

Etsy

Q4/FY 2019  
Financial Results

February 26, 2020

# 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 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, anticipated benefits of our seller initiatives, and the strategic fit, benefit of and impact on our financial performance of our 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 successfully execute our business strategy; (3) our ability to attract and retain an active and engaged community of Etsy sellers and Etsy 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 marketplace 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, including the success of our Etsy Ads platform; (9) the effectiveness of our marketing efforts; (10) the effectiveness of our mobile solutions for Etsy sellers and Etsy 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 September 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



# Executing on our long-term strategy in 2019

## Our right to win

*Multi-year growth strategy*



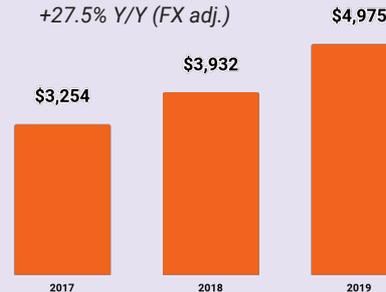
## Consolidated Results

FY 2019 GMS

**\$5.0B**

**+26.5% Y/Y**

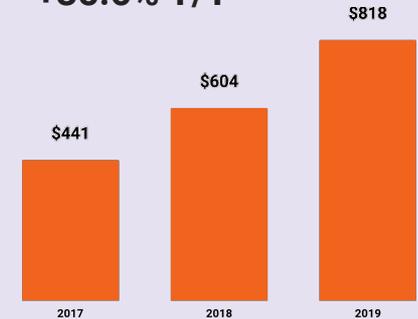
+27.5% Y/Y (FX adj.)



FY 2019 Revenue

**\$818M**

**+35.6% Y/Y**



*\$ in Millions*

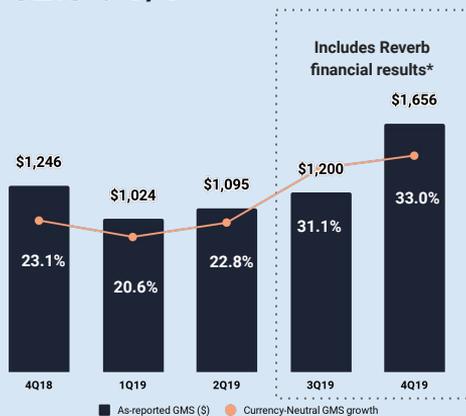
# Our fourth quarter capped off a strong year

## Consolidated Results

### GMS

**\$1.7B**

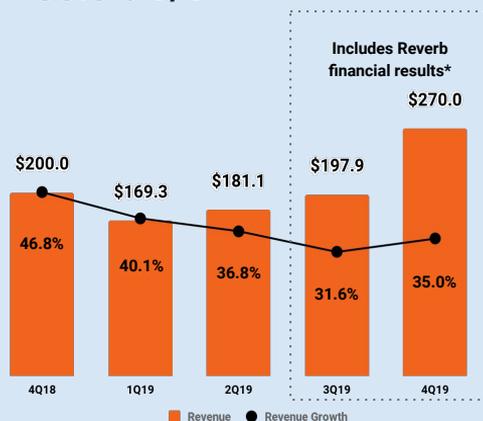
**+32.8% Y/Y**



### Revenue

**\$270M**

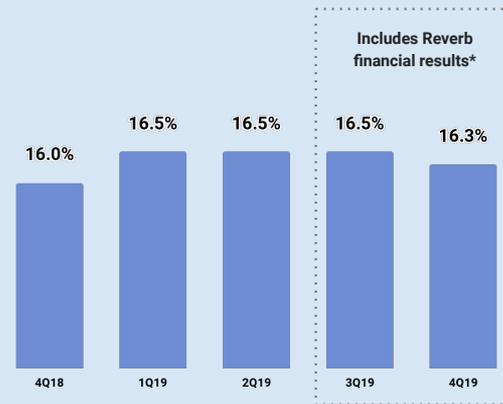
**+35.0% Y/Y**



### Revenue Take-Rate

**16.3%**

**+26 bps Y/Y**



\* Includes Reverb financial results from the date of acquisition (August 15, 2019)

# Our Impact Strategy Keeps Commerce Human



## Economic Impact

Make creative entrepreneurship a path to economic security and personal empowerment



## Social Impact

Enable equitable access to the opportunities we create



## Ecological Impact

Build long-term resilience by eliminating our carbon impacts and fostering responsible resource use

