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Hosted by Credit Suisse

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Operator

Ladies and gentlemen, thank you for standing by and welcome to the PayPal Group Call hosted by Credit Suisse. And your host Timothy Chiodo. Please go ahead, Sir.

Timothy Chiodo

Thanks a lot Operator. Thank you everyone for joining today. We're going do our best to get through a good group of questions here. We're very happy to be hosting this event here. With us we have John Rainey, CFO of PayPal. Gabrielle Rabinovitch, she is the VP of Corporate Finance and IR, and we also have Erica Gessert, who is SVP FP&A and Analytics. So, a full squad here. Thank you, John, Gabrielle, and Erica for being here today.

John Rainey

Thanks Tim. We're awfully excited to be able to speak to this group of investors and address the quarter, as well as the outlook for 2021. You know we're coming off the heels of what is clearly our best year ever, measured by any metric that one would pick. And you know we certainly think [we] are one of the companies that have benefited from some of the struggles that others have gone through by lacking mobility and not having the access to physical stores, but we are equally or more excited about what we're doing internally and the opportunity that we have in front of us with a lot of the new product launches that we have. And you know what that bodes for not only 2021, but the years thereafter which we really look forward to speaking with everyone about it on our Investor Day next week. So, all I'll stop there Tim and the three of us are happy to answer any questions that you have.

Timothy Chiodo

That's great. Thanks a lot John. And just as for the audience, there's couple of housekeeping items. We'll look to go about 45 minutes. So, we'll wrap up in about ten minutes before the hour. Also, the earlier questions will be more around guidance numbers [provided at earnings], again the focus here will be very much on Q4 and the 2021 guide. And then we will get into to a few of the more strategic issues. So, let's start with Q4 TPV. So that, strong results there obviously, 36% ex-FX growth. Trends appear to be strong into January and comps are somewhat easier in March and for Q1 overall. So, with that context, maybe we can walk through for investors, how to think about TPV growth progressing throughout 2021 in the light of the full year high 20%'s guide? Clearly there's either a headwind ramping a little bit in the first half, but there's the Bill Pay contributions still being very incremental in the first half, so many moving parts.

John Rainey

Sure Tim, I'm happy to do it. And yesterday on the call, I gave some context to the revenue trajectory for 2021. And obviously the TPV follows that same trajectory. So, we'll see the peak of growth likely in the first quarter and that's primarily impacted by the extremely soft March that we had last year. And you might remember that at the end of February last year, we released an investor update which detailed the trajectory of volume over the course of the first quarter. And so, it gives one an idea of the comps that we're up against for the first quarter. As we get into the second quarter, the reverse is true, that was sort of the peak of shelter in place. And everyone being locked down and all the pantry packing and things that were taking place. And so, we've got much more difficult comps in that quarter. But then as we get through the back half of the year, well I should check before I go there.

Also, with the eBay impact is more pronounced in the first half of the year as well. They made bigger strides in their movement to manage payments in the back half of 2020. And so, we're lapping sort of a period in the first half of the year where, they did not have as much volume moved over there. So, the roughly 400 basis point impact we highlighted for the year will actually be greater than that in the first half of the year.

But as we get to the back half of the year, this is where I think we get to more normalized growth rates and you know we have a number of things working there, but I think underpinning assumptions is the launch of several new products. We have a lot of our initiatives that are going live either at the end of the second quarter or in the early part of the second half of the year. And we're dependent upon the execution of those to really drive some of the results that we're seeing.

Timothy Chiodo

Excellent, thank you John. All right, in the interest of time, why don't we move on to take rate topics so we can perhaps recap some of the dynamics from Q4 and touch on some of the cadence puts and takes over the course of 2021. So, for Q4 2020, take rate came in at about 2.05% which was as mentioned about down 20 basis points year over year. That was maybe a tad lighter than what we had modeled and some of the dynamics called out there - obviously P2P and BillPay, less eBay, [currency] hedge loss swinging maybe four basis points or so year over year. Maybe you could break down some of the components of that 20 basis points and try to maybe put some rough sizing on the various impacts. And perhaps, if there was anything else there. Is there anything with maybe large merchants or cross border?

