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CONFERENCE CALL HOST

Jason Kupferberg, *BofA*

PRESENTATION

Jason Kupferberg

Thanks, everyone, for joining us. We're pleased to be hosting the buy-side call-back this quarter. I'm Jason Kupferberg, the payments analyst here at Bank of America. We have Dan Schulman, CEO. We have Gabrielle Rabinovitch, acting CFO. We have Ryan Wallace from Investor Relations. And so appreciate all the questions and topics that people lobbed in ahead of this call. I'm going to try and get through as many of the key topics coming out of last night's earnings call as possible. But first of all, thanks to the team for spending some time with us today. We appreciate it.

Dan Schulman

Yeah, thank you, Jason.

Jason Kupferberg

I wanted to start with TPV [Total Payment Volume]. You know, each segment of your volume did see acceleration in the first quarter, but which TPV segment is actually outperforming your initial expectations by the greatest degree? Because then that will kind of segue us ultimately into the implications for revenue and transaction profit growth. So maybe if we could start there.

Dan Schulman

So I'll start and then maybe Gabz will jump in. The good news is we saw acceleration [relative to Q4’22], as you mentioned, across each element of the business. International grew, cross-border grew, branded checkout [growth accelerated] 200 basis points. Unbranded [growth] was up 100 basis points from Q4. So Venmo [growth] is up 550 basis points. So there's pretty strong TPV growth across the board. Obviously, when you've got unbranded growing, 30% [on an FX-neutral (FXN) basis] versus branded growing 6.5% [FXN], that puts the majority of TPV growth on that just because of the different growth rates, but all parts of the business accelerated.

We’re pretty pleased with what we saw in Q1 as a start to the year. And I think part of that is we think e-commerce is probably growing a little bit faster than we expected in there. And honestly, over the long run, we expect e-commerce to really return to more traditional growth rates. It's still rebounding from the pandemic and is in the middle of an economic recession with high inflation that's pushing down discretionary spend, but that will normalize over time. But I think that's probably the best way to think about our TPV growth right now.

Jason Kupferberg

Okay. So let me pick up on your comment around the industry growth for global e-com[merce]. I think you said on the call last night you guys are now thinking low single to mid single digit versus down low single to up low single prior. So I guess hypothetically, if that industry forecast improves further, would that drive more upside to PayPal's revenue growth outlook for 2023?

Dan Schulman

Yes, certainly, of course it would. Conversely, you could say the opposite as well. If it slowed, that would also be a negative impact to us. But look, I think there are clearly more people moving into e-commerce. We thought it was going to be negative two to positive two globally. I think probably worst case is going to be low single digits. It could be as high as mid single digits. And you're beginning to see more of a return to some goods. It was really skewed coming out of pandemic towards services. People wanted to travel; people wanted to eat out. At some point people have to buy clothes again. And we started to see some of that, especially in January and February, we saw a pretty nice uptick in the fashion and other verticals that are more discretionary in nature.

I think in the US, people have a variety of opinions on as the Fed moving fast enough or too fast or too much, but inflation is coming down and when inflation comes down, we start to see discretionary spend start to rise on that. So if we see more of that happening, of course, it's tempered by increased chances of a recession, that tightening of lending going on. But in general, inflation coming down is a good thing for e-commerce.

I would also say we're beginning to lap and see improvements. China is definitely improving. It's still negative year over year, but really, actually, every single quarter we see that improving. UK started to stabilize as well and improve sequentially, which was encouraging to see. But I think e-commerce will be low to mid single digits. I think that's probably a good planning assumption for all of us. And to your point, there could be acceleration on that, but I see an equal mix of potentially negative things to impact that, too. So I think, being measured on that is probably the right thing. Over the long run, we clearly feel like e-commerce continues to accelerate.

Jason Kupferberg

Okay, understood. And then if we look at second half revenue growth for this year, you mentioned last night, it's expected to be about in line with the first half. So is that in constant currency terms? Because I know you'll be trending to about 9% [growth] in the first half of 2023. And then if you can just comment on a related note, what gave you the confidence to effectively reinstate a full year revenue growth outlook, given that it's still somewhat early in the year?

