business in China. It's been quite impacted through the pandemic and the zero-COVID [policy]. But we're seeing that actually in the first quarter a little bit already start to accelerate as well. Those margins are quite healthy there.

Josh Beck

Super helpful. Thanks Dan, and thanks, Gabrielle.

Operator

Our next question comes from Trevor Williams from Jefferies. Please go ahead. Your line is open.

Trevor Williams

Great, thanks, good afternoon. Just a couple of modeling questions. First just on OVAS for the first quarter. It looks like historically, first quarter OVAS revenue is typically lower than Q4, and I'm assuming that has something to do with the credit portfolios.

But with the float income now a bigger percentage, rates are higher sequentially, is it fair to think OVAS revenue in dollars in Q1 should be close to in line with where it was in Q4 or any other puts and takes there?

Gabrielle Rabinovitch

Yes, it'll probably be a little lower, but I wouldn't say all that different overall.

Trevor Williams

Okay, got it. And then for Braintree last quarter, you, guys had talked about some implementations that had been pushed into 2023. I think you said on the call those are still good to be go-live this year, but any visibility into timing and magnitude or if we should expect to kind of an even flow of implementations over the course of the year?

Gabrielle Rabinovitch

Yes, first off, I think it's important to recognize the new merchant implementations coming on in 2023, the merchant size themselves probably represent less chunky volumes overall than the incrementality that we saw in 2022.

As I said, Braintree is off to a really, really solid start. And so, we're really pleased with what we're seeing from Braintree as we start the year, and we expect to see continued good growth in part from some of those implementations, but we're really on track with Braintree for the year.

Trevor Williams

Okay, perfect. Thank you very much.

Gabrielle Rabinovitch

Thanks, Trevor.

Operator

We have time for one last question. Our last question will come from Ken Suchoski from Autonomous Research. Please go ahead. Your line is open.

Ken Suchoski

Hi, Dan and Gabrielle. Good evening. Thanks for taking the questions. Just a couple on my end. Dan, you mentioned the opportunity with the non-MAU [monthly active unique] users. Can you just talk about the Company's strategy to incentivize the users who are less engaged to become

an MAU because our estimate is that you might have maybe 250 million of those and they do kind of 20, 30 transactions a year, and it seems like bumping a few of those up to MAUs would really help your numbers.

And then just on Braintree, the volume growth was, I think it was 40% FX-neutral in 2022. And I think the expectation is for that to maybe decelerate a little bit in '23, so just any sense of the magnitude of that slowdown. Thanks so much.

Dan Schulman

Yes. Maybe I'll start on the consumer side. Yes, you're right, I mean it's a huge opportunity for us to move some of those actives to MAUs. Just given the differential in churn and differential in ARPU [average revenue per user] and growth.

One of the big things that we are putting resource against is our digital wallet and our app because the stats are pretty compelling. [Our app is] used by about maybe half or so of our base. That's up about 10% year-over-year.

But when somebody uses the app and they become involved in that, they've got 50% greater ARPU than non-users or 60% greater TPA [transactions per active], like a 47% lift in checkout TPA, churn goes down by 25% to 33%.

And so, just making sure that people move into that app is probably one of our biggest opportunity areas. And we're really trying now to have that app be pre-purchased like it's the best way for you to save, you know, here are customized deals and offers. You can do wish list in there, price tracking in there and then obviously the best way to pay – quickest, most flexible way to pay.

But then we're also putting into place right now. We just started to ramp at the end of Q4 this package tracking where we take feeds out of your email, consolidate everything into our app. So, you have one place to track all of your orders, and we ramped to 1% or 2% at the end of the quarter.

We'll be fully ramped as we end Q1 and go into Q2. So, I think there's a lot of opportunity for us by moving people into our digital wallet. We will always have one and dones. That is going to be the case. When I say we have an enormous amount of organic [users joining the platform], it's enormous. They come in and they will churn, but it is a giant opportunity for us as well.

The more we can improve that consumer value proposition, the more MAUs that we'll see going forward. So, we have a lot of a lot of emphasis, that's why we're putting a lot of resources against that as well as our checkout and our unbranded. Those are really the three things that we're focused on.

Gabrielle Rabinovitch

As it relates to guiding Braintree TPV growth, that's definitely not something that we do. We've been very pleased with the performance overall, and it's had very outsized growth relative to other pieces of the platform, and I think our expectation is, it will still grow ahead of other

pieces, but certainly that growth will decelerate. We'll give an update as we move through the year, but I don't think we're going to be guiding it right now.

Dan, anything you want to add before we end the call just in terms of sort of anything we can get to through the questions?

Dan Schulman

Well, I just want to emphasize one incremental point. I've heard from some of you, about this mid-single-digits revenue [non-GAAP FXN framework for 2023]. That was only to force us to have a cost structure that in any scenario that we would have high confidence of delivering, that is how we got the team to go, 'What is kind of basically a worst-case economic scenario we can imagine? Let's make sure our cost structure is aligned with that.' And then we fully expect things to come in better and then we will deliver even more than that potentially.

So, our revenue expectation, and we debated this quite a bit, do we guide for the year where we've been wrong before on those guides for the year, but we're pretty much right on when we guide for the quarter.

And we thought if you put out a 9% [non-GAAP FXN revenue] Q1 guide and talk about kind of the strength that we're seeing there, that would be, I guess, a good starting point for us with a lot of the year yet to come. And Gabz mentioned appropriately that we have some lapping issues in the back half of the year as well.

But I want to be very clear. That mid-single digit is not close to what our expectation is for the year in terms of revenue. But I think it's more prudent for us to guide quarter-by-quarter. But we have very high confidence in the 18% [non-GAAP EPS growth guidance for 2023] because of the way that we designed it. Anything you'd add to that, Gabz?

Gabrielle Rabinovitch

No, I think you covered it eloquently.

Dan Schulman

Okay. I hope that's helpful just in general. I want to thank everybody. Thank you again for your very kind comments. We'll be on a couple more earnings calls together. And as always, we look forward to your questions and any of your thoughts and comments. We take them really seriously and we take them to heart. So, thanks again and have a good rest of your day and good evening.

Operator

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