Keefe, Bruyette & Woods, Inc.

Moderator: Sanjay Sakhrani
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Operator: This is Conference # 4386776.

Operator: Good afternoon, my name is (Chris), and I will be your conference operator today. At this time, I would like to welcome everyone to the PayPal Investor Call (Post) Second Quarter Earnings.

All lines will remain open throughout the conference. If you wish to mute or unmute your line, please press star 6. If you require any further assistance, please press star 0.

Thank you. I would like – I would like now to turn the call over to you, Mr. Sakhrani. You may begin your conference.

Sanjay Sakhrani: All right thanks, operator. And welcome to KBW's follow up call with investors and John Rainey, CFO of PayPal. I'm Sanjay Sakhrani and I cover the payments space at KBW. Joining John are (Gabrielle) and (Akila) from the IR Team at the company as well.

Thank you guys. Thank you, John and team for making yourselves available for this call. I've taken a bunch of questions from investors, and I've tried to put them together the best I can into specific categories, so that we can keep the conversation fairly to the relevant topics and dig into – a bit to each.

The categories that I have are some of the earnings related questions, Venmo monetization, strategy, M&A and capital management, and so we have a lot to go through, and this call's about 45 minutes long, so we'll get right to it.

The first, John, is around earnings related questions. I guess the first one's around volumes and specifically international and (Cross-Border) volumes, which both decelerated during the quarter. I think a lot of investors wanted some more meat on the bones there, and then I had some specific follow ups thereafter, so maybe John, you can get into that.

John Rainey: Sure, Sanjay. First, let me say thank you for hosting this call. It's always good to speak with all of you the day after earnings, and have the opportunity to provide a little bit more clarity where there may be questions.

And you started with one question that we're hearing a lot right now, and that's what's going on with both international and (Cross-Border). And so, I appreciate the opportunity to add some clarity to that.

Whether it's volumes or even revenue, you see the effect in our numbers, there's a deceleration from the earnings growth in prior periods. If I just look at international revenue as an example, that grew 18 percent in the quarter, and that's compared to 16 percent growth the year before.

The primary driver that we're seeing there – there's a couple of reasons I'll get into, but the primary driver is really what we see around changes in consumer behavior when we see swings in currencies. And so, I point to that because there's also an offsetting effect that we see in our U.S. revenue growth.

Our U.S. revenue growth in the – in the quarter grew 27 percent, and that's a 700 basis point acceleration from a year ago. And so, that tends to sort of mute the impact when we see changes in consumer behavior related to currency swings.

There are two other areas I'd like to address though, that also have an impact. And these are sort of in order of materiality. The second one is related to more difficult comps related to some price changes that we implemented mid last year.

And so, you might remember, Sanjay, we talked about some of the (Cross-Border) initiatives, certain corridors where we thought there was an opportunity to increase prices. We're seeing the effect of that, as we (lap) those. I want to be very clear though, before I go to the last topic, that I don’t want people to believe that pricing is a onetime item.

We have also implemented price changes this year that are being rolled out. And as we've discussed many times, this is an ongoing muscle that we're beginning to develop, and so it just so happens that (in the) – this period right now, we do have a more difficult comp.

The third area is that when we look at international and perhaps specifically in EMEA, we do see a weakness with the Ebay part of the business. That’s probably no surprise that people followed the Ebay call and maybe the more tepid guidance that they gave, and also impacted their results. We see that in our numbers. We're not immune to it.

I think fortunately, if you – if you look at sort of the silver lining to this, it also demonstrates that we are much less reliant on Ebay for our success.

The fact that Ebay is slowing, and we came out, we beat on revenue, beat on earnings, we raised revenue for the year by $100 million and raised our EPS by 1 cent, in the face of what is today our largest customer, showing slowing growth, I think is testament to the diversification of our portfolio, both in terms of products as well as regions of the world.

Sanjay Sakhrani: OK, great. And maybe just to follow up, dig in a little bit on cross-border volumes. Is there a way to sort of extract how much is coming from the dollar strengthening versus some of the other items you mentioned?

John Rainey: Well, the dollar strengthening is the single biggest impact. We haven’t quantified precisely what that is, but both in terms of currency headwinds for the balance of the year, as well as what we see in consumer behavior, (that those – that has the most) pronounced impact on our results.

