



# PayPal Q4-16 and Full Year 2016 Investor Update

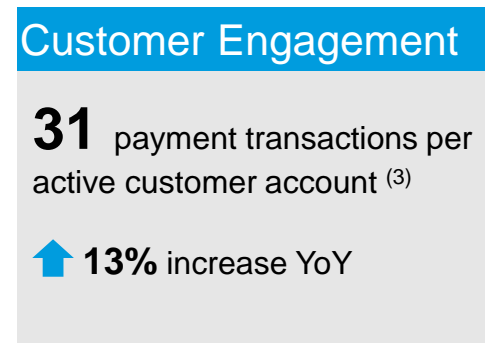
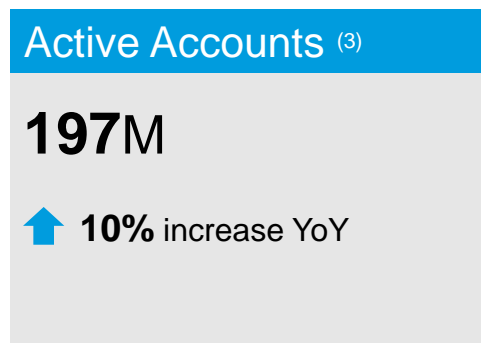
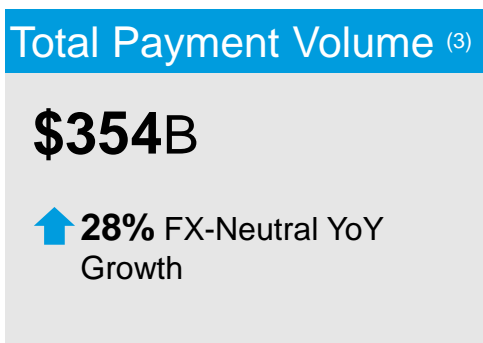
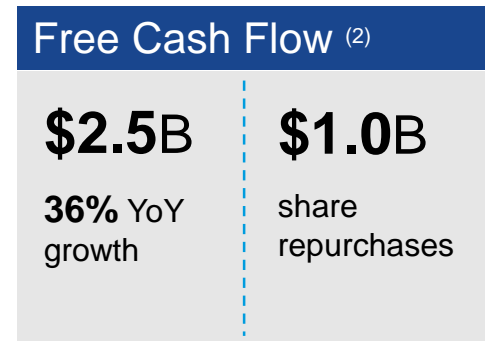
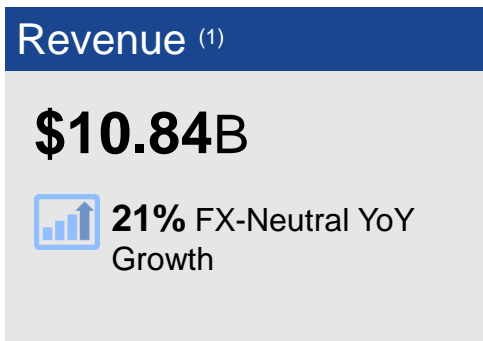
January 26, 2017

# Non-GAAP Financial Measures; Forward Looking Statements

- This presentation contains non-GAAP measures relating to our performance. In addition, we have included certain pro forma adjustments in our presentation of non-GAAP net revenue, non-GAAP operating expenses, non-GAAP earnings per diluted share, non-GAAP operating margin, and associated year over year growth rates in this presentation. We have chosen to present non-GAAP pro forma measures because we believe that these measures provide investors a consistent basis for assessing our performance, and help to facilitate comparisons of our operating results, across different periods. These pro forma adjustments reflect items that are factually supportable, directly attributable to the separation of the company from eBay Inc. on July 17, 2015, and expected to have a continuing impact on the company's results of operations. 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. You can find the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures in the Supplemental Information at the end of this presentation.
- All growth rates represent year-over-year comparisons, except as otherwise noted. FX-neutral (which we also refer to as FXN or currency neutral) results are calculated by translating the current period's local currency results by 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 of currency hedging.
- This presentation contains forward-looking statements relating to our future performance that are based on our current expectations, forecasts and assumptions, and involve risks and uncertainties. These statements include, but are not limited to, statements regarding expected financial results for the first quarter and full year 2017, and future growth in our businesses.
- Our actual results could differ materially from those predicted or implied and reported results should not be considered as an indication of future performance. Factors that could cause or contribute to such differences include, but are not limited to: changes in political, business and economic conditions, including any regional 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 our PayPal, PayPal Credit, Braintree, Venmo, Xoom and Paydiant products, especially as we continue 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 our customer choice initiatives, including on our funding mix and transaction expense; our ability to successfully react to the increasing importance of mobile payments and mobile commerce; our ability to deal with the increasingly competitive environment for our businesses, including competition for consumers and merchants; our need and ability to manage other regulatory, tax and litigation risks as our products and services are offered in more jurisdictions and applicable laws become more restrictive; changes to our capital allocation or management of operating cash; the uncertainty surrounding the implementation effects, and impact of the United Kingdom's referendum in favor of leaving the European Union ("Brexit"); our need to manage an increasingly large enterprise with a broad range of businesses of varying degrees of maturity and in many different geographies; the effect of management changes and business initiatives; any changes we may make to its product offerings; our ability to timely upgrade and develop its technology systems, infrastructure and customer service capabilities at reasonable cost; our ability to maintain stability and performance of its Payment Platform while adding new products and features in a timely fashion; and our 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 presentation 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 affect our operating results is included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K and quarterly reports on Form 10-Q, copies of which may be obtained by visiting the company's Investor Relations website at <https://investor.paypal-corp.com> or the SEC's website at [www.sec.gov](http://www.sec.gov). All information in this presentation is as of January 26, 2017. Undue reliance should not be placed on the forward-looking statements in this presentation, which are based on information available to us on the date hereof. We assume no obligation to update such statements.

# 2016 Full Year Summary

Strong financial results driven by ongoing strength in operating metrics



- Completed a series of transformative, strategic partnerships with ecosystem players
- Strategically positioned to deliver sustainable and profitable growth

<sup>(1)</sup> Revenue and Non-GAAP EPS year-over-year growth rates are presented on a non-GAAP pro forma basis. Please see Supplemental Information for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

<sup>(2)</sup> Non-GAAP earnings per share and free cash flow are non-GAAP financial measures. Please see the Supplemental Information for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

<sup>(3)</sup> Definition included in Supplemental Information.

