PayPal

Second Quarter 2021 Analyst Call | July 28, 2021

CORPORATE PARTICIPANTS

John Rainey, *Chief Financial Officer and Executive Vice President, Global Customer Operations*

Gabrielle Rabinovitch, *Vice President of Corporate Finance & Investor Relations*

CONFERENCE CALL PARTICIPANTS

Sanjay Sakhrani, *KBW*

Craig Maurer, *Autonomous Research*

John Davis, *Raymond James*

George Mihalos, *Cowen*

Bob Napoli, *William Blair*

Lisa Ellis, *MoffettNathanson*

Josh Beck, *KeyBanc*

Jamie Friedman, *Susquehanna*

Harshita Rawat, *Bernstein*

Trevor Williams, *Jefferies*

Timothy Chiodo, *Credit Suisse*

Chris Brendler, *D.A. Davidson*

Chris Donat, *Piper Sandler*

PRESENTATION

Operator

Welcome to the PayPal Second Quarter 2021 Analyst Call.

I would like to turn the conference over to your host, Mr. John Rainey, Chief Financial Officer. Please go ahead.

John Rainey

Thank you very much. Thank all of you for joining us here today.

As usual, I'm joined with Gabrielle and the rest of the IR team. We really look forward to addressing the questions that you have. With that, we'll get right into the queue, Operator, and I'll turn it back over to you.

Operator

We have your first question from Sanjay Sakhrani, with KBW. Your line is open.

Sanjay Sakhrani

Thanks, hope you guys are doing well. I have a two-part question. One is, given that you've been able to absorb 2x the eBay impact you thought when you gave the medium-term targets, does that suggest that there's upside to those medium targets? Is that a fair assumption to make?

Then secondly, as we think about the take rate, obviously, the result of that faster conversion has impacted the take rate more negatively. Should we see a subsiding of the pressure on take rate, could it actually go the other way next year?

John Rainey

To start with, what's happening with eBay is really more a matter of pacing versus magnitude. What I mean by that is we've seen a more accelerated transition to their managed payments than what we had expected. Over our five-year planning horizon, that doesn't necessarily equate to upside in our—the guidance that we provided. With respect to take rate, again, pivoting back to the medium-term guidance, we gave guidance earlier this year of 25% compounded annual TPV growth and 20% revenue growth. That does contemplate some decline in take rate over that period of time. But it is obviously more pronounced right now with what we're seeing with eBay, and frankly, was exacerbated in the quarter by a couple other things that are probably worth calling out.

One is that we had a change in our hedge position from a gain to a loss in the magnitude of $122 million. Then something that we often don't call out but impacted this quarter was the fact that we benefit from volatility and FX in the way that we price. As currencies were less volatile in this quarter than they were a year ago, that had a similar impact to take rate as some of the other items.

Those things are really what's driving the larger take rate decline this quarter versus what we normally see. We would expect, once we get past eBay, to see some of those pressures abate and get to a more normalized rate that is in line with the medium-term guidance that we gave.

Sanjay Sakhrani

Thank you.

Operator

We have your next question from Craig Maurer with Autonomous Research your line is open.

Craig Maurer

Yes. Hi, thanks for taking the time to do this call again. I appreciate it.

Staying on the take rate for a second, I wanted to ask if you saw any appreciable shift in funding mix during the quarter as we're starting to see some resurgent credit card volumes out of the issuers?

Secondly, the tax rate, should we think of 12% to 14% as the right rate going forward?

Lastly, I wanted to ask a more fundamental question about the offering at brick and mortar. Over the long term as basically you see the majority of merchants probably look somehow to get to an omni channel footing in case we have another situation like we're still experiencing. How do you view the fact—the competitiveness of the product when it is more of a fragmented offering when you're going through Clover or you have iZettle or you have other things, versus something that is a solid end to end offering like Shopify with retail POS that is seamless from Brick and Mortar to e-com? Thanks.

John Rainey

Sure, Craig, good to speak with you, you packed in a lot there.

Craig Maurer

Sorry.

