PayPal Reports First Quarter 2018 Results

GAAP EPS grew 33% to $0.42; non-GAAP EPS grew 29% to $0.57

Revenue grew 24% to $3.69 billion; 22% FX-neutral revenue growth

SAN JOSE, Calif.--Global technology platform and digital payments leader PayPal Holdings, Inc. (NASDAQ: PYPL) today announced first quarter results for the period ended March 31, 2018.

> *"After a strong 2017, we entered 2018 with continued momentum. Our partner relationships in the U.S. and across the globe continue to grow and flourish. As the digital economy gathers speed, we are excited to provide new and innovative capabilities to better serve our consumer and merchant customers," said Dan Schulman, President and CEO of PayPal.*

Financial highlights for first quarter 2018 include:

- Revenue growth of 24% to $3.69 billion, or 22% on a foreign currency-neutral (FX-neutral) basis
- GAAP operating margin of 14.5%, with non-GAAP operating margin of 22.5%
- GAAP EPS growth of 33% to $0.42, with non-GAAP EPS growth of 29% to $0.57
- Repurchased 23.6 million shares of common stock, returning $1.83 billion to stockholders

Operating highlights for first quarter 2018 include:

- 8.1 million active accounts added, with net new actives up 35%
- 2.2 billion payment transactions, up 25%
- $132 billion in total payment volume (TPV), up 32%, or 27% on an FX-neutral basis
- 34.7 payment transactions per active account on a trailing twelve months basis, up 8%

PayPal's expanding value proposition

PayPal processed $132 billion in TPV in the first quarter, representing growth of 32%, or 27% on an FX-neutral basis. Merchant Services TPV grew 30% on an FX-neutral basis, and represented 87% of overall TPV for the quarter versus approximately 85% a year ago. eBay Marketplaces volume grew 6% on an FX-neutral basis.

Person-to-Person (P2P) volume grew 50% to nearly $30 billion, and represented approximately 23% of TPV in the first quarter. Venmo, the company's social payments platform, processed more than $40 billion of TPV over the past twelve months. In the first quarter, Venmo processed more than $12 billion of TPV, growing 80% over the same period last year.

Driven by strong mobile engagement on our platform, PayPal processed approximately $49 billion in mobile payment volume in the first quarter, representing approximately 52% growth year over year. One Touch, PayPal's innovative checkout experience, ended the first quarter with 92 million consumers opted in. At the end of the first quarter, 8.6 million merchants offered One Touch.

First Quarter 2018 Financial and Operating Highlights

	First Quarter			
(presented in millions, except per share data and percentages)	**2018**	**2017**	**YoY Growth**	**FX-Neutral YoY Growth**

Total Payment Volume (TPV)(1)	$	132,364		$	100,639		$	31,725	32	%	27%
GAAP											
Net revenues	$	3,685		$	2,975		$	710	24	%	22%
Operating margin		14.5	%		14.5	%	**		0	bps	N/A
Effective tax rate		6.8	%		12.3	%	**		(558)	bps	N/A
Net income	$	511		$	384		$	127	33	%	N/A
Earnings per diluted share	$	0.42		$	0.32		$	0.10	33	%	N/A
Net cash (used in) provided by operating activities(2)	$	(349)		$	751		$	(1,100)	(146)	%	N/A
Non-GAAP											
Net revenues	$	3,685		$	2,975		$	710	24	%	22%
Operating margin		22.5	%		21.6	%	**		88	bps	N/A
Effective tax rate		17.9	%		17.8	%	**		7	bps	N/A
Net income	$	692		$	534		$	158	30	%	N/A
Earnings per diluted share	$	0.57		$	0.44		$	0.13	29	%	N/A
Free cash flow(2)	$	(527)		$	603		$	(1,130)	(187)	%	N/A

(1) All metrics are presented consistent with the updated definitions in the Form 8-K filed on April 10, 2018.