John Rainey

Sure Tim. Happy to do that. So first let me address I think that the concern that everyone has when they look at unit revenue or take rate is it's somewhat an indication of the health of the revenue stream. And so first let me allay any concerns that from a same store sales basis, our take rate is essentially flat, there's no decline related to merchants pricing or anything like that. The results are several fold, but it's primarily a result of the mix change in our business. And so, let me point to two or three examples which I think will shed some light on that.

So, you noted the hedges, whether you're taking the 21 or 28 basis point decline depending upon which take rate you're looking at. They're about 5 points to that related to the hedge losses. It's roughly a $100 million change in the hedge loss verses the hedge gain last year. And we all know that's around from the gain to a loss from one period to the next. So, I don't think that's really indicative of sort of the overall health of the revenue that we're generating.

We also saw really outsized growth in P2P again. So, our P2P payment volumes grew 46% in the quarter. And you know that's basically increasing that denominator with virtually no increase in the numerator in that. But to be very clear these are customers that are paying one another through a digital wallet which is displacing cash. We absolutely love that. That's the kind of engagement that we want.

We've often said that our biggest competitor is cash, not any of the other players in this ecosystem. And so, what we'll take that decline in take rate all day long because we see that a customer that engages with us this way has a much higher lifetime value than one that doesn't. And then lastly, I would just generally cast everything else into the bucket of mix changes in our business. And those included things like the growth at bill payment. It also includes the decline of eBay, that we talked about in the new year with eBay representing about 6% of our volume.

But you know these are all things that we talked about. eBay is something that we believe we can easily transition through without any major impact to our revenue and margins. And from Bill Pay, I would say you should want us as investors to continue to diversify our platform. This is a great thing, because what we see as we add additional products like this, and we give our customers additional opportunities to engage with us in a different manner than just shopping online, there's a stickiness to those customers. And the lifetime value of those goes up much more. And I know there's a lot of fixation on take rate, but if you just take Bill Pay as an example, Bill Pay comes at a very low take rate.

It also comes at a very low transaction expenses. So that's why we often try to point people to the transaction margin in our business. And as we noted on the call yesterday, the incremental transaction margin that we had in the fourth quarter was three quarters of a billion dollars in the quarter. That's 2x what it was [in the same period] last year. And you know that's the kind of strength that we want to continue to see in our business, and that's why we don't overly focused on just Take Rate without looking at the rest of the picture.

Erica Gessert

Hey John, this is Erica. I'll just add in. Particularly on the Bill Pay point, I just want to emphasize this which is, you know Bill Pay is like a subscription for our consumers essentially as they adopt Bill Pay they're vaulting us and it becomes like a monthly subscription. [W]ithin our [current] ecosystem our subscription customers are some of our absolutely most valuable customers. And so again to the point, you know maybe lower take rates but these are by far some of the stickiest customers we've got.

Timothy Chiodo

Thank you, Erica and John. Great points, I think well taken that the take rate is all about mix components. And thank you for breaking those down. The underlying pricing is very stable, it's these mix components. That's very helpful. Why don't we just move quickly to the take rate cadence as we think about the rest of the year, simply because we have crypto revenue rolling into some extent, beginning in Q1 which goes into transaction revenue, but the trading volumes do not add to TPV. But then also as you mentioned earlier John, the eBay headwinds are a little bit more first half weighted in terms of their impact. So how can we think about the cadence of take rate over the course of the year implied in the guidance?