John Rainey

That's all right. I'll start where you started with funding mix. We did not see any appreciable change in our funding mix, and you really see that in our transaction expense. It was 81 basis points, which is relatively consistent with prior quarters. But you ask that in the context of take rate, and one of the things that we did see that impacted our take rate by about 6 basis points in the quarter was the fact that we had more volume from Braintree. Because unbranded processing tends to carry a lower take rate. The mix effect of that actually brought down our take rate by about 6 points.

On tax rate, which was your second question, or subpart one to your question, subpart two. I think generally when you look at the policy environment right now globally, there's an expectation probably that taxes will go up over time, I think. On the international front, it would probably be 2023 before I think the OECD G20 aligns on anything that could be implemented there. Even then, it's unclear how PayPal would be affected, if we would be excluded as a—under pillar one as a financial institution. TBD on that. For the year, I'd say, for 2021 and generally in line with what you saw this quarter, probably.

Then lastly, on the competitiveness of our in-store offering. Look, this is a long game here. We're taking our first steps, and this is in some ways uncharted territory for us, notwithstanding the fact that we've done some bespoke things in the past in this area. But over time, we believe that consumers are going to gravitate towards digital wallets. Those digital wallets need to have the functionality and the capabilities that really keep them engaged and allow them to use that wherever they're shopping. I think we have a head start with our network of over 30 million merchants that we have right now.

As we expand that into the offline world, and we include the many different payment options like we're talking about, like buy now pay later, the ability to use rewards, that those value propositions will shine.

One of the things that we're very focused on, as you talk about end-to-end solutions and controlling that complete process, is latency, and the in-store experience. When we first launched with CVS, as an example, we had about a seven second latency, in that experience; that's obviously not a good experience. We have that down to two seconds right now and plan to improve it from there.

It's all these types of things that, over time, we think will be very competitive in arguably what will be a fragmented area for a period of time, but I subscribe to the theory that you're going to see a couple of digital wallets win in the space. I say a couple, not necessarily two, but I don't think it's going to be 20. I think that we've got a great value proposition given the head start that we have and the penetration that we have into our customer base right now.

Craig Marter

Thanks, John. I appreciate it.

John Rainey

You bet.

Operator

We have your next question from John Davis with Raymond James. Your line is open.

John Davis

Hey, good afternoon, guys. Maybe, John, just want to talk a little bit about the net new actives? I think we've beaten the take rate to death here. But obviously, you're implying pretty meaningful acceleration in the back half of the year. Then as you go out longer term, even a further acceleration on an annual basis to get to that 750 million. Just curious, what's driving the confidence in this year, and then longer term? Are you assuming any that 750 million are acquired inorganically? Or is that a purely an organic number? Thanks.

John Rainey

Great question, first of all, great name too. Longer term, generally speaking, that's going to be organic. Maybe we'll pick up a little bit here and there, from smaller acquisitions, but it doesn't contemplate any large acquisition to get to that number.

I think to understand what's happening with net new actives, it's really helpful to zoom out on the second quarter and think about the 11.4 million net new actives that we added this quarter. Appreciate that the most significant pressure from churn happened that quarter, right, because we added over 20 million net new actives in the quarter of the prior year. We've got huge pressure on churn there and even with that, we had 11.4 million net new actives, which by historical standards would have been fantastic, right? This is the low point of net new actives for the year. When we look at the level of activations and reactivations for the back half of the year, combined with the improved churn levels that we've seen pre COVID, that gives us a lot of conviction around being able to get to the numbers that we've targeted.

We've also, I think, really improved our capabilities around customer acquisition than where we were a couple years ago. Much better clarity with what cost of acquisition is, what the customer lifetime value is, and the ability to spend marketing dollars into that. But fundamental to your question around how do we think that we'll achieve those 750 million [active accounts] really comes down to user engagement. As we add more experiences to the wallet, more ways for people to use us, different channels, being able to use us offline, we think that that is going to drive a lot of that increase in net new actives, and accordingly, user engagement.

John Davis

Okay, thanks.

John Rainey

You bet.

Operator

We have your next question from Bob Napoli with William Blair. Your line is open.