# Fourth Quarter Summary

Strong finish to 2016

## Revenue

**\$2.98B**



**19%** FX-Neutral YoY Growth

## Non-GAAP EPS <sup>(1)</sup>

**\$0.42**



**17%** increase YoY

## Free Cash Flow <sup>(1)</sup>

**\$771M**

**37%** YoY growth

**\$50M**

share repurchases

## Total Payment Volume <sup>(2)</sup>

**\$99B**



**25%** FX-Neutral YoY Growth

## Active Accounts <sup>(2)</sup>

**197M**



**10%** increase YoY

## Customer Engagement

**31** payment transactions per active customer account <sup>(2)</sup>



**13%** increase YoY

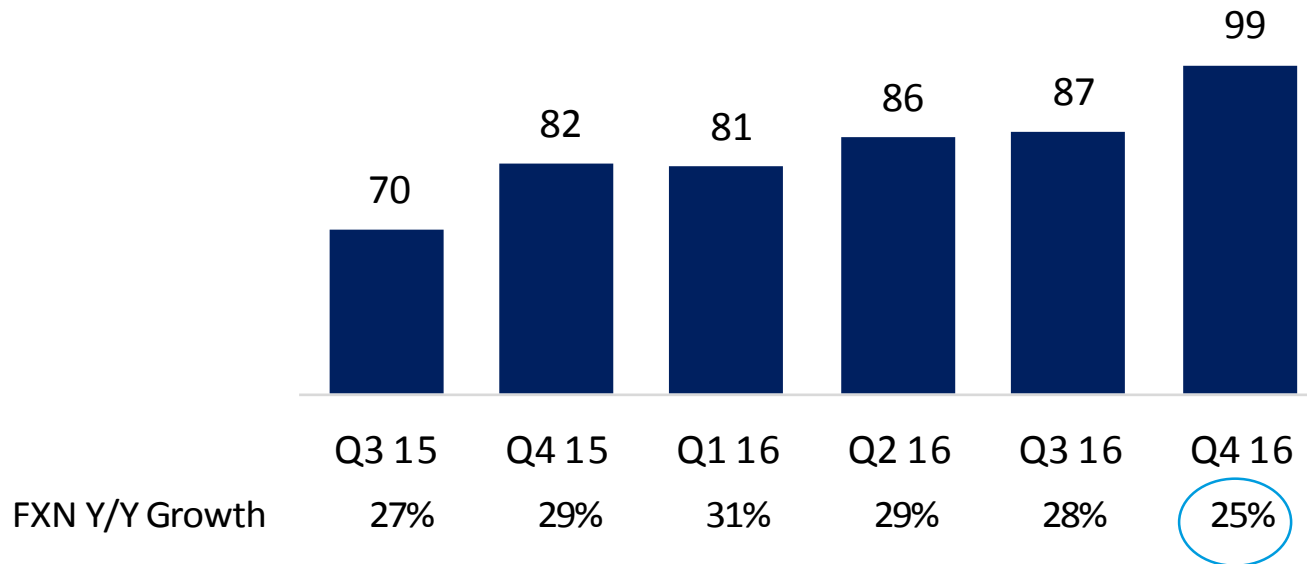
- Expanded strategic partnership strategy with Citi, FIS and Discover agreements
- Ended 2016 with more than 5M merchant accounts offering One Touch to more than 40 million consumer accounts

<sup>(1)</sup> Non-GAAP earnings per share and free cash flow are non-GAAP financial measures. Please see the Supplemental Information for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

<sup>(2)</sup> Definition included in Supplemental Information.

# Gaining Share

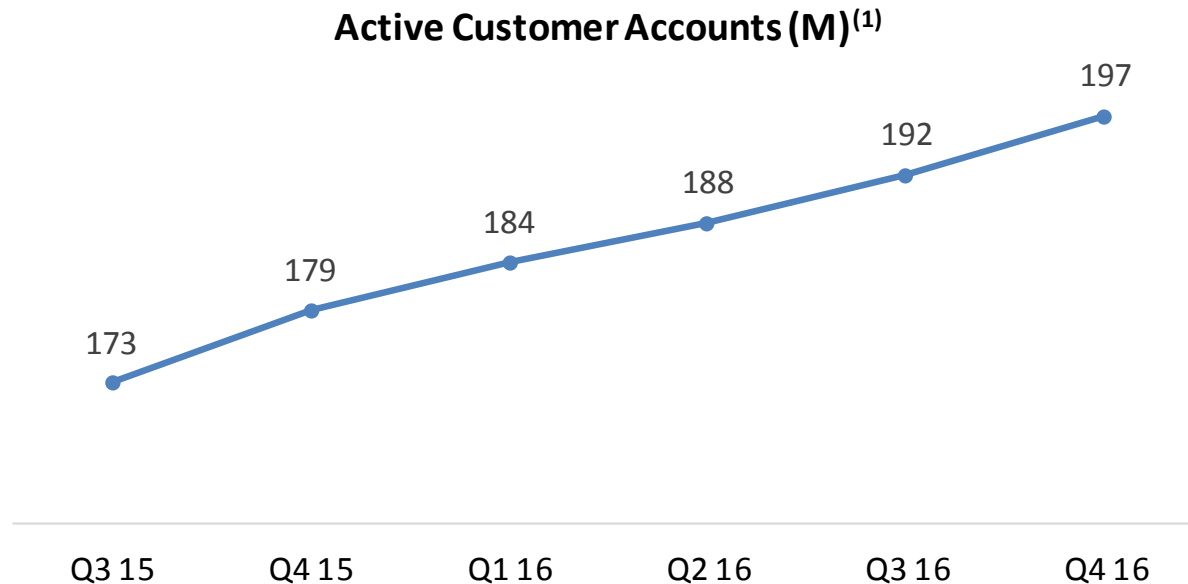
## Total Payment Volume (TPV) (\$B)<sup>(1)</sup>



- Merchant Services volume grew 30% on an FX-neutral basis, driven by strength in core, Braintree, and Venmo
- Mobile volume growth of 53%. Mobile represented 31% of TPV in Q4-16 vs 25% a year ago
- Venmo volume up 126% to \$5.6B in the quarter

<sup>(1)</sup> Definition included in Supplemental Information.

# Expanding Customer Base

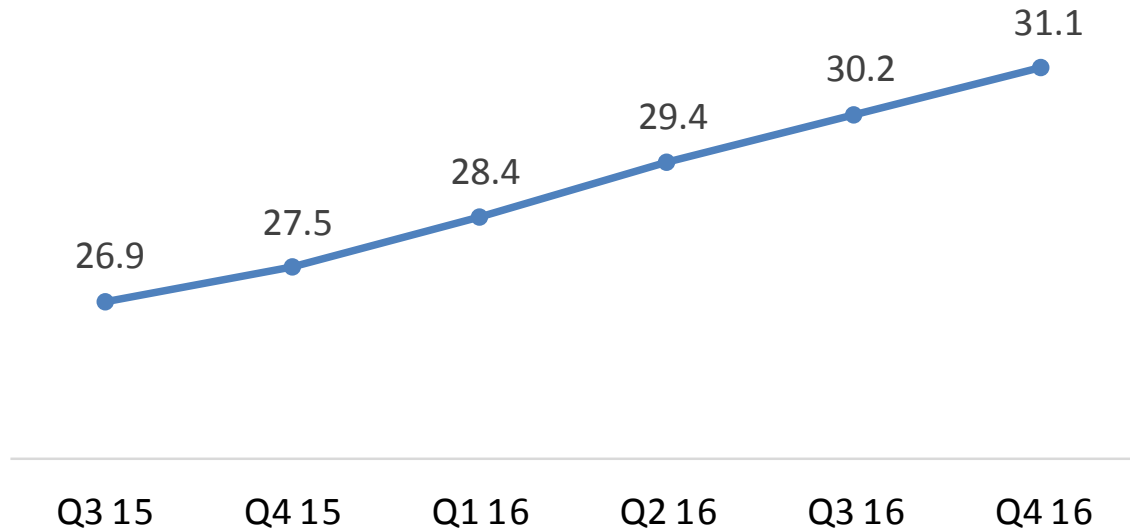


- Ended the quarter with 197M, up 10%
- 182M active consumer accounts and 15M active merchant accounts
- Active account growth driven by core and Venmo

<sup>(1)</sup> Definition included in Supplemental Information.

