



**Second Quarter 2022 Buyside Call | August 3, 2022**

## **CORPORATE PARTICIPANTS**

**Dan Schulman**, *President and Chief Executive Officer*

**Gabrielle Rabinovitch**, *Senior Vice President, Corporate Finance and Investor Relations*

## **CONFERENCE CALL HOST**

**James Faucette**, *Morgan Stanley*

## **PRESENTATION**

**James Faucette**

Hello, everybody. This is James Faucette, head of payments research at Morgan Stanley. Thanks to all of you for joining us today. We're going to be going to be talking with PayPal CEO, Dan Schulman, and Gabrielle Rabinovitch, head of IR and newly appointed treasurer.

We'll go ahead and kind of kick off, not a lot of other preamble things to do. Dan, I'll start with you. Kind of in our view, the two key parts of the PayPal growth algorithm are underlying e-commerce growth and then PayPal's growth relative to that e-commerce growth. So maybe I'll let you start, and can you touch on how you're thinking about those two pieces right now, and any other high level things you want to make sure we start with?

**Dan Schulman**

Thanks, James and thanks everyone for joining us this morning. I'd first start out just publicly thanking Gabz for all she's done in the last several months since John left. She has done an incredible job stepping in, we did not lose a beat. Maybe we gained some beats actually and her promotion and additional responsibilities are so well deserved. I just want to thank you and congratulate you as well. I had to start off that way. James, on your question on how we're thinking about eCommerce growth and our performance relative to that, we're trying to, like all of you, parse out a number of different data points and the macroeconomic geopolitical environment around us is not making that any easier.

We were first trying to figure out as you went from a pre pandemic to post pandemic world, how would that shake out? The second we emerged from that, we went into a very difficult macroeconomic and geopolitical environment and we are assuming things don't get better. We are assuming that inflation remains high, that there continues to be a strengthening dollar and FX pressure, that consumer confidence will stay where it is at a low level, that there's an increased chance of recession - maybe even a likely version of that in Europe and we'll see here in the US how that plays out with all the Fed is doing in terms of trying to tamp down inflation. We saw early on because we have a very wide base of customers that low income consumers were pulling back on their spend, were clearly moving from discretionary much more non-discretionary and from goods to services.

We're not assuming that changes as we look forward and we'll talk more about our assumptions as we look into next year and our cost structure. I also believe China with the zero COVID policy and supply chain issues is going to be some time before we see that recover. If you look at all of that and you look at e-commerce rates, initially we were thinking e-commerce growth was going to be about 10% for the year here in the US. Our view is it's lowered from there to maybe around 8% or so. There's been some recent reports out that have looked at the year more in a 5%-7% range for e-commerce growth. I think it might be a little bit better than that. I think it will clearly accelerate in the back half of the year just because you're lapping big stimulus payments in the first half.

There's some unique things to PayPal in that we're also lapping eBay. We've been talking about eBay forever and probably everybody's sick and tired of it, but it's predominantly in our rear view mirror. We've got another 100 basis points of pressure [on revenue growth] this quarter. That dissipates as we go into the fourth quarter. That headwind is versus 600 basis points in Q1 and 400 basis points in Q2. So we pretty consistently are growing faster than the pace of eCommerce and we are taking share, probably increasingly so in this last quarter on both the branded and unbranded side. If you look at eCommerce growth in the US, we think it was basically flat. If you take out travel, eCommerce growth probably was negative. Our branded checkout ex-eBay, ex-P2P, ex-Venmo volumes grew in single digits, so we think we took a good amount of share on branded side. Our unbranded volumes [which are primarily comprised of Braintree] grew in the quarter about 43%, but if you look at our three-year CAGR we're pretty consistent at about 50% growth. We're clearly growing faster than our peers.

We're putting a lot of investment into checkout, into our wallets and into the Braintree platform to accelerate growth. I really do think there is an opportunity for PayPal right now, because many of our competitors are pulling back. Clearly nobody is buying placement anymore for checkout. There is a flight to quality in the market. We are seeing that with merchants and nobody's giving away parts of their company to get placement either. This is a time where we can gain share. We got to execute, go and do it, but the market conditions are right for that.

