Etsy

Q2 2018 Financial Results

August 6, 2018

Forward-looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements related to our business strategy, financial guidance and key drivers thereof, upcoming product launches, investments in marketing and international growth, and the impact of our four key initiatives and new pricing model on future GMS and revenue growth. 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) our history of operating losses; (2) the fluctuation of our quarterly operating results; (3) our ability to implement our business strategy; (4) our ability to attract and retain an active and engaged community of Etsy sellers and Etsy buyers; (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 success of our new pricing model and the impact of that model on our sellers; (11) the effectiveness of our mobile solutions for Etsy sellers and Etsy buyers; (12) our ability to expand our business in our core geographic markets; (13) regulation in the area of privacy and protection of user data; (14) our dependence on third-party payment providers; and (15) the potential misuse or disclosure of sensitive information about our members 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 March 31, 2018, and subsequent reports that we file with the Securities and Exchange Commission.

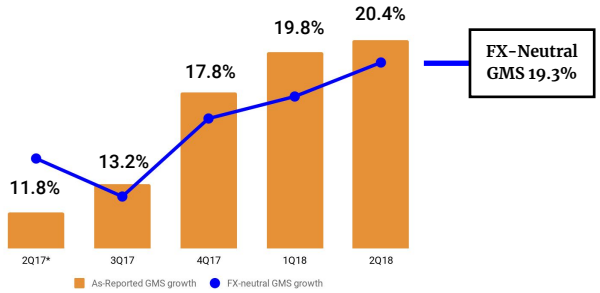
Forward-looking statements represent our beliefs and assumptions only as of the date of this presentation. We disclaim any obligation to update forward-looking statements.

Josh Silverman
CEO

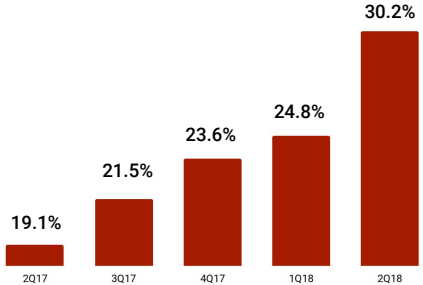
Solid Performance Across key Financial Metrics

GMS	Revenue	Net Income	Adj. EBITDA[2]
$902M	$132M	$3M	$28M
20.4% Y/Y	30.2% Y/Y *~300 bps benefit from a one-time adjustment*	$0.03 EPS[1]	20.9% Margin

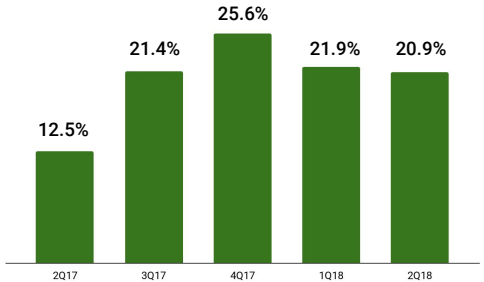
GMS Growth



Revenue Growth



Adj. EBITDA Margin[2]



[1]EPS reflects diluted earnings per share
[2]Reconciliation of non-GAAP financial measures is contained in the appendix
*Revised to reflect the correction of an immaterial error

We are growing our marketplace from a position of strength...

YEAR 1[1]	$1M GMS	9,250 Sellers	22,100 Buyers
TODAY[2]	$3.3B GMS	2M Active Sellers	36M Active Buyers

[1]Results from July 2005 to July 2006
[2]GMS results as of 12/31/2017, Active Sellers and Active Buyers as of 6/30/2018

...Updating our pricing model and introducing new subscription packages

3.5% to 5%

Changes to our pricing model:

- The transaction fee increased from 3.5% to 5%*
- The transaction fee is now applied to the shipping price*
- Introduced monthly subscription packages