(2) Cash flow from operations and free cash flow in the first quarter of 2018 reflect the impact of held for sale accounting. Adjusting for the impact of held for sale accounting of $1.3 billion on the U.S. consumer credit portfolio, free cash flow in the quarter would have been $733 million.

** Not meaningful.

Cash, Cash Equivalents and Investments - PayPal's cash, cash equivalents and investments totaled $7.8 billion as of March 31, 2018.

Short-Term Borrowings - PayPal's notes payable totaled $3.0 billion as of March 31, 2018.

2018 Financial Guidance

Full year 2018 revenue and earnings guidance

- PayPal expects revenue to grow 16 - 18% at current spot rates and 15 - 16% on an FX-neutral basis, to a range of $15.20 - $15.40 billion. As previously disclosed, full year 2018 revenue guidance includes an expected impact related to the sale of U.S. consumer credit receivables to Synchrony Financial of ~3.5 percentage points for full year 2018, assuming the transaction closes on July 1, 2018.
- PayPal expects GAAP earnings per diluted share in the range of $1.73 - $1.76 and non-GAAP earnings per diluted share in the range of $2.31 - $2.34.
- Estimated non-GAAP amounts above for the twelve months ending December 31, 2018, reflect adjustments of approximately $1.00 - $1.04 billion, primarily representing estimated stock-based compensation expense and related payroll taxes in the range of $885 - $915 million.

Second quarter 2018 revenue and earnings guidance

- PayPal expects revenue to grow 21% - 22% at current spot rates and 19% - 20% on an FX-neutral basis, to a range of $3.78 - $3.83 billion.
- PayPal expects GAAP earnings per diluted share in the range of $0.41 - $0.43 and non-GAAP earnings per

diluted share in the range of $0.54 - $0.56.

- Estimated non-GAAP amounts above for the three months ending June 30, 2018, reflect adjustments of approximately $245 - $260 million, primarily representing estimated stock-based compensation expense and related payroll taxes in the range of $225 - $235 million.

Please see "Non-GAAP Financial Measures" and "Non-GAAP Measures of Financial Performance" for important additional information.

Quarterly conference call and webcast

PayPal Holdings, Inc. will host a conference call to discuss first quarter 2018 results at 2:00 p.m. Pacific Time today. A live webcast of the conference call, together with a slide presentation that includes supplemental financial information and reconciliations of certain non-GAAP measures to their most directly comparable GAAP measures, can be accessed through the company's Investor Relations website at https://investor.paypal-corp.com. In addition, an archive of the webcast will be accessible for 90 days through the same link.

PayPal Holdings, Inc. uses its Investor Relations website (https://investor.paypal-corp.com), its PayPal Stories Blog (https://www.paypal.com/stories/us), Twitter handle (@PayPal), Twitter handle (@PayPalNews), LinkedIn page (https://www.linkedin.com/company/paypal), Facebook page (https://www.facebook.com/PayPalUSA/), YouTube channel (https://www.youtube.com/paypal), Dan Schulman's LinkedIn profile (https://www.linkedin.com/in/dan-schulman/), John Rainey's LinkedIn profile (www.linkedin.com/in/john-rainey-pypl) and Dan Schulman's Facebook profile (https://www.facebook.com/DanSchulmanPayPal/) as a means of disclosing information about the company and for complying with its disclosure obligations under Regulation FD. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels in addition to PayPal's press releases, SEC filings, public conference calls and webcasts.

About PayPal

Fueled by a fundamental belief that having access to financial services creates opportunity, PayPal Holdings, Inc. (NASDAQ: PYPL) is committed to democratizing financial services and empowering people and businesses to join and thrive in the global economy. Our open digital payments platform gives PayPal's 237 million active account holders the confidence to connect and transact in new and powerful ways, whether they are online, on a mobile device, in an app, or in person. Through a combination of technological innovation and strategic partnerships, PayPal creates better ways to manage and move money, and offers choice and flexibility when sending payments, paying or getting paid. Available in more than 200 markets around the world, the PayPal platform, including Braintree, Venmo and Xoom, enables consumers and merchants to receive money in more than 100 currencies, withdraw funds in 56 currencies and hold balances in their PayPal accounts in 25 currencies. For more information on PayPal, visit https://www.paypal.com/about. For PayPal Holdings, Inc. financial information, visit https://investor.paypal-corp.com.

