

CONVERSATIONS WITH MIKE MILKEN



Daniel Schulman

President and CEO, PayPal

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Mike Milken: Dan, thank you for joining us this morning.

Dan Schulman: Mike, thank you so much for having me. It's a pleasure to be with you.

PayPal has changed the world with more than 300 million active accounts, allowing individuals to send, receive and hold funds in 25 different currencies as the world attempts to move someday to a cashless society. The promise of what a company like PayPal could be has become a reality under your leadership. Let's start with your own 25,000 employees in hundreds of countries today. How have you responded and how has your team responded to the COVID-19 crisis?

First of all, thanks for that really kind introduction. I think from the very beginning, since I arrived almost six years ago, the first and most important focus that I've had is on creating a passionate and financially secure employee base. I think the No. 1 competitive advantage that any company has is its employees. If you don't attract the best talent to your organization, there's no way you can innovate. There's no way you can serve customers, and obviously if you don't serve customers well, your shareholders are left behind. We've been focused on this for quite some time. The financial health of employees was on our mind as COVID-19 entered the global picture. The first thing that

I did is commit to no layoffs as a direct result of COVID-19. We had already put in place a number of programs to assure financial health, but I wanted to be sure employees knew we had their back. We immediately went from working 100% from the office to 100% work from home; we'll remain working from home at least through October as we see how the virus progresses and how we protect the health and safety of our employees as we start to reopen.

Dan 25,000 employees in dozens of countries around the world. How do you develop a work-from-home strategy for such a diverse work group?

Things that you might think are impossible to do are possible when you have no other choice. If I had said to my team, I'd like to think about 100% work from home and I'd like to do it in three weeks' time, they would have just laughed at the absurdity of that concept. There are security concerns. There are technology issues. They would have told me that to do this the right way, I would have taken two, maybe three years to go and do it. We pulled that off in three weeks.

By the way, that happened across one company after another, which is really, really interesting to me. Obviously, we had to think about home environments. We had to think about what technology we

needed to increase our infrastructure. We're very fortunate in that we're a tech company; well over half our workforce, our product engineers, can work remotely in a quite facile manner. In fact, we're putting out about 14% more software releases than we did when we were in the office. It's an evolving set of issues that we need to think about. At first, it was all about health. We told everybody, even if you can't work from home, we are still going to pay you. So don't worry about that. We have to worry about your health and your safety first. It's now moved to how do we make people more productive from home? It's probably going to change the future of work forever going forward.

“There was an economic crisis well before the economic crisis caused by COVID-19 - 185 million adults struggled to make ends meet at the end of the month. What we basically tried to do is target a net disposable income [NDI] of 20% for every one of our employees. And we're well on our way of getting there.”

You're never going to go back to what was, at least until there's widespread vaccines available. People aren't going to be allowed in conference rooms and cafeterias are going to be closed. It's going to force the re-imagination of how we work, how we stay in touch. We're working our way through that, making sure that our community stays

together and that we can execute against the vision and mission that we have consistent with the values that we have as a company.

Dan, in all of our interactions, one of the things that has struck me is how your social activism is playing out at PayPal. To go back in time, what was it in your youth or growing up that led you to this social activism strategy you've deployed?

My dad always said to me, son, the one thing you can't choose is your parents. We're all so impacted by the way that our parents raise us. I was fortunate to have two real role models in my mom and my dad. Some of my earliest memories, probably even before I had memories, was my mom pushing me and my baby carriage at civil rights marches. I

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remember distinctly my dad ran a chemical plant, several of them. One of them was down in Mississippi, and the plant manager fired somebody who worked for my dad from drinking from the wrong water fountain. My dad traveled down to Mississippi – this is really in the height of all of the unrest – to basically confront the plant manager and say, ‘this

employee works for me that's not the way that my values are reflected. We're going to reinstate him.’ I remember my mom being really worried, waiting for a phone call from my dad to make sure he was okay.