# Record holiday performance drove a strong finish to the year

## 30%

increase in **“Holiday”**\*  
GMS compared to 2018

## \$20,000

in **GMS per minute**  
on Cyber Monday and Tuesday

## 1st & 2nd

**Highest-ever GMS days** on  
Cyber Monday and Tuesday

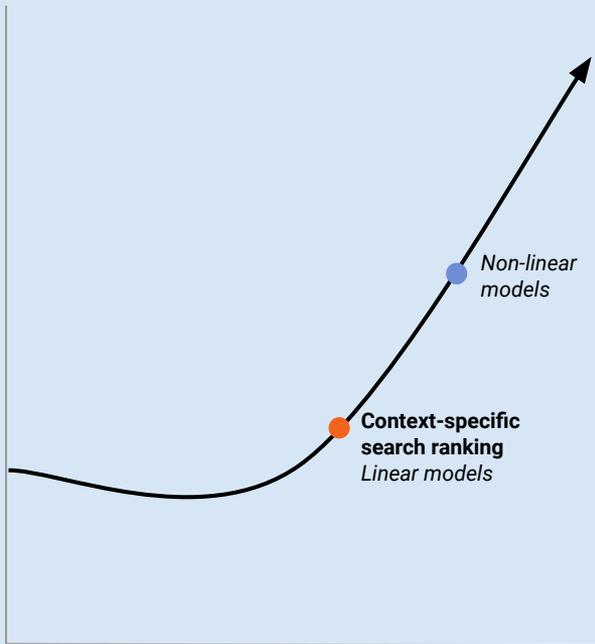
This slide contains Etsy Marketplace performance only

\* “Holiday” GMS represents the five days of Thanksgiving through Cyber Monday

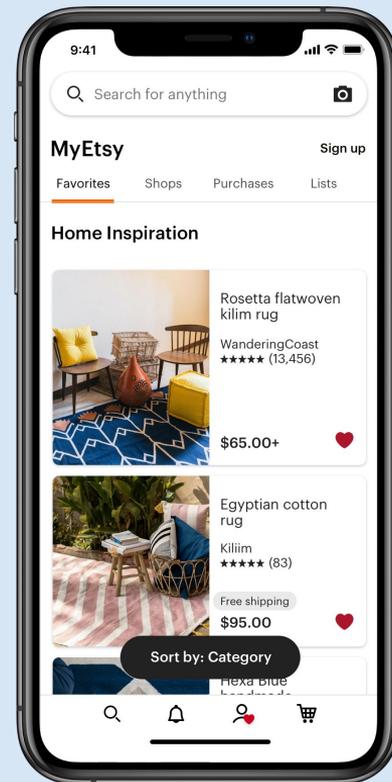
High experiment velocity drove meaningful improvement to the product experience in 2019

**~120%**

increase in experiment velocity year-over-year

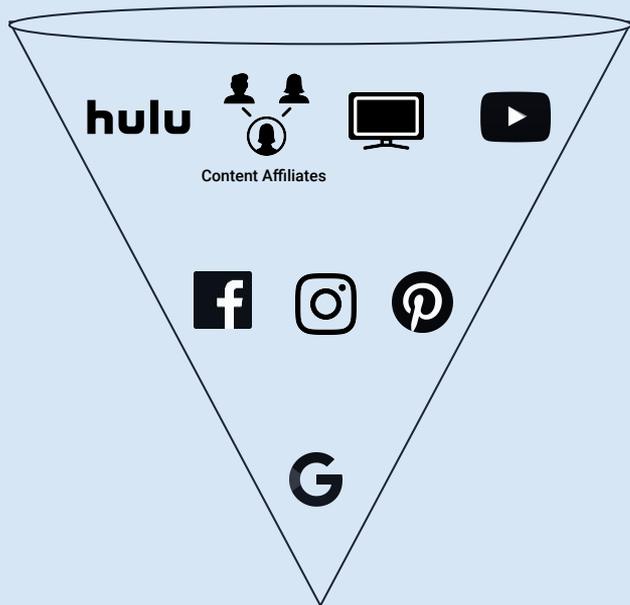


*Shift in search models drives more compute*



*Improved the app experience*

# We have a full funnel approach to our marketing investments



## Free Shipping improved Etsy marketplace dynamics and positively impacted AOV

74%

US listing views of items eligible to ship for free

*as of 12/31/2019*

65%

US buyer GMS that shipped free

*4Q 2019*

48%

US orders received with free shipping

*4Q 2019*

*Early days for Free Shipping - further improvements expected to drive additional growth in 2020*