Presentation

All growth rates represent year-over-year comparisons, except as otherwise noted. FX-neutral results are calculated by translating the current period local currency results by the prior period exchange rate. FX-neutral growth rates are calculated by comparing the current period FX-neutral results with the prior period results, excluding the impact from hedging activities. All amounts in tables are presented in U.S. dollars, rounded to the nearest millions, except as otherwise noted. As a result, certain amounts and rates may not sum or recalculate using the rounded dollar amounts provided.

As previously disclosed, we have updated our definitions of Active Accounts and Total Payment Volume (TPV) to capture the diversification of PayPal's products and services through strategic partnerships, new products and acquisitions. Prior period metric results for Active Accounts, TPV, Number of Payment Transactions, and Payment Transactions Per Active Account have been revised to reflect the updated definitions of the metrics. For additional details, please see PayPal's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 10, 2018.

Non-GAAP financial measures

This press release includes the following financial measures defined as "non-GAAP financial measures" by the Securities and Exchange Commission (SEC): non-GAAP net income, non-GAAP earnings per diluted share, non-GAAP operating income, non-GAAP operating margin, non-GAAP effective tax rate and free cash flow. For an explanation of the foregoing non-GAAP measures, please see "Non-GAAP Measures of Financial Performance" included in this press release. These measures may be different from non-GAAP financial measures used by other companies. The presentation of this financial information, which is not prepared under any comprehensive

set of accounting rules or principles, is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with generally accepted accounting principles (GAAP). For a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures, see “Non-GAAP Measures of Financial Performance,” “GAAP Operating Margin to Non-GAAP Operating Margin,” “Reconciliation of GAAP Net Income to Non-GAAP Net Income, GAAP Diluted EPS to Non-GAAP Diluted EPS and GAAP Effective Tax Rate to Non-GAAP Effective Tax Rate,” and “Reconciliation of Operating Cash Flow to Free Cash Flow and Adjusted Free Cash Flow.”

Forward-looking statements

This press release contains forward-looking statements relating to, among other things, the future results of operations, financial condition, expectations and plans of PayPal Holdings, Inc. and its consolidated subsidiaries that reflect PayPal’s current projections and forecasts. Forward-looking statements can be identified by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “project,” “forecast” and other similar expressions. Forward-looking statements include, but are not limited to, statements regarding projected financial results for the second quarter and full year 2018, and projected future growth of PayPal’s businesses. Forward-looking statements are based upon various estimates and assumptions, as well as information known to PayPal as of the date of this press release, and are inherently subject to numerous risks and uncertainties. Accordingly, actual results could differ materially from those predicted or implied by forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: changes in political, business, economic, market and trade conditions, including any regional or general economic downturn or crisis and any conditions that affect payments or e-commerce growth; fluctuations in foreign currency exchange rates; the competitive, regulatory, payment card association-related and other risks specific to the PayPal, PayPal Credit, Braintree, Venmo, Xoom and other products, especially as PayPal continues to expand geographically and introduce new products and as new laws and regulations related to payments and financial services come into effect; the impact of PayPal's customer choice initiatives, including on its funding mix and transaction expense; PayPal’s ability to successfully compete in an increasingly competitive environment for its businesses, products and services, including competition for consumers and merchants and the increasing importance of mobile payments and mobile commerce; the outcome of legal and regulatory proceedings and PayPal's need and ability to manage regulatory, tax and litigation risks as its products and services are offered in more jurisdictions and applicable laws become more restrictive; changes to PayPal's capital allocation or management of operating cash; uncertainty surrounding the implementation and impact of the United Kingdom's formal notification of its intent to withdraw from the European Union; cyberattacks and security vulnerabilities in PayPal products and services that could disrupt business, reduce revenue, increase costs, harm us competitively, or lead to liability; the effect of management changes and business initiatives; any changes PayPal may make to its product offerings; the effect of any natural disasters or other business interruptions on PayPal or PayPal's customers; PayPal's ability to timely upgrade and develop its technology systems, infrastructure and customer service capabilities at reasonable cost; PayPal's ability to maintain the stability, security and performance of its Payment Platform while adding new products and features in a timely fashion; the risk that the planned transaction with Synchrony Financial will not be completed or that we may not realize the expected benefits of the transaction; risks that planned acquisitions will not be completed on contemplated terms, or at all, and that any businesses PayPal may acquire will not perform in accordance with its expectations; and PayPal's ability to profitably integrate, manage and grow businesses that have been acquired or may be acquired in the future. The forward-looking statements in this release do not include the potential impact of any acquisitions or divestitures that may be announced and/or completed after the date hereof.