**James Faucette**

And that makes a lot of sense to us. Dan, you alluded to and talked a little bit about kind of that investment. And one of the headlines yesterday was obviously the expense savings and your plan to save around \$900 million in cost this year. And when that's annualized and we add in some other initiatives, that's maybe \$1.3 billion next year. But you're going to be reinvesting that and it seemed like the indication is that we'd still have like, kind of a gradual overall expansion of margins. Can you talk a little bit about where the cost savings are coming from? How did you identify those and maybe particularly for this audience, we've gotten a lot of questions on what portion of the expense savings were already worked into the outlook and maybe you can clarify really what we should take as incremental on the cost savings perspective?

**Dan Schulman**

I'll start and then Gabz will no doubt fill in. The first thing I want to say is make no mistake, we are investing in the business. We intend to improve our competitive positioning and our value proposition, and we intend to continue to take share and that will take investment. We have narrowed our focus in terms of our investment to checkout, digital wallets and Braintree, where we have high conviction in the impact of those investments in terms of what they will do vis-a-vis competitors and how our merchants and consumers will respond to that. That's number one. [These initiatives have all been underway for some time.] That is really important.

Second on the costs, we're going to be aggressive in reducing our cost structure and being as efficient as possible. Our scale allows for us to do that now. A big part of those cost cuts is our ability to leverage the \$1.4 trillion of TPV that we expect to flow through our platform this year. The amount of leverage we have now to reduce unit costs and our transaction expenses is pretty significant. That's already happened. We're not talking about are we going to go do that. We've done that. We've signed all of those deals and that will flow through our expenses this year and next year and the year after, and continue on, so that's a big part of this, leveraging our scale.

On the other side of this, we grew our [non-GAAP] operating expenses quite a bit over the last couple of years. We've put on a lot of headcount. We don't need incremental headcount. Other companies are laying off headcount. We are down from the beginning of the year to where we are now on headcount, both on full-time employees as well as contingent workers which are what we use in our servicing center because our product's gotten better, we have less calls coming in. We need less people therefore, and we can be a lot more efficient and a lot more productive. That \$900 million [of cost savings] is all in this year. The \$1.3 billion [of cost savings], we said at least that and we are sharpening our pencils to look for more next year. I do want to say this, the \$1.3 billion [of cost savings expected in FY'23] and our keen focus on driving out even more costs is reflective of our plan for a difficult economic environment over the rest of this year and into next year as well. I think this is the prudent way of doing things. I think we need to have a cost structure that reflects that and at the same time allows us to expand our operating margin and enables us to grow our [non-GAAP] earnings per share double digits, mid-teens [over time,

in different operating environments]. No matter what, we want to put in place the cost structure to make sure that that happens.

Things could get better, and that would be great, and we could have just a super year next year if all of that came in. But we need to plan for a recessionary environment, a cost structure that reflects that, make sure we're rebalancing our investments in these high impact, high conviction growth areas and just do that in a responsible way. As we think about our cost structure we are planning for a difficult environment next year and making sure that we're ready to not only address that, have the right resources in place, the right investments in place, but make sure that we have the right return to our shareholders as well. We can do all those things as we do that. Anything to that?

**Gabrielle Rabinovitch**

No, I don't have anything. But James, if there are line item questions or details around certain areas of the cost savings, please, maybe this would be a good time to spend more time there before we move on to another topic.

**James Faucette**

Sure, Gabrielle, and that's actually what I wanted to do. I actually wanted to ask specifically yesterday you outlined that transaction expense would be roughly half the cost savings, but how should we think about the trajectory of that expense rate relative to what we saw in Q2? Should we expect even though what you're paying on a like for like basis those costs are coming down, the mix could impact that? How should we be modeling that out so we're not taken by surprise there?