*Effective July 16, 2018

...to further drive our buyer LTV and grow Etsy's virtuous cycle

Improved experience

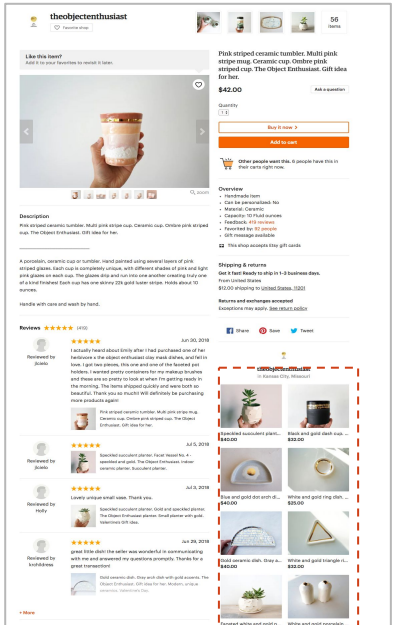
Leads to a higher conversion rate for new and repeat buyers

Leads to a higher LTV

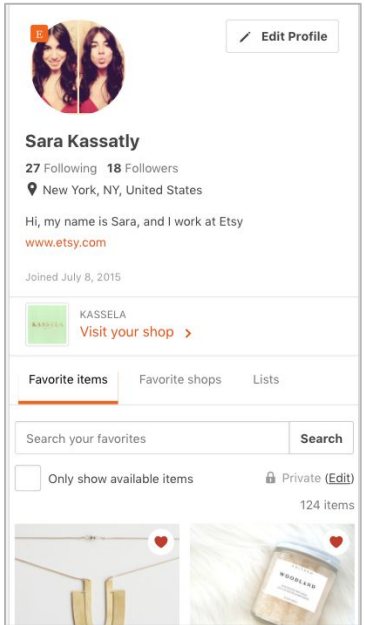
Higher LTV enables more marketing spend

We've made significant progress on our four key initiatives...