More information about factors that could adversely affect PayPal's results of operations, financial condition and prospects or that could cause actual results to differ from those expressed or implied in forward-looking statements is included under the captions “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in PayPal’s most recent annual report on Form 10-K and its subsequent quarterly reports on Form 10-Q, copies of which may be obtained by visiting PayPal's Investor Relations website at https://investor.paypal-corp.com or the SEC's website at www.sec.gov. All information in this release is as of April 25, 2018. For the reasons discussed above, you should not place undue reliance on the forward-looking statements in this press release. PayPal assumes no obligation to update such forward-looking statements.

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PayPal Holdings, Inc.

Unaudited Condensed Consolidated Balance Sheet

	March 31, 2018	December 31, 2017
	(In millions, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$2,879	$2,883
Short-term investments	3,427	2,812
Accounts receivable, net	258	283
Loans and interest receivable, net	1,579	1,314
Loans and interest receivable, held for sale	6,537	6,398
Funds receivable and customer accounts	19,162	18,242
Prepaid expenses and other current assets	900	713
Total current assets	34,742	32,645
Long-term investments	1,487	1,961
Property and equipment, net	1,523	1,528
Goodwill	4,338	4,339
Intangible assets, net	138	168
Other assets	94	133
Total assets	$42,322	$40,774
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$187	$257
Notes payable	3,000	1,000
Funds payable and amounts due to customers	20,662	19,742
Accrued expenses and other current liabilities	1,767	1,781
Income taxes payable	98	83
Total current liabilities	25,714	22,863
Deferred tax liability and other long-term liabilities	1,967	1,917
Total liabilities	27,681	24,780
Equity:		
Common stock, $0.0001 par value; 4,000 shares authorized; 1,183 and 1,200 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	—	—
Treasury stock at cost, 71 and 47 shares as of March 31, 2018 and December 31, 2017, respectively	(3,811)	(2,001)
Additional paid-in-capital	14,287	14,314
Retained earnings	4,334	3,823
Accumulated other comprehensive loss	(169)	(142)
Total equity	14,641	15,994

Total liabilities and equity	$42,322	$40,774

PayPal Holdings, Inc.

