



# Etsy

## Q3 2019

# Financial Results

October 30, 2019



# Forward-looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements relating to our financial guidance and key drivers thereof, anticipated impact of our strategy, marketing and product initiatives and product development velocity on conversion rates and our future financial results, including GMS and revenue growth, planned improvements to our recent initiatives, and the anticipated benefits of our recent acquisition of Reverb.

Forward-looking statements include all statements that are not historical facts. In some cases, forward-looking statements can be identified by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “may,” “plans,” “will,” “intends,” or similar expressions and the negatives of those words.

Forward-looking statements involve substantial risks and uncertainties that may cause actual results to differ materially from those that we expect. These risks and uncertainties include: (1) the fluctuation of our quarterly operating results; (2) our ability to implement our business strategy; (3) our ability to attract and retain an active and engaged community of sellers and buyers; (4) our history of operating losses; (5) macroeconomic events that are outside of our control; (6) our ability to recruit and retain employees; (7) the importance to our success of the trustworthiness of our marketplaces and the connections within our community; (8) our ability to enhance our current offerings and develop new offerings to respond to the changing needs of sellers and buyers; (9) the effectiveness of our marketing efforts; (10) the effectiveness of our mobile solutions for sellers and buyers; (11) our ability to expand our business in our core geographic markets; (12) regulation in the area of privacy and protection of user data; (13) our dependence on third-party payment providers; (14) acquisitions which may prove unsuccessful or divert management attention, including our acquisition of Reverb; and (15) the potential misuse or disclosure of sensitive information about members of our community and the potential for cyber-attacks. These risks and uncertainties are more fully described in our filings with the Securities and Exchange Commission, including in the section entitled “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, and subsequent reports that we file with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, we cannot guarantee future results, levels of activity, performance, achievements or events and circumstances reflected in the forward-looking statements will occur. Forward-looking statements represent our beliefs and assumptions only as of the date of this presentation. We disclaim any obligation to update forward-looking statements.

# Josh Silverman

**CEO**



Another quarter of solid execution across the board for the Etsy marketplace

Revenue

**\$192M**

+27.6% Y/Y

GMS

**\$1.1B**

+21.8% Y/Y

+22.8% Y/Y (FX adj.)

Results exclude consolidated financials and operating metrics related to the acquisition of Reverb

Etsy GMS (\$)



Etsy Revenue (\$)



Etsy Revenue Take-Rate



# Our Right to Win

Best-in-Class  
Search and  
Discovery



Human  
Connections




A Trusted  
Brand


Our Collection of Unique Items

Variation photos  
now better  
highlight our  
sellers' unique  
ability to  
customize and  
personalize


**Before:**  
*Listing variations  
shown across multiple  
listings*



Nightstand with Drawer, Side Table, ...  
OwlDesigned  
★★★★★ (357)  
\$180.00 **FREE shipping**




Nightstand, Angle Leg, Side Table, ...  
OwlDesigned  
★★★★★ (357)  
\$180.00 **FREE shipping**




Angle leg nightstand with drawer a...  
OwlDesigned  
★★★★★ (357)  
\$180.00 **FREE shipping**

OwlDesigned ★★★★★ (357)  
Nightstand with Drawer, Side Table, Rustic Simple End Table, Modern Nightstand, Side Table, Bedside Table, Reclaimed Pine Wood-Raw  
\$180.00+ **Message Seller**  
Free shipping to [United States](#)  
Height  
Select a height   
Quantity  
1   
**Add to cart**  
Item details  
Handmade  
Materials


**After:**  
*Buyers visualize color  
and design variations  
in the listing  
purchase flow*



Pine Wood ▼  
**Add to cart**

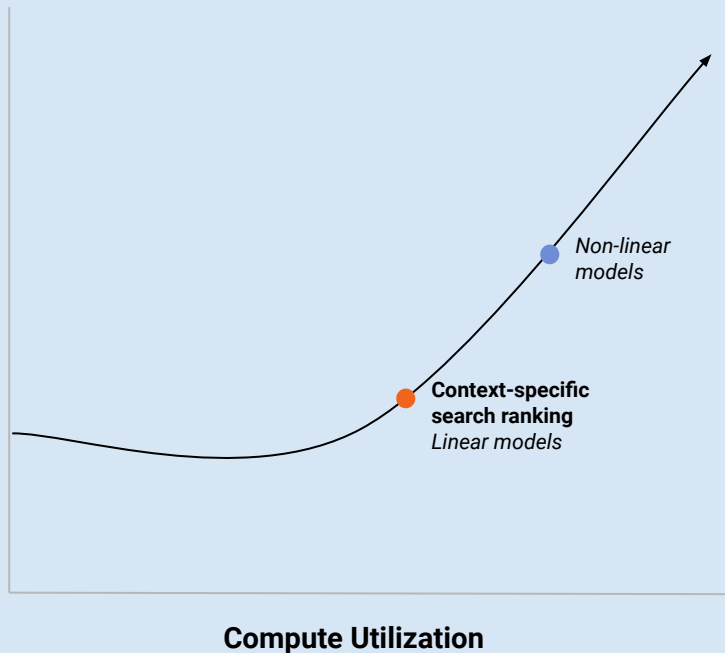


Walnut ▼  
**Add to cart**



White ▼  
**Add to cart**

# 2019 built the foundation for the next evolution of our Search journey



emerald ring

Search



**Emerald**  
Type: Material



**Emerald**  
Type: City



**Emerald**  
Type: Color



**Jewelry ring**  
Type: Category



**Shower curtain ring**  
Type: Category

Ad



Nature Inspired Emerald Engage...  
CamelliaJewelry  
★★★★★ (698)  
\$2,150.00 **FREE shipping**



More colors

Unique design emerald ring gold vi...  
willwork  
★★★★★ (190)  
\$539.00 **FREE shipping**



