

PayPal Reports Third Quarter 2018 Results

GAAP EPS of \$0.36, increasing 17%; non-GAAP EPS of \$0.58, increasing 26%

Announces partnerships with American Express and Walmart

SAN JOSE, Calif.--Global technology platform and digital payments leader PayPal Holdings, Inc. (NASDAQ: PYPL) today announced third quarter results for the period ended September 30, 2018.

Financial highlights for third quarter 2018

- Revenue growth of 14% to \$3.68 billion on both a spot and foreign currency-neutral (FX-neutral or FXN) basis. The completion of the sale of the U.S. consumer credit receivables portfolio to Synchrony in July 2018 negatively affected revenue growth by approximately seven percentage points.
- GAAP operating margin expanded 24 basis points to 13.3%; non-GAAP operating margin expanded 142 basis points to 21.4%
- GAAP EPS of \$0.36, increasing 17%; non-GAAP EPS of \$0.58, increasing 26%

Operating highlights for third quarter 2018

- 9.1 million active accounts added versus an increase of 8.2 million in Q3 2017, and ended the quarter with 254 million active accounts, up 15%
- 2.5 billion payment transactions, up 27%
- \$143 billion in total payment volume (TPV), up 24%, or 25% on an FX-neutral basis
- 36.5 payment transactions per active account on a trailing twelve months basis, up 9.5%

"PayPal had another excellent quarter. New partnerships with American Express and Walmart will increase the value that we can offer to our customers. Our strong balance sheet and cash flow enable us to aggressively invest in innovation and growth, creating sustainable and long-term value for our shareholders," said Dan Schulman, President and CEO of PayPal.

PayPal's expanding value proposition

PayPal processed \$143 billion in TPV in the third quarter, representing growth of 24%, or 25% on an FX-neutral basis. Merchant Services TPV grew 28% on an FX-neutral basis. eBay Marketplaces volume grew 3% on an FX-neutral basis, and represented 11% of overall TPV for the quarter versus approximately 13% a year ago. Person-to-Person (P2P) volume grew 50% to more than \$36 billion, and represented approximately 25% of TPV in the third quarter.

Strong mobile engagement on PayPal's platform contributed to approximately \$57 billion in mobile payment volume, growing approximately 45%. In the third quarter, mobile payment volume represented 40% of overall TPV. Venmo, the company's social payments platform, processed approximately \$17 billion of TPV in the third quarter, growing 78%. On a trailing twelve month basis, Venmo processed approximately \$54 billion of TPV.

As part of PayPal's efforts to further improve its value proposition for merchants, Funds Now was launched in the third quarter. This initiative gives merchants instant access to funds by eliminating holds, delays and reserves and is now available to sellers in the U.S., UK and Australia.

In the third quarter, PayPal closed the acquisition of iZettle, a leading small business commerce platform in Europe and Latin America. This acquisition expands PayPal's suite of products and services for small businesses.

PayPal partners with American Express and Walmart

PayPal and American Express announced a comprehensive strategic partnership today. The agreement will

allow PayPal to access American Express tokens and enables a deep integration of PayPal capabilities with the American Express platform, including the ability to transfer and use American Express rewards points at PayPal merchants.

In October 2018, PayPal announced a partnership with Walmart to offer PayPal cash in and cash out money services at Walmart retail stores. Using the PayPal mobile app, customers can load cash into and withdraw money from their PayPal balance at all Walmart stores in the U.S. Additionally, PayPal Cash Mastercard customers can use their PayPal balance to shop in store, on a mobile device and online at Walmart, as well as withdraw cash at the register or from Walmart's ATM locations nationwide.

