

Etsy

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# Q4 2018 Financial Results

February 25, 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 ability to bring buyers back to Etsy.com and our financial guidance and key drivers thereof, including marketing spend and anticipated timing, anticipated product launches, investments in headcount and timing of our migration to the cloud. 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 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 Etsy sellers and Etsy buyers; (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; and (14) 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, 2018, 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



# Strong fourth quarter results...

GMS

**\$1.2B**

+23.1% Y/Y

~230 basis point Q/Q acceleration on a currency-neutral basis

Revenue

**\$200M**

+46.8% Y/Y

Net Income

**\$41M**

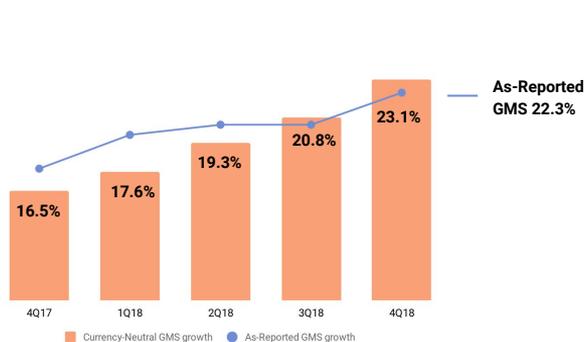
\$0.32 EPS<sup>1</sup>

Adj. EBITDA<sup>2</sup>

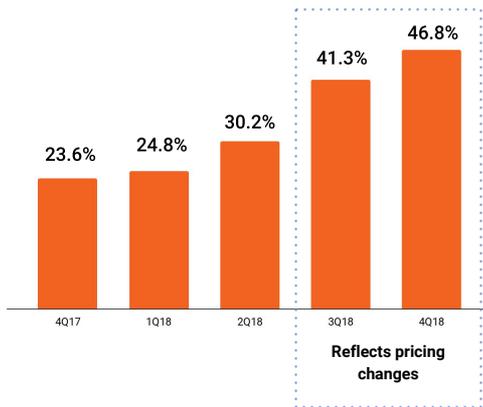
**\$51M**

25.7% Margin

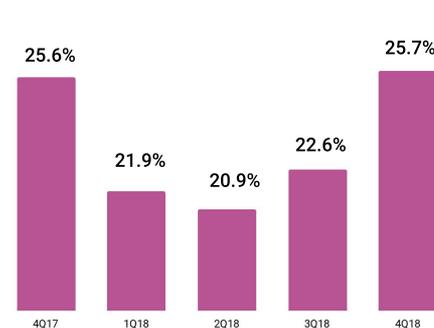
GMS Growth



Revenue Growth



Adj. EBITDA Margin<sup>2</sup>



<sup>1</sup>EPS reflects diluted earnings per share

<sup>2</sup>Reconciliation of non-GAAP financial measures is contained in the appendix

# ...to end a great 2018

GMS

# \$3.9B

+20.4% Y/Y

~610 basis point acceleration on a  
currency-neutral basis

Revenue

# \$604M

+36.8% Y/Y

Net Income

# \$77M

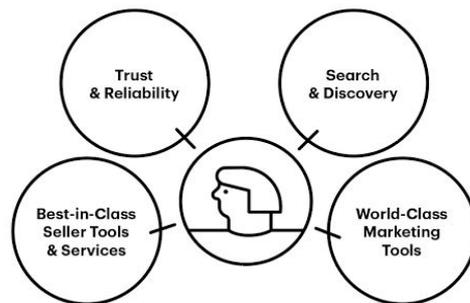
\$0.61 EPS<sup>1</sup>Adj. EBITDA<sup>2</sup>

