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CORPORATE PARTICIPANTS

Dan Schulman, *Chief Executive Officer and President*

Gabrielle Rabinovitch, *Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer*

CONFERENCE CALL PARTICIPANTS

Ashwin Shirvaikar, *Citi*

Bob Napoli, *William Blair*

Michael Ng, *Goldman Sachs*

Sanjay Sakhrani, *KBW*

Trevor Williams, *Jefferies*

Tim Chiodo, *Credit Suisse*

Josh Beck, *KeyBanc*

Jamie Friedman, *Susquehanna*

Craig Maurer, *FT Partners*

Ken Suchoski, *Autonomous Research*

PRESENTATION

Operator

Hello, and welcome to the PayPal's Q1 2023 earnings analyst call. As a reminder, this is a 45-minute call. (Operator Instructions). I will now turn the conference over to Gabrielle Rabinovitch. Please go ahead.

Gabrielle Rabinovitch

Thanks, Sarah. Thanks, everyone for joining us. Again, as Sarah mentioned, we have 45 minutes. Dan is here with me, as is Ryan from the IR team. We can get started in terms of questions, and we'll try to get through as many as we can over the next 45 minutes.

Operator

Okay. Your first question comes from the line of Ashwin Shirvaikar. Please go ahead.

Ashwin Shirvaikar

Thanks. Hey guys, thank you for doing this.

I wanted to ask about, at least relative to our model, a lot of the outperformance was within OVAS [Other Value Added Services]. And I'm thinking probably also driven by Braintree, but if you could comment on some of the factors that are driving that [outperformance] and what the forward expectations might be.

Gabrielle Rabinovitch

Yes, you bet, Ashwin.

So, OVAS revenue grew 39% in the quarter year on year. That was predominantly driven by interest income on customer-stored balance, which benefited us from the increasing interest rate environment. We did start to see that benefit come through in the back half of last year, but Q1 was particularly strong. We also had good performance on our merchant and consumer credit books. But the 39% [growth in OVAS was] predominantly driven by interest income.

Last quarter when we reported our Q4’22 results, we did indicate that we expected overall for OVAS revenues to grow in the high teens [in FY’23]. Based on how we started the year, our expectation has pushed up a bit. Now we expect to see on the year OVAS revenue grow probably around 20% [y/y], maybe a little bit stronger than that. That said, we do expect to see deceleration as we move through each quarter of the year. So, Q1 will be the strongest quarter for OVAS growth based upon our expectation, and it will moderate slightly as we move through the year.

Ashwin Shirvaikar

Okay. On active accounts, net new adds, if I could talk about that. The sequential decline, should we expect that trend to continue and how much of it is driven by maybe PayPal trying to actively get down to just higher quality accounts? How much of it may be driving away some of the accounts you don't want in your base?

Dan Schulman

Our focus is clearly on driving monthly active users and engagement. And that engagement, think of it as both ARPU [Average Revenue Per User] and transactions. Our monthly active users, we've got about 190 million of them. They average approximately 70 to 90 transactions per year versus other active accounts [that average] single digits.

Monthly active users are 20 to 30 times more valuable to us and we're clearly focused on driving that. That is driven through product enhancements. It's not about spending marketing dollars to drive that. It's about having beautiful experiences. That's why we're really pleased to see our monthly active users grow slightly. You put on a million monthly active users, it's like the equivalent of bringing on 20 million active [accounts]. It's that more valuable than our active accounts.

We are not interested in throwing marketing dollars to drive just active accounts coming in. We tried that. We saw that. That didn't work. It was not a positive ROI. These new cohorts that we are bringing in, and they still are quite substantial, have attributes that we really like right now. Their TPA [transactions per active] way higher than what we've seen before, 24% higher [March cohort had 24% higher TPA and 40% higher ARPA]. Their ARPA, how much revenue they're spending the first couple of months, [was] higher than what we've seen before. Their ARPA, how much revenue they're spending the first couple of months, [was] higher than what we've seen before. We're not asking somebody to make a transaction and giving them a reward to do so. People are coming in and finding value in the products themselves.