Unaudited Condensed Consolidated Statement of Income

	Three Months Ended March 31,	
	2018	**2017**
	(In millions, except per share amounts)	
Net revenues	$ 3,685	$ 2,975
Operating expenses:		
Transaction expense	1,275	987
Transaction and loan losses	305	300
Customer support and operations(1)	351	317
Sales and marketing (1)	285	238
Product development (1)	258	214
General and administrative (1)	339	265
Depreciation and amortization (1)	185	183
Restructuring and other charges	153	40
Total operating expenses	3,151	2,544
Operating income	534	431
Other income (expense), net	14	7
Income before income taxes	548	438
Income tax expense	37	54
Net income	$ 511	$ 384
Net income per share:		
Basic	$ 0.43	$ 0.32
Diluted	$ 0.42	$ 0.32
Weighted average shares:		
Basic	1,192	1,203
Diluted	1,217	1,216
(1)Includes stock-based compensation as follows:		
Customer support and operations	38	30
Sales and marketing	44	28
Product development	64	45
General and administrative	59	42
Depreciation and amortization	4	2
	$ 209	$ 147

PayPal Holdings, Inc.

Unaudited Condensed Consolidated Statement of Cash Flows

	Three Months Ended March 31,	
	2018	2017
	(In millions)	
Cash flows from operating activities:		
Net income	$ 511	$ 384
Adjustments:		
Transaction and loan losses	305	300
Depreciation and amortization	185	183
Stock-based compensation	205	145
Deferred income taxes	91	53
Gain on sale of principal loans receivable held for sale, net	(5)	(6)
Cost basis adjustments to loans and interest receivable held for sale	128	—
Changes in assets and liabilities:		
Accounts receivable	25	36
Changes in loans and interest receivable held for sale, net	(1,291)	6
Accounts payable	(35)	(1)
Income taxes payable	—	17
Other assets and liabilities	(468)	(366)
Net cash (used in) provided by operating activities	(349)	751
Cash flows from investing activities:		
Purchases of property and equipment	(178)	(148)
Changes in principal loans receivable, net	738	(136)
Purchases of investments	(5,275)	(7,109)
Maturities and sales of investments	4,291	5,583
Funds receivable	429	567
Net cash provided by (used in) investing activities	5	(1,243)
Cash flows from financing activities:		
Proceeds from issuance of common stock	13	12
Purchases of treasury stock	(1,825)	(517)
Tax withholdings related to net share settlements of equity awards	(335)	(101)
Borrowings under financing arrangements, net of repayments	2,075	—
Funds payable and amounts due to customers	865	552
Net cash provided by (used in) financing activities	793	(54)

Effect of exchange rate changes on cash, cash equivalents and restricted cash	(7)	11
Net change in cash, cash equivalents and restricted cash	442	(535)
Cash, cash equivalents and restricted cash at beginning of period	8,285	6,119
Cash, cash equivalents and restricted cash at end of period	$ 8,727	$ 5,584
Supplemental cash flow disclosures:		
Cash paid for interest	$ 8	$ 1
Cash paid (refund received) for income taxes, net	$ (6)	$ 48

PayPal Holdings, Inc.

Unaudited Summary of Consolidated Net Revenues

We earn revenue from the following types of transactions:

- *Transaction revenues*: Net transaction fees charged to consumers and merchants on a transaction basis primarily based on the volume of activity, or Total Payment Volume ("TPV"), processed through our Payments Platform, including our PayPal, PayPal Credit, Venmo, Braintree and Xoom products.
- *Other value added services*: Net revenues derived principally from interest and fees earned on our loans and interest receivable, net and held for sale portfolio, subscription fees, gateway fees, gains on sale of participation interests in certain consumer loans receivable and working capital loans and advances, revenue share we earn through partnerships, interest earned on certain PayPal customer account balances, and fees earned through other services that we provide to consumers and merchants.