## 2020 areas of focus for our Free Shipping Initiative



Increase  
Buyer  
Awareness

In a recent survey of Etsy buyers, only 12% were aware we offered items that shipped free



Drive  
Further  
Seller  
Adoption

Communication on benefits, additional education and repricing tools



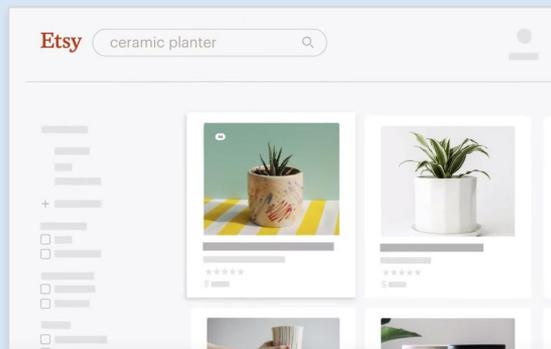
Improve  
On-site  
Product  
Experience

New ways to nudge buyers on how to get free shipping

We are evolving our advertising strategy... from the *consolidated* onsite and offsite Etsy Ads platform we launched in August 2019...

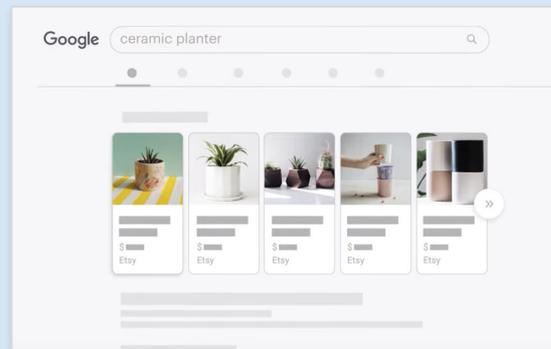
### Promoted Listings

Search ads on Etsy funded by sellers



### Google Shopping

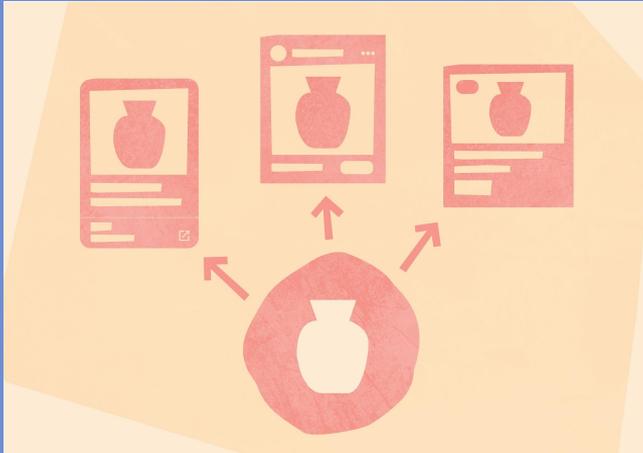
Search ads on Google funded by sellers



**Consolidated Etsy Ads Platform**

# ...to two *separate* Ad products

New approach will enable more seller control...and will be more easily scalable for Etsy



## Ad products as of Q2 2020

- 1 Offsite Ads – **NEW!**  
*Etsy buys performance ads on channels such as Google, Facebook, Instagram, Pinterest and Bing. Sellers only pay for the ad if the visit converts to a sale within 30 days.*
- 2 Etsy Ads (formerly known as Promoted Listings)  
*Seller pays to promote their listings on Etsy*

# Reverb's 2020 focus areas

- Investing in infrastructure
- Establishing a product experimentation process
- Maturing marketing channels to drive growth