Our CPGA, our cost per gross add for these cohorts we're bringing in, is also substantially lower. This is clearly the right thing to go do. A lot of the accounts that we've lost were in markets where we've decided not to build out a consumer presence, whether that be Brazil, India, some countries in Southeast Asia. I could easily see our actives continuing to go down, but I would fully expect our monthly active users to continue to grow throughout the year. That's really what drives the overwhelming predominance of volume on our platform and profits.

Ashwin Shirvaikar

Makes sense. Thank you.

Dan Schulman

You're welcome. Thank you.

Operator

Your next question comes from the line of Bob Napoli with William Blair. Please go ahead.

Bob Napoli

Thank you and good afternoon. I'm going to dig a little bit more into your effort on the SMB [small-to-medium business] side, but if you could clarify. Your monthly active users did grow in the quarter and you expect those to grow through the year? I would like to get a little more color on the success of and thoughts around your strategy of doing a lot more in the SMB space.

Dan Schulman

Sure. So, the answer to the first question is yes. Did monthly active users grow in the quarter and do we assume they'll grow through the year? Yes and yes on that. And then your question on SMBs?

Bob Napoli

You had talked in the last call quite a bit, Dan, about a big opportunity and the SMB market and adjusting your product set to address that market.

Dan Schulman

Yes, okay. I think you're talking about the introduction of PayPal Complete Payments (PPCP).

Bob Napoli

Yes.

Dan Schulman

We really have not had an unbranded offering for the small and mid-sized market. Braintree is focused predominantly on large enterprises. It's a terrific platform, but it's bespoke because a lot of the largest enterprise customers have very unique needs that we're fulfilling quite nicely through Braintree. I expect that platform to continue to do quite well going forward.

PPCP opens up new $750 billion TAM for us, where we can now address the small and mid-sized market with a standardized mass customized platform that enables all the things that the market needs, whether it be IC++ [interchange++] pricing, whether it be vaulting of [payment] instruments, all the appropriate alternative payment methods, APMs, including Apple Pay and Google Pay comes on this coming quarter. PPCP is now GA [general availability] in the US and will expand internationally next quarter.

That is very different than serving the large enterprise market. First of all, as you know Bob, large enterprises have smaller margin structures for those who supply them than small and mid-sized businesses. SMB is inherently a more profitable market for us, but really importantly it enables us to address a need that the small businesses and medium-sized businesses have been asking us for. They want PayPal to provide that strategic service to them, but it [also] enables us to get our latest checkout integrations into the hands of the long tail of small business merchants that we have out there.

There are two ways that it happens. One is we have a set of modern APIs and easy and simple to use software development kits, SDKs, to enable anybody who wants to proactively have a developer go in and upgrade their site. Typically that has been a strength of Stripe in that market, but now at some of the leading developer portals, PayPal SDKs and APIs are ranked even higher.

The other thing we are excited about is that PPCP is also something that we are targeting at channel partners and marketplaces. Channel partners are a really important distribution channel for us for many of our small and mid-sized businesses, mostly smaller businesses. Those channel partners have hundreds of thousands of merchants in them, some even more than that, some millions.

As we upgrade these channel partners to PPCP, if they run a hosted service which most of them do, once we upgrade that to PPCP all of those small merchants are automatically upgraded onto our latest checkout integrations. As I said on our Q1'23 earnings call, where we have our latest checkout integrations in place - where we reduce friction, passwordless login, you're not bouncing out from your native website out to the PayPal site, [and] we either have stable or growing share of checkout.

That's why we're so excited about the opportunity. It's a big addressable TAM, but it also takes those merchants and brings them on our latest checkout and it adds a new source of margin for us as well.

Bob Napoli

Thank you, Dan.

Dan Schulman

You're welcome.

Operator

Your next question comes from the line of Mike Ng with Goldman Sachs. Please go ahead.

Mike Ng

Hey, good afternoon. Thanks for the question. I just have two. First, I guess while we're on the topic of PPCP, could you just talk a little bit more about the positioning relative to branded checkout? Obviously, both businesses had really strong growth this quarter. Do you ever worry about overlap and things like that going forward? And what are you doing to position things so that those both can thrive? Thanks.

