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Male Speaker:

Okay, so how many people have a PayPal account? Wow, we've got to work on that. And how many people have used PayPal on their mobile phone? We definitely need to work on that. But it just goes to show that it is still early days. I titled this presentation purposefully as "Evolution or Revolution."

Let's go back -- I think Jim mentioned this in his discussion. So PayPal is a small company. We are 11 years old. The original business plan, the original name of the company was called Confinity. So if you look at the S1 filings it is still filed as Confinity. And the original business plan was the notion that people with Palm Pilots -- do you remember those? I don't think there are that many left -- people wanted to be able to exchange money so the original plan was, how do you beam money between two Palm Pilots?

Slight problem there, the VCs kind of ran out of patience. We spent a lot of money and this other thing came along called online auctions. And so like all good entrepreneurs the original founders evolved and said, you know that idea, the time is not right, the convergence of the technology and consumer behavior and so forth isn't there yet. We think it is still a winning idea, but let's go on and do this other thing. They merged with another company called X.com and out of that became PayPal. And we have since then done fairly well in online payments, particularly start-up auctions and from there evolving to providing payment services to online retailers, particularly small merchants.

But underneath all that, the original idea of person to person payment, two people either in proximity or then remotely on the Internet exchanging value, that has always been core to what we do. And so a year and a half ago we re-launched our original person to person P-to-P product, and that's gotten some traction.

And so that then got us to thinking, well you know, maybe there is still something to do in this mobile thing. So we started putting some money, some innovation money against that, and I will share with you some stats over the last year or so.

But I am going to spend the next 10 minutes or so, I will try to give you some time back. A little bit on PayPal, a little bit on some observations of what we see going on in the industry, and then how do we look at it over the next three to five years and what are our priorities and what we think the opportunities are as a commercial enterprise. Not so much regulatory or otherwise. And so we will take questions later.

So very quickly since there aren't enough PayPal users in here I will do the three slide intro, "What is PayPal?" Essentially, think about us as a network of networks. We sit on top of the world's existing payment networks -- is this working? Yeah. And we bridge what the needs of online retailers and consumer's for moving money and we sit on top of those networks to help them facilitate moving money around.

Looked at a slightly different way, the high level architecture of how PayPal works, think of really the PayPal account as your universal wallet, your universal account that you can link your various terrestrial payment devices to, whether it is your bank account, your debit card, your credit card, gift certificates, different means of value. Link that to your PayPal account and then we then let you spend that value. Transfer that money to counter parties on the other end whether it is a merchant or another individual. And then, of course, while we would love it if you just left your money in your PayPal account, you will also have all sorts of ways to take money out of the account, whether it is everything from what we don't like to do, send you a check. Luckily less than one percent of our folks ever ask for that.

But mostly we use the ACH system here in the U.S. and other bank systems around the world to pull that money and withdraw from the PayPal account and deposit into your bank account. We also issue a debit card so that you have real time liquidity of your funds. And so think of it as just your virtual wallet in the cloud. Your financial instruments live in your banks and other places, but we facilitate easy transfer of value and allow you to securely spend where you want to spend and send money to whoever you want to. So if the counter party has an e-mail address we can get money to that person.

So if you think about convenience, great pricing, security, then it is actually not terribly surprising we're blessed with the fact that consumers continue and merchants continue to come to us. And so we continue to experience tremendous growth. We have right now about 81 million active account holders. We continue to acquire at around three million a quarter. And so people around the world are still adopting PayPal. We've got a long way to go, but it seems to be catching on.

And then from a payment volume standpoint, the network is growing. Last quarter we moved \$21 billion in our network. And despite the economic conditions things have slowed down a bit for us but we still finished 2009 at roughly a 30 percent year-on-year growth rate. So things are still moving along very nicely.

