



Reclassification of operating expenses: Summary of changes and reconciliations

April 9, 2019

Reclassification of Operating Expenses: Summary of Changes

- As disclosed in our Form 8-K filed with the SEC on April 9, 2019, beginning with the first quarter of 2019, PayPal will reclassify certain operating expenses within its consolidated statements of income
 - Prior period amounts will be reclassified to conform to this presentation
 - There is no impact to previously reported consolidated net income for prior periods, including total operating expenses, financial position and cash flows
- Classification changes include
 - Combining costs incurred to develop and operate PayPal's Payments Platform under a new operating expense category "Technology and development" which includes:
 - a) Costs incurred in operating, maintaining, and enhancing our Payments Platform, including network and infrastructure costs. These network and infrastructure costs were previously classified within the Customer support and operations expense category
 - b) Costs incurred in developing new and improving existing products. These development costs were previously classified within the Product development expense category
 - Eliminating Depreciation and amortization (D&A) expense as a separate expense category. D&A expenses have been reclassified into the other non-transaction expense categories that align with the internal organizations primarily benefitting from the related depreciable or amortizable assets

Reclassification of Operating Expenses: Descriptions of Revised Operating Expense Categories

- Customer support and operations expense category includes:
 - Costs incurred in our global customer operations centers, including costs to provide call support to our customers
 - Costs to support our trust and security programs protecting our merchants and consumers and other costs incurred related to the delivery of our products
- Sales and marketing expense category includes:
 - Costs incurred for customer acquisition, business development, advertising, and marketing programs
- Technology and development expense category includes:
 - Costs incurred in connection with the development of our Payments Platform, new products and the improvement of our existing products, including the amortization of (i) software and website development costs incurred in developing our Payments Platform which are capitalized and (ii) acquired developed technology
 - Site operations and other infrastructure costs incurred to support our Payments Platform
- General and administrative expense category includes:
 - Costs incurred to provide support to our business, including legal, human resources, finance, risk, compliance, executive, and other support operations

Reconciliation of GAAP Operating Expenses to Non-GAAP Operating Expenses (as Previously Reported)