Net Revenues by Type	**Three Months Ended**				
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
	(In millions, except percentages)				
Transaction revenues(1)	$ 3,197	$ 3,244	$ 2,858	$ 2,775	$ 2,624
Current quarter vs prior quarter	*(1)%*	*14 %*	*3 %*	*6 %*	*(1)%*
Current quarter vs prior year quarter	*22 %*	*23 %*	*22 %*	*18 %*	*16 %*
Percentage of total	*87 %*	*87 %*	*88 %*	*88 %*	*88 %*
Other value added services(1)	488	500	381	361	351
Current quarter vs prior quarter	*(2)%*	*31 %*	*6 %*	*3 %*	*3 %*
Current quarter vs prior year quarter	*39 %*	*47 %*	*15 %*	*19 %*	*24 %*
Percentage of total	*13 %*	*13 %*	*12 %*	*12 %*	*12 %*
Total net revenues	$ 3,685	$ 3,744	$ 3,239	$ 3,136	$ 2,975
Current quarter vs prior quarter	*(2)%*	*16 %*	*3 %*	*5 %*	*— %*
Current quarter vs prior year quarter	*24 %*	*26 %*	*21 %*	*18 %*	*17 %*

(1) Prior period amounts have been revised to conform to current period presentation. For additional details, please see PayPal's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 10, 2018.

Net Revenues by Geography	**Three Months Ended**				
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
	(In millions, except percentages)				
U.S. net revenues	$ 2,023	$ 2,045	$ 1,743	$ 1,690	$ 1,606
Current quarter vs prior quarter	*(1)%*	*17 %*	*3 %*	*5 %*	*2 %*
Current quarter vs prior year quarter	*26 %*	*30 %*	*21 %*	*20 %*	*20 %*
Percent of total	*55 %*	*55 %*	*54 %*	*54 %*	*54 %*
International net revenues	1,662	1,699	1,496	1,446	1,369
Current quarter vs prior quarter	*(2)%*	*14 %*	*3 %*	*6 %*	*(3)%*
Current quarter vs prior year quarter	*21 %*	*21 %*	*22 %*	*16 %*	*14 %*
(FXN) Current quarter vs prior year quarter	*18 %*	*21 %*	*22 %*	*20 %*	*18 %*
Percent of total	*45 %*	*45 %*	*46 %*	*46 %*	*46 %*
Total net revenues	$ 3,685	$ 3,744	$ 3,239	$ 3,136	$ 2,975
Current quarter vs prior quarter	*(2)%*	*16 %*	*3 %*	*5 %*	*— %*
Current quarter vs prior year quarter	*24 %*	*26 %*	*21 %*	*18 %*	*17 %*
(FXN) Current quarter vs prior year quarter	*22 %*	*26 %*	*22 %*	*20 %*	*19 %*

PayPal Holdings, Inc.

Unaudited Supplemental Operating Data

	Three Months Ended,				
	March 31, 2018	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
	(In millions, except percentages)				
Active accounts(1),(2)	237	229	220	212	205
Current quarter vs prior quarter	*4 %*	*4 %*	*4 %*	*3 %*	*3 %*
Current quarter vs prior year quarter	*15 %*	*15 %*	*13 %*	*12 %*	*10 %*
Number of payment transactions(1),(3)	2,214	2,240	1,941	1,817	1,771
Current quarter vs prior quarter	*(1)%*	*15 %*	*7 %*	*3 %*	*(1)%*

Current quarter vs prior year quarter	*25*	*%*	*25*	*%*	*25*	*%*	*22*	*%*	*22*	*%*
Payment transactions per active account(1),(4)	34.7		34.0		33.3		32.8		32.2	
Current quarter vs prior quarter	*2*	*%*	*2*	*%*	*2*	*%*	*2*	*%*	*2*	*%*
Current quarter vs prior year quarter	*8*	*%*	*8*	*%*	*8*	*%*	*10*	*%*	*11*	*%*
Total Payment Volume(1),(5)	$132,364		$132,515		$115,224		$107,800		$100,639	
Current quarter vs prior quarter	*—*	*%*	*15*	*%*	*7*	*%*	*7*	*%*	*—*	*%*
Current quarter vs prior year quarter	*32*	*%*	*32*	*%*	*30*	*%*	*23*	*%*	*22*	*%*
(FXN) Current quarter vs prior year quarter	*27*	*%*	*29*	*%*	*28*	*%*	*25*	*%*	*24*	*%*
Transaction Expense Rate**(1),**(6)	0.96	%	0.96	%	0.96	%	0.99	%	0.98	%
Transaction and Loan Loss Rate**(1),**(7)	0.23	%	0.03	%	0.32	%	0.29	%	0.30	%
Transaction Margin(8)	57.1	%	65.1	%	54.8	%	56.3	%	56.7	%

Amounts in the table are rounded to the nearest million, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

(1) Prior period results have been revised to reflect updated definitions of the metrics presented in this table. For additional details, please see PayPal's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 10, 2018.