More colors

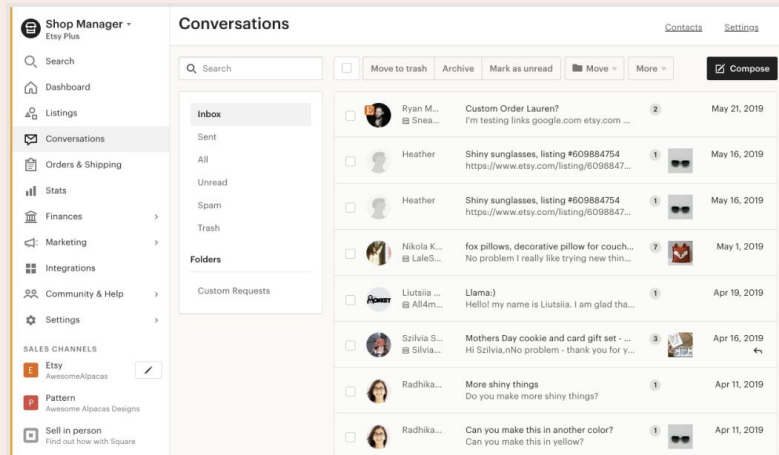
Emerald ring vintage emerald enga...  
willwork  
★★★★★ (190)  
\$819.00 **FREE shipping**



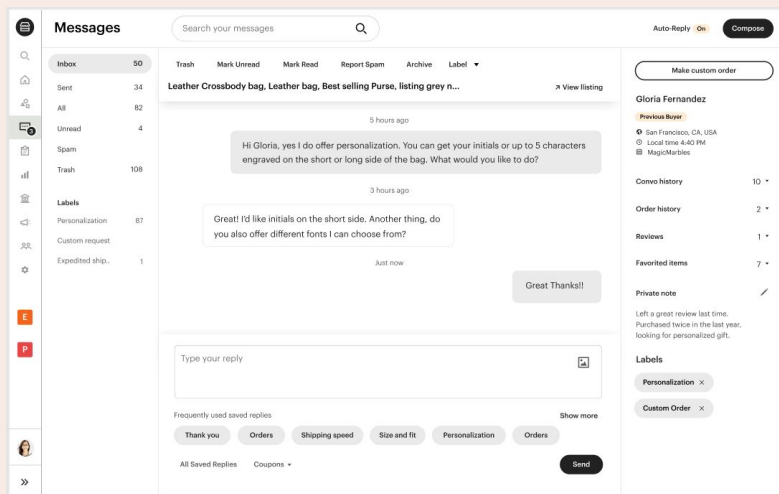
Emerald Ring, 18k gold, scroll detail...  
DevlinDesignStudio  
★★★★★ (26)  
\$1,135.00 **FREE shipping**

Human  
Connections  
enable us to drive  
buyer engagement  
with an  
improvement to  
Convos...now  
called Messages

**Before:**  
*Email-like user  
experience*



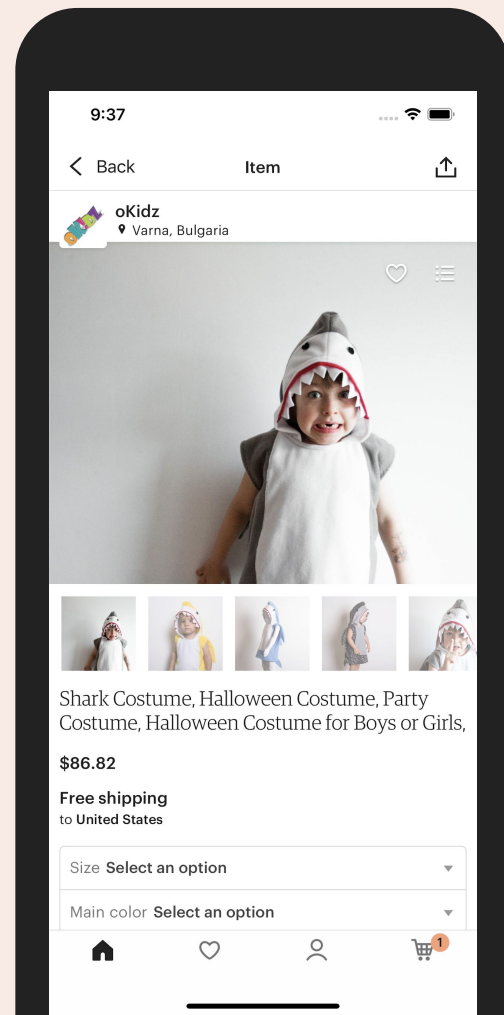
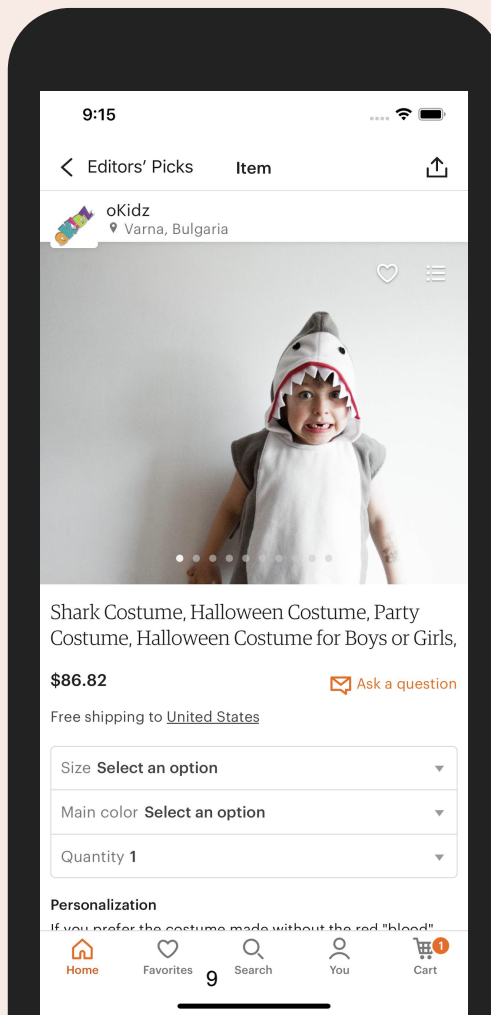
**After:**  
*Streamlined  
chat-like interface*






# Making significant progress improving our App:


- onboarding
- home screen feed
- search drop down menus
- recommendations
- new cart features