Dan Schulman

So Mike, just to clarify, I'm not sure exactly if this is your question, but PPCP is our unbranded platform, not branded, for small midsize merchants and channel partners. As a part of that, when somebody enables that unbranded, what comes with that is our latest integrations of our checkout experiences.

There's no conflict whatsoever between the rollout of PPCP and hopefully it's great success in the market, and what we want to do on branded share of checkout. In fact they're very complimentary. That's why I said we have three initiatives that are complimentary, that what we're focused on. Grow share of branded checkout through all the improvements that we're doing specifically around that. Grow unbranded, because when we grow unbranded, we grow our share of [branded] checkout as well because it's our latest integrations. And then grow our digital wallets to drive engagement and monthly active users, because the more that they are engaged, the more they'll spend on branded checkout as well.

Those are all combined and are fully connected to each other, but not cannibalistic to each other.

Mike Ng

Okay. And as a follow-up, is there ever a risk from going, for lack of a better word, a full gross and net take rate to like an IC++ model enabled by PPCP, or am I kind of misunderstanding?

Dan Schulman

No, not at all. That's really the pricing on the unbranded piece of it. To be successful in the unbranded market, you really have to have an IC++ model because you're looking at all the transactions, not just PayPal transactions, you're looking at every single transaction that that vendor has. If they've done certain deals with credit card companies, that's a pass through that they would have through that. So IC++ is essential if you're going into the unbranded piece.

We like that IC++ for the lower end of the market is higher than the IC++ is for the higher end of the market. It's just a more profitable segment of the market.

Gabrielle Rabinovitch

Yes. As a reminder, when we updated our US headline pricing which we did in Q3 of 2021, and then we followed up with an update to our overall headline pricing for SMBs in Europe in 2022, we actually bifurcated the pricing between branded and unbranded.

So the price that a merchant's actually paying on the branded side is very different from what they do on the unbranded side. That unbranded piece is the PPCP piece.

Dan Schulman

Yes.

Mike Ng

Okay, great. Thank you. And to follow up for Gabrielle, if I could, I was wondering if you could give us a little bit more color around your expectations around transaction margins for the year, for the quarter and the components if you're willing to help with that. Thank you.

Gabrielle Rabinovitch

Yes. I called out that in the quarter [Q1'23], we did see some pressure from the increased provisioning, predominantly due to, first, the growth in our buy now pay later program. Then on a secondary basis, an increased provisioning on the PPBL [PayPal Business Loan] side, which is our business lending portfolio. That in the aggregate put about 130 basis points of pressure on TM [Transaction Margin].

The remainder of the pressure on TM was really mix driven. There were a few different contributors to that mix dynamic. I somewhat obliquely on the main earnings call pointed out that this transition that we're running on the SMB stack is actually negatively affecting our transaction margin because we are essentially sunsetting the old PayPal Pro processing platform, which was the unbranded platform that had been in place for many, many years, but it was quite outdated. It had very limited functionality.

We're launching PPCP. We've already gotten in market with it, but it is ramping. That transition has negatively affected our transaction margin in the first quarter, as we've seen some changes there. There are some other pieces too in Q1 that have been affected just in terms of the way we're growing the business going forward for the year.

We don't guide TM for the quarter or for the year, but this dynamic of TM being under some pressure, I'd expect to persist through the year.

Mike Ng

Great. Thank you.

Operator

Your next question comes from the line of Sanjay Sakhrani with KBW. Please go ahead.

Sanjay Sakhrani

Thank you. Hi, Dan and Gabrielle. I wanted to ask a little bit more on the rest of year margin trajectory. I think it's clear the unbranded is weighing against margins and that's something you're working on minimizing into next year.

However, I would have thought the outperformance in branded transactions and higher float [income] should have helped too. I don't know if, Gabrielle, the points you were just making on TM affected that too, but was that known before or was that a first quarter phenomenon? I just want to reconcile that.

Gabrielle Rabinovitch

Yes. Known before. We don't guide TM, so it's not something that we guided when we guided Q1 in February.