**Gabrielle Rabinovitch**

Yeah, sure. For the full year I'd expect it [Transaction Expense] to come in a little lower than the 90 basis points in the second quarter, and that's in part a result of what Dan talked about in terms of benefits we're getting from scale with our network partners. That also is in consideration of the continued strong volume mix that we're seeing from Braintree. Those two pieces have a balancing out effect to a certain extent and should take [Transaction Expense] down a little lower [for FY'22 vs. Q2'22]. I'd expect to see us actualize the year, maybe a point or two lower than where we were in the second quarter [Transaction Expense was 90bps as a % of TPV in Q2'22]. What we're doing with the networks and benefiting from our scale really does help offset some of the inflation that we see as a result of Braintree mix. So we're balancing that out. As we think about the trajectory into next year a lot of that is based upon where we see volume growth coming from. But again, we'd expect to kind of see [Transaction Expense] stabilize in that high-eighties [basis point] range for the full year. And that's what I would expect to see at least over the next few quarters.

**James Faucette**

Got it. And what would you expect in terms of any mix changes or other things that we should be aware of that can move that around? Or do you feel like that that component is also stabilizing?

**Gabrielle Rabinovitch**

We're seeing some stabilization. What we're contemplating in the back half of the year is, Dan mentioned we're expecting to continue to see sluggish e-Commerce growth and the consumer broadly impacted by some of the trends we're seeing in the [macro]environment. That is contemplated by what we're thinking about from a TE [Transaction Expense] rate standpoint, in terms of the mix of volume relative to other things. I think it's probably too early to call 2023 right now. Obviously, we're still working on how we think about the year playing out. We'll have to see how we finish up 2022 both in terms of back to school and holiday, as well as just the overall macro environment. But I think given the different benefits we get from scale, as well as what we see from a volume mix on Braintree, that high eighties [basis points Transaction Expense] probably make sense to us.

**Dan Schulman**

Just one other thing I'd add to that, James. If we look at the shape of our revenue growth coming right now, as we said yesterday, the quarter went 7%, 10%, 12% in terms of [monthly revenue growth] FXN. July [preliminary FXN revenue growth] was 14% plus. But one of the encouraging things we saw, not unsurprisingly, we kind of expected, but it's encouraging to see it anyway, is that the PayPal branded checkout piece is now beginning to grow quite positively. We'll see how that continues as we go through the year, but we're encouraged by what we're seeing in terms of growth rates. Obviously Braintree is also doing well and we are figuring that into our mix, but the branded checkout is beginning to pick up as well.

**James Faucette**

Got it. And then I guess as a follow-up question on the other parts of expenses, it sounded like you were maybe going to find ways that you can improve the efficiencies of things like sales and marketing, et cetera. But a key question is like, where does that savings come from? And if you're looking to take share, how can you do both, right? Like, find more efficiencies or even pull back on sales and marketing versus take share.

**Dan Schulman**

It's a little like saying you want to run a four minute mile, should you do it at 180 pounds or 165? You know what I mean? You should just be in better shape around these things. For us, it's about reallocation. If you think about the shift in our strategy which is all about focusing on engagement retention, increasing ARPA [Average Revenue Per Active], driving transactions for actives, monthly active users, that kind of thing. A lot of our marketing dollars can be used way more effectively or are not needed to drive the engagement that we're going to get out of our products, so we can be much more efficient in our marketing. Clearly there's no question about it. If we look at the new cohort of June

[20]22 Net New Actives versus the June [20]21 cohort, which is much more organic coming in and not marketing driven, that first month CLV [Customer Lifetime Value] is two times that of a year ago.

Just focusing in on the things that we know drives value, NNAs [Net New Active Accounts], we don't have a top of the funnel issue. We have a churn issue because we're at 430 million active accounts right now. As we focus on engagement, driving TPA [Transactions per Active Account], driving ARPA and the use of more services clearly also decreases churn. I talked about this I think yesterday, our digital wallet users are seeing a 33% reduction in churn. That's going to start to play out in the NNA lines as well. Just because we're focused on engagement and ARPA and doing things in a very efficient way, doesn't mean that the franchise doesn't continue to grow. In fact, I'd argue exactly the opposite.

