Etsy

Q1 2020

Financial Results

May 6, 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 for the second quarter of 2020 and key drivers thereof; the impact of our investments on topline growth the uncertain impacts that the COVID-19 pandemic may have on our business, strategy, operating results, key metrics, financial condition, profitability, and cash flows and changes in overall level of consumer spending and volatility in the global economy and the impact of ongoing settlement of intercompany balances on future foreign exchange rate volatility.

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) COVID-19 pandemic is unprecedented and is impacting our GMS and results of operations in numerous ways that remain volatile and unpredictable; (2) the fluctuation of our quarterly operating results; (3) our failure to meet our publicly announced guidance or other expectations; (4) our ability to successfully execute on our business strategy or if our strategy proves to be ineffective; (5) our ability to attract and retain an active and engaged community of sellers and buyers; (6) our history of operating losses; (7) macroeconomic events that are outside of our control; (8) our ability to recruit and retain employees; (9) the importance to our success of the trustworthiness of our marketplace and the connections within our community; (10) 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; (11) the effectiveness of our marketing efforts; (12) the effectiveness of our mobile solutions for sellers and buyers; (13) our ability to expand our business in our core geographic markets; (14) regulation in the area of privacy and protection of user data; (15) our dependence on third-party payment providers; (16) acquisitions that may prove unsuccessful or divert management attention, including our acquisition of Reverb; and (17) 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 Annual Report on Form 10-K for the year ended December 31, 2019, current report on Form 8-K filed on May 6, 2020 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.
We moved quickly to protect our team and community

**COVID-19 Events and Etsy Task Force Timeline**

<table>
<thead>
<tr>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHO declared global health emergency</td>
<td>Europe reports first death</td>
<td>US testing is approved</td>
</tr>
<tr>
<td>1/30</td>
<td>2/14</td>
<td>3/3</td>
</tr>
<tr>
<td>US declares national emergency</td>
<td>France locks down</td>
<td>UK closes non-essential stores</td>
</tr>
<tr>
<td>3/13</td>
<td>3/17</td>
<td>3/23</td>
</tr>
<tr>
<td>Italy locks US travel ban from EU</td>
<td>US declares national emergency</td>
<td>India locks down 21 days</td>
</tr>
<tr>
<td>3/9</td>
<td>3/11</td>
<td>3/24</td>
</tr>
<tr>
<td>Business travel restrictions</td>
<td>Global Office Closure Announcement</td>
<td>Member Services vendor sites shift to WFH</td>
</tr>
<tr>
<td>WFH infrastructure test</td>
<td>Developed affected Admin procedure</td>
<td>Etsy urges Congress to pass COVID-19 relief for its self-employed sellers</td>
</tr>
<tr>
<td>WFH encouraged in select offices</td>
<td>Protocols for security guards and building maintenance</td>
<td>Etsy invests in Off-site Ads, allows bill deferment, and provides additional resources to help sellers</td>
</tr>
</tbody>
</table>

**Global Updates**
- COVID-19 task force established
- Business travel restrictions
- Global Office Closure Announcement
- Member Services vendor sites shift to WFH

**Etsy Updates**
- Note to employees to minimize spread of COVID-19
- WFH infrastructure test
- Developed affected Admin procedure
- Protocols for security guards and building maintenance

**+20%** Y/Y increase in product releases during Q1

Task Force continues to centralize information for health, safety and operations decisions
We delivered a solid Q1 despite macro uncertainty

**GMS**
- $1.4B
- +32.6% Y/Y
  - Currency-Neutral

**Revenue**
- $228M
- +34.7% Y/Y

**Adjusted EBITDA**
- $55.1M
- +24.1% Margin

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1 Reconciliation of non-GAAP financial measures is contained in the appendix.

All results are Consolidated and includes Reverb financial results from the date of acquisition (August 15, 2019).
Etsy Marketplace: April was Extraordinary...

Mask Sales

$133M in GMS

Non-Mask Sales

+79% Y/Y
Demand shifted in early April...

...first weekend of April generated over 2M mask-related searches.
Rapid mobilization focused on six key areas to address demand surge

**Within Hours**
- Created Banners and Automated Filters
- Retrained our Search Engine

**Within Days**
- Scaled Inventory and Sellers
- Screened Sellers
- Distributed Demand
- Managed Delivery Expectations
As a result, Etsy sellers sold a lot of masks in April

**Key Insights**
- We sold over **12M face masks** in April
- Face Masks generated **$133M in April GMS** and represented **17% of Etsy marketplace GMS**
- If face masks were a category it would have been the **second largest in April**

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*Etsy standalone data reflected as of the month of April*
Influx of new buyers creates opportunity to build loyalty with a new cohort.

