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CORPORATE PARTICIPANTS

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CONFERENCE CALL HOST

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PRESENTATION

Darrin Peller

Good morning and good afternoon to everybody joining us. We're really privileged to be able to host the team here on this post first quarter call with Dan the CEO, John the CFO and Gabrielle head of IR and incoming interim CFO. When we think about the questions we're getting, there's been so many that I want to really get right to the point. And first of all, thank you guys for joining us. Really appreciate it.

John Rainey

Of course.

Darrin Peller

Dan, having you on, I think it probably makes most sense just to start with the strategy of the business and obviously a lot has happened in the business and the overall retail and e-commerce landscape over the past year. If you could just start with your current strategy and the evolution of that strategy relative to the past six or 12 months, I think it'd be a great place.

Dan Schulman

Sure. Starting with the easy question, Darrin. I think the main parts of our strategic thesis remain consistent. I think the world continues to digitize, that the secular growth of e-commerce and digital payments will remain persistent, and will continue to grow.

Consumers, at least based on our surveys of them, want a digital wallet that goes from upstream shopping - kind of get me the things I want, the best deal on those - to the transaction itself. And there they want maximum flexibility on how they pay, now or later, or the ways that they pay for that to post purchase, tracking my orders, any returns that they may have, any refunds.

And then put that on into an integrated view of their financials. How do they control their budget? We view our “super app” as a digital wallet that brings all these elements together so that people can live their financial lives in a simple, easy format.

We are honing our focus though. In the past, we had a very wide range of things we were focused on – but we’ve now honed in on really two main initiatives that we need to execute extremely well against. One is checkout - which I'm sure we'll probably talk about later. Second is everything we’re doing around the digital wallet. If we do well in those two things, then we will continue to grow our share [of payments and commerce], going forward.

We are de-emphasizing certain parts of our international expansion. Engagement is all about multiple services and consumers moving into more and more [of them]. We will continue to support cross-border commerce in many of the international markets we already operate in. [But when we think about expanding beyond cross-border commerce in some of these international markets], right now it is just too expensive [to roll out, support new services, and build awareness] in some of these markets. […] We have a lot of room for growth in our core markets and we're focusing there.

Finally, we've also thought a lot internally over the past several months, just about our organizational strategy.

[We have been thinking about] how do we drive end-to-end accountability and ownership of metrics. We are moving much more P&L focus to our product teams, organizing around both merchant and consumer, and a focus on productivity. How do we streamline? How do we grow more efficiently and get product out quicker? Those are the main themes of our strategy [and areas that we want to optimize for].

Darrin Peller

Thanks, Dan. Let me shift to the numbers now. With the revision [reduction] to your 2022 revenue and EPS guidance - can you walk us through again, how you're thinking about the macro environment and the assumptions embedded in that relative to when you gave guidance in February? I know you beat Q1 by a bit, does that imply April's off to a rough start? Could you give us more color on the assumptions?

John Rainey

Sure, Darrin, I'll start and others may want to chime in just as a reminder, we've said this several times, but when we gave guidance at the last quarter's call, we very clearly said that if things don't improve, we'll come in at the low end of that guidance. And since that point in time, clearly things have gotten worse, right?

There is the war in Ukraine that has exacerbated inflationary pressures across the globe. Supply chain issues in China are more pronounced now. And then the latest read this morning is that the economy contracted in the first quarter [based on Q1'22 GDP in the U.S.]. And so that was the primary reason for changing our guidance. The approach that we've taken for the balance of the year is different than what we did before.

We're basically assuming that things continue to get worse. We've been trying to predict the return to normalization coming out of the pandemic. And it's been a little bit like catching a falling knife. You've got sort of two things happening here. One is consumers, obviously going back to more in-store experiences, as well as more services versus goods, both of which are sort of contrary to what our platform provides, or is not where our strengths are.

At the same time that is happening, there is the effect of a weaker economy [and] more inflation putting pressure on disposable income [for consumers]. One of the things that we've seen on our platform [during the pandemic] is certainly a shift to more discretionary items versus non-discretionary. And again, the non-discretionary items, think of things like gas, food, energy, those are not necessarily where all of our strengths are.