Gabrielle Rabinovitch

Yeah. So, the revenue growth commentary that we expect roughly in line growth in the first half and the second half really relates to both spot and FX neutral. So when we look at the overall composition of 1H versus 2H, we see a relatively consistent growth rate. When we started the year, we did call out a little bit of lapping pressures that we expected to impact us in the back half of the year and that would contribute to some deceleration in the back half of the year. That was lapping some pricing initiatives that benefited us in the back half of 2022. It also related to some newer volumes that we saw in the Braintree business that came onto our platform in the back half of last year and that were chunkier larger merchants.

And when we started the year, based upon the pipeline and what we were seeing, we wanted to call out that in fact, based upon sort of what we were seeing at that point in time in early February, that we did expect to see some deceleration based upon both pricing as well as Braintree lapping. We're now in May. We have much clearer visibility to what that pipeline looks like, both in terms of our own initiatives across our business but also in the Braintree platform. And so based upon what we expect to see now in terms of new merchant volumes coming on, as well as increased volumes from existing merchant relationships, that results in a relatively stable growth in the first half and the back half.

Dan Schulman

Yeah. I think the other thing I'd add to Gabz's remarks, which I think are right on the money, is clearly we're seeing the impact of the initiatives that we've put into place. We've been working quite hard over the past year plus and a very focused, honed set of activities. And the team is making really good progress on it. I would say in general, our checkout team, everything they've been talking about, they've been delivering on. They have a really robust roadmap. They're hitting their marks quarter after quarter and we're seeing improvements.

And, as I said on the call, there's no one silver bullet. There's lots of small things that we need to go do. You've got to improve latency a second at a time. And we've made good progress on that. Availability, the same thing. Passwordless login, the same thing. But when you have our scale, there's some cumulative effect of those little things starts to really matter in the market. And I give that team probably a pretty high grade on execution and impact. And I also would say on the unbranded side, look, we spent the last couple of years really upgrading that platform, putting a lot of money into Braintree, getting ready to put out PPCP [PayPal Complete Payments] into the marketplace for the small [and] mid-sized business.

So we spent a lot of money upgrading the infrastructure, making sure we had the right availability, redundancy, the right basic feature functionality in place to win in that market. And the team executed extraordinarily well there, too. And as a result, you're seeing us actually win a lot in the market and get ready to move into a new TAM [total addressable market] as well. And we know what we need to do on that in terms of margin structure, et cetera. We have a game plan on it. But, as I've told the team, let's win in the market and we'll have the margin value added features because we know when they're coming out, we know what they'll do, just as we've known what checkout would do and what it would happen if we upgraded our infrastructure in unbranded as well. So I think we're feeling pretty good about our initiatives. To Gabz's point, we're further in the year and we see the momentum continuing.

Jason Kupferberg

Let's move over to transaction profit. Obviously, lots of questions there. It was up almost 1% in Q1. We know you don't provide specific formal guidance on this line, but is that the rough growth trajectory that we should be thinking about for the balance of 2023 just as investors try and reconcile the transaction profit growth with the broad-based acceleration in TPV that we saw in the quarter?

Dan Schulman

Yeah, I'm going to let Gabz talk about that in a second, but I just want to talk about what our game plan is. Our game plan for transaction margin growth is to not be in low single digits. Like that's not the game plan. Our game plan and we've had this over the course of our history, [has] seen transaction margin growth in high single digits, double digit growth and that is our aspiration for it. That's the game plan that we have. This year there are several anomalous things that we are facing on transaction margin growth, but clearly we know exactly what we need to go do and we've got a game plan to raise that pretty significantly as we look forward. We can talk about that later, but Gabz, if you want to talk about the year specifically.

Gabrielle Rabinovitch

Yeah, sure. As Dan mentioned, we view this as some transitory impacts on the business and not a structural change in the way we actually drive transaction margin dollar growth. So historically, when you look at the performance, as Dan indicated, there have been periods where it's been in the mid-teens. There've been periods where it's been in the high singles. But overall, historically it's been much stronger than this. And we really do think about what's happening in the business this year as much more transitory and nothing that is a structural change. This year, we are lapping some revenue benefits last year that do create some headwind to us. Some of that is based on some pricing.