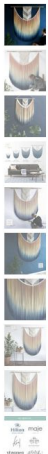
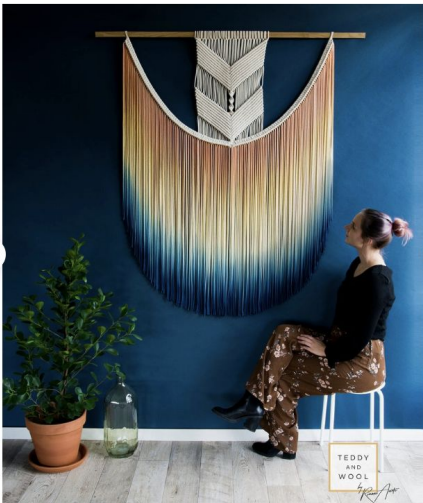
Giving Reviews  
more prominence  
inspires trust in  
the buyer journey



Search

[Sell on Etsy](#)
[Register](#)
[Sign in](#)


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[Clothing & Shoes](#)
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[Wedding & Party](#)
[Toys & Entertainment](#)
[Art & Collectibles](#)
[Craft Supplies](#)
[Vintage](#)
[Gifts](#)

**TeddyandWool** ★★★★★ (395)

**Large Macrame Wall Hanging - from size small to 3XL - Dip dyed Wall Hanging Tapestry - Macrame Curtains - "Eva"**


**\$225.00+**

Free shipping


Size

Select a size

**Add to cart**

 **Almost gone. There's only 1 left.**

**Item details**

 **Handmade**

**Materials**

Beech Wooden Dowel, Colorful Dye, Hanging Har... [more](#)

● **FREE WORLDWIDE SHIPPING!**

This unique and stunning piece is perfect to add both texture and color to your space. This stunning wall hanging reminds me of a setting sun just dipping behind the horizon, hovering above a deep-blue ocean. The "EVA" macrame tapestry features a beautiful modern geometric design. In a unique and specialized process, Rianne adds a gorgeous gradient dye to the fringes of the tapestry.

[View shipping policies](#)

**Learn more about this item**

**Shipping & returns**

**Made just for you. Ready to ship in 6-9 business days.**

From The Netherlands

Free shipping to [United States](#)


**Exchanges accepted**

Exceptions may apply.

[View shop policies](#)

Gift wrapping available


**Meet TeddyandWool**



**Rianne Aarts**

Amsterdam, The Netherlands


**Reviews** ★★★★★ (395)

 **mhalbaki** Oct 14, 2019


★★★★★

Beautiful does not do this piece justice, everyone adored it and was amazed by your creativity.

Thank you so much for your personalized touch in the letter sent with it




Large Macrame Wall Hanging - from size small to 3XL - Dip dye...

 **Michi W** May 21, 2019

★★★★★

I'm so happy with this wall piece. Very pleased with its beauty and workmanship that was put into. Thank you very much for the great art work and a surprise gift!



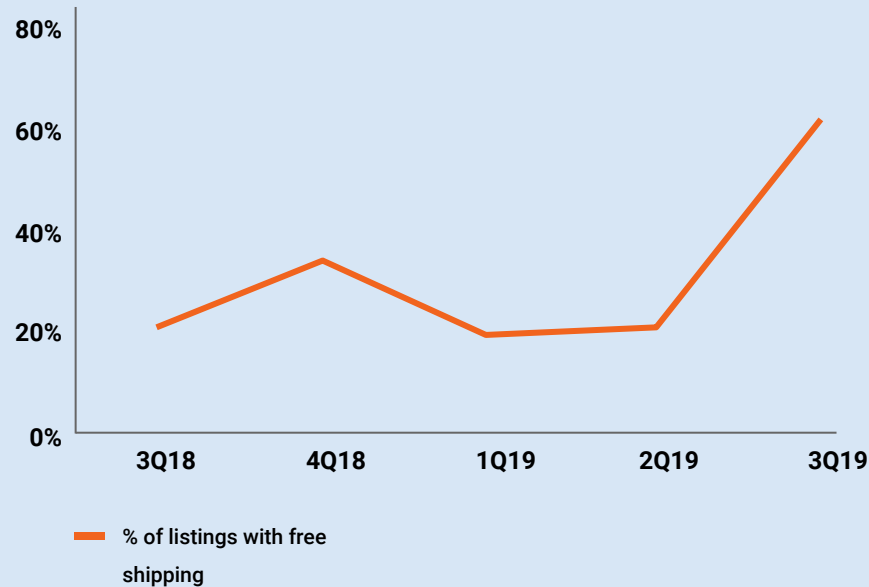
We are making good progress driving Etsy seller adoption of the “free shipping<sup>1</sup>” guarantee

62%

Listings eligible to ship for free to US  
*\*as of 9/30*

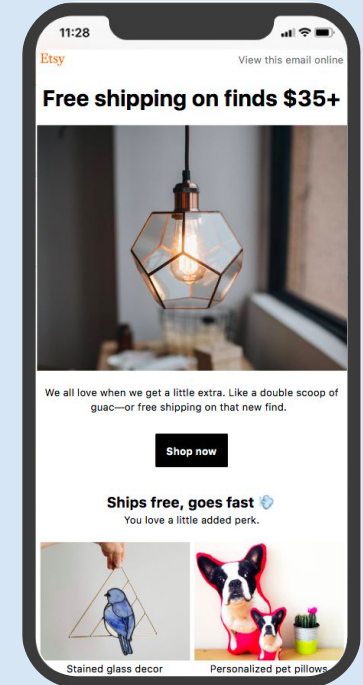
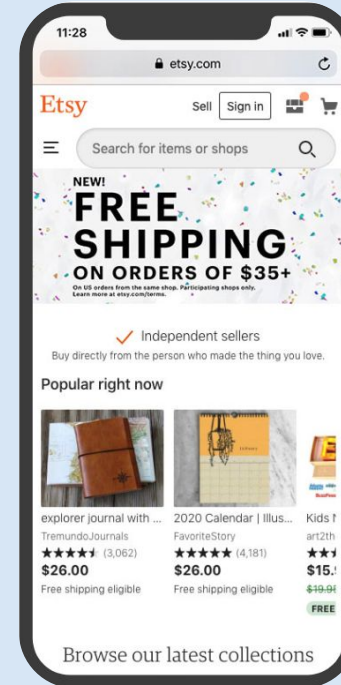
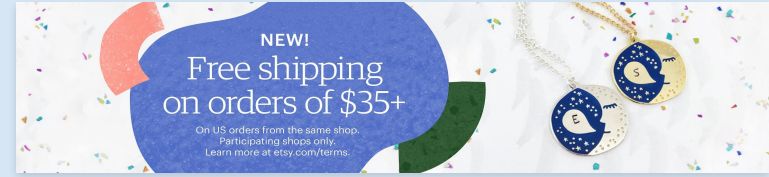
74%