# \$140M

23.1% Margin

## Driven by...

### Product Improvements



### Marketing Investments



<sup>1</sup>EPS reflects diluted earnings per share

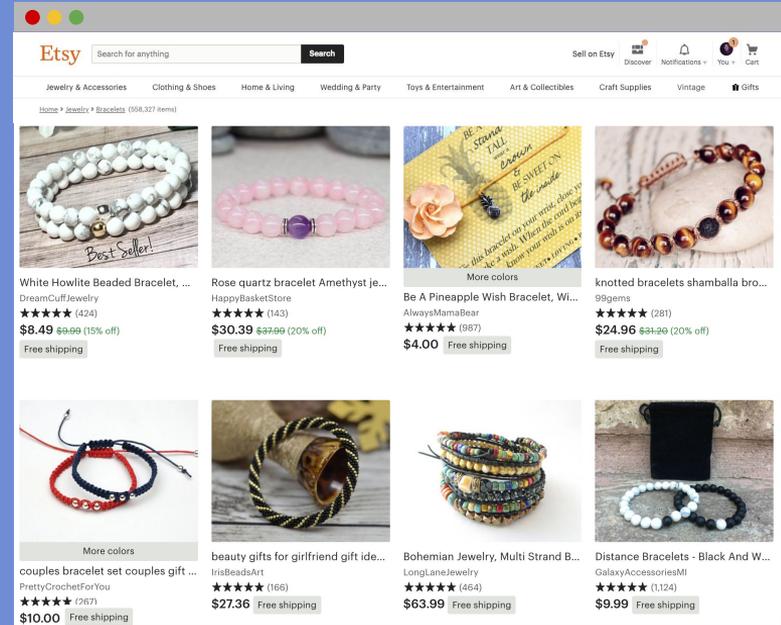
<sup>2</sup>Reconciliation of non-GAAP financial measures is contained in the appendix

# Improving the core buyer experience...

## Landing page experiences



## Free shipping



# ...drove record “Holiday” performance

30%

increase in  
“**Holiday**”\* GMS  
compared to 2017

33%

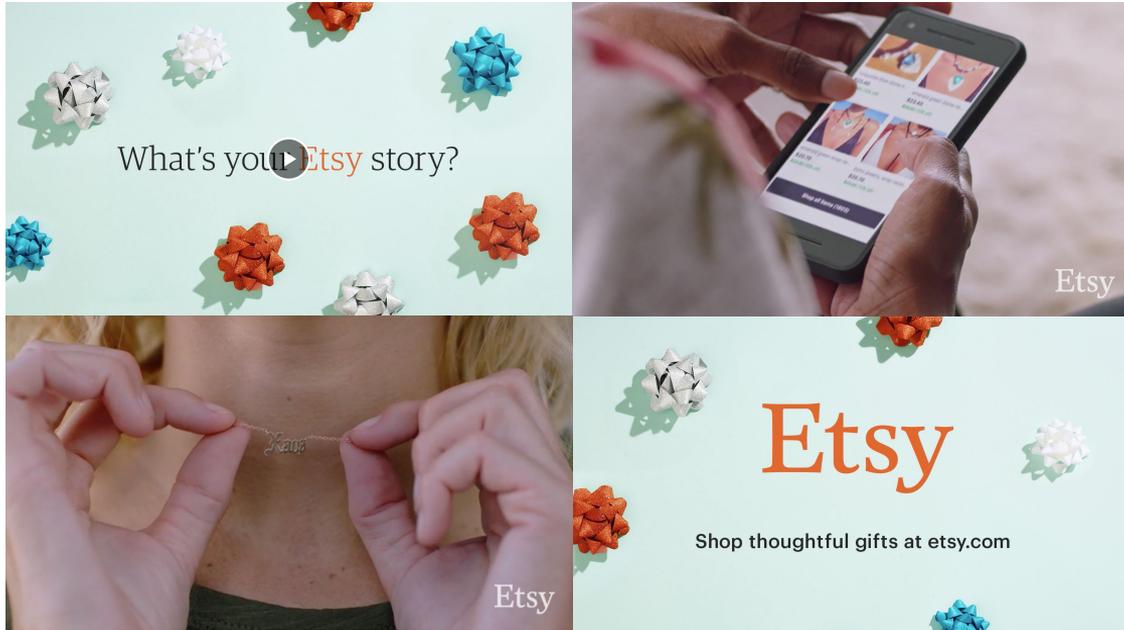
of items were  
available to **ship for**  
**free** domestically