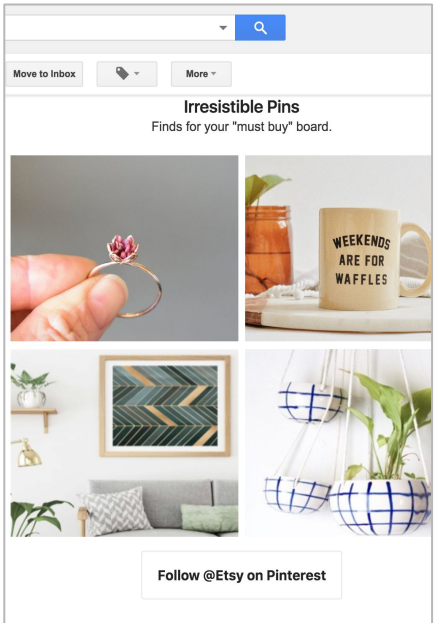
Search & Discovery
Shop Recommendations



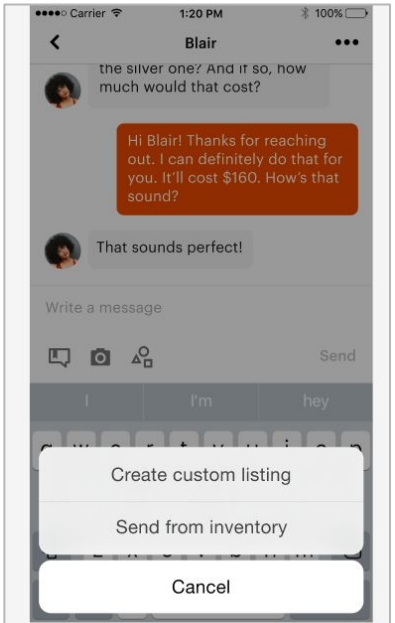
Trust & Reliability
User Profiles



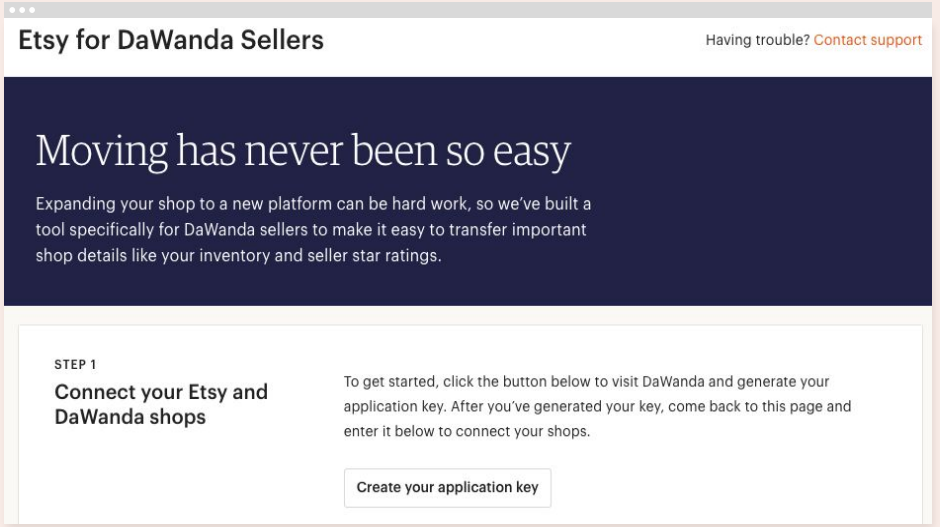
Marketing Capabilities
Email Platform

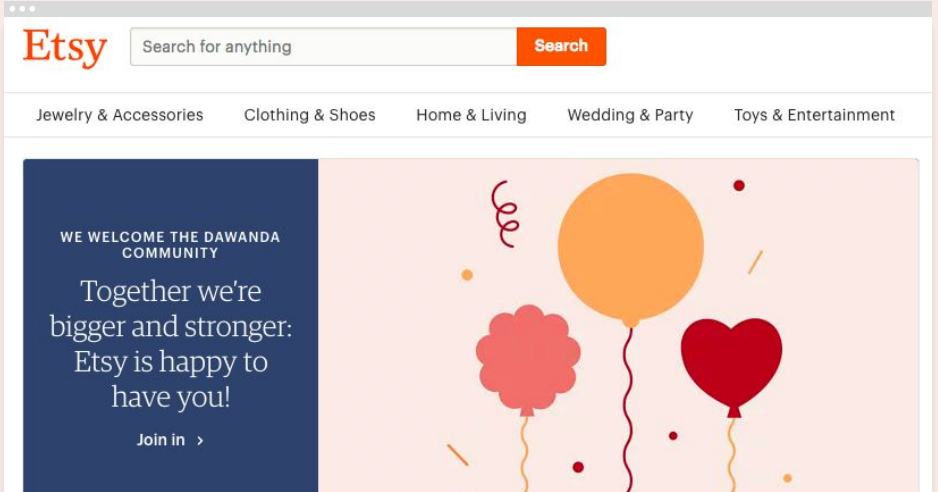


Services & Tools
Custom Listings

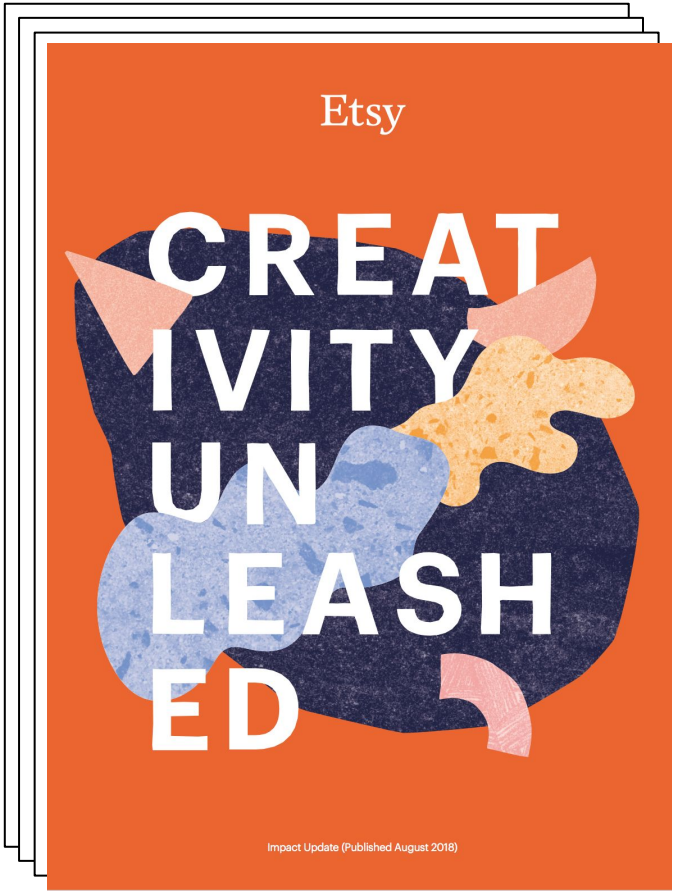


...expanded our footprint in Central Europe with the DaWanda agreement





...and are making progress on our social impact goals



Economic Impact

Making creative entrepreneurship a path to economic security and personal empowerment

Social Impact

Enabling equitable access to the many opportunities we create

Ecological Impact

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

Rachel Glaser
CFO

Our metrics show clear progress against our financial and operating goals

GMS

$902M

+20.4% Y/Y

+19.3% Y/Y (FX adj.)

Active Buyers

36M

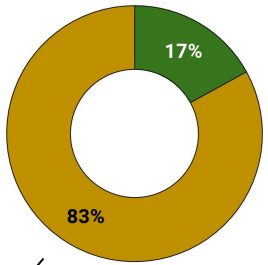
+17% Y/Y

Active Sellers

2M

+8% Y/Y

% GMS of New vs. Repeat Buyers



+23% Y/Y

% Paid GMS

16%

+47% Y/Y

% International GMS

34%

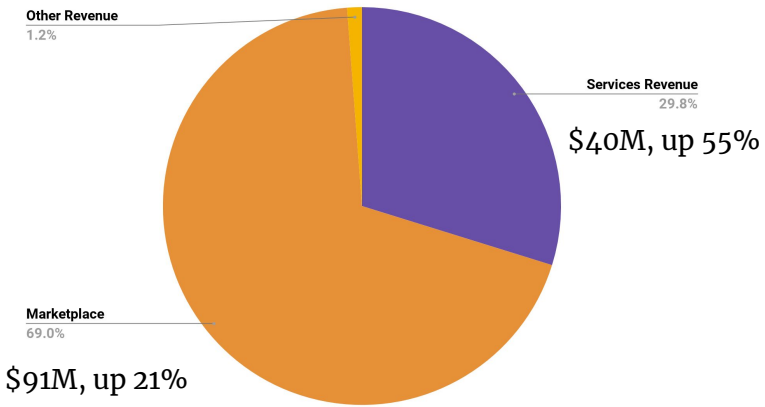
+28% Y/Y

Reporting growth in both revenue categories

Marketplace Revenue

- $.20 Listing Fee per item
- Transaction Fee[1]
- Etsy Payments 3-4% + flat fee

$132M, up 30.2%



Services Revenue

(Optional value-added services)

- Promoted Listings
- Etsy Shipping Labels
- Pattern by Etsy

Services revenue was driven by ProList and a one-time adjustment to Etsy Shipping Labels revenue

[1]Transaction fee was 3.5% in 2Q, price increase was effective July 16th, 2018

Condensed Consolidated Statement of Operations

	2Q18	2Q17
	(in thousands)	
Revenue	$132,387	$101,692
Cost of revenue	45,409	35,724
Gross profit	86,978	65,968
Marketing	28,941	27,521
Product development	23,568	21,754
General and administrative	21,707	28,411
Operating expenses	74,216	77,686
Income (loss) from operations	12,762	(11,718)
Other (expense) income, net	(8,137)	13,950
Net income	$3,379	11,669
Net income per share — basic and diluted[1]	$0.03	$0.10

[1]Net income and diluted earnings per share were significantly lower compared to last year. This was due to foreign exchange fluctuations, primarily related to intercompany balances, and a tax benefit recorded last year due to employee stock-option exercises, which both contributed to the year-over-year decline in net income and diluted earnings per share.

We are increasing our marketing investments to drive further growth

1.

Performance marketing increases 40% to >$110M

2.