# Rachel Glaser

CFO

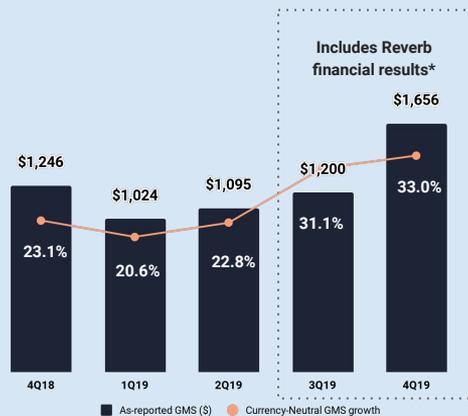


# We had a strong fourth quarter...

GMS

**\$1.7B**

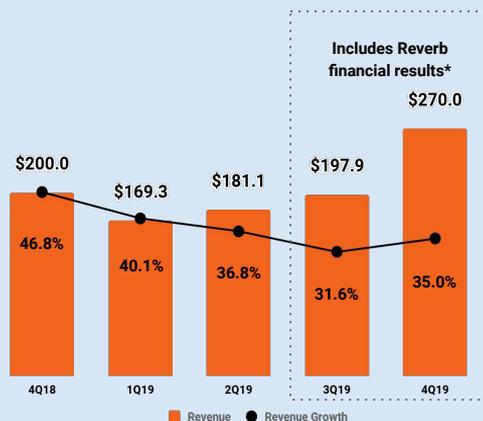
**+32.8% Y/Y**



Revenue

**\$270M**

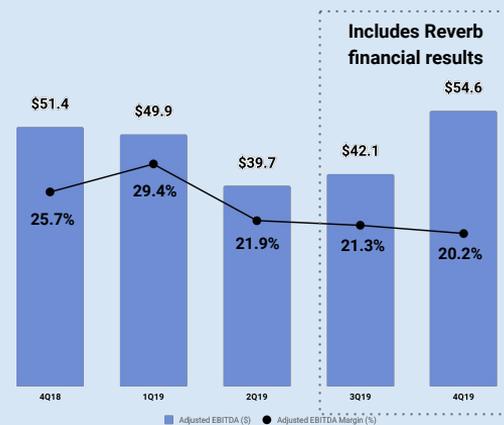
**+35.0% Y/Y**



Adjusted EBITDA<sup>1</sup>

**\$54.6M**

**+20.2% Margin**

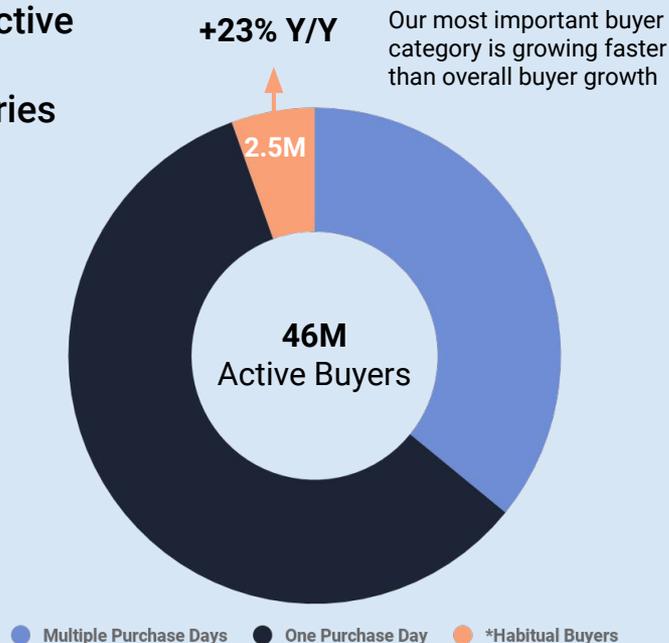


<sup>1</sup>Reconciliation of non-GAAP financial measures is contained in the appendix