**James Faucette**

No, that makes sense to me. Let's turn quickly to Braintree, obviously growing quite well. Can you help parse out the pieces of that growth? How much is coming from new wins versus underlying volume growth, and can you remind us of the mix of that underlying Braintree merchant base and how it compares to your branded PayPal merchant base?

**Dan Schulman**

We have a blue-chip customer base inside Braintree from Instacart to DoorDash to Spotify to Uber to Airbnb to Lyft to Wayfair. These leading app providers all use Braintree and we are deepening our relationship with them. We are gaining more volume. Our authorization rates are amongst the best, our loss rates are the lowest, our reliability is very high and the experience is fully native. It's integrated across our tech stack. It's the best presentation that we could possibly have of both PayPal and Venmo and our other services. It's really quite seamless for the most part with one-click checkout. It enables those merchants access to new geographies, multiple currencies, different alternative payment methods, wallets, cards. We're increasingly playing in a payment orchestration role as well.

Most of these big accounts have to have multiple PSPs [Payment Service Providers], just for backup. We can do things like smart routing, real time ledgers. There's a lot of things that our value proposition has that's very attractive. But the sales pipeline right now is what I'm most enthused about to tell you the truth. It's big accounts. They are meaningful. It's big volumes. What I like about it is when we go into these accounts, it just deepens our relationship. We typically pair it, especially for marketplaces, with payouts that's our Hyperwallet acquisition really linking a pay in from a customer to a payout to a driver, to a gig economy worker. That's increasingly playing out as well.

The pipeline is strong [and] the base remains pretty constant. We're putting investment into it. I think we can start to move down market with Braintree. We're seeing increasing wins in Europe, in Latin America, Brazil where we have higher margins in those geographies as well as we do in payouts in other value added services. We're just going to keep pushing on Braintree. It is clearly resonating. There is this flight to quality right now and there are a couple of quality players in the market, and we're clearly one of the leaders in that.

**James Faucette**

Got it. When you look at the that growth and it sounds like you have a lot of new customer opportunities and things that you're doing and maybe even opportunity to improve the economics of Braintree, how much of that is contributing to the growth you're seeing now versus how much of it is of the growth today is coming basically from your key customers, their own growth and in some cases even a rebound in their activities post pandemic, if you will.

**Dan Schulman**

That's a good question. I'm not sure. I know the exact answer to that. We have big players who are giving us more [business]. That's probably driving most of the growth. But the pipeline going forward is a meaningful one. We have a big base growing TPV [Total Payment Volume] at 43% in Q2'22, so there's a lot coming from the base and the deepening of the relationships there. And we'll just keep adding to it.

**Gabrielle Rabinovitch**

From time to time in a quarter, we'll have a new merchant start giving us a lot more volume that can lead to chunkier growth or more episodic increases in growth. That said, from the depths of the pandemic to today we've seen a nice recovery in travel and event volumes that we would've expected to see. We started to see that come through in last year's Q2. Q2 of 2021 is when we really started to see some of that travel and event volume return, and those merchants continue to grow nicely alongside some of these newer merchants that come to us, or the merchants that are giving us more volumes in different regions or extending volume to us in a broader way.

**James Faucette**

Right. Is there any aspect of Braintree that's at all cannibalistic to the broader business, or does it tend to be, does that growth in Braintree tend to be almost entirely incremental?

**Gabrielle Rabinovitch**

No. Actually, in many instances, we think about it as somewhat synergistic with the core checkout. When we can show a merchant that we can really advance them from a processing standpoint, reduce their loss rates increase their authorization rates, really help them unlock more commerce that actually can lead us to better presentment overall for our core checkout buttons. We really think about how that broadens the way we can work with merchants. Sometimes we lead first with a button, other times we lead first with Braintree and then come in with a more fulsome branded checkout experience. In the case of Uber and others, pay with Venmo, pay with PayPal are very important funding instruments that we see on those platforms. Obviously, one of the benefits we get from Braintree is we get to see all funding instrument mix. It allows us to have very good insight into how our buttons are taking share, how they're doing, how that grows over time and what we can do to help further advance ourselves.