(2) An active account is an account registered directly with PayPal or a platform access partner that has completed a transaction through our Payments Platform, not including gateway-exclusive transactions, within the past 12 months.

(3) Payment transactions are the total number of payments, net of payment reversals, successfully completed through our Payments Platform, not including gateway-exclusive transactions.

(4) Number of payment transactions per active account reflects the total number of payment transactions within the previous 12 month period, divided by active accounts at the end of the period.

(5) TPV is the value of payments, net of reversals, successfully completed through our Payments Platform or enabled by PayPal via a partner payment solution, not including gateway-exclusive transactions.

(6) Transaction expense rate is calculated by dividing transaction expense by TPV.

(7) Transaction and loan loss rate is calculated by dividing transaction and loan loss by TPV.

(8) Transaction margin is total revenue less transaction expense and transaction and loan loss, divided by total revenue.

PayPal Holdings, Inc.
Non-GAAP Measures of Financial Performance

To supplement the company's condensed consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, the company uses non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP net income, non-GAAP net income per diluted share, non-GAAP operating income, non-GAAP operating margin, non-GAAP effective tax

rate and free cash flow.

These non-GAAP measures are not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the company's results of operations as determined in accordance with GAAP. These measures should only be used to evaluate the company's results of operations in conjunction with the corresponding GAAP measures.

Reconciliation to the most directly comparable GAAP measure of all non-GAAP measures included in this press release can be found in the tables included in this press release.

These non-GAAP measures are provided to enhance investors' overall understanding of the company's current financial performance and its prospects for the future. Specifically, the company believes the non-GAAP measures provide useful information to both management and investors by excluding certain expenses, gains and losses, as the case may be, that may not be indicative of its core operating results and business outlook. In addition, because the company has historically reported certain non-GAAP results to investors, the company believes that the inclusion of non-GAAP measures provides consistency in the company's financial reporting.

For its internal budgeting process, and as discussed further below, the company's management uses financial measures that do not include stock-based compensation expense, employer payroll taxes on stock-based compensation, amortization or impairment of acquired intangible assets, impairment of goodwill, restructuring-related charges, other certain gains, losses, benefits or charges that are not indicative of the company's core operating results and the income taxes associated with the foregoing. In addition to the corresponding GAAP measures, the company's management also uses the foregoing non-GAAP measures in reviewing the financial results of the company.

The company excludes the following items from non-GAAP net income, non-GAAP net income per diluted share, non-GAAP operating income, non-GAAP operating margin and non-GAAP effective tax rate:

Stock-based compensation expense and related employer payroll taxes. This consists of expenses for equity awards under our equity incentive plans. We exclude stock-based compensation expense from our non-GAAP measures primarily because they are non-cash expenses. The related employer payroll taxes are dependent on our stock price and the timing and size of exercises and vesting of equity awards, over which management has limited to no control, and as such management does not believe it correlates to the operation of our business.

Amortization or impairment of acquired intangible assets, impairment of goodwill, and transaction expenses from the acquisition or disposal of a business. We incur amortization or impairment of acquired intangible assets and goodwill in connection with acquisitions and may incur significant gains or losses or transactional expenses from the acquisition or disposal of a business and therefore exclude these amounts from our non-GAAP measures. We exclude these items because management does not believe they are reflective of our ongoing operating results.