I would say our expectation for operating margin are consistent with what I said on the main [earnings] call, which is that we're going to see the vast majority of margin expansion occur in the first half [of FY'23] and see much less operating margin expansion in the back half. That is from some of the benefits that we started to get in the back half of last year from the increase in interest rates. We started to really benefit from that additional interest income in the back half of last year. In addition, the cost savings piece really started to come through in the back half [of] last year. So when we lap that, we're just seeing less of a benefit as we move through the year.

Sanjay Sakhrani

Okay.

Dan Schulman

I would say in general though, you're right to be thinking about things that way. As I mentioned on the main [earnings] call, there are four things we're trying to do to drive EPS growth, if you will. Driving branded share of checkout is clearly going to be helpful on that. The more we can do that, the more helpful it will be on driving transaction margin dollars. We know what we need to do on the unbranded side, and we have a plan in place to go do it.

The fact that Braintree is doing better than we expected, I see how that's weighing on people's thoughts right now. But I'd much prefer Braintree to be doing well than not be doing well, given all the strategic reasons for that and the fact that we expect we'll add incremental margins on it. We know what it does to all of the other elements that I mentioned from best-in-class integrations to relationships, to new sources of margin, to driving data for all of our fraud, risk, and AI checkout engines. So yes, [unbranded growth is] higher than we thought, and that's putting some pressure [on margins], but that over time is a benefit to us.

Finally, the cost structure. I think you probably heard me say this, but just to be very clear on it. We expect our non-transaction related opex growth [y/y] to be negative in the years ahead. I expect it to be negative, and I expect us to perform even better. I don't think we can underestimate the impact of all the productivity things that we're doing, the impact of AI. So I would expect that our non-transaction related opex growth for this year is probably more negative than we initially expected, maybe 10% plus, and that it continues [to be] negative as you go into FY'24, FY'25, et cetera.

Gabrielle Rabinovitch

It's clear that what we're doing on branded is working, and we're starting to see the initiatives come together. To the question of when does that really start to come through, we don't want to get ahead of ourselves, and we want to see the business develop over time. We have clear strategies and we're starting to see the business turn. The branded performance in Q1 was very encouraging. I'd also say the cross-border improvement was encouraging. The improvement in China was encouraging. All these pieces are actually higher revenue yielding pieces of our business.

At the same time, the weight of the tremendous and very outstanding performance of Braintree does continue to have an impact. I think we're just going to go through the year one quarter at a time. But our expectation is these things start to come together, and you'll start to see the branded performance come through in a clearer way.

Sanjay Sakhrani

Got it. Dan, could I just ask a follow-up? I guess the question I get a lot is just that lower expense commentary or your expense philosophy. Does your successor have to have that view, or they might possibly have a different view?

Dan Schulman

Well, we'll have to ask them when they come on board exactly what they're thinking. But here's my thought about it philosophically and why I think they're going to be very in line with that. This is not about trade-offs. This is about doing all the things we do in the front book, the back book, front office, back office, everything we do with legal, with marketing, with engineering. This is about us doing it better and faster and at less cost.

I don't know how somebody comes in and thinks something differently than better, faster, less cost. If the trade-off was less cost but we're not going to be able to get as many things done, things are going to be slower, et cetera, then obviously there's a philosophical thing. But I'm of the big belief that you don't cost-cut your way to greatness. That's not what you do. What will turn PayPal into the full potential that it can be is if we execute on our initiatives around our share of checkout, our performance in checkout, our performance in unbranded, our performance around digital wallet.

We are investing a ton in those initiatives and will continue to do so and [we are] making really good progress.

Somebody might come in and say, yep, I want to do things higher cost with less performance. But they probably won't make it through the interview process.

Sanjay Sakhrani

Thank you.

Dan Schulman

Yes.

Operator

Your next question comes from the line of Trevor Williams with Jefferies. Please go ahead.