Now, compared to some of the other folks who have been talking about their businesses I have to say that these numbers sound impressive, but we are starting from a fairly small base. So we are still a small company and so year on year growth on a smaller base, the percentage sounds great but the absolute dollars, it's still not -- \$21 billion is not much compared to three or four or \$5 trillion that the MasterCard network moves; so just to put it in perspective. And we're very aware of that.

So therefore, well, where does mobile play into all of that? If you think back to the Confinity notion, Palm Pilots, okay so that didn't take hold but folks are using their mobile devices for all sorts of things now. And we think that the time might be now to try it again; in other words, to try a different modality for storing and transferring value. And our internal vision, our tagline inside the company is, we want to be the world's favorite way to pay and be paid. Add to that anywhere, anytime and on any device.

Because really if you look at PayPal today we really are trapped in to one device. We are Internet based, our access point, our primary modality is the browser.

If you think about the number of PC's out there in the world compared to the number of cell phones well, it just doesn't quite compare. There are way more cell phones than there are PCs. And then if you then look at some of the trends that we are seeing, whereas 11 years ago the Palm Pilot, as great a device it was then, you think about the smart phones that we have now there is a convergence of three really important things that I think is fueling the kind of adoption that Victor talked about, that Jodi is talking about, that I think a number of the folks are talking about, that you've got three and a half billion cell phones out there, and that's actually growing fairly quickly. I think Nokia had mentioned that over the next three or four years they are going to add another billion cell phones just to India.

And so lots of devices out there and so we can't just be trapped with just a browser base interface. So what's changed? Well, richer user experience. You've got better foreign factors, better displays, better user interface and browsing and faster networks. There is a downside to the iPhone and that's the AT&T Network had 4,000 percent year on year growth. It's gotten really slow and so hopefully they are going to upgrade that thing fairly quickly. In fact, I just got rid of my iPhone and went to another smart phone just because the network wasn't handling the things I wanted. On the other hand I really miss that user interface. Apple makes beautiful product.

But I think someone mentioned earlier there is the requirement for the convergence of a number of different factors in order to get consumer adoption. And so some of the things that we watch and we care about and we think is lending itself to more adoption is, well, better interfaces so better devices. The other thing is data is becoming mainstream. If you look at some of these stats it is actually quite staggering. Everyone talks about the iPhone and yet the folks at RIM will tell you that greater than 70 percent of their sales now are to consumers. And yet people think -- as I mentioned to one of the senior folks at RIM, "Yeah, you guys have a branding problem," because everyone thinks about Blackberry's as a business device. In reality, they are shipping a lot of devices to consumers and its becoming main stream. So they are working really hard at their user interface, their access, getting consumer's to recognize that it is also a consumer device, not just a business device.

And then all sorts of content, the thing that is extremely important to keep in mind and this harkens back to an earlier comment someone made about telcos and banks and so forth. A few years ago the term was often thrown around around telcos and the notion of the wall garden. So they had these closed systems. They wanted to be in the payments business and so it was billed a telephone bill. Still kind of true but the App. Store changed everything. I mean the kind of adoption numbers you saw earlier all of a sudden you can get the experience you want, and you are not trapped inside of the wall garden. And now all of a sudden new and exciting applications are being released. More people are participating and making money and having those applications out there, and it's not just a wall garden of the telco networks.

And so that, if you look at something like what Victor just presented, I mean that's a tremendous application right? It's a great consumer value and it's because of richer user interface, great data being widely available on a faster, coupled with this idea of this broad based adoption of all these rich new applications.

So with all of that, all sorts of money is going into now, I don't know, Richard would probably say this is generation four of the whole mobile thing, maybe generation five. I remember the original Motorola Brick I used to have. And I'd carry that around and I thought, boy what if you could do something more than just talk -- you could barely use it as a phone at the time.