Bob Napoli

Thank you. Hey, John, question on buy now, pay later. Having the best value prop and getting that dramatic growth that you are, what is your confidence? Why can you have the best value prop and still generate very attractive profitability? How would you view the risks on credit quality on that business, especially growing that fast? Is there a plan to offload the credit quality with a partner like Synchrony or somebody like that, eventually?

John Rainey

Sure, Bob, it's always good to speak with you.

First of all, let's talk about our value proposition. From a price perspective, well, it's free. When you're a merchant and you're thinking about adding a payment option that provides installment payments to your customers and you look at the net that we cast with over 400 million customers around the world, that's unequalled distribution for that merchant. That's a fantastic opportunity for them, and they bear no risk. The way that we monetize that, because we don't charge for it, is by increasing our share at checkout. We've given some data points that support that already that we're quite encouraged about. We don't need to specifically ascribe a price to that to charge for that, when we can increase our share at checkout with these merchants.

In terms of the credit quality, it's very strong with this. In fact, still today, about 80% of that is funded with debit. Moreover, we have visibility into the customers that are using this product. Many of these customers we've had relationships with for years, if not over a decade, and so we understand their payment history and their willingness to repay. We've had great results there around the credit quality.

Then with respect to offloading that, this is not a part of our portfolio, Bob, that likely would lend itself to offloading or doing off balance sheet because of the short duration nature of it. When issuers like Synchrony want to partner with us, like they did with the U.S. consumer book, they're looking for that revolving nature of that. If we were to do another off-balance sheet transaction or asset light transaction, it would likely be either international consumer book, which is about half of the almost $4 billion that we have today on our balance sheet around credit, or it would be one of our merchant portfolios.

Bob Napoli

Thanks. If I can just follow up on the tracking of Venmo to your revenue targets to the $900 million and just, what areas are you seeing more monetization? Obviously, you called out the growth of Pay with Venmo.

John Rainey

Bob, I can answer that real quickly. It's on track. Also, the composition is very much in line with what we expected.

Bob Napoli

Thank you.

Operator

We have your next question from Lisa Ellis with MoffettNathanson. Your line is open.

Lisa Ellis

Hey, John, thanks for doing this call as usual. I had a follow up on the question earlier related to NNA growth. Can you talk a little bit about the geographic composition of NNA growth? Are you starting to see more NNA growth ex U.S.? If so, which geographies and particularly emerging ones, how you're building up that user base outside the U.S.? Thanks.

John Rainey

Lisa, it's always good to speak with you. Right now, the composition of NNAs generally correlates with the footprint that we have around the globe. Most of our NNA growth has been in our core markets. PayPal still is the largest contributor of those NNAs, followed by Venmo. When you include Venmo, it obviously skews to the U.S. But if you were to look at the footprint that we have in each of those markets, certainly very much correlates with those net new actives. We're not seeing the growth in some of these emerging markets or newer markets just yet, but we're early on in our efforts in many of these places like Japan, like Brazil, some of these, Mexico, some of these other countries that we've that we've called out.

Lisa Ellis

Okay, okay. Then just a quick follow up on the Super app, can you give us a sense for what we'll see? Meaning what the marketing and rollout strategy is around the Super app in the next few months?

John Rainey

In the next few months, look, we're quite excited about this internally. I don't want to mislead the audience to think "you're going to see something that is just an entirely different experience" when we first roll this out. This is really about building blocks and foundation and giving us the capability to roll out experiences over time. There's maybe a tendency to describe this as a Ferrari versus the Model T Ford that we have right now; that's not going to be the first initial experience. This is something that we'll build on over time and add capabilities, and understand too or appreciate too that a big part of this new app for us is actually rewiring or replumbing the app to allow us to add functionality and capabilities to it in a much nimbler fashion than what it takes today where we effectively have to overhaul the app to add some of these experiences.

Lisa Ellis

Thank you.

Operator

Your next question comes from the line of Josh Beck with KeyBanc. Your line is open.

Josh Beck

Thank you, John, and team, so much for doing this call, as usual. John, I just wanted to ask about the pricing strategy. I really like the slide that you included in the deck. My question on it is, when I think about this broad array of services, branded, obviously, a lot of value, how much did you factor in some of the newer services like pay later, Pay in 4, to justify the premium versus unbranded? Just curious how big of a component that was in that pricing differential?