Third Quarter 2018 Financial and Operating Highlights

(presented in millions, except per share data and percentages)	Third Quarter			FX-Neutral YoY Growth	
	2018	2017	YoY Growth		
Total Payment Volume (TPV)(1)	\$ 143,004	\$ 115,224	\$ 27,780	24 %	25 %
GAAP					
Net revenues	\$ 3,683	\$ 3,239	\$ 444	14 %	14 %
Operating margin	13.3	% 13.1	% **	24bps	N/A
Effective tax rate	18.2	% 15.7	% **	246 bps	N/A
Net income	\$ 436	\$ 380	\$ 56	15 %	N/A
Earnings per diluted share	\$ 0.36	\$ 0.31	\$ 0.05	17 %	N/A
Net cash provided by operating activities	\$ 4,670	\$ 1,006	\$ 3,664	364 %	N/A
Non-GAAP					
Net revenues	\$ 3,683	\$ 3,239	\$ 444	14 %	14 %
Operating margin	21.4	% 19.9	% **	142bps	N/A
Effective tax rate	16.4	% 16.9	% **	(53)bps	N/A
Net income	\$ 694	\$ 560	\$ 134	24 %	N/A
Earnings per diluted share	\$ 0.58	\$ 0.46	\$ 0.12	26 %	N/A
Free cash flow(2)	\$ 4,447	\$ 841	\$ 3,606	429 %	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 third quarter of 2018 reflect the impact of the sale of the U.S. consumer credit receivables portfolio to Synchrony. Adjusting for this sale, free cash flow in the third quarter would have been \$772 million.

** Not meaningful.

Cash, Cash Equivalents and Investments - PayPal's cash, cash equivalents and investments totaled \$10.5 billion as of September 30, 2018.

Short-Term Borrowings - PayPal's notes payable totaled \$2.0 billion as of September 30, 2018.

2018 Financial Guidance

Full year 2018 revenue and earnings guidance

- PayPal expects revenue to grow 18 - 19% at current spot rates and 17 - 18% on an FX-neutral basis, to a range of \$15.420 - \$15.500 billion. As previously disclosed, full year 2018 revenue guidance includes an expected decline related to the sale of U.S. consumer credit receivables to Synchrony of approximately 3.5 percentage points for full year 2018.
- PayPal expects GAAP earnings per diluted share in the range of \$1.65 - \$1.69 and non-GAAP earnings per diluted share in the range of \$2.38 - \$2.40.
- Estimated non-GAAP amounts above for the twelve months ending December 31, 2018, reflect adjustments of approximately \$1.15 - \$1.21 billion, primarily representing estimated stock-based compensation expense and related payroll taxes in the range of \$895 - \$915 million.
- Estimated GAAP and non-GAAP results include the expected impact of completed acquisitions and acquisitions that have been announced and are expected to close before the end of 2018.

Fourth quarter 2018 revenue and earnings guidance

- PayPal expects revenue to grow 13 - 15% at current spot rates and 13 - 15% on an FX-neutral basis, to a range of \$4.195 - \$4.275 billion.
- PayPal expects GAAP earnings per diluted share in the range of \$0.43 - \$0.47 and non-GAAP earnings per diluted share in the range of \$0.65 - \$0.67.
- Estimated non-GAAP amounts above for the three months ending December 31, 2018, reflect adjustments of approximately \$310 - \$370 million, primarily representing estimated stock-based compensation expense and related payroll taxes in the range of \$210 - \$230 million.
- Estimated GAAP and non-GAAP results include the expected impact of completed acquisitions and acquisitions that have been announced and are expected to close before the end of 2018.

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 third 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 handles (@PayPal and @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), Bill Ready’s LinkedIn profile (<https://www.linkedin.com/in/williamready/>) and Dan Schulman’s Facebook page (<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 that is posted 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 254 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 financial measures defined as "non-GAAP financial measures" by the Securities and Exchange Commission (SEC) including: non-GAAP net income, non-GAAP earnings per diluted share, non-GAAP operating income, non-GAAP operating margin, non-GAAP effective tax rate, free cash flow and adjusted 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," "Reconciliation of 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 fourth quarter and full year 2018, impact and timing of acquisitions, 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 we may not realize the expected benefits of the sale of U.S. consumer credit receivables to Synchrony Financial; 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; the timing and possible outcome of the UK Competition and Markets Authority's review of the acquisition of iZettle; 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 speaks as of October 18, 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