**6.5M**
New buyers and those who have not purchased for a year or more*

**32%**
Of mask buyers had a 14 day repeat purchase rate; higher than average*

Repeat Purchase Rate

*Etsy standalone data reflected as of the month of April
Etsy Marketplace:
April was Extraordinary...

Mask Sales
$133M in GMS

Non-Mask Sales
+79% Y/Y
We experienced broad demand across the marketplace

Growing Demand in Key Categories and Occasions

- Home Decor
- Craft Supplies
- Gifting

Fewer Alternatives

- Retail store closures
- eCommerce shipping delays
- Supply chain disruptions

Non-Mask GMS*

+79%

Growth in non-mask GMS during April

*Etsy standalone data reflected as of the month of April
We pivoted our brand strategy, messaging and spend to support Etsy sellers

Brand Platform
Open for Business
Everyday Essentials
#StandWithSmall

Category Alignment
Pivoted inventory to favor in demand products and categories

TV Creative
Delivering the Etsy story through the lens of our sellers

TV & Social Investments
Enhancing investments to expand exposure and reach

Engagement Strategies
Building loyalty and retention among buyers
Pivoted our brand platform to emphasize ‘delivering joy in the everyday’

Message to Buyers

Etsy is open for business

Etsy offers everyday essentials

Support small business by shopping on Etsy

Message to Sellers

We have your back

#StandWithSmall
Pivoted merchandising to elevate trending categories and products

Home Inspiration

Home Activities

Self Care

Gifting

Everyday Etsy
New TV campaign and social presence extends our reach

‘Always Open’
Engaging with buyers utilizing new CRM tools

Buyer touchpoints and data sources

| Etsy.com | Paid Channels | Email | Push | Mobile App |

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CRM

Customer Service & Marketing Automation

Intelligence

Actionable Customer Data

*New Tools

Personalized Interactions
Our Right to Win

- Best-in-Class Search and Discovery
- Human Connections
- A Trusted Brand

Our Collection of Unique Items
Leveraging deep learning to close the ‘semantic gap’

*Improved algorithms drives meaningful progress in search relevance*

**Search results for “floral dress”**

- All categories > “floral dress” (212,392 Results)

**Search results for “floral gown”**

- All categories > “floral gown” (37,403 Results)
Giving Reviews more prominence inspires trust in the buyer journey.
Etsy Sellers are innovating ... new inventory emerges
Etsy buys performance ads on channels such as Google, Facebook, Instagram, Pinterest and Bing. Sellers only pay a fee if the visit converts to a sale within 30 days.

**Offsite Ads – New in Q2!**

**Etsy Ads (formerly known as Promoted Listings)**

Seller pays to promote their listings on Etsy
Our Reverb marketplace leveraged the ability to serve as a primary online channel for its sellers...

- **New Buyers**: Seeing a surge in first time buyers
- **Shipping Availability**: Shipping availability is driving traffic and GMS
- **Manufacturers**: Manufacturers embrace selling directly on the platform
Keep Commerce Human
We had a solid first quarter...

GMS

$1.4B

+32.6% Y/Y

Currency-Neutral

Revenue

$228M

+34.7% Y/Y

Adjusted EBITDA

$55.1M

+24.1% Margin

1Reconciliation of non-GAAP financial measures is contained in the appendix
All results are Consolidated and includes Reverb financial results from the date of acquisition (August 15, 2019)
Strong start to the year followed by significant volatility

Includes Reverb results
1Q 2020 CONSOLIDATED REVENUE $228M, UP 34.7% YoY

Marketplace Revenue
- Listing Fee
- Transaction Fee
- Payments Platform

Services Revenue
- 31.6%
- $72.1M, up 71.1% YoY

Optional value-added services
- Advertising
- Shipping Label /Protection
- Other

Includes Reverb results
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)
Improvement in key operating metrics signal continued progress improving frequency

Active Buyers¹

**47.7M**

+16% Y/Y

Habitual Buyers²

**2.6M**

+22% Y/Y

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¹Active buyers reflected for the consolidated marketplace
²Habitual Buyers are a segment of buyers from the Etsy standalone marketplace
³GMS per Active Buyer reflects results from the Etsy standalone marketplace
We’re seeing broad based demand and overall momentum for the Etsy marketplace

**Key Insights***

- Face Masks represented **17% of Etsy marketplace GMS**
- **22%** of mask related GMS was from **new buyers**
- Acquired **4M new buyers and re-engaged 2.5M buyers** who haven’t purchased in a year or more
- **32%** of buyers who purchased a face mask **returned within 14 days** to make another purchase