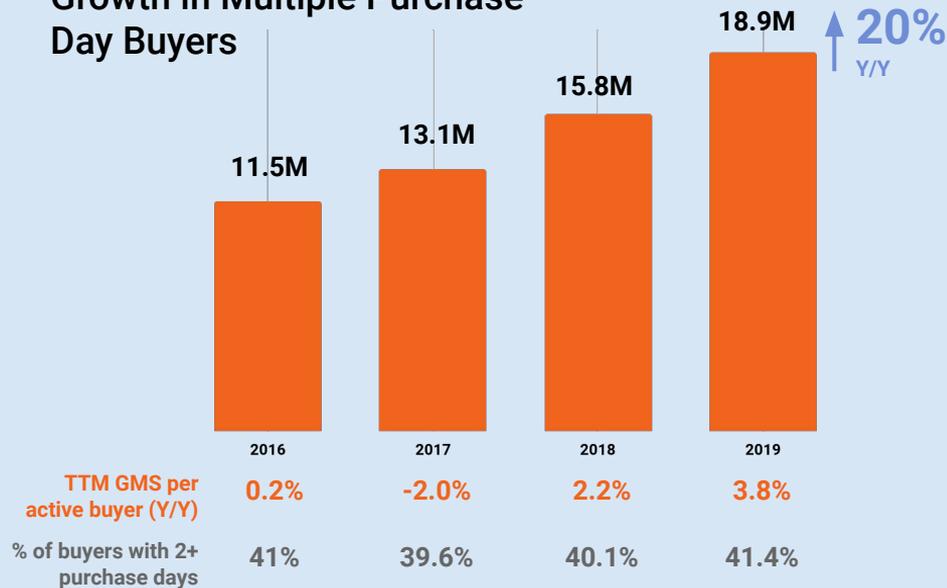
# Moving the needle on frequency

Etsy Marketplace

## 2019 Active Buyer Categories



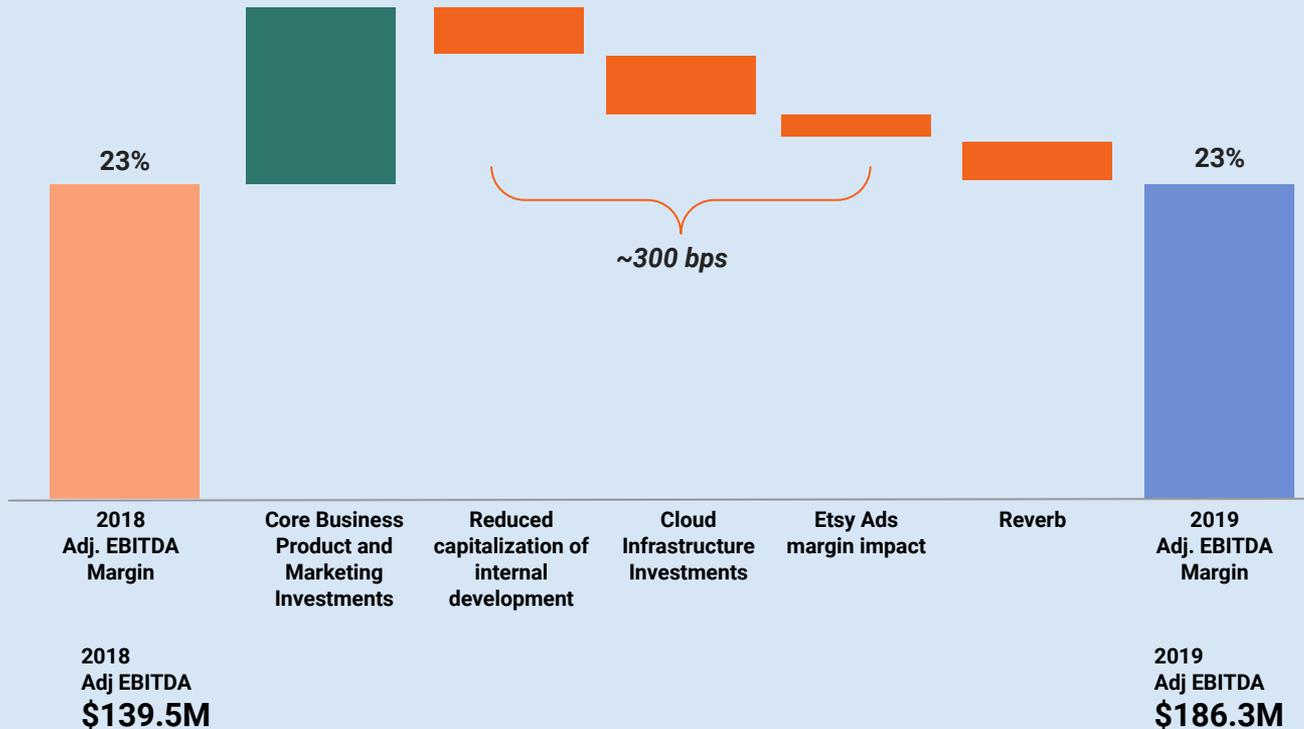
## Growth in Multiple Purchase Day Buyers



\*Habitual buyers are buyers who have spent \$200 or more and made purchases on six or more days in the previous 12 months  
This slide contains Etsy Marketplace information only