John Rainey

I would say the fourth quarter is probably the best proxy right now. We're going to have with a weaker dollar, we're going to benefit from the translation of those international revenues back into the U.S. But at the same time, we hedge for the bottom line, so we'll have hedge losses related to that. We'll see again the mix changes related to eBay, as we wean ourselves off of them as a large customer. And then Bill Pay will continue to ramp up through the year. So, you know I think the fourth quarter is probably a pretty good proxy for how to think about the trajectory of take rate throughout 2021.

Timothy Chiodo

All right, excellent. Thanks a lot. Okay, let's move on, you touched on this earlier John. So maybe this is a good point to do a quick follow up here. So, the eBay migration, of course you called out the 400-basis point headwind for this year, which actually was a little bit better or slightly less impact than what we had modeled originally. So, on that, maybe you could talk about before we get into the numbers and the volumes versus repricing. That 4% headwind, should we think more about that pace of the migration changing or is it just the fact that eBay as an underlying business is doing a little bit better?

Erica Gessert

Hey, maybe I'll take this one Tim. This is Erica. So just, you know overall if you think about the kind of 400 basis points it's really about the pace of migration. I mean in general if you think about what's relevant with the eBay trajectory and our results. You know eBay had a very good year last year. You know I think that, from the headwind point of view, there may be a little bit of fluctuation in growth rates versus quarters, right, that we're assuming similar to our own trajectory.

But the mechanics that are really the most relevant for projecting eBay out, they are two things; the pace of migration to managed payment and our own share of check out. And so, you know the pace of migration will be expected to continue through the year. You know they are round about 50% right now. And then you know we also, you know we have about a 60% share of checkout, right now across eBay managed payments. And we don't see kind of, we don't see any change in that. That continues to be very strong and those are the two most relevant aspects.

Timothy Chiodo

Erica, that's very helpful. So, on a related follow up to that, maybe we could just talk through mechanically one step deeper on that just for investors. We often get this question, we think about it as one part forgone volumes that come out at roughly 4% take rate or so, and then one part of the re-pricing. So maybe we can just touch on those. And for the re-pricing, maybe we can just talk about some of the mechanics behind how that might be a more gradual change in some of the factors there.

Erica Gessert

You know honestly, I wouldn't focus it on any kind of fluctuation in managed payments pricing as kind of as a modeling aspect to be honest. You know as we shift over to managed payments, we're already coming down to market rates versus our previous take rate. And so, you know yes certainly there's fluctuation like with any large merchant, global merchant that we have. There's fluctuation with geos and other things, but it's not a very material aspect to how to model the impact from eBay.

John Rainey

Yeah, I would just add Tim that you know there is a little bit of a step down, but it's not as if there's a second shoe to drop on this. Once eBay moves to their managed payment experience, that's really the bulk of the impact of our P&L.

Timothy Chiodo

All right, John, Erica. Thank you, that's really helpful. Again, not a not a big one. I just want to make sure we cover it, it’s an often asked question. All right let's move on to some of the revenue drivers. So one of the highlights last night was the $750 million here in buy now pay later (BNPL) [volume] that was disclosed in Q4. We think about this offering longer term in terms of the success that we think about, increasing awareness. And really that has to do with two things.

The first is advertising to consumers, so that they just know, that when they sort of get to the end of the tunnel when PayPal is on a website, a buy now pay later offering will be there. And we've seen some of the YouTube ads that you have been running related to that. The second piece is working with merchants to be shown further up into the shopping experience. And last night, you disclosed the 14,000 merchants that are already well ahead of the curve in doing that. Maybe you could just touch a little bit on those two angles in terms of helping to increase the awareness of the PayPal BNPL offerings.

John Rainey

Sure, happy to do that Tim. So, you know that's one of the beauties of our platform is that, when you talk about providing awareness to consumers, we control that experience. We present that dynamically in the wallet today to those customers that are eligible. And you know we are constantly tweaking and testing that to make sure that we have the very best presentment to get those customers that want to use a product like that, to be able to avail themselves of it. So that is, it's great that we have the 350 million plus customers that we can eventually present that to all of them, that have that option.