John Rainey

Josh, that's a great question and you're exactly right, as we step back and we look at, on the branded side—well, on both sides, but I'll start with branded—how we're priced against the competition. We look at the value that we provide and capabilities, including things like Buy Now, Pay Later, we recognize that there was an opportunity to be more transparent in that pricing, but also price up to the value that we add in the market. You're exactly correct that we considered the full suite of capabilities that PayPal brings to bear to merchants when we change that pricing.

By the same token, did the same thing on the on the unbranded side and recognize that that is a less differentiated service. It's more of a commoditized product, and we need to be more in line with where some of the competition was.

Josh Beck

Okay, really helpful. Then maybe just a follow up on PSD2, obviously that's finally coming into effect after years and years of debate. But I'm just curious, when you think through maybe some of these strong customer authentication elements, if there's anything that's notable, just in terms of maybe the impact or the opportunity to your European business?

John Rainey

Yes. For us, we took a lot of measures to try to make that second factor authentication opaque to the consumer so that we weren't introducing more friction in the process. I would say that we've been successful at that thus far. We have seen some uptick in customer contacts related to this, that as consumers are having some issues with that, but nothing really that is notable to call out or certainly doesn't have any impact on our financials. But to be complete, that's the only negative impact that we've seen. We think that we've been able to navigate this very well by providing a frictionless experience and still comply with PSD2.

Josh Beck

Really helpful. Thank you.

Operator

We have your next question from George Mihalos with Cowen. Your line is open.

George Mihalos

Hey, John, thanks for doing this. Appreciate it, as always. Just have two questions and I'll ask them up front. The first is, I'm just curious, from an engagement perspective, with your crypto offerings, if you saw different levels of engagement throughout the course of the quarter given some of the volatility that we've seen in Bitcoin prices, in crypto prices and the like?

Then the second question, not to beat a dead horse on eBay, but I think you said the take rate in the quarter on eBay was about 3.2%, down from 4.1%. Then I'm shifting out to an exit take rate of about 2.5% or so, based on some of the numbers you gave for the fourth quarter going into '22. Is that a good take rate to think for eBay going forward? Or will there be likely another step down as we think about 2022?

John Rainey

Yes. Let me start with crypto there, George. First, it's always good to speak with you. Crypto, the volumes that we're seeing very much correlates with how much you see this on CNBC in the mornings. As you see volatility and the price increases, and we see more engagement, and on our platform from our customers. But if you look at, on average, our customer base over the first 60 days, they're doing about seven transactions, a little bit more than seven transactions with crypto. Now we've since increased some of the volume limits. Dan mentioned this, but previously, we limited our customers to $20,000 in volume per week. Now that's been increased to $100,000. But all in, what we're seeing on our crypto platform is probably slightly better than what we expected but still immaterial to our overall results. But very much tracks the excitement and volatility that goes on with crypto there.

On eBay, you're correct, and that we did see a step down. Where they are right now, though, is not where they will end up. You should expect that to come down more to a rate that's more commensurate with the level of volumes they're providing relative to other merchants that is more an arm's length market-based transaction. This is a vestige of the metered or ratable step down that was agreed to as part of the agreements that we have with them, but you should see more of that come down over time.

George Mihalos

Great, thank you.

John Rainey

You bet.

Operator

We have your next question from Jamie Friedman with Susquehanna. Your line is open.

Jamie Friedman

Hey, John and Gabz, thanks for doing this call. I'll just ask my two upfront as well. The first one is about this Slide 11. You don't have to look at it, you'll remember it's the one that's the top 15 marketplace disclosure. I was just going to ask about this, John. As these big marketplaces come on, doing $118 billion of volume, how should we be thinking about the impact on the take rate from them because that does seem an important part of the way forward?

Then if I could just ask for a clarification between the 0% and 2.5% percent related to eBay, that Dan referenced, I assume that's branded versus unbranded. But it seemed important. I just want to make sure we got that. Right. Thank you.