Trevor Williams

Great. Thanks a lot. Gabrielle, I just wanted to follow up on the take rate and how we should be thinking about the trend over the rest of the year. I know there were still some hedging impacts in Q1, so excluding the hedging [impacts] you were at I think 177 [bps] on the transaction take rate. Just trying to put all the moving pieces together with the revenue outlook, the margin outlook for the second half. Seems like that implies higher TPV, but then we could see some incremental transaction take rate pressure over the course of the year. I just want to make sure I'm thinking about the moving pieces there. But if you have any color, just on kind of the take rate progression from here would be great. Thanks.

Gabrielle Rabinovitch

Yes, you bet. On the quarter, transaction take rate was down about six basis points. I think for the year, we expect to see around mid-single digit decline in transaction take rate. There are some drivers to that. I would call out our mix of branded checkout business did negatively affect our take rate in the quarter. We saw some very strong performance in parts of Europe on the branded checkout side. As a result of that, the take rate in that market given interchange caps is structurally lower. The unit economics of those transactions are very attractive. But just from a take rate standpoint, that did negatively affect the profile of take rate in the quarter.

FX fees was also an area year on year that did negatively affect the take rate. On an FX neutral basis, we saw some very nice international performance and cross border performance. But the FX fee piece, the spot impact did negatively affect us. Those are two main drivers in the quarter.

You're right, we did have hedge gains in Q1’23. Those do start to abate as we move through the year. You'll see that in the 10-Q filing and we also have a note in the investor update that netted over the next 12 months, we don't expect hedge gains or losses to contribute to the business in any meaningful way.

Those are the real drivers of take rate I’d call out. I know there was a view that potentially, and I just saw on some headlines, there was a concern that Braintree had negatively affected take rate in the quarter. Actually, when we do the math quarter on quarter, the Braintree impact really did not play a role in take rate decline on the quarter, which was about six basis points on transaction take rate.

On the total take rate standpoint, because we had such strong OVAS growth, we saw much more de minimis impact on the take rate. It was down about two basis points, year over year.

Trevor Williams

Okay. So maybe then some of the moving pieces within the branded volume, just how you're thinking about growth contribution from the US versus, I don't know if it's fair to bucket all of Europe together, but maybe some of the higher take rate branded volume versus the lower take rate. How do you see that mix dynamic playing out over the next few quarters? Thanks.

Gabrielle Rabinovitch

I’d say, we're delighted to see such strong growth across Europe. Germany had I think the strongest revenue growth quarter it's had in maybe eight quarters. It's an outstanding franchise for us. That strength is really important. Germany is one of our core markets. When geographic mix affects take rate, we take it for what it is. We don't guide take rate. We actually don't judge the performance of the business on a take rate basis. We really think about it in a much more holistic way.

I don't think it's helpful to sort of get into the nuances of whether France or Germany are going to contribute more in Q2, and if that's going to have a negative impact on the take rate. You've seen the Q2 guide, which is really for very strong operating margin expansion. We're pleased with the top line performance that we're going to expect in the quarter as well, especially given some of the lapping in last year's Q2. Revenue growth accelerated two points [in Q2'22] from Q1'22. There are going to be some nuances on the take rate and from quarter to quarter, we'll address them. But I don't view that as any read on the overall health of the business.

I actually think how we feel about Q1'23 is that overall health of the franchise is quite strong and came through in some nice ways.

Trevor Williams

Okay. Thanks.

Operator

Your next question comes from the line of Tim Chiodo with Credit Suisse. Please go ahead.

Tim Chiodo

Thanks a lot. I apologize if I missed it, but did you happen to give any, or could you, if we didn't get them yet, could you give any updates on how branded checkout is progressing in April and into early May relative to the 6.5% [FXN growth] in Q1? And then I have a follow up on funding mix.

Gabrielle Rabinovitch

We didn't give an intra-quarter update on the branded checkout TPV growth progression within Q1, and we did not give an update on April. When we reported our Q4'22 results in early February, we commented on the strong start to the year. The quarter played out really how we expected it. I'd say April is playing out consistent with the guide that we gave on the quarter [Q2'23].

I wouldn't call out any major differences. Dan, anything you'd add on that?

Dan Schulman

No, I don't think so.