When we look at the first quarter [of 2022], we always knew that the back half of March was going to be a very pivotal point for us to understand how those trends played out because we were comparing to a period in the prior year where there was a lot of benefit from stimulus, and we made certain assumptions about that. The back half March was weaker than what we expected and that has continued into April.

That's what caused us to really reframe our guidance and just take a much more conservative stance right now, so that we can get back into a position where the company is meeting or exceeding expectations. Fundamentally, we're not immune to the vagaries of the economy. We're doing over a trillion dollars of [total payment] volume on our platform [on an annual basis], and we're going to see the impact of the economy.

But this is a moment in time and we're going to go through economic cycles, but that does not take away at all the fundamental secular tailwinds that we're going to benefit from long term, which are the increasing proliferation of e-commerce and digital payments.

Darrin Peller

In terms of assumptions for your new annual outlook [2022], it sounds like you're assuming more conservative macro assumptions than before – is that right?

John Rainey

That's correct. We're basically not assuming that we see any inflection back to what I'll call more normalized trends throughout the year. There's maybe some modest benefit in the back half of the year, but that's more from initiatives that we control and product launches that we're going to have.

And obviously the lapping of eBay makes the sequential growth comparisons a little bit easier [as the year progresses], but from an overall macro outlook, we're assuming sort of a continuation of trends or in some cases, even things getting modestly worse.

Darrin Peller

Okay. Sticking with recent trends and current volume growth, non-store government data suggests e-comm growth of about 10% [in Q1'22]. I think Amazon talks about 5% given more discretionary spending there. What do you see the market growing at now? And how is Core PayPal branded performing in comparison? We've been receiving a lot of inbound questions on the strength of Braintree versus Core PayPal.

Gabrielle Rabinovitch

Absolutely Darrin. So non-store e-comm in Q1, I think grew about ~10% based on U.S. census data. We've actually seen estimates come out that lower than that and closer to sort of mid-single digits consistent with what you said, Amazon said. Also the read on the UK, which of course is an important market for us, is expected to grow in sort of the mid-single digit range [this year].

Based on all of the work we do, and of course we see a lot of payment volume through Braintree [where we are processing 100% of merchant volume in many instances], we can get a good sense of overall e-commerce growth in the market with at least the merchants on Braintree. We then do a fair amount of work triangulating on the rest of our merchant base to estimate how fast e-commerce is growing. We use this work to estimate that mid-to-high single digit rate of e-commerce growth in in the U.S. in Q1. This level of growth is pretty consistent with what we've seen and Core PayPal [i.e., PayPal branded volume which does not include Braintree/Venmo/eBay/P2P] grew in line with that approximate mid to high single digit rate of growth.

Darrin Peller

That's really helpful. I know there's a lot of questions on that. Guys, if we look at the medium-term guidance and exit growth rates, understanding you withdrew the medium-term guide, if you could just give us some more color on the mid-teens revenue, exit rate, you discussed on the main call yesterday.

Is that how you're thinking about both revenue and EPS exiting the year, or is it just revenue and are these good starting points for how we should be thinking about starting into 2023?

Gabrielle Rabinovitch

Absolutely. In terms of starting points for 2023, we're really focused on executing 2022. We've got a big year to get through and we're going to go quarter by quarter. We want to hit our targets that we're putting out quarter by quarter and we'll get to 2023 from an exit rate standpoint.

The guide that we gave yesterday does contemplate a revenue growth rate ranging from 14% to 18% in Q4. There are some natural factors that help us accelerate through the year, eBay clearly is a big one of those in terms of just the drag eliminating and the comparisons from the back half starting to normalize. As John indicated earlier, we're not assuming the macro improves. The range that we're giving does have some deterioration on the downside.

We'll continue to watch and see how we perform relative to those expectations. On the [non-GAAP] EPS side, the 2022 guide that we gave from the low-end to the high-end of range, contemplates mid-single digit to around ~10-11% [non-GAAP] EPS growth in Q4. That said, Q4 of last year had a structurally very low tax rate. Our non-GAAP tax rate was around 9% in Q4 last year – and this year we're expecting our [non-GAAP] tax rate to be in the range of ~16-18%, which is consistent with what we saw in Q1.