On the merchant side, you know so the merchant sort of indirectly gets the benefit of buy now pay later, whether they've integrated or not. Because we control that in the wallet. Now the merchant chooses to have that presented further upstream and the checkout channel that requires a little bit effort on their part, but obviously from the number of merchants with which we've already integrated, it's not a very involved effort.

But that's the beauty of this product, is that if you’re a merchant, first of all, we can demonstrate that you're going to see for higher click through on completion of those purchases, you're going to see a higher basket size, they bear no risk. And by the way, we're offering them up a customer base of 350 million people that have access to that. And you know this is all done at no incremental costs for the merchants. So, you know to be very clear this is, arguably one might characterize this as a crowded space, there's a lot of people playing in this space. But I think PayPal is positioned to be one of the winners here. We have a value proposition that is frankly second to none here. And our ability to control that integration, to provide those kind of experiences to our consumers and merchants alike, makes us very unique in this experience.

Timothy Chiodo

Excellent John. Just to stay on this topic, given it’s of such high interest. I realize, probably you mentioned this, that you're not pricing for it, it's part of the value of accepting of having the PayPal mark on your website. But is it fair for investors to think of this is potentially take rate protective if you will, meaning maybe longer term this could help you in negotiations with larger merchants and platforms or it would give you a potential ability to increase rack rate at some point down the line, in the spirit of pricing for value.

John Rainey

It's perhaps fair to think of it that way, and certainly I think when this first really got our focus and attention, it was somewhat of a defensive posture on our part is because I said before Tim like, we often get asked about how we fare and share of checkout versus the competition. And generally speaking, we fare extremely well and don't see losses and share of checkout related to other payment offerings or digital wallets that are out there.

An exception to that, frankly historically it's been these installment pay type products, where that's presented further upstream, we would actually see some of our share of check out diminish for certain products. And so that really informed our strategy around this. Rather than go out and charge four, five, six percent as some of these others are to a merchant to provide this product, let's take an approach where we somewhat protect our share of checkout, but then moved to the offense. And I think that's kind of you know already three months into this, that's where our head is. That this is no longer defensive to protect take rates. It's like how we move to the offense to see our share of checkout grow to something greater than what it even was prior to this offering.

Clearly there is a demand for this product among certain demographics that don't have these traditional revolving credit relationships that you know my vintage of customer sort of grew up with. And I think having a complementary payment offering with the other products that we put out there, clearly there's a huge appetite for. And we think that when you combine this with other things like you know the potential to integrate this into Honey's experience, and things like that in the future. But this is clearly something that will move from just protecting take rate to where we can really be on our front foot and be on the offense with this.

Timothy Chiodo

Okay, great. So why don't we touch on that one really quick, because that was one of the follow up questions, I wanted to ask around the potential combination with Honey. Maybe you could just bring that to life briefly. Would it be something along the lines of the user setting a price that they'd be willing to pay, and then it would be sort of auto purchase with Pay in 4 and therefore they might be willing to increase their basket size knowing ahead of time that this installment offering would be available.

John Rainey

Well eventually, we want to bring all of Honey's technology and experiences into the PayPal experiences, and that's the path that we're on right now. And that would include buy now pay later. So, you know if you're a Honey customer and you've selected an item that you want to purchase at a certain price. And then you're now made aware that that's available to you at a certain merchant. You know having that installment pay option, I think it even further enhances the value proposition to that customer. So, we certainly want to include all of those rich and robust experiences that we're going to have with Honey into the buy now pay later experiences also.

Timothy Chiodo

Excellent, thank you John. And you made some very well taken points around check out share earlier, and that definitely resonates. And I realize, it might be a little bit harder to pull out separately what's incremental, what's just share gain organically ex-BNPL. But we got asked often last night and this morning around, what might be implied in the 2021 guidance for, any sort of a ramp into revenue associated with these offerings.