Tim Chiodo

Okay. All right. No problem. Thank you. And then the follow-up is on the funding mix. So, clearly, Braintree mix increases credit and debit transaction expense. But in the slides, it also sounds like there was a funding mix shift within branded PayPal, which sounds a little bit counter to the European mix growing stronger, at least that would have been an offset. Is it fair to say that maybe the U.S. branded checkout saw a little bit of a mix shift towards credit card relative to debit or bank ACH?

Gabrielle Rabinovitch

No. I wouldn't call that out as anything that we saw.

Tim Chiodo

Okay. Thank you.

Gabrielle Rabinovitch

Is there something specific in the materials that you're looking at that is giving rise to that question?

Tim Chiodo

Yes. It was in the slides. It was on slide 24 where it says transaction expense increase driven by volume mix (higher unbranded share), but also funding mix effects. I just assumed that those funding mix effects might have been within the branded checkout.

Gabrielle Rabinovitch

No.

Tim Chiodo

Okay. No problem. Thank you for taking the questions.

Gabrielle Rabinovitch

You bet.

Operator

Your next question comes from the line of Josh Beck with KeyBanc. Please go ahead.

Josh Beck

Thank you for taking the question. On the unbranded, it sounds like there's a margin improvement story there. And it sounded like some of the initiatives were tied to risk, FX, omni-channel, it sounds like bolting on other services. So is the presumption that to the extent you can add those on, take rate within unbranded can move up, and that can also come in at a higher incremental margin? Just trying to unpack some of those comments a bit.

Dan Schulman

Yes, that's basically right. We're experimenting with these things, so we have some empirical evidence. If you look at one of our competitors, like Adyen, and look at where their margin structure comes from you can see these value-added services are the overwhelming majority of it.

Things like FX as a service, pricing for a consumer in their own currency as opposed to somebody else's currency, it's great for the merchant and it's higher margin for the provider like us on that.

Those will be coming in over time over the course of the year. [We expect] they'll have some impact this year, but really the predominance of that starts to come into 2024. The other thing on that is PPCP, which really now opens up a whole different market for us, has a very different margin structure. If you look at Stripe, which addresses that market, they have a very different margin structure because that lower end of the market just has higher [margin] than those that have higher volumes that have lower [margin].

As we penetrate into that market, even without the value-added services on top of it, that is a new source of margin stream for us. It's the combination of those two things together.

Josh Beck

Okay. Maybe just a follow up on the second point there around PPCP and really getting a bigger foothold in the SMB market. I think you referenced channel partners a number of times throughout the call. You certainly mentioned the strength of your APIs and SDKs, which are obviously really important for some of the direct acquisition.

Collectively, what maybe are some of the key channel partners? How much share do you think you can take in SMB? Obviously, you're really well positioned in enterprise and unbranded, and obviously the branded, you do everything well. So how well positioned do you think you are within SMB, just given some of your assets and go to market motion that you have in place?

Dan Schulman

I'm hesitating because I really think actions to speak louder than words on these things. But I would say we're quite optimistic about our potential as we launch PPCP into this market. To your point, we have a ton of not just assets, but we have a ton of demand. We have a sales force, the inside sales force that is in touch with the high-end part of that SMB market where we have accounts that we call on. We know exactly what the demand structure and what our funnels look like. We're optimistic, but let's give it a couple of quarters and let's start to talk about actually what's happening in the market.

I don't want to name any specific channel partners either because we're in deep discussions. We'll just announce them as they come on board. But we're quite close to a lot of the channel partners because, as you said, pretty much every SMB wants PayPal. PayPal adds a lot of confidence when consumers are shopping at small businesses. When they see it there, they're much more apt to purchase. We want to leverage the relationships that we have and the assets we have to really drive PPCP. Those assets are both product and also sales and channel partner relationships.

Josh Beck

Great. Well, we're looking forward to that. So thank you, Dan.

Dan Schulman

Yes, you're welcome, of course.

Operator

Your next question comes from the line of Jamie Friedman with Susquehanna. Please go ahead.