Another piece of that is based upon some contractual benefits we got from merchants last year. That was part of some merchant cleanup that we did and that was just merchants that were behaving outside the parameters of our acceptable user policies. And we actually shut down some of those merchants and we collected from them. So that was predominantly coming in our Asia market, so APAC [Asia-Pacific] and China more specifically.

In addition, there's work that we're doing that's modernizing our platform. And Dan mentioned some of it. We talked a little bit about some of it last night [on Q1'23 the earnings call]. We're launching PPCP, we actually are not continuing with PayPal Pro and PayPal Pro is a platform that's been a PayPal platform for probably more than 15 years. The vast majority of our initiatives in terms of how we support SMBs [small- and medium-sized businesses] on the unbranded processing side is moving in the direction of PPCP. We're excited, of course, about what that means longer term. But as we transition, there are some impacts to us that actually are real headwinds to TM [transaction margin] dollar growth.

In addition, we're deprecating PayPal Here. That's something that is in the market and kind of has been well documented. That too has a similarly negative impact overall this year to TM dollar growth. And the same is true for some upgrades we're making to invoicing solutions.

So these things really are transitory in terms of how they affect the profile of transaction margin dollar growth in year. I'd also just call out for FX [foreign exchange] fees can continue to be a headwind for us in Q1. This is something that we do expect to work its way out of our system as we move through the year. And in addition, in Q1, you did see the impact from higher loan loss provisioning, which did have an effect on TM dollar growth. And so that piece alone, if you were to uphold our loan loss level as a rate of TPV or rate of revenue constant from Q1 last year, would have been about an $85 million benefit to us. And so that was a hit in the quarter.

And so all that to say that transaction margin dollar growth was impacted in the quarter. We do expect it to be more muted for the full year based upon our expectations. And that's not coming from branded putting pressure on our business. We're actually seeing very, very nice growth from branded. We saw a 200-basis point acceleration in our branded checkout business in Q1.

We are expecting to see continued strength in that business as we move forward. And so that's really not the pressure point that we're seeing in some of these other pieces of the business. And then obviously the very outsized growth on the Braintree side as we're continuing to improve the margin profile of that business is affecting it as well. And so I'd say for the year, I would expect relatively similar transaction margin dollar performance as Q1, but this is not something that we view as structural. And as you heard Dan discussed, we sort of have many initiatives in place right now that we're working towards that will move this in a stronger direction next year.

Dan Schulman

Cleaning up our legacy infrastructure is exactly the right thing for us to do. Sure, there are some short-term hits on it, but like cleaning up our infrastructure to make it the most modern, cost-effective infrastructure is absolutely the right thing to do. So we're making some hard decisions to move, but there are clearly the right long-term decisions- I wouldn't even call them long-term like short-to-medium term decisions for us and I think Gabz did an excellent job in explaining the rest of it.

Jason Kupferberg

Right. So if we put the loan losses on the side because we can isolate that impact pretty easily, but we focus on the other pieces, like you mentioned, modernizing platform, you know, sunsetting PayPal Pro and PayPal Here, et cetera. How much of a headwind were those items collectively to the transaction profit growth? Just wanted to understand maybe the relative contribution of some of those pieces to the transaction profit growth headwind.

Gabrielle Rabinovitch

It was actually pretty material. The core branded TM dollar growth in the quarter was actually very strong. And so it was material in the quarter. We don't provide this kind of disclosure on this level and there are a lot of moving parts and pieces. But the things that we called out truly are drivers of the pressure in the quarter and [are not] strategic and long-term in nature. And it was material in the quarter.

Jason Kupferberg

Okay. And so was this really the first quarter where you had those collected headwinds on transaction profit growth and therefore we would be lapping that in Q1 ‘24?

Gabrielle Rabinovitch

I actually think it started last year probably towards in the back half of the year and you saw a little bit of pressure come in. There was much more noise last year and so I think it was harder to tease out. So specifically what was driving it, at least for the investment community. But I would think of this as sort of starting to come in towards the tail end of last year and then moving through our system this year.