Listing views of items eligible to ship for free  
*\*as of 9/30*

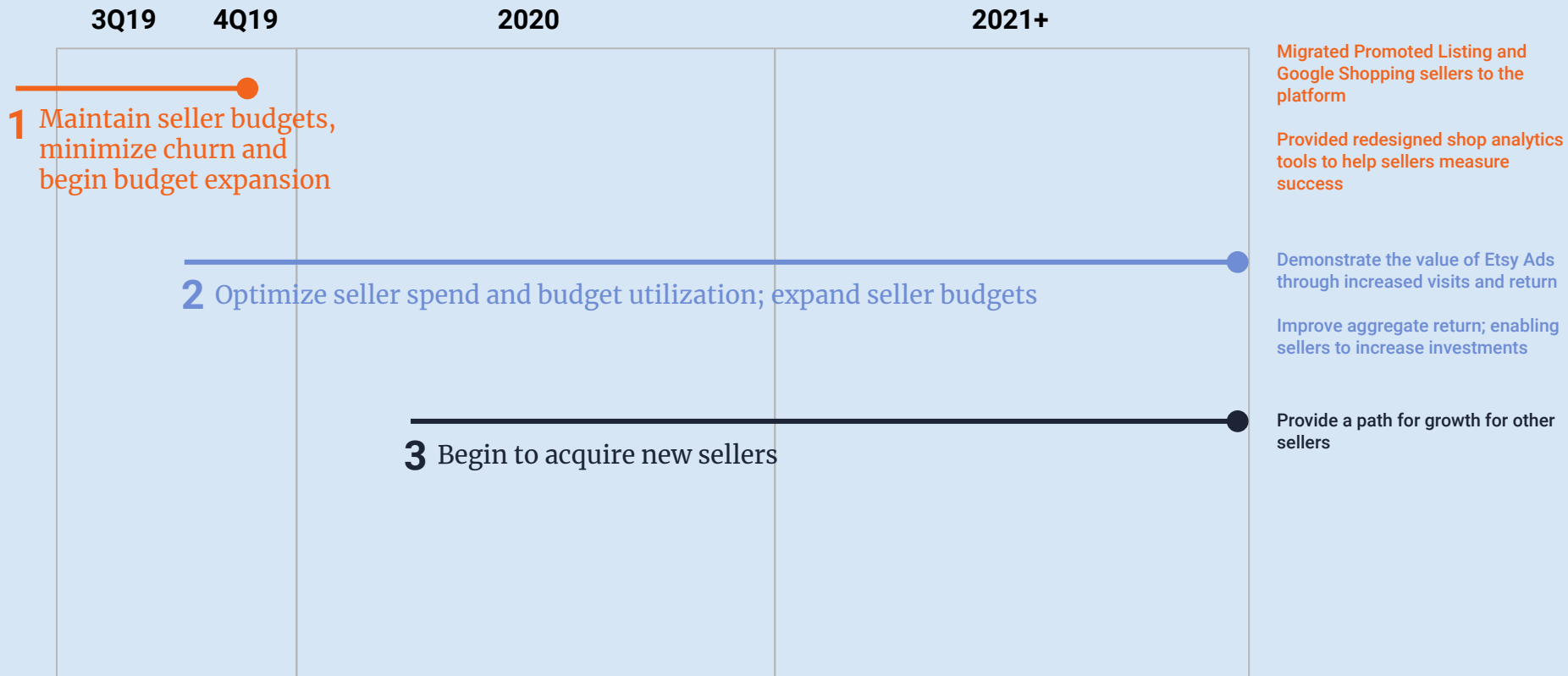


<sup>1</sup>same shop purchases >\$35

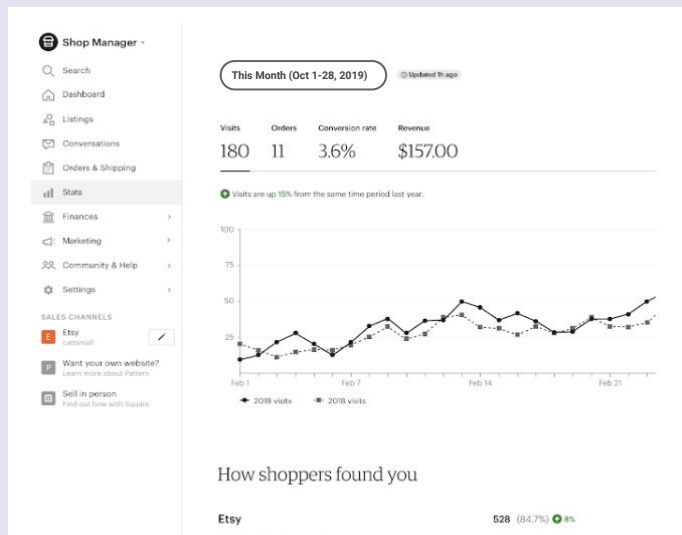
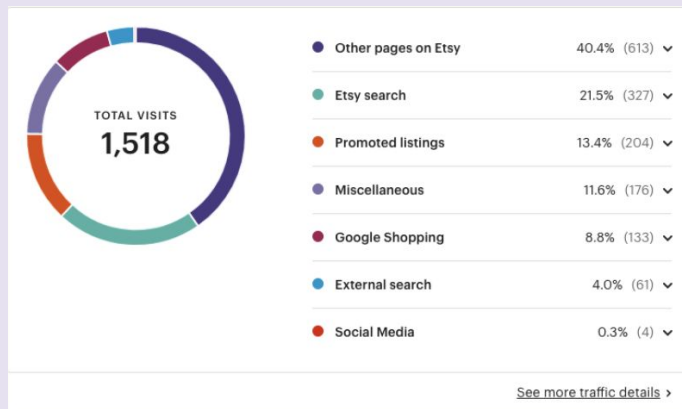
Amping up buyer marketing  
and providing additional  
shipping solutions to support  
sellers



# Etsy Ads involves a three phased approach to ensure sellers' success



We have improved seller analytics... centered around visits



# Gearing up for Holiday!



Etsy Success

[View this email online](#)

## Unwrap tips and tools for a successful holiday season



Get ready for the holiday rush with tips, advice, and new tools you can use to reach shoppers and keep them coming back.