(In Millions/Unaudited)	Note	Three Months Ended									Year Ended December 31,			
		December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	2018	2017	2016
GAAP operating expenses:														
Transaction expense		\$ 1,578	\$ 1,366	\$ 1,362	\$ 1,275	\$ 1,266	\$ 1,102	\$ 1,064	\$ 987	\$ 954	\$ 830	\$ 5,581	\$ 4,419	\$ 3,346
Transaction and loan losses		340	295	334	305	40	363	308	300	307	271	1,274	1,011	1,088
Customer support and operations		407	367	357	351	366	346	335	317	328	325	1,482	1,364	1,267
Sales and marketing		389	326	313	285	328	278	284	238	253	233	1,313	1,128	969
Product development		289	269	255	258	267	240	232	214	215	215	1,071	953	834
General and administrative		390	354	368	339	315	293	282	265	275	261	1,451	1,155	1,028
Depreciation and amortization		223	188	180	185	227	194	201	183	189	184	776	805	724
Restructuring and other charges		12	28	116	153	92	—	—	40	—	—	309	132	—
Total operating expenses		\$ 3,628	\$ 3,193	\$ 3,285	\$ 3,151	\$ 2,901	\$ 2,816	\$ 2,706	\$ 2,544	\$ 2,521	\$ 2,319	\$ 13,257	\$ 10,967	\$ 9,256
Non-GAAP operating expense adjustments:														
Transaction and loan losses	(g)	\$ —	\$ —	\$ —	\$ —	\$ 283	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 283	\$ —
Customer support and operations	(a)	\$ (45)	\$ (42)	\$ (39)	\$ (38)	\$ (40)	\$ (38)	\$ (34)	\$ (30)	\$ (24)	\$ (21)	\$ (164)	\$ (142)	\$ (85)
Sales and marketing	(a)	(43)	(39)	(39)	(44)	(43)	(36)	(33)	(28)	(25)	(21)	(165)	(140)	(84)
Product development	(a)	(72)	(66)	(64)	(64)	(72)	(64)	(59)	(45)	(37)	(34)	(266)	(240)	(139)
General and administrative	(a)	(69)	(65)	(63)	(59)	(63)	(54)	(51)	(42)	(39)	(31)	(256)	(210)	(130)
	(b)	(2)	(2)	(13)	(32)	(1)	(2)	(12)	(2)	—	(1)	(49)	(17)	(11)
	(e)	(7)	(17)	—	—	—	—	—	—	—	—	(24)	—	—
	(h)	—	—	—	—	(5)	—	—	—	—	—	—	(5)	—
Depreciation and amortization	(a)	(6)	(5)	(5)	(4)	(4)	(3)	(3)	(2)	(2)	(2)	(20)	(12)	(6)
	(c)	(59)	(33)	(25)	(29)	(58)	(26)	(22)	(23)	(32)	(32)	(146)	(129)	(133)
	(f)	—	—	—	—	—	—	(15)	—	—	—	—	(15)	—
Restructuring and other charges	(d)	—	—	—	(25)	—	—	—	(40)	—	—	(25)	(40)	—
	(i)	(12)	(28)	—	—	—	—	—	—	—	—	(40)	—	—
Total operating expenses		\$ (315)	\$ (297)	\$ (248)	\$ (295)	\$ (3)	\$ (223)	\$ (229)	\$ (212)	\$ (159)	\$ (142)	\$ (1,155)	\$ (667)	\$ (588)
Non-GAAP operating expenses:														
Transaction expense		\$ 1,578	\$ 1,366	\$ 1,362	\$ 1,275	\$ 1,266	\$ 1,102	\$ 1,064	\$ 987	\$ 954	\$ 830	\$ 5,581	\$ 4,419	\$ 3,346
Transaction and loan losses		340	295	334	305	323	363	308	300	307	271	1,274	1,294	1,088
Customer support and operations		362	325	318	313	326	308	301	287	304	304	1,318	1,222	1,182
Sales and marketing		346	287	274	241	285	242	251	210	228	212	1,148	988	885
Product development		217	203	191	194	195	176	173	169	178	181	805	713	695
General and administrative		312	270	292	248	246	237	219	221	236	229	1,122	923	887
Depreciation and amortization		158	150	150	152	165	165	161	158	155	150	610	649	585
Restructuring and other charges		—	—	116	128	92	—	—	—	—	—	244	92	—
Total operating expenses		\$ 3,313	\$ 2,896	\$ 3,037	\$ 2,856	\$ 2,898	\$ 2,593	\$ 2,477	\$ 2,332	\$ 2,362	\$ 2,177	\$ 12,102	\$ 10,300	\$ 8,668
(a) Stock-based compensation expense														
(b) Employer payroll taxes on stock-based compensation														
(c) Amortization and impairment of acquired intangible assets														
(d) Restructuring														
(e) Acquisition related transaction expense														
(f) Impairment of investment in intellectual property fund														
(g) Elimination of allowance on loans receivable due to the U.S. Consumer Credit receivables portfolio designation as held for sale														
(h) Fees associated with the sale of the U.S. Consumer Credit receivables portfolio														
(i) Net loss related to the sale of our U.S. Consumer Credit receivables portfolio														

Reconciliation of GAAP Operating Expenses to Non-GAAP Operating Expenses (as Revised)