Jason Kupferberg

Okay. All right. Understood. So pretty material on that piece. What about just in terms of on [an] apples-to-apples basis, unbranded margins? What are you seeing there directionally?

Dan Schulman

We don't break that out, but directionally, margins will be increasing in that business for all the reasons we talked about. First of all, we will deprecate PayPal Pro and so that's a very expensive, not competitive platform. And so that will go away and that will all move to PPCP, which is a modern, excellent unbranded platform for us. PPCP, as we talked about at length yesterday, addresses the small to mid-sized market where there are just structurally higher margins there than when you're dealing with larger enterprises, which is what Braintree deals with. And then of course, on PPCP as well as on Braintree, you've got all the value-added services that we [can offer] - some are in market now and others will come into the market in the third quarter and at the end of the year.

[]FX as a service is probably one of the biggest ones. It is the most impactful for our merchants in terms of their desire to have it. And it's also the most profitable and largest stream we anticipate for value-added services. So we're beginning to see margin improvement, especially as we've put in a lot of dollars into infrastructure improvement over the last couple of years into Braintree. We won't have to put nearly as much into that going forward. We’ll always need to be updated, but not nearly as much to catch up as we've done. So it will be improving margins over the course of the year. And I think really you'll be able to see the majority of that either towards the latter part of this year or into 2024.

Jason Kupferberg

Okay. So that's when we should start to see a little bit of noticeable improvement in the unbranded margins.

Dan Schulman

Yeah, we'll keep calling out what we're doing on that quarter by quarter.

Jason Kupferberg

Okay, then what about, of these margin enhancement initiatives, the value-added services, the PPCP, I think you'd also talked about international expansion. We think about over the next 12, 18, even 24 months. Which of those move the needle the most on the unbranded margins?

Dan Schulman

We've got pretty high hopes for each of them. International clearly has a higher margin structure. PPCP will have a higher margin structure, full stop on that. And then we'll add value-added services both into PPCP as well as Braintree and that'll probably over time probably be our biggest margin driver, but that will take time to go and do as we've just got to sell that into each and every one of those accounts. They want it, but we've got to sell it into it.

Jason Kupferberg

Right, which brings me to my next question and you touched on it a little bit last night [on the earnings call], but just distribution strategy behind PPCP. Maybe you can walk us through an example. If you have a merchant who was on PayPal Pro and now you want to get them to migrate to PPCP, is that only happening through third party distribution partners or is there a kind of a direct sales element there at all?

Dan Schulman

Yeah. So there are two ways we- well, probably three ways that we go into the small business market, but two main ones. The first is we go through channel partners and this is a place that we're quite excited to accelerate because our channel partners are quite excited to accelerate. They want to get into our latest most modern architecture as well. They want our latest branded checkout experiences that really matters to their infrastructure. And a lot of our largest channel partners are what are called hosted services, where they host on their own servers, kind of the experience for their merchants. And if they're hosted, once we upgrade them to PPCP, all of them will be upgraded to our latest checkout experiences as well. So we can really make some pretty large chunks of the market move to our checkout experiences. And remember, most of those channel partners are serving kind of the upper end of the small business market, lower end of the mid-sized market.

So they carry a disproportionate amount of TPV with them as well. We also have an inside sales force that targets the upper end of SMB and our mid-sized markets in which we are in constant contact with each of those, at least on a quarterly basis. There is a lot of pent-up demand for this platform from both our salespeople. We have a very robust pipeline, but really from our merchants as well. They know that they want to move to upgraded infrastructure. It is only going to help their checkout conversion, lower loss rates, do all of the things that our merchant partners want as they address their consumers.

And then finally, for SMBs, you know, who use outsourced developers, we have a set of SDKs [software developer kits] and APIs [application programming interfaces] now that will bring them to our latest checkout integrations, especially around our mobile flows in app native solutions. And there we've made a tremendous amount of progress there, fully reaching GA [general availability] now. And so there can be self-service as well as the other methodologies.

Jason Kupferberg

Okay. And one more here on unbranded margins. Is it plausible to improve the core underlying transaction margins on unbranded on apples-to-apples basis? In other words, just purely on the processing piece, if we just put value-added services and PPCP on the side, are there any opportunities there or would that just be kind of driven more by mix, i.e., international?