[Read more](#)



# Rachel Glaser

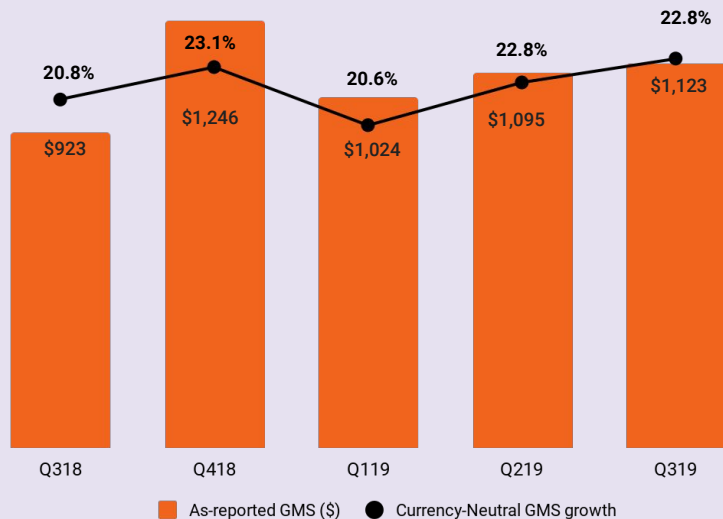
CFO



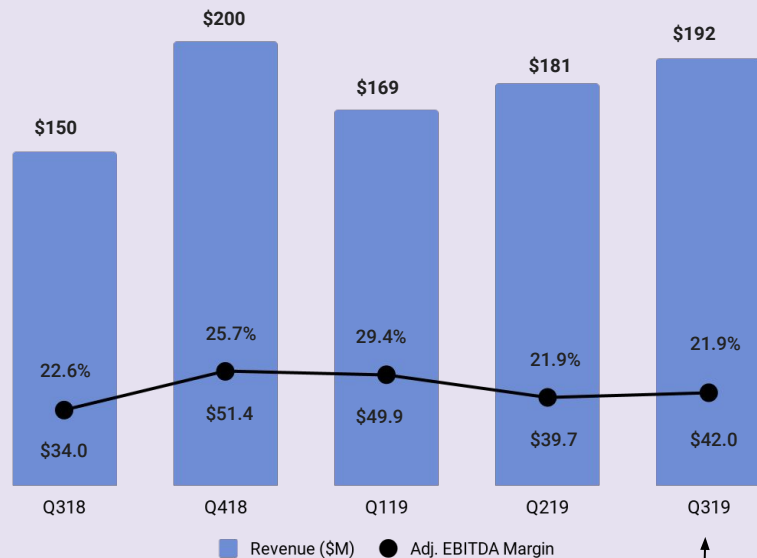


# Strong execution has led to solid financial results...

## GMS



## Revenue & Adj. EBITDA Margin<sup>1</sup>



↑  
Anniversaried the increase in  
our marketplace take-rate

<sup>1</sup>Reconciliation of non-GAAP financial measures is contained in the appendix  
Results exclude consolidated financials and operating metrics related to the acquisition of Reverb

# Initial impact of free shipping initiative

Good progress to date



**Purchases per  
visit**



**In-cart conversion  
rate**



**Buyer sentiment**

Areas for improvement



**Shipping price  
transfer rate**



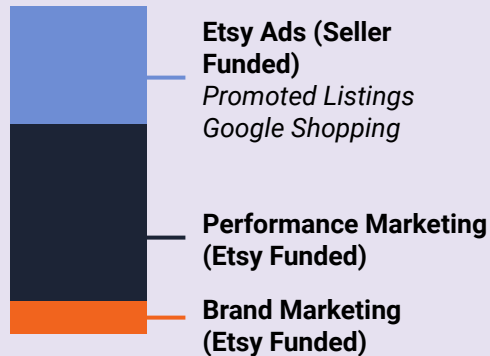
**Search relevance**

So far, sellers absorbing more of shipping costs than pre-launch testing indicated...or is warranted

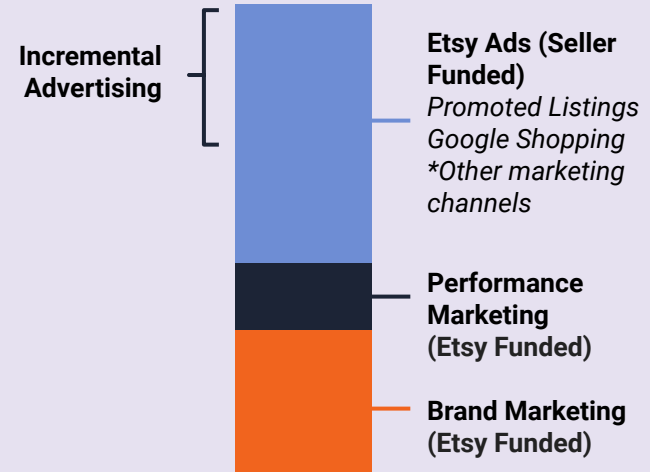


Etsy Ads: we plan to optimize seller budgets and drive an increase in total advertising for the marketplace