**James Faucette**

So, on that point of buttons, is that I think that there's, this is at least in my mind, and in our conversations with investors has been a key point of consternation of is PayPal getting the right button placement, presentment and opportunities generally. and I know that both you Gabrielle and you Dan have talked about like efforts to improve [] where PayPal is and in that purchase flow, et cetera, where are we today and what kinds of changes in improvements should we expect in coming year and in periods?

**Dan Schulman**

There are two different aspects to this. One is how do we continually improve the performance of our checkout? How do we reduce the number of clicks, reduce the number of scrolls, make sure that we're fully native into the apps that we don't have a pop out coming out, how do we make that easy for our very large base of customers, many on legacy technology, to have the latest integrations with us. The other is where are we in the presentment flows on all pages of our merchants. Those are the two different things and we are working them as two separate projects. I talked a lot about what we're doing in terms of trying to modernize our checkout and all the opportunities that we have and we're making good progress.

It's a lot of work and it takes time. We are experimenting with our mobile SDK [Software Developer Kit], which is a lightweight integration for our small to mid size merchants to be able to move into a fully native checkout, no pop out and that will be rolling out. We're working on a more sophisticated piece of that for our large enterprise merchants that we'll introduce later in the year, worst case the beginning of next year, to enable a much more friction-free, password-less, one-click checkout. When somebody vaults [their financial instrument] once, it's vaulted across our network. It's a huge advantage given the size of our network and the amount of vaulted instruments that we have. But there is just the painstaking work of going merchant by merchant.

And we track this. We use an outside firm to look at every single payment flow in a merchant in our top 100, then our top 200 merchants and we work with each of them to try and optimize that placement. We've got to convince the merchant that we could do better, that they could have better conversion if [our placement] went up here and we've seen some progress on that. Walmart is a good example of that where we used to be three clicks down. Now we're on most of their flows right on their first page. That's just hand to hand combat, merchant by merchant. Our sales force reads out on that to me every single month. It is part of their compensation structure as well. We'll make progress on that. Some of it is a legacy tech stack that makes it very difficult to change that. We have to have a heavier lift and some of it is easier. We're working on both of them. We've got distinct efforts and we'll continue to make progress on it. We've got a big base and a lot of work to do there.



**James Faucette**

Yep. So, let's turn to, and we have limited time. We can keep going for hours on all of this, but I want to talk a little bit about BNPL [Buy Now, Pay Later] and credit more generally. Like obviously being able to offer that provides incremental reason for people to use PayPal as a checkout mechanism, et cetera. At the same time, I think there's at least some concern around where loan losses could be and where they should be. So, and I think there was some mention yesterday of looking at potentially some credit externalization. So can you talk through a little bit about what, how you're thinking about credit generally including BNPL and where does it make sense to try to externalize or find partners to take on that credit offering?

**Gabrielle Rabinovitch**

I'll start. And then if Dan has additional comments. You're right. Credit is an important part of what we offer our customers. It's important on the consumer side, it's important on the merchant side. It helps drive some of our TPV and it provides a lot of advantages in terms of how we think about the overall benefits of our platform. At the same time, having credit on our balance sheet is actually not something that we necessarily need. Obviously, we've elected to fund certain credit experiences on balance sheet. We've also done a fair amount off balance sheet. I think the US consumer revolve portfolio being sold [to] Synchrony several years ago is a really good example of running that business in a more efficient way.

That said, we have very much optimized our credit decisioning, our underwriting programs, and we feel very good about our ability to manage losses even if we were to continue to keep the existing book on our balance sheet and run it exactly the way we have. You saw in the second quarter our charge off rate was about 4.2%. We continue to see very strong performance overall. If we look at the health of the portfolio today versus pre pandemic, duration has come in very nicely. We're running the book in a much more diversified way, but also in a much more appropriate way in terms of duration. We feel good overall about the risk profile. At the same time, Buy Now, Pay Later has continued to grow very aggressively and we're very excited about the growth. The more funds that get allocated to fund Buy Now, Pay Later from the standpoint of free cash flow allocation, means we have less to use for things like acquisitions, other organic investments and capital return.