John Rainey

Well, so we certainly have built into our assumptions and expectation around continuing to roll out the buy now pay later experience. So specifically, we rolled out buy now pay later in the first three months in Germany, France, the UK and the US. And we intend to cast that net even wider as we go through 2021.

But if you think about how that will manifest itself in the P&L for us, the income statement for us. You know because it is not revolving type credit. The only fees that are directly associating with this would be late fees. And so, from a credit perspective this is not a big driver of something like other value-added services. Instead what you should see is the continuation or acceleration of transaction revenues, as we do increase our share of checkout with many of these merchants.

Erica Gessert

We actually are seeing as we have upfront presentment of BNPL. We are in fact already seeing some of those conversion increases for merchants that have it. So, we do have some incremental transaction revenue in our outlook for 2021, but from the total PayPal point of view, it’s probably not material.

Timothy Chiodo

Okay. Great. Erica, thank you for that. All right. I think we've covered BNPL quite well. Why don't we move on to the next topic of interest Venmo monetization? Clearly, you talk about the $900 million number in 2021, combination of pay with Venmo and instant transfer, debit cards, the new credit card, maybe we can talk through some of those or all of those time permitting and specifically drilling in on pay with Venmo and what is changing in Q2 in terms of the roll out and what we should expect to see.

John Rainey

Sure. So, Tim I don't want to front run too much of what we're going to say at investor day. We're going to have a lot of good information that I think this audience will appreciate at investor day about Venmo. I guess I would generally say or share that I am probably as excited about the prospects of Venmo right now more than any time in its history. We had some fits and starts there to be clear and you mentioned pay with Venmo. I mean I'll directly get to your question in a moment, but I think a little bit of context is important because the type of experience that we anticipated rolling out pay with Venmo initially had to change and that's because the landscape changed, the environment in which we were operating changed and getting in to how long cookies are kept in browsers and things like that, but to be clear we've pivoted, we've adapted to that and we're excited about being able to roll out pay with Venmo in a much more pronounced fashion this year.

Historically, we've talked about the various monetization buckets of Venmo where the instant withdrawal has been the primary driver followed by the card and then pay with Venmo. I've consistently said that longer term everyone should expect that pay with Venmo will be the biggest driver there and now we're on a path we're beginning to see that and quite excited about that and some of those experiences that we will roll out later this year, but that's also complemented with QR codes, business profiles, and our card experience particularly on the Venmo credit card. I mean really I think it's best in class and I know I'm not the most objective person to say that, but if you haven't gone through that experience, I think it's a glimpse into the type of credit card experiences that one will have in the future, probably with any issuer because it is so good where you have the ability to do something in an offline setting, but have an in-app experience associated with that where you can still split the payments, you can still comment on it.

This social aspect to this platform is so unique and partly what draws the customer base that we have today. So, quite excited about this and we're going to get into some numbers at investor day where we start talking about average revenue per user and then what the real opportunity is here, but I think maybe just a kind of a leading indicator there that we are excited to announce the $900 million [2021 revenue forecast for Venmo] last quarter that we expect and for it to be break even on a transaction margin perspective this year. Those are I think two important marks through the history of Venmo that people have been long looking for. As we get into 2022, we expect that it'll be basically breakeven on an overall basis down at the operating margin level and then from there, it's like let's scale this thing, put our foot on the gas to really see the art of the possible.

Timothy Chiodo

All right. Great. Thank you, John. Okay. We'll look for more on Venmo at the investor day. Why don't we move then to OVAS briefly and we could touch on how investors should be thinking about the cadence of OVAS over the years. So, clearly you mentioned credit’s rebounding, but also, we have to consider some of the lingering impacts from lower originations in 2020, also Honey seems to be doing quite well. There's the interesting component. Maybe we could talk about some of the components and the cadence throughout 2021 implied in the guide.