	September 30, 2018	December 31, 2017
	(In millions, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,147	\$ 2,883
Short-term investments	1,440	2,812
Accounts receivable, net	412	283
Loans and interest receivable, net	2,112	1,314
Loans and interest receivable, held for sale	—	6,398
Funds receivable and customer accounts	20,951	18,242
Prepaid expenses and other current assets	928	713
Total current assets	33,990	32,645
Long-term investments	946	1,961
Property and equipment, net	1,646	1,528
Goodwill	6,054	4,339
Intangible assets, net	684	168
Other assets	404	133
Total assets	\$ 43,724	\$ 40,774

LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	\$ 247	\$ 257
Notes payable	2,000	1,000
Funds payable and amounts due to customers	22,451	19,742
Accrued expenses and other current liabilities	1,866	1,781
Income taxes payable	76	83
Total current liabilities	26,640	22,863
Deferred tax liability and other long-term liabilities	1,969	1,917
Total liabilities	28,609	24,780
Equity:		
Common stock, \$0.0001 par value; 4,000 shares authorized; 1,178 and 1,200 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Treasury stock at cost, 84 and 47 shares as of September 30, 2018 and December 31, 2017, respectively	(4,911)	(2,001)
Additional paid-in-capital	14,664	14,314
Retained earnings	5,296	3,823
Accumulated other comprehensive income (loss)	66	(142)
Total equity	15,115	15,994
Total liabilities and equity	\$ 43,724	\$ 40,774

PayPal Holdings, Inc.

Unaudited Condensed Consolidated Statement of Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts)			
Net revenues	\$ 3,683	\$ 3,239	\$ 11,225	\$ 9,350
Operating expenses:				
Transaction expense	1,366	1,102	4,003	3,153
Transaction and loan losses	295	363	934	971
Customer support and operations(1)	367	346	1,075	998
Sales and marketing (1)	326	278	924	800
Product development (1)	269	240	782	686
General and administrative (1)	354	293	1,061	840
Depreciation and amortization (1)	188	194	553	578
Restructuring and other charges	28	—	297	40
Total operating expenses	3,193	2,816	9,629	8,066
Operating income	490	423	1,596	1,284

Other income (expense), net	43	28	94	52
Income before income taxes	533	451	1,690	1,336
Income tax expense	97	71	217	161
Net income	\$ 436	\$ 380	\$ 1,473	\$ 1,175
Net income per share:				
Basic	\$ 0.37	\$ 0.32	\$ 1.24	\$ 0.98
Diluted	\$ 0.36	\$ 0.31	\$ 1.22	\$ 0.96
Weighted average shares:				
Basic	1,181	1,202	1,187	1,203
Diluted	1,199	1,223	1,206	1,218

(1) Includes stock-based compensation as follows:

Customer support and operations	42	38	119	102
Sales and marketing	39	36	122	97
Product development	66	64	194	168
General and administrative	65	54	187	147
Depreciation and amortization	5	3	14	8
	\$ 217	\$ 195	\$ 636	\$ 522

PayPal Holdings, Inc.

Unaudited Condensed Consolidated Statement of Cash Flows

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		2017					
	(In millions)											
Cash flows from operating activities:												
Net income	\$	436		\$	380		\$	1,473		\$	1,175	
Adjustments:												
Transaction and loan losses		295			363			934			971	
Depreciation and amortization		188			194			553			578	
Stock-based compensation		213			193			623			514	
Deferred income taxes		(123	)		(89	)		(34	)		13
Cost basis adjustments to loans and interest receivable held for sale		—			—			244			—	
Other		(38)		(4)		(79)		(16)
Changes in assets and liabilities:												