Sanjay Sakhrani: OK. And then as far as like that behavioral impact of the dollar strengthening or the volume impact…does that continue for a while? Or does it – from your past experience - has it gone away over a period of time?

John Rainey: Yes, so we got pretty good – there's a good example of this when Brexit occurred, and we saw some sharp decreases and (inaudible) – it's a – it's a good question, Sanjay, because you do see a more abrupt reaction right away, but over time, people become accustomed to it, and that tends to – the behavioral aspect tends to dissipate. Certainly, from a translation perspective, that's ongoing.

And of course, whatever our hedge impact that influences that as well – but the behavioral aspect is more pronounced early on. And then, depending upon the corridor, depending upon the product as well – we see different elasticity.

So, an example would be (Xoom) for example, when they're remitting money internationally, that's a – that's a demographic (inaudible) customer base that falls more into that underserved category. And they're more impacted by swings and currencies than someone that maybe is a – (used to) (Cross-Border) shopping and is a more affluent customer.

Gabrielle: Hey, Sanjay…when you look at the deceleration sequentially from 30 percent growth to 23 percent growth, that's on a spot basis. And I'd also point out (FX) neutral, the decline was really about half that.

Sanjay Sakhrani: OK. That's good color. And one more follow up on one of the points you made, John, just those pricing changes, you mentioned you're rolling those out across the year, I mean have those been rolled out already? Or the intent is to do that at some point this year?

John Rainey: No, so we did in one market, this year we've already rolled out in one of our core markets, some pricing changes with certain merchants, but we'll see the impact of that. It's built into our guidance. But (you know, on) pricing, I want to – you know, suggest a little bit of caution about – thinking that we can just ever increase prices on our customers.

When we look at pricing and we talk about the muscle that we're developing, it's as much about sophistication with how we price as it is to raising prices. And so, there are markets where we understand that market share is much more important at a point in time, and we don't want to lose to another competitor and we'll price competitively.

But there are also markets where we recognize that we provide a tremendous amount of value to our customers, and we're not pricing to that value. So, we very much look at pricing as a long term game.

It's not – and I've described it as – you know, it's not a sugar high, where we're going to rush out and raise prices just to have better financial results in the next quarter to – only to lose business over the next several years. We take a very measured long term approach to this.

Sanjay Sakhrani: Yes, OK. Great. Maybe shifting gears to revenue growth, obviously on the back of the volumes trends, in the second half, based on your guidance, it decelerates a decent amount, even when you adjust for currency and Synchrony, it's roughly 200 some odd basis points, could you maybe walk us through specifically what's driving that deceleration?

And while the growth rate still is relatively strong to your medium targets, whether or not the deceleration could get worse, as we move into next year?

John Rainey: Sure. So, the biggest impact that we have on the back half of the year, as we laid out in our investor update last night, is currency headwinds –our currency headwinds. That’s about $80 million in the back half of the year.

And look, it – that’s a very real part of our business. When we operate in as many markets across the world as we do, and we have more of our customers that are outside the United States, that’s something that we have to withstand the shock. And we do hedge for that, but we hedge to protect our operating income, not our revenue.

So, we see a more pronounced swing on revenue. We actually believe that when you consider our hedge position and then in addition to the fact that we have expenses denominated in other currencies as well, which have an offsetting affect to revenue, we protect our operating income largely. But the core business, is actually performing quite well, which is why we called out the momentum that we saw, say for some of the currency headwinds.

Gabrielle: I think there's sort of two other things I'd point out as well, one relates to (TIO Networks), and that deal closed in July of last year, and obviously we don't have the benefit of that revenue in this – in this third quarter or fourth quarter. And so, there's an impact there. The third quarter was about $20 million of revenue.

And then the other piece also is that Ebay softness that we've called out, that continued into the back half of the year.

Sanjay Sakhrani: OK, great.

Maybe moving on to expenses, obviously there's a lot going on there, the restructuring charges associated with the M&A. There's also the – all these onetime costs or some ongoing costs related to the Synchrony sale.

Maybe you can unpack, John, all the various items that are most material and sequencing, and becoming less of a headwind over time – you know, I think there is just a lot of confusion around what the various aspects of the expenses were.