# 2019 EBITDA<sup>1</sup> Margin Drivers

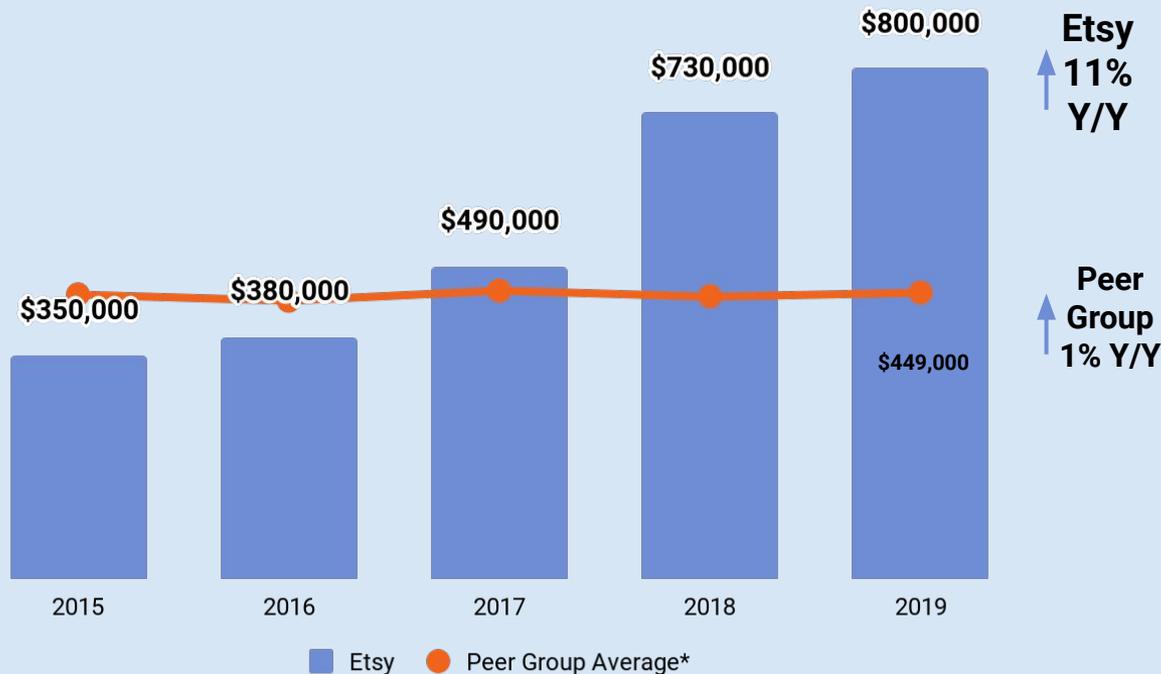
*Consolidated results...Scale  
for illustrative purposes only*



<sup>1</sup>Reconciliation of non-GAAP financial measures is contained in the appendix

Etsy marketplace continues to gain efficiency; generating solid returns

*Average revenue per employee*



\*Peer Group Average includes select marketplace peers

# Strong cash flow generation reinforces our financial position and capital allocation strategy

## Strong Financial Position Exiting 2019

Cash<sup>1</sup>

**\$817M**

2019 Operating Cash Flow

**\$207M**

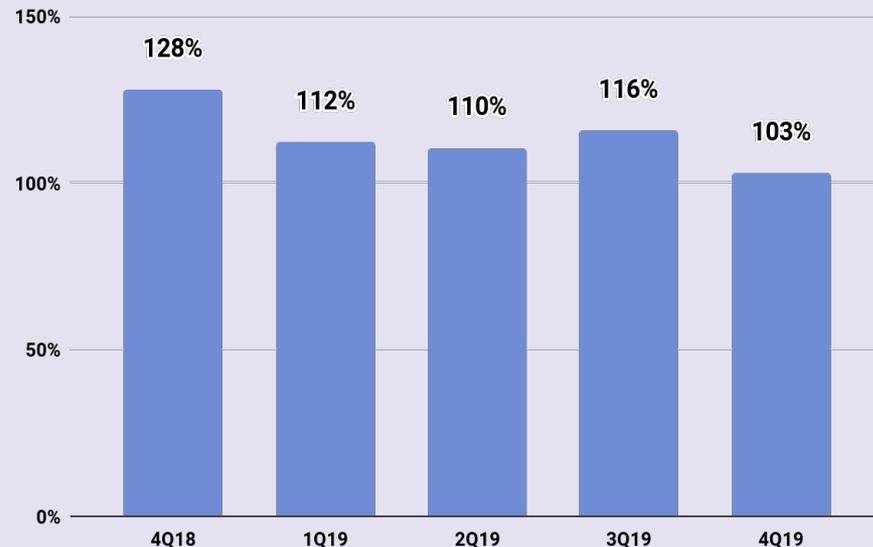
Long-term investments

**\$89M**

2019 Shares Repurchased

**\$177M**

## TTM Free Cash Flow Conversion<sup>2</sup> (%)



<sup>1</sup>Cash, Cash Equivalents, and Short Term Investments

<sup>2</sup>Reconciliation of non-GAAP financial measures is contained in the appendix  
Non-GAAP Free Cash Flow Conversion is Free Cash Flow divided by adjusted EBITDA