*Etsy marketplace data for April 2020*
Normally stable & predictable cohorts experienced a meaningful inflection
Optimizing our cost structure while investing for long term growth

<table>
<thead>
<tr>
<th>Leaning into Variable Investments for Long Term Growth</th>
<th>One-time Investments to Support our Sellers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Marketing</td>
<td>Offsite Ads fees waived</td>
</tr>
<tr>
<td>Incremental Product Investments including Search and Frequency</td>
<td>Bill Payment Deferral</td>
</tr>
<tr>
<td></td>
<td>Seller Resources and Support</td>
</tr>
<tr>
<td></td>
<td>Listing and Ad Credits</td>
</tr>
</tbody>
</table>

~$11M - $13M

One-time investments in our seller community
Strong cash flow generation reinforces our financial position and capital allocation strategy

Cash Balance 3/31/20\(^1\)

$898M

\(^1\)Cash, Cash Equivalents, and Investments (short and long term)

\(^2\)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
Depth and duration of headwinds and tailwinds are unknown

GMS Trends by Category

- **Total GMS Growth**
  - Organic GMS
  - Product Development
  - Marketing

- **Core Business Trends**
  - Mask sales
  - Mask adjacent sales
  - New buyer cohorts
  - Offline to Online
  - Competitive dynamics
  - Pent-up demand
  - Gifting trends
  - Stimulus checks
  - Business closures

- **Tailwinds**

- **Headwinds**
  - Economic environment
  - Job losses
  - Consumer confidence
**Q2 Guidance**

*Etsy has temporarily moved to providing quarterly guidance in light of uncertain macro conditions*

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**Q2 Consolidated Guidance**

*May 6, 2020*

<table>
<thead>
<tr>
<th></th>
<th>Q2 Consolidated Guidance</th>
<th>May 6, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMS ($)</td>
<td>~$2.0B-$2.2B</td>
<td></td>
</tr>
<tr>
<td>GMS Growth (%)</td>
<td>80 - 100%</td>
<td></td>
</tr>
<tr>
<td>Revenue ($)</td>
<td>~$310M-$340M</td>
<td></td>
</tr>
<tr>
<td>Revenue Growth (%)</td>
<td>70 - 90%</td>
<td></td>
</tr>
<tr>
<td>Adj. EBITDA* ($)</td>
<td>$75M-$90M</td>
<td></td>
</tr>
<tr>
<td>Adj. EBITDA Margin (%)</td>
<td>~23 - 27%</td>
<td></td>
</tr>
</tbody>
</table>

*Based on the mid-point of Q2 2020 revenue guidance. 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 Q2 Guidance

Etsy withdrew its 2020 Annual Guidance on April 2, 2020 due to uncertainty caused by the COVID-19 crisis. We anticipate that the key factors impacting Etsy consolidated Q2 GMS and revenue guidance will be:

- The depth and duration of headwinds and tailwinds related to the healthcare and economic crisis caused by COVID-19. Headwinds and tailwinds include but are not limited to the following:
  - Headwinds: Economic environment, job losses, and consumer confidence
  - Tailwinds: Retail store closures, shift in spend from offline to online, competitive dynamics, government stimulus, demand for face masks and mask adjacent items, and the frequency of new buyer cohorts
- Continued visit growth and conversion rate improvements driven by global product launches enhancing the buying experience.
- Incremental GMS from marketing investments.
- The launch of our new Off-site Ads product in Q2, which is expected to generate incremental revenue in the form of an advertising fee to sellers.
- Additional 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, the COVID-19 pandemic.
- GMS and Revenue performance related to our acquisition of Reverb.

We anticipate that the key factors impacting our Q2 Adjusted EBITDA guidance will be:

- Revenue growth driven by the core business
- 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 Ads product.
- One-time investments to support our seller community impacted by COVID-19.
- Leverage in Product Development, 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 Q2.

*These and other risks and uncertainties are more fully described in our Quarterly Filing on Form 10-Q for the quarter ended March 31, 2020, and subsequent reports that we file with the Securities and Exchange Commission.
## Condensed Consolidated Statement of Operations

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>1Q20</th>
<th>1Q19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$228,055</td>
<td>$169,339</td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>82,416</td>
<td>52,658</td>
</tr>
<tr>
<td>Gross profit</td>
<td>145,639</td>
<td>116,681</td>
</tr>
<tr>
<td>Marketing</td>
<td>48,505</td>
<td>35,444</td>
</tr>
<tr>
<td>Product development</td>
<td>37,782</td>
<td>24,947</td>
</tr>
<tr>
<td>General and administrative</td>
<td>33,987</td>
<td>24,647</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>120,274</td>
<td>85,038</td>
</tr>
<tr>
<td>Income from operations</td>
<td>25,365</td>
<td>31,643</td>
</tr>
<tr>
<td>Other expense, net</td>
<td>(15,672)</td>
<td>(206)</td>
</tr>
<tr>
<td>Benefit for income taxes</td>
<td>2,829</td>
<td>142</td>
</tr>
<tr>
<td>Net income</td>
<td>$12,522</td>
<td>$31,579</td>
</tr>
<tr>
<td>Net income per share — diluted</td>
<td>$0.10</td>
<td>$0.24</td>
</tr>
</tbody>
</table>
## Condensed Consolidated Statement of Cash Flows