John Rainey

Before you go, Jamie, can you clarify the second part of that question, the 0% to 2.5%? What are you referring to there?

Jamie Friedman

I think in his prepared remarks Dan referenced the eBay, either run rate or contribution?

John Rainey

Oh, yes, I know what you're talking about. Yes, okay. Starting with that, I believe what he was referring to is the fact that we've got about 800 basis points of [revenue] pressure in the third quarter and that steps down to 600 basis points in the fourth quarter. It's still a headwind, but not as much of a headwind as in the third quarter. Then as we get into next year, that obviously becomes much less pronounced. Still a headwind, but just not the same magnitude.

On our marketplaces, we're very pleased with what we're seeing, both in terms of our share of checkout with these marketplaces, and the growth that we see in it. As you look at some of these graphs, you can see that it has certainly replaced a lot of the volume that we've lost from eBay. But we've been able to manage our business over time by bringing more large enterprises on and those having lower take rates and still grow our margins. You've seen our take rate come down over the last few years; a lot of that is mix. When you're present at a lot of these larger merchants, it's also a ubiquity play for our customers that use us and more, and other merchants, that may be where we did have a higher take rate. That's something that you should expect, and again, going back to my previous quote, or an earlier question around our medium-term guidance, we would expect that as we have more large merchants, that'll put some pressure on take rate.

Gabrielle Rabinovitch

Yes, Jamie, the one other comment I'd add is that some—not all marketplaces are the same. We have some marketplaces that have a lot more cross border volumes than others. When we think about your Alibaba's, those are very heavy cross border marketplaces. Those obviously have slightly better revenue yields than some other marketplaces where the volumes might be very domestic oriented and those would be lower.

Jamie Friedman

Got it. Thank you, guys.

Operator

We have your next question from Harshita Rawat with Bernstein. Your line is open.

Harshita Rawat

Hi, thanks for taking my question. John, can you talk about the dynamics of your underlying e-commerce addressable market? Are you seeing a phenomenon where e-commerce volumes are getting aggregated into larger platforms and how is that impacting your large merchants versus small merchants?

John Rainey

Harshita, good to speak with you.

Yes, I don't know that there's anything really to call out there where we're seeing aggregation on larger platforms. It's been relatively consistent with what we've seen historically there. A lot of the sellers are selling on multiple marketplaces today. We even see that with eBay, where you would expect some decline or some churn in merchants as eBay moves some of this away, but the fact that we still maintain a 60% share of checkout there, and then many of these sellers are selling on other marketplaces. That's not really a phenomenon that I would call out as anything notable at this point in time.

Harshita Rawat

Thanks.

John Rainey

You bet.

Operator

We have your next question from Trevor Williams, with Jefferies. Your line is open.

John Rainey

Hey, Trevor.

Trevor Williams

Hey, how are you? I wanted to get your take just on some of the news flow. This follows some of Jamie's question around the marketplaces. But some of the news flow this quarter around Shopify and Facebook, more recently both expanding the reach of their own branded, call it, checkout experiences beyond their own platforms. I know they're both good partners today, but just longer term, what's your sense of their ambitions? Over time, what would need to happen for you guys to perceive them as more of a direct competitor than the partners they are today?

John Rainey

That's a great question. Look, we still maintain a high share of checkout with Shopify, and they are a very good partner that provides a lot of volume to us. But they, like others that you've mentioned, have ideas about getting more into digital payments because it's a coveted space. Whether you're in payments or you're an ad tech company, getting into the payment space, if you're willing to get into the muddy, yucky underbelly of it that takes to be successful there around compliance and all of that, there's a lot of appeal to it, in terms of what it provides from a data perspective. That's why you see some of the others that maybe are less like Shopify, but more traditional advertising companies that they get into this.

We believe that our value proposition stands up with anyone. You continue to see the benefits or network effects of our business by adding more merchants, adding more consumers, having more ubiquity around that. Will they become more of a direct competitor over time? That remains to be seen, but if that is the case, we've shown, hopefully demonstrated historically, that we're able to navigate a hyper competitive space and still perform very, very well.

