Etsy

Q3 2018 Financial Results

November 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 market opportunity, international growth, the timing of product launches and our cloud migration, the impact of our four key initiatives, pricing model, marketing and product investments and cloud migration on future GMS and revenue growth, and our financial guidance and related drivers, and our anticipated expenses and their impact on future financial performance. 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 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, 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

Continued focus and solid execution delivered strong results

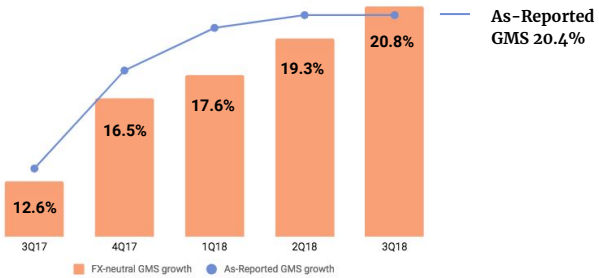
GMS
$923M
+20.8% Y/Y
~150 basis point acceleration on a constant currency basis

Revenue
$150M
+41.3% Y/Y

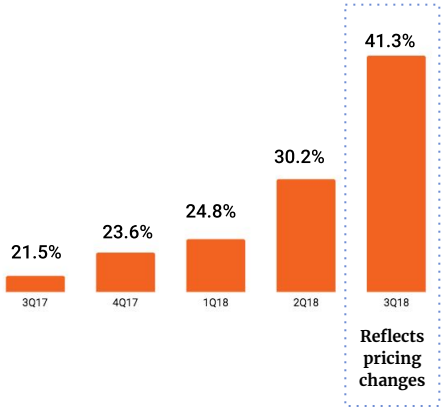
Net Income
$20M
$0.15 EPS[1]

Adj. EBITDA[2]
$34M
22.6% Margin

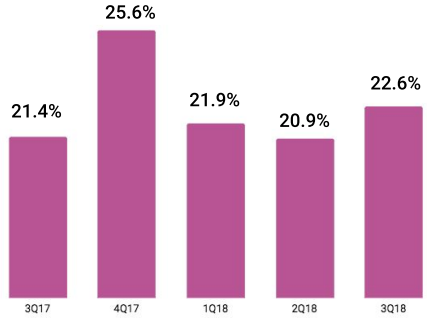
GMS Growth
~FX-Neutral



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

Levers that contributed to our progress and growth in Q3

Product Investments

Pricing Structure

Product Investments prioritized within our four key initiatives

Search & Discovery

BUYER
Help me find something I'm looking for.

BUYER
Inspire my imagination and help me have fun when I browse.

Marketing Capabilities

BUYER
Give me reasons to come in the first place.

BUYER
Give me reasons to keep coming back.

Trust & Reliability

BUYER
Take the stress out of special —motivate me to buy now.

Seller Tools & Services

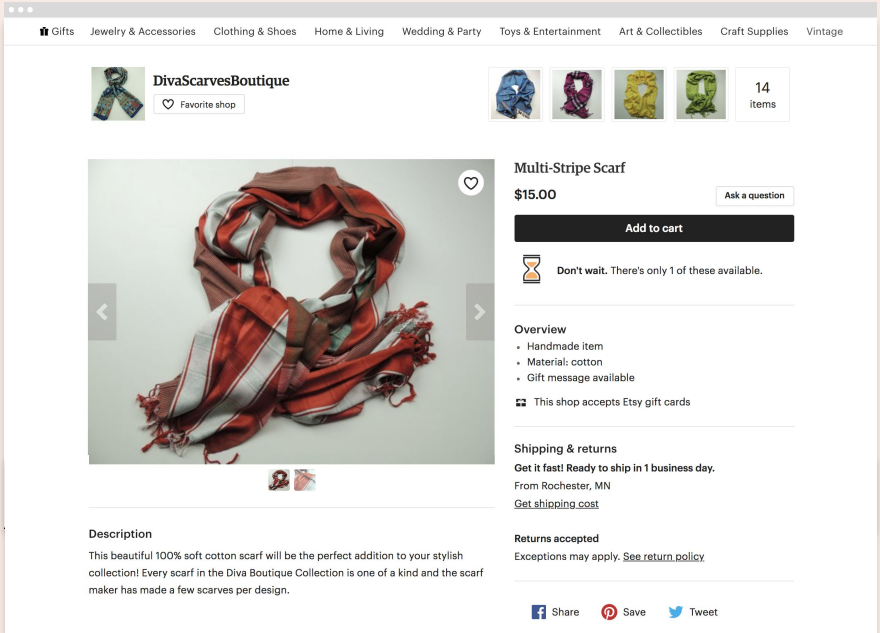
SELLER
Help me understand what's driving my business and how to grow it.