John Rainey: Sure. I promise you that this is – that the – the way that this has sort of reduced comparisons in our numbers or – is as frustrating for us as it is for all of you. And so, I'll do my best to provide what is sort of the – just the impact of this transaction and how to think about the business going forward.

So, let's start with other value added services. Going forward, the way that we will recognize our – the financial impact of the revenue share that we have with Synchrony will be recorded in other value added services net of expenses. And so, the impact to that line item in the back half of the year will be 7 percent points of growth year over year, so think of it as – you know, 3 to 3.5 for the full year.

Then when you go down to the P&L, once we – when we made the designation to account for this portfolio (as held for sale), the expenses that were previously (hitting) transaction losses – I'm sorry – loan losses moved down to what we call other OPEX. And that is clearly laid out in the line item on our P&L, which is restructuring and other charges. And so, the – pretty much the entirety of that is related to loan losses. That will go away as well.

And then lastly, when you look at the operating expenses, and I'll point you to G&A, general and administrative, in the corridor (of) (inaudible) we talked about that increase – I think it was about a $75 million increase year over year, about $13 million of that increase was related to the agreement that we have with Synchrony to transition that portfolio over – that portfolio over and some of the costs that we incur there.

To be very clear, we will expect to incur the – a similar amount of those costs in that line item for the next three quarters. So, that – that sort of – I think highlights the impact of the sell of the credit portfolio to Synchrony. But while we're talking about G&A, there's a – another important call as we – as we talk about that $75 million increase.

There's about $15 million which is related to the acquisitions that we had year over year. And so, on an organic basis, the G&A increase is much less than what it appears. It's – those two callouts, the Synchrony related costs and the inorganic growth are about a third of the increase.

Sanjay Sakhrani: OK, so the $13 million continues for another two quarters? Or another three…

Male: (Inaudible).

Sanjay Sakhrani: … so the next three quarters (still)?

John Rainey: Correct, correct. And it's probably – you didn't ask this really as it pertains to 2019, but it's maybe worth calling out that as we transition this portfolio over to Synchrony, we will be able to shed ourselves of some of the costs that we've historically incurred to support this portfolio.

On an earnings call, it's always kind of tricky to go out and talk about things that are going to impact headcount. But you know, certainly, there will be some impact in 2019 related to that.

Sanjay Sakhrani: Yes – that was going to be my next question, John. I mean are there – could you maybe just walk through what the magnitude of those costs might be or what they are today that could be wound down over time?

John Rainey: You know it's – we haven't explicitly highlighted what that amount is, and candidly, we're still kind of working through some of that. It is built at a high level into our forward guidance that we gave at Investor Day a month or so ago.

Sanjay Sakhrani: Got it. OK. I guess moving on to the take rate, there were a number of questions about the take rate and sort of the erosion of the take rate, year over year. Could you just maybe walk through again – unpack some of the movements there and how you see the take rate unfolding going forward, especially as the volumes are growing from P2P?

John Rainey: Sure. So, let me – we've got total take rate and transaction take rate, and those are slightly different, so I want – I want to address both of them.

Total take rate declined 14 basis points to I believe, 2.77 percent. Seventy percent of that – 10 basis points of that was related to the growth in P2P, as well as the year over year hedge loss, which was a $42 million swing. And that’s, I think, fairly close to what we've seen in the past two quarters.

But the transaction take rate was slightly different, and so let me talk about that. And so, the transaction take rate declined 19 basis points. And of that decline, only about half were – was related to the growth in P2P and the hedge loss. The balance of that was mix in our business, and by mix, I'm also talking about (Cross-Border), which is – you led with that question. And so, we see the impact of that in our take rate.

The overall trends, I think, whether it's this quarter or the past – you know, six to eight quarters, pretty similar going forward and mostly because of the effect of P2P. The one callout that would be different in the back half of the year is that we would expect the hedge loss, the year over year swing in hedges to go the other way perhaps, based upon where currency markets are right now.

So, the take rate decline should be slightly less in the back half of the year than what we saw this quarter.

Sanjay Sakhrani: OK. Got it. And then as we look out to maybe next year as well, I mean do you expect that the take rate declines to moderate, because the mix isn't – I mean obviously a lot depends on (Cross-Border), but in a steady state, do you see the erosion or the deterioration decelerating some?