Trevor Williams

Okay, and if I could just sneak in a quick follow up. The TPV guide for the year, it's coming up by more than the beat in the second quarter. That's despite the eBay headwind being more incremental. Just, any pockets there of incremental strength that you could call out? It sounds like travel and events coming back a little bit quicker than you might have expected on an order of magnitude for the year. But anything else just within TPV that's driving that underlying strength above the previous guide.

John Rainey

Travel and events would be the one that I'd really call out that has accelerated at a quicker rate than what we expected. What you probably remember, Trevor, we talked in the first quarter and second quarter last year about it being more than 10% of our payment volume. To consider it low teens is the right way to think about that historically.

This quarter, we saw a 350-basis point acceleration from the first quarter in terms of travel and events. I think for all of us on the call here, if you've been to a commercial airport recently, it's probably exceeded what your expectations were around how crowded it was. We generally, as we look at verticals and try to plan for those, some of it's seasonal like back to school, some of it's summer with travel, but we thought travel and events would follow vaccination rates. What we saw is we got to a certain level of vaccination rates and then travel and events exploded in the quarter. It remains to be seen around what happens with variants of the virus and more restrictive measures around wearing masks and things like that, what that will do to travel for the back half year.

But our expectation is that travel is going to persist at high rates through the summer, and then that will go back down to more normal seasonal levels when we return to school. Our expectations right now is that back to school will be relatively strong based upon what we're seeing and what we're hearing from retailers. We also expect that, as we look at the holiday shopping period, based upon last year's performance, we would expect that to be stronger than normal as well. Fashion retail would likely be contributors to that as well.

Trevor Williams

Got it. Great. Appreciate it. Thank you very much.

Operator

We have your next question from Timothy Chiodo with Credit Suisse. Your line is open.

Timothy Chiodo

Thanks a lot. Thank you for taking the question. I want to talk about users a little bit too, but specific to emerging markets. I know that you mentioned earlier, John, that it hasn't been thus far a driver of the user additions, but over the longer term it could be. In LatAm specifically, you have the partnership with Mercado Libre. If you could just get into the mechanics a little bit. How does that work in terms of bringing on a user? Has there been some progress there or traction? Is there something that we should look for? I realize it's maybe not—those users might not be as engaged, but I do think that they have the chance to be more cross border. Therefore, maybe fewer transactions, but better for the monetization?

John Rainey

Well, let me start here and Gabrielle might want to add something, but our strategy in various geographies can differ based upon the unique aspects of that geography. As you mentioned, Brazil, that's very much a market where we're looking to partner with companies like Mercado Libre, and others by the way, that we think can really drive some increase in net new actives and growth over time. In other markets, our value proposition by itself probably shines where there's more of maybe an underserved segment and Mexico is maybe a good example of this where there's arguably some whitespace there for a company like us to come in with a with a suite of services that include remittances and things like that, that are really appealing to that demographic there. Then Japan is even a different story from that.

That strategy very much depends upon the market. But with all of those markets, not only are we aspiring for domestic presence, but to your point, we want to bring the PayPal value proposition and the

32 million merchants that we have around the world to complement that strategy and that's cross border. That tends to be higher margin, higher take rate for us, as well. It's that suite of services that I think will really enhance the value proposition that we provide when we enter those markets in a more full-scale way.

Gabrielle Rabinovitch

Yes. I'd also say in some of those emerging markets, our bank partnerships are actually quite important for onboarding of new customers and just specifically in Latin and South America, what we're doing with Itaú and Banorte, I would call that as particularly important to that strategy, because both of those issuers have very strong customer bases in those markets. We think about opportunities to bring those customers onto our platform as a real opportunity going forward.

Timothy Chiodo

Great, thank you for that, Gabrielle. That's a good additional context on the bank partnerships, I appreciate that. The quick follow up is on buy now pay later traction with large enterprises. Obviously, whenever you have a number at 40,000, right, there's going to be many smaller merchants as well. But how have the discussions been going with the larger enterprises?

Gabrielle Rabinovitch

Yes. I think the discussions continue to go well. I think the selling process is probably a little more protracted with larger merchants because their checkout areas are more competitive. They take a much more long-term approach to how they think about it relative to a lot of SMBs who are not integrating with other Buy Now, Pay Later providers right now. We can easily add additional conversion to them and they see the incrementality very easily.