Today's Marketing Spend

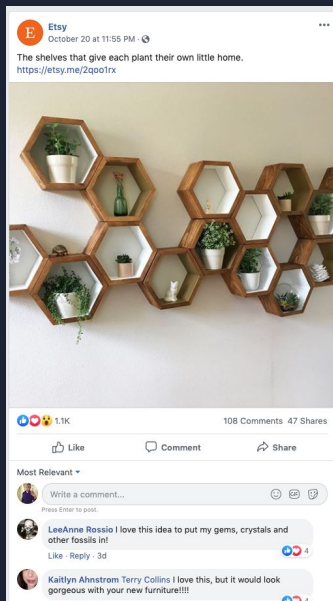


Future Marketing Spend

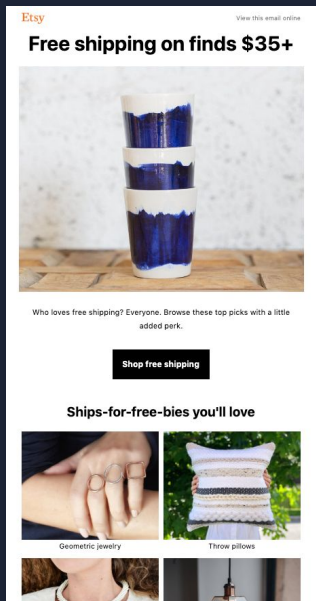


# Our marketing spend reflects increased investment in brand, social and CRM initiatives

## Social



## Email



## Brand



Improvement in key operating metrics signal efficacy of marketing spend and progress improving frequency