Accounts receivable	(134	) (43	) (133	) (5)
Changes in loans and interest receivable held for sale, net	3,675	4	1,407	16	
Accounts payable	22	—	5	4	
Income taxes payable	(7	) 3	(21	) 24	
Other assets and liabilities	143	5	(623	) (596)
Net cash provided by operating activities	4,670	1,006	4,349	2,678	
Cash flows from investing activities:					
Purchases of property and equipment	(223	) (165	) (599	) (487)
Changes in principal loans receivable, net	2,573	(527	) 3,573	(1,154)
Purchases of investments	(5,025	) (2,271	) (15,641	) (14,227)
Maturities and sales of investments	6,278	3,493	15,947	13,029	
Acquisitions, net of cash acquired	(2,120	) (323	) (2,136	) (323)
Funds receivable	(1,329	) (858	) (427	) (461)
Net cash provided by (used in) investing activities	154	(651	) 717	(3,623)
Cash flows from financing activities:					
Proceeds from issuance of common stock	5	14	83	100	
Purchases of treasury stock	(600	) (100	) (2,925	) (706)
Tax withholdings related to net share settlements of equity awards	(20	) (16	) (392	) (140)
Borrowings under financing arrangements	—	800	2,075	800	
Repayments under financing arrangements	(25	) (174	) (1,101	) (180)
Funds payable and amounts due to customers	1,689	915	2,767	2,553	
Net cash provided by financing activities	1,049	1,439	507	2,427	
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(26	) 12	(89	) 35	
Net change in cash, cash equivalents and restricted cash	5,847	1,806	5,484	1,517	
Cash, cash equivalents and restricted cash at beginning of period	7,922	5,830	8,285	6,119	
Cash, cash equivalents and restricted cash at end of period	\$ 13,769	\$ 7,636	\$ 13,769	\$ 7,636	
Supplemental cash flow disclosures:					
Cash paid for interest	\$ 21	\$ 1	\$ 47	\$ 3	
Cash paid for income taxes, net	\$ 48	\$ 15	\$ 228	\$ 88	

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 on 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				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	(In millions, except percentages)				
Transaction revenues(1)	\$ 3,343	\$ 3,318	\$ 3,197	\$ 3,244	\$ 2,858
<i>Current quarter vs prior quarter</i>	1	% 4	% (1)	% 14	% 3
<i>Current quarter vs prior year quarter</i>	17	% 20	% 22	% 23	% 22
<i>Percentage of total</i>	91	% 86	% 87	% 87	% 88
Other value added services(1)	340	539	488	500	381
<i>Current quarter vs prior quarter</i>	(37	)%	10	% (2	)% 31
<i>Current quarter vs prior year quarter</i>	(11	)%	49	% 39	% 47
<i>Percentage of total</i>	9	% 14	% 13	% 13	% 12
Total net revenues	\$ 3,683	\$ 3,857	\$ 3,685	\$ 3,744	\$ 3,239
<i>Current quarter vs prior quarter</i>	(5	)%	5	% (2	)% 16
<i>Current quarter vs prior year quarter</i>	14	% 23	% 24	% 26	% 21

(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				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
	(In millions, except percentages)				
U.S. net revenues	\$ 1,962	\$ 2,150	\$ 2,023	\$ 2,045	\$ 1,743
<i>Current quarter vs prior quarter</i>	(9	)%	6	% (1	)% 17
<i>Current quarter vs prior year quarter</i>	13	% 27	% 26	% 30	% 21
<i>Percent of total</i>	53	% 56	% 55	% 55	% 54
International net revenues	1,721	1,707	1,662	1,699	1,496

<i>Current quarter vs prior quarter</i>	1	%	3	%	(2)	)% 14	%	3	%
<i>Current quarter vs prior year quarter</i>	15	%	18	%	21	% 21	%	22	%
<i>(FXN) Current quarter vs prior year quarter</i>	15	%	16	%	18	% 21	%	22	%
<i>Percent of total</i>	47	%	44	%	45	% 45	%	46	%

Total net revenues	\$ 3,683		\$3,857		\$3,685		\$ 3,744		\$ 3,239
<i>Current quarter vs prior quarter</i>	(5	)%	5	%	(2	)% 16	%	3	%
<i>Current quarter vs prior year quarter</i>	14	%	23	%	24	% 26	%	21	%
<i>(FXN) Current quarter vs prior year quarter</i>	14	%	22	%	22	% 26	%	22	%

PayPal Holdings, Inc.