Restructuring. These consist of expenses for employee severance and other exit and disposal costs. The company excludes significant restructuring charges primarily because management does not believe they are reflective of ongoing operating results.

Certain other significant gains, losses, benefits, or charges that are not indicative of the company’s core operating results. These are significant gains, losses, benefits, or charges during a period that are the result of isolated events or transactions which have not occurred frequently in the past and are not expected to occur regularly in the future. The company excludes these amounts from its non-GAAP results because management does not believe they are indicative of its current or ongoing operating results.

Tax effect of non-GAAP adjustments. This adjustment is made to present stock-based compensation and the other amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income.

The company also uses free cash flow, a non-GAAP measure. Free cash flow represents operating cash flows less purchases of property and equipment. The company considers free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases of property, buildings, and equipment, which can then be used to, among other things, invest in the company's business, make strategic acquisitions, and repurchase stock. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in the company's cash balance for the period.

In addition to the non-GAAP measures discussed above, the company also analyzes certain measures, including net revenues and operating expenses, on an FX-neutral basis to better measure the comparability of operating results between periods. The company believes that changes in foreign currency exchange rates are not indicative of the company's operations and evaluating growth in net revenues and operating expenses on an FX-neutral basis provides an additional meaningful and comparable assessment of these measures to both management and investors. FX-neutral results are calculated by translating the current period's local currency results with the prior period's exchange rate. FX-neutral growth rates are calculated by comparing the current period's FX-neutral results by the prior period's results, excluding the impact from hedging activities.

PayPal Holdings, Inc.

Reconciliation of GAAP Operating Margin to Non-GAAP Operating Margin

	Three Months Ended March 31,			
	2018		**2017**	
	(In millions, except percentages)			
	(unaudited)			
GAAP operating income	$ 534		$ 431	
Stock-based compensation expense and related employer payroll taxes	241		149	
Amortization of acquired intangible assets	29		23	
Restructuring	25		40	
Total non-GAAP operating income adjustments	295		212	
Non-GAAP operating income	$ 829		$ 643	
Non-GAAP operating margin	22	%	22	%

Reconciliation of GAAP Net Income to Non-GAAP Net Income,
GAAP Diluted EPS to Non-GAAP Diluted EPS,
and GAAP Effective Tax Rate to Non-GAAP Effective Tax Rate

	Three Months Ended March 31,		
	2018	**2017**	
	(In millions, except per share data and percentages)		
	(unaudited)		
GAAP income before income taxes	$ 548	$ 438	
GAAP income tax expense	37	54	
GAAP net income	511	384	
Non-GAAP adjustments to net income:			
Non-GAAP operating income adjustments (see table above)	295	212	
Other(1)	3	—	
Tax effect of non-GAAP adjustments	(117)	(62)	

Non-GAAP net income	$ 692		$ 534	
Diluted net income per share:				
GAAP	$ 0.42		$ 0.32	
Non-GAAP	$ 0.57		$ 0.44	
Shares used in GAAP diluted share calculation	1,217		1,216	
Shares used in non-GAAP diluted share calculation	1,217		1,216	
GAAP effective tax rate	7	%	12	%
Tax effect of non-GAAP adjustments to net income	11	%	6	%
Non-GAAP effective tax rate	18	%	18	%

(1) Tax expense related to the Tax Cuts and Jobs Act.

PayPal Holdings, Inc.

Reconciliation of Operating Cash Flow to Free Cash Flow and Adjusted Free Cash Flow

	Three Months Ended March 31,	
	2018	**2017**
	(In millions/unaudited)	
Net cash provided by operating activities	$ (349)	$ 751
Less: Purchases of property and equipment	(178)	(148)
Free cash flow	$ (527)	$ 603
Impact of held for sale accounting presentation on cash flow from operating activities	1,260	—
Adjusted free cash flow	$ 733	$ 603

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https://newsroom.paypal-corp.com/2018-04-25-PayPal-Reports-First-Quarter-2018-Results