# Deepening Engagement

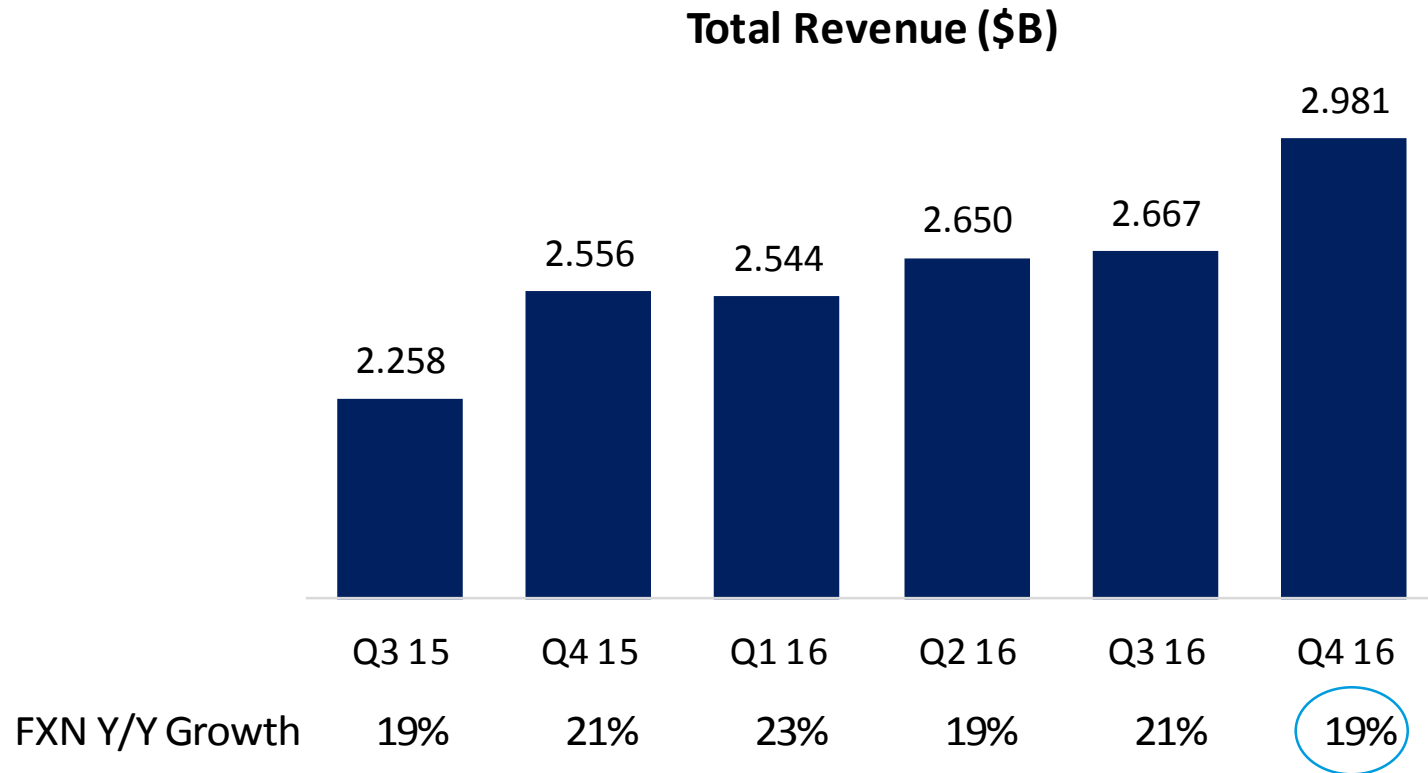
**Number of Payment Transactions per Active Customer Account<sup>(1)</sup>**



- Processed 1.8B payment transactions during Q4, up 23%
- Payment transactions per active account increased 13%

<sup>(1)</sup> Definition included in Supplemental Information.

# Growing Revenue

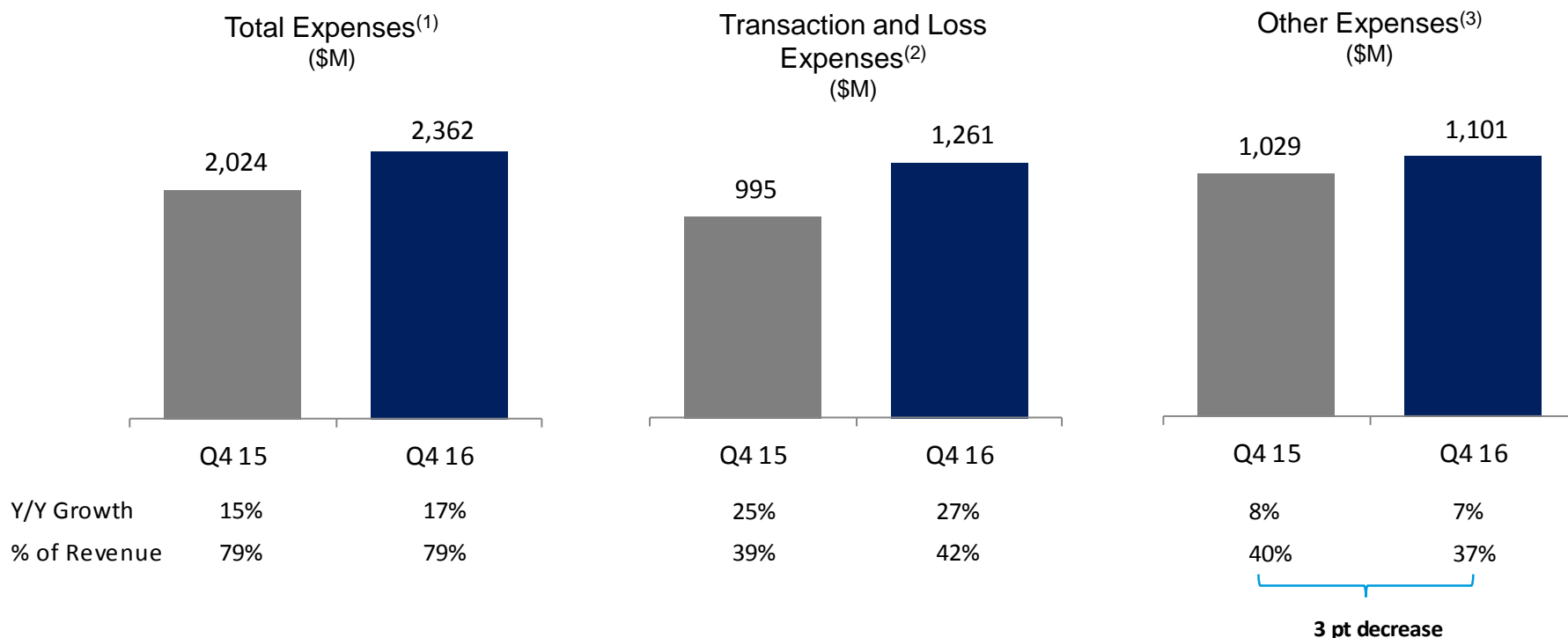


- Transaction Revenue grew by 18% on an FX-neutral basis, driven by core and Braintree
- Other Value Added Services Revenue grew 26% on an FX-neutral basis, driven by credit products

Q3'15 – Q2'16 revenue growth rates are presented on a non-GAAP pro forma basis. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure.