# Financial implications of new offsite advertising approach

	Effective September 2019	NEW Ad Products Rolling out in Q2 2020
<b>Summary</b>	Etsy Ads = Google Shopping + Promoted Listings	Promoted Listings = Etsy Ads  Offsite Ads = Product Listings on Google, Facebook, Instagram, Pinterest, and Bing
<b>Accounting Impact</b>	Promoted Listings = Services Revenue  Google Shopping = Revenue - Cost of Revenue = \$0 Gross Profit and dilutive to Gross Margin %	Etsy Ads = Services Revenue  Offsite Ads = Marketplace Revenue - Marketing Expense
<b>EBITDA Impact</b>	\$0 EBITDA* and dilutive to EBITDA Margin %	Positive EBITDA Impact and EBITDA Margin % accretive

\*Etsy Ads would have enabled us to shift marketing spend to other channels or flow incremental marketing savings to EBITDA

# 2020 Guidance for GMS, Revenue and Adjusted EBITDA

## 2020 Consolidated Guidance Feb 26, 2020

GMS (\$)	~\$6.2B-\$6.4B
GMS Growth (%)	25 - 28%
Revenue (\$)	~\$1.04B-\$1.06B
Revenue Growth (%)	27 - 30%
Adj. EBITDA* (\$)	\$220M-\$235M
Adj. EBITDA Margin(%)	~21 - 22%

\*Reconciliation of non-GAAP financial measures is contained in the Appendix.  
Key factors potentially impacting our 2020 guidance are contained in the Appendix.

Q&A

# Appendix

# Key factors impacting our 2020 Guidance

We anticipate that the key factors impacting Etsy consolidated 2020 GMS and revenue guidance as well as Etsy's long-term standalone targets will be:

- Continued visit growth and conversion rate improvements driven by product launches enhancing the buying experience.
- Incremental GMS from marketing investments as well as from our free shipping initiative.
- In the first quarter of 2020, our consolidated Ad platform will continue to generate revenue (from the recording of Google Shopping as revenue with a corresponding offset in cost of revenue). Upon the launch of our new off-site Ad product in Q2, we expect to generate incremental revenue in the form of an advertising fee to sellers.
- Continued currency-neutral growth in international GMS driven by global product enhancements and marketing.
- We assume a stable macro environment. External factors that may offset some growth include: sales taxes, regulatory changes, currency fluctuations, changes to VAT, elections, and the potential for geopolitical events that impact trade, including, among other things, pandemics.\*
- GMS and Revenue performance related to our recent acquisition of Reverb.

We anticipate that the key factors impacting our 2020 Adjusted EBITDA guidance will be:

- Planned investments in marketing, including investments in newer channels for Etsy with more speculative returns, as well as incremental investments in marketing spend related to our new offsite Advertising product.
- Increase in employee-related expenses in product development, driven in part by a lower capitalization of costs relative to prior years.
- Continued leverage in G&A and Cost of Revenue.
- Continued investment in the usage of our cloud infrastructure, most of which will be expensed through cost of revenue.
- Adjusted EBITDA associated with the recent acquisition of Reverb, which we expect to be a drag on consolidated EBITDA margin for 2020.

\*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, 2019, and subsequent reports that we file with the Securities and Exchange Commission.