What I learned from some of those things is that standing up for the values and beliefs you have is often a courageous thing to do. It's not an easy thing to go do, especially when you're in such a politically sensitive time that we're in today. I feel as I've gotten older, defining the mission of a company is about more than just making money. It's about creating values that are about inclusiveness, that are about diversity, that are about wellness of your employees; that mission and those values that support it are more and more important to me. I've realized just how crucial they are to the success of a company going forward. When I got to PayPal, a lot of people thought we were a dinosaur, that we were yesterday's news, that a lot of new entrants were coming into digital payments. What I realized is if we were going to make that pivot and become innovative again, we had to create a work environment that was meaningful and exciting, that reflected values that people could look up to, and that we would act on them. That was the only way to attract the very best talent. Slowly but surely that happened. The foundation for that is passionate, financially secure employees.

One of the things that strikes me is that there are many similarities in our career. I was at Berkeley a few months before the Free Speech Movement began in 1964. I came home to Los Angeles in August of 1965 for a while, and the Watts riots occurred. I met

a young African-American man who told me he didn't have access to capital, his father didn't, and he never would because of his race. I went back and changed my major to finance and business, and began my own path searching for ways to provide capital to millions of potential companies and creating markets in that area. Of the thousands of companies I had the honor and opportunity to finance, I only had one CEO ever tell me he was in it for the money. They were in it for passion, for an idea, something they believed in: a new industry, whether it be mobile or cable [TV] that was given birth to, or a biotech company or a new way of delivering healthcare. It was their passion. Wealth was a byproduct of creating something.

You focus not only in the health of your employees during this COVID crisis, but I think more than any other, the financial stability of your employees. If you could talk to us just for a few minutes about what you learned about your own employees?

There was an economic crisis well before the economic crisis caused by COVID-19. Billions of people who are outside the financial system. In the United States alone, 185 million adults struggle to make ends meet at the end of the month. Something like over half of the US population has less than \$400 of savings. They're one car repair or home repair away from true financial distress.

They worry whether their kids will have a better life than they did. And so they struggle. I thought to myself, when I heard these facts, we need to do something about that.

It was certainly not the case with PayPal employees, because everywhere around the world, we pay at the market or above the market for the most part. Then we did a study which shocked me. Our hourly employees, our call-center employees – that's about half the

population of PayPal – about two-thirds of them struggled to make ends meet at the end of the month, were financially distressed. I asked my team how that was possible given that we paid at or above market. The response that came back is that we would have to do something very different and come up with a measure of how we can measure somebody's financial health.

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We came up with something that I think was really innovative. We called it Net Disposable Income, or NDI. Basically, we looked location by location and we looked at how much net income did somebody have after they paid their taxes and their essential living expenses like housing and transportation and food. What I found is that on average, our employees had 4% to 6% net disposable income available – no wonder they

were struggling. We looked at the cost of benefits, because benefits are really like a regressive tax. You and I pay the same amount for benefits that somebody who's making

“Benefits are really like a regressive tax. You and I pay the same amount for benefits that somebody who's making much less pays the exact same amount. For half of the population of PayPal employees, we took down the cost of benefits by almost 60%. That was celebrated almost more than anything else we did.”

much less; we pay the exact same amount. What we did, is for half of the population of PayPal, we took down the cost of benefits by almost 60%. By the way, that in and of itself was celebrated almost more than anything else we did, because now people could sign up for healthcare benefits. They didn't have to trade off if their kids were covered or if could they put food on the table. That was No. 1.

No. 2 is we made every single employee of PayPal a shareholder. We gave them a restricted stock so that they could share in the success of PayPal. This can be really

meaningful in terms of them seeing how their actions lead to their own financial health. We then raised salaries where we needed to raise salaries, and we wrapped all of that into a financial literacy program. Many of this employee population had never had equity before, they had never been able to save. What we tried to do is target a net disposable income, an NDI, of 20% for every one of our employees. We're well on our way of getting there. It's the first time they've been able to save. First time, they've been able to sign up for a full suite of healthcare benefits. The passion for the company that that released well, well, well outweighs any of the costs of what that might've cost us. It was one of the proudest moments that I've had and my leadership team had in terms of just doing the right thing by our employees. And we've just seen that paid back multiple fold.