John Rainey

Sure. So, let me start with credit because I think it's important to note that as we said before, we manage credit at sort of a bottom-line perspective, the overall P&L. So, as the risk environment was more elevated in this part of last year or the first quarter of last year, we tightened originations quite a bit and the effect of that is there's a tail to it, right. Revenue and income that we would expect to receive from those revolving relationships whether it be with merchants or consumers is impacted in

2021. So, that's going to continue to be an area of our business for this year that is growing much, much slower than the rest of PayPal. So, there's a lingering impact to that. We also are impacted by the interest income that we earn on our customer balances.

One of the things that we've seen through this last nine months or so, last nine or ten months, is we have had a lot more customer balances on our platform. So, we benefit from that additional volume, but the interest rate environment has come down with all this fiscal stimulus. There are people far more appropriate to opine up on that to me, but I don't expect that to change in the near future. So, I think we're in probably a low interest rate environment for a while and so that'll have an impact on our P&L probably pretty consistent to what we saw in the fourth quarter of 2020. Then lastly, I mentioned Honey. Honey is a high growth part of our business. It will offset some of the pressures that we see in the other value-added services line and we're quite excited about continuing to expand those experiences and provide them to the rest of the PayPal customer base.

Timothy Chiodo

Excellent. Okay. Thank you for covering that John. Why don't we move on to transaction expense rate? So, clearly, it's been a low number which is a strong result, 82 to 84 basis points the last few quarters. Clearly, the funding mix has been benefiting. There's some mix shift with less Braintree meaning less travel and events (T&E), less credit card, more debit and just a broader increase in the use of debit. Overall in the market this year P2P helps that, Bill Pay helps that, but generally speaking, how should we think about the cadence of that number clearly T&E ramping as a piece of it, but investors are often asking “do we go back to prior levels”, should we float up towards pre-COVID levels and how can we think about the phasing?

John Rainey

Yeah. The way you frame that I think is really the reflective of what the questions that investors have. There are so many things that are impacting that. People are wondering [how to] model in a longer term. So, let me start with what may be the answer is and then talk about sort of all the various impacts. We have clearly benefited from the number of things that you delineated there and that's brought our transaction expense to record low levels. Do we expect them to stay at this low 80 basis points forever? Probably not is the answer, but by the same token, we don't expect them to go back up to the level that they were prior to the pandemic. So, probably somewhere in between those marks I think in the near term being, let's call the next four to eight quarters, I think that mid-80s basis point is probably a good way to think about this.

So, let me talk about the various impacts there. So, certainly we've seen a shift to debit as others have mentioned during this time period. That was more pronounced in the second quarter when the stimulus measures that impacted that, but even as we look at fourth quarter results, while not at second quarter levels, the debit mix was higher than what we've seen historically. So, there's an element of that. There's also as we continue to see strong branded PayPal experiences or check out, that can secure or have a lower funding costs, skew you a little bit more to debit and ACH or balance than some of the other verticals that we have. So, that's going to continue to, I think, suppress that number or keep it at a lower level. Bill Pay, is something that you mentioned.

As we diversify our platform as these things have an impact on take rate, they also have an impact on transaction expense. So, that'll help mute any inflation in that number. Then lastly, I would say P2P. I talked about this in one of the earlier questions, but we've got just enormous growth and huge opportunity with what we can do around P2P, which carries a very low transaction expense traditionally with that. So, all of these things I think result in a place where we're going to have a much lower transaction expense than what we entered this time frame. On P2P specifically, let me be really clear about like this is I think some people maybe discount that because it probably doesn't have the same revenue associated with it, but this is cash displacement, this is what we want in our business, this is the journey that we're on, this is a glimpse into the next five years of our future. This is absolutely what we want to see. So, I'm not concerned about take rate impact from more P2P and quite frankly you see the benefit in the transaction expense line.

Erica Gessert

Hey John, I just had one other thing. This is Erica again on transaction expense. It's not a huge proportion of our transaction revenue now, but as buy now pay later actually continues to grow, the vast majority of that volume is debit funded as well and so that's also going to be a nice benefit for us as we go forward.