Unaudited Supplemental Operating Data

	Three Months Ended,					
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	
	(In millions, except percentages)					
Active accounts(1),(2)	254	244	237	229	220	
<i>Current quarter vs prior quarter</i>	4	% 3	% 4	% 4	% 4	%
<i>Current quarter vs prior year quarter</i>	15	% 15	% 15	% 15	% 13	%
Number of payment transactions(1),(3)	2,463	2,327	2,214	2,240	1,941	
<i>Current quarter vs prior quarter</i>	6	% 5	% (1	)% 15	% 7	%
<i>Current quarter vs prior year quarter</i>	27	% 28	% 25	% 25	% 25	%
Payment transactions per active account(1),(4)	36.5	35.7	34.7	34.0	33.3	
<i>Current quarter vs prior quarter</i>	2	% 3	% 2	% 2	% 2	%
<i>Current quarter vs prior year quarter</i>	9	% 9	% 8	% 8	% 8	%
Total Payment Volume(1),(5)	\$ 143,004	\$ 139,403	\$ 132,364	\$ 132,515	\$ 115,224	
<i>Current quarter vs prior quarter</i>	3	% 5	% —	% 15	% 7	%
<i>Current quarter vs prior year quarter</i>	24	% 29	% 32	% 32	% 30	%
<i>(FXN) Current quarter vs prior year quarter</i>	25	% 27	% 27	% 29	% 28	%
Transaction Expense Rate(1),(6)	0.96	% 0.98	% 0.96	% 0.96	% 0.96	%

Transaction and Loan Loss Rate(1),(7)	0.21	%	0.24	%	0.23	%	0.03	%	0.32	%
Transaction Margin(8)	54.9	%	56.0	%	57.1	%	65.1	%	54.8	%

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 on 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 on our Payments Platform or enabled by PayPal via a partner payment solution, 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 on 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, free cash flow and adjusted 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, certain other 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 September
30,
2018 2017
(In millions, except percentages)**

	(unaudited)			
GAAP operating income	\$	490	\$	423
Stock-based compensation expense and related employer payroll taxes		219		197
Amortization of acquired intangible assets		33		26
Other(1)		28		—
Acquisition related transaction expense		17		—
Total non-GAAP operating income adjustments		297		223
Non-GAAP operating income	\$	787	\$	646
Non-GAAP operating margin		21	%	20
				%

(1) Net loss related to the sale of our U.S. consumer credit receivables portfolio.

**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 September 30,			
	2018		2017	
	(In millions, except per share data and percentages)			
	(unaudited)			
GAAP income before income taxes	\$	533	\$	451
GAAP income tax expense		97		71
GAAP net income		436		380
Non-GAAP adjustments to net income:				
Non-GAAP operating income adjustments (see table above)		297		223
Other(1)		14		23
Tax effect of non-GAAP adjustments	(53	)	(66)
Non-GAAP net income	\$	694	\$	560
Diluted net income per share:				
GAAP	\$	0.36	\$	0.31
Non-GAAP	\$	0.58	\$	0.46
Shares used in GAAP diluted share calculation		1,199		1,223
Shares used in non-GAAP diluted share calculation		1,199		1,223
GAAP effective tax rate	18	%	16	%
Tax effect of non-GAAP adjustments to net income	(2)%	1	%

Non-GAAP effective tax rate	16	%	17	%
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(1) Tax expense related to the Tax Act and intra-entity transfer of intellectual property for the three months ended September 30, 2018. Intra-entity transfer of intellectual property for the three months ended September 30, 2017.

PayPal Holdings, Inc.

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

	Three Months Ended September 30,	
	2018	2017
	(In millions/unaudited)	
Net cash provided by operating activities	\$ 4,670	\$ 1,006
Less: Purchases of property and equipment	(223)	(165)
Free cash flow	\$ 4,447	\$ 841
Impact of held for sale accounting presentation related to our U.S. consumer credit receivables portfolio on cash flow from operating activities	(3,675)	—
Adjusted free cash flow	\$ 772	\$ 841

<https://newsroom.ie.paypal-corp.com/2018-10-18-PayPal-Reports-Third-Quarter-2018-Results>