John Rainey: I don't – in 2019, I really don't see an appreciable difference in the trend that we've seen this year or even last year. As we get out into 2020 and '21, I think it's reasonable to assume that we could bend the curve a little bit there, as we begin to realize some of the benefits of pay with Venmo and some of the other initiatives that we have.

Sanjay Sakhrani: OK. Great. And then the next one's on the transaction expenses, I got some investors questions suggesting they were a little bit surprised by the sequential decline in the expense rate. Could you just talk about the movements there and whether or not it caught you by surprise or you think it's in line with the general trend?

John Rainey: So, the transaction expense, coming in at 98 (BPS), that – you know, that didn't really surprise us that much. There's already some things that bounce around from one quarter to the next, and that's in the range that we expect over the next several quarters or for that matter, even years. And so that was less of a – of a surprise, but just – things that we experience in the business.

The thing that was more of a surprise in the quarter related to volume related expenses were transaction losses. So, you'll see in our results that spiked up to 19 (BPS) from 17 (BPS) a year ago. Again, this is another one where we – you see swings from one period to the next. We happen to experience some more pronounced risk pressures – (broad) pressures in the quarter, which resulted in higher losses.

(It's not – that happens) from time to time. (It's not) a reason to think about this (line very) differently going forward. In fact, for the back half of the year – again, this is an area that I would expect to be in the range of 17 to 19 basis points, so slightly better than what we experienced in the second quarter.

Sanjay Sakhrani: OK, great. Moving on to the guidance revision, it seems like earnings don't go up as much as the revenues. Could you maybe just talk about what the specific offsets are there?

John Rainey: Sure. And you're absolutely correct. So, we increased our revenue $100 million in the back half of the year, but only a 1 cent increase in EPS. The main thing I would probably point to is that the fourth quarter is – it's a larger quarter for us, in terms of the size of the business. It's about 15 percent larger than the third quarter, and tends to be a pretty opportunistic quarter for us to make investments in the business.

And so, as we look at the fourth quarter, we're slightly more biased towards investment right now, versus letting things fall to the bottom line. There are often marketing campaigns that we can do to drive net new activations. There are things that we can do with merchants to continue to accelerate growth. And so, we have good opportunities in the – in the back half of the year – the fourth quarter specifically to do this.

And again, our bias is probably more towards investment right now, given the opportunities and alternatives that we have going in – stepping off into 2019.

Sanjay Sakhrani: Are there areas you're making investments – whether it's geographically or specific promotions that you're making this year – or you plan to make this year versus last year? Are there any differences in some of the areas you're investing in?

John Rainey: Probably this year, there's more a bias towards investing in product development, where in past years, we've tended to invest a little bit more in marketing (right, I say) past years –last year, was one where we erred a little bit more on the marketing side.

When we look at some of the opportunities we have right now, you know, we certainly want to continue to advance our product capabilities. It's very important that we integrate these acquisitions that we just acquired.

And I think that's – as it relates to the $100 million of revenue not all (falling) to the bottom line, and part of that is we purchase companies that are – you know, generally losing money today, a slight amount anyway, and so that has an impact as well. But product development would be the area. And that spans – when I say product development, it's really (not) new product, but it's also working on things internally.

We talked a little bit about customer service and operations. We're very dependent upon our product development group for improving things that drive contacts into our call centers. And those drive huge benefits. I mean every one of those contacts cost between $4 and $5 on a marginal basis.

And so, to the extent that we can drive those contacts down, that's a big improvement to our bottom line.

Sanjay Sakhrani: OK. I'm going to shift gears, sort of move over to Venmo, because there were a bunch of questions on your level of optimism on the strategy to monetize on Venmo, where do you stand right now?

John Rainey: So, Venmo is – I think – at least I try to be consistent with this. I know there's a lot of excitement around it, but we are being very measured around this. And it is rolling out very much according to what we expected. You know, it's – I know there's a lot of sort of interest and pent up demand to really see this have a huge impact on our P&L.

(I mean) even the 2 million merchants that we've launched pay with Venmo (with) right now, the vast majority of those, it's still a PayPal button. And it's not obvious to all Venmo users, that when you go to that merchant that you can pay with Venmo. And so, we're still early on. And when we talk about the monetization aspect of this, and this is – I'm glad you asked this question, because I want to clarity this (from) something we said on the call.