Timothy Chiodo

Yeah. Thank you on that mix point Erica. It's very helpful. All right great. In a little bit of time we have left here, why don't we try and kill two more topics here. One, we'll try and hit transaction and loan loss and then we'll hit on cryptocurrency and that'll likely take us to the end. So, on transaction and loan loss, we often talk about this. So, I mean we talked about take rate, we talked about transaction expense, the other component to get to transaction margins is transaction and loan loss which was an impressive number this past quarter. In 2018, you made an acquisition that really didn't get too much attention, Simility, and you essentially said this company will help us reduce our transaction loss and essentially it's done exactly that ever since, and you hit a record of 10 basis points in Q4. So, maybe we can just talk a little bit about that line item. It was 10 and three, 10 from transaction loss, three from credit and how that could look over the course of the year and what is implied in the guidance.

John Rainey

Sure. I'll jump in and Erica can add anything that she wants. I think it's helpful to understand that transaction loss can be affected from one quarter to the next by fraud, tax and various other things that can create sort of anomalous upticks or downticks from one quarter to the next, but as I've sort of laid the bread crumbs over the last four or five quarters to your point on Simility, the improvements that we've seen are really related to improvements in capabilities that are very much associated with the acquisition of Simility as well as taking learnings from what they've done in integrating it with some of our best in class risk experiences. So, this is something that I think is if you're sitting in front of your Excel model and thinking about how to model the future, you should continue to see sustained lower levels of transaction losses.

Now to be clear, maybe not at the 10 basis points, that's an all-time low, but we've consistently been sort of below that 15 basis point mark for several quarters now and these are sustainable trends that we have in our business. I think to understand that better, it's one thing to have algorithms and risk models and AI to address the risk, but those are only as good as the data that you put in them. As we have data on 377 million customers around the world that are transacting with us at increasing rates each year, that's more ammunition for that gun that we have. So, it's sort of a powerful one-two combination that only gets better with more data. So, we're quite excited about what the improvements have been here, and this is something that you should expect to be sustainably at this lower level.

Timothy Chiodo

Excellent. Thank you, John. All right. I think we covered that one quite well. With the time remaining, why don't we hit the last topic here around cryptocurrency. So, in terms of the trading aspect of cryptocurrency, clearly the fees are disclosed on your website and there's also a small spread element and then of course there's the pay-away to your partner in Paxos, and I believe the revenue has reported net of that. So, with that context, maybe you could talk a little bit about how you're thinking about that business' contribution to the guidance for 2021. I believe we mentioned it's not an overly meaningful number, but maybe we could conceptualize that a little bit more in terms of the revenue clearly where it hits in terms transaction revenue, etc.

John Rainey

Sure. Let me start at a higher level here Tim, because I think when I describe some of the elements of this and it in fact is not a material driver of our revenue or earnings performance in 2021. It almost might seem incongruent with our excitement around this. To be very clear like, I think Dan was asked the question yesterday which product we're most excited about, it's a tough choice and crypto is right up there. This has been one of the most successful product launches that we've had. We're a trusted platform, and I think you had a lot of the crypto curious that have been sort of milling around the sides and debating getting into this and PayPal provides a trusted brand with security for people to get into that. I think very, very importantly for us is like if you look at the future, we want to be a destination app. We want to be that type of app where someone's coming every day and crypto plays right into that and the results that we've seen already just validate that, it's confirmatory.

People are engaging with us at twice the rate they were prior to after having bought or sold crypto on our platform. So, we're exceedingly excited about this, and I think that it's got a very, very promising future. So, all that said, let me explain sort of the impact on our P&L. First of all, we account for this on a net revenue basis, not a gross revenue basis like others. To account for it on a gross revenue, our thinking is that it's almost like calling TPV revenue.