Testing off-line marketing and TV advertising

3.

Strategic investments in seller shipping promotions

4.

Significant improvements to customer support

We are reinvesting 80% of incremental revenue; flow through rate is 20%

Continued Strong Performance Expected… Increasing 2018 GMS and Revenue Guidance

	Guidance June 14, 2018	Revised Guidance August 6, 2018
GMS Growth	16 - 19%	18 - 20%
Revenue Growth	32 - 34%	33 - 35%
Adjusted EBITDA Margin*	21 - 23%	21 - 23%

*Based on the mid-point of 2018 revenue guidance. Reconciliation of non-GAAP financial measures is contained in the Appendix.

Key factors potentially impacting our updated 2018 guidance are contained in the Appendix

Q&A

Appendix

Key factors impacting our 2018 Guidance

- We anticipate that the key factors impacting our 2018 GMS and revenue guidance will be:
  - Continued visit growth.
  - Conversion rate growth driven by product launches enhancing the buying experience.
  - Continued growth in international GMS, which we expect to grow faster than overall GMS, driven by global product enhancements and assuming stable currency rates.
  - Continued Services revenue growth, which we expect to grow at a faster pace than Marketplace revenue growth as we add enhancements and features to our portfolio of services and increase our efforts to grow seller adoption. Also, we expect Promoted Listings to be the primary driver of Services revenue growth in 2018.
  - Planned reinvestment in an enhanced shipping experience and increased marketing.
  - Benefit from our agreement with DaWanda, i.e. the migration and performance of the DaWanda seller and buyer community.
  - Potential seller churn from increased transaction fees.
  - External headwinds, which we expect may offset some growth, such as the E.U.'s GDPR, 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 2018 Adjusted EBITDA margin guidance will be:
  - Planned reinvestment in marketing (including investments that will be more speculative), as well as improved seller tools and support.
  - Lower operating expense as a percent of revenue stemming from the approximately $35 million in annualized cost savings resulting from increased efficiencies in our operating structure in 2017. We expect to gain the most leverage in general administrative expenses, followed by product development expenses.
  - We expect to spend closer to the high-end of our $10 million to $15 million range in 2018 on cloud migration activities, most of which will be expensed through cost of revenue.
    - Throughout the first few phases of the migration, we will 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.
    - As a result, compared with 2017, we expect to reduce capital expenditures related to maintaining our existing data center infrastructure by $4 million to $5 million in 2018. Once we have fully migrated to the cloud, we expect our total cash costs will decrease compared to our standalone data center infrastructure.

Condensed Consolidated Balance Sheets

	2Q18	4Q17
		(in thousands)
Cash and cash equivalents	$357,820	$315,442
Short-term investments	209,689	25,108
Accounts receivable, net	30,615	33,677
Property and equipment, net	117,024	117,617
Other assets	150,162	113,739
Total assets	**$865,310**	**$605,583**
Accounts payable	$14,760	$13,622
Facility financing obligation	60,025	60,049
Long-term debt, net	269,133	-
Other liabilities	151,301	135,018
Total liabilities	495,219	208,689
Total stockholders' equity	370,091	396,894
Total liabilities and stockholders' equity	**$865,310**	**$605,583**

Reconciliation of Quarterly Net Income to Adj. EBITDA

	2Q18	2Q17
	(in thousands)	
Net income	$3,379	$11,669
Excluding:		
Interest and other non-operating expense, net	3,687	2,153
Provision (benefit) for income taxes	1,246	(9,437)
Depreciation and amortization	6,357	6,660
Stock-based compensation expense	7,898	4,881
Stock-based compensation expense-acquisitions	719	1,613
Foreign exchange loss (gain)	4,450	(16,103)
Restructuring and other exit costs (income)	(41)	11,260
Adjusted EBITDA	**$27,695**	**$12,696**

Etsy is not able, at this time, to provide GAAP targets for net income margin for 2018 because of the unreasonable effort of estimating certain non-cash items that are excluded from non-GAAP Adjusted EBITDA margin, including, for example, provision or benefit for income taxes and foreign exchange gain or loss, the effect of which may be significant.