# Non-GAAP Expense Detail



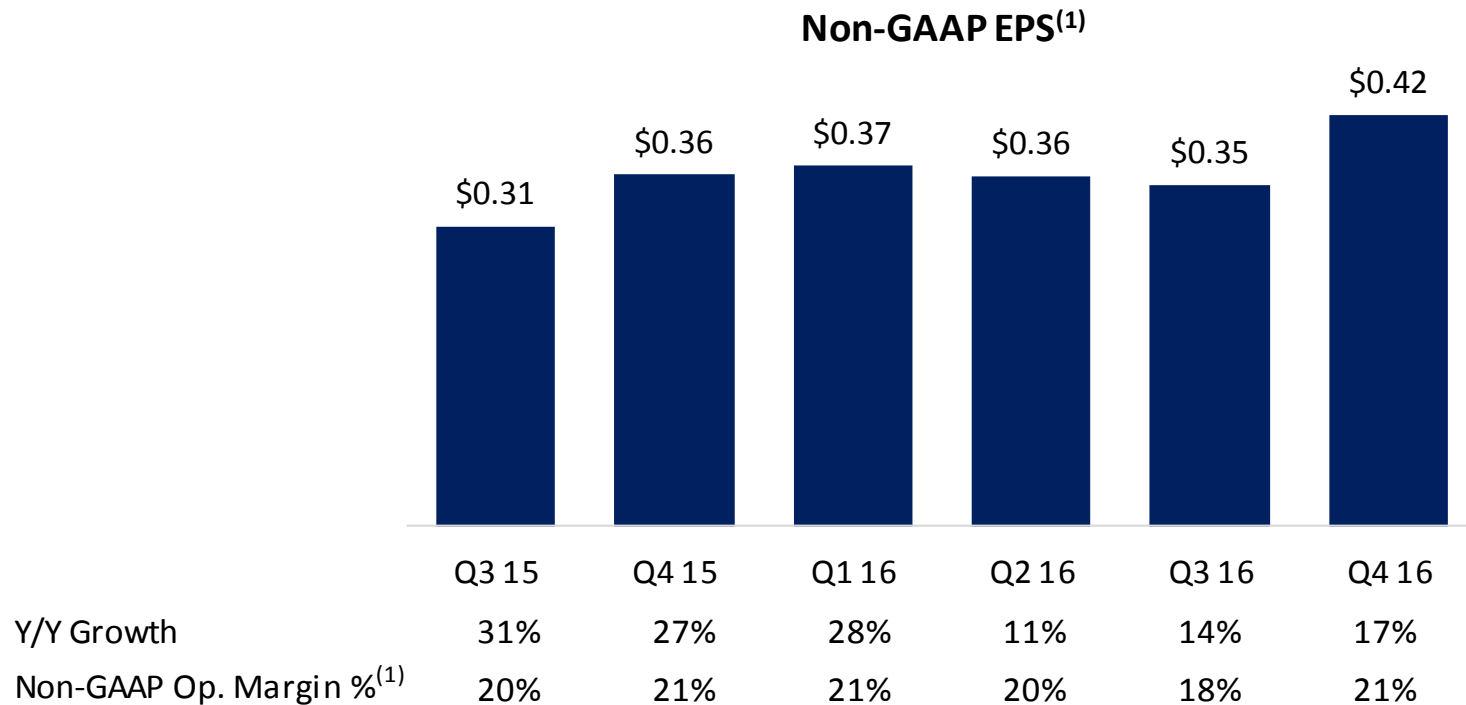
- Gained 330 bps leverage on Other Expenses through expense discipline. Other Expenses grew 7%, significantly lower than revenue at 17%. Other Expenses grew 6% excluding Xoom
- Transaction and Loss Expenses grew 27%, 26% excluding Xoom

<sup>(1)</sup> Expenses are presented on a non-GAAP basis. Q4'15 expense growth rates represent year-over-year comparisons versus non-GAAP pro forma measures. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure.

<sup>(2)</sup> Transaction and loss expenses include transaction expense and transaction and loan losses.

<sup>(3)</sup> Other expenses include customer support and operations, sales and marketing, product development, general and administrative, and depreciation and amortization.

# Growing Non-GAAP EPS

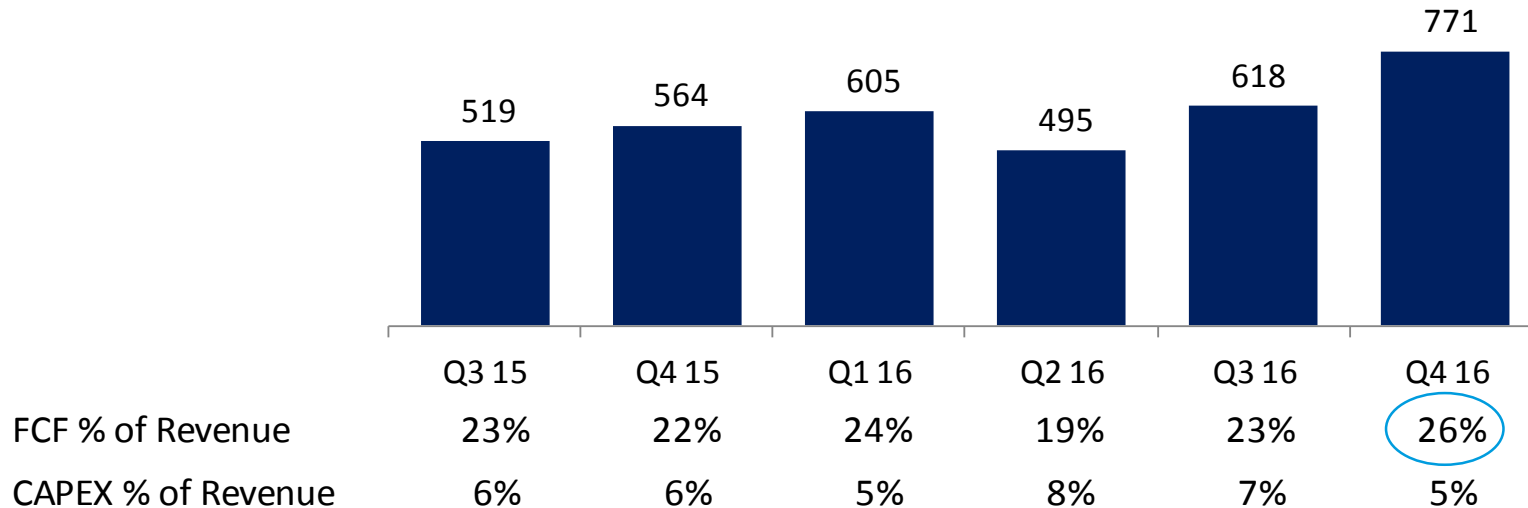


- Non-GAAP operating margin consistent with Q4'15 as leverage in Other Expenses offset transaction margin decline
- 2016 full year non-GAAP EPS growth of 17%<sup>(1)</sup>

<sup>(1)</sup> Non-GAAP EPS and non-GAAP operating margin are non-GAAP financial measures. Q3'15 – Q2'16 non-GAAP EPS growth rates are presented on a pro forma basis. Please see the Supplemental Information for a reconciliation of these non-GAAP financial measure to the most directly comparable GAAP financial measures.

# Growing Free Cash Flow<sup>(1)</sup>

Free Cash Flow (\$M)



- Total Cash, Cash Equivalents, and Investments of \$6.5B: \$5.0B international, \$1.5B US
- In 2016, returned \$1B to shareholders by repurchasing 27M shares at an average price of \$36.49

<sup>(1)</sup> Free cash flow is a non-GAAP financial measure. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure.