The increase in tax rate alone is about a 10 percentage point headwind to growth in Q4, and last year we did have a small reserve release as well – though it was pretty de minimis. It's worth considering those two factors when thinking about Q4 growth. We do have a heavy growth agenda going forward. We talked a lot about how we're investing long term to continue to scale efficiently. And so we're not putting a point on how we think we start Q1 2023.

Darrin Peller

Although the comp obviously get notably easier in Q1 2023, right?

Dan Schulman

One thing we did say Darrin, is that we believe we will continue to grow above the rate of e-commerce and take share. If we look at our track record for the past five years, we've consistently done that. And if we look at Q1 whether it be across breadth of our portfolio, we believe we did that same thing.

Darrin Peller

Okay. Thanks Dan. Listen, on the topic of investments that I know Gabrielle you just touched on, how should we think about the potential for operating margin expansion in future years? Just what are some of the drivers that we should be thinking about again, just given the mix dynamics - it's become a little more challenging to really see it now.

Gabrielle Rabinovitch

Sure. Well, I think as a starting point, the Q1 mix of our business is a function in part of last year and sort of some of the normalization. We're continuing to watch the mix in our business and we continue to have strong conviction in both the unbranded and the branded pieces of our business.

I don't know that I can call the Q1 mix as the go-forward structural mix, there were some things happening in 2021 that also affect the mix in 2022. Longer term, our intent is to expand operating margin. We have a strong track record of doing that over time. But yesterday [on the Q1'22 earnings call], we did talk about actions we're taking to streamline the business, and those are really actions taken to scale efficiently over the longer term. They will over time allow us to keep our non-transaction operating expenses in control and allow us to continue to invest in our strategic initiatives.

I think long term, we feel very good about the continued ability to scale efficiently, but clearly we're not guiding 2023 yet. From the standpoint of margin expansion in 2023, it is a little early to put a point guide on it.

Dan Schulman

One other thing I'd add on to Gabrielle's remarks, we exited last year with $1.25 trillion of total payment volume on the platform. When you have volume like that, there's leverage that can be driven when you work back into your supplier base and partner base. We think that unit cost economics of some of the key drivers will continue to improve as our scale continues to grow as well.

Darrin Peller

Okay. Thanks Dan. Guys, just shifting for a minute to NNA [net new active accounts] guidance, it went down from 15 to 20 million, down to 10 million now. Maybe just expand a little more on the main drivers behind the cut. Is it more to do with churn than initially expected or is it gross adds?

Dan Schulman

It's in keeping with the same philosophy that we do with revenues and EPS where we assume things get worse - there's no real difference in churn or top of the funnel. It's just setting ourselves up to win.

John Rainey

I will say, just to add to that though, Darrin, there's a lot of questions that we received just around top of the funnel versus bottom of the funnel, as we talked about on the last call, the pressure is on the bottom of the funnel. We are still having a large number of activations and reactivations, but we've got a very large number, very large amount of churn as well.

Dan Schulman

On John's point, Darrin, the way to grow NNAs is to increase engagement, right? When you have 429 million active accounts, even at a constant churn rate and to John's point, based on what we saw last year, we're not going to invest marketing dollars with very low ROI.

I'm not trying to reengage low engaged customers who make one more transaction and then don't do anything. We're not a subscription business; we're a transaction-oriented business. We're going to have increased churn this year pretty much throughout most of the year, and we're going to let those lower engaged customers roll off.

The fact that we're actually positive in our NNAs really shows the strength of the top of the funnel and this whole idea, well, you're shifting to engagement […] engagement is also going to grow NNAs. This is what works on both the growth of NNAs and your transactions per active, your monthly active accounts, your ARPA [average revenue per active account], it's all around that engagement piece of it - and that's the way to drive growth in this is business, and healthy growth in this business.

Darrin Peller

Is the churn impact on the lower active users going to be more first half? Or is it really equally spread throughout the year and then it gets better? Can you touch on that?

Gabrielle Rabinovitch

I really think the vast majority of the pressure is in Q2 and Q3, so that's sort of how we're thinking about the year. We did call out that we expect Q2 to be the low in terms of NNAs and that's because of the churn, not because of the growth.