SELLER
Give me tools to stand out, grow my business and be more efficient.

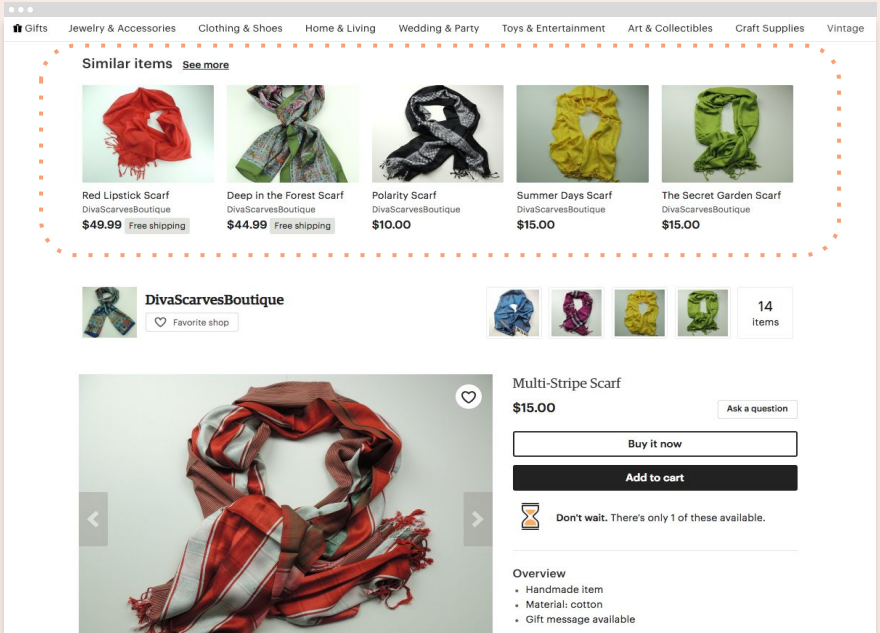
SELLER
Help me keep up in a changing landscape —make me feel like Etsy has my back.

Search & Discovery: Landing page optimization shows more product diversity

Single item landing page



Landing page with Recommendations

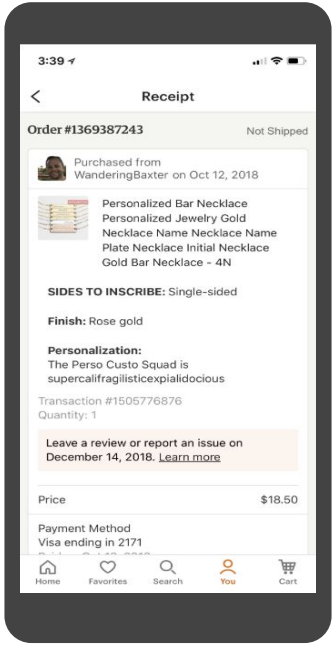


Trust & Reliability: Many of our special items can be personalized or customized

Personalized

Customized

In Q3 we began to streamline the purchase flow for personalized and customized orders



Levers that contributed to our progress and growth in Q3

Product Investments

Pricing Structure

We are reinvesting incremental revenue in our marketplace

*Image from Etsy's TV Campaign

Marketing

- Testing TV Advertising
- Social Channels
- Increased performance marketing investment

Shipping

- Shipping practices improve ranking in search
- Promotional offers to incentivize sellers
- Shipping Label Product for UK Sellers

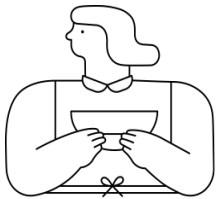
Customer Support

- Live Chat and Phone Support
- Now 24x7 coverage

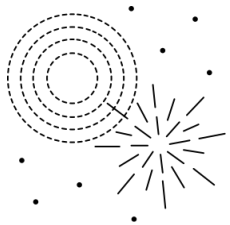
All of the work we have done in 2018 is making Etsy a better place to shop this holiday season

We are just beginning our journey to own “special”

Gifting (you)



Style (me)



Celebrations (us)

“Special” shopping occasions occur quite frequently in everyday life.

