CFO Remarks | February 11, 2021

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Welcome, and thank you for joining us virtually today. I've been looking forward to this event for some time, and I hope that you've enjoyed hearing from my colleagues today. I'm going to discuss how a lot of what you've heard from them already translates into our financial performance over the next five years, but first, I want to talk about where we've come from in the last five years.

When we separated from eBay as a small, independent company in 2015, we had, by some measures, impressive financial performance. We had 181 million customers on our platform. That year, we generated a little over nine billion dollars in revenue, and we had just shy of two billion dollars in free cashflow.

There were a lot of questions about PayPal at that point in time. Could we coexist in the financial ecosystem? Could we partner with the companies that we needed to? What would competition do to us? Could we thrive, or frankly even survive in the midst of the competitive landscape that seemingly was coming from every different angle? Would we have the ability to grow our platform off of eBay, which we were so heavily reliant on at that point in time?

What about our capital structure? Were we too reliant on credit as a business? Were we too capital intensive? What the durability of our earnings would be over that period of time, and lastly, how all of this would impact our margins and our free cashflow generation?

Well, what did we do? I think this slide speaks volumes. We expanded partnerships with the largest, fastest growing, most prominent companies in their various industries. We did this while having excellent financial performance. The graph in front of you shows various metrics, but we tripled our payment volume. We more than doubled our revenue. We more than doubled our revenue, while expanding our margins 400 basis points.

Over that period of time, we almost tripled the free cash flow generation of our business. Importantly, from a capital allocation perspective, we returned eight and a half billion dollars to shareholders and spent a similar amount of money on going out and acquiring other companies through acquisitions.

The last five years has been, I think, good by almost any measure. It's reflected the hard work that we've done as a company, but as I sit here today, I'm more excited about the opportunity in front of us and what the next five years bodes for us. I hope that you'll strap in and be with us for this ride.

Let's talk about our opportunity. The opportunity that we have in front of us. 2020 changed everything. Black swan events tend to result in permanent changes in consumer behavior, and this one is no different. The changes in consumer behavior that we're seeing now, though, create an opportunity for PayPal that is unlike anything that we've seen before. Merchants are adopting digital first strategies. It's no longer a nice to have. It's become a necessity.

Consumers are habituating to eCommerce and digital first experiences, because they're simpler. There's less friction. There's more convenience. They're doing so without sacrificing quality or choice, or in some cases even speed of delivery. Most estimate that eCommerce has been pulled forward three to five years.

Look at the graph in front of you. It took almost two decades to get to 12% U.S. digital market penetration. Estimates today are that we will get the next 12% in just the next five years. Imagine that we are building a city. In that city, the products and experiences that we have and we offer our customers are represented by the buildings. Five years ago, we had a limited number of buildings. We had a limited number of products.

We've added to that city, though, over that period of time. Some of those tenants have taken less space in our city. We've added things like Simility and Hyperwallet and iZettle and Honey, Zoom, other platforms that have provided more experiences, more capabilities in the wallet for our customers. When we would look at the next five years, we're going to add onto that city even more. We're going to make that city a destination. A destination app for hundreds of millions of customers around the world.

Now, there are many examples that I can point to and discuss, but I want to talk about a couple today. The first is Buy Now, Pay Later. We've talked about how excited we are about this product. I'm going to show you a couple pieces why. We launched this in the fourth quarter of last year. In just three markets. Three markets in the world.

We look at our 2020 results. In those three months, the first three months of the launch of that product, we generated 750 million dollars in payment volume. Do the simple math. Three billion dollars in annualized payment volume. We had three million unique customers that used this and shopped at 250,000 merchants around the world.

With 14,000 of those merchants, they've elected to provide this in upstream presentment in the checkout, where we see much better experiences for our customers and much better results for us. Our sales team has done a tremendous job launching this at a number of large enterprise merchants. We're excited about the pipeline that we have for 2021 as well.