But on the large enterprise side, I think our last update was, call it, about 150 LE's; we're up to about 250 LE's now. We're making good progress in terms of large enterprise integrations. But that's clearly a very important focus for us as we go forward. I think John mentioned on the main call that we see really strong checkout share when we have that upstream presentment. We get 11% lift on checkout when we bring ourselves upstream. We know how incremental it is and how important it is. That's something we're going to continue to work on the same way we work on merchant presentment more broadly.

Timothy Chiodo

Perfect, thank you so much to both of you.

John Rainey

You bet.

Operator

We have your next question from Chris Brendler with D.A. Davidson. Your line is open.

Chris Brendler

Hi, thanks and good afternoon. Thanks for taking my questions. I'd like to first start with a Venmo monetization question. I'd like to comment on this Venmo for Business going to 500,000 with 300,000 in the second quarter alone. My question there is, I thought the impetus for change there was the announcement on June 28 and for the heads up that you're going to start pushing more businesses towards Venmo for Business. What drove the second quarter acceleration there? Should we see even bigger acceleration in the third quarter in Venmo for Business?

Gabrielle Rabinovitch

No. On the business profile side, specifically, we actually launched business profiles around June 2020, and it was an invite only pilot. We then, starting in January of this year, opened up business profiles to the full population of Venmo users and we've seen really strong adoption of business profiles. The announcement on the payment side was really about the payment construct for transactions that are running through Venmo business profiles, but the actual focus on pulling more Venmo users onto the profile side and really allowing Venmo users that have both a business and use Venmo for personal that opportunity to have a separate identity on Venmo and run their transactions in a discrete way. We've been pushing that for a number of quarters now.

Chris Brendler

Okay, so shouldn't be any step function higher than next quarter. Okay, and then the other question was on the pricing changes. Slide 22 has that revenue walk from third quarter guidance to fourth quarter implied, a very, very small bar for U.S. pricing changes, which I think is in line with what you said about that material this year. My question there is: one, is that a little bit smaller than it would be normally because you got a half a quarter of pricing in third quarter, so it's actually maybe a little bit more than that on a run rate basis? Then the more important question, John, maybe you could just talk about the opportunity to reprice some of your contractual merchants in the United States. Not that easy to do with enterprise, but you are adding a lot of value.

John Rainey

Your first point is exactly correct. It's lapping half a quarter in the third quarter. On a run rate basis, a normal quarter would be a little bit larger than that. With respect to opportunities around some of our contracted merchants, that really comes down to the value or the services that we provide for them and

Buy Now, Pay Later is a good example there. Maybe there's some opportunities there depending upon the relative importance of those services to merchants. But that's a one-by-one negotiation and it's very difficult to generalize if there's a huge opportunity to do that over time.

Chris Brendler

My question was related to the decrease on branded Visa/MasterCard processing and trying to bundle that with a button. I thought that was potentially an opportunity in the United States.

John Rainey

I don't see that as an opportunity, as I understand the question.

Chris Brendler

Okay, thank you.

John Rainey

You bet.

Operator

We have our last question. We have Chris Donat with Piper Sandler, your line is open.

Chris Donat

Good afternoon. Thanks for taking my question. Just wanted to ask about the international take rate and if you could break out the split between the negative impact from the currency hedging switch direction? Then also, what was the impact from eBay in that mix, if you can give us any numbers around that or just magnitude of what mattered more for the year-on-year decrease in the international take rate?

John Rainey

Yes. We won't break out the eBay piece. But you are correct that it has a more pronounced impact on the on the international part of the business. Then on the hedges, the $122 million change year-over-year from a gain to a loss, that entirely hits the international revenue and therefore international take rate. Those are the two big drivers of what you're seeing on the international entity.

Chris Donat

Okay, thanks very much.

John Rainey

You bet. Well, I think that was our last question. I want to thank everybody for joining today. I'm sure that we'll be speaking to many of you over the coming days and weeks to follow up on any additional questions, and I hope everyone has a good evening.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.