# Condensed Consolidated Statement of Operations

	4Q19	4Q18
<i>(in thousands)</i>		
<b>Revenue</b>	<b>\$269,998</b>	<b>\$200,028</b>
Cost of revenue	90,824	57,111
Gross profit	179,174	142,917
<i>Marketing</i>	84,034	63,362
<i>Product development</i>	35,701	28,542
<i>General and administrative</i>	34,401	21,524
Operating expenses	154,136	113,428
Income from operations	25,038	29,489
Other expense, net	(2,287)	(6,613)
Benefit for income taxes	8,540	18,375
<b>Net income</b>	<b>\$31,291</b>	<b>\$41,251</b>
Net income per share — diluted	\$0.25	\$0.32

# Condensed Consolidated Statement of Operations

	2019	2018
<b>(in thousands)</b>		
<b>Revenue</b>	\$818,379	\$603,693
Cost of revenue	271,036	190,762
Gross profit	547,343	412,931
<i>Marketing</i>	215,570	158,013
<i>Product development</i>	121,878	97,249
<i>General and administrative</i>	121,134	82,883
Operating expenses	458,582	338,145
Income from operations	88,761	74,786
Other expense, net	(8,115)	(19,708)
Benefit for income taxes	15,248	22,413
<b>Net income</b>	\$95,894	\$77,491
Net income per share — diluted	\$0.76	\$0.61

# Condensed Consolidated Statement of Cash Flows

	2019	2018
<b>(in thousands)</b>		
<b>Net Income</b>	<b>\$95,894</b>	<b>\$77,491</b>
<i>Net cash provided by operating activities</i>	206,920	198,925
<i>Net cash used in investing activities</i>	(488,373)	(285,393)
<i>Net cash provided by financing activities</i>	359,607	144,006
Effect of exchange rate changes on cash	(1,846)	(5,995)
Net increase in cash, cash equivalents, and restricted cash	76,308	51,543
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>\$448,634</b>	<b>\$372,326</b>

# Condensed Consolidated Balance Sheets

	4Q19	4Q18
<b>(in thousands)</b>		
Cash and cash equivalents	\$443,293	\$366,985
Short-term investments	373,959	257,302
Accounts receivable, net	15,386	12,244
Property and equipment, net	144,864	120,179
Other current and non-current assets	564,850	145,141
<b>Total assets</b>	<b>\$1,542,352</b>	<b>\$901,851</b>
Accounts payable	\$26,324	\$26,545
Funds payable and amounts due to sellers	49,786	21,072
Long-term debt, net	785,126	276,486
Other current and non-current liabilities	274,482	176,850
<b>Total liabilities</b>	<b>1,135,718</b>	<b>500,953</b>
<b>Total stockholders' equity</b>	<b>406,634</b>	<b>400,898</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,542,352</b>	<b>\$901,851</b>

# Reconciliation of Quarterly Net Income to Adj. EBITDA

	4Q19	4Q18
<b>(in thousands)</b>		
Net income	\$31,291	\$41,251
Excluding:		
Interest and other non-operating expense, net	6,372	3,099
Benefit for income taxes	(8,540)	(18,375)
Depreciation and amortization	15,271	7,626
Stock-based compensation expense	13,339	14,244
Foreign exchange (gain) loss	(4,085)	3,514
Acquisition-related expenses	976	-
<b>Adjusted EBITDA</b>	<b>\$54,624</b>	<b>\$51,359</b>

# Reconciliation of Annual Net Income to Adj. EBITDA

	2019	2018
<b>(in thousands)</b>		
Net income	\$95,894	\$77,491
Excluding:		
Interest and other non-operating expense, net	11,121	13,221
Benefit for income taxes	(15,248)	(22,413)
Depreciation and amortization	48,031	26,742
Stock-based compensation expense	44,395	38,231
Foreign exchange (gain) loss	(3,006)	6,487
Acquisition-related expenses	3,917	-
Non-ordinary course disputes	1,164	-
Restructuring and other exit costs (income)	-	(249)
<b>Adjusted EBITDA</b>	<b>\$186,268</b>	<b>\$139,510</b>

# Reconciliation of Operating Cash Flow to Free Cash Flow

*Free cash flow is considered to be a non-GAAP financial measure. We believe that free cash flow, which measures our ability to generate cash from our business operations, is an important financial measure for use in evaluating the company's financial performance. Free cash flow should be considered in addition to, rather than as a substitute for, consolidated net income as a measure of our performance and net cash provided by operating activities as a measure of our liquidity. We believe it is important to view free cash flow as a measure that provides supplemental information to our Consolidated Statements of Cash Flows.*

	2019	2018	2017
(in thousands)			
Operating Cash Flow	\$206,920	\$198,925	\$69,101
Purchases of property and equipment	(7,528)	(1,019)	(3,948)
Development of internal-use software	(7,750)	(19,537)	(9,208)
<b>Free Cash Flow</b>	<b>\$191,642</b>	<b>\$178,369</b>	<b>\$55,945</b>