Dan Schulman

Probably driven more by mix. Look, the unbranded processing piece of it is more commoditized on it. I would say there's probably less opportunity there than on mix, whether that be international, small, mid-sized business, but not on the processing piece of it. So everybody is in about the same ballpark there.

Gabrielle Rabinovitch

And the take rate has been very stable. And it's a business where we work with some of the very largest enterprise clients and that actually helps us build out a pipeline of smaller, more mid-sized merchants as well. It's actually very strategic for us to work with a lot of the entities that we do. But in terms of apples to apples, really the geographic expansion as well as moving into slightly smaller merchants as well as, you know, even down the spectrum to SMB is really what changes the longer-term margin profile of that business in addition to the value-added services.

Dan Schulman

And Jason, I wouldn't discount the fact that the amount of data that we get from unbranded and its ability to help drive our algorithms in terms of fraud reduction, in terms of auth-rate [authorization rate] improvement and eventually our ability to kind of redefine what checkout looks like, the next generation of checkout using that data and information. So it's why we have amongst the highest auth rates and lowest fraud rates, loss rates in the industry.

Jason Kupferberg

Yes. I wanted to switch over, sort of related, but just transaction expense as we think about that as a percent of TPV. I think the initial expectation for 2023 was that transaction expense [as a rate of TPV] would be up maybe 1 to 2 basis points. I'm assuming that's now a little bit higher, just considering some of the mix effects that we've talked about on this call. So if we can get some updated commentary on how to think about TE [transaction expense] for the year, that would be great.

Gabrielle Rabinovitch

Yeah, that's exactly right. And so when we called out that 1 to 2 basis points, inflation in our TE rate, that was predicated on that framework of mid-single digit growth in top line. Now, of course, our outlook has increased in terms of top line performance, but a meaningful contributor to that updated outlook is based upon growth in the unbranded side. And so when we think about TE rate for Q1, I think it was 92.6 basis points as a rate of TPV. I think we could expect to see somewhat in-line performance for the full year consistent with Q1, so call it around 93 basis points as a rate might be a fair way to think about the remaining part of the year.

Jason Kupferberg

Okay. And then just transaction losses, loan losses, obviously you had the loan loss piece there in Q1, which you talked about, but how should we think about those lines for 2023?

Gabrielle Rabinovitch

Yeah. I actually don't expect very different performance from 2022. So our transaction loss performance has been very strong. From quarter to quarter, there could be some variation, but for the 12-month period last year, I think our transaction loss is in the neighbourhood of eight basis points as a rate of TPV. I'd expect transaction loss to come in a very similar place for a full year 2023 as it did for full year 2022.

Similarly, from quarter to quarter this year, there may be some dynamics on the loan loss side. Just given some of what we're seeing, we did call out some increased provisioning in Q1. We've also, of course, talked about the externalization of part of our [credit] book. And so kind of putting all those things together, I wouldn't think about the loan loss line being all that different from 2022 either, which I think was somewhere in the neighborhood of three basis points as a rate of TPV.

Jason Kupferberg

Right. That's helpful. I know last night on the [earnings] call; it was mentioned that costs are likely to continue declining in 2024 and beyond. Can you give us some more color on what will drive these ongoing reductions in non-transaction expense? I think you made a couple of references to AI, but just would love to hear some more specific thoughts on where further cuts in non-transaction expense can come from.

Dan Schulman

We're confident that our cost structure will continue to improve year after year after year. We see that already happening right now, but really what we've done and what we're doing this year brings us back in line with our kind of traditional [pre-pandemic] growth rate on average and over time over the last several years. I don't particularly think of what we're doing this year as heroic or anything. It's just getting us back in line to where we were. You now have the company performing better. You have our processes improving. A lot of legacy infrastructure that costly being ripped out and modernized, which is more efficient for us. I mentioned on the call, our NPS [Net Promoter Scores] are at a five-year high right now. Again, there's no one thing that drives that. There's lots of little things that drive that, but it just means less calls are coming in. We're satisfying those calls more quickly.