“Special” purchases span a wide variety of occasions and retail categories.

91%* of Etsy buyers agree Etsy offers items they can’t find elsewhere.

“Special” allows buyers to express their individual style.

*In a 2016 survey of Etsy.com buyers

Rachel Glaser
CFO

Our solid execution has led to great financial and operational results

GMS

$923M

+20.8% Y/Y (FX-Neutral)
+20.4% Y/Y (as reported)

Active Buyers

37M

+17% Y/Y

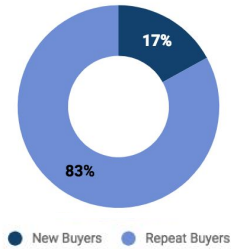
Active Sellers

2M

+8% Y/Y

TTM GMS per Active Buyer

% GMS of New vs. Repeat Buyers



% Paid GMS

17%

+57% Y/Y

% International GMS

35%

+26% Y/Y

Condensed Consolidated Statement of Operations

	3Q18	3Q17
	(in thousands)	
Revenue	$150,366	$106,380
Cost of revenue	46,947	36,383
Gross profit	103,419	69,997
Marketing	39,516	23,520
Product development	24,418	16,958
General and administrative	20,748	22,094
Operating expenses	84,682	62,572
Income from operations	18,737	7,425
Other (expense) income, net	(4,141)	5,815
Net income[1]	$19,894	25,802
Net income per share — diluted	$0.15	$0.21

[1]Net income for the third quarter was primarily impacted by the non-cash interest expense and amortization related to the Company's convertible senior notes, and partially offset by a tax benefit due to employee stock-option exercises.

Condensed Consolidated Balance Sheets

	3Q18	4Q17
		(in thousands)
Cash and cash equivalents	$362,727	$315,442
Short-term investments	221,409	25,108
Accounts receivable, net	36,385	33,677
Property and equipment, net	119,243	117,617
Other current and non-current assets	167,604	113,739
Total assets	**$907,368**	**$605,583**
Accounts payable	$14,130	$13,622
Facility financing obligation	60,008	60,049
Long-term debt, net	272,790	-
Other current and non-current liabilities	165,821	135,018
Total liabilities	**512,749**	**208,689**
Total stockholders' equity	**394,619**	**396,894**
Total liabilities and stockholders' equity	**$907,368**	**$605,583**

We are raising 2018 Guidance for GMS, Revenue and Adjusted EBITDA

	Guidance August 6, 2018	Revised Guidance November 6, 2018
GMS Growth	18 - 20%	19 - 20%
Revenue Growth	33 - 35%	35 - 36%
Adjusted EBITDA Margin*	21 - 23%	22 - 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

Investor Day

March 7, 2019
Brooklyn, NY

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 our agreement with DaWanda, i.e., the migration and performance of the DaWanda seller and buyer community. We are assuming stable currency rates.
  - Planned reinvestment in marketing and an enhanced shipping experience.
  - 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. We expect approximately $4-5 million of spend to occur in Q4.
    - During 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.

Reconciliation of Quarterly Net Income to Adj. EBITDA

	3Q18	3Q17
	(in thousands)	
Net income	$19,894	$25,802
Excluding:		
Interest and other non-operating expense, net	3,768	2,254
Benefit for income taxes	(5,298)	(12,562)
Depreciation and amortization	6,439	7,022
Stock-based compensation expense	8,191	5,832
Stock-based compensation expense-acquisitions	725	724
Foreign exchange loss (gain)	373	(8,069)
Restructuring and other exit costs (income)	(57)	1,766
Adjusted EBITDA	**$34,035**	**$22,769**

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.