# 2017 Guidance

## FY 2017 Guidance

	Low	High
<b>Revenue</b> (in billions)	<b>\$12.450</b>	<b>\$12.650</b>
<i>Y/Y Growth</i>	15%	17%
<i>FXN Y/Y Growth</i>	17%	19%
<b>Non-GAAP EPS</b>	<b>\$1.69</b>	<b>\$1.74</b>
<b>Free Cash Flow</b> (in billions)	<b>&gt;\$2.7</b>	

- Non-GAAP EPS Y/Y growth of 13% - 16%
- Non-GAAP effective tax rate of 18% - 19%
- CAPEX ~5% of revenue
- GAAP EPS of \$1.26 to \$1.31

## Guidance Context

- Raising full year revenue guidance to 17% - 19% Y/Y growth on an FXN basis
- Expect currency to be a ~200 bps headwind, with greater impact in the first half of the year
- Expect non-GAAP operating margin to be flat to slightly up vs. 2016
- Anticipate delivering greater operating income growth during the second half of the year relative to the first half

Non-GAAP EPS, non-GAAP effective tax rate, and free cash flow are non-GAAP financial measures. Please see the Supplemental Information for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.

# Q1 2017 Guidance

## Q1 2017 Guidance

	Low	High
<b>Revenue</b> (in billions)	<b>\$2.900</b>	<b>\$2.950</b>
<i>Y/Y Growth</i>	14%	16%
<i>FXN Y/Y Growth</i>	16%	18%
<b>Non-GAAP EPS</b>	<b>\$0.40</b>	<b>\$0.42</b>

Non-GAAP EPS is non-GAAP financial measure. Please see the Supplemental Information for a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure.

# Supplemental Information

# PayPal Metrics

(in millions, except %)

	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
<b>Active Customer Accounts</b> <sup>(1)</sup>	<b>173</b>	<b>179</b>	<b>184</b>	<b>188</b>	<b>192</b>	<b>197</b>
Y/Y Growth	10%	11%	11%	11%	11%	10%
<b>Number of Payment Transactions</b> <sup>(1)</sup>	<b>1,216</b>	<b>1,428</b>	<b>1,414</b>	<b>1,448</b>	<b>1,512</b>	<b>1,755</b>
Y/Y Growth	25%	25%	26%	25%	24%	23%
<b>Total Payment Volume</b> <sup>(1)</sup>	<b>69,738</b>	<b>81,523</b>	<b>81,056</b>	<b>86,208</b>	<b>87,403</b>	<b>99,348</b>
Y/Y Growth	20%	23%	29%	28%	25%	22%
FXN Y/Y Growth	27%	29%	31%	29%	28%	25%
US TPV	38,570	44,320	44,453	46,848	48,380	54,719
Y/Y Growth	28%	29%	30%	27%	25%	23%
International TPV	31,168	37,203	36,603	39,360	39,023	44,629
Y/Y Growth	11%	17%	27%	29%	25%	20%
FXN Y/Y Growth	25%	28%	32%	31%	30%	27%
<b>Total Take Rate</b> <sup>(1)</sup>	<b>3.24%</b>	<b>3.14%</b>	<b>3.14%</b>	<b>3.07%</b>	<b>3.05%</b>	<b>3.00%</b>
<b>Transaction Take Rate</b> <sup>(1)</sup>	<b>2.84%</b>	<b>2.77%</b>	<b>2.76%</b>	<b>2.69%</b>	<b>2.65%</b>	<b>2.63%</b>
Transaction Expense Rate <sup>(1)</sup>	0.93%	0.92%	0.93%	0.94%	0.95%	0.96%
Transaction and Loan Loss Rate <sup>(1)</sup>	0.29%	0.30%	0.31%	0.30%	0.31%	0.31%
<b>Transaction Margin</b> <sup>(1)</sup>	<b>62.3%</b>	<b>61.1%</b>	<b>60.4%</b>	<b>59.8%</b>	<b>58.7%</b>	<b>57.7%</b>

- CBT was 21% of TPV in the quarter
- 54% of active accounts are outside the US
- Average Payment Volume (APV) was \$57, flat year over year
- Transaction take rate down ~14 bps, driven primarily by P2P growth (including Venmo)
- PayPal Credit loans receivable of \$5.1B and PayPal Working Capital advances of \$0.6B as of December 31, 2016

<sup>(1)</sup> Definition included in Supplemental Information.

# Financial Detail

(\$ millions)	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Transaction Revenue	1,982	2,262	2,238	2,323	2,314	2,615
Y/Y Growth	13%	15%	17%	18%	17%	16%
Other Value Added Services (OVAS)	276	294	306	327	353	366
Y/Y Growth	25%	30%	37%	0%	28%	24%
<b>Total Revenue<sup>(1)</sup></b>	<b>2,258</b>	<b>2,556</b>	<b>2,544</b>	<b>2,650</b>	<b>2,667</b>	<b>2,981</b>
Y/Y Growth	15%	17%	19%	16%	18%	17%
FXN Y/Y Growth	19%	21%	23%	19%	21%	19%
% International	50%	49%	47%	47%	46%	47%
US Revenue Y/Y Growth	20%	25%	31%	21%	26%	21%
International Revenue FXN Y/Y Growth	17%	18%	15%	18%	16%	17%
Transaction and Loss Expenses	852	995	1,007	1,065	1,101	1,261
Other Expenses	956	1,029	1,000	1,057	1,076	1,101
<b>Total Operating Expenses<sup>(1)</sup></b>	<b>1,808</b>	<b>2,024</b>	<b>2,007</b>	<b>2,122</b>	<b>2,177</b>	<b>2,362</b>
Y/Y Growth	12%	15%	20%	19%	20%	17%
<b>Non-GAAP Op. Income<sup>(1)</sup></b>	<b>450</b>	<b>532</b>	<b>537</b>	<b>528</b>	<b>490</b>	<b>619</b>
<b>Non-GAAP Op. Margin %<sup>(1)</sup></b>	<b>20%</b>	<b>21%</b>	<b>21%</b>	<b>20%</b>	<b>18%</b>	<b>21%</b>
<b>Non-GAAP EPS<sup>(1)</sup></b>	<b>\$0.31</b>	<b>\$0.36</b>	<b>\$0.37</b>	<b>\$0.36</b>	<b>\$0.35</b>	<b>\$0.42</b>
Y/Y Growth	31%	27%	28%	11%	14%	17%
CAPEX	133	164	133	201	183	152
<b>Free Cash Flow<sup>(1)</sup></b>	<b>519</b>	<b>564</b>	<b>605</b>	<b>495</b>	<b>618</b>	<b>771</b>

- US Revenue growth driven primarily by core Merchant Services, Braintree, Credit, and Xoom
- International Revenue growth driven by core Merchant Services

<sup>(1)</sup> Non-GAAP operating expenses, non-GAAP operating income, non-GAAP operating margin, non-GAAP EPS, and free cash flow are non-GAAP financial measures. Q3'15 – Q2'16 revenue, operating expense and EPS year-over-year growth rates are presented on a non-GAAP pro forma basis. Please see the Supplemental Information for a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures.