In general, we're becoming more efficient as a business. But then when you overlay AI on top of that, a lot of our stuff is automated types of things. You know, it's the same types of calls coming into customer service that can be handled very efficiently via AI powered chatbots that's both in our front office, our customer service, but also our back office that does a lot of automated route reporting to different regulatory agencies inside the company that can be automated. There's a lot of headcount there and our view is it just comes down over time. But you look at almost every function, even engineering, you know, engineering is going to radically change with AI coming in.

A lot of the time and effort around quality checks, just doing QA [quality assurance] on it can all be automated. There's a lot of efficiency to be gained as we look forward. We're running a lot of experiments already and we see a lot of promise in those. As I mentioned on the [earnings] call and I think this is really important, this is not about trade-offs for us. This is about doing things better than we've done before at higher accuracy than we've done before and doing them at a lower cost. I imagine you'll see our cost structure come down quite significantly over the next 2 to 3 years and our ability to do things just get better.

Gabrielle Rabinovitch

We’ve already done a lot of very good work, but the reality is when you start doing this work, you see more opportunity. You start looking at how you're rationalizing third party spend. You see ways you can work more efficiently across that entire vendor base. You start looking at our organization and we start moving forward and we see more opportunity to continue to run the business more efficiently and drive better results overall.

What Dan mentioned on the modernization of our platform also, I would not underestimate that the older legacy platforms like PayPal Pro, when you move to something that can be upgraded instantly where we don't actually need to do separate distinct discrete integrations that are upgrading different merchants and you can actually push those improvements out in sort of SaaS [software-as-a-service] like way, it fundamentally changes the way we stand up sort of maintenance support on our platform and that will drive increased benefits over time as well. We're doing that across the platform through the checkout initiative on the unbranded side as well. Those two longer term just have sustainable benefits in terms of how we run the business.

Jason Kupferberg

So should we interpret the commentary around further year-over-year declines in OpEx [non-transaction operating expenses] to imply that PayPal also expects some amount of annual positive operating margin expansion beyond 2023?

Gabrielle Rabinovitch

Yes, that's certainly the goal.

Jason Kupferberg

Okay. And can you give us just a little more clarity on the quarterly operating margin cadence you expect during the balance of this year? Because I know you're going to have some lapping effects in the back half, but I want to make sure everyone's got their models tuned up by quarter on the margins.

Gabrielle Rabinovitch

Q1, we saw about 200 basis points of operating margin expansion. The guide for Q2, the implicit guide is actually for a little bit stronger margin expansion in Q2. When we move into the back half, there are some lapping dynamics based upon the performance in last year's back half of the year that is coming from starting to lap the benefits from higher interest income, from higher interest rates on our customer stored balances. It's starting to lap the benefits from the cost savings initiatives.

We do expect to see declines in non-transaction related OpEx through the year pretty consistently. But when we look at the first half decline versus the second half, the decline in the second half is just less on a percentage basis. And so what that leads to is our expectation that the first half will drive the vast majority of the operating margin expansion for the year. The back half overall will have modest operating margin expansion. Between the quarters though in Q3, I'd expect based upon some of the transitory impacts we mentioned and that does include some of that merchant cleanup I mentioned and some pricing impact that have some very good flow through down to the operating income side, that the op[erating] margin in Q3 could be down slightly and that Q4 we will then see expansion again. And so we'll exit the year with op[erating] margin expansion with some very strong performance. That's how I would expect the overall trajectory.

Jason Kupferberg

Okay. All right. Understood. I want to also talk about some of the credit externalization efforts. You've been talking about that for a number of quarters now on the BNPL [buy now, pay later] loans. So I think the target there is to initiate it around the third quarter. But just remind us what revenue, margin [and] EPS impacts from the credit externalization are forecast to be? And is all that already in your full year guidance?