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>Three months ended</th>
<th>Three months ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3/31/20</td>
<td>3/31/19</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$12,522</td>
<td>$31,579</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>29,664</td>
<td>31,458</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td>6,093</td>
<td>(22,004)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(32,678)</td>
<td>(29,307)</td>
</tr>
<tr>
<td><strong>Effect of exchange rate changes on cash</strong></td>
<td>(4,018)</td>
<td>(1,458)</td>
</tr>
<tr>
<td><strong>Net decrease in cash, cash equivalents, and restricted cash</strong></td>
<td>(939)</td>
<td>(21,311)</td>
</tr>
<tr>
<td><strong>Cash, cash equivalents, and restricted cash at the beginning of the period</strong></td>
<td>448,634</td>
<td>372,326</td>
</tr>
<tr>
<td><strong>Cash, cash equivalents, and restricted cash at the end of the period</strong></td>
<td>$447,695</td>
<td>$351,015</td>
</tr>
</tbody>
</table>
## 1Q20 Financial Results

### Condensed Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>1Q20</th>
<th>4Q19</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>442,354</td>
<td>443,293</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>361,640</td>
<td>373,959</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>11,712</td>
<td>15,386</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>134,519</td>
<td>144,864</td>
</tr>
<tr>
<td>Other current and non-current assets</td>
<td>567,417</td>
<td>564,850</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,517,642</td>
<td>1,542,352</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>10,557</td>
<td>26,324</td>
</tr>
<tr>
<td>Funds payable and amounts due to sellers</td>
<td>55,172</td>
<td>49,786</td>
</tr>
<tr>
<td>Long-term debt, net</td>
<td>794,129</td>
<td>785,126</td>
</tr>
<tr>
<td>Other current and non-current liabilities</td>
<td>250,937</td>
<td>274,482</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,110,795</td>
<td>1,135,718</td>
</tr>
<tr>
<td><strong>Total stockholders’ equity</strong></td>
<td>406,847</td>
<td>406,634</td>
</tr>
<tr>
<td><strong>Total liabilities and stockholders’ equity</strong></td>
<td>$1,517,642</td>
<td>$1,542,352</td>
</tr>
</tbody>
</table>
### Reconciliation of Quarterly Net Income to Adj. EBITDA

<table>
<thead>
<tr>
<th>(in thousands)</th>
<th>1Q20</th>
<th>1Q19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$12,522</td>
<td>$31,579</td>
</tr>
<tr>
<td>Excluding:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and other non-operating expense, net</td>
<td>6,354</td>
<td>1,268</td>
</tr>
<tr>
<td>Benefit for income taxes</td>
<td>(2,829)</td>
<td>(142)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>15,163</td>
<td>10,142</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>13,811</td>
<td>8,082</td>
</tr>
<tr>
<td>Foreign exchange loss (gain)</td>
<td>9,318</td>
<td>(1,062)</td>
</tr>
<tr>
<td>Acquisition-related expenses</td>
<td>717</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>$55,056</td>
<td>$49,867</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th></th>
<th>1Q20</th>
<th>4Q19</th>
<th>3Q19</th>
<th>2Q19</th>
<th>1Q19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow</td>
<td>$29,664</td>
<td>$78,581</td>
<td>$47,045</td>
<td>$49,836</td>
<td>$31,458</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(567)</td>
<td>(1,639)</td>
<td>(2,142)</td>
<td>(3,064)</td>
<td>(683)</td>
</tr>
<tr>
<td>Development of internal-use software</td>
<td>(1,261)</td>
<td>(1,508)</td>
<td>(1,573)</td>
<td>(1,279)</td>
<td>(3,390)</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$27,836</td>
<td>$75,434</td>
<td>$43,330</td>
<td>$45,493</td>
<td>$27,385</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash Flow</td>
<td>$206,920</td>
<td>$198,925</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(7,528)</td>
<td>(1,019)</td>
</tr>
<tr>
<td>Development of internal-use software</td>
<td>(7,750)</td>
<td>(19,537)</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$191,642</td>
<td>$178,369</td>
</tr>
</tbody>
</table>