But we said that of our user base – of Venmo users, of those actives, 17 percent have engaged in monetizable event. Well, that can be card, that can be pay with Venmo, or it can be instant cash withdrawal. The last of those, instant cash withdrawal, is actually where the majority of monetizable events are occurring today.

So, we're very patient. This is not different than what we expected. But I would, over time, certainly expect that the largest area of monetizable events will be paying with Venmo at a merchant.

But I want to clarify that 17 percent, because I think we unintentionally, maybe misled some people around that relative to the number that we gave at our Investor Day. So, at Investor Day, we talked about 11 percent of monthly active users had engaged in a monetizable event. And that – those are two different denominators. And so, again, the 17 percent is of all active Venmo users. The 11 percent is of monthly actives.

Seventeen is more congruent with how we talk about our business, and we'll – to the extent we talk about this going forward, it'll be more in line with that. But to make that apples to apples, so that people don't think there was a 600 basis point acceleration, if we were to look at monthly active users that have had a monetizable event, that number today is 13 percent.

So, there is a 200 basis point acceleration from the 11 percent that we gave at Investor Day, but it's – I don't want to mislead people into it being more than what it is.

Sanjay Sakhrani: Thanks. And maybe just a follow on, paying with Venmo – what's the timeline you think, that it actually starts to gain traction and become a material contributor?

John Rainey: We certainly expect it to gain traction in the latter part of this year and more into next year. But from your perspective, Sanjay, or an investor's perspective, as they look at sort of the outside in view of our company, I think it's more of a 2020, '21 phenomenon, before you begin to see it being more impactful to our financials.

Sanjay Sakhrani: OK. And obviously that's been factored into your medium term targets?

John Rainey: That's correct.

Sanjay Sakhrani: OK. If there was one question or some questions on the competitive positioning of Square Cash versus Venmo, and whether or not there's a competitive advantage that Square has for not being as aligned with banks, maybe you could just talk about that?

John Rainey: Well, we actually see it slightly differently. We think that it is a competitive advantage to us that we are as aligned with banks as we are.

You know, we – we've talked at length about what the pivot to choice and being aligned with issuers, what's that done for us – what – that – what that has done for our platform, when you now have issuers that are going out and incentivizing their very own customers to (vault) one of their financial instruments into a PayPal wallet. (Inaudible) this opens up a lot of opportunities.

As it relates to Square Cash more broadly, and one of the advantages that we have is the ability to use our P2P application or if you take Venmo in so many different areas, you can shop at a merchant, you can exchange cash with a friend, (and) even if you think about remitting money internationally, we have all these things that are advantages to our platform. We are much more than what – than what Square Cash is.

And look, I don't want to be dismissive of any competitor – (that they) all are very good companies, but you know, one of the things that we look at is volume range of the platform, not app downloads. And as you know, Sanjay, I mean many of us have multiple apps, whether it's Apple Pay and PayPal or Square Cash and Venmo, and an app download does not necessarily relate to usage.

And so, I – I'll point to the fact that Venmo, on a run rate basis, is putting about $60 billion annually through its platform, and that's growing at 78 percent. There are very few companies that I'm aware of that are doing that.

Sanjay Sakhrani: OK, great. Let's shift gears, talk about M&A, another hot topic, just wanted to get your updated thoughts on M&A going forward, and maybe which product gaps are you looking to most build upon? And maybe specific geographies that you're most interested in?

John Rainey: Sure. So, we addressed a lot of product gaps with the last acquisitions. And those were all very merchant centric. So, if you think about iZettle, (giving us) an omni channel offering with merchants, Hyperwallet, which expands our capabilities for payouts.

We can now offer – or we will be able to offer payouts in multi currencies, whether you want it into a credit card, debit card, ACH, PayPal, Wallet, that's something that we hear loud and clear from merchants that they want.

And even (Simility), which is offering risk as a service, where merchants can effectively have a dashboard to manage their own risk. And that's important, because their calculus on risk declines maybe very different given their margin profiles and PayPal. And so, these are – these are great, complementary offerings for our merchants out of our network.