Where we see upstream presentment, though, very importantly, we see a 10% lift in our branded share of checkout. It's very important for us, very important for our merchants as well. When we look at customers that have adopted Buy Now, Pay Later, there's a 12% increase in the weekly TPV in transactions. If you look at the U.S., 40% of customers that have used Buy Now, Pay Later have come back subsequently for two more transactions during that period of time.

It's a relatively low risk experience that we provide, as 80% of the funding of this is done around debit. I'm excited about this. This is one of the best product launches that we've ever had. Also, I'm going to tell you why we're going to win in this space. We have a better value proposition than anyone.

If you look at what we offer, it's a seamless integration, without any effort on the part of the merchant. We provide access for 350 million customers around the world to shop at those merchants. If they want to have upstream presentment, it's a relatively seamless integration as well.

At the same time, there's no better price for a product than free. We charge the standard take rate that we already charge that merchant. There's no incremental cost. No incremental cost for the ability to have a customer buy now and pay later. At the same time, there's no risk for the merchant. They bear no risk to have that transaction. When you combine those three aspects with the fact that we cast our net over 350 million customers that have access to that merchant with the ability to buy now, pay later, that's a value proposition that is second to none.

I want to shift to our in-person strategy. We've long talked about in-person or in-store sales has been sort of a solution in search of a problem. It's not been that difficult to candidly carry around a credit or debit card and pay through that way. COVID-19 changed that. Customers don't want to handle cash. They don't want to touch a keypad on a point of sale device.

We provide a value proposition that will enable us to play in this space and compete with anyone. We will increase our ubiquity, so customers don't just use PayPal online. They have the ability to tap and pay or to use a card, or to scan a QR code and pay offline. These are multiple form factors. We don't want to force customers into the experience that we want. We want to provide them the experience that they want.

What this will eventually do, and I'll show you metrics here in a second, is drive incremental, increased customer engagement. Look at this slide in front of you. The bar here on the left depicts the addressable market that we have on our top seven markets in 2025. In just those seven markets, if we look at the online space, we have a two trillion dollar addressable market, yet that's dwarfed by the offline opportunity.

There's a tremendous ability for us to grow and keep our customers engaged through this offline channel. When we look at the experience there, customers that use QR codes have a 19% increase in engagement over our entire platform. In just last year, we had 20 billion dollars of payment volume through the various form factors that we offer to our customers: card, contactless pay, QR code.

I think, very importantly, I want to point you to the last number on this slide in front of you. When consumers adopt NFC payments, they have an incremental 50 transactions over and above what they were already doing. This is not us forecasting this. This is actual experience that we've seen in our markets, where our customers have done this.

I want to shift to financial services now. We've talked a lot about wanting to be a destination app, that destination city. Consumer financial services is one of the ways that we will help enable that. I think that we have a value proposition here that allows us to win as well.

When you look at our skill, the fact that we are an open digital payments platform, we're not beholden to one technology. Not beholden to one type of mobile device or even the financial instrument. We can partner with anyone in the ecosystem. We provide broad functionality, and we'll have leading technology experiences that engage our customers. This will allow us to win in the space and increase that average revenue per user. Increase the average level of engagement of those customers.

One example is cryptocurrency. Again, last year, we launched crypto and provided it in the PayPal wallet. What did we see? Well, of those users that bought or held cryptocurrency, 50% of them would go to the PayPal app each day to log in. This is precisely the type of engagement that we want to see as we add these additional financial services to our wallet, like Buy Now, Pay Later. Like QR codes. Like consumer financial services.

How this translates into revenue for us or income for us? Well, look at this slide. Of those customers that elect to use direct deposit, we generate 56% more incremental value, customer value than one that doesn't. Just take this graph at the very bottom, and I'll give you an illustrative example. Assume that a customer deposits a hundred dollar paycheck. What we see today is, they'll spend about 30 to 40 dollars of that through online and offline. They'll spend another 30 to 40 dollars through things like bill payments. Then, they'll invest five to 10 dollars of that and withdraw the balance.