Darrin Peller

Okay. Dan, just given how important ARPA is for the business model, especially now, if you could just talk about some of the biggest drivers of ARPA growth going forward now?

Dan Schulman

Sure. Online checkout is clearly one of the biggest opportunities to drive ARPA. Checkout is our strength. We have a lot of competitive advantage there and a lot of scale. We have a lot of user and merchant preference for PayPal, but again, we can do a lot better at checkout. We're going to do a lot better at checkout.

Only 50% of the time when a PayPal user goes to a site that has PayPal, do they transact using PayPal. We have a lot of initiatives around checkout, and it's obviously a piece that drives ARPA growth. Venmo, in terms of all the monetization efforts there which we discussed on the call yesterday. We'll talk more about that later as well.

And then the digital wallet is a huge area of opportunity for us. Digital wallet users have two times the ARPA of those in the rest of the base. When people interact with the app, there's so much new functionality and things they can do there. Buy now pay later is a great example, which we're investing in and continuing to create additional functionality. Buy now pay later has a 21% halo there in the U.S. [U.S. BNPL users see a 21% TPV increase compared to non-users].

Crypto, we are leaning forward on all the things that could happen as you move into a digital dollar and into a DLT [distributed ledger technology] world. [..] We're also really putting a lot of emphasis this year on revamping debit and credit. I think that's a real good way to move offline, fully integrated into the app, being able to access, buy now pay later, both in store and online.

And then we're doing more and more on our shopping hub inside the app because that's what customers expect from us. All of those are big opportunities, but we're very focused on just those because we think they can drive the ARPA and the engagement that we need.

Darrin Peller

That's really helpful, Dan. Speaking of engagement, you had 19% [transaction per active growth] ex eBay as of this past quarter, which obviously continues to trend, I think similar to 18% of the quarter before, if you could just touch on how that trended across the business, whether it's Braintree versus Core PayPal? And I imagine churning out the less engaged customers is also going to help sustain that, or at least somewhat stronger growth over time.

Gabrielle Rabinovitch

Longer term having that churn of less engaged customers will clearly lift that engagement metric overall. I think given sort of how we need to move through the year, sequentially we should see some of that benefit. In terms of the drivers in Q1, Braintree clearly was an important driver and core PayPal ex eBay was the secondary driver. Both of those contributed.

Darrin Peller

So core PayPal's engagement was strong. It just, obviously wasn't as strong as Braintree this time around?

Gabrielle Rabinovitch

That's correct. Part of the growth is also impacted by comparisons. Because core a year ago, Q1 of 2021 was probably core PayPal's single strongest quarter in history. And so lapping that level of growth is driving some of the difference in engagement growth rates, but core PayPal ex eBay also saw good engagement.

Darrin Peller

Got it.

Dan Schulman

You're also seeing that through the wallet metrics that that we've shared with you.

Darrin Peller

Okay. Just following up on engagement and just the ARPA comments that you were making before Dan. For the digital wallet, could you talk a little more about the roadmap there, since I know that's a key part of the story obviously, and what are some of the things that could be improved on? What's the next gen checkout experience and digital wallet experience? And maybe just, if you can give us a little glimpse on what are some of the product releases you're most excited about?

Dan Schulman

Oh, I talked a little bit about some of those when I talked about the ARPA increases, I'm excited about what we're doing in the shopping hub right now. There's going to be a lot of focus. We have a lot of merchants who are very interested in working with us so there'll be a pretty complete revamp there.

I do think all the things we're going to do on credit and debit is going to be meaningful. That's a big opportunity for us. It's a big opportunity in and of itself because the halo effects when somebody uses credit and debit with us are quite large, but it really enables us to tap into offline in a very seamless way. Clearly over time, people will move to using the mobile phone more and more at point of sale that's going to happen, but it's a long, tough slog over time to get people to change user behavior.

Apple Pay has been at it for a long time and QR codes still have very low share. We're making slow, steady progress on that, but people find it easy to use their credit cards and debit cards. We've put out our 3/2 rewards credit card that has a lot of enhancements and better integration. We think it's a fantastic

value proposition and eventually you'll be able to tap that 3/2 card at the store, get 2% off in store, 3% off using PayPal.