\$19,000

in GMS **per minute**  
on Cyber Monday

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

# We continued to test new marketing channels



## Marketing channels

- TV advertising
- Digital video
- Paid social
- Performance marketing

## Preliminary Results

- *Improvement in brand awareness*
- *Increase in visits*
- *Improved purchase intent*

## Etsy's TV Campaign

# Rachel Glaser

CFO



# A year of strong execution

GMS

\$3.9B

+20.4% Y/Y

*~610 basis point acceleration on a  
currency-neutral basis*

Revenue

\$604M

+36.8% Y/Y

Net Income

\$77M

\$0.61 EPS<sup>1</sup>

Adj. EBITDA<sup>2</sup>

\$140M

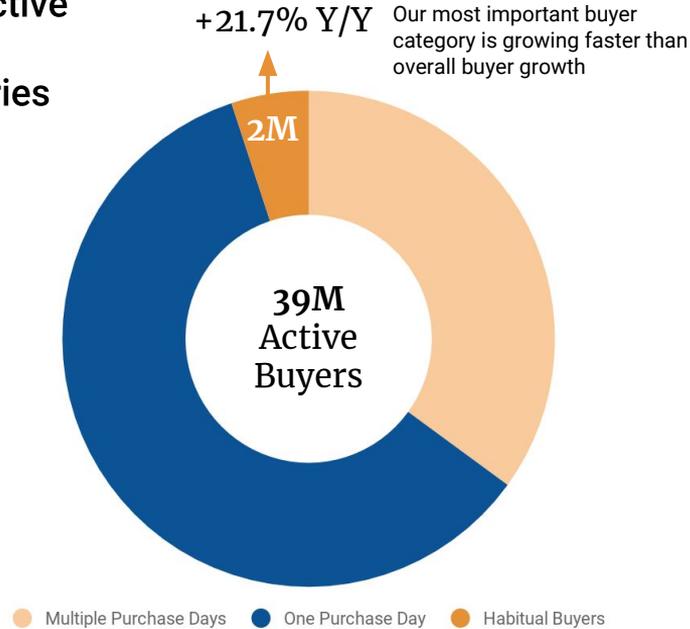
23.1% Margin

<sup>1</sup>EPS reflects diluted earnings per share

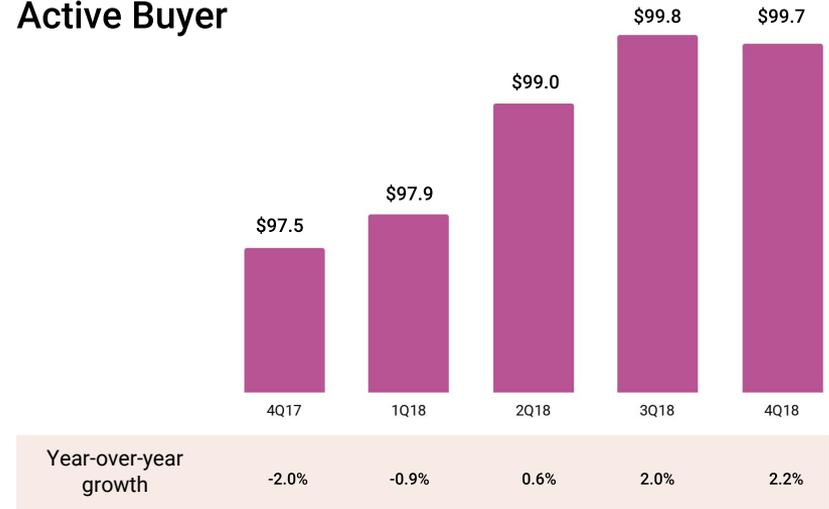
<sup>2</sup>Reconciliation of non-GAAP financial measures is contained in the appendix

# Moving the needle on frequency

## 2018 Active Buyer Categories



## TTM GMS per Active Buyer



*Accelerated 5 consecutive quarters*

\*Habitual buyers are buyers who have spent \$200 or more and made purchases on six or more days in the previous 12 months