Active Buyers

**44.2M**

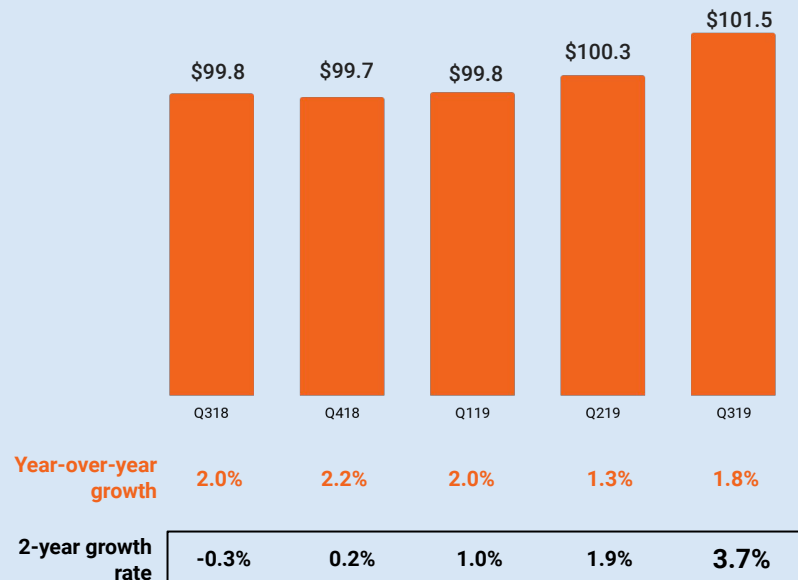
**+19% Y/Y**

Habitual Buyers

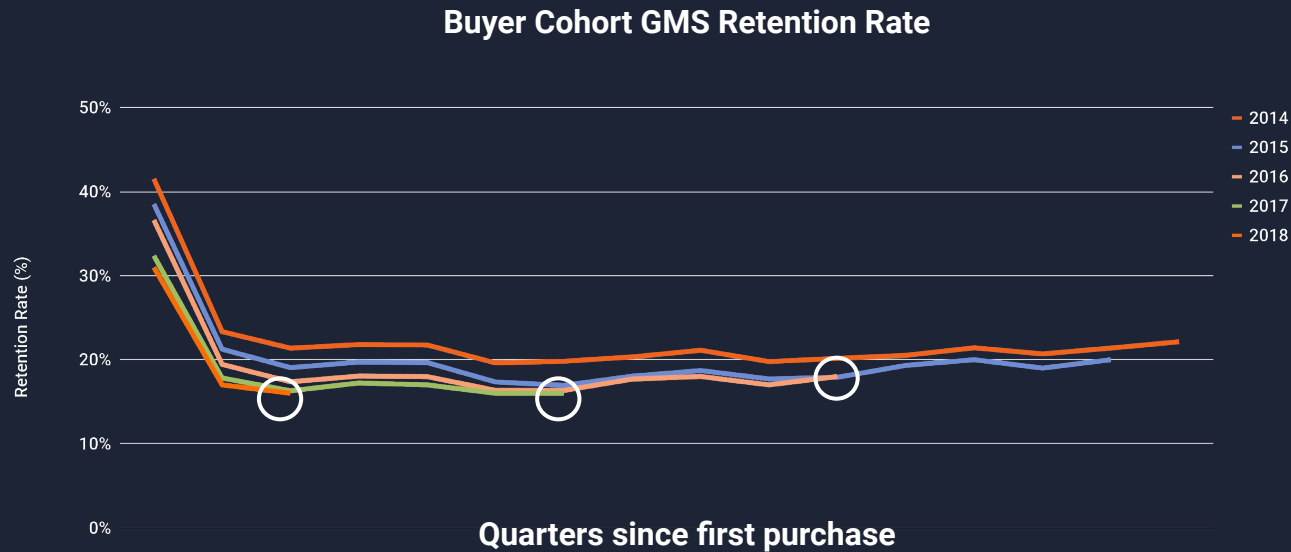
**2.4M**

**+24% Y/Y**

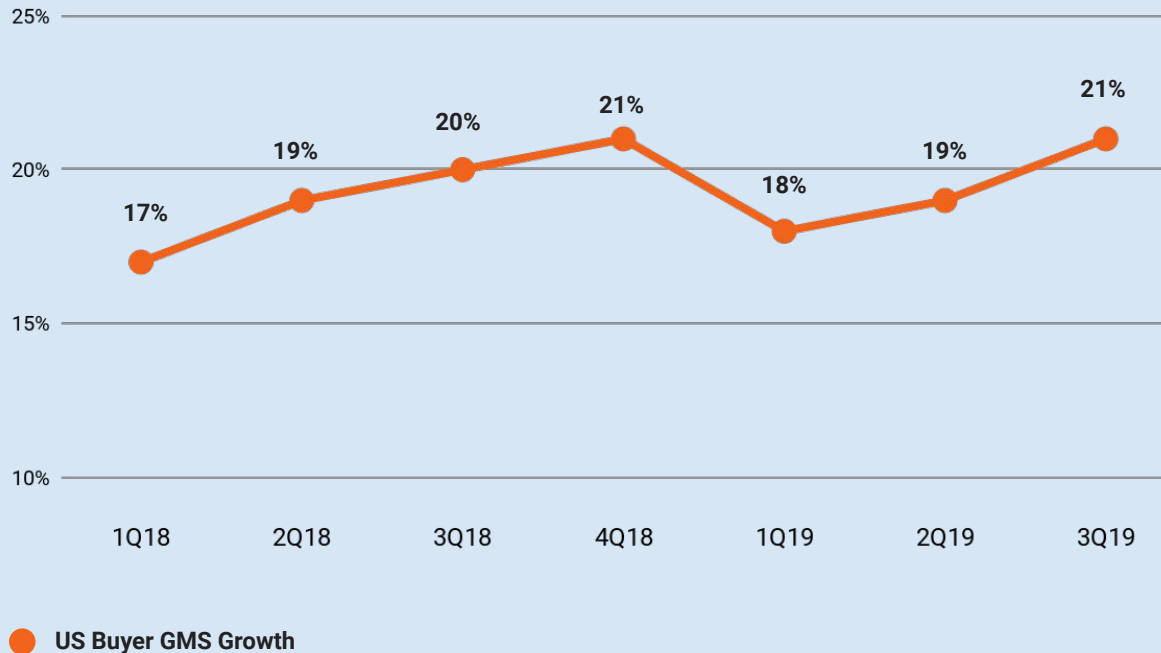
GMS per Active Buyer



We are seeing continued improvement to our buyer cohort retention



US Buyer growth  
remains strong,  
continuing to  
accelerate in Q3  
2019



Results exclude consolidated financials and operating metrics related to the acquisition of Reverb  
US Buyer GMS is purchases from all US Buyers who bought from a US or international seller



# Condensed Consolidated Balance Sheets

	3Q19	4Q18
	(in thousands)	
Cash and cash equivalents	\$671,769	\$366,985
Short-term investments	180,170	257,302
Accounts receivable, net	12,494	12,244
Property and equipment, net	153,262	120,179
Other current and non-current assets	481,503	145,141
<b>Total assets</b>	<b>\$1,499,198</b>	<b>\$901,851</b>
Accounts payable	23,416	\$26,545
Finance lease obligations, net of current portion	55,576	2,095
Facility financing obligation	-	59,991
Long-term debt, net	776,127	276,486
Other current and non-current liabilities	254,817	135,836
<b>Total liabilities</b>	<b>1,109,936</b>	<b>500,953</b>
<b>Total stockholders' equity</b>	<b>389,262</b>	<b>400,898</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,499,198</b>	<b>\$901,851</b>

# Reverb's operational and financial metrics reflect an upside opportunity

GMS\*

**\$77M**

Revenue\*

**\$6M**

Active Buyers

**600K**

Active Sellers

**155K**

\*Approximate figures August 15 - September 30, 2019



# 2019 Guidance for GMS, Revenue and Adjusted EBITDA

	Original Guidance Feb 25, 2019	Prior Guidance Aug 1, 2019	Revised Guidance <sup>1</sup> Oct 30, 2019
GMS (\$)	17-20%	20 - 22%	25 - 26%
GMS Growth (%)	\$4.6B-\$4.7B	\$4.7B-\$4.8B	\$4.9B-\$5B
Revenue (\$)	29 - 32%	32 - 34%	34 - 35%
Revenue Growth (%)	\$779M-\$797M	\$797M-809M	\$809M-815M
Adj. EBITDA* (\$)	23 - 25%	22 - 24%	22 - 23%
Adj. EBITDA Margin*(%)	\$181M-197M	\$177M-\$193M	\$179M-187M

<sup>1</sup>Revised guidance is inclusive of Reverb from August 15th through the end of 2019. Reverb contributes approximately 5-6% to GMS growth, 2-3% to revenue growth and will contract adjusted EBITDA margins as we align Reverb with Etsy's benefit programs and capitalization guidelines for internal development. Reverb's take-rate for 3Q was 7.8% vs. Etsy standalone of 17.1% bringing aggregate Company take-rate to 16.4%.

\*Based on the mid-point of 2019 revenue guidance. Reconciliation of non-GAAP financial measures is contained in the Appendix. Key factors impacting our guidance are contained in the Appendix.

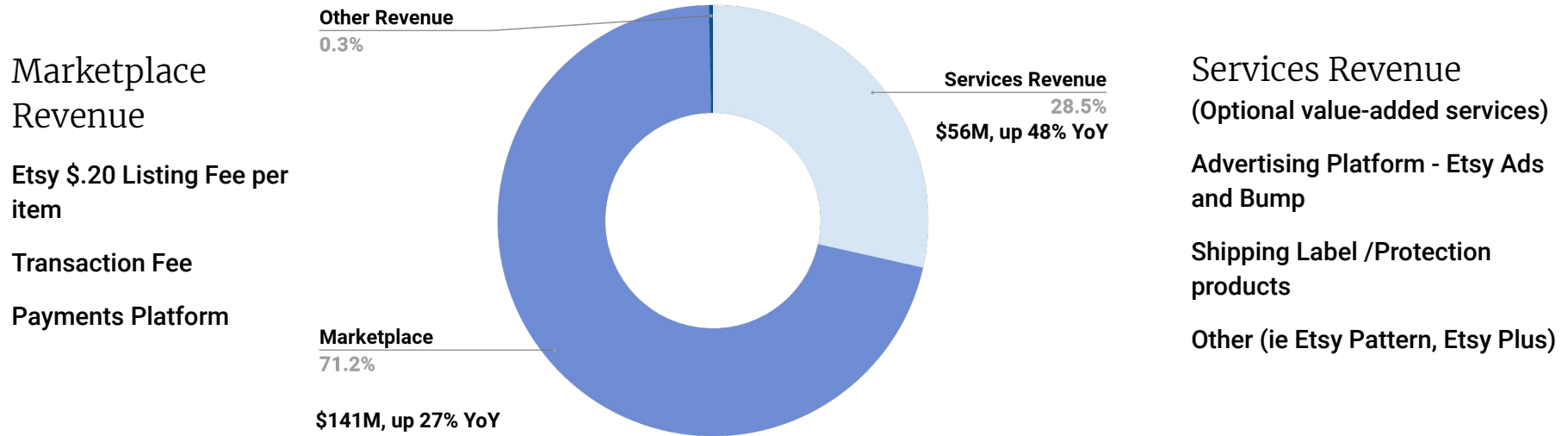
Q&A



# Appendix

# Etsy and Reverb's diversified revenue models consist of mandatory fees and optional value-added services

## Q3 2019 CONSOLIDATED REVENUE \$198M, UP 32% YOY



Includes Reverb results for Aug 15-Sept 30 2019

Etsy transaction fee 5% and Reverb transaction fee 3.5% both including shipping fees