But then when you come back into the app, you'll then be able to figure out how you want to fund that transaction. Do you want to pay for that immediately? Do you want to buy now pay later? Do you want to use some of your rewards points in there? It's a really beautiful way to seamlessly tie in online and offline.

We'll continue to make some pretty significant progress on the crypto side as well. I'm not going to talk about any of those right now though because we're working hand in hand with regulators on some of those initiatives. And then obviously all the things that we're doing on the Venmo side, which mirror a lot of what we're doing on the PayPal side, but have some unique emphasis because of the base that we're serving there.

Darrin Peller

Dan you talked a lot about areas you're focused on, but you mentioned yesterday also potentially de-emphasizing some areas so that you can really focus and lean into more of the key opportunities.

What are some of those areas? Just, if you could revisit some of the areas that you may want to de-emphasize versus the key opportunities, what are you most focused on? And it sounds like checkout and digital wallet obviously are the ones you're really leaning more into?

Dan Schulman

Checkout, digital wallet and investments in our core technology base, right? Those are the three things that we're leaning into. We've got to have basic hygiene that is second to none, that's "five nines" availability, that's latency, single digit in terms of seconds, constant cybersecurity enhancements.

And that is where we are clearly focused. We also are de-emphasizing a lot of the international stuff that we did, and that's quite important. We had a lot of dollars and efforts spread around on a number of different markets. We have a lot of room to grow in our core markets, a lot of room.

You look at kind of our penetration in our core markets, you look at whether that's our user base, penetration of engagement on how much people use online services and how much they use us. It's 25% of the time they use us for online services. We still have a lot of room to grow. We need to focus and make sure that the things we do well, we do in excellent fashion and execute against them with excellence.

I think that honing of our focus, making sure that we're not trying to do everything, I think it sets us up much better.

John Rainey

If I can just jump in there too, Darrin, there's such a huge addressable market and so many opportunities in our space that it's very easy to get distracted. And fundamentally what Dan is saying is, we just need to focus on the basics. We need to nail checkout. We need to make sure that we have the very best digital wallet that's out there.

We need to be the number one digital wallet in our core markets versus trying to be all things to all people. If we get the basics right, the opportunity for us is tremendous. Dan mentioned less than half the time that a PayPal customer has the opportunity to use us, they actually take advantage of that. We can double the size of our business with our current user base if people just use us when they can.

We need to have the very best product and experiences for our customers, so that they'll want to do that. There's a very sharp focus on these things that are most important, that are the things that we believe that are in the space that we should win.

Darrin Peller

Thanks guys. Just shifting back to the financials for a minute. We're getting a lot of questions from investors on transaction margins as obviously credit and debit mix and losses normalized. If you could just give us a sense of transaction expense, it was for the quarter, it was 87 basis points.

Is that the right number to think about for the year? And what in your view would stop transaction expense from returning to pre-pandemic levels?

Gabrielle Rabinovitch

I think 87 basis points is a fair way to think about the year. A fair way to think about it longer term. I think Dan pointed out the benefits we have from scale and that's really critical and it helps in our most important cost buckets. One of which, of course the transaction expenses are our single largest line item. We expect over time, our scale will continue to benefit us in terms of containing the inflation of transaction expense.

It's also important to recognize parts of our business like Venmo, the commerce volume is continuing to grow at a really healthy rate and over time will help from a mix standpoint because funding costs on Venmo on the commerce side are structurally lower today. We will continue to manage this with discipline.

Darrin Peller

Okay. And then if we take that a step further and just looking at transaction expense and overall gross profit take rates, obviously another big one we get, if you could just touch on how we should think about the take rate for this year embedded in your guidance? What the individual drivers will be, both

headwinds and tailwinds, maybe deconstruct a little bit more detailed granularly, the 11 basis point drop off by whether it's Braintree or eBay or other factors. Thanks guys.

John Rainey

Sure. I'll start. And you jump in if that's okay. The 11 basis point decline in take rate in the quarter, seven basis points of that was related to eBay and the balance really is mostly attributable to FX fees. Everything else is kind of there's some puts and takes that are one or two basis points higher or lower.