So, the COVID-19 crisis: Dan, we're really focused on leadership at this point in time. I think you've covered many of these issues involving your own employees, but you have merchants who interact here with your digital payment systems. They are in financial trouble themselves. They've been forced to close. How have you interacted with this group?

Immediately after we took care of our employees, our focus quite rapidly shifted to our customers, whether they be the 25 million-plus merchants or the over 300 million consumers that are on our platform. One of the very first things we did is put into place a series of actions to help customers that, all in, would cost us somewhere around \$200 million dollars. We felt like we are a financially strong company, so we waived a number of fees. We allowed people to postpone or delay payments that they might have. We increased cash back. We allowed them to instantaneously have access to their funds with no fees. And we put those all in place right away. Our customers know that we did these

things because we were quite vocal about it, and put out emails to them. We didn't try and hide that we were doing this; we tried to maximize the number of people who knew about it. They've showed their appreciation for us doing that. Something like 85%, 87% of them say that as a result of this they're basically going to stay with PayPal forever.

We also work with the government. We were one of the very first non-bank companies to be able to deploy funds through the Paycheck Protection Program. And Mike, here's the really interesting thing about that:

we've done over 50,000 loans to small businesses. The average size of the loan that we're deploying is \$31,000, compared to the banks that are doing this that are all greater than \$100,000, \$125,000 on average. We are really reaching the very smallest of businesses in underserved communities that most need these kinds of loans to be able to get by. To be able to provide that to them has been really something that I'm very proud to be a part of; very proud to be able to help communities and businesses around the country maintain some 250,000 jobs. Those are the kinds of things that we can do with our platform. And those are the things that I think a financially strong company is morally responsible to do, especially in this crisis.

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One of the things this crisis has brought out is an acceleration of certain trends that were already occurring. One of them is, what is the role of banks in our financial system going forward? What is the role of digital payments? How do you see this changing in the future?

I think there are three major trends that have been dramatically accelerated. The first one obviously is this move from physical to digital. Before COVID-19, we were all worried about how many screens, what kind of screen time. Now we don't have enough screen time and enough technology. Everything from education to healthcare, to entertainment, to retail, it's all moving towards digital at a very rapid pace now. People are seeing how simple and easy it is to do things like telemedicine, to take classes online, and just how important it is to have the right technology at home.

The second big trend that's happening is going to forever change the face of retail. Retail used to be about location, location, location. Now that is radically shifted to being digital first, physical second, and physical is mostly about pickup not really browsing in a store. Or

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to be a distribution center, to ship or to have a delivery to somebody's house. Even when somebody comes into a store, checkout is going to be radically redefined because of health concerns. They're putting up Plexiglass in front of cashiers. Nobody wants to handle cash anymore. Nobody wants to pick up a pen or touch a screen to sign. Retail is changing.

And the final thing that's changing, to the point you were making Mike, is this acceleration to digital payments.

Governments are clearly accelerating their thinking around digital currencies. When we were working with Treasury and the Small Business Administration and Congressional leaders on the Hill, all of them were thinking, how do we distribute \$3 trillion of stimulus out to our citizens in ways that we don't have to mail checks? How can we do it all electronically? There are different ways of thinking about our monetary system. I think those three trends are going to start to occur; they have all been happening, but they have been vastly accelerated. You're going to see the demise of cash happen much quicker than I had ever assumed as a result of that. I think all of us need to reexamine our role in the ecosystem as a result of those trends. Clearly, the vast majority of those trends play right into the sweet spot of what PayPal has been evolving towards and is today.

Dan, over the last few decades, the Milken Institute, and many others have been increasingly concerned about the future of developing countries in the world. The concern has been, if this is the future growth of the world's population and where most of the children will be, what about their economic systems? They don't have to repeat the systems of the United States or Western Europe or Japan. Their banking systems will never develop along those lines. What role can PayPal play, and is it playing, to create liquidity and build more prosperous economies in these emerging markets?