Etsy Payments (3-4.5% +flat fee) plus Reverb Payments (2.5%-2.7% +flat fee)

# Key factors impacting our 2019 Guidance

We anticipate that the key factors impacting Etsy consolidated 2019 GMS and revenue guidance as well as Etsy standalone targets will be:

- Continued visit growth.
- Conversion rate improvements driven by product launches enhancing the buying experience.
- Incremental GMS from marketing investments.
- Increase in GMS from our free shipping initiative.
- Increase in revenue from recording Google Shopping seller budgets as revenue following the launch of Etsy Ads. There is a corresponding dollar-for-dollar offset in cost of revenue for seller budget directed to Google Shopping. The impact from Etsy Ads will not have an impact on adjusted EBITDA but have a dampening impact on adjusted EBITDA margin.
- Continued currency-neutral growth in international GMS, which we expect to grow faster than overall GMS, driven by global product enhancements and marketing.
- We assume a stable macro environment. However, we have seen a larger than previously expected impact from state sales taxes, and other external factors may offset some growth, such as E.U. regulatory conditions, currency fluctuations, changes to VAT, and the potential for geopolitical events that impact trade.\*
- GMS and Revenue performance related to our recent acquisition of Reverb.

We anticipate that the key factors impacting our 2019 Adjusted EBITDA margin guidance will be:

- Planned investments in marketing including investments in newer channels for Etsy with more speculative returns.
- Lower operating expense as a percent of revenue stemming from gaining leverage in our operating structure. We expect to gain leverage in product development and general administrative expenses, which excludes the impact of depreciation from the implementation of new lease accounting standards.
- Lower capitalization of costs related to product development for Etsy and the recent acquisition of Reverb.
- We expect cloud costs to be higher than \$25 million, most of which will be expensed through cost of revenue.
  - Additionally, during the migration, we are maintaining some of our existing data center infrastructure to ensure reliability of our platform.
  - As we migrate to the cloud, we anticipate spending a smaller portion on existing data center infrastructure and more on cloud capacity.
- Adjusted EBITDA associated with the recent acquisition of Reverb, which we expect to be a drag on the consolidated EBITDA margin for 2019.

\*These, and other risks and uncertainties, are more fully described in in our Annual Report on Form 10-K for the year ended December 31, 2018, and subsequent reports that we file with the Securities and Exchange Commission.

# Condensed Consolidated Statement of Operations

	3Q19	3Q18
	(In thousands)	
<b>Revenue</b>	<b>\$197,947</b>	<b>\$150,366</b>
<b>Cost of revenue</b>	<b>68,949</b>	<b>46,947</b>
<b>Gross profit</b>	<b>128,998</b>	<b>103,419</b>
<i>Marketing</i>	<i>50,098</i>	<i>39,516</i>
<i>Product development</i>	<i>32,465</i>	<i>24,418</i>
<i>General and administrative</i>	<i>32,203</i>	<i>20,748</i>
<b>Operating expenses</b>	<b>114,766</b>	<b>84,682</b>
<b>Income from operations</b>	<b>14,232</b>	<b>18,737</b>
<b>Other expense, net</b>	<b>(4,143)</b>	<b>(4,141)</b>
<b>Benefit (provision) for income taxes</b>	<b>4,712</b>	<b>(5,298)</b>
<b>Net income</b>	<b>\$14,801</b>	<b>\$19,894</b>
<b>Net income per share — diluted</b>	<b>\$0.12</b>	<b>\$0.15</b>



# Condensed Consolidated Statement of Cash Flows

	2019*	2018*
	(in thousands)	
<b>Net Income</b>	<b>\$64,603</b>	<b>\$36,240</b>
<i>Net cash provided by operating activities</i>	128,339	96,876
<i>Net cash used in investing activities</i>	(208,255)	(244,178)
<i>Net cash provided by financing activities</i>	388,188	201,002
Effect of exchange rate changes on cash	(3,488)	(6,415)
Net increase in cash, cash equivalents, and restricted cash	304,784	47,285
Cash, cash equivalents, and restricted cash at the beginning of the period	372,326	320,783
<b>Cash, cash equivalents, and restricted cash at the end of the period</b>	<b>\$677,110</b>	<b>\$368,068</b>

\*Nine months ended September 30, 2019 and 2018, respectively

# Reconciliation of Consolidated Quarterly Net Income to Adj. EBITDA

	3Q19	3Q18
	(in thousands)	
<b>Net income</b>	<b>\$14,801</b>	<b>\$19,894</b>
Excluding:		
Interest and other non-operating expense, net	2,194	3,768
(Benefit) provision for income taxes	(4,712)	(5,298)
Depreciation and amortization	12,808	6,439
Stock-based compensation expense	12,137	8,916
Foreign exchange loss	1,949	373
Acquisition-related expenses	1,735	—
Non-ordinary course disputes	1,164	—
Restructuring and other exit income	—	(57)
<b>Adjusted EBITDA</b>	<b>\$42,076</b>	<b>\$34,035</b>

# Reconciliation of Consolidated Revenue to Etsy Standalone

	3Q19 (\$)	3Q19 (%)
	(in thousands)	
<b>Revenue</b>	\$197,947	31.6%
Etsy Standalone	\$191,916	27.6%
Reverb	\$6,031	4.0%
<b>Total</b>	<b>\$197,947</b>	<b>31.6%</b>