# Reconciliation of GAAP Operating Expenses to Non-GAAP Operating Expenses

(In millions)	Note	Three Months Ended									Year Ended December 31,			
		December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	2016	2015	2014
<b>GAAP operating expenses:</b>														
Transaction expense		\$ 954	\$ 830	\$ 810	\$ 752	\$ 750	\$ 651	\$ 634	\$ 575	\$ 594	\$ 537	\$ 3,346	\$ 2,610	\$ 2,170
Transaction and loan losses		307	271	255	255	245	201	185	178	193	180	1,088	809	646
Customer support and operations	(1)	328	325	318	296	299	284	278	249	264	244	1,267	1,110	991
Sales and marketing	(1)	253	233	250	233	255	226	234	222	258	255	969	937	954
Product development	(1)	215	215	209	195	208	197	202	185	201	192	834	792	747
General and administrative	(1)	275	261	261	231	225	216	215	217	203	166	1,028	873	733
Depreciation and amortization		189	184	176	175	164	153	150	141	132	129	724	608	516
Restructuring		—	—	—	—	(1)	—	1	48	—	—	—	48	—
<b>Total operating expenses</b>		<b>\$ 2,521</b>	<b>\$ 2,319</b>	<b>\$ 2,279</b>	<b>\$ 2,137</b>	<b>\$ 2,145</b>	<b>\$ 1,928</b>	<b>\$ 1,899</b>	<b>\$ 1,815</b>	<b>\$ 1,845</b>	<b>\$ 1,703</b>	<b>\$ 9,256</b>	<b>\$ 7,787</b>	<b>\$ 6,757</b>
<b>Non-GAAP operating expense adjustments:</b>														
Customer support and operations	(a)	\$ (24)	\$ (21)	\$ (22)	\$ (18)	\$ (18)	\$ (16)	\$ (15)	\$ (13)	\$ (13)	\$ (12)	\$ (85)	\$ (62)	\$ (52)
	(e)	—	—	—	—	—	—	(2)	(1)	—	—	—	(3)	—
Sales and marketing	(a)	(25)	(21)	(22)	(16)	(10)	(18)	(11)	(13)	(19)	(14)	(84)	(52)	(59)
Product development	(a)	(37)	(34)	(35)	(33)	(35)	(33)	(35)	(29)	(28)	(28)	(139)	(132)	(108)
General and administrative	(a)	(39)	(31)	(33)	(27)	(26)	(25)	(21)	(22)	(19)	(20)	(130)	(94)	(75)
	(b)	—	(1)	(9)	(1)	—	(1)	(5)	(3)	(1)	(1)	(11)	(9)	(11)
	(d)	—	—	—	—	—	—	—	—	(1)	—	—	—	(1)
	(e)	—	—	—	—	2	(3)	(7)	(4)	—	—	—	(12)	—
	(f)	—	—	—	—	(5)	(2)	(3)	—	—	—	—	(10)	—
Depreciation and amortization	(a)	(2)	(2)	(1)	(1)	(1)	(2)	(2)	(2)	(1)	(1)	(6)	(7)	(4)
	(c)	(32)	(32)	(35)	(34)	(29)	(20)	(20)	(16)	(17)	(16)	(133)	(85)	(70)
Restructuring	(d)	—	—	—	—	1	—	(1)	(48)	—	—	—	(48)	—
<b>Total operating expenses</b>		<b>\$ (159)</b>	<b>\$ (142)</b>	<b>\$ (157)</b>	<b>\$ (130)</b>	<b>\$ (121)</b>	<b>\$ (120)</b>	<b>\$ (122)</b>	<b>\$ (151)</b>	<b>\$ (99)</b>	<b>\$ (92)</b>	<b>\$ (588)</b>	<b>\$ (514)</b>	<b>\$ (380)</b>
<b>Non-GAAP operating expenses:</b>														
Transaction expense		\$ 954	\$ 830	\$ 810	\$ 752	\$ 750	\$ 651	\$ 634	\$ 575	\$ 594	\$ 537	\$ 3,346	\$ 2,610	\$ 2,170
Transaction and loan losses		307	271	255	255	245	201	185	178	193	180	1,088	809	646
Customer support and operations	(1)	304	304	296	278	281	268	261	235	251	232	1,182	1,045	939
Sales and marketing	(1)	228	212	228	217	245	208	223	209	239	241	885	885	895
Product development	(1)	178	181	174	162	173	164	167	156	173	164	695	660	639
General and administrative	(1)	236	229	219	203	196	185	179	188	182	145	887	748	646
Depreciation and amortization		155	150	140	140	134	131	128	123	114	112	585	516	442
Restructuring		—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total operating expenses</b>		<b>\$ 2,362</b>	<b>\$ 2,177</b>	<b>\$ 2,122</b>	<b>\$ 2,007</b>	<b>\$ 2,024</b>	<b>\$ 1,808</b>	<b>\$ 1,777</b>	<b>\$ 1,664</b>	<b>\$ 1,746</b>	<b>\$ 1,611</b>	<b>\$ 8,668</b>	<b>\$ 7,273</b>	<b>\$ 6,377</b>

(1) Amounts have been reclassified to conform to the current presentation.

(e) Separation

(a) Stock-based compensation expense

(f) Acquisition related transaction expense

(b) Employer payroll taxes on stock-based compensation

(c) Amortization of acquired intangible assets

(d) Restructuring

# Reconciliation of Non-GAAP Operating Expenses to Non-GAAP Pro Forma Operating Expenses

(In Millions)	Note	Three Months Ended										Year Ended December 31,		
		December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	2016	2015	2014
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Customer support and operations	(1)	304	304	296	278	281	268	261	235	251	232	1,182	1,045	939
Sales and marketing	(1)	228	212	228	217	245	208	223	209	239	241	885	885	895
Product development	(1)	178	181	174	162	173	164	167	156	173	164	695	660	639
General and administrative	(1)	236	229	219	203	196	185	179	188	182	145	887	748	646
Depreciation and amortization		155	150	140	140	134	131	128	123	114	112	585	516	442
Total operating expenses		\$ 2,362	\$ 2,177	\$ 2,122	\$ 2,007	\$ 2,024	\$ 1,808	\$ 1,777	\$ 1,664	\$ 1,746	\$ 1,611	\$ 8,668	\$ 7,273	\$ 6,377
<b>Pro forma adjustments:</b>														
Transaction and loan losses	(a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 12	\$ 10	\$ 11	\$ 10	\$ —	\$ 22	\$ 43
Customer support and operations	(a)(b)(c)	—	—	—	—	—	—	5	3	5	4	—	8	13
Sales and marketing	(d)	—	—	—	—	—	—	(12)	(13)	(15)	(13)	—	(25)	(60)
General and administrative	(a)	—	—	—	—	—	—	2	1	2	2	—	3	6
Depreciation and amortization	(e)	—	—	—	—	—	—	4	4	4	4	—	8	16
Total non-GAAP pro forma adjustments		\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 11	\$ 5	\$ 7	\$ 7	\$ —	\$ 16	\$ 18
<b>Non-GAAP pro forma operating expenses:</b>														
Transaction expense		\$ 954	\$ 830	\$ 810	\$ 752	\$ 750	\$ 651	\$ 634	\$ 575	\$ 594	\$ 537	\$ 3,346	\$ 2,610	\$ 2,170
Transaction and loan losses		307	271	255	255	245	201	197	188	204	190	1,088	831	689
Customer support and operations	(1)	304	304	296	278	281	268	266	238	256	236	1,182	1,053	952
Sales and marketing	(1)	228	212	228	217	245	208	211	196	224	228	885	860	835
Product development	(1)	178	181	174	162	173	164	167	156	173	164	695	660	639
General and administrative	(1)	236	229	219	203	196	185	181	189	184	147	887	751	652
Depreciation and amortization		155	150	140	140	134	131	132	127	118	116	585	524	458
Total operating expenses		\$ 2,362	\$ 2,177	\$ 2,122	\$ 2,007	\$ 2,024	\$ 1,808	\$ 1,788	\$ 1,669	\$ 1,753	\$ 1,618	\$ 8,668	\$ 7,289	\$ 6,395

(1) Amounts have been reclassified to conform to the current presentation.