When we look at the balance of what we can do and how attractive that diversified portfolio is, we think there's more we can do in terms of working with partners to help us externalize some of that credit. If we were to do it with something like Buy Now, Pay Later given the duration in the book, you're probably looking at something where it would be a forward book relationship. I would not expect to see an upfront cash benefit to us from selling a back book. Given the short-term duration you'd really be talking about a forward flow type of arrangement. For us, some of the priorities would be making sure we're working with partners that are long term and want to work with us for many years to come and see the value in that diversified book.

In addition, we want to get deconsolidation and be sure that we were no longer provisioning. That said, similar to what we've done with Synchrony, we feel very good about continuing to help on the underwriting and servicing side. There's a lot we can do. We want to be really thoughtful about it. As we said yesterday, we are looking more aggressively at this. I'd expect more to come there, and that would be specific on Buy Now, Pay Later. There are obviously other parts of the book as well, whether it's UK Revolve or some of our merchant lending portfolio that over time we may also elect to look at other structures for financing. Those would be slightly different from Buy Now, Pay Later, given the characteristics of that credit.

**Dan Schulman**

On Buy Now, Pay Later, 90% of the people coming in we know. This is the advantage of scale. We know their payment histories. We know their credit history which allows us to have the highest approval rates we think in the industry and amongst if not the lowest loss rates in the industry. The other thing that we've done is we have a great value proposition around Buy Now, Pay Later. No late fees for consumers, no incremental fees for merchants. We make our money on the halo, through our discount rate with merchants. We can figure out where the profit pools of the industry are around these different services. Here we elect to have a very strong value proposition and make money through our merchant relationships.

We can tighten up [extending credit] easily, it doesn't affect revenues. I like where we are on the BNPL space. It goes more into product pages and upstream, that enables us to take share because it often doesn't even reach the checkout page where other buttons might be. We want to go after other Buy Now, Pay Later players who have upstream presentment and replace them with our BNPL services. It's a great competitive weapon for us, but it's one that we control and we feel really good about where we stand with that and vis-a-vis others.

**James Faucette**

So, let me ask a quick strategic question before we finish up with capital allocation and kind of forward thinking, but at what point does it make sense just to have or at least approach third party BNPL providers and just make them an additional funding option within the digital wallet and maybe relieve yourself of the underwriting and credit responsibility? PayPal already has a huge lead in acceptance and awareness. And frankly, it doesn't seem like BNPL providers can scale that fast enough to really reach what they aspire to. So is there opportunity to work with some of these players or does that seem still further off?

**Gabrielle Rabinovitch**

I don't know that is something that we'd be prioritizing today. The overall growth in our portfolio has just been fantastic, with \$5 billion of TPV from Buy Now, Pay Later in the second quarter. We scaled that organically across seven geographies. We have Paidy as well. We have a lot that we're doing there. We've continued to extend the program with introducing longer term, up to two year durations both in

Germany and the US. The value proposition for our customers is very strong. When you look across the competitive set, frankly, a lot of those players have transaction fees associated. They have late fees. They're not as consumer friendly as what we can offer our customers. Plus, when we think about some of the advantages we have on risk decisioning, the reason why our loss rates are so low is because these are our customers and they're coming to us and we have a lot of history on them. I'm not sure that adding another branded Buy Now, Pay Later option would be beneficial to us in terms of how we think about serving our customers. We really think this no late fee, no interest is the right approach for our customers. It helps us accomplish what we're trying to do.

**James Faucette**

Yep. Makes sense. So capital allocation. Obviously one of the big headlines was the announcement of \$15 billion of new repurchase authorization, which when we combine that with your existing one brings you to nearly \$18 billion, just shy of that. How should we think about propensity to buyback shares versus doing M&A and what M&A has been proposed that makes sense or doesn't make sense to you right now?