# We improved many of our operating metrics in the fourth quarter

% Paid GMS

20%

+55% Y/Y

Active Buyers

39M

+18% Y/Y

Active Sellers

2M

+9% Y/Y

% International GMS

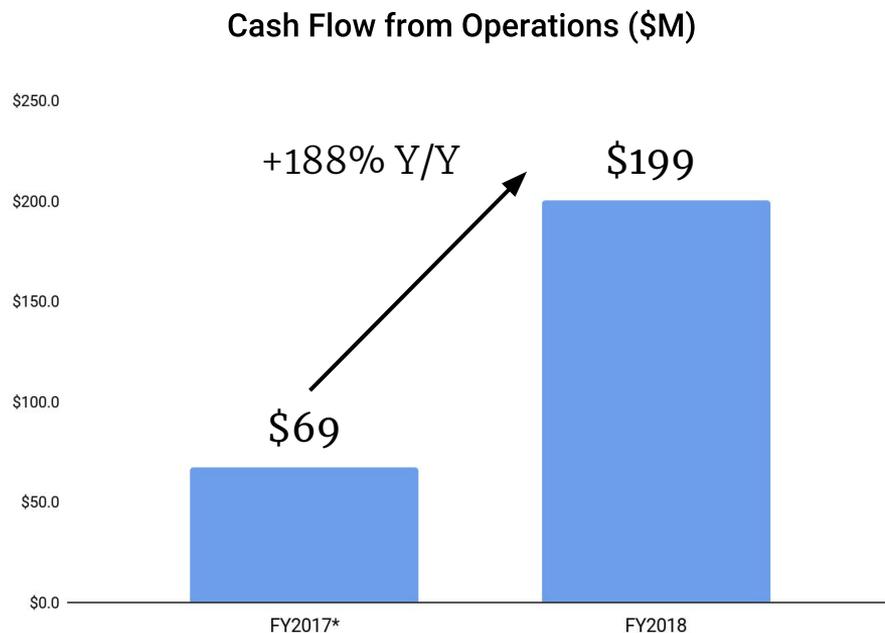
36%

+30% Y/Y

# Condensed Consolidated Statement of Operations

	4Q18	4Q17
	(in thousands)	
<b>Revenue</b>	\$200,028	\$136,268
Cost of revenue	57,111	44,220
Gross profit	142,917	92,048
<i>Marketing</i>	63,362	34,590
<i>Product development</i>	28,542	17,788
<i>General and administrative</i>	21,524	18,218
<i>Asset impairment charges</i>	-	3,162
Operating expenses	113,428	73,758
Income from operations	29,489	18,290
Other expense, net	(6,613)	(24)
Benefit for income taxes	18,375	26,484
<b>Net income</b>	\$41,251	\$44,750
Net income per share — diluted	\$0.32	\$0.36

# Strong cash flow generation reinforces our capital position



- \$624M in cash, cash equivalents, and short-term investments at 12/31/18
- Repurchased \$135M in shares during the year, including \$45M in 4Q
- \$200M revolver entered into on February 25, 2019

# 2019 Guidance for GMS, Revenue and Adjusted EBITDA

## 2019 Guidance February 25, 2019

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GMS Growth

17 – 20%

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Revenue Growth

29 – 32%

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Adjusted EBITDA Margin\*

23 – 25%

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

# Investor Day

March 7, 2019

—  
Presentations / Q&A  
9AM-12:30PM

—  
Webcasted at [investors.etsy.com](https://investors.etsy.com)



Q&A

# Appendix

# Key factors impacting our 2019 Guidance

We anticipate that the key factors impacting our 2019 GMS and revenue guidance will be:

- Continued visit growth.
- Conversion rate improvements driven by product launches enhancing the buying experience.
- Incremental GMS from marketing investments.
- Continued currency-neutral growth in international GMS, which we expect to grow faster than overall GMS, driven by global product enhancements and marketing.
- External factors, which we expect may offset some growth, such as E.U. regulatory conditions, currency fluctuations, changes to VAT and state sales tax laws, and the potential for geopolitical events that impact trade.

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 both product development and general administrative expenses, excluding the impact of depreciation from the implementation of new lease accounting standards.
- We expect to spend approximately \$25M on cloud migration activities throughout 2019, most of which will be expensed through cost of revenue.
  - Additionally, during the migration, we will also maintain 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.