Mike, I think there is a real hope when you think about leapfrogging what was and evolving to what could be. Let me give you a couple of examples. In many parts of the developing world, they didn't move from no communications to plain old telephone service or landlines to mobile. They just jumped straight to mobile. There'll be over six billion smartphones in the world over the next three to five years. The cost of a smartphone in India is now under \$25. Think about a smartphone, a smartphone basically gives you all the power of a bank

branch in the palm of your hand. If you can start to connect digital-payment platforms to all of these mobile devices around the world, I think that we can do things at half to 80% less cost than the traditional financial services industry.

Let me give you an example of that: international remittances from people who have immigrated to one country and then are sending money back to somebody they love in their home country. Typically that costs somewhere between 8% and 12% in fees. So you send \$100, and they really only receive \$88 to \$92. But if you did that digital wallet to digital wallet, the maximum cost for that is maybe about 3%. I send \$100 and \$97 gets to the wallet holder in the home country. Not only do you have more money to spend, but you can do it immediately instead of going to a place waiting in line, sometimes waiting three days to get your money. You have your money instantaneously, safely.

I think there is the foundation of a solution in using technology to enable financial management in ways that it's never been able to have been accessed before. It's not the only thing; we need the right regulation; we need the right regulatory environment. But I'll tell you, when I talk to regulators around the world, and I do, they all want to do the right thing for their citizens. There's hope there. There's a ton to be done. We are far from where we need to be on that, but somewhere in there, there's a solution. That gives me a lot of hope and a lot of enthusiasm for what we might be able to do to help in that arena.

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Dan, that's precisely what we've seen around the world. As your mobile smartphone becomes your education, your health, your business, your bank, your entertainment, it bodes well, and the position that PayPal will play in that effort. There is another area I'd like to cover with you. And that is that so many philanthropic efforts that were relying on events to occur, marches, walks, entertainment, gatherings, concerts to fund their philanthropic medical programs, social programs. I know you instituted this a few years ago, and my guess is you never envisioned what was about to happen to many of our social philanthropic efforts. Talk to us a little bit about the growth and what you're seeing in creating a platform for philanthropic giving worldwide.

There are two areas I'd like to talk about on that, Mike, that I think both are a really interesting and inspiring. The first is just the outpouring of human generosity on our platforms. There have been use cases for both Venmo and PayPal that we've never seen before. People spontaneously, virtually, tipping bartenders or artists, musicians, neighbors, small businesses, giving to their schools, to their places of worship. And people not only are doing that, but when they receive that, are then paying it forward to somebody else who is even in more desperate need. Watching that across the platform, and really explode across the platform in terms of P-to-P [peer-to-peer] types of payments, it's not your typical type of P-to-P where you pay your babysitter or

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somebody who comes to your house for service. This is now much more about acts of generosity that are happening across the planet.

The second thing that we really thought about, because you know our mission is to democratize financial services: it's a fancy way of saying that managing and moving money should be a right for all citizens, not a privilege for the affluent. We thought, could we democratize the giving as well? Could we democratize philanthropy? We have this huge

platform, loads of consumers who we thought might want to give if we made it simple and easy for them, and lots of nonprofits and NGOs who were on our platform. We created this PayPal Giving Fund and this ability to easily connect our consumers with NGOs and nonprofits.

Here's what we found. Last year, we raised over \$10 billion on our platform for philanthropic causes. This year, from the time the pandemic really began until today – where we really shifted everything over to allowing customers easy access, tax reporting types of things so we could print those out for people in a seamless manner – we've helped to raise an enabled \$2.8 billion already. These are unbelievable numbers. To your point, they come in small amounts under \$60 on average, and from large numbers of people who can just give anything from \$5 to hundreds of dollars. We are raising billions of dollars that are obviously making a huge difference to charities and NGOs and nonprofits around the world that are doing things that are so important, maybe more important than ever in the time of this crisis.

When you consider the money you raised is probably multiplied in how it's been used, this has changed the world for so many people. Dan, I want to thank you for your

leadership that has come to fore during this period of time. Your comment about democratizing capital and access to finance was what set me on my career in 1965. I look in awe at what you've been able to accomplish in your leadership and your team at PayPal, to democratize access to finance and financial education for literally hundreds of millions of people around the world. Good health to you and your team. And thank you for joining me today.

Thank you so much, Mike. It's been a real pleasure.