Notably though - Venmo was again a contributor - it was a two basis point favorable contributor to take rate as we continue to monetize Venmo. We've been talking about this for a long time, Darrin and talking about, there's been a lot of noise in the numbers. The last couple of quarters, last three quarters, I think are a better reflection of what's happening in the core business from a take rate perspective.

And as we get past this first half of the year and we lap some of the eBay pressure, you're really going to see some pretty modest pressure, if not kind of a flattish take rate. And importantly, you see some of the benefits of the pricing change that we made last year, and we always have pricing initiatives that help influence that.

Darrin Peller

Okay. No, that makes a lot of sense. I imagine Braintree though, just one kind of quick follow up on that, had some impact, even the growth rate there and the yields there now?

Gabrielle Rabinovitch

A few points of mix impact overall, but not meaningful.

John Rainey

The Braintree has a bigger impact on transaction experience versus take rate because the Braintree's sweet spot is a lot of that, those middle market merchants that we're actually able to price more in line with what our sort of core PayPal take rate is.

Darrin Peller

That's really helpful. And I guess the funding mix on the Braintree side's going to be card based, right? Versus the pre-funded or ACH in some cases?

John Rainey

Precisely.

Darrin Peller

Makes a lot of sense. Listen, while we're on the topic of Braintree, I know there's some questions coming in. Braintree obviously had phenomenal growth, if you could just remind us what the value proposition is to SMBs of using Braintree versus platform partners out there? Whether it's Adyen or Stripe or someone else? How does Braintree stack up and what's the value prop you pitch to clients?

Dan Schulman

Sure. I'll start and then you guys can jump in, obviously Braintree growth was strong the fast quarter, but stronger last year, I think we grew somewhere around 79% in terms of Braintree [volume] growth last year. It's very much holding its own against any of the larger peers out there. And some of the largest, most sophisticated apps use us. We talked about some of them it's Airbnb, Uber, Live Nation, DoorDash, it's TikTok, Spotify, etc.

These are some of the most demanding and sophisticated merchants, and we've got a couple of really big wins that will be coming on board over the next few quarters as well. It spans a host of verticals as Gabrielle talked about yesterday. Why do people choose Braintree? It's a fully native integration across our tech stack. It drives, enhanced conversion, higher authorization rates, and it's a seamless customer experience.

You seamlessly integrate in PayPal and Venmo into that very high reliability and uptime, ease of use, a ton of trust between those partners and us, and importantly and actually that leads into some of the things on checkout.

Our vault of financial instruments in PayPal, we vault billions of instruments [], that amount of data and information, being able to look at that across partners, that ability potentially, as we look at next generation checkout going forward is a huge competitive advantage for us and a real reason that our partners trust and choose us.

Darrin Peller

Okay guys, can I shift for a minute while we're on the topic of transaction expense and take rates, just transaction loan losses for a minute? I know pre pandemic was around 20 basis points. I think it's average around 10 basis points or five to 10 basis points of volume, the last few quarters.

How do we think about that from a modeling standpoint? Is that sustainable given the macro backdrop and the build and credit reserves? Is that the right amount that we have now? Or should we think about that differently?

Gabrielle Rabinovitch

It may be helpful to think about transaction loss and then credit loss, the sort of separate components on the transaction loss side. Historically we were seeing around 17 to 19 basis points as a percentage of total payment volume as a range for transaction loss. We brought that down pretty successfully over the years. In the past 18 to 24 months, it has been closer to 10 or 11 to 12 basis points. We think that's relatively sustainable, the 10 basis point rate we saw in Q1.

On the loan loss or credit loss side, it was one basis point as a percentage of TPV in Q1. Obviously, last year we did have a fair amount of reserve release[s], about $312 million during the year. Structurally, the credit loss was very low. We are building more originations but remember, a lot of what we're building is shorter duration and so I would expect loan loss that to potentially be low single digits, call it something like three to five basis points, though obviously it is a little early to call because the book is just starting to originate more loans. But with the shorter duration, we think that's pretty manageable in the kind of low single digit range.