The more financial services that we can add and provide for our customers, the more experiences that we can give them are a greater share of wallet that we will get over time. As a company, we've got robust analytics to segment and understand our customers. We bucket them in low, medium, and high engagement. You can see here the five metrics that we look at– recency, frequency, and others– to make that assessment.

What we saw last year with some of the increased experiences that we provided, the number of customers that migrated from a medium engaged segment to a high engaged segment was three times what it was over the prior year. This is precisely the type of outcome that we want, by adding these additional experiences that you've heard about today. We're so excited and looking forward to over the next several years.

What will that do for us? Well, when you take that average revenue per user of a medium engaged customer, and they move to the high engaged segment, we get twice the amount of average revenue per user. That's on a PayPal. That's on PayPal. When we look at Venmo, the difference is even more stark. It's 10X the difference. We will do this. We will achieve this by adding these additional experiences, by doing things that keep people engaged, coming to the wallet each and every day.

Let's talk about how all this translates into our medium-term outlook over the next five years. I'm excited to share this. When we look at the payment volume on our platform and the customers on our platform, we expect our customers to double over the next year, from the 377 million that we ended 2020 with, to 750 million customers. Three quarters of a billion customers on our platform.

We expect our payment volume to increase even more, to triple over that period of time. We look at revenue. This is exciting to me. Over the last five years, our compounded annual growth in revenue was 18%. When we look at the next five years, we believe that we will achieve 20% compounded annual revenue growth. You go to the right side of that graph. That makes us a 50 billion dollar company.

You contrast that to 2015 when we came out of eBay as a small independent company, and you think about what we've done. That's tremendous. This level of revenue would easily put us, today, in the top Fortune 100 companies. When we look at that and we compare that to what we told you at Investor Day a couple years ago, that's 14 billion dollars. 14 billion dollars of incremental revenue.

To really kind of compare that, we talked about, at our last Investor Day, that we expected our revenue growth to average 17 to 18% annually. Now, importantly, when we gave that number, we said that about 150 basis points of that was going to come inorganically, by acquiring other companies. The 20% revenue growth that we're talking about today is entirely organic.

The important distinction there, if you take an apples to apples comparison to what we're saying today versus what we said at our last Investor Day, that's a 400 basis point improvement in our average annual revenue growth. We'll do this while expanding our margins. We've done it over the last five years, and we'll do it over the next five years. We have demonstrated that we can scale our platform at a low marginal cost. We can do it while still appropriately investing for growth in our business. We expect that our earnings per share, as a result of this, will grow 22% over the next five years, while still heavily investing in our business.

I want to wrap up, and I want to talk about capital allocation. One of the unique things about our company is that we enjoy the growth profile that we have, but we do it while having large free cashflow margins. High free cashflow margins. Over the next five years, we expect to generate 40 billion dollars. 40 billion dollars in free cashflow.

When we look at what we will do with that, it will be balanced as it was before. We'll continue to invest organically, invest in our business and the types of products and experiences that you've already heard about today. We'll continue to return cash to shareholders. Our target is at least 30 to 40% of our free cashflow will be returned to investors through our share buyback program.

Lastly, we'll be disciplined in our acquisition strategy. We have the luxury of having a strong balance sheet, of having strong free cashflow generation, and we'll use that as an asset. As another arrow in our quiver to go out and compete in this space.

In closing, if we look at 2025, we expect to have 750 million customers on our platform. We expect to be a company that's generating over 50 billion dollars in revenue. We expect to have free cashflow margins that will allow us to generate 10 billion dollars in free cashflow.

It sounds cliché, but I believe that we have a once in a lifetime opportunity in front of us today. I'm excited about the last five years and what we've done. I'm even more excited about the next five years. I hope that you'll strap in and stay with us for that ride. Thank you.