# Condensed Consolidated Statement of Operations

	2018	2017
	(in thousands)	
<b>Revenue</b>	\$603,693	\$441,231
Cost of revenue	190,762	150,986
Gross profit	412,931	290,245
<i>Marketing</i>	158,013	109,085
<i>Product development</i>	97,249	74,616
<i>General and administrative</i>	82,883	91,486
<i>Asset impairment charges</i>	-	3,162
Operating expenses	338,145	278,349
Income from operations	74,786	11,896
Other (expense) income, net	(19,708)	20,369
Benefit for income taxes	22,413	49,535
<b>Net income</b>	<b>\$77,491</b>	<b>\$81,800</b>
Net income per share — diluted	\$0.61	\$0.68

# Condensed Consolidated Statement of Cash Flows

	2018	2017*
	(in thousands)	
<b>Net Income</b>	<b>\$77,491</b>	<b>\$81,800</b>
<i>Net cash provided by operating activities</i>	198,925	69,101
<i>Net cash (used in) provided by investing activities</i>	(285,393)	61,836
<i>Net cash provided by financing activities</i>	144,006	6,555
Effect of exchange rate changes on cash	(5,995)	(3,642)
Net increase in cash, cash equivalents, and restricted cash	51,543	133,850
Cash, cash equivalents, and restricted cash at the beginning of the period	320,783	186,933
<b>Cash, cash equivalents, and restricted cash at the end of the period</b>	<b>\$372,326</b>	<b>\$320,783</b>

\*The Consolidated Statement of Cash Flows for the year ended December 31, 2017 was revised to correct the presentation of the Effect of exchange rate changes on cash. We have concluded that the effect of this revision was not material to any of our previously issued financial statements. For more information please refer to our press release dated February 25, 2019 and our Annual Report on Form 10-K for the year-ended December 31, 2018, to be filed with the SEC.

# Condensed Consolidated Balance Sheets

	4Q18	4Q17
	(in thousands)	
Cash and cash equivalents	\$366,985	\$315,442
Short-term investments	257,302	25,108
Accounts receivable, net	12,244	33,677
Property and equipment, net	120,179	117,617
Other current and non-current assets	145,141	113,739
<b>Total assets</b>	<b>\$901,851</b>	<b>\$605,583</b>
Accounts payable	\$26,545	\$13,622
Facility financing obligation	59,991	60,049
Long-term debt, net	276,486	-
Other current and non-current liabilities	137,931	135,018
<b>Total liabilities</b>	<b>500,953</b>	<b>208,689</b>
<b>Total stockholders' equity</b>	<b>400,898</b>	<b>396,894</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$901,851</b>	<b>\$605,583</b>

# Reconciliation of Quarterly Net Income to Adj. EBITDA

	4Q18	4Q17
	(in thousands)	
Net income	\$41,251	\$44,750
Excluding:		
Interest and other non-operating expense, net	3,099	2,177
Benefit for income taxes	(18,375)	(26,484)
Depreciation and amortization	7,626	6,577
Stock-based compensation expense	12,648	5,197
Stock-based compensation expense-acquisitions	1,596	725
Foreign exchange loss (gain)	3,514	(2,153)
Restructuring and other exit costs	-	871
Asset impairment charges	-	3,162
<b>Adjusted EBITDA</b>	<b>\$51,359</b>	<b>\$34,822</b>

# Reconciliation of Annual Net Income to Adj. EBITDA

	2018	2017
	(in thousands)	
Net income	\$77,491	\$81,800
Excluding:		
Interest and other non-operating expense, net	13,221	8,736
Benefit for income taxes	(22,413)	(49,535)
Depreciation and amortization	26,742	27,197
Stock-based compensation expense	34,477	19,953
Stock-based compensation expense-acquisitions	3,754	3,904
Foreign exchange loss (gain)	6,487	(29,105)
Restructuring and other exit costs (income)	(249)	13,897
Asset impairment charges	-	3,162
<b>Adjusted EBITDA</b>	<b>\$139,510</b>	<b>\$80,009</b>