Darrin Peller

All right. That's helpful. Just shifting to Venmo now, I know we touch on it before, but while the Venmo growth rates accelerated a bit, you seem to still be accelerating revenue growth. If you could just talk about the drivers of that increased monetization, what do you see as being the main drivers of Venmo revenue going forward?

Dan Schulman

You're right that Venmo's volume growth was 12% in Q1 - but remember that is on top of 63% growth a year ago. I think that's important to put into a perspective. I think the other thing though, is that 1099 tax confusion, that impacted us and we've done lot of customer education around that. We've seen a lot of the MAAs [monthly active accounts] come back from that. I think we've done a pretty good job on explaining that, but it did impact us for sure.

Look and also just even core functionality of Venmo, we're revamping P2P [peer-to-peer payments], we can make things better there, searchability needs to improve and we've got focus on that, need to have a persistent send, receive capability on the app as we expand the app and you go into different sections if you want to send, receive, which is what people most do there. We want people to be able to do that simply and easily straight from the app.

With Venmo, we've also got a big emphasis on the debit card refresh like we do on the PayPal side. We're woefully underpenetrated versus where we should be on the Venmo side with debit cards. We've got a lot of initiatives underway there that I think will make a real difference. The business profiles has been quite successful in moving that even more to storefronts.

We think there's a way for Venmo to open up its aperture, even more with teen accounts. And we're looking at that, and then obviously Pay with Venmo continues to expand. Right now we're on track to launch with Amazon in the back half of the year. There are a lot of initiatives happening on the Venmo side and I'm encouraged by how well the team is performing there.

Darrin Peller

Okay. Just very quickly, there's one quick follow up on take rate. I think you talked about modest pressure flattish take rate in second half. Someone's just asking you if that's year over year or sequential.

Gabrielle Rabinovitch

For the year, I expect take rate relative to last year to be sort of a basis point decline of mid to high single digits.

Darrin Peller

Okay. Thank you. Let's shift gears to the competitive dynamics, which is obviously still one of the most common questions we get around the industry and PayPal, no exception. There's clearly questions on whether it's browser or mobile and the checkout is getting more and more competitive.

If you could just touch on your view on PayPal's share of checkout trends recently and through the remainder of the year. I think that would help a lot of investors.

Dan Schulman

Sure. Let me just start off, we've got a lot of very positive assets. In the market, we're clearly one of the most trusted brands with consumers. There was a recent survey done by one analyst that looked at consumers, what's their favorite choice of a digital wallet to do online? 60% of consumers chose PayPal.

The next most popular option was 8%. There's a clear preference for consumers to use PayPal. They trust it, merchants trust it, small businesses when they put PayPal on their site, consumers tend to shop, even if they don't know that merchant because they know we give them protections and they trust us. People are two times more likely to shop when a PayPal button is present. With huge network effects, we are something like eight times larger than the next wallet button out in the market.

When I look at our risk and fraud capabilities most of the time people are making a tradeoff between either high authorization rates or loss rates. We have the lowest loss rates in the industry and the highest authorization rate. For every hundred checkouts, we process six more than the industry average. This is a huge advantage for merchants and obviously the breadth and depth of the products that we offer make a difference.

I think as a lot of people have recently seen checkout is really hard, it is essential, you do it extraordinarily well with every merchant because if you don't, they lose tens of million, if not hundreds of millions of dollars, this is 99.999% uptime. This is low latency. It has to work all the time. And we are very focused on building on these advantages by improving checkout, by the way, there's been a ton of competition all the time and that intensity remains, so.

But I would say, from the beginning that I've been here, we've had competition against all the wireless carriers coming together, all the merchants coming together, Visa, MasterCard, startups with new tech. We pay attention to every single one of those things. But we think that our checkout right now is holding or gaining share.

We just did a study just a couple weeks ago of the top 55 publicly traded merchants because we have a view of kind of their full checkout and there were five of them that we were losing a little bit of share, 17 that we were gaining share and the rest we were the same. It gives you a sense of kind of where we are. We can talk more and more about checkout by the way, if you're interested in Darrin on all the things we're doing there, but we know we need to continue to advance our position in checkout.