At the same point in time, we want to make sure that we're balanced on the consumer side. And we recognize that there are areas of the globe where we don't have as strong of a presence as we do in our core markets. And so, as we look at acquisitions, certainly those things that would fall into the category of acquiring consumers in the (white) space that we have and maybe some of the markets where we're underpenetrated are pretty interesting to us.

We talked about India and the importance of our domestic launch there. That's a – that's a nascent market, but huge opportunity there. There's also very attractive opportunities around Southeast Asia that we're keeping a close eye to.

So, you know, it's difficult to say that there's one sort of glaring hole that we have. We very much think that from an M&A perspective, we're operating from a position of offense, versus defense, but we are blessed in that we have the capacity in the balance sheet to go be very opportunistic to acquire these companies where we think doing it inorganically is faster maybe, less expensive than doing it organically.

Sanjay Sakhrani: OK. A question about the deals you've already done and the dilution in 2019, I think you guys talked about 8 to 10 cents dilution, could you just talk about how that sort of (starts closing to) earnings growth for 2019, versus what you provided in the – at Analyst Day?

John Rainey: Sure, that’s a great question. So, at Analyst Day, we talked about the fact that we expect, on a compounded annual basis, to grow earnings 20 percent'ish – EPS 20 percent'ish a year over the next five years. And from one year to the next, that number could swing around.

It's difficult to predict the impact of acquisitions that are currently not in the pipeline and the dilutive effect of that. But we believe that even with the acquisitions that we envision and the ones that we have acquired, on a compounded annual growth rate, we can – we can still grow our earnings 20 percent per year. You know, from one year to the next, that could slightly swing.

We'll give more detailed guidance on 2019 and how all that flows into our P&L, but for now, we expect that the dilution related to the four acquisitions that we've had this year are about 8 to 10 cents of earnings next year.

Sanjay Sakhrani: OK. And I guess, on a related note, obviously there's some dilution today and we expect the modest accretion into 2020, some investors asked how we might be able to track the success of your M&A strategy, because some of the – it's not really apparent to us based on the numbers we're seeing today.

John Rainey: Yes. Well, every acquisition is obviously slightly different. iZettle being over $2 billion is one that – you know, is probably – the investor community maybe is more focused on. And we can certainly give metrics that help gage sort of the cross sell efforts, the number of markets that we expand into there, and certainly some people (who) can experience it, just anecdotally on their own experience.

But fundamentally – like we're not going to shy away from an investment because of a near term dilutive impact, if we think it helps us fulfill our goals of – the financial metrics that we laid out.

Our expectation around these four acquisitions is that 2019 will be slightly dilutive. We'll cross the threshold into profitability into 2020 and then – you know, continue to move forward from there.

It's pretty intuitive, I think, when you think about iZettle and what that can do to the offering that we have today, when you have merchants that have a partnership with PayPal, but they also have an offline shopping experience, and where we can go in with iZettle and provide that full omni channel offering, it makes a ton of sense. And there's huge cross sell opportunities for us to sell to each of those merchant bases.

But, we'll continue to think about how we can provide clarity on that, but at the end of the day, I think we ought to be held accountable to the macro financial metrics that we put out there, in terms of our revenue growth and the earnings growth that we have each year. And capital allocation and acquiring companies is a big part of achieving that.

Sanjay Sakhrani: OK. Capital allocation and management is the last broad area I wanted to touch on. I think we followed some of the commentary yesterday of putting a stamp on the fact that you intend to return capital, given the guidance you provided at Analyst Day.

I guess one of the more recurring questions I got is why not wait till the $2.7 billion remaining under the authorization was exhausted? Is it for optionality or something else?

John Rainey: There's not much to read into that. I would say this is a natural follow on next step to the capital allocation plan that we announced at Investor Day, getting 40 to 50 percent of free cash flow back to investors. We've got about $2.5 billion left on the current authorization that we have.

You know, we only have board meetings a few times a year, so it lined up such that we could get authorization from our board. And we're getting towards the tail end of the current authorization, and so we went ahead and got that authorization. It's not to – I wouldn't read into the fact that now we're planning on spending all $10 billion in the next couple of quarters. This is consistent with the previous guidance that we gave around capital allocation.

Sanjay Sakhrani: OK. Great. And then, John, you mentioned not all your cash is available because of some of the regulatory minimums, can you maybe just walk through how we should think about cash allocation that's available to you?