[laughter]

But you have all kinds of money going in in the different sectors. What's curious about this chart is -- and by the way this isn't special intelligence that I have or we have, just go do a search on the Internet. Pick your favorite search engine and you will find a bunch of this stuff, right. It is just publicly available and this is exactly how I compiled this chart. It is curious to me though that this lower corner here FI, and I call it Visa mostly because I knew Josh was going to be here and he'll talk about MasterCard so that wasn't a slight by any stretch. But I figured he was going to talk about stuff that I -- there's no point of me trying to call out what he is going to talk about. But it is kind of thin on the FI side actually.

If you think about the list of innovations out there and all the different things people are trying to do to capture the imaginations of consumers around mobile payments but enormous amounts of money chasing the new generation of innovation. And we have done some of the things ourselves so.

In the last year when we rediscovered mobile at PayPal we launched a couple of apps on the iPhone, on the android devices and we are experiencing pretty nice growth but it is just early days, it is just getting going.

eBay, our parent company, they launched an eBay app on the iPhone and in the short period of about 12 months if you think about M-Commerce so commerce on the mobile phone, I think they have a 50 percent share. Luckily, we are the payment mechanism so you could say that we have a 50 percent share of M-Commerce. But it is still early days. It's -- I don't know I think we processed half a billion dollars to transactions so not a small number but relative to the greater payment network it is just getting going. But adoption has been enormous, and it is very popular. And we have been doing a number of things with different folks in the eco system.

So how do we think about it? You know, Jodi -- the four circles, I mean, there is a spectrum. There is a whole value change that you have to take in mind. In our case we deliberately decided to kind of prioritize that from top to bottom. So first of all we want to be the world's [unintelligible] way to pay and be paid. And so at 81 million active

accounts sounds good but the reality is that there little secret that 81 million is a really generous calculation on our part. It is one transaction trailing 12 months. And so it sounds great from a PR standpoint but the reality is we are not relevant enough. And so we need to get into more devices and in many ways, what's more relevant than getting in to a product that is in a role to a consumer's everyday life?

I have often left the house without my wallet, but I have never walked out of the house without my phone. And so one modality, one thing that that we are to pursue to drive more PayPal relevance in a consumers life, is to be where they are in the devices they want to use, so job one.

Job two is we continue to grow our network. We are on 180 countries; we are localized in about 22. We continue to move forward with our international expansion and as mentioned earlier today and will be mentioned by a number of other people if you get outside of the U.S. you go to other developing economies and even developed ones, there are fewer browsers available because there are fewer PCs but there are lots of cell phones. Access to the banking system a bit challenged for consumers. Our mission has always been to provide access to whoever wants it, both for merchants and consumers. And so this we think is another potential modality, another way for us to get more PayPal into the eco system and use as an entry device into some of the countries that we are trying to enter.

And then the last one is -- I don't know if this is a third or fourth wave: proximity, NFC, we just don't know, we think it is really early days. And I would assert one of the reasons for that is some of it is technology but I think that is coming along. NFC Standards have come together in testing [unintelligible] standard. The technology is kind of cheap enough now but hardware replacement is always challenging. But I don't think that as an industry we have really figured out the eco system and who is going to benefit. So if you think about some of these trials, great convenience in Tap and Go and so forth to consumers, but I am not sure that merchants see enough value there just yet.

And those are just challenges that have yet to be worked out. So from our standpoint, until someone else works them out you know we are a network of networks, we will let the networks work it out, and we will figure out how we can add value on top of that.

So I will leave you with the last chart. This is what I challenge all my product managers as they bring cool ideas to me, "Well, where's the money?" And if you look at where we are now versus where we think things may be going we are going to focus on digital content and sort of the near term M-Commerce kind of things. And, of course, our core product which is person to person, so mobile transferring money, you know, Dave I can send you ten bucks from my phone when I get back to my chair once I get your e-mail address. And, you know, it's a great tool. It is a great convenience. I am not sure it is going to change the world but it is all those little compounding innovations though that I think will change the world, and I think that maybe now it's mobile may be at the beginning of a renaissance.

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