Gabrielle Rabinovitch

Yes. So clearly, we don't have a deal to talk about today. Some of those expectations are in the guide. And so the op[erating] margin is negatively affected by the externalization of this portfolio that is already in the guide. That puts a little bit of pressure on the margin. It puts less pressure overall on EPS, but it is slightly dilutive to EPS. Those factors are already contemplated in the guide we gave. It's already baked in. So we don't expect there to be sort of any incremental dilution from what we're contemplating as it relates to the externalization of part of the buy-now-pay-later portfolio. From a revenue standpoint, there's really limited revenue that is directly correlated to those loans. The vast majority of our buy-now-pay-later portfolio is no interest, no late fee. And so the benefit we get is really from the TPV lift and the transaction revenue dollar lift and is not coming from credit economics. And so it's contemplated by the guidance that we gave. Obviously, as we get closer and when we actually have a deal to discuss, we can go into a lot of detail on what that looks like by line item, but we are on track and we look forward to being able to share more when we get to the right point.

Jason Kupferberg

Okay. Thanks for that. I wanted to also ask about active users. So total actives [active accounts] did decline slightly quarter over quarter. You've been going through an effort for a period of time to churn out more lightly engaged users. So I wanted to hear about trends that you're seeing actually in monthly active [users] since obviously they're driving the lion's share of your volume and your revenue.

Dan Schulman

Monthly active users did slightly increase in line with our expectations and we expect monthly active users to increase throughout the year. So when it comes really to that negative net new active number, those were churns that came from predominantly countries where we don't really have a full consumer proposition, nor do we expect to[, like] Brazil, India, Southeast Asia countries. And those are customers that are doing, you know, one to five transactions in a year and haven't done any in the last year. So you're right. We are not spending marketing dollars to try and incentivize them to do one more transaction with us, because as we've found over time, this is negative ROI [return on investment] for us. And so we have shifted our strategy and we are focused on engagement and we're focused on growing monthly active users. Monthly active users do 70 to 90 transactions a year with us. They are 20, 30 times more valuable to us than, you know, someone who is not a monthly active user.

And so when we see those go up, we multiply it. If that goes up by a million users, I multiply that by like 20 and that's how many net new actives would be needed to make up for those MAUs [monthly active unique users] going up. The other thing that we're seeing obviously as we're much more disciplined in our focus on new cohorts is their quality is substantially improved. TPA [transactions per active account] up dramatically ARPA [average revenue per active account] up dramatically and the cost per gross ad down dramatically. And so we're really pleased with the efforts around this so far. And, we changed this, as you mentioned, as we really got all the data and information and we're on the right track here.

Jason Kupferberg

And were MAUs up year over year or quarter over quarter or both? And how many MAUs do you now have?

Dan Schulman

It's about 190 million MAUs the answer to that is yes, they were up year over year.

Jason Kupferberg

Okay, understood. I know we're running up on time here, but you guys did announce that you're having an in-person investor event in New York on June 8th. Can you give us an idea of what we should expect in terms of content at that event?

Dan Schulman

Yeah, I'll let Gabz go in a minute, but we're excited about that event coming up. It'll be a really good opportunity to show kind of what our product strategy looks like. This is job number one for us. How do we improve our value proposition? Where are we going with that and what is the impact that we're making? And so we are really excited to show that it'll predominantly be around that kind of what our product roadmap looks like, what our vision looks like, what are we doing on the here and now as well. And then, we'll have a chance for Gabz, myself and John Kim, Peggy Alford to be on stage with us and for us to answer any of your questions. It'll be a good, tight meeting. We'll make sure that it's a useful use of time for everybody, but we're pretty excited about showing off what we're doing here. Anything you'd add up to that?

Gabrielle Rabinovitch

I think you covered it really well. We have a lot of initiatives in flight. We started to talk about them in more detail yesterday and today, but I think really explaining how we think about this, how we think about it, benefiting the business over time and really how the branded business and the unbranded business are very synergistic and additive to each other and how it really creates a competitive advantage that no one can replicate in the market as something that we're excited to unpack for people in a more detailed way. And then clearly we have some new leaders and we have some leaders who haven't spent as much time with the investment community and we're delighted to have them join us and spend more time with all of you.

Jason Kupferberg

Sounds good. Very strategy and product oriented rather than financials, it sounds like, which makes sense. Terrific. Well, thank you, guys. Really appreciate all of your commentary on this call. Thanks to everyone who dialed in to participate and hope everyone has a great day.

Dan Schulman

Thank you, Jason. Take care.

Jason Kupferberg

Thank you. Bye bye.