(a) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs have been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(b) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(c) Reflects the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(d) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(e) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

# Reconciliation of GAAP Operating Margin to Non-GAAP Operating Margin and Non-GAAP Pro Forma Operating Margin

(In Millions, Except Percentages)	Note	Three Months Ended										Year Ended December 31,		
		December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	2016	2015	2014
GAAP operating income		\$ 460	\$ 348	\$ 371	\$ 407	\$ 411	\$ 330	\$ 398	\$ 322	\$ 348	\$ 272	\$ 1,586	\$ 1,461	\$ 1,268
Stock-based compensation expense and related employer payroll taxes		127	110	122	96	90	95	89	82	81	76	455	356	309
Acquisition related transaction expense		—	—	—	—	5	2	3	—	—	—	—	10	—
Separation		—	—	—	—	(2)	3	9	5	—	—	—	15	—
Restructuring		—	—	—	—	(1)	—	1	48	1	—	—	48	1
Amortization of acquired intangible assets		32	32	35	34	29	20	20	16	17	16	133	85	70
Total non-GAAP operating income adjustments		159	142	157	130	121	120	122	151	99	92	588	514	380
Non-GAAP operating income		\$ 619	\$ 490	\$ 528	\$ 537	\$ 532	\$ 450	\$ 520	\$ 473	\$ 447	\$ 364	\$ 2,174	\$ 1,975	\$ 1,648
Non-GAAP operating margin		20.8%	18.4%	19.9%	21.1%	20.8%	19.9%	22.6%	22.1%	20.4%	18.4%	20.1%	21.4%	20.5%
Pro forma adjustments:														
Net revenues	(a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (4)	\$ (3)	\$ (4)	\$ (4)	\$ —	\$ (7)	\$ (13)
Transaction and loan losses	(b)	—	—	—	—	—	—	(12)	(10)	(11)	(10)	—	(22)	(43)
Customer support and operations	(b)(c)(d)	—	—	—	—	—	—	(5)	(3)	(5)	(4)	—	(8)	(13)
Sales and marketing	(e)	—	—	—	—	—	—	12	13	15	13	—	25	60
General and administrative	(b)	—	—	—	—	—	—	(2)	(1)	(2)	(2)	—	(3)	(6)
Depreciation and amortization	(f)	—	—	—	—	—	—	(4)	(4)	(4)	(4)	—	(8)	(16)
Total non-GAAP pro forma operating income adjustments		—	—	—	—	—	—	(15)	(8)	(11)	(11)	—	(23)	(31)
Non-GAAP pro forma operating income		\$ 619	\$ 490	\$ 528	\$ 537	\$ 532	\$ 450	\$ 505	\$ 465	\$ 436	\$ 353	\$ 2,174	\$ 1,952	\$ 1,617
Non-GAAP pro forma operating margin		20.8%	18.4%	19.9%	21.1%	20.8%	19.9%	22.0%	21.8%	19.9%	17.9%	20.1%	21.1%	20.2%

(a) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

(b) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs have been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(c) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(d) Reflects the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(e) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(f) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

# Reconciliation of GAAP Net Income to Non-GAAP Net Income and Non-GAAP Pro Forma Net Income; Reconciliation of GAAP EPS to Non-GAAP EPS and Non-GAAP Pro Forma EPS; Reconciliation of GAAP Effective Tax Rate to Non-GAAP Effective Tax Rate and Non-GAAP Pro Forma Effective Tax Rate

(In Millions, Except Percentages and Per Share Amounts)	Three Months Ended										Year Ended December 31,		
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	2016	2015	2014
	GAAP income before income taxes	\$ 469	\$ 360	\$ 380	\$ 422	\$ 418	\$ 350	\$ 399	\$ 321	\$ 347	\$ 276	\$ 1,631	\$ 1,488
GAAP income tax expense	79	37	57	57	51	49	94	66	61	42	230	260	842
GAAP net income	390	323	323	365	367	301	305	255	286	234	1,401	1,228	419
Non-GAAP adjustments to net income:													
Non-GAAP operating income adjustments (see table above)	159	142	157	130	121	120	122	151	99	92	588	514	380
Amortization of investments	—	—	—	—	—	—	—	—	—	1	—	—	4
Other certain significant gains, losses, or charges	—	—	—	—	—	—	—	—	—	(4)	—	—	646
Separation (Other income (expense), net)	—	—	—	—	—	(12)	—	—	—	—	—	(12)	—
Tax effect of non-GAAP adjustments	(37)	(40)	(44)	(43)	(45)	(32)	(19)	(46)	(27)	(25)	(164)	(142)	(106)
Non-GAAP net income	\$ 512	\$ 425	\$ 436	\$ 452	\$ 443	\$ 377	\$ 408	\$ 360	\$ 358	\$ 298	\$ 1,825	\$ 1,588	\$ 1,343
Non-GAAP pro forma adjustments to net income:													
Non-GAAP pro forma operating income adjustments (see table above)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (15)	\$ (8)	\$ (11)	\$ (11)	\$ —	\$ (23)	\$ (31)
Tax effect of non-GAAP pro forma adjustments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ 1	\$ 1	\$ 1	\$ —	\$ 3	\$ 3
Non-GAAP pro forma net income	\$ 512	\$ 425	\$ 436	\$ 452	\$ 443	\$ 377	\$ 395	\$ 353	\$ 348	\$ 288	\$ 1,825	\$ 1,568	\$ 1,315
Shares used in diluted share calculation	1,216	1,214	1,215	1,225	1,230	1,227	1,224	1,224	1,224	1,224	1,218	1,229	1,224
Net income per diluted share:													
GAAP	\$ 0.32	\$ 0.27	\$ 0.27	\$ 0.30	\$ 0.30	\$ 0.25	\$ 0.25	\$ 0.21	\$ 0.23	\$ 0.19	\$ 1.15	\$ 1.00	\$ 0.34
Non-GAAP	\$ 0.42	\$ 0.35	\$ 0.36	\$ 0.37	\$ 0.36	\$ 0.31	\$ 0.33	\$ 0.29	\$ 0.29	\$ 0.24	\$ 1.50	\$ 1.29	\$ 1.10
Non-GAAP pro forma	\$ 0.42	\$ 0.35	\$ 0.36	\$ 0.37	\$ 0.36	\$ 0.31	\$ 0.32	\$ 0.29	\$ 0.28	\$ 0.24	\$ 1.50	\$ 1.28	\$ 1.07
GAAP effective tax rate	17%	10%	15%	14%	12%	14%	24%	21%	18%	15%	14%	17%	67%
Tax effect of non-GAAP adjustments to net income	1%	5%	4%	4%	6%	4%	(2)%	3%	2%	3%	4%	3%	(49)%
Non-GAAP effective tax rate	18%	15%	19%	18%	18%	18%	22%	24%	20%	18%	18%	20%	18%
Tax effect of non-GAAP pro forma adjustments to net income	—%	—%	—%	—%	—%	—%	—%	—%	—%	1%	—%	—%	—%
Non-GAAP pro forma effective tax rate	18%	15%	19%	18%	18%	18%	22%	24%	20%	19%	18%	20%	18%