So, we're simply picking up the transaction fee that we charge when someone buys crypto on our platform. So, there's a couple of elements to this. So, if you just use, an example, someone buying 100 dollars of crypto and then take that. So, we recognize a spread of 50 basis points on what that customer buys that crypto at versus what we have to acquire the crypto from Paxos. So, there's 50 basis points there and then we charge a transaction fee, and that transaction fee is on a sliding scale, but for argument’s sake let's say it's 2%. So, in that case, we would have two dollars of revenue that we would charge for that. So, when you think about the volumes that are out there, what we're recognizing as revenue, while higher margin, is relatively small with the overall volume.

The second point I would say is that some have I think conflated volumes on itBit with the volumes that we're seeing on our platform. We are in no way the majority of the volumes on itBit. We are a share of that, but that's not an appropriate proxy to look at what's happening on that platform and assume that PayPal is benefiting by a commensurate amount. So, this is not going to be a huge driver when you think of us being a 25 plus billion-dollar revenue company in 2021. This is not going to be a huge driver in that context, but again with that sort of context, that doesn't take away from our excitement about this at all. This is I think just a really shining example of the types of products and experiences that we want to continue to add to the digital wallet to frankly make us that destination app.

Timothy Chiodo

All right. Excellent John. That covered that a little bit more quickly. Why don't we just wrap this last piece into just one here and we can wrap up here in a minute or two. Maybe one, I want to allow you to have some time here to have a closing statement in terms of the quarter and the guide and ahead of the investor day obviously, but also maybe you could just briefly make a comment on the discretionary OpEx spend this year and sort of the overall growth cadence and the non-transaction expense base, and how that might work over the course of the year.

John Rainey

Sure. Happy to do that. So, I noted yesterday, we don't give OpEx guidance for the year, but we give revenue and EPS, so one could go back into that and 2021, if you look at that implied OpEx growth, about 75% of that I would characterize in the same fashion that we characterize the $300 million in the back half of last year. These are call them discretionary or go to market type investments in a lot of the initiatives that we have here. So, that shows that of the 25% that's left, our platform is scaling at an exceedingly low cost.

Again, we should continue to see that into the future as far as we can see. We're at a point right now where we have the ability to do that. Now not to say that we don't have additional improvements that we can make in our platform to make it even more efficient, that's frankly a never ending journey, but the vast majority of the expense growth that we're going to see in 2021 is related to all these initiatives as we said like now is the time to invest. This is a seminal moment I think in digital payments, and I know people are excited about it, but not all these things are going to happen overnight particularly as you think about QR code or contactless payments, these are multiyear efforts that we need to invest into and invest into go to market, to consumer awareness, to employee knowledge things like that and we'll see the benefit of that in the years that are in the future, but I'll point you to one last number again.

I think I talked about this on the earnings call yesterday, but I think a good way to look at the margin profile -- are the incremental margins and the incremental organic margin that we had in our business, operating margin I am talking here, in the fourth quarter was 32%, higher than the rest of our business. That demonstrates the scalability of our platform and by the way, that's with that investment that we earmarked the $300 million in the back half of the year. That's with the bulk of that spending being in the fourth quarter. So, we're at a place where we're able to continue to grow our margins, we're able to continue to invest in our business and very importantly continue to generate the free cash flow margins that we have historically that I think give us just another arrow in our quiver as we think about the competitive landscape and the ability to go out and acquire companies or acquire capabilities or talent or whatever the case may be to compete in this ecosystem in the future.

Timothy Chiodo

Excellent. With that, I want to say thank you to **John Rainey**, Gabrielle, Rabinovitch, and **Erica Gessert** for being here with us today. This is excellent. We got through almost every single one of the questions. I think we covered them in a very thorough manner. Thank you so much for making yourself available. I am sure all the investors on the line appreciate it. Everyone has a great rest of the day.

John Rainey

All right. Thank you, Tim, and thank you everyone else. Stay safe.

Operator

With that ladies and gentlemen, we thank you for your participation in today's program. You may now disconnect.