Jamie Friedman

Hi. Thank you for doing this call. It's really helpful. I wanted to ask if you could help us to think about the margin characteristic of an unbranded cohort that is fully loaded, say, with some of the initiatives, Dan. How does it compare to a more dilutive or commoditized account that may be high enterprise, high volume, but lower margin versus where you're going? I think it would be helpful to have some context about that relative margin profile.

Dan Schulman

I think the best way of looking at this is look at an Adyen margin profile [servicing] the high end [of the market] and look at a Stripe margin profile [servicing] the low end [of the market]. Clearly our unbranded platforms have scale and scope now. They're growing at least as fast, if not faster [than the market]. Now, it's about adding those margin structures per the conversation that we've been having on this call and on the main [earnings] call as well.

I think they're good surrogates, at least, to think about.

Jamie Friedman

Yes. Okay. That's great context. Gabz, in your prior remarks, you had gone through some of the pricing heritage opportunities of the company, the Europe increase. Just more generally, how are you thinking about pricing this year? Is there opportunity to further set price? Thank you.

Gabrielle Rabinovitch

Every year we look to make sure we're pricing appropriately for the value that we're bringing to the market. We did benefit in the back half of last year from some pricing changes that we begin to lap in the back half of this year. That is a bit of a headwind for us. At the same time, we see some opportunities on price as well. We'll update as we go through the year. But there's nothing that is material that I would call out from a pricing standpoint this year.

Jamie Friedman

Got it. Thanks again, guys.

Gabrielle Rabinovitch

Yes.

Dan Schulman

You bet, of course.

Operator

Your next question comes from the line of Craig Maurer with FT Partners. Please go ahead.

Craig Maurer

Yes. Hi. Thanks. Two questions from me. While I understand the TAM is increasing for the buy button [branded checkout], I wanted to get your view on how the buy button performs against other buttons in a head to head. Shopify's management was clear as a bell that Shop Pay in their million merchants is taking share away from the incumbent buy buttons.

And my second question would be, at what point, if at all, can we expect growth in OVAS for unbranded to stabilize the take rate?

Thanks.

Gabrielle Rabinovitch

Maybe let's just start with the second question. I'm actually a little confused about it. Growth in unbranded is not affecting OVAS.

Craig Maurer

What I meant to say was, sorry, to clarify, I'm talking about the value-added services you're adding in unbranded.

Gabrielle Rabinovitch

So, when the growth in value-added services like the orchestration layer or our unbranded business will start to benefit the margin profile of unbranded?

Craig Maurer

Right. FX layers, service layers on top.

Gabrielle Rabinovitch

Our expectation is that starts to benefit us as we move through the year. We're launching these services. We expect them to start getting more adoption. We'll continue to update as we go. From the standpoint of PayPal Complete Payments, that's something that also will ramp through the year and will have a more attractive margin profile than the Braintree unbranded processing business. That too should benefit the overall unbranded platform margin profile. I think about it as gradual over the year.

In terms of our buttons, when our button is presented with the same prominence as any other button, we perform as well if not better. There are different platforms that preference their own buttons over other buttons. In instances where another button appears before ours, such that it is more difficult to check out using PayPal, clearly that will impact our success on that specific website. That's something that we're working on. However, all data would suggest that when our button is presented side by side, we do as well and usually better than any other button that sits there.

Dan, anything else you'd add on the presentment side?

Dan Schulman

No, I think those are good points, Gabz. I would also say Craig, that on mobile flows, where it's against an Apple, Apple has some advantages in identity. They have some advantages because they control the NFC chip. When we have our latest checkout integration, when we have a native in-app flow, that means you don't bounce out of the merchant to come to PayPal. There, even in mobile flows, even against Apple, we hold or grow share because a lot of the consumer trust that's inherent with our brand.

Gabz is right in general on all of those because we do have a much higher authorization rate. But again, some of the more modern players where we compete against our legacy integrations, we're at a disadvantage. That's why we're spending so much time improving the checkout experience at large and moving as much of our base as rapidly as we can to our latest integrations. That's a multi-year process, but we're making strides. Every single quarter it improves. I expect to see branded checkout continue to grow on average over time.