John Rainey: Yes, it's – it's a little tricky, Sanjay, because it's – differs based upon what market that we're in and the regulations in those market – or markets are changing in front of our eyes.

But you know, there's a not insignificant amount of cash, so it's a couple billion dollars that we need to maintain, either to just run the business or to hold in certain currencies (in) certain markets, and each one is different, Australia, China, Brazil, whatever.

And so, I made that point simply so that people don't look at our balance sheet and think that the entirety of that or the vast majority of it is available to allocate to increase shareholder value. We do – we do need – a not insignificant amount to run the business.

Sanjay Sakhrani: And when we think about your cash position post the Synchrony deal, where exactly are you now?

John Rainey: So, the Synchrony transaction will have over $6 billion coming in, and that was not included in our reported cash balance. And so, when you take those two, plus the additional free cash flow that we expect to generate this year, you're getting close to – you know, around $15 billion at the end of the year, assuming no other acquisitions.

And our intent again is to not – is to put that cash to work. And certainly, we want to keep some dry powder for ideas that we have or acquisitions that we may contemplate. And we'll be opportunistic in stock repurchases too, always responsive to what (we were) seeing in the market around where we're trading. But it's not as if we're just going to put it in a coffee can and wait a few years to do something with it.

Sanjay Sakhrani: OK. So, we've got about five minutes left, and I was thinking, there were a couple more that (just came) through my email. And one was whether or not there was any specific impact from Ebay, starting to intermediate itself at 5 percent that they can convert over. Was there any specific impact that happened over the first half or you're expecting over the course of the year?

John Rainey: So, no is the short answer. You know, we do have an estimate about what our expectation of that impact is for the year. Keep in mind that it's a very small percentage in only two markets this year, increases to 10 percent next year. But it doesn’t even rise to the level of materiality of some of the other items that I've mentioned that were kind of onetime expense callouts in the second quarter.

Sanjay Sakhrani: OK. Great. And then on M&A again – and – you know, when we think about large transformational deals, I know there's far – there's only a few that are out there that might even make sense, but is it safe to assume that those are probably harder to do, given the valuation level today? Or are you still interested?

John Rainey: No, it is safe to assume that – that there are some really compelling opportunities out there. There are obviously some great companies, but we – we're pretty rigorous with the way we approach capital allocation. And my view is like every dollar of capital has to compete for the alternatives that are out there.

And when we look at – you know, take some of these companies that you're probably contemplating, there's always an opportunity to go do something organically, develop it yourself or even partner with some.

And the idea of rushing out to spend $10 to $20 to $30 billion on some of these acquisitions, while they're great companies, it's not clear, as we sit here today, that that will create shareholder value, versus what we could do with that cash in other ways. And so, we're not – we're not averse to doing a big deal, but the return requirements have to be there.

Sanjay Sakhrani: Got it. I got a question on the single common button initiative, more strategic obviously – how is PayPal thinking about it as a competitive threat?

John Rainey: It's – it's not that different really than how we were thinking about them separately. It's probably an indication of the difficulty to get a lot of traction in digital payments, and it's not something that we fundamentally view that differently than when we – when they were offering their own individual payment buttons.

But – you know, I would also say that we – we've kind of transformed the relationship that we've historically had with Visa and MasterCard, and they're some of our very (best) partners right now. And we are as focused on how we can find opportunities to have win/win scenarios like what we are experiencing today with each of those. But the unified button by itself, doesn't make us think dramatically different about our future.

Sanjay Sakhrani: OK. Honestly, I think we – we've hit on most of the questions that we had. And we're just about running out of time, so I think we can stop right there.

Thank you, John, and (IR team) for hosting this call – or allowing us to host this call, and we appreciate your interest.

John Rainey: Well, Sanjay, thank you again for hosting this for us. I thought the questions were good and enabled us to provide a little bit more clarity on the quarter, which we really appreciate the opportunity to do so.

I'm sure we'll be talking to you and many of those on the call in the coming weeks, to talk more about both our second quarter results, as well as how we're thinking about the full year. So, we appreciate that opportunity. Thank you.

Sanjay Sakhrani: All right. Thank you very much. Operator, that ends our call.

Operator: This concludes today's conference call. You may now disconnect.

END