We are far from perfect in checkout. We've got a lot of things to go and do to improve it. We're also thinking about the next generation of checkout as well, but we're more than holding our own right now. We've got a lot of things to just get better at both the basics and some really important things going forward.

Darrin Peller

Okay. When we think about your focus on mobile versus in-browser checkout experience, I imagine you really are focused on both, but is there some sort of areas that you think are really in the most need of revamp or change?

Dan Schulman

In terms of checkout - it depends on what tech stack they've integrated onto for us, Braintree's our latest that's predominantly mobile apps that people are using on that. That's a seamless integration in checkout, and with high availability, low latency. I think if I just quickly would go through the things I think are most important for us to do with checkout, one is basic hygiene - uptime, availability, latency, we have to be great on all three and we can improve in all of them.

We're working hard to go and do that. A lot of that is removing legacy code that we have in there and we have a number of things well underway to address that. Second is, I would just call it sort of UX [user experience] simplification, whether that be on a browser or in mobile, we do not want to force a separate popup window on web or native apps.

You want it to be in context - we've got a lot of work on what I would just call UX simplification. I think we can do more in moving towards what I call industry standard integrations so that you don't have to do a

complete separate integration for PayPal. If you're doing card integration, you should be able to use many of the same things when integrating PayPal.

We also want to optimize login success more, we're moving more and more away from username, password which people can forget. We can do a lot more of identity biometrics and actually improve all the rates and improve signability into those apps. When you incorporate those things, you can more easily use one click checkout, which is really important as well.

These are basic hygiene things that we need to do better and better. We're working on this next gen of checkout, which is about how do we really solve the issues for retailers, which is not do people convert 50% or 80% when they get to checkout - but how do we get people when they come to a retailer's website to go all the way through to checkout, they are less than 5% of the people who go to a merchant website actually check out.

If we can use all of that data and information on our vast scale of consumer accounts that we have, and basically surface to the merchant who this customer is, again, not PII [personally identifiable information], but who this customer is so that they can target kind of what webpage do they want to show?

What offers do they want to show so that we can help drive conversion on entry into the website, not at product pages or checkout, that's going to be a multiyear process, but we have a lot of merchants quite excited about that. Nobody has the scale of data and information we do to be able to drive that next gen.

Darrin Peller

That's helpful. Guys, we're at the 45-minute mark, but and I've tried weaving in some of your questions on the investor side into this, but if we have time we'll, if we could just ask a few more given there's a number of them, one of them is do you have any plans to reinstate at some point medium term targets? At some point down the road?

Gabrielle Rabinovitch

We withdrew our medium-term targets yesterday. I think we want to continue to execute each quarter of the year. Clearly we have some thoughts about how our business can grow over the longer term, but right now we're going to be focused on doing the work and sort of blocking and tackling.

And then at some point we'll have a full-time permanent CFO that will come in and we'll have another investor day and we'll give some longer term thoughts about what makes sense. But I think right now we really want to pace ourselves about the process we're making and the progress of the business.

Darrin Peller

Okay, understood. Maybe just on capital allocation then. If you could touch on how you're thinking about capital allocation from here, the stocks trading, where it is? Would you say it's safe to assume that the

company will be more aggressive with buybacks in the near term or any thoughts on higher leverage or dividend or anything else in this environment?

Gabrielle Rabinovitch

You've seen us be more aggressive on buybacks the past few quarters, I'd expect that we would be buyers at this price. Clearly, we think the intrinsic value of our business is far in excess of where we trade today, but we also have taken a pretty balanced approach to capital allocation and we've got important organic investments to make in the business.

And in addition, we want to have the flexibility to make sort of the prudent types of acquisitions that will continue to help us advocate capabilities and be both sensible inside the company and of strategic importance.

Darrin Peller

Okay, guys.

Dan Schulman

Darrin, thank you so much for leading this call. We really appreciate it.

Darrin Peller

Thanks Dan. Guys thanks very much for the incremental color. I know there was a lot of thirsty investors looking for some of this information so thanks for spending the time.

Dan Schulman

Of course. Thank you.

Darrin Peller

John, once again to you though. Good luck on the next plans.

John Rainey

Thank you Darrin. I appreciate it.

Darrin Peller

All right guys. Thanks again. Be well.