Is that helpful?

Craig Maurer

Thanks for the comments. It does. Thank you for the comments.

Dan Schulman

Okay. You're welcome. Our pleasure.

Operator

Your final question comes from the line of Ken Suchoski with Autonomous Research. Please go ahead.

Dan Schulman

Hey, Ken.

Ken Suchoski

Hey, Dan, how are you?

Dan Schulman

Good, thank you.

Ken Suchoski

Yes, good. Thanks for taking the question. Maybe just to start on Braintree. It's been very successful and challenging some of the other competitors you called out in your prepared remarks on the public call. Can you just elaborate on some of the recent trends that you're seeing when it comes to competition? And can you also touch on how, I guess, Braintree's gross profit take rates are trending year over year on a like-for-like basis, or maybe how Braintree gross profit dollars are growing? I think that'd be really helpful.

Dan Schulman

Yes, sure. Of course.

I'm really pleased with the way that Braintree is performing against the competition right now. We're winning a lot in the marketplace. We have some very big deals that obviously we've closed and have put onto site. We have big deals in the pipeline, and Braintree goes after the very largest and most sophisticated online merchants that are out there. We are winning and it's great to see.

We're also beginning to do things in Braintree that we haven't been able to do before, like full omni-channel. We've talked about omni integrating into point-of-sale in-store. That's happening now. It's still early, but it's happening. Some brands are fully integrated across online and in-store through our Braintree platform.

We are integrating payouts now much more holistically into the Braintree stack, so you can have both pay-in and pay-out linked together. FX as a service, which could probably be the most impactful and profitable part of these value-added services, [is expected to] roll out really Q3, Q4 into the platform. That'll have mostly an impact as we go into next year.

Did we answer most of your question on that?

Ken Suchoski

Yes, that was helpful, Dan. I don't know if you guys have anything on just the Braintree gross profit take rates and how they're trending, or just the gross profit dollars and what that looks like year over year, just because I think there's some differences between revenue growth and gross profit growth.

Dan Schulman

Yes, of course. Look, as Braintree continues to grow, gross profit dollars continue to grow as well. Obviously, it's a lower margin, and we're very focused on creating higher margin. But it does generate gross profit dollars for us. The bigger it gets, the more those will increase.

Ken Suchoski

Okay, great. And if I could just squeeze one more in here. Dan, I think you mentioned on the [main earnings] call that [non-transaction] opex [growth] is likely to be down negative 10% kind of plus this year, and it should be down again next year. So I guess just a two-parter on that, how should we think about the growth for next year?

And then I guess, second, can you just talk about how you can actually cut [non-transaction] opex just given the gross profit growth is trending more in that low single digit type of range?

Dan Schulman

Well, it's actually not that hard to imagine how [non-transaction] opex continues to go down year over year over year. First of all, we're just a lot more efficient than we've ever been. Our products are getting better. The amount of calls coming in, the amount of holds and that kind of thing are dropping because we're just getting better at all of that. That just lowers your cost structure overall.

But clearly, the capabilities of AI will have a profound impact on our ability to get things done faster, less expensively, and better. You can start to use some of the AI engines to do quality assurance checks through your engineering structure. You can easily see a lot of front office calls being handled by more sophisticated chatbots coming in. A lot of the work we do in the back office is routine automated types of things that can be done much better, more effectively and more accurately through the augmentation of AI.

We are in the middle of a ton of experiments with it. We're not doing any of this on the public AI. This is all private stuff and we're working with others on it, but there's a lot of room for us to reduce costs over time. This is just the very beginning of that.

Ken Suchoski

Okay, great. All right. Thanks a lot, Dan. Appreciate your thoughts as always.

Dan Schulman

Yes, of course. A pleasure. I think we're at time. Ryan, Gabz, and I thank all of you for your thoughtful questions. We're always available to you.

We always would love your thoughts and comments, too, on how we can do better, how we can communicate better if there's a way of doing that. Any of your input we greatly value.

Thank you very much for your time and we look forward to talking to many of you individually as well. Okay. Take care. Good evening.

Operator

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