**Gabrielle Rabinovitch**

We announced a new [share repurchase] authorization yesterday. We've taken a more aggressive approach to capital return and share repurchase over the past 12 months. What we've messaged is that we'd expect that to continue at least to the end of the year. We feel like given our valuation, given our perspective on what we expect our business to deliver in the coming years, that this is an opportune time to continue to be in the market for capital return. Through the back half [of FY'22], I'd expect call it another \$2 billion of share repurchase to occur. Early next year we'll have another investor day and we'll come back to the market with an outlook for how we think about capital allocation over the call it the next medium term.

We also mentioned in our earnings release yesterday that we're doing a full review of all capital return alternatives, so we'll come back to the market with that too. M&A's been an important part of capital allocation for us over our history. We've generated about \$26 billion in free cash flow since separation, approximately 50% of that has been allocated towards acquisition and [strategic] investment. You've seen what some of our acquisitions have been able to do in terms of broadening our capabilities and really strengthening the platform. Dan talked about Braintree and the assets that sit underneath Braintree, including Hyperwallet, which have really changed the way that we can serve our merchant partners. Acquisitions will continue to be an important part of how we think about capital allocation and maybe Dan wants to talk a little bit more about that.

**Dan Schulman**

That's exactly right. We're going to continue to be aggressive. I think this is a real opportunity to return capital to shareholders. But we still have \$15 to \$16 billion of cash, cash like and investments on the balance sheet. We need about \$6 billion of that for operating and regulatory purposes. But we still have

plenty of firepower to look at M&A. A lot of the valuations in the private market have come crashing down to earth. I think some of them still have more room to fall. We're going to be quite selective. As we mentioned it's got to be right down the middle of the fairway for us, really complimentary with our skills and capabilities if we do an acquisition. We're looking at them always. We would go after what makes sense. We have plenty of firepower to go and do that. I would say there have been some rumors on this Pinterest thing, and I just want to say, there's no substance to those rumors whatsoever. People should take that off of your radar screens if they were on it in the first place. We look at the full range of capital allocation, the ways we might return it to shareholders, the quantum and then investing in the business and then looking at M&A.

**James Faucette**

Makes sense. Well, I guess, to wrap up here, I mean, I've gotten this question in various forms today and especially today, but even leading up to yesterday's report of what needs to happen for PayPal to kind of get back into being considered a "growth company," and sounds like between improving probably normalization of eCommerce, the share gains that you're seeing with PayPal branded checkout, the fast growth of Braintree and prospects for margin expansion that as we go into future periods, is that getting back to that growth algorithm that yields EPS in the teens, at least makes sense to me. I mean, is that fair to characterize it that way? And what are the things that need to happen for that to really happen to really come to pass?

**Dan Schulman**

I think you did a good characterization of it, James. Part of it is been appropriately prudent with our revenue guidance. If you look at where we are exiting July at 14% plus [revenue] growth, it's just a proof point. We're saying in the fourth quarter we [expect] 14% revenue growth. We are not anticipating strong back to school or strong holiday. We're trying to be appropriately conservative and make sure like we did for most of our history, that we're able to grow with operating margin leverage going forward.

Those are the things we're focused on. We just got to keep executing on that. Keep reading out. Every quarter will be another proof point for us. Hopefully people saw in Q2 all of the things that we have in place, as well as all of the organizational things that we're doing too like bringing in Blake Jorgensen, CFO and Archie Deskus our CIO from Intel, she's making a huge difference. The search for the new CPO [Chief Product Officer] will be a real addition to the team as well, and so we got a lot of things going on. We're managing them carefully, conservatively and prudently, but we are really focused on executing right now.

**James Faucette**

That's great. Well, we've run a couple minutes over allotted time here, but anything to add to wrap up, Dan or Gabrielle?

**Dan Schulman**

I don't think so. James, thank you for leading us through this and thanks everybody for your time again.

**James Faucette**

That's great. Well, thanks to everybody. And any follow ups, just feel free obviously to reach out here to us here at Morgan Stanley. And I am sure that Gabrielle and her team will be chatting with many of you during the course of the coming quarter. Have a good day.