# Reconciliation of GAAP Revenue by Geography to Non-GAAP Pro Forma Revenue by Geography

## Net Revenues by Geography

	Three Months Ended										Year Ended December 31,		
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	2016	2015	2014
	(In millions/Unaudited)												
U.S. net revenues	\$ 1,574	\$ 1,436	\$ 1,407	\$ 1,343	\$ 1,302	\$ 1,138	\$ 1,170	\$ 1,030	\$ 1,043	\$ 949	\$ 5,760	\$ 4,640	\$ 3,877
Pro forma adjustment <sup>(1)</sup>	—	—	—	—	—	—	(3)	(2)	(3)	(3)	—	(5)	(9)
Non-GAAP pro forma U.S. net revenues	\$ 1,574	\$ 1,436	\$ 1,407	\$ 1,343	\$ 1,302	\$ 1,138	\$ 1,167	\$ 1,028	\$ 1,040	\$ 946	\$ 5,760	\$ 4,635	\$ 3,868
International net revenues	\$ 1,407	\$ 1,231	\$ 1,243	\$ 1,201	\$ 1,254	\$ 1,120	\$ 1,127	\$ 1,107	\$ 1,150	\$ 1,026	\$ 5,082	\$ 4,608	\$ 4,148
Pro forma adjustment <sup>(1)</sup>	—	—	—	—	—	—	(1)	(1)	(1)	(1)	—	(2)	(4)
Non-GAAP pro forma international net revenues	\$ 1,407	\$ 1,231	\$ 1,243	\$ 1,201	\$ 1,254	\$ 1,120	\$ 1,126	\$ 1,106	\$ 1,149	\$ 1,025	\$ 5,082	\$ 4,606	\$ 4,144
Total net revenues	\$ 2,981	\$ 2,667	\$ 2,650	\$ 2,544	\$ 2,556	\$ 2,258	\$ 2,297	\$ 2,137	\$ 2,193	\$ 1,975	\$ 10,842	\$ 9,248	\$ 8,025
Pro forma adjustment <sup>(1)</sup>	—	—	—	—	—	—	(4)	(3)	(4)	(4)	—	(7)	(13)
Total non-GAAP pro forma net revenues	\$ 2,981	\$ 2,667	\$ 2,650	\$ 2,544	\$ 2,556	\$ 2,258	\$ 2,293	\$ 2,134	\$ 2,189	\$ 1,971	\$ 10,842	\$ 9,241	\$ 8,012

<sup>(1)</sup> Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

# Reconciliation of GAAP Revenue by Type to Non-GAAP Pro Forma Revenue by Type

Net Revenues by Type	Three Months Ended										Year Ended December 31,		
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	2016	2015	2014
	(In millions/Unaudited)												
Transaction revenues	\$ 2,615	\$ 2,314	\$ 2,323	\$ 2,238	\$ 2,262	\$ 1,982	\$ 1,970	\$ 1,914	\$ 1,967	\$ 1,754	\$ 9,490	\$ 8,128	\$ 7,107
Pro forma adjustment <sup>(1)</sup>	—	—	—	—	—	—	(4)	(3)	(4)	(4)	—	(7)	(13)
Non-GAAP pro forma transaction revenues	\$ 2,615	\$ 2,314	\$ 2,323	\$ 2,238	\$ 2,262	\$ 1,982	\$ 1,966	\$ 1,911	\$ 1,963	\$ 1,750	\$ 9,490	\$ 8,121	\$ 7,094
Other value added services	\$ 366	\$ 353	\$ 327	\$ 306	\$ 294	\$ 276	\$ 327	\$ 223	\$ 226	\$ 221	\$ 1,352	\$ 1,120	\$ 918
Pro forma adjustment <sup>(1)</sup>	—	—	—	—	—	—	—	—	—	—	—	—	—
Non-GAAP pro forma other value added services	\$ 366	\$ 353	\$ 327	\$ 306	\$ 294	\$ 276	\$ 327	\$ 223	\$ 226	\$ 221	\$ 1,352	\$ 1,120	\$ 918
Total net revenues	\$ 2,981	\$ 2,667	\$ 2,650	\$ 2,544	\$ 2,556	\$ 2,258	\$ 2,297	\$ 2,137	\$ 2,193	\$ 1,975	\$ 10,842	\$ 9,248	\$ 8,025
Pro forma adjustment <sup>(1)</sup>	—	—	—	—	—	—	(4)	(3)	(4)	(4)	—	(7)	(13)
Total non-GAAP pro forma net revenues	\$ 2,981	\$ 2,667	\$ 2,650	\$ 2,544	\$ 2,556	\$ 2,258	\$ 2,293	\$ 2,134	\$ 2,189	\$ 1,971	\$ 10,842	\$ 9,241	\$ 8,012

<sup>(1)</sup> Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

# Calculation of Free Cash Flow

(In Millions/Unaudited)

	Three Months Ended								Year Ended December 31,			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	2016	2015	2014
<b>Supplemental non-GAAP Measures:</b>												
Net cash provided by operating activities	\$ 923	\$ 801	\$ 696	\$ 738	\$ 728	\$ 652	\$ 622	\$ 544	\$ 631	\$ 3,158	\$ 2,546	\$ 2,220
Less: Purchases of property and equipment, net	(152)	(183)	(201)	(133)	(164)	(133)	(231)	(194)	(123)	(669)	(722)	(492)
Free cash flow	\$ 771	\$ 618	\$ 495	\$ 605	\$ 564	\$ 519	\$ 391	\$ 350	\$ 508	\$ 2,489	\$ 1,824	\$ 1,728

Free cash flow does not include the impact of pro forma adjustments.

# Q1'17 and FY 2017 GAAP and Non-GAAP Guidance

(in millions, except per share amounts)	Three Months Ending March 31, 2017	
	GAAP	Non-GAAP(a)
	Revenues	\$2,900 - \$2,950
Diluted EPS	\$0.31 - \$0.33	\$0.40 - \$0.42

(in millions, except per share amounts)	Twelve Months Ending December 31, 2017	
	GAAP	Non-GAAP(b)
	Revenues	\$12,450 - \$12,650
Diluted EPS	\$1.26 - \$1.31	\$1.69 - \$1.74
Free Cash Flow		>\$2.7B

(a) Estimated non-GAAP amounts above for the three months ending March 31, 2017, reflect adjustments of approximately \$155 - 170 million, primarily representing estimated stock-based compensation expense and related payroll taxes in the range of \$135 - \$145 million.

(b) Estimated non-GAAP amounts above for the twelve months ending December 31, 2017, reflect adjustments of approximately \$720 - 760 million, primarily representing estimated stock-based compensation expense and related payroll taxes in the range of \$620 - \$650 million.



# Definitions

- **Active Customer Accounts:** An active customer account is a registered account that successfully sent or received at least one payment or payment reversal through our Payments Platform, excluding transactions processed through our gateway and Paydiant products, in the past 12 months.
- **Cards on File:** Cards on File includes all credit, debit and prepaid cards provided through Braintree's products (including gateway), including cards that may now be invalid or inactive due to expiration or other reasons.
- **Number of Payment Transactions:** Payment transactions is the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products.
- **Number of Payment Transactions per Active Customer Account:** Number of payment transactions per active customer account reflects the total number of payment transactions within the previous 12 month period, divided by active customer accounts at the end of the period.
- **Total Payment Volume:** Total Payment Volume or "TPV" is the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway and Paydiant products.
- **Total Take Rate:** Total take rate is total revenue divided by TPV.
- **Transaction Take Rate:** Transaction take rate is transaction revenue divided by TPV.
- **Transaction Expense Rate:** Transaction expense rate is calculated by dividing transaction expense by TPV.
- **Transaction and Loan Loss Rate:** Transaction and loan loss rate is calculated by dividing transaction and loan loss by TPV.
- **Transaction Margin:** Transaction margin is total revenue less transaction expense and transaction and loan loss, divided by total revenue.