(In Millions/Unaudited)	Note	Three Months Ended									Year Ended December 31,			
		December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	2018	2017	2016
GAAP operating expenses:														
Transaction expense	\$	1,578	\$ 1,366	\$ 1,362	\$ 1,275	\$ 1,266	\$ 1,102	\$ 1,064	\$ 987	\$ 954	\$ 830	\$ 5,581	\$ 4,419	\$ 3,346
Transaction and loan losses		340	295	334	305	40	363	308	300	307	271	1,274	1,011	1,088
Customer support and operations		377	350	338	342	344	318	309	294	304	298	1,407	1,265	1,158
Sales and marketing		401	325	307	281	351	276	285	230	246	230	1,314	1,142	966
Technology and development		490	452	441	448	466	436	440	398	400	399	1,831	1,740	1,547
General and administrative		430	377	387	347	342	321	300	295	310	291	1,541	1,258	1,151
Restructuring and other charges		12	28	116	153	92	—	—	40	—	—	309	132	—
Total operating expenses	\$	3,628	\$ 3,193	\$ 3,285	\$ 3,151	\$ 2,901	\$ 2,816	\$ 2,706	\$ 2,544	\$ 2,521	\$ 2,319	\$ 13,257	\$ 10,967	\$ 9,256
Non-GAAP operating expense adjustments:														
Transaction and loan losses	(g) \$	—	\$ —	\$ —	\$ —	\$ 283	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 283	\$ —
Customer support and operations	(a)	(45)	(46)	(41)	(42)	(42)	(38)	(34)	(28)	(23)	(21)	(174)	(142)	(80)
	(b)	(1)	—	(2)	(6)	—	—	(2)	—	—	—	(9)	(2)	(2)
Sales and marketing	(a)	(32)	(30)	(29)	(34)	(33)	(27)	(27)	(20)	(17)	(15)	(125)	(107)	(57)
	(b)	—	—	(3)	(4)	—	—	(2)	—	—	—	(7)	(2)	(1)
	(c)	(39)	(20)	(16)	(17)	(47)	(18)	(15)	(15)	(23)	(24)	(92)	(95)	(101)
Technology and development	(a)	(81)	(76)	(74)	(72)	(82)	(75)	(66)	(54)	(44)	(40)	(303)	(277)	(166)
	(b)	(1)	(1)	(5)	(13)	—	(1)	(5)	(1)	—	—	(20)	(7)	(4)
	(c)	(20)	(13)	(9)	(12)	(11)	(8)	(7)	(8)	(9)	(8)	(54)	(34)	(32)
	(f)	—	—	—	—	—	—	(15)	—	—	—	—	(15)	—
General and administrative	(a)	(77)	(65)	(66)	(61)	(65)	(55)	(53)	(45)	(43)	(33)	(269)	(218)	(141)
	(b)	—	(1)	(3)	(9)	(1)	(1)	(3)	(1)	—	(1)	(13)	(6)	(4)
	(e)	(7)	(17)	—	—	—	—	—	—	—	—	(24)	—	—
	(h)	—	—	—	—	(5)	—	—	—	—	—	—	(5)	—
Restructuring and other charges	(d)	—	—	—	(25)	—	—	—	(40)	—	—	(25)	(40)	—
	(i)	(12)	(28)	—	—	—	—	—	—	—	—	(40)	—	—
Total operating expenses	\$	(315)	\$ (297)	\$ (248)	\$ (295)	\$ (3)	\$ (223)	\$ (229)	\$ (212)	\$ (159)	\$ (142)	\$ (1,155)	\$ (667)	\$ (588)
Non-GAAP operating expenses:														
Transaction expense	\$	1,578	\$ 1,366	\$ 1,362	\$ 1,275	\$ 1,266	\$ 1,102	\$ 1,064	\$ 987	\$ 954	\$ 830	\$ 5,581	\$ 4,419	\$ 3,346
Transaction and loan losses		340	295	334	305	323	363	308	300	307	271	1,274	1,294	1,088
Customer support and operations		331	304	295	294	302	280	273	266	281	277	1,224	1,121	1,076
Sales and marketing		330	275	259	226	271	231	241	195	206	191	1,090	938	807
Technology and development		388	362	353	351	373	352	347	335	347	351	1,454	1,407	1,345
General and administrative		346	294	318	277	271	265	244	249	267	257	1,235	1,029	1,006
Restructuring and other charges		—	—	116	128	92	—	—	—	—	—	244	92	—
Total operating expenses	\$	3,313	\$ 2,896	\$ 3,037	\$ 2,856	\$ 2,898	\$ 2,593	\$ 2,477	\$ 2,332	\$ 2,362	\$ 2,177	\$ 12,102	\$ 10,300	\$ 8,668
(a) Stock-based compensation expense	(e) Acquisition related transaction expense													(i) Net loss related to the sale of our U.S. Consumer Credit receivables portfolio
(b) Employer payroll taxes on stock-based compensation	(f) Impairment of investment in intellectual property fund													
(c) Amortization and impairment of acquired intangible assets	(g) Elimination of allowance on loans receivable due to the U.S. Consumer Credit receivables portfolio designation as held for sale													
(d) Restructuring	(h) Fees associated with the sale of the U.S. Consumer Credit receivables portfolio													