

Investor FAQ on Changes to Adjusted Revenue Reporting November 6, 2019

What change is being made to Square's reporting?

We will discontinue use of the Adjusted Revenue measure following the third quarter of 2019. Following receipt of a comment letter from, and subsequent communications with, the Division of Corporation Finance of the Securities and Exchange Commission (the "SEC"), we will discontinue the use of the Adjusted Revenue measure based on the SEC's evolving position with respect to non-GAAP performance measures.

Why were you using the Adjusted Revenue measure?

In November 2015, we introduced Adjusted Revenue as a supplemental non-GAAP measure to provide investors and analysts with useful metrics to measure the performance and growth of our ongoing recurring business and allow comparability to other businesses in the payment processing sector. Further, Adjusted Revenue is what management uses to assess the performance, growth and contribution of our different products and services that have significantly different margins.

When will Square incorporate these changes into their financial statements?

The third quarter of 2019 will be the last quarter for which we will report Adjusted Revenue. We will not be providing Adjusted Revenue for the full year 2019 and for periods beginning in the fourth quarter of 2019 and going forward. In addition, we will not be providing guidance on Adjusted Revenue beginning in the fourth quarter of 2019. However, we will provide guidance on total net revenues, transaction-based costs and bitcoin costs, which are presented in accordance with GAAP and which were the key components of Adjusted Revenue as defined. Our statements of operations will continue to disclose total net revenues, transaction-based costs and bitcoin costs.

In addition, we will provide guidance for GAAP Gross Profit beginning in the third quarter 2019 Shareholder Letter.

Will this reporting change impact other metrics?

No. This reporting change will not impact our GAAP or other non-GAAP results. GAAP total net revenue, gross profit, and net income (loss) will not be impacted. Also, other previously disclosed non-GAAP measures, including Adjusted EBITDA, Adjusted Net Income, and Adjusted EPS, will not be impacted.

In addition, this reporting change will not impact either our Consolidated Balance Sheet or Consolidated Cash Flow Statement.

Given the removal of Adjusted Revenue, which metrics should investors focus on going forward to assess growth?

Our consolidated statements of operations will continue to disclose total net revenues, transaction-based costs and bitcoin costs, determined in accordance with GAAP, which were the key components of Adjusted Revenue as defined.

Going forward, we will provide guidance for Gross Profit, in addition to providing guidance for total net revenue and both transaction-based costs and bitcoin costs, which were key components of Adjusted Revenue. Gross profit is defined as total net revenue less total cost of revenue. Total cost of revenue includes transaction-based costs, bitcoin costs, subscription and services-based costs, hardware costs, and amortization of acquired technology. The figure below provides a reconciliation from total net revenue to Adjusted Revenue and GAAP gross profit:

Square, Inc.

(In thousands, except for per share amounts)

(Unaudited)

	Three Months Ended	
	Sep 30,	Sep 30,
	2019	2018
<u>Gross profit calculation</u>		
Total net revenue (GAAP)	\$ 1,266,474	\$ 882,108
Less: Transaction-based costs	519,312	414,456
Less: Bitcoin costs	146,167	42,408
Add: Deferred revenue adj. related to purchase accounting	1,224	5,892
Adjusted Revenue (non-GAAP)	\$ 602,219	\$ 431,136
Less: Deferred revenue adj. related to purchase accounting	1,224	5,892
Less: Subscription and services-based costs	63,352	47,078
Less: Hardware costs	35,672	23,229
Less: Amortization of acquired technology	1,934	2,277
Gross profit (GAAP)	\$ 500,037	\$ 352,660

We believe it is useful to focus on GAAP gross profit, as it is one metric used by management to measure our business performance and growth rates. The figure below outlines historic absolute dollar magnitude of total net revenue, Adjusted Revenue and GAAP gross profit, and their respective growth rates.

Square, Inc.

(In thousands, except for per share amounts)

(Unaudited)

	Three months ended				Three months ended		
	Mar 31, 2018	June 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	June 30, 2019	Sep 30, 2019
Total net revenue (GAAP)	\$668,603	\$814,938	\$882,108	\$932,528	\$959,359	\$1,174,238	\$1,266,474
Less: Transaction-based costs	327,911	395,349	414,456	420,846	409,069	490,349	519,312
Less: Bitcoin costs	33,872	36,596	42,408	51,951	64,696	122,938	146,167
Plus: Deferred revenue adj. related to purchase accounting		2,440	5,892	4,521	3,456	1,849	1,224
Adjusted Revenue (non-GAAP)	\$306,820	\$385,433	\$431,136	\$464,252	\$489,050	\$562,800	\$602,219
Less: Deferred revenue adj. related to purchase accounting	0	2,440	5,892	4,521	3,456	1,849	1,224
Less: Subscription and services-based costs	30,368	39,784	47,078	52,654	60,523	60,119	63,352
Less: Hardware costs	19,702	25,536	23,229	25,647	26,941	33,268	35,672
Less: Amortization of acquired technology	1,580	1,857	2,277	1,376	1,376	1,719	1,934
Gross profit (GAAP)	\$255,170	\$315,816	\$352,660	\$380,054	\$396,754	\$465,845	\$500,037

Where can I find a summary of historical financial information?

On our website, we have posted an Excel file which includes a quarterly summary of historical financials. This file also provides a financial summary pro forma for the sale of